

# Form 20-F

- (Mark One)  REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)  
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the year ended December 31, 2003  
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10284

## Allied Irish Banks,

public limited company

(Exact name of registrant as specified in its charter)

Ireland

(Jurisdiction of incorporation or organization)

Bankcentre, Ballsbridge, Dublin 4, Ireland

(Address of principal executive offices)

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

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

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

None

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

None

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

Non-cumulative preference shares of US\$25 each	250,000
Ordinary shares of EUR 0.32 each	907,621,316

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

Yes  No

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

Item 17  Item 18

**ALLIED IRISH BANKS, p.l.c.**  
**ANNUAL REPORT ON FORM 20-F**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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## REPORTING CURRENCY AND EXCHANGE RATES

Allied Irish Banks, p.l.c. (“AIB”) and its subsidiaries (collectively “AIB Group” or “Group”) publish consolidated financial statements in euro (€). The euro was introduced on January 1, 1999. Ireland joined the European Single Currency at the fixed translation rate of EUR 1=IR£0.787564. Each euro is made up of one hundred cent, denoted by the symbol ‘c’ in these accounts.

In this Annual Report, references to “US dollars”, “dollars”, “US\$”, “cents” or “¢” are to United States currency, references to “EUR”, “euro”, “€” or “c” are to euro currency, references to “sterling” or “Stg£” are to British currency, references to “zloty”, “PLN” or “zł” are to Polish currency and references to “Yen” are to Japanese currency. Merely for convenience, this Annual Report contains translation of certain euro amounts into dollars at specified rates. These translations should not be construed as representations that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated or at any other rate. Unless otherwise indicated, the translations of euro into dollars have been made at €1.00 to US\$1.2025 the noon buying rate in the City of New York for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York (“the noon buying rate”) on April 16, 2004.

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

	Period end <sup>(1)</sup>	Average rate <sup>(2)</sup>	High	Low
Year ended Dec. 31, 1999.....	1.0070	1.0588	1.1371	1.0070
Year ended Dec. 31, 2000.....	0.9257	0.9184	1.0335	0.8271
Year ended Dec. 31, 2001.....	0.8822	0.8919	0.9535	0.8370
Year ended Dec. 31, 2002.....	1.0485	0.9495	1.0485	0.8594
Year ended Dec. 31, 2003.....	1.2597	1.1411	1.2597	1.0361

<sup>(1)</sup> The noon buying rate at such dates differed from the rates used in the preparation of AIB Group’s consolidated financial statements, which were US\$1.0046, US\$0.9305, US\$0.8813, US\$1.0487 and US\$1.2630 to €1.00 at December 31, 1999, 2000, 2001, 2002 and 2003 respectively.

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

On June 4, 2004 the noon buying rate was EUR1.00 = US\$1.2258

The accounting policy in respect of the translation of profits and losses arising in foreign locations is set out on page 83. A significant proportion of the Group’s earnings are denominated in currencies other than the euro. As a result, movements in exchange rates can have an impact on earnings growth. In 2003, the US dollar, sterling and Polish zloty average accounting rates weakened relative to the euro by 17%, 9% and 13% respectively. The negative impact on earnings was partly offset by hedging profits of €28 million, however the net effect of currency translation had a 4% negative impact on the adjusted earnings per share growth rate in 2003.

The average effective rates, including the impact of currency hedging activities, were as follows: €1 : US\$ 1.01 (2002 : US\$ 0.90; 2001 : US\$ 0.93); €1 : Stg£ 0.67 (2002 : Stg£ 0.63; 2001 : Stg£ 0.62); €1 : PLN 4.28 (2002 : PLN 4.13; 2001: PLN 3.68). Details of the exchange rates used in the preparation of the Consolidated Financial Statements are set out in Note 48 of this report.

## FORWARD-LOOKING INFORMATION

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

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



Summary of consolidated balance sheet	December 31,					
	2003	2003	2002	2001	2000	1999
	(Dollars in millions)	(Euro in millions except share amounts)				
Total assets <sup>(1)</sup> .....	97,355	80,960	85,821	89,061	79,792	67,701
Loans etc.....	64,125	53,326	58,483	57,445	50,239	43,127
Deposits etc.....	79,600	66,195	72,190	72,813	65,210	55,241
Dated capital notes.....	1,535	1,276	1,287	1,594	1,836	1,587
Undated capital notes.....	430	357	389	426	413	397
Reserve capital instruments.....	597	497	496	496	-	-
Equity and non-equity minority interests.....	190	158	274	312	272	227
Stockholders' funds: non-equity.....	235	196	235	279	264	245
Stockholders' funds: equity <sup>(1)</sup> .....	5,918	4,921	4,180	4,574	4,509	4,233
Total capital resources.....	8,905	7,405	6,861	7,681	7,294	6,689
<b>Capital stock - ordinary shares</b>						
Number of shares outstanding.....		907.6	897.4	886.7	879.2	866.0
Nominal value of €0.32 per share.....	349	290	287	284	281	277
<b>Capital stock - preference shares</b>						
Number of shares outstanding.....		0.25	0.25	0.25	0.25	0.25
Stockholders' funds: non-equity.....	235	196	235	279	264	245
<b>Amounts in accordance with US GAAP:</b>						
Ordinary stockholders' equity <sup>(1)</sup> .....	7,157	5,951	5,911	5,664	5,002	4,374
Total assets <sup>(1)</sup> .....	95,677	79,565	86,432	88,560	78,216	65,929

OTHER FINANCIAL DATA <sup>(7)</sup>	Years ended December 31,				
	2003	2002	2001	2000	1999
Return on average total assets.....	0.87%	1.21%	0.92%	0.93%	1.31%
Return on average stockholders' equity <sup>(1)</sup> .....	14.1	23.3	16.1	14.6	21.2
Dividend payout ratio.....	69.0	42.3 <sup>(1)</sup>	52.0	52.6	38.0
Average ordinary stockholders' equity as a percentage of average total assets <sup>(1)</sup> .....	6.0	5.1	5.4	5.8	5.8
Allowance for loan losses as a percentage of total loans to customers at year-end.....	1.3	1.6	1.9	1.9	1.9
Net interest margin <sup>(8)</sup> .....	2.72	3.00	2.99	3.02	3.27
Tier 1 capital ratios <sup>(9)</sup> .....	7.1	6.9	6.5	6.0	6.3
Total capital ratio <sup>(9)</sup> .....	10.3	10.1	10.1	10.5	11.2
<b>Other financial data in accordance with US GAAP:</b>					
Return on average total assets.....	1.97%	1.10% <sup>(1)</sup>	0.79%	0.83% <sup>(10)</sup>	1.15%
Return on average ordinary stockholders' equity <sup>(1)</sup> .....	24.79	15.88	10.82	11.32 <sup>(10)</sup>	15.05
Dividend payout ratio.....	30.2	46.6	61.7	60.7	44.4
Average ordinary stockholders' equity as a percentage of average total assets <sup>(1)</sup> .....	7.86	6.69	6.84	6.64	7.15

<sup>(1)</sup> The Group has implemented UITF Abstract 37 "Purchases and sales of own shares" and UITF Abstract 38 "Accounting for Employee Share Ownership Plan ("ESOP") Trusts. The comparative information for 2002 and 2001 in the consolidated statement of income and for 2002, 2001, 2000 and 1999 in the consolidated balance sheet has been restated accordingly. See accounting policies on page 80.

<sup>(2)</sup> On April 1, 2003, AIB completed its integration of Allfirst Financial Inc. into M&T Bank Corporation ("M&T"). Consequently, the financial statements for the year ended December 31, 2003 reflect the income and expenses of Allfirst for the period to March 31, 2003. From 1 April, 2003, the Group accounted for its investment in the enlarged M&T as an associated undertaking. The Group's 22.5% share of the income before restructuring costs and taxes of the enlarged M&T is reflected in the Group consolidated statement of income within the caption "Share of operating income of associated undertakings". The Group's share of the taxation charge for the enlarged M&T is included in the Group's taxation charge.

On September 16, 1999, the Group acquired an 80% shareholding in Bank Zachodni S.A. ("BZ"). Under its agreement with the Polish State Treasury, AIB agreed to invest a further PLN 250 million by April 16, 2000 of which PLN 150 million was invested on October 15, 1999 and PLN 100 million was invested on April 12, 2000. A further PLN 100 million was invested on November 22, 2000 increasing the Group's shareholding in BZ to 83%. As a result the financial information provided above is not directly comparable as the results for the year ended December 31, 1999 include the results of BZ for 3 months in comparison to 12 months for 2000, 2001, 2002 and 2003.

- <sup>(3)</sup> On October 3, 2000, AIB announced that it had reached a full and final settlement with the Irish Revenue Commissioners of €114.33 million in relation to Deposit Interest Retention Tax (“DIRT”), interest and penalties in Ireland for the period April 1986 to April 1999. The settlement included €1.37 million paid in prior years. Although AIB believe that it had an agreement with the Revenue Commissioners in 1991 in relation to DIRT, the Board considered that concluding this settlement was in the best interests of stockholders, customers and staff. As a result an exceptional charge of €112.96 million was reflected in the accounts for the year ended December 31, 2000.
- <sup>(4)</sup> These amounts represent the losses arising from the Fraudulent Activities, reflected in the years they occurred under US reporting requirements. The euro amount of the losses reported under US reporting requirements in the years 1997 to 2002 will not equate to the charge of €789 million under Irish GAAP. This arises for a number of reasons. In the Irish GAAP accounts, the total fraud losses, US\$691.2 million, and costs estimated at US\$10 million less the reversal of an incentive accrual of US\$6 million, were charged as an exceptional item in 2001 at the exchange rate prevailing on December 31, 2001. Under US reporting requirements, the US\$ losses were charged in each of the years they arose, translated at the average rates of exchange used in the preparation of the accounts for those years.
- <sup>(5)</sup> Includes an amount of €24.2 million (after tax €21.2 million) in relation to the pricing of foreign exchange products as detailed in Recent Developments - “Pricing of foreign exchange products” on page 7 and in Note 53 - Subsequent Events: Pricing of foreign exchange products on page 168.
- <sup>(6)</sup> In 2003, the loss of €141 million on disposal of businesses relates to the loss on disposal of the Govett business of €153 million (tax credit €1 million) offset by the profit on disposal of the AIB New York retail business of €7 million (tax charge €3 million), the profit on disposal of Polsoft of €4 million (tax charge €1 million) and €1 million being profit on the disposal of Allfirst Financial Inc. recognized in the statement of income (see note 15 to the consolidated financial statements). In August 2001, AIB’s interests in Keppel Capital Holdings Ltd. were sold to Oversea-Chinese Banking Corporation Limited, giving rise to a profit before taxation on disposal of €93 million (tax charge €nil). In October 1999, AIB’s private banking and treasury operations in Singapore were sold to Keppel Tatlee Bank Limited, giving rise to a profit before taxation on disposal of €15 million (tax charge €4 million).
- <sup>(7)</sup> The calculation of the average balances include daily and monthly averages and are considered to be representative of the operations of the Group.
- <sup>(8)</sup> Net interest margin represents net interest income as a percentage of average interest earning assets. The net interest margin for the year ended December 31, 2000 reflects a net interest income figure that was adjusted to reflect a 365 day year for comparative purposes. The net interest margin for 2000 was calculated excluding the impact of the DIRT settlement.
- <sup>(9)</sup> The Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) guidelines for risk-based capital requirements, applicable to all bank holding companies, require the minimum ratios of Tier 1 capital and Total capital to risk adjusted assets to be 4% and 8% respectively. The Irish Financial Services Regulatory Authority (“IFSRA”) also has issued its guidelines for implementation of the requirements of the EC Council Directives on own funds, solvency ratios and capital adequacy in Ireland which, while similar to the Federal Reserve guidelines, require minimum Tier 1 and Total capital ratios of 4.25% and 8.5% for banking groups, respectively. Furthermore, the Federal Reserve Board has adopted leverage capital guidelines requiring bank holding companies to maintain a minimum ratio of Tier 1 capital to total quarterly average assets (“Tier 1 leverage ratio”) of at least 3%, in the case of a bank holding company which has the highest regulatory examination rating and is not contemplating significant growth. All other bank holding companies are expected to maintain a Tier 1 leverage ratio at least 1% to 2% above the stated minimum.
- <sup>(10)</sup> Excluding the impact of the deposit interest retention tax settlement of €103 million, the return on average total assets was 0.97% and the return on average ordinary stockholders’ equity was 13.29%.

**Risk factors**

The Group's activities are subject to risk factors that could impact its future performance. Certain of these risks can be mitigated by the use of safeguards and appropriate systems and actions. Some risks, however, are outside the Group's control and cannot be mitigated. In addition to the matters set out under "Forward-Looking Information", on page 1 of this report, the principal factors that may effect the Group's performance are set out below:

***Risk management***

Like other banks, the Group faces financial risk in the conduct of its business, such as credit risk, operational risk and market risk (including liquidity risk). Following the discovery of the Fraudulent Activities in 2002, the Group undertook a number of actions to strengthen the risk management and control processes within the Group. Nonetheless, it is not possible to eliminate financial risk entirely. The Group's approach to financial risk management, including the recent actions taken to strengthen risk management, is discussed in Item 11, "Quantitative and Qualitative Disclosures about Risk".

***Competition***

The Group faces strong competition from other Irish, UK, US, Polish and international financial institutions, including banks, building societies, life insurance companies and mutual insurance organizations. A more detailed discussion of these competitive factors, including the Group's main competitors, is included in Item 4, "Information on the Company – Competition". While the Group believes it is positioned to compete effectively with these competitors, there can be no assurance that increased competition will not adversely affect the Group in one or more of the markets in which it operates.

***Regulatory risk***

The Group's business activities are subject to substantial regulation and regulatory oversight in the geographies in which we operate. In recent years, there have been significant regulatory changes in Ireland, the United Kingdom, the United States and Poland that have resulted in significantly increased compliance responsibilities and associated costs. See Item 4 "Information on the company - Supervision and regulation" for further detail. These and future regulatory developments, including changes to accounting standards (see also Item 5 "Financial information-prospective accounting changes"), could have an adverse effect on how we conduct our business and on our results of operations. Our business and earnings are also affected by fiscal or other policies that are adopted by the various regulatory authorities of the Irish Government, the European Union, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Group's control.

***Uncertain economic conditions***

The Group's business activities are dependant on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, market interest rates and other factors that affect the economy. The Group conducts extensive activities in Ireland and elsewhere, most notably in the UK, the US and Poland. During each of the past three years, there have been significant adverse developments in world markets, but the current outlook for the Irish and world economy is improving. The profitability of the Group's businesses could, therefore, be adversely affected by a worsening of general economic conditions in its markets, as well as by foreign and domestic trading market conditions and/or related factors, including governmental policies and initiatives. An economic downturn or significantly higher interest rates could increase the risk that a greater number of the Group's customers would default on their loans or other obligations to the Group, or would refrain from seeking additional borrowing. For a discussion on the Irish economy see Item 4 "Information on the company-The Irish economy".

***Relationship with M&T Bank Corporation ("M&T")***

The disposal of Allfirst and the concurrent acquisition of a 22.5% shareholding and board representation in M&T means that the Group's investment in its US operations has changed from a wholly owned subsidiary to that of an investment in an associated undertaking, with a resulting reduction in control. Management believes that this transaction will allow it to continue to prudently grow its business in the US, benefitting from a more effective day-to-day control over its US operations by the M&T management team, while recognising that AIB does not exercise a controlling influence on the operations of M&T. In connection with this transaction the Group has responsibilities to its regulators for acting as a source of financial strength and support in respect of the enlarged M&T business.



#### **Item 4. Information on the company**

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

- I. Average balance sheet - see Item 5 - "Average balance sheet and interest rates" on pages 23 and 24.
- II. Investment portfolio - see Item 18 - Note 25 on pages 111 to 112 and Note 50 on pages 145 to 148.
- III. Loan portfolio
  - (a) Types of loans - See Item 11 - "Loan portfolio" on page 66.
  - (b) Maturities and sensitivities of loans to changes in interest rates - See Item 18 - Note 52 on pages 166 and 167 and Item 11 - "Loan portfolio" - "Analysis of loans to customers by maturity and interest rate sensitivity" on page 69.
  - (c) Risk elements
    - Non-accrual, past due and restructured loans - see Item 11 - "Loan portfolio - Risk elements in lending" on page 75.
    - Potential problem loans - see Item 11 - "Loan portfolio - Provision and allowance for loan losses" on pages 69 and 70.
    - Foreign outstandings - see Item 11 - "Loan portfolio - Cross-border outstandings" on page 77.
- IV. Summary of loan loss experience
  - (a) Analysis of the allowance for loan losses - see Item 11 - "Loan portfolio - Movements in the allowance for loan losses" on page 71.
  - (b) Allocation of the allowance for loan losses - see Item 11 - "Loan portfolio - Analysis of allowance for loan losses" on page 74.
- V. Deposits and short-term borrowings  
See Item 5 - "Placings with banks", "Deposits by customers", "Customer deposits by currency" and "Short-term borrowings" on pages 40 to 41.
- VI. Capital ratios  
See Item 5 - "Capital ratios" on pages 37 to 38.

#### **History and development of the company**

##### **History**

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

In December 1970, AIB commenced the expansion of its network of branches in Britain. Since 1972, AIB has opened overseas branches in New York, the Cayman Islands and Singapore. Subsidiary companies were set up in the Isle of Man and Jersey (Channel Islands). Representative offices were established in a number of States in the US. In September, 2003, AIB sold its retail business in New York to Atlantic Bank of New York.

In December 1983, AIB acquired 43% of the outstanding shares of First Maryland Bancorp ("FMB"). In 1989, AIB completed the acquisition of 100% of the outstanding shares of common stock of FMB. Over the years there were a number of "bolt-on" acquisitions, the most notable being Dauphin Deposit Bank and Trust Company ("Dauphin") a Pennsylvania chartered commercial bank which was acquired in 1997. Subsequently, all banking operations were merged into Allfirst Bank.

On April 1, 2003, AIB completed its integration of Allfirst Financial inc. into M&T Bank Corporation ("M&T"). Under the terms of the agreement, AIB received 26.7 million M&T shares, representing a stake of approximately 22.5% in the enlarged M&T, together with US\$ 886.1 million cash. The agreement allowed for the cash consideration to be reduced by the amount of a pre-close dividend from Allfirst Financial Inc. Consequently the cash consideration payable by M&T reduced to US\$21.1 million.

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

In July 1991, AIB acquired TSB Bank Northern Ireland p.l.c. ("TSB NI"), a bank with 56 branches in Northern Ireland. The AIB and TSB NI businesses in Northern Ireland were integrated and the combined operations trade under the service mark "First Trust Bank". In October 1996, AIB's retail operations in Great Britain and Northern Ireland were integrated under the direction of a single board and the enlarged entity was incorporated as AIB Group (UK) p.l.c. with two distinct trading names "First Trust Bank" in Northern Ireland and "Allied Irish Bank (GB)" in Great Britain.

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

In September 1999, AIB completed the acquisition of an 80% shareholding in Bank Zachodni S.A. ("BZ") from the State Treasury of the Republic of Poland. Subsequent investments during 1999 and 2000 brought AIB's shareholding to 83%.

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

In December 1995, AIB acquired the John Govett Group, a UK investment management business operating principally from offices in London, Singapore, San Francisco and Jersey. In November 2003, AIB announced a restructuring of its United Kingdom and Singapore asset management activities whereby the majority of the management contracts of Govett Investments Limited were sold to Gartmore Investment Management plc.

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

## **Recent Developments**

### ***Sale of Cardpoint S.A.***

On April 22, 2004, Bank Zachodni WBK S.A. sold its 100% owned subsidiary CardPoint S.A. to Nova Euroconex Holdings B.V.

### ***Pricing of foreign exchange products***

On May 6, 2004, AIB announced that it had been applying prices to certain foreign exchange products without the formal regulatory approval of the Central Bank of Ireland from August 1995 and subsequently the Director of Consumer Affairs from May 1996. The error was not addressed until April 2004 and this resulted in a number of customers being overcharged on certain foreign exchange products. AIB, having consulted with the Irish Financial Services Regulatory Authority ("IFSRA"), immediately commissioned an independent investigation into this affair and on May 14, 2004 appointed Mr. Lauri McDonnell, former Irish Comptroller and Auditor General, as the independent assurer of the investigation. Mr McDonnell has access to external independent audit expertise in carrying out the investigation and will report to IFSRA and the Board of AIB on completion by the end of July 2004.

An estimate of the amount due to customers arising from this error, including a provision for interest, has been made and this amount of €25 million has been placed as a good faith deposit with the Central Bank of Ireland for the duration of the process currently underway to identify and reimburse customers. The work completed by AIB at the date of filing of this report, in validating the assumptions underlying the estimate of the amount due to customers, provides assurance in respect of the amount of €25 million. In accordance with Irish GAAP, the estimated total amounts due to customers arising from this error, up to December 2003, of €24.2 million have been reflected in the financial statements in 2003 see Note 53 - Subsequent events: Pricing of foreign exchange products on page 168 for further detail.

### ***Faldor investigations***

On May 27 2004, AIB announced the outcome of an investigation into an offshore vehicle, Faldor Ltd. The funders and beneficiaries of Faldor Ltd. were five former senior executives of AIB and the funds, which totalled no more than €750,000 at any time, were managed by AIB Investment Managers Ltd. ("AIBIM"), a subsidiary of AIB Group. The relationship between Faldor Ltd. and AIBIM was formed in 1989 and ceased in 1996. In late August 2003, the Managing Director of AIBIM was made aware of this relationship and alerted senior management and the Board of AIB. Having identified possible irregularities pertaining to this relationship AIB immediately brought it to the attention of IFSRA. AIB then initiated an internal investigation, the terms of reference of which were agreed with IFSRA. Arising out of the findings of this investigation AIB agreed with IFSRA to undertake a further investigation supervised by Mr Maurice O' Connell, former Governor of the Central Bank of Ireland.

Reports of the investigations were considered by the Board of AIB in May 2004 and immediately forwarded to IFSRA who were fully briefed throughout the process. The Irish Revenue Commissioners have also commenced an investigation into the matter and the Director of Corporate Enforcement has requisitioned and received documentation in this regard. AIB is co-operating fully with all relevant regulatory authorities in respect of this matter, which is not expected to have a material financial impact on the AIB Group.

## **Business overview**

### ***Description of business***

AIB Group provides a diverse range of banking, financial and related services, principally in Ireland, the United States ("US"), the United Kingdom ("UK") and Poland. AIB has some 289 branches and outlets in the Republic of Ireland, where the directors estimate its share of the total market for both euro loans and deposits to be in excess of 20%.

In Northern Ireland, through its wholly-owned subsidiary AIB Group (UK) p.l.c., which trades there as First Trust Bank, AIB Group operates from some 60 branches and outlets. In Britain, AIB Group (UK) p.l.c., which trades there as Allied Irish Bank (GB), provides a range of banking services through 34 branches and 9 development offices.

Until April 1, 2003, AIB's main operations in the US were carried out through its subsidiary Allfirst Financial Inc. ("Allfirst") and through the corporate and retail services of its New York branch. Allfirst operated through 258 full service branch offices in Maryland, adjoining States and the District of Columbia. As set out in Note 1, from April 1, 2003, AIB's main operations in the US are carried out through its 22.5% interest in M&T Bank Corporation ("M&T"). M&T is headquartered in Buffalo, New York and has a branch network of approximately 700 branches in six States and the District of Columbia. AIB's direct presence in the US is carried out in the Corporate Banking, Treasury and Not For Profit businesses based in New York, with offices in a number of other principal US cities.

In Poland, the Group operates from 400 branches and outlets, primarily in Western Poland, through its 70.5% owned subsidiary BZWBK. AIB Group's activities are conducted through four major operating divisions - AIB Bank ROI; AIB Bank GB & NI; Capital Markets; and Poland. At December 31, 2003 AIB Group had consolidated total assets of €81.0 billion and employed over 23,300 people on a full time equivalent basis.

At December 31, 2003 the distribution of assets and the number of employees between those major operating divisions was as follows:

<b>Division</b>	<b>Assets</b>		<b>Employees</b>	
	<b>(Euro in millions)</b>	<b>%</b>		<b>%</b>
AIB Bank ROI.....	34,101	42	9,167	39
AIB Bank GB & NI.....	11,643	14	2,821	12
Capital Markets.....	28,365	35	2,897	13
Poland.....	5,301	7	7,790	33
Group.....	1,550	2	671	3
Total.....	80,960	100	23,346	100

### **Divisional information**

#### *AIB Bank Republic of Ireland division*

The AIB Bank ROI division, with total assets of €34.1 billion at December 31, 2003 encompasses the Group's retail and commercial banking operations in Ireland, Channel Islands and Isle of Man; AIB Finance & Leasing; Card Services and AIB's life and pensions subsidiary, Ark Life Assurance Company Limited. AIB Bank ROI provides banking services through a distribution network of some 289 locations (200 branches and 89 outlets), and in excess of 550 automatic teller machines ("ATMs"). AIB cardholders also have access to over 40,000 LINK ATMs in the UK as well as 700,000 Visa Plus serviced ATMs worldwide. AIB has an agency agreement with An Post, the national post office network, which enables AIB customers to carry out basic transactions at over 1,000 post office locations nationwide. A debit card "Laser" is operated jointly with other financial institutions in Ireland. In addition, the division offers 24 hour telephone and internet banking for the routine transactions of personal customers through which they can pay bills, transfer money between accounts, search for cheques and view and order statements. 24 hour telephone and internet banking is also suitable for sole trader business customers. For other business customers, an internet based banking service called iBusiness Banking is available. It offers secure internet banking and a comprehensive cash management solution, including domestic and cross-border payment functionality.

Branch banking services are provided across the range of customer segments, including individuals, small and medium sized commercial customers, farmers and the corporate sector. Through the branch network, the division provides a variety of savings and investment products, loans and overdrafts, home loans, home improvement loans, foreign exchange facilities, a full range of money transmission services and issues Visa® and Mastercard® credit cards. AIB Bank ROI manages its loan portfolio in accordance with set policies, best practice guidelines, procedures and lending criteria. In this regard, specific policies are in place for significant portfolios, including Building, Construction & Property and Home Mortgages. The division competes aggressively in the personal market with home mortgages and credit cards through highly visible customer value and rate-led marketing campaigns.

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

AIB's life assurance subsidiary, Ark Life Assurance Company Limited, provides a wide range of financial planning services including life assurance, savings and investment instruments, pensions and inheritance tax planning. In Ireland, home and travel insurance products are sold in the branch network through alliances with partners in the insurance industry.

#### *AIB Bank Great Britain and Northern Ireland division*

AIB GB & NI, with total assets of €11.6 billion at December 31, 2003, operates through 34 branches and 9 development offices throughout Britain, under the name Allied Irish Bank (GB) and as First Trust Bank in Northern Ireland where it maintains 60 branches. There are head offices in both London and Belfast. Both operations provide a full range of banking services including current accounts, overdraft and loan facilities, mortgages, deposits and investment services, and specialist corporate banking services. Allied Irish Bank (GB) concentrates on the business, professional and not for profit markets and has successfully grown its operations through a relationship banking approach. It focuses particularly on providing specialist banking services to small to medium sized enterprises, and to high net worth personal customers. For the fifth consecutive time, Allied Irish Bank (GB) has won the title of Britain's Best Business Bank from the Forum of Private Business, being ranked top for customer satisfaction and maintaining its lead over the "big four" and other banks.

First Trust Bank provides banking services across the range of customer segments, including individuals, small and medium sized commercial customers and the corporate sector, through its branch network and through telephone and internet based services. All regulated investment business is referred to First Trust Independent Financial Advisers Limited, First Trust Bank's subsidiary company for independent financial advice.

### *Capital Markets division*

AIB Capital Markets, with total assets of €28.4 billion at December 31, 2003, manages the Investment Banking, Asset Management, Stockbroking, Corporate Banking and Global Treasury Services of the Group (with the exception of the International Banking services in BZWBK).

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

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

Investment Banking provides a comprehensive range of services including corporate finance through AIB Corporate Finance Limited, corporate finance and stockbroking through Goodbody Stockbrokers, structuring cross-border financing transactions and providing sophisticated back-office services through AIB International Financial Services Limited, and custodial, trustee and fund administration services through joint ventures with The Bank of New York. At December 31, 2003, the AIB/The Bank of New York joint venture, AIB/BNY Fund Management (Ireland) Ltd., had €89.9 billion of funds under administration. AIB/BNY Trust Company Limited had assets under custody of €75.3 billion. Investment Banking services also include providing alternative asset management activities (i.e. hedge funds), venture capital funds and property fund activities (principally property in Poland).

Asset management is provided through AIB Investment Managers Limited (AIBIM) in the Republic of Ireland. The company manages assets principally for institutional and retail clients with €9.2 billion of funds under management. On November 4, 2003, AIB announced a restructuring of its United Kingdom and Singapore asset management activities. The majority of the management contracts, c€1.5 billion, of Govett Investments Limited were sold to Gartmore Investment Management plc ("Gartmore"). The remaining management contracts, c€0.8 billion are in the process of being transferred to AIBIM or being terminated. The operations of Govett Investment Management Limited in the United Kingdom and AIB Govett (Asia) Limited in Singapore are being closed down. The cash consideration receivable from Gartmore is c€17 million, of which €6 million was received up front and the balance is contingent and has not been recognised in 2003. The estimated costs of closure of the UK and Singapore operations is €20 million. Goodwill of €139 million, previously written off to reserves, was charged to the statement of income during 2003.

AIB Corporate Banking provides a fully integrated, relationship-based banking service to top-tier companies, both domestic and international, financial institutions and Irish commercial state companies. AIB Corporate Banking has a dedicated unit focusing on developing and arranging acquisition and project finance principally in Ireland, the UK and Continental Europe, and has established Mezzanine Finance funds and CDO funds. AIB Corporate Banking operates in Ireland, the UK, the US and Continental Europe.

The Capital Markets Division took management responsibility for the AIA business following the sale of Allfirst. This business was reorganised during 2003, the retail banking business was sold and the corporate banking business was transferred to AIB Corporate Banking. The Not For Profit business remains as the core business for AIA, operating principally from New York, with offices in a number of other principal US cities. The operations also include related fund raising businesses based in the US and in Canada.

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

### *Poland division*

Poland division, with total assets of €5.3 billion at December 31, 2003 comprises BZWBK in which AIB has a 70.5% shareholding, together with its subsidiaries and associates. AIB completed the merger of its Polish operations in 2001, forming BZWBK, Poland's fifth largest bank.

BZWBK's registered office is located in Wroclaw in south-western Poland. Key support functions are also located in offices based in Poznan and Warsaw. At the end of 2003, the Bank had total assets of PLN 23.1 billion, operated through 400 branches and outlets and 557 ATMs. BZWBK Group employed approximately 7,800 staff. BZWBK offers comprehensive services to retail and corporate customers. These services include leasing, mortgages, asset management, investment funds and foreign trade settlement products. It operates mainly in the western part of the country and also has a significant presence in major urban areas across Poland such as Warsaw, Krakow, Gdansk and Lodz. During 2003, BZWBK Bank strengthened its position in the Warsaw market where it now has over 40 outlets.

Corporate Business Centers have been established in Krakow, Warsaw, Poznan, Wroclaw and Gdansk, providing direct and comprehensive relationship-based services to corporate and commercial clients, with credit exposures in excess of PLN 4 million. It is the aim of these Centers to provide a top quality customer service proposition, and at the same time ensure the highest standards of credit underwriting. It is expected that this relationship approach will provide real benefits both for the customer and BZWBK.

## **Competition**

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

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

*Republic of Ireland* AIB Group provides a diverse range of banking services in the Republic of Ireland. It is subject to competition across the spectrum of banking activity. The major domestic competitor is Bank of Ireland, which like AIB has its headquarters in Dublin. The other principal bank competitors are Anglo Irish Bank, Bank of Scotland (Ireland), National Irish Bank Limited (which is a subsidiary of National Australia Bank), Permanent TSB (the retail division of Irish Life & Permanent plc), and Ulster Bank Ireland Limited (which is a subsidiary of the UK bank, Royal Bank of Scotland Group plc). There is, in addition, competition from building societies, mortgage specialists, credit unions, and some smaller financial institutions. The Irish Competition Authority has initiated a study of competition in the provision of banking services in the Republic of Ireland. It is likely that a report will be published by the Authority in 2004.

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

*Britain/Northern Ireland* AIB Bank GB & NI operates within a market of 382 authorized banking institutions. Competition, particularly in the business banking market, remained intense during 2003. In Britain, AIB GB operates in niche markets, targeting business customers, mainly in the small and medium size sector, and high net worth personal customers. It also targets the professional sectors (solicitors and accountants) and higher education sectors. The major competition comes from the four main clearers (Royal Bank of Scotland, Barclays, Lloyds TSB and HSBC) who have specialized divisions targeting these niche markets. Competition also arises from other, smaller entities such as HBOS and Abbey National as well as certain building societies. The competitive focus of banks in 2003 was on product and service delivery and stronger attempts at developing a relationship approach. There was increasing evidence of competitor banks leading on price to secure a relationship.

In Northern Ireland, the principal competition is from Ulster Bank, Northern Bank (a subsidiary of National Australia Bank), Bank of Ireland and numerous building societies. There is also a strong credit union movement targeting the personal market which in Northern Ireland is largely commoditized, with the majority of customers using a range of financial product providers to obtain the most competitive prices.

*Poland* AIB Group, through its investment in BZWBK, has an approximate 5% share of the Polish Financial Services market and important regional market concentration. BZWBK is competing with nationwide banks such as PKO BP, Pekao, ING Bank Slaski and Bank BPH both in the retail and corporate market. The extensive branch network supported by investment in e-banking and increasingly sophisticated product offerings should enable the bank to successfully grow and protect its market share in the target regions.

BZWBK implemented a new, integrated IT system which enhanced efficiency and development of new business. The process of converting branches to the new IT system was completed in April 2003. This, along with the on-going transfer of knowledge and expertise from AIB Group, makes the Bank well-positioned to compete with the major players in the Polish market.

*United States* M&T competes in offering commercial and personal financial services with other banking institutions and with firms in a number of other industries, such as thrift institutions, credit unions, personal loan companies, sales finance companies, leasing companies, securities firms and insurance companies. Furthermore, diversified financial services companies are able to offer a combination of these services to their customers on a nationwide basis. M&T's operations are significantly impacted by state and federal regulations applicable to the banking industry. Moreover, the provisions of the Gramm-Leach-Bliley Act may increase competition among diversified financial services providers, and the Interstate Banking Act and the Banking Law may further ease entry into New York State by out-of-state banking institutions. As a result, the number of financial services providers and banking institutions with which M&T competes may grow in the future.

Proposals may be introduced in the United States Congress and in the New York State Legislature and before various bank regulatory authorities which would alter the powers of, and restrictions on, different types of banking organizations and which would restructure part or all of the existing regulatory framework for banks, bank holding companies and other providers of financial services. Moreover, other bills may be introduced in Congress which would further regulate, deregulate or restructure the financial services industry. It is not possible to predict whether these or any other proposals will be enacted into law or, even if enacted, the effect which they may have on M&T's business and earnings.

### **Strategy**

The AIB Group's principal objective is to maintain and enhance its position as Ireland's leading financial services company. AIB Group seeks to do this by bringing its customers a distinctive combination of best products (using third party suppliers where appropriate to meet customer needs), best service (with dependability at its heart), best relationships (built by knowledgeable and engaging employees) and, finally, best delivery (with a wide range of channels available to its customers accessing our services). It calls this strategy "the AIB way".

The AIB Group derives a significant portion of its revenues (and has significant assets) outside Ireland, principally in the United Kingdom, Poland and (by virtue of its shareholding in M&T) the United States. Consistent with the AIB Group's broader international strategy, these countries were chosen because they met the following key criteria:

- (i) Economies with strong potential
- (ii) High standards of banking and investment services supervision by home regulators
- (iii) Political stability and satisfactory legal system
- (iv) High standards of public accounting with good transparency
- (v) Good spread of industrial and services sectors, not over dependent on one or two sectors.

AIB operates primarily through branch banking networks in Ireland and each of these countries. The bank branch is a key delivery channel for its relationship approach to customers, it provides the bank with a strong and very stable base of retail and commercial deposits which has proven its resilience over many years. AIB has successfully developed other delivery channels in recent years, notably, telephone banking, internet banking, and through alliances with other organisations, e.g. Post Office in the Republic of Ireland.

AIB Group delivers a distinctive value proposition to its customers only if its people feel good about working for AIB and have a competitive and winning mind-set. Just as AIB Group relentlessly measures customer satisfaction levels it also independently surveys staff attitudes across a whole range of areas such as leadership, teamwork, training and skills, commitment, loyalty and understanding of goals and objectives. Its end-2003 survey results showed that its people rate AIB well above the norm for global high performing companies.

AIB's Board, management and staff are very committed to enhancing stockholder value and this commitment is reflected in the Group's two principal financial objectives.

- 1) to maintain a tangible return on equity above 20% per annum.
- 2) to be in the top quartile for growth in adjusted earnings per share performance in the FTSE European Banks Index.

The Board and Management of the Bank regularly reviews business performance, performance is assessed against business plans and prior periods with divergences explained and analysed.

The Board and Management view the Bank as having a conservative risk profile, with a prudent approach to lending activities accompanied by strong provision cover. AIB Group has a limited appetite for market risk and has implemented detailed procedures to manage operational risk.

The Bank is committed to a consistent dividend policy, and has a strong track record of dividend growth.

### **The Irish economy**

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

As AIB Group activities in Ireland account for approximately 68% of total Group assets, the performance of the Irish economy is very important to the AIB Group. The small open nature of the economy, together with the international nature of the Group's operations, expose the Group to changes in external economic trends, particularly in the United States, the United Kingdom and Poland. The Group is also exposed to changes in interest rates and to exchange rates, particularly against the US dollar, sterling and Polish zloty.

Economic growth in the Irish economy, as conventionally measured by changes in real GDP, averaged 8.6% per annum in the five years to 2002. This exceptionally strong performance reflected a combination of favourable supply and demand side domestic and international factors. On the domestic side, key factors were a highly educated and growing labour force, tax reform, and wage cost competitiveness achieved through a series of social partnership arrangements. On the external side, the Irish economy benefited from improved access to European and global markets, capital inflows from the European Union ("EU") and inward foreign direct investment.

Because of the significant role played by foreign owned multinationals in the Irish economy, annual changes in profit repatriations often result in differences in the annual growth in real GDP and real GNP. The latter was smaller in absolute terms in 2003, by the equivalent of 17% of nominal GDP. Over the five years to 2002, real GNP grew at an annual average rate of 6.1%. However, in 2002 itself, whereas real GDP grew by 6.9% largely fuelled by strong export growth from the multinational sector (primarily chemicals), the growth in real GNP was lower at 0.1%, due to a significant growth in profit outflows in the year.

The rate of Irish GDP growth slowed to 1.4% in 2003. This reflected a fall in external demand for Irish exports and a weakening of consumer and investment spending after several years of very buoyant growth. In contrast to 2002, real GNP rose by 3.3% in 2003, as profit outflows declined compared with the previous year.

Prospects for the United Kingdom, Ireland's main trading partner in 2004, are seen as quite favourable. Economic growth in the United States is forecast to accelerate in 2004. This should contribute to an improvement in the global environment, assisting the process of internal adjustment in the euro area and in the new EU countries (from May 2004) such as Poland.

The Irish economy is forecast to grow by up to 4% in terms of changes in real GDP in 2004. The growth in real GNP is forecast at 3.5%.

Ireland is a member of the eurozone, where euro notes and coin were introduced successfully on January 1, 2002. The European Central Bank ("ECB"), which regulates monetary policy for the euro area as a whole, cut the official refinancing rate by a cumulative 0.75 percentage points to 2.0% in 2003. In terms of the level of the euro versus other major currencies, there has been some loss of Irish competitiveness vis-a-vis the US dollar but the euro remains at competitive levels versus Sterling from an Irish point of view. Irish external trade with the United States and the United Kingdom accounts approximately for a combined 39% of total merchandise exports and 47% of merchandise imports.

The annual rate of inflation stood at 1.3% in March 2004. The average rate of inflation in 2003, as measured by the official Consumer Price Index ("CPI"), was 3.5%, down from 4.6% in 2002. Irish inflation has been affected by higher indirect taxes, the past weakness of the euro and higher services sector inflation. Despite the introduction of additional indirect taxes in the Budget for 2004, the annual average rate of inflation in 2004 is forecast at under 2%. As the Irish economy accounts for less than 2% of eurozone GDP, the annual rate of inflation in Ireland has only a marginal impact on monetary developments in the area.

Notwithstanding the slowdown in the rate of economic growth, Irish budgetary policy remains well within the terms of the EU's Stability and Growth Pact, which sets an upper limit of 3% on general government deficits as a percentage of GDP. Ireland had a general government surplus of 0.2% of GDP in 2003 and is officially projected to run a deficit of 1.1% of GDP in 2004. The projected deficit comes against a background of expected below trend growth in 2004.

Ireland's general government debt/GDP ratio is forecast at 32.2% in 2004. The debt ratio has fallen steadily from 95.6% in 1991. The maintenance of budgetary stability is helped by the strength of the labour market. The unemployment rate fell to a low of 3.7% in the second quarter of 2001. It stood at 4.5% in the final quarter of 2003, the latest available data. However, this was due to a stronger rise in the growth in the labour force. The rate of unemployment averaged 4.7% in 2003, up from 4.4% in 2002.

Ireland's medium term prospects remain favourable, though conditional on the maintenance of overall competitiveness and continued fiscal stability. The government and the social partners are committed to the continuation of these policies. The medium term outlook is pointing to annual growth in real GDP of 4.5-5% on average and the maintenance of an inflation rate of 2.5-3%.

### ***Supervision and regulation***

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

Under the Central Bank and Financial Services Authority of Ireland Act of 2003 on May 1, 2003 certain changes in financial services regulation in Ireland came into force. The Central Bank was renamed the "Central Bank and Financial Services Authority of Ireland". The Central Bank (which until then had been known as the Central Bank of Ireland) now includes, as a constituent part of it, a new authority responsible for prudential regulation of both the banking and insurance sectors and for consumer protection in financial services. This new authority is the "Irish Financial Services Regulatory Authority" ("IFSRA"). The functions conferred on the Central Bank and set out below are now performed by IFSRA.

A further Central Bank and Financial Authority of Ireland Bill was presented to the Dáil, the Lower House of the Oireachtas (Parliament) by the Minister for Finance on December 5, 2003. This provides for the establishment of a statutory Financial Services Ombudsman to deal with consumer complaints about financial institutions, the establishment of Consumer and Industry Consultative Panels to advise IFSRA, new reporting and auditing obligations for financial institutions (including an obligation for financial institutions, when required to do so by the Central Bank, to provide the Central Bank with a statement as to the financial institution's compliance with statutes and statutory codes and to oblige financial institutions, if required by the Central Bank, to request the institution's auditors to report on the financial institution's compliance statement) power for IFSRA to impose sanctions directly on financial institutions for failure to comply with regulatory requirements subject to a right of appeal to the Irish Financial Services Appeals Tribunal ("the Tribunal"), a right of appeal to the Tribunal from certain supervisory decisions of IFSRA and miscellaneous amendments to financial services legislation. It is anticipated that the Bill will be enacted by the Oireachtas in 2004. It is not possible to say what amendments (if any) may be made to it in the course of its passage through the Oireachtas.

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

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

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

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

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

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

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

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

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

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

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

AIB's subsidiary company, Ark Life Assurance Company Limited, was regulated by the Department of Enterprise and Employment under the provisions of the Insurance Acts and Regulations. The Central Bank and Financial Services Authority of Ireland Act, 2003 conferred the function of the regulation of insurance companies on the Central Bank with effect from May 1, 2003.



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

*United Kingdom.* AIB Group (UK) p.l.c. is a company incorporated in Northern Ireland and is authorized under the Financial Services and Market Act 2000 ("FSMA") to carry on regulated activities within the United Kingdom. It carries on business in Great Britain under the trading name "Allied Irish Bank (GB)" and in Northern Ireland "First Trust Bank".

AIB Group (UK) p.l.c. has the statutory power to issue bank notes as local currency in Northern Ireland. In this connection it is subject to the provisions of the Bank Charter Act 1844, the Bankers (Northern Ireland) Acts 1845 and 1928, the Allied Irish Banks Act (Northern Ireland) 1971, the Allied Irish Banks Act 1981, the Allied Irish Banks Act 1993, and the Allied Irish Banks Act 1996.

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

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

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

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

Allied Irish Banks, p.l.c., as a credit institution incorporated and having its principal places of business in Ireland, a member state of the European Union, being authorized to act as a credit institution in Ireland by the Central Bank and having established a branch in the United Kingdom, is a "Treaty firm" within the meaning of Schedule 4 to the FSMA which implements the provisions of the Directive 2000/12/EC ("the Directive") in the United Kingdom. As such, it is entitled to carry on in the United Kingdom any of the listed activities in the Directive which it is authorized or permitted to carry on in Ireland.

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

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

The cost of compliance with the UK regulatory regime increased markedly in 2003 and most banks anticipate that costs will rise at a faster rate in the longer term. The FSA took an increasingly action based approach to the supervision of some banks, and have heightened their intolerance of errors and rule breaches. The FSA imposed some heavy and high profile fines on a number of major institutions in the second half of 2003, principally around failings in anti-money laundering controls and the mis-selling of endowment mortgages and certain other investment products.

*Poland.* Bank Zachodni WBK, with its registered office in Wrocław, is established under Polish Law as a joint stock company authorized to carry out banking business in Poland. It is subject to the regulatory framework laid down by the Banking Act of 1997 as amended (“Banking Act”), the National Bank of Poland Act of 1997 as amended (“NBP Act”) and specific regulation by the National Bank of Poland (“NBP”) and the Banking Supervision Commission (“BSC”).

The Banking Act regulates the operation of the Polish banking system. It defines the principles governing foundation of banks in Poland, their organization, activity, turnaround process, liquidation, bankruptcy and supervision. In compliance with its articles, banking business in Poland is restricted to holders of banking licenses. The Banking Act and the respective executive ordinances have established various prudential standards, including limits on banks’ commitments to individual customers, limits on lending concentrations, classification of the quality of bank assets, constraints on equity investments, monthly reporting of liquidity levels and capital adequacy ratios. These standards are generally in line with international standards.

The NBP Act regulates the National Bank of Poland, including the Monetary Policy Council (its internal body) and BSC (an independent authority). The NBP is the central bank of Poland. It does not engage in commercial banking, but performs regulatory functions in relation to the banks operating in Poland. The Monetary Policy Council, which is placed within the NBP, is responsible for the monetary policy of Poland, sets official interest rates and the obligatory reserve rate. The BSC supervises the activities of the Polish banks and its decisions are executed by the General Inspectorate of Banking Supervisory situated within the NBP structures. The BSC is composed of the Presidents of the NBP, the Banking Guarantee Fund, the Securities and Exchange Commission, the General Inspectorate of Banking Supervisory as well as representatives of the President of the Republic of Poland and the Ministry of Finance. In particular, the BSC is charged with issuing banking licenses, evaluating liquidity and financial standing of banks, overseeing bankruptcy and liquidation proceedings in the banking sector.

The Law on the Banking Guarantee Fund of 1994 as amended, created a fund to provide deposit insurance to all banks. The Law stipulates that all banks contribute the same predetermined percentage of the value of their risk-adjusted assets and guarantees to the Banking Guarantee Fund. The scheme provides for full coverage for each depositor up to the PLN equivalent of € 1,000 with the surplus being guaranteed at the rate of 90% up to the PLN equivalent of €22,500.

As an issuer of securities admitted to public trading, Bank Zachodni WBK is also subject to the Act on Public Trading in Securities (“PTS”) of 1997 as amended. The Act regulates public trading and lays down the principles of founding, organization and supervision of capital market participants. It establishes professional supervision of capital markets by a specialized government agency - the Securities and Exchange Commission which, among other tasks, aims at ensuring equal access to reliable information for all investors. Issuers of publicly traded securities are required to provide information on any events that may have a substantial impact on the value of such securities. The information is published in the form of periodical reports (annual, semi-annual, quarterly) and current reports (advising of current events concerning the issuer of securities which may potentially influence the price of relevant instruments) defined by the executive regulations with regard to the PTS Act.

*United States.* The International Banking Act of 1978 (the “IBA”) imposes limitations on the types of business that may be conducted by AIB in the United States and on the location and expansion of banking operations in the US. Because of its 22.5% shareholding in the enlarged M&T, AIB is also subject to the provisions of the Bank Holding Company Act of 1956, as amended (together with regulations thereunder, the “BHCA”), and is subject to regulation by the Board of Governors of the Federal Reserve System (the “Board”).

A fundamental principle underlying the Board’s supervision and regulation of bank holding companies is that a bank holding company should act as a source of financial strength to, and commit resources to support, each of its subsidiary banks. Subsidiary banks are in turn to be operated in a manner that protects the overall soundness of the institution and the safety of deposits. While M&T Bank Corporation is the first tier holding company in the enlarged M&T, AIB also has responsibility for acting as a source of financial strength and support with respect to the enlarged M&T and other subsidiaries.

The business and activities of the enlarged M&T are subject to regulation by state and federal bank regulatory agencies. Furthermore, there are regulatory limitations on the amount of dividends the banking subsidiaries of the enlarged M&T may pay without prior regulatory approval. The banking regulators may prohibit the payment of any dividend which would constitute an “unsafe or unsound practice”.

The Gramm-Leach-Bliley Act (the “GLBA”), signed into law on November 12, 1999, provided for sweeping financial modernization for commercial banks, savings associations, securities firms, insurance companies, and other financial institutions operating in the United States. Among other things, the GLBA permits qualifying financial institutions that elect financial holding company (“FHC”) status to engage in expanded securities and insurance underwriting and sales activities. AIB has not elected FHC status and does not currently intend to engage in expanded activities pursuant to the GLBA. Similarly, M&T Bank Corporation has not elected FHC status.

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

The USA Patriot Act requires all US financial institutions to develop anti-money laundering programs. Such required compliance programs are intended to supplement any existing compliance programs for purposes of requirements under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations.

On July 30, 2002, the President of the United States signed into law the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"). The Sarbanes-Oxley Act imposes significant requirements on AIB and other non-US banks required to file reports with the SEC. These include requirements with respect to the composition of AIB's audit committee, the supervision of AIB's auditors (and the services that may be provided by such auditors), and the need for personal certification by the chief executive officer and chief (principal) financial officer of annual reports on Form 20-F, as well as the financial statements included in such reports and related matters.

Management does not believe that any of the requirements described above have had or are likely to have a material adverse effect on AIB's results of operations or financial condition.

### **Description of property**

At December 31, 2003 AIB Group operated from over 820 branches and outlets worldwide, principally in Ireland, Northern Ireland, Britain and Poland. A majority of the branches and offices are owned outright, with the remainder being held under commercial leases.

AIB Group owns its headquarters building at Bankcentre, Ballsbridge, Dublin 4, a campus style complex of interlinked buildings on a site of approximately 14 acres completed in 1979. It contains approximately 350,000 square feet of space (gross) and houses most of AIB Group's support functions. A development proposal is under preparation to double the office space on this campus with an expected completion date of 2007. The Group currently operates out of a number of head office locations in Dublin. This new development will facilitate the consolidation of support and business activities and hence significantly reduce the number of head office locations.

In addition, since April 30, 2003 AIB Group leases the AIB International Centre in Dublin's International Financial Services Centre containing approximately 120,000 square feet of space (gross). This building, which was previously owned by the Group, is held under a 25 year lease with a break clause in 2013 and is occupied by the Capital Markets division, accommodating their global treasury management and other activities.

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

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

In Poland, BZWBK owns its head office buildings in Wroclaw at 9/11 Rynek, occupying 54,338 square feet, and at Strzegomska Str. 8-10, occupying 72,448 square feet. The bank has also a long leasehold interest in its head office buildings at Plac Andersa 5 in Poznan, occupying 113,572 square feet, and at Marszalkowska Str. 142 in Warsaw, occupying 20,990 square feet.

## Organizational structure

During 2003, the business of AIB Group was conducted through four<sup>(1)</sup> major operating divisions and its principal subsidiaries as described below:

### Divisions

#### **AIB BANK ROI DIVISION**

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

General retail and commercial banking through some 289 branches and outlets in the Republic of Ireland.

##### **AIB Finance Ltd.**

Asset financing company providing installment/variable and fixed rate loans and deposit products in Ireland.

##### **AIB Leasing Ltd.**

Asset financing company providing leasing products in Ireland.

##### **Ark Life Assurance Company Ltd.**

The company's principal activity is the writing of investment, life assurance and pensions business in Ireland. These services are delivered primarily through the AIB branch network.

##### **AIB Insurance Services Ltd.**

Provision of general insurance services. Acts as an insurance intermediary.

##### **AIB Bank (CI) Ltd.**

Jersey (Channel Islands) based company providing a full range of offshore banking services including lending and internet banking facilities and also offering offshore trust and corporate services through associated companies.

##### **AIB Bank (Isle of Man) Ltd.**

Isle of Man based company providing a full range of offshore banking services including lending and internet banking facilities and also offering offshore trust and corporate services through associated companies.

#### **AIB BANK GB & NI DIVISION**

##### **AIB Group (UK) p.l.c.**

34 branches and 9 development offices in Britain, trading as *Allied Irish Bank (GB)*, focused primarily on small and medium sized enterprises.

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

#### **POLAND DIVISION**

##### **Bank Zachodni WBK S.A.**

A commercial and retail bank which operates through 400 branches and outlets, primarily in western Poland.

#### **CAPITAL MARKETS DIVISION**

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

Management of liquidity and funding needs; interest and exchange rate exposures; financial market trading activities; provision of lending; trade and commercial treasury services and custodial and trustee services.

Provision of corporate and retail services through its New York branch<sup>(2)</sup>. Manages AIB's Cayman Islands branch and offices in Philadelphia, Los Angeles, Chicago, San Francisco and Atlanta.

##### **AIB Capital Markets p.l.c.**

Corporate and Treasury banking activities including corporate advisory services, provision of venture capital and corporate finance.

##### **AIB Corporate Finance Ltd.**

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

##### **Allied Irish Capital Management Ltd.**

Acts as a commodity trading advisor and provides alternative investment management services, specializing in financial futures and interbank foreign exchange.

##### **Goodbody Holdings Ltd.**

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

##### **AIB International Financial Services Ltd.**

Provider of sophisticated, outsourced financial services and financial engineering solutions for international banks and corporations.

##### **AIB Asset Management Holdings Ltd.**

Asset management and funds management for institutional and retail clients principally from Dublin.

The above subsidiary undertakings are wholly-owned with the exception of AIB Asset Management Holdings Limited (85.86%), Allied Irish Capital Management Limited (91.25%) and Bank Zachodni WBK S.A. (70.5%). The registered office of each is located in the principal country of operations.

<sup>(1)</sup> As set out in Note 1 of the Notes to the Consolidated Financial Statements, AIB's US subsidiary, Allfirst, was integrated into M&T Bank Corporation ("M&T") on April 1, 2003. For divisional reporting purposes, AIB's 22.5% investment in M&T is recorded under Group.

<sup>(2)</sup> In September 2003, AIB sold its retail business in New York to Atlantic Bank of New York.

## Item 5. *Operating and Financial Review and Prospects*

### **CRITICAL ACCOUNTING POLICIES**

AIB's financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial instruments held for dealing purposes, assets held in the long-term assurance business and certain properties. The accounts comply with Irish statute and with Irish Generally Accepted Accounting Principles ("Irish GAAP") as well as general practices followed by the financial services industry in Ireland and the UK, except as described in Note 54 of the Notes to the Consolidated Financial Statements. In the preparation of its financial statements the Group adopts the accounting policies and estimation techniques that the Directors believe are most appropriate in the circumstances for the purpose of giving a true and fair view of the Group's state of affairs, income and cashflows. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results. Differences between Irish GAAP and US GAAP are set out in Note 50 of the Notes to the Consolidated Financial Statements.

The following are estimates which are considered to be the most complex and involve significant amounts of management valuation judgements, often in areas which are inherently uncertain.

#### *Loan losses*

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which AIB Group is exposed and other external factors such as legal and regulatory requirements. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required general loan loss provision level.

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

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

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

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

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

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

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

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

#### *Fair value of financial instruments*

Some of the Bank's financial instruments are carried at fair value, including derivatives and debt securities held for trading purposes. Financial instruments entered into as trading transactions, together with any associated hedging thereof, are measured at fair value and the resultant profits and losses are included in dealing profits.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, where no observable price is available then instrument fair value will include a provision for the uncertainty in the market parameter based on sale price or subsequent traded levels. The calculation of fair value for any financial instrument may require adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used), hedging costs not captured in pricing models and adjustments to reflect the cost of exiting illiquid or other significant positions. This would also include an estimation of the likely occurrence of future events which could affect the cashflows of the financial instrument. The valuation model used for a particular instrument, the quality and liquidity of market data used for pricing, other fair value adjustments not specifically captured by the model and market data are all subject to internal review and approval procedures and consistent application between accounting periods.

### *Goodwill*

In accordance with Financial Reporting Standard 10 "Goodwill and Intangible Assets", purchased goodwill arising on acquisition of subsidiary and associated undertakings, occurring after January 1, 1998, is capitalized as an asset on the balance sheet and amortized to the statement of income over its estimated useful economic life. The useful economic life of goodwill is determined at the time of acquisition, taking into consideration factors such as the nature of the business acquired, the market in which it operates and its position in that market. In all cases goodwill is subject to a maximum life of 20 years and is subject to review in accordance with Financial Reporting Standard 11 "Impairment of Fixed Assets and Goodwill".

Determining the period over which to amortize goodwill involves judgement. The profile of the amortization of goodwill would be different if a useful economic life longer or shorter than the existing AIB policy of a maximum of 20 years was used.

### *Retirement benefits*

AIB Group prepares its financial statements in accordance with Financial Reporting Standard 17 ("FRS 17"). The Group provides a number of defined benefit and defined contribution retirement benefit plans in various geographic locations, the majority of which are funded. In relation to the defined benefit plans, a full actuarial valuation is undertaken every three years and is updated to reflect current conditions in the intervening periods. Plan assets are valued at market value. Plan liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognized immediately in the statement of total recognized gains and losses.

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

## **OPERATING RESULTS**

The following discussion should be read in conjunction with the consolidated Financial Statements of AIB Group included elsewhere in this Report. These financial statements were prepared in accordance with Irish GAAP except as described in Note 53 in respect of the treatment of the losses arising from the Fraudulent Activities. Irish GAAP differs in certain significant respects from US GAAP. Reconciliations of certain items in these financial statements to US GAAP are set forth in Note 50 to AIB's Consolidated Financial Statements. The principal accounting policies adopted by AIB Group are set forth on pages 80 to 84 of AIB's Consolidated Financial Statements.

### *Implementation of UITF Abstract 37 "Purchases and sales of own shares" and UITF Abstract 38 "Accounting for Employee Share Ownership Plan ("ESOP") Trusts" (see Accounting policies on page 80)*

The Group has implemented UITF Abstracts 37 and 38 in the preparation of its accounts for the year ended December 31, 2003 and comparative figures have been restated.

The application of UITF 37, has reduced income before taxes for 2002 by €3.3 million (2001: nil) and reduced long-term assurance assets attributable to policyholders and stockholders' funds at December 31, 2002 by €52 million (2001: €52 million).

The application of UITF 38 reduced consolidated total assets and consolidated total stockholders' funds at December 31, 2002 by €176 million (2001: €245 million).

In this Annual Report, AIB provides supplemental information of its results to enable readers to understand the impact of the underlying performance on the key captions in the consolidated statements of income and consolidated balance sheets. In so doing, significant or one off items have been identified that are considered by management to be non-operating in nature. Such items that have impacted the GAAP reporting on the key captions include:

- a) Deconsolidation of Allfirst following its disposal and integration into M&T
- b) Currency factors
- c) Restructuring and integration costs
- d) Transfer of Ark Life's sale force
- e) Disposal of Govett management contracts
- f) Fraud losses

These factors are described below in more detail.

#### *a) Deconsolidation of Allfirst following its disposal and integration into M&T.*

On September 26, 2002, AIB announced its agreement with M&T Bank Corporation ("M&T") whereby AIB's US subsidiary, Allfirst, would be acquired by M&T and AIB would receive 26.7 million M&T shares, representing a stake of approximately 22.5% in the enlarged M&T, together with US\$ 886.1 million in cash. The agreement allowed for the cash consideration to be reduced by the amount of a pre-close dividend from Allfirst to AIB. The transaction closed on April 1, 2003 and prior to closing a dividend of US\$ 865.0 million was declared and paid by Allfirst Financial Inc. Consequently, the cash consideration payable by M&T reduced to US\$ 21.1 million.

The transaction is accounted for in accordance with the Urgent Issue Task Force Abstract No. 31 "Exchanges of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or an associate" ("UITF 31"). Under UITF 31, the transaction is accounted for as an exchange of 77.5% of Allfirst for 22.5% of M&T pre-merger. Under this approach, the 22.5% of Allfirst that is owned by AIB, both directly before the transaction and indirectly thereafter, is treated as being owned throughout the transaction.

The transaction gave rise to a profit before tax of €1 million (loss of €40 million after tax) that was recognized in the consolidated statement of income. In accordance with the requirements of UITF 31, the unrealized element of the gain, of €489 million, has been recognised in the statement of total recognized gains and losses.

The financial statements for the year ended December 31, 2003 reflect the income and expenses of Allfirst for the period to March 31, 2003. These have been reported as discontinued activities in the statement of income. From April 1, 2003, the Group accounted for its investment in the enlarged M&T as an associated undertaking. The Group's 22.5% share of the income before restructuring costs and taxes of the enlarged M&T is reflected in the Group consolidated statement of income within the caption "Share of operating income of associated undertakings". The Group's share of the taxation charge for the enlarged M&T is included in the Group's taxation charge. The Group's share of restructuring and integration costs within the enlarged M&T amounted to €20 million (€16 million after taxation). See "Additional Financial Information" on pages 171 and 172 for details of the impact of the deconsolidation of Allfirst on the consolidated statement of income and consolidated balance sheet for December 31, 2002.

*b) Currency factors*

A significant proportion of the Group's earnings are denominated in currencies other than the euro. As a result, movements in exchange rates can have an impact on earnings growth. In 2003, the US dollar, sterling and Polish zloty average accounting rates weakened relative to the euro by 17%, 9% and 13% respectively (2002: weakened by 5%, 1% and 5% respectively; 2001: strengthened by 3%, weakened by 2% and strengthened by 10% respectively). The negative impact on earnings was partly offset by hedging profits of €28 million (2002: hedging profits of €5 million; 2001: hedging losses of €13 million).

Approximately 42% of the Group's assets are denominated in currencies other than euro at December 31, 2003 (2002: approximately 55%). Movements in exchange rates can therefore have an impact on balance sheet caption growth rates. The US dollar, sterling and Polish zloty weakened relative to the Euro by 17%, 8% and 14% respectively in 2003 (2002: weakened by 16%, 6% and 13% respectively).

*c) Restructuring and integration costs*

During 2003, the Group incurred costs of €72 million (2002: €13 million; 2001: €38 million) in relation to various restructuring initiatives undertaken across the Group. Note 11(b) to the consolidated financial statements provides further detail of the restructuring and integration initiatives undertaken in each of the years.

*d) Transfer of Ark Life's sales force*

The Ark life sales force was transferred to AIB's payroll on April 1, 2003 and consequently from that date these costs have been recorded in operating expenses and amounted to €13 million in 2003. Previously, the costs in relation to the Ark life sales force were included in "contribution of life assurance company" which is part of the other income caption.

*e) Disposal of Govett management contracts*

On November 4, 2003, AIB announced that it had reached an agreement with Gartmore Investment Management p.l.c. to sell the majority of the Govett business, being the majority of the management contracts of Govett, its UK based asset management business. The transaction gave rise to a loss on disposal of €153 million in the consolidated statement of income for the year ended December 31, 2003. For further details on this transaction see note 15 to the consolidated financial statements.

*f) Fraud losses*

During 2002 AIB identified fraudulent foreign exchange trading activities ("Fraud losses") at its U.S subsidiary Allfirst Bank. The Fraud losses amounted to US\$691.2 million before taxation with costs estimated at US\$ 10 million less the reversal of an incentive accrual of US\$ 6 million. The losses and associated costs occurred over the years from 1997 to 2002 as follows: 1997: US\$ 29.1 million; 1998: US\$ 12.4 million; 1999: US\$ 48.2 million; 2000: US\$ 211.0 million; 2001: US\$ 367.4 million; 2002: US\$ 27.2 million. Under US reporting requirements the fraud losses were charged in each of the years they arose.

**Commentary on 2003 results**

Net income for the year ended December 31, 2003 was €656 million compared with €1,016 million for the year ended December 31, 2002. Performance in 2003 was negatively impacted by the disposal and subsequent integration of Allfirst into M&T Bank (Note 1), the disposal of businesses (Note 15) and restructuring and integration costs (Note 11(b)). Average assets decreased from €86,257 million for 2002 to €77,236 million for 2003 and the return on average assets was 0.87% for 2003, compared with 1.21% for 2002. Average stockholders' equity increased to €4,658 million for 2003 from €4,367 million for 2002 while the return on average stockholders' equity was 14.1% for 2003 compared to 23.3% for 2002.

Income before taxes, amounted to €987 million in 2003 compared with €1,344 million in 2002. Excluding the Fraud Losses and associated costs of €28 million in 2002, income before taxes was €1,372 million. Group operating income was €1,015 million compared to €1,330 million in 2002. Excluding the Fraud Losses and associated costs of €28 million in 2002, Group operating income was €1,358 million.

**Commentary on 2002 results**

Net income for the year ended December 31, 2002 was €1,016 million compared with €730 million for the year ended December 31, 2001. The 2002 results were impacted to a significantly lesser extent by the Fraud Losses which, on a net income basis, amounted to €18 million in 2002 compared with €267 million in 2001. Average assets increased from €83,966 million for 2001 to €86,257 million for 2002 and the return on average assets was 1.21% for 2002, compared with 0.92% for 2001. Average stockholders' equity decreased to €4,367 million for 2002 from €4,541 million for 2001 while the return on average stockholders' equity was 23.3% for 2002 compared to 16.1% for 2001.

Income before taxes amounted to €1,344 million in 2002 compared with €955 million in 2001. When the Fraud Losses and related costs of €28 million (2001: €411 million) are excluded, income before taxes amounted to €1,372 million in 2002 and €1,366 million in 2001, respectively. Group operating income amounted to €1,330 million, in 2002 compared with €852 million in 2001. Excluding the Fraud Losses and related costs of €28 million in 2002 (2001: €411 million), Group operating income amounted to €1,358 million, up 7% on the 2001 figure of €1,263 million.

### **Net interest income**

The following table shows net interest income for the years ended December 31, 2003, 2002 and 2001.

	<b>Years ended December 31,</b>		
	<b>2003</b>	<b>2002 Restated (Euro in millions)</b>	<b>2001</b>
Interest income.....	3,610	4,753	5,346
Interest expense.....	(1,676)	(2,402)	(3,088)
Net interest income.....	1,934	2,351	2,258

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

#### ***Commentary on net interest income performance in 2003***

Net interest income was €1,934 million in 2003 compared with €2,351 million in 2002, a decrease of €417 million. The decrease principally reflects the deconsolidation of Allfirst of €427 million and currency factors of €86 million. Excluding these items in 2003, net interest income increased by 6%. The increase resulted from a particularly strong lending growth in AIB Bank ROI and AIB Bank GB&NI. Average interest earning assets decreased by €7,040 million (9%) when compared with 2002 primarily due to the deconsolidation of Allfirst assets.

The interest rate spread decreased by 16 basis points on a Group basis during 2003. The reduction in the interest rate spread coupled with a decrease in the gross yield resulted in a decline in the overall net interest margin to 2.72% in 2003 from 3.00% in 2002. The domestic margin decreased by 19 basis points since December 2002 to 2.54% while the foreign margin reduced by 27 basis points since December 2002 to 3.00%. The principal reasons for the margin attrition include the balance sheet funding effect of non-wholesale customer loans growing faster than non-wholesale customer liabilities, changes in product mix, and lower interest rates. Lower interest rates in Ireland and Poland have reduced margins on deposits and non-interest bearing funds. The impact of lower investment yields has reduced the return on the investment of capital and core deposit funds.

#### ***Commentary on net interest income performance in 2002***

Net interest income was €2,351 million in 2002 compared with €2,258 million in 2001, an increase of €93 million or 4%. This increase arose due to strong lending growth particularly in AIB Bank ROI and AIB Bank GB&NI. Excluding the impact of currency factors of €54 million, net interest income increased by 7%. Average interest earning assets increased by €2,658 million (4%) when compared with 2001.

The volume increase and the increase in the interest rate spread have been offset by a decrease in the gross yield. The interest rate spread increased by 20 basis points on a Group basis during 2002. Overall the net interest margin increased to 3.00% in 2002 from 2.99% in 2001. The domestic margin increased by 14 basis points since December 2001 to 2.73% while the foreign margin reduced by 7 basis points since December 2001 to 3.27%. A particularly strong interest rate management performance by Global Treasury was offset in margin terms by changes in product mix, the margin effect of lower interest rates on deposits and non-interest bearing funds and the impact of loans increasing at a stronger rate than deposits. All our principal markets experienced lower interest rates, the margin impact of this trend was alleviated by asset and liability and interest rate management activities.



### Average interest rates, gross yields, spreads and margins

The following table shows interest rates prevailing at December 31, 2003 together with average prevailing interest rates, gross yields, spreads and margins for the years ended December 31, 2003, 2002 and 2001.

	At Dec. 31,	Years ended December 31,		
	<u>2003</u> %	<u>2003</u> %	<u>2002</u> %	<u>2001</u> %
<b>Interest rates</b>				
<b>Ireland</b>				
AIB Group's prime lending rate.....	2.63	2.84	3.85	4.93
European inter-bank offered rate				
One month euro.....	2.10	2.35	3.30	4.33
Three month euro.....	2.12	2.33	3.31	4.26
<b>United Kingdom</b>				
AIB Group's base rate.....	3.75	3.69	4.00	5.12
London inter-bank offered rate				
One month sterling.....	3.81	3.65	3.93	4.98
Three month sterling.....	4.00	3.69	4.00	4.97
<b>United States</b>				
Prime rate.....	4.00	4.12	4.67	6.92
<b>Poland</b>				
One month zloty.....	5.32	5.66	9.08	16.38
<b>Gross yields, spreads and margins<sup>(1)</sup></b>				
<b>Gross yield<sup>(2)</sup></b>				
Group.....		4.71	5.45	6.78
Domestic.....		4.35	5.12	5.87
Foreign.....		5.33	5.78	7.58
<b>Interest rate spread<sup>(3)</sup></b>				
Group.....		2.35	2.51	2.31
Domestic.....		2.26	2.29	1.90
Foreign.....		2.48	2.72	2.71
<b>Net interest margin<sup>(4)</sup></b>				
Group.....		2.72	3.00	2.99
Domestic.....		2.54	2.73	2.59
Foreign.....		3.00	3.27	3.34
<b>December 31,</b>				
<b>Average interest earning assets</b>		<u>2003</u>	<u>2002</u>	<u>2001</u>
		<b>(Euro in millions)</b>		
Group.....		71,211	78,251	75,593
Domestic.....		44,679	38,663	35,417
Foreign.....		26,532	39,588	40,176

<sup>(1)</sup> The gross yields, spreads and margins presented in this table are extracted from the average balance sheets and interest rates presented on page 23 of this Report and this breakdown into domestic and foreign has been compiled on the basis of location of office.

<sup>(2)</sup> Gross yield represents the average interest rate earned on interest earning assets.

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

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

*Average Balance Sheet and Interest Rates*

	Years ended December 31,								
	2003			2002			2001		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(Euro in millions)		%	(Euro in millions)		%	(Euro in millions)		%
<b>ASSETS</b>									
Placings with banks									
Domestic offices.....	3,138	85	2.7	3,388	103	3.0	3,441	138	4.0
Foreign offices.....	770	27	3.5	1,884	81	4.3	2,041	117	5.7
Loans to customers <sup>(1)</sup>									
Domestic offices.....	28,361	1,352	4.8	23,530	1,360	5.8	21,210	1,390	6.6
Foreign offices.....	18,642	1,012	5.4	26,369	1,573	6.0	25,026	2,051	8.2
Placings with banks and loans to customers <sup>(1)</sup>									
Domestic offices.....	31,499	1,437	4.6	26,918	1,463	5.4	24,651	1,528	6.2
Foreign offices.....	19,412	1,039	5.4	28,253	1,654	5.9	27,067	2,168	7.9
Funds sold									
Domestic offices.....	-	-	-	-	-	-	-	-	-
Foreign offices.....	288	4	1.3	744	12	1.6	93	2	2.7
Investment securities									
Domestic offices.....	11,278	397	3.5	9,850	401	4.1	8,886	432	4.9
Foreign offices.....	6,006	315	5.3	9,311	550	5.9	11,558	784	6.8
Installment credit and finance lease receivables									
Domestic offices.....	1,902	108	5.7	1,895	115	6.1	1,880	119	6.3
Foreign offices.....	826	55	6.7	1,280	73	5.7	1,458	90	6.2
Total interest earning assets									
Domestic offices.....	44,679	1,942	4.3	38,663	1,979	5.1	35,417	2,079	5.9
Foreign offices.....	26,532	1,413	5.3	39,588	2,289	5.8	40,176	3,044	7.6
	71,211	3,355	4.7	78,251	4,268	5.5	75,593	5,123	6.8
Allowance for loan losses.....	(741)			(956)			(939)		
Non-interest earning assets.....	6,766			8,962			9,312		
Total assets.....	77,236	3,355	4.3	86,257	4,268	4.9	83,966	5,123	6.1
Percentage of assets applicable to foreign activities.....									
			37.9			51.6			53.1
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
Interest bearing deposits and other short-term borrowings									
Domestic offices.....	36,836	727	2.0	31,005	837	2.7	27,285	1,044	3.8
Foreign offices.....	21,230	606	2.9	30,326	935	3.1	32,519	1,588	4.9
Funds purchased									
Domestic offices.....	-	-	-	-	-	-	-	-	-
Foreign offices.....	264	3	1.2	1,489	24	1.6	1,694	65	3.8
Subordinated liabilities									
Domestic offices.....	1,682	78	4.7	1,642	85	5.2	1,906	116	6.1
Foreign offices.....	132	7	5.2	682	36	5.3	788	52	6.6
Total interest bearing liabilities									
Domestic offices.....	38,518	805	2.1	32,647	922	2.8	29,191	1,160	4.0
Foreign offices.....	21,626	616	2.8	32,497	995	3.1	35,001	1,705	4.9
	60,144	1,421	2.4	65,144	1,917	2.9	64,192	2,865	4.5
Interest-free liabilities									
Current accounts.....	7,798			10,764			9,578		
Other liabilities.....	4,230			5,444			5,104		
Minority equity and non-equity interests.....									
	191			285			298		
Preference share capital.....	215			253			253		
Ordinary stockholders' equity.....	4,658			4,367			4,541		
Total liabilities and stockholders' equity.....	77,236	1,421	1.8	86,257	1,917	2.2	83,966	2,865	3.4
Percentage of liabilities applicable to foreign activities.....									
			35.6			50.0			53.5

<sup>(1)</sup> Loans to customers include money market funds. Non-accrual loans and loans classified as problem loans are also classified within this caption. See Item 11 – Loan Portfolio – “Provision and allowance for loan losses”.

The following table allocates changes in net interest income between volume and rate for the year ended December 31, 2003 compared with the year ended December 31, 2002 and for the year ended December 31, 2002 compared to the year ended December 31, 2001. Volume and rate variances have been calculated based on the movements in average balances over the period and changes in interest rates on average interest earning assets and average interest bearing liabilities respectively. Changes due to a combination of volume and rate are allocated ratably to volume and rate.

	<u>December 2003 over December 2002</u>			<u>December 2002 over December 2001</u>		
	<u>Increase/(decrease) due to changes in:</u>					
	<u>Average Volume</u>	<u>Average Rate</u>	<u>Net Change</u> (Euro in millions)	<u>Average Volume</u>	<u>Average Rate</u>	<u>Net Change</u>
<b>INTEREST EARNING ASSETS</b>						
Placings with banks						
Domestic offices.....	(8)	(10)	(18)	(2)	(33)	(35)
Foreign offices.....	(41)	(13)	(54)	(8)	(28)	(36)
Loans to customers						
Domestic offices.....	252	(260)	(8)	147	(177)	(30)
Foreign offices.....	(418)	(143)	(561)	104	(582)	(478)
Placings with banks and loans to customers						
Domestic offices.....	244	(270)	(26)	145	(210)	(65)
Foreign offices.....	(459)	(156)	(615)	96	(610)	(514)
Funds sold						
Domestic offices.....	-	-	-	-	-	-
Foreign offices.....	(6)	(2)	(8)	11	(1)	10
Investment securities						
Domestic offices.....	57	(61)	(4)	44	(75)	(31)
Foreign offices.....	(183)	(52)	(235)	(139)	(95)	(234)
Installment credit and finance lease receivables						
Domestic offices.....	-	(7)	(7)	1	(5)	(4)
Foreign offices.....	(29)	11	(18)	(10)	(7)	(17)
Total interest income.....	(376)	(537)	(913)	148	(1,003)	(855)
<b>INTEREST BEARING LIABILITIES</b>						
Interest bearing deposits and other short-term borrowings						
Domestic offices.....	291	(401)	(110)	184	(391)	(207)
Foreign offices.....	(271)	(58)	(329)	(101)	(552)	(653)
Funds purchased						
Domestic offices.....	-	-	-	-	-	-
Foreign offices.....	(16)	(5)	(21)	(7)	(34)	(41)
Subordinated liabilities						
Domestic offices.....	2	(9)	(7)	(15)	(16)	(31)
Foreign offices.....	(28)	(1)	(29)	(7)	(9)	(16)
Total interest expense.....	(22)	(474)	(496)	54	(1,002)	(948)
Net interest income						
Domestic offices.....	8	72	80	21	117	138
Foreign offices.....	(362)	(135)	(497)	73	(118)	(45)
Net interest income.....	(354)	(63)	(417)	94	(1)	93

## Other finance income

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
Expected return on pension plan assets.....	161	220	213
Interest on pension plan liabilities.....	(149)	(158)	(146)
Total other finance income.....	12	62	67

Under FRS 17 "Retirement benefits", the net of the interest cost on liabilities and the expected return on assets is recorded as other finance income adjacent to interest. The interest cost represents the unwinding of the discount on the plan liabilities. The expected return on assets is based on long-term expectations at the beginning of the period.

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

## Other income

The following table shows other income for the years ended December 31, 2003, 2002 and 2001.

	Years ended December 31,		
	2003	2002 Restated (Euro in millions)	2001
Dividend income.....	16	14	11
Banking fees and commissions <sup>(1)</sup> .....	864	1,045	962
Asset management and investment banking fees.....	150	256	296
Fees and commissions receivable <sup>(1)</sup> .....	1,014	1,301	1,258
Fees and commissions payable.....	(125)	(138)	(128)
Dealing profits <sup>(2)</sup> .....	135	74	92
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
Other operating income:			
Profit on disposal of debt securities held for investment purposes.....	37	106	24
Profit on disposal of investments in associated undertakings.....	-	1	1
Profit/(loss) on disposal of equity shares.....	3	11	(3)
Contribution of life assurance company.....	60	57	84
Contribution from securitized assets.....	1	4	5
Mortgage origination and servicing income.....	2	7	10
Miscellaneous operating income <sup>(3)</sup> .....	63	77	72
	166	263	193
Total other income.....	1,206	1,496	1,009

<sup>(1)</sup> Includes fees and commissions related to foreign exchange activities which were €58 million, €85 million and €90 million for 2003, 2002 and 2001, respectively. The 2003 figure includes a charge of €24.2 million in relation to amounts due to customers arising from the overcharging on certain foreign exchange products as outlined in Note 53 - "Subsequent events: Pricing of foreign exchange products".

<sup>(2)</sup> Includes dealing profits relating to foreign exchange activities which were €92 million, €78 million and €75 million for 2003, 2002 and 2001, respectively, before the Fraud Losses.

<sup>(3)</sup> Includes foreign currency translation gains and losses of €31 million, €34 million and €38 million for 2003, 2002 and 2001, respectively.

### Commentary on other income performance in 2003

In the year ended December 31, 2003 other income was €1,206 million compared with €1,496 million for the year ended December 31, 2002, a decrease of €290 million. The decrease reflects the impact of the deconsolidation of Allfirst of €353 million and currency factors of €29 million. The statement of income included Allfirst for the full year in 2002 and only three months in 2003. Excluding the impact of these items, other income increased by 10%. Other income represented 39.1% of total income.

- o Banking fees and commissions were down €181 million (17%). Excluding the impact of the deconsolidation of Allfirst of €213 million and currency factors of €51 million, banking fees and commissions in 2003 were up 12%.
- o Asset management and Investment Banking fees were down €106 million (42%). Excluding the impact of the deconsolidation of Allfirst of €84 million and currency factors of €4 million, asset management and investment banking fees in 2003 were down 13%.
- o Contribution of life assurance company up 6%.

Banking fees and commissions in 2003 accounted for over 70% of other income within AIB Group. The strong growth resulted from increased volumes of business and a substantially higher level of arrangement fees due to strong lending growth. In Poland, growth in branch fees and commissions, and credit card income, was strong.

Investment banking revenues were lower due to subdued merger and acquisition activity and reduced cross-border structuring transactions. In Asset Management, a significant event was the sale of the Govett business, being the majority of the management contracts of Govett to Gartmore Investment Management p.l.c. in November 2003.

The increase in dealing profits was mainly driven by a strong performance from bond management activities. Profit from hedging of foreign earnings was €28 million in 2003 compared to a profit of €5 million in 2002.

The 6% increase in Ark Life profit reflects good growth in income from protection products and a significant increase of 40% in sales in the second half compared with the second half of 2002.

#### **Commentary on other income performance in 2002**

In the year ended December 31, 2002 other income was €1,496 million compared with €1,009 million for the year ended December 31, 2001, an increase of €487 million. The increase largely reflects the reduction in 2002 of the Fraud Losses of €399 million offset by currency factors of €16 million. Excluding these items other income was up 7%. Excluding the Fraud Losses, other income represented 40.1% of total income.

- o Banking fees and commissions up €83 million (9%), excluding currency factors of €24 million, banking fees and commissions were up 15%.
- o Asset management and investment banking fees down €39 million (13%), excluding currency factors of €7 million, asset management and investment banking fees were down 11%.
- o Contribution of life assurance company down 32%.

The 15% growth in banking fees and commissions resulted from increased volumes of business and significant loan growth. Corporate banking fees were buoyant with a substantial increase in income from arrangement and management fees and fees from collateralized debt obligation funds. Retail banking fees were particularly strong in Poland and there was good growth in credit card revenues in the Republic of Ireland. In Allfirst, electronic banking income and deposit service charges also achieved strong increases over 2001.

Asset management and investment banking revenues were lower by 11% due to a decline in asset values, reduced business volumes and the general impact of difficult equity markets. The restructuring of the AIB joint venture with Bank of New York impacted the trend as the Group's share of fee income previously reported under this caption is now reported net of expenses incurred under the caption income from associated undertakings.

Dealing profits were lower as a result of a more difficult trading environment. Dealing profits reflect trading income and exclude interest payable and receivable arising from these activities.

Ark Life profit was down 32% as difficult investment markets resulted in reduced customer demand for investment products. Declines in equity market values caused a €32 million reduction in embedded values, which was partly offset by a benefit of €17 million from lowering the discount rate used in the embedded value calculation from 12% to 10%. Operating profit in Ark Life was down 4%.

The profit on disposal of debt securities held for investment purposes included gains of US\$80 million resulting from a restructuring of the securities portfolio in Allfirst. Miscellaneous operating income in 2002 included a US\$10 million provision for residual values in the auto lease portfolio.

#### **Operating expenses**

The following table shows operating expenses for the years ended December 31, 2003, 2002 and 2001.

	<b>Years ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>(Euro in millions)</b>		
Staff costs.....	1,157	1,391	1,342
Other administrative expenses.....	552	717	703
Depreciation.....	148	175	164
Amortization of goodwill.....	31	32	31
Operating expenses before integration costs.....	1,888	2,315	2,240
Restructuring and integration costs in continuing businesses.....	72	13	38
Total operating expenses.....	<b>1,960</b>	<b>2,328</b>	<b>2,278</b>

#### **Commentary on operating expenses in 2003**

In the year ended December 31, 2003 operating expenses were €1,960 million, compared with €2,328 million for the year ended December 31, 2002, a decrease of €368 million (16%). The decrease reflects the deconsolidation of Allfirst of €460 million and currency factors of €90 million offset by an increase in restructuring and integration costs of €72 million (€13 million in 2002 was in relation to Allfirst) and the impact of the Ark life sales force reorganisation of €13 million. Excluding these items, operating expenses increased by 6%. The 6% increase includes some costs relating to the development of new integrated groupwide reporting and information systems, investment in building top class risk and governance infrastructure and practices, and there were additional costs relating to the USA. The growth also includes the first full year of depreciation of €19 million (1% in cost growth terms) relating to our new branch technology platform in Poland.

Operating expenses increased by 5% in our operating divisions reflecting strong business activity levels. In addition, a provision of €62 million was made in relation to an early retirement offer to a limited number of staff in Ireland and Britain. In Poland, there was a restructuring charge of €10 million, covering the closure of branches and the writedown in value of properties and

branch equipment.

The Group's tangible cost income ratio, excluding goodwill amortisation of €31 million and the restructuring and integration costs of €72 million was 58.5%, up 0.6% compared with 2002.

In 2003 staff costs were €1,157 million compared with €1,391 million in 2002, a decrease of €234 million (17%). The decrease reflects the deconsolidation of Allfirst of €270 million and currency factors of €52 million, offset by an increase in restructuring and integration costs of €72 million (€13 million in 2002 was in relation to Allfirst) and the impact of the Ark life sales force reorganisation of €11 million. Excluding these items, staff costs increased by 8%. The 8% increase reflected normal salary increases, staff costs relating to the development of new integrated groupwide reporting and information systems and investment in core businesses.

Other administrative expenses decreased by €165 million (23%) from €717 million in 2002 to €552 million in 2003. The decrease reflects the deconsolidation of Allfirst of €144 million, currency factors of €32 million and the impact of the Ark Life sales force reorganisation of €2 million. Excluding these items, other administrative expenses increased by 2%.

The depreciation charge for 2003 was €148 million compared with €175 million for 2002, a decrease of €27 million (15%). The decrease reflects the deconsolidation of Allfirst of €33 million and currency factors of €8 million. Excluding these items, the depreciation charge increased by 11%. The increase reflected continued investment in technology and systems and the commencement of full year depreciation of the new technology platform in Poland.

### **Commentary on operating expenses in 2002**

In the year ended December 31, 2002 operating expenses were €2,328 million compared with €2,278 million for the year ended December 31, 2001, an increase of €50 million.

Excluding the impact of currency factors of €56 million and the decrease in restructuring and integration costs of €25 million, operating expense growth was lower than expectations with a 4% increase compared with a 10% increase in 2001. While business volumes increased substantially, tight cost management and cost saving initiatives improved productivity. In AIB Bank ROI salary increases were partly offset by a cost savings program in central supports and the cost income ratio remained at 51%. The Group continued to invest in its core businesses, major items being the opening of new offices and recruitment of experienced business and corporate bankers in Great Britain, expansion of Corporate Banking activities in New York and the implementation of a new technology platform in Poland. Realization of integration benefits from the merger of WBK and Bank Zachodni in Poland was evident while expansion of the franchise continued. The Group's tangible cost income ratio, excluding the Fraud Losses and related costs of €28 million, goodwill amortization of €32 million and the restructuring and integration costs in continuing businesses of €13 million was 57.8%, down 1.2% compared with 2001, with notable reductions in Capital Markets, AIB Bank GB & NI and Poland.

Restructuring and integration costs in continuing businesses related to the Allfirst early retirement program in 2002 and Poland integration costs in 2001.

In 2002, staff costs were €1,391 million compared with €1,342 million for 2001, an increase of €49 million reflecting normal salary increases and investment in core businesses. Excluding currency factors of €32 million, staff costs were up 4%. Other administrative expenses increased by €14 million (2%) to €717 million for 2002 compared with €703 million for 2001. Excluding acquisitions of €10 million and currency factors of €18 million, other administrative expenses increased by 3%.

The depreciation charge for 2002 was €175 million compared with €164 million for 2001, an increase of €11 million (7%). The increase reflects continued investment in technology and systems. Excluding currency factors of €2 million, the depreciation charge increased by 7%.

### **Provisions for loan losses**

The following table shows the provisions for loan losses charged to income for each of the three years ended December 31, 2003, 2002 and 2001.

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Provisions for loan losses.....	152	194	179
As a percentage of average loans <sup>(1)</sup> .....	0.31%	0.37%	0.36%

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

Please also see "Provision and allowance for loan losses" on pages 69 and 70, "Net loans charged off" on pages 72 and 73 and "Non-performing loans" on page 77.

### **Commentary on provision for loan losses in 2003**

The provisions for loan losses of €152 million (0.31% of average advances) for the year ended December 31, 2003 were €42 million lower than 2002 (€194 million, 0.37% of average advances). This improvement primarily reflects a reduction of €74 million due to the sale of Allfirst during 2003, and the fact that the 2002 provision included a release of €40 million due to the use of unallocated provisions (raised at Group level and reported in Ireland). €10 million of the 2003 provision charge relates to Allfirst prior to disposal.

#### *Ireland*

The provision for loan losses increased by €25 million to €64 million in the year to December 2003 (2002: €39 million). Excluding unallocated provisions (€40 million utilized in 2002 and €5 million created in 2003), the 2003 provision reduced by €20 million driven by reduced specific provisioning in Capital Markets division of €26 million offset by higher provisioning in ROI division of €6 million which included €6 million for general provision (2002: €1 million) to reflect growth in advances. The quality of both the retail and commercial portfolios has been maintained with no specific sectoral deterioration. Home mortgage lending continued to be buoyant without compromising credit quality.

#### *United Kingdom*

In 2003 the provision for loan losses increased by €19 million to €49 million reflecting higher specific provisioning in Capital Markets division of €22 million offset by reduced provisioning in AIB Bank GB/NI division of €3 million. The increase in Capital Markets was largely attributable to specific provisions created for three new non-performing loans and the provision and subsequent write off of one large credit in the services sector. Provisioning in AIB Bank GB/NI division was largely in line with 2002. Higher net specific provisions, influenced by two large commercial credits, were offset by a lower level of general provision charge. The general provision charge was reduced largely to reflect improved quality and historical loss experience.

#### *United States*

In 2003 the provision for loan losses was €7 million (2002: €85 million). The reduction of €78 million includes €74 million attributable to the divesting of Allfirst at the end of Quarter 1 2003 and a takeback of €6 million from general provision to reallocate to provisions on debt securities.

#### *Poland*

The provision for loan losses for the year to December 31, 2003 at €32 million includes an element (€1 million) of general provisioning, and is €9 million lower than the 2002 provision. While over half of the year on year reduction is attributable to exchange rate movements, it also reflects lower provisioning for the consumer portfolio, a reduction in the rate of gross new non-performing loans, and lower levels of gross provisions raised in the period.

### **Commentary on provision for loan losses in 2002**

The provisions for loan losses of €194 million (0.37% of average advances) for the year ended December 31, 2002 were €15 million higher than 2001 (€179 million, 0.36% of average advances). This is after the utilization of €40 million of the unallocated provision of €50 million to offset one specific large provision case in the USA. The unallocated provision (raised at Group level and reported in Ireland) was created in December 2001, at a time of economic uncertainty and market weakness, to cover possible problem situations which were not identifiable at that time.

#### *Ireland*

The provision for loan losses decreased by €67 million to €39 million in the year to December 31, 2002 (2001: €106 million). The creation of the €50 million unallocated in 2001 and the utilization of €40 million of that provision in 2002 had the effect of reducing the charge, year on year, by €90 million. This was offset by increases in AIB Bank ROI of €8 million and €15 million in Capital Markets. The increase in AIB Bank ROI was due mainly to the introduction of a new provisioning matrix in the Credit Card business with provisions now being created at an earlier stage of delinquency. Non-performing loans in other portfolios also showed some increase in the period. The increase in Capital Markets primarily related to the deterioration of some UK and Irish energy sector credits booked in Ireland. The provision as a percentage of advances has increased in AIB Bank ROI from 0.25% in December 2001 to 0.27% and in Capital Markets from 0.18% to 0.43%.

#### *United Kingdom*

In 2002 the provision for loan losses at €30 million was €11 million higher than the year to December 31, 2001. This increase was attributable to higher specific provisions of €7 million in Capital Markets due to the deterioration of some UK energy sector credits and a higher level of general provision in AIB Bank GB & NI, reflecting the recent growth in the loan portfolio.

#### *United States*

The provision for loan losses increased in the year to December 31, 2002 by €47 million to €85 million due primarily to the inclusion of €40 million in relation to a telecommunication credit in Allfirst (provision charged-off in full in December 2002) and an increase in the general provision due to uncertainty in the local economic environments as well as the potential loss associated with corporate portfolios, particularly communications and aircraft leasing. As a percentage of advances, the provision has increased from 0.28% in December 2001 to 0.68% in 2002.

#### *Poland*

The provision for loan losses for the year to December 31, 2002 at €41 million is €25 million higher than the 2001 provision which reflected utilization of residual fair value allowances of PLN 171 million (€47 million) created on acquisition. Provisions as a percentage of advances were 1.2% in 2002 and compare favourably with the 2001 underlying provision rate of 1.9% before fair value adjustments.

### Rest of World

The net provision for the rest of the world resulted in a recovery of €1 million in 2002 compared with net provisions of nil in 2001.

### Provisions for contingent liabilities and commitments

The following table shows the provisions for contingent liabilities and commitments for the years ended December 31, 2003, 2002 and 2001.

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Provisions for contingent liabilities and commitments.....	9	2	19

The provision for contingent liabilities and commitments was €9 million compared with €2 million in 2002 and included a credit related provision of €8 million in Capital Markets.

### Amounts written off fixed asset investments

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Amounts written off fixed asset investments.....	16	55	6

The provision for amounts written off fixed asset investments declined to €16 million in 2003 from €55 million in 2002. In 2002, the general deterioration in equity markets led to a number of equity investment write downs, mainly in the technology and telecom sectors.

### (Loss)/profit on disposal of businesses

#### 2003

The loss on disposal of businesses from continuing activities of €142 million relates to the loss on disposal of Govett of €153 million, offset by the profit on disposal of the AIB New York retail branch of €7 million (tax charge €3 million) and the profit on disposal of Polsoft, a software development subsidiary in Poland, of €4 million (tax charge €1 million).

On November 4, 2003, AIB announced that it had reached an agreement with Gartmore Investment Management p.l.c. ("Gartmore") to sell the majority of the Govett business, being the majority of the management contracts of Govett, its UK based asset management business. The remaining UK and Singapore operations of Govett will be wound down following completion of the sale. Certain management contracts were excluded from the sale and will be managed by AIB's Irish based asset management company, AIB Investment Managers ("AIB IM"). The operations of AIB IM were otherwise unaffected by this transaction.

Total consideration for the business is estimated to be €17 million and is payable in cash. The consideration is made up of an initial payment of €6 million plus a series of payments based on the level of fees earned by Gartmore on the Govett management contracts over the following three years. The initial payment of €6 million is reflected in the financial statements for the year ended December 31, 2003.

The transaction gave rise to a loss on disposal of €153 million in the consolidated statement of income for the year ended December 31, 2003. The loss on disposal was made up of the €6 million consideration less goodwill previously written off of €139 million and one off closure costs of €20 million. The goodwill of €139 million was previously written off to reserves on the purchase of Govett, in 1995. The after tax loss is €152 million. The financial statements for the year ended December 31, 2003 also reflect the income and expenses for Govett for the period as part of continuing activities, which amounted to a loss before tax of €12 million.

#### 2001

In August 2001, AIB's interests in Keppel Capital Holdings Ltd. in Singapore were sold to Oversea-Chinese Banking Corporation Limited, giving rise to a profit before taxation on disposal of €93 million (tax charge € nil).

### Applicable taxes

The following table shows applicable income taxes and tax rates, as well as effective tax rates, for the years ended December 31, 2003, 2002 and 2001.

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Applicable income taxes.....	315	296	187
Irish corporation tax rate.....	12.5%	16.0%	20.0%
Effective tax rate.....	31.9%	22.0%	19.5%
Effective tax rate - adjusted <sup>(1)</sup> .....	24.2%	22.3%	24.2%

<sup>(1)</sup> The adjusted effective tax rate has been presented to eliminate the loss on disposal of Govett of €153 million (net of tax: €152 million) and the withholding tax on the Allfirst dividend of €40 million in 2003 and the effect of the exceptional foreign exchange dealing losses of €28 million (net of tax: €18 million) and €411 million (net of tax: €267 million) in 2002 and 2001, respectively.

The taxation charge was €315 million, compared with €296 million in 2002. The adjusted effective tax rate was 24.2% compared with 22.3% in 2002. The effective tax rate in 2003 was impacted by the Allfirst dividend withholding tax transaction of €40 million, the Irish Government bank levy of €29.5 million, the implementation of the early retirement programme of €62 million (net of tax: €52 million) and the loss on the disposal of Govett of €153 million (net of tax: €152 million). The tax rate in 2003 was 21.3% after adjusting for these items. The effective tax rate is influenced by the geographic mix of profits which are taxed at the rates applicable in the foreign jurisdictions.



The taxation charge was €296 million in 2002 compared with €187 million in 2001. The adjusted effective tax rate for 2002 was 22.3% down from 24.2% in 2001. The reduction in the adjusted effective tax rate was mainly due to the decrease in the standard rate of Irish corporation tax from 20% in 2001 to 16% in 2002.

### Balance sheet

Total assets amounted to €81 billion at December 31, 2003 compared to €86 billion (page 87) at December 31, 2002. The decrease reflects the deconsolidation of Allfirst following its sale to M&T on April 1, 2003. The balance sheet at December 31, 2002 included Allfirst total assets of €15 billion whereas the December 31, 2003 balance sheet did not include Allfirst. Excluding Allfirst, total assets amounted to €81 billion at December 31, 2003 compared to €70 billion at December 31, 2002. The US dollar, sterling and the Polish zloty weakened against the euro by 17%, 8% and 14% respectively since December 31, 2002. Adjusting for the impact of currency, total assets were up 21% since December 31, 2002 while loans to customers increased by 21% and customer accounts by 11%. Risk weighted assets excluding currency factors increased by 23% to €63 billion.

Gross loans and advances to customers decreased to €51.2 billion at December 31, 2003 from €54.3 billion at December 31, 2002. A decrease of €9.7 billion following the disposal of Allfirst was partially offset by an increase in AIB Bank ROI of €5.6 billion driven by increases in the lending book across residential mortgages, term loans and market loans. An increase of €2.1 billion was recorded in AIB Bank GB & NI, generated by a growth in lending to businesses and corporates in targeted niches.

Debt securities were €18.1 billion at December 31, 2003 compared with €18.2 billion at December 31, 2002. The decrease was due to the disposal of Allfirst partly offset by growth in Capital Markets division. Deposits by banks were €18.1 billion at December 31, 2003 compared with €16.1 billion at December 31, 2002 with the increase arising predominantly within the Capital Markets division.

Customer accounts decreased to €44.6 billion from €53.0 billion at December 31, 2002. The decrease arose primarily because of the disposal of the Allfirst business partly offset by increases in AIB Bank ROI, AIB Bank GB & NI and Capital Markets.

### Outlook

A favourable outlook for 2004 is supported by a good start to the year where AIB continues to see strong demand for lending facilities. The Group's confidence about the future is underpinned by continued strong asset quality and further improving efficiency levels. Reflecting this very strong business performance, double-digit profit growth in 2004 is targeted in the operating divisions. Due to the expected substantial increase in Poland profit, the related minority interest charge is expected to be higher and it is also anticipated that the expected strong growth in British, Polish and US profits will increase the effective tax rate.

The Group has hedged approximately 80% of its projected 2004 foreign earnings with the expected US dollar translation exposure fully hedged. Allowing for this hedged position and recognizing the €28 million benefit of 2003 hedging strategies and the impact of current rates on the unhedged portion, the negative financial impact of the strong euro is expected to be 3% in 2004 in adjusted earnings per share growth terms.

In Group terms, adjusted earnings per share, after the 2003 impact of the early retirement programme and the M&T/Poland restructuring costs, is expected to increase by a mid single-digit percentage in 2004 with a higher earnings trend in the second half compared to the first half-year.

### Performance by division

On a divisional basis income is measured in euro and consequently includes the impact of currency movements. The divisional statements of income for 2002 and 2001 have been restated to reflect the following: (a) the movement of Allied Irish America from USA division to Capital Markets division, (b) the centralization of the management of the Group's Treasury operations in Poland to Capital Markets division, (c) the implementation of UITF 37 'Purchases and sales of own shares', Capital Markets other income reduced by €3 million in 2002, and (d) a change in the allocation of pension costs across business segments.

Income before taxes by division for the years ended December 31, 2003, 2002 and 2001 was as follows:

	Years ended December 31,		
	2003	2002 Restated	2001 Restated
	(Euro in millions)		
Income before taxes <sup>(1)</sup>			
AIB Bank ROI.....	573	560	536
AIB Bank GB & NI.....	237	241	225
Allfirst.....	54	285	350
Capital Markets.....	102	239	216
Poland.....	10	39	20
Group.....	11	(2)	25
	987	1,362	1,372
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
Total.....	987	1,344	955

<sup>(1)</sup> The business segment information is based on management accounts information. Interest 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.

### AIB Bank ROI division

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

	Years ended December 31,		
	2003	2002 Restated	2001 Restated
AIB Bank ROI statement of income			
Net interest income.....	1,016	921	843
Other income <sup>(1)</sup> .....	365	353	359
Total operating income.....	1,381	1,274	1,202
Operating expenses.....	719	667	624
Early retirement costs.....	40	–	–
Total operating expenses.....	759	667	624
Operating income before provisions.....	622	607	578
Provisions.....	62	55	44
Operating income.....	560	552	534
Income on disposal of property.....	13	8	2
Income before taxes.....	573	560	536

<sup>(1)</sup> Included in the 2003 figure is a charge of €24.2 million in relation to amounts due to customers arising from the overcharging on certain foreign exchange products. For further details see Note 53 - "Subsequent events: Pricing of foreign exchange products".

### 2003 performance

AIB Bank ROI income before taxes of €573 million in 2003 was up 2% compared with €560 million in 2002. Excluding the impact of early retirement costs of €40 million, income before taxes was up 9%.

Banking operations in the Republic of Ireland enjoyed another good year of growth with income before taxes increasing by 10%. Particularly strong lending growth and good deposit growth coupled with higher productivity and good underlying cost containment were the key drivers of this strong performance. Loans increased by 28% since December 2002, including home mortgages up 34% and other loans up 25%. Customer deposits increased by 9% with particularly strong growth in the second half-year, up 6% since June 2003. Operating expenses were up 6% excluding the impact of the Ark life sales force reorganization of €13 million (the Ark life sales force was transferred to AIB's payroll on April 1, 2003). This increase reflects costs associated with higher business activity levels and normal salary increases. The cost income ratio remained at 52%.

Each of the business units in Ireland produced positive results in their respective markets. AIB Card Services income before taxes growth was particularly good reflecting higher loan volumes and good cost management resulting in a reduction in the cost income ratio to below 50%. Income before taxes also increased in AIB Finance and Leasing as a result of strong growth in loan volumes and higher fees and commissions.

Ark Life income before taxes was up 6% to €60 million. This performance reflects strong growth in income from protection products and a much improved performance in the second half-year with overall sales volumes ahead by 40% compared with the second half of 2002. Profit in 2002 benefited from the closing of the Government sponsored Special Savings Incentive Accounts ("SSIA's") campaign and a reduced discount rate used in the calculation of embedded values, but these benefits were largely offset by a reduction in embedded values as a result of the decline in world equity markets.

### 2002 performance

AIB Bank ROI income before taxes was €560 million, up 4% on the year to December 2001.

Banking operations in the Republic of Ireland produced a strong performance with income before taxes up 11% in less buoyant economic conditions. There was strong growth in business volumes with loans up 20% since December 2001, non-home loan lending up 16% and home loans up 31%. This reflected the capability to grow revenues and significantly increase market penetration. Total deposits were up 7% due to a strong performance in the second half with growth of 6% following a 1% increase in the first half which was affected by an exceptional position at December 31, 2001 in the run up to euro conversion. Average deposits were up 11%. AIB Card Services reported strong income growth benefiting from good growth in loan volumes and a lower cost income ratio. AIB Finance and Leasing income also increased as a result of lower costs and strong growth in loan volumes.

Costs increased by 7% due to higher business activity levels and salary increases relating to the National Programme for Prosperity and Fairness partly offset by cost saving initiatives in central supports, with the cost income ratio remaining at 52%.

Ark Life income before taxes of €57 million for the year to December 2002 was down from €84 million in 2001. Total Annual Premium Equivalent ("APE") sales were €179 million compared with €200 million in 2001. The difficult investment market resulted in reduced volumes of business with customers opting for more risk averse products and the decline in world equity markets also had an adverse impact of €32 million on embedded values. The reduction from 12% to 10% in the discount rate used in the calculation of its embedded value profit had a favourable profit impact of €17 million. The adoption of a 10% discount rate more closely aligns Ark Life policy with industry practice.

**AIB Bank GB & NI division**

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

	Years ended December 31,		
	2003	2002	2001
	<u>Restated</u>		<u>Restated</u>
AIB Bank GB & NI statement of income	(Euro in millions)		
Net interest income.....	364	363	336
Other income.....	165	166	161
Total operating income.....	529	529	497
Operating expenses.....	260	266	254
Early retirement costs.....	15	-	-
Total operating expenses.....	275	266	254
Operating income before provisions.....	254	263	243
Provisions.....	19	22	19
Operating income.....	235	241	224
Income on disposal of property.....	2	-	1
Income before taxes.....	237	241	225

**2003 performance**

AIB Bank GB & NI income before taxes was €237 million in 2003 compared with €241 million in 2002. Excluding early retirement costs of €15 million and currency factors of €22 million, income before taxes was up 15%, reflecting a very strong business performance in 2003.

Loans increased by 25% excluding currency factors of €0.7 billion and deposits increased by 15% excluding currency factors of €0.6 billion. Other income, excluding currency factors of €15 million, was up 9% as a consequence of a substantially higher level of arrangement fees due to strong lending growth. Productivity continued to improve with the cost income ratio reducing from 50% to 49% notwithstanding investment in business expansion initiatives. Credit quality remained strong with a reduction in the bad debt charge and non-performing loans reducing to 0.8% of total loans, evidence of a prudent and selective approach to new business development.

AIB Bank GB, primarily a focused business bank providing relationship banking with a strong customer service ethos, had very strong income before taxes growth, excluding early retirement costs of €4 million and currency factors of €10 million, of 21% to €125 million. Loans increased by 28% with significant growth in lending to businesses and corporates in targeted niches. Deposits were up 18%, in the professional sector the increase was over 40% reflecting the acquisition of new business, particularly in the legal and accounting segments. Future business development capacity continues to be enhanced with seven business development offices opened in 2003. Within its chosen niches, AIB GB is increasingly viewed by its customers as offering a superior alternative to competitors, based on its ability to deliver better value and service.

First Trust Bank, a full retail and commercial banking operation in Northern Ireland, reported income before taxes of €127 million in 2003. Excluding early retirement costs of €11 million and currency factors of €12 million, income before taxes was up 10%. Loans and deposits were up 21% and 13% respectively with strong growth in home mortgages reflecting continuing increases in market share. Other income was up reflecting good growth in foreign exchange commissions. Focus on key markets was intensified, an example being our opening of a dedicated private banking branch, the first of its kind in Northern Ireland.

**2002 performance**

AIB Bank GB&NI income before taxes was €241 million in 2002 compared with €225 million in 2001. Excluding currency factors of €3 million, income before taxes was up 9%. There was a particularly strong performance in AIB Bank GB as a result of substantially increased business volumes. Average loans, excluding currency factors of €0.1 billion, increased by 15% with significant growth in the not-for-profit and professional sectors. In First Trust Bank, home loan activity was buoyant with an increase of 17% in total home loans. Average deposits, excluding currency factors of €0.1 billion, were up 11% as a result of increased business development activity. The Division expanded its business development capability with the opening of new offices in Britain and recruitment of experienced business bankers.

Notwithstanding business expansion initiatives, costs were well managed with the cost income ratio declining from 51% to 50%.

Credit quality remained strong. An achievement was a reduction of 12% in non-performing loans and the bad debt charge was predominantly general with a modest net specific charge.

### Allfirst

Allied Irish America ("AIA") was moved into the Capital Markets Division during the year. Allfirst was disposed of on March 31, 2003. (see Note 1 of the Notes to the Consolidated Financial Statements for further discussion).

	Years ended December 31,		
	2003	2002	2001
		Restated	Restated
USA statement of income			
Net interest income.....	87	516	550
Other income.....	103	446	395
Total operating income.....	190	962	945
Operating expenses.....	125	568	561
Restructuring costs in continuing businesses.....	–	13	–
Total operating expenses.....	125	581	561
Operating income before provisions.....	65	381	384
Provisions.....	11	95	34
Operating income.....	54	286	350
Loss on disposal of property.....	–	(1)	–
Income before taxes.....	54	285	350

### 2003 performance

Allfirst – The statement of income includes Allfirst for the full year in 2002 and only the period from January 1 to March 31, in 2003. Income before taxes for Allfirst was €54 million for the period from January 1, 2003 to March 31, 2003, compared with €285 million for the year ended December 31, 2002. Net interest income for the quarter to March 31, 2003 reduced due to lower yields on investment securities following a restructuring of the portfolio in the fourth quarter of 2002, partly offset by securities gains of US\$26 million reflected in other income.

### 2002 performance

Income before taxes of USA division, excluding the Fraud Losses of €18 million decreased by €65 million to €285 million for the year ended December 31, 2002 compared with €350 million for the year ended December 31, 2001.

Allfirst – 2002 was a difficult year for Allfirst in the aftermath of the Fraud Losses. In financial terms the results benefited from securities gains of US\$69 million (net of lost yield) arising from a restructuring of the portfolio in the fourth quarter. The restructuring of the portfolio reduced interest rate risk exposure by replacing longer dated securities with shorter dated issues.

Provisions and writedowns were substantially higher. There was a credit provision of US\$38 million for one specific case, a US\$16 million writedowns of mutual fund assets held as a hedge for incentive plan liabilities and a US\$10 million provision for residual values in the auto lease portfolio. The customer base was stable and average core deposits increased by 1% in 2002. There was little demand for borrowing by corporate customers in this subdued business climate but direct retail and SME lending increased by 3%. Employee restructuring costs of US\$13 million were incurred in relation to an early retirement program at Allfirst.

### Capital Markets division

Capital Markets division comprises Corporate Banking, Global Treasury, Investment Banking, Asset Management and Allied Irish America ("AIA").

	Years ended December 31,		
	2003	2002	2001
		Restated	Restated
Capital Markets statement of income			
Net interest income.....	312	313	258
Other income.....	362	381	365
Total operating income.....	674	694	623
Operating expenses.....	387	402	370
Early retirement costs.....	3	–	–
Total operating expenses.....	390	402	370
Operating income before provisions.....	284	292	253
Provisions.....	46	63	43
Operating income.....	238	229	210
Income from associated undertakings.....	10	10	6
(Loss)/profit on disposal of business.....	(146)	–	–
Income before taxes.....	102	239	216

### **2003 performance**

Capital Markets income before taxes was €102 million in 2003 compared with €239 million in 2002. Excluding the loss on disposal of Govett of €153 million, early retirement costs of €3 million and currency factors of €8 million, income before taxes was up 12%, reflecting a strong performance in challenging market conditions.

*Corporate Banking* performed strongly with income before taxes up 15%, excluding currency factors of €4 million, on the previous year. There was a particularly good operating income performance from its international businesses where loan growth was strong, notably in acquisition and structured finance and in Great Britain and New York. Good growth in fee income was achieved, particularly in arrangement and underwriting fees. A third Collateralised Debt Obligation ("CDO"), "Galway Bay", was successfully launched during the year. AIB is now a leading CDO fund manager in Europe with loans under management of €1.2 billion.

Notwithstanding very modest market risk positions, *Global Treasury* had a good performance and increased its income before taxes contribution. Interest rate trading and bond management activities achieved substantially increased contributions.

Income in *Investment Banking* was lower where revenues were impacted by subdued merger and acquisition activity and reduced cross-border structuring transactions.

In *Asset Management*, a significant event was the sale of the Govett business, being the majority of the management contracts of Govett, to Gartmore Investment Management p.l.c. on November 4, 2003. The net loss on disposal was primarily related to the write-off of goodwill on disposal.

*Allied Irish America* income before taxes was higher, reflecting a good trading performance despite lower revenue from charitable fund raising activities. The support infrastructure was rationalized which will lead to future cost savings. The New York retail business was sold for a net profit of €7 million after termination costs.

Provisions decreased due to a lower bad debt charge and a reduced level of equity write-downs compared to 2002.

### **2002 performance**

Capital Markets income before taxes was €239 million, up 11% on the year to December 2001.

The 11% growth in income before taxes reflected a strong performance in 2002 with Capital Markets activities operating in very difficult market conditions. There was good revenue growth which together with tight cost management delivered a 15% increase in operating income before provisions.

*Corporate Banking* achieved very substantial growth in profitability in Ireland and in its international businesses. Average loan volumes were up 13% with particularly good performances in IFSC, UK and USA businesses. Fee income was buoyant including a substantial increase in arrangement fees and fees from Collateralized Debt Obligation ("CDO") funds, including the launch of the Clare Island CDO.

Income before taxes was higher in *Global Treasury* due to an increased contribution from interest rate management activities which anticipated and benefited from low interest rates. Trading revenues (other income) were lower as a result of a more difficult trading environment. *Global Treasury* continued to maintain a strong liquidity position in euro, US dollar, sterling and Polish zloty operations.

*Investment Banking* revenues were lower due to a decline in asset values, reduced business volumes and the general impact of difficult equity markets. Despite difficult market conditions, strong underlying performances were achieved by Goodbody, AIB Corporate Finance and the AIB/Bank of New York Securities Services joint venture.

Revenues from *Asset Management* declined mainly due to the impact of lower asset values on fee income.

*Allied Irish America* – Income before taxes increased significantly due to good growth in the not-for-profit business, an increased revenue contribution from CCS and the impact of reduced investment costs. There was an underlying increase of 30% in fee income with strong growth in letter of credit income and a 17% increase in risk weighted assets.

Ketchum Canada, Inc., a fundraising consultancy that operates across Canada with principal offices in Toronto, Montreal, Calgary and Vancouver was acquired by the Group in May 2002.

Operating expenses, excluding the restructuring of the AIB joint venture with Bank of New York (see comment below on associated undertakings), were up 9% due to normal cost inflation, expansion of the corporate business internationally, and the acquisitions of CCS in 2001 and Ketchum Canada, Inc. in 2002 partly offset by good cost management. The cost income ratio declined from 59% to 57%.

A full discussion on provisions is contained in the Provisions for loan losses section on page 28.

Income from associated undertakings increased due to the restructuring of the AIB joint venture with the Bank of New York. The AIB share of income from custody and trustee businesses is included in associated undertakings in 2002 whereas in 2001 the operating income and expense was included in Group operating income before provisions.

## Poland

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

	Years ended December 31,		
	2003	2002	2001
		Restated	Restated
Poland statement of income			
Net interest income.....	175	263	261
Other income.....	173	166	154
Total operating income.....	348	429	415
Operating expenses.....	298	341	350
Restructuring and integration costs in continuing businesses.....	10	-	38
Total operating expenses.....	308	341	388
Operating income before provisions.....	40	88	27
Provisions.....	31	46	9
Operating income.....	9	42	18
(Loss)/income on disposal of property.....	-	(2)	3
Share of operating loss of associated undertaking.....	(3)	(1)	(1)
Profit on disposal of business.....	4	-	-
Income before taxes.....	10	39	20

### 2003 performance

Poland income before taxes was €10 million in 2003 compared with €39 million in 2002. Excluding integration costs in continuing businesses of €10 million and currency factors of €9 million, income before taxes was down 17%.

Net interest income, excluding currency factors of €34 million, was down 24% mainly due to the impact of lower interest rates on deposit margins. Customer demand for lending products increased in the second half-year with performing loans on a local currency basis up 10% since December 31, 2002. Volume increases in home mortgage and commercial leasing portfolios were particularly good.

Other income growth, excluding currency factors of €21 million, was particularly strong at 20% reflecting good growth in credit, current account and card fees.

Operating expenses, excluding integration costs in continuing businesses of €10 million and currency factors of €41 million, decreased by 1% reflecting the impact of cost base restructuring. The overall reduction in costs was achieved notwithstanding the commencement of full year depreciation of the new technology platform which amounted to €19 million in 2003. Staff numbers were reduced by approximately 1,700 during 2003 and full year benefits can be expected in 2004. Other costs of €186 million, excluding currency factors of €16 million, an increase in depreciation costs of €19 million and restructuring costs €10 million, reduced by 12% reflecting tight operational cost management.

Since the merger of WBK and Bank Zachodni in 2001, restructuring of the cost base has reduced staff numbers by over 3,000 to approximately 7,800 in December 2003.

The provision charge, excluding currency factors of €6 million, was down 23% and as a percentage of average loans declined from 1.2% to 1.0%. Non-performing loans as a percentage of total loans declined to 11% from 15% at December 31, 2002.

The profit on disposal of business relates to the sale of Polsoft, a software development subsidiary.

The building of our Polish franchise is fundamentally complete, and we are well positioned to take advantage of the emerging growth trends that are now evident in the Polish economy.

### 2002 performance

Poland income before taxes was €39 million for the year 2002.

Operating income before provisions of €88 million, was up 33% on the 2001 level of €65 million, adjusting for integration costs of €38 million.

Total revenue, excluding currency factors of €21 million, was up 9% despite slower economic conditions. Net interest income increased by 6% due to growth in business volumes and a stable net interest margin. Deposit margins declined in the substantially lower interest rate environment while lower funding costs and wider loan margins were positive features. Loans increased by 8%, a level below historical trends, due to management adopting a cautious approach in the more difficult economic environment. The savings market was sluggish with combined deposits and mutual funds volumes down 2% on December 2001, however average deposits were up 1%. The market was affected by tougher business conditions and the introduction of a new withholding tax on deposits.

Other income, excluding currency factors of €8 million, was up 13% including strong growth in card and current account fees and branch commissions. Operating expenses, excluding integration costs of €38 million in 2001 and currency factors of €16 million, increased by 2% reflecting implementation of a new branch technology platform partly offset by tight cost control and realization of integration benefits.

Including the use of general provisions in 2001 headline provisions increased from €9 million to €46 million. The gross provision charge declined in 2002 from 1.9% of loans (before the use in 2001 of general provisions of €47 million created on the acquisitions of WBK and Bank Zachodni) to 1.2%.

## 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, the impact of FRS 17 and the contribution from AIB's share of approximately 22.5% in M&T Bank Corporation.

	Years ended December 31,		
	2003	2002 Restated	2001 Restated
Group statement of income			
Net interest income.....	(20)	(25)	10
Other finance income.....	12	64	67
Other income.....	38	–	(8)
Total operating income.....	30	39	69
Operating expenses.....	99	71	81
Early retirement costs.....	4	–	–
Total operating expenses.....	103	71	81
Operating loss before provisions.....	(73)	(32)	(12)
Provisions.....	8	(30)	55
Operating loss.....	(81)	(2)	(67)
Income from associated undertakings.....	136	–	(1)
Share of restructuring and integration costs in associated undertaking.....	(20)	–	–
Amortization of goodwill on acquisition of associated undertaking.....	(42)	–	–
Income on disposal of property.....	17	–	93
Income on disposal of business.....	1	–	–
Income/(loss) before taxes.....	11	(2)	25

### 2003 performance

Group reported income before taxes of €11 million for the year to December 2003, compared with a loss of €2 million for the year to December 2002. Excluding early retirement costs of €4 million, Group reported income before taxes of €15 million in 2003.

There was lower other finance income from our pension fund assets due to declines in stock market valuations in 2002. Other income included €28 million hedging profits in relation to foreign currency translation exposure.

Operating expenses were higher reflecting additional investments in information systems and risk and governance infrastructure and there were additional costs relating to the USA. The 2002 result included the release of €40 million of the €50 million additional unallocated credit provision created in 2001. In the current period, income before taxes included €17 million from the sale of AIB's IFSC property.

AIB's share of M&T income before taxes amounted to €136 million, before restructuring costs of €20 million and goodwill amortization of €42 million, this reflected the contribution for the 9 months from April 1 to December 31, 2003. Allfirst and M&T have been successfully integrated with significant cost savings anticipated going forward. This merged franchise is performing well, with AIB having an influential role at Board and management levels.

### 2002 performance

Group reported a loss of €2 million for the year to December 2002, compared with a profit of €25 million in 2001. The loss arose mainly from lower capital income due to the lower level of capital as a result of the Fraud Losses of €789 million in Allfirst in 2001 and lower investment yields. Offsetting this lower level of income was the release of €40 million unallocated credit provision which was created in 2001.

## Liquidity & capital resources

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

The following table shows AIB Group's capital resources at December 31, 2003, 2002 and 2001:

	December 31,		
	2003	2002 Restated (Euro in millions)	2001 Restated
Stockholders' funds-equity.....	4,921	4,180	4,574
Stockholders' funds non-equity.....	196	235	279
Equity and non-equity minority interests.....	158	274	312
Reserve capital instruments.....	497	496	496
Undated capital notes.....	357	389	426
Dated capital notes.....	1,276	1,287	1,594
	<u>7,405</u>	<u>6,861</u>	<u>7,681</u>

Capital resources increased by €544 million during the year ended December 31, 2003. The increase arose primarily within stockholders' funds equity which benefited from the Allfirst disposal and net retentions. This was partly offset by the share buyback program, pension plan actuarial losses and exchange rate movements.

The value of the US dollar, sterling, and Polish zloty weakened against the euro by 17%, 8% and 14% respectively, resulting in a negative foreign currency translation adjustment of €607 million. Stockholders' equity benefited from net retentions of €204 million. The disposal of Allfirst had a positive effect on stockholders' funds equity of €1.5 billion reflecting the goodwill written back of €1.0 billion and the gain recognized in the consolidated statement of changes in stockholders' equity of €0.5 billion. The share buyback program undertaken during the year, reduced stockholders' equity by €0.8 billion and this was partly offset by the issue of shares for staff incentive and dividend reinvestment plans of €170 million. The actuarial losses in the Group's retirement benefit plans, which are recognized directly in stockholders' equity under FRS 17 - Retirement benefits, amounted to €50 million.

There was a net decrease in capital notes reflecting the deconsolidation of Allfirst and a negative foreign currency translation adjustment offset by the issue of €100 million and Stg£350 million in subordinated debt.

## Capital ratios

In carrying out the Group's overall capital resources policy, a guiding factor is the supervisory requirements of the Irish Financial Services Regulatory Authority ("IFSRA"), which applies a capital/risk assets ratio framework in measuring capital adequacy. This framework analyzes a bank's capital into three tiers. Tier 1 capital, comprises mainly stockholders' funds, minority equity interests in subsidiaries and Reserve Capital Instruments. It is the highest tier and can be used to meet trading and banking activity requirements. Tier 2 includes perpetual, medium-term and long-term subordinated debt, general provisions for loan losses and fixed asset revaluation reserves. Tier 2 capital can be used to support both trading and banking activities. Tier 3 capital comprises short-term subordinated debt with a minimum original maturity of two years. The use of tier 3 capital is restricted to trading activities only and it is not eligible to support counterparty or settlement risk. The aggregate of tiers 2 and 3 capital included in the risk asset ratio calculation may not exceed tier 1 capital. AIB does not currently use tier 3 capital in its capital calculation. The capital adequacy framework also applies risk weightings to balance sheet and off-balance sheet exposures, reflecting the credit and other risks associated with broad categories of transactions and counterparties, to arrive at a figure for risk weighted assets. An internationally agreed minimum total capital (*to risk weighted assets*) ratio of 8% and a minimum tier 1 capital (*to risk weighted assets*) ratio of 4% are the base standards from which the IFSRA sets individual capital ratios for credit institutions under its jurisdiction.

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

The Basel Committee on Banking and Supervision and the European Union have developed proposals to significantly revise the capital adequacy regime in operation for all "international active banks". These proposals are designed to bring the capital adequacy regime more into line with best practice risk management in financial institutions. The regime is based on three so-called "Pillars". Pillar One sets out the rules for determining the capital requirements for credit risk and securitizations and introduces a new capital requirement for operational risk. Pillar Two enhances the supervisory role of the regulators. Pillar Three sets out detailed disclosure requirements designed to strengthen the role of the market in bringing discipline to risk management practices in banks and other financial institutions.



The following table shows the components and calculation of the Group's tier 1 and total capital ratios at December 31, 2003 and 2002.

	December 31,	
	2003	2002
	(Euro in millions)	
<b>Tier 1</b>		
Paid-up ordinary share capital.....	290	287
Eligible reserves.....	4,259	4,064
Equity minority interests in subsidiaries.....	158	181
Non-cumulative preference shares.....	196	235
Reserve capital instruments ( <i>note a</i> ).....	497	496
Supervisory deductions ( <i>note b</i> ).....	(970)	(457)
Total tier 1 capital.....	<u>4,430</u>	<u>4,806</u>
<b>Tier 2</b>		
Fixed asset revaluation and other reserves ( <i>note c</i> ).....	490	457
General provisions.....	316	427
Subordinated perpetual loan capital.....	278	294
Subordinated term loan capital.....	1,355	1,344
Total tier 2 capital.....	<u>2,439</u>	<u>2,522</u>
Gross capital.....	6,869	7,328
Supervisory deductions ( <i>note d</i> ).....	(389)	(341)
Total capital.....	<u>6,480</u>	<u>6,987</u>

Notes:

- (a) Reserve capital instruments are included within subordinated liabilities in the consolidated balance sheet.  
 (b) Supervisory deductions at the tier 1 capital level relate to intangible fixed assets and goodwill.  
 (c) Includes the stockholders interest in the long-term assurance business.  
 (d) Supervisory deductions at the total capital level relate to investments in non-consolidated financial entities, primarily the long-term assurance business attributable to stockholders.

	December 31,	
	2003	2002
<b>Risk weighted assets</b>		
Banking book:		
On balance sheet.....	48,831	53,961
Off-balance sheet.....	8,602	11,521
	<u>57,433</u>	<u>65,482</u>
Trading book:		
Market risks.....	4,566	3,099
Counterparty and settlement risks.....	616	658
	<u>5,182</u>	<u>3,757</u>
Total risk weighted assets.....	<u>62,615</u>	<u>69,239</u>
<b>Capital ratios</b>		
Tier 1 capital.....	7.1%	6.9%
Total capital.....	10.3%	10.1%

The Group was strongly capitalized at December 31, 2003 with the tier 1 ratio improving to 7.1% and the total capital ratio at 10.3%. Risk weighted assets reduced by €6.6 billion to €62.6 billion, primarily as a result of the deconsolidation of Allfirst.

Tier 1 capital decreased by €376 million to €4.4 billion. Negative currency translation movements was the primary reason for the decrease. The positive impact of net retentions and the writeback of goodwill on disposals was neutralized to a large extent by the share buyback programme and increased supervisory deductions.

Tier 2 capital decreased by €83 million since December 2002 reflecting the impact of the disposal of Allfirst on subordinated debt and general provision for loan losses and currency factors, partly offset by the issue of €100 million and Stg £350 million in subordinated debt. Supervisory deductions increased by €48 million, primarily reflecting the increase in long-term assurance business attributable to shareholders.

The table below provides details of the contractual cash obligations of the Group as of December 31, 2003.

	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>After 5 years</b>	<b>Total</b>
<b>(Euro in millions)</b>					
<b>Contractual cash obligations</b>					
Long term debt.....	–	–	–	1,276	1,276
Capital lease obligations.....	30	25	2	16	73
Operating leases.....	1	5	2	29	37
Finance leases.....	–	1	–	–	1
Other long term obligations (funding of Icarom)...	12	22	22	45	101
<b>Total.....</b>	<b>43</b>	<b>53</b>	<b>26</b>	<b>1,366</b>	<b>1,488</b>

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

In addition, AIB Group is party to contingent liabilities and commitments with nominal amounts of €18.8 billion at December 31, 2003 (see Note 43 “Memorandum items: Contingent liabilities and commitments” of the Notes to Consolidated Financial Statements).

Further discussion on liquidity is included in Item 11 “Quantitative and qualitative disclosures about market risk - Liquidity risk” on pages 61 and 62.

#### ***Off-balance sheet arrangements***

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

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

#### ***Structuring of loans***

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

#### ***Financing transactions***

The Group has used SPV’s to securitize some of its Asset Backed Securities portfolio. Under these transactions the Group’s exposure to loss is limited. These transactions have been accounted for in accordance with Financial Reporting Standard 5 “Reporting the substance of transactions” and details are included in Note 24 of the Notes to Consolidated Financial Statements.

#### ***Asset management***

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

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

#### ***Employee compensation trusts***

AIB and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of the Group’s equity by employees. The Group consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. Details of these structures are provided in Notes 41 and 50 of the Notes to Consolidated Financial Statements.

#### ***Capital expenditure commitments***

At December 31, 2003, the total estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to €73 million (2002: €49 million; 2001: €69 million). AIB Group believes that its capital resources are adequate to meet such commitments.

### **Placings with banks**

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

	December 31,	
	2003	2002
	(Euro in millions)	
Placings with banks, repayable within 30 days:		
Domestic offices.....	1,784	1,653
Foreign offices.....	267	2,208
	<u>2,051</u>	<u>3,861</u>
Placings with banks, repayable beyond 30 days:		
Domestic offices.....	529	810
Foreign offices.....	53	117
	<u>582</u>	<u>927</u>
Total.....	<u>2,633</u>	<u>4,788</u>

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

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

### **Deposits by customers**

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

	December 31,	
	2003	2002
	(Euro in millions)	
Domestic offices		
Current accounts.....	8,009	7,098
Deposits:		
Demand.....	4,688	4,389
Time.....	12,077	11,099
	<u>24,774</u>	<u>22,586</u>
Foreign offices		
Current accounts.....	5,267	8,193
Deposits:		
Demand.....	1,742	6,106
Time.....	7,138	10,947
	<u>14,147</u>	<u>25,246</u>
Total.....	<u>38,921</u>	<u>47,832</u>

Current accounts are primarily non-interest bearing checking accounts raised through AIB Group's branch network in Ireland, Northern Ireland, Britain, Poland, and the United States in respect of 2002.

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

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

### **Customer deposits by currency**

The following table analyzes customer deposits by currency.

	December 31,	
	2003	2002
	(Euro in millions)	
Euro.....	27,853	24,891
US dollar.....	2,355	13,527
Sterling.....	11,143	10,776
Polish zloty.....	3,140	3,636
Other currencies.....	121	146
	<u>44,612</u>	<u>52,976</u>

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

	<b>December 31, 2003</b>			
	<b>3 months or less</b>	<b>After 3 months but within 6 months</b>	<b>After 6 months but within 12 months</b>	<b>After 12 months</b>
	(Euro in millions)			
Large time deposits				
Domestic offices.....	8,791	185	122	44
Foreign offices.....	2,577	198	116	133
Certificates of deposit				
Domestic offices.....	62	-	-	-
Foreign offices.....	1,288	455	-	-
	<b>12,718</b>	<b>838</b>	<b>238</b>	<b>177</b>

#### **Short-term borrowings**

The following table shows details of short-term borrowings of AIB Group for the years ended December 31, 2003, 2002 and 2001.

	<b>December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(Euros in millions)		
Commercial paper:			
End of year outstandings.....	261	224	133
Highest month-end balance.....	1,133	224	338
Average balance.....	834	89	186
Average rate of interest			
At end of year.....	1.47%	4.18%	3.44%
During the year.....	1.88%	3.38%	4.38%
Federal funds purchased:			
End of year outstandings.....	-	491	546
Highest month-end balance.....	619	909	1,066
Average balance.....	167	565	859
Average rate of interest			
At end of year.....	-	1.24%	1.63%
During year.....	1.22%	1.64%	3.94%
Repurchase agreements:			
End of year outstandings.....	6,093	3,181	2,468
Highest month-end balance.....	6,800	7,844	2,478
Average balance.....	4,222	4,218	2,046
Average rate of interest			
At end of year.....	2.10%	2.50%	2.84%
During year.....	2.36%	2.85%	4.09%
Master demand notes of Allfirst Financial Inc.:			
End of year outstanding.....	-	250	301
Highest month-end balance.....	250	328	323
Average balance.....	69	259	286
Average rate of interest			
At end of year.....	-	1.25%	1.75%
During year.....	1.26%	1.59%	3.68%
Other short-term borrowings:			
End of year outstandings.....	15,049	17,310	17,034
Highest month-end balance.....	20,669	21,626	24,182
Average balance.....	17,517	17,706	17,864
Average rate of interest			
At end of year.....	2.57%	2.79%	3.46%
During year.....	3.03%	3.01%	4.47%

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

#### **Trend information**

See Item 5 - "Operating results" on pages 19 to 36.

## **Item 6. Directors, Senior Management & Employees**

### **Directors & senior management**

Certain information in respect of the Directors and Executive Officers is set out below. Directors are required to submit themselves for re-appointment at intervals of not more than three years, while Directors who have served for more than nine years are required to submit themselves for re-appointment annually.

***Derмот Gleeson<sup>(1)(2)</sup> BA, LLM***

#### ***Chairman***

Barrister, and member of the Adjunct Law Faculty of University College Dublin. Chairman of the Irish Council for Bioethics. Director of Independent News and Media plc and the Gate Theatre. Former Attorney General of Ireland and former member of the Council of State. Former Chairman of the Review Body on Higher Remuneration in the Public Sector. Joined the Board in 2000, and appointed Chairman in 2003. (Age 56).

***Michael Buckley<sup>(3)</sup> MA, LPh, MSI***

#### ***Group Chief Executive***

Former Managing Director, AIB Poland Division and of AIB Capital Markets Division. Former Managing Director, NCB Group and public servant in Irish Government and EU. Chairman of the Review Body on Higher Remuneration in the Public Sector from 1995 to 2001. Director of M&T Bank Corporation, Buffalo, New York State, and member of the Maynooth University Foundation. Joined the Board in 1995 and appointed Group Chief Executive in 2001. (Age 59).

***Adrian Burke<sup>(4)</sup> B Comm, FCA***

#### ***Audit Committee Chairman***

Vice Chairperson of the Institute of European Affairs. Former President of the Institute of Chartered Accountants in Ireland, former Managing Partner of Arthur Andersen in Ireland, and former Chairman of the Joint Ethics Board of the Institutes of Chartered Accountants in Ireland, Scotland, and England and Wales. Joined the Board in 1997. (Age 62).

***Colm Doherty<sup>(5)</sup> B Comm***

Managing Director, AIB Capital Markets plc. Joined AIB International Financial Services in 1988, and became its Managing Director in 1991. Appointed Head of Investment Banking in 1994, and assumed his present position in 1999. Member of the International Financial Services Centre Clearing House Group. Joined the Board in 2003. (Age 45).

***Padraic M Fallon<sup>(6)</sup> BBS, MA, FRSA***

Chairman of Euromoney Institutional Investor PLC and Director of Daily Mail & General Trust Plc in Britain. Joined the Board in 1988. (Age 57).

***Don Godson<sup>(7)</sup> BE, MIE, FIEI, C.Eng***

Director and former Chief Executive of CRH plc. Chairman of Project Management Holdings Ltd. Board Member of the Michael Smurfit Graduate School of Business at University College Dublin. Joined the Board in 1997. (Age 65).

***Sir Derek Higgs<sup>(2)(4)</sup> BA, FCA***

Chairman of Partnerships UK plc and Business in the Environment and a Senior Adviser to UBS Investment Bank. Deputy Chairman of The British Land Company PLC, Director of Egg plc, and Jones Lang LaSalle Inc. Author of the Higgs "Review of the Role and Effectiveness of Non-Executive Directors", conducted at the request of the UK Government. Former Chairman of S.G. Warburg & Co. Ltd. and former Director of Prudential plc. Joined the Board in 2000. (Age 60).

***Gary Kennedy<sup>(8)</sup> BA, FCA***

Group Director, Finance and Enterprise Technology. Joined AIB and appointed to the Board in 1997. Appointed Group Director, Finance and Enterprise Technology in 2002. Member of the Board of the Industrial Development Agency and member of the Galway University Foundation. Director of M&T Bank Corporation, Buffalo, New York State, and former Vice President Enterprise Networks Europe and Managing Director, Northern Telecom (Ireland) Ltd. (Age 46).

***John B McGuckian<sup>(9)</sup> BSc Econ***

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

Chairman of Ulster Television plc, Chairman of AIB Group (UK) plc, and a Director of a number of other companies in Ireland and the UK. Former Pro-Chancellor of The Queens University, Belfast, and former Chairman of The International Fund for Ireland and of the Industrial Development Board for Northern Ireland. Joined the Board in 1977 and appointed Senior Independent Non-Executive Director in November 2003. (Age 64).

***Aidan McKeon<sup>(9)</sup> B Comm, MBS, M.Sc (Mgt)***

Managing Director, AIB Group (UK) p.l.c.. Joined AIB in 1965 and worked in Branch Banking, Human Resources and Corporate and Commercial Banking. Appointed General Manager, Commercial Banking in 1989, General Manager, Britain in 1996, and to his present position in 1999. Member of the CBI Financial Services Council and of the Executive Committee of Co-operation Ireland. Joined the Board in 2003. (Age 57).

**Carol Moffett<sup>(5)</sup>**

Former member of the Board of Co-operation Ireland and former Director of the Irish Trade Board. Fellow of the Irish Management Institute. Joined the Board in 1995. (Age 51).

**Jim O'Leary<sup>(2)(4)</sup> MA MSI**

Lecturer in economics at the National University of Ireland, Maynooth. Director of Gresham Hotel Group. Former Chief Economist at Davy Stockbrokers, and former Director of Aer Lingus and the National Statistics Board. Joined the Board in 2001. (Age 47).

**Michael J Sullivan<sup>(4)</sup> JD**

Served as US Ambassador to Ireland from January 1999 to June 2001 and as Governor of the State of Wyoming, USA, between 1987 and 1995. Director of Sletten Construction Inc., Cimarex Energy, Inc., First Interstate BancSystem, Inc., and a Trustee of the Catholic Diocese of Wyoming. Member of the Bar, State of Wyoming. Joined the Board in 2001. (Age 64).

**Robert G Wilmers**

Chairman, President and Chief Executive Officer of M&T Bank Corporation ("M&T"), Buffalo, New York State. Director of The Business Council of New York State, Inc., the Buffalo Niagara Partnership, and the Andy Warhol Foundation. Served as Chairman of the New York State Bankers' Association in 2002, and as a director of the Federal Reserve Bank of New York from 1993 to 1998. Joined the Board in April 2003, on the acquisition by AIB of a strategic stake in M&T. (Age 70).

<sup>(1)</sup> Mr Dermot Gleeson was appointed Chairman on October 14, 2003, on the retirement of Mr Lochlann Quinn.

<sup>(2)</sup> Indicates member of Nomination and Remuneration Committee (at December 31 2003; see "Nomination and Remuneration Committee" section of Corporate Governance Statement, page 174, for details of changes in this Committee's structure and composition introduced in January 2004).

<sup>(3)</sup> Indicates Executive Director.

<sup>(4)</sup> Indicates member of Audit Committee.

<sup>(5)</sup> Indicates member of Social Affairs Committee.

**Other Executive Officers**

<u>Name</u>	<u>Principal occupation</u>	<u>Year in which appointed to present position</u>
Shom Bhattacharya (53)	Group Chief Risk Officer	2002
Gerry Byrne (48)	Managing Director, Poland Division	2001
Donal Forde (43)	Managing Director, AIB Bank ROI	2002
Michael J. Lewis (55)	Head of Strategic Human Resources	1997
Declan McSweeney (50)	Chief Financial Officer	1997

**Compensation****Aggregate remuneration of Directors and Officers**

The aggregate remuneration for the year ended December 31, 2003 of all Directors and Executive Officers as a group amounted to €7.937 million; the corresponding figure for the year ended December 31, 2002 was €10.196 million. These sums include amounts paid under the Group's Employees' Profit Sharing Plans, together with pension and other remuneration paid to former Directors (2003: €1.011 million; 2002: €0.593 million).

Included above is an aggregate amount set aside by AIB, in the years ended December 31, 2003 and 2002, to provide pension benefits for Directors and Executive Officers of AIB which amounted to €0.434 million and €1.054 million respectively.

**Remuneration policy**

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

**Remuneration**
**December 31, 2003**

	<b>Fees<sup>(1)</sup></b>	<b>Salary</b>	<b>Bonus<sup>(2)</sup></b>	<b>Profit share<sup>(3)</sup></b>	<b>Taxable benefits<sup>(4)</sup></b>	<b>Pension contributions<sup>(5)</sup></b>	<b>Total</b>
	<b>(Euro in thousands)</b>						
<b>Executive directors</b>							
Michael Buckley.....	33	660	570	13	54	69	1,399
Colm Doherty.....	30	343	185	11	37	34	640
Gary Kennedy.....	33	381	275	13	45	38	785
Aidan McKeon.....	30	271	141	4	33	61	540
	126	1,655	1,171	41	169	202	3,364
<b>Non-executive directors</b>							
Adrian Burke.....	121					–	121
Padraic M Fallon.....	36					10	46
Dermot Gleeson.....	217					–	217
Don Godson.....	45					–	45
Sir Derek Higgs.....	63					–	63
John B McGuckian.....	89					10	99
Carol Moffett.....	41					–	41
Jim O'Leary.....	51					–	51
Lochlann Quinn.....	180					–	180
Michael J Sullivan.....	64					–	64
Robert G. Wilmers <sup>(1)</sup> .....	–					–	–
	907					20	927
<b>Former directors</b>							
Pensions <sup>(6)</sup> .....							762
Other payments <sup>(7)</sup> .....							249
							1,011
Total							5,302

**December 31, 2002**

	<b>Fees<sup>(1)</sup></b>	<b>Salary</b>	<b>Bonus<sup>(2)</sup></b>	<b>Profit share<sup>(3)</sup></b>	<b>Taxable benefits<sup>(4)</sup></b>	<b>Pension contributions<sup>(5)</sup></b>	<b>Total</b>
	<b>(Euro in thousands)</b>						
<b>Executive directors</b>							
Frank P Bramble.....	9	236	–	–	4	666	915
Michael Buckley.....	29	539	250	13	52	57	940
Gary Kennedy.....	29	296	125	10	45	30	535
	67	1,071	375	23	101	753	2,390
<b>Non-executive directors</b>							
Adrian Burke.....	80					–	80
Padraic M Fallon.....	31					–	31
Dermot Gleeson.....	88					–	88
Don Godson.....	41					–	41
Derek A Higgs.....	69					–	69
John B McGuckian.....	83					–	83
Carol Moffett.....	41					–	41
Jim O'Leary.....	37					–	37
Lochlann Quinn.....	216					–	216
Michael J Sullivan.....	57					–	57
	743					–	743
<b>Former directors</b>							
Pensions <sup>(6)</sup> .....							106
Other payments <sup>(7)</sup> .....							487
							593
Total							3,726

<sup>(1)</sup> Fees comprise a fee paid in respect of service as a director, and additional remuneration paid to any non-executive director who holds the office of Chairman, Deputy Chairman, or Chairman of the Audit Committee; or who serves on the board of a subsidiary company; or performs services outside the ordinary duties of a director, such as through membership of Board Committees. A fee of €25,861 was paid in the year ended December 31, 2003 to M&T Bank Corporation ("M&T"), in respect of Mr Robert G. Wilmers's directorship of the Company as the designee of M&T, pursuant to the Agreement and Plan of Reorganisation, dated September 26, 2002, by and among the Company, Allfirst Financial Inc. and M&T, as approved by shareholders at the Extraordinary General Meeting held on December 18, 2002.

<sup>(2)</sup> The executive directors participate in a discretionary, performance-related, incentive scheme for senior executives under which bonuses may be earned on the achievement of specific, performance-related objectives, reviewed annually. The bonus may range from 0% to 100% of annual salary. The bonuses paid in 2003 include special bonuses of €250,000 and €125,000 paid to Mr Michael Buckley and Mr Gary Kennedy, respectively, in recognition of the roles they played in AIB's acquisition of a strategic stake in M&T Bank Corporation.

<sup>(3)</sup> Information on the employees' profit sharing plans, which are operated on terms approved by the stockholders, is given on page 48.

<sup>(4)</sup> Taxable benefits include the use of a company car or the payment of a car allowance, and benefit arising from loans made at preferential interest rates.

<sup>(5)</sup> Pension contributions represent payments to defined benefit pension plans, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date. In 2002, an additional amount was provided to augment the funding of Mr Frank P. Bramble's pension, in connection with his early retirement. The fees of the non-executive directors who joined the Board since 1990 are not pensionable. The pension benefits earned during the year, and accrued at year-end, are as follows:

	Increase in accrued benefits during 2003 <sup>(a)</sup>	Accrued benefit at year-end <sup>(b)</sup>	Transfer values <sup>(c)</sup>
	(Euro in thousands)		
<b>Executive directors</b>			
Michael Buckley.....	106	401	1,721
Colm Doherty.....	26	139	249
Gary Kennedy.....	24	83	234
Aidan McKeon.....	40	192	795
<b>Non-executive directors</b>			
Padraic M Fallon.....	2	14	20
John B McGuckian.....	2	20	33

<sup>(a)</sup> Increases are after adjustment for inflation, and reflect additional pensionable service and earnings.

<sup>(b)</sup> Figures represent the accumulated total amounts of accrued benefits payable at normal retirement dates, as at December 31, 2003.

<sup>(c)</sup> Figures show the transfer values of the increases in accrued benefits during 2003. These transfer values do not represent sums paid or due, but the amounts that the pension plan would transfer to another pension plan, in relation to the benefits accrued in 2003, in the event of the member leaving service.

<sup>(6)</sup> Pensions represent the payment of pensions to former directors or their dependants, granted on an ex-gratia basis and fully provided for in the balance sheet, together with an amount of €650,000 to amortize a deficit on the Non-Executive Directors' Pension Scheme, in accordance with actuarial advice.

<sup>(7)</sup> Other payments comprise remuneration of €220,342 paid to Mr Jeremiah E Casey under the terms of a post-retirement consultancy contract approved by shareholders at the 1999 Annual General Meeting (2002: €280,474), and payment of €28,981 to a former director who served on the board of a subsidiary company (2002: €37,950 to two such directors). Other payments in 2002 also included an amount of €169,060, in respect of salary, pension funding costs, and related payments made to Mr Frank P. Bramble in the period from April 19, 2002, when he stepped down as a Director of the Company, to May 31, 2002, when he retired from executive responsibilities with the Group.



## **Board practices**

### ***Changes in directorate***

- Mr Robert G. Wilmers, Chairman, President and Chief Executive Officer of M&T Bank Corporation (“M&T”), was appointed a Non-Executive Director on April 1, 2003, as the designee of M&T, pursuant to the Agreement and Plan of Reorganisation between the Company, Allfirst Financial Inc. and M&T, under which Allfirst was merged with M&T, in which the Company acquired a strategic stake.
- Mr Lochlann Quinn retired as Chairman and a Non-Executive Director on October 14, 2003.
- Mr Dermot Gleeson was appointed Chairman on October 14, 2003.
- Mr John B. McGuckian was appointed Senior Independent Non-Executive Director on November 5, 2003.

### ***Audit committee***

Members: Mr Adrian Burke, Chairman, Mr Dermot Gleeson (until October 14, 2003), Sir Derek Higgs, Mr Jim O’Leary (from November 5, 2003) and Mr Michael J Sullivan.

The Audit Committee met on nine occasions during 2003. The Committee reviews the Group’s annual and interim accounts; the scope of the audit: the findings, conclusions and recommendations of the internal and external Auditors; reports on compliance; the nature and extent of non-audit services provided by the Auditors; and the effectiveness of internal controls. The Committee is responsible for ensuring the cost-effectiveness of the audit, and for confirming the independence of the Auditors, the Group Internal Auditor, and the General Manager, Regulatory Compliance & Business Ethics, each of whom it meets separately at least once each year, in confidential session, in the absence of Management. Each of these parties has unrestricted access to the Chairman of the Audit Committee. A written report is submitted annually to the Board showing the issues considered by the Committee.

The Auditors are invited to attend meetings of the Committee, as are the Group Director, Finance & Enterprise Technology, the Chief Financial Officer, the Group Chief Risk Officer, the General Manager, Regulatory Compliance & Business Ethics, and the Group Internal Auditor.

The Terms of Reference of the Audit Committee are available on AIB’s internet website ([www.aibgroup.com](http://www.aibgroup.com)).

### ***Nomination and remuneration committee***

Members: Mr Lochlann Quinn, Chairman until October 14, 2003, Mr Dermot Gleeson, Chairman from October 15, 2003, Sir Derek Higgs, Mr John B. McGuckian, and Mr Jim O’Leary.

The Nomination and Remuneration Committee met on four occasions during 2003. The Committee is responsible for recommending candidates to the Board for appointment as Directors. Its remit also includes, inter alia, recommending to the Board appropriate remuneration policies, and determining, under advice to the Board, the specific remuneration packages of the Executive Directors.

In January 2004, the Committee was divided into two committees, namely, a Nomination and Corporate Governance Committee, and a Remuneration Committee. Terms of Reference for each of these Committees are available on AIB’s internet website. The members of the Nomination and Corporate Governance Committee are Mr Dermot Gleeson (Chairman), Mr Michael Buckley, Mr Don Godson, Mr John B. McGuckian and Mr Michael J Sullivan. The members of the Remuneration Committee are Mr Dermot Gleeson (Chairman), Mr Don Godson, Sir Derek Higgs, Mr John B. McGuckian, and Mr Jim O’Leary.

### ***Social affairs committee***

Members: Ms Carol Moffett, Chairman, Mr Padraic M. Fallon, and Mr Don Godson.

The Social Affairs Committee met twice in 2003. Its role is to assist the Company in discharging its social responsibilities. This includes developing corporate-giving and sponsorship policies, and reviewing responses to a range of social responsibility issues.

### ***Service contracts***

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

## Share ownership

### Interests in shares

The beneficial interests of the directors and the secretary in office at December 31, 2003, and of their spouses and minor children, are as follows:

	Ordinary shares of €0.32	
	December 31, 2003	January 1, 2003*
<b>Ordinary shares</b>		
<b>Directors:</b>		
Michael Buckley	238,672	177,610
Adrian Burke	10,677	10,642
Colm Doherty	24,872	3,108
Padraic M Fallon	8,664	8,377
Dermot Gleeson	12,250	12,056
Don Godson	25,099	25,099
Sir Derek Higgs	5,061	5,000
Gary Kennedy	48,913	26,776
John B McGuckian	69,737	67,557
Aidan McKeon	7,298	6,830
Carol Moffett	13,125	13,125
Jim O'Leary	4,000	–
Michael J Sullivan	1,700	700
Robert G Wilmers	50,619	–
<b>Secretary:</b>		
W M Kinsella	38,833	14,674

\* or later date of appointment

### Share options

Details of the executive directors' and the secretary's share options are given below. Information on the Share Option Plans is given in pages 48 and 49. The options outstanding at December 31, 2003 are exercisable at various dates between 2004 and 2013. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected by stockholders at the Company's Registered Office.

	December 31, 2003	January 1, 2003*	Since January 1, 2003*	Price of options exercised	Market price at date of exercise	Weighted average subscription price of options outstanding at December 31, 2003
<b>Directors:</b>						
Michael Buckley	336,500	281,500	115,000	€ 5.80	€ 11.68	€ 12.52
Colm Doherty	230,000	250,000	–	4.19	11.55	11.26
Gary Kennedy	185,000	155,000	50,000	6.25	12.08	11.05
Aidan McKeon	130,000	70,000	60,000	–	–	11.98
<b>Secretary:</b>						
W M Kinsella	45,000	65,000	5,500	5.80	12.45	11.65

\* or later date of appointment

### Long Term Incentive Plan

Under the terms of the Long Term Incentive Plan approved by stockholders at the 2000 Annual General Meeting, awards of ordinary shares may be granted to key executives and other employees. Further information on the Long Term Incentive Plan is given in Note 39.

The following conditional grants of awards of ordinary shares have been made to the executive directors and the secretary under the terms of the Plan:

	Total as at December 31, 2003	Granted during 2003	Total as at January 1, 2003*
<b>Directors:</b>			
Michael Buckley	38,000	–	38,000
Colm Doherty	35,000	–	35,000
Gary Kennedy	20,000	–	20,000
Aidan McKeon	14,000	–	14,000
<b>Secretary:</b>			
W M Kinsella	4,500	–	4,500

\* or later date of appointment

Apart from the interests set out above, the directors and secretary and their spouses and minor children have no interests in the shares of the Company.

The closing price, on the Irish Stock Exchange, of the Company's ordinary shares on December 31, 2003 was €12.70 per share; during the year the price ranged from €11.50 to €14.38 per share.

There were no changes in the above interests between December 31, 2003 and February 23, 2004, save for the receipt by Mr Aidan McKeon of 27 shares under the Company's UK Share Ownership Plan (see below).

### Employee share plans

The Company operates employee profit sharing plans on terms approved by the stockholders. All employees, including executive directors, of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods. The directors at their discretion may set aside each year a sum not exceeding 5% of eligible income of participating companies in the Republic of Ireland and the UK.

Eligible employees in the Republic of Ireland may elect to receive their profit sharing allocations either in shares or in cash. Such shares are held by Trustees for a minimum period of two years and are required to be held for a total period of three years for the employees to obtain the maximum tax benefit. Such employees may also elect to forego an amount of salary, subject to certain limitations, towards the acquisition of additional shares. The maximum market value of shares that may be appropriated to any employee in a year may not exceed €12,700.

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

During 2003, the Company re-issued from its pool of Treasury Shares 2,125,756 ordinary shares to the Trustees of the employees' profit sharing plans, at €11.98 per share. The consideration received for these shares was €25.5 million.

### Share option plan

The Company operates share option plans on terms approved by the stockholders. Officials may participate in the plan at the discretion of the directors. Options are granted at the market price, being the middle market quotation of the Bank's shares on the Irish Stock Exchange on the day preceding the date on which the option is granted. The exercise of options granted between January 1, 1996 and December 31, 2000 is conditional on the achievement of earnings per share ("EPS") growth of at least 2% per annum, compound, above the increase in the Consumer Price Index ("CPI") over a period of not less than three and not more than five years from date of grant. The exercise of options granted since January 1, 2001 is conditional on the achievement of EPS growth of at least 5% per annum, compound, above the increase in the CPI over a period of not less than three and not

more than five years from date of grant. Options may not be transferred or assigned and may be exercised only between the third and seventh anniversaries of their grant in the case of the options granted up to December 31, 2000, and between the third and tenth anniversaries of their grant in the case of options granted subsequent to that date.

At December 31, 2003, options were held by some 3,782 participants over 28,553,079 ordinary shares in aggregate (3.15% of the issued ordinary share capital, 3.35% net of 55,534,156 Treasury Shares held at that date), at prices ranging from €5.80 to €15.46 per share; these options may be exercised at various dates up to April 23, 2013.

**Subscription price**

€5.80/€6.25  
 €11.90/€12.20  
 €14.05/€15.46  
 €10.02  
 €11.98  
 €12.40  
 €13.55  
 €13.90  
 €13.30

**Exercise period**

May 2000 - May 2004  
 April 2001 - April 2005  
 May 2002 - May 2006  
 May 2003 - May 2007  
 April 2004 - April 2011  
 September 2004 - September 2011  
 June 2005 - June 2012  
 December 2005 - December 2012  
 April 2006 - April 2013

The following is a summary of the changes in outstanding options under the AIB Executive Share Option Plan for the years ended December 31, 2003, 2002 and 2001.

	<b>Years ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Shares subject to options at January 1.....	29,518,229	29,808,629	29,379,228
Options exercised at €3.32.....	-	-	(40,000)
Options exercised at €3.36.....	-	-	(149,000)
Options exercised at €3.38.....	-	(260,000)	(1,851,728)
Options exercised at €4.19.....	(125,000)	(1,223,000)	(664,000)
Options exercised at €5.80.....	(1,166,500)	(1,171,000)	(620,000)
Options exercised at €6.25.....	(20,000)	(20,000)	(150,000)
Options exercised at €7.61.....	(50,000)	(20,000)	-
Options exercised at €10.02.....	(2,542,000)	-	-
Options exercised at €11.90.....	(135,000)	(462,500)	(7,500)
Options granted.....	3,272,850	3,127,100	4,246,929
Options lapsed, in respect of former employees.....	(199,500)	(261,000)	(335,300)
Shares subject to options at December 31.....	<u>28,553,079</u>	<u>29,518,229</u>	<u>29,808,629</u>

***Limitations on profit-sharing and share option plans***

Under the terms of the employees' profit sharing plans the aggregate number of shares that may be purchased/held by the Trustees in any 10-year period may not exceed 10% annual of the issued ordinary share capital. The aggregate number of shares issued under the share option plans in any 10-year period may not exceed 5% of the issued ordinary share capital. The Company complies with guidelines issued by the Irish Association of Investment Managers in relation to those Plans.

## Employees

As at December 31, 2003 AIB Group employed over 23,300 staff (2002: approximately 30,200) on a world wide basis in the Republic of Ireland, Northern Ireland, Great Britain, USA, and Poland operating out of approximately 800 (2002: 1,100) offices.

The decrease in staff numbers primarily relates to the sale of Allfirst to M&T on April 1, 2003 and the restructuring program within Poland.

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

The sole recognized trade union for Bank Officials in the Republic of Ireland, Northern Ireland and Great Britain is the Irish Bank Officials' Association ("IBOA"). Since February 2000, AIB and the IBOA have conducted their relations in keeping with agreed partnership principles, which underpin the approach to be taken in employee and industrial relations matters. In 2003, this partnership ethos continued to develop in a constructive manner.

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

In the Republic of Ireland, a new national collective pay agreement, "*Sustaining Progress*" provided for general pay rates for an 18-month period (from May 2003 to October 2004). In 2003 the pay agreement provided for a general pay increase of 3%. In 2004 the agreement provides for two increases - 2% due in February 2004 and a further 2% due in August 2004.

In 2003, in Northern Ireland (First Trust Bank) and Great Britain (AIB (GB)) a general annual pay increase of 2.5% was agreed. For 2004 the annual pay increase in Great Britain was settled recently at 3%.

AIB in the Republic of Ireland and First Trust Bank in Northern Ireland recently finalised the terms of an early retirement program which 251 staff members exit the organization on a non-replacement basis on April 30, 2004.

In Poland this year the bank completed a further significant reduction in total employees as part of the Bank's cost rationalization program.

The numbers of full-time equivalent employees within the major operating divisions for the years ended December 31, 2003, 2002 and 2001 were as follows:

	Years ended December 31,		
	2003	2002	2001
AIB Bank ROI.....	9,167	9,200	8,373
AIB Bank GB & NI.....	2,821	2,837	2,660
Capital Markets.....	2,897	2,890	2,943
Poland.....	7,790	9,541	10,218
Group.....	671	638	676
Allfirst.....	-	5,080	5,515
Total.....	23,346	30,186	30,385

## **Item 7. Major shareholders and related party transactions**

### **Major shareholders**

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

The following substantial interest in the Ordinary Share Capital had been notified to the Company at February 17, 2004:

Bank of Ireland Asset Management Limited 3.69%

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

The following table sets forth information, at December 31, 2003, with respect to the percentage of Ordinary shares owned by Directors and Executive Officers of AIB as a group:

<b><u>Title of class</u></b>	<b><u>Identity of person or group</u></b>	<b><u>Number owned</u></b>	<b><u>Percent of class</u></b>
Ordinary shares	Directors and Executive Officers of AIB as a group	621,603	0.07%

### **Related party transactions**

#### *a) Subsidiary undertakings*

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

#### *b) Associated undertakings and joint ventures*

From time to time the Group provides certain banking and financial services for associated undertakings. Details of loans to associates are set out in Note 23, while deposits from associates are set out in Note 33.

*c)* The Group provides certain banking and financial services for the AIB Group Pension Funds and also for unit trusts and investment funds managed by Group companies which are conducted on similar terms to third party transactions and are not material to the Group.

#### *d) Interest of management in certain transactions*

Loans to non-executive directors are made in the ordinary course of business on normal commercial terms and do not involve more than the normal risk of collectibility or present other unfavourable features. Loans to executive directors are made on terms applicable to other employees in the Group, in accordance with established policy. At December 31, 2003 the aggregate amount outstanding in loans to persons who at any time during the year were directors was €45.8 million in respect of 9 persons; the amount outstanding in respect of quasi-loans (effectively, credit card facilities), also to 9 persons, was €0.05 million (2002: €42.8 million in respect of loans to 6 persons and €0.03 million in respect of quasi-loans to 6 persons).

On February 2, 2004, AIB Capital Markets plc, a wholly-owned subsidiary, extended the terms of an indemnity previously given to certain former directors, officers and employees of Govett Investment Management Ltd. ("Govett") to Mr Michael Buckley, Group Chief Executive and Mr Colm Doherty, Managing Director, AIB Capital Markets plc; Mr Buckley is a former director of a split capital trust managed by Govett, and Mr Doherty is a former director of Govett. The aggregate liability of AIB Capital Markets plc under the aforementioned indemnity is €10 million.

The purpose of the indemnity is to protect the indemnified parties (or any of them) against any civil liability, loss and defence costs which they (or any of them) may suffer by reason of any claim made against them relating to certain split capital or highly leveraged trusts previously managed by Govett and which previously would have been covered by insurance.

Prior to July 2003, the Bank's professional indemnity and directors' and officers' liability insurance provided cover in respect of the eventualities mentioned in the previous paragraph. However, on renewal of that insurance on July 1, 2003, and in line with a general change introduced by the insurance industry, exclusions were imposed that removed that cover. By virtue of the terms of the above-mentioned indemnity, the indemnified parties now stand in the position they would have been in if those exclusions had not been imposed, except that the aggregate limit of liability under the indemnity is €10 million, rather than the higher amount previously provided by the insurance.

## **Item 8. Financial information**

### **Consolidated statements and other financial information**

(See Item 18 & 19 – Financial Statements and Exhibits on pages 80 to 183 of this Annual Report).

### **Significant changes**

No significant changes have occurred since the date of the Annual Financial Statements included in this annual report. Detailed below are legal proceedings and prospective accounting changes arising from accounting standards recently issued in the UK and the United States.

### **Legal proceedings**

On March 5, 2002 and on April 24, 2002, two separate class action lawsuits under the Securities Exchange Act, 1934 of the United States were filed in the United States District Court for the Southern District of New York against AIB, Allfirst and certain serving and past officers and directors of Allfirst and its subsidiaries, seeking compensatory damages, legal fees and other costs and expenses relating to alleged misrepresentations in filings of AIB and Allfirst. On May 3, 2002, a motion to consolidate both cases and to appoint a lead plaintiff was filed with the court. The defendants have not yet been called upon to respond to the complaint but, when so called upon, AIB intends to vigorously defend the action. It is not practicable to predict the outcome of the action against AIB and Allfirst and any financial impact on AIB, but on the basis of current information, the Directors do not believe that the action is likely to have a materially adverse effect on AIB.

On May 13, 2002, a purported shareholder derivative action was filed in the Circuit Court for Baltimore City, Maryland. A holder of AIB American Depositary Shares purports to sue certain present and former directors and officers of Allfirst Bank on behalf of AIB, alleging those persons are liable for the foreign exchange trading losses. No relief is sought in the purported derivative action against AIB, Allfirst or Allfirst Bank. On December 30, 2002, the Court dismissed the action. On January 10, 2003, the plaintiffs filed a motion seeking to have the Court amend or revise the judgement, or to be granted leave to file an amended complaint. This was dismissed on March 3, 2003. The plaintiffs filed a second such motion on March 17, 2003. The court dismissed this on April 4, 2003. The plaintiffs have appealed to the Court of Special Appeals for the State of Maryland. On June 20, 2003 the Plaintiffs' petition to by-pass the Maryland Court of Special Appeals and appeal directly to the Maryland Court of Appeals was denied by the Court of Appeals. The Plaintiffs' appeal to the Maryland Court of Special Appeals was argued on January 12, 2004 and a decision on this appeal remains pending.

Certain of the individual defendants in these actions have asserted or may possibly assert claims for indemnification against AIB and/or Allfirst, which, if made against Allfirst following completion of the M&T transaction, might be subject to the indemnification obligations of AIB as part of the agreement with M&T. In the nature of any such claims, it is not possible to quantify the amount which might be asserted in any such claim.

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

### **Prospective accounting changes**

#### ***International accounting standards***

The European Commission has adopted a regulation on the application of International Accounting Standards ("IASs") and International Financial Reporting Standards ("IFRSs"). This requires that the group accounts of all listed companies in the EU should, from January 2005, be drawn up on the basis of adopted IASs and IFRSs. The 'adoption' of the International Accounting Standards Board ("IASB") standards is the responsibility of the Accounting Regulatory Committee of the European Commission. Under the terms of the EU regulation, member state governments have the option to decide whether adopted IASs/IFRSs should be applied more widely than in the group accounts of listed companies.

During 2003, the IASB issued a number of improvements to existing standards and it amended IAS 32 and IAS 39 which deal with the accounting for, and disclosure of, financial instruments. In the first quarter of 2004 new standards on Share based payments (IFRS 2), Business combinations (IFRS 3), Insurance contracts (IFRS 4), Non current assets held for sale and discontinued activities (IFRS 5) as well as the limited amendment to IAS 39, 'Financial instruments: Recognition and Measurement', dealing with macro hedging, were published.

AIB will be required to prepare its financial statements under 'adopted' IASs/IFRSs from January 1, 2005. The standards will change the manner in which the financial effects of transactions are reported and the format of that reporting. The effect on AIB cannot be fully predicted at this point in time due to the nature of the standards themselves and the number of uncertainties that remain.

The principal uncertainties are that a number of key standards have only recently been finalised, principally those relating to "macro hedge" accounting and life assurance and the assessment of their detailed impact is ongoing. In addition, there is uncertainty as to whether the European Union will adopt IAS 32 and IAS 39. The Irish Financial Services Regulatory Authority ("IFRA") has not finalized its approach to IAS and has not indicated whether the new accounting treatments under IASs/IFRSs will be adopted in the calculation of regulatory capital.

Given the level of uncertainty as set out above, the effect of IASs/IFRSs on the Group cannot be fully quantified at this stage. However, the key differences between the policies adopted by AIB in the preparation of its accounts, and those required by IAS, are set out below.

A group-wide programme is underway to ensure full compliance with IAS in 2005. The significant deliverables include the necessary adjustments to the Group accounting policies, addressing any business impacts arising, and making the necessary changes to the Group's accounting and reporting systems. Progress is monitored monthly by a Group level steering committee and progress to date is considered to be satisfactory.

### Hedge accounting

AIB's accounting policy for derivatives is set out on page 84. Derivatives held for hedging purposes are accounted for on the same basis as the underlying assets and liabilities. Derivatives held as part of the Group's risk management strategy are accounted for on an accruals basis.

The use of hedge accounting is more restricted under IAS 39 than at present under Irish GAAP. IAS 39 requires derivatives to be recognized at fair value, with changes in the valuation of certain derivatives impacting the statement of income, potentially resulting in significant earnings volatility. Other derivatives representing hedges of forecasted transactions will be marked to market to equity.

AIB's non-trading book generates interest rate risk which is managed using interest rate swaps and other instruments. Application of the hedge accounting rules of IAS 39 will be difficult as products tend to reprice or mature on a behavioural rather than on a contractual basis. As a result, the extent to which the business objectives can be met through the use of derivatives will depend on the ability to construct effective hedges that meet the requirements of IAS.

The IAS implementation programme is considering alternative compliant hedging strategies. Application of IAS 39 hedge accounting rules, including compliance with the stringent effectiveness tests, will require systems development.

Application of IAS 39 to AIB's current hedging policy could have a significant impact on equity and earnings. The extent to which AIB can achieve its economic hedging objectives for its market risk exposures through the actions outlined above, will reduce the degree of equity and earnings impact and the volatility arising from IAS 39.

### Effective interest rate

AIB amortizes fees which increase the yield on transactions over the lives of the underlying transactions.

Under IAS 39, origination fees and related costs are required to be taken into account in the calculation of the effective interest rate and amortized over the expected rather than the contractual life.

Application of the IAS approach to recognizing fee income and origination costs is not anticipated to have a significant effect on earnings in AIB while there will be some reclassification from other income to net interest income.

### Allowances for loan losses

AIB's accounting policy for allowances for loan losses is set out in page 81.

Under IAS 39, the concept of general and specific provisions no longer arises. Under the standard, provision can only be made for losses that have already been incurred at balance sheet date. Impairment is based on objective evidence and the impairment amount is the difference between the 'present value of future cash flows' and the book value of the asset. IAS permits the calculation to be completed for portfolios of loans when the loans are not individually significant.

The statement of income charge for credit provisioning under IAS is expected to be more volatile as provisions will reflect the economic climate at the reporting date.

### Long-term assurance business

AIB's accounting policy for its long-term assurance business is set out on page 84. AIB accounts for the embedded values of its life businesses on the balance sheet, thus recognizing the discounted value of future profits.

The initial IAS standard covering insurance contracts (IFRS 4) was finalized in late March 2004. A more comprehensive standard on life assurance is to be published at a later date. This will address broader conceptual and practical issues relating to insurance accounting. Arising from IFRS 4 contracts that are largely investment in nature (i.e., do not contain significant insurance risk) will be accounted for as financial instruments under IAS 39.

The discounted value of future profits will no longer be recognized under IAS in respect of the investment contracts. However, certain acquisition costs will be deferrable under IAS. The deferred acquisition costs under IAS are likely to be significantly lower in value than the current discounted value of future profits.

Application of IAS insurance standards to AIB's accounts is therefore likely to generate an overall reduction in stockholders' equity on initial adoption, as the discounted value of future profits on investment products previously recognized on writing of new business will be reversed out, to be recognized in future periods. Accounting for investment products under IAS 39 is likely to reduce profits from new business in the year in which the business is written, particularly as the discounted value of future profits will no longer be recognized but replaced by the deferred acquisition costs. There will be an offset in terms of earnings from the in-force book on which the discounted value of future profits will not have been recognized in prior periods.

### Share based payments

The grant of options under the Group's share option schemes does not give rise to a statement of income charge under Irish GAAP.

The IASB standard on Share based payments requires an expense to be recognized in respect of share based payment transactions. The issuance of options or shares to employees with, say, a three-year vesting period is considered to relate to services over the vesting period. Therefore, the fair value of the share-based payment, determined at the grant date, will be expensed over the vesting period.

The standard is mandatory in respect of all equity-settled share based payments granted after November 7, 2002 that are not yet vested at the effective date of IAS.

### Goodwill

AIB's accounting policy in respect of goodwill is set out in the accounting policies on pages 83 and 84. AIB currently amortizes goodwill arising on acquisitions after December 31, 1997 over a maximum life of 20 years.



The IASB standard on business combinations requires that goodwill should not be amortized but should be tested annually for impairment.

The above discussion relates only to the major differences in accounting policies between those currently applied by the Group and those required under IAS. Accordingly, it should not be considered to be a comprehensive discussion of all differences that may arise when AIB first implements IASs/IFRSs.

#### *Derivative Instruments and Hedging Activities*

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and is effective for hedging relationships designated after June 30, 2003. Provisions of SFAS No. 149 that relate to SFAS No. 133 implementation issues that had been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective dates. All provisions of SFAS No. 149 should be applied prospectively, except for paragraphs 7(a) and 23(a), which relate to forward purchases or sales of "when-issued" securities or other securities that do not yet exist, which should be applied to both existing contracts and new contracts entered into after June 30, 2003. The provisions of SFAS No. 149 did not have a material impact on the Group's consolidated financial statements.

#### *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. It is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The provisions of SFAS No. 150 did not have a material impact on the Group's consolidated financial statements.

#### *Guarantees*

In November 2002, the FASB issued FASB Interpretation 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 clarifies the requirements of SFAS No. 5, "Accounting for Contingencies", relating to guarantees. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in a variable that is related to an asset, liability, or equity security of the guaranteed party. Certain guarantee contracts are excluded from both the disclosure and recognition requirements of this interpretation, including, among others, guarantees relating to employee compensation, residual value guarantees under capital lease arrangements, commercial letters of credit, loan commitments, subordinated interests in a special purpose entity and guarantees of a company's own future performance.

Other guarantees are subject to the disclosure requirements of FIN 45 but not to the recognition provisions and include, among others, a guarantee accounted for as a derivative instrument under SFAS No. 133, a parent's guarantee of debt owed to a third party by its subsidiary or vice versa, and a guarantee which is based on performance not price. The disclosure requirements of FIN 45 are effective for interim and annual periods after December 15, 2002.

The recognition requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002. FIN 45 had no impact on results of operations, financial position, or cash flows, for the year ended December 31, 2003.

#### *Consolidation of Variable Interest Entities*

In January 2003, the FASB issued FASB Interpretation 46 ("FIN 46"), Consolidation of Variable Interest Entities. FIN 46 requires that a company that holds variable interests in an entity, to consolidate the entity if the company's interest in the variable interest entity ("VIE") is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the VIE's expected residual returns, if they occur. In such cases the company is the "primary beneficiary" of the VIE. FIN 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders.

The Group is the primary beneficiary of a securitization and as such has consolidated it for the purposes of US GAAP. The securitization is essentially a promissory note put in place in 1999 to remove the catastrophic risk related to the Group's "AAA" Asset Backed Portfolio. The value of the securitization at December 31, 2003 is €203 million. The total value of portfolio supported by the securitization at December 31, 2003 is US\$722 million. The creditors of this VIE have no recourse to the Group over the limit of €203 million entered into by the Group.

The Group has a significant variable interest in four collateralized debt obligations ("CDOs") set up since 2001, three of which invest in European sub investment grade leveraged finance assets and one in US High Yield Bonds. The cumulative size of these CDOs at December 31, 2003 is €1,367 million. The Group's investment and maximum exposure totals €47 million. There is no recourse to the Group by third parties in relation to these CDOs.

## Item 9. Offer & Listing

### Offer and listing details

#### Trading market for Ordinary shares of AIB

At December 31, 2003, AIB had outstanding 907,621,316 ordinary shares of €0.32 each, of which 61,134,156 were held as Treasury Shares (see note 40 to the consolidated financial statements). The principal trading markets for AIB ordinary shares are the Irish Stock Exchange and the London Stock Exchange. Listing of the ordinary shares, in the form of American Depositary Shares (“ADS”), was obtained on the New York Stock Exchange (“NYSE”) effective November 28, 1990. Each ADS, which comprises two ordinary shares, is traded under the symbol “AIB” and is evidenced by an American Depositary Receipt (“ADR”). The ADR depository is The Bank of New York.

At December 31, 2003, a total of 54.2 million ADSs were outstanding, representing 12% of total outstanding ordinary shares held by 5,208 registered stockholders and 12,000 stockholder accounts in street names. Since certain of the ordinary shares and ADRs were held by brokers or other nominees, the number of recorded holders in the US may not be representative of the number of beneficial holders or of their country of residence.

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

	€0.32 Ordinary shares		American Depositary Shares <sup>(1)</sup>	
	High (Euro)	Low	High (Dollars)	Low
<b>Year ended December 31,</b>				
1999	18.15	10.86	40 43/64	21 1/8
2000	13.10	7.93	23 1/2	15 1/8
2001	13.80	9.31	25 9/16	17
2002	15.70	10.92	29 1/5	19 10/13
2003	14.38	11.50	32 20/23	24 43/50
<b>Calendar year</b>				
<b>2002</b>				
First quarter	14.10	11.35	24 3/10	19 10/13
Second quarter	15.70	12.97	28 1/2	23 17/27
Third quarter	14.40	10.92	28 7/20	22 4/21
Fourth quarter	14.80	11.80	29 1/5	23 23/71
<b>2003</b>				
First quarter	13.70	11.50	28 65/97	24 43/50
Second quarter	14.38	12.30	32 20/23	27 33/50
Third quarter	13.40	12.02	30 29/50	27 13/50
Fourth quarter	12.70	12.05	31 43/50	28 1/4
<b>Month ended</b>				
November 2003	12.68	12.10	29 14/25	28 1/4
December 2003	12.70	12.05	31 43/50	29 9/50
January 2004	13.90	12.72	34 9/10	31 39/47
February 2004	13.45	12.22	34 4/57	30 3/5
March 2004	12.30	11.95	30 17/25	29 3/47
April 2004	12.88	12.03	31 8/89	28 9/10

<sup>(1)</sup> An American Depositary Share represents two ordinary shares of €0.32 each.

#### Trading market for Preference shares of AIB

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

### Markets

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

## **Item 10. Additional information**

### **Memorandum & Articles of Association**

A copy of the Memorandum & Articles of Association of Allied Irish Banks, p.l.c. was previously filed as part of the Annual Report on Form 20-F for the year ended December 31, 2002. The special resolutions passed at the 2004 Annual General Meeting are attached as Exhibit I.I of this Annual Report on Form 20-F.

### **Exchange controls**

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

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

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

There are no restrictions under AIB's Articles of Association or under Irish law, as currently in force, that limit the right of non-resident or foreign owners, as such, to hold securities of AIB freely or, when entitled, to vote such securities freely. There are currently no restrictions under Irish law, decrees, or regulations affecting the remittance of dividends or other payments to non-resident holders of AIB securities except (i) in respect of residents of Iraq to whom, or by whose order or on behalf of whom, no such remittance or payment may be made, without the permission of the Central Bank of Ireland; (ii) certain restrictions on the "transfer of funds and other financial resources" (a phrase which is defined as including dividends) to or for the benefit of Mr Slobodan Milosevic and certain persons associated with him, under EC Council Regulation No. 2488/2000 of November 10, 2001 (as amended); (iii) certain restrictions arising from the freezing of "funds" (a phrase which is defined as including dividends) and other financial resources under EC Council Regulation No. 881/2002 of May 27, 2002 (as amended) imposing sanctions in respect of the Taliban of Afghanistan; (iv) certain restrictions arising from the freezing of the "funds" (a phrase which is defined as including dividends) and other financial resources of certain persons involved in governmental functions in Burma/Myanmar under EC Council Regulation No. 1081/2000 of May 22, 2000 (as amended) imposing sanctions in respect of that country; and (v) certain restrictions arising from the freezing of all "funds, other financial assets or economic resources" (a phrase which is defined as including assets of every kind) of certain persons involved in the Government of Zimbabwe or persons or bodies associated with them under EC Council Regulation No. 310/2002 of February 18, 2002 concerning certain restrictive measures in respect of Zimbabwe. All of these exceptions arise from United Nations and/or European Union sanctions.

### **Taxation**

The discussion set forth below is intended only as a descriptive summary of certain consequences to Eligible US Holders (as defined below) of the purchase, ownership and disposition of AIB shares or ADSs and is not a complete technical analysis or listing of all potential tax effects or considerations that may be relevant. This summary deals only with Eligible US Holders that hold AIB shares or ADSs as capital assets for Irish and US Federal income tax purposes. This discussion does not deal with the tax consequences to all categories of investors, some of which (including persons liable for alternative minimum tax, insurance companies, tax-exempt organizations and dealers in securities may be subject to special rules).  **Holders of any interest in AIB shares or ADSs are advised to consult their own tax advisors as to the Irish, United States or any other tax consequences of the purchase, ownership and disposition of an interest in AIB shares or ADSs, including the effect of any foreign, state or local tax laws.**

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

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

Eligible US Holders of ADSs will be treated as the owners, as appropriate, of the underlying Ordinary or Preference shares for United States Federal income tax purposes and for purposes of the Tax Treaty.

## **Irish taxation**

**Dividends.** Dividends paid by AIB with respect to AIB shares or ADSs and received by an Eligible US Holder who is a person other than a company and who is not ordinarily resident in Ireland in a year of assessment are not liable to Irish income tax. Dividends paid by AIB with respect to AIB shares or ADSs and received by an Eligible US Holder who is a company, are not liable to Irish income tax provided the Eligible US Holder is not under the control (direct or indirect) of a person or persons who are Irish Resident.

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

**Individuals/trusts holding AIB shares.** Where the person beneficially entitled to the dividend is an individual who, by virtue of the laws of the relevant foreign territory, is resident in a Member State of the EU (other than Ireland) or in a territory with which Ireland has a double taxation treaty, such as the United States of America, and is neither resident nor ordinarily resident in Ireland, the individual may be entitled to exemption from DWT in respect of the dividend paid. A claim for exemption must be accompanied by a declaration in a format approved by the Irish Revenue Commissioners, which, in the case of an individual resident in the United States of America, is certified to that effect by the Internal Revenue Service. The declaration contains additional requirements where the dividends are received by a trust.

**Companies holding AIB shares.** A company not resident in Ireland that is beneficially entitled to the dividend may, subject to certain conditions and to the completion of a declaration, be entitled to exemption from DWT in respect of the dividend paid. The declaration must be in a format approved by the Irish Revenue Commissioners. The company's auditor must certify on the declaration that certain conditions, these being conditions which entitle the company to exemption, have been satisfied. In addition, in certain circumstances the declaration must also be certified by the company's local Revenue authority (the US Internal Revenue Service in the case of US resident companies).

Claims for exemption must be filed with AIB's Registrar in advance of the relevant dividend payment record date. In the absence of a change in the person's circumstances such declarations are valid for a period of 5 years. Declaration forms may be obtained either from the AIB's Registrar at the following address:

Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandymount Industrial Estate, Dublin 18, Ireland.  
Telephone: +353-1-216 3100, Facsimile: +353-1-216 3151, e-mail: web.queries@computershare.ie;

or from the Irish Revenue Commissioners at the following address:

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

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

**Individuals and Companies holding ADSs.** Persons holding ADSs, evidenced by ADRs, who are beneficially entitled to the dividend and whose address in the register of ADRs is in the United States, are exempt from DWT. This is conditional on the depository bank, in whose books the ADRs are registered, becoming a "qualifying intermediary" ("QI") (as defined in Section 172E Irish Taxes Consolidation Act 1997), and entering into an agreement with the Irish Revenue Commissioners. The Bank of New York is a QI and has entered into such an agreement. Where the registered owner is not the beneficial owner and the ADSs are in turn held through one or more specified intermediaries (as defined in Section 172F Irish Taxes Consolidation Act 1997), dividends may still be paid without DWT provided the address of the beneficial owner of the ADSs, as shown in the register of the ultimate specified intermediary, is located in the United States.

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

Subject to limitation contained in the Code (as defined below in the paragraph entitled "United States income taxation"), the Tax Treaty provides that the US shall allow to an Eligible US Holder who receives a dividend, the balance (15%) of the Irish tax paid by such Eligible US holder, as a foreign tax credit against US Federal income tax liability. See discussion of US taxation below.

**Gain on sale, exchange or other disposition.** A gain realized on the sale, exchange or other disposition of the Ordinary shares or the Preference shares (including redemption of the Preference shares) or ADSs by a beneficial owner thereof that is neither resident nor ordinarily resident in Ireland for Irish tax purposes is not subject to Irish capital gains tax, except where such Ordinary or Preference shares or ADSs constitute assets situated in Ireland and are or were used in or for the purposes of a trade carried on by such beneficial owner in Ireland through a branch or agency.

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

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

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

*Inheritance and gift taxation.* See “United States and Irish Inheritance and Gift Taxation” on page 59.

### **United States income taxation**

*Dividends.* Dividends received by an Eligible US Holder of an Ordinary or a Preference share or an ADS are taxable as dividend income for US Federal income tax purposes to the extent of AIB’s current or accumulated earnings and profits, as determined under US Federal income tax principles pursuant to the Internal Revenue code of 1986, as amended (“Code”). Distributions in excess of current or accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of the US Holder’s basis in his Ordinary or Preference shares or ADSs and would reduce the US holder’s basis in his Ordinary or Preference shares or ADSs. Any remaining excess would be treated for US Federal tax purposes as capital gains, provided the Ordinary or Preference shares or ADSs are capital assets in the hands of such US Holder.

In May 2003 the U.S. tax rate on qualified dividends received by individuals, after December 31, 2002 and before January 1, 2009, was reduced to 15%. Dividends paid by AIB with respect to Ordinary shares, Preference shares or ADSs will generally be qualified dividend income for U.S. tax purposes, provided US Holders meet certain holding period requirements. Holders of Ordinary Shares or ADSs must have held their shares for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date. Holders of Preference shares must have held their shares for more than 90 days during the 180-day period beginning 90 days before the ex-dividend date.

Dividends paid by AIB with respect to Ordinary shares, Preference shares and ADSs, will not qualify for the dividend received deduction otherwise generally allowed to US corporate stockholders.

Subject to various limitations, Eligible US Holders who have DWT applied to their dividend may be entitled to a credit against their U.S. federal income tax liability. Under the Code, the limitation on foreign taxes eligible for credit is calculated separately with respect to separate classes of income. Dividends paid by AIB with respect to AIB Ordinary or Preference shares or ADSs are foreign source “passive” income or, in the case of certain Eligible US holders, “financial services” income. Foreign tax credits allowable with respect to each class of income cannot exceed the US Federal income tax otherwise payable with respect to such class of income. Special rules apply to qualified dividends subject to the 15% tax rate.

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

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

*Gain on disposition.* Upon the sale, exchange or other disposition of Ordinary or Preference shares or ADSs, a US Holder will recognize a gain or loss, if any, equal to the difference between the amount realized upon the sale, exchange, or disposition and the US Holder’s tax basis. Generally, a holder’s tax basis in Ordinary or Preference shares or ADSs will be the US Holder’s cost. Such gain or loss will generally be capital gain or loss if the Ordinary or Preference shares or ADSs were held as a capital asset. Capital gains recognized by noncorporate US Holders after May 5, 2003 and before January 1, 2009, on shares held longer than one year, are taxed at a maximum rate of 15%. Any gain will generally be treated as US source income.

*Withholding tax.* A holder of ADSs may, under certain circumstances, be subject to US backup withholding tax with respect to dividends paid on the ADSs or the proceeds of sale of the ADSs. For 2003, backup withholding tax is at a rate of 30%. The backup withholding rate is reduced to 28% from 2004. A US holder of ADSs is subject to backup withholding tax unless such holder: (i) is a corporation or comes within the certain other exempt categories and, when required, demonstrates this fact; or (ii) provides a correct taxpayer identification number (“T.I.N.”), certifying that such holder is not subject to backup withholding tax and otherwise complies with applicable requirements of the backup withholding tax rules. A non-US holder of ADSs must complete and provide AIB or its agent with the applicable Form W-8 (“Certificate of Foreign Status”) certifying that such person is a foreign person exempt from backup withholding tax. Any amount withheld under the US backup withholding tax rules will be creditable against the holder’s US federal income tax liability. Form W-8 does not exempt the non-US holder of ADSs from

normal withholding tax on dividend distributions which are subject to a 30% or lower treaty withholding rate.

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

### ***State and local taxes***

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

### ***United States and Irish Inheritance and Gift Taxation***

Irish Capital Acquisitions Tax (“CAT”) applies to gifts and bequests of Irish situate assets. Irish CAT may also apply to non-Irish situate assets depending on the tax residence, ordinary residence and domicile positions of the donor and the successor or donee. As such Irish CAT applies to gifts and bequests of Ordinary or Preference shares. It is not entirely clear whether ADSs representing ordinary or preference shares are regarded as non-Irish situate assets. As such CAT may also apply to gifts and bequests of ADSs representing Ordinary or Preference shares regardless of the residence, ordinary residence or domicile of the donor and successor or donee. CAT is charged at a single rate of 20% above a tax-free threshold. This tax-free threshold is determined by the amount of the current benefit and of previous benefits within the charge to CAT and the relationship between the donor and the successor or donee. Gifts and inheritances between spouses are not subject to CAT.

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

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

## ***Item 11. Quantitative and qualitative disclosures about risk***

### **Risk management**

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

Primary responsibility for risk management lies with line management. Within AIB, line management is supported by a risk management function that sets standards, policies, limits and measurement methods and provides independent oversight with a direct reporting line to the Group Chief Executive (“CEO”) and the Audit Committee of the Board. *The Board of Directors* formally approves the overall strategy and the direction of the business on an annual basis. It regularly monitors the Group’s financial performance, reviews risk management activities and controls and has responsibility for approving the Group’s risk appetite. *The Group Executive Committee (“GEC”)*, comprising the Group CEO, Group Director, Finance & Enterprise Technology, Group Chief Risk Officer (“CRO”), Group Director of HR and the four Divisional Managing Directors, manages the strategic business risks of the Group. It sets the business strategy within which the risk management function operates and oversees its activities.

*The Group Risk Management Committee (“RMC”)* is chaired by the Group CRO and has Governance responsibility for identifying, analysing and monitoring exposure, adopting best practice standards and directing risk management activities across the Group. It is supported by the *Group Credit Committee (“GCC”)*, *the Group Operational Risk Management Committee (“ORMCO”)* and the *Group Market Risk Committee (“MRC”)*. *The Group Asset and Liability Management Committee (“Group ALCO”)* is chaired by the Group Director, Finance & Enterprise Technology and has responsibility for the Group’s capital, funding and liquidity management activities.

The Group CRO heads AIB’s risk management function. This function is responsible for:

- Policies, instructions and guidelines
- Identification of risk
- Risk analysis
- Risk measurement
- Monitoring and control, and
- Reporting

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

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

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

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

*Regulatory Compliance & Business Ethics* ("RC & BE") has responsibility for co-ordinating the compliance functions across all Divisions and for the development of Group policy on ethical matters. Divisional compliance departments together with management, develop policies and procedures to ensure compliance with applicable law, regulation and codes of practice with respect to the conduct of business.

RC & BE reports independently to the Audit Committee on the compliance framework in operation across the Group and on management attention to compliance matters.

## **Credit risk**

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

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

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

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

### *Credit management and control*

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

The Board determines the credit authority for the GCC and approves the Group's key credit policies. It also approves divisional credit authorities and reviews credit performance on a regular basis. The GCC considers and approves, within the parameters of the Group Large Exposure Policy, credit exposures which are in excess of divisional credit authorities and has responsibility for netting and approval of loan provisioning. It comprises senior divisional and Group-based management. This committee reviews and recommends key credit policies to the Board and reviews trends in credit quality and determines overall provision adequacy.

The Group CCO sets Groupwide standards for best practice including credit grading and scoring methodologies and exposure measurement and chairs the GCC. Divisional management approve divisional credit policy/best practice with the involvement of the risk management function.

Customer and facility grading is a core component of the credit risk management process as it captures a variety of quantitative and qualitative factors indicating a customer's capability to meet its obligations to AIB. Divisional authority and large exposure policy limits are tiered by reference to customer and facility grade.

### *Credit risk on derivatives*

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

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

### *Country risk*

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

### *Settlement risk*

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

### *Measurement methods*

In recent years, AIB has taken significant steps to improve its framework for quantifying credit risk. Driven initially by the introduction of Risk Adjusted Return on Capital ("RAROC") as a tool to improve credit decision-making and performance management, work is continuing to refine measurement methods to enhance stockholder value and meet the standards of the New Basel Accord ("Basel II").

### *Rating and scoring*

Internal rating and credit scoring models lie at the heart of credit management in AIB. They are used to differentiate between credits on the basis of the likelihood of default. AIB's core grading system combines an evaluation and measurement of the business and financial risk factors affecting a borrower with a method for capturing the risk characteristics of different types of credit facilities.

### *Quantifying credit risk*

AIB's RAROC framework centres around the quantification of economic capital, i.e. AIB's estimate of the amount of capital required to protect against the risks inherent in the business. The most important inputs when quantifying credit risk are the probability of default ("PD"), the loss given default ("LGD") and the exposure at default ("EAD"). The rating grades produced by the rating models are translated into a PD, which is a key parameter when measuring risk. LGD is measured taking into account the security held by AIB. EAD for many products is equal to the outstanding exposure, but for some products, such as credit lines and derivative contracts, the EAD may be higher than the outstanding exposure.

AIB uses RAROC to ensure that investment and lending activities earn an adequate return for the risk taken. The methods used to estimate economic capital and allocate it to the business continue to be upgraded in line with emerging best practice.

## **Market risk**

Market risk is the exposure to loss arising from adverse movements in interest rates, foreign exchange rates and equity prices. It arises in trading activities as well as in the natural course of transacting business, for example in the provision of fixed rate loans or equity linked tracker bonds to customers.

### *Risk management and control*

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

Market risks are managed by setting limits on the amount of the Group's capital that can be put at risk. These limits are based on risk measurement methodologies described below. The Board delegates authority to the Group CRO to allocate these limits on its behalf. The limits for Global Treasury are set in accordance with its business strategy and are reviewed frequently. The Managing Director of Global Treasury allocates these limits to the various dealing desks who supplement these with more detailed limits and other risk reducing features such as stop-loss rules. Within Global Treasury, there is a dedicated risk management team charged with the responsibility to ensure that the risk measurement methodologies used are appropriate for the risks being taken and that appropriate monitoring and control procedures are in place. The Market Risk Committee ("MRC") reviews market risk strategy. It approves policies and promotes best practice for measurement, monitoring and control.

## **Liquidity risk**

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties, at an economic price. The Group achieves this through the maintenance of a stock of high quality liquid assets and active involvement in the interbank market, supplemented by a euro medium-term note program. The Group's stock of liquid assets is maintained at a level considered sufficient to meet the withdrawal of deposits or calls on commitments in both normal and abnormal trading conditions. In all cases, net outflows are monitored on a daily basis and the required minimum stock of liquid assets can be increased if these outflows exceed predetermined target levels. Global Treasury, through its wholesale treasury operations manages, on a global basis, the liquidity and funding requirements of the Group. Item 11 outlines the committee oversight responsibility with respect to liquidity management.

Euro, Sterling and the Polish zloty represent the most important currencies to AIB Group from a liquidity perspective. The Group has an established retail deposit base in Ireland, Britain and Poland which funds asset growth. Although a significant element of these deposits are contractually repayable on demand or at short notice, the Group's substantial customer base and geographic spread generally ensures that these current and deposit accounts represent a stable and predictable source of funds. The retail deposit base in Ireland and the U.K has continued to grow in recent years, despite the general reduction in interest rates. In Poland, there has been a small reduction in deposit levels due to the falling interest rate environment. An additional contribution



to this reduction has been the introduction of deposit interest retention tax resulting in a move to mutual type funds. Poland's fund management subsidiary has proactively responded to this market change and succeeded in increasing its share of the overall Polish savings and investment market. Notwithstanding this trend, deposits in Poland continue to significantly exceed loan assets.

The Group has sufficient liquidity to meet its current funding requirements and has a funding strategy in place to meet its future funding needs.

For information on the level of borrowing at the end of the period and its maturity and interest profile see "Analysis of loans to customers by maturity and interest rate sensitivity" on page 166.

The Group also operates a liquidity contingency plan for critical situations. This was last instigated in February 2002 following the fraudulent foreign exchange trading activities in Allfirst Bank. Counterparty ratings of AIB are as follows: Moody's long-term "Aa3" and short-term "P-1"; Fitch long-term "AA" minus and "F+1"; Standard and Poors long-term single "A".

### Measurement methods

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

#### VaR

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

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

#### Sensitivity measures

The limitations of VaR techniques are well known to banks. They stem from the need to make assumptions about the spread of likely future price and rate movements. AIB supplements its VaR methodology with sensitivity measures. Dealers in Global Treasury know how much the value of their positions could change for a given change in rates and/or prices. This sensitivity is monitored at desk and management level and reported on by the Global Treasury risk management unit. These measures can also be used to decide on hedging activities. Decisions can be taken to close out positions when the level of sensitivity combined with the likelihood of a rate or price change exposes AIB to too high a loss in value.

#### Stress testing

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

The following table illustrates the VAR figures for interest rate risk for the years ended December 31, 2003 and 2002.

	2003		2002	
	Trading	Non-Trading	Trading	Non-Trading
	(Euro in millions)		(Euro in millions)	
<b>Interest rate risk</b>				
1 month holding period:				
Average.....	9.3	25.9	6.8	48.7
High.....	11.6	49.6	9.3	87.4
Low.....	6.4	12.8	4.7	23.0
December 31.....	8.1	18.9	6.4	48.5
1 day holding period:				
Average.....	2.1	5.8	1.5	10.9
High.....	2.6	11.1	2.1	19.5
Low.....	1.4	2.9	1.0	5.1
December 31.....	1.8	4.2	1.4	10.8

### Interest rate risk

Global Treasury manages the Group's exposure to interest rate risk. The risk is that changes in interest rates will have adverse effects on earnings and on the value of AIB's assets and liabilities. This risk is managed by setting limits on the earnings at risk and the value at risk (VaR) from the open interest rate risk positions of the Group. Stop loss limits are also used to close out loss making positions.

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

### *Trading book*

The interest rate trading book includes all securities and interest rate derivatives that are held for trading purposes in Global Treasury. These are revalued daily at market prices (marked to market) and any changes in value are immediately recognized in income. During 2003, trading book interest rate risk was predominantly concentrated in the euro, sterling and the US dollar.

### *Non-trading book*

AIB's non-trading book consists of its retail and corporate deposit books, Global Treasury's cash books and the Group's investment portfolios. AIB's retail businesses have a substantial level of free current accounts, equity and other interest-free or fixed rate liabilities and assets. Unless carefully managed, the net income from these funds will fluctuate directly with short-term interest rates. AIB manages this volatility by maintaining a portfolio of assets with interest rates fixed for several years. In designing this strategy, care is taken to ensure that the management of the portfolio is not inflexible as market conditions and customer requirements can bring about a need to alter the portfolio. Group ALCO sets the framework and reviews the management of these activities.

AIB's net interest rate sensitivity as at December 31, 2003 is illustrated in note 52.

### **Foreign exchange rate risk**

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

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

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

It is normal Group practice to match material individual foreign currency investments in overseas subsidiaries, associated undertakings and branches, with liabilities in the same currency. However, Polish investments are recorded in euro. Because of the Group's diversified international operations, the currency profile of its capital may not necessarily match that of its assets and risk weighted assets. Under Board-approved policy, a sub-committee of Group ALCO has delegated responsibility for hedging this structural mismatch against adverse exchange rate movements.

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

At December 31, 2003 and 2002, the Group's structural foreign exchange position was as follows:

	<b>December 31, 2003</b>	<b>December 31, 2002</b>
	<b>(Euro in millions)</b>	
US dollar.....	1,499	902
Sterling.....	1,008	1,206
Polish zloty.....	129	187
	2,636	2,295

This position indicates that a 10% movement in the value of the euro against these currencies at December 31, 2003 would result in an amount to be taken to reserves of €264 million.

Under the existing accounting policy, the Group may choose to hedge all or part of its projected future foreign currency earnings, thereby fixing a translation rate for the amount hedged. The purpose of these hedges is to minimise the risk of significant fluctuations in the reported euro values of the Group's separate US dollar, sterling and Polish zloty earnings. A discussion on the impact of hedging profits is included in "translation of foreign locations" income on page 20 of this report. The ability to hedge translation risk arising from fluctuations in the reported euro value of foreign currency earnings will be severely restricted under IAS 39.

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

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

The following table sets out the VaR figures for trading foreign exchange rate risk for the years ended December 31, 2003 and 2002.

	<u>2003</u>	<u>2002</u>
	(Euro in millions)	
<b>Foreign exchange rate risk-trading</b>		
1 month holding period:		
Average.....	0.6	0.9
High.....	0.9	1.9
Low.....	0.3	0.3
December 31.....	0.5	0.8
1 day holding period:		
Average.....	0.1	0.2
High.....	0.2	0.4
Low.....	0.1	0.1
December 31.....	0.1	0.2

### Equity risk

Global Treasury manages the equity risk arising on its convertible bond portfolio and from stock market linked investment products (tracker bonds) sold to customers. Goodbody stockbrokers manage the equity risk in its Principal Trading Account. The risk is that adverse movements in share, share index or equity option prices will result in losses for the Group. This risk is managed by setting limits on the earnings at risk and the value at risk ("VaR") from the open equity positions of the Group. Stop loss limits are also used to close out loss making positions. The table below sets out the VaR figures for equity risk for the years ended December 31, 2003 and 2002.

	<u>Trading</u>		<u>Non-Trading</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	(Euro in millions)			
<b>Equity risk</b>				
1 month holding period:				
Average.....	14.5	10.2	-	0.3
High.....	19.3	16.5	-	0.7
Low.....	11.6	6.2	-	0.1
31 December.....	18.1	9.9	-	-
1 day holding period:				
Average.....	3.2	2.3	-	0.1
High.....	4.3	3.7	-	0.2
Low.....	2.6	1.4	-	-
31 December.....	4.1	2.2	-	-

### Off-balance sheet financial instruments

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

### Credit commitments

Contingent liabilities and commitments to extend credit are outlined in note 43. The Group's maximum exposure to credit loss in the event of non-performance by the other party, where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of these contracts.

The following table shows the nominal or contract amounts and the risk weighted credit equivalent of contingent liabilities and commitments at December 31, 2003 and 2002.

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Contract amount</u>	<u>Risk weighted amount</u>	<u>Contract amount</u>	<u>Risk weighted amount</u>
	(Euro in millions)			
<b>Contingent liabilities</b>				
Acceptances and endorsements.....	12	12	72	61
Guarantees and assets pledged as collateral security.....	4,157	4,053	5,292	4,958
Other contingent liabilities.....	722	368	1,027	520
	4,891	4,433	6,391	5,539
<b>Commitments</b>				
Sale and option to resell transactions.....	-	-	2,062	1,230
Other commitments.....	13,932	4,027	17,890	4,499
	13,932	4,027	19,952	5,729

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, in relation to derivative instruments, the Group's exposure to market risk is controlled within the risk limits in the Group's Interest Rate Risk and Foreign Exchange Risk Policies and is further constrained by the risk parameters incorporated in the Group's Derivatives Policy as approved by the Board.

The table below shows the notional amount and gross replacement cost for trading and non-trading interest rate, exchange rate and equity contracts at December 31, 2003 and 2002. Further detailed information on derivatives is provided in Note 44 of the Notes to Consolidated Financial Statements.

	December 31, 2003		December 31, 2002	
	Notional amount	Gross replacement cost	Notional amount	Gross replacement cost
(Euro in millions)				
<b>Interest rate contracts</b>				
Trading.....	72,736	736	75,558	1,223
Non-trading.....	27,045	294	34,971	690
	<u>99,781</u>	<u>1,030</u>	<u>110,529</u>	<u>1,913</u>
<b>Exchange rate contracts</b>				
Trading.....	14,753	464	18,468	457
Non-trading.....	812	37	2,578	89
	<u>15,565</u>	<u>501</u>	<u>21,046</u>	<u>546</u>
<b>Equity contracts</b>				
Trading.....	2,445	73	2,037	27
Non-trading.....	-	-	-	-
	<u>2,445</u>	<u>73</u>	<u>2,037</u>	<u>27</u>

Derivative instruments are contractual agreements between parties whose value reflects movements in an underlying interest rate, foreign exchange rate, equity price or index. While notional principal amounts are used to express the volume of these transactions, the amounts subject to credit risk are much lower. This is because most derivatives involve payments based on the net differences between the rates expressed in the contracts and other market rates.

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Operational risk**

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

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

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

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

### **Loan portfolio**

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

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

An important factor influencing the quality of AIB Group's earnings is the diversification of its credit portfolio within each of its geographic markets (Ireland, United Kingdom, United States of America and Poland) by spread of locations, industry classification and individual customer.

Apart from the Construction and Property sector in the Republic of Ireland, no one industry in any geographic market accounts for more than 10% of AIB Group's total loan portfolio.

Loans to the Construction and Property sector in the Republic of Ireland accounted for 13.1% of group advances as at December 31, 2003. These loans are well diversified by sub-sector, loan type, location and borrower. This portfolio includes loans for Property investment which is comprised of loans for investment in Commercial, Retail, Office and Residential Property (the majority of these loans are underpinned by lessee cashflow as well as collateral of the investment property), Property Development which is comprised of Residential Development and Commercial Development. A small percentage comprises loans to the Contracting sub-sector.

The following table shows AIB Group's total loan portfolio by categories of loans at December 31, 2003, 2002, 2001, 2000 and 1999.

	December 31,				
	2003	2002	2001 (Euro in millions)	2000	1999
<b>IRELAND</b>					
Agriculture.....	1,372	1,393	1,344	1,233	1,261
Energy.....	336	539	386	385	234
Manufacturing.....	1,941	2,171	2,452	2,485	1,729
Construction and property.....	6,716	4,796	4,062	3,455	2,665
Distribution.....	4,039	3,741	3,351	2,960	2,412
Transport.....	490	505	544	404	505
Financial.....	380	461	556	392	804
Services.....	2,443	1,980	1,600	1,300	978
Personal - Residential mortgages.....	10,271	7,725	5,930	4,922	3,915
- Overdraft/installment.....	3,412	3,024	2,716	2,531	2,274
Lease financing.....	1,375	1,406	1,364	1,336	1,202
Guaranteed by Irish Government.....	1	11	-	51	7
	<b>32,776</b>	<b>27,752</b>	<b>24,305</b>	<b>21,454</b>	<b>17,986</b>
<b>UNITED KINGDOM</b>					
Agriculture.....	143	162	134	136	120
Energy.....	157	73	20	87	25
Manufacturing.....	1,166	989	1,190	780	659
Construction and property.....	4,008	2,860	2,156	1,850	1,473
Distribution.....	1,850	1,588	1,423	1,319	1,307
Transport.....	268	264	308	149	60
Financial.....	856	781	745	521	268
Services.....	2,223	2,261	1,805	1,522	1,440
Personal - Residential mortgages.....	2,499	2,151	1,965	1,775	1,523
- Overdraft/installment.....	1,030	1,007	922	872	742
Lease financing.....	22	-	-	-	-
	<b>14,222</b>	<b>12,136</b>	<b>10,668</b>	<b>9,011</b>	<b>7,617</b>
<b>UNITED STATES OF AMERICA<sup>(1)</sup></b>					
Agriculture.....	-	-	-	-	-
Energy.....	79	-	-	-	-
Manufacturing.....	76	-	-	-	-
Construction and property.....	94	-	-	-	-
Distribution.....	58	-	-	-	-
Transport.....	5	-	-	-	-
Financial.....	51	-	-	-	-
Services.....	692	-	-	-	-
Personal - Residential mortgages.....	-	-	-	-	-
- Overdraft/installment.....	2	-	-	-	-
	<b>1,057</b>	<b>10,916</b>	<b>13,602</b>	<b>13,060</b>	<b>11,637</b>
<b>POLAND<sup>(2)</sup></b>					
Agriculture.....	135	154	169	133	-
Energy.....	200	219	263	207	-
Manufacturing.....	720	871	1,018	886	-
Construction and property.....	270	221	230	187	-
Distribution.....	439	600	730	607	-
Transport.....	85	113	102	57	-
Financial.....	86	238	196	228	-
Services.....	287	318	275	181	-
Total Commercial.....	<b>2,222</b>	<b>2,734</b>	<b>2,983</b>	<b>2,486</b>	<b>2,184</b>
Personal - Residential mortgages.....	388	319	181	78	-
- Overdraft/installment.....	186	239	333	340	-
Total Personal.....	<b>574</b>	<b>558</b>	<b>514</b>	<b>418</b>	<b>294</b>
Lease financing.....	248	-	-	-	-
	<b>3,044</b>	<b>3,292</b>	<b>3,497</b>	<b>2,904</b>	<b>2,478</b>
<b>REST OF THE WORLD.....</b>					
	<b>15</b>	<b>227</b>	<b>230</b>	<b>220</b>	<b>301</b>
Total Loans to customers.....	51,114	54,323	52,302	46,649	40,019
Unearned income.....	(115)	(242)	(311)	(329)	(293)
Allowance for loan losses.....	(662)	(860)	(1,007)	(869)	(768)
	<b>50,337</b>	<b>53,221</b>	<b>50,984</b>	<b>45,451</b>	<b>38,958</b>

<sup>(1)</sup> Following the divesting of Allfirst in Quarter 1 2003 AIB Group's remaining USA advances are categorized sectorally on a basis consistent with the rest of the Group. For reference, details of the Group's USA advances, as previously reported are included below.

	December 31,				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>UNITED STATES OF AMERICA</b>					
Commercial.....	4,416	5,606	5,107	4,262	3,446
Real estate.....	2,582	2,988	2,862	2,556	2,209
Residential mortgages.....	374	550	705	691	717
Retail.....	2,693	3,206	3,049	2,911	2,346
Bankcard.....	12	17	16	15	13
Leases receivable.....	839	1,235	1,321	1,202	891
	<u>10,916</u>	<u>13,602</u>	<u>13,060</u>	<u>11,637</u>	<u>9,622</u>

<sup>(2)</sup>A common standard for sectoral reporting of Poland advances was not available in 1999.

The following table shows the percentages of total loans by each category of loan at December 31, 2003, 2002, 2001, 2000 and 1999.

	December 31,				
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>IRELAND</b>					
Agriculture.....	2.7%	2.6%	2.6%	2.6%	3.1%
Energy.....	0.7	1.0	0.7	0.8	0.6
Manufacturing.....	3.8	4.1	4.7	5.3	4.3
Construction and property.....	13.1	8.8	7.8	7.4	6.7
Distribution.....	7.9	6.9	6.4	6.4	6.0
Transport.....	1.0	0.9	1.0	0.9	1.3
Financial.....	0.7	0.8	1.1	0.8	2.0
Services.....	4.8	3.6	3.1	2.8	2.4
Personal - Residential mortgages.....	20.1	14.2	11.3	10.6	9.8
- Overdraft/installment.....	6.6	5.6	5.2	5.4	5.7
Lease financing.....	2.7	2.6	2.6	2.9	3.0
Guaranteed by Irish Government.....	-	-	-	0.1	-
	<u>64.1%</u>	<u>51.1%</u>	<u>46.5%</u>	<u>46.0%</u>	<u>44.9%</u>
<b>UNITED KINGDOM</b>					
Agriculture.....	0.3%	0.3%	0.3%	0.3%	0.3%
Energy.....	0.3	0.1	-	0.2	0.1
Manufacturing.....	2.3	1.8	2.3	1.7	1.6
Construction and property.....	7.8	5.3	4.1	4.0	3.7
Distribution.....	3.7	2.9	2.7	2.8	3.3
Transport.....	0.5	0.5	0.6	0.3	0.1
Financial.....	1.7	1.4	1.4	1.1	0.7
Services.....	4.3	4.2	3.4	3.2	3.6
Personal - Residential mortgages.....	4.9	4.0	3.8	3.8	3.8
- Overdraft/installment.....	2.0	1.9	1.8	1.9	1.8
Lease Financing.....	-	-	-	-	-
	<u>27.8%</u>	<u>22.4%</u>	<u>20.4%</u>	<u>19.3%</u>	<u>19.0%</u>
<b>UNITED STATES OF AMERICA</b>					
Agriculture.....	0.0%	-	-	-	-
Energy.....	0.2	-	-	-	-
Manufacturing.....	0.1	-	-	-	-
Construction and property.....	0.2	-	-	-	-
Distribution.....	0.1	-	-	-	-
Transport.....	-	-	-	-	-
Financial.....	0.1	-	-	-	-
Services.....	1.4	-	-	-	-
Personal - Residential mortgages.....	-	-	-	-	-
- Overdraft/installment.....	-	-	-	-	-
	<u>2.1%</u>	<u>20.1%</u>	<u>26.0%</u>	<u>28.0%</u>	<u>29.1%</u>

	December 31,				
	2003	2002	2001	2000	1999
<b>POLAND<sup>(1)</sup></b>					
Agriculture.....	0.3%	0.3%	0.3%	0.3%	-
Energy.....	0.4	0.4	0.5	0.4	-
Manufacturing.....	1.4	1.6	2.0	1.9	-
Construction and Property.....	0.5	0.4	0.4	0.4	-
Distribution.....	0.8	1.1	1.4	1.3	-
Transport.....	0.2	0.2	0.2	0.1	-
Financial.....	0.2	0.4	0.4	0.5	-
Services.....	0.5	0.6	0.5	0.4	-
Total Commercial.....	4.3	5.0	5.7	5.3	5.5
Personal - Residential mortgages.....	0.8	0.6	0.4	0.2	-
- Overdraft/installment.....	0.4	0.4	0.6	0.7	-
Total Personal.....	1.2	1.0	1.0	0.9	0.7
Lease financing.....	0.5	-	-	-	-
	6.0%	6.0%	6.7%	6.2%	6.2%
<b>REST OF THE WORLD.....</b>	<b>0.0%</b>	<b>0.4%</b>	<b>0.4%</b>	<b>0.5%</b>	<b>0.8%</b>
Total loans to customers.....	100.0%	100.0%	100.0%	100.0%	100.0%

<sup>(1)</sup> A common standard for sectoral reporting of Poland advances was not available in 1999.

#### *Analysis of loans to customers by maturity and interest rate sensitivity*

The following table analyzes loans to customers by maturity and interest rate sensitivity. Overdrafts, which in the aggregate represent approximately 7% of the portfolio, are classified as repayable within one year. Over 14% of AIB Group's loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed by Global Treasury within agreed policy parameters.

	December 31, 2003			
	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	(Euro in millions)			
Ireland.....	11,296	8,264	13,216	32,776
United Kingdom.....	4,675	3,033	6,514	14,222
United States of America.....	173	438	446	1,057
Poland.....	1,358	1,173	513	3,044
Rest of the World.....	-	-	15	15
Total loans by maturity.....	17,502	12,908	20,704	51,114
	Fixed rate	Variable rate		Total
	(Euro in millions)			
Ireland.....	3,514	29,262		32,776
United Kingdom.....	1,629	12,593		14,222
United States of America.....	545	512		1,057
Poland.....	1,555	1,489		3,044
Rest of the World.....	-	15		15
	7,243	43,871		51,114

#### *Provision and allowance for loan losses*

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

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan or overdraft account. Certain consumer portfolios are provided for on a delinquency basis. These portfolios are Credit Cards, Leasing and Home Mortgages. The amount of the specific provision made in AIB Group's consolidated financial statements is intended to cover the difference between the balance outstanding on problem loans and estimated recoveries.



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

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

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

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

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

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

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

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

## Movements in the allowance for loan losses

	December 31,				
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(Euro in millions)				
Total allowance at beginning of period.....	862	1,009	872	771	538
Acquisition of subsidiary companies.....	-	-	-	35	184
Allowance of disposed loans.....	(135)	(2)	-	-	-
Transfer from provisions for contingent liabilities.....	-	-	-	-	-
Currency translation and other adjustments.....	(51)	(86)	46	33	43
Recoveries of provisions previously charged off.....	18	26	25	32	28
Amounts charged off					
Ireland.....	(65)	(62)	(34)	(33)	(31)
United Kingdom.....	(25)	(21)	(10)	(17)	(16)
United States of America.....	(23)	(89)	(42)	(44)	(43)
Poland.....	(69)	(106)	(24)	(18)	(6)
Rest of the World.....	-	(1)	(3)	(20)	(11)
	(182)	(279)	(113)	(132)	(107)
Provisions charged against income <sup>(1)</sup>					
Ireland.....	109	72	137	80	80
United Kingdom.....	62	43	36	40	31
United States of America.....	10	97	49	44	38
Poland.....	134	167	122	91	22
Rest of the World.....	-	-	2	3	7
	315	379	346	258	178
Recoveries of provisions against income <sup>(1)</sup>					
Ireland.....	(32)	(21)	(18)	(14)	(15)
United Kingdom.....	(11)	(11)	(16)	(11)	(21)
United States of America.....	-	-	-	(1)	-
Poland.....	(102)	(126)	(106)	(64)	(15)
Rest of the world.....	-	(1)	(2)	(3)	(14)
	(145)	(159)	(142)	(93)	(65)
Recoveries of provisions previously charged off <sup>(1)</sup>					
Ireland.....	(13)	(12)	(13)	(15)	(14)
United Kingdom.....	(2)	(2)	(1)	(6)	(4)
United States of America.....	(3)	(12)	(11)	(10)	(9)
Poland.....	-	-	-	(1)	(1)
Rest of the World.....	-	-	-	-	-
	(18)	(26)	(25)	(32)	(28)
Total allowance at end of period	664	862	1,009	872	771
Allowance at end of period					
Specific.....	348	435	539	436	401
General.....	316	427	470	436	370
Total.....	664	862	1,009	872	771
Amounts include:					
Loans and advances to banks.....	2	2	2	3	3
Loans and advances to customers.....	662	860	1,007	869	768
	664	862	1,009	872	771

<sup>(1)</sup> The aggregate of these sets of figures represents the total provisions for loan losses charged to income.

Commentary on the movements are detailed on page 28 i.e (provisions for loan losses), page 72 (net charge offs) and page 77 (movements in non-performing loans).

The following table reconciles the total provisions for loan losses charged to income as shown in (A), the table on page 71 above relating to "Movements in the allowance for loan losses", with that shown in (B), AIB Group's "Consolidated statement of income".

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
(A)			
Provisions charged against income.....	315	379	346
Recoveries of provisions charged against income.....	(145)	(159)	(142)
Recoveries of loans previously charged off.....	(18)	(26)	(25)
Total charged to income.....	152	194	179
(B)			
Provisions for loans losses.....	152	194	179

The following table presents additional information with respect to the provision and allowance for loan losses for the years ended December 31, 2003, 2002, 2001, 2000 and 1999.

	Years ended December 31,				
	2003	2002	2001	2000	1999
Allowance at end of period as a percentage of total loans, less unearned income, at end of period					
Specific Allowance.....	0.68%	0.80%	1.04%	0.94%	1.01%
General Allowance.....	0.62%	0.79%	0.90%	0.94%	0.93%
	1.30%	1.59%	1.94%	1.88%	1.94%

The reduction in allowance from 1.59% to 1.30% is mainly due to the increase in total loans in the period of 15.5% (19.4% on a constant currency basis).

Specific allowances are allocated to individual non-performing loans (see page 74 for geographic split by sector).

The specific allowances as a percentage of loans has decreased from 0.80% to 0.68% for 2003 but when adjusted for the divestment of Allfirst the comparable figure for 2002 is 0.91%. The underlying decrease of 0.23% is largely impacted by advances growth on a constant currency basis of 19.4% in 2003 and a net reduction in NPL levels and hence specific provisions.

The general allowance as a percentage of loans has decreased from 0.79% (adjusted for the divestment of Allfirst 0.69%) to 0.62% mainly influenced by advances growth.

Other factors which have influenced the level of general allowance as a percentage of loans are:

- an increase in Residential Mortgages as a percentage of the total portfolio from 19.5% to 25.7%, i.e. a product sector with a lower level of risk replacing higher risk sectors.
- a lower level of General Provision required in our GB & NI division based on provision experience and asset quality.
- some continued uncertainty in the environments in which our divisions operate and the potential loss associated with the USA aircraft lease portfolio (portfolio size €54 million).
- some improvement in the value of loans classified as Watch grade in Poland.

	Years ended December 31,				
	2003	2002	2001	2000	1999
Provisions charged to income and net loans charged off as a percentage of average loans					
Total provisions charged to income.....	0.31%	0.37%	0.36%	0.30%	0.24%
Net loans charged off.....	0.33%	0.48%	0.18%	0.23%	0.22%

### Net loans charged-off 2003

Group net loans charged-off at 0.33% of average advances (€164 million) for the year to December 2003 compares with 0.48% or €253 million for 2002. The decrease of €89 million is influenced by a number of factors including the following:

*Ireland* – increased by €2 million since December 2002 and includes the charge-off of corporate credits in the energy sector of €11 million (which were provided for in 2002).

*United Kingdom* – increased by €5 million with increases in Capital Markets division partially offset by decreases in Retail operations in GB and NI. The increase in Capital Markets relates to the charge-off of a corporate credit in the services sector of €18 million (provided for in 2003).

*USA* – decreased by €57 million due to the divesting of Allfirst.

*Poland* – decreased by €38 million reflecting a higher level of charge-offs in 2002 associated with changes in the charge-off process.

## Net loans charged-off 2002

Group net loans charged-off at 0.48% of average advances or €253 million for the year to December 2002 compares with 0.18% or €88 million for the year to December 2001. The increase of €165 million is influenced by a number of factors including the following:

*Ireland* – increased by €29 million since December 2001 impacted by the introduction of a new provisioning system in Credit Card Centre which accounted for €16 million of the increase and the charge-off of a small number of corporate credits in the energy and manufacturing sectors of €8 million.

*United Kingdom* – increased by €9 million due primarily to the charge-off of two large corporate credits in the manufacturing sector.

*USA* – increased by €46 million primarily relating to the charge-off of a telecommunications credit of €40 million and an aircraft lease of €9.7 million.

*Poland* – increased by €83 million impacted by the introduction of an accelerated write-down policy which resulted in €75 million of aged non-accrual loans being written in the year to December 2002.

The following table presents an analysis of AIB Group's loans charged off for the years ended December 31, 2003 and 2002.

### Analysis of loans charged off

	Years ended December 31,			
	2003	Recoveries of loans previously charged off	2002	Recoveries of loans previously charged off
	Loans charged off	(Euro in millions)	Loans charged off	
<b>IRELAND</b>				
Agriculture.....	2.8	1.8	0.9	1.2
Energy.....	10.8	–	4.4	–
Manufacturing.....	3.8	0.2	5.1	0.4
Construction and property.....	2.5	1.2	2.1	0.9
Distribution.....	3.6	0.6	3.4	2.0
Transport.....	1.2	0.1	0.9	–
Financial.....	0.5	1.7	0.4	–
Services.....	4.7	2.9	2.4	1.0
Personal - Residential mortgages.....	1.3	–	2.0	0.7
- Overdraft/installment.....	31.0	4.3	36.2	4.2
Lease financing.....	2.7	0.2	4.4	1.9
	<b>64.9</b>	<b>13.0</b>	<b>62.2</b>	<b>12.3</b>
<b>UNITED KINGDOM</b>				
Agriculture.....	–	–	1.2	–
Manufacturing.....	0.5	0.2	9.4	1.4
Construction and property.....	0.8	0.3	1.6	0.1
Distribution.....	0.8	0.2	2.5	0.3
Transport.....	0.1	–	0.1	–
Services.....	18.4	0.3	1.5	0.1
Personal - Residential mortgages.....	0.1	–	–	–
- Overdraft/installment.....	4.6	0.7	4.5	0.4
	<b>25.3</b>	<b>1.7</b>	<b>20.8</b>	<b>2.3</b>
<b>UNITED STATES OF AMERICA</b>				
Commercial.....	18.9	1.5	56.8	1.9
Real Estate.....	–	–	0.6	0.4
Residential mortgages.....	0.3	–	2.1	1.3
Retail.....	4.1	1.7	19.4	8.0
Bankcard.....	–	–	–	–
Leases receivable.....	–	–	9.8	0.2
	<b>23.3</b>	<b>3.2</b>	<b>88.7</b>	<b>11.8</b>
<b>POLAND</b> .....	<b>68.8</b>	<b>–</b>	<b>106.6</b>	<b>–</b>
<b>REST OF THE WORLD</b> .....	<b>–</b>	<b>–</b>	<b>1.0</b>	<b>–</b>
<b>TOTAL</b> .....	<b>182.3</b>	<b>17.9</b>	<b>279.3</b>	<b>26.4</b>

The following table presents an analysis of AIB Group's allowance for loan losses at December 31, 2003, 2002 and 2001.

	December 31,		
	2003	2002 (Euro in millions)	2001
<b>IRELAND</b>			
Agriculture.....	8	9	8
Energy.....	12	24	9
Manufacturing.....	13	12	13
Construction and property.....	5	4	4
Distribution.....	7	6	6
Transport.....	5	2	1
Financial.....	1	1	1
Services.....	18	14	8
Personal - Residential mortgages.....	4	5	4
- Overdraft/installment.....	50	48	46
Lease financing.....	20	19	18
	<b>143</b>	<b>144</b>	<b>118</b>
<b>UNITED KINGDOM</b>			
Agriculture.....	2	2	3
Energy.....	-	5	-
Manufacturing.....	14	5	26
Construction and property.....	3	4	4
Distribution.....	8	3	4
Transport.....	1	1	3
Financial.....	2	2	-
Services.....	11	11	8
Personal - Residential mortgages.....	1	1	1
- Overdraft/installment.....	7	6	10
	<b>49</b>	<b>40</b>	<b>59</b>
<b>UNITED STATES OF AMERICA</b>			
Commercial.....	-	15	13
Real Estate.....	-	-	1
Residential mortgages.....	-	3	5
Retail.....	-	11	15
	<b>-</b>	<b>29</b>	<b>34</b>
<b>POLAND</b>			
Commercial.....	120	176	279
Personal.....	30	45	46
Lease financing.....	5	-	-
	<b>155</b>	<b>221</b>	<b>325</b>
<b>REST OF THE WORLD.....</b>			
	<b>1</b>	<b>1</b>	<b>3</b>
<b>TOTAL SPECIFIC ALLOWANCE.....</b>	<b>348</b>	<b>435</b>	<b>539</b>
<b>TOTAL GENERAL ALLOWANCE.....</b>	<b>316</b>	<b>427</b>	<b>470</b>
<b>TOTAL ALLOWANCE.....</b>	<b>664</b>	<b>862</b>	<b>1,009</b>
Amounts include:			
Loans and advances to banks.....	2	2	2
Loans and advances to customers.....	662	860	1,007
	<b>664</b>	<b>862</b>	<b>1,009</b>

*Risk elements in lending*

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

	<b>December 31,</b>				
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>(Euro in millions)</b>				
Loans accounted for on a non-accrual basis <sup>(1)</sup>					
Ireland.....	264	290	195	162	146
United Kingdom.....	111	107	107	98	101
United States of America.....	-	104	85	85	44
Poland.....	332	486	643	523	436
Rest of the World.....	-	3	3	3	26
	<b>707</b>	<b>990</b>	<b>1,033</b>	<b>871</b>	<b>753</b>
Accruing loans which are contractually past due 90 days or more as to principal or interest <sup>(2)</sup>					
Ireland.....	95	78	63	79	57
United Kingdom.....	18	9	18	19	27
United States of America.....	-	43	51	36	32
	<b>113</b>	<b>130</b>	<b>132</b>	<b>134</b>	<b>116</b>
Restructured loans not included above <sup>(3)</sup> .....	-	-	-	-	-
Other real estate and other assets owned.....	-	26	14	30	29

<sup>(1)</sup> Total interest income that would have been recorded during the year ended December 31, 2003 had interest on non-accrual loans been included in income amounted to €36 million - €14 million for Ireland, €4 million for the United Kingdom, €1 million for the United States of America, €17 million for Poland and zero for rest of the world. Interest on non-accrual loans included in income for the year ended December 31, 2003 totalled €21 million.

<sup>(2)</sup> Overdrafts generally have no fixed repayment schedule and consequently are not included in this category.

<sup>(3)</sup> Outside of the United States, AIB Group does not normally renegotiate doubtful loans at concessionary rates of interest.

AIB Group generally expects that loans where known information about possible credit problems causes management to have serious doubt as to the ability of borrowers to comply with loan repayment terms would be included under its definition of non-performing and would therefore have been reported in the above table. However, management’s best estimate of loans, not included above, that are current as to payment of principal and interest but concerning which AIB Group has serious doubts as to the ability of the borrower to comply with loan repayment terms, totalled approximately €40 million at December 31, 2003 (€114 million at December 31, 2002). The reduction is primarily due to the divesting of Allfirst during 2003.

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

Loans where a provision exists in anticipation of a loss are also included in non-performing loans. For example, in our Poland division, loans that are 30 days overdue require a provision in order to comply with National Bank of Poland regulations or in the case of our consumer portfolios where provisioning is based on delinquency, e.g. in the case of credit cards when the repayment is greater than 30 days overdue, a provision is required. Therefore as provisions exist on these loans they are included in our non-performing loans.

The following table presents an analysis of AIB Group's loans which are accounted for on a non-accrual basis at December 31, 2003, 2002 and 2001.

	<b>December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>(Euro in millions)</b>		
<b>IRELAND</b>			
Agriculture.....	21	23	21
Energy.....	25	62	14
Manufacturing.....	18	17	19
Construction and property.....	12	14	11
Distribution.....	28	17	14
Transport.....	10	17	3
Financial.....	2	2	1
Services.....	33	27	16
Personal - Residential mortgages.....	19	18	18
- Overdraft/installment.....	74	75	62
Lease financing.....	22	18	16
	<b>264</b>	<b>290</b>	<b>195</b>
<b>UNITED KINGDOM</b>			
Agriculture.....	2	2	3
Energy.....	-	15	-
Manufacturing.....	24	10	19
Construction and property.....	9	16	13
Distribution.....	23	18	24
Transport.....	2	3	3
Financial.....	3	5	-
Services.....	32	24	30
Personal - Residential mortgages.....	6	6	9
- Overdraft/installment.....	10	8	6
	<b>111</b>	<b>107</b>	<b>107</b>
<b>UNITED STATES OF AMERICA</b>			
Commercial.....	-	89	62
Real Estate.....	-	6	5
Residential mortgages.....	-	9	18
	<b>-</b>	<b>104</b>	<b>85</b>
<b>POLAND</b>			
Agriculture.....	19	21	39
Energy.....	-	2	8
Manufacturing.....	98	159	236
Construction and property.....	45	68	67
Distribution.....	85	129	158
Transport.....	5	7	7
Financial.....	5	13	38
Services.....	21	34	21
Total commercial.....	<b>278</b>	<b>433</b>	<b>574</b>
Personal - Residential mortgages.....	18	16	8
- Overdraft/installment.....	28	37	61
Total personal.....	<b>46</b>	<b>53</b>	<b>69</b>
Lease financing.....	8	-	-
	<b>332</b>	<b>486</b>	<b>643</b>
<b>REST OF THE WORLD.....</b>	<b>-</b>	<b>3</b>	<b>3</b>
<b>TOTAL.....</b>	<b>707</b>	<b>990</b>	<b>1,033</b>

### Non-performing loans

Group loans accounted for on a non-accrual basis decreased by €283 million and as a percentage of advances decreased from 1.8% to 1.4% between December 31, 2002 and December 31, 2003. Net of exchange rate movements the decrease was €188 million influenced by the divesting of Allfirst in Quarter 1 2003 (€107 million at December 2002) and a significant reduction in non-performing loans in Poland.

In the Republic of Ireland, loans accounted for on a non-accrual basis decreased by €26 million during the year to December 31, 2003 and have reduced as a percentage of advances from 1.0% at December 2002 to 0.8%. The decrease relates primarily to Capital Markets division where a number of corporate cases were settled/charged-off partially offset by an increase in ROI division.

In the United Kingdom, loans accounted for on a non-accrual basis increased by €4 million to €111 million for the year to December 31, 2003 spread across a number of sectors.

In the United States, there are no non-accrual loans following the divesting of Allfirst.

In Poland, the decrease of €154 million (€84 million net of currency exchange rate movements) in loans accounted for on a non-accrual basis in the year to December 31, 2003 has been assisted by charge-offs and a reduction in the rate of gross new non-performing loans. Non-accrual loans have reduced as a percentage of advances from 14.8% at December 31, 2002 to 10.9% at December 31, 2003.

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

The allowance for loan losses as a percentage of non-accrual loans increased to 94% as at December 31, 2003, from 87% (or 80% excluding Allfirst) as at December 31, 2002. This increase was primarily due to reduced levels in non-performing loans and the additional €5 million unallocated provision raised at Group level.

In accordance with AIB Group's provisioning policy for loan losses, it is considered that appropriate provisions for the above losses have been made. See "Provision and allowance for loan losses" on page 71.

### Cross-border outstandings

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

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

	As % of total assets <sup>(1)</sup>	Total	Banks and other financial institutions	Government and official institutions	Commercial industrial and other private sector
(Euro in millions)					
December 31, 2003					
United Kingdom.....	6.1%	4,962	1,852	548	2,562
United States.....	3.6%	2,896	342	686	1,868
Germany.....	2.6%	2,122	1,466	488	168
Spain.....	1.7%	1,356	352	255	749
Netherlands.....	1.6%	1,298	556	87	655
Italy.....	1.4%	1,136	158	691	287
Poland.....	1.3%	1,035	61	87	887
Australia.....	1.1%	854	346	-	508
December 31, 2002					
United Kingdom.....	6.4%	5,461	2,026	618	2,817
United States.....	3.9%	3,332	680	516	2,136
Germany.....	1.9%	1,609	1,255	114	240
Italy.....	1.6%	1,398	173	995	230
Poland.....	1.4%	1,179	160	91	928
Spain.....	1.0%	895	75	299	521
Netherlands.....	1.0%	856	348	65	443
December 31, 2001					
United Kingdom.....	6.4%	5,748	2,243	268	3,237
United States.....	2.9%	2,570	250	568	1,752
Germany.....	2.7%	2,443	1,881	323	239
Italy.....	1.6%	1,419	464	731	224
Netherlands.....	1.1%	1,002	346	104	552
Poland.....	1.1%	952	295	89	568

<sup>(1)</sup> Assets, consisting of total assets as reported in the consolidated balance sheet and acceptances, totalled €80,972 million at December 31, 2003 (2002: €85,893 million; 2001: €89,203 million).

At December 31, 2003 cross-border outstandings to borrowers in France amounted to 0.98%. At December 31, 2002 cross-border outstandings to borrowings in Australia and France amounted to 0.85% and 0.70% respectively.



### *Concentrations of credit risk*

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

## **PART II**

### **Item 13. *Defaults, dividend arrearages and delinquencies***

- (a) None
- (b) None

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

- (a) None
- (b) None
- (c) Not applicable
- (d) No changes
- (e) Not applicable

### **Item 15. *Controls and procedures***

#### *Evaluation of disclosure controls and procedures*

Within the 90 days prior to the date of this report, the Group carried out an evaluation under the supervision of and with the participation of the Group's management, including the Group Chief Executive and the Group Director, Finance & Enterprise Technology, of the effectiveness of the design and operation of the Group's disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon and as of the date of the Group's evaluation, the Group Chief Executive and the Group Director, Finance & Enterprise Technology concluded that the disclosure controls and procedures are effective in all material respects to ensure that information required to be disclosed in the reports the Group files and submits under the US Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported as and when required. However, as a result of the matters identified in Recent Developments on page 7 of this report, if any weaknesses are identified, appropriate corrective measures will be implemented.

### **Item 16. *(a) Audit committee financial expert***

The Board of Directors has determined that Mr Adrian Burke is an "Audit committee financial expert" as defined by the regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Mr Burke has accepted this determination by the Board on the understanding that he has not agreed to undertake additional responsibilities beyond those of a member (and Chairman) of the Audit Committee. For a description of his experience see "Item 6: Directors, Senior Management and Employees".

#### ***(b) Code of ethics***

AIB Group has adopted a code of business ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and to all employees of the Group. A copy of this code of business ethics is available on our Internet website at <http://www.aibgroup.com/investorrelations>. (The information found at this website is not incorporated by reference into this document). There have been no amendments or waivers to this code of business ethics since its adoption. Information regarding any future amendments or waivers will be published on the aforementioned website.

#### ***(c) Principal accountant fees and services***

The audit committee is responsible for approving and reviewing the appointment and retirement of the external auditors, as well as overseeing their relationship with the Group. This includes conducting an annual review of the independence and effectiveness of the external auditors and the recommendation to the Board as to the level of fees to be paid to the external auditors. Further details as to the levels of fees paid to the external auditors in each of the last three years as well as the audit committee's pre approval policy for non-audit work are provided in Note 11 to the consolidated financial statements.

### PART III

**Item 17. Financial statements**

(Not responded to as Item 18 is complied with)

**Item 18 and 19. Financial statements and exhibits**

(a) Financial statements

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(b) Exhibits

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
1.1	Special resolutions of Allied Irish Banks, p.l.c.
31.1	Section 302 Certifications - Michael Buckley
31.2	Section 302 Certifications - Gary Kennedy
32.1	Section 906 Certifications - Michael Buckley
32.2	Section 906 Certifications - Gary Kennedy

## ALLIED IRISH BANKS, p.l.c.

### Accounting policies

The accounts on pages 85 to 170 have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments held for dealing purposes, assets held in the long-term assurance business and certain properties. The accounts comply with the requirements of Irish statute comprising the Companies Acts 1963 to 2001 and the European Communities (Credit Institutions: Accounts) Regulations, 1992, and with applicable accounting standards issued by the Accounting Standards Board, pronouncements of the Urgent Issues Task Force ("UITF"), and with the Statements of Recommended Practice issued by the British Bankers' Association and the Irish Bankers' Federation ("Irish GAAP"), except as described in note 53 in respect of the treatment of the losses arising from the fraudulent foreign exchange trading activities at Allfirst Bank. 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.

The effect on the Group's consolidated net income, consolidated total assets, consolidated total liabilities and ordinary stockholders' equity had US Generally Accepted Accounting Principles ("US GAAP") been applied in the preparation of these accounts is set out in note 50.

#### Change in accounting policy and presentation of financial information

##### (a) Own Shares

The Group implemented UITF Abstract 37 "Purchases and sales of own shares" in the preparation of its accounts for the year ended December 31, 2003 and comparative figures have been restated. Under UITF 37, no gain or loss is recognized in the consolidated statement of income, or statement of total recognized gains and losses, as a result of transactions by the parent company or its subsidiary companies in its own shares. In addition, the cost of shares acquired by a parent company or its subsidiary companies is deducted in arriving at consolidated ordinary stockholders' equity. The application of UITF 37, has reduced profit before taxation for 2002 by €3.3 million (2001: nil) and reduced long-term assurance assets attributable to policyholders and ordinary stockholders' equity at December 31, 2002 by €52 million (2001: €52 million).

The Group implemented UITF Abstract 38 "Accounting for Employee Share Ownership Plan ("ESOP") Trusts" in the preparation of its accounts for the year ended December 31, 2003 and comparative figures have been restated. UITF 38 supersedes UITF 13 "Accounting for ESOP Trusts" and requires that until such time as the company's own shares held by an ESOP trust vest unconditionally in the employees, the consideration paid for the shares should be deducted in arriving at ordinary stockholders' equity. The application of UITF 38 reduced consolidated total assets and consolidated ordinary stockholders' equity at December 31, 2002 by €176 million (2001: €245 million).

##### (b) Change in presentation of financial information

The profit segments by division have been restated to reflect the following: (a) the movement of Allied Irish America from USA division to Capital Markets division; (b) the centralization of the management of our Treasury operations in Poland to Capital Markets division; and (c) a change in the allocation of pension costs across business segments.

#### Principal accounting policies

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

##### (a) Basis of consolidation

The Group accounts include the accounts of Allied Irish Banks, p.l.c. (*the parent company*) and its subsidiary undertakings made up to the end of the financial year. A subsidiary undertaking is one where the Group's interest is greater than or equal to 50% and where the Group controls the subsidiaries operating and financial policies. All intercompany balances and transactions are eliminated in the consolidated accounts.

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

##### (b) Interests in associated undertakings

An associated undertaking generally is one in which the Group's interest is greater than 20% and less than or equal to 50% and where the Group exercises significant influence over but does not control the entity's operating and financial policies. Interests in associated undertakings are included in the consolidated balance sheet at the Group's share of the book value of the net assets of the undertakings concerned, less provisions for any impairment in value. Goodwill arising on the acquisitions of associates occurring after January 1, 1998 is included within the carrying amount of the associate less amortization to date. The attributable share of income of associated undertakings, based on accounts made up to the end of the financial year, is included in the consolidated statement of income using the equity method of accounting.

##### (c) Income and expense recognition

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

Accounting policies - (Continued)

**(d) Allowance for loan losses**

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

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

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

General provisions are also made to cover loans which are impaired at balance sheet date, and while not specifically identified, are known from experience to be present in any portfolio of bank advances. The Group holds general provisions at a level deemed appropriate by management taking into account a number of factors including:- the credit grading profiles and movements within credit grades; historic loan loss rates; local and international economic climates and portfolio sector profiles /industry conditions. The level of general provisions is reviewed quarterly to ensure that it remains appropriate.

Loans and advances to banks and customers are reported in the balance sheet having deducted the total provisions for loan losses (*note 23*).

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

**(e) Debt securities**

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

Debt securities held for trading purposes are stated in the balance sheet at market value. Both realized and unrealized profits on trading securities are taken directly to the statement of income and included within dealing profits.

Investment or other securities may be lent or sold subject to a commitment to repurchase them. Securities sold are retained on the balance sheet where substantially all the risks and rewards of ownership remain with the Group. Similarly, securities purchased subject to a commitment to resell are treated as collateralized lending transactions where the Group does not acquire the risks or rewards of ownership.

**(f) Finance leases**

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership. Finance lease receivables are stated in the balance sheet at the cost of the asset, including gross earnings to date, less rentals earned to date and provisions for impairment. In addition rentals received in advance but not yet amortized to the statement of income are included in other liabilities.

Income from finance leasing transactions is apportioned over the primary leasing period on an after tax basis in proportion to the net cash investment using the investment period method. Government grants in respect of these assets are credited to the statement of income on the same basis.

**(g) Hire purchase and installment finance**

Amounts receivable under hire purchase contracts are stated in the balance sheet at the cost of the asset, including gross earnings to date less rentals received to date and provisions for impairment.

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

**(h) Securitized assets**

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

**(i) Operating leases**

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

Accounting policies - (Continued)

**(j) Property and equipment**

It is Group policy not to revalue its property and equipment. The Group adopted the transitional arrangements of FRS 15 "Tangible Fixed Assets" and chose to retain the book amounts of previously revalued assets in its accounting records.

Property and equipment is depreciated on a straight line basis over its estimated useful economic life.

No depreciation is provided on freehold land. Freehold and long leasehold properties are written off over their estimated useful lives of 50 years.

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

The estimated useful life for costs of adaptation of freehold and leasehold property are 10 years for branch properties and 15 years for office properties, in all cases subject to the maximum remaining life of a lease. Such costs are included within property in the balance sheet total of property and equipment.

Computer hardware, operating software and application software are written off over their estimated useful lives of 3 to 5 years, while other equipment and furnishings are written off over 3 to 10 years. The estimated useful life of motor vehicles is 5 years.

The Group reviews its depreciation rates regularly. Expenditure incurred to date amounting to €62 million on the development of computer systems has been capitalized and included under equipment. This expenditure is written off over a maximum period of 5 years and to date €26 million has been charged to the statement of income.

**(k) Equity shares**

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

**(l) Impairment**

Property and equipment and goodwill are subject to impairment review in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill" if there is evidence of changes in circumstances that the carrying amount of the fixed asset or goodwill may not be recoverable. For the purpose of conducting impairment reviews, income generating units are identified as groups of assets, liabilities and associated goodwill that generate income that is largely independent of other income streams.

The impairment review comprises a comparison of the carrying amount of the fixed asset or goodwill with its recoverable amount, which is the higher of net realizable value and value in use. Net realizable value is calculated by reference to the amount at which the asset could be disposed of. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including that resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. Any loss is recognized in the statement of income in the year in which impairment occurs through the writing down of the asset. If the occurrence of an external event gives rise to the reversal of an impairment loss, the reversal is recognized in the statement of income, by increasing the carrying amount of the fixed asset or goodwill in the period in which it occurs.

**(m) Non-credit risk provisions**

Provisions are recognized for present obligations arising as a consequence of past events where it is probable that a transfer of economic benefits will be necessary to settle the obligation and it can be reliably estimated.

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

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

Where the Group has a detailed 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 the restructuring including retirement benefit and redundancy costs. The provision raised is normally utilized within twelve months.

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 recognized but are disclosed unless they are remote.

## ALLIED IRISH BANKS, p.l.c.

### Accounting policies - (Continued)

#### (n) Credit related instruments

The Group treats credit related instruments (other than credit derivatives) as contingent liabilities and these are not recognized on the balance sheet unless and until the Group is called upon to make a payment under the instrument. Assets arising from payments to a third party where the Group is awaiting reimbursement from a customer are shown on the balance sheet where reimbursement is considered to be virtually certain. Fees for providing these instruments are taken to the statement of income over the life of the instrument and reflected in fees and commissions receivable.

#### (o) Retirement benefits

AIB Group provides a number of defined benefit and defined contribution retirement benefit plans in various geographic locations, the majority of which are funded.

In relation to the defined benefit plans, a full actuarial valuation is undertaken every three years and is updated to reflect current conditions in the intervening periods. Plan assets are valued at market value. Plan liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Plans in surplus are shown as assets on the balance sheet net of the deferred tax impact. Plans in deficit together with unfunded plans are shown on the balance sheet as liabilities net of the deferred tax impact. Actuarial gains and losses are recognized immediately in the statement of total recognized gains and losses.

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

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

#### (p) Deferred taxation

Except as outlined below deferred taxation is recognized in full in respect of timing differences that have originated but not reversed at the balance sheet date. Deferred tax is not provided on timing differences arising:- on the revaluation of property when no commitment has been made to sell the asset; when a taxable gain on the sale of an asset is rolled over into replacement assets; or on the potential additional tax that may be payable on the payment of a dividend by a subsidiary where no commitment has been made to pay a dividend.

Deferred tax assets are recognized to the extent that, on the basis of the available evidence, it is regarded as more likely than not that there will be suitable taxable income from which the future reversal of the underlying timing differences can be deducted. The calculation of the deferred taxation asset or liability is based on the taxation rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

#### (q) Foreign currencies

Assets and liabilities denominated in foreign currencies and commitments for the purchase and sale of foreign currencies are translated at appropriate spot or forward rates of exchange ruling on the balance sheet date. Profits and losses arising from these translations and from trading activities are included as appropriate, having regard to the nature of the transactions, in other operating income or dealing profits.

In the case of net investments in foreign subsidiaries, associated undertakings and branches, exchange adjustments arising from the retranslation of these investments, net of hedging profits and losses, are recognized in the statement of total recognized gains and losses.

Profits and losses arising in foreign currencies have been translated at average rates for the year. The adjustment arising on the retranslation of profits and losses to balance sheet rates is recognized in the statement of total recognized gains and losses.

#### (r) Capital instruments

Issue expenses of capital instruments are deducted from the proceeds of issue and, where appropriate, are amortized to the statement of income so that the finance costs are allocated to accounting periods at a constant rate based on the carrying amount of the instruments. The issue expenses amortized to the statement of income are subsequently transferred to the share premium account.

#### (s) Intangible assets and goodwill

Goodwill may arise on the acquisition of subsidiary and associated undertakings. Purchased goodwill is the excess of cost over the fair value of the Group's share of net assets acquired. In accordance with FRS 10 "Goodwill and Intangible Assets", purchased goodwill and intangible assets arising on acquisition of subsidiary and associated undertakings, occurring after January 1, 1998, are capitalized as assets on the balance sheet and amortized to the statement of income over their estimated useful economic lives. The useful economic life of goodwill is determined at the time of acquisition, taking into consideration factors such as the nature of the business acquired, the market in which it operates and its position in that market. In all cases goodwill is subject to a maximum life of 20 years and is subject to review in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill".

## ALLIED IRISH BANKS, p.l.c.

### Accounting policies - (Continued)

Goodwill arising on acquisitions of subsidiary and associated undertakings prior to December 31, 1997 has been written off to profit and loss account reserves in the year of acquisition. In accordance with the transitional arrangements of FRS 10 this goodwill was not reinstated when FRS 10 was implemented. At the date of disposal of subsidiary or associated undertakings, any unamortized goodwill, or goodwill written off directly to profit and loss account reserves on acquisitions prior to January 1, 1998, is included with the Group's share of net assets of the undertaking disposed in the calculation of the profit or loss on disposal.

#### (t) Own shares

Shares in Allied Irish Banks, p.l.c. held by the parent company or its subsidiary companies, including those held within the long-term assurance assets attributable to policyholders, are deducted in arriving at consolidated ordinary stockholders' equity. Income or expenses on transactions in AIB shares are excluded from the consolidated statement of income.

Shares held by Employee Share Trusts are deducted in arriving at ordinary stockholders' equity where the shares have not vested unconditionally in the employees.

Where shares are granted to employees at a discount to market price the cost of providing these shares is charged to the statement of income on a systematic basis over the period to date of vesting. Dividend income received by the plans is excluded in arriving at income before taxation, and dividends on equity shares is reduced accordingly.

Shares held by the trusts and by Group companies are excluded from the earnings per share calculation.

#### (u) Derivatives

The Group uses derivatives, such as interest rate swaps, options, forward rate agreements and financial futures for trading and non-trading purposes (*note 44*). The accounting treatment of these derivative instruments is dependent on the purpose for which they are entered into.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise as a result of activity generated by customers while others represent proprietary trading with a view to generating incremental income. Trading instruments and hedges thereof are recognized in the accounts at fair value with the adjustment arising included in other assets and other liabilities as appropriate.

Gains and losses arising from trading activities are included in dealing profits in the statement of income using the mark to market method of accounting. Interest and dividend income arising together with the funding costs relating to trading activities are included in net interest income.

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

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

Assets and liabilities arising from derivative transactions are reported gross in other assets or liabilities reduced by the effects of qualifying netting agreements where the Group has the right to insist on net settlement that would survive the insolvency of the counterparty.

#### (v) Long-term assurance business

The value placed on the Group's long-term assurance business attributable to stockholders represents a valuation of the policies in force together with the net tangible assets of the business including any surplus retained in the long-term business funds which could be transferred to stockholders. The value is determined on the advice of a qualified actuary on an after tax basis and is included separately in the consolidated balance sheet.

Movements in the value placed on the Group's long-term assurance business attributable to stockholders, grossed up for taxation, are included in other operating income.

#### (w) Fiduciary and trust activities

Allied Irish Banks, p.l.c. and some subsidiary undertakings act as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, investment trusts, pension plans and unit trusts. These assets are not consolidated in the accounts as they are not assets of Allied Irish Banks, p.l.c. or its subsidiary undertakings. Fees and commissions earned in respect of these activities are included in the statement of income.

**ALLIED IRISH BANKS, p.l.c.**

**Consolidated Statements of Income**

	Notes	Years ended December 31,				
		2003 Continuing activities	2003 Discontinued <sup>(1)</sup> activities (Euro in millions)	2003 Total	2002 Restated <sup>(2)</sup>	2001
Interest income:						
Interest income and similar income arising from debt securities and other fixed income securities.....		700	12	712	946	1,198
Other interest receivable and similar income.....	5	2,773	125	2,898	3,807	4,148
Less: interest expense.....	6	(1,633)	(43)	(1,676)	(2,402)	(3,088)
Net interest income.....		1,840	94	1,934	2,351	2,258
Other finance income.....	7	14	(2)	12	62	67
Dividend income.....	8	15	1	16	14	11
Fees and commissions receivable.....	53	934	80	1,014	1,301	1,258
Less: fees and commissions payable.....		(117)	(8)	(125)	(138)	(128)
Dealing profits.....	9	127	8	135	74	92
Exceptional foreign exchange dealing losses.....	9&54	-	-	-	(18)	(417)
Other operating income.....	10	141	25	166	263	193
Other income.....		1,100	106	1,206	1,496	1,009
Total operating income.....		2,954	198	3,152	3,909	3,334
Before exceptional item.....		2,954	198	3,152	3,927	3,751
Exceptional foreign exchange dealing losses.....	9&54	-	-	-	(18)	(417)
Administrative expenses:						
Staff and other administrative expenses.....	11(a)	1,597	112	1,709	2,108	2,045
Restructuring and integration costs in continuing businesses.....	11(b)	72	-	72	13	38
Administrative expenses.....		1,669	112	1,781	2,121	2,083
Depreciation and amortization.....	12	170	9	179	207	195
Total operating expenses.....		1,839	121	1,960	2,328	2,278
Group operating income before provisions.....		1,115	77	1,192	1,581	1,056
Before exceptional item.....		1,115	77	1,192	1,599	1,473
Exceptional foreign exchange dealing losses.....	9&54	-	-	-	(18)	(417)
Provisions for loan losses.....		142	10	152	194	179
Provisions for contingent liabilities and commitments.....		9	-	9	2	19
Amounts written off fixed asset investments.....	13	16	-	16	55	6
		167	10	177	251	204
Group operating income - continuing operations.....		948	67	1,015	1,330	852
Before exceptional item.....		948	67	1,015	1,348	1,269
Exceptional foreign exchange dealing losses.....	9&54	-	-	-	(18)	(417)
Share of operating income of associated undertakings.....		143	-	143	9	4
Share of restructuring and integration costs in associated undertaking.....		(20)	-	(20)	-	-
Amortization of goodwill on aquisition of associated undertaking.....		(42)	-	(42)	-	-
Income on disposal of property.....		32	-	32	5	6
(Loss)/gain on disposal of businesses.....	15	(142)	1	(141)	-	93
Income before taxes (carried forward).....		919	68	987	1,344	955
Before exceptional item.....		919	68	987	1,362	1,372
Exceptional foreign exchange dealing losses.....	9&54	-	-	-	(18)	(417)



ALLIED IRISH BANKS, p.l.c.

Consolidated Statements of Income - (Continued)

	Notes	Years ended December 31,				
		2003 Continuing activities	2003 Discontinued <sup>(1)</sup> activities (Euro in millions)	2003 Total	2002 Restated <sup>(2)</sup>	2001
Income before taxes ( <i>brought forward</i> ).....		919	68	987	1,344	955
Applicable taxes.....	16	296	19	315	296	187
Income after taxes.....		623	49	672	1,048	768
Equity and non-equity minority interests in subsidiaries.....	17	10	1	11	24	23
Dividends on non-equity shares.....	18	5	-	5	8	15
		15	1	16	32	38
Net income applicable to ordinary stockholders.....		608	48	656	1,016	730
Earnings per €0.32 ordinary share – basic.....	20(a)			76.3c	117.0c	84.8c
Earnings per €0.32 ordinary share – adjusted.....	20(b)			107.0c	122.7c	108.6c
Earnings per €0.32 ordinary share – diluted.....	20(c)			75.9c	115.8c	84.2c
Net income in accordance with accounting principles generally accepted in the United States.....	50			1,502	926	630

<sup>(1)</sup>This relates to the income and expense of Allfirst Financial Inc. from January 1, 2003 to March 31, 2003 (*note 1*).

<sup>(2)</sup>The figures for 2002 have been restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares.

The impact on the results for the year ended December 31, 2001 was not material (Accounting policies- page 80).

*The accompanying notes are integral part of these consolidated financial statements.*

ALLIED IRISH BANKS, p.l.c.

Consolidated Balance Sheets

	Notes	December 31,	
		2003	2002 Restated
(Euro in millions)			
<b>ASSETS</b>			
Cash and balances at central banks.....		838	1,176
Items in course of collection.....		339	1,171
Central government bills and other eligible bills.....	21	45	24
Loans and advances to banks.....	22	2,633	4,788
Gross loans and advances to customers.....		51,114	54,323
Allowance for loan losses.....		(662)	(860)
Unearned interest.....		(115)	(242)
Loans and advances to customers net.....		50,337	53,221
Money market funds.....		153	226
Securitized assets.....	23	50,490	53,447
Less: non-returnable proceeds.....		719	1,002
	24	(516)	(754)
Debt securities (2003: market value of €18,307 million; 2002: market value of €18,448 million).....	25	203	248
Equity shares.....	26	18,127	18,204
Interests in associated undertakings.....	27	180	246
Intangible fixed assets.....	28	1,361	31
Property and equipment.....	29	420	457
Other assets.....		792	1,178
Deferred taxation.....	30	1,507	1,153
Prepayments and accrued income.....		174	245
Long-term assurance business attributable to stockholders.....	31	636	927
		405	352
		78,150	83,647
Long-term assurance assets attributable to policyholders.....	31	2,810	2,174
		80,960	85,821
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Deposits by banks.....	32	18,094	16,137
Customer accounts.....	33	44,612	52,976
Debt securities in issue.....	34	3,489	3,077
Other liabilities.....	35	3,141	2,591
Accruals and deferred income.....		595	829
Pension liabilities.....	14	502	537
Provision for liabilities and charges.....	36	111	60
Deferred taxation.....	30	142	527
Subordinated liabilities.....	37	2,130	2,172
Equity and non-equity minority interests in consolidated subsidiaries.....	38	158	274
Memorandum items: contingent liabilities and commitments.....	43		
Stockholders' equity			
Ordinary shares of €0.32 each: 1,160 million authorized (2002: 1,160 million), 907.6 million and 897.4 million issued and outstanding as at December 31, 2003 and 2002, respectively and non-cumulative preference shares of US\$25 each: 20.0 million authorized and 0.25 million issued and outstanding at December, 31, 2003 and 2002 .....	39	295	293
Share premium account.....		1,885	1,918
Reserves.....		951	490
Profit and loss account.....		1,986	1,714
Total stockholders' funds including non-equity interests.....		5,117	4,415
Long-term assurance liabilities to policyholders.....	31	78,091	83,595
		2,869	2,226
		80,960	85,821

See note 50 for ordinary stockholders' equity in accordance with accounting principles generally accepted in the United States.

*The accompanying notes are integral part of these consolidated financial statements.*

ALLIED IRISH BANKS, p.l.c.

Consolidated Statements of Changes in Stockholders' Equity

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
<b>PREFERENCE SHARE CAPITAL</b>			
Balance, January 1 .....	6	7	7
Currency translation adjustments.....	(1)	(1)	-
Balance, December 31.....	5	6	7
<b>ORDINARY SHARE CAPITAL</b>			
Balance, January 1.....	287	284	281
Issued under:			
Dividend reinvestment plan (note 39).....	3	2	1
Other (note 39).....	-	1	2
Balance, December 31.....	290	287	284
<b>SHARE PREMIUM ACCOUNT</b>			
Balance, January 1.....	1,918	1,926	1,877
Premium arising on shares issued under:			
Employees' profit sharing plans.....	-	17	18
Executive share option plan.....	5	17	13
Allfirst Financial, Inc. stock option plan.....	2	3	4
Profit and loss account.....	(1)	(1)	(1)
Currency translation adjustments.....	(39)	(44)	15
Balance, December 31.....	1,885	1,918	1,926
<b>RESERVES</b>			
Balance, January 1.....	490	463	401
Profit and loss account.....	51	45	63
Realized gain on disposal of subsidiary undertaking.....	489	-	-
Property revaluation reserves.....	(16)	(15)	-
Currency translation and other adjustments.....	(63)	(3)	(1)
Balance, December 31.....	951	490	463
<b>PROFIT AND LOSS ACCOUNT RESERVES</b>			
Balance, January 1 .....	1,714	2,173 <sup>(1)</sup>	2,207 <sup>(1)</sup>
Actuarial loss recognized in retirement benefit plans (note 14).....	(50)	(823)	(402)
Net income.....	656	1,016 <sup>(2)</sup>	730
Writeback of goodwill on disposal of businesses.....	1,043	-	-
Dividends on equity shares (note 19).....	(452)	(429)	(380)
Ordinary share buyback.....	(812)	-	-
Other ordinary share capital issued/sold.....	55	-	-
Dividend reinvestment plan.....	105	74	22
Reserves capitalized.....	(51)	(45)	(63)
Net movements in own shares.....	141	37	(64)
Transfer from property revaluation reserves.....	16	15	-
Actuarial gain recognised in associated undertaking.....	8	-	-
Share premium account.....	1	1	1
Currency translation adjustments.....	(388)	(305)	122
Balance, December 31.....	1,986	1,714	2,173
<b>TOTAL STOCKHOLDERS' FUNDS INCLUDING NON-EQUITY INTERESTS</b>			
Analysed as to:			
Equity.....	4,921	4,180	4,574
Non-equity.....	196	235	279
	5,117	4,415	4,853

<sup>(1)</sup> The 2002 and 2001 amounts have been restated to reflect the implementation of UITF Abstract 38 - Accounting for ESOP Trusts.

<sup>(2)</sup> Reflects the implementation of UITF Abstract 37 - Purchases and sales of own shares.

<sup>(3)</sup> The cumulative goodwill arising on acquisitions of subsidiary and associated undertakings which are still part of the Group, and charged against profit and loss account reserves of the Group, amounted to €364 million at December 31, 2003 (2002: €1,507 million; 2001: €1,754 million).

Included within the profit and loss account reserve for the Group at December 31, 2003 is €485 million relating to the net pension liability in funded retirement benefit plans (note 14).

The accompanying notes are integral part of these consolidated financial statements.

**ALLIED IRISH BANKS, p.l.c.**

**Consolidated Cash Flow Statements**

	<u>Notes</u>	<u>Years ended December 31,</u>		
		<u>2003</u>	<u>2002</u> <u>Restated</u> <u>(Euro in millions)</u>	<u>2001</u> <u>Restated</u>
<b>Net cash inflow/(outflow) from operating activities.....</b>		1,631	(121)	231
<b>Dividends received from associated undertakings.....</b>		33	1	4
<b>Returns on investments and servicing of finance.....</b>	42(a)	(93)	(138)	(131)
<b>Equity dividends paid.....</b>		(378)	(345)	(334)
<b>Taxation.....</b>	42(b)	(273)	(280)	(242)
<b>Capital expenditure and financial investment.....</b>	42(c)	(1,049)	1,379	700
<b>Acquisitions and disposals.....</b>	42(d)	(1,049)	(5)	(59)
<b>Financing.....</b>	42(e)	(173)	(129)	208
<b>(Decrease)/increase in cash.....</b>	42(f)	(1,351)	362	377
<b>Reconciliation of Group operating income to net cash inflow/(outflow) from operating activities</b>				
Group operating income.....		1,015	1,330	852
Decrease/(increase) in prepayments and accrued income.....		106	1,162	(199)
(Decrease)/increase in accruals and deferred income.....		(95)	(1,171)	418
Provisions for loan losses.....		152	194	179
Provisions for contingent liabilities and commitments.....		9	2	19
Amounts written off fixed asset investments.....		16	55	6
Increase in other provisions.....		81	16	19
Depreciation and amortization.....		174	207	202
Amortization of own shares.....		-	-	2
(Loss)/gain on disposal of businesses.....		(141)	-	93
Interest on subordinated liabilities.....		47	83	133
Interest on reserve capital instruments.....		38	38	35
Income on disposal of debt securities and equity shares.....		(40)	(117)	(21)
Averaged gains on debt securities held for hedging purposes.....		(1)	(4)	(24)
Income on disposal of associated undertakings.....		-	(1)	(1)
Amortization of premiums net of (discounts) on debt securities held as financial fixed assets.....		23	(15)	(7)
Increase in long-term assurance business.....		(53)	(48)	(66)
<b>Net cash inflow from trading activities</b>		<b>1,331</b>	<b>1,731</b>	<b>1,640</b>
Net increase in deposits by banks.....		4,207	3,975	452
Net increase in customer accounts.....		5,729	2,299	4,647
Net increase in loans and advances to customers.....		(10,043)	(6,129)	(4,281)
Net decrease/(increase) in loans and advances to banks.....		591	982	(1,588)
(Increase)/decrease in central government bills.....		(41)	18	274
Net increase in debt securities and equity shares held for trading purposes.....		(1,216)	(1,180)	(1,394)
Net (decrease)/increase in items in course of collection.....		(161)	174	(374)
Net increase/(decrease) in debt securities in issue.....		1,082	(1,425)	533
Net increase/(decrease) in notes in circulation.....		41	(3)	44
(Increase)/decrease in other assets.....		(920)	(28)	(74)
Increase/(decrease) in other liabilities.....		701	(510)	464
Effect of currency translation and other adjustments.....		330	(25)	(112)
		300	(1,852)	(1,409)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>1,631</b>	<b>(121)</b>	<b>231</b>

*The accompanying notes are integral part of these consolidated financial statements.*

**ALLIED IRISH BANKS, p.l.c.**

**Statements of Total Recognized Gains and Losses**

	<b>Years ended December 31,</b>		
	<b>2003</b>	<b>2002</b> <b>Restated</b> <b>(Euro in millions)</b>	<b>2001</b>
Net income.....	656	1,016	730
Gain recognized on disposal of Allfirst ( <i>note 1</i> )	489	-	-
Currency translation differences on foreign currency net investments.....	(457)	(341)	165
Actuarial loss recognized in retirement benefit plans ( <i>note 14</i> ).....	(50)	(823)	(402)
Actuarial gain recognized in associated undertaking.....	8	-	-
Prior year adjustment.....	-	-	438
Total recognized gains/(losses) relating to the year.....	<u>646</u>	<u>(148)</u>	<u>931</u>

**Note of Historical Cost Profits and Losses**

Reported profits on ordinary activities before taxation would not be materially different if presented on an unmodified historical cost basis.

*The accompanying notes are integral part of these consolidated financial statements.*

Notes to Consolidated Financial Statements

**1. ACQUISITION OF STRATEGIC STAKE IN M&T BANK CORPORATION. DISPOSAL OF ALLFIRST FINANCIAL INC.**

On September 26, 2002 AIB announced its agreement with M&T Bank Corporation (“M&T”) whereby AIB’s US subsidiary, Allfirst, would be acquired by M&T and AIB would receive 26.7 million M&T shares, representing a stake of approximately 22.5% in the enlarged M&T, together with US\$886.1 million in cash. The agreement allowed for the cash consideration to be reduced by the amount of a pre-close dividend from Allfirst to AIB. The transaction closed on April 1, 2003 and prior to closing a dividend of US\$865.0 million was declared and paid by Allfirst Financial Inc. Consequently, the cash consideration payable by M&T reduced to US\$21.1million.

The transaction is accounted for in accordance with the Urgent Issue Task Force Abstract No. 31 “Exchanges of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or an associate” (“UITF 31”). Under UITF 31, the transaction is accounted for as an exchange of 77.5% of Allfirst for 22.5% of M&T pre-merger. Under this approach, the 22.5% of Allfirst that is owned by AIB, both directly before the transaction and indirectly thereafter, is treated as being owned throughout the transaction. The total recognized gains arising from the transaction amounted to €449 million (after tax) and are reflected in the accounts as follows:-

<b>Gain recognized on the disposal of Allfirst</b>	<b>Euro (in millions)</b>
Recognized in the statement of income.....	(40)
Recognized in the statement of total recognized gains and losses.....	489
	<u>449</u>

The transaction gave rise to a profit before tax of €1 million (loss of €40 million after tax). In accordance with the requirements of UITF 31, the unrealized element of the gain, of €489 million, has been recognized in the statement of total recognized gains and losses.

The financial statements for the year ended December 31, 2003 reflect the income and expenses of Allfirst for the period to March 31, 2003. These have been reported as discontinued activities in the statement of income. From April 1, 2003 the Group accounted for its investment in the enlarged M&T as an associated undertaking. The Group’s 22.5% share of the income before restructuring costs and taxes of the enlarged M&T is reflected in the consolidated statement of income within the caption “Share of operating income of associated undertakings”. The Group’s share of the taxation charge for the enlarged M&T is included in the Group’s taxation charge. The Group’s share of restructuring and integration costs within the enlarged M&T amounted to €20 million (€16 million after taxation).

**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements**

**Accounting for the acquisition of the 22.5% interest in M&T**

The Group's share of the assets and liabilities of M&T as at April 1, 2003 have been recorded at fair value in accordance with the accounting policies of the Group. The fair value of the consideration given represents the value of the 77.5% of Allfirst that is deemed to be transferred to M&T. The acquisition of the 22.5% interest in M&T comprised:

	Book value	Adjustments		Fair value
		Revaluation	Other	
(Euro in millions)				
Loans and advances to customers.....	23,670	447	-	24,117
Investment securities.....	3,807	1	-	3,808
Tangible fixed assets.....	213	-	-	213
Deferred taxation.....	40	(56)	90	74
Other assets.....	1,852	-	(128)	1,724
Core deposit and other intangibles.....	99	-	(99)	-
Non interest bearing deposits.....	(3,582)	-	-	(3,582)
Interest bearing liabilities.....	(23,694)	(305)	-	(23,999)
Other liabilities.....	(390)	(488)	(73)	(951)
Net assets.....	2,015	(401)	(210)	1,404
Group's share of net assets - 22.5%.....				316
Goodwill arising on the acquisition of M&T.....				1,181
Fair value of consideration given.....				1,497

The fair value adjustments made on the acquisition of the 22.5% interest in M&T arise as follows: -

*Revaluation adjustments*

Loans and advances to customers and investment securities were increased by €447 million and €1 million respectively to reflect their fair value. Interest bearing liabilities were increased by €305 million to reflect their fair value. The reduction in the deferred tax asset relates to the deferred tax impact of the above adjustments. Other liabilities have been increased to reflect the dilutive impact of the M&T employee stock options outstanding on AIB's 22.5% interest in M&T.

*Other adjustments*

Core deposit and other intangibles were eliminated to reflect their treatment under Irish GAAP. Other assets were reduced by €61 million and other liabilities by €8 million to bring the accounting policies for originated mortgage servicing rights and mortgage commitments into line with AIB's accounting policy. Application of the Group Accounting policy on pensions and post retirement benefits gave rise to a reduction in other assets of €67 million and an increase in other liabilities of €78 million. The residual adjustment to other liabilities reflected the accrual of expenses incurred by M&T in the acquisition of Allfirst. The increase in the deferred tax asset reflects the deferred tax impact of the above adjustments.

The acquisition has been accounted for in accordance with UITF 31. Acquisition accounting has been adopted in respect of the transaction and the fair value adjustments have been presented on a provisional basis. The figures have been translated at an exchange rate of €1=US\$1.0891, the exchange rate prevailing at April 1, 2003. Goodwill arising has been capitalized on the balance sheet within the caption "Interests in associated undertakings", and is being written off over 20 years.

The Group's share of profits of the enlarged M&T is set out in note 27. It is not practicable to determine the Group's share of the post acquisition results of the 22.5% of M&T pre-merger acquired as part of the transaction. The profit after tax of M&T from January 1, 2003 to March 31, 2003 was US\$116.5 million on a US GAAP basis (Year ended December 31, 2002: US\$456.8 million).

**2. NOTES IN CIRCULATION**

AIB Group (UK) p.l.c. (formerly AIB Group Northern Ireland plc) is authorized to issue bank notes in Northern Ireland under the provisions of the Bank Charter Act 1844, the Bankers (Northern Ireland) Acts 1845 and 1928, the Allied Irish Banks Act (Northern Ireland) 1971, the Allied Irish Banks Act 1981 and the Allied Irish Banks Act 1993 (note 35).

Notes to Consolidated Financial Statements - (Continued)

3. OPERATIONS BY GEOGRAPHICAL SEGMENT<sup>(1)</sup>

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Interest income			
Ireland.....	1,988	2,020	2,089
United States.....	211	984	1,254
United Kingdom.....	977	1,002	1,000
Poland.....	434	747	1,001
Rest of the World.....	-	-	2
	<u>3,610</u>	<u>4,753</u>	<u>5,346</u>
Other finance income			
Ireland.....	20	62	60
United States.....	(2)	(2)	2
United Kingdom.....	(6)	2	5
Poland.....	-	-	-
Rest of the World.....	-	-	-
	<u>12</u>	<u>62</u>	<u>67</u>
Dividend income			
Ireland.....	28	4	4
United States.....	(19)	4	5
United Kingdom.....	1	1	-
Poland.....	6	5	1
Rest of the World.....	-	-	1
	<u>16</u>	<u>14</u>	<u>11</u>
Fees and commissions receivable			
Ireland.....	465	446	457
United States.....	158	462	433
United Kingdom.....	227	236	225
Poland.....	163	155	142
Rest of the World.....	1	2	1
	<u>1,014</u>	<u>1,301</u>	<u>1,258</u>
	Years ended December 31,		
	2003	2002	2001
		Restated <sup>(2)</sup>	
	(Euro in millions)		
Dealing profits/(losses)			
Ireland.....	70	60	62
United States.....	15	(11)	16
United Kingdom.....	47	24	12
Poland.....	3	1	2
Rest of the World.....	-	-	-
	<u>135</u>	<u>74</u>	<u>92</u>
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
	<u>135</u>	<u>56</u>	<u>(325)</u>
	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Other operating income			
Ireland.....	71	79	110
United States.....	51	120	13
United Kingdom.....	-	11	30
Poland.....	43	53	44
Rest of the World.....	1	-	(4)
	<u>166</u>	<u>263</u>	<u>193</u>



ALLIED IRISH BANKS, p.l.c.

Notes to Consolidated Financial Statements - (Continued)

	Years ended December 31,		
	2003	2002	2001
	Restated <sup>(2)</sup>		
(Euro in millions)			
Gross income			
Ireland.....	2,622	2,671	2,782
United States.....	434	1,557	1,723
United Kingdom.....	1,247	1,276	1,272
Poland.....	649	961	1,190
Rest of the World.....	1	2	-
	4,953	6,467	6,967
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
	4,953	6,449	6,550
	Years ended December 31,		
	2003	2002	2001
	Restated <sup>(2)</sup>		
	(Euro in millions)		
Total operating expenses <sup>(3)</sup>			
Ireland.....	1,056	924	885
United States.....	210	686	647
United Kingdom.....	369	363	350
Poland.....	322	351	393
Rest of the World.....	3	4	3
	1,960	2,328	2,278
Provisions			
Ireland.....	68	71	132
United States.....	20	109	44
United Kingdom.....	58	25	19
Poland.....	31	47	9
Rest of the World.....	-	(1)	-
	177	251	204
	Years ended December 31,		
	2003	2002	2001
	Restated <sup>(2)</sup>		
	(Euro in millions)		
Income before taxes, minority interests and preference dividends			
Ireland.....	627	672	527
United States.....	187	320	364
United Kingdom.....	142	303	333
Poland.....	32	67	55
Rest of the World.....	(1)	-	93
	987	1,362	1,372
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
	987	1,344	955
	December 31,		
	2003	2002	
	Restated <sup>(2)</sup>		
	(Euro in millions)		
Total assets			
Ireland.....		54,667	45,151
United States.....		2,101	17,629
United Kingdom.....		18,880	16,769
Poland.....		5,295	6,271
Rest of the World.....		17	1
		80,960	85,821

ALLIED IRISH BANKS, p.l.c.

Notes to Consolidated Financial Statements - (Continued)

	December 31,	
	2003	2002 Restated <sup>(2)</sup>
Ordinary stockholders' equity <sup>(4)(5)</sup>		
Ireland.....	2,967	1,873
United States.....	367	1,179
United Kingdom.....	1,310	895
Poland.....	277	233
Rest of the World.....	-	-
	<u>4,921</u>	<u>4,180</u>

<sup>(1)</sup>With the exception of ordinary stockholders' equity, the geographical distribution is based on the location of the office recording the transaction.

<sup>(2)</sup>The figures for 2002 and 2001 have been restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares and UITF Abstract 38 - Accounting for ESOP Trusts as discussed in the Accounting policies on page 80.

<sup>(3)</sup>Includes restructuring and integration cost in continuing businesses (*note 11(b)*).

<sup>(4)</sup>The geographical allocation of ordinary stockholders' equity is based on the geographical split of risk weighted assets.

<sup>(5)</sup>The fungible nature of liabilities within the banking industry inevitably leads to allocations of liabilities to segments, some of which are necessarily subjective. Accordingly, the directors believe that the analysis of total assets is more meaningful than the analysis of net assets.

Turnover is not shown as it resulted in the main from the business of banking.

4. OPERATIONS BY BUSINESS SEGMENT<sup>(1)</sup>

	Years ended December 31,		
	2003	2002 Restated <sup>(2)</sup>	2001 Restated <sup>(2)</sup>
Net interest income			
AIB Bank ROI.....	1,016	921	843
AIB Bank GB & NI.....	364	363	336
Allfirst.....	87	516	550
Capital Markets division.....	312	313	258
Poland division.....	175	263	261
Group.....	(20)	(25)	10
	<u>1,934</u>	<u>2,351</u>	<u>2,258</u>
Other finance income			
AIB Bank ROI.....	-	-	-
AIB Bank GB & NI.....	-	-	-
Allfirst.....	-	(2)	-
Capital Markets division.....	-	-	-
Poland division.....	-	-	-
Group.....	12	64	67
	<u>12</u>	<u>62</u>	<u>67</u>

ALLIED IRISH BANKS, p.l.c.

Notes to Consolidated Financial Statements - (Continued)

	Years ended December 31,		
	2003	2002 Restated <sup>(2)(3)</sup>	2001 Restated <sup>(2)</sup>
	(Euro in millions)		
Other income			
AIB Bank ROI.....	365	353	359
AIB Bank GB & NI.....	165	166	161
Allfirst.....	103	448	395
Capital Markets division.....	362	381	365
Poland division.....	173	166	154
Group.....	38	-	(8)
	1,206	1,514	1,426
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
	1,206	1,496	1,009
	Years ended December 31,		
	2003	2002 Restated <sup>(2)(3)</sup>	2001 Restated <sup>(2)</sup>
	(Euro in millions)		
Total operating income			
AIB Bank ROI.....	1,381	1,274	1,202
AIB Bank GB & NI.....	529	529	497
Allfirst.....	190	962	945
Capital Markets division.....	674	694	623
Poland division.....	348	429	415
Group.....	30	39	69
	3,152	3,927	3,751
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
	3,152	3,909	3,334
	Years ended December 31,		
	2003	2002 Restated <sup>(2)</sup>	2001 Restated <sup>(2)</sup>
	(Euro in millions)		
Total operating expenses <sup>(4)</sup>			
AIB Bank ROI.....	759	667	624
AIB Bank GB & NI.....	275	266	254
Allfirst.....	125	581	561
Capital Markets division.....	390	402	370
Poland division.....	308	341	388
Group.....	103	71	81
	1,960	2,328	2,278

Notes to Consolidated Financial Statements - (Continued)

	Years ended December 31,		
	2003	2002	2001
		Restated <sup>(2)</sup>	Restated <sup>(2)</sup>
	(Euro in millions)		
Provisions			
AIB Bank ROI.....	62	55	44
AIB Bank GB & NI.....	19	22	19
Allfirst.....	11	95	34
Capital Markets division.....	46	63	43
Poland division.....	31	46	9
Group.....	8	(30)	55
	177	251	204

	Years ended December 31,		
	2003	2002	2001
		Restated <sup>(2)(3)</sup>	Restated <sup>(2)</sup>
	(Euro in millions)		
Income before taxes, minority interests and preference dividends			
AIB Bank ROI.....	573	560	536
AIB Bank GB & NI.....	237	241	225
Allfirst.....	54	285	350
Capital Markets division.....	102	239	216
Poland division.....	10	39	20
Group.....	11	(2)	25
	987	1,362	1,372
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
	987	1,344	955

	December 31,	
	2003	2002
		Restated <sup>(2)</sup>
	(Euro in millions)	
Total loans		
AIB Bank ROI.....	27,428	21,367
AIB Bank GB & NI.....	10,353	8,967
Allfirst.....	-	11,162
Capital Markets division.....	12,404	13,371
Poland division.....	2,939	3,473
Group.....	202	143
	53,326	58,483

	December 31,	
	2003	2002
		Restated <sup>(2)</sup>
	(Euro in millions)	
Total deposits		
AIB Bank ROI.....	24,572	22,522
AIB Bank GB & NI.....	7,881	7,449
Allfirst.....	-	12,591
Capital Markets division.....	29,318	24,482
Poland division.....	4,222	5,014
Group.....	202	132
	66,195	72,190

Notes to Consolidated Financial Statements - (Continued)

	December 31,	
	2003	2002 Restated <sup>(2)(3)</sup>
(Euro in millions)		
Total assets		
AIB Bank ROI.....	34,101	27,186
AIB Bank GB & NI.....	11,643	10,158
Allfirst.....	-	15,472
Capital Markets division.....	28,365	26,618
Poland division.....	5,301	6,261
Group.....	1,550	126
	80,960	85,821
	December 31,	
	2003	2002 Restated <sup>(2)</sup>
Total risk weighted assets		
AIB Bank ROI.....	24,119	18,821
AIB Bank GB & NI.....	10,055	8,666
Allfirst.....	-	15,113
Capital Markets division.....	24,506	22,833
Poland division.....	3,259	3,549
Group.....	676	257
	62,615	69,239
	December 31,	
	2003	2002 Restated <sup>(2)(3)</sup>
Ordinary stockholders' equity <sup>(5)(6)</sup>		
AIB Bank ROI.....	1,896	1,136
AIB Bank GB & NI.....	790	523
Allfirst.....	-	912
Capital Markets division.....	1,926	1,378
Poland division.....	256	215
Group.....	53	16
	4,921	4,180

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

<sup>(2)</sup> The December 2002 and 2001 amounts have been restated to reflect the divisional restructure as discussed in the Accounting policies on page 80.

<sup>(3)</sup> The figures for 2002 and 2001 have been restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares and UITF Abstract 38 - Accounting for ESOP Trusts as discussed in the Accounting policies on page 80.

<sup>(4)</sup> Includes restructuring and integration costs in continuing businesses (*note 11(b)*).

<sup>(5)</sup> The divisional allocation of ordinary stockholders' equity is based on the divisional split of risk weighted assets.

<sup>(6)</sup> The fungible nature of liabilities within the banking industry inevitably leads to allocations of liabilities to segments, some of which are necessarily subjective. Accordingly, the directors believe that the analysis of total assets is more meaningful than the analysis of net assets.

Notes to Consolidated Financial Statements - (Continued)

**5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
Interest on loans and advances to banks.....	113	196	255
Interest on loans and advances to customers.....	2,622	3,423	3,684
Finance leasing and installment credit income.....	163	188	209
Total other interest receivable and similar income.....	2,898	3,807	4,148

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
Income from leasing and installment credit agreements has been accounted for as follows:			
Investment period method (leasing).....	99	119	134
Sum of the digits method (installment credit).....	64	69	75
	163	188	209

The aggregate rentals receivable from leasing contracts was €500 million (2002: €505 million).

**6. INTEREST EXPENSE**

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
Interest on deposits by banks and customer accounts.....	1,490	2,178	2,744
Interest on debt securities in issue.....	101	103	176
Interest on subordinated liabilities.....	47	83	133
Interest on reserve capital instruments.....	38	38	35
Total interest expense.....	1,676	2,402	3,088

**7. OTHER FINANCE INCOME**

Under FRS 17 "Retirement benefits", the net of the interest cost on liabilities and the expected return on assets is to be recorded as other finance income adjacent to interest. The interest cost represents the unwinding of the discount on the plan liabilities. The expected return on assets is based on long-term expectations at the beginning of the period.

A description of the retirement benefit plans operated by the Group is provided in note 14.

**8. DIVIDEND INCOME**

The dividend income relates to income from equity shares.

**9. DEALING PROFITS**

	Years ended December 31,		
	2003	2002 Restated (Euro in millions)	2001
Foreign currency contracts.....	92	78	75
Profits less losses from securities held for trading purposes.....	23	7	2
Interest rate contracts.....	16	(11)	15
Equity index contracts.....	4	-	-
	135	74	92
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
	135	56	(325)

Dealing profits is a term prescribed by the European Communities (Credit Institutions:Accounts) Regulations, 1992. Dealing profits reflects trading income and excludes interest payable and receivable arising from these activities. Staff and other administrative expenses arising from trading activities are not included here but are included under the appropriate heading within administrative expenses (note 11(a)).

Notes to Consolidated Financial Statements - (Continued)

10. OTHER OPERATING INCOME

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Profit on disposal of debt securities held for investment purposes.....	37	106	24
Profit on disposal of investments in associated undertakings.....	-	1	1
Profit/(loss) on disposal of equity shares.....	3	11	(3)
Contribution of life assurance company (note 31).....	60	57	84
Contribution from securitized assets (note 24).....	1	4	5
Mortgage origination and servicing income.....	2	7	10
Miscellaneous operating income.....	63	77	72
<b>Total operating income.....</b>	<b>166</b>	<b>263</b>	<b>193</b>

11. OPERATING EXPENSES

(a) Staff and other administrative expenses

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Staff costs:			
Wages and salaries.....	905	1,097	1,060
Social security costs.....	88	105	104
Pension costs and other costs in respect of post-retirement benefits (note 14).....	111	122	106
Other staff costs.....	53	67	72
	<b>1,157</b>	<b>1,391</b>	<b>1,342</b>
Other administrative expenses:			
Auditors' remuneration (including Value Added Tax): <sup>(1)</sup>			
Audit services: Statutory audit.....	2	2	2
Further assurance services.....	-	1	1
	<b>2</b>	<b>3</b>	<b>3</b>
Other services: IT consultancy.....	-	-	-
Taxation services.....	-	-	1
Other consultancy.....	1	1	1
	<b>1</b>	<b>1</b>	<b>2</b>
Operating lease rentals:			
Property.....	41	50	47
Equipment.....	1	4	4
	<b>42</b>	<b>54</b>	<b>51</b>
Other administrative expenses.....	507	659	647
	<b>1,709</b>	<b>2,108</b>	<b>2,045</b>

<sup>(1)</sup> Audit services include fees for the statutory audits of the Group and fees for assignments which are of an audit nature. These fees include assignments where the auditors provide assurance to third parties.

KPMG were appointed Auditors at the reconvened Annual General Meeting on June 26, 2002. The Auditors' remuneration (including Value Added Tax) set out above for 2003 and 2002 relates to KPMG since date of appointment. In the year ended December 31, 2003, 61% (2002: 70%) of the total audit services fees and 65% (2002: 84%) of the non-audit services fees were paid to overseas offices of the Auditors.

The Auditors' remuneration for 2001 relates to PricewaterhouseCoopers. During 2002 €1.2 million was paid to PricewaterhouseCoopers in respect of audit related services. In the year ended December 31, 2001, 73% of the total audit services fees (2000: 70%) and 64% of the non-audit services fees (2000: 56%) were paid to overseas offices of the Auditors. Included in non-audit services for 2001 are fees for work associated with the merger of Bank Zachodni and Wielkopolski Bank Kredytowy.

During the year, the Audit Committee adopted a comprehensive policy on the provision of non-audit services to the bank and its subsidiary companies by KPMG our external auditors. This policy includes the prohibition on the provision of certain services and the pre-approval by the Audit Committee of the engagement of the Auditor for non-audit work. The Audit Committee must approve individual assignments which are not pre-approved or which exceed a certain value.

**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements - (Continued)**

The Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditors. It is Group policy to subject all large consultancy assignments to competitive tender.

**(b) Restructuring and integration costs in continuing businesses**

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
Restructuring costs.....	72 <sup>(1)</sup>	13 <sup>(2)</sup>	–
Integration costs.....	–	–	38 <sup>(3)</sup>
	<u>72</u>	<u>13</u>	<u>38</u>

<sup>(1)</sup> During 2003, BZW BK undertook a branch network restructuring process under which it is proposed to close 38 branches across Poland. A provision of €10 million was recorded in 2003 in respect of this process.

AIB Group introduced an Early Retirement Package in 2003. This is a voluntary programme and is available to certain staff over the age of 50 working in Ireland and Northern Ireland with staff located in the UK who have repatriation rights to Ireland also included. A provision of €62 million has been made in the 2003 accounts to cater for the terms and conditions of the package. €41 million of this amount forms part of the retirement benefit past service cost in note 14.

<sup>(2)</sup> Allfirst introduced an early retirement program in August 2002 for certain qualifying employees which provided additional service credits for those employees who retired on December 1, 2002. The charge of €13 million in 2002 relates to the cost of the enhanced benefits that were provided to the employees who retired. This also forms part of the retirement benefit past service cost in note 14.

<sup>(3)</sup> The charge of €38 million in 2001 relates to the costs of integration of Bank Zachodni S.A. (Group interest 83.01%) with Wielkopolski Bank Kredytowy S.A. (Group interest 60.14%) through a share for share offering.

**12. DEPRECIATION AND AMORTIZATION**

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
Depreciation of property and equipment:			
Property depreciation.....	30	37	37
Equipment depreciation.....	118	138	127
	<u>148</u>	<u>175</u>	<u>164</u>
Amortization of goodwill (note 28).....	31	32	31
	<u>179</u>	<u>207</u>	<u>195</u>

**13. AMOUNTS WRITTEN OFF/(WRITTEN BACK) FIXED ASSET INVESTMENTS**

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
Debt securities.....	13	19	6
Equity shares.....	3	36	(1)
Interests in associated undertakings.....	–	–	1
	<u>16</u>	<u>55</u>	<u>6</u>

**14. RETIREMENT BENEFITS**

**(a) Description of retirement benefit plans**

The Group provides pension benefits for employees in Ireland, the UK, and the US, the majority of which are funded. Certain post-retirement benefits are also provided for retired employees.

The Group operates a number of defined benefit plans. The most significant being the AIB Group Irish Pension Capital Plan (the Irish plan) and the AIB Group UK Pension plan (the UK plan). The majority of staff in the Republic of Ireland are members of the Irish plan while the majority of staff in the UK are members of the UK plan. Retirement benefits for the defined benefit plans are calculated by reference to service and pensionable salary at normal retirement date.

Independent actuarial valuations, for the main Irish and UK plans, are carried out on a triennial basis. The last such valuation was carried out on June 30, 2003 using the Projected Unit Method. The plans are funded and contribution rates of 26.0% and 44.6% have been set for the Irish and UK plans respectively with effect from January 1, 2004.



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**Notes to Consolidated Financial Statements - (Continued)**

As both these plans are closed to new entrants, under the Projected Unit Method, the current service cost and the standard contribution rates will increase as members of the plans approach retirement. The actuarial valuations are available for inspection only to the members of the plans.

The following table summarizes the financial assumptions adopted in respect of the main plans. The assumptions, including the expected long-term rate of return on assets, have been set upon advice of the Group's actuary.

	December 31,		
	2003	2002	2001
	%	%	%
<b>Financial assumptions</b>			
<b>Irish plan</b>			
Rate of increase in salaries.....	4.0	4.0	4.0
Rate of increase of pensions in payment.....	2.5	2.5	2.5
Discount rate.....	5.25	5.60	5.75
Inflation assumptions.....	2.5	2.5	2.5
<b>UK plan</b>			
Rate of increase in salaries.....	4.0	4.0	4.0
Rate of increase of pensions in payment.....	2.5	2.5	2.5
Discount rate.....	5.25	5.75	6.00
Inflation assumptions.....	2.5	2.5	2.5
<b>Other plans</b>			
Rate of increase in salaries.....	4.0-4.5	4.0-4.5	4.0-4.5
Rate of increase of pensions in payment.....	0.0-2.5	0.0-2.5	0.0-2.5
Discount rate.....	5.60-6.02	5.60-6.51	5.75-6.94
Inflation assumptions.....	2.5-3.0	2.5-3.0	2.5-3.0

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

	December 31, 2003		December 31, 2002		December 31, 2001	
	Long term rate of return expected	Value	Long term rate of return expected	Value	Long term rate of return expected	Value
	%	€ m	%	€ m	%	€ m
Equities.....	8.2	1,670	9.0	1,490	8.6	2,138
Bonds.....	5.0	265	5.2	333	5.6	391
Property.....	7.5	255	7.5	262	5.8	286
Cash.....	3.0	82	6.3	84	2.8	87
Total market value of assets.....	7.6	2,272	8.0	2,169	7.7	2,902
Actuarial value of liabilities.....		(2,902)		(2,879)		(2,645)
(Deficit)/surplus in the plans.....		(630)		(710)		257
Related deferred tax asset/(liability).....		128		173		(2)
Net pension (liability)/asset.....		(502)		(537)		255

The net pension (liability)/asset is recognized on the balance sheet as follows:-

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Funded pension plans in surplus.....	-	-	372
Funded pension plans in deficit.....	(485)	(482)	(58)
Unfunded plans.....	(17)	(55)	(59)
	(502)	(537)	255

Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to €111,897 in aggregate to a number of former directors.

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Notes to Consolidated Financial Statements - (Continued)

The following table sets out the components of the defined benefit cost for each of the three years ended December 31, 2003, 2002 and 2001.

	Years ended December 31,		
	2003	2002	2001
	(Euros in millions)		
Other finance income			
Expected return on pension plan assets.....	161	220	213
Interest on pension plan liabilities.....	(149)	(158)	(146)
	12	62	67
Included within administrative expenses			
Current service cost.....	81	86	79
Past service cost ( <i>inc. Early Retirement Package-see note 11</i> ).....	50	22	5
	131	108	84
Cost of providing defined retirement benefits.....	119	46	17

	Years ended December 31,		
	2003	2002	2001
	(Euros in millions)		
<b>Analysis of the amount recognized in statement of total recognized gains and losses</b>			
Actual return less expected return on pension plan assets.....	93	(862)	(438)
Experience gains and losses on plan liabilities.....	97	(18)	(32)
Changes in demographic and financial assumptions.....	(257)	(123)	(32)
Actuarial loss recognized under FRS 17.....	(67)	(1,003)	(502)
Deferred tax.....	17	180	100
Recognized in STRGL.....	(50)	(823)	(402)

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
<b>Movement in (deficit)/surplus during the year</b>			
Surplus in plan at beginning of year.....	(710)	257	727
Movement in year:			
Current service cost.....	(81)	(86)	(79)
Past service cost.....	(50)	(22)	(5)
Contributions.....	84	50	50
Other finance income.....	12	62	67
Actuarial loss recognized under FRS 17 .....	(67)	(1,003)	(502)
Disposal of subsidiary company .....	158	-	-
Translation adjustment.....	24	32	(1)
(Deficit)/surplus in plan at end of year.....	(630)	(710)	257

	Years ended December 31,			
	2003	2002	2001	2000
	(Euro in millions)			
<b>History of experience gains and losses</b>				
<i>Difference between expected and actual return on plan assets:</i>				
Amount.....	93	(862)	(438)	(158)
Percentage of plan assets.....	4%	40%	15%	5%
<i>Experience gains and losses on plan liabilities:</i>				
Amount .....	97	(18)	(32)	(72)
Percentage of plan liabilities.....	3%	1%	1%	3%
<i>Total amount recognized in STRGL:</i>				
Amount .....	(67)	(1,003)	(502)	(248)
Percentage of plan liabilities.....	2%	35%	19%	10%

The Group operates a number of defined contribution plans. The defined benefit plans in Ireland and the UK were closed to new members from December 1997. Employees joining after December 1997 join on a defined contribution basis. The standard contribution rate in Ireland is 8%. The standard contribution rate in the UK is 5% and these members are also accruing benefits

Notes to Consolidated Financial Statements - (Continued)

under SERP (the State Earnings Related Pension Plan). The total cost in respect of defined contribution plans for 2003 was €21 million (2001: €27 million; 2001: €22 million).

**(b) Implementation of FRS 17 'Retirement benefits'**

The Group adopted FRS 17 in the preparation of its accounts for the year ended December 31, 2001 and comparative figures were restated. The change in accounting policy arising from the adoption of FRS 17 gave rise to a net credit to stockholders' funds of €648 million at January 1, 2001.

**15. (LOSS)/GAIN ON DISPOSAL OF BUSINESSES**

2003

The loss on disposal of businesses from continuing activities of €142 million relates to the loss on disposal of Govett of €153 million, offset by the profit on disposal of the AIB New York retail branch of €7 million (tax charge €3 million) and the profit on disposal of Polsoft of €4 million (tax charge €1 million).

On November 4, 2003 AIB announced that it had reached an agreement with Gartmore Investment Management p.l.c. ("Gartmore") to sell the majority of the Govett business, being the majority of the management contracts of Govett, its UK based asset management business. The remaining UK and Singapore operations of Govett will be wound down following completion of the sale. Certain management contracts were excluded from the sale and will be managed by AIB's Irish based asset management company, AIB Investment Managers ("AIB IM"). The operations of AIB IM were otherwise unaffected by this transaction.

Total consideration for the business is estimated to be €17 million and is payable in cash. The consideration is made up of an initial payment of €6 million plus a series of payments based on the level of fees earned by Gartmore on the Govett management contracts over the following three years. The initial payment of €6 million is reflected in the financial statements for the year ended December 31, 2003.

The transaction gave rise to a loss on disposal of €153 million in profit and loss account in the financial statements for the year ended December 31, 2003. The loss on disposal was made up of the €6 million consideration less goodwill previously written off of €139 million and one off closure costs of €20 million. The goodwill of €139 million was previously written off to reserves on the purchase of Govett, in 1995. The after tax loss is €152 million. The financial statements for the year ended December 31, 2003 also reflect the income and expenses for Govett for the period as part of continuing activities, which amounted to a loss before tax of €12 million.

2001

In August 2001, AIB's interests in Keppel Capital Holdings Ltd. were sold to Oversea-Chinese Banking Corporation Limited, giving rise to a gain before taxation on disposal of €93 million (tax charge € nil).

**16. APPLICABLE TAXES**

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Allied Irish Banks, p.l.c. and subsidiaries:			
Corporation tax in Republic of Ireland			
Current tax on income for the period <sup>(a)</sup> .....	170	81	88
Adjustments in respect of prior periods.....	4	(7)	(6)
	174	74	82
Double taxation relief.....	(49)	(4)	(17)
	125	70	65
Foreign tax			
Current tax on income for the period.....	210	202	118
Adjustments in respect of prior periods.....	-	(4)	(8)
	210	198	110
Total current tax.....	335	268	175
Deferred taxation			
Origination and reversal of timing differences.....	(54)	21	12
Other.....	(5)	6	-
Total deferred taxation.....	(59)	27	12
Associated undertakings.....	39	1	-
Taxation on ordinary activities.....	315	296	187
Effective tax rate.....	31.2%	22.0%	19.5%
Effective tax rate - adjusted <sup>(a)</sup> .....	24.2%	22.3%	24.2%

Notes to Consolidated Financial Statements - (Continued)

<sup>(1)</sup> The December 2003 figure includes a charge of €29.5 million in relation to the Irish Government bank levy.

<sup>(2)</sup> The adjusted effective tax rate has been presented to eliminate the disposal of Govett and the withholding tax on the Allfirst dividend in 2003 and the effects of the exceptional foreign exchange losses in 2002 and 2001.

**Factors affecting current tax rate for period**

The current tax rate for 2003 is higher (2002 and 2001: lower) than the weighted average of the Group's statutory corporation tax rates across its geographic locations. The differences are explained below.

	<u>2003</u> %	<u>2002</u> %	<u>2001</u> %
Weighted average corporation tax rate.....	19.3	23.6	28.0
<i>Effects of:</i>			
Expenses not deductible for tax purposes.....	1.4	0.8	0.9
Goodwill amortisation.....	2.3	0.7	0.6
Exempted income, income at reduced rates and tax credits.....	(0.1)	(1.9)	(3.9)
Net effect of differing tax rates overseas.....	1.9	0.7	0.8
Capital allowances in excess of depreciation.....	-	(1.0)	(0.2)
Other deferred tax timing differences.....	3.9	(1.8)	(2.2)
Tax on associated undertakings.....	(3.9)	(0.1)	-
Bank levy in Republic of Ireland.....	3.0	-	-
Goodwill on disposals of businesses.....	3.6	-	-
Withholding tax on Allfirst dividend.....	3.9	-	-
Exceptional item.....	-	(0.3)	(4.7)
Adjustments to tax charge in respect of previous periods.....	(1.4)	(0.8)	(1.0)
Effective current tax rate .....	<u>33.9</u>	<u>19.9</u>	<u>18.3</u>

**17. EQUITY AND NON-EQUITY MINORITY INTERESTS IN SUBSIDIARIES**

	<b>Years ended December 31,</b>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Euro in millions)		
The profit attributable to minority interests is analyzed as follows:			
Equity interest in subsidiaries.....	10	20	15
Non-equity interest in subsidiaries.....	1	4	8
	<u>11</u>	<u>24</u>	<u>23</u>

**18. DIVIDENDS ON NON-EQUITY SHARES**

The dividends paid on the non-cumulative preference shares of US\$25 each amounted to €5 million (2002: €8 million; 2001: €15 million). Included in this figure is an amount of €1 million which has been accrued (2002: €2 million; 2001: €2 million) and amortized issue costs of €0.5 million (2002: €0.4 million; 2001: €0.4 million).

The holders of the US Dollar preference shares are entitled, in preference to the holders of any other shares of AIB, to a non-cumulative preferential dividend, payable quarterly in arrears at a floating rate equal to 3 month dollar libor plus 0.875% on the liquidation preference amount of US\$1,000.

**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements - (Continued)**

**19. DIVIDENDS ON EQUITY SHARES**

Holders of Ordinary shares are entitled to receive such dividends out of the profits of AIB as are available by law for distribution and as may be declared by the stockholders at general meeting, but no dividends may be declared in excess of an amount recommended by AIB's Board of Directors. The Board may, without obtaining prior stockholder approval, pay to the stockholders such interim dividends as appear to the Board to be justified by the net income of AIB.

No dividend can be declared or interim dividend paid unless the dividend on any outstanding preference shares most recently payable shall have been paid in cash.

	<u>Years ended December 31,</u>			<u>Years ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(cent per €0.32 share)			(Euro in millions)		
Ordinary Shares						
Interim dividend.....	19.0	17.25	15.40	161	154	136
Second interim dividend.....	-	-	28.40	-	-	250
Final dividend.....	35.0	31.81	-	296	283	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Employee share trusts <sup>(1)</sup>	54.0	49.06	43.80	457	437	386
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(5)	(8)	(6)	452	429	380
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

<sup>(1)</sup>In accordance with FRS 14 "Earnings per share", dividends of €4.8 million (2002: €7.9 million; 2001: €5.8 million) arising on the shares held by certain employee share trusts (*note 41*) are excluded in arriving at income before taxes and deducted from the aggregate of dividends paid and proposed.

**20. EARNINGS PER €0.32 ORDINARY SHARE**

	<u>Years ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<u>Restated</u>		
<b>(a) Basic</b>			
Net income attributable to the ordinary stockholders <sup>(1)</sup> .....	€656m	€1,016m	€730m
Weighted average number of shares in issue during the year <sup>(1)</sup> .....	859.6m	868.7m	861.4m
Earnings per share.....	<hr/>	<hr/>	<hr/>
	76.3c	117.0c	84.8c

<sup>(1)</sup> In accordance with FRS 14 "Earnings per share", dividends arising on the shares held by the employee share trusts (*note 41*) are excluded in arriving at income before taxes and deducted from the aggregate of dividends paid and proposed. The shares held by the trusts are excluded from the calculation of weighted average number of shares in issue.

	<u>Earnings per share €0.32</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<u>Restated</u>		
	(cent per €0.32 share)		
<b>(b) Adjusted</b>			
As reported.....	76.3	117.0	84.8
<b>Adjustment</b>			
Exceptional foreign exchange dealing losses ( <i>note 9</i> ).....	-	2.1	31.0
Goodwill amortization ( <i>note 28</i> ).....	8.4	3.6	3.6
Impact of Govett disposal on statement of income.....	17.6	-	-
Impact of Allfirst disposal on statement of income.....	4.7	-	-
Impact of disposal of interests in Keppel Capital Holdings Ltd.....	-	-	(10.8)
	<hr/>	<hr/>	<hr/>
	107.0	122.7	108.6

The adjusted earnings per share figure has been presented to eliminate the effect of the goodwill amortization in all years, the impact of the Govett and Allfirst disposals in 2003 the exceptional foreign exchange dealing losses in 2002 and 2001 and the impact of the disposal of the Group's interests in Keppel Capital Holdings Ltd in 2001.

Notes to Consolidated Financial Statements - (Continued)

	Years ended December 31,		
	2003	2002	2001
<b>(c) Diluted</b>	(Number of shares in millions)		
Weighted average number of shares in issue during period.....	859.6	868.7	861.4
Dilutive effect of options outstanding.....	4.7	8.4	5.7
Diluted .....	<u>864.3</u>	<u>877.1</u>	<u>867.1</u>

The weighted average number of ordinary shares reflects the dilutive effect of options outstanding under the employee share trusts (*note 41*), the Share option plan (*note 39*) and the Allfirst Financial Inc. stock option plan up to the date of disposal of Allfirst (*note 39*).

**21. CENTRAL GOVERNMENT BILLS AND OTHER ELIGIBLE BILLS**

	December 31, 2003		December 31, 2002	
	Book Amount	Market Value (Euro in millions)	Book Amount	Market Value
Held as financial fixed assets				
Treasury bills and similar securities.....	-	-	23	23
Held for trading purposes				
Treasury bills.....	45		1	
	<u>45</u>		<u>24</u>	

**Analysis of movements in central government bills and other eligible bills held as financial fixed assets:**

	December 31,	
	2003	2002
	(Euro in millions)	
At January 1.....	23	45
Currency translation adjustments.....	(1)	(6)
Purchases.....	983	1,020
Disposals/maturities.....	(991)	(1,041)
Disposal of subsidiary undertaking.....	(16)	-
Amortization of discounts.....	2	5
At December 31.....	<u>-</u>	<u>23</u>

**22. LOANS AND ADVANCES TO BANKS**

	December 31,	
	2003	2002
	(Euro in millions)	
Funds placed with the Central Bank of Ireland.....	863	1,039
Funds placed with other central banks.....	17	53
Funds placed with other banks <sup>(1)</sup> .....	1,753	3,696
	<u>2,633</u>	<u>4,788</u>

	December 31,	
	2003	2002
	(Euro in millions)	
Analyzed by remaining maturity:		
Repayable on demand.....	204	1,555
Other loans and advances by remaining maturity:		
Over 5 years.....	134	160
5 years or less but over 1 year.....	88	77
1 year or less but over 3 months.....	107	457
3 months or less but not repayable on demand.....	2,102	2,541
	<u>2,635</u>	<u>4,790</u>
Allowance for loan losses ( <i>note 23</i> ).....	(2)	(2)
	<u>2,633</u>	<u>4,788</u>

Notes to Consolidated Financial Statements - (Continued)

<sup>(1)</sup> At December 31, 2003 securities purchased under agreements to resell amounted to €651 million (2002: €1,945 million). All securities were delivered either directly to the Group or to an agent for safekeeping.

	December 31,	
	<u>2003</u>	<u>2002</u>
	(Euro in millions)	
<b>Loans and advances to banks by geographical area</b>		
Republic of Ireland.....	2,282	2,463
United States of America.....	48	1,459
United Kingdom.....	239	451
Poland.....	63	414
Rest of the world.....	1	1
	<u>2,633</u>	<u>4,788</u>

**23. LOANS AND ADVANCES TO CUSTOMERS LESS ALLOWANCE FOR LOAN LOSSES**

	December 31,	
	<u>2003</u>	<u>2002</u>
	(Euro in millions)	
Loans and advances to customers <sup>(1)</sup> .....	48,500	51,109
Finance lease receivables and installment credit.....	2,614	3,214
Money market funds <sup>(2)</sup> .....	153	226
	<u>51,267</u>	<u>54,549</u>
Allowance for loan losses.....	(662)	(860)
Unearned interest.....	(115)	(242)
	<u>50,490</u>	<u>53,447</u>
Analyzed by remaining maturity:		
Over 5 years.....	20,699	18,099
5 years or less but over 1 year.....	12,841	14,206
1 year or less but over 3 months.....	7,677	7,158
3 months or less.....	9,935	14,844
	<u>51,152</u>	<u>54,307</u>
Allowance for loan losses.....	(662)	(860)
	<u>50,490</u>	<u>53,447</u>
Of which repayable on demand or at short notice.....	<u>13,064</u>	<u>12,008</u>
Amounts include:		
Due from associated undertakings.....	-	-

<sup>(1)</sup> At December 31, 2003 €1,200 million of loans and advances were pledged as collateral with the Irish Financial Services Regulatory Authority ("IFSR"). At December 31, 2002 €979 million and €630 million of loans and advances were pledged as collateral with the IFSRA and The Federal Reserve Bank, respectively.

<sup>(2)</sup> At December 31, 2003 there were securities purchased under agreements to resell of €38 million (2002: €109 million).

The cost of assets acquired for letting under finance leases and hire purchase contracts amounted to €1,234 million (2002: €1,367 million).

**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements - (Continued)**

**Allowance for loan losses**

	December 31, 2003		
	<u>Specific</u>	<u>General</u> (Euro in millions)	<u>Total</u>
Allowance at beginning of year.....	435	427	862
Currency translation adjustments.....	(33)	(18)	(51)
Disposal of subsidiary undertaking.....	(24)	(111)	(135)
Charge against income.....	-	152	152
Transfer to specific.....	134	(134)	-
Amounts charged off.....	(182)	-	(182)
Recoveries of amounts previously charged off.....	18	-	18
Allowance at end of year .....	<u>348</u>	<u>316</u>	<u>664</u>
Analysed as to:			
Loans and advances to banks ( <i>note 22</i> ).....	2	-	2
Loans and advances to customers.....	<u>346</u>	<u>316</u>	<u>662</u>
	<u>348</u>	<u>316</u>	<u>664</u>

	December 31, 2002		
	<u>Specific</u>	<u>General</u> (Euro in millions)	<u>Total</u>
Allowance at beginning of year.....	539	470	1,009
Currency translation adjustments.....	(51)	(35)	(86)
Disposed loans.....	(2)	-	(2)
Charge against income.....	-	194	194
Transfer to specific.....	202	(202)	-
Amounts charged off.....	(279)	-	(279)
Recoveries of amounts previously charged off.....	26	-	26
Allowance at end of year .....	<u>435</u>	<u>427</u>	<u>862</u>
Analysed as to:			
Loans and advances to banks ( <i>note 22</i> ).....	2	-	2
Loans and advances to customers.....	<u>433</u>	<u>427</u>	<u>860</u>
	<u>435</u>	<u>427</u>	<u>862</u>

	December 31,	
	<u>2003</u>	<u>2002</u>
	(Euro in millions)	
<b>Loans and advances to customers by geographical area</b>		
Republic of Ireland.....	32,459	27,188
United States of America.....	1,047	11,135
United Kingdom.....	14,097	12,064
Poland.....	2,887	3,060
	<u>50,490</u>	<u>53,447</u>



Notes to Consolidated Financial Statements - (Continued)

24. SECURITIZED ASSETS

	Years ended December 31,	
	2003	2002
	(Euro in millions)	
Securitized assets.....	719	1,002
Non-returnable proceeds.....	(516)	(754)
	<u>203</u>	<u>248</u>

In July 1999 a subsidiary company entered into an agreement whereby it securitized and sold part of its Asset Backed Securities portfolio to a third party. Subsequent to the initial securitization, additional assets have been transferred to the third party as provided for under the terms of the agreement. AIB is not obliged, nor does it intend, to support any losses in this portfolio in excess of the net amount recognized as an asset on the balance sheet. The providers of the finance have agreed that they will seek no further recourse to the Company above the non-returnable proceeds.

The contribution from these securitized assets, included in other operating income, is analyzed below.

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Net interest income.....	3	4	5
Provisions for loan losses.....	2	-	-
Contribution from securitized assets.....	<u>1</u>	<u>4</u>	<u>5</u>



Notes to Consolidated Financial Statements – (Continued)

	December 31,	
	2003	2002
(Euro in millions)		
<b>Analyzed by remaining maturity</b>		
Due within one year.....	2,783	3,921
Due one year and over.....	15,344	14,283
	18,127	18,204

	December 31, 2003		December 31, 2002	
	Book amount	Market value	Book amount	Market value
(Euro in millions)				
<b>Analyzed by listing status</b>				
Held as financial fixed assets				
Listed on a recognized stock exchange.....	11,054	11,235	10,276	10,491
Quoted elsewhere.....	306	305	2,340	2,370
Unquoted.....	1,085	1,085	830	829
	12,445	12,625	13,446	13,690
Held for trading purposes				
Listed on a recognized stock exchange.....	5,595		4,355	
Quoted elsewhere.....	87		355	
Unquoted.....	–		48	
	5,682		4,758	
	18,127		18,204	

There were no debt securities pledged to secure public funds, trust deposits, funds transactions and other purposes required by law in 2003 (2002: book value of €1,492 million). Debt securities subject to repurchase agreements amounted to €5,860 million (2002: €3,021 million).

Subordinated debt securities included as financial fixed assets amounted to €5 million at December 31, 2003 (2002: €5 million).

The unamortized discounts net of premiums on debt securities held as financial fixed assets amounted to €19 million at December 31, 2003 (2002: nil).

The cost of debt securities held for trading purposes amounted to €5,655 million (2002: €4,738 million).

	Cost	Discounts and premiums	Amounts written off	Book amount
At January 1, 2003.....	13,400	63	(17)	13,446
Currency translation adjustments.....	(950)	(8)	2	(956)
Disposal of subsidiary undertaking.....	(1,080)	–	–	(1,080)
Purchases.....	9,434	–	–	9,434
Realizations/maturities.....	(8,338)	1	10	(8,327)
Charge against statement of income ( <i>note 13</i> ).....	–	–	(13)	(13)
Amortization of (premiums) net of discounts.....	–	(23)	–	(23)
Transfer to trading book.....	(36)	1	(1)	(36)
At December 31, 2003.....	12,430	34	(19)	12,445

Notes to Consolidated Financial Statements - (Continued)

26. EQUITY SHARES

	December 31, 2003			Market value
	Book amount	Gross unrealized gains (Euro in millions)	Gross unrealized losses	
Held as financial fixed assets				
Listed on a recognized stock exchange.....	6	11	(1)	16
Unquoted.....	110	5	(1)	114
	116	16	(2)	130
Held for trading purposes				
Listed on a recognized stock exchange.....	64	-	-	64
	180	16	(2)	194
	December 31, 2002			
	Book amount	Gross unrealized gains (Euro in millions)	Gross unrealized losses	Market value
Held as financial fixed assets				
Listed on a recognized stock exchange.....	52	10	(2)	60
Unquoted.....	136	8	(1)	143
	188	18	(3)	203
Held for trading purposes				
Listed on a recognized stock exchange.....	58	-	-	58
	246	18	(3)	261

Market value is market price for quoted securities and directors' estimate for unquoted securities.

Analysis of movements in equity securities held as financial fixed assets

	Cost	Amounts written off	Book amount
	(Euro in millions)		
At January 1, 2003.....	231	(43)	188
Charge against statement of income (note 13).....	-	(3)	(3)
Currency translation adjustments.....	(11)	1	(10)
Disposal of subsidiary undertaking.....	(40)	(1)	(41)
Purchases.....	26	-	26
Disposals.....	(48)	4	(44)
At December 31, 2003.....	158	(42)	116

The cost of equity shares held for trading purposes amounted to €65 million (2002: €78 million).

27. INTERESTS IN ASSOCIATED UNDERTAKINGS

Share of net assets	Years ended December 31,	
	2003	2002
	(Euro in millions)	
At January 1.....	31	10
Currency translation adjustments.....	(219)	(1)
Transfer from subsidiary undertaking.....	59	-
Transfer from equity shares.....	-	10
Purchases.....	1,481	5
Profit retained.....	9	7
At December 31.....	1,361	31

**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements - (Continued)**

The Group's interests in associated undertakings are shown after accumulated provisions for write-downs of €3 million (2002: €3 million). There were no movements in the provisions during 2003 or 2002.

Included in the Group's share of net assets of associates is goodwill as follows:

	<b>Years ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(Euro in millions)</b>	
<b>Goodwill</b>		
Cost at January 1.....	-	-
Additions during year.....	1,181	-
Currency translation adjustments.....	(162)	-
At December 31.....	<u>1,019</u>	-
Accumulated amortization at January 1.....	-	-
Charge against statement of income.....	42	-
Currency translation adjustments.....	(4)	-
At December 31.....	<u>38</u>	-
Net book value		
At December 31.....	<u>981</u>	-

Notes to Consolidated Financial Statements - (Continued)

The summary statement of income of M&T Bank Corporation for the nine months ended December 31, 2003 and summary balance sheet as at December 31, 2003 under Irish GAAP are as follows:

<b>9 Months ended December 31, 2003 (US\$ in millions)</b>	<b>Summary of consolidated statement of income</b>	<b>9 Months ended December 31, 2003 (Euro in millions)</b>
1,177	Net interest income.....	1,020
639	Other income.....	553
1,816	Total operating income.....	1,573
1,015	Operating expenses excluding restructuring costs.....	879
103	Restructuring costs	89
1,118	Total operating expenses.....	968
698	Group operating income before provisions.....	605
98	Provisions.....	85
600	Group income before taxation.....	520
199	Taxation.....	172
401	Group profit after taxation.....	348
<b>December 31, 2003 (US\$ in millions)</b>	<b>Summary of consolidated balance sheet</b>	<b>December 31, 2003 (Euro in millions)</b>
37,618	Loans etc.....	29,785
7,255	Investment securities.....	5,744
399	Fixed assets.....	316
1,641	Other assets.....	1,299
46,913	Total assets.....	37,144
33,188	Deposits etc.....	26,277
10,178	Other borrowings.....	8,058
1,537	Other liabilities.....	1,217
2,010	Stockholders' funds	1,592
46,913	Total liabilities.....	37,144

The contribution of the enlarged M&T from the date of acquisition to December 31, 2003 is as follows:

<b>9 Months ended December 31, 2003 (US\$ in millions)</b>	<b>Contribution of M&amp;T</b>	<b>9 Months ended December 31, 2003 (Euro in millions)</b>
157	Share of operating income.....	136
(23)	Share of restructuring and integration costs.....	(20)
(48)	Amortization of goodwill.....	(42)
86	Contribution to Group income before taxation.....	74
(44)	Taxation.....	(38)
42	Contribution to Group income after taxation.....	36

With the exception of M&T, the Group's interests in associated undertakings are non-credit institutions, are unlisted and are held by subsidiary undertakings.

In accordance with the European Communities (Credit Institutions: Accounts) Regulations, 1992, Allied Irish Banks, p.l.c. will annex a full listing of associated undertakings to its annual return to the companies registration office.

Notes to Consolidated Financial Statements - (Continued)

28. INTANGIBLE FIXED ASSETS

	Years ended December 31,	
	2003	2002
	(Euro in millions)	
Goodwill:		
Cost at January 1.....	553	560
Arising on acquisitions during the year.....	-	1
Currency translation adjustments.....	(8)	(8)
At December 31.....	<u>545</u>	<u>553</u>
Accumulated amortization at January 1.....	96	65
Charge for the year ( <i>note 12</i> ).....	31	32
Currency translation adjustments.....	(2)	(1)
At December 31.....	<u>125</u>	<u>96</u>
Net book value:		
At December 31.....	<u>420</u>	<u>457</u>

Intangible fixed assets comprise purchased goodwill arising on acquisition of subsidiary and associated undertakings. Prior to January 1, 1998 goodwill arising on acquisition of subsidiary and associated undertakings was taken directly to profit and loss account reserves. The goodwill arising on acquisitions during 2003 and 2002 is set out in the following table:

	Years ended December 31,	
	2003	2002
	(Euro in millions)	
Community Counselling Service Co., Inc.....	-	-
Bank Zachodni WBK S.A.....	-	-
Other.....	-	1
	<u>-</u>	<u>1</u>

Notes to Consolidated Financial Statements - (Continued)

29. PROPERTY AND EQUIPMENT

	Property			Equipment	Total
	Freehold	Long leasehold	Leasehold under 50 years (Euro in millions)		
Cost:					
At January 1, 2003.....	661	130	165	1,125	2,081
Disposals of Group undertakings.....	(110)	-	(53)	(237)	(400)
Additions.....	11	5	5	97	118
Disposals.....	(14)	(60)	(10)	(129)	(213)
Currency translation adjustments.....	(42)	2	(5)	(51)	(96)
At December 31, 2003.....	506	77	102	805	1,490
Accumulated depreciation:					
At January 1, 2003.....	104	12	91	696	903
Disposals of Group undertakings.....	(28)	-	(27)	(134)	(189)
Depreciation charge for the year.....	24	2	11	120	157
Impairment.....	(3)	-	-	(2)	(5)
Disposals.....	(3)	(5)	(5)	(114)	(127)
Currency translation adjustments.....	(9)	1	(4)	(29)	(41)
At December 31, 2003.....	85	10	66	537	698
Net book value:					
At December 31, 2003.....	421	67	36	268	792
At December 31, 2002.....	557	118	74	429	1,178

The net book value of property occupied by the Group for its own activities was €480 million (2002: €730 million).



**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements - (Continued)**

**30. DEFERRED TAXATION**

The tax effects of temporary timing differences that give rise to significant elements of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are presented below.

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>(Euro in millions)</u>	
Deferred tax assets:		
Allowance for loan losses.....	(87)	(161)
Amortized income.....	(23)	(36)
Debt securities.....	(2)	(12)
Deferred compensation.....	-	(10)
Timing differences on provisions for future Commitments in relation to the funding of Icarom plc (under Administration).....	(9)	(10)
Other.....	(53)	(16)
Total gross deferred tax assets.....	<u>(174)</u>	<u>(245)</u>
Deferred tax liabilities:		
Assets leased to customers.....	64	443
Assets used in the business.....	5	24
Debt securities.....	22	53
Other.....	51	7
Total gross deferred tax liabilities.....	<u>142</u>	<u>527</u>
Net deferred tax (assets)/ liabilities.....	<u>(32)</u>	<u>282</u>

For the year ended December 31, 2003 and 2002 full provision has been made for capital allowances and other timing differences except as described below.

No provision is made for tax that could be payable on any future remittance of the past earnings of certain subsidiary undertakings.

No provision is made for tax on capital gains which might arise on the disposal of properties at their balance sheet amounts due to the expectation that the greater portion of land and buildings will be retained by the Group. Accordingly deferred tax has not been recognized on the revaluation gains and losses that have arisen on the Group's property portfolio. If deferred tax had been recognized it would have amounted to €23 million approximately. In view of the substantial number of properties involved and the likelihood of a material tax liability arising being remote no provision is made in the accounts in respect of a tax liability arising until a decision is made to sell the properties involved. No provision is made in respect of certain taxable gains in the Republic of Ireland which have been rolled over into replacement assets. Finance Act 2003 changed the legislation in respect of roll over relief in the Republic of Ireland. However, where taxable gains had been rolled over prior to the amendments introduced in Finance Act 2003 the rolled over gains can continue to be rolled over again on disposal of the replacement assets. Therefore a tax liability is unlikely to crystallize.

	<u>Years ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>(Euro in millions)</u>	
Analysis of movements in deferred taxation:		
At January 1.....	282	311
Disposal of subsidiary undertaking.....	(280)	-
Currency translation and other adjustments.....	25	(56)
Taxation charge/(credit) against statement of income Ordinary activities.....	(59)	27
At December 31.....	<u>(32)</u>	<u>282</u>

## Notes to Consolidated Financial Statements - (Continued)

**31. LONG-TERM ASSURANCE BUSINESS****Methodology**

The value of the stockholder's interest in the long-term assurance business ("the embedded value") is comprised of the net tangible assets of Ark Life Assurance Company Limited ("Ark Life"), including any surplus retained in the long-term business funds, which could be transferred to stockholders, and the present value of the in-force business. The value of the in-force business is calculated by projecting future surpluses and other net cash flows attributable to the stockholders arising from business written by the balance sheet date and discounting the result at a rate which reflects the stockholder's overall risk premium.

Surpluses arise following annual actuarial valuations of the long-term business funds, which are carried out in accordance with the statutory requirements designed to ensure and demonstrate the solvency of the funds. Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and administrative expenses. Surpluses can be projected by making realistic assumptions about future experience, having regard to both actual experience and forecast long-term economic trends. Other net cash flows principally comprise annual management charges and other fees levied upon the policyholders by Ark Life.

Changes in the embedded value, which are determined on a post-tax basis, are included in the statement of income and described as contribution from life assurance company. For the purpose of presentation, the change in this value is grossed up at the underlying rate of corporation tax.

**Analysis of income from long-term assurance business**

Income from long-term assurance business included in the statement of income can be divided into those items comprising the operating income of the business and other items.

Included within operating income are the following items:

*New business contribution:* this represents the value from new business written during the year after taking into account the cost of establishing technical provisions and reserves.

*Contribution from existing business:* this comprises the following elements:

- The expected return arising from the unwinding of the discount rate; and
- Experience variances caused by the differences between the actual experience during the year and the expected experience.

*Investment returns:* this represents the investment return on both the net tangible assets and the value of the stockholder's interest in the long-term business account.

*Distribution costs:* this represents the actual cost of acquiring new business during the year and includes bonuses paid to sales consultants and other direct sales costs but does not include any allowance for the cost of referral generation from the branch network.

Included within other items are:

*Change in value of future unit linked fees:* this represents the unsmoothed impact of the discounted value of future unit linked fees at the end of the year as a result of investment returns being different from those assumed at the start of the year.

*Changes in economic assumptions:* this represents the effect of changes in the economic assumptions referred to below.

*Exceptional items:* this includes any other items which by virtue of their size or incidence, are considered not to form part of the ongoing operating income.

Notes to Consolidated Financial Statements - (Continued)

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
<b>Income from Ark Life's long-term assurance business is set out below:</b>			
New business contribution.....	39	60	65
Contribution from existing business			
– expected return.....	24	25	18
– experience variances.....	(1)	2	3
Investment returns.....	4	2	3
Distribution costs.....	(15)	(20)	(17)
Operating income.....	51	69	72
Other items:			
Change in value of future unit linked fees.....	3	(32)	(3)
Changes in economic assumptions.....	–	17	–
Exceptional items.....	6	3	15
Income from long-term assurance business before tax.....	60	57	84
Attributable tax.....	8	9	17
Income from long-term assurance business after tax.....	52	48	67

**Assumptions**

The economic assumptions are based on a long-term view of economic activity and are therefore not adjusted for market movements which are considered to be short-term. This approach is considered to be the most appropriate given the long-term nature of the portfolio of products. The principal economic assumptions used are as follows:

	Years ended December 31,		
	2003 %	2002 %	2001 %
Risk adjusted discount rate.....	10.0	10.0	12.0
Weighted average investment return.....	7.625	7.625	9.0
Future expense inflation.....	3.5	3.5	5.0

Notes to Consolidated Financial Statements - (Continued)

**Balance sheet**

The assets and liabilities of Ark Life representing the value of the assurance business together with the policyholders' funds are:

	December 31,	
	2003	2002
	(Euro in millions)	
Investments:		
Cash and short-term placings with banks.....	1,546	1,250
Debt securities.....	239	223
Equity shares.....	1,179	849
Property.....	45	42
	<u>3,009</u>	<u>2,364</u>
Value of investment in business.....	167	153
Other assets – net.....	98	61
	<u>3,274</u>	<u>2,578</u>
Long-term assurance liabilities to policyholders.....	(2,869)	(2,226)
Long-term assurance business attributable to stockholders.....	<u>405</u>	<u>352</u>
Represented by:		
Shares at cost.....	19	19
Reserves.....	376	326
Profit and loss account reserves.....	10	7
	<u>405</u>	<u>352</u>

**Presentation in the Group balance sheet**

Under UITF 37, holdings of shares in Allied Irish Banks, p.l.c., (by the parent or subsidiary companies), for any reason, are deducted in arriving at ordinary stockholders' equity. At December 31, 2003, shares in AIB with a value of €59 million (2002: €52 million; 2001: €52 million) were held within the long-term business funds to meet the liabilities to policyholders.

Long-term assurance assets attributable to policyholders are presented in the Group balance sheet net of the carrying value of the shares in AIB held within the fund. Group ordinary stockholders' equity have been reduced by a similar amount.

**Modified statutory solvency basis**

Ark Life's income before taxes on a modified statutory solvency basis was €44 million (2002: €44 million) and its income after taxes was €39 million (2002: €37 million). Ark Life's total assets on a modified statutory solvency basis were €3,181 million at December 31, 2003 (December 31, 2002: €2,482 million), and its stockholders' funds at December 31, 2003 were €237 million (December 31, 2002: €199 million). The following table provides a reconciliation of embedded value to the modified statutory solvency basis.

	Years ended December 31,	
	2003	2002
	(Euro in millions)	
<b>Reconciliation of embedded value to modified statutory solvency basis</b>		
Long-term assurance business attributable to stockholders		
- embedded value basis.....	405	352
Value of in-force business.....	(267)	(251)
Other differences:		
Deferred acquisitions costs.....	99	89
Other adjustments.....	-	9
Stockholders' funds of life operations - modified statutory solvency basis.....	<u>237</u>	<u>199</u>

Notes to Consolidated Financial Statements - (Continued)

32. DEPOSITS BY BANKS

	December 31,	
	2003	2002
	(Euro in millions)	
Federal funds purchased.....	-	491
Securities sold under agreements to repurchase.....	6,093	2,478
Other borrowings from banks.....	12,001	13,168
	<u>18,094</u>	<u>16,137</u>
Of which:		
Domestic offices.....	16,040	10,869
Foreign offices.....	2,054	5,268
	<u>18,094</u>	<u>16,137</u>
With agreed maturity dates or periods of notice, by remaining maturity:		
Over 5 years.....	348	405
5 years or less but over 1 year.....	91	236
1 year or less but over 3 months.....	2,509	3,554
3 months or less but not repayable on demand.....	14,838	11,357
	<u>17,786</u>	<u>15,552</u>
Repayable on demand.....	308	585
	<u>18,094</u>	<u>16,137</u>

Notes to Consolidated Financial Statements - (Continued)

33. CUSTOMER ACCOUNTS

	December 31,	
	2003	2002
	(Euro in millions)	
Current accounts.....	14,657	16,428
Demand deposits.....	6,788	10,333
Time deposits.....	19,539	21,855
	<u>40,984</u>	<u>48,616</u>
Securities sold under agreements to repurchase.....	-	703
Other short-term borrowings.....	3,628	3,657
	<u>3,628</u>	<u>4,360</u>
	<u>44,612</u>	<u>52,976</u>
Of which:		
Non-interest bearing current accounts		
Domestic offices.....	5,712	6,020
Foreign offices.....	1,714	5,004
Interest bearing deposits, current accounts and short-term borrowings		
Domestic offices.....	23,548	19,950
Foreign offices.....	13,638	22,002
	<u>44,612</u>	<u>52,976</u>
Analyzed by remaining maturity:		
Over 5 years.....	339	232
5 years or less but over 1 year.....	2,355	3,134
1 year or less but over 3 months.....	1,980	2,730
3 months or less but not repayable on demand.....	20,505	19,434
	<u>25,179</u>	<u>25,530</u>
Repayable on demand.....	19,433	27,446
	<u>44,612</u>	<u>52,976</u>
Amounts include:		
Due to associated undertakings.....	23	28

Securities sold under agreements to repurchase are secured by Irish Government stock, US Treasury and US Government agency securities and mature within three months.

The aggregate market value of all securities sold under agreements to repurchase did not exceed 10% of total assets and the amount at risk with any individual counterparty or group of related counterparties did not exceed 10% of total stockholders' equity.

Notes to Consolidated Financial Statements - (Continued)

34. DEBT SECURITIES IN ISSUE

	December 31,	
	2003	2002
	(Euro in millions)	
Bonds and medium term notes:		
European medium term note programme.....	1,255	121
Medium term notes.....	168	-
Allfirst adjustable rate federal home loan bank advances:		
due August 23, 2011.....	-	191
	1,423	312
Other debt securities in issue:		
Master demand notes of Allfirst.....	-	250
Commercial paper.....	261	224
Commercial certificates of deposit.....	1,805	2,291
	2,066	2,765
	3,489	3,077

**Maturity analysis**

Bonds and medium term notes, by remaining maturity:

Over 5 years.....	-	197
5 years or less but over 1 year.....	1,423	-
1 year or less but over 3 months.....	-	-
3 months or less.....	-	115
	1,423	312

Other debt securities in issue, by remaining maturity:

5 years or less but over 1 year.....	-	8
1 year or less but over 3 months.....	456	685
3 months or less.....	1,610	2,072
	2,066	2,765
	3,489	3,077

35. OTHER LIABILITIES

	December 31,	
	2003	2002
	(Euro in millions)	
Notes in circulation ( <i>note 2</i> ).....	420	410
Current taxation.....	166	91
Dividend ( <i>note 19</i> ).....	296	283
Provisions for future commitments in relation		
to the funding of Icarom <sup>(1)</sup> .....	79	85
Short positions in securities <sup>(2)</sup> .....	149	266
Other.....	2,031	1,456
	3,141	2,591

<sup>(1)</sup> The provision represents the present value of the cost of the future commitments arising under the 1992 agreement in relation to the funding of Icarom (See Accounting Policies - note (m), Non-credit risk provisions on page 82). A discount rate of 6.35% was applied in the year ended December 31, 1993, in discounting the cost of the future commitments arising under this agreement. As at December 31, 2003 the undiscounted amount of the cost of the future commitments relating to these agreements amounted to €100.6 million (2002: €111.7 million). Of the €100.6 million, €33.5 million is payable for the three years December 31, 2004 to 2006, with the remaining €67.1 million payable thereafter. The unwinding of the discount on the provision amounted to €5.1 million (2002: €5.4 million).

<sup>(2)</sup> Short positions in debt securities and equity shares at December 31, 2003 were €147 million and €2 million, respectively (2002: €250 million and €16 million respectively).

Notes to Consolidated Financial Statements - (Continued)

36. PROVISIONS FOR LIABILITIES AND CHARGES

	<b>Contingent liabilities and commitments</b>	<b>Other</b>	<b>Total</b>
	<b>(Euro in millions)</b>		
At January 1, 2002.....	32	39	71
Currency translation adjustments.....	(2)	(4)	(6)
Charge against statement of income.....	2	16	18
Provisions utilized.....	(14)	(9)	(23)
At January 1, 2003.....	18	42	60
Currency translation adjustments.....	(1)	(3)	(4)
Charge against statement of income.....	9	81	90
Provisions utilized.....	(10)	(15)	(25)
Disposal of subsidiary undertaking.....	(5)	(5)	(10)
At December 31, 2003.....	11	100	111



Notes to Consolidated Financial Statements - (Continued)

37. SUBORDINATED LIABILITIES

	December 31,	
	2003	2002
	(Euro in millions)	
<b>Allied Irish Banks, p.l.c.</b>		
Undated capital notes.....	357	389
Dated capital notes.....	1,276	719
	1,633	1,108
Reserve capital instruments.....	497	496
<b>Allfirst Financial Inc.</b>		
Dated capital notes.....	-	568
	2,130	2,172
<b>Undated capital notes</b>		
US\$100 million Floating Rate Notes, Undated.....	79	95
US\$100 million Floating Rate Primary Capital Perpetual Notes, Undated.....	79	95
€200 million Fixed Rate Perpetual Subordinated Notes.....	199	199
	357	389
<b>Dated capital notes</b>		
<b>Allied Irish Banks, p.l.c.</b>		
European Medium Term Note Programme:		
US\$250 million Floating Rate Notes due January 2010.....	198	238
€32.2 million 6.7% Fixed Rate Notes due August 2009.....	32	32
€250 million Floating Rate Notes due January 2010.....	250	249
€100 million Floating Rate Notes due August 2010.....	100	100
€200 million Floating Rate Notes due June 2013.....	200	100
Stg£350 million Fixed Rate Notes due November 2030.....	496	-
	1,276	719
<b>Allfirst Financial Inc.</b>		
US\$200 million 7.2% Fixed Rate Subordinated Notes due July 2007.....	-	190
US\$100 million 6.875% Fixed Rate Subordinated Notes due June 2009.....	-	95
US\$150 million Floating Rate Subordinated Capital Income Securities due January 2027.....	-	141
US\$150 million Floating Rate Subordinated Capital Income Securities due February 2027.....	-	142
	1,276	1,287

The loan capital of the Bank is unsecured and is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank.

Notes to Consolidated Financial Statements - (Continued)

*Reserve capital instruments*

In February 2001, Reserve capital instruments (RCIs) of €500 million were issued by Allied Irish Banks, p.l.c. at an issue price of 100.069%. The RCIs are perpetual securities and have no maturity date. The RCIs are redeemable in whole but not in part at the option of the Bank and with the agreement of the Irish Financial Services Regulatory Authority ("IFSRA"), (i) upon the occurrence of certain events, or (ii) on or after February 28, 2011, an authorized officer having reported to the Trustees within the previous six months that a solvency condition is met.

The RCIs bear interest at a rate of 7.50% per annum from (and including) February 5, 2001 to (but excluding) February 28, 2011 and thereafter at 3.33% per annum above three month EURIBOR, reset quarterly.

The rights and claims of the RCI holders and the coupon holders are subordinated to the claims of the senior creditors and the senior subordinated creditors of the issuer. In the event of a winding up of the issuer, the RCI holders will rank *pari passu* with the holders of the classes of preference shares (if any) from time to time issued by the issuer and in priority to all other stockholders.

The Group implemented UITF 33 - "Obligations in Capital Instruments" in the preparation of its accounts for the year ended December 31, 2002 and comparative figures were restated. Under UITF 33, the €500 million RCIs are treated as a subordinated liability rather than stockholders' funds. The related interest cost is included within interest expense whereas previously the amount was included in "Dividends on non-equity shares". The effect on 2001 was to reduce net interest income and income before taxes and exceptional items by €35 million. Dividends on non-equity shares reduced by €35 million and the impact on net income applicable to ordinary stockholders was neutral.

*Undated loan capital*

The US\$ Undated Floating Rate Loan Capital Notes have no final maturity but may be redeemed at par at the option of the Bank, with the prior approval of the IFSRA. Interest is payable semi-annually on the US\$100 million Undated Floating Rate Notes and the weighted average interest rate applicable for the year ended December 31, 2003 was 1.5%. Interest is payable quarterly on the US\$100 million Floating Rate Primary Capital Perpetual Notes and the weighted average interest rate applicable for the year ended December 31, 2003 was 1.8%. The €200 million Fixed Rate Perpetual Subordinated Notes, with interest payable annually, have no final maturity but may be redeemed at the option of the Bank, with the prior approval of the IFSRA, on each coupon payment date on or after August 3, 2009.

*Dated loan capital*

The European medium term note programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank. The US\$250 million Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after January 2005. The €32.2 million Fixed Rate Notes, with interest payable annually, may be redeemed, in whole but not in part, on August 20, 2004. The €250 million Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, in or after January 2005. The €100 million Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on the interest payment date falling in August 2005. In June 2003, an additional €100 million Floating Rate Notes due in June 2013 were issued. The €200 million Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on June 12, 2008 and on each interest payment date thereafter. In November 2003, Stg£350 million Fixed Rate Notes due in November 2030 were issued. The Stg£350 million Fixed Rate Notes, with interest payable annually in arrears on November 26 in each year, may be redeemed, in whole but not in part, on November 26, 2025 and on each interest payment date thereafter. In all cases, redemption prior to maturity is subject to the necessary prior approval of the IFSRA.

The subordinated floating rate notes pay a rate of interest related to the London Inter - Bank Offered Rate (LIBOR) or the European Inter - Bank Offered Rate (EURIBOR) of the currency of denomination, as appropriate.

There is no exchange exposure as the proceeds of these notes are retained in their respective currencies.

**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements - (Continued)**

The maturity profile of the dated capital notes outstanding at December 31, 2003 is as follows:

<b>Maturity during the year ended December 31.</b>	<b>(Euro in millions)</b>
2004.....	-
2005.....	-
2006.....	-
2007.....	-
2008.....	-
Thereafter.....	1,276
	<u>1,276</u>

**38. EQUITY AND NON-EQUITY MINORITY INTERESTS  
IN CONSOLIDATED SUBSIDIARIES**

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(Euro in millions)</b>	
Equity interest in subsidiaries.....	158	181
Non-equity interest in subsidiaries:		
Allfirst Financial Inc.:		
Floating rate non-cumulative subordinated capital		
trust enhanced securities <sup>(1)</sup> .....	-	93
	-	93
	<u>158</u>	<u>274</u>

<sup>(1)</sup>Allfirst issued 100,000 floating rate non-cumulative subordinated capital trust enhanced securities through a subsidiary on July 13, 1999. The distribution rate on the securities is three month LIBOR plus 1.5% of the stated liquidation amount of US\$1,000 per security, reset quarterly. On April 1, 2003, Allfirst was acquired by M&T Bank Corporation and AIB received a stake of approximately 22.5% in the enlarged M&T (*note 1*).

**39. SHARE CAPITAL**

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(Euro in millions except share amounts)</b>	
Ordinary shares of €0.32 each		
Number of shares authorized (millions).....	1,160.0	1,160.0
Number of shares issued (millions).....	907.6	897.4
Issued and fully paid.....	290	287
Non-cumulative preference shares of €1.27 each		
Number of shares authorized (millions).....	200.0	200.0
Number of shares issued (millions).....	-	-
Non-cumulative preference shares of US\$25 each.....		
Number of shares authorized (millions).....	20.0	20.0
Number of shares issued (millions).....	0.25	0.25
Issued and fully paid.....	5	6
Non-cumulative preference shares of Stg£1 each.....		
Number of shares authorized (millions).....	200.0	200.0
Number of shares issued (millions).....	-	-
Non-cumulative preference shares of Yen 175 each.....		
Number of shares authorized (millions).....	200.0	200.0
Number of shares issued (millions).....	-	-

**Notes to Consolidated Financial Statements - (Continued)**

During the year ended December 31, 2003 the number of ordinary shares was increased from 897,446,519 to 907,621,316 as follows:

- (a) under the dividend reinvestment plan, 5,693,140 shares were allotted to stockholders, at €11.80 per share, in respect of the final dividend for the year ended December 31, 2002, and 3,299,657 shares were allotted to stockholders, at €12.27 per share, in respect of the interim dividend for the year ended December 31, 2003. These allotments were made in lieu of dividends amounting to €107.7 million;
- (b) by the issue of 946,000 shares to participants in the Company's share option plan at prices of €4.19, €5.80, €6.25, €7.61, €10.02 and €11.90 per share; the consideration received for these shares was €5.5 million;
- (c) by the issue of 236,000 shares to holders of Dauphin Deposit Corporation Inc. ("Dauphin", subsequently renamed "Allfirst Financial Inc.") stock options, which were converted, on the acquisition of Dauphin, into options to purchase AIB American Depositary Shares. The consideration received for these shares was €1.7 million.

During the year ended December 31, 2002 the number of ordinary shares was increased from 886,690,015 to 897,446,519 as follows:

- (i) under the dividend reinvestment plan, 4,552,960 shares were allotted to stockholders, at €12.99 per share, in respect of the second interim dividend for the year ended December 31, 2001, and 1,293,867 shares were allotted to stockholders, at €13.12 per share, in respect of the interim dividend for the year ended December 31, 2002. These allotments were made in lieu of dividends amounting to €76.12 million;
- (ii) by the issue of 1,358,433 shares to the trustees of the employees' profit sharing plans at €12.41 per share; the consideration received for these shares was €16.86 million;
- (iii) by the issue of 3,156,500 shares to participants in the executive share option plan at prices of €3.38, €4.19, €5.80, €6.25, €7.61 and €11.90 per share; the consideration received for these shares was €18.6 million;
- (iv) by the issue of 394,744 shares to holders of Dauphin Deposit Corporation ("Dauphin", subsequently renamed "Allfirst Financial Inc.") stock options, which were converted, on the acquisition of Dauphin, into options to purchase AIB American Depositary Shares. The consideration received for these shares was €3.34 million.

**Share option plan**

This plan is detailed in Item 6 - Directors, senior management and employees - "Share ownership" on pages 47 to 49 of this Report.

**Dividend reinvestment plan**

At the 1999 Annual General Meeting, the directors were given authority for a five year period to offer stockholders the right to elect to receive additional ordinary shares in lieu of cash dividends. The price at which such shares are offered is the average of the middle market quotations of the Bank's shares on the Irish Stock Exchange for the five business days commencing on the first date on which the shares are quoted "ex-dividend" after the announcement of results.

**Allfirst Financial Inc. stock option plan**

Under the terms of the Agreement and Plan of Merger between the Company, First Maryland Bancorp (subsequently renamed "Allfirst") and Dauphin Deposit Corporation ("Dauphin", subsequently renamed "Allfirst"), approved by stockholders at the 1997 Annual General Meeting, options to purchase Dauphin shares which were outstanding immediately prior to the merger of Allfirst and Dauphin were converted, at the holders' elections, into either cash or options to purchase a similar number of AIB American Depositary Shares ("converted options"). On April 1, 2003, the merger of Allfirst Financial Inc. ("Allfirst") with M&T Bank Corporation ("M&T") was completed, pursuant to the Agreement and Plan of Reorganization dated September 26, 2002 by and among the Company, Allfirst and M&T. Under the terms of that Agreement, converted options outstanding immediately prior to that merger (over some 321,598 ordinary shares) remain in force.

In addition to the issue of shares referred to at (c) above, 46,000 ordinary shares held as Treasury Shares were issued during 2003 to participants in the Allfirst Financial Inc. stock option plan. The consideration received for these shares was €0.1 million.

At December 31, 2003, converted options were outstanding over 136,598 ordinary shares.

Notes to Consolidated Financial Statements - (Continued)

**AIB Long Term Incentive Plan**

Under the terms of the AIB Long Term Incentive Plan, approved by stockholders at the 2000 Annual General Meeting, conditional grants of awards of ordinary shares have been made in respect of 1,305,200 ordinary shares, in aggregate, to 234 employees. These awards will vest in full in the award-holders only if (a) the growth in the Company's EPS, as defined in the Rules of the Plan, in any three consecutive years within the five years following the grant is not less than the growth in the CPI plus 5% per annum, compound, over the same three year period; and (b) the growth in the Company's core EPS, as defined in the Rules of the Plan, over the three year period during which the criterion at (a) is satisfied, is such as to position the Company in the top 20% of the FTSE Eurotop Banks Retail Index. Partial vesting, on a reducing scale, will occur if the growth in the Company's core EPS positions the Company outside the top 20% of that Index but still within its top 45%, subject to the criterion at (a) being satisfied. Vested shares must be held until normal retirement date, except that award-holders may dispose of shares sufficient to meet the income tax liability arising on vesting.

**Non-cumulative preference shares of US\$25 each**

In 1998, 250,000 non-cumulative preference shares of US\$25 each were issued at a price of US\$995.16 per share raising US\$248.8 million before expenses. The holders of the non-cumulative preference shares are entitled to a non-cumulative preferential dividend, payable quarterly in arrears, at a floating rate equal to 3 month dollar LIBOR plus 0.875% on the liquidation preference amount of US\$1,000 per share. The preference shares are redeemable at the option of the Bank, and with the agreement of the Irish Financial Services Regulatory Authority, on or after July 15, 2008 (i) in whole or in part or (ii) prior to that date in certain circumstances in whole, but not in part. In each case, the preference shares will be redeemed at a price equal to US\$1,000 per share (consisting of a redemption price of US\$995.16 plus a special dividend of US\$4.84 per share), plus accrued dividends.

**40. TREASURY SHARES**

At the 2003 Annual General Meeting, stockholders granted authority for the Company, or any subsidiary, to make market purchases of up to 89 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. During the year, some 60,798,412 such shares were purchased, and applied as follows:

	<u>December 31,</u> <u>2003</u>
Treasury shares held, January 1	–
Shares purchased .....	60,798,412
Shares re-issued under:	
AIB Share Option Plans.....	3,092,500
Allfirst Financial Inc. Stock Option Plan ( <i>note 39</i> ).....	46,000
AIB Approved Employee Profit Sharing Plans ( <i>see below</i> ).....	2,125,756
	5,264,256
Treasury shares held, December 31.....	55,534,156

**Employee Share Plans**

These plans are detailed in Item 6 - Directors, Senior Management and employees - "Share Ownership" on page 48 of this Report.

**Purchase of ordinary shares**

In September 1997, a subsidiary undertaking purchased 5.6 million ordinary shares of €0.32 each of the Company on the open market, at a price of €7.30 per share. The purchase was undertaken at foot of a resolution approved by stockholders at the Annual General Meeting held on May 21, 1997. In accordance with the Companies Act, 1990, the cost of the purchase of these shares, €42 million including related expenses of €0.8 million, has been deducted from distributable reserves. The issued ordinary share capital of the Company continues to include these shares (nominal value €1.8 million). The shares do not rank for dividend as the related dividend entitlements have been waived. The weighted average number of shares in the earnings per share calculation has been reduced to exclude these shares.



Notes to Consolidated Financial Statements - (Continued)

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
<b>(c) Capital expenditure and financial investment</b>			
Net (increase)/decrease in debt securities.....	(1,070)	1,506	904
Net decrease in equity shares.....	21	10	94
Additions to property and equipment.....	(118)	(179)	(328)
Disposals of property and equipment.....	118	42	30
Net cash (outflow)/inflow from capital expenditure.....	(1,049)	1,379	700

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
<b>(d) Acquisitions and disposals</b>			
Acquisition of Group undertakings.....	-	(1)	(59)
Investments in associated undertakings.....	-	(5)	(1)
Disposals of investments in subsidiary undertakings.....	(1,049)	1	1
Net cash outflow from acquisitions and disposals.....	(1,049)	(5)	(59)

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
<b>(e) Financing</b>			
Issue of ordinary share capital.....	36	27	23
Share buyback.....	(812)	-	-
Redemption of subordinated liabilities.....	-	(247)	(311)
Issue of subordinated liabilities.....	603	100	-
Redemption of preference shares.....	-	(9)	-
Issue of reserve capital instrument.....	-	-	496
Net cash (outflow)/inflow from financing.....	(173)	(129)	208

**(f) Analysis of changes in cash**

AIB Group defines cash for the purposes of the cash flow statements as cash in hand and deposits repayable on demand with any bank or other financial institution.

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
At beginning of year.....	2,731	2,652	2,222
Net cash (outflow)/inflow before the effect of currency translation adjustments.....	(1,351)	362	377
Effect of currency translation adjustments.....	(338)	(283)	53
At end of year.....	1,042	2,731	2,652

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
<b>(g) Analysis of cash</b>			
Cash and balances at central banks.....	838	1,176	1,175
Loans and advances to banks (repayable on demand).....	204	1,555	1,477
	1,042	2,731	2,652

The Group is required to maintain balances with the Irish Financial Services Regulatory Authority which, at December 31, 2003, amounted to €863 million (2002: €1,039 million). The Group is also required by law to maintain reserve balances with the Federal Reserve Bank in the United States of America, the Bank of England and with the National Bank of Poland. Such reserve balances amounted to €17 million (2002: €53 million).

Notes to Consolidated Financial Statements - (Continued)

	<u>Share capital<sup>(1)</sup></u>		
	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Euro in millions)		
<b>(h) Analysis of changes in financing<sup>(2)</sup></b>			
At beginning of year.....	2,211	2,217	2,165
Effect of currency translation adjustments.....	(40)	(45)	15
Cash inflow from financing.....	7	27	23
Other movements.....	3	13	14
Amortization of issue costs.....	(1)	(1)	–
At end of year.....	<u>2,180</u>	<u>2,211</u>	<u>2,217</u>

<sup>(1)</sup> Includes share capital and share premium.

<sup>(2)</sup> Excludes an amount of €783 million (net of €29 million received for Treasury shares reissued) in respect of the repurchase of 60.8 million ordinary shares in 2003.

AIB believes that future normal cashflows from operating and financing activities, primarily deposit-taking, will be more than adequate to satisfy short-term and long-term future cash requirements, including estimated future capital expenditure requirements.

	<u>Subordinated liabilities</u>		
	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Euro in millions)		
At beginning of year.....	2,172	2,516	2,249
Effect of currency translation adjustments.....	(87)	(199)	80
Cash inflow/(outflow) from financing.....	603	(147)	185
Disposal of subsidiary.....	(547)	–	–
Other movements.....	(12)	–	–
Amortization of issue costs.....	1	2	2
At end of year.....	<u>2,130</u>	<u>2,172</u>	<u>2,516</u>

	<u>Non - equity minority interests</u>		
	Years ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Euro in millions)		
At beginning of year.....	93	121	114
Effect of currency translation adjustments.....	(3)	(19)	7
Cash outflow from financing.....	–	(9)	–
Disposal of subsidiary.....	(90)	–	–
At end of year.....	<u>–</u>	<u>93</u>	<u>121</u>



Notes to Consolidated Financial Statements - (Continued)

**43. MEMORANDUM ITEMS: CONTINGENT LIABILITIES AND COMMITMENTS**

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers.

These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated balance sheet. Credit risk is defined as the possibility of sustaining a loss because the other counterparty to a financial instrument fails to perform in accordance with the terms of the contract.

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

The risk weighted amount is obtained by applying credit conversion factors and counterparty risk weightings in accordance with the Central Bank of Ireland's guidelines implementing the EC Own Funds and Solvency Ratio Directives.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for on balance sheet lending.

At December 31, 2003 and 2002, the nominal or contract amounts and the risk weighted credit equivalent of contingent liabilities and commitments were:

	December 31, 2003		December 31, 2002	
	Contract amount	Risk weighted amount (Euro in millions)	Contract amount	Risk weighted amount
<b>Contingent liabilities</b>				
Acceptances and endorsements.....	12	12	72	61
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit.....	4,157	4,053	5,278	4,957
Assets pledged as collateral security.....	-	-	14	1
	4,157	4,053	5,292	4,958
Other contingent liabilities.....	722	368	1,027	520
	4,891	4,433	6,391	5,539
<b>Commitments</b>				
Sale and option to resell transactions	-	-	2,062	1,230
Other commitments:				
Documentary credits and short-term trade-related transactions.....	126	31	314	97
Forward asset purchases and forward deposits placed.....	-	-	24	5
Undrawn note issuance and revolving underwriting facilities.....	76	29	33	10
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over.....	8,023	3,967	9,073	4,387
Less than 1 year <sup>(1)</sup> .....	5,707	-	8,446	-
	13,932	4,027	17,890	4,499
	13,932	4,027	19,952	5,729
	18,823	8,460	26,343	11,268

<sup>(1)</sup>Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

Notes to Consolidated Financial Statements - (Continued)

	December 31, 2003		December 31, 2002	
	Contingent liabilities	Commitments	Contingent liabilities	Commitments
	(Euro in millions)			
<b>Concentration of exposure</b>				
Republic of Ireland.....	1,685	7,552	1,544	6,556
United States of America.....	2,549	1,173	4,316	8,743
United Kingdom.....	632	4,393	483	3,768
Poland.....	25	814	48	885
	4,891	13,932	6,391	19,952

There exists a contingent liability to repay in whole or in part grants received on equipment leased to customers if certain events set out in the agreements occur.

Allied Irish Banks, p.l.c. has given guarantees in respect of the liabilities of certain of its subsidiaries and has also given guarantees for the satisfaction of the relevant regulatory authorities for the protection of the depositors of certain of its banking subsidiaries in the various jurisdictions in which such subsidiaries operate.

The Financial Services Authority in the UK ("FSA") is carrying out a review of the split capital trusts sector. Govett Investment Management Ltd ("Govett") managed four split capital trusts and one highly leveraged investment fund. AIB is co-operating fully with the FSA in its investigation. The FSA review is ongoing, and consequently the Directors are not in a position to forecast the outcome of the investigations, and any resultant regulatory actions. Accordingly the Directors do not consider it appropriate to make any provision in the financial statements.

Except as set out below, AIB Group is not, nor has been, involved in, nor are there, so far as the Company is aware, pending or threatened by or against AIB Group any legal or arbitration proceedings which may have, or have had during the previous twelve months, a significant effect on the financial position of AIB Group.

**Class action and purported stockholder derivative action**

On March 5, 2002 and on April 24, 2002, separate class action lawsuits under the Securities Exchange Act, 1934 of the United States were filed in the United States District Court for the Southern District of New York against AIB, Allfirst and certain serving and past officers and directors of Allfirst and its subsidiaries, seeking compensatory damages, legal fees and other costs and expenses relating to alleged misrepresentations in filings of AIB and Allfirst. On May 3, 2002, a motion to consolidate both cases and to appoint a lead plaintiff was filed with the Court. The defendants have not yet been called upon to respond to the complaint but, when so called upon, AIB intends to vigorously defend the action. It is not practicable to predict the outcome of the action against AIB and Allfirst and any financial impact on AIB, but on the basis of current information, the directors do not believe that the action is likely to have a materially adverse effect on AIB.

On May 13, 2002, a purported stockholder derivative action was filed in the Circuit Court for Baltimore City, Maryland. A holder of AIB American Depositary Shares purports to sue certain present and former directors and officers of Allfirst Bank on behalf of AIB, alleging those persons are liable for the foreign exchange trading losses. No relief is sought in the purported derivative action against AIB, Allfirst or Allfirst Bank. On December 30, 2002, the court dismissed the action. On January 10, 2003, the plaintiffs filed a motion seeking to have the Court amend or revise the judgement, or to be granted leave to file an amended complaint. This was dismissed on March 3, 2003. The plaintiffs filed a second such motion on March 17, 2003. The court dismissed this on April 4, 2003. On June 20, 2003, the plaintiffs' petition to bypass the Maryland Court of Special Appeals and appeal directly to the Maryland Court of Appeals was denied by the Court of Appeals. The plaintiffs' appeal to the Maryland Court of Special Appeals was argued on January 12, 2004 and a decision on this appeal remains pending.

Certain of the individual defendants in these actions have asserted or may possibly assert, claims for indemnification against AIB and/or Allfirst, which, if made against Allfirst following completion of the M&T transaction, might be subject to the indemnification obligations of AIB as part of the agreement with M&T. In the nature of any such claims, it is not possible to quantify the amount which might be asserted in any such claim.

Notes to Consolidated Financial Statements - (Continued)

**44. DERIVATIVES**

The Group's objectives, policies and strategies in managing the risks that arise in connection with the use of financial instruments, including derivative financial instruments, are set out in pages 59 to 66.

The Group uses derivatives to service customer requirements, to manage the Group's interest rate, exchange rate and equity exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices.

These instruments involve, to varying degrees, elements of market risk and credit risk which are not reflected in the consolidated balance sheet. Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates. Credit risk arises to the extent that the default of a counterparty to the derivative transaction exposes the Group to the need to replace existing contracts at prices that are less favourable than when the contract was entered into. The potential loss to the Group is known as the gross replacement cost. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

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

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate and equity contracts at December 31, 2003 and 2002.

	December 31, 2003		December 31, 2002	
	Notional amount	Gross replacement cost	Notional amount	Gross replacement cost
	(Euro in millions)			
<b>Interest rate contracts<sup>(1)</sup></b>				
Trading.....	72,736	736	75,558	1,223
Non-trading.....	27,045	294	34,971	690
	<u>99,781</u>	<u>1,030</u>	<u>110,529</u>	<u>1,913</u>
<b>Exchange rate contracts<sup>(1)</sup></b>				
Trading.....	14,753	464	18,468	457
Non-trading.....	812	37	2,578	89
	<u>15,565</u>	<u>501</u>	<u>21,046</u>	<u>546</u>
<b>Equity contracts<sup>(1)</sup></b>				
Trading.....	2,445	73	2,037	27
Non-trading.....	-	-	-	-
	<u>2,445</u>	<u>73</u>	<u>2,037</u>	<u>27</u>

<sup>(1)</sup>Interest rate, exchange rate and equity contracts are entered into for both hedging and trading purposes.

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, in relation to derivative instruments, the Group's exposure to market risk is controlled within the risk limits in the Group's Interest Rate Risk and Foreign Exchange Risk Policies and is further constrained by the risk parameters incorporated in the Group's Derivatives Policy as approved by the Board.

**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements - (Continued)**

The following table analyzes the notional amount and gross replacement cost of interest rate, exchange rate and equity contracts by maturity.

	<b>Residual maturity</b>			<b>Total</b>
	<b>&lt; 1 year</b>	<b>1 &lt; 5 years</b>	<b>5 years +</b>	
	<b>(Euro in millions)</b>			
<b>2003</b>				
Notional amount.....	64,991	41,287	11,513	117,791
Gross replacement cost.....	694	655	255	1,604
<b>2002</b>				
Notional amount.....	78,231	46,663	8,718	133,612
Gross replacement cost.....	990	1,094	402	2,486

Of the gross replacement cost €1,416 million (2002: €2,208 million) related to financial institutions and €188 million (2002: €278 million) related to non-financial institutions.

AIB Group has the following concentration of exposures in respect of notional amount and gross replacement cost of all interest rate, exchange rate and equity contracts. The concentrations are based primarily on the location of the office recording the transaction.

	<b>December 31, 2003</b>		<b>December 31, 2002</b>	
	<b>Notional amount</b>	<b>Gross replacement cost</b>	<b>Notional amount</b>	<b>Gross replacement cost</b>
	<b>(Euro in millions)</b>			
Republic of Ireland.....	86,861	1,164	63,723	1,315
Unites States of America.....	3,400	66	8,470	232
United Kingdom.....	23,394	365	56,541	922
Poland.....	4,136	9	4,878	17
	117,791	1,604	133,612	2,486

**Trading activities**

AIB Group maintains trading positions in a variety of financial instruments including derivatives. These financial instruments include interest rate, foreign exchange and equity futures, interest rate swaps, interest rate caps and floors, forward rate agreements, and interest rate, foreign exchange and equity index options. Most of these positions arise as a result of activity generated by corporate customers while others represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income. The managers and traders involved in financial derivatives have the technical expertise to trade these products and the active involvement of the traders in these markets allows the Group to offer competitive pricing to customers.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

Notes to Consolidated Financial Statements - (Continued)

**Nature and terms of trading instruments**

The following table presents the notional amounts and fair values of the classes of derivative trading instruments at December 31, 2003 and 2002.

	Notional amounts <sup>(1)</sup>		Fair values			
			At December 31,		Average	
	2003	2002	2003	2002	2003	2002
			(Euro in millions)			
Interest rate contracts:						
Interest rate swaps.....	58,742	65,613			(566)	125
In a receivable position.....			733	1,199		
In a payable position.....			(627)	(1,065)		
Interest rate caps, floors and options.....	2,650	4,187			-	2
Held.....			9	15		
Written.....			(9)	(12)		
Forward rate agreements	6,920	3,805			(1)	1
In a favorable position.....			3	7		
In an unfavorable position.....			(5)	(6)		
Financial futures.....	4,424	1,926			-	-
In a favorable position.....			-	1		
In an unfavorable position.....			(2)	(4)		
Other interest rate derivatives.....	-	27	-	-	-	-
Foreign exchange contracts:						
Currency options.....	1,246	1,231	4	7	2	(41)
Forward FX contracts.....	13,507	17,237	52	55	57	32
Equity derivatives.....	2,445	2,037	38	-	-	(2)

<sup>(1)</sup>The notional amounts shown for the contracts represent the underlying amounts that the instruments are based upon and do not represent the amounts exchanged by the parties to the instruments. In addition, these amounts do not measure the Group's exposure to credit or market risks.

Details of debt securities held for trading purposes are outlined in note 25 to the financial statements.

The Group's credit exposure at December 31, 2003 and 2002 from derivatives held for trading purposes is represented by the fair value of instruments with a positive fair value. The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis and the level of credit risk is minimized by dealing with counterparties of good credit standing. All trading instruments are subject to market risk. As the traded instruments are recognized at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

The Group undertakes trading activities in interest rate contracts with the Group being a party to interest rate swap, forward, futures, option, cap and floor contracts. The Group's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount. Forward rate agreements are also used by the Group in its trading activities. Forward rate agreements settle in cash at a specified future date based on the difference between agreed market rates applied to a notional principal amount. Most of these contracts have maturity terms up to one year.

Notes to Consolidated Financial Statements - (Continued)

**Net trading income**

The following table summarizes the Group's dealing profits by category of instrument.

	Years ended December 31,		
	2003	2002 Restated (Euro in millions)	2001
Foreign currency contracts.....	92	78	75
Profits less losses from securities held for trading purposes.....	23	7	2
Interest rate contracts.....	16	(11)	15
Equity index contracts.....	4	-	
	135	74	92
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
Total <sup>(1)</sup> .....	135	56	(325)

<sup>(1)</sup> Included as the caption of dealing profits in the Consolidated Statement of Income.

**Risk management activities**

In addition to meeting customer needs, the Group's principal objective in holding or issuing derivatives for purposes other than trading is the management of interest rate and foreign exchange rate and equity risks.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives. Similarly, foreign exchange and equity derivatives can be used to hedge the Group's exposure to foreign exchange and equity risk, as required.

Derivative prices fluctuate in value as the underlying interest rate, foreign exchange rate, or equity prices change. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, will generally be offset by the unrealized depreciation or appreciation of the hedged items. This means that separate disclosure of market risk on derivatives used for hedging purposes is not meaningful.

To achieve its risk management objective, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, futures and options, as well as other contracts. The tables on the following pages present the notional and fair value amounts, weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by the Group at December 31, 2003 and 2002.

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Notes to Consolidated Financial Statements - (Continued)

	Notional amount		Weighted average maturity in years		Weighted average rate				Estimated fair value	
	2003	2002	2003	2002	Receive		Pay		2003	2002
	(Euro in millions)				2003	2002	2003	2002	(Euro in millions)	
					%	%	%	%		
<b>Interest rate swaps:</b>										
<b>Receive fixed</b>										
1 year or less.....	13,276	7,414	0.43	0.42	2.72	4.10			54	95
1 - 5 years.....	3,255	4,919	2.66	2.75	4.49	5.11			112	279
5 years or more.....	1,984	1,861	10.90	7.27	5.82	6.04			108	174
	<u>18,515</u>	<u>14,194</u>	1.95	2.12	3.36	4.70	2.15	2.73	<u>274</u>	<u>548</u>
<b>Pay fixed</b>										
1 year or less.....	2,156	4,821	0.46	0.43			3.77	4.39	(41)	(81)
1 - 5 years.....	3,603	5,412	2.55	2.97			4.19	4.84	(169)	(306)
5 years or more.....	1,547	1,603	9.88	10.01			5.03	5.53	(102)	(168)
	<u>7,306</u>	<u>11,836</u>	3.49	2.89	2.46	2.58	4.24	4.75	<u>(312)</u>	<u>(555)</u>
<b>Pay/receive floating</b>										
1 year or less.....	-	132	-	0.76	-	1.93			-	-
1 - 5 years.....	10	10	2.75	3.75	3.68	3.68			-	-
5 years or more.....	15	15	7.33	8.33	4.43	4.43			-	-
	<u>25</u>	<u>157</u>	5.50	1.67	4.13	2.28	4.21	2.03	<u>-</u>	<u>-</u>
<b>Forward rate agreements:</b>										
<b>Loans</b>										
1 year or less.....	-	239	-	0.38		3.92			-	2
	<u>-</u>	<u>239</u>	-	0.38		3.92			<u>-</u>	<u>2</u>
<b>Deposits</b>										
1 year or less.....	-	950	-	0.40			-	5.11	-	(8)
	<u>-</u>	<u>950</u>	-	0.40			-	5.11	<u>-</u>	<u>(8)</u>
<b>Interest rate options:</b>										
<b>Purchased</b>										
1 year or less.....	-	934	-	0.58	-	4.25			-	10
1 - 5 years.....	-	117	-	2.78	-	3.93			-	1
5 years or more.....	-	25	-	7.12	-	3.40			-	2
	<u>-</u>	<u>1,076</u>	-	0.97	-	4.19			<u>-</u>	<u>13</u>
<b>Written</b>										
1 year or less.....	-	405	-	0.67	-	2.72			-	(10)
1 - 5 years.....	-	114	-	2.11	-	4.09			-	(1)
	<u>-</u>	<u>519</u>	-	0.98	-	3.02			<u>-</u>	<u>(11)</u>

Notes to Consolidated Financial Statements - (Continued)

	Notional amount		Weighted average maturity in years		Weighted average rate				Estimated fair value	
					Receive		Pay			
	2003 (Euro in millions)	2002	2003	2002	2003 %	2002 %	2003 %	2002 %	2003 (Euro in millions)	2002
<b>Financial futures:</b>										
1 year or less.....	944	4,552	0.58	0.49	3.00	2.08	2.83	3.84	-	(7)
5 years or more.....	83	970	1.72	1.52	-	3.31	3.44	4.67	-	-
	<u>1,027</u>	<u>5,522</u>	<u>0.67</u>	<u>0.67</u>	<u>2.76</u>	<u>2.29</u>	<u>2.88</u>	<u>3.99</u>	<u>-</u>	<u>(7)</u>
<b>Other interest rate derivatives:</b>										
1 year or less.....	68	109	0.20	0.40	3.30	5.11	2.80	5.72	(3)	2
1 - 5 years.....	79	291	3.14	2.22	5.42	4.29	6.94	4.69	(3)	(5)
5 years or more.....	25	78	6.17	6.27	3.37	7.48	-	7.27	2	(3)
	<u>172</u>	<u>478</u>	<u>2.42</u>	<u>2.47</u>	<u>4.28</u>	<u>5.00</u>	<u>4.34</u>	<u>5.35</u>	<u>(4)</u>	<u>(6)</u>

The carrying value of the interest rate derivative financial instruments held for risk management purposes was €2 million (2002: €15 million).

**Reconciliation of movements in notional amounts of interest rate instruments held for risk management purposes**

	Interest rate swaps	FRA Deposits	FRA Loans
	(Euro in millions)		
At December 31, 2001.....	55,525	3,547	1,582
Additions.....	28,962	2,012	3,574
Maturities/amortizations.....	(31,720)	(4,391)	(4,816)
Cancellations.....	(1,243)	-	-
Transfer to trading derivatives.....	(23,411)	(94)	(52)
Exchange adjustments.....	(1,926)	(124)	(49)
At December 31, 2002.....	26,187	950	239
Additions.....	34,894	-	-
Maturities/amortizations.....	(29,826)	(910)	(192)
Cancellations.....	(4,050)	-	-
Transfer to trading derivatives.....	(395)	-	(43)
Exchange adjustments.....	(964)	(40)	(4)
At December 31, 2003.....	<u>25,846</u>	<u>-</u>	<u>-</u>



Notes to Consolidated Financial Statements - (Continued)

**Non-trading derivative deferred balances**

Set out hereunder are deferred balances relating to settled transactions. These balances will be released to the statement of income in the same periods as the income and expense flows from the underlying transactions. At December 31, 2003 the Group had deferred income of €8 million (2002: €35 million) and deferred expense of €20 million (2002: €62 million) relating to non-trading derivatives. €3 million (2002: €18 million) of deferred income and €10 million (2002: €41 million) of deferred expense is expected to be released to the statement of income in 2004. During the year ended December 31, 2003, net deferred expense in relation to previous years of €23 million was released to the statement of income.

	2004	2005	2006	2007	2008	After 2008	Total
(Euro in thousands)							
Interest rate swaps							
Deferred income.....	1,335	727	725	611	136	-	3,534
Deferred expense.....	(193)	(301)	(149)	(202)	(124)	(122)	(1,091)
Forward rate agreements							
Deferred income.....	542	-	-	-	-	-	542
Deferred expense.....	(546)	-	-	-	-	-	(546)
Interest rate options							
Deferred income.....	-	-	-	-	-	-	-
Deferred expense.....	(293)	(173)	(129)	(40)	(40)	(44)	(719)
Financial futures							
Deferred income.....	1,292	565	502	488	488	543	3,878
Deferred expense.....	(8,546)	(2,622)	(2,297)	(1,597)	(1,220)	(909)	(17,191)
Currency options							
Deferred income.....	-	-	-	-	-	-	-
Deferred expense.....	(129)	-	-	-	-	-	(129)
	(6,538)	(1,804)	(1,348)	(740)	(760)	(532)	(11,722)

The above deferred balances have related unrealized gains or losses on transactions which are on balance sheet. The matching of the income and expense flows from the related transactions will be effected through the deferral process. At December 31, 2003 the Group had net deferred expense of €3 million (2002: €4 million) relating to debt securities held for hedging purposes. Deferred expense of €4 million (2002: deferred expense €1 million) relating to these debt securities is expected to be released to the statement of income in 2004. During the year ended December 31, 2003, deferred expense in relation to previous years of €1 million was released to the statement of income.

**Unrecognized gains and losses on derivatives hedges**

Gains and losses on instruments used for hedging are recognized in line with the underlying items which are being hedged. The unrecognized net loss on instruments used for hedging as at December 31, 2003 was €44 million (2002: €22 million).

The net gain expected to be recognized in 2004 is €12 million (2002: €16 million) and thereafter a net loss of €56 million (2002: net loss of €38 million) is expected.

The net gain recognized in 2003 in respect of previous years was €16 million (2002: €20 million) and the net loss arising in 2003 which was not recognized in 2003 was €5 million (2002: €27 million).

The disclosure of the fair value of financial instruments as required by FRS 13 is provided in note 51 on pages 163 to 165.

Notes to Consolidated Financial Statements - (Continued)

**45. COMMITMENTS**

**Capital expenditure**

Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to €73 million (2002: €49 million). Capital expenditure authorized, but not yet contracted for, amounted to €51 million (2002: €90 million).

**Operating lease rentals**

The Group occupies various properties under lease arrangements, virtually all of which are operating leases. Rental expense in respect of property and equipment held under non-cancelable operating leases is outlined in note 11(a) to the financial statements.

At December 31, 2003 the Group had annual commitments under non-cancelable operating leases as set out below.

	1 year or less	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
	(Euro in millions)						
Property.....	1	2	3	1	1	29	37
Equipment.....	-	-	1	-	-	-	1
	1	2	4	1	1	29	38

The operating lease rentals in respect of property are subject to rent reviews.

**Obligations under finance leases**

At December 31, 2003 and 2002 the Group had total commitments under finance leases amounting to €1 million, and €1 million respectively.

**46. REPORT ON DIRECTORS' REMUNERATION AND INTERESTS**

Information relating to Directors' remuneration and interests is included in Items 6 and 7 of this Report.

**47. CURRENCY INFORMATION**

	Assets		Liabilities	
	2003	2002 Restated	2003	2002 Restated
	(Euro in millions)			
Euro.....	46,770	38,252	46,534	38,643
Other.....	34,190	47,569	34,426	47,178
	80,960	85,821	80,960	85,821

Notes to Consolidated Financial Statements - (Continued)

**48. REPORTING CURRENCY AND EXCHANGE RATES**

The currency used in these accounts is the euro which is denoted by 'EUR' or the symbol €. The euro was introduced on January 1, 1999. Ireland joined the European Single Currency at the fixed translation rate of EUR 1=IR £0.787564. Each euro is made up of one hundred cent, denoted by the symbol 'c' in these accounts.

The exchange rates used in the preparation of the Consolidated Financial Statements for the years ended December 31, 2003, 2002 and 2001 were as follows:

	<b>December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
€/US\$			
Closing.....	1.2630	1.0487	0.8813
Average.....	1.1346	0.9458	0.8947
€/STG£			
Closing.....	0.7048	0.6505	0.6085
Average.....	0.6901	0.6282	0.6198
€/PLN			
Closing.....	4.7019	4.0210	3.4953
Average.....	4.4157	3.8473	3.6573

**49. CAPITAL ADEQUACY INFORMATION**

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(Euro in millions)</b>	
Risk weighted assets		
Banking book:		
On balance sheet.....	48,831	53,961
Off-balance sheet.....	8,602	11,521
	<u>57,433</u>	<u>65,482</u>
Trading book:		
Market risks.....	4,566	3,099
Counterparty and settlement risks.....	616	658
	<u>5,182</u>	<u>3,757</u>
Total risk weighted assets.....	<u>62,615</u>	<u>69,239</u>
Capital		
Tier 1.....	4,430	4,806
Tier 2.....	2,439	2,522
	<u>6,869</u>	<u>7,328</u>
Supervisory deductions.....	389	341
Total Capital.....	<u>6,480</u>	<u>6,987</u>

Notes to Consolidated Financial Statements - (Continued)

**50. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN IRISH AND UNITED STATES ACCOUNTING PRINCIPLES**

The following is a description of the significant differences between Irish generally accepted accounting principles (Irish GAAP) and those applicable in the United States of America (US GAAP).

**Debt securities**

Under Irish GAAP, debt securities held for investment purposes are stated in the balance sheet at amortized cost less provision for any impairment in value. Debt securities held for hedging purposes are included in the balance sheet at a valuation, the basis of which is consistent with that being applied to the underlying transactions. The purpose of these securities transactions is to minimize the risk associated with the AIB investment portfolio. These are classified as financial fixed assets.

In preparing its US GAAP information, the Group has applied SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities".

Under US GAAP, debt securities held to maturity are recorded at amortized cost. Because AIB periodically sells and buys long-term debt securities in response to identified market conditions, including fluctuations in interest rates, debt securities classified as financial fixed assets in the Group balance sheet in the amount of €12,445 million at December 31, 2003 would be classified for US GAAP purposes as "available-for-sale". At December 31, 2003, the market value of such securities was €12,625 million. The excess of market value over amortized cost of the debt securities of €180 million gave rise to an after tax reconciling item of €158 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2002 debt securities in the amount of €13,446 million would be classified as "available-for-sale". At December 31, 2002, the market value of such securities was €13,690 million. The excess of market value over amortized cost of the debt securities of €244 million gave rise to an after tax reconciling item of €199 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2001, debt securities in the amount of €16,299 million would be classified as "available-for-sale". At December 31, 2001 the market value of such securities was €16,468 million. The excess of market value over amortized cost of the debt securities of €169 million, gave rise to an after tax reconciling item of €125 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

The following table sets forth the amortized cost and market value of the available-for-sale investment portfolio owned by the Group at December 31, 2003 and 2002.

	Available-for-sale investment portfolio			
	December 31, 2003		December 31, 2002	
	Amortized cost	Market value <sup>(1)</sup>	Amortized cost	Market value <sup>(1)</sup>
	(Euro in millions)			
Irish Government.....	815	835	855	892
Other European Government.....	4,208	4,295	3,526	3,657
US Treasury & US Government agencies...	-	-	1,863	1,887
Mortgage-backed obligations of federal agencies.....	-	-	7	7
Collateralized mortgage obligations <sup>(2)</sup> .....	789	795	921	924
US State & Municipal bonds.....	-	-	85	89
Other asset backed securities.....	432	440	469	466
Other securities.....	6,201	6,260	5,720	5,768
<b>Total.....</b>	<b>12,445</b>	<b>12,625</b>	<b>13,446</b>	<b>13,690</b>

<sup>(1)</sup> Under US GAAP debt securities classified as available-for-sale are marked to market.

<sup>(2)</sup> At December 31, 2003, €580 million of CMO's, were issues of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Government National Mortgage Association (2002: €649 million; 2001: €1,241 million).

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Notes to Consolidated Financial Statements - (Continued)

The following table shows the maturity distribution of the available-for-sale investment portfolio of the Group at December 31, 2003 based upon amortized cost.

<b>Maturity distribution of available-for-sale investment portfolio</b>					
<b>December 31, 2003</b>					
<b>Maturing</b>					
<b>In one year or less</b>	<b>After one year through 5 years</b>	<b>After five years through 10 years</b>	<b>After 10 years</b>	<b>Total</b>	
<b>(Euro in millions)</b>					
Irish Government.....	32	305	292	186	815
Other European Government.....	924	2,628	588	68	4,208
Collateralized mortgage obligations <sup>(1)</sup> .....	–	123	238	428	789
Other asset backed securities.....	163	232	37	–	432
Other securities.....	1,317	3,723	1,057	104	6,201
<b>Total.....</b>	<b>2,436</b>	<b>7,011</b>	<b>2,212</b>	<b>786</b>	<b>12,445</b>

<sup>(1)</sup> The maturity distribution is based upon long-term cash flow estimates for each security type and coupon rate.

The following table shows the book value, as reported under Irish GAAP, of AIB Group's total debt securities portfolio at December 31, 2003, 2002 and 2001.

	<b>December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>(Euro in millions)</b>			
Irish Government.....	1,032	966	1,176
Other European Government.....	4,458	4,419	3,962
US Treasury and US Government agencies.....	–	1,863	175
Mortgage - backed obligations of federal agencies.....	–	7	2,253
Collateralized mortgage obligations <sup>(1)</sup> .....	874	2,655	3,497
US State & Municipal bonds.....	–	108	634
Other asset backed securities.....	460	494	132
Other securities <sup>(2)</sup> .....	11,303	7,692	8,253
<b>Total.....</b>	<b>18,127</b>	<b>18,204</b>	<b>20,082</b>

<sup>(1)</sup> At December 31, 2003, €665 million of CMO's were issues of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Government National Mortgage Association (2002: €722 million; 2001: €1,241 million).

<sup>(2)</sup> Other securities included certificates of deposit issued by financial institutions totalling €589 million at December 31, 2003 (2002: €169 million; 2001: €565 million), and quoted securities comprising Eurobonds issued by banks and large corporations totalling €7,734 million at December 31, 2003 (2002: €6,388 million; 2001: €6,686 million).

The market value of AIB Group's Irish Government securities at December 31, 2003 was €1,052 million (2002: €995 million; 2001: €1,160 million).

ALLIED IRISH BANKS, p.l.c.

Notes to Consolidated Financial Statements - (Continued)

The following table categorizes AIB Group's available-for-sale investment portfolio (excluding €5,682 million of trading securities) by maturity and weighted average yield at December 31, 2003.

	December 31, 2003							
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	Euros	Yield %	Euros	Yield %	Euros	Yield %	Euros	Yield %
	(Euro in millions)							
Irish Government.....	32	6.2	305	4.5	292	4.4	186	4.6
Other European Government.....	924	4.1	2,628	5.2	588	5.0	68	5.5
Collateralized mortgage obligations.....	-	-	123	5.0	238	4.7	428	1.5
Other asset backed securities.....	163	2.4	232	3.3	37	5.2	-	-
Other securities.....	1,317	5.3	3,723	3.5	1,057	2.9	104	5.6
Total book value.....	2,436	5.3	7,011	4.2	2,212	3.4	786	2.7
Total market value.....	2,444		7,133		2,254		794	

The weighted average yield for each range of maturities is calculated by dividing the annual interest prevailing at the balance sheet date by the book value of securities held at that date.

*Investment securities sales*

In the available-for-sale portfolio, proceeds from sales of debt securities during the years ended December 31, 2003, 2002 and 2001 amounted to €8 billion, €8 billion and €5 billion, respectively. Gross realized gains and losses arising on the sale of these debt securities were as follows:

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Gross realized gains.....	40	112	33
Gross realized losses.....	(4)	(6)	(15)
	36	106	18

There were no investment securities classified as held-to-maturity during the years ended December 31, 2003, 2002 and 2001. The cost of securities sold by the Group is determined using both the portfolio method of average cost and the specific identification method.

**Equity securities**

Under Irish GAAP, equity securities held for investment purposes are stated in the balance sheet at amortized cost less provision for any impairment in value. Equity securities held for hedging purposes are included in the balance sheet at a valuation, the basis of which is consistent with that being applied to the underlying transactions. These are classified as financial fixed assets.

In preparing its US GAAP information, the Group has applied SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities".

Under US GAAP, at December 31, 2003 equity securities classified as financial fixed assets in the Group balance sheet in the amount of €116 million would be classified as "available-for-sale" and would be marked to market under SFAS 115. At December 31, 2003 the market value of these securities was €130 million. The excess of book amount of these securities over market value was €14 million giving rise to an after tax reconciling item of €12 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes. Gross unrealized gains were €16 million and gross unrealized losses were €2 million at December 31, 2003.

Under US GAAP, at December 31, 2002 equity securities classified as financial fixed assets in the Group balance sheet in the amount of €188 million would be classified as "available-for-sale". At December 31, 2002 the market value of these securities was €203 million. The excess of book amount of these securities over market value was €15 million giving rise to an after tax reconciling item of €13 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes. Gross unrealized gains were €18 million and gross unrealized losses were €3 million at December 31, 2002.

Notes to Consolidated Financial Statements - (Continued)

Under US GAAP, at December 31, 2001 equity securities classified as financial fixed assets in the Group balance sheet in the amount of €283 million would be classified as “available-for-sale”. At December 31, 2001, the market value of these securities was €283 million. There was no adjustment to the consolidated ordinary stockholders’ equity for US GAAP purposes as the book amount equaled the market value of these securities. Gross unrealized gains were €35 million and gross unrealized losses were €35 million at December 31, 2001.

*Equity securities sales*

In the “available-for-sale” portfolio, proceeds from sales of equity securities during the years ended December 31, 2003, 2002 and 2001 amounted to €47 million, €118 million and €182 million, respectively. Gross realized gains and losses arising on the sale of these equity securities were as follows:

	Years ended December 31,		
	2003	2002	2001 <sup>(1)</sup>
	(Euro in millions)		
Gross realized gains.....	13	13	110
Gross realized losses.....	(10)	(2)	(19)
	3	11	91

<sup>(1)</sup>The gross realized gains in 2001 include an amount of €93 million in relation to the sale of KCH (see note 15).

**Debt securities held for hedging purposes**

Certain debt securities held as financial fixed assets are held to hedge the Group’s sensitivity to movements in market interest rates. Under Irish GAAP, profits and losses on disposal of these debt securities are deferred and amortized to the statement of income over the lives of the underlying transactions.

Under US GAAP, profits and losses on disposal of debt securities are recognized immediately in the statement of income.

**Internal derivative trades**

Under Irish GAAP, where underlying Group subsidiaries and business units undertake internal derivative trades with the Group central treasury to transfer risk from the banking book to the trading book, the Group central treasury is allowed to aggregate and/or offset trades with similar characteristics for the purposes of establishing an effective hedge position against the underlying risk.

Under Irish GAAP, where positions established with external counterparties offset the net risk, hedge accounting is to be applied to internal derivative trades. The accounting policy for derivatives under Irish GAAP is described more fully on page 84.

Under US GAAP, contemporaneous offset with external counterparties is required if hedge accounting is to be applied to internal derivative trades. As a consequence, trades not satisfying this requirement have been accounted for at fair value with gains or losses being recognized in the consolidated net income statement. From January 1, 2001, the adjustment for internal derivative trades is included with the derivatives FAS 133 adjustment.

**FAS 133 - Derivatives and hedging activities**

Under Irish GAAP, the Group uses derivatives, for both trading and hedging purposes. The accounting treatment for these derivative instruments is dependent on whether they are entered into for trading or hedging purposes.

Trading instruments are recognized in the accounts at fair value with the adjustment arising included in other assets and other liabilities, as appropriate, in the consolidated balance sheet. Gains and losses arising from trading activities are included in dealing profits in the statement of income using the mark to market method of accounting.

Derivative transactions entered into for hedging purposes are recognized in the accounts in accordance with the accounting treatment of the underlying transactions being hedged. Gains and losses arising from hedging activities are amortized to net interest income over the lives of the underlying transactions.

Under US GAAP, all derivatives are recognized as either assets or liabilities in the statement of financial position and measured at fair value. The recognition of the changes in the fair value of a derivative depends upon its intended use. Derivatives that do not qualify for hedging treatment must be adjusted to fair value through earnings. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (a “fair value” hedge), (b) a hedge of the exposure to variable cash flows of a forecasted transaction (a “cash flow hedge”), or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign currency denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivatives and the resulting designations. Under US GAAP, derivative trades entered into by the Group are adjusted to fair value through earnings.

In adopting Statement of Financial Accounting Standard No. 133 “Accounting for Derivative Instruments and Hedging Activities” (“FAS 133”) in its US GAAP reconciliation from January 1, 2001, AIB Group designated its derivative instruments anew for US reporting purposes on that date. The transition adjustment arising from this action was reflected in net income and other comprehensive income.

Notes to Consolidated Financial Statements - (Continued)

**Revaluation of property**

Under Irish GAAP, property may be carried at either original cost or subsequent valuation less related depreciation, calculated where applicable on the revalued amount.

Under US GAAP, revaluations are not permitted to be reflected in the financial statements.

**Deferred taxation**

Under Irish GAAP, deferred taxation is recognized in full in respect of timing differences that have originated but not reversed at the balance sheet date.

Under US GAAP, the liability method is also used but deferred tax assets and liabilities are calculated for all temporary differences. A valuation allowance is raised against a deferred tax asset where it is more likely than not that some portion of the deferred tax asset will not be realized.

**Core deposit intangibles**

Under US GAAP, the component of goodwill arising on acquisition of bank subsidiary undertakings which relates to retail depositors is termed core deposit intangibles. Under Irish GAAP, core deposit intangibles arising prior to December 31, 1997 have been written off to reserves in the year of acquisition, as a component of goodwill. Core deposits arising after January 1, 1998 are subsumed within goodwill and amortized over its useful life up to a maximum of 20 years.

Under US GAAP, capitalized core deposit intangibles are amortized through income over the estimated average life of the retail depositor relationship. In AIB's case a period of 10 years has been used in preparing its US GAAP information.

**Long-term assurance policies**

Under Irish GAAP, the stockholders' interest in the long-term assurance business represents a valuation of the investment in policies in force together with the net tangible assets of the business. Holdings of shares in Allied Irish Banks, p.l.c., previously recorded within long-term assurance assets/liabilities attributable to policyholders, are now deducted in arriving at ordinary stockholders' equity.

Under US GAAP, premiums are recognized as revenue when due from policyholders. The costs of claims are recognized when insured events occur. For traditional business, the present value of estimated future policy benefits is accrued when premium revenue is recognized. Acquisition costs are capitalized and charged as an expense in proportion to premium revenue recognized. For unit-linked business, acquisition costs are amortized over the life of the contracts at a constant rate based on the present value of estimated gross profits. Initial income in respect of future services is not earned in the period assessed but recognized as income over the same amortization period and using the same amortization schedule as for acquisition costs. Holdings of shares in Allied Irish Banks, p.l.c., are netted off against ordinary stockholders' equity.

**Dividends payable on ordinary shares**

Under Irish GAAP, AIB records proposed dividends on ordinary shares, which are declared after period end, in the period to which they relate.

Under US GAAP, dividends are recorded in the period in which they are declared.

**Dividends on non-equity shares**

Under Irish GAAP, AIB records dividends on non-equity shares in the statement of income on an accruals basis.

Under US GAAP, dividends are recorded as a charge against ordinary stockholders' equity in the period in which they are declared.

**Acceptances**

Under Irish GAAP, the Group presents acceptances as a contingent liability in a footnote to the financial statements.

Under US GAAP, acceptances outstanding are presented as a liability, with an equal amount presented as an asset, "customers' acceptance liability".

**Internal use computer software**

Under Irish GAAP, certain specific costs incurred in respect of software for internal use can be capitalized and amortized. All other costs are expensed.

Under US GAAP, a similar treatment applies, however there are additional specific costs that are capitalized which would be expensed under Irish GAAP. These costs are being depreciated on a straight line basis over five years.



Notes to Consolidated Financial Statements - (Continued)

**Special purpose vehicles/variable interest entities**

Under Irish GAAP, special purpose vehicles are consolidated as quasi-subidiaries where risks and rewards from operations are similar to those which would be obtained for subsidiaries. In addition, linked presentation is adopted where assets have been securitized and the Group's exposure is limited to the net amount recognized as an asset in the balance sheet (see note 24).

Under US GAAP, variable interest entities ("VIEs") are consolidated by their primary beneficiary. A company is deemed to be a primary beneficiary where it is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the VIE's residual returns, or both. US GAAP also requires additional disclosures by primary beneficiaries and other significant variable interest holders.

The Group is the primary beneficiary of a securitization and as such has consolidated it for the purposes of US GAAP. The securitization is essentially a promissory note put in place in 1999 to remove the catastrophic risk related to the Group's "AAA" Asset Backed Portfolio. The value of the securitization at December 31, 2003 is €203 million. The total value of the portfolio supported by the securitization at December 31, 2003 is US\$722 million. The creditors of this VIE have no recourse to the Group over the limit of €203 million entered into by the Group.

The Group has a significant variable interest in four collateralized debt obligations ("CDOs") set up since 2001, three of which invest in European sub investment grade leveraged finance assets and one in US High Yield Bonds. The cumulative size of these CDOs at December 31, 2003 is €1,367 million. The Group's investment and maximum exposure totals €47 million. There is no recourse to the Group by third parties in relation to these CDOs.

**Accounting for Investment in M&T Bank**

Under Irish GAAP, the Group's share of the assets and liabilities of M&T as at April 1, 2003 have been recorded at fair value in accordance with the accounting policies of the Group. In addition, the Group's share of income of M&T reflect the Irish GAAP accounting rules applied by the Group.

Under US GAAP, certain accounting policies used in relation to both the investment in M&T and the Group's share of income of M&T are different when compared to Irish GAAP.

**Goodwill**

Under Irish GAAP, goodwill arising on acquisition of subsidiary and associated undertakings prior to December 31, 1997, has been written off to reserves in the year of acquisition and is written back in the year of disposal. Goodwill arising after January 1, 1998 is capitalized and written off over its useful life, up to a maximum of 20 years.

Under US GAAP, SFAS 141 "Business Combinations" (SFAS 141) and SFAS 142 "Goodwill and Other Intangible Assets" (SFAS 142), goodwill arising from acquisitions subsequent to June 30, 2001 must be capitalized and all goodwill should be subject to an annual impairment test. Prior to this, goodwill was capitalized and amortized over its useful economic life.

With effect from January 1, 2002, the Group adopted the provisions of SFAS 141 and SFAS 142. From this date, goodwill is no longer amortized. In accordance with SFAS 142, the Group completed a transitional goodwill impairment test as at January 1, 2002 and determined that there was no impairment to be recognized. During 2002, the Group again performed impairment tests on goodwill and arising from significant changes to the operating environment of a subsidiary an impairment charge of €27 million was made during the year. There was no impairment charge in 2003.

The effect of applying these standards to previous periods on net income and income per American Depositary Share would have been as follows:

	<b>Year ended December 31, 2001 (Euro in millions)</b>
Reported net income applicable to ordinary stockholders of AIB in accordance with US GAAP.....	615
Goodwill amortization.....	141
Adjusted net income applicable to ordinary stockholders of AIB in accordance with US GAAP.....	<u>756</u>
	<b>Year ended December 31, 2001 (Euro in cents)</b>
Reported income per American Depositary Share.....	1.43
Goodwill amortization.....	0.33
Adjusted income per American Depositary Share.....	<u>1.76</u>
Reported diluted income per American Depositary Share.....	1.42
Goodwill amortization.....	0.33
Adjusted diluted income per American Depositary Share.....	<u>1.75</u>

Notes to Consolidated Financial Statements - (Continued)

**Retirement benefits**

Under Irish GAAP, the expected return on pension assets, net of the interest cost on pension liabilities, is credited to other finance income while the service cost is charged to other administrative expenses. Actuarial gains and losses are recognized through the statement of total recognized gains and losses. Plan assets are valued at fair value and plan liabilities are measured using the projected unit method. Retirement benefit plans in surplus are shown as assets on the balance sheet net of the deferred tax impact. Retirement benefit plans in deficit together with unfunded plans are shown on the balance sheet as liabilities net of the deferred tax impact.

Under US GAAP, certain assumptions primarily in relation to the recognition of actuarial gains and losses and amortization methods are used that are different when compared with Irish GAAP.

Pension accounting in the US has to apply the provisions of SFAS No. 87 "Employers' Accounting for Pensions". The disclosure requirements of SFAS No. 87 have been amended by SFAS No. 132 "Employers Disclosures about Pensions and Other Post-Retirement Benefits". The Group has applied SFAS No. 87 and SFAS No.132 in preparing its US GAAP information.

The impact of these pronouncements has been included in the US GAAP reconciliation in respect of the main AIB pension plans. These plans make up approximately 95% of AIB Group's plans in terms of assets and actuarial liabilities.

The components of total pension expense for the main AIB pension plan which arise under SFAS No. 87 are estimated to be as follows:

	Years ended December 31,		
	2003	2002	2001
	(Euro in millions)		
Service cost.....	73.5	69.2	66.4
Interest cost.....	136.6	128.9	120.3
Actual return on plan assets.....	(242.0)	571.7	201.9
Other components.....	145.5	(779.9)	(430.2)
	<u>113.6</u>	<u>(10.1)</u>	<u>(41.6)</u>

An expected rate of return of 7.6% on plan assets was used in determining the net periodic pension cost for the year ended December 31, 2003 (2002: 8.0% and 2001: 7.7%).

Actuarial assumptions used in determining the projected benefit obligation at December 31, 2003 included a discount rate of 5.25% (2002: 5.6% and 2001: 5.8%), and an increase in future compensation expense of 4.0% (2002 and 2001: 4.0%).

The following is a reconciliation of the beginning and ending balances of the benefit obligation, the fair value of the plan assets and an analysis of the funded status of the plans for the years ended December 31, 2003, 2002 and 2001.

	December 31,		
	2003	2002	2001
	(Euro in millions)		
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year.....	2,447.8	2,227.3	1,660.8
Service cost.....	73.5	69.2	66.4
Interest cost.....	136.6	128.9	120.3
Actuarial gain.....	150.3	112.3	421.0
Currency translation adjustments.....	(37.7)	(30.7)	16.3
Benefits paid.....	(61.5)	(59.2)	(57.5)
Benefit obligation at end of year.....	<u>2,709.0</u>	<u>2,447.8</u>	<u>2,227.3</u>
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of year.....	1,937.0	2,554.8	2,716.1
Employers contributions.....	39.0	39.3	43.9
Actual return on plan assets.....	242.0	(571.7)	(201.9)
Currency translation adjustments.....	(26.7)	(26.2)	54.2
Benefits paid.....	(61.5)	(59.2)	(57.5)
Fair value of plan assets at end of year.....	<u>2,129.8</u>	<u>1,937.0</u>	<u>2,554.8</u>

ALLIED IRISH BANKS, p.l.c.

Notes to Consolidated Financial Statements - (Continued)

	December 31,		
	2003	2002 (Euro in millions)	2001
Funded status.....	(579.3)	(510.8)	327.5
Unrecognized transition obligation.....	61.4	68.9	76.4
Unrecognized net loss/(gain).....	907.3	868.8	(7.2)
Unrecognized prior service credit.....	(69.8)	(77.4)	(85.0)
Prepaid pension cost.....	319.6	349.5	311.7

The unrecognized prior service credit arose during the nine months ended December 31, 1992 mainly as a result of changes in the terms of the plans, following the restructure of the main Irish and UK plans during 1991.

**Post-retirement benefits**

Post-retirement benefit liabilities are assessed actuarially on a similar basis to pension liabilities and are discounted at a long-term interest cost. Variations from regular cost are expressed as a percentage of payroll and are spread over the average remaining service lives of current eligible employees.

Under SFAS No. 106 "Employers' Accounting for Post-Retirement Benefits other than Pensions", there are certain differences in the actuarial method used and variations in the computation of regular cost as compared with Irish GAAP. The disclosure requirements of SFAS No. 106 have been amended by SFAS No. 132 "Employers Disclosures about Pensions and Other Post-Retirement Benefits".

The Group has applied SFAS No. 106 and SFAS No. 132 in preparing its US GAAP information.

The following table shows the components of the net periodic post-retirement benefit cost for the years ended December 31, 2003, 2002 and 2001.

	Years ended December 31,		
	2003	2002 (Euro in millions)	2001
Service cost.....	0.5	1.8	1.7
Interest cost.....	0.9	4.2	4.0
Amortization of unrecognized transition obligation.....	-	1.1	1.1
Amortization of prior service cost.....	-	(0.4)	(0.4)
Recognized net actuarial loss.....	-	0.3	-
	1.4	7.0	6.4

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 7.5% for 2003 and is assumed to decrease gradually to 5.0% in the year 2008 and will remain at that level thereafter. Increasing or decreasing the assumed health care cost trend rates by one percentage point in each future year would have an immaterial impact on post-retirement benefits costs.

The following is a reconciliation of the beginning and ending balances of the benefit obligation and an analysis of the funded status and the amounts recognized in the Groups consolidated statement of condition.

	December 31,		
	2003	2002 (Euro in millions)	2001
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year.....	61.5	65.6	53.8
Service cost.....	0.5	1.8	1.7
Interest cost.....	0.9	4.2	4.0
Amendments <sup>(1)</sup> .....	(42.4)	-	-
Actuarial loss.....	-	3.4	9.2
Benefits paid.....	(0.7)	(5.1)	(5.4)
Currency translation adjustments.....	(3.4)	(8.4)	2.3
Benefit obligation at end of year.....	16.4	61.5	65.6
Plan assets at fair value.....	-	-	-
Funded status.....	(16.4)	(61.5)	(65.6)
Unrecognized transition obligation.....	-	9.4	12.4
Unrecognized prior service cost.....	-	(2.9)	(3.9)
Unrecognized net loss.....	-	8.7	5.9
Accrued post-retirement benefit cost.....	(16.4)	(46.3)	(51.2)

<sup>(1)</sup> Arising from the disposal of Allfirst Financial Inc.

Notes to Consolidated Financial Statements - (Continued)

The assumptions used in developing the present value of the post-retirement benefit obligation are as follows:

	Years ended December 31,		
	2003	2002	2001
Weighted average discount rate.....	5.25%	6.75%	7.25%
Rate of increase in health care costs – initial.....	–	8.00%	8.50%
Rate of increase in health care costs – ultimate.....	–	5.00%	5.00%

**Stock Compensation Plans**

At December 31, 2003 the Group had three stock based compensation plans as outlined below. AIB has accounted for its stock based compensation plans under the provisions of Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees” and related interpretations. Statement of Financial Accounting Standards 123, “Accounting for Stock-Based Compensation” (“SFAS 123”), allows a company to recognize stock-based compensation using a fair-value based method of accounting if it so elects. AIB has elected not to adopt the recognition provisions of SFAS 123. The compensation cost charged against income for the Group’s performance based plans for the years ended December 31, 2003, 2002 and 2001 was €20 million, €19 million and €21 million respectively.

For the purposes of providing the pro forma disclosures required under SFAS 123, the fair values of stock options granted were estimated at the date of the grants using a Black-Scholes option pricing model. The following table presents the pro-forma net income and basic and diluted earnings per share that would have been recognized in the consolidated financial statements if the fair value method of accounting for stock options had been used for the years ended December 31, 2003, 2002 and 2001.

	Years ended December 31,		
	2003	2002 Restated (Euro in millions)	2001
Net income applicable to ordinary stockholders of AIB in accordance with US GAAP as reported.....	1,497	918	615
Stock based compensation expense under fair value method, net of tax.....	(19)	(24)	(26)
Pro-forma net income applicable to ordinary stockholders of AIB in accordance with US GAAP.....	1,478	894	589

**Net income per American Depositary Share**

Basic, as reported.....	€ 3.48	€ 2.11	€ 1.43
Basic, pro-forma.....	3.44	2.06	1.37
Diluted, as reported.....	3.46	2.09	1.42
Diluted, pro-forma.....	3.42	2.04	1.36

*Share option plan*

The Company operates a share option plan on terms approved by the stockholders. Officials may participate in the plan at the discretion of the directors. Options are granted at the market price, being the middle market quotation of AIB’s shares on the Irish Stock Exchange on the day on which the option is granted. The exercise of options granted between January 1, 1996 and December 31, 2000 is conditional on the achievement of earnings per share (“EPS”) growth of at least 2% per annum, compound, above the increase in the Irish Consumer Price Index (“CPI”) over a period of not less than three and not more than five years from date of grant. The exercise of options granted since January 1, 2001 is conditional on the achievement of EPS growth of at least 5% per annum, compound, above the increase in the CPI over a period of not less than three and not more than five years from date of grant. Options may not be transferred or assigned and may be exercised only between the third and seventh anniversaries of their grant in the case of options granted up to December 31, 2000, and between the third and tenth anniversaries of their grant in the case of options granted subsequent to that date.

The following table summarizes the number of options outstanding and weighted average exercise prices at December 31, 2003, 2002 and 2001.

	December 31,		
	2003	2002	2001
Number of options outstanding.....	28,553,079	29,518,229	29,808,629
Weighted average exercise price.....	€ 12.34	€ 11.73	€ 10.92

Notes to Consolidated Financial Statements - (Continued)

The following table summarizes the number of options outstanding at December 31, 2003.

Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price
€5.80 - €6.25	551,500	0.4 years	€ 5.84
€10.02 - €12.40	15,373,629	4.1 years	€ 10.85
€13.30 - €15.46	12,627,950	5.7 years	€ 14.44
	28,553,079		

The following table summarizes the number of exercisable options outstanding at December 31, 2003.

	December 31, 2003
Number of options exercisable <sup>(1)</sup> .....	9,360,000
Weighted average price.....	€ 13.93

<sup>(1)</sup>At prices ranging from €5.80 to €15.46

The following table summarizes option activity during 2003, 2002 and 2001.

	December 31, 2003		December 31, 2002		December 31, 2001	
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at beginning of year.....	29,518.2	€11.73	29,808.6	€10.92	29,379.2	€ 9.95
Granted.....	3,272.9	13.30	3,127.1	13.57	4,246.9	11.98
Exercised.....	(4,038.5)	8.63	(3,156.5)	5.88	(3,482.2)	4.11
Forfeited.....	(199.5)	12.24	(261.0)	12.32	(335.3)	10.12
Outstanding at end of year.....	28,553.1	€12.34	29,518.2	€11.73	29,808.6	€10.92

During the year ended December 31, 2003, 3,272,850 options were granted at a price of €13.30 per ordinary share, the market price on the day preceding the date on which the options were granted. They are exercisable between April 23, 2006 and April 23, 2011. The fair value of these options was estimated using the Black-Scholes option pricing model to be €4.23 per option. Options were exercised during the year at a weighted average exercise price of €8.63 per option.

*Employee share plans*

AIB operates employee profit sharing plans on terms approved by the stockholders. All employees, including executive directors, of the Bank and certain subsidiaries are eligible to participate, subject to minimum service periods. The directors at their discretion may set aside each year a sum not exceeding 5% of eligible income before taxes of participating companies in the Republic of Ireland and the UK.

Eligible employees in the Republic of Ireland may elect to receive their profit sharing allocations either in shares or in cash. Such shares are held by the Trustees for a minimum period of two years and are required to be held for a total period of three years for the employees to obtain the maximum tax benefit. Costs relating to the purchase of shares under the employee profit sharing plans are charged to the statement of income when incurred.

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

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

Notes to Consolidated Financial Statements - (Continued)

*Allfirst 1989 Long-Term Incentive Plan and Trust*

Allfirst's 1989 Long-Term Incentive Plan and Trust (the "1989 Plan") provides for the award to key employees who contribute to the continued growth, development and financial success of Allfirst of up to 7 million €0.32c Ordinary Shares of AIB and 200,000 Non-Cumulative Preference Share ADSs of AIB ("Preferred Stock") (together the "Restricted Stock"). Awards are made to participants, without payment of consideration by the participant, in the form of Restricted Stock purchased by Allfirst in the open market and are held in trust under the 1989 Plan until the expiration of the relevant restriction period. Awards aggregating the equivalent of 8,000 common stock were made during 2002. Costs relating to this plan are charged to the statement of income over the period under which the shares will vest. Expenses relative to this plan totalled US\$726,000, US\$791,000 and US\$702,000 in 2002, 2001 and 2000, respectively. The awards are subject to a restriction period of at least three years.

The 1989 Plan was transferred to M&T Bank Corporation on April 1, 2003 as part of its acquisition of Allfirst Financial Inc.

*Allfirst 1997 and 1999 Stock Option Plans*

Allfirst's 1997 and 1999 Stock Option Plans provide for the grant to key employees of options to acquire AIB ADSs. The options are granted at no less than the fair market value of the ADSs at the date of the grant. Options granted in 1998 through 2001, with the exception of options granted under the Allfirst Shares Plan, vest one half in 24 months and one half in 36 months from the grant date and must be exercised within 10 years of the grant date or they will expire. Options granted on December 29, 1997 vested six months from the grant date and must be exercised within seven years of the grant date or they will expire.

During 1999, Allfirst implemented an all employee stock option program called Allfirst Shares which is part of the 1997 Stock Option Plan. Each full and part-time employee who was eligible for employee benefits and was employed by the Company as of May 4, 1999 received an option to purchase up to 100 AIB ADSs. The options may be exercised: (i) any time after May 4, 2002 and before May 4, 2004, as long as the closing price of AIB ADSs has equalled or exceeded 150% of the exercise price for five consecutive days at any time after the grant date; or (ii) any time after May 4, 2004, regardless of the price of the ADSs. The options must be exercised within 10 years or they will expire. Options under the 1999 Stock Option Plan vest based on certain performance criteria. During 2002, 2001 and 2000, options were granted under the 1997 Stock Option Plan, while options were granted under the 1999 Stock Option Plan in 2001 and 2000.

Allfirst and an independent Trustee created a trust, for the purpose of acquiring AIB ADSs in the open market with the proceeds of a loan from Allfirst. Generally, the Trust will acquire AIB ADSs in an amount equal to the number of stock options granted at or about each grant date. Proceeds from option exercises and any dividends and other earnings on the trust assets will be used to repay the loan to the trust. Option holders have no preferential rights with respect to the trust assets, and the trust assets are subject to the claims of Allfirst's general creditors in the event of insolvency. AIB will not issue any securities in connection with the 1997 or 1999 Stock Option Plan, will not receive any proceeds from the exercise of the options, and otherwise has no rights or obligations with respect to the Stock Option Plans.

The 1999 Stock Option Plan was transferred to M&T Bank Corporation on April 1, 2003 as part of its acquisition of Allfirst Financial Inc.

The 1997 Stock Option Plan has been succeeded by the Allied Irish Bank 2003 Stock Option Plan, as discussed below.

*Allied Irish Bank 2003 Stock Option Plan*

The Allied Irish Banks p.l.c. 2003 Stock Option Plan constitutes a successor stock option plan with respect to the Allfirst Financial Inc. 1997 Stock Option Plan for selected employees and officers of the Company and/or its Affiliates and selected Directors of its Affiliates.

The options are granted at no less than fair market value of the ADR's on grant date. Options granted under this Plan vest one half on the second anniversary of the grant date, and the remaining half on the third anniversary of the grant date. The options must be exercised within 10 years of the date of grant or they will expire. Any option transferred from the Allfirst Plan shall be exercisable as of the effective date in accordance with its terms.

The Company has created a Trust for the purpose of acquiring AIB ADR's on the open market and holding these ADR's for which Options are granted under the Plan. ADR's representing not more than 25 million Ordinary Shares or such greater numbers as may be approved by the Board, may be purchased under the plan.

No options awards were granted from this plan in 2003.

**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements - (Continued)**

The following summarizes option activity during 2003, 2002 and 2001.

	December 31, 2003		December 31, 2002		December 31, 2001	
	Number <sup>(1)</sup> '000	Weighted average exercise price	Number <sup>(1)</sup> '000	Weighted average exercise price	Number <sup>(1)</sup> '000	Weighted average exercise price
Outstanding at beginning of year.....	7,245.6	\$23.25	8,432.0	\$22.38	6,448.2	\$22.69
Granted.....	-	-	583.9	28.56	2,165.1	21.64
Exercised.....	(1,382.4)	22.03	(1,090.1)	19.76	(8.4)	18.67
Transfers.....	(5,141.6)	22.97	-	-	-	-
Forfeited.....	(24.6)	23.57	(680.2)	22.60	(172.9)	24.93
Outstanding at end of year.....	697.0	\$27.77	7,245.6	\$23.25	8,432.0	\$22.38

<sup>(1)</sup> Represent number of AIB ADSs.

The following table summarizes information about fixed options outstanding at December 31, 2003:

Grant date	Options outstanding			Options exercisable	
	Number outstanding at 12/31/2003 '000	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 12/31/2003 '000	Weighted average exercise price
5/4/99	24.0	5.3 years	\$31.67	24.0	\$31.67
8/10/99	25.0	5.6 years	26.05	25.0	26.05
8/14/00	35.0	6.6 years	17.72	35.0	17.72
2001 Grants	35.0	7.0 - 7.8 years	21.64	35.0	21.64
2002 Grants	578.0	8.3 - 8.9 years	28.56	-	-
Total	697.0	8.5 years	\$27.77	119.0	\$23.44

For purposes of providing the pro-forma disclosures required under SFAS No. 123, the fair values of stock options granted in 2002 and 2001, were estimated at the date of the grants using a Black-Scholes option pricing model.

The Black-Scholes option pricing model was originally developed for use in estimating the fair value of traded options which have different characteristics from the Allfirst's employee stock options. The model is also sensitive to changes in the subjective assumptions which can materially affect the fair value estimate. As a result, management believes that the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee stock options.

The following table details the weighted average assumptions used and the resulting fair values provided by the option pricing model:

Grant date	Expected future dividend yield	Volatility factor	Risk free interest rate	Expected life	Fair value per share of options granted
5/4/99	2.96%	0.3036	5.38%	5.5 years	\$8.73
8/10/99	2.67%	0.3254	5.87%	5.5 years	\$8.03
8/14/00	2.61%	0.3399	6.24%	5.5 years	\$5.81
2001 Grants	3.02%	0.3704	5.29%	7 years	\$7.47
2002 Grants	3.43%	0.3295	4.42%	10 years	\$8.67

**Impaired loans**

SFAS 114 and 118 applies only to impaired loans, the measurement of which is based upon the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market value, or the fair value of the collateral dependent.

Smaller balance homogeneous consumer loans that are collectively evaluated for impairment are outside the scope of SFAS 114, as are debt securities and leases.

Reserves for probable credit losses related to these loans are included in the allowance for credit losses applicable to other than impaired loans. The Group's charge off policy for impaired loans is consistent with its policy for loan charge offs to the allowance. Impaired loans are charged off when an impaired loan, or portion thereof, is considered uncollectible. Interest income received on impaired loans is recorded on a cash basis, which is consistent with the Group's method of interest recognition on non-accrual loans.

Notes to Consolidated Financial Statements - (Continued)

At December 31, 2003 and 2002 the Group estimated that the difference between the carrying value of its loan portfolio on the basis of SFAS No. 114 and 118 and its value in the Group's accounts was such that no adjustment to net income or consolidated ordinary stockholders' equity was required.

At December 31, 2003, the Group's net investment in impaired loans amounts to €666 million (2002: €908 million). €623 million (2002: €832 million) of this net investment included specific provisions of €318 million (2002: €433 million). The average level of such impaired lendings during 2003 was approximately €738 million (2002: €936 million). Interest income recognized on impaired loans during the year ended December 31, 2003 amounted to €19 million (2001: €40 million).

**Cash flow statements**

The consolidated cash flow statements on page 89 have been completed in accordance with the revised Financial Reporting Standard 1 (FRS 1) which was issued by the United Kingdom Accounting Standards Board in October 1996. FRS 1 is similar to SFAS No. 95, statement of cash flows, in some respects. The principal differences between the standards relate both to the definition of cash and the classification of certain transactions.

**Definition of cash under FRS 1**

FRS 1 defines "cash" as cash in hand and deposits repayable on demand with any bank or other financial institution.

**Definition of cash under SFAS No. 95**

Under SFAS No. 95, "cash" includes cash and cash equivalents and is defined as cash in hand and deposits repayable on demand with any bank or financial institution, together with short-term liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired.

	Classification under	
	FRS 1	SFAS 95
Non-equity dividends paid.....	Returns on investments and servicing of finance	Financing activities
Equity dividends paid.....	Equity dividends paid	Financing activities
Taxation paid.....	Taxation	Operating activities
Net movement in lendings to customers.....	Operating activities	Investing activities
Net change in finance lease balances receivable.....	Operating activities	Investing activities
Net increase in deposits.....	Operating activities	Financing activities
Net movement in current and deposit accounts and other short-term liabilities.....	Operating activities	Financing activities

**Future developments**

The impact of recently issued accounting pronouncements is detailed on pages 52 to 54 under "Prospective accounting changes".



Notes to Consolidated Financial Statements - (Continued)

Consolidated net income	Year ended December 31,		
	2003	2002 Restated (Euro in millions except per share amounts)	2001
Net income (Group profit attributable to the stockholders of AIB) as in the consolidated statement of income.....	656	1,016	730
Adjustments in respect of:			
Depreciation of freehold and long leasehold property.....	2	2	5
Long-term assurance policies.....	(13)	(27)	(48)
Goodwill.....	30	4	(110)
Premium on core deposit intangibles.....	(1)	(5)	(7)
Retirement benefits.....	7	(5)	53
Dividends on non-equity shares.....	5	8	15
Securities held for hedging purposes.....	1	(3)	(24)
Internal use computer software.....	(1)	1	6
Derivatives FAS 133 transition adjustment <sup>(1)</sup> .....	-	-	122
Derivatives FAS 133 adjustment.....	11	(82)	(107)
Gain recognized on the disposal of businesses.....	832	-	-
Share of income of associated undertakings.....	33	-	-
Deferred tax effect of the above adjustments.....	(60)	17	(5)
Net income in accordance with US GAAP.....	1,502	926	630
Net income applicable to ordinary stockholders of AIB in accordance with US GAAP.....	€ 1,497	918	615
Equivalent to.....	US\$ 1,891		
Income per American Depositary Share (ADS*) in accordance with US GAAP.....	€ 3.48	2.11	1.43
Equivalent to.....	US\$ 4.40		
Diluted income per American Depositary Share (ADS*) in accordance with US GAAP.....	€ 3.46	2.09	1.42
Equivalent to.....	US\$ 4.37		
Year end exchange rate €/US\$.....	1.2630		

\*An American Depositary Share represents two ordinary shares of €0.32 each.

Comprehensive income	Year ended December 31,		
	2003	2002 Restated (Euro in millions)	2001
Net income in accordance with US GAAP.....	1,502	926	630
Net movement in unrealized holding gains on investment securities arising during the period (net of tax of nil).....	(41)	84	120
Derivatives FAS 133 transition adjustment <sup>(1)</sup> (net of tax of nil).....	-	-	41
Currency translation adjustments.....	(501)	(480)	214
Comprehensive income.....	960	530	1,005

<sup>(1)</sup> Cumulative effect of the change in accounting principle for derivatives and hedging activities.

Notes to Consolidated Financial Statements - (Continued)

Consolidated ordinary stockholders' equity

	December 31,		
	<u>2003</u>	<u>2002</u> <u>Restated</u>	<u>2001</u> <u>Restated</u>
	(Euro in millions except per share amounts)		
Ordinary stockholders' equity as in the consolidated balance sheet.....	4,921	4,180	4,574
Revaluation of property.....	(168)	(201)	(204)
Depreciation of freehold and long leasehold property.....	(27)	(27)	(27)
Goodwill.....	223	925	1,070
Core deposit intangibles.....	-	12	19
Dividends payable on ordinary shares.....	296	284	250
Dividends on non-equity shares.....	1	1	1
Long-term assurance policies.....	(276)	(263)	(236)
Unrealized gains/(losses) not yet recognized on:			
Available-for-sale debt securities.....	180	244	169
Available-for-sale equity securities.....	14	15	-
Securities held for hedging purposes.....	(3)	(4)	(1)
Derivatives FAS 133 adjustment.....	(16)	(79)	5
Retirement benefits.....	899	1,012	77
Internal use computer software.....	18	18	17
Other recognized gains/(losses) in associated undertakings.....	2	-	-
Share of income of associated undertakings.....	33	-	-
Deferred tax effect of the above adjustments.....	(146)	(206)	(50)
Ordinary stockholders' equity in accordance with US GAAP.....	€ 5,951	5,911	5,664
Equivalent to.....	US\$ 7,516		
Ordinary stockholders' equity per ADS in accordance with US GAAP...	€ 13.85	13.61	13.15
Equivalent to.....	US\$ 17.49		
Ordinary stockholders' equity per ADS in accordance with Irish GAAP.	€ 11.45	9.62	10.62
Equivalent to.....	US\$ 14.46		

Statement of changes in ordinary stockholders' equity

	December 31,		
	<u>2003</u>	<u>2002</u> <u>Restated</u>	<u>2001</u> <u>Restated</u>
	(Euro in millions)		
Opening balance.....	5,911	5,664	5,002
Net income for year.....	1,502	926	630
Dividends on equity shares.....	(440)	(396)	(351)
Dividends on non-equity shares.....	(5)	(8)	(15)
Ordinary shares bought back.....	(812)	-	-
Issue of shares .....	188	115	60
Unrealized gains/(losses) on debt securities and equity shares held as available-for-sale.....	(42)	84	120
FAS 133 transition adjustment.....	-	-	41
Goodwill written back.....	217	-	-
Currency translation adjustments.....	(501)	(480)	214
Other movements.....	(67)	6	(37)
Closing balance.....	5,951	5,911	5,664

Notes to Consolidated Financial Statements - (Continued)

**Consolidated total assets**

	December 31,		
	<u>2003</u>	<u>2002</u> <u>Restated</u> (Euro in millions)	<u>2001</u> <u>Restated</u>
Total assets as in the consolidated balance sheet.....	80,960	85,821	89,061
Revaluation of property.....	(168)	(201)	(204)
Depreciation of freehold and long leasehold property.....	(27)	(27)	(27)
Goodwill.....	223	925	1,070
Core deposit intangibles.....	-	12	19
Available-for-sale debt securities.....	180	244	169
Available-for-sale equity securities.....	14	15	-
Derivatives FAS 133 adjustment.....	(16)	(79)	5
Retirement benefits.....	899	1,012	77
Internal use computer software.....	18	18	17
Special purpose vehicles/variable interest entities.....	519	1,057	667
Long-term assurance policies.....	(276)	(263)	(236)
Long-term assurance assets attributable to policyholders.....	(2,810)	(2,174)	(2,200)
Investment in associated undertaking.....	38	-	-
Acceptances.....	11	72	142
Total assets in accordance with US GAAP.....	€ 79,565	86,432	88,560
Equivalent to.....	US\$ 100,491		

**Consolidated total liabilities and ordinary stockholders' equity**

	December 31,		
	<u>2003</u>	<u>2002</u> <u>Restated</u> (Euro in millions)	<u>2001</u> <u>Restated</u>
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet.....	80,960	85,821	89,061
Ordinary stockholders' equity.....	1,030	1,731	1,090
Dividends payable on ordinary shares.....	(296)	(284)	(250)
Dividends on non-equity shares.....	(1)	(1)	(1)
Acceptances.....	11	72	142
Securities held for hedging purposes.....	3	4	1
Debt securities in issue re special purpose vehicles/variable interest entities.....	519	1,057	667
Deferred taxation.....	149	206	50
Own shares.....	59	52	52
Long-term assurance liabilities to policyholders.....	(2,869)	(2,226)	(2,252)
Total liabilities and ordinary stockholders' equity in accordance with US GAAP.....	€ 79,565	86,432	88,560
Equivalent to.....	US\$ 100,491		

Notes to Consolidated Financial Statements - (Continued)

Alternative presentation of consolidated statement of income

The Group's share of profits of Ark Life Assurance Company Limited (Ark Life) has been included under other operating income in the consolidated statements of income on pages 85 and 86 and in note 10 on page 100. Under US GAAP, the income statement of Ark Life would be consolidated within the Group figures on a line by line basis.

This presentation is illustrated in the summary consolidated statement of income below.

	Years ended December 31,		
	2003	2002 Restated (Euro in millions)	2001
Net interest income.....	1,938	2,353	2,261
Other finance income.....	12	62	67
Other income before exceptional item.....	1,217	1,532	1,440
Exceptional foreign exchange dealing losses.....	-	(18)	(417)
Total operating income.....	3,167	3,929	3,351
Total expenses.....	2,152	2,599	2,499
Group operating income - continuing operations.....	1,015	1,330	852
Share of operating income of associated undertakings.....	143	9	4
Share of restructuring and integration costs in associated undertaking.....	(20)	-	-
Amortization of goodwill on acquisition of associated undertaking.....	(42)	-	-
Income on disposal of property.....	32	5	6
Income on disposal of businesses.....	(141)	-	93
Income before taxes, preference dividends and minority interests.....	987	1,344	955
Applicable taxes.....	315	296	187
	672	1,048	768
Equity and non-equity minority interests.....	11	24	23
Preference dividends.....	5	8	15
	16	32	38
Net income.....	656	1,016	730

Notes to Consolidated Financial Statements - (Continued)

Alternative presentation of consolidated balance sheet

The long-term assurance assets and liabilities of Ark Life have been classified under separate headings in the consolidated balance sheet (see basis of consolidation on page 80 and long-term assurance business, note 31 on page 119). Under US GAAP, the balance sheet of Ark Life would be consolidated with Group figures.

The following consolidated balance sheet illustrates this presentation.

	December 31,	
	2003	2002 Restated
	(Euro in millions)	
<b>ASSETS</b>		
Cash and balances at central banks.....	838	1,176
Items in course of collection.....	339	1,171
Central government bills and other eligible bills.....	45	24
Loans and advances to banks.....	4,179	6,038
Loans and advances to customers less allowance for loan losses.....	50,490	53,447
Securitized assets.....	203	248
Debt securities.....	18,366	18,427
Equity shares.....	1,300	1,043
Interests in associated undertakings.....	1,361	31
Intangible assets.....	420	457
Property and equipment.....	837	1,220
Other assets.....	1,772	1,367
Deferred taxation.....	174	245
Prepayments and accrued income.....	636	927
<b>TOTAL ASSETS.....</b>	<b>80,960</b>	<b>85,821</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits by banks.....	18,094	16,137
Customer accounts.....	44,612	52,976
Debt securities in issue.....	3,489	3,077
Other liabilities.....	6,010	4,817
Accruals and deferred income.....	595	829
Pension liabilities.....	502	537
Provisions for liabilities and charges.....	111	60
Deferred taxation.....	142	527
Subordinated liabilities.....	2,130	2,172
Minority equity and non-equity interests in consolidated subsidiaries.....	158	274
Stockholders' funds-non-equity.....	196	235
Stockholders' funds-equity.....	4,921	4,180
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....</b>	<b>80,960</b>	<b>85,821</b>

Notes to Consolidated Financial Statements - (Continued)

51. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" (SFAS No. 107), requires disclosure of the fair value of financial instruments (both on and off-balance sheet) for which it is practicable to estimate such value.

Fair value is based upon quoted market prices where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and adjusted for differences between the quoted instrument and the instrument being valued. In certain cases, including some lendings to customers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and, therefore, cannot be determined with precision. There have been no changes in the estimation techniques underlying the calculations or the methodology used compared with December 2002. Changes in assumptions could significantly affect estimates. Readers of these financial statements are advised to use caution when using this data to evaluate the Group's financial position or to make comparisons with other institutions.

Intangible assets, such as the value of AIB Group's branch network and long-term relationships with its depositors and other customers are not considered by the FASB to constitute financial instruments for the purposes of SFAS No. 107. The Group, however, believes the value of such assets to be significant. Certain other assets and liabilities are likewise excluded from the scope of SFAS No. 107. Furthermore, the concept of fair value assumes realization of financial instruments by way of a sale. However in many cases a sale is unlikely, and the assets and liabilities will be held to maturity. Accordingly, the fair values calculated for the purposes of reporting under SFAS No. 107 do not represent the value of the Group as a going concern at December 31, 2003 and 2002.

The following table gives details of the carrying amounts and fair values of financial instruments at December 31, 2003 and 2002.

	December 31, 2003		December 31, 2002	
	Carrying amount	Fair value	Carrying amount	Fair value
	(Euro in millions)			
<b>Assets</b>				
<b>Trading financial instruments<sup>(1)</sup></b>				
Debt securities.....	5,682	5,682	4,758	4,758
Equity shares.....	64	64	58	58
Central government bills and other eligible bills....	45	45	1	1
<b>Non-trading financial instruments</b>				
Cash and balances at central banks <sup>(1)</sup> .....	838	838	1,176	1,176
Items in course of collection <sup>(1)</sup> .....	339	339	1,171	1,171
Central government bills and other eligible bills....	-	-	23	23
Loans and advances to banks <sup>(2)</sup> .....	2,633	2,654	4,788	4,826
Loans and advances to customers <sup>(2)</sup> .....	48,854	49,017	51,304	51,884
Securitized assets.....	203	188	248	220
Debt securities.....	12,445	12,625	13,446	13,690
Equity shares.....	116	130	188	203
Long-term assurance assets				
attributable to policyholders <sup>(1)</sup> .....	2,810	2,810	2,174	2,174

Notes to Consolidated Financial Statements - (Continued)

	December 31, 2003		December 31, 2002	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Liabilities</b>				
<b>Trading financial instruments</b>				
Short positions in securities <sup>(1)</sup> .....	149	149	266	266
<b>Non-trading financial instruments</b>				
Deposits by banks.....	18,094	18,132	16,137	16,162
Customer accounts.....	44,612	44,616	52,976	53,091
Debt securities in issue.....	3,489	3,487	3,077	3,106
Subordinated liabilities.....	2,130	2,218	2,172	2,362
Stockholders' funds: non-equity interests.....	196	213	235	227
Long-term assurance liabilities attributable to policyholders <sup>(1)</sup> .....	2,869	2,869	2,226	2,226

	December 31, 2003		December 31, 2002	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Off - balance sheet assets/(liabilities)</b>				
<b>Trading financial instruments<sup>(1)</sup></b>				
Interest rate contracts.....	102	102	135	135
Foreign currency contracts.....	56	56	62	62
Equity contracts.....	38	38	-	-
<b>Non-trading financial instruments</b>				
Interest rate contracts.....	2	(42)	15	(24)
Foreign currency contracts.....	3	3	20	37

<sup>(1)</sup>Within the scope of SFAS No. 107, the fair value of these financial instruments is equal to the carrying value. These instruments are either carried at market value, or have minimal credit losses and are either short-term in nature or repriced frequently.

<sup>(2)</sup>As required by SFAS No. 107, finance leases with carrying amount totalling €1,636 million and €2,143 million at December 31, 2003 and 2002, respectively, are excluded. The fair values of the finance leases were €1,608 million, and €2,191 million at December 31, 2003 and 2002 respectively. The carrying values are net of the allowances for loan losses and related unearned income.

The following methods and assumptions were used by the Corporation in estimating the fair value for its financial instruments as defined by SFAS No. 107.

**Central government bills and other eligible bills**

The fair value of central government bills and other eligible bills is based on quoted market prices.

**Loans and advances to banks and loans and advances to customers**

The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Several different techniques are employed, as considered appropriate, in estimating the fair value of loans. Where secondary market prices were available, these were used. The carrying amount of variable rate loans was considered to be at market value if there was no significant change in the credit risk of the borrower. The fair value of fixed rate loans was calculated by discounting expected cash flows using discount rates that reflected the credit and interest rate risk in the portfolio.

The fair value of money market funds and loans and advances to banks was estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

**Securitized assets**

The fair value of securitized assets is based on marked prices received from external pricing services.

**Notes to Consolidated Financial Statements - (Continued)**

**Debt securities and equity shares**

The fair value of listed debt securities and equity shares is based on market prices received from external pricing services or bid quotations received from external securities dealers. The estimated value of unlisted debt securities and equity shares is based on the anticipated future cashflows arising from these items.

**Deposits by banks, customer accounts and debt securities in issue**

The fair value of current accounts and deposit liabilities payable on demand is equal to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

**Subordinated liabilities**

The estimated fair value of subordinated liabilities is based upon quoted market rates.

**Commitments pertaining to credit-related instruments**

Details of the various credit-related commitments entered into by the Group and other off-balance sheet financial guarantees are included in note 43. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

**Derivatives**

The Group uses various derivatives, designated as hedges, to manage its exposure to fluctuations in interest and exchange rates. The fair value of these instruments is estimated using market prices or pricing models consistent with the methods used for valuing similar instruments used for trading purposes. Derivatives are detailed in note 44 and include the fair value of these instruments.

Derivatives used for trading purposes are marked to market using independent prices and are included in other assets/other liabilities on the consolidated balance sheet at December 31, 2003 and 2002. The carrying values of derivatives are included in other assets/other liabilities on the consolidated balance sheet as appropriate.

**Stockholders' funds: non-equity interests**

The fair value of these instruments is based on quoted market prices.



Notes to Consolidated Financial Statements - (Continued)

52. INTEREST RATE SENSITIVITY

The net interest rate sensitivity of the Group at December 31, 2003 and 2002 is illustrated in the tables below. The interest sensitivity gap is split by functional currency. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements and any rate sensitive off-balance sheet contracts are also included. The tables show the sensitivity of the balance sheet at one point in time and are not necessarily indicative of positions at other dates. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The tables do not take into account the effect of interest rate options used by the Group to hedge its exposure. Details of options are given in note 44.

	December 31, 2003							
	0-3 Months	3-6 Months	6-12 Months	1-5 Years	5 years +	Non- interest bearing	Trading	Total
	(Euro in millions)							
<b>Assets</b>								
Central Government bills and other eligible bills.....	-	-	-	-	-	-	45	45
Loans and advances to banks.....	2,039	26	11	33	-	524	-	2,633
Loans and advances to customers.....	43,135	1,697	1,753	2,806	1,302	-	-	50,693
Debt securities.....	3,451	979	927	5,167	1,921	-	5,682	18,127
Other assets.....	-	-	-	-	-	9,040	422	9,462
Total assets.....	48,625	2,702	2,691	8,006	3,223	9,564	6,149	80,960
<b>Liabilities</b>								
Deposits by banks.....	15,178	1,323	1,171	80	185	157	-	18,094
Customer accounts.....	32,415	879	889	1,745	382	8,302	-	44,612
Debt securities in issue.....	2,860	13	442	174	-	-	-	3,489
Subordinated liabilities.....	827	79	-	32	1,192	-	-	2,130
Other liabilities.....	-	-	-	-	-	7,038	480	7,518
Stockholders' equity.....	-	-	-	-	-	5,117	-	5,117
Total liabilities.....	51,280	2,294	2,502	2,031	1,759	20,614	480	80,960
Off-balance sheet items affecting interest rate sensitivity.....	4,758	(1,179)	(3,297)	189	(471)	-	-	-
	56,038	1,115	(795)	2,220	1,288	20,614	480	80,960
Interest sensitivity gap.....	(7,413)	1,587	3,486	5,786	1,935	(11,050)	5,669	-
Cumulative interest sensitivity gap...	(7,413)	(5,826)	(2,340)	3,446	5,381	(5,669)	-	-
	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	
Interest sensitivity gap.....	(3,387)	1,525	2,618	3,040	536	(6,987)	2,914	
Cumulative interest sensitivity gap...	(3,387)	(1,862)	756	3,796	4,332	(2,655)	259	
	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	
Interest sensitivity gap.....	(1,066)	(121)	18	58	461	(503)	546	
Cumulative interest sensitivity gap...	(1,066)	(1,187)	(1,169)	(1,111)	(650)	(1,153)	(607)	
	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	
Interest sensitivity gap.....	(2,151)	(73)	715	2,043	879	(2,796)	1,292	
Cumulative interest sensitivity gap...	(2,151)	(2,224)	(1,509)	534	1,413	(1,383)	(91)	
	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	
Interest sensitivity gap.....	(173)	137	104	478	57	(776)	85	
Cumulative interest sensitivity gap...	(173)	(36)	68	546	603	(173)	(88)	

ALLIED IRISH BANKS, p.l.c.

Notes to Consolidated Financial Statements - (Continued)

December 31, 2002

Restated

	<u>0-3 Months</u>	<u>3-6 Months</u>	<u>6-12 Months</u>	<u>1-5 Years</u>	<u>5 years +</u>	<u>Non- interest bearing</u>	<u>Trading</u>	<u>Total</u>
	(Euro in millions)							
<b>Assets</b>								
Central Government bills and other eligible bills.....	23	-	-	-	-	-	1	24
Loans and advances to banks.....	3,999	300	25	18	-	446	-	4,788
Loans and advances to customers....	41,838	1,995	1,587	5,095	3,180	-	-	53,695
Debt securities.....	4,485	781	1,054	5,284	1,842	-	4,758	18,204
Other assets.....	-	-	-	-	-	8,997	113	9,110
Total assets.....	50,345	3,076	2,666	10,397	5,022	9,443	4,872	85,821
<b>Liabilities</b>								
Deposits by banks.....	12,159	1,819	1,641	59	167	292	-	16,137
Customer accounts.....	36,071	1,145	1,868	2,472	62	11,358	-	52,976
Debt securities in issue.....	2,269	330	258	214	6	-	-	3,077
Subordinated liabilities.....	1,066	95	-	223	788	-	-	2,172
Other liabilities.....	95	-	-	-	-	6,631	318	7,044
Stockholders' equity.....	-	-	-	-	-	4,415	-	4,415
Total liabilities.....	51,660	3,389	3,767	2,968	1,023	22,696	318	85,821
Off-balance sheet items affecting interest rate sensitivity.....	2,882	(843)	(1,961)	214	(292)	-	-	-
	54,542	2,546	1,806	3,182	731	22,696	318	85,821
Interest sensitivity gap.....	(4,197)	530	860	7,215	4,291	(13,253)	4,554	
Cumulative interest sensitivity gap...	(4,197)	(3,667)	(2,807)	4,408	8,699	(4,554)	-	
	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	
Interest sensitivity gap.....	(89)	342	626	1,947	1,855	(6,873)	1,803	
Cumulative interest sensitivity gap...	(89)	253	879	2,826	4,681	(2,192)	(389)	
	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	
Interest sensitivity gap.....	(1,761)	446	(120)	2,890	1,328	(3,237)	869	
Cumulative interest sensitivity gap...	(1,761)	(1,315)	(1,435)	1,455	2,783	(454)	415	
	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	
Interest sensitivity gap.....	(993)	(398)	177	2,150	1,039	(3,251)	991	
Cumulative interest sensitivity gap...	(993)	(1,391)	(1,214)	936	1,975	(1,276)	(285)	
	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	
Interest sensitivity gap.....	(1,201)	(197)	40	213	54	225	502	
Cumulative interest sensitivity gap...	(1,201)	(1,398)	(1,358)	(1,145)	(1,091)	(866)	(364)	

Notes to Consolidated Financial Statements - (Continued)

**53. SUBSEQUENT EVENTS: PRICING OF FOREIGN EXCHANGE PRODUCTS**

On May 6, 2004, AIB announced that it had been applying prices to certain foreign exchange products without the formal regulatory approval of the Central Bank of Ireland from August 1995 and subsequently the Director of Consumer Affairs from May 1996. The error was not addressed until April 2004 and this resulted in a number of customers being overcharged on certain foreign exchange products. AIB, having consulted with the Irish Financial Services Regulatory Authority ("IFSRA"), immediately commissioned an independent investigation into this affair and on May 14, 2004 appointed Mr Lauri McDonnell, former Irish Comptroller and Auditor General, as the independent assurer of the investigation. Mr McDonnell has access to external independent audit expertise in carrying out the investigation and will report to IFSRA and the Board of AIB on completion by the end of July 2004.

An estimate of the amount due to customers arising from this error, including a provision for interest, has been made and this amount of €25 million has been placed as a good faith deposit with the Central Bank of Ireland for the duration of the process currently underway to identify and reimburse customers. The work completed by AIB at the date of filing of this report, in validating the assumptions underlying the estimate of the amount due to customers, provides assurance in respect of the amount of €25 million.

In accordance with Irish GAAP the estimated total amounts due to customers arising from this error, up to December 31, 2003, of €24.2 million have been reflected in the financial statements in the current year. Under Financial Reporting Standard 3 "Reporting Financial Performance" ("FRS 3") prior period financial statements are restated for an error only if the error is a fundamental error. Fundamental errors under FRS 3 are errors that are of such significance as to destroy the true and fair view and hence the validity of the prior period financial statements. In the opinion of the Directors, the amounts due to customers arising from the overcharging on certain foreign exchange products relating to each of the prior years, do not constitute fundamental errors because they are not of such significance as to destroy the true and fair view and hence the validity of the prior period financial statements.

Under US reporting requirements all material errors in respect of prior years should be accounted for and reported as prior period adjustments. In the opinion of the directors;

- the difference between the amount charged in 2003 under Irish GAAP of €24.2 million and the amount that would fall to be charged under US GAAP of €3 million, is not considered to be material to be adjusted in the US GAAP accounts, and
- the amounts due to customers arising from the overcharging on certain foreign exchange products relating to each of the prior years do not constitute material errors in each of the years therefore no prior period adjustments have been reflected.

The following table presents the impact of the error in relation to the pricing of foreign exchange products on income before taxes and net income for each of the years affected:

	<b>Pre-tax loss</b>	<b>Net loss</b>
	<b>(Euro in thousands)</b>	
<b>Period ended:</b>		
Prior to 1999.....	7,928	6,937
December 31, 1999.....	3,254	2,848
December 31, 2000.....	3,212	2,810
December 31, 2001.....	3,629	3,175
December 31, 2002.....	3,232	2,828
December 31, 2003.....	2,970	2,599
	<hr/> 24,225	<hr/> 21,197
Through April 2004	775	678
	<hr/> 25,000	<hr/> 21,875

Notes to Consolidated Financial Statements - (Continued)

**54. FRAUDULENT FOREIGN EXCHANGE TRADING ACTIVITIES**

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

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

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

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

- Fraudulent foreign exchange trading activities	= "Fraudulent Activities" or "Fraud"
- Losses arising from fraudulent foreign exchange trading activities	= "Fraud Losses" or "Exceptional Foreign Exchange Dealing Losses"
- Foreign Exchange	= "FX"

The euro amount of the losses reported under US reporting requirements in the years 1997 to 2002 does not equate to the charge of €789 million under Irish GAAP for the year ended December 31, 2001. This arises for a number of reasons. In the Irish GAAP accounts the total fraud losses, US\$691.2 million, and costs estimated at US\$10 million less the reversal of an incentive accrual of US\$6 million were charged as an exceptional item in 2001 at the exchange rate prevailing on December 31, 2001.

Under US reporting requirements the Fraud Losses were charged in each of the years they arose, translated at the average rates of exchange used in the preparation of the accounts for those years. The Fraud Losses arising in 2002, including the costs of closing out the transactions, of US\$17.2 million and administration expenses of US\$10 million are reflected in this Annual Report on Form 20-F. The additional administration expenses of US\$10 million are those arising from the investigation and the consequent measures taken to strengthen controls.

**ALLIED IRISH BANKS, p.l.c.**

**Notes to Consolidated Financial Statements - (Continued)**

The following tables reflect the reconciliation of the net income attributable to ordinary stockholders, consolidated total assets, and consolidated total liabilities and ordinary stockholders' equity as reported in the Annual Report on Form 20-F to the amounts in the Irish Legislation Annual Report and Accounts, for each of the years ended December 31, 2002 and 2001.

	<b>Years ended December 31,</b>	
	<b><u>2002</u></b>	<b><u>2001</u></b>
	<b><u>Restated</u></b>	<b><u>Restated</u></b>
	<b>(Euro in millions)</b>	
<b>Net income attributable to the ordinary stockholders</b>		
Per Irish Legislation Annual Report and Accounts.....	1,034	484
<b>Adjustments</b>		
Exceptional losses.....	(18)	372
Administration expenses.....	(10)	6
Taxation.....	10	(132)
Per Annual Report on Form 20-F.....	<u>1,016</u>	<u>730</u>
	<b>Years ended December 31,</b>	
	<b><u>2002</u></b>	<b><u>2001</u></b>
	<b><u>Restated</u></b>	<b><u>Restated</u></b>
	<b>(Euro in millions)</b>	
<b>Consolidated total assets</b>		
Per Irish Legislation Annual Report and Accounts.....	85,821	89,061
<b>Adjustments</b>		
Other assets.....	-	-
Per Annual Report on Form 20-F.....	<u>85,821</u>	<u>89,061</u>
<b>Consolidated total liabilities and ordinary stockholders' equity</b>		
Per Irish Legislation Annual Report and Accounts.....	85,821	89,061
<b>Adjustments</b>		
Other liabilities.....	-	(20)
Accruals and deferred income.....	-	(11)
Deferred taxation.....	-	11
Ordinary stockholders' equity.....	-	20
Per Annual Report on Form 20-F.....	<u>85,821</u>	<u>89,061</u>

ALLIED IRISH BANKS, p.l.c.

ADDITIONAL FINANCIAL INFORMATION - DECONSOLIDATION OF ALLFIRST FINANCIAL INC.

The following consolidated statement of income for the year ended December 31, 2002, as well as the consolidated balance sheet for December 31, 2002 on page 172, have been presented to outline the impact of the deconsolidation of Allfirst following its disposal and subsequent integration into M&T Bank Corporation.

Consolidated statement of income	December 31, 2002		
	Continuing activities	Deconsolidation of Allfirst (Euro in millions)	Total
Interest income:			
Interest income and similar income arising from			
debt securities and other fixed income securities.....	783	163	946
Other interest receivable and similar income.....	3,164	643	3,807
Less: interest expense.....	(2,117)	(285)	(2,402)
Net interest income.....	1,830	521	2,351
Other finance income.....	63	(1)	62
Other income.....	1,055	441	1,496
Total operating income.....	2,948	961	3,909
Total operating expenses.....	1,747	581	2,328
Group operating income before provisions.....	1,201	380	1,581
Provisions for loan losses.....	110	84	194
Provisions for contingent liabilities and commitments.....	2	-	2
Amounts written off fixed asset investments.....	43	12	55
Group operating income.....	1,046	284	1,330
Share of operating income of associated undertakings.....	9	-	9
Income on disposal of property.....	6	(1)	5
Income before taxes.....	1,061	283	1,344
Applicable taxes.....	232	64	296
Income after taxes.....	829	219	1,048
Equity and non-equity minority interests			
in subsidiaries.....	20	4	24
Dividends on non-equity shares.....	8	-	8
	28	4	32
Net income applicable to the ordinary stockholders.....	801	215	1,016

ALLIED IRISH BANKS, p.l.c.

ADDITIONAL FINANCIAL INFORMATION - DECONSOLIDATION OF ALLFIRST FINANCIAL INC.

	December 31, 2002		
	Continuing activities	Deconsolidation of Allfirst (Euro in millions)	Total
<b>Consolidated balance sheet</b>			
<b>ASSETS</b>			
Cash and balances at central banks.....	996	180	1,176
Items in course of collection.....	330	841	1,171
Central government bills and other eligible bills.....	11	13	24
Loans and advances to banks.....	3,364	1,424	4,788
Loans and advances to customers.....	43,708	9,739	53,447
Securitised assets – net.....	1,002	–	1,002
Less: non-returnable proceeds.....	(754)	–	(754)
	248	–	248
Debt securities.....	16,046	2,158	18,204
Equity shares.....	161	85	246
Interests in associated undertakings.....	31	–	31
Intangible fixed assets.....	457	–	457
Property and equipment.....	954	224	1,178
Other assets.....	679	474	1,153
Deferred taxation.....	95	150	245
Prepayments and accrued income.....	791	136	927
Long-term assurance business attributable to stockholders.....	352	–	352
	68,223	15,424	83,647
Long-term assurance assets attributable to policyholders.....	2,174	–	2,174
	70,397	15,424	85,821
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Deposits by banks.....	14,883	1,254	16,137
Customer accounts.....	41,894	11,082	52,976
Debt securities in issue.....	2,159	918	3,077
Other liabilities.....	2,458	133	2,591
Accruals and deferred income.....	725	104	829
Pension liabilities.....	443	94	537
Provisions for liabilities and charges.....	49	11	60
Deferred taxation.....	116	411	527
Subordinated liabilities.....	1,605	567	2,172
Equity and non-equity minority interests in subsidiaries.....	181	93	274
Total liabilities.....	64,513	14,667	79,180
Stockholders' funds including non-equity interests.....			4,415
			83,595
Long-term assurance liabilities to policyholders.....			2,226
			85,821

## CORPORATE GOVERNANCE

Corporate governance is concerned with how companies are managed and controlled. The Board is committed to the highest standards in that regard. This statement explains how the Company has applied the Principles set out in the Combined Code on Corporate Governance<sup>(1)</sup> ("the 1998 Code"), and reports on compliance with its Provisions.

A new Corporate Governance Code was published in July 2003. This replaces the 1998 Code, and applies to AIB with effect from January 1, 2004. The Board has considered the new Code and has made changes to AIB's corporate governance practices, with a view to continuing to pursue recognized high standards in this area. These changes are being implemented and will be commented on in the 2004 Annual Report and Accounts.

### **The Board**

The importance of having an effective Board to lead and control the Company and the Group is reflected in a comprehensive range of matters specifically reserved for decision by the Board; at a high level this includes:

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

A scheduled Board meeting is held each month, except August, and additional meetings are held as required. Thirteen Board meetings were held during 2003. The Directors are provided in advance of each Board meeting with relevant documentation and information to enable them to discharge their duties. Any additional information requested by Directors is readily provided.

The role of the Chairman, which is non-executive, is separate from the role of the Group Chief Executive, with clearly defined responsibilities attaching to each.

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

At December 31, 2003, the Board comprised 10 Non-Executive Directors and 4 Executive Directors. The names of the Directors, and their biographical notes, appear on pages 42 and 43. All Directors are required to bring independent judgement to bear on their duties as Directors. The majority of the Non-Executive Directors, i.e., Ms Carol Moffett, Sir Derek Higgs and Messrs Burke, Fallon, Gleeson, Godson, McGuckian, O'Leary, and Sullivan, are considered to be independent of Management and free from any business or other relationship with the Company or the Group that could materially interfere with the exercise of their independent judgement.

Mr Dermot Gleeson, then Deputy Chairman, was the designated senior independent Non-Executive Director until his appointment as Chairman with effect from October 14, 2003. He was succeeded as the senior independent Non-Executive Director by Mr John B. McGuckian on November 5, 2003. The senior independent Non-Executive Director is available to stockholders if they have concerns which contact through the normal channels of Chairman or Group Chief Executive have failed to resolve, or for which such contact is inappropriate.

The Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. There is a procedure in place to enable the Directors to take independent professional advice, at the Company's expense. Non-Executive Directors appointed since 1990 are appointed for an initial period of six years, which may be extended for a further period of three years. Following initial appointment, Directors must retire at the next Annual General Meeting ("AGM") and go before the stockholders for re-appointment. Subsequently, Directors must submit themselves for re-appointment at intervals of not more than three years; however, Directors who have served more than nine years are subject to annual re-election by stockholders. The Directors going forward for re-appointment at the 2004 AGM under the three-year rule are Sir Derek Higgs and Messrs Buckley, Gleeson, Kennedy and McGuckian, while Mr Fallon is going forward for re-appointment under the one-year rule.

There is an induction process for new Directors. Its content varies as between Executive and Non-Executive Directors. In respect of the latter, the induction is designed to familiarize Non-Executive Directors with the Group and its operations, and comprises the provision of relevant reading material, including details of the Company's strategic and operational plans, and a program of meetings with the Heads of Divisions and the senior management of businesses and support functions. All Directors on appointment are furnished with a booklet entitled "Responsibilities, Functions and Operations of the Board and Code of Conduct for Directors".

### **Board Committees**

The Board is assisted in the discharge of its duties by Board Committees, whose purpose is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is usually reviewed annually by the Board. A description of these Committees, each of which operates under terms of reference or guidelines approved by the Board, and their membership during 2003, is given below. The minutes of all meetings of Board Committees are circulated to all Directors, for information, with their Board papers, and are formally noted by the Board. This provides an opportunity for Directors to seek additional information or to comment on issues being addressed at Committee level.

<sup>(1)</sup> "The Combined Code: Principles of Good Governance and Code of Best Practice", adopted in 1998 by the Irish Stock Exchange and the UK Listing Authority.



CORPORATE GOVERNANCE (Continued)

**Audit Committee**

*Members: Mr Adrian Burke, Chairman, Mr Dermot Gleeson (until October 14, 2003), Sir Derek Higgs, Mr Jim O'Leary (from November 5, 2003) and Mr Michael J Sullivan.*

The Audit Committee met on nine occasions during 2003. The Committee reviews the Group's annual and interim accounts; the scope of the audit; the findings, conclusions and recommendations of the internal and external Auditors; reports on compliance; the nature and extent of non-audit services provided by the Auditors; and the effectiveness of internal controls. The Committee is responsible for ensuring the cost-effectiveness of the audit, and for confirming the independence of the Auditors, the Group Internal Auditor, and the General Manager, Regulatory Compliance & Business Ethics, each of whom it meets separately at least once each year, in confidential session, in the absence of Management. Each of these parties has unrestricted access to the Chairman of the Audit Committee. A written report is submitted annually to the Board showing the issues considered by the Committee.

The Auditors are invited to attend meetings of the Committee, as are the Group Director, Finance & Enterprise Technology, the Chief Financial Officer, the Group Chief Risk Officer, the General Manager, Regulatory Compliance & Business Ethics, and the Group Internal Auditor.

The Terms of Reference of the Audit Committee are available on AIB's internet website ([www.aibgroup.com](http://www.aibgroup.com)).

**Nomination and Remuneration Committee**

*Members: Mr Lochlann Quinn, Chairman until October 14, 2003, Mr Dermot Gleeson, Chairman from October 15, 2003, Sir Derek Higgs, Mr John B. McGuckian, and Mr Jim O'Leary.*

The Nomination and Remuneration Committee met on four occasions during 2003. The Committee is responsible for recommending candidates to the Board for appointment as Directors. Its remit also includes, inter alia, recommending to the Board appropriate remuneration policies, and determining, under advice to the Board, the specific remuneration packages of the Executive Directors.

In January 2004, the Committee was divided into two committees, namely, a Nomination and Corporate Governance Committee, and a Remuneration Committee. Terms of Reference for each of these Committees are available on AIB's website. The members of the Nomination and Corporate Governance Committee are Mr Dermot Gleeson (Chairman), Mr Michael Buckley, Mr Don Godson, Mr John B. McGuckian and Mr Michael J Sullivan. The members of the Remuneration Committee are Mr Dermot Gleeson (Chairman), Mr Don Godson, Sir Derek Higgs, Mr John B. McGuckian, and Mr Jim O'Leary.

**Social Affairs Committee**

*Members: Ms Carol Moffett, Chairman, Mr Padraic M. Fallon, and Mr Don Godson.*

The Social Affairs Committee met twice in 2003. Its role is to assist the Company in discharging its social responsibilities. This includes developing corporate-giving and sponsorship policies, and reviewing responses to a range of social responsibility issues.

**Directors' Remuneration**

The Report on Directors' Remuneration and Interests appears on pages 43 to 49.

**Relations with Stockholders**

The Company recognizes the importance of communication with stockholders. The Company circulates each year, along with the statutory Annual Report and Accounts, a short, user-friendly booklet explaining features of the Company's performance in the previous year. This also focuses on strategy, performance over the previous five years, and interaction with customers and the wider community. It also comments on the membership of the Board, and other issues.

The Company uses its website to communicate with stockholders. The presentations to fund managers and analysts of Annual and Interim Financial Results (in February and July, respectively) are broadcast live on the internet, and may be accessed on [www.aibgroup.com/webcast](http://www.aibgroup.com/webcast). The Non-Executive Directors may attend those presentations to hear the views expressed. The times of the broadcasts are advertised in advance on the website. The Investor Relations section of the website is updated with the Company's Stock Exchange releases, including the interim trading statements issued in June and December, and formal presentations to analysts and investors, so that such documents are available for review by stockholders. The site also contains the Company's most recent Annual and Interim Reports, together with the Annual Report on Form 20-F when filed with the US Securities and Exchange Commission. Stockholders have the facility of accessing the Annual Report and Accounts on AIB's website, instead of receiving the document by post. The content of the website is being upgraded and will shortly contain additional information about the Company, its governance, its business and other relevant matters.

All stockholders are invited to attend the AGM and to participate in the proceedings. It is practice to give stockholders an

**CORPORATE GOVERNANCE (Continued)**

update on the Group's performance and developments of interest, by way of video presentation. Separate resolutions are proposed on each separate issue. The Chairman of the Audit Committee is available to answer questions about the Committee's activities. The proportion of proxy votes lodged for and against each resolution is indicated; this demonstrates what the voting position would be if all votes cast, including votes cast by stockholders not in attendance at the Meeting, were taken into account.

It is usual for all Directors to attend the AGM and to be available to meet stockholders before and after the Meeting. A Stockholders' Help Desk facility is available to stockholders attending.

The Notice and related papers for the 2004 AGM were sent to stockholders 30 calendar days and 20 working days before the Meeting.

The Company holds regular meetings with its principal institutional stockholders and with financial analysts and brokers. These meetings involve the Group Chief Executive, the Group Director, Finance & Enterprise Technology, Heads of Divisions, the Chief Financial Officer, and the Head of Group Investor Relations, and are governed by prescribed procedures to ensure that price-sensitive information is not divulged.

***Accounts and Directors' Responsibilities***

The Accounts and other information presented in this Report and Accounts are consistent with the Code Principle requiring the presentation of "a balanced and understandable assessment of the Company's position and prospects". The Statement concerning the responsibilities of the Directors in relation to the Accounts appears on page 176.

***Going Concern***

The Accounts continue to be prepared on a going concern basis, as the Directors are satisfied that the Company and the Group as a whole have the resources to continue in business for the foreseeable future. In forming this view, the Directors have reviewed the Group's budget for 2004.

***Internal Control***

The Directors acknowledge that they are responsible for the Group's system of internal control and for reviewing its effectiveness. Guidance ("Internal Control: Guidance for Directors on the Combined Code") has been issued by the Irish Stock Exchange and the London Stock Exchange to assist Directors in complying with the 1998 Code's requirements in respect of internal control. That Guidance states that systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group's system of internal control includes:

- a clearly defined management structure, with defined lines of authority and accountability;
- a comprehensive annual budgeting and financial reporting system, which incorporates clearly defined and communicated common accounting policies and financial control procedures, including those relating to authorization limits; capital expenditure and investment procedures; physical and computer security; and business continuity planning. The accuracy and integrity of the Group's financial information is confirmed through Divisional and Group level reports to the Chief Financial Officer;
- the Group Risk Management function is responsible for ensuring that risks are identified, assessed and managed throughout the Group;
- the General Manager, Regulatory Compliance & Business Ethics reports independently to the Audit Committee on the compliance framework across the Group and on management's attention to compliance matters;
- the Audit Committee, which receives reports on various aspects of control, reviews the Group's statutory Accounts and other published financial statements and information, and ensures that no restrictions are placed on the scope of the statutory audit or on the independence of the Internal Audit and Regulatory Compliance functions. The Committee reports to the Board on these matters, and on compliance with relevant laws and regulations, and related issues;
- appropriate policies and procedures relating to capital management, asset and liability management (including interest rate risk, exchange rate risk and liquidity management), credit risk management, and operational risk management. Independent testing of the risk management and control framework is undertaken by the Internal Audit function;
- regular review by the Board of overall strategy, business plans, variances against operating and capital budgets and other performance data.

The Group's structure and on-going processes for identifying, evaluating and managing the significant credit, market and operational risks faced by the Group are described in pages 59 to 66. Those processes are regularly reviewed by the Board, and accord with the above-mentioned Guidance.

The Directors confirm that, with the assistance of reports from the Audit Committee and Management, they have reviewed the effectiveness of the Group's system of internal control for the year ended December 31, 2003.

***Compliance Statement***

As noted above, there was no designated senior independent Non-Executive Director for a three-week period; otherwise, the Company was in full compliance with the Provisions of the 1998 Code throughout 2003.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES  
IN RELATION TO THE ACCOUNTS**

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out within their audit report, is made with a view to distinguishing for stockholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Acts to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that, in preparing the accounts on pages 80 to 170, which have been prepared on a going concern basis, the Company and the Group have, following discussions with the auditors, used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which, following discussions with the auditors, they consider applicable have been followed (subject to any explanations and any material departures disclosed in the notes to the accounts).

The directors have responsibility for taking all reasonable steps to secure that the Company causes to be kept proper books of account, whether in the form of documents or otherwise, that correctly record and explain the transactions of the Company, that will at any time enable the financial position of the Company to be readily and properly audited, and that will enable the directors to ensure that the accounts comply with the requirements of the Companies Acts.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The directors, having prepared the accounts, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

**ALLIED IRISH BANKS, p.l.c.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM - KPMG**

To the Members and Board of Directors of Allied Irish Banks, p.l.c.

We have audited the accompanying consolidated balance sheet of Allied Irish Banks, p.l.c. and its subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, cash flows and changes in stockholders' equity for the year ended December 31, 2003 and 2002 as set out on pages 80 to 170. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Allied Irish Banks, p.l.c. as at December 31, 2003 and 2002 and the results of its operations and cash flows for each of the years in the two-year period ended December 31, 2003 in conformity with accounting principles generally accepted in Ireland.

Accounting principles generally accepted in Ireland vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 50 to the consolidated financial statements.



Chartered Accountants  
Dublin, Ireland  
June 16, 2004

**ALLIED IRISH BANKS, p.l.c.**

**REPORT OF INDEPENDENT AUDITORS - PricewaterhouseCoopers**

Report of Independent Auditors To the Members and Board of Directors of Allied Irish Banks, p.l.c.

We have audited the accompanying consolidated profit and loss account, cash flows and total recognised gains and losses of Allied Irish Banks, p.l.c. and its subsidiaries as of December 31, 2001 as set out on pages 80 to 170, all expressed in euros. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

These financial statements have been prepared in accordance with accounting principles generally accepted in Ireland, except for the following matter. As described in Note 54 on page 169 in order to comply with the requirements of the United States Securities and Exchange Commission, prior years have been restated to reflect the exceptional foreign exchange dealing losses in the years the losses occurred. Under generally accepted accounting principles in Ireland prior years are restated for an error only if the error is a fundamental error as explained in Financial Reporting Standard No 3 "Reporting Financial Performance". As the losses in respect of prior years are not considered to be fundamental in respect of those years, the financial statements may not be restated under generally accepted accounting principles in Ireland.

In our opinion, except for the effects of the restatement described in the previous paragraph, the consolidated financial statements referred to above, present fairly, in all material respects, the results of operations and their cash flows for the year ended December 31, 2001 of Allied Irish Banks, p.l.c., in conformity with accounting principles generally accepted in Ireland.

Accounting principles used to prepare these financial statements vary in certain material respects from accounting principles generally accepted in the United States. The application of the latter, after the restatement referred to in Note 54, would have affected the determination of consolidated net income attributable to ordinary stockholders expressed in euros for the year ended December 31, 2001, the determination of consolidated total assets, and consolidated total liabilities and ordinary stockholders' equity also expressed in euros at December 31, 2001 to the extent summarized in Note 50 to the consolidated financial statements.

PricewaterhouseCoopers  
Chartered Accountants  
Dublin, Ireland

April 30, 2002, except for the paragraphs headed "Change in accounting policy and presentation of financial information" on page 80 and the restatements described in the paragraph headed up "Reserve Capital Instruments" on page 127 of this Form 20-F, as to which the date is June 16, 2004.

## SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant, Allied Irish Banks, p.l.c., certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 16th day of June, 2004.

ALLIED IRISH BANKS, p.l.c.  
(Registrant)

By: GARY KENNEDY  
Name: Gary Kennedy  
Title: Group Director, Finance &  
Enterprise Technology

**EXHIBIT 31.1**

**Certification  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael Buckley, Chief Executive Officer certify that:

1. I have reviewed this annual report of Allied Irish Banks p.l.c. ("AIB");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of AIB as of, and for, the periods presented in this report;
4. AIB's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for AIB and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to AIB, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of AIB's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in AIB's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. AIB's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to AIB's auditors and the audit committee of AIB's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect AIB's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in AIB's internal control over financial reporting.

Dated: June 16, 2004

MICHAEL BUCKLEY  
Name: Michael Buckley  
Title: Chief Executive Officer

**EXHIBIT 31.2**

**Certification  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gary Kennedy, Group Director, Finance & Enterprise Technology certify that:

1. I have reviewed this annual report of Allied Irish Banks p.l.c. ("AIB");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of AIB as of, and for, the periods presented in this report;
4. AIB's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for AIB and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to AIB, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of AIB's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in AIB's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. AIB's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to AIB's auditors and the audit committee of AIB's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect AIB's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in AIB's internal control over financial reporting.

Dated: June 16, 2004

GARY KENNEDY

Name: Gary Kennedy

Title: Group Director, Finance & Enterprise Technology



**EXHIBIT 32.1**

**Certification  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Allied Irish Banks, p.l.c., a public limited liability company incorporated and registered in Ireland (the "Company"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2003 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 16, 2004

MICHAEL BUCKLEY

Name: Michael Buckley

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

**EXHIBIT 32.2**

**Certification  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Allied Irish Banks, p.l.c., a public limited liability company incorporated and registered in Ireland (the "Company"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2003 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 16, 2004

GARY KENNEDY

Name: Gary Kennedy

Title: Group Director, Finance & Enterprise Technology

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.