AIB

Highlights - AIB Group interim results 2005

Basic earnings per share EUR 72.3c, up 16%[1] or up 15% before the net impact of hedge ineffectiveness and timing of funding payments on certain capital instruments under IFRS[2]

Revised guidance for 2005 - EPS in the range of EUR 140c to EUR 142c

Divisional Profit Performance [3]

- AIB Bank ROI up 34%
  or 17% excluding the € 45m investigation related charges incurred in 2004
- AIB Bank GB & NI up 13%
- Capital Markets up 33%
- Poland up 17%

Income / cost gap + 4%

Cost income ratio down 2% to 54.6%

Return on equity 20%

Tier 1 capital ratio 7.7%

Interim dividend of EUR 23.0c, up 10%

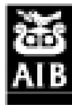
Double-digit US$ earnings growth from M&T

AIB Group Chief Executive Eugene Sheehy said:

'In the first half of 2005 AIB has continued to deliver a strong and broad based performance. Our success is founded on sound business strategies in good markets executed by top quality staff. We are confident that this level of performance is sustainable and we continue to invest heavily in people and systems to support our activities.'

[1] *A 16% increase compared with the half-year June 2004 pro-forma earnings per share of EUR 62.4c.*
[2] *The impact of hedge ineffectiveness under IFRS was to add € 2 million to profit before taxation for the half-year. Under IFRS, funding payments in relation to certain capital instruments are accounted for as they are paid rather than on an accruals basis. This gives rise to a timing benefit in the first half-year. This timing benefit will be eliminated in the second half-year.*
[3] *Excluding the impact of exchange rate movements on the translation of foreign locations' profit.*

Results for the half-year ended 30 June 2004 and for the year ended 31 December 2004 have been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005. See Basis of preparation on page 20.



Allied Irish Banks, p.l.c.

Dividend

The Board has declared an interim dividend of EUR 23.0c per share, an increase of 10% on the half-year ended 30 June 2004. The dividend will be paid on 23 September 2005 to shareholders on the Company's register of members at the close of business on 12 August 2005.

For further information please contact:

Declan Mc Sweeney
Chief Financial Officer
Bankcentre
Dublin
353-1-660-0311
Ext. 14954

Alan Kelly
Head of Group Investor Relations
Bankcentre
Dublin
353-1-660-0311
Ext. 12162

Catherine Burke
Head of Corporate Relations
Bankcentre
Dublin
353-1-660-0311
Ext. 13894

This results announcement and a detailed informative presentation can be viewed on our internet site at www.aibgroup.com/investorrelations

Forward-looking statements

A number of statements we make in this document will not be based on historical fact, but will be 'forward-looking' statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected in the 'forward-looking' statements. Factors that could cause actual results to differ materially from those in the 'forward-looking' statements include, but are not limited to, global, national, regional economic conditions, levels of market interest rates, credit and other risks of lending and investment activities, competitive and regulatory factors and technology change. Any 'forward-looking' statements made by or on behalf of the Group speak only as of the date they are made.

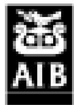
Financial highlights *(unaudited)*

for the half-year ended 30 June 2005

	Half-year 30 June 2005 € m	Half-year 30 June 2004 € m	As at 1 January 2005 € m	Year 31 December 2004 € m
Results				
Total operating income	**2,158**	1,746		3,608
Operating profit	**776**	630		1,272
Profit on ordinary activities before taxation	**851**	706		1,430
Profit attributable to equity holders of the parent	**661**	544		1,129
Per € 0.32 ordinary share				
Earnings – basic	**72.3c**	64.1c		132.0c
Earnings – diluted	**71.7c**	63.8c		131.5c
Dividend	**23.0c**	20.9c		59.4c
Dividend payout	**32%**	33%		46%
Net assets	**770c**	670c		671c
Performance measures				
Return on average total assets	**1.23%**	1.28%		1.22%
Return on average ordinary shareholders' equity	**20.1%**	20.3%		20.7%
Balance sheet				
Total assets	**115,937**	94,627	102,819	101,109
Ordinary shareholders' equity	**6,636**	5,688	5,975	5,745
Loans etc	**78,214**	61,999	68,230	67,278
Deposits etc	**93,646**	78,404	82,384	82,384
Capital ratios				
Tier 1 capital	**7.7%**	7.2%	8.3%	8.3%
Total capital	**11.0%**	9.9%	10.9%	11.1%

Results for the half-year ended 30 June 2004 and for the year ended 31 December 2004 have been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005. See Basis of preparation on page 20.

Allied Irish Banks, p.l.c.
Group Headquarters &
Registered Office
Bankcentre, Ballsbridge
Dublin 4, Ireland
Telephone (01) 6600311
Registered number 24173



Consolidated interim income statement *(unaudited)*

for the half-year ended 30 June 2005

	Notes	**Half-year 30 June 2005 € m**	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Interest and similar income	3	**2,463**	1,838	4,035
Interest expense and similar charges	4	**1,195**	817	1,901
Net interest income		**1,268**	1,021	2,134
Dividend income		**40**	38	60
Fee and commission income		**521**	507	1,051
Fee and commission expense		**(72)**	(65)	(136)
Trading and other financial income		**227**	103	235
Other operating income	5	**174**	142	264
Other income		**890**	725	1,474
Total operating income		**2,158**	1,746	3,608
Increase in insurance and investment contract liabilities, and claims		**355**	156	309
Administrative expenses	6	**920**	833	1,748
Depreciation of property, plant and equipment		**42**	32	67
Amortisation/impairment of intangible assets and goodwill		**23**	32	79
Total operating expenses		**985**	897	1,894
Operating profit before provisions		**818**	693	1,405
Impairment losses on loans and advances	11	**46**	55	114
Provisions for contingent liabilities and commitments		**(5)**	8	20
Amounts written off/(written back) financial investments		**1**	–	(1)
Operating profit		**776**	630	1,272
Share of results of associated undertakings		**70**	62	132
Profit on disposal of property		**5**	2	9
Profit on disposal of businesses		**–**	12	17
Profit on ordinary activities before taxation		**851**	706	1,430
Taxation on ordinary activities	7	**169**	145	272
Profit for the period		**682**	561	1,158
Attributable to:				
Equity holders of the parent		**661**	544	1,129
Minority interests		**21**	17	29
		682	561	1,158
Earnings per € 0.32 ordinary share – basic	8(a)	**72.3c**	64.1c	132.0c
Earnings per € 0.32 ordinary share – diluted	8(b)	**71.7c**	63.8c	131.5c

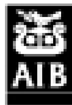
Results for the half-year ended 30 June 2004 and for the year ended 31 December 2004 have been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005. See Basis of preparation on page 20.

Consolidated interim balance sheet *(unaudited)*

30 June 2005

	Notes	**30 June 2005 € m**	1 January 2005 € m	31 December 2004 € m	30 June 2004 € m
Assets					
Cash and balances at central banks		**666**	887	887	599
Items in course of collection		**695**	368	368	625
Central government bills and other eligible bills		**–**	–	–	153
Trading portfolio assets	9	**9,502**	7,957	–	–
Assets held at fair value through profit and loss		**2,197**	1,871	–	–
Derivative financial instruments		**2,604**	2,581	–	–
Loans and receivables to banks		**3,543**	2,538	2,540	2,741
Loans and receivables to customers	10	**74,671**	65,692	64,738	59,258
Debt securities		**–**	–	24,501	24,228
Equity shares		**–**	–	1,641	1,470
Financial investments	13	**16,487**	15,720	–	–
Interests in associated undertakings		**1,629**	1,395	1,379	1,459
Intangible assets and goodwill		**518**	540	540	534
Property, plant and equipment		**736**	745	745	755
Other assets		**1,726**	1,460	2,622	1,824
Deferred taxation		**197**	204	228	166
Prepayments and accrued income		**766**	861	920	815
Total assets		**115,937**	102,819	101,109	94,627
Liabilities					
Deposits by banks		**22,321**	20,428	20,428	23,838
Customer accounts	15	**55,046**	50,151	50,151	47,740
Trading portfolio liabilities		**203**	332	–	–
Derivative financial instruments		**2,084**	2,541	–	–
Investment contract liabilities		**2,743**	2,422	2,422	2,344
Debt securities in issue		**16,279**	11,805	11,805	6,826
Insurance contract liabilities		**1,608**	1,465	864	733
Current taxation		**225**	197	175	209
Other liabilities		**2,207**	1,593	3,388	3,166
Accruals and deferred income		**792**	705	913	734
Retirement benefit liabilities		**1,061**	886	886	624
Provisions for liabilities and charges		**110**	122	122	115
Deferred taxation		**41**	38	52	57
Subordinated liabilities and other capital instruments		**2,853**	2,451	2,765	2,170
Total liabilities		**107,573**	95,136	93,971	88,556
Shareholders' equity					
Share capital		**294**	294	294	293
Share premium account		**1,693**	1,693	1,693	1,694
Other equity interests		**497**	497	182	203
Reserves		**1,451**	1,159	954	965
Profit and loss account		**3,198**	2,829	2,804	2,736
Shareholders' equity		**7,133**	6,472	5,927	5,891
Minority interests		**1,231**	1,211	1,211	180
Total shareholders' equity including minority interests		**8,364**	7,683	7,138	6,071
Total liabilities, shareholders' equity and minority interests		**115,937**	102,819	101,109	94,627

The financial position as at 30 June 2004 and 31 December 2004 has been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005. See Basis of preparation on page 20.



Condensed interim statement of cash flows *(unaudited)*

for the half-year ended 30 June 2005

	Half-year 30 June 2005 € m	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Net cash flows from operating activities	**1,333**	4,195	2,660
Investing activities			
Net increase in financial investments	**(321)**	(4,130)	(4,038)
Additions to tangible and intangible fixed assets	**(50)**	(51)	(126)
Disposal of tangible fixed assets	**11**	6	20
Investments in associated undertakings	**–**	–	(7)
Disposal of investment in subsidiary	**–**	11	15
Disposal of associated undertakings	**–**	–	1
Dividends received from associated undertakings	**18**	17	37
Cash flows from investing activities	**(342)**	(4,147)	(4,098)
Financing activities			
Issue of ordinary share capital	**37**	7	53
Redemption of subordinated liabilities	**(441)**	–	(32)
Issue of new subordinated liabilities	**718**	–	733
Issue of preferred securities	**–**	–	990
Interest paid on subordinated liabilities	**(26)**	(49)	(105)
Equity dividends paid	**(333)**	(218)	(340)
Dividends on other equity interests	**(38)**	(2)	(4)
Dividends paid to minority interests	**(1)**	(2)	(2)
Cash flows from financing activities	**(84)**	(264)	1,293
Net increase/(decrease) in cash and cash equivalents	**907**	(216)	(145)
Cash and cash equivalents 1 January	**2,056**	2,152	2,152
Effect of exchange	**81**	53	49
Cash and cash equivalents	**3,044**	1,989	2,056

The financial position as at 30 June 2004 and 31 December 2004 has been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005. *See Basis of preparation on page 20.*

Interim statement of recognised income and expense *(unaudited)*

	Half-year 30 June 2005 € m	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Foreign exchange translation differences	**252**	127	(73)
Net change in cash flow hedges, net of tax	**120**	–	–
Net change in fair value of available for sale securities, net of tax	**98**	–	–
Net actuarial gains and losses in retirement benefit schemes, net of tax	**(154)**	55	(197)
Net recognised gains/(losses) in associated undertaking	**3**	–	20
Income and expense recognised directly in equity	**319**	182	(250)
Profit for the period	**682**	561	1,158
Total recognised income and expense for the period	**1,001**	743	908
Attributable to:			
Equity holders of the parent	**980**	726	879
Minority interest	**21**	17	29
Total recognised income and expense for the period	**1,001**	743	908

Condensed reconciliation of movements in shareholders' equity *(unaudited)*

	Half-year 30 June 2005 € m	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Profit attributable to equity holders of the parent	**661**	544	1,129
Transition adjustment at 1 January 2005 arising from IAS 32, IAS 39 and IFRS 4 *(note 1)*	**545**	–	–
Dividends on ordinary shares	**(333)**	(296)	(476)
Dividends on other equity interests	**(38)**	(2)	(4)
Share based payments	**5**	2	8
Actuarial (loss)/gain recognised in retirement benefit schemes	**(154)**	55	(197)
Actuarial (loss)/gain recognised in associated undertaking	**(3)**	(3)	(1)
Other recognised gains/(losses) relating to the period	**470**	135	(84)
Other recognised gains/(losses) in associated undertaking	**6**	3	21
Ordinary shares issued in lieu of cash dividend	**–**	79	134
Other ordinary shares issued	**56**	34	71
Net movement in own shares	**(9)**	(6)	(20)
Net additions to shareholders' equity	**1,206**	545	581
Opening shareholders' equity	**5,927**	5,346	5,346
Closing shareholders' equity	**7,133**	5,891	5,927
Shareholders' equity:			
Ordinary shareholders' equity	**6,636**	5,688	5,745
Other equity interests	**497**	203	182
	7,133	5,891	5,927

Results for the half-year ended 30 June 2004 and for the year ended 31 December 2004 have been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005. See Basis of preparation on page 20.

Rates of Exchange

The following table shows the average accounting rates and average effective rates for both periods. The average effective rates include the impact of currency hedging activities.

	Average accounting rates half-year June 2005	Average accounting rates half-year June 2004	**Average effective rates half-year June 2005**	Average effective rates half-year June 2004
US dollar	**1.2894**	1.2279	**1.32**	1.16
Sterling	**0.6862**	0.6764	**0.70**	0.70
Polish zloty	**4.0827**	4.7232	**4.08**	4.70

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

Investigation related charges referred to in the following commentary were incurred in 2004 and relate primarily to the application of prices to foreign exchange products without regulatory approval. AIB provided € 45 million for investigation related charges and costs in the half-year to June 2004 with € 6 million charged to net interest income, € 30 million charged to other income and € 9 million of costs included in operating expenses.

"Total income up 12%"

"Strong loan and deposit volume growth"

"Net interest margin down 18 basis points"

Total income[1]

Total income increased by 12% to € 1,803 million.

Total operating income	**IFRS Half-year June 2005 € m**	IFRS Half-year June 2004 € m	IFRS Pro-forma June 2004 € m	*Underlying % change 2005 v Pro-forma 2004*
Net interest income	**1,268**	1,021	1,073	*17*
Other income[1]	**535**	569	513	*2*
Total operating income	**1,803**	1,590	1,586	*12*

[1] Includes increase in insurance and investment contract liabilities, and claims.

AIB

Net interest income

Net interest income amounted to € 1,268 million, an increase of 17% or 16% excluding € 6 million of investigation related charges in the half-year to June 2004. Strong loan and deposit growth in Republic of Ireland and GB & NI, strong loan growth in Corporate Banking and very good growth in loan arrangement fees were the key factors generating the increase. Loans to customers increased by 11% and customer accounts increased by 6% on a constant currency basis since December 2004 (details of loan and deposit growth by division are contained on page 13 of this release). Net interest income also benefited from income earned on the € 1 billion of perpetual preferred securities issued in December 2004.

Average interest earning assets	**IFRS Half-year June 2005 € m**	IFRS Half-year June 2004 € m	*% change[1] 2005 v 2004*
Average interest earning assets	**100,391**	79,060	*27*

[1] This particular analysis is not adjusted for the impact of exchange rate movements.

Net interest margin	**IFRS Half-year June 2005 %**	IFRS Pro-forma Half-year June 2004 %	*Basis point change*
Group net interest margin	**2.55**	2.73	*-18*

The domestic and foreign margins for the half-year to June 2005 are reported on page 47 of this release.

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

The Group net interest margin amounted to 2.55%, a decrease of 18 basis points compared with the half-year to June 2004 on an IFRS basis. The margin reduction was due to a continuation of trends evident in recent years with:

(a) loans increasing at a faster rate than deposits.

(b) a changing mix of products where stronger volume growth has been achieved in lower margin products; home loans and prime advances on the lending side and term deposits and other lower margin products on the deposit side, particularly in AIB Bank ROI and AIB Bank GB & NI.

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

(d) higher growth in mid-market loans in the Republic of Ireland and the United Kingdom and growth in our international corporate operations.

(e) competitive pressures on loan and deposit pricing.

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

The impact of historically low yields on the investment of deposit funds particularly affected Republic of Ireland and Polish operations.

While it is difficult to disaggregate trends in product margins between mix and competitive factors, competitive pricing behaviour did impact deposit margins in Republic of Ireland and the United Kingdom and loan margins in the Republic of Ireland and Northern Ireland. The Group's new business lending continued to meet targeted return on economic capital hurdles. The structural effect of loans growing faster than deposits, changes in business mix and lower yields on the re-investment of deposit and current account funds are expected to be continuing features with consequent impacts on future net interest margin.

"Banking fees and commissions up 7%"

Other income[1]

Other income was up 2% to € 535 million since the half-year to June 2004.

Other income[1]	**IFRS Half-year June 2005 € m**	IFRS Half-year June 2004 € m	IFRS Pro-forma June 2004 € m	*Underlying % change 2005 v Pro-forma 2004*
Dividend income	**40**	38	38	*1*
Banking fees and commissions	**417**	406	352	*16*
Investment banking and asset management fees	**84**	80	80	*2*
Life assurance fees	**20**	21	21	*-5*
Fee and commission income	**521**	507	453	*13*
Less: fee and commission expense	**(72)**	(65)	(65)	*8*
Trading and other financial income	**45**	41	41	*14*
Life assurance business - Net trading income	**185**	63	63	*195*
Total trading and other financial income	**230**	104	104	*142*
Life assurance business - Insurance premiums	**135**	62	60	*113*
Profit on termination of off-balance sheet instruments	**–**	36	36	*–*
Other	**39**	44	44	*-14*
Other operating income	**174**	142	140	*20*
Currency hedging losses	**(5)**	(1)	(1)	*–*
Hedge ineffectiveness (IAS 39)	**2**	–	–	*–*
Other income	**890**	725	669	*31*
Increase in insurance and investment contract liabilities, and claims	**(355)**	(156)	(156)	*128*
Total other income[1]	**535**	569	513	*2*

Other income summary[1]			
Life assurance income	**359**	166	164
Increase in insurance and investment contract liabilities, and claims	**(355)**	(156)	(156)
Life assurance income net	**4**	10	8
Other	**531**	559	505
Total other income[1]	**535**	569	513

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

Banking fees and commissions increased by 16%, or 7% excluding the € 30 million of investigation related charges incurred in the half-year to June 2004. The growth reflects increased business and transaction volumes in AIB Bank Republic of Ireland, GB & NI and Corporate Banking and there was good growth in electronic business and payment fees in Poland. Total fee and commission income was up 13% or 6% excluding the investigation related charges in 2004.

Investment banking and asset management revenues were higher due to growth in Goodbody Stockbrokers and in the Polish asset management business.

Total life insurance income across all other income headings and insurance and investment contract liabilities, and claims are reported separately in the income statement. Life assurance income (other income) was € 359 million compared with € 164 million in the half-year to June 2004, while insurance and investment contract liabilities, and claims was € 355 million compared to € 156 million in the half-year to June 2004. The full income statement for Ark Life is shown on page 42 of this release. Profit was strong at € 32 million compared with the half-year June 2004 pro-forma IFRS profit of € 22 million. The increase reflected growth in single premium sales, higher margins on the protection business, tight cost management and some technical items.

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

Other income as a percentage of total income reduced from 32% to 30%.

[1] *Includes increase in insurance and investment contract liabilities, and claims.*

AIB

"Cost income ratio down 2% to 54.6%"

"Further investment to ensure compliance with new regulatory projects"

"Decrease in depreciation charge"

Total operating expenses

Operating expenses increased by 8% compared with the half-year to June 2004.

Operating expenses	**IFRS Half-year June 2005 € m**	IFRS Half-year June 2004 € m	IFRS Pro-forma June 2004 € m	*Underlying % change 2005 v Pro-forma 2004*
Personnel expenses	**638**	555	555	*13*
General and administrative expenses	**282**	278	277	–
Depreciation[1]/amortisation[2]	**65**	64	64	*-5*
Total operating expenses	**985**	897	896	*8*

Operating expenses increased by 8%. The cost base in the comparative half-year to June 2004 included € 9 million of investigation related costs. Under IFRS, operating expenses include other finance income relating to the return on pension fund assets and the cost of pension fund liabilities and this income reduced in 2005, increasing the growth in personnel expenses. Excluding the above two offsetting items, the growth in operating expenses remained at 8%.

The growth of 8% was driven from a background of significantly higher business volumes and strong revenue growth. In the period there were costs to ensure compliance with a range of regulatory initiatives such as Sarbanes Oxley and Basel II and there was higher performance related remuneration resulting from strong revenue growth. The increase before these items was 5%.

Personnel expenses were up 13%, or 12% excluding the above mentioned decline in other finance income. The increase reflected a higher level than normal of variable costs arising from performance related remuneration resulting from strong revenue growth and the cost of additional resources to ensure compliance with a range of regulatory initiatives such as Sarbanes Oxley and Basel II. General and administrative expenses were flat, or up 3% excluding investigation related costs in the half-year to June 2004. The 3% increase includes the effects of inflation, consultancy and systems costs relating to the aforementioned strengthening of internal structures to ensure compliance with new regulatory initiatives. Depreciation/amortisation decreased by 5% in line with expectations.

Improved productivity was evident in a reduction in the cost income ratio to 54.6% from 56.5% in the half-year to June 2004.

[1] *Depreciation of property, plant and equipment.*

[2] *Amortisation/impairment of intangible assets and goodwill.*

Commentary on results

"First half bad debt experience particularly positive"

"Provision charge down to 13 basis points"

"Reduction in impaired loans as a percentage of loans"

Provisions

Total provisions were € 42 million, down from € 63 million in the half-year to June 2004.

Provisions	**IFRS Half-year June 2005 € m**	IFRS Half-year June 2004 € m
Impairment losses on loans and advances[(1)]	**(46)**	(55)
Provisions for contingent liabilities and commitments	**5**	(8)
Amounts written off financial investments	**(1)**	–
Total provisions	**(42)**	(63)

The provision for **impairment losses on loans and advances** was € 46 million compared with € 55 million in the half-year to June 2004, representing a charge of 0.13% of average loans compared with 0.20% in June 2004. High asset quality, a very low level of gross new impaired loans, strong recoveries and a particularly benign economic environment resulted in the lower charge. There was a reduction in impaired loans as a percentage of total loans from 1.3% at 31 December 2004 to 1.1% at 30 June 2005 and the provision coverage for impaired loans was 75%.

In AIB Bank Republic of Ireland asset quality was strong with impaired loans remaining at 0.8% of average loans compared with 31 December 2004. The provision charge as a percentage of average loans reduced from 0.19% to 0.14% in the half-year to June 2005. High quality is a consistent feature across all sectors of the retail and commercial portfolios.

The bad debt charge in AIB Bank GB & NI was 0.11% compared with a net credit in the half-year to June 2004 when there were very strong provision recoveries. Impaired loans at 1.1% of total loans was unchanged compared with 31 December 2004.

In Capital Markets asset quality was particularly good with a positive environment resulting in a low level of specific bad debt provisions. The provision charge reduced to 0.09% from 0.17% for the half-year to June 2004 and impaired loans reduced to 0.7% from 0.8% of total loans at 31 December 2004.

The provision charge in Poland dropped to 0.26% of loans from 1.32% in the half-year to June 2004. The downward trend in impaired loans continued with the ratio of impaired loans as a percentage of loans declining to 7.8% from 8.4% at 31 December 2004.

Provisions for **contingent liabilities and commitments** moved from a provision of € 8 million in the half-year to June 2004 to a credit of € 5 million in June 2005 while provisions for **amounts written off financial investments** were € 1 million in the half-year to June 2005.

Share of results of associated undertakings

The profit in the half-year to June 2005 was € 70 million compared to € 62 million in the half-year to June 2004 and reflects AIB's 23.3% share of the income after taxes of M&T Bank Corporation on an IFRS basis for the half-year to June 2005.

[(1)] *As noted on page 8 the pro-forma accounts for the half-year to June 2004 do not reflect the impact of loan impairment under IFRS.*

Commentary on results

The following commentary is in respect of the total Group.

> ***"Loans up 11%, deposits up 6%"***
>
> ***"Effective tax rate at 19.8%"***

Balance sheet

Total assets amounted to € 116 billion compared to € 101 billion at 31 December 2004. Adjusting for the impact of currency, total assets were up 12% and loans to customers were up 11% since 31 December 2004 while customer accounts increased by 6%. Risk weighted assets excluding currency factors increased by 10% to € 88 billion.

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

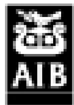
% change June 2005 v December 2004	Risk weighted assets *% change*	Loans to customers *% change*	Customer accounts *% change*
AIB Bank Republic of Ireland	11	12	8
AIB Bank GB & NI	15	13	11
Capital Markets	8	13	-3
Poland	-4	–	3
AIB Group	10	11	6

Assets under management/administration and custody

Assets under management in the Group amounted to € 13 billion and assets under administration and custody amounted to € 224 billion at 30 June 2005.

Taxation

The taxation charge was € 169 million compared with € 145 million in the half-year to June 2004 (€ 139 million on a pro-forma basis for the half-year to June 2004). The effective tax rate was 19.8% compared with 20.5% in the half-year to June 2004 (or 19.8% on a pro-forma basis). The taxation charge excludes taxation on share of profits of associated undertakings. Share of profits of associated undertakings is reported net of taxation in the Group profit on ordinary activities before taxation. The effective tax rate is influenced by the geographic mix of profits, which are taxed at the rates applicable in the jurisdictions where we operate.



Commentary on results

"EPS guidance increased – range EUR 140c to EUR 142c"

"Return on equity 20%"

Return on equity and return on assets

The return on equity decreased to 20.1% compared to 20.3% in the half-year to June 2004 and the return on assets was 1.23%, down from 1.28% in the half-year to June 2004.

Capital ratios

A strong capital position was reflected in a Tier 1 ratio at 7.7% and a total capital ratio of 11.0%.

Outlook

In line with the first half performance, we expect all divisions and business lines to continue to perform strongly for the full year. The buoyant loan and deposit growth achieved in the half-year to June is expected to continue in the second half-year. While we expect asset quality to remain very strong, the bad debt experience in the first half was exceptional and is not expected to repeat to the same extent in the second half. Based on strong current business trends and pipelines we are increasing our earnings guidance with earnings per share expected to be in the range of EUR 140c to EUR 142c compared with previous guidance of EUR 138c to EUR 140c.

Divisional commentary

On a divisional basis, profit is measured in euro and consequently includes the impact of currency movements. The underlying percentage change is reported in the divisional income statements adjusting for the impact of exchange rate movements on the translation of foreign locations' profit.

AIB Bank Republic of Ireland profit was up 34% or 17% excluding the € 45 million of investigation related charges incurred in 2004

"Banking operations profit up 15%"

"Income/cost gap at +3%"

"Cost income ratio decreases to 50%"

"Strong asset quality"

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.*

AIB Bank Republic of Ireland income statement	**IFRS Half-year June 2005 € m**	IFRS Half-year June 2004 € m	IFRS Pro-forma June 2004 € m	*Underlying % change 2005 v Pro-forma 2004*
Net interest income	**679**	584	585	*16*
Other income[1]	**180**	157	152	*18*
Total operating income[1]	**859**	741	737	*16*
Total operating expenses	**430**	406	406	*6*
Operating profit before provisions	**429**	335	331	*29*
Provisions	**(27)**	(28)	(28)	*-8*
Operating profit	**402**	307	303	*33*
Profit on disposal of property	**4**	–	–	–
Profit on ordinary activities before taxation	**406**	307	303	*34*

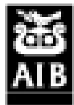
The divisional profit increase was 34% or 17% excluding the € 45 million of investigation related charges incurred in the half-year to June 2004. Operating income was up 16% and operating expenses were up 6%. Excluding the investigation related charges these growth rates were 11% and 8% respectively, with the operating income/cost gap at +3%.

Profit from banking operations was up 15% reflecting strong loan and deposit growth and higher productivity. Loans and deposits increased by 12% and 8% respectively since 31 December 2004. Operating expenses were up 6% or 8% excluding investigation related costs in the comparative half-year. Under IFRS operating expenses includes other finance income relating to the return on pension fund assets and the cost of pension fund liabilities. In the period other finance income decreased from € 9 million to € 6 million which added 1% to the operating expenses growth, excluding this factor the increase was 7%. Increased business volumes, annual salary inflation, performance costs related to strong revenue growth and costs associated with a number of mandatory and regulatory driven projects, were the drivers of the 7% increase. The cost income ratio was 50.1% compared with 55.1% in 2004 (51.4% excluding the € 45 million of investigation related charges incurred in the half-year to June 2004).

AIB Card Services profit growth was exceptionally strong, resulting from good growth in fee income reflecting higher consumer spending, a significant increase in merchant turnover, lower costs and a lower bad debt charge. Profit also increased in AIB Finance and Leasing due to a 15% increase in loan volumes since June 2004, good growth in fee income and a lower bad debt charge.

Ark Life reported strong profit before taxation of € 32 million compared with pro-forma IFRS profit of € 22 million in the half-year to June 2004. The increase reflected growth in single premium sales, higher margins on the protection business, tight cost management and some technical items.

[1] *Includes increase in insurance and investment contract liabilities, and claims.*



AIB Bank GB & NI profit was up 13%

"Continuing double-digit profit growth"

"Loans up 13%, deposits up 11%"

"Cost income ratio declines from 52.3% to 49.3%"

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

AIB Bank GB & NI income statement	**IFRS Half-year June 2005 € m**	IFRS Half-year June 2004 € m	IFRS Pro-forma June 2004 € m	*Underlying % change 2005 v Pro-forma 2004*
Net interest income	**247**	201	215	*16*
Other income	**74**	94	71	*5*
Total operating income	**321**	295	286	*14*
Total operating expenses	**158**	152	150	*7*
Operating profit before provisions	**163**	143	136	*21*
Provisions	**(8)**	3	3	–
Operating profit	**155**	146	139	*13*
Profit on disposal property	**1**	1	1	–
Profit on ordinary activities before taxation	**156**	147	140	*13*

AIB Bank GB & NI had a good business performance in the half-year to June 2005 with profit before taxation increasing by 13%, continuing the trend of strong double-digit growth in recent periods. Loans and deposits increased by 13% and 11% respectively since 31 December 2004 with net interest income increasing by 16%. The increase includes strong growth in loan arrangement fees in line with lending growth. Other income was up 5%, reflecting growth in commitment fees and credit card income. Operating expenses were up 7% due to annual salary increases, inflation, performance costs related to strong revenue growth, regulatory driven projects and investment in future business development capability. The cost income ratio reduced from 52.3% to 49.3%. Credit quality remained strong with bad debt provisions at € 8 million, or 0.11% of average loans, compared to a net recovery of € 3 million in 2004.

Allied Irish Bank (GB), primarily a business bank, reported significant profit growth of 17% to € 81 million in 2005. Loans and deposits increased by 14% and 13% respectively since 31 December 2004. Ongoing expansion initiatives in recent years have resulted in repeated very strong balance sheet and revenue growth with a very positive outcome for productivity, the cost income ratio was down from 54.1% to 48.7%.

First Trust Bank, a retail bank in Northern Ireland, achieved profit growth of 9% to € 75 million. Loans and deposits were up 11% and 9% respectively with strong growth in business and home mortgage lending activity. The bank's customer relationship management strategy is central to the continued improvement in the share of these key markets. The cost to income ratio reduced from 50.7% to 50.0%.

Capital Markets profit was up 33% on the half-year to June 2004

"Exceptional profit growth in Corporate Banking"

"Conservative risk positioning resulted in lower Treasury profits. Customer treasury business strong"

"Investment Banking profits show strong growth"

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

Capital Markets income statement	IFRS Half-year June 2005 € m	IFRS Half-year June 2004 € m	IFRS Pro-forma June 2004 € m	*Underlying % change 2005 v Pro-forma 2004*
Net interest income	**214**	174	192	*11*
Other income	**194**	188	162	*21*
Total operating income	**408**	362	354	*16*
Total operating expenses	**200**	186	185	*9*
Operating profit before provisions	**208**	176	169	*23*
Provisions	**(3)**	(17)	(17)	*-81*
Operating profit	**205**	159	152	*35*
Share of results of associated undertakings	**1**	3	3	*-47*
Profit on ordinary activities before taxation	**206**	162	155	*33*

Profit before taxation at € 206 million was 33% ahead of the comparative period. The performance benefited from a combination of strong revenue growth and low provisioning.

Performance in Corporate Banking was exceptional with operating profit up 51% and pre-tax profit up 60% on the comparative period. Loans increased by 13% since 31 December 2004, driven principally by our international business.

Our Customer Treasury business performed well. We positioned our Wholesale Treasury business with low utilisation of risk in a difficult trading environment in the first half-year. Mainly as a result of this very conservative stance, Global Treasury profit was down 11% compared with the half-year to June 2004. Investment Banking profit was well ahead of the half-year to June 2004. The result was underpinned by strong profit growth in stockbroking, Polish asset management business, and corporate advisory activities.

Operating expenses were up 9% due to substantial investment in the growth of our business internationally and a higher level of variable costs, primarly performance related. The cost income ratio reduced from 52.5% in 2004 to 49.1% in the current half-year.

The quality of our credit portfolio remained strong and low levels of provisions were experienced.

Poland profit was € 68 million, up 17%

> ***"Continued increase in Poland profitability"***
>
> ***"Good growth in other income"***
>
> ***"Substantial reduction in provision charge"***

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

Poland income statement	**IFRS Half-year June 2005 € m**	IFRS Half-year June 2004 € m	IFRS Pro-forma June 2004 € m	*Underlying % change 2005 v Pro-forma 2004*
Net interest income	**93**	81	84	*-4*
Other income	**115**	94	91	*10*
Total operating income	**208**	175	175	*3*
Total operating expenses	**136**	118	118	–
Operating profit before provisions	**72**	57	57	*8*
Provisions	**(4)**	(21)	(21)	*-83*
Operating profit	**68**	36	36	*60*
Profit on disposal property	**–**	1	1	–
Profit on disposal of business	**–**	12	12	–
Profit on ordinary activities before taxation	**68**	49	49	*17*

Profit before taxation was up 17% on a local currency basis to € 68 million and operating profit was up 60% for the half-year to June 2005.

Total income increased by 3% with net interest income decreasing by 4%. Following a period of rising interest rates in the second half of 2004, the trend has now reversed with three cuts of 50 basis points in the half-year to June 2005 bringing the reference rate to 5.00%, its lowest level historically. Performing loans to customers were up 1% on December 2004 with total loans to customers flat in the period as demand for credit continued to be less than anticipated. Lending margins however, have increased as a result of increased personal lending. Customer deposits were up 3% since 31 December 2004 and 11% since 30 June 2004. Deposit margins reduced as a result of lower interest rates, changing product mix and increased competition.

Other income growth of 10% was driven by strong growth in electronic business and payments (particularly international payment fees), brokerage fees and fees connected with IPO's. Asset management fees increased substantially due to a 70% increase in funds and a favourable mix in funds managed. Dividend income decreased following exceptional dividend income in 2004.

Operating expenses were maintained at the same level as the half-year to June 2004, reflecting the ongoing focus on cost management.

The provision experience across the portfolio improved considerably in the year with the charge showing a decrease of 83% on 2004. The charge as a percentage of average loans declined from 1.32% in 2004 to 0.26% in 2005. The downward trend in impaired loans continued with impaired loans as a percentage of total loans declining from 8.4% at 31 December 2004 to 7.8% at 30 June 2005, reflecting the ongoing development of credit management skills and systems.

The profit on disposal of business relates to the sale in April 2004 of CardPoint S.A., a merchant acquiring business responsible for card payment processing.

AIB

Group

Group *includes interest income earned on capital not allocated to divisions, the funding cost of certain acquisitions, hedging in relation to the translation of foreign locations' profit, unallocated costs of enterprise technology and central services and the contribution from AIB's share of approximately 23.3% in M&T Bank Corporation ('M&T').*

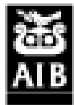
Group income statement	**IFRS Half-year June 2005 € m**	IFRS Half-year June 2004 € m	IFRS Pro-forma June 2004 € m
Net interest income	**35**	(19)	(3)
Other income	**(28)**	36	37
Total operating income	**7**	17	34
Total operating expenses	**61**	35	37
Operating loss	**(54)**	(18)	(3)
Share of results of associated undertaking - M&T	**69**	59	59
Profit on ordinary activities before taxation	**15**	41	56

Group reported profit of € 15 million for the half-year to June 2005 compared with a profit of € 56 million in 2004.

Net interest income increased due to higher capital income resulting from higher capital balances (strong retained earnings) and the income from € 1 billion of perpetual preferred securities issued in December 2004. Other income was lower due to gains of € 36 million in the half-year to June 2004 in relation to closing out capital invested positions. Other income in the half-year to June 2005 includes hedging losses in relation to foreign currency translation exposure and capital management, and hedge ineffectiveness under IFRS.

Operating expenses were higher due to significant additional investment in resources to facilitate AIB's preparation for Basel II and Sarbanes Oxley. During the half-year there were also costs relating to preparation for IFRS and further strengthening of compliance and internal audit structures. Performance related costs were higher in line with strong revenue and profit growth.

AIB's share of M&T after-tax profit in 2004 amounted to € 69 million. On a local currency basis M&T's contribution of US$ 88 million increased by 21% relative to the half-year to June 2004 of US$ 73 million. AIB benefited from a 23.3% share of profit compared to a 22.5% share in the half-year to June 2004. M&T reported its half-year results on 12 July 2005, showing strong earnings growth with net income up 12% to US$ 386 million. US GAAP-basis diluted earnings per share up 17% to US$ 3.31 from US$ 2.83 in the half-year to June 2004. Diluted net operating earnings per share, which excludes the amortisation of core deposit and other intangibles, was US$ 3.46, up 14% from US$ 3.03.



The interim financial information is presented in Euro, rounded to the nearest million.

The interim financial information has been prepared based on the recognition and measurement requirements of International Financial Reporting Standards and International Accounting Standards (collectively, 'IFRS') issued by the International Accounting Standards Board ('IASB') and endorsed (or where there is a reasonable expectation of endorsement, see 'Employee benefits' below) by the European Union ('EU') by 31 December 2005, other than that in respect of the fair value option as described below.

On 16th June 2005, AIB published 'Transition to IFRS - Restatement of 2004 Financial Information' ('the transition document') with restated IFRS financial information for 2004 together with reconciliations to previously reported data. The transition document explains the differences between the Irish GAAP and the IFRS accounting policies and is available for download from the Investor Relations page at www.aibgroup.com.

The accounting policies adopted in the preparation of the financial statements for the half-year ended 30 June 2005 are set out on pages 22 to 33.

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

Up to and including the year ended 31 December 2004, AIB's primary financial statements were prepared in accordance with Irish Generally Accepted Accounting Principles ('IR GAAP'). On 1 January 2005, AIB Group, in common with other listed entities within the European Union, implemented the requirements of IFRS for the first time and these will be used for the purpose of preparing financial statements for the year ending 31 December 2005.

The IFRS in effect at 31 December 2005 may differ from those applied in the preparation of the financial information in these interim financial statements due to decisions that may be taken by the EU on endorsement, new or amended standards issued by the IASB, interpretative guidance issued by the International Financial Reporting Interpretations Committee ('IFRIC') and the requirements of companies legislation. In addition, as IFRS is currently being applied in Europe for the first time, certain practices in applying the standards may develop, which may be different than those adopted in these financial statements. Therefore the financial information contained herewith could be subject to change.

The financial information complies with the EU 'carved out' version of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') which means that AIB has not availed of the option within the full IAS 39 to measure certain liabilities at fair value. The EU-endorsed version does not permit non-trading financial liabilities to be designated as 'at fair value through profit or loss'. However, it is expected that the June 2005 amendment to IAS 39 'The fair value option' which permits financial assets and financial liabilities to be designated as 'at fair value through profit or loss' only in certain circumstances will be endorsed by the EU. AIB is currently considering the implications of the amendment. The transitional arrangements of this IAS 39 amendment permit designation as at 1 January 2005 for companies adopting IFRS from that date.

In accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards' ('IFRS 1'), there have been no adjustments to the estimates made at the time of the approval of the IR GAAP interim report for the six month period ended 30 June 2004 and the financial statements for the year ended 31 December 2004. IFRS 1 provides first time adopters of IFRS with certain exemptions. IFRS 1 also allows or requires a number of other exceptions to its general principle that the standards in force at the reporting date should be applied retrospectively. AIB has availed of certain exemptions as set out below:-

First time application relating to financial instruments and insurance contracts

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

Share based payments

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

Property, plant & equipment

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

Cumulative exchange differences

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

Employee benefits

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

The amendment to IAS 19, Employee Benefits 'Actuarial Gains and Losses, Group Plans and Disclosures', permits entities to recognise actuarial gains and losses immediately in the statement of changes in equity. AIB expects that this amendment will be endorsed by the EU and accordingly the interim financial information has been prepared on this basis.

Business combinations

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

Derecognition of financial assets and financial liabilities

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

AIB

Provisional IFRS accounting policies

The Accounting policies that the Group applied in the preparation of the interim financial statements and which it expects to apply for the year ended 31 December 2005 are set out below. Full details of the accounting policies applied in previous periods under IR GAAP can be found on pages 64 to 68 of the 2004 Annual Report. AIB has availed of transitional provisions with regard to IAS 32, IAS 39 and IFRS 4. Therefore, comparative information for 2004 in respect of financial instruments and insurance contracts has been prepared on the basis of the Group's policies under IR GAAP.

1 Accounting convention

The financial information has been presented in accordance with International Accounting Standards and International Financial Reporting Standards (collectively 'IFRS') as endorsed by the EU or expected to be applicable at 31 December 2005.

The financial statements have been prepared in accordance with IFRS as required by European directives. The financial statements have been prepared under the historical cost basis, except where the following assets are stated at their fair value: derivative financial instruments, financial assets at fair value through profit and loss, financial instruments held for trading and financial instruments classified as available for sale.

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. Some estimation techniques involve significant amounts of management valuation judgements, often in areas which are inherently uncertain. The estimation techniques which are considered to be most complex are in the areas of impairment of financial assets, share based payments, fair value of financial assets and liabilities, the impairment of goodwill, the value of the long-term assurance business, and retirement benefits.

The accounting policies have been consistently applied by Group entities.

2 Basis of consolidation

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

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

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

Intra-group balances and any unrealised gains and losses, or income and expenses, arising from intra-group transactions are eliminated on consolidation.

3 Interests in associated undertakings

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

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

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

The Group's share of the results of associates after tax reflects the Group's proportionate interest in the associates and is based on financial statements made up to a date not earlier than three months before the balance sheet date, adjusted to conform with the accounting polices of the Group. Unrealised gains and losses on transactions with the associate are eliminated to the extent of the Group's interest in the investee.

4 Foreign currency translation
The consolidated financial statements are presented in Euro, which is the Group's presentational currency.

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

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

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

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

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

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

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

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

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

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

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to

the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

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

7 Financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Held to maturity

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

Available for sale

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

Available for sale investments are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until

sale when the cumulative gain or loss is transferred to the income statement.

8 Financial liabilities

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

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement using the effective interest method. The Group is currently considering the impact of the expected EU endorsement of the June 2005 amendment to IAS 39 'the fair value option' with respect to the possible designation of certain financial liabilities at fair value through profit or loss.

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

9 Property, plant & equipment

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

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

*Subject to the maximum remaining life of the lease.

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

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

10 Intangible assets

Goodwill

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

Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications that impairment

may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill on the acquisitions of associates is included in the carrying amount of those investments in the consolidated financial statements. Gains or losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold. Capitalised goodwill was tested for impairment as at 1 January 2004, the date of transition to IFRS.

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

Computer software

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

11 Derivatives and hedge accounting

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

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

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

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and liabilities when their fair value is negative, unless there is the legal ability and intention to settle net. Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

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

Embedded derivatives

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

Hedging

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

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

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging

transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group discontinues hedge accounting when:

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

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

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

Fair value hedge accounting

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

Cash flow hedge accounting

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

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

Net investment hedge

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

Derivatives that do not qualify for hedge accounting

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

12 Impairment of financial assets

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial

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

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

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

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

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

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

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

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

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

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

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

to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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

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

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

13 Employee benefits

Retirement benefit obligations

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

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

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

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

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

Short-term employee benefits

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

Share based compensation

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

in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met.

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

14 Non-credit risk provisions

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

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

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

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

Restructuring costs

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

Legal claims and other contingencies

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

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

15 Income tax, including deferred income tax

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

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

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

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

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

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

Deferred tax related to items that are charged or credited to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

16 Impairment of property, plant and equipment and intangible assets

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

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed. For the purpose of conducting impairment reviews in respect of goodwill, the recoverable amount is determined as the higher of the net selling price of the cash-generating unit and its value in use. Cash-generating units are the lowest level at which management monitors the return on investment on assets.

17 Collateral & netting

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

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities.

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

Netting

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

presented gross in the balance sheet.

18 Financial guarantees

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

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

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

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

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

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

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

20 Leases

Lessor

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

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

Lessee

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

21 Share capital

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

Share issue costs

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

Dividends on ordinary shares

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

Treasury shares

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

22 Insurance and investment contracts

The Group has classified its Long Term Assurance business in accordance with IFRS 4 'Insurance Contracts'. Insurance contracts are those contracts containing significant insurance risk. Tracker bonds which provide for a return of premium on death are regarded as containing significant insurance risk. Investment contracts are contracts that do not have significant insurance risk. There are no contracts with discretionary participating features.

Insurance contracts

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

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

Investment contracts

Investment contracts are primarily unit-linked. The liability is measured at fair value, which is the bid value of the assets held to match the liability, less an amount in respect of tax. Increases in investment contract liabilities are recognised in the income statement as they arise. Revenue in relation to investment management services is recognised as the services are provided. Premiums and claims are accounted for directly in the balance sheet as adjustments to the investment contract liability.

23 Segment reporting

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

24 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than 3 months.

25 Trust activities

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

1 Transition to IFRS

As set out in the basis of preparation, the interim financial information has been prepared based on the recognition and measurement requirements of IFRS other than that in respect of the fair value option. AIB has availed of transitional provisions for IAS 32 'Financial Instruments: Disclosure and Presentation' ('IAS 32'), IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') and IFRS 4 'Insurance Contracts' ('IFRS 4') and has not presented comparative information in accordance with these standards. Accordingly, comparative information for 2004 in respect of financial instruments and insurance contracts is prepared on the basis of the Group's accounting policies under IR GAAP.

A description of the differences between IR GAAP and IFRS accounting policies is set out in 'Transition to IFRS - Restatement of 2004 financial information' ('the transition document') on pages 10 to 20 and in the 2004 Annual Report on pages 42 to 55. Reconciliations of balance sheets prepared under IR GAAP and IFRS at 1 January 2004, 30 June 2004 and 31 December 2004 are included in the transition document on pages 38, 40 and 44 and are summarised below. Reconciliations of the profit and loss account prepared in accordance with IR GAAP and prepared in accordance with IFRS for the periods ending 30 June 2004 and 31 December 2004 are included on pages 39 and 43 of the transition document and are summarised below. In addition, a reconciliation of the amount of shareholders' equity at 1 January 2005, before and after the application of IAS 32, IAS 39 and IFRS 4 is summarised below and included as an appendix to this interim financial information. An explanation of the effects of the application of IAS 32, IAS 39 and IFRS 4 on the 1 January 2005 balance sheet, is presented in the transition document on pages 15 to 20. The transition document is available at www.aibgroup.com.

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

	Profit after taxation		Shareholders' equity	
	Half-year 30 June 2004 € m	Year 31 December 2004 € m	30 June 2004 € m	31 December 2004 € m
As reported under Irish GAAP	524	1,082	5,755	5,581
Reconciliation adjustments to IFRS excluding IAS 32, IAS 39 and IFRS 4:				
Associated undertakings	–	1	(5)	12
Finance leases	1	2	–	1
Software	2	6	16	20
Taxation	(2)	(4)	(47)	(47)
Intangible assets & goodwill	41	79	46	79
Dividends	–	–	181	336
Share based payments	(5)	(9)	9	10
Employee benefits & other	–	1	(64)	(65)
IFRS excluding IAS 32, IAS 39 and IFRS 4	561	1,158	5,891	5,927
Reconciliation adjustments to IAS 32, IAS 39 and IFRS 4:				
Loans origination				(65)
Loan impairment				139
Financial instruments				273
Derivatives				38
Long-term assurance business				(185)
Financial liabilities				345
Shareholders' equity under IFRS including IAS 32, IAS 39 and IFRS 4				6,472

AIB

2 Segmental information	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Total € m
						Half-year 30 June 2005
Operations by business segments[1]						
Net interest income	**679**	**247**	**214**	**93**	**35**	**1,268**
Other income	**535**	**74**	**194**	**115**	**(28)**	**890**
Total operating income	**1,214**	**321**	**408**	**208**	**7**	**2,158**
Increase in insurance and investment contract liabilities, and claims	**355**	**–**	**–**	**–**	**–**	**355**
Total operating expenses	**430**	**158**	**200**	**136**	**61**	**985**
Provisions	**27**	**8**	**3**	**4**	**–**	**42**
Operating profit/(loss)	**402**	**155**	**205**	**68**	**(54)**	**776**
Share of results of associated undertakings	**–**	**–**	**1**	**–**	**69**	**70**
Profit on disposal of property	**4**	**1**	**–**	**–**	**–**	**5**
Profit on ordinary activities before taxation	**406**	**156**	**206**	**68**	**15**	**851**
Balance sheet						
Total loans	**39,858**	**15,772**	**18,546**	**3,827**	**211**	**78,214**
Total deposits	**29,260**	**10,576**	**47,771**	**5,869**	**170**	**93,646**
Total assets	**44,672**	**17,625**	**40,935**	**7,563**	**5,142**	**115,937**
Total risk weighted assets	**34,781**	**14,611**	**33,643**	**4,154**	**1,047**	**88,236**
Net assets[2]	**2,616**	**1,099**	**2,530**	**312**	**79**	**6,636**

	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Total € m
						Half-year 30 June 2004
Operations by business segments[1]						
Net interest income	584	201	174	81	(19)	1,021
Other income	313	94	188	94	36	725
Total operating income	897	295	362	175	17	1,746
Increase in insurance and investment contract liabilities, and claims	156	–	–	–	–	156
Total operating expenses	406	152	186	118	35	897
Provisions	28	(3)	17	21	–	63
Operating profit/(loss)	307	146	159	36	(18)	630
Share of results of associated undertakings	–	–	3	–	59	62
Profit on disposal of property	–	1	–	1	–	2
Profit on disposal of businesses	–	–	–	12	–	12
Profit on ordinary activities before taxation	307	147	162	49	41	706
Balance sheet						
Total loans	31,283	12,135	14,680	3,672	229	61,999
Total deposits	24,617	9,248	39,717	4,602	220	78,404
Total assets	36,616	13,648	33,377	5,927	5,059	94,627
Total risk weighted assets	27,050	11,925	28,695	3,700	799	72,169
Net assets[2]	2,132	940	2,261	292	63	5,688

2 Segmental information *(continued)*	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Total € m
						Year 31 December 2004
Operations by business segments[1]						
Net interest income	1,206	416	360	174	(22)	2,134
Other income	670	189	390	188	37	1,474
Total operating income	1,876	605	750	362	15	3,608
Increase in insurance and investment contract liabilities, and claims	309	–	–	–	–	309
Total operating expenses	838	305	403	245	103	1,894
Provisions	44	13	29	29	18	133
Operating profit/(loss)	685	287	318	88	(106)	1,272
Share of results of associated undertakings	(1)	–	4	1	128	132
Profit on disposal of property	7	1	–	1	–	9
Profit on disposal of businesses	–	–	4	13	–	17
Profit on ordinary activities before taxation	691	288	326	103	22	1,430
Balance sheet (at 1 January 2005)						
Total loans	35,794	13,740	14,668	3,748	280	68,230
Total deposits	27,178	9,084	40,537	5,452	133	82,384
Total assets	42,137	15,175	33,550	6,703	5,254	102,819
Total risk weighted assets	31,183	12,520	29,607	4,232	1,059	78,601
Net assets[2]	2,370	952	2,251	322	80	5,975

	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
						Half-year 30 June 2005
Operations by geographical segments[3]						
Net interest income	**800**	**20**	**339**	**106**	**3**	**1,268**
Other income	**601**	**37**	**124**	**125**	**3**	**890**
Total operating income	**1,401**	**57**	**463**	**231**	**6**	**2,158**
Increase in insurance and investment contract liabilities, and claims	**355**	–	–	–	–	**355**
Total operating expenses	**609**	**35**	**198**	**140**	**3**	**985**
Provisions	**21**	**(2)**	**19**	**4**	–	**42**
Operating profit	**416**	**24**	**246**	**87**	**3**	**776**
Share of results of associated undertakings	**1**	**69**	–	–	–	**70**
Profit on disposal of property	**4**	–	**1**	–	–	**5**
Profit on ordinary activities before taxation	**421**	**93**	**247**	**87**	**3**	**851**
Balance sheet						
Total loans	**49,987**	**2,428**	**21,780**	**3,827**	**192**	**78,214**
Total deposits	**62,020**	**3,730**	**22,027**	**5,869**	–	**93,646**
Total assets	**79,207**	**3,561**	**25,488**	**7,487**	**194**	**115,937**
Net assets[2]	**4,148**	**471**	**1,791**	**214**	**12**	**6,636**

AIB

2 Segmental information *(continued)*	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
						Half-year 30 June 2004
Operations by geographical segments[3]						
Net interest income	665	10	255	90	1	1,021
Other income	428	50	142	102	3	725
Total operating income	1,093	60	397	192	4	1,746
Increase in insurance and investment contract liabilities, and claims	156	–	–	–	–	156
Total operating expenses	548	35	190	122	2	897
Provisions	37	(1)	7	20	–	63
Operating profit	352	26	200	50	2	630
Share of results of associated undertakings	3	59	–	–	–	62
Profit on disposal of property	–	–	1	1	–	2
Profit on disposal of businesses	–	–	–	12	–	12
Profit on ordinary activities before taxation	355	85	201	63	2	706
Balance sheet						
Total loans	39,861	1,324	17,088	3,672	54	61,999
Total deposits	54,500	1,220	18,082	4,602	–	78,404
Total assets	64,984	2,446	21,219	5,927	51	94,627
Net assets[2]	2,131	940	2,262	292	63	5,688

	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
						Year 31 December 2004
Operations by geographical segments[3]						
Net interest income	1,376	23	543	190	2	2,134
Other income	902	102	259	205	6	1,474
Total operating income	2,278	125	802	395	8	3,608
Increase in insurance and investment contract liabilities, and claims	309	–	–	–	–	309
Total operating expenses	1,151	81	392	266	4	1,894
Provisions	70	(4)	38	29	–	133
Operating profit	748	48	372	100	4	1,272
Share of results of associated undertakings	5	126	–	1	–	132
Profit on disposal of property	7	–	1	1	–	9
Profit on disposal of businesses	–	–	4	13	–	17
Profit on ordinary activities before taxation	760	174	377	115	4	1,430
Balance sheet (at 1 January 2005)						
Total loans	43,854	1,464	19,044	3,748	120	68,230
Total deposits	55,289	2,691	18,952	5,452	–	82,384
Total assets	70,484	2,568	22,885	6,761	121	102,819
Net assets[2]	2,372	954	2,253	326	70	5,975

2 Segmental information *(continued)*

[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 is reported in Group.

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

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

3 Interest and similar income	**Half-year 30 June 2005 € m**	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Interest on loans and receivables to banks	**72**	40	98
Interest on loans and receivables to customers	**1,905**	1,382	3,044
Interest on trading portfolio assets	**142**	104	232
Interest on financial investments	**344**	312	661
	2,463	1,838	4,035

4 Interest expense and similar charges	**Half-year 30 June 2005 € m**	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Interest on amounts due to banks and customers	**902**	669	1,537
Interest on debt securities in issue	**239**	92	255
Interest on subordinated liabilities and other capital instruments	**54**	56	109
	1,195	817	1,901

5 Other operating income	**Half-year 30 June 2005 € m**	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Insurance premium income	**135**	62	118
Profit on disposal of available for sale debt securities	**16**	14	15
Profit on disposal of available for sale equity instruments	**4**	2	2
Profit on disposal of off-balance sheet instruments	**–**	36	36
Profit on disposal of investments in associated undertakings	**–**	–	1
Miscellaneous operating income	**19**	28	92
	174	142	264

6 Administrative expenses	**Half-year 30 June 2005 € m**	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Personnel expenses	**638**	555	1,149
General and administrative expenses	**282**	278	590
Restructuring costs	**–**	–	9
	920	833	1,748

AIB

7 Taxation	**Half-year 30 June 2005 € m**	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Allied Irish Banks, p.l.c. and subsidiaries			
Corporation tax in Republic of Ireland			
Current tax on income for the period[1]	**77**	60	138
Adjustments in respect of prior periods	**2**	1	(5)
	79	61	133
Double taxation relief	**(10)**	(6)	(13)
	69	55	120
Foreign tax			
Current tax on income for the period	**106**	101	181
Adjustments in respect of prior periods	**(1)**	(8)	(11)
	105	93	170
	174	148	290
Deferred taxation			
Origination and reversal of timing differences	**(6)**	(3)	(10)
Other	**1**	–	(8)
	(5)	(3)	(18)
	169	145	272
Effective tax rate	**19.8%**	20.5%	19.0%

[1] The June 2005 figure includes a charge of € 14.7m in relation to the Irish Government bank levy (30 June 2004: € 14.7m; 31 December 2004: € 29.5m).

8 Earnings per € 0.32 ordinary share	**Half-year 30 June 2005 € m**	Half-year 30 June 2004 € m	Year 31 December 2004 € m
(a) Basic			
Profit attributable to equity holders of the parent	**661**	544	1,129
Distributions to other equity holders	**(38)**	(2)	(4)
Profit attributable to the ordinary shareholders	**623**	542	1,125
Weighted average number of shares in issue during the period	**862.6m**	847.0m	852.0m
Earnings per share	**EUR 72.3c**	EUR 64.1c	EUR 132.0c

8 Earnings per € 0.32 ordinary share *(continued)*

(b) Diluted	**Half-year 30 June 2005 € m**	Half-year 30 June 2004 € m	Year 31 December 2004 € m
Profit attributable to ordinary shareholders	**623**	542	1,125
Dilutive impact of potential ordinary shares in associated company	**(1)**	–	–
Adjusted profit attributable	**622**	542	1,125
		Number of shares (millions)	
Weighted average number of shares in issue during the period	**862.6**	847.0	852.0
Dilutive effect of options outstanding	**5.0**	2.5	3.1
Adjusted weighted average number of shares	**867.6**	849.5	855.1
Earnings per share - diluted	**EUR 71.7c**	EUR 63.8c	EUR 131.5c

9 Trading portfolio assets	**30 June 2005 Book amount € m**	1 January 2005 Book amount € m
Loans to banks	**3**	2
Loans to customers	**39**	45
Debt securities:		
Government securities	**1,234**	1,048
Other public sector securities	**20**	73
Other debt securities	**8,136**	6,705
	9,390	7,826
Equity instruments	**70**	84
	9,502	7,957

10 Loans and receivables to customers	**30 June 2005 € m**	1 January 2005 € m	31 December 2004 € m	30 June 2004 € m
Loans and receivables to customers	**71,008**	62,254	62,219	56,573
Amounts receivable under finance leases	**1,593**	1,527	1,527	1,589
Amounts receivable under hire purchase contracts	**1,084**	968	968	964
Money market funds	**63**	24	24	132
Unquoted securities	**923**	919	–	–
	74,671	65,692	64,738	59,258

11 Provisions for impairment of loans and receivables	**30 June 2005 € m**	30 June 2004 € m	31 December 2004 € m
At beginning of period	**760**	766	766
IFRS transition adjustment	**(146)**	–	–
Transfer from debt securities	**4**	–	–
Exchange translation adjustments	**10**	18	25
Transfer to contingent liabilities and commitments	**–**	–	(15)
Charge against profit and loss account	**46**	55	114
Amounts written off	**(23)**	(63)	(151)
Recoveries of amounts written off in previous years	**1**	3	21
At end of period	**652**	779	760
At end of period			
Specific	**500**	478	483
Collective	**152**	301	277
	652	779	760
Amounts include:			
Loans and receivables to banks	**2**	2	2
Loans and receivables to customers	**650**	777	758
	652	779	760

12 Risk elements in lending

Management has set out below the amount of loans, without giving effect to available security and before deduction of provisions, classified as (a) Impaired Loans and (b) Accruing loans which are contractually past due 90 days or more as to principal or interest:

	30 June 2005 € m	30 June 2004 € m	31 December 2004 € m
Impaired loans[(1)]			
Republic of Ireland	**350**	325	350
United Kingdom	**234**	162	197
Poland	**277**	340	297
Rest of world	**4**	2	2
	865	829	846
Accruing loans which are contractually past due 90 days or more as to principal or interest[(2)]			
Republic of Ireland	**113**	92	100
United Kingdom	**54**	11	21
	167	103	121

[(1)]Total interest income that would have been recorded during the half-year ended 30 June 2005, had interest on gross impaired loans been included in income amounted to € 9m for Republic of Ireland (31 December 2004: € 13m; 30 June 2004: € 6m), € 3m for United Kingdom (31 December 2004: € 5m; 30 June 2004: € 3m) and, € 8m for Poland (31 December 2004: € 13m; 30 June 2004: € 7m). Interest on impaired loans included in income for the half-year ended 30 June 2005 totalled € 5m (31 December 2004: € 19m; 30 June 2004: € 9m).

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

13 Financial investments	30 June 2005 Book amount € m	1 January 2005 Book amount € m
Debt securities:		
Government securities	**7,744**	7,227
Other public sector securities	**603**	854
Bank and building society certificates of deposit	**495**	585
Other debt securities	**7,479**	6,880
Equity instruments	**166**	174
	16,487	15,720

14 Long-term assurance business

Income and expense from long-term assurance business included in the income statement is set out below:

Income and expense from Ark Life's long-term assurance business	30 June 2005 € m	30 June 2004 € m	31 December 2004 € m
Net interest income	**42**	27	62
Other income	**359**	166	342
Total operating income	**401**	193	404
Increase in insurance and investment contract liabilities, and claims	**355**	156	309
Total operating expenses	**14**	13	26
Profit before taxation	**32**	24	69
Taxation	**3**	3	6
Profit after taxation	**29**	21	63

14 Long-term assurance business *(continued)*

The assets and liabilities of Ark Life included in the consolidated balance sheet of the Group are as follows:

Assets	30 June 2005 € m	1 Janurary 2005 € m	31 December 2004 € m	30 June 2004 € m
Loans and advances to banks	**212**	220	220	–
Assets held at fair value through profit or loss	**2,197**	1,871	–	–
Debt securities	**–**	–	425	254
Equity shares	**–**	–	1,446	1,292
Property, plant and equipment	**51**	51	51	50
Reinsurance assets	**680**	601	–	–
Placings with group companies[1]	**1,332**	1,246	1,246	1,537
Other assets	**307**	255	440	512
Total assets	**4,779**	4,244	3,828	3,645
Liabilities				
Investment contract liabilities	**2,743**	2,422	2,422	2,344
Insurance contract liabilities	**1,608**	1,465	864	733
Other liabilities	**117**	75	75	142
Total liabilities	**4,468**	3,962	3,361	3,219
Shareholders' equity	**311**	282	467	426
Total liabilities and shareholders' equity	**4,779**	4,244	3,828	3,645

[1] Placings with group companies are eliminated on consolidation.

Presentation in the Group balance sheet

Holdings of shares in Allied Irish Banks, p.l.c., (by the parent or subsidiary companies), for any reason, are deducted in arriving at shareholders' funds. At 30 June 2005, shares in AIB with a value of € 82m (31 December 2004: € 74m; 30 June 2004: € 57m) were held within the long-term business funds to meet the liabilities to policyholders.

15 Customer accounts	30 June 2005 € m	1 January 2005 € m	31 December 2004 € m	30 June 2004 € m
Current accounts	**18,611**	17,099	17,099	16,026
Deposits:				
Demand deposits	**7,990**	7,321	7,321	7,102
Time deposits	**24,296**	22,736	22,736	20,450
Money market funds	**4,149**	2,995	2,995	4,162
	55,046	50,151	50,151	47,740

16 Memorandum items: contingent liabilities and commitments	Contract amount 30 June 2005 € m	31 December 2004 € m	30 June 2004 € m
Contingent liabilities:			
Acceptances and endorsements	**10**	14	11
Guarantees and assets pledged as collateral security	**6,548**	5,394	5,084
Other contingent liabilities	**823**	830	788
	7,381	6,238	5,883
Commitments:			
Other commitments	**16,932**	16,127	15,081
	24,313	22,365	20,964

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The following table presents the notional principal amount and gross replacement cost of interest rate, exchange rate and equity contracts.

	30 June 2005		31 December 2004		30 June 2004	
	Notional principal amount € m	**Gross replacement cost € m**	Notional principal amount € m	Gross replacement cost € m	Notional principal amount € m	Gross replacement cost € m
Interest rate contracts[1]	**181,168**	**1,497**	141,067	1,059	148,121	951
Exchange rate contracts[1]	**17,723**	**346**	15,870	599	21,724	312
Equity contracts[1]	**3,781**	**144**	3,575	112	4,009	104

[1]Interest rate, exchange rate and equity contracts have been entered into for both hedging and trading purposes.

In respect of interest rate and exchange rate contracts, notional principal amounts are used to express the volume of these transactions. However, the amounts subject to risk are much lower in accordance with the terms of the contracts. Credit risk arises when market movements are such that the deal has positive value to the Group so that a cost would be incurred if the contract had to be replaced in the event of counterparty default. The sum of these positive values is known as gross replacement cost and does not reflect the netting of offsetting positions.

17 Average balance sheets and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the half-year ended 30 June 2005 and the year ended 31 December 2004. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

	Half-year ended 30 June 2005			Year ended 31 December 2004		
Assets	**Average balance € m**	**Interest € m**	**Average rate %**	Average balance € m	Interest € m	Average rate %
Loans and receivables to banks						
Domestic offices	**3,633**	**47**	**2.6**	2,930	70	2.4
Foreign offices	**1,126**	**25**	**4.6**	824	28	3.4
Loans and receivables to customers						
Domestic offices	**44,772**	**992**	**4.5**	37,263	1,625	4.4
Foreign offices	**25,433**	**823**	**6.5**	20,573	1,260	6.1
Financial Investments & Trading Portfolio assets						
Domestic offices	**20,549**	**365**	**3.6**	17,207	641	3.7
Foreign offices	**4,878**	**121**	**5.0**	4,022	252	6.3
Total interest earning assets						
Domestic offices	**68,954**	**1,404**	**4.1**	57,400	2,336	4.1
Foreign offices	**31,437**	**969**	**6.2**	25,419	1,540	6.1
Net interest on swaps		**59**			48	
Total average interest earning assets	**100,391**	**2,432**	**4.9**	82,819	3,924	4.7
Non-interest earning assets:	**11,745**			12,143		
Total average assets	**112,136**	**2,432**	**4.4**	94,962	3,924	4.1
Percentage of assets applicable to foreign activities	**31.0**			31.3		

17 Average balance sheets and interest rates *(continued)*

	Half-year ended 30 June 2005			Year ended 31 December 2004		
Liabilities	**Average balance € m**	**Interest € m**	**Average rate %**	Average balance € m	Interest € m	Average rate %
Due to banks						
Domestic offices	**22,663**	**301**	**2.7**	20,288	510	2.5
Foreign offices	**1,803**	**50**	**5.6**	2,732	91	3.3
Due to customers						
Domestic offices	**26,673**	**217**	**1.6**	23,795	363	1.5
Foreign offices	**17,290**	**303**	**3.5**	14,780	462	3.1
Subordinated liabilities						
Domestic offices	**2,567**	**54**	**4.2**	2,513	109	4.3
Foreign offices	–	–	–	–	–	–
Other debt issued						
Domestic offices	**5,868**	**68**	**2.3**	3,395	77	2.3
Foreign offices	**8,172**	**171**	**4.2**	3,942	178	4.5
Total interest earning liabilities						
Domestic offices	**57,771**	**640**	**2.2**	49,991	1,059	2.1
Foreign offices	**27,265**	**524**	**3.9**	21,454	731	3.4
Total average interest earning liabilities	**85,036**	**1,164**	**2.8**	71,445	1,790	2.5
Non interest earning liabilities	**20,846**			18,128		
Total liabilities	**105,882**	**1,164**	**2.2**	89,573	1,790	2.0
Stockholders' equity	**6,254**			5,389		
Total average liabilities and stockholders' equity	**112,136**	**1,164**	**2.1**	94,962	1,790	1.9
Percentage of liabilities applicable to foreign activities	**31.3**			29.06		

18 Subsequent event

On 2 August 2005, subsequent to the interim balance sheet date, an interim dividend of EUR 23.0 cent per share was declared by the board of directors for payment on 23 September 2005. The interim dividend amounts to € 199.7 million and has not been recorded as a liability in the balance sheet.

19 Review report

The interim financial statements have been reviewed by the Group's auditors, KPMG, and their review report is set out on page 50. The profit retained for the half-year ended 30 June 2005, net of the interim dividend of € 199.7 million, has been included in Tier 1 capital at 30 June 2005.

20 Approval

The interim financial statements (unaudited) were approved by the board of directors on 2 August 2005.

AIB

Financial and other information

	Half-year 30 June 2005	Half-year 30 June 2004	Year 31 December 2004
Operating ratios			
Operating expenses[1]/operating income[2]	**54.6%**	56.4%	57.1%
Other income/operating income	**41.2%**	41.5%	40.9%
Net interest margin			
Group	**2.55%**	2.60%	2.58%
Domestic	**2.41%**	2.34%	2.31%
Foreign	**2.85%**	3.14%	3.18%
Rates of exchange			
€/US $			
Closing	**1.2092**	1.2155	1.3621
Average	**1.2894**	1.2279	1,2474
€/Stg			
Closing	**0.6742**	0.6708	0.7051
Average	**0.6862**	0.6764	0.6813
€/PLN			
Closing	**4.0388**	4.5236	4.0845
Average	**4.0827**	4.7232	4.5314

[1]Excludes restructuring costs of € 8.7m in December 2004.

[2]Insurance claims of € 355m have been deducted from operating income at 30 June 2005 (30 June 2004: € 156m; 31 December 2004: € 309m).

Capital adequacy information	**Half-year 30 June 2005 € m**	Half-year 30 June 2004 € m	As at 1 January 2005 € m
Total risk weighted assets	**88,236**	72,169	78,601
Capital			
Tier 1	**6,794**	5,170	6,506
Tier 2	**3,412**	2,460	2,328
	10,206	7,630	8,834
Supervisory deductions	**477**	475	302
Total	**9,729**	7,155	8,532

Reconciliation of consolidated preliminary balance sheet (including IAS 32, IAS 39 and IFRS 4)

As at 1 January 2005

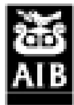
	IFRS 31 December 2004	Loan origination	Loan impairment	Financial instruments	Derivatives	Netting	Long-term assurance business	Acceptances	Financial liabilities	IFRS 1 January 2005 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Assets										
Cash and balances at central banks	887	–	–	–	–	–	–	–	–	887
Items in course of collection	368	–	–	–	–	–	–	–	–	368
Trading portfolio assets	–	–	–	7,957	–	–	–	–	–	7,957
Assets held at fair value through profit and loss	–	–	–	1,871	–	–	–	–	–	1,871
Derivative financial instruments	–	–	–	1,576	162	843	–	–	–	2,581
Loans and advances to banks	2,540	–	–	(2)	–	–	–	–	–	2,538
Loans and advances to customers	64,738	(111)	146	919	–	–	–	–	–	65,692
Debt securities	24,501	–	–	(24,501)	–	–	–	–	–	–
Equity shares	1,641	–	–	(1,641)	–	–	–	–	–	–
Financial investments	–	–	–	15,720	–	–	–	–	–	15,720
Interests in associated undertakings	1,379	–	17	(1)	–	–	–	–	–	1,395
Intangible assets and goodwill	540	–	–	–	–	–	–	–	–	540
Property, plant and equipment	745	–	–	–	–	–	–	–	–	745
Other assets	2,622	–	–	(1,576)	12	601	(211)	12	–	1,460
Deferred taxation	228	–	(24)	–	–	–	–	–	–	204
Prepayments and accrued income	920	–	–	–	(59)	–	–	–	–	861
Total assets	101,109	(111)	139	322	115	1,444	(211)	12	–	102,819

Reconciliation of consolidated preliminary balance sheet (including IAS 32, IAS 39 and IFRS 4)

As at 1 January 2005

	IFRS 31 December 2004	Loan origination	Loan impairment	Financial instruments	Derivatives	Netting	Long-term assurance business	Acceptances	Financial[1] liabilities	IFRS 1 January 2005 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Liabilities										
Deposits by banks	20,428	–	–	–	–	–	–	–	–	20,428
Customer accounts	50,151	–	–	–	–	–	–	–	–	50,151
Trading portfolio liabilities	–	–	–	332	–	–	–	–	–	332
Derivative financial instruments	–	–	–	1,475	223	843	–	–	–	2,541
Investment contract liabilities	2,422	–	–	–	–	–	–	–	–	2,422
Debt securities in issue	11,805	–	–	–	–	–	–	–	–	11,805
Insurance contract liabilities	864	–	–	–	–	601	–	–	–	1,465
Current taxation	175	–	–	22	–	–	–	–	–	197
Other liabilities	3,388	–	–	(1,807)	–	–	–	12	–	1,593
Accruals and deferred income	913	(26)	–	–	(151)	–	–	–	(31)	705
Retirement benefit liabilities	886	–	–	–	–	–	–	–	–	886
Provisions for liabilities and charges	122	–	–	–	–	–	–	–	–	122
Deferred taxation	52	(20)	–	27	5	–	(26)	–	–	38
Subordinated liabilities	2,765	–	–	–	–	–	–	–	(314)	2,451
Total liabilities	93,971	(46)	–	49	77	1,444	(26)	12	(345)	95,136
Share capital	294	–	–	–	–	–	–	–	–	294
Share premium account	1,693	–	–	–	–	–	–	–	–	1,693
Other equity interests	182	–	–	–	–	–	–	–	315	497
Reserves	954	–	–	136	254	–	(185)	–	–	1,159
Profit and loss account	2,804	(65)	139	137	(216)	–	–	–	30	2,829
Shareholders' equity	5,927	(65)	139	273	38	–	(185)	–	345	6,472
Equity and non-equity minority interests in subsidiaries	1,211	–	–	–	–	–	–	–	–	1,211
Total shareholders' equity including minority interests	7,138	(65)	139	273	38	–	(185)	–	345	7,683
Total liabilities, shareholders' equity and minority interests	101,109	(111)	139	322	115	1,444	(211)	12	–	102,819

[1] The figures in this Appendix have been amended from those provided in the transition document published by AIB on 16 June 2005 to reflect the reclassification of two instruments previously classified as equity which are now determined to be debt.



Independent review report of KPMG to Allied Irish Banks, p.l.c.

Introduction

We have been engaged by the company to review the financial information set out on pages 4 to 7 and 20 to 46 and we have read the other information contained in this interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Irish Stock Exchange and the UK Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this review report, or for the conclusions we have reached.

Directors' responsibilities

This interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing this interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in the Basis of preparation note to the financial information on pages 20 and 21, the next annual financial statements of the group will be prepared in accordance with IFRSs adopted for use in the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union. This is because, as disclosed in Basis of preparation note on pages 20 and 21, the directors have anticipated that certain standards, which have yet to be formally adopted for use in the EU, will be so adopted in time to be applicable to the next annual financial statements.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 *Review of interim financial information* issued by the Auditing Practices Board for use in Ireland and the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Chartered Accountants
Dublin
2 August 2005

Notes:

a. The maintenance and integrity of the Allied Irish Banks, p.l.c. website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information or review report since they were initially presented on the website.

b. Legislation in the Republic of Ireland governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

AIB

AIB