Annual Report and Accounts 2001

for the year ended 31 December 2001

AIB Group
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Financial highlights

for the year ended 31 December 2001

	2001 € m	2000 Restated € m	1999 Restated € m
Results			
Total operating income[(1)]	**3,786**	3,397	2,893
Group profit before taxation[(1)]	**1,401**	1,274	1,163
Profit attributable	**484**	784	786
Profit retained	**41**	379	453
Per € 0.32 ordinary share			
Earnings – basic	**56.2c**	91.6c	92.5c
Earnings – adjusted *(note 21)*	**119.4c**	106.7c	93.5c
Earnings – diluted	**55.9c**	91.0c	91.6c
Dividend	**43.80c**	38.75c	33.70c
Dividend cover – times	**1.3**	2.3	2.7
Net assets	**551c**	566c	518c
Performance measures			
Return on average total assets[(1)]	**1.28%**	1.27%	1.36%
Return on average ordinary shareholders' equity[(2)]	**20.5%**	21.6%	23.5%
Balance sheet			
Total assets	**88,837**	80,250	67,807
Shareholders' funds: equity interests	**4,851**	4,944	4,460
Loans etc	**57,445**	50,239	43,127
Deposits etc	**72,813**	65,210	55,241
Capital ratios			
Tier 1 capital	**6.5%**	6.3%	6.4%
Total capital	**10.1%**	10.8%	11.3%

[(1)]*Adjusted to exclude the exceptional foreign exchange dealing losses in 2001 (note 8(b)) and the impact of the deposit interest retention tax settlement in 2000 (note 5).*

[(2)]*Excluding the impact of FRS 17 (note 13) in all years, the exceptional foreign exchange dealing losses in 2001 (note 8(b)) and the impact of the deposit interest retention tax settlement in 2000 (note 5).*

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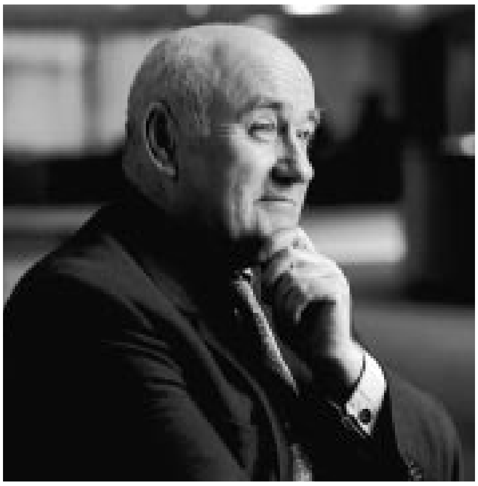


Chairman's statement

The fraud at Allfirst was an unprecedented and serious setback to AIB Group.

The AIB Board and Management acted quickly when it was informed of the news of this incident. A special meeting of the Board was held on 7 February. We were committed to a speedy and independent inquiry into the facts of the matter. The Promontory Financial Group headed by Mr Eugene A. Ludwig, former U.S. Comptroller of the Currency, and Wachtell, Lipton, Rosen & Katz, the prominent New York law firm, were engaged to head this investigation.

On 12 March the AIB and Allfirst Boards met to consider the Ludwig Report and on 14 March we released the full report and the details of the Boards' decisions. The main findings of the Report and our decisions are set out on pages 6 and 7.

Despite the Allfirst loss the results showed a strong performance demonstrating the underlying quality of our business and our people. The loss saw our pre-tax profit fall to €612 million but did not affect dividend policy.

The AIB Board recommended a second interim dividend of EUR 28.4c payable on 26 April 2002 to shareholders on the company's register of members at the close of business on 1 March 2002. Our dividend policy reflects the AIB Board's confidence in the fundamental strength of AIB.

There were changes to the AIB Board in 2001. Mr Mike Sullivan and Mr Jim O'Leary joined as non-executive directors. Mr O'Leary is a lecturer in economics at NUI Maynooth and a member of the Public Sector Benchmarking Body. He was Chief Economist at Davy Stockbrokers from 1987 to 2001. Mr Sullivan served as U.S. Ambassador to Ireland from January 1999 to June 2001. Mr Sullivan was Governor of the State of Wyoming between 1987 and 1995. He has also joined the Board of AIB's U.S. subsidiary, Allfirst Financial Inc.

Mr Eugene Sheehy, previously Managing Director of AIB Bank Republic of Ireland, has transferred to the U.S. to become Chief Executive of our North American business on Mr Frank Bramble's retirement. He has been succeeded by Mr Donal Forde. We wish both of them well in their new responsibilities.

We are confident of the future. There is no doubt that our reputation has suffered, but the business is strong. Rebuilding our reputation will take time but we will do so.

Lochlann Quinn

Chairman
22 March 2002

Report and actions following Allfirst Treasury losses

The main findings of the independent inquiry conducted by Mr Eugene A. Ludwig, and his colleagues at Promontory Financial Group, and Wachtell, Lipton, Rosen & Katz were as follows:

(1) The fraud in Allfirst was carefully planned and meticulously implemented by Mr John Rusnak. It extended over a lengthy period of time and involved falsification of key bank records and documents.

(2) Mr Rusnak circumvented the controls that were intended to prevent any such fraud by manipulating the weak control environment in Allfirst's treasury; notably, he found ways of circumventing changes in control procedures throughout the period of his fraud.

(3) Mr Rusnak's trading activities did not receive the careful scrutiny that they deserved; the Allfirst treasurer and his treasury funds manager – the principal persons responsible for Mr Rusnak's supervision – failed for an extended period to monitor Mr Rusnak's trading.

(4) At both the AIB Group and Allfirst levels, the Asset and Liability Committees ("ALCOs"), risk managers, senior management and Allfirst internal auditors, did not appreciate the risks associated with Mr Rusnak's hedge-fund style of foreign exchange trading; even in the absence of any sign of fraudulent conduct, the mere scope of Mr Rusnak's trading activities and the size of the positions he was taking warranted a much closer risk management review.

(5) Allfirst and AIB senior management heavily relied upon the Allfirst treasurer, given the treasurer's extensive experience with treasury functions and foreign exchange trading in particular. In hindsight, this heavy reliance proved misplaced.

(6) Nothing has come to our attention during the course of the review that indicates that anyone at AIB or Allfirst, outside of the Allfirst treasury group, were involved in, or had any knowledge that, fraudulent or improper trading activity was occurring at Allfirst before the discovery of the fraud.

Decisions of AIB Board

It was determined by the Boards of AIB and Allfirst, following receipt of the Ludwig Report, that the person primarily responsible for the losses was Mr Rusnak who has already been dismissed for the fraudulent activities he perpetrated against Allfirst. Other Treasury and Internal Audit staff in Allfirst were also dismissed.

Both AIB and Allfirst will work with the relevant regulators to ensure that any concerns they may have are addressed.

The AIB Board has decided on a rapid acceleration of an organisational strategy which commenced last year involving greater focus on customer relationships by front line business units across the Group together with a simpler, more streamlined, integrated Group support structure. In addition, measures are being taken to strengthen controls across the Group, consistent with the findings and recommendations of the Report.

The Board also decided to:

(1) Appoint an individual of international standing to review, and advise, the AIB Board on Risk Management Organisation across the Group.

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

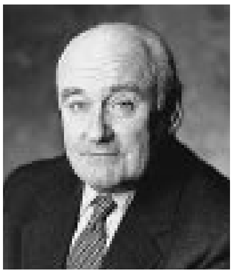
(3) Implement the decision to centralise the management and control of all treasury activities throughout AIB Group in AIB Capital Markets in Dublin and to cease all proprietary treasury activities in Allfirst and Poland Division. In that context First Manhattan Consulting Group has been appointed as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

(4) Introduce a more integrated Corporate Governance structure by strengthening the links between the main AIB Board and the Boards of major subsidiaries. Accordingly two AIB Group non-executive directors will sit on each of the Boards of Allfirst, AIB Group (UK) plc and BZ WBK.

(5) Appoint Mr Eugene Sheehy, previously Managing Director of AIB Bank Republic of Ireland, as Chief Executive Designate of our North American business.

AIB

Directors

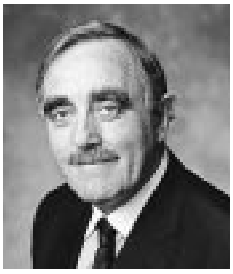


Lochlann Quinn
B Comm, FCA
Chairman

Deputy Chairman of Glen Dimplex and a Director of Glen Dimplex related companies in the UK, France, Germany, Holland and Canada. Board Member of the Michael Smurfit Graduate School of Business at University College Dublin. Joined the Board in 1995 and appointed Chairman in 1997. (Age 60)

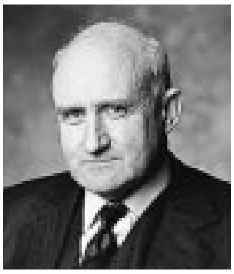
Padraic M Fallon
BBS, MA, FRSA

Chairman of Euromoney Institutional Investor PLC and Director of Daily Mail & General Trust Plc in Britain. Joined the Board in 1988. (Age 55)



Michael Buckley*
MA, LPh, MSI
Group Chief Executive

Joined the Board in 1995. 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. (Age 56)



Dermot Gleeson
BA, LlM

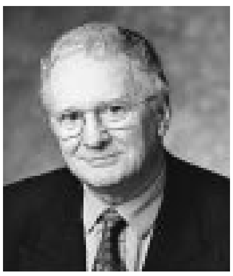
Director of Independent News and Media PLC. Served as Attorney General of Ireland and a member of the Council of State from 1994 to 1997. Chaired the Review Body on Higher Remuneration in the Public Sector from 1986 to 1992. Joined the Board in 2000. (Age 53)

Frank P Bramble*

Chief Executive, USA Division and Chairman of Allfirst Financial Inc., which he joined in 1994. Chairman of the Baltimore Center for the Performing Arts, Chairman of the University of Maryland Medical Systems, Member of the Baltimore Downtown Partnership, and Director of Constellation Energy. Joined the Board in 1998. (Age 53)

Don Godson
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 62)

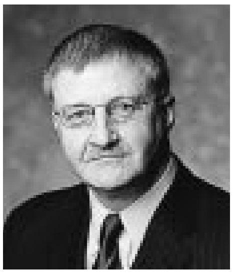


Adrian Burke
B Comm, FCA

Deputy President of the Institute of Chartered Accountants in Ireland and Council Member of the Institute of European Affairs. Former Managing Partner of Arthur Andersen 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 60)

Derek A Higgs
BA, FCA

Chairman of Partnerships UK plc and Business in the Environment, and a Senior Adviser to UBS Warburg. Deputy Chairman of The British Land Company PLC, Director of Egg plc, Jones Lang LaSalle Inc. and London Regional Transport. Former Chairman of S.G. Warburg & Co. Ltd. and former Director of Prudential plc. Joined the Board in 2000. (Age 57)



Gary Kennedy*
BA, FCA

Group Director Finance, Risk and Enterprise Networks & eBusiness. Joined AIB and appointed to the Board in 1997. Member of the Board of the Industrial Development Agency and member of the Galway University Foundation. Former Vice President Enterprise Networks Europe and Managing Director, Northern Telecom (Ireland) Ltd. (Age 43)

Jim O'Leary
MA Econ

Joined the Board in December 2001. Lecturer in economics at National University of Ireland, Maynooth. Member of the Public Sector Benchmarking Body. Former Chief Economist at Davy Stockbrokers and former Director of Aer Lingus and the National Statistics Board. (Age 45)

John B McGuckian
BSc Econ

Chairman of Ulster Television plc and a Director of a number of other companies in Ireland and the UK. Former Pro-Chancellor of The Queen's University, Belfast, and former Chairman of The International Fund for Ireland and of the Industrial Development Board for Northern Ireland. Joined the Board in 1977. (Age 62)

Michael J Sullivan
JD

Served as US Ambassador to Ireland from January 1999 to June 2001. Governor of the State of Wyoming between 1987 and 1995. Has served as a Director of Wyoming National-West Bank and on the Board of Advisors of Norwest/Wyoming Bank. Member of the Bar, State of Wyoming. Joined the Board in July 2001. (Age 62)

Carol Moffett

Joined the Board in 1995. Former member of the Board of Co-operation Ireland and former Director of the Irish Trade Board. Fellow of the Irish Management Institute. (Age 49)

*Executive Directors

Board committees

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

Nomination and Remuneration Committee
Lochlann Quinn, Chairman
Adrian Burke (to 31 May 2001)
Derek A Higgs (from 1 June 2001)
John B McGuckian

Social Affairs Committee
Carol Moffett, Chairman
Michael Buckley
(to 31 May 2001)
Padraic M Fallon
Don Godson
(from 1 June 2001)

Group Chief Executive's review

The €789 million (US$691 million) loss through fraud in Allfirst's Treasury has overshadowed what was otherwise a very solid year of progress throughout the AIB Group in 2001.

This progress was made against the background of slowing economies and the shocking events of 11 September.

The findings of the independent inquiry conducted by Mr Eugene A. Ludwig, his colleagues at Promontory Financial Group and Wachtell, Lipton, Rosen & Katz and the actions taken by the AIB Board are detailed on pages 6 and 7 of this report.

As a company, we have acted in a determined, decisive, open and timely fashion since the loss was revealed.

Our focus now is on continuing to work with our regulators so as to ensure that their requirements are fully met. We will work to conclude aspects of the investigation which were not central to Mr Ludwig's own task but which he has advised us to pursue.

Finally and very importantly, we will continue to work hard to ensure that momentum is sustained in our core businesses.

If you read through the detailed breakdown and commentary on our 2001 results in this report, you will see how good AIB's underlying performance was last year. The operating review also covers some of the significant events in each of the AIB divisions.

When I became Chief Executive in June 2001 I said that my vision for AIB was that our company should be recognised, wherever it operates, as outstanding for the quality of its customer proposition.

This entails:

- applying a relationship-based model of retail and commercial banking vigorously and consistently across all of our franchises.
- streamlining our support infrastructure so as to make it more efficient.

My commitment to this agenda is total.

AIB is a well-capitalised profitable company which has consistently produced a high return on shareholders' equity.

We have a thriving retail and commercial business based in strong franchises in four geographies, as well as a number of niche businesses with real competitive advantage and brand value.

AIB will demonstrate resilience in difficult times. With our new strategy now rolling out across the organisation and lessons learned from the Allfirst loss, I look forward with confidence to a successful 2002.

Michael Buckley

Michael Buckley

Group Chief Executive

22 March 2002

Operating review

Exceptional foreign exchange dealing losses

On 6 February 2002, the Group announced that investigations had commenced into foreign exchange trading operations at its US subsidiary, Allfirst Bank. The investigations have indicated that fraudulent activities have given rise to losses in the amount of US$ 691.2 million. The periods in which the losses arose extend back to 1997. In accordance with Irish GAAP the total costs arising from the fraud have been reflected by way of an exceptional pre-tax charge of € 789 million (after tax € 513 million) in the accounts for the year ended 31 December 2001.

Implementation of Financial Reporting Standard 17 – Retirement benefits ('FRS 17')

The Group has adopted FRS 17 in the accounts for the year ended 31 December 2001. Prior year results have been restated. Details of the change are included in the accounting policies on page 44. This change in accounting policy increased profit on ordinary activities before taxation by € 39 million in 2001 (2000: € 23 million). This will be a recurring item and it is expected, based on current assumptions, that the benefit in 2002 will be broadly similar to 2001.

Under FRS 17 the net surplus within a pension scheme is recognised as an asset on the balance sheet, net of deferred tax, with a corresponding credit to revenue reserves. It is not included in the calculation of the tier 1 and total capital ratios.

Change in divisional structure

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

Forward looking statements

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

Summary profit and loss account

	Year 2001 as reported € m	Exceptional item[1] € m	Year 2001 before exceptional € m	Year 2000 restated before exceptional[2] € m	% *Change excl. exceptionals*
Net interest income	**2,293**	–	**2,293**	2,022	*13*
Other finance income *(FRS 17 - see note 13)*	**67**	–	**67**	71	*-6*
Other income	**637**	**789**	**1,426**	1,304	*9*
Total operating income	**2,997**	**789**	**3,786**	3,397	*11*
Staff costs	**1,348**	–	**1,348**	1,192	*13*
Other costs	**703**	–	**703**	634	*11*
Integration costs in continuing businesses	**38**	–	**38**	–	–
Depreciation and amortisation	**195**	–	**195**	171	*14*
Total operating expenses	**2,284**	–	**2,284**	1,997	*14*
Group operating profit before provisions	**713**	**789**	**1,502**	1,400	*7*
Provisions for bad and doubtful debts	**179**	–	**179**	133	*34*
Other provisions	**25**	–	**25**	1	–
Total provisions	**204**	–	**204**	134	*52*
Group operating profit - continuing activities	**509**	**789**	**1,298**	1,266	*3*
Income from associated undertakings	**4**	–	**4**	3	–
Profit on disposal of property	**6**	–	**6**	5	–
Profit on disposal of business	**93**	–	**93**	–	–
Group profit on ordinary activities before taxation	**612**	**789**	**1,401**	1,274	*10*

[1] *Exceptional foreign exchange dealing losses (note 8(b)).*

[2] *Deposit interest retention tax (note 5).*

Group profit on ordinary activities before taxation at € 612 million was down 47%. Excluding exceptional items in both years, Group profit on ordinary activities before taxation at € 1,401 million was up 10%. Adjusted earnings per share *(note 21)* at EUR 119.4c per share showed an increase of 12%. The second half-year profit on ordinary activities before taxation of € 716 million (before exceptional item) was up 4% on the first half. Slower economic conditions in the second half were exacerbated by the events of 11 September 2001 in the US and had an impact on subsequent revenue growth across the Group, however asset quality remained strong.

Operating review

The following commentary on the profit and loss account and balance sheet headings is based on underlying percentage growth adjusting for the impact of currency movements.

Net interest income

Net interest income increased by 11% to € 2,293 million compared with the year 2000. Loans to customers and customer accounts increased by 10% and 11% respectively.

The net interest margin amounted to 3.03%, an increase of 1 basis point on 2000. There was a 22 basis point increase in the Allfirst margin reflecting higher loan margins and positioning to benefit from lower interest rates. In Capital Markets the margin was higher also due to positioning for lower interest rates. These increases were partly offset by tighter deposit margins across the Group, particularly in Poland where interest rates reduced by 7.5% during 2001. The margin in AIB Bank Republic of Ireland was broadly stable. The domestic margin benefited by 3 basis points from interest earned on € 500 million tier 1 capital raised in February 2001.

Loans to customers and customer accounts

(excluding money market funds and currency factors)

% Change December 2001 v December 2000	Risk weighted assets *% Change*	Loans to customers *% Change*	Customer accounts *% Change*
Republic of Ireland	16	14	14
Northern Ireland	8	8	3
Britain	18	18	18
USA	4	-1	10
Poland	4	11	9
AIB Group	11	10	11

The divisional commentary on pages 18 to 23 contains additional comments on the key business trends in relation to loans to customers and customer accounts.

Net interest margin

Half-year Dec 2001 %	Half-year June 2001 %	*Basis points change*		**Year 2001 %**	Year 2000 %	*Basis points change*
2.72	2.67	*+5*	Domestic	**2.69**	2.75	*–6*
3.50	3.16	*+34*	Foreign	**3.34**	3.23	*+11*
3.12	2.93	*+19*	Total	**3.03**	3.02	*+1*

Average interest earning assets

Half-year Dec 2001 € m	Half-year June 2001 € m	*% Change*		**Year 2001 € m**	Year 2000 € m	*% Change*
37,541	33,258	*13*	Domestic	**35,417**	29,819	*19*
40,308	40,042	*1*	Foreign	**40,176**	37,207	*8*
77,849	73,300	*6*	Total	**75,593**	67,026	*13*

Other income

Other income at € 637 million decreased by 51% in the year under review. Excluding the exceptional item, other income was up 5% and as a percentage of total operating income was 39.4%.

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

Other income	**Year 2001 € m**	Year 2000 € m	*Underlying % Change excl exceptional*
Dividend income	**11**	6	*62*
Banking fees and commissions	**962**	807	*17*
Asset management fees	**185**	187	*–2*
Investment banking fees	**111**	107	*4*
Fees and commissions receivable	**1,258**	1,101	*12*
Less: fees and commissions payable	**(128)**	(108)	*16*
Dealing profits	**92**	103	*–11*
Exceptional foreign exchange dealing losses	**(789)**	–	–
Contribution of life assurance company	**84**	95	*–12*
Other	**109**	107	*–5*
Other operating income	**193**	202	*–8*
Total other income	**637**	1,304	*5*

Total operating expenses

Operating expenses excluding integration costs in continuing businesses at € 2,246 million were up 10% compared with 2000.

Operating expenses included the operating costs of CCS and some one-off items. The material items impacting on the growth included euro conversion costs, market related salary adjustments in Ireland and the USA and health insurance costs in the USA, an industry wide factor. In addition, there were costs relating to the investment in and expansion of our businesses in Poland and Allied Irish America. Excluding these costs and euro conversion, cost growth was circa 8% with the outcome in 2002 expected to be approximately 6%. The Group's tangible cost income ratio, excluding exceptional items, goodwill amortisation and integration costs in continuing businesses, was 58.5% compared to 58.0% for the year to December 2000.

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

Operating expenses	**Year 2001 € m**	Year 2000 € m	*Underlying % Change 2001 v 2000*
Staff costs	**1,348**	1,192	*11*
Other costs	**703**	634	*9*
Depreciation and amortisation	**195**	171	*11*
Operating expenses before integration costs	**2,246**	1,997	*10*
Integration costs in continuing businesses	**38**	–	–
Total operating expenses	**2,284**	1,997	*12*

Operating review

Provisions

Total provisions were € 204 million compared with € 134 million in 2000.

Provisions	Year 2001 € m	Year 2000 € m
Bad and doubtful debts	**179**	133
Contingent liabilities and commitments	**19**	2
Amounts written off/(written back)		
fixed asset investments	**6**	(1)
Total provisions	**204**	134

The provision for bad and doubtful debts in the year to December 2001 was € 179 million compared with € 133 million in 2000, however 2001 contains an additional unallocated credit provision of € 50 million. This unallocated provision is designed to provide an additional provision pool at Group level against the impact that the international macroeconomic downturn may have had on asset quality. Total non-specific provisions amounted to € 454 million at December 2001 representing 0.9% of average loans which is approximately three times current bad debt experience. Including the additional unallocated € 50 million credit provision, the charge in 2001 amounted to 0.36% of average loans compared with 0.30% of average loans in 2000.

In AIB Bank Republic of Ireland and AIB Bank GB & NI, asset quality remained strong with non-performing loans at 0.9% and 1.3% of loans respectively.

In Allfirst, profit and loss provisions remained at the same level as 2000. Non-performing assets decreased from US$ 108 million at 31 December 2000 to US$ 89 million at 31 December 2001, however the underlying trend is more reflected in a US$ 2 million increase since 30 June 2001. Coverage for non-performing loans is now almost 200%.

In Poland, provisions reduced due to the use of fair value provisions created on acquisition and slightly better bad debt experience in Bank Zachodni WBK ('BZWBK'). Non-performing loans, at 18% of total loans, remained at the same level as 31 December 2000.

Group non-performing loans as a percentage of total loans amounted to 2.0% or 0.8% excluding Poland, and coverage for non-performing loans remained strong at 97% (168% excluding Poland).

The provision for contingent liabilities and commitments in the year to December 2001 was € 19 million compared to € 2 million for 2000 due mainly to a provision in relation to one specific case.

Profit on disposal of business

AIB sold its interests in Keppel Capital Holdings Ltd. ('KCH') in August 2001. The financial impact of the sale was a profit of € 93 million. In addition, the 1999 Singapore $ 351 million three year senior bonds with warrants were fully redeemed at par.

Taxation

The taxation charge was € 55 million, or € 331 million excluding the exceptional item, compared with € 319 million in 2000. Excluding the exceptional item in both years the effective tax rate for 2001 was 23.6%, down from 25.8% in 2000. The effective tax rate was 25.3% excluding the KCH profit and the exceptional item. The decrease in this rate was mainly due to the reduction in the rate of Irish corporation tax and was also influenced by the geographic and business mix of profits.

Return on equity and return on assets

The adjusted return on equity, which excludes the impact of the exceptional item and FRS 17, was 20.5% compared with 21.6% in 2000. Under FRS 17, the net surplus in the pension fund is recognised as an asset on the balance sheet, net of deferred tax, with a consequential increase in shareholders' funds (2001: € 280 million; 2000: € 648 million). Excluding the exceptional item the return on assets was 1.28% and the adjusted return on risk weighted assets, a measure of the efficient use of capital, was 1.66%.

Balance sheet

Total assets at € 89 billion at 31 December 2001 were up € 9 billion since 31 December 2000, an increase of 8% on an underlying basis while loans to customers increased by 10% and customer accounts by 11%. The Polish zloty, US dollar and sterling strengthened against the euro by 10%, 6% and 3% respectively, resulting in reported balance sheet growth of 11%. Risk weighted assets increased by 14% to € 69 billion, 11% excluding currency factors.

Assets under management/ administration and custody

Assets under management in the Group were € 38 billion at 31 December 2001. Assets under administration and custody increased from € 214 billion at 31 December 2000 to € 270 billion at 31 December 2001. This growth of 26% reflects principally the further success of the AIB joint venture with the Bank of New York which was established in 1997.

Capital ratios

The Group's capital ratios remained at a satisfactory level in 2001. Although negatively impacted by the exceptional foreign exchange dealing losses, the tier 1 ratio increased from 6.3% in 2000 to 6.5% at 31 December 2001 and the total capital ratio was 10.1%. Tier 1 capital increased by € 0.7 billion to € 4.5 billion reflecting the issue of € 500 million of 7.5% Step-up Callable Perpetual Reserve Capital Instruments on 5 February 2001 and stronger exchange rates. Tier 2 capital decreased by € 184 million since December 2000 reflecting redemptions of € 311 million, partly offset by currency movements.

Cash flow

As reflected in the consolidated cash flow statement, there was a net increase in cash of € 377 million during the year ended 31 December 2001. Net cash inflow from operating activities was € 231 million. There was a cash inflow from capital expenditure of € 700 million, consisting mainly of net disposals of debt and equity securities of € 998 million offset by expenditure on property and equipment of € 328 million. This cash inflow was offset by outflows of € 242 million for taxation and equity dividends of € 334 million. Financing, primarily the issue of the € 500 million reserve capital instruments, offset by the redemption of subordinated liabilities of € 311 million, generated a net cash inflow of € 208 million.

Euro

One of the most important challenges which AIB faced in 2001, was the preparation for the changeover to euro together with the distribution of euro notes and coins. Total cumulative spend on the conversion programme amounted to € 42 million (€ 26 million in 2001), principally related to systems development, customer communications and staff education programmes. It is estimated that further expenditure of € 3 million will be required in 2002 to complete the project.

Outlook

The loss of US$ 691 million arising from the fraudulent foreign exchange activities at Allfirst has reduced attributable profit in 2001 by 51% and the tier 1 capital ratio to 6.5%. The Group's capital base is strong and is so regarded by regulators and rating agencies. Consequently, ongoing future performance of the Group will not be impaired by this reduction in capital.

Underlying earnings per share growth in 2001 amounted to 8% approximately. This translated into an adjusted earnings per share of EUR 116c as a base figure for 2002 comparison with 2001. In 2002 we are targeting mid single-digit growth in adjusted earnings per share. While our asset quality remains resilient, the current international economic outlook is uncertain, as is the potential impact of turbulent business conditions on our customers. The Irish economy remains fundamentally strong and competitive, there are signs of recovery in the United States, the United Kingdom has proved resilient and interest rates have reduced significantly in Poland, consequently there are signs for optimism particularly for the second half of 2002. Our franchises are deep across our markets, our focus on customer relationships is proving increasingly beneficial and productivity is planned to further improve in all divisions. We look forward to continuing to create strong shareholder value into the medium-term.

Divisional commentary

On a divisional basis profit is measured in euro and consequently includes the impact of currency movements. The profit statements by division have been restated to reflect the adoption of FRS 17 and the new divisional structure.

AIB Bank Republic of Ireland profit was € 562 million, up 9% on the year to December 2000.

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

AIB Bank Republic of Ireland profit and loss account	**Year 2001 € m**	Year 2000 € m	*% Change 2001 v 2000*
Net interest income	**843**	738	*14*
Other finance income	**43**	46	*–6*
Other income	**359**	357	*1*
Total operating income	**1,245**	1,141	*9*
Total operating expenses	**641**	593	*8*
Operating profit before provisions	**604**	548	*10*
Provisions	**44**	36	*24*
Operating profit - continuing activities	**560**	512	*9*
Profit on disposal of property	**2**	4	*–33*
Profit on ordinary activities before taxation	**562**	516	*9*

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

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

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

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

AIB Bank GB & NI profit was € 223 million, up 8% on the year to December 2000.

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

The increase in profit reflects good performances in both Northern Ireland and Britain in less buoyant economic conditions.

On a constant currency basis profit increased by 10% reflecting higher business volumes and good growth in fee income. Branch loans and deposits both increased by 8% with good performances in business loans, current accounts and index linked savings products. Operating costs were well managed with the cost income ratio remaining at 52%. Credit quality remained strong with the bad debt charge lower than 2000.

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

AIB Bank GB & NI profit and loss account	**Year 2001 € m**	Year 2000 € m	*% Change 2001 v 2000*
Net interest income	**336**	318	*6*
Other finance income	**3**	4	*–21*
Other income	**161**	151	*7*
Total operating income	**500**	473	*6*
Total operating expenses	**259**	248	*5*
Operating profit before provisions	**241**	225	*7*
Provisions	**19**	20	*–7*
Operating profit - continuing activities	**222**	205	*8*
Profit on disposal of property	**1**	–	–
Profit on ordinary activities before taxation	**223**	205	*8*

Divisional commentary

USA reported a loss of € 434 million.

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

USA profit & loss account	Year 2001 as reported € m	Exceptional item[1] € m	Year 2001 before exceptional € m	Year 2000 € m	% Change excl. exceptional
Net interest income	**584**	–	**584**	537	*9*
Other finance income	**2**	–	**2**	4	*–46*
Other income	**(343)**	**789**	**446**	381	*17*
Total operating income	**243**	**789**	**1,032**	922	*12*
Total operating expenses	**638**	–	**638**	554	*15*
Operating profit before provisions	**(395)**	**789**	**394**	368	*7*
Provisions	**39**	–	**39**	38	*1*
(Loss)/profit on ordinary activities before taxation	**(434)**	**789**	**355**	330	*8*

[1] *The exceptional item refers to the fraudulent foreign exchange trading activities at Allfirst Bank.*

The profit has reduced from € 355 million to a loss of € 434 million due to the fraudulent foreign exchange trading activities at Allfirst treasury operations.

Allfirst - A 22 basis point increase in the net interest margin and a 4% increase in other income, excluding the exceptional item, contributed to total revenue growth of 4%. Highlights of the other income growth include a 17% increase in electronic banking income and a 14% increase in deposit service charges. SME and mid-market lending, which increased by 4%, was offset by curtailment of exposures to less attractive segments and the run-off of the residential mortgages portfolio following Allfirst's exit from this line of business in 1998. Core deposits increased by 10% partly due to a high level of short-term deposits at 31 December 2001. Costs were up 3% mainly due to higher pension and healthcare costs. Non-staff operating costs were down 5% compared with 2000.

Notwithstanding the exceptional loss, Allfirst capital ratios remained strong with the tier 1 ratio at 7.0% and the total capital ratio at 10.6%. Allfirst has trust preferred capital of US$ 397 million of which US$ 120 million is in excess of the regulatory 25% limit for inclusion within tier 1 capital. If this capital was included in tier 1 capital, the ratio would be 7.7%.

Allied Irish America - Profit was lower in 2001 due to substantial investment costs incurred in relation to the expansion of the geographic network and enhanced technology infrastructure. On an underlying basis there was strong growth in business volumes which was reflected in a 41% increase in underlying fee income and growth of 27% in risk weighted assets, mainly letters of credit.

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

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

Capital Markets profit was € 194 million, up 22% on the year to December 2000.

Capital Markets *Corporate Banking, Investment Banking and Treasury & International.*

Capital Markets profit and loss account	**Year 2001 € m**	Year 2000 € m	*% Change 2001 v 2000*
Net interest income	**210**	127	*67*
Other finance income	**8**	8	–
Other income	**305**	304	*1*
Total operating income	**523**	439	*19*
Total operating expenses	**296**	265	*12*
Operating profit before provisions	**227**	174	*31*
Provisions	**38**	18	*111*
Operating profit - continuing activities	**189**	156	*22*
Income from associated undertakings	**5**	3	*47*
Profit on ordinary activities before taxation	**194**	159	*22*

The 22% growth in profit reflected buoyant customer activity and a strong treasury performance.

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

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

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

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

Divisional commentary

Poland profit was € 36 million for the period.

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

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

Excluding merger costs profit on ordinary activities before taxation was lower at € 74 million due to more difficult market conditions.

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

Poland profit and loss account	**Year 2001 € m**	Year 2000 € m	*% Change 2001 v 2000*
Net interest income	**275**	252	*9*
Other finance income	**–**	1	–
Other income	**163**	153	*6*
Total operating income	**438**	406	*8*
Operating expenses	**358**	296	*21*
Integration costs in continuing businesses	**38**	–	–
Total operating expenses[1]	**396**	296	*21*
Operating profit before provisions[1]	**42**	110	*–27*
Provisions	**9**	23	*–60*
Operating profit - continuing activities[1]	**33**	87	*–19*
Profit on disposal of property	**3**	1	–
Profit on ordinary activities before taxation[1]	**36**	88	*–16*

[1] *Percentage growth excludes integration costs in continuing businesses.*

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

Group/ENeB

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

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

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

Group/ENeB profit and loss account	**Year 2001 € m**	Year 2000 € m
Net interest income	**45**	50
Other finance income	**11**	8
Other income	**(8)**	(42)
Total operating income	**48**	16
Total operating expenses	**54**	41
Operating profit before provisions	**(6)**	(25)
Provisions	**55**	(1)
Operating profit – continuing activities	**(61)**	(24)
Income from associated undertakings	**(1)**	–
Profit on disposal of business	**93**	–
Profit/(loss) on ordinary activities before taxation	**31**	(24)

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CAPITAL MANAGEMENT

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

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

	2001 € m	2000 Restated € m
Shareholders' funds – equity	**4,851**	4,944
Shareholders' funds – non-equity	**775**	264
Equity and non-equity minority interests	**312**	272
Undated capital notes	**426**	413
Dated capital notes	**1,594**	1,836
	7,958	7,729

Capital resources increased by € 229 million during the year ended 31 December 2001. The increase arose primarily as a result of the issue of € 500 million 7.5% Step-up Callable Perpetual Reserve Capital Instruments (RCIs) on 5 February 2001. The value of the Polish zloty, US dollar and sterling strengthened against the euro by 10%, 6% and 3% respectively, resulting in a positive foreign currency translation adjustment of € 243 million. These increases were offset by redemptions of dated capital notes of € 311 million and the actuarial loss recognised in retirement benefit schemes of € 402 million.

In carrying out the Group's overall capital resources policy, a guiding factor is the supervisory requirements of the Central Bank of Ireland which applies a capital/risk assets ratio framework in measuring capital adequacy. This framework analyses a bank's capital into two tiers. It also applies risk weightings to balance sheet and off-balance sheet exposures, reflecting the credit and other risks associated with broad categories of transactions and counterparties, to arrive at a figure for risk weighted assets. An internationally agreed minimum total capital *(to risk weighted assets)* ratio of 8% and a minimum tier 1 capital *(to risk weighted assets)* ratio of 4% are the base standards from which the Central Bank of Ireland sets individual capital ratios for credit institutions under its jurisdiction.

The EU Capital Adequacy Directive (CAD) distinguishes the risks associated with a bank's trading book from those in its banking book. Trading book risks are defined as those risks undertaken in order to benefit in the short-term from movements in market prices such as interest 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.

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

The Group's capital ratios remained at a satisfactory level with the tier 1 ratio at 6.5% and the total capital ratio at 10.1%. Tier 1 capital increased by € 0.7 billion to € 4.5 billion reflecting the issue of € 500 million of RCIs and the impact of stronger exchange rates. Tier 2 capital decreased by € 184 million since December 2000 reflecting redemptions of € 311 million, partly offset by currency movements. Risk weighted assets increased by 14% to € 69 billion, 11% excluding currency factors.

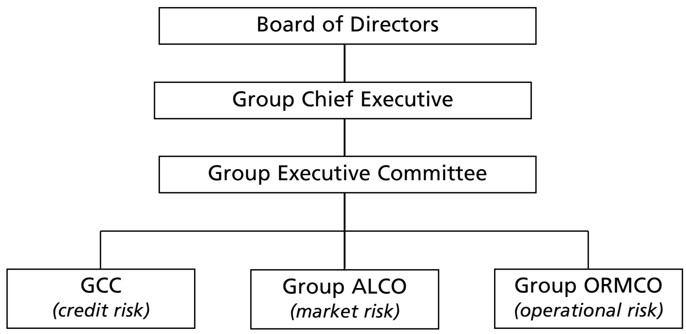
Capital ratios

	2001 € m	2000 € m
Capital base		
Tier 1 capital	**4,479**	3,814
Tier 2 capital	**2,742**	2,926
	7,221	6,740
Supervisory deductions	**294**	214
Total capital	**6,927**	6,526
Risk weighted assets		
Banking book:		
On balance sheet	**54,839**	49,396
Off-balance sheet	**10,854**	8,779
	65,693	58,175
Trading book:		
Market risks	**2,897**	1,956
Counterparty and settlement risks	**268**	91
	3,165	2,047
Total risk weighted assets	**68,858**	60,222
Capital ratios		
Tier 1	**6.5%**	6.3%
Total	**10.1%**	10.8%

RISK MANAGEMENT

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

Group-level risk management structure



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

Operational risk, which is inherent in all business activities, is the exposure to loss from inadequate or failed internal processes, people and systems or from external events. It excludes business risks such as the risk to income or margins from competitive pressure. Business risk is discussed on page 27.

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

Organisational structure for managing risk

AIB Group's organisational structure for managing risk includes a set of committees and delegated authorities. The main Group-level committees are the Group Executive Committee, the Group Credit Committee ('GCC'), the Group Asset and Liability Committee ('Group ALCO'), and the Group Operational Risk Management Committee ('Group ORMCO').

Group risk is a Group-level risk unit, independent of the divisions, with responsibility for formulating high-level credit, market and operational risk policies, providing independent review, influencing effective management of the Group's balance sheet and developing strategic risk management initiatives.

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

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

In undertaking its responsibilities, internal audit adopts a risk-based approach which underpins the risk management processes in place across the Group. Businesses

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undertake self-assessments of operational risk and the effectiveness of their controls in managing these risks. The information contained in these self-assessments is subject to review by internal audit. There is a programme of ongoing review of risk identification standards and risk measurement methodologies at business unit level, which includes testing of the risk mitigators adopted by management.

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

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

The Ludwig Report

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

– Appoint an individual of international standing to review, and advise the AIB Board on risk management organisation across the Group.

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

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

Managing credit risk

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

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

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

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

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

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

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

Managing operational risk

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

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

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

The losses arising from the fraudulent foreign exchange trading activities in Allfirst, discussed in more detail in the Chairman's statement on pages 4 and 5, are operational risk losses. While internal controls over foreign exchange trading activities had been established and documented, the circumvention of such controls and failure of support functions with key roles in testing controls to detect this circumvention allowed the losses to go undetected for an extended period of time.

Managing business risk

Identification and management of business risks are the responsibility of line management and ultimately the Group Executive Committee. The Committee meets regularly to consider market and risk developments across the Group's major areas of operation.

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

Managing market risk

Group ALCO is responsible for strategic balance sheet management within the risk policies approved by the Board. It has a particular focus on capital management, funding/liquidity, market risk capacity and market risk governance. It comprises senior divisional and Group management. In addition, there are local ALCOs in the Republic of Ireland, Great Britain and Northern Ireland, the US and Poland. Group ALCO policies determine the basis for managing the liquidity and interest rate risks arising from the structure of the Group's balance sheet.

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

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

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

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

Liquidity risk

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties, at an economic price.

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

The euro, US dollar, sterling and the Polish zloty represent the most important currencies to AIB Group from a liquidity perspective. The Group has an established retail deposit base in Ireland, Britain, the US and Poland to fund asset growth. Although a significant element of these deposits are contractually repayable on demand or at short notice, the Group's substantial customer base and geographic spread generally ensures that these current and deposit accounts represent a stable and predictable source of funds. The Group is also actively involved in the interbank market and may be, at times, a net borrower from the market.

For a period following the announcement of the fraudulent foreign exchange trading activities in Allfirst Bank on 6 February 2002, Group liquidity was managed in accordance with the liquidity contingency plan. During this period, Allfirst Bank experienced a small decrease in core deposits and the loss of most of its Federal Funds Purchased capacity. It was required, in the interest of maintaining good customer relations, to purchase temporarily approximately US$ 300 million in variable rate demand bonds ('VRDB') which were backed by a standby letter of credit. However, Allfirst Bank has been a net seller of federal funds as a result of actions taken under the liquidity contingency plan. These have included the sale of investment securities and receipt of funding from AIB.

MARKET RISK MEASUREMENT

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

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

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

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

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

Interest rate risk

The Group Interest Rate Risk Policy, as approved by the Board, limits the Group's exposure to interest rate risk. The risk to AIB Group is that changes in interest rates will have adverse effects on earnings and on the economic value of its assets and liabilities. Recognising this, the Group's tolerance limits for interest rate risk are established from both an earnings and economic value perspective. These limits reflect the Group's prudential philosophy as a retail/commercial bank.
In managing interest rate risk, a distinction is made between trading and non-trading activities. Trading activities are recorded in the trading book. Interest rate risk associated with the Group's retail and commercial activities is managed through the non-trading book. The reported interest rate VAR figures represent the average, high, low and year-end probable maximum loss in respect of both trading and non-trading book positions held in treasury.

Trading book

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

Non-trading book

The Group's non-trading book consists of its retail and corporate deposit and loan books, as well as the Group's treasury interbank cash books, and the Group's investment portfolios. The interest rate risks in the retail and

Financial review

The following table illustrates the VAR figures for interest rate risk for the years ended 31 December 2001 and 2000.

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

corporate deposit and loan books are transferred to treasury and managed using interest rate swaps and other conventional hedging instruments.

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

Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2001 and 2000 is illustrated in the tables on pages 32 and 33. 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 50.

Foreign exchange rate risk - structural

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

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

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

	2001 € m	2000 € m
US dollar	**1,375**	1,687
Sterling	**1,185**	1,023
Polish zloty	**209**	142
	2,769	2,852

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

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

Foreign exchange rate risk – trading

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

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

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

Financial review

	31 December 2001							
	0-3 Months € m	3-6 Months € m	6-12 Months € m	1-5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets								
Central govt. bills and other eligible bills	16	29	–	–	–	–	4	49
Loans and advances to banks	4,764	537	143	33	–	570	–	6,047
Loans and advances to customers	35,669	2,365	2,034	6,242	5,088	–	–	51,398
Debt securities	5,126	1,469	2,195	4,400	3,110	–	3,782	20,082
Other assets	–	–	–	–	–	11,261	–	11,261
Total assets	45,575	4,400	4,372	10,675	8,198	11,831	3,786	88,837
Liabilities								
Deposits by banks	9,862	2,151	713	47	110	340	–	13,223
Customer accounts	36,666	1,792	1,470	2,302	582	11,745	–	54,557
Debt securities in issue	3,813	601	298	89	232	–	–	5,033
Subordinated liabilities	496	113	209	664	538	–	–	2,020
Other liabilities	112	–	–	–	–	8,266	–	8,378
Shareholders' funds	–	–	–	–	496	5,130	–	5,626
Total liabilities	50,949	4,657	2,690	3,102	1,958	25,481	–	88,837
Off-balance sheet items affecting interest rate sensitivity	2,801	117	(311)	(968)	(1,639)	–	–	–
	53,750	4,774	2,379	2,134	319	25,481	–	88,837
Interest sensitivity gap	(8,175)	(374)	1,993	8,541	7,879	(13,650)	3,786	
Cumulative interest sensitivity gap	(8,175)	(8,549)	(6,556)	1,985	9,864	(3,786)	–	
	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	
Interest sensitivity gap	(1,045)	(598)	724	3,997	2,137	(6,532)	1,935	
Cumulative interest sensitivity gap	(1,045)	(1,643)	(919)	3,078	5,215	(1,317)	618	
	US $m	US $m	US $m	US $m	US $m	US $m	US $m	
Interest sensitivity gap	(1,998)	(179)	317	3,184	2,889	(4,451)	710	
Cumulative interest sensitivity gap	(1,998)	(2,177)	(1,860)	1,324	4,213	(238)	472	
	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	
Interest sensitivity gap	(2,955)	(196)	139	1,555	2,963	(2,807)	814	
Cumulative interest sensitivity gap	(2,955)	(3,151)	(3,012)	(1,457)	1,506	(1,301)	(487)	
	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	
Interest sensitivity gap	(1,382)	(196)	744	(173)	(86)	(42)	177	
Cumulative interest sensitivity gap	(1,382)	(1,578)	(834)	(1,007)	(1,093)	(1,135)	(958)	

31 December 2000 (Restated)

	0-3 Months € m	3-6 Months € m	6-12 Months € m	1-5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets								
Central govt. bills and other eligible bills	271	2	9	–	–	–	15	297
Loans and advances to banks	3,355	80	61	–	–	697	–	4,193
Loans and advances to customers	30,342	2,303	1,816	6,850	4,735	–	–	46,046
Debt securities	4,564	710	1,761	6,336	3,274	–	2,341	18,986
Other assets	–	–	–	–	–	10,728	–	10,728
Total assets	38,532	3,095	3,647	13,186	8,009	11,425	2,356	80,250
Liabilities								
Deposits by banks	10,984	571	573	97	3	250	–	12,478
Customer accounts	33,108	2,478	1,626	1,598	451	9,176	–	48,437
Debt securities in issue	3,768	292	79	156	–	–	–	4,295
Subordinated liabilities	1,470	107	–	107	513	52	–	2,249
Other liabilities	106	–	–	–	–	7,477	–	7,583
Shareholders' funds	–	–	–	–	–	5,208	–	5,208
Total liabilities	49,436	3,448	2,278	1,958	967	22,163	–	80,250
Off-balance sheet items affecting interest rate sensitivity	(8,522)	1,443	10,119	(3,802)	762	–	–	–
	40,914	4,891	12,397	(1,844)	1,729	22,163	–	80,250
Interest sensitivity gap	(2,382)	(1,796)	(8,750)	15,030	6,280	(10,738)	2,356	
Cumulative interest sensitivity gap	(2,382)	(4,178)	(12,928)	2,102	8,382	(2,356)	–	
	Euro m	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	
Interest sensitivity gap	1,422	259	(5,332)	6,962	1,489	(5,572)	1,191	
Cumulative interest sensitivity gap	1,422	1,681	(3,651)	3,311	4,800	(772)	419	
	US $m	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	
Interest sensitivity gap	(626)	(2,747)	(2,418)	5,806	2,674	(3,255)	578	
Cumulative interest sensitivity gap	(626)	(3,373)	(5,791)	15	2,689	(566)	12	
	Stg m	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	
Interest sensitivity gap	(2,702)	9	(255)	1,822	1,801	(2,250)	463	
Cumulative interest sensitivity gap	(2,702)	(2,693)	(2,948)	(1,126)	675	(1,575)	(1,112)	
	PLN m	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	
Interest sensitivity gap	(1,156)	(123)	27	339	22	(14)	78	
Cumulative interest sensitivity gap	(1,156)	(1,279)	(1,252)	(913)	(891)	(905)	(827)	

This table has been restated to reflect the impact of FRS 17 and to ensure consistent presentation with the 2001 table on page 32.

Financial review

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

Equity risk

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

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

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

Credit commitments

Contingent liabilities and commitments to extend credit are outlined on page 91. The Group's maximum exposure to credit loss in the event of non-performance by the other party, where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of these contracts.

Derivative instruments

Derivative instruments are contractual agreements between parties whose value reflects movements in an underlying interest rate, foreign exchange rate, equity price or index. The table on page 35 shows the notional amount and gross replacement cost for trading and non-trading interest rate, exchange rate and equity contracts at 31 December 2001 and 2000. 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 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 profit and loss account immediately.

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

Interest rate swaps are agreements between two parties to exchange fixed and floating rate interest by means of periodic payments based upon notional principal amounts and interest rates defined in the contract. Currency swaps are interest rate swaps where one or both of the legs of the swap is payable in a different currency. They are used by both customers and treasury to convert fixed rate assets or liabilities to floating rate or vice versa or to change the maturity or currency profile of underlying assets and liabilities, as required.

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

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

	2001		2000	
	Notional amount	**Gross replacement cost**	Notional amount	Gross replacement cost
	€ m	**€ m**	€ m	€ m
Interest rate contracts				
Trading	**46,015**	**586**	37,271	199
Non-trading	**70,136**	**846**	93,674	676
	116,151	**1,432**	130,945	875
Exchange rate contracts				
Trading	**18,766**	**217**	21,080	770
Non-trading	**7,739**	**63**	5,797	131
	26,505	**280**	26,877	901
Equity contracts				
Trading	**23**	**1**	40	–
Non-trading	**2,870**	**194**	2,898	297
	2,893	**195**	2,938	297

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 eg bond, foreign currency, or equity index, at a certain price on or before an agreed date. These provide more flexible means of managing exposure to changes in interest rates, exchange rates and equity index levels. Foreign exchange rate options are used to hedge income and expenses arising from non-euro denominated assets and liabilities and to manage the impact of exchange rates on the reported euro value of non-euro earnings. Foreign exchange rate options are also used to hedge exposures arising from customer transactions.

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

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

Financial review

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

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

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

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

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, including counterparty credit approval, limit setting and monitoring procedures.

Report of the Directors

for the year ended 31 December 2001

The Directors of Allied Irish Banks, p.l.c. present their report and the audited accounts for the year ended 31 December 2001. A Statement of the Directors' responsibilities in relation to the Accounts appears on page 121.

Results

The Group profit attributable to the ordinary shareholders amounted to € 484 million and was arrived at as shown in the Consolidated Profit and Loss Account on pages 48 and 49. The results include an exceptional item of € 513 million after taxation, in respect of the loss incurred as a result of fraudulent foreign exchange activities at the Group's subsidiary, Allfirst Bank *(see Note 8(b) to the Accounts and the Statement by the Chairman on pages 4 and 5).*

Dividend

An interim dividend of EUR 15.40c per ordinary share, amounting to € 136 million, was paid on 28 September 2001. A second interim dividend, of EUR 28.40c per ordinary share, amounting to € 250 million *(see note 19)*, will be paid on 26 April 2002, making a total distribution of EUR 43.80c per ordinary share for the year; no final dividend is being recommended. The balance of profit to be transferred to the Profit and Loss Account amounts to € 41 million.

Capital

Information concerning allotments of shares under the Dividend Reinvestment Plan, the Approved Employees' Profit Sharing Schemes, the Allfirst Stock Option Plan and the Share Option Scheme is shown in Note 44 on pages 87 and 88. At the 2001 Annual General Meeting, shareholders renewed authority for the Company, or any subsidiary, to make market purchases of up to 50 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution.

Accounting policies

The principal accounting policies adopted by the Group, together with information on changes therein, are set out on pages 44 to 47.

Review of activities

The Statement by the Chairman on pages 4 and 5 and the Review by the Group Chief Executive on pages 10 to 36 contain a review of the development of the business of the Group during the year, of recent events, and of likely future developments.

Directors

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

- Mr Kevin J Kelly retired as an Executive Director on 4 June 2001;
- Mr Thomas P Mulcahy retired as an Executive Director on 21 June 2001;
- Mr Michael J Sullivan was appointed a Non-Executive Director on 26 July 2001;
- Mr Jim O'Leary was appointed a Non-Executive Director on 20 December 2001.

In accordance with the Articles of Association, Mr Sullivan and Mr O'Leary retire at the 2002 Annual General Meeting and, being eligible, offer themselves for re-appointment.

Mr Michael Buckley, Mr John B McGuckian and Ms Carol Moffett retire by rotation at the 2002 Annual General Meeting and, being eligible, offer themselves for re-appointment.

The names of the Directors appear on pages 8 and 9, together with a short biographical note on each Director.

Directors' and Secretary's Interests in the Share Capital

The interests of the Directors and Secretary in the share capital of the Company are shown in Note 53 on page 106.

Substantial Interests in Share Capital

The following substantial interest in the Ordinary Share Capital had been notified to the Company at 12 March 2002:

The Capital Group Companies, Inc.	7.1%

At the same date, subsidiaries of the Company had aggregate interests in 4.0% of the Ordinary Share Capital. With the exception of 5.6 million shares (0.6%) held

Report of the Directors

for the year ended 31 December 2001

by a subsidiary *(see Note 48)*, these shares represented non-beneficial interests. None of the clients for whom these shares and the shares of The Capital Group Companies, Inc., are held had a beneficial interest in 3% or more of the Ordinary Share Capital.

An analysis of shareholdings is shown on page 133.

Corporate Governance

The Directors' Corporate Governance Statement appears on pages 39 to 42.

Books of Account

To secure compliance with the Company's obligation to keep proper books of account, the measures taken by the Directors are the use of appropriate systems and procedures, including those set out in the *Internal Control* section of the Corporate Governance Statement on pages 39 to 42, and the employment of competent persons. The books of account are kept at the Company's Registered Office, Bankcentre, Ballsbridge, Dublin 4, Ireland; at the principal offices of the Company's main subsidiary companies, as shown on pages 76 to 77 and 127 to 128 and at the Company's other principal offices, as shown on those pages.

Safety, Health and Welfare of Employees

It is the Company's policy to ensure the safety, health and welfare of its employees while at work, and of visitors to its premises, by maintaining safe places and systems of work. The Company is committed to facilitating this policy by an open, consultative process with its employees. Monitoring procedures ensure the maintenance of standards and compliance with legislative requirements.

During 2001, particular emphasis was focused on the maintenance of standards in the area of Accident Prevention and Reporting, general compliance, and health and safety issues associated with the logistics of the euro changeover programme.

Branches Outside the State

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

Auditors

The auditors, PricewaterhouseCoopers, have signified their willingness to continue in office under Section 160 of the Companies Act, 1963.

Lochlann Quinn
Chairman

Michael Buckley
Group Chief Executive

12 March 2002

Corporate Governance Statement

The Board is committed to the highest standards of corporate governance. This Statement explains how the Company has applied the Principles set out in *'The Combined Code: Principles of Good Governance and Code of Best Practice'* (the 'Code'), adopted by the Irish Stock Exchange and the London Stock Exchange, and reports on compliance with its Provisions.

Directors

The Board

The importance of the Company being headed by an effective Board to lead and control the Company and the Group is fully recognised. To that end, there is a comprehensive range of matters specifically reserved for decision by the Board; at a high level this includes:

– determining the Company's strategic objectives and policies;
– appointing the Chairman and Group Chief Executive;
– monitoring progress towards achievement of the Company's objectives and compliance with its policies;
– approving annual operating and capital budgets, major acquisitions and disposals, and risk management policies.

A scheduled Board meeting is held each month, except August. Additional meetings are held as required. The Directors are provided in advance of each Board meeting with relevant documentation and information to enable them to discharge their duties. Any additional information requested by Directors is readily provided.

The Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. There is a procedure in place to enable Directors to take independent professional advice, at the Company's expense.

At 31 December 2001, the Board comprised 10 Non-Executive Directors and 3 Executive Directors. All Directors bring independent judgement to bear on issues of strategy, performance, resources, and standards of conduct. All Non-Executive Directors are considered to be independent of Management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. In these circumstances, it is not considered necessary to identify one senior Non-Executive Director to whom concerns can be conveyed, as suggested by the Code. Shareholders who wish to raise issues are free to contact any of the Non-Executive Directors.

The role of the Chairman is separate from the role of the Group Chief Executive, with clearly defined responsibilities attaching to each.

It is the policy of the Board that a significant majority of the Directors (ie up to two-thirds) should be Non-Executive. Accordingly, Non-Executive Directors are appointed so as to maintain an appropriate balance and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control for the Group.

The names of the Directors, and their biographical notes, appear on pages 8 and 9.

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

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

There is an induction process for new Directors. Its content varies as between Executive and Non-Executive Directors; in respect of the latter, the

Corporate Governance Statement

induction is designed to familiarise Non-Executive Directors with the Group and its operations, and comprises principally a programme of meetings with the Heads of Divisions and the senior management of businesses and support functions, and briefings on the Company's strategic and operational plans. All Directors on appointment are furnished with a booklet entitled *'Responsibilities, Functions and Operations of the Board and Code of Conduct for Directors'*.

Board Committees

The Board is assisted in the discharge of its duties by Board Committees, whose purpose is to consider, in greater depth than is practicable at Board Meetings, matters for which the full Board retains responsibility. The composition of Board Committees is reviewed annually by the Board. A description of these Committees, each of which operates under terms of reference or guidelines approved by the Board, and their membership, is given below. The minutes of all meetings of Board Committees are circulated to all Directors, for information, with their Board papers, and are formally noted by the Board. This provides an opportunity for Directors to seek additional information or to comment and express views on issues being addressed at Committee level.

Audit Committee

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

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

A written report is submitted annually to the Board showing the issues considered by the Committee.

Nomination and Remuneration Committee

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

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

Social Affairs Committee

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

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

Directors' Remuneration

The Report on Directors' Remuneration and Interests appears on pages 102 to 107.

Relations with Shareholders

The Company recognises the importance of communicating with its shareholders. To that end, the Company circulates each year, along with the statutory Report and Accounts, a short-form, user-friendly booklet explaining features of the Company's performance in the previous year. This focuses on how the profit was utilised; profit and dividend growth over the previous five years; the need for strong capital resources; running costs; risk management; and other issues. As a further step in enhancing the communication process, interim trading statements are issued to the Stock Exchanges twice yearly.

The Company also uses its internet website **(www.aibgroup.com)** to communicate with investors. The Investor Relations home page is updated with the Company's Stock Exchange releases and formal presentations to analysts and investors, as they are made. The site also contains the Company's most recent Annual and Interim Reports, together with the Annual Report on Form 20-F when filed with the US Securities and Exchange Commission. In August 2001, shareholders were invited to consent to the use of electronic communication, as facilitated by the Electronic Commerce Act 2000, and further invitations to do so will be sent to shareholders during 2002.

All shareholders are encouraged to attend the Annual General Meeting ('AGM') and to participate in the proceedings. It is practice to give shareholders an update on the Group's performance, and developments of interest, by way of video presentation. Separate resolutions are proposed on each substantially separate issue. The Chairman of the Audit Committee is available to answer questions at the AGM. The proportion of proxy votes lodged for and against each resolution is indicated; this demonstrates what the voting position would be if all the votes cast, including votes cast by shareholders not in attendance at the AGM, were taken into account.

It is usual for all Directors to attend the AGM and to be available to meet shareholders, both before and after the Meeting. A Shareholders' Help Desk facility is available to shareholders attending.

In accordance with company law, the Notice of the AGM and related papers are required to be sent to shareholders not less than 21 days before the Meeting. The Code suggests that these papers should be sent to shareholders 'at least 20 working days before the meeting'. In respect of the 2002 AGM, the Notice and related papers will be dispatched 26 calendar days and 17 working days before the Meeting.

The Company holds regular meetings with its principal institutional shareholders and with financial analysts and brokers. These meetings involve the Group Chief Executive, the Group Director, Finance, Risk and Enterprise Networks and eBusiness, the Chief Financial Officer and the Head of Investor Relations, and are governed by prescribed procedures to ensure that price-sensitive information is not divulged.

Accountability and Audit

Accounts and Directors' Responsibilities

The Accounts and other information presented in this Report and Accounts are consistent with the Code Principle requiring the presentation of 'a balanced and understandable assessment of the Company's position and prospects'. The Statement concerning the responsibilities of the Directors in relation to the Accounts appears on page 121.

Going Concern

The Accounts continue to be prepared on a going concern basis, as the Directors are satisfied that the Company and the Group as a whole have the resources to continue in business for the foreseeable future. In forming this view, the Directors have reviewed the Group's budget for 2002.

Internal Control

The Directors acknowledge that the Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Guidance *('Internal Control: Guidance for Directors on the Combined Code')* has been issued by the Irish Stock Exchange and the London Stock Exchange to assist Directors in complying with the Code's requirements in respect of internal control. That Guidance states that systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Guidance provides that, in applying the Code, the Board should disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in

Corporate Governance Statement

the annual report and accounts. On 6 February 2002, the Company announced that, following the uncovering of suspected fraudulent activities, it was undertaking a full investigation into foreign exchange trading operations at the Baltimore Headquarters of its US subsidiary, Allfirst *(see Note 8(b) to the Accounts).* On 7 February 2002, the Company announced that the Board had approved comprehensive terms of reference for that investigation, which was charged with ascertaining the facts concerning the foreign exchange activities in question; describing the policies and controls which applied to those operations during the period in which these activities took place; reporting on the manner in which such policies and controls operated (or may have failed to operate) in relation to these activities; and making recommendations on any improvements which appear necessary or desirable to the policies and controls. The Board appointed Mr Eugene A Ludwig, Managing Partner, Promontory Financial Group, and a former Comptroller of the US Currency, to report on these matters to the Board. The Board also appointed Mr Edward D Herlihy and his firm, Wachtell, Lipton, Rosen and Katz, to report to the Board and provide legal advice on the basis of the investigation. Their findings, and the Board's decisions in the light of these findings, are set out on pages 6 and 7.

The Group's system of internal control includes:

– a clearly defined management structure, with defined lines of authority and accountability;
– a comprehensive annual budgeting and financial reporting system, which incorporates clearly defined and communicated common accounting policies and financial control procedures, including those relating to authorisation limits; capital expenditure and investment procedures; physical and computer security; and business continuity planning;
– the Audit Committee, which receives reports on various aspects of control, reviews the Group's statutory Accounts and other published financial statements and information, and ensures that no restrictions are placed on the scope of the statutory audit or on the independence of the internal audit function. The Audit Committee reports to the Board on these matters, compliance with relevant laws and regulations, and related matters;
– 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;
– regular review by the Board of overall strategy, business plans, variances against operating and capital budgets and other performance data;
– an internal audit function.

The above-mentioned Guidance provides that the Board should summarise the process it (where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control. The Group's structure and on-going processes for identifying, evaluating and managing the significant credit, market and operational risks faced by the Group are described in pages 24 to 36. That structure and those processes, which include comprehensive half-yearly reports to the Audit Committee and Board, have been in place for the year under review and up to the date of the approval of the Annual Report and Accounts. Those processes are regularly reviewed by the Board, and accord with the above-mentioned Guidance.

The Code provides that the Directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to the shareholders that they have done so. The Directors confirm that, with the assistance of reports from the Audit Committee and Management, they have reviewed the effectiveness of the Group's system of internal control for the year ended 31 December 2001.

Compliance Statement

Except as indicated above, the Company has complied throughout the year ended 31 December 2001 with the Provisions of the Code.

Financial contents

The accounts on pages 48 to 120 have been prepared under the historical cost convention, as modified by the revaluation of certain properties and investments, and comply with the requirements of Irish statute comprising the Companies Acts 1963 to 2001 and the European Communities (Credit Institutions: Accounts) Regulations, 1992, and with accounting standards generally accepted in Ireland. 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 and ordinary shareholders' equity had US Generally Accepted Accounting Principles ('US GAAP') been applied in the preparation of these accounts is set out in note 62.

Change in accounting policy and presentation of financial information

(a) Retirement benefits

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

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

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

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

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

(b) Divisional restructure

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

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

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. Details of principal subsidiaries are given in note 31.

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

Interests in associated undertakings

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

Income and expense recognition

Interest income and expense is recognised 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 recognised when earned. Expenses are, in general, charged to profit and loss account as accrued. However, in some cases, expenses incurred in the setting up of transactions are deferred and are charged to profit and loss account over the lives of the transactions.

Provisions for bad and doubtful debts

Specific provisions are made as a result of a detailed appraisal of risk assets. In addition general provisions are carried to cover risks which, although not specifically identified, are present in any portfolio of bank advances. The total provisions for bad and doubtful debts *(note 26)* is deducted in arriving at the balance sheet figures of loans and advances to banks and to customers, as appropriate. Provisions made during the year, less existing provisions no longer required and recoveries of bad debts previously written off, are charged against profits. Interest is not taken to profit where recovery is doubtful.

Debt securities

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

Profits and losses on disposal of securities held for trading and investment purposes are recognised immediately in the profit and loss account. The realised and unrealised profits and losses on trading securities are included with dealing profits, while the profits and losses on disposal of securities held for investment purposes are included with other operating income. Profits and losses on disposal of securities held for hedging purposes are amortised over the lives of the underlying transactions, and included in net interest income.

Finance leases

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

Hire purchase and instalment finance

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

Securitised assets

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

Operating leases

Rentals are charged to profit and loss account in equal instalments over the terms of the leases.

Depreciation

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

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

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

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

Discounting of future commitments

The Group provided in the year ended 31 December 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 39)*.

Equity shares

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

Retirement benefits

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

In relation to the defined benefit schemes, a full actuarial valuation is undertaken every three years and is updated to reflect current conditions in the intervening periods. Scheme assets are valued at market value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The net pension surplus or deficit is shown net of the deferred tax impact on the balance sheet. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

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

The costs of the Group's defined contribution schemes are charged to the profit and loss account in the period in which they are incurred.

Deferred taxation

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

Foreign currencies

Assets and liabilities denominated in foreign currencies and commitments for the purchase and sale of foreign currencies are translated at appropriate spot or forward rates of exchange ruling on the balance sheet date. Profits and losses arising from these translations and from trading activities are included as appropriate, having regard to the nature of the transactions, in other operating income or dealing profits.

In the case of net investments in foreign subsidiaries, associated undertakings and branches, exchange adjustments arising from the retranslation of these investments, net of hedging profits and losses, are included as appropriate in the exchange translation adjustments on reserves *(note 46)* and the profit and loss account *(note 47)*.

Profits and losses arising in foreign currencies have been translated at average rates for the year. The adjustment arising on the retranslation of profits and losses to balance sheet rates is included in the exchange translation adjustments on the profit and loss account *(note 47)*.

Capital instruments

Issue expenses of capital instruments are deducted from the proceeds of issue and, where appropriate, are amortised to profit and loss account 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 amortised to profit and loss account are subsequently transferred to the share premium account.

Intangible assets and goodwill

Purchased goodwill is the excess of cost over the fair value of the Group's share of net assets acquired. In accordance with Financial Reporting Standard 10 'Goodwill and Intangible Assets', purchased goodwill and intangible assets arising on acquisition of subsidiary and associated undertakings, occurring after 1 January 1998, are capitalised as assets on the balance sheet and amortised to profit and loss account over their estimated useful economic lives subject to a maximum period of 20 years.

Goodwill arising on acquisitions of subsidiary and associated undertakings prior to 31 December 1997 has been written off to the profit and loss account in the year of acquisition. Purchased goodwill, previously written off, is charged in the profit and loss account on subsequent disposal of the business to which it relates.

Derivatives

The Group uses derivatives, such as currency and interest rate swaps, options, forward rate agreements and financial futures, for both trading and hedging purposes *(note 50)*. The accounting treatment for these derivative instruments is dependent on whether they are entered into for trading or hedging purposes.

AIB Group maintains trading positions in a variety of financial instruments including derivatives. Most of these positions are a result of activity generated by corporate customers while others represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income. Trading instruments are recognised 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 profit and loss account using the mark to market method of accounting.

Derivative transactions entered into for hedging purposes are recognised in the accounts in accordance with the accounting treatment of the underlying transaction or transactions being hedged. To qualify for hedge accounting the

Derivatives *(continued)*

derivative must be designated as a hedge at its inception and must remain effective as a hedge throughout the hedge period. Derivatives that are not designated as hedges are classified as held for trading purposes. Gains and losses arising from hedging activities are amortised to net interest income over the lives of the underlying transactions. Futures contracts are designated as hedges when they reduce risk and there is high correlation between the futures contract and the item being hedged, both at inception and throughout the hedge period. Interest rate swaps, forward rate agreements and option contracts are generally used to modify the interest rate characteristics of balance sheet instruments and are linked to specific assets or groups of similar assets or specific liabilities or groups of similar liabilities. Upon early termination of these derivative financial instruments, any realised gain or loss is deferred and amortised over the life of the original hedge, as long as the designated assets or liabilities remain. Where a transaction originally entered into for hedging purposes no longer represents a hedge, its value is restated at fair value and any change in value is taken to the profit and loss account immediately.

Long-term assurance business

The value placed on the Group's long-term assurance business attributable to shareholders represents a prudent valuation of the investment in business on policies in force together with the net tangible assets of the business. The value is determined on the advice of a qualified actuary on an after tax basis using a discount rate of 12% and is included separately in the consolidated balance sheet.

Movements in the value placed on the Group's long-term assurance business attributable to shareholders, grossed up for taxation, are included in other operating income.

Fiduciary and trust activities

Allied Irish Banks, p.l.c. and some subsidiary undertakings act as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, investment trusts, pension schemes and unit trusts. These assets are not consolidated in the accounts as they are not assets of Allied Irish Banks, p.l.c. or its subsidiary undertakings. Fees and commissions earned in respect of these activities are included in the profit and loss account.

Consolidated profit and loss account

for the year ended 31 December 2001

	Notes	**2001** **€ m**	2000 Restated € m	1999 Restated € m
Interest receivable:				
Interest receivable and similar income arising from				
debt securities and other fixed income securities		**1,198**	1,140	833
Other interest receivable and similar income	3	**4,148**	3,987	3,009
Less: interest payable	4	**(3,053)**	(3,105)	(2,072)
Deposit interest retention tax	5	**–**	(113)	–
Net interest income		**2,293**	1,909	1,770
Other finance income	6	**67**	71	71
Dividend income	7	**11**	6	2
Fees and commissions receivable		**1,258**	1,101	909
Less: fees and commissions payable		**(128)**	(108)	(93)
Dealing profits	8(a)	**92**	103	74
Exceptional foreign exchange dealing losses	8(b)	**(789)**	–	–
Other operating income	9	**193**	202	160
Other income		**637**	1,304	1,052
Total operating income		**2,997**	3,284	2,893
Before exceptional items		**3,786**	3,397	2,893
Exceptional foreign exchange dealing losses	8(b)	**(789)**	–	–
Deposit interest retention tax	5	**–**	(113)	–
Administrative expenses:				
Staff and other administrative expenses	10(a)	**2,051**	1,826	1,531
Integration costs in continuing businesses	10(b)	**38**	–	–
		2,089	1,826	1,531
Depreciation and amortisation	11	**195**	171	127
Total operating expenses		**2,284**	1,997	1,658
Group operating profit before provisions		**713**	1,287	1,235
Before exceptional items		**1,502**	1,400	1,235
Exceptional foreign exchange dealing losses	8(b)	**(789)**	–	–
Deposit interest retention tax	5	**–**	(113)	–
Provisions for bad and doubtful debts	26	**179**	133	85
Provisions for contingent liabilities and commitments		**19**	2	2
Amounts written off/(written back) fixed asset investments	12	**6**	(1)	5
Group operating profit – continuing activities		**509**	1,153	1,143
Before exceptional items		**1,298**	1,266	1,143
Exceptional foreign exchange dealing losses	8(b)	**(789)**	–	–
Deposit interest retention tax	5	**–**	(113)	–
Income from associated undertakings		**4**	3	3
Profit on disposal of property		**6**	5	2
Profit on disposal of business	14	**93**	–	15
Group profit on ordinary activities before taxation ***(carried forward)***		**612**	1,161	1,163
Before exceptional items		**1,401**	1,274	1,163
Exceptional foreign exchange dealing losses	8(b)	**(789)**	–	–
Deposit interest retention tax	5	**–**	(113)	–

Consolidated profit and loss account *(continued)*

for the year ended 31 December 2001

	Notes	**2001** **€ m**	2000 Restated € m	1999 Restated € m
Group profit on ordinary activities before taxation ***(brought forward)***		**612**	1,161	1,163
Taxation on ordinary activities	16	**55**	319	333
Group profit on ordinary activities after taxation		**557**	842	830
Equity and non-equity minority interests in subsidiaries	17	**23**	38	28
Dividends on non-equity shares	18	**50**	20	16
		73	58	44
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.		**484**	784	786
Dividends on equity shares	19	**380**	335	288
Transfer to reserves	46	**63**	70	45
		443	405	333
Profit retained	20&47	**41**	379	453
Earnings per € 0.32 ordinary share – basic	21(a)	**56.2c**	91.6c	92.5c
Earnings per € 0.32 ordinary share – adjusted	21(b)	**119.4c**	106.7c	93.5c
Earnings per € 0.32 ordinary share – diluted	21(c)	**55.9c**	91.0c	91.6c

L Quinn, Chairman. M Buckley, Group Chief Executive. G Kennedy, Group Financial Director. W M Kinsella, Secretary.
The movements in the Group profit and loss account are shown in note 47.

Consolidated balance sheet

31 December 2001

	Notes	2001 € m	2000 Restated € m
Assets			
Cash and balances at central banks		**1,175**	938
Items in course of collection		**1,536**	1,116
Central government bills and other eligible bills	22	**49**	297
Loans and advances to banks	23	**6,047**	4,193
Loans and advances to customers	24	**51,216**	45,880
Securitised assets		**1,099**	933
Less: non-returnable proceeds		**(917)**	(767)
	27	**182**	166
Debt securities	28	**20,082**	18,986
Equity shares	29	**332**	412
Interests in associated undertakings	30	**10**	8
Intangible fixed assets	32	**495**	466
Tangible fixed assets	33	**1,305**	1,127
Own shares	34	**245**	177
Other assets		**1,260**	1,645
Prepayments and accrued income		**2,080**	1,835
Pension asset	13	**255**	625
Long-term assurance business attributable to shareholders	35	**304**	238
		86,573	78,109
Long-term assurance assets attributable to policyholders	35	**2,264**	2,141
		88,837	80,250
Liabilities			
Deposits by banks	36	**13,223**	12,478
Customer accounts	37	**54,557**	48,437
Debt securities in issue	38	**5,033**	4,295
Other liabilities	39	**3,272**	3,079
Accruals and deferred income		**2,159**	1,684
Provisions for liabilities and charges	40	**71**	43
Deferred taxation	41	**300**	364
Subordinated liabilities	42	**2,020**	2,249
Equity and non-equity minority interests in subsidiaries	43	**312**	272
Share capital	44	**291**	288
Share premium account	45	**1,926**	1,877
Reserves	46	**959**	401
Profit and loss account	47	**2,450**	2,642
Shareholders' funds including non-equity interests		**5,626**	5,208
		86,573	78,109
Long-term assurance liabilities to policyholders	35	**2,264**	2,141
		88,837	80,250
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**142**	147
Guarantees and assets pledged as collateral security		**5,245**	4,027
Other contingent liabilities		**1,125**	1,089
	49	**6,512**	5,263
Commitments:			
Commitments arising out of sale and option to resell transactions		**402**	257
Other commitments		**18,597**	15,855
	49	**18,999**	16,112

L Quinn, Chairman. M Buckley, Group Chief Executive. G Kennedy, Group Financial Director. W M Kinsella, Secretary.

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

31 December 2001

	Notes	**2001** **€ m**	2000 Restated € m
Assets			
Cash and balances at central banks		**455**	412
Items in course of collection		**227**	177
Central government bills and other eligible bills	22	**7**	85
Loans and advances to banks	23	**11,586**	10,042
Loans and advances to customers	24	**25,496**	22,207
Debt securities	28	**13,625**	12,193
Equity shares	29	**18**	28
Shares in Group undertakings	31	**1,534**	1,457
Tangible fixed assets	33	**562**	531
Other assets		**361**	225
Deferred taxation	41	**55**	50
Prepayments and accrued income		**1,805**	1,507
Pension asset		**344**	588
		56,075	49,502
Liabilities			
Deposits by banks	36	**21,858**	20,391
Customer accounts	37	**24,335**	21,299
Debt securities in issue	38	**1,893**	392
Other liabilities	39	**800**	843
Accruals and deferred income		**1,781**	1,297
Provisions for liabilities and charges	40	**28**	10
Subordinated liabilities	42	**1,230**	1,501
Share capital	44	**291**	288
Share premium account	45	**1,926**	1,877
Reserves	46	**628**	132
Profit and loss account	47	**1,305**	1,472
Shareholders' funds including non-equity interests		**4,150**	3,769
		56,075	49,502
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**96**	130
Guarantees and assets pledged as collateral security		**3,266**	2,428
Other contingent liabilities		**549**	515
	49	**3,911**	3,073
Commitments:			
Other commitments	49	**7,734**	6,881

L Quinn, Chairman. M Buckley, Group Chief Executive. G Kennedy, Group Financial Director. W M Kinsella, Secretary.

Consolidated cash flow statement

for the year ended 31 December 2001

	Notes	**2001** **€ m**	2000 Restated € m	1999 Restated € m
Net cash inflow from operating activities		**231**	2,433	3,191
Dividends received from associated undertakings		**4**	–	2
Returns on investments and servicing of finance	52(a)	**(131)**	(184)	(108)
Equity dividends paid		**(334)**	(228)	(215)
Taxation	52(b)	**(242)**	(199)	(237)
Capital expenditure and financial investment	52(c)	**700**	(3,004)	(1,405)
Acquisitions and disposals	52(d)	**(59)**	2	(391)
Financing	52(e)	**208**	164	640
Increase/(decrease) in cash	52(f)	**377**	(1,016)	1,477

Reconciliation of Group operating profit to net cash inflow from operating activities	**2001** **€ m**	2000 Restated € m	1999 Restated € m
Group operating profit	**509**	1,153	1,143
Increase in prepayments and accrued income	**(199)**	(607)	(20)
Increase in accruals and deferred income	**429**	355	351
Provisions for bad and doubtful debts	**179**	133	85
Provisions for contingent liabilities and commitments	**19**	2	2
Amounts written off/(written back) fixed asset investments	**6**	(1)	5
Increase in other provisions	**19**	11	1
Depreciation and amortisation	**202**	171	127
Amortisation of own shares	**2**	1	–
Profit on disposal of business	**93**	–	15
Interest on subordinated liabilities	**133**	155	95
Profit on disposal of debt securities and equity shares	**(21)**	(23)	(31)
Averaged gains on debt securities held for hedging purposes	**(24)**	(16)	(18)
Profit on disposal of associated undertakings	**(1)**	(5)	(3)
Amortisation of (discounts)/premiums on debt securities held as financial fixed assets	**(7)**	(2)	13
Increase in long-term assurance business	**(66)**	(72)	(47)
Net cash inflow from trading activities	**1,273**	1,255	1,718
Net increase in deposits by banks	**452**	3,621	479
Net increase in customer accounts	**4,647**	4,854	2,545
Net increase in loans and advances to customers	**(4,281)**	(5,812)	(5,398)
Net (increase)/decrease in loans and advances to banks	**(1,588)**	(1,015)	2,748
Decrease/(increase) in central government bills	**274**	445	(414)
Net increase in debt securities and equity shares held for trading purposes	**(1,394)**	(710)	(542)
Net (increase)/decrease in items in course of collection	**(374)**	(160)	192
Net increase/(decrease) in debt securities in issue	**533**	(266)	1,912
Net increase in notes in circulation	**44**	23	16
Decrease/(increase) in other assets	**460**	(595)	(289)
Increase in other liabilities	**279**	674	126
Effect of exchange translation and other adjustments	**(94)**	119	98
	(1,042)	1,178	1,473
Net cash inflow from operating activities	**231**	2,433	3,191

Statement of total recognised gains and losses

	2001 € m	2000 Restated € m	1999 Restated € m
Group profit attributable to the ordinary shareholders	**484**	784	786
Currency translation differences on foreign currency net investments	**145**	130	288
Actuarial (loss)/gain recognised in retirement benefit schemes *(note 13)*	**(402)**	(201)	551
Total recognised gains relating to the year	**227**	713	1,625
Prior year adjustment			
Prior to 1 January 1999	**224**		
Year ended 31 December 1999	**585**		
Year ended 31 December 2000	**(161)**		
	648		
Total recognised gains/(losses) since last annual report	**875**		

Reconciliation of movements in shareholders' funds

	2001 € m	2000 Restated € m	1999 Restated € m
Group profit attributable to the ordinary shareholders	**484**	784	786
Dividends on equity shares	**380**	335	288
	104	449	498
Other recognised gains relating to the year	**160**	150	325
Actuarial (loss)/gain recognised in retirement benefit schemes *(note 13)*	**(402)**	(201)	551
New ordinary share capital subscribed	**37**	27	28
Ordinary shares issued in lieu of cash dividend	**23**	78	39
Goodwill written back	**–**	–	1
Issue of reserve capital instruments *(note 46)*	**496**	–	–
Net addition to shareholders' funds	**418**	503	1,442
Opening shareholders' funds	**5,208**	4,705	3,039
Prior year adjustment	**–**	–	224
Closing shareholders' funds	**5,626**	5,208	4,705
Shareholders' funds:			
Equity interests	**4,851**	4,944	4,460
Non-equity interests	**775**	264	245
	5,626	5,208	4,705

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.

1 Turnover
Turnover is not shown as it resulted in the main from the business of banking.

2 Segmental information	AIB Bank ROI € m	AIB Bank GB & NI € m	USA € m	Capital Markets € m	Poland € m	Group/ ENeB € m	2001 Total € m
Operations by business segments[1]							
Net interest income	**843**	**336**	**584**	**210**	**275**	**45**	**2,293**
Other finance income	**43**	**3**	**2**	**8**	**–**	**11**	**67**
Other income before exceptional item	**359**	**161**	**446**	**305**	**163**	**(8)**	**1,426**
Total operating income before exceptional item	**1,245**	**500**	**1,032**	**523**	**438**	**48**	**3,786**
Total operating expenses	**641**	**259**	**638**	**296**	**396**	**54**	**2,284**
Provisions	**44**	**19**	**39**	**38**	**9**	**55**	**204**
Group operating profit before exceptional item	**560**	**222**	**355**	**189**	**33**	**(61)**	**1,298**
Income from associated undertakings	**–**	**–**	**–**	**5**	**–**	**(1)**	**4**
Profit on disposals	**2**	**1**	**–**	**–**	**3**	**93**	**99**
Group profit on ordinary activities before exceptional item	**562**	**223**	**355**	**194**	**36**	**31**	**1,401**
Exceptional foreign exchange dealing losses	**–**	**–**	**(789)**	**–**	**–**	**–**	**(789)**
Group profit on ordinary activities before taxation	**562**	**223**	**(434)**	**194**	**36**	**31**	**612**
Balance sheet							
Total loans	**17,797**	**7,784**	**14,586**	**12,535**	**4,646**	**97**	**57,445**
Total deposits	**21,016**	**7,015**	**17,226**	**21,472**	**5,968**	**116**	**72,813**
Total assets	**23,588**	**8,892**	**22,007**	**26,939**	**7,238**	**173**	**88,837**
Total risk weighted assets	**15,987**	**7,542**	**22,403**	**18,821**	**4,105**	**–**	**68,858**
Net assets	**1,126**	**532**	**1,578**	**1,326**	**289**	**–**	**4,851**

	AIB Bank ROI € m	AIB Bank GB & NI € m	USA € m	Capital Markets € m	Poland € m	Group/ ENeB € m	2000 (Restated) Total € m
Operations by business segments[1]							
Net interest income before exceptional item	738	318	537	127	252	50	2,022
Other finance income	46	4	4	8	1	8	71
Other income	357	151	381	304	153	(42)	1,304
Total operating income before exceptional item	1,141	473	922	439	406	16	3,397
Total operating expenses	593	248	554	265	296	41	1,997
Provisions	36	20	38	18	23	(1)	134
Group operating profit before exceptional item	512	205	330	156	87	(24)	1,266
Income from associated undertakings	–	–	–	3	–	–	3
Profit on disposals	4	–	–	–	1	–	5
Group profit on ordinary activities before exceptional item	516	205	330	159	88	(24)	1,274
Deposit interest retention tax							(113)
Group profit on ordinary activities before taxation							1,161
Balance sheet							
Total loans	15,669	7,443	12,995	10,386	3,645	101	50,239
Total deposits	18,609	6,410	15,941	19,271	4,897	82	65,210
Total assets	21,184	8,487	20,415	23,720	6,060	384	80,250
Total risk weighted assets	14,302	6,789	20,318	14,879	3,655	279	60,222
Net assets	1,174	557	1,668	1,222	300	23	4,944

2 Segmental information *(continued)*	AIB Bank ROI € m	AIB Bank GB & NI € m	USA € m	Capital Markets € m	Poland € m	Group/ ENeB € m	Total € m
							1999 (Restated)
Operations by business segments[1]							
Net interest income	655	277	506	141	139	52	1,770
Other finance income	36	4	3	6	1	21	71
Other income	300	122	296	270	87	(23)	1,052
Total operating income	991	403	805	417	227	50	2,893
Total operating expenses	526	229	460	244	155	44	1,658
Provisions	30	15	33	23	9	(18)	92
Group operating profit	435	159	312	150	63	24	1,143
Income from associated undertakings	–	–	1	2	–	–	3
Profit on disposals	1	1	–	–	–	15	17
Group profit on ordinary activities before taxation	436	160	313	152	63	39	1,163
Balance sheet							
Total loans	12,862	6,444	11,769	9,013	2,754	285	43,127
Total deposits	16,465	5,491	14,357	14,758	3,993	177	55,241
Total assets	17,615	7,596	17,822	19,172	4,997	605	67,807
Total risk weighted assets	11,892	5,987	16,898	11,415	2,838	245	49,275
Net assets	1,076	542	1,530	1,033	257	22	4,460

[1]The business segment information is based on management accounts information. Income on capital is allocated to the divisions on the basis of the capital required to support the level of risk weighted assets. Interest income earned on capital not allocated to divisions, the funding cost of the Bank Zachodni acquisition and central services costs are reported in Group.

	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
						2001
Operations by geographical segments[2]						
Net interest income	**924**	**627**	**450**	**289**	**3**	**2,293**
Other finance income	**60**	**2**	**5**	**–**	**–**	**67**
Other income before exceptional item	**582**	**426**	**254**	**165**	**(1)**	**1,426**
Total operating income before exceptional item	**1,566**	**1,055**	**709**	**454**	**2**	**3,786**
Total operating expenses	**885**	**653**	**350**	**393**	**3**	**2,284**
Provisions	**132**	**44**	**19**	**9**	**–**	**204**
Group operating profit before exceptional item	**549**	**358**	**340**	**52**	**(1)**	**1,298**
Income from associated undertakings	**4**	**–**	**–**	**–**	**–**	**4**
Profit on disposals	**2**	**–**	**1**	**3**	**93**	**99**
Group profit on ordinary activities before exceptional item	**555**	**358**	**341**	**55**	**92**	**1,401**
Exceptional foreign exchange dealing losses	**–**	**(789)**	**–**	**–**	**–**	**(789)**
Group profit on ordinary activities before taxation	**555**	**(431)**	**341**	**55**	**92**	**612**
Balance sheet						
Total loans	**27,224**	**14,665**	**10,899**	**4,646**	**11**	**57,445**
Total deposits	**33,062**	**19,078**	**14,705**	**5,968**	**–**	**72,813**
Total assets	**42,089**	**22,729**	**16,772**	**7,235**	**12**	**88,837**
Net assets	**2,245**	**1,257**	**1,029**	**320**	**–**	**4,851**

2 Segmental information *(continued)*	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	2000 (Restated) Total € m
Operations by geographical segments[(2)]						
Net interest income before exceptional item	791	568	392	269	2	2,022
Other finance income	62	4	5	–	–	71
Other income	570	336	243	151	4	1,304
Total operating income before exceptional item	1,423	908	640	420	6	3,397
Total operating expenses	801	569	332	292	3	1,997
Provisions	51	38	23	23	(1)	134
Group operating profit before exceptional item	571	301	285	105	4	1,266
Income from associated undertakings	3	–	–	–	–	3
Profit on disposals	3	–	1	1	–	5
Group profit on ordinary activities before exceptional item	577	301	286	106	4	1,274
Deposit interest retention tax						(113)
Group profit on ordinary activities before taxation						1,161
Balance sheet						
Total loans	24,027	13,018	9,545	3,645	4	50,239
Total deposits	29,055	17,585	13,672	4,897	1	65,210
Total assets	36,889	20,891	16,170	6,052	248	80,250
Net assets	2,009	1,700	914	300	21	4,944

	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	1999 (Restated) Total € m
Operations by geographical segments[(2)]						
Net interest income	754	514	350	149	3	1,770
Other finance income	62	3	6	–	–	71
Other income	483	299	182	86	2	1,052
Total operating income	1,299	816	538	235	5	2,893
Total operating expenses	726	470	298	154	10	1,658
Provisions	48	22	10	9	3	92
Group operating profit	525	324	230	72	(8)	1,143
Income from associated undertakings	2	1	–	–	–	3
Profit on disposals	16	–	1	–	–	17
Group profit on ordinary activities before taxation	543	325	231	72	(8)	1,163
Balance sheet						
Total loans	20,511	11,797	8,061	2,751	7	43,127
Total deposits	25,056	15,410	10,787	3,988	–	55,241
Total assets	31,676	18,125	12,764	5,000	242	67,807
Net assets	1,821	1,544	816	257	22	4,460

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

2 Segmental information *(continued)*

Assets by segment

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

3 Other interest receivable and similar income	2001 € m	2000 € m	1999 € m
Interest on loans and advances to banks	**255**	238	157
Interest on loans and advances to customers	**3,684**	3,544	2,683
Income from leasing and hire purchase contracts	**209**	205	169
	4,148	3,987	3,009
Income from leasing and hire purchase contracts has been accounted for as follows:			
Investment period method	**134**	135	113
Sum of the digits method	**75**	70	56
	209	205	169

4 Interest payable	2001 € m	2000 € m	1999 € m
Interest on deposits by banks and customer accounts	**2,744**	2,701	1,818
Interest on debt securities in issue	**176**	249	159
Interest on subordinated liabilities	**133**	155	95
	3,053	3,105	2,072

5 Deposit interest retention tax ('DIRT')

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

6 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 scheme liabilities. The expected return on assets is based on long-term expectations at the beginning of the period.

A description of the retirement benefit schemes operated by the Group is provided in note 13.

7 Dividend income

The dividend income relates to income from equity shares.

8 Dealing profits

(a) Dealing profits (before exceptional losses)	2001 € m	2000 € m	1999 € m
Foreign exchange contracts	**75**	69	30
Profits less losses from securities held for trading purposes	**2**	42	28
Interest rate contracts	**15**	(8)	16
	92	103	74

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 10(a))*.

8 Dealing profits ***(continued)***

(b) Exceptional foreign exchange dealing losses

On 6 February 2002, the Group announced that investigations had commenced into foreign exchange trading operations at its US subsidiary, Allfirst Bank. The investigations have indicated that certain fraudulent activities have given rise to losses in the amount of US$ 691.2m. The losses occurred over a number of years as follows:- 2002: US$ 17.2m; 2001: US$ 373.3m; 2000: US$ 211.0m; 1999: US$ 48.2m; 1998: US$ 12.4m; and 1997: US$ 29.1m.

In accordance with Irish GAAP the total costs arising from the fraud have been reflected by way of an exceptional pre-tax charge of € 789m (after tax € 513m) in the accounts for the year ended 31 December 2001. Reflecting the losses in the years they arose would have the effect of increasing pre-tax profits in 2001 by € 348m while reported pre-tax profits in 2000 and 1999, would have been lower by € 228m and € 45m, respectively. Earnings per share – basic for 2001, 2000, and 1999, would have been 82.5c, 74.3c, and 89.1c, respectively. In addition shareholders funds at 31 December 2000 would have been lower by € 210m.

Treatment of exceptional foreign exchange dealing losses for US reporting purposes

Under US reporting requirements, the filing of the 2001 financial statements will effectively constitute a reissue of the financial statements for prior years. Accordingly, in the financial information provided to US investors the Irish GAAP statements for prior years will require to be restated as set out in Note 62.

9 Other operating income	**2001 € m**	2000 € m	1999 € m
Profit/(loss) on disposal of debt securities held for investment purposes	**24**	(1)	16
Profit on disposal of investments in associated undertakings	**1**	5	3
(Loss)/profit on disposal of equity shares	**(3)**	24	15
Contribution of life assurance company *(note 35)*	**84**	95	64
Contribution from securitised assets *(note 27)*	**5**	4	3
Mortgage origination and servicing income	**10**	3	3
Miscellaneous operating income	**72**	72	56
	193	202	160

10 Administrative expenses

(a) Staff and other administrative expenses	**2001 € m**	2000 Restated € m	1999 Restated € m
Staff costs:			
Wages and salaries	**1,066**	934	785
Social security costs	**104**	85	68
Retirement benefits service costs *(note 13)*	**106**	113	107
Other staff costs	**72**	60	50
	1,348	1,192	1,010
Other administrative expenses	**703**	634	521
	2,051	1,826	1,531

(b) Integration costs in continuing businesses

On 13 June 2001, Bank Zachodni S.A. (Group interest 83.01%) merged with Wielkopolski Bank Kredytowy S.A. (Group interest 60.14%) through a share for share offering. The enlarged company, now called Bank Zachodni WBK S.A. (Group interest 70.47%), is listed on the Warsaw stock exchange. These costs relate to the integration of the two businesses.

11 Depreciation and amortisation

	2001 € m	2000 € m	1999 € m
Depreciation of tangible fixed assets:			
Property depreciation	**37**	32	20
Equipment depreciation	**127**	113	99
	164	145	119
Amortisation of goodwill *(note 32)*	**31**	26	8
	195	171	127

12 Amounts written off/(written back) fixed asset investments

	2001 € m	2000 € m	1999 € m
Debt securities	**6**	(1)	2
Equity shares	**(1)**	–	3
Interests in associated undertakings	**1**	–	–
	6	(1)	5

13 Retirement benefits

The Group provides pension benefits for employees in Ireland, the UK, and the US, the majority of which are funded. Certain post-retirement benefits are also provided for retired employees, primarily healthcare and life insurance benefits in the US.

The Group operates a number of defined benefit schemes. The majority of staff in the Republic of Ireland are members of the AIB Group Irish Pension Scheme (the Irish scheme) while the majority of staff in the UK are members of the AIB Group UK Pension Scheme (the UK scheme). Allfirst sponsors a number of defined benefit schemes, the largest of which (the US scheme) covers substantially all employees of Allfirst and its subsidiaries. Retirement benefits for the defined benefit schemes are calculated by reference to service and pensionable salary at normal retirement date.

Independent actuarial valuations, for the main Irish and UK schemes, are carried out on a triennial basis. The last such valuation was carried out on 1 January 2001 using the Projected Unit Method. The schemes are funded and contribution rates of 10.0% and 22.6% have been set for the Irish and UK schemes respectively. As both these schemes are closed to new entrants, under the Projected Unit Method, the current service cost and the standard contribution rates will increase as members of the schemes approach retirement. Independent actuarial valuations of the US schemes are carried out annually. The last such valuation was carried out on 31 December 2001 using the Projected Unit Method. No contributions will be made in 2002 in respect of the main US scheme. The actuarial valuations are available for inspection only to the members of the schemes.

The following table summarises the financial assumptions adopted in respect of the main schemes.

	as at 31 December		
Financial assumptions	**2001 %**	2000 %	1999 %
Irish scheme			
Rate of increase in salaries	**4.0**	4.0	4.0
Rate of increase of pensions in payment	**2.5**	2.5	2.5
Discount rate	**5.75**	5.75	5.75
Inflation assumptions	**2.5**	2.5	2.5
UK scheme			
Rate of increase in salaries	**4.0**	4.0	4.0
Rate of increase of pensions in payment	**2.5**	2.5	2.5
Discount rate	**6.0**	6.0	6.0
Inflation assumptions	**2.5**	2.5	2.5
US scheme			
Rate of increase in salaries	**4.5**	4.0	4.0
Rate of increase of pensions in payment	**–**	–	–
Discount rate	**6.94**	7.47	7.93
Inflation assumptions	**3.0**	3.0	3.0

13 Retirement benefits ***(continued)***

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

	as at 31 December 2001		as at 31 December 2000		as at 31 December 1999	
	Long term rate of return expected %	**Value € m**	Long term rate of return expected %	Value € m	Long term rate of return expected %	Value € m
Equities	**8.6**	**2,138**	7.4	2,280	7.1	2,405
Bonds	**5.6**	**391**	5.9	443	5.3	374
Other	**4.9**	**373**	5.1	407	5.1	313
Total market value of assets		**2,902**		3,130		3,092
Actuarial value of liabilities		**(2,645)**		(2,403)		(2,146)
Surplus in the schemes		**257**		727		946
Related deferred tax liability		**2**		102		150
Net pension asset		**255**		625		796

Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to € 102,936 in aggregate to a number of former directors.

The following table sets out the components of the defined benefit cost for each of the three years ended 31 December 2001, 2000 and 1999.

	2001 € m	2000 € m	1999 € m
Other finance income			
Expected return on pension scheme assets	**213**	203	189
Interest on pension scheme liabilities	**(146)**	(132)	(118)
	67	71	71
Included within administrative expenses			
Current service cost	**79**	75	90
Past service cost	**5**	21	5
	84	96	95
Cost of providing defined retirement benefits	**17**	25	24

Analysis of the amount recognised in STRGL	**2001 € m**	2000 € m	1999 € m
Actual return less expected return on pension scheme assets	**(438)**	(158)	324
Experience gains and losses on scheme liabilities	**(32)**	(72)	(16)
Changes in demographic and financial assumptions	**(32)**	(18)	354
Actuarial (loss)/gain recognised	**(502)**	(248)	662
Deferred tax	**100**	47	(111)
Recognised in STRGL	**(402)**	(201)	551

13 Retirement benefits *(continued)*

Movement in surplus during the year	2001 € m	2000 € m	1999 € m
Surplus in scheme at beginning of year	**727**	946	245
Movement in year:			
Current service cost	**(79)**	(75)	(90)
Past service costs	**(5)**	(21)	(5)
Contributions	**50**	47	54
Other finance income	**67**	71	71
Actuarial (loss)/gain	**(502)**	(248)	662
Translation adjustment	**(1)**	7	9
Surplus in scheme at end of year	**257**	727	946

History of experience gains and losses	2001 € m	2000 € m	1999 € m
Difference between expected and actual return on scheme assets:			
Amount	**(438)**	(158)	324
Percentage of scheme assets	**15%**	5%	10%
Experience gains and losses on scheme liabilities:			
Amount	**(32)**	(72)	(16)
Percentage of scheme liabilities	**1%**	3%	1%
Total amount recognised in STRGL:			
Amount	**(502)**	(248)	662
Percentage of scheme liabilities	**19%**	10%	31%

The Group operates a number of defined contribution schemes. The defined benefit schemes in Ireland and the UK were closed to new members from December 1997. Employees joining after December 1997 join on a defined contribution basis. The standard contribution rate in Ireland is 10%. The standard contribution rate in the UK is 5% and these members are also accruing benefits under SERPS (the State Earnings Related Pension Scheme). Allfirst provides a defined contribution plan whereby eligible employees can contribute, subject to certain limitations, varying percentages of their annual compensation. Allfirst matches 100% of the first 3% and 50% of the next 3% of an employee's contribution. The total cost in respect of defined contribution schemes for 2001 was € 22m (2000: € 17m; 1999: € 12m).

14 Profit on disposal of business

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 € 93m (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 € 15m (tax charge € 4m).

15 Group profit on ordinary activities before taxation				2001 € m	2000 € m	1999 € m
Is stated after:						
(i) Income:	Listed investments			**778**	651	443
	Unlisted investments			**431**	495	392
(ii) Expenses:	Operating lease rentals					
	Property			**47**	46	40
	Equipment			**4**	4	3
	Auditors' remuneration *(including VAT)*:					
		Audit services:	Statutory audit	**1.8**	1.7	1.3
			Audit related services	**0.9**	0.8	0.6
				2.7	2.5	1.9
		Non-audit services:	IT consultancy	**0.4**	4.0	–
			Taxation services	**0.6**	1.0	1.0
			Other consultancy	**1.2**	0.8	0.4
				2.2	5.8	1.4

Audit services include fees for the statutory audits of the Group and fees for assignments which are of an audit nature. These fees include assignments where the auditors provide assurance to third parties.

In the year ended 31 December 2001, 73% of the total audit services fees (2000: 70%; 1999: 67%) and 64% of the non-audit services fees (2000: 56%; 1999: 100%) were paid to overseas offices of the auditors.

Included in non-audit services for 2001 are fees for work associated with the merger of Bank Zachodni and Wielkopolski Bank Kredytowy. The level of non-audit services fees for 2000 is primarily due to fees for a number of significant IT assignments. The Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditors. It is Group policy to subject all large consultancy assignments to competitive tender.

16 Taxation	2001 € m	2000 Restated € m	1999 Restated € m
Allied Irish Banks, p.l.c. and subsidiaries			
Corporation tax in Republic of Ireland			
Current tax on income for the period	**88**	69	107
Adjustments in respect of prior periods	**(6)**	(1)	–
	82	68	107
Double taxation relief	**(17)**	(15)	(14)
	65	53	93
Foreign tax			
Current tax on income for the period	**64**	146	120
Adjustments in respect of prior periods	**(8)**	(5)	1
	56	141	121
Stamp duty on section 84 interest	**–**	–	1
	121	194	215
Deferred taxation on ordinary activities	**(66)**	125	118
	55	319	333
Effective tax rate – adjusted[1]	**23.6%**	25.8%	28.6%

[1]The adjusted effective tax rate has been presented to eliminate the effect of the exceptional foreign exchange dealing losses in 2001 *(note 8(b))* and the deposit interest retention tax settlement in 2000 *(note 5)*.

17 Equity and non-equity minority interests in subsidiaries

	2001 € m	2000 € m	1999 € m
The profit attributable to minority interests is analysed as follows:			
Equity interest in subsidiaries	**15**	28	18
Non-equity interest in subsidiaries	**8**	10	10
	23	38	28

18 Dividends on non-equity shares

	2001 € m	2000 € m	1999 € m
Non-cumulative preference shares of US $25 each			
Dividends paid and accrued*	**15**	20	16
Amortisation of issue costs	**–**	–	–
	15	20	16
Reserve capital instruments			
Interest cost	**34**	–	–
Amortisation of issue costs	**1**	–	–
	35	–	–
	50	20	16

**Includes an amount of € 2m which has been accrued (2000: € 4m; 1999: € 4m).*

19 Dividends on equity shares

	2001 cent per € 0.32 share	2000 cent per € 0.32 share	1999 cent per € 0.32 share	**2001 € m**	2000 € m	1999 € m
Ordinary shares of € 0.32 each						
Interim dividend	**15.40**	13.50	11.85	**136**	117	102
Second interim dividend	**28.40**	–	–	**250**	–	–
Final dividend	**–**	25.25	21.85	**–**	221	188
	43.80	38.75	33.70	**386**	338	290
Employee share trusts[1]				**(6)**	(3)	(2)
				380	335	288

[1]In accordance with Financial Reporting Standard No. 14 'Earnings per share' (FRS 14), dividends of € 5.8m (2000: € 3.4m; 1999: € 2.0m) arising on the shares held by certain employee share trusts *(note 34)* are excluded in arriving at profit before taxation and deducted from the aggregate of dividends paid and proposed.

20 Profit retained

	2001 € m	2000 Restated € m	1999 Restated € m
The transfer to the profit and loss account is dealt with in the Group accounts as follows:			
Allied Irish Banks, p.l.c.	**3**	202	102
Subsidiary undertakings	**39**	174	351
Associated undertakings	**(1)**	3	–
	41	379	453

As permitted by Regulation 5, paragraph 2 of the European Communities (Credit Institutions: Accounts) Regulations, 1992, the profit and loss account of Allied Irish Banks, p.l.c. has not been presented separately.

21 Earnings per €0.32 ordinary share	**2001**	2000 Restated	1999 Restated
(a) Basic			
Group profit attributable to the ordinary shareholders[(1)]	**€ 484m**	€ 784m	€ 786m
Weighted average number of shares in issue during the year[(1)]	**861.4m**	856.1m	850.3m
Earnings per share	**EUR 56.2c**	EUR 91.6c	EUR 92.5c

[(1)]In accordance with FRS 14 - 'Earnings per share', dividends arising on the shares held by the employee share trusts *(note 34)* are excluded in arriving at profit before taxation and deducted from the aggregate of dividends paid and proposed. The shares held by the trusts are excluded from the calculation of weighted average number of shares in issue.

	Earnings per €0.32 ordinary share		
(b) Adjusted	**2001**	2000 Restated cent per €0.32 share	1999 Restated
As reported	**56.2**	91.6	92.5
Adjustments			
Exceptional foreign exchange dealing losses *(note 8(b))*	**59.6**	–	–
Deposit interest retention tax *(note 5)*	**–**	12.0	–
Goodwill amortisation *(note 32)*	**3.6**	3.1	1.0
	119.4	106.7	93.5

The adjusted earnings per share figure has been presented to eliminate the effect of the goodwill amortisation in 2001, 2000 and 1999, the exceptional foreign exchange dealing losses in 2001 and the deposit interest retention tax settlement in 2000.

(c) Diluted	**2001**	2000 Restated	1999 Restated
		Number of shares (millions)	
Weighted average number of shares in issue during the period	**861.4**	856.1	850.3
Dilutive effect of options outstanding	**5.7**	5.8	8.9
Diluted	**867.1**	861.9	859.2

The weighted average number of ordinary shares reflects the dilutive effect of options outstanding under the employee share trusts *(note 34)*, the Share Option Scheme *(note 44)* and the Allfirst Stock Option Plan *(note 44)*.

22 Central government bills and other eligible bills	**2001** Book amount € m	**2001** Market value € m	2000 Book amount € m	2000 Market value € m
Group				
Held as financial fixed assets				
Treasury bills and similar securities	**45**	**45**	282	284
Held for trading purposes				
Treasury bills	**4**		15	
	49		297	
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Treasury bills and similar securities	**4**	**4**	84	86
Held for trading purposes				
Treasury bills	**3**		1	
	7		85	

22 Central government bills and other eligible bills *(continued)*

	Group € m	Allied Irish Banks, p.l.c. € m
Analysis of movements in central government bills and other eligible bills held as financial fixed assets		
At 1 January 2001	**282**	**84**
Exchange translation adjustments	**15**	**3**
Purchases	**4,938**	**4**
Disposals/maturities	**(5,243)**	**(87)**
Amortisation of discounts	**53**	**–**
At 31 December 2001	**45**	**4**

	Group		Allied Irish Banks, p.l.c.	
23 Loans and advances to banks	**2001 € m**	2000 € m	**2001 € m**	2000 € m
Funds placed with the Central Bank of Ireland	**399**	304	**344**	244
Funds placed with other central banks	**34**	385	**5**	4
Funds placed with other banks	**5,614**	3,504	**11,237**	9,794
	6,047	4,193	**11,586**	10,042
Analysed by remaining maturity:				
Repayable on demand	**1,477**	1,284	**234**	786
Other loans and advances by remaining maturity:				
Over 5 years	**230**	206	**8**	8
5 years or less but over 1 year	**219**	25	**61**	19
1 year or less but over 3 months	**722**	183	**462**	87
3 months or less	**3,401**	2,498	**2,132**	1,023
	6,049	4,196	**2,897**	1,923
General and specific bad and doubtful debt provisions *(note 26)*	**2**	3	**–**	–
	6,047	4,193	**2,897**	1,923
Due from subsidiary undertakings:				
Subordinated			**125**	123
Unsubordinated			**8,564**	7,996
			8,689	8,119
			11,586	10,042

24 Loans and advances to customers	Group 2001 € m	Group 2000 € m	Allied Irish Banks, p.l.c. 2001 € m	Allied Irish Banks, p.l.c. 2000 € m
Loans and advances to customers	**47,674**	42,159	**25,311**	21,963
Amounts receivable under finance leases	**2,447**	2,446	**4**	4
Amounts receivable under hire purchase contracts	**863**	846	**–**	–
Money market funds	**232**	429	**181**	240
	51,216	45,880	**25,496**	22,207
Analysed by remaining maturity:				
Over 5 years	**17,502**	15,577	**8,005**	6,619
5 years or less but over 1 year	**17,032**	15,902	**6,026**	5,116
1 year or less but over 3 months	**8,247**	6,629	**3,654**	2,564
3 months or less	**9,442**	8,641	**4,990**	4,989
	52,223	46,749	**22,675**	19,288
General and specific bad and doubtful debt provisions *(note 26)*	**1,007**	869	**292**	215
	51,216	45,880	**22,383**	19,073
Due from subsidiary undertakings:				
Subordinated			**83**	83
Unsubordinated			**3,030**	3,051
			3,113	3,134
			25,496	22,207
Of which repayable on demand or at short notice	**10,889**	9,108	**8,073**	7,273
Amounts include:				
Due from associated undertakings	**–**	–	**–**	–

€958m and €923m (2000: €765m and €823m) of loans and advances were pledged as collateral with the Central Bank of Ireland and The Federal Reserve Bank, respectively.

The cost of assets acquired for letting under finance leases and hire purchase contracts amounted to €1,406m (2000: €1,703m).

	Group 2001 € m	Group 2000 € m
Non-performing loans – Loans accounted for on a non-accrual basis		
AIB Bank ROI division	**162**	139
AIB Bank GB & NI division	**107**	93
USA division	**87**	87
Capital Markets division	**34**	29
Poland division	**643**	523
	1,033	871

25 Concentrations of credit risk

	2001 € m	2001 % of total loans[1]	2000 € m	2000 % of total loans[1]
Construction and property				
Republic of Ireland	**4,062**	**7.8**	3,455	7.4
United States of America	**2,988**	**5.7**	2,862	6.1
United Kingdom	**2,156**	**4.1**	1,850	4.0
Poland	**230**	**0.4**	187	0.4
	9,436	**18.0**	8,354	17.9

The construction and property portfolio is well diversified across the Group's principal markets by spread of location and individual customer. In addition, the Group's outstandings are dispersed across the segments within the construction and property portfolio to ensure that the credit risk is widely spread.

	2001 € m	2001 % of total loans[1]	2000 € m	2000 % of total loans[1]
Residential mortgages				
Republic of Ireland	**5,930**	**11.3**	4,922	10.5
United States of America	**550**	**1.1**	705	1.5
United Kingdom	**1,965**	**3.8**	1,775	3.8
Poland	**181**	**0.3**	78	0.2
	8,626	**16.5**	7,480	16.0

The residential mortgage portfolio contains high quality lendings which are well diversified by borrower and are represented across the Group's principal markets.

[1] Total loans are gross of provisions and unearned income and exclude money market funds.

26 Provisions for bad and doubtful debts	2001 Specific € m	2001 General € m	2001 Total € m	2000 Specific € m	2000 General € m	2000 Total € m
Group						
At 1 January	**452**	**420**	**872**	401	370	771
Exchange translation adjustments	**32**	**14**	**46**	17	16	33
Acquisition of Group undertakings	**–**	**–**	**–**	28	7	35
Charge against profit and loss account	**–**	**179**	**179**	–	133	133
Transfer to specific	**159**	**(159)**	**–**	106	(106)	–
Amounts written off	**(113)**	**–**	**(113)**	(132)	–	(132)
Recoveries of amounts written off in previous years	**25**	**–**	**25**	32	–	32
At 31 December	**555**	**454**	**1,009**	452	420	872
Amounts include:						
Loans and advances to banks *(note 23)*	**2**	**–**	**2**	3	–	3
Loans and advances to customers *(note 24)*	**553**	**454**	**1,007**	449	420	869
	555	**454**	**1,009**	452	420	872
Allied Irish Banks, p.l.c.						
At 1 January	**65**	**150**	**215**	75	128	203
Exchange translation adjustments	**–**	**2**	**2**	1	1	2
Charge against profit and loss account	**–**	**91**	**91**	–	44	44
Transfer to specific	**29**	**(29)**	**–**	23	(23)	–
Amounts written off	**(28)**	**–**	**(28)**	(47)	–	(47)
Recoveries of amounts written off in previous years	**12**	**–**	**12**	13	–	13
At 31 December *(note 24)*	**78**	**214**	**292**	65	150	215

The provisions for bad and doubtful debts in Allied Irish Banks, p.l.c. at 31 December 2001 and 2000 relate to loans and advances to customers only.

27 Securitised assets	2001 Asset backed securities € m	2001 Total € m	2000 Mortgages € m	2000 Asset backed securities € m	2000 Total € m
Securitised assets	**1,099**	**1,099**	16	917	933
Less: non-returnable proceeds	**(917)**	**(917)**	–	(767)	(767
	182	**182**	16	150	166

In July 1999 and December 2000 a subsidiary company securitised and sold part of its Asset Backed Securities portfolio to a third party. Under the terms of the agreement AIB has the option to transfer additional assets to the third party. AIB is not obliged, nor does it intend, to support any losses in this portfolio in excess of the net amount recognised as an asset on the balance sheet.

The contribution from these securitised assets, included in other operating income, is analysed below.

	2001 € m	2000 € m	1999 € m
Net interest income	**5**	5	4
Other income	**–**	–	1
Total operating income	**5**	5	5
Total operating expenses	**–**	1	1
	5	4	4
Provisions for bad and doubtful debts	**–**	–	1
Contribution from securitised assets *(note 9)*	**5**	4	3

28 Debt securities	Book amount € m	Gross unrealised gains € m	Gross unrealised losses € m	Market value € m
				2001
Group				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	**5,014**	**87**	**(19)**	**5,082**
Other public sector securities	**4,012**	**48**	**(7)**	**4,053**
Issued by other issuers:				
Bank and building society certificates of deposit	**518**	**1**	**–**	**519**
Other debt securities	**6,755**	**87**	**(28)**	**6,814**
	16,299	**223**	**(54)**	**16,468**
Held for trading purposes				
Issued by public bodies:				
Government securities	**511**			**511**
Other public sector securities	**1,401**			**1,401**
Issued by other issuers:				
Bank and building society certificates of deposit	**48**			**48**
Other debt securities	**1,823**			**1,823**
	3,783			**3,783**
	20,082	**223**	**(54)**	**20,251**

	Book amount € m	Gross unrealised gains € m	Gross unrealised losses € m	Market value € m
				2000
Group				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	6,113	40	(51)	6,102
Other public sector securities	4,001	18	(24)	3,995
Issued by other issuers:				
Bank and building society certificates of deposit	395	1	–	396
Other debt securities	6,136	46	(14)	6,168
	16,645	105	(89)	16,661
Held for trading purposes				
Issued by public bodies:				
Government securities	431			431
Other public sector securities	904			904
Issued by other issuers:				
Bank and building society certificates of deposit	46			46
Other debt securities	960			960
	2,341			2,341
	18,986	105	(89)	19,002

Market value is market price for quoted securities and directors' estimate for unquoted securities.

28 **Debt securities** *(continued)*	**Book amount €m**	**Gross unrealised gains €m**	**Gross unrealised losses €m**	**Market value €m**
				2001
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	**3,624**	**53**	**(19)**	**3,658**
Other public sector securities	**400**	**–**	**–**	**400**
Issued by other issuers:				
Bank and building society certificates of deposit	**518**	**1**	**–**	**519**
Other debt securities	**5,749**	**73**	**(25)**	**5,797**
	10,291	**127**	**(44)**	**10,374**
Held for trading purposes				
Issued by public bodies:				
Government securities	**177**			**177**
Other public sector securities	**1,354**			**1,354**
Issued by other issuers:				
Bank and building society certificates of deposit	**–**			**–**
Other debt securities	**1,803**			**1,803**
	3,334			**3,334**
	13,625	**127**	**(44)**	**13,708**

	Book amount €m	Gross unrealised gains €m	Gross unrealised losses €m	Market value €m
				2000
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	4,395	37	(37)	4,395
Other public sector securities	645	–	(1)	644
Issued by other issuers:				
Bank and building society certificates of deposit	278	–	–	278
Other debt securities	4,948	42	(11)	4,979
	10,266	79	(49)	10,296
Held for trading purposes				
Issued by public bodies:				
Government securities	97			97
Other public sector securities	901			901
Issued by other issuers:				
Bank and building society certificates of deposit	–			–
Other debt securities	929			929
	1,927			1,927
	12,193	79	(49)	12,223

Market value is market price for quoted securities and directors' estimate for unquoted securities.

28 Debt securities ***(continued)***

Analysed by remaining maturity	Group 2001 € m	Group 2000 € m	Allied Irish Banks, p.l.c. 2001 € m	Allied Irish Banks, p.l.c. 2000 € m
Due within one year	**4,596**	3,874	**2,875**	2,198
Due one year and over	**15,486**	15,112	**10,750**	9,995
	20,082	18,986	**13,625**	12,193

Analysed by listing status	2001 Book amount € m	2001 Market value € m	2000 Book amount € m	2000 Market value € m
Group				
Held as financial fixed assets				
Listed on a recognised stock exchange	**10,133**	**10,255**	10,848	10,876
Quoted elsewhere	**4,826**	**4,877**	4,797	4,785
Unquoted	**1,340**	**1,336**	1,000	1,000
	16,299	**16,468**	16,645	16,661
Held for trading purposes				
Listed on a recognised stock exchange	**3,525**		2,251	
Quoted elsewhere	**170**		7	
Unquoted	**88**		83	
	3,783		2,341	
	20,082		18,986	

Debt securities with a book value of € 1,033m (2000: € 1,106m) were pledged to secure public funds, trust deposits, funds transactions and other purposes required by law. Debt securities subject to repurchase agreements amounted to € 1,956m (2000: € 1,761m).

Subordinated debt securities included as financial fixed assets amounted to € 5m at 31 December 2001 (2000: € 5m).

The amount of unamortised discounts net of premiums on debt securities held as financial fixed assets amounted to € 98m (2000: € 86m).

The cost of debt securities held for trading purposes amounted to € 3,801m (2000: € 2,346m).

Analysed by listing status	2001 Book amount € m	2001 Market value € m	2000 Book amount € m	2000 Market value € m
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Listed on a recognised stock exchange	**8,819**	**8,914**	9,550	9,585
Quoted elsewhere	**621**	**613**	448	443
Unquoted	**851**	**847**	268	268
	10,291	**10,374**	10,266	10,296
Held for trading purposes				
Listed on a recognised stock exchange	**3,294**		1,927	
Quoted elsewhere	**40**		–	
Unquoted	**–**		–	
	3,334		1,927	
	13,625		12,193	

Debt securities subject to repurchase agreements amounted to € 1,180m (2000: € 928m).

The amount of unamortised premiums net of discounts on debt securities held as financial fixed assets was € 17m (2000: € 24m).

The cost of debt securities held for trading purposes was € 3,347m (2000: € 1,921m).

28 Debt securities *(continued)*

Analysis of movements in debt securities held as financial fixed assets	Cost € m	Discounts and premiums € m	Amounts written off € m	Book amount € m
Group				
At 1 January 2001	**16,645**	**(1)**	**1**	**16,645**
Exchange translation adjustments	**513**	**5**	**–**	**518**
Purchases	**8,321**	**–**	**–**	**8,321**
Realisations/maturities	**(9,240)**	**40**	**–**	**(9,200)**
Transfer from trading debt securities	**12**	**2**	**–**	**14**
Charge to profit and loss account *(note 12)*	**–**	**–**	**(6)**	**(6)**
Amortisation of discounts net of (premiums)	**–**	**7**	**–**	**7**
At 31 December 2001	**16,251**	**53**	**(5)**	**16,299**
Allied Irish Banks, p.l.c.				
At 1 January 2001	**10,314**	**(48)**	**–**	**10,266**
Exchange translation adjustments	**183**	**1**	**–**	**184**
Purchases	**4,700**	**–**	**–**	**4,700**
Realisations/maturities	**(4,880)**	**50**	**–**	**(4,830)**
Charge to profit and loss account *(note 12)*	**–**	**–**	**(6)**	**(6)**
Amortisation of (premiums) net of discounts	**–**	**(23)**	**–**	**(23)**
At 31 December 2001	**10,317**	**(20)**	**(6)**	**10,291**

29 Equity shares	2001 Book amount € m	2001 Market value € m	2000 Book amount € m	2000 Market value € m
Group				
Held as financial fixed assets				
Listed on a recognised stock exchange	**127**	**124**	175	165
Unquoted	**156**	**159**	189	193
	283	**283**	364	358
Held for trading purposes				
Listed on a recognised stock exchange	**49**		48	
	332		412	
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Unquoted	**3**	**3**	1	1
Held for trading purposes				
Listed on a recognised stock exchange	**15**		27	
	18		28	

Analysis of movements in equity shares held as financial fixed assets	Cost € m	Amounts written off € m	Book amount € m
Group			
At 1 January 2001	**386**	**(22)**	**364**
Credit against profit and loss account *(note 12)*	**–**	**1**	**1**
Exchange translation adjustments	**18**	**2**	**20**
Transfer to associated undertakings *(note 30)*	**(3)**	**–**	**(3)**
Transfer to trading equity securities	**(3)**	**–**	**(3)**
Purchases	**129**	**–**	**129**
Disposals	**(227)**	**2**	**(225)**
At 31 December 2001	**300**	**(17)**	**283**

30 Interests in associated undertakings	**2001 € m**	2000 € m
At 1 January	**8**	22
Exchange translation adjustments	**–**	2
Transfer from/(to) equity shares *(note 29)*	**3**	(23)
Charge to profit and loss account *(note 12)*	**(1)**	–
Purchases	**1**	4
Profit retained	**(1)**	3
At 31 December	**10**	8

The Group's interests in associated undertakings are shown after accumulated provisions for write-downs of € 1m (2000: nil).
The movements in the provisions are as follows:

	2001 € m	2000 € m
At 1 January	**–**	–
Charge to profit and loss account	**1**	–
At 31 December	**1**	–

The Group's interests in associated undertakings, all of which are non-credit institutions, are unlisted and are held by subsidiary undertakings.

The exemption permitted by the European Communities (Credit Institutions: Accounts) Regulations, 1992, has been availed of and, in accordance with the regulations, Allied Irish Banks, p.l.c. will annex a full listing of associated undertakings to its annual return to the companies registration office.

31 Shares in Group undertakings	**2001 € m**	2000 € m
Allied Irish Banks, p.l.c.		
At 1 January	**1,457**	1,368
Exchange translation adjustments	**77**	89
At 31 December	**1,534**	1,457
At 31 December		
Credit institutions	**1,328**	1,255
Other	**206**	202
Total – all unquoted	**1,534**	1,457

The shares in Group undertakings are included in the accounts on a historical cost basis.

Principal subsidiary undertakings incorporated in the Republic of Ireland	Nature of business
AIB Capital Markets plc*	Banking and financial services
AIB Corporate Finance Limited	Corporate finance
AIB Finance Limited*	Industrial banking
AIB Leasing Limited	Leasing
AIB Fund Management Limited[a]	Unit trust management
AIB Investment Managers Limited[a]	Investment management
AIB International Financial Services Limited	International financial services
Ark Life Assurance Company Limited*	Life assurance and pensions business
Goodbody Holdings Limited	Stockbroking and corporate finance

**Group interest is held directly by Allied Irish Banks, p.l.c.*

[a]The Group's interests in AIB Fund Management Limited and AIB Investment Managers Limited are held through the Group's equity interest of 85.86% in AIB Asset Management Holdings Limited.

The above subsidiary undertakings are incorporated in the Republic of Ireland and are wholly-owned unless otherwise stated. The issued share capital of each undertaking is denominated in ordinary shares.

31 Shares in Group undertakings *(continued)*

Principal subsidiary undertakings incorporated outside the Republic of Ireland		Nature of business
Allfirst Bank		Banking and financial services
Registered office:	25 South Charles Street, Baltimore, Maryland 21201, USA (Common stock shares of US $10 each – Group interest 100%)	
AIB Group (UK) p.l.c. trading as First Trust Bank in Northern Ireland trading as Allied Irish Bank (GB) in Great Britain		Banking and financial services
Registered office:	4 Queen's Square, Belfast, BT1 3DJ	
AIB Bank (CI) Limited*		Banking services
Registered office:	AIB House, Grenville Street, St. Helier, Jersey	
AIB Bank (Isle of Man) Limited*		Banking services
Registered office:	10 Finch Road, Douglas, Isle of Man	
AIB Asset Management Holdings Limited		Funds management
Registered office:	Shackleton House, 4 Battle Bridge Lane, London SE1 2HR (Ordinary shares of Stg £0.01 each – Group interest 85.86%) (Cumulative redeemable preference shares of Stg £0.01 each – Group interest 100%)	
Bank Zachodni WBK S.A.		Banking and financial services
Registered office:	Rynek 9/11, 50-950 Wroclaw, Poland (Ordinary shares of PLN 10 each - Group interest 70.47%)	

**Group interest is held directly by Allied Irish Banks, p.l.c.*

The above subsidiary undertakings are wholly-owned unless otherwise stated. The registered office of each is located in the principal country of operation. The issued share capital of each undertaking is denominated in ordinary shares unless otherwise indicated.

In presenting details of the principal subsidiary undertakings the exemption permitted by the European Communities (Credit Institutions: Accounts) Regulations, 1992, has been availed of and, in accordance with the regulations, Allied Irish Banks, p.l.c. will annex a full listing of subsidiary undertakings to its annual return to the companies registration office.

32 Intangible fixed assets	2001 € m	2000 € m
Goodwill		
Cost at 1 January	**500**	476
Arising on acquisitions during the year	**59**	24
Exchange translation adjustments	**1**	–
At 31 December	**560**	500
Accumulated amortisation at 1 January	**34**	8
Charge for the year *(note 11)*	**31**	26
At 31 December	**65**	34
Net book value		
At 31 December	**495**	466

Intangible fixed assets comprise purchased goodwill arising on acquisition of subsidiary and associated undertakings. Prior to 1 January 1998 goodwill arising on acquisition of subsidiary and associated undertakings was taken directly to profit and loss account reserves. The goodwill arising on acquisitions during 2001 and 2000 is set out in the following table:

	2001 € m	2000 € m
Community Counselling Service Co., Inc.	**51**	–
Bank Zachodni WBK S.A.	**4**	24
Other	**4**	–
	59	24

33 Tangible fixed assets	Property Freehold € m	Property Long leasehold € m	Property Leasehold under 50 years € m	Equipment € m	Total € m
Group					
Cost or valuation at 1 January 2001	**657**	**127**	**157**	**1,084**	**2,025**
Additions	**42**	**4**	**19**	**263**	**328**
Acquisition of Group undertaking	**–**	**–**	**–**	**2**	**2**
Disposals	**(12)**	**(1)**	**(3)**	**(39)**	**(55)**
Transfers	**11**	**–**	**(10)**	**(1)**	**–**
Exchange translation adjustments	**27**	**–**	**5**	**40**	**72**
At 31 December 2001	**725**	**130**	**168**	**1,349**	**2,372**
Accumulated depreciation at 1 January 2001	**66**	**6**	**80**	**746**	**898**
Depreciation charge for the year	**23**	**3**	**12**	**133**	**171**
Disposals	**(1)**	**–**	**(2)**	**(28)**	**(31)**
Transfers	**3**	**–**	**(3)**	**–**	**–**
Exchange translation adjustments	**5**	**–**	**3**	**21**	**29**
At 31 December 2001	**96**	**9**	**90**	**872**	**1,067**
Net book value					
At 31 December 2001	**629**	**121**	**78**	**477**	**1,305**
At 31 December 2000	591	121	77	338	1,127

33 Tangible fixed assets *(continued)*	Property Freehold € m	Property Long leasehold € m	Property Leasehold under 50 years € m	Equipment € m	Total € m
Allied Irish Banks, p.l.c.					
Cost or valuation at 1 January 2001	**286**	**116**	**45**	**518**	**965**
Additions	**16**	**4**	**8**	**75**	**103**
Disposals	**(6)**	**(1)**	**–**	**(5)**	**(12)**
Exchange translation adjustments	**–**	**–**	**–**	**1**	**1**
At 31 December 2001	**296**	**119**	**53**	**589**	**1,057**
Accumulated depreciation at 1 January 2001	**11**	**5**	**22**	**396**	**434**
Depreciation charge for the year	**7**	**3**	**3**	**51**	**64**
Disposals	**–**	**–**	**–**	**(4)**	**(4)**
Exchange translation adjustments	**–**	**–**	**–**	**1**	**1**
At 31 December 2001	**18**	**8**	**25**	**444**	**495**
Net book value					
At 31 December 2001	**278**	**111**	**28**	**145**	**562**
At 31 December 2000	275	111	23	122	531

The net book value of property occupied by the Group for its own activities was € 799m (2000: € 751m).

The Group's freehold and long leasehold property was valued by external valuers, DTZ Sherry FitzGerald international property advisers, as at 31 December 1998. Properties held as investment, for development, and surplus to requirements were valued on the basis of Open Market Value. Owner occupied properties were valued on the basis of Existing Use Value, with a Depreciated Replacement Cost valuation of adaptation works not reflected in the Existing Use Value. Both bases are in accordance with the Appraisal and Valuation Manual issued by the Society of Chartered Surveyors (SCS). The external valuers have provided an additional valuation for a number of Group properties on the basis of Open Market Value for an alternative use, which, if recorded, would have resulted in a valuation of € 27m greater than the Existing Use Value provided. The Directors have adopted the transitional provisions of FRS 15 and therefore the valuation has not been updated.

The valuation exercise gave rise to a property revaluation surplus of € 141m of which € 128m arose in the parent company.

34 Own shares

Allfirst Financial, Inc. sponsors the Allfirst Stock Option Plans, for the benefit of key employees of Allfirst. Allfirst has lent US$ 201m (2000: US$ 151m) to a trust to enable it to purchase AIB ordinary shares in the form of American Depositary Shares in the open market. The shares purchased are used to satisfy options which have been granted to Allfirst employees. Proceeds of option exercises are used to repay the loan to the trust. Under the terms of the trust, the trustees receive dividends on the shares which are used to meet the expenses of the trust. Allfirst will provide funds as necessary to cover expenses net of dividend revenue. At 31 December 2001, 18.1 million ordinary shares (2000: 13.5 million) were held by the trust with a cost of € 228m (2000: € 162m) and a market value of € 238m (2000: € 170m).

In 1999, the Group sponsored a Save As You Earn Share Option Scheme, the AIB Group 1999 Sharesave Scheme for eligible employees in the UK. In 2001 a similar scheme was set up for employees in the Isle of Man and Channel Islands. The trustees of the scheme have borrowed funds from Group companies, interest free, to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. These shares are used to satisfy commitments arising under the scheme. The trustees receive dividends on the shares which are used to meet the expenses of the scheme. The cost of providing these shares is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit. At 31 December 2001, 1.5 million shares (2000: 1.4 million) were held by the trustees with a book value of € 15m (2000: € 15m) and a market value of € 19m (2000: € 17m).

34 Own shares ***(continued)***

In 2001, the AIB Group Employee Share Trust was established to satisfy commitments arising under the AIB Group Long-Term Incentive Plan (LTIP). Funds are provided to the trustees to enable them to purchase Allied Irish Bank p.l.c. ordinary shares in the market. The cost of meeting the commitments under the LTIP are charged to the profit and loss account over the period that the employees are expected to benefit. The trustees have waived their entitlement to dividends. At 31 December 2001, 0.2m shares (2000: nil) were held by the trustees with a book value of € 1.5m and a market value of € 2.6m.

In accordance with the requirements of UITF Abstract 13 the shares held by the above employee share schemes have been recognised on the balance sheet of the Group and the dividend income received by the schemes of € 5.8m (2000: € 3.4m; 1999: € 2.0m) has been excluded in arriving at profit before taxation.

In accordance with FRS 14 - Earnings per Share, the shares held by the Trusts are excluded from the earnings per share calculation. The accounting treatment is not intended to affect the legal characterisation of the transaction or to change the situation at law achieved by the parties to it. Thus, the inclusion of the shares on the Group balance sheet does not imply that they have been purchased by the company as a matter of law.

35 Long-term assurance business

The assets and liabilities of Ark Life Assurance Company Limited ('Ark Life') representing the value of the assurance business together with the policyholders' funds are:

	2001 € m	2000 € m
Investments:		
Cash and short-term placings with banks	**1,019**	954
Debt securities	**256**	179
Equity shares	**1,034**	974
Property	**43**	43
	2,352	2,150
Value of investment in business	**190**	138
Other assets – net	**26**	91
	2,568	2,379
Long-term assurance liabilities to policyholders	**(2,264)**	(2,141)
Long-term assurance business attributable to shareholders	**304**	238
Represented by:		
Shares at cost	**19**	19
Reserves	**281**	218
Profit and loss account	**4**	1
	304	238

The increase in the value to the Group of Ark Life's long-term assurance and pensions business in force credited to the profit and loss account and included in other operating income amounted to € 84m after grossing-up for taxation (2000: € 95m; 1999: € 64m).

36 Deposits by banks	Group 2001 € m	Group 2000 € m	Allied Irish Banks, p.l.c. 2001 € m	Allied Irish Banks, p.l.c. 2000 € m
Federal funds purchased	**546**	544	**–**	–
Securities sold under agreements to repurchase	**1,742**	1,484	**1,631**	1,165
Other borrowings from banks	**10,935**	10,450	**20,227**	19,226
	13,223	12,478	**21,858**	20,391
Of which:				
Domestic offices	**7,899**	7,396		
Foreign offices	**5,324**	5,082		
	13,223	12,478		
With agreed maturity dates or periods of notice, by remaining maturity:				
Over 5 years	**428**	429	**302**	299
5 years or less but over 1 year	**289**	260	**33**	65
1 year or less but over 3 months	**2,781**	792	**2,696**	694
3 months or less but not repayable on demand	**8,871**	9,806	**8,456**	9,310
	12,369	11,287	**11,487**	10,368
Repayable on demand	**854**	1,191	**264**	516
	13,223	12,478	**11,751**	10,884
Due to subsidiary undertakings			**10,107**	9,507
			21,858	20,391

Federal funds generally represent one-day transactions, a large portion of which arise because of Allfirst's market activity in federal funds for correspondent banks and other customers.

37 Customer accounts	Group 2001 € m	Group 2000 € m	Allied Irish Banks, p.l.c. 2001 € m	Allied Irish Banks, p.l.c. 2000 € m
Current accounts	**16,300**	12,701	**7,603**	6,008
Demand deposits	**11,165**	10,297	**4,330**	4,141
Time deposits	**22,896**	21,094	**9,321**	7,886
	50,361	44,092	**21,254**	18,035
Securities sold under agreements to repurchase	**726**	889	**–**	62
Other short-term borrowings	**3,470**	3,456	**3,081**	3,202
	4,196	4,345	**3,081**	3,264
	54,557	48,437	**24,335**	21,299
Of which:				
Non-interest bearing current accounts				
Domestic offices	**5,857**	4,655		
Foreign offices	**6,140**	4,515		
Interest bearing deposits, current accounts and short-term borrowings				
Domestic offices	**18,074**	16,552		
Foreign offices	**24,486**	22,715		
	54,557	48,437		
Analysed by remaining maturity:				
Over 5 years	**654**	601	**110**	170
5 years or less but over 1 year	**2,688**	2,005	**921**	439
1 year or less but over 3 months	**3,150**	3,679	**707**	872
3 months or less but not repayable on demand	**19,743**	19,161	**10,275**	9,238
	26,235	25,446	**12,013**	10,719
Repayable on demand	**28,322**	22,991	**11,933**	10,206
	54,557	48,437	**23,946**	20,925
Due to subsidiary undertakings			**389**	374
			24,335	21,299
Amounts include:				
Due to associated undertakings	**2**	2	**2**	2

Securities sold under agreements to repurchase are secured by Irish Government stock, US Treasury and US Government agency securities and mature within three months.

The aggregate market value of all securities sold under agreements to repurchase did not exceed 10% of total assets and the amount at risk with any individual counterparty or group of related counterparties did not exceed 10% of total stockholders' equity.

38 Debt securities in issue

	Group 2001 € m	Group 2000 € m	Allied Irish Banks, p.l.c. 2001 € m	Allied Irish Banks, p.l.c. 2000 € m
Bonds and medium term notes:				
European medium term note programme	**84**	114	**84**	114
Allfirst adjustable rate federal home loan bank advances:				
due 23 August, 2011	**227**	215	**–**	–
	311	329	**84**	114
Other debt securities in issue:				
Master demand notes of Allfirst	**301**	323	**–**	–
Commercial paper	**133**	338	**–**	–
Commercial certificates of deposit	**4,288**	3,305	**1,809**	278
	4,722	3,966	**1,809**	278
	5,033	4,295	**1,893**	392
Analysed by remaining maturity				
Bonds and medium term notes:				
Over 5 years	**233**	–	**6**	–
5 years or less but over 1 year	**–**	114	**–**	114
1 year or less but over 3 months	**72**	215	**72**	–
3 months or less	**6**	–	**6**	–
	311	329	**84**	114
Other debt securities in issue:				
Over 5 years	**–**	–	**–**	–
5 years or less but over 1 year	**89**	200	**15**	44
1 year or less but over 3 months	**2,176**	2,136	**421**	234
3 months or less	**2,457**	1,630	**1,373**	–
	4,722	3,966	**1,809**	278
	5,033	4,295	**1,893**	392

39 Other liabilities

	Group 2001 € m	Group 2000 € m	Allied Irish Banks, p.l.c. 2001 € m	Allied Irish Banks, p.l.c. 2000 € m
Notes in circulation	**441**	386	**–**	–
Taxation	**–**	121	**65**	69
Dividend *(note 19)*	**250**	221	**250**	221
Provision for future commitments in relation to the funding of Icarom[1]	**91**	94	**91**	94
Short positions in securities	**205**	379	**31**	53
Other	**2,285**	1,878	**363**	406
	3,272	3,079	**800**	843

[1]The provision represents the present value of the cost of the future commitments arising under the 1992 agreement in relation to the funding of Icarom. A discount rate of 6.35% was applied in the year ended 31 December 1993, in discounting the cost of the future commitments arising under this agreement. The undiscounted amount was €123m (2000: €134m).

40 Provisions for liabilities and charges	Contingent liabilities and commitments € m	Other € m	Total € m
Group			
At 1 January 2001	**16**	**27**	**43**
Exchange translation adjustments	**1**	**1**	**2**
Profit and loss account charge	**19**	**19**	**38**
Provisions utilised	**(4)**	**(8)**	**(12)**
At 31 December 2001	**32**	**39**	**71**
Allied Irish Banks, p.l.c.			
At 1 January 2001	**4**	**6**	**10**
Profit and loss account charge	**18**	**1**	**19**
Provisions utilised	**–**	**(1)**	**(1)**
At 31 December 2001	**22**	**6**	**28**

41 Deferred taxation	Group 2001 € m	Group 2000 Restated € m	Allied Irish Banks, p.l.c. 2001 € m	Allied Irish Banks, p.l.c. 2000 Restated € m
Deferred taxation liabilities and (assets) in the accounts amount to:				
Short-term timing differences	**(252)**	(109)	**(42)**	(36)
Capital allowances on:				
Assets leased to customers	**541**	465	**–**	–
Assets used in the business	**22**	19	**(2)**	(3)
Timing differences on provisions for future commitments in relation to the funding of Icarom plc (under Administration)	**(11)**	(11)	**(11)**	(11)
	300	364	**(55)**	(50)

Due to the availability of roll-over relief and the expectation that the greater portion of land and buildings will be retained by the Group, no provision is made for taxation which might arise on disposal of properties at their revalued amounts.

Analysis of movements in deferred taxation	Group 2001 € m	Group 2000 Restated € m	Allied Irish Banks, p.l.c. 2001 € m	Allied Irish Banks, p.l.c. 2000 Restated € m
At 1 January	**364**	249	**(50)**	(55)
Exchange translation and other adjustments	**2**	(2)	**(5)**	(4)
Acquisition of Group undertakings	**–**	(8)	**–**	–
Profit and loss account taxation (credit)/charge	**(66)**	125	**–**	9
At 31 December	**300**	364	**(55)**	(50)

42 Subordinated liabilities

	2001 € m	2000 € m
Allied Irish Banks, p.l.c.		
Undated loan capital	**426**	413
Dated loan capital	**804**	1,088
	1,230	1,501
Allfirst Financial Inc.		
Dated loan capital	**787**	745
Bank Zachodni WBK S.A.		
Dated loan capital	**3**	3
	2,020	2,249
Undated loan capital		
US $100m Floating Rate Notes, Undated	**113**	107
US $100m Floating Rate Primary Capital Perpetual Notes, Undated	**114**	108
€ 200m Fixed Rate Perpetual Subordinated Notes	**199**	198
	426	413
Dated loan capital		
Allied Irish Banks, p.l.c.		
European Medium Term Note Programme:		
US $130m Floating Rate Notes due September 2006	**–**	140
US $150m Floating Rate Notes due October 2006	**–**	161
US $250m Floating Rate Notes due January 2010	**283**	268
€ 45.1m Floating Rate Notes due February 2007	**45**	45
€ 37.6m 7.25% Fixed Rate Notes due October 2007	**38**	38
€ 32.2m 6.7% Fixed Rate Notes due August 2009	**32**	32
Stg £35m 8% Fixed Rate Notes due October 2007	**57**	56
€ 250m Floating Rate Notes due January 2010	**249**	248
€ 100m Floating Rate Notes due August 2010	**100**	100
	804	1,088
Allfirst Financial Inc.		
US $100m 8.375% Fixed Rate Subordinated Notes due May 2002	**113**	107
US $200m 7.2% Fixed Rate Subordinated Notes due July 2007	**226**	214
US $100m 6.875% Fixed Rate Subordinated Notes due June 2009	**113**	106
US $150m Floating Rate Subordinated Capital Income Securities due January 2027	**167**	159
US $150m Floating Rate Subordinated Capital Income Securities due February 2027	**168**	159
	787	745
Bank Zachodni WBK S.A.		
PLN 10m Fixed Rate Loan due July 2002	**3**	3
	1,594	1,836
The dated loan capital outstanding is repayable as follows:		
In one year or less, or on demand	**161**	–
Between 1 and 2 years	**–**	110
Between 2 and 5 years	**–**	–
In 5 years or more	**1,433**	1,726
	1,594	1,836

The loan capital of the Bank is unsecured and is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank.

42 Subordinated liabilities *(continued)*

The US$ Undated Floating Rate Loan capital notes have no final maturity but may be redeemed at par at the option of the Bank, after the approval of the Central Bank of Ireland, in or after November 1990 and July 1998, respectively. Interest is payable semi-annually on the US$ 100m Undated Floating Rate Notes and quarterly on the US$ 100m Floating Rate Primary Capital Perpetual Notes. The € 200m Fixed Rate Perpetual Subordinated Notes, with interest payable annually, have no final maturity but may be redeemed at the option of the Bank, after the approval of the Central Bank of Ireland, on each coupon payment date on or after 3 August 2009.

The European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank. The US$ 250m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after January 2005. The € 45.1m Floating Rate Notes will be redeemed in February 2002. The € 37.6m Fixed Rate Notes and the Stg £35m Fixed Rate Notes, with interest payable semi-annually, are redeemable, in whole but not in part, on 1 October 2002 and 31 October 2002, respectively. The € 32.2m Fixed Rate Notes, with interest payable annually, may be redeemed, in whole but not in part, on 20 August 2004. The € 250m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, in or after January 2005. The € 100m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on the interest payment date falling in August 2005. In all cases, redemption prior to maturity is subject to the necessary prior approval of the Central Bank of Ireland.

The 8.375% and 7.2% Fixed Rate Subordinated Notes and the Floating Rate Subordinated Capital Income Securities of Allfirst are subordinated in right of payment to the ordinary creditors of Allfirst. The 8.375% Fixed Rate Subordinated Notes, with interest payable semi-annually, are not redeemable prior to maturity. The 7.2% Fixed Rate Subordinated Notes, with interest payable semi-annually, may not be redeemed prior to maturity and are not subject to any sinking fund. The 6.875% Fixed Rate Subordinated Notes mature on 1 June 2009, with interest payable semi-annually and are not redeemable prior to maturity. The US$ 150m Floating Rate Subordinated Capital Income Securities due January 2027, with interest payable quarterly, are redeemable in whole or in part on or after 15 January 2007, or at any time, in whole but not in part, upon the occurrence of a special event. The US$ 150m Floating Rate Subordinated Capital Income Securities due February 2027, with interest payable quarterly, are redeemable in whole or in part on or after 1 February 2007, or at any time, in whole but not in part, upon the occurrence of a special event. In either case such redemption is subject to the necessary prior approval of the Federal Reserve and the Central Bank of Ireland.

There is no exchange exposure as the proceeds of these notes are retained in their respective currencies.

43 Equity and non-equity minority interests in subsidiaries	**2001 € m**	2000 € m
Equity interest in subsidiaries	**191**	158
Non-equity interest in subsidiaries:		
Allfirst Financial, Inc.:		
Cumulative preferred stock[(1)]	**10**	9
Floating rate non-cumulative subordinated capital trust enhanced securities[(2)]	**111**	105
	121	114
	312	272

[(1)]Allfirst issued 90,000 cumulative preference shares of US$ 5 par value each on 28 June 1997. These shares have a liquidation preference of US$ 100 each and the holders are subject to dividend entitlements at a rate of 4.5% per annum on the liquidation preference amount. The preference shares are redeemable at the option of the issuer and the holder during the period commencing 1 July 2002 and ending on 30 June 2003 and are subordinated in right of payment to the ordinary creditors of Allfirst.

[(2)]Allfirst issued 100,000 floating rate non-cumulative subordinated capital trust enhanced securities through a subsidiary on 13 July 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.

44 Share capital		2001 € m	2000 € m
Ordinary share capital			
Ordinary shares of €0.32 each			
Authorised:	1,160 million shares (2000: 1,160 million)		
Issued:	887 million shares (2000: 879 million)	**284**	281
Preference share capital			
Non-cumulative preference shares of US $25 each			
Authorised:	20.0 million shares (2000: 20.0 million)		
Issued:	0.25 million shares (2000: 0.25 million)	**7**	7
Non-cumulative preference shares of €1.27 each			
Authorised:	200.0 million shares (2000: 200.0 million)		
Issued:	Nil	**–**	–
Non-cumulative preference shares of Stg £1 each			
Authorised:	200.0 million shares (2000: 200.0 million)		
Issued:	Nil	**–**	–
Non-cumulative preference shares of Yen 175 each			
Authorised:	200.0 million shares (2000: 200.0 million)		
Issued:	Nil	**–**	–
		291	288

Movements in ordinary share capital	2001 € m	2000 € m
At 1 January	**281**	277
Other – see below	**3**	4
At 31 December	**284**	281

During the year ended 31 December 2001 the issued ordinary share capital was increased from 879,207,610 to 886,690,015 ordinary shares as follows:

(a) under the dividend reinvestment plan 1,920,148 shares were allotted to shareholders, at €11.76 per share, in respect of the final dividend for the year ended 31 December 2000. These allotments were made in lieu of dividends amounting to €22.6m;

(b) by the issue of 1,625,197 shares to the trustees of the employees' profit sharing schemes at €11.58 per share; the consideration received for these shares was €18.8m;

(c) by the issue of 3,482,228 shares to participants in the share option scheme at prices of €3.32, €3.36, €3.38, €4.19, €5.80, €6.25 and €11.90 per share; the consideration received for these shares was €14.3m;

(d) by the issue of 454,832 shares to holders of Dauphin Deposit Corporation (now 'Allfirst') stock options, which were converted, on the acquisition of Dauphin, into options to purchase AIB American Depositary Shares. The consideration received for these shares was €3.9m.

Dividend reinvestment plan

At the 1999 Annual General Meeting, the directors were given authority for a five year period to offer shareholders the right to elect to receive additional ordinary shares in lieu of cash dividends. The price at which such shares are offered is the average of the middle market quotations of the Bank's shares on the Irish Stock Exchange for the five business days commencing on the first date on which the shares are quoted 'ex-dividend'.

44 Share capital *(continued)*

Employee share schemes

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

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

A Save As You Earn share option scheme is operated for eligible employees in the UK. Under that Scheme employees may opt to save fixed amounts on a regular basis, over a three-year period, subject to a maximum monthly saving of Stg £250 per employee, and to utilise amounts so saved in the acquisition of market-purchased shares in the Company.

Share option scheme

The Company operates a share option scheme on terms approved by the shareholders. Officials may participate in the scheme 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 date on which the option is granted. The exercise of options granted between 1 January 1996 and 31 December 2000 is conditional on the achievement of earnings per share ('EPS') growth of at least 2% per annum, compound, above the increase in the Consumer Price Index ('CPI') over a period of not less than three and not more than five years from date of grant. The exercise of options granted since 1 January 2001 is conditional on the achievement of EPS growth of at least 5% per annum, compound, above the increase in the CPI over a period of not less than three and not more than five years from date of grant. Options may not be transferred or assigned and may be exercised only between the third and seventh anniversaries of their grant in the case of the options granted up to 31 December 2000, and between the third and tenth anniversaries of grant date in the case of options granted subsequent to that date. At 31 December 2001, options were held by some 3,085 participants over 29,808,629 ordinary shares in aggregate (3.4% of the issued ordinary share capital), at prices ranging from € 3.38 to € 15.46 per share; these options may be exercised at various dates up to 4 September 2011.

Allfirst Financial, Inc. stock option plan

Under the terms of the Agreement and Plan of Merger between the Company, First Maryland Bancorp (now 'Allfirst') and Dauphin Deposit Corporation ('Dauphin', now 'Allfirst'), approved by shareholders at the 1997 Annual General Meeting, options to purchase Dauphin shares which were outstanding immediately prior to the merger were converted, at the holders' elections, into either cash or options to purchase a similar number of AIB American Depositary Shares. At 31 December 2001, options so converted were outstanding over 813,342 ordinary shares.

AIB Long Term Incentive Plan

Under the terms of the AIB Long Term Incentive Plan, approved by shareholders at the 2000 Annual General Meeting, conditional grants of awards of ordinary shares were made during 2001 in respect of 813,900 ordinary shares, in aggregate, to 206 employees. These awards will not vest in the award holders unless (a) the growth in the Company's EPS, as defined in the Rules of the Plan, in any three consecutive years within the five years following the grant is not less than the growth in the CPI plus 5% per annum, compound, over the same three year period; *and* (b) the growth in the Company's core EPS, as defined in the Rules of the Plan, over the three year period during which the criterion at (a) is satisfied, is such as to position the Company in the top 20% of the FTSE Eurotop Banks Retail Index. Partial vesting, on a reducing scale, will occur if the growth in the Company's EPS, being below that level, is such as to position the Company in the top 45% of that Index. Vested shares must be held until normal retirement date, except that award holders may dispose of shares sufficient to meet the income tax liability arising on vesting.

44 Share capital *(continued)*

Limitations on profit sharing and share option schemes

Under the terms of the employees' profit sharing schemes, the aggregate number of shares that may be purchased/held by the Trustees in any ten year period may not exceed 10% of the issued ordinary share capital. The aggregate number of shares issued under the share option scheme 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 Schemes.

Preference share capital

In 1998, 250,000 non-cumulative preference shares of US $25 each were issued at a price of US $995.16 per share raising US $248.8m before expenses. The holders of the non-cumulative preference shares are entitled to a non-cumulative preferential dividend, payable quarterly in arrears, at a floating rate equal to 3 month dollar LIBOR plus 0.875% on the liquidation preference amount of US $1,000. The preference shares are redeemable at the option of the Bank, and with the agreement of the Central Bank of Ireland, on or after 15 July 2008 (i) in whole or in part or (ii) prior to that date in certain circumstances in whole, but not in part. In each case, the preference shares will be redeemed at a price equal to US $1,000 per share (consisting of a redemption price of US $995.16 plus a special dividend of US $4.84 per share), plus accrued dividends.

45 Share premium account	**Group** **€ m**	**Allied Irish Banks, p.l.c.** **€ m**
At 1 January 2001	**1,877**	**1,877**
Premium arising on shares issued under:		
Employees' profit sharing schemes	**18**	**18**
Executive share option scheme	**13**	**13**
Allfirst Financial, Inc. stock option plan	**4**	**4**
Profit and loss account	**(1)**	**(1)**
Exchange translation adjustments	**15**	**15**
At 31 December 2001	**1,926**	**1,926**

46 Reserves	**Group** **€ m**	**Allied Irish Banks, p.l.c.** **€ m**
At 1 January 2001		
Capital reserves	**253**	**–**
Revaluation reserves	**148**	**132**
	401	**132**
Transfer from profit and loss account:		
Non-distributable reserves of Ark Life	**63**	**–**
Issue of Reserve capital instruments	**496**	**496**
Exchange translation and other adjustments	**(1)**	**–**
At 31 December 2001	**959**	**628**
At 31 December 2001		
Capital reserves	**315**	**–**
Reserve capital instruments	**496**	**496**
Revaluation reserves	**148**	**132**
	959	**628**

46 Reserves ***(continued)***

Reserve capital instruments

In February 2001, Reserve capital instruments (RCIs) of € 500m were issued by Allied Irish Banks, p.l.c. at an issue price of 100.069%. The RCIs are perpetual securities and have no maturity date. The RCIs are redeemable in whole but not in part at the option of the Bank and with the agreement of the Central Bank of Ireland (i) upon the occurence of certain events, or (ii) on or after 28 February 2011, an authorised officer having reported to the Trustees within the previous six months that a solvency condition is met.

The RCIs bear interest at a rate of 7.50% per annum from (and including) 5 February 2001 to (but excluding) 28 February 2011 and thereafter at 3.33% per annum above three month EURIBOR, reset quarterly.

The rights and claims of the RCI holders and the coupon holders are subordinated to the claims of the senior creditors and the senior subordinated creditors of the issuer. In the event of a winding up of the issuer, the RCI holders will rank *pari passu* with the holders of the classes of preference shares (if any) from time to time issued by the issuer and in priority to all other shareholders.

47 Profit and loss account	**Group €m**	**Allied Irish Banks, p.l.c. €m**
At 1 January 2001 as previously reported:		
Allied Irish Banks, p.l.c. and subsidiaries	**1,990**	**879**
Associated undertakings	**4**	**–**
	1,994	**879**
Prior year adjustment	**648**	**593**
At 1 January 2001 as restated	**2,642**	**1,472**
Profit retained for the year	**41**	**3**
Dividend reinvestment plan	**22**	**22**
Actuarial loss recognised in retirement benefit schemes *(note 13)*	**(402)**	**(277)**
Share premium account	**1**	**1**
Exchange translation adjustments	**146**	**84**
At 31 December 2001	**2,450**	**1,305**
At 31 December 2001		
Allied Irish Banks, p.l.c. and subsidiaries	**2,446**	
Associated undertakings	**4**	
	2,450	

The cumulative goodwill arising on acquisitions of subsidiary and associated undertakings which are still part of the Group, and charged against profit and loss account reserves of the Group, amounted to € 1,754m at 31 December 2001 (2000: € 1,670m).

Included within the profit and loss account reserve for the Group at 31 December 2001 is € 255m (Allied Irish Banks, p.l.c.: € 344m) relating to the pension asset *(note 13)*.

48 Repurchase of ordinary shares

In September 1997, a subsidiary undertaking purchased 5.6 million ordinary shares of € 0.32 each of Allied Irish Banks, p.l.c. on the open market at a price of € 7.30 per share. The purchase was undertaken at foot of a resolution approved by shareholders at the Annual General Meeting held on 21 May 1997. In accordance with the Companies Act, 1990 the cost of the purchase of these shares, € 42m including related expenses of € 0.8m, has been deducted from distributable reserves. The issued ordinary share capital of Allied Irish Banks, p.l.c. continues to include these shares (nominal value € 1.8m) as they have not been cancelled. The shares do not rank for dividend as the related dividend entitlements have been waived. The weighted average number of shares in the earnings per share calculation has been reduced to reflect the purchase of these shares.

49 Memorandum items: contingent liabilities and commitments

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers.

These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated balance sheet. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

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

The risk weighted amount is obtained by applying credit conversion factors and counterparty risk weightings in accordance with the 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.

The following tables give, for the Group and Allied Irish Banks, p.l.c., the nominal or contract amounts and the risk weighted credit equivalent of contingent liabilities and commitments.

	2001		2000	
	Contract amount €m	**Risk weighted amount €m**	Contract amount €m	Risk weighted amount €m
Group				
Contingent liabilities				
Acceptances and endorsements	**142**	**109**	147	137
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	**5,222**	**4,852**	3,995	3,554
Assets pledged as collateral security	**23**	**2**	32	3
	5,245	**4,854**	4,027	3,557
Other contingent liabilities	**1,125**	**570**	1,089	546
	6,512	**5,533**	5,263	4,240
Commitments				
Sale and option to resell transactions	**402**	**402**	257	257
Other commitments:				
Documentary credits and short-term trade-related transactions	**235**	**76**	179	42
Forward asset purchases and forward deposits placed	**5**	**2**	83	82
Undrawn note issuance and revolving underwriting facilities	**100**	**12**	36	9
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over	**8,905**	**4,308**	7,532	3,615
Less than 1 year [(1)]	**9,352**	**–**	8,025	–
	18,597	**4,398**	15,855	3,748
	18,999	**4,800**	16,112	4,005
	25,511	**10,333**	21,375	8,245

[(1)]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.

49 Memorandum items: contingent liabilities and commitments *(continued)*	**2001** Contract amount € m	**2001** Risk weighted amount € m	2000 Contract amount € m	2000 Risk weighted amount € m
Allied Irish Banks, p.l.c.				
Contingent liabilities				
Acceptances and endorsements	**96**	**96**	130	130
Guarantees and irrevocable letters of credit	**3,266**	**3,151**	2,428	2,359
Other contingent liabilities	**549**	**275**	515	257
	3,911	**3,522**	3,073	2,746
Commitments				
Other commitments:				
Documentary credits and short-term trade-related transactions	**68**	**14**	88	18
Undrawn note issuance and revolving underwriting facilities	**76**	**–**	20	1
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over	**4,245**	**2,082**	3,527	1,673
Less than 1 year[1]	**3,345**	**–**	3,246	–
	7,734	**2,096**	6,881	1,692
	11,645	**5,618**	9,954	4,438

[1]Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

There exists a contingent liability to repay in whole or in part grants received on equipment leased to customers if certain events set out in the agreements occur.

Allied Irish Banks, p.l.c. has given guarantees in respect of the liabilities of certain of its subsidiaries and has also given guarantees for the satisfaction of the relevant regulatory authorities for the protection of the depositors of certain of its banking subsidiaries in the various jurisdictions in which such subsidiaries operate.

Class action

On 6 March 2002 AIB was informed of the filing of a class action in the United States District Court for the Southern District of New York against AIB, Allfirst and serving and past officers of Allfirst, seeking remedies under the Securities Exchange Act of 1934 of the United States relating to alleged misrepresentations in filings of AIB and Allfirst. The matter is at an extremely preliminary stage. Accordingly, it is not practicable to predict the outcome of the action and any financial impact on AIB but on the basis of the Complaint (which appears to be based largely on newspaper articles) the Directors have been advised that the action appears to be without merit.

50 Derivatives

The Group's objectives, policies and strategies in managing the risks that arise in connection with the use of financial instruments, including derivative financial instruments, are set out on pages 24 to 36 of the Financial review.

The Group uses derivatives to service customer requirements, to manage the Group's interest, exchange rate and equity exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices.

These instruments involve, to varying degrees, elements of market risk and credit risk which are not reflected in the consolidated balance sheet. Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates. Credit risk arises to the extent that the default of a counterparty to the derivative transaction exposes the Group to the need to replace existing contracts at prices that are less favourable than when the contract was entered into. The potential loss to the Group is known as gross replacement cost. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

For derivatives, credit risk is calculated as the positive mark to market value for each contract plus an estimate of the additional credit risk that may arise over the contract's remaining life from an adverse movement in the value of the underlying asset or index. Any breach of credit risk limits on derivative contracts is reported to line management and reviewed by the appropriate credit authority. The counterparty credit exposure on derivatives is amalgamated with all other exposures to the counterparty to provide a comprehensive statement of individual counterparty risk.

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate and equity contracts at 31 December 2001 and 2000.

	Group		Allied Irish Banks, p.l.c.	
	2001	2000	**2001**	2000
Interest rate contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**116,151**	130,945	**111,135**	126,502
Gross replacement cost	**1,432**	875	**1,335**	836
Exchange rate contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**26,505**	26,877	**18,988**	20,528
Gross replacement cost	**280**	901	**272**	499
Equity contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**2,893**	2,938	**2,893**	2,938
Gross replacement cost	**195**	297	**195**	297

[1]Interest rate, exchange rate and equity contracts have been 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.

50 Derivatives *(continued)*

Trading activities

AIB Group maintains trading positions in a variety of financial instruments including derivatives. These financial instruments include foreign exchange, interest rate and equity futures, interest rate swaps, interest rate caps and floors, forward rate agreements, and interest rate, foreign exchange and equity index options. Most of these positions arise as a result of activity generated by corporate customers while others represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income. The managers and traders involved in financial derivatives have the technical expertise to trade these products and the active involvement of the traders in these markets allows the Group to offer competitive pricing to customers.

All trading activity is conducted within 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.

Nature and terms of trading instruments

The following table presents the notional amounts and fair values of the classes of derivative trading instruments at 31 December 2001 and 2000.

	2001		2000	
	Notional amounts[1] € m	**Fair values € m**	Notional amounts[1] € m	Fair values € m
Interest rate contracts:				
Interest rate swaps	**34,817**		21,525	
In a receivable position		**538**		195
In a payable position		**(444)**		(180)
Interest rate caps, floors and options	**5,293**		5,364	
Held		**20**		6
Written		**(21)**		(6)
Forward rate agreements	**5,092**		8,449	
In a favourable position		**5**		10
In an unfavourable position		**(6)**		(10)
Financial futures	**776**		1,880	
In a favourable position		**22**		1
In an unfavourable position		**(19)**		(2)
Other interest rate derivatives	**37**	**–**	53	–
Exchange rate contracts:				
Currency options	**2,391**	**(460)**	4,714	259
Forward FX contracts	**16,375**	**4**	16,300	(38)
Currency swaps	**–**	**–**	66	–
Equity derivatives	**23**	**1**	40	–

[1]The notional amounts shown for the contracts represent the underlying amounts that the instruments are based upon and do not represent the amounts exchanged by the parties to the instruments. In addition, these amounts do not measure the Group's exposure to credit or market risks.

50 Derivatives *(continued)*

Details of debt securities held for trading purposes are outlined in note 28 to the financial statements.

The Group's credit exposure at 31 December 2001 and 2000 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 minimised by dealing with counterparties of good credit standing. All trading instruments are subject to market risk. As the traded instruments are recognised at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

The Group undertakes trading activities in interest rate contracts with the Group being a party to interest rate swap, forward, futures, option, cap and floor contracts. The Group's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount. Forward rate agreements are also used by the Group in its trading activities. Forward rate agreements settle in cash at a specified future date based on the difference between agreed market rates applied to a notional principal amount. Most of these contracts have maturity terms up to one year.

Dealing profits

The following table summarises the Group's dealing profits (before exceptional losses) by category of instrument.

	2001 € m	2000 € m	1999 € m
Foreign exchange contracts	**75**	69	30
Profits less losses from securities held for trading purposes	**2**	42	28
Interest rate contracts	**15**	(8)	16
Total	**92**	103	74

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or issuing derivatives for purposes other than trading is the management of interest rate and foreign exchange rate and equity risks.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives. Similarly, foreign exchange and equity derivatives are used to hedge the nature of the Group's exposure to foreign exchange and equity risk, as required.

Derivatives fluctuate in value as interest rates rise or fall just as on balance sheet assets and liabilities fluctuate in value. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, as interest rates change, will generally be offset by the unrealised depreciation or appreciation of the hedged items. This means that separate disclosure of market risk on derivatives used for hedging purposes is not meaningful.

To achieve its risk management objective, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, futures and options, as well as other contracts. The tables on pages 96 and 97 present the notional and fair value amounts, weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by the Group at 31 December 2001 and 2000.

50 Derivatives *(continued)*

	Notional amount		Weighted average maturity in years		Weighted average rate Receive		Pay		Estimated fair value	
	2001 € m	2000 € m	**2001**	2000	**2001 %**	2000 %	**2001 %**	2000 %	**2001 € m**	2000 € m
Interest rate swaps:										
Receive fixed										
1 year or less	**9,216**	14,692	**0.48**	0.42	**4.78**	5.31			**205**	207
1 - 5 years	**18,023**	12,263	**2.25**	2.37	**5.14**	5.51			**373**	155
5 - 10 years	**2,574**	1,647	**7.43**	7.30	**6.05**	4.95			**84**	35
	29,813	28,602	**2.15**	1.65	**5.11**	5.37	**3.95**	5.39	**662**	397
Pay fixed										
1 year or less	**7,991**	7,458	**0.58**	0.39			**4.82**	5.49	**(134)**	(48)
1 - 5 years	**15,784**	12,115	**2.22**	2.45			**5.16**	5.66	**(385)**	(144)
5 - 10 years	**1,823**	2,432	**9.27**	8.36			**5.78**	6.12	**(50)**	(39)
	25,598	22,005	**2.21**	2.40	**3.54**	5.61	**5.10**	5.66	**(569)**	(231)
Pay/receive floating										
1 year or less	**–**	11	**–**	0.26	**–**	7.77			**–**	–
1 - 5 years	**99**	13	**2.00**	2.18	**2.46**	6.56			**–**	–
5 - 10 years	**15**	–	**9.33**	–	**4.43**	–			**–**	–
	114	24	**2.96**	1.33	**2.72**	7.09	**3.26**	6.72	**–**	–
Forward rate agreements:										
Loans										
1 year or less	**1,582**	1,763	**0.44**	0.72	**4.57**	6.12			**5**	3
1 - 5 years	**–**	424	**–**	1.32	**–**	7.01			**–**	2
	1,582	2,187	**0.44**	0.84	**4.57**	6.29			**5**	5
Deposits										
1 year or less	**2,807**	2,385	**0.52**	0.70			**4.50**	5.64	**(2)**	(4)
1 - 5 years	**740**	140	**1.33**	1.40			**5.46**	6.96	**1**	(2)
	3,547	2,525	**0.69**	0.74			**4.70**	5.72	**(1)**	(6)
Interest rate options:										
Purchased										
1 year or less	**1,491**	9,012	**0.67**	0.40	**4.19**	6.32			**1**	1
1 - 5 years	**818**	2,660	**2.02**	2.06	**3.56**	5.11			**23**	5
5 - 10 years	**27**	25	**8.00**	9.10	**4.45**	6.53			**–**	1
	2,336	11,697	**1.23**	0.80	**3.97**	6.04			**24**	7
Written										
1 year or less	**303**	2,399	**0.66**	0.24	**4.75**	5.35			**(1)**	–
1 - 5 years	**756**	1,022	**1.90**	2.35	**3.52**	5.38			**(20)**	(2)
5 - 10 years	**–**	56	**–**	5.16	**–**	5.99			**–**	–
	1,059	3,477	**1.54**	0.94	**3.87**	5.37			**(21)**	(2)

50 Derivatives *(continued)*

	Notional amount		Weighted average maturity in years		Weighted average rate Receive		Pay		Estimated fair value	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	€ m	€ m			**%**	%	**%**	%	**€ m**	€ m
Financial futures:										
1 year or less	**4,303**	18,845	**0.58**	0.47	**2.85**	5.59			**1**	(17)
1 - 5 years	**994**	3,107	**1.49**	1.54	**5.02**	5.75			**(1)**	2
	5,297	21,952	**0.74**	0.62	**3.26**	5.62			**-**	(15)
Other interest rate derivatives:										
1 year or less	**294**	519	**0.73**	0.46	**5.76**	9.36			**1**	4
1 - 5 years	**380**	686	**2.53**	1.60	**4.54**	8.51			**12**	5
5 - 10 years	**116**	–	**6.92**	–	**7.38**	–			**(10)**	–
	790	1,205	**2.51**	1.11	**5.42**	8.88	**5.61**	9.63	**3**	9
Equity derivatives:										
1 year or less	**849**	1,174	**0.50**	0.46					**(1)**	–
1 - 5 years	**1,941**	1,655	**2.70**	2.58					**(2)**	(1)
5 - 10 years	**80**	69	**5.25**	5.22					**–**	–
	2,870	2,898	**2.12**	1.78					**(3)**	(1)

The carrying value of the interest rate derivative financial instruments held for risk management purposes was € 94 million (2000: € 162 million).

Reconciliation of movements in notional amounts of interest rate instruments held for risk management purposes	**Interest rate swaps € m**	**FRA Deposits € m**	**FRA Loans € m**
At 31 December 1999	42,434	3,910	4,563
Additions	22,740	2,555	2,028
Maturities/amortisations	(14,068)	(3,933)	(4,415)
Cancellations	(815)	–	–
Exchange adjustments	340	(7)	11
At 31 December 2000	50,631	2,525	2,187
Additions	40,361	7,849	4,498
Maturities/amortisations	(34,315)	(6,851)	(5,095)
Cancellations	(1,767)	(50)	(51)
Exchange adjustments	615	74	43
At 31 December 2001	55,525	3,547	1,582

50 Derivatives ***(continued)***

Non-trading derivative deferred balances

Set out hereunder are deferred balances relating to settled transactions. These balances will be released to the profit and loss account in the same periods as the income and expense flows from the underlying transactions. At 31 December 2001 the Group had deferred income of € 65m (2000: € 73m) and deferred expense of € 89m (2000: € 88m) relating to non-trading derivatives. € 38m (2000: € 38m) of deferred income and € 51m (2000: € 41m) of deferred expense is expected to be released to the profit and loss account in 2002. During the year ended 31 December 2001, net deferred expense in relation to previous years of € 3m was released to the profit and loss account.

	2002 € 000	2003 € 000	2004 € 000	2005 € 000	2006 € 000	After 2006 € 000	Total € 000
Interest rate swaps							
Deferred income	5,484	3,814	3,173	2,696	2,686	2,360	20,213
Deferred expense	(5,200)	(4,698)	(3,127)	(2,060)	(1,471)	(2,818)	(19,374)
Forward rate agreements							
Deferred income	3,063	–	–	–	–	–	3,063
Deferred expense	(1,001)	–	–	–	–	–	(1,001)
Interest rate options							
Deferred income	6,090	3,214	204	109	28	–	9,645
Deferred expense	(5,543)	(3,484)	(935)	(666)	(107)	(120)	(10,855)
Financial futures							
Deferred income	23,514	4,403	1,419	530	501	1,568	31,935
Deferred expense	(39,875)	(8,563)	(3,205)	(2,173)	(1,643)	(2,768)	(58,227)
	(13,468)	(5,314)	(2,471)	(1,564)	(6)	(1,778)	(24,601)

The above deferred balances have related unrealised 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 31 December 2001 the Group had deferred expense of € 1m (2000: deferred income € 26m) relating to debt securities held for hedging purposes. Deferred income of € 3m (2000: € 15m) is expected to be released to the profit and loss account in 2002. During the year ended 31 December 2001, deferred expense in relation to previous years of € 15m was released to the profit and loss account.

Unrecognised gains and losses on derivatives hedges

Gains and losses on instruments used for hedging are recognised in line with the underlying items which are being hedged. The unrecognised net gain on instruments used for hedging as at 31 December 2001 was € 25m (2000: € 138m).

The net gain expected to be recognised in 2002 is € 20m (2000: € 52m) and thereafter a net gain of € 5m (2000: € 86m) is expected.

The net gain recognised in 2001 in respect of previous years was € 52m (2000: net loss of € 6m) and the net loss arising in 2001 which was not recognised in 2001 was € 61m (2000: net gain of € 134m).

51 Fair value of financial instruments

The term 'financial instruments' includes both financial assets and liabilities and also derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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 judgement and therefore cannot be determined with precision. 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.

51 Fair value of financial instruments ***(continued)***

Fair value information is not provided for certain financial instruments or for items that do not meet the definition of a financial instrument. These items include short-term debtors and creditors, intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2001.

The following table gives details of the carrying amounts and fair values of financial instruments at 31 December 2001 and 2000.

	31 December 2001		31 December 2000	
	Carrying amount € m	**Fair value € m**	Carrying amount € m	Fair value € m
Assets				
Trading financial instruments[1]				
Debt securities	**3,783**	**3,783**	2,341	2,341
Equity shares	**49**	**49**	48	48
Central government and other eligible bills	**4**	**4**	15	15
Non-trading financial instruments				
Cash and balances at central banks[1]	**1,175**	**1,175**	938	938
Items in course of collection[1]	**1,536**	**1,536**	1,116	1,116
Central government bills and other eligible bills	**45**	**45**	282	284
Loans and advances to banks[2]	**6,047**	**6,060**	4,193	4,197
Loans and advances to customers[2]	**51,216**	**51,498**	45,880	46,267
Securitised assets[1]	**182**	**182**	166	166
Debt securities	**16,299**	**16,468**	16,645	16,661
Equity shares	**283**	**283**	364	358
Liabilities				
Trading financial instruments				
Short positions in securities[1]	**205**	**205**	379	379
Non-trading financial instruments				
Deposits by banks	**13,223**	**13,261**	12,478	12,507
Customer accounts	**54,557**	**54,615**	48,437	48,527
Debt securities in issue	**5,033**	**5,041**	4,295	4,310
Subordinated liabilities	**2,020**	**2,016**	2,249	2,235
Shareholders' funds: non-equity interests	**775**	**790**	264	267
Off-balance sheet assets/(liabilities)				
Trading financial instruments[1]				
Interest rate contracts	**95**	**95**	14	14
Exchange rate contracts	**(456)**	**(456)**	221	221
Equity contracts	**1**	**1**	–	–
Non-trading financial instruments				
Interest rate contracts	**94**	**103**	162	164
Exchange rate contracts	**9**	**28**	21	158
Equity contracts	**–**	**(3)**	–	(1)

[1]The fair value of these financial instruments is considered equal to the carrying value. These instruments are either carried at market value or have minimal credit losses.

[2]The carrying values are net of the provisions for bad and doubtful debts and related unearned income.

51 Fair value of financial instruments ***(continued)***

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

Central government bills and other eligible bills

The fair value of central government bills and other eligible bills is based on quoted market prices.

Loans and advances to banks and loans and advances to customers

The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Several different techniques are employed, as considered appropriate, in estimating the fair value of loans. Where secondary market prices were available, these were used. The carrying amount of variable rate loans was considered to be at market value if there was no significant change in the credit risk of the borrower. The fair value of fixed rate loans was calculated by discounting expected cash flows using discount rates that reflected the credit and interest rate risk in the portfolio.

The fair value of money market funds and loans and advances to banks was estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Debt securities and equity shares

The fair value of listed debt securities and equity shares is based on market prices received from external pricing services or bid quotations received from external securities dealers. The estimated value of unlisted debt securities and equity shares is based on the anticipated future cashflows arising from these items.

Deposits by banks, customer accounts and debt securities in issue

The fair value of current accounts and deposit liabilities payable on demand is equal to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

Subordinated liabilities

The estimated fair value of subordinated liabilities is based upon quoted market rates.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments entered into by the Group and other off-balance sheet financial guarantees are included in note 49. 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 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 31 December 2001 and 2000.

Details of derivatives in place, including fair values, are included in note 50.

Shareholders' funds: non-equity interests

The fair value of these instruments is based on quoted market prices.

52 Consolidated cash flow statement	Notes	**2001 € m**	2000 € m
(a) Returns on investments and servicing of finance			
Interest paid on subordinated liabilities		**(108)**	(150)
Dividends paid on non-equity shares		**(17)**	(20)
Dividends paid to non-equity minority interests in subsidiaries		**(6)**	(14)
Net cash outflows from returns on investments and servicing of finance		**(131)**	(184)
(b) Taxation			
Tax paid, Republic of Ireland		**(72)**	(82)
Foreign tax paid		**(170)**	(117)
Net cash outflow from taxation		**(242)**	(199)
(c) Capital expenditure and financial investment			
Net decrease/(increase) in debt securities		**904**	(2,763)
Net decrease/(increase) in equity shares		**94**	(67)
Additions to tangible fixed assets		**(328)**	(237)
Disposals of tangible fixed assets		**30**	63
Net cash inflow/(outflow) from capital expenditure		**700**	(3,004)
(d) Acquisitions and disposals			
Acquisition of Group undertakings		**(59)**	–
Investments in associated undertakings		**(1)**	(4)
Disposals of investments in associated undertakings		**1**	6
Net cash (outflow)/inflow from acquisitions and disposals		**(59)**	2
(e) Financing			
Issue of ordinary share capital		**23**	15
Redemption of subordinated liabilities		**(311)**	–
Issue of subordinated liabilities		**–**	149
Issue of reserve capital instrument		**496**	–
Net cash inflow from financing	52(h)	**208**	164
(f) Analysis of changes in cash			
At 1 January		**2,222**	3,130
Net cash inflow/(outflow) before the effect of exchange translation adjustments		**377**	(1,016)
Effect of exchange translation adjustments		**53**	108
At 31 December	52(g)	**2,652**	2,222

52 Consolidated cash flow statement *(continued)*	**2001 € m**	2000 € m	Change in year € m
(g) Analysis of cash			
Cash and balances at central banks	**1,175**	938	237
Loans and advances to banks (repayable on demand)	**1,477**	1,284	193
	2,652	2,222	430

The Group is required to maintain balances with the Central Bank of Ireland which amounted to €399m (2000: €304m). 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 €34m (2000: €385m).

	Share capital[1]		**Subordinated liabilities**		**Non-equity minority interests**	
	2001 € m	2000 € m	**2001 € m**	2000 € m	**2001 € m**	2000 € m
(h) Analysis of changes in financing						
At 1 January	**2,165**	2,116	**2,249**	1,984	**114**	105
Effect of exchange translation adjustments	**15**	19	**80**	115	**7**	8
Cash inflow/(outflow) from financing	**519**	15	**(311)**	149	**–**	–
Other movements	**14**	15	**–**	–	**–**	1
Amortisation of issue costs	**–**	–	**2**	1	**–**	–
At 31 December	**2,713**	2,165	**2,020**	2,249	**121**	114

[1]Includes share capital, share premium and reserve capital instruments.

53 Report on directors' remuneration and interests

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, encourage them to enhance the Company's performance. In considering such packages, cognisance is taken of: the levels of remuneration for comparable positions, as advised by external consultants; the responsibilities of the individuals concerned; their individual performances measured against specific and challenging objectives; and overall Group performance.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises only non-executive directors; during 2001 its members were: Mr Lochlann Quinn (Chairman), Mr Adrian Burke (to 31 May), Mr Derek A Higgs (from 1 June) and Mr John B McGuckian. The Committee has a wide remit which includes, inter alia, determining, under advice to the Board, the specific remuneration packages of the executive directors.

53 Report on directors' remuneration and interests *(continued)*

Remuneration

	Fees[1] € 000	Salary € 000	Bonus[2] € 000	Profit share[3] € 000	Taxable benefits[4] € 000	Pension contributions[5] € 000	2001 Total € 000
Executive directors							
Frank P Bramble	**29**	**811**	**–**	**–**	**21**	**619**	**1,480**
Michael Buckley	**29**	**502**	**–**	**9**	**65**	**80**	**685**
Kevin J Kelly	**24**	**144**	**–**	**9**	**18**	**23**	**218**
Gary Kennedy	**29**	**282**	**–**	**9**	**37**	**42**	**399**
Thomas P Mulcahy	**43**	**380**	**–**	**9**	**16**	**59**	**507**
	154	**2,119**	**–**	**36**	**157**	**823**	**3,289**
Non-executive directors							
Adrian Burke	**65**					**–**	**65**
Padraic M Fallon	**31**					**–**	**31**
Dermot Gleeson	**45**					**–**	**45**
Don Godson	**46**					**–**	**46**
Derek A Higgs	**43**					**–**	**43**
John B McGuckian	**75**					**–**	**75**
Carol Moffett	**43**					**–**	**43**
Jim O'Leary	**1**					**–**	**1**
Lochlann Quinn	**207**					**–**	**207**
Michael J Sullivan	**16**					**–**	**16**
	572					**–**	**572**
Former directors							
Pensions[6]							**103**
Other payments[7]							**364**
							467
Total							**4,328**

53 Report on directors' remuneration and interests ***(continued)***

Remuneration ***(continued)***

	Fees[1]	Salary	Bonus[2]	Profit share[3]	Taxable benefits[4]	Pension contributions[5]	2000 Total
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Executive directors							
Frank P Bramble	29	783	470	–	15	424	1,721
Michael Buckley	29	307	157	13	149	50	705
Kevin J Kelly	29	309	159	13	38	50	598
Gary Kennedy	29	252	129	11	42	38	501
Thomas P Mulcahy	29	698	349	13	40	109	1,238
	145	2,349	1,264	50	284	671	4,763
Non-executive directors							
Adrian Burke	65					–	65
Padraic M Fallon	36					–	36
Dermot Gleeson	24					–	24
Don Godson	42					–	42
Derek A Higgs	4					–	4
John B McGuckian	86					–	86
Carol Moffett	41					–	41
Denis J Murphy	38					–	38
Lochlann Quinn	198					–	198
	534					–	534
Former directors							
Pensions[6]							98
Other payments[7]							327
							425
Total							5,722

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

(2) The executive directors participate in a discretionary, performance-related, incentive scheme for senior executives under which bonuses may be earned on the achievement of specific, performance-related objectives, reviewed annually. The bonus may range from 0% to 50% of annual salary, except that the bonus for Mr Frank P Bramble may range from 0% to 160% of annual salary.

(3) Information on the employees' profit sharing schemes, which are operated on terms approved by the shareholders, is given in note 44.

(4) Taxable benefits include the use of a company car or the payment of a car allowance, and benefit arising from loans made at preferential rates. Taxable benefits also include any allowances related to the undertaking of international assignments within the Group.

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

53 Report on directors' remuneration and interests *(continued)*

Remuneration *(continued)*

	Increase/(decrease) in accrued benefits during 2001[a] € 000	Accrued benefit at year-end[b] € 000	Transfer values[c] € 000
Executive directors			
Frank P Bramble	64	380	538
Michael Buckley	104	273	1,329
Kevin J Kelly	29	261	463
Gary Kennedy	15	45	103
Thomas P Mulcahy	49	553	788
Non-executive directors			
Padraic M Fallon	0.2	10	2
John B McGuckian	(0.1)	16	(1)

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

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

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

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

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

Share options

To encourage focus on long-term shareholder value, executive directors are eligible for grants of share options. Options are usually granted on a phased basis. The exercise of options granted between 1 January 1996 and 31 December 2000 is conditional on the achievement of earnings per share ('EPS') growth of at least 2% per annum, compound, above the increase in the Consumer Price Index ('CPI') over a period of not less than three and not more than five years from date of grant. The exercise of options granted since 1 January 2001 is conditional on the achievement of EPS growth of at least 5% per annum, compound, above the increase in the CPI over a period of not less than three and not more than five years from date of grant. The percentage of share capital that may be issued under the share option scheme, and individual grant limits, comply with the requirements of the Irish Association of Investment Managers.

Details of the executive directors' share options are given on page 106, and additional information in relation to the Share Option Scheme is given in note 44. Non-executive directors do not participate in that Scheme.

Service contracts

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

53 Report on directors' remuneration and interests ***(continued)***

Interests in shares

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

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

* *or later date of appointment*

(b) Options to subscribe for shares

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

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

53 Report on directors' remuneration and interests *(continued)*

Interests in shares *(continued)*

(c) Other options

On 1 January 2001 and 31 December 2001, Mr Frank P Bramble held options over 650,000 AIB American Depositary Receipts ('ADRs') (equivalent to 1,300,000 ordinary shares) at a weighted average price of US $22.45 per ADR, under the terms of the Allfirst Financial, Inc. 1997 Stock Option Plan (*note 34*) and the Allfirst Financial, Inc. 1999 Stock Option Plan. Under the terms of those Plans, ADRs are purchased in the market by a trust which holds the ADRs, and Plan participants are granted options over ADRs so held. The options granted under the 1997 Plan, equivalent to 690,000 ordinary shares, have expiry dates up to October 2008. The options granted under the 1999 Plan, equivalent to 610,000 ordinary shares, will not vest and become exercisable unless the following criteria, set by the Management and Compensation Committee of Allfirst Financial, Inc. and approved by the Nomination and Remuneration Committee, are satisfied:

– 35% of the grant on the achievement, by Allfirst, of tangible net income growth of 7.5% per annum, compound, over the two year period following the date of grant;
– 35% of the grant on the achievement, by Allfirst, of a tangible cost/income ratio of less than 55.0% for the two year period following the date of grant;
– 30% of the grant on the achievement of growth in AIB tangible EPS over the three year period following the date of grant at least equal to the growth in the CPI plus 5% per annum, compound, over that period.

(d) Long Term Incentive Plan

Under the terms of the Long Term Incentive Plan, approved by shareholders at the 2000 Annual General Meeting (see note 44), the following conditional grants of awards of ordinary shares were made during 2001:

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

These awards will not vest in the award holders unless (a) the growth in the Company's EPS, as defined in the Rules of the Plan, in any three consecutive years within the five years following the grant is not less than the growth in the CPI plus 5% per annum, compound, over the same three year period; and (b) the growth in the Company's core EPS, as defined in the Rules of the Plan, over the three year period during which the criterion at (a) is satisfied, is such as to position the Company in the top 20% of the FTSE Eurotop Banks Retail Index. Partial vesting, on a reducing scale, will occur if the growth in the Company's EPS, being below that level, is such as to position the Company in the top 45% of that Index. Vested shares must be held until normal retirement date, except that award holders may dispose of shares sufficient to meet the income tax liability arising on vesting.

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

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

54 Transactions with directors

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

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

55 Commitments

Capital expenditure

Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to €69m (2000: €69m). Capital expenditure authorised, but not yet contracted for, amounted to €152m (2000: €190m).

Operating lease rentals

The Group had annual commitments under non-cancellable operating leases as set out below.

	Property		Equipment	
	2001 € m	2000 € m	**2001 € m**	2000 € m
Operating leases which expire:				
Within one year	**3**	3	**–**	–
In the second to fifth year	**18**	9	**1**	1
Over five years	**33**	35	**–**	–
	54	47	**1**	1

The operating lease rentals in respect of property are subject to rent reviews.

56 Employees	**2001**	2000
The average full-time equivalent employee numbers by division were as follows:		
AIB Bank ROI	**9,548**	8,620
AIB Bank GB & NI	**2,909**	2,630
USA	**5,912**	5,658
Capital Markets	**2,213**	2,175
Poland	**11,100**	11,926
Group/ENeB	**715**	639
	32,397	31,648

57 Companies (Amendment) Act, 1983

The Companies (Amendment) Act, 1983, requires that, when the net assets of a company are half or less than half of its called up share capital, an extraordinary general meeting be convened. The Act further requires an expression of opinion by the auditors as to whether the financial situation of the company at the balance sheet date is such as would require the convening of such a meeting.

58 Form 20-F

An annual report on Form 20-F will be filed with the Securities and Exchange Commission, Washington D.C. and, when filed, will be available to shareholders on application to the Company Secretary.

59 Reporting currency

The currency used in these accounts is the euro which is denoted by 'EUR' or the symbol €. The euro was introduced on 1 January 1999. The countries participating in the European Single Currency are: Austria, Belgium, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Portugal, Spain and Ireland. The national currency units of these participating currencies co-existed with the euro, as denominations of the new single currency until 31 December 2001. Euro notes and coin were introduced on 1 January 2002. Ireland joined the European Single Currency at the fixed translation rate of EUR 1=IR £0.787564. Each euro is made up of one hundred cent, denoted by the symbol 'c' in these accounts.

60 Financial and other information

	2001	2000 Restated
Operating ratios		
Operating expenses[1]/operating income	**59.3%[2]**	58.8%[2]
Tangible operating expenses[3]/operating income	**58.5%[2]**	58.0%[2]
Other income[4]/operating income	**39.4%[2]**	40.5%[2]
Net interest margin:		
Group	**3.03%**	3.02%[5]
Domestic	**2.69%**	2.75%[5]
Foreign	**3.34%**	3.23%
Rates of exchange		
€/US $		
Closing	**0.8813**	0.9305
Average	**0.8947**	0.9259
€/Stg £		
Closing	**0.6085**	0.6241
Average	**0.6198**	0.6091
€/PLN		
Closing	**3.4953**	3.8498
Average	**3.6573**	4.0121

[1]Excludes integration costs of € 38.2m (2000: nil).

[2]Adjusted to exclude the impact of the exceptional foreign exchange dealing losses in 2001 and the deposit interest retention tax settlement ('DIRT') in 2000. Including the exceptional foreign exchange dealing losses and DIRT, operating expenses/operating income was 76.2% (2000: 60.8%), tangible operating expenses/operating income was 73.9% (2000: 60.0%) and other income/operating income was 23.5% (2000: 41.9%).

[3]Excludes amortisation of goodwill of € 30.9m (2000: € 26.3m) and integration costs of € 38.2m (2000: nil).

[4]Other income includes other finance income.

[5]The Group and domestic net interest margins have been adjusted to exclude the impact of the deposit interest retention tax settlement.

Capital adequacy information	2001 € m	2000 € m
Risk weighted assets		
Banking book:		
On balance sheet	**54,839**	49,396
Off-balance sheet	**10,854**	8,779
	65,693	58,175
Trading book:		
Market risks	**2,897**	1,956
Counterparty and settlement risks	**268**	91
	3,165	2,047
Total risk weighted assets	**68,858**	60,222
Capital		
Tier 1	**4,479**	3,814
Tier 2	**2,742**	2,926
	7,221	6,740
Supervisory deductions	**294**	214
Total	**6,927**	6,526

60 Financial and other information *(continued)*

Currency information	Assets 2001 €m	Assets 2000 Restated €m	Liabilities 2001 €m	Liabilities 2000 Restated €m
Euro	**35,906**	32,995	**35,288**	32,889
Other	**52,931**	47,255	**53,549**	47,361
	88,837	80,250	**88,837**	80,250

61 Average balance sheets and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2001 and 2000. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

	Year ended 31 December 2001			Year ended 31 December 2000 (Restated)		
Assets	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %
Placings with banks						
Domestic offices	**3,441**	**138**	**4.0**	2,410	114	4.7
Foreign offices	**2,041**	**117**	**5.7**	1,897	123	6.5
Loans to customers[(1)]						
Domestic offices	**21,210**	**1,390**	**6.6**	18,570	1,239	6.7
Foreign offices	**25,026**	**2,051**	**8.2**	22,772	2,056	9.0
Placings with banks and loans to customers[(1)]						
Domestic offices	**24,651**	**1,528**	**6.2**	20,980	1,353	6.4
Foreign offices	**27,067**	**2,168**	**7.9**	24,669	2,179	8.8
Funds sold						
Domestic offices	**–**	**–**	**–**	–	–	–
Foreign offices	**93**	**2**	**2.7**	75	5	6.4
Debt securities and government bills						
Domestic offices	**8,886**	**432**	**4.9**	7,100	398	5.6
Foreign offices	**11,558**	**784**	**6.8**	11,014	775	7.0
Instalment credit and finance lease receivables						
Domestic offices	**1,880**	**119**	**6.3**	1,739	109	6.3
Foreign offices	**1,458**	**90**	**6.2**	1,449	96	6.6
Total interest earning assets						
Domestic offices	**35,417**	**2,079**	**5.9**	29,819	1,860	6.2
Foreign offices	**40,176**	**3,044**	**7.6**	37,207	3,055	8.2
	75,593	**5,123**	**6.8**	67,026	4,915	7.3
Allowance for loan losses	**(939)**			(828)		
Non-interest earning assets	**8,707**			8,041		
Total assets	**83,361**	**5,123**	**6.1**	74,239	4,915	6.6
Percentage of assets applicable to foreign activities			**53.5**			55.5

[(1)]Loans to customers include money market funds. Non-accrual loans and loans classified as problem loans are also included within this caption.

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

Liabilities and stockholders' equity	Year ended 31 December 2001 Average balance € m	Interest € m	Average rate %	Year ended 31 December 2000 (Restated) Average balance € m	Interest € m	Average rate %
Interest bearing deposits and other short-term borrowings						
Domestic offices	**27,285**	**1,044**	**3.8**	22,797	944[(1)]	4.1[(1)]
Foreign offices	**32,519**	**1,588**	**4.9**	30,058	1,701	5.7
Funds purchased						
Domestic offices	**–**	**–**	**–**	–	–	–
Foreign offices	**1,694**	**65**	**3.8**	1,522	93	6.1
Subordinated liabilities						
Domestic offices	**1,459**	**81**	**5.6**	1,478	97	6.6
Foreign offices	**788**	**52**	**6.6**	750	58	7.7
Total interest bearing liabilities						
Domestic offices	**28,744**	**1,125**	**3.9**	24,275	1,041[(1)]	4.3[(1)]
Foreign offices	**35,001**	**1,705**	**4.9**	32,330	1,852	5.7
	63,745	**2,830**	**4.4**	56,605	2,893[(1)]	5.1[(1)]
Interest-free liabilities						
Current accounts	**9,578**			8,503		
Other liabilities	**4,143**			3,917		
Minority equity and non-equity interests	**298**			246		
Preference share capital	**253**			266		
Reserve capital instruments	**447**			–		
Ordinary stockholders' equity	**4,897**			4,702		
Total liabilities and stockholders' equity	**83,361**	**2,830**	**3.4**	74,239	2,893[(1)]	3.9[(1)]
Percentage of liabilities applicable to foreign activities			**53.9**			55.2

[(1)]The interest amount and the average rate have been presented to eliminate the effect of the deposit interest retention tax settlement *(note 5)*.

62 Supplementary Group financial information for US reporting purposes

Exceptional foreign exchange dealing losses

As set out in note 8(b), in accordance with Irish Generally Accepted Accounting Principles (IR GAAP) the total costs arising from the fraud in Allfirst Treasury have been reflected by way of an exceptional charge of € 789 million (after tax € 513 million) in the accounts for the year ended December 31, 2001.

Under US reporting requirements, the filing of the 2001 financial statements will effectively constitute a reissue of the financial statements for prior years. Accordingly, in the financial information provided to US investors the IR GAAP statements for prior years will require to be restated to reflect the losses arising from the fraud in the periods in which they arose. To assist in the comparison of information provided under US reporting requirements, the Group has presented its consolidated statement of income, consolidated balance sheet and other related information using this alternative presentation.

Under United States Generally Accepted Accounting Principles (US GAAP), an item of profit and loss related to the correction of an error in the financial statements is accounted for and reported as a prior period adjustment.

62 Supplementary Group financial information for US reporting purposes ***(continued)***

Exceptional foreign exchange dealing losses ***(continued)***

The losses arising from the fraud occurred over a number of years. Reflecting the losses in the periods in which they arose would have the following impact on reported amounts for 2001 and prior periods.

	2001 € m	2000 € m	1999 € m	1998 € m	1997 € m
Increase/(decrease) in income before taxes	**378**	(228)	(45)	(11)	(24)
Increase/(decrease) in income tax expense	**132**	(80)	(16)	(4)	(8)
Increase/(decrease) in reported net income	**246**	(148)	(29)	(7)	(16)

Alternative presentation of consolidated statements of income

As outlined above, under US reporting requirements the losses arising from the fraud would be reflected in the Group figures in the years in which the losses arose. The following alternative presentation of consolidated statements of income reflects this approach.

	2001 € m	2000 € m	1999 € m
Net interest income[(1)]	**2,293**	2,022	1,770
Deposit interest retention tax	**–**	(113)	–
Net interest income	**2,293**	1,909	1,770
Other income, including other finance income[(2)]	**1,493**	1,375	1,123
Exceptional foreign exchange dealing losses	**(417)**	(228)	(45)
Total operating income	**3,369**	3,056	2,848
Total operating expenses	**2,278**	1,997	1,658
Group operating income before provisions	**1,091**	1,059	1,190
Provisions	**204**	134	92
Group operating income	**887**	925	1,098
Income from associated undertakings	**4**	3	3
Income on disposal of property	**6**	5	2
Income on disposal of business	**93**	–	15
Income before taxes, preference dividends and minority interests	**990**	933	1,118
Applicable taxes	**187**	239	317
	803	694	801
Equity and non-equity minority interests in subsidiaries	**23**	38	28
Dividends on non-equity shares	**50**	20	16
	73	58	44
Consolidated net income under alternative presentation	**730**	636	757

[(1)]Excluding charge in respect of DIRT in 2000 *(note 5)*.

[(2)]Excluding exceptional foreign exchange dealing losses in all years *(note 8(b))*.

62 Supplementary Group financial information for US reporting purposes *(continued)*

Alternative presentation of consolidated balance sheet

Reflecting the losses in the period in which they arose would have had the following impact on consolidated ordinary stockholders' equity, consolidated total assets and consolidated total liabilities.

Consolidated ordinary stockholders' equity	2001 € m	2000 € m	1999 € m	1998 € m	1997 € m
Ordinary stockholders' equity as in the consolidated balance sheet	**4,851**	4,944	4,460	2,829	2,299
Adjustments:					
Cumulative impact of recognition of losses in year they occurred	**20**	(210)	(58)	(23)	(17)
Consolidated ordinary stockholders' equity under alternative presentation	**4,871**	4,734	4,402	2,806	2,282
Consolidated total assets					
Total assets as in the consolidated balance sheet	**88,837**	80,250	67,807	53,720	47,777
Adjustments:					
Other assets	**–**	(323)	(89)	(36)	(26)
Consolidated total assets under alternative presentation	**88,837**	79,927	67,718	53,684	47,751
Consolidated total liabilities and ordinary stockholders' equity					
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet	**88,837**	80,250	67,807	53,720	47,777
Adjustments:					
Expense accruals	**(11)**	–	–	–	–
Other liabilities	**(9)**	(113)	(31)	(13)	(9)
Ordinary stockholders' equity	**20**	(210)	(58)	(23)	(17)
Consolidated total liabilities and ordinary stockholders' equity under alternative presentation	**88,837**	79,927	67,718	53,684	47,751

62 Supplementary Group financial information for US reporting purposes ***(continued)***

Alternative presentation of consolidated balance sheet ***(continued)***

The following consolidated balance sheet illustrates this presentation.

	2001 € m	2000 € m	1999 € m
Assets			
Cash and balances at central banks	**1,175**	938	1,119
Items in course of collection	**1,536**	1,116	916
Central government bills and other eligible bills	**49**	297	718
Loans and advances to banks	**6,047**	4,193	3,831
Loans and advances to customers less allowance for loan losses	**51,216**	45,880	39,171
Securitized assets	**182**	166	125
Debt securities	**20,082**	18,986	15,108
Equity shares	**332**	412	297
Interests in associated undertakings	**10**	8	22
Intangible assets	**495**	466	468
Property and equipment	**1,305**	1,127	1,039
Own shares	**245**	177	123
Other assets	**1,260**	1,322	923
Prepayments and accrued income	**2,080**	1,835	1,195
Pension asset	**255**	625	796
Long-term assurance business attributable to stockholders	**304**	238	166
	86,573	77,786	66,017
Long-term assurance assets attributable to policyholders	**2,264**	2,141	1,701
Total assets	**88,837**	79,927	67,718
Liabilities and stockholders' equity			
Deposits by banks	**13,223**	12,478	8,608
Customer accounts	**54,557**	48,437	42,335
Debt securities in issue	**5,033**	4,295	4,298
Other liabilities	**3,263**	2,966	2,361
Accruals and deferred income	**2,148**	1,684	1,307
Provisions for liabilities and charges	**71**	43	34
Deferred taxation	**300**	364	216
Subordinated liabilities	**2,020**	2,249	1,984
Minority equity and non-equity interests in consolidated subsidiaries	**312**	272	227
Non-equity stockholders interests	**775**	264	245
Ordinary stockholders' equity	**4,871**	4,734	4,402
	86,573	77,786	66,017
Long-term assurance liabilities to policyholders	**2,264**	2,141	1,701
Total liabilities and stockholders' equity	**88,837**	79,927	67,718

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 (IR GAAP) and those applicable in the United States of America (US GAAP).

Debt securities and equity securities

In preparing its US GAAP information, the Group has applied SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities'.

Under IR GAAP, debt securities held for investment purposes are stated in the balance sheet at amortised cost less provision for any impairment in value. Securities held for hedging purposes are included in the balance sheet at a valuation, the basis of which is consistent with that being applied to the underlying transactions. These are classified as financial fixed assets.

Under US GAAP, debt securities held to maturity are recorded at amortized cost. Because AIB periodically sells and buys long-term debt securities in response to identified market conditions, including fluctuations in interest rates, debt securities classified as financial fixed assets in the Group balance sheet in the amount of € 16,299 million at December 31, 2001 would be classified for

62 Supplementary Group financial information for US reporting purposes ***(continued)***

Summary of significant differences between Irish and United States accounting principles ***(continued)***

US GAAP purposes as 'available-for-sale'. The purpose of these securities transactions is to minimise the risk associated with the AIB investment portfolio. At December 31, 2001 the market value of such securities was € 16,468 million. The excess of market value over amortised cost of the debt securities of € 169 million gave rise to an after tax reconciling item of € 125 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2000 debt securities in the amount of €16,645 million would be classified as 'available-for-sale'. The Group uses these securities to minimise the risk associated with the AIB investment portfolio. At December 31, 2000 the market value of such securities was € 16,661 million. At December 31, 2000 the book amount of derivative financial instruments held to hedge the debt securities within the 'available-for-sale' portfolio exceeded the fair value of these instruments by € 63 million. The excess of market value over amortised cost of the debt securities of € 16 million, offset by the excess of the book amount over fair value of the derivative financial instruments of € 63 million, gave rise to an after tax reconciling item of € 37 million negative in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2001 equity securities classified as financial fixed assets in the Group balance sheet in the amount of € 283 million would be classified as 'available-for-sale'. At December 31, 2001 the market value of these securities was € 283 million. There is no adjustment to the consolidated ordinary stockholders' equity for US GAAP purposes as the book amount equals the market value of these securities.

Under US GAAP, at December 31, 2000 equity securities classified as financial fixed assets in the Group balance sheet in the amount of € 364 million would be classified as 'available-for-sale'. At December 31, 2000 the market value of these securities was € 358 million. The excess of book amount of these securities over market value was € 6 million giving rise to an after tax reconciling item of € 4 million negative in the consolidated ordinary stockholders' equity for US GAAP purposes.

Debt securities held for hedging purposes

Under IR GAAP, certain debt securities held as financial fixed assets are held to hedge the Group's sensitivity to movements in market interest rates. Profits and losses on disposal of these debt securities are deferred and amortised to the profit and loss account over the lives of the underlying transactions.

Under US GAAP, profits and losses on disposal of debt securities are recognised immediately in the profit and loss account.

Internal derivative trades

Under IR 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 IR 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 IR GAAP is described more fully on pages 46 and 47.

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 IR 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 recognised 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 profit and loss account using the mark to market method of accounting.

Derivative transactions entered into for hedging purposes are recognised in the accounts in accordance with the accounting treatment of the underlying transactions being hedged. Gains and losses arising from hedging activities are amortised to net interest income over the lives of the underlying transactions.

Under US GAAP, all derivatives are recognized as either assets or liabilities in the statement of financial position and measured at fair value. The recognition of the changes in the fair value of a derivative depends upon its intended use. Derivatives that do not qualify for hedging treatment must be adjusted to fair value through earnings. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognised 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

62 Supplementary Group financial information for US reporting purposes ***(continued)***

Summary of significant differences between Irish and United States accounting principles ***(continued)***

FAS 133 - Derivatives and hedging activities ***(continued)***
use of the derivatives and the resulting designations. In adopting Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ('FAS 133') in its US GAAP reconciliation from January 1, 2001, AIB Group designated its derivative instruments anew for US reporting purposes on that date. The transition adjustment arising from this action is reflected in net income and other comprehensive income.

Revaluation of property
Under IR 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 IR GAAP, deferred taxation is accounted for using the liability method in respect of timing differences between the income as stated in the accounts and as computed for taxation purposes where, in the opinion of the directors, there is a reasonable probability that a tax liability or asset will arise in the foreseeable future.

Under US GAAP, the liability method is also used but deferred tax assets and liabilities are calculated for all temporary differences. A valuation allowance is raised against a deferred tax asset where it is more likely than not that some portion of the deferred tax asset will not be realised.

Under IR GAAP, deferred taxation of € 55m arising from the phased reduction in Irish corporation tax rates announced in 1998 was charged to the profit and loss account in December 31, 1998.

Under US GAAP, the impact of the phased reduction in tax rates is not recognised until the enactment of the appropriate legislation.

Depreciation
Under IR GAAP, until December 31, 1999 depreciation was generally not charged by AIB Group on freehold and long leasehold properties as their estimated useful economic lives and residual values made it insignificant. Since January 1, 2000 AIB has adopted a policy of depreciating its freehold and long leasehold property over a period not exceeding 50 years.

Under US GAAP, freehold and long leasehold property must be depreciated. In AIB's case, a period of 50 years is used in preparing its US GAAP information.

Goodwill
Goodwill arising on acquisition of subsidiary and associated undertakings prior to December 31, 1997 has been written off to reserves in the year of acquisition and is written back in the year of disposal. Goodwill arising after January 1, 1998 is capitalised and written off over its useful life, up to a maximum of 20 years.

In the US, goodwill is capitalized and amortized through income over the estimated useful life. In AIB's case, a period of 20 years has been used in preparing its US GAAP information.

Core deposit intangibles
Under US GAAP, a component of goodwill arising on acquisition of bank subsidiary undertakings which relates to retail depositors is termed core deposit intangibles. Under IR GAAP, core deposit intangibles arising prior to December 31, 1997 have been written off to reserves in the year of acquisition, as a component of goodwill.

Under US GAAP, capitalized core deposit intangibles are amortized through income over the estimated average life of the retail depositor relationship. In AIB's case a period of 10 years has been used in preparing its US GAAP information.

Long-term assurance policies
Under IR GAAP, the shareholders' interest in the long-term assurance fund is valued as the discounted value of the cash flows expected to be generated from in-force policies together with the net assets in excess of the statutory liabilities.

Under US GAAP, premiums are recognized as revenue when due from policyholders. The costs of claims are recognized when insured events occur. For traditional business, the present value of estimated future policy benefits is accrued when premium revenue is recognized. Acquisition costs are capitalized and charged to expense in proportion to premium revenue recognized. For unit-linked business, acquisition costs are amortized over the life of the contracts at a constant rate based on the present value of estimated gross profits. Initial income in respect of future services is not earned in the period assessed but recognized as income over the same amortization period and using the same amortization schedule as for acquisition costs.

62 Supplementary Group financial information for US reporting purposes *(continued)*

Summary of significant differences between Irish and United States accounting principles *(continued)*

Dividends payable on ordinary shares

Under IR 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 IR GAAP, AIB records dividends on non-equity shares in the profit and loss account 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 IR GAAP, the Group presents acceptances as a contingent liability in a footnote to the financial statements. In the US, acceptances outstanding are presented as a liability, with an equal amount presented as an asset, 'customers' acceptance liability'.

Retirement benefits

Under IR 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. Scheme assets are valued at fair value and scheme liabilities are measured using the projected unit method. The net scheme assets, reduced by deferred tax amounts are shown on the face of the balance sheet.

Under US GAAP, certain assumptions primarily in relation to the recognition of actuarial gains and losses and amortization methods are used that are different when compared with IR GAAP.

Own shares purchased

Under IR GAAP, own shares purchased are recorded at cost and reflected as fixed asset investments in the consolidated balance sheet.

Under US GAAP, own shares purchased are recorded at cost and reflected as a reduction to the consolidated ordinary stockholders' equity.

Internal use computer software

Under IR GAAP, certain specific costs incurred in respect of software for internal use can be capitalised and amortised. All other costs are expensed.

Under US GAAP, the same treatment applies, however there are additional specific costs that are capitalised which would be expensed under IR GAAP. These costs are being depreciated on a straight line basis over five years.

Transfer and servicing of financial assets

Under IR GAAP, where a transaction involving a previously recognized asset transfers to others (a) all significant rights or other access to benefits relating to that asset and (b) all significant exposure to the risks inherent in those benefits, the entire asset should cease to be recognized.

Under US GAAP, an entity de-recognizes financial assets where control has been surrendered and de-recognizes liabilities where they are extinguished. Control passes where the following criteria have been met: (a) the assets are isolated from the transferor (the seller) i.e. the assets are beyond the reach of the transferor, even in bankruptcy or other receivership, (b) the transferee (the buyer) has the right - free of any conditions that constrain it from taking advantage of the right - to pledge or exchange the assets, and (c) the transferor does not maintain effective control over the transferred assets.

Special purpose vehicles

Under IR GAAP, special purpose vehicles are consolidated as quasi-subsidiaries where risks and rewards from operations are similar to those which would be obtained for subsidiaries.

Under US GAAP, consolidation of an entity by its sponsor, the party at whose initiative the entity is activated, is required if the entity's powers and activities are not strictly limited, and the entity does not have sufficient legal equity in form held by parties other than the sponsor or its affiliates. Sufficient legal equity has been defined as at least 3% of capital at risk. Interest earned on the assets held in the special purpose vehicles has been entirely offset by the interest expense and management fees of the special purpose vehicles.

62 Supplementary Group financial information for US reporting purposes *(continued)*

Summary of significant differences between Irish and United States accounting principles *(continued)*

Reconciliation of alternative presentation to US GAAP

The Group financial statements conform with accounting principles generally accepted in Ireland. The following tables provide the significant adjustments to the alternative presentation of the consolidated net income *(Group profit attributable to the stockholders of AIB)* and consolidated ordinary stockholders' equity, total assets and total liabilities, which would be required if accounting principles generally accepted in the United States (US GAAP) had been applied instead of those generally accepted in Ireland (IR GAAP).

Consolidated net income	Year ended December 31 2001	2000 Restated	1999 Restated
	(millions except per share amounts)		
Net income *(Group profit attributable to the stockholders of AIB)* as in the consolidated profit and loss account under alternative presentation *(page 112)*	**€ 730**	€ 636	€ 757
Adjustments in respect of:			
Depreciation of freehold and long leasehold property	**5**	–	(5)
Long-term assurance policies	**(48)**	(70)	(43)
Goodwill	**(110)**	(78)	(73)
Premium on core deposit intangibles	**(7)**	(9)	(11)
Retirement benefits	**53**	94	54
Dividends on non-equity shares	**50**	20	16
Securities held for hedging purposes	**(24)**	(25)	34
Derivatives hedging available-for-sale securities	**–**	(9)	–
Internal derivative trades	**–**	(6)	(3)
Internal use computer software	**6**	11	–
Derivatives FAS 133 transition adjustment[(1)]	**122**	–	–
Derivatives FAS 133 adjustment	**(107)**	–	–
Deferred tax effect of the above adjustments	**(5)**	7	(8)
Impact of phased reduction in Irish corporation tax rates	**–**	–	(55)
Net income in accordance with US GAAP	**€ 665**	€ 571	€ 663
Net income applicable to ordinary stockholders of AIB in accordance with US GAAP	**€ 615**	€ 551	€ 647
Equivalent to	**US $ 542**		
Income per American Depositary Share (ADS*) in accordance with US GAAP	**€ 1.43**	€1.29	€1.52
Equivalent to	**US $ 1.26**		
Year end exchange rate €/US $	**0.8813**		

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

Comprehensive income	Year ended December 31 2001	2000 Restated	1999 Restated
		(millions)	
Net income in accordance with US GAAP	**€ 665**	€ 571	€ 663
Net movement in unrealized holding gains/(losses) on debt and equity securities arising during the period	**120**	110	(237)
Derivatives FAS 133 transition adjustment[(1)]	**41**	–	–
Exchange translation adjustments	**214**	233	492
Comprehensive income	**€ 1,040**	€ 914	€ 918

[(1)]Cumulative effect of the change in accounting principle for derivatives and hedging activities.

62 Supplementary Group financial information for US reporting purposes *(continued)*

Consolidated ordinary stockholders' equity	**2001**	2000 Restated	1999 Restated
	(millions except per share amounts)		
Ordinary stockholders' equity as in the consolidated balance sheet under alternative presentation *(page 114)*	**€ 4,871**	€ 4,734	€ 4,402
Revaluation of property	**(204)**	(210)	(211)
Depreciation of freehold and long leasehold property	**(27)**	(27)	(27)
Goodwill	**1,070**	1,097	1,074
Core deposit intangibles	**19**	26	33
Dividends payable on ordinary shares	**250**	221	188
Dividends on non-equity shares	**1**	–	(1)
Long-term assurance policies	**(236)**	(188)	(97)
Unrealized gains/(losses) not yet recognised on:			
Available-for-sale debt securities	**169**	16	(208)
Available-for-sale equity securities	**–**	(6)	10
Derivatives hedging available-for-sale securities	**–**	(63)	(17)
Securities held for hedging purposes	**(1)**	26	51
Internal derivative trades	**–**	(10)	(3)
Derivatives FAS 133 adjustment	**5**	–	–
Retirement benefits	**77**	(476)	(812)
Internal use computer software	**17**	11	–
Own shares	**(245)**	(177)	(123)
Deferred tax effect of the above adjustments	**(50)**	76	161
Ordinary stockholders' equity in accordance with US GAAP	**€ 5,716**	€ 5,050	€ 4,420
Equivalent to	**US $ 5,038**		
Ordinary stockholders' equity per ADS in accordance with US GAAP	**€ 12.98**	€ 11.56	€ 10.27
Equivalent to	**US $ 11.44**		
Ordinary stockholders' equity per ADS in accordance with IR GAAP	**€ 11.06**	€ 10.84	€ 10.23
Equivalent to	**US $ 9.74**		

Consolidated total assets	**2001**	2000 Restated	1999 Restated
		(millions)	
Total assets as in the consolidated balance sheet under alternative presentation *(page 114)*	**€ 88,837**	€ 79,927	€ 67,718
Revaluation of property	**(204)**	(210)	(211)
Depreciation of freehold and long leasehold property	**(27)**	(27)	(27)
Goodwill	**1,070**	1,097	1,074
Core deposit intangibles	**19**	26	33
Available-for-sale debt securities	**169**	16	(208)
Available-for-sale equity securities	**–**	(6)	10
Derivatives hedging available-for-sale securities	**–**	(63)	(17)
Internal derivative trades	**–**	(10)	(3)
Derivatives FAS 133 adjustment	**5**	–	–
Retirement benefits	**77**	(476)	(812)
Internal use computer software	**17**	11	–
Own shares	**(245)**	(177)	(123)
Special purpose vehicles	**667**	–	–
Long-term assurance policies	**(236)**	(188)	(97)
Long-term assurance assets attributable to policyholders	**(2,264)**	(2,141)	(1,701)
Securitized assets	**–**	(3)	(1)
Acceptances	**142**	147	143
Total assets in accordance with US GAAP	**€ 88,027**	€ 77,923	€ 65,778
Equivalent to	**US $ 77,579**		

62 Supplementary Group financial information for US reporting purposes *(continued)*

Consolidated total liabilities and ordinary stockholders' equity	**2001**	2000 Restated	1999 Restated
		(millions)	
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet under alternative presentation *(page 114)*	**€ 88,837**	€ 79,927	€ 67,718
Ordinary stockholders' equity	**845**	316	18
Dividends payable on ordinary shares	**(250)**	(221)	(188)
Dividends on non-equity shares	**(1)**	–	1
Acceptances	**142**	147	143
Securities held for hedging purposes	**1**	(26)	(51)
Securitized assets	**–**	(3)	(1)
Debt securities in issue re special purpose vehicles	**667**	–	–
Deferred taxation	**50**	(76)	(161)
Long-term assurance liabilities to policyholders	**(2,264)**	(2,141)	(1,701)
Total liabilities and stockholders' equity in accordance with US GAAP	**€ 88,027**	€ 77,923	€ 65,778
Equivalent to	**US $ 77,579**		

Statement of changes in ordinary stockholders' equity	**2001**	2000 Restated	1999 Restated
		(millions)	
Opening balance	**€ 5,050**	€ 4,420	€ 3,761
Net income	**665**	571	663
Dividends payable on ordinary shares	**(351)**	(302)	(252)
Dividends on non-equity shares	**(50)**	(20)	(14)
Issue of shares	**60**	105	67
Unrealized gains on debt securities and equity shares held as available-for-sale	**120**	110	(237)
FAS 133 transition adjustment	**41**	–	–
Own shares	**(68)**	(55)	(66)
Exchange translation adjustments	**214**	233	492
Other movements	**35**	(12)	6
Closing balance	**€ 5,716**	€ 5,050	€ 4,420

63 Approval of accounts

The accounts, which were approved by the board of directors on 19 February 2002, have been updated to incorporate disclosures in respect of the class action referred to in note 49 and were re-approved by the Directors on 12 March 2002.

Statement of Directors' responsibilities in relation to the Accounts

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out within their audit report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Acts to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

Following discussions with the auditors, the directors consider that, in preparing the accounts on pages 44 to 120, which have been prepared on a going concern basis, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider applicable have been followed (subject to any explanations and any material departures disclosed in the notes to the accounts).

The directors have responsibility for taking all reasonable steps to secure that the Company causes to be kept proper books of account, whether in the form of documents or otherwise, that correctly record and explain the transactions of the Company, that will at any time enable the financial position of the Company to be readily and properly audited, and that will enable the directors to ensure that the accounts comply with the requirements of the Companies Acts.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The directors, having prepared the accounts, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

Auditors' report

Independent Auditors' Report to the Members of Allied Irish Banks, p.l.c.

We have audited the accounts on pages 44 to 120 which comprise the Group profit and loss account, the Group balance sheet, the Company balance sheet, the Group cash flow statement and the Group statement of total recognised gains and losses and the related notes. These accounts have been prepared under the historical cost convention (as modified by the revaluation of certain properties and investments) and the accounting policies set out on pages 44 to 47.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable Irish law and accounting standards generally accepted in Ireland are set out in the Statement of Directors' responsibilities on page 121.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, auditing standards issued by the Auditing Practices Board applicable in Ireland and the Listing Rules of the Irish Stock Exchange.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2001, and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the Company balance sheet is in agreement with the books of account. We also report to you our opinion as to:

- whether the Company has kept proper books of account;
- whether the Report of the Directors' is consistent with the accounts; and
- whether at the balance sheet date there existed a financial situation which may require the Company to convene an extraordinary general meeting; such a financial situation may exist if the net assets of the Company, as stated in the Company balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Financial highlights, the Chairman's statement, the Directors, the Group Chief Executive's review, the Report of the Directors', the Operating and Financial Review, the Corporate Governance Statement, the Statement of Directors' responsibilities in relation to the Accounts, the Accounts in sterling, US dollars and Polish zloty, the Five year financial summary and other information for shareholders.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001, and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion, the information given in the Report of the Directors' on pages 37 to 38 is consistent with the accounts.

The net assets of the Company, as stated in the Company balance sheet on page 51 are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2001 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin 22 March 2002

Notes:

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

(b) Leglislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Accounts in sterling, US dollars and Polish zloty

Summary of consolidated profit and loss account for the year ended 31 December 2001	€ m	STG £m STG £0.6085 = €1	US $m US $0.8813 = €1	PLN m PLN 3.4953 = €1
Group operating profit before provisions and exceptional item	1,502	914	1,324	5,251
Exceptional foreign exchange dealing losses	(789)	(480)	(695)	(2,758)
Group operating profit before provisions	713	434	629	2,493
Provisions	204	124	180	712
Group operating profit	509	310	449	1,781
Income from associated undertakings	4	2	4	14
Profit on disposal of property	6	4	5	21
Profit on disposal of business	93	56	82	324
Group profit on ordinary activities before taxation	612	372	540	2,140
Taxation	55	33	49	192
Group profit on ordinary activities after taxation	557	339	491	1,948
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	484	295	427	1,692
Dividends on equity shares	380	231	335	1,328
Earnings per € 0.32 share – basic	56.2c	34.2p	49.5¢	196.4 PLN
Earnings per € 0.32 share – adjusted	119.4c	72.7p	105.2¢	417.3 PLN
Earnings per € 0.32 share – diluted	55.9c	34.0p	49.3¢	195.4 PLN

Summary of consolidated balance sheet 31 December 2001	€ m	Stg £m	US $m	PLN m
Assets				
Loans and advances to banks	6,047	3,680	5,329	21,136
Loans and advances to customers	51,216	31,165	45,137	179,015
Debt securities and equity shares	20,414	12,422	17,991	71,353
Intangible fixed assets	495	301	437	1,730
Tangible fixed assets	1,305	794	1,150	4,561
Other assets	7,096	4,318	6,253	24,801
Long-term assurance assets attributable to policyholders	2,264	1,377	1,995	7,914
	88,837	54,057	78,292	310,510
Liabilities				
Deposits by banks	13,223	8,046	11,653	46,216
Customer accounts	54,557	33,198	48,081	190,693
Debt securities in issue	5,033	3,062	4,436	17,593
Other liabilities	5,802	3,530	5,113	20,276
Subordinated liabilities	2,020	1,229	1,780	7,061
Equity and non-equity minority interests in subsidiaries	312	190	275	1,092
Shareholders' funds	5,626	3,424	4,958	19,665
Long-term assurance liabilities to policyholders	2,264	1,378	1,996	7,914
	88,837	54,057	78,292	310,510

Five year financial summary

2001 US $m	Summary of consolidated profit and loss account	2001 € m	2000 Restated € m	1999 Restated € m	1998 € m	1997 € m
					Year ended 31 December	
2,021	Net interest income before exceptional item	**2,293**	2,022	1,770	1,609	1,374
–	Deposit interest retention tax	**–**	(113)	–	–	–
2,021	Net interest income after exceptional item	**2,293**	1,909	1,770	1,609	1,374
59	Other finance income	**67**	71	71	–	–
1,257	Other income before exceptional item	**1,426**	1,304	1,052	980	757
(695)	Exceptional foreign exchange dealing losses	**(789)**	–	–	–	–
2,642	Total operating income after exceptional items	**2,997**	3,284	2,893	2,589	2,131
2,013	Total operating expenses	**2,284**	1,997	1,658	1,442	1,384
629	Group operating profit before provisions	**713**	1,287	1,235	1,147	747
180	Provisions	**204**	134	92	134	94
449	Group operating profit	**509**	1,153	1,143	1,013	653
4	Income from associated undertakings	**4**	3	3	4	9
5	Profit/(loss) on disposal of property	**6**	5	2	32	(2)
82	Profit on disposal of business	**93**	–	15	–	76
540	Group profit before taxation	**612**	1,161	1,163	1,049	736
49	Taxation on ordinary activities	**55**	319	333	315	230
–	Impact of phased reduction in Irish corporation tax rates on deferred tax balances	**–**	–	–	55	–
49		**55**	319	333	370	230
20	Equity and non-equity minority interests	**23**	38	28	29	23
44	Dividends on non-equity shares	**50**	20	16	17	18
427	Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	**484**	784	786	633	465
335	Dividends on equity shares	**380**	335	288	239	177
1.3	Dividend cover – times	**1.3**	2.3	2.7	2.7	2.6
49.5	Earnings per € 0.32 share – basic	**56.2c**	91.6c	92.5c	74.7c	60.9c
105.2	Earnings per € 0.32 share – adjusted	**119.4c**	106.7c	93.5c	81.1c	–
49.3	Earnings per € 0.32 share – diluted	**55.9c**	91.0c	91.6c	73.7c	60.6c

2001 US $m	Summary of consolidated balance sheet	2001 €m	2000 Restated €m	1999 Restated €m	1998 €m	1997 €m
					Year ended 31 December	
78,292	Total assets	**88,837**	80,250	67,807	53,720	47,777
50,626	Loans etc	**57,445**	50,239	43,127	35,496	32,390
64,170	Deposits etc	**72,813**	65,210	55,241	44,840	40,063
1,405	Dated capital notes	**1,594**	1,836	1,587	970	1,002
375	Undated capital notes	**426**	413	397	170	178
275	Equity and non-equity minority interests in subsidiaries	**312**	272	227	213	219
683	Shareholders' funds: non-equity interests	**775**	264	245	210	160
4,275	Shareholders' funds: equity interests	**4,851**	4,944	4,460	2,829	2,299
7,013	Total capital resources	**7,958**	7,729	6,916	4,392	3,858

Five year financial summary *(continued)*

Other financial data	2001 %	2000 Restated[(1)] %	1999 Restated[(1)] %	1998 %	1997 %
					Year ended 31 December
Return on average total assets	**0.67[(2)]**	1.13[(3)]	1.36	1.29[(4)]	1.23
Return on average ordinary shareholders' equity	**9.9[(2)]**	16.7[(3)]	20.9	25.4[(4)]	23.6
Dividend payout ratio	**78.5**	42.7	36.6	37.9	38.0
Average ordinary shareholders' equity as a percentage of average total assets	**5.9**	6.4	6.2	4.7	4.8
Allowance for loan losses as a percentage of total loans to customers at year end	**1.9**	1.9	1.9	1.8	1.9
Net interest margin	**3.03**	3.02	3.27	3.33	3.67
Tier 1 capital ratio	**6.5**	6.3	6.4	7.5	7.4
Total capital ratio	**10.1**	10.8	11.3	11.1	11.1

(1)Restated to include the impact of FRS 17.
(2)Excluding the impact of the exceptional foreign exchange dealing losses, the return on average total assets was 1.28% and the return on average ordinary shareholders' equity was 19.4%.
(3)Excluding the impact of the deposit interest retention tax settlement, the return on average total assets was 1.27% and the return on average ordinary shareholders' equity was 18.7%.
(4)Excluding the impact of the phased reduction in Irish corporation tax rates on deferred tax balances, the return on average total assets was 1.39% and the return on average ordinary shareholders' equity was 27.3%.

US $	Supplementary information for US investors	2001 €	2000 Restated[(1)] €	1999 Restated[(1)] €	1998 Restated[(1)] €	1997 Restated[(1)] €
						Year ended 31 December
	Per American Depositary Share (ADS):[(2)]					
1.50	Net income per alternative presentation *(note 62)*	**1.70**	1.49[(3)]	1.78	1.48	1.18
0.78	Dividend[(4)]	**0.88**	0.78	0.68	0.56	0.46
–	Tax credit on dividend[(5)]	**–**	–	–	0.07	0.10
9.74	Net assets per alternative presentation *(note 62)*	**11.06**	10.84	10.23	6.57	5.39
	Amounts in accordance with US GAAP:					
586m	Net income	**665m**	571m[(6)]	663m	650m	442m
542m	Net income attributable to ordinary stockholders	**615m**	551m[(7)]	647m	633m	427m
1.26	Net income per ADS	**1.43**	1.29[(8)]	1.52	1.49	1.12
11.44	Net assets per ADS	**12.98**	11.56	10.27	8.80	8.06
77,579m	Total assets	**88,027m**	77,923m	65,778m	53,448m	48,098m
5,038m	Ordinary stockholders' equity	**5,716m**	5,050m	4,420m	3,761m	3,416m

(1)Restated to include the impact of FRS 17, in 2000 and 1999 and the exceptional foreign exchange dealing losses in all years.
(2)With effect from close of business on 13 May 1999 the number of ordinary shares represented by one American Depositary Share was amended from six to two. Prior year data has been restated to reflect this change.
(3)€ 1.73 (US $ 1.61) when adjusted to exclude the impact of the deposit interest retention tax settlement.
(4)The actual dividend payable to US stockholders will depend on the €/US $ exchange rate prevailing.
(5)For dividends payable after 5 April 1999 the tax credit is zero.
(6)€ 674m (US $ 628m) when adjusted to exclude the impact of the deposit interest retention tax settlement.
(7)€ 654m (US $ 609m) when adjusted to exclude the impact of the deposit interest retention tax settlement.
(8)€ 1.53 (US $ 1.42) when adjusted to exclude the impact of the deposit interest retention tax settlement.

	2001 %	2000 Restated[(1)] %	1999 Restated[(1)] %	1998 Restated[(1)] %	1997 Restated[(1)] %
					Year ended 31 December
Other financial data in accordance with US GAAP:					
Return on average total assets	**0.84**	0.84[(2)]	1.16	1.26	1.08
Return on average ordinary stockholders' equity	**11.25**	11.33[(2)]	15.27	17.90	15.76
Dividend payout ratio	**61.7**	60.7	44.4	37.7	41.4
Average ordinary stockholders' equity as a percentage of average total assets	**6.68**	6.74	7.09	6.71	6.55

(1)Restated to include the impact of FRS 17, in 2000 and 1999 and the exceptional foreign exchange dealing losses in all years.
(2)Excluding the impact of the deposit interest retention tax settlement, the return on average total assets was 0.99% and the return on average ordinary shareholders' equity was 13.30%.

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Channel Islands.
Telephone + 44 1534 883 000
Facsimile + 44 1534 720 711

AIB Frankfurt
Oberlindau 5, D-60323,
Frankfurt-Main, Germany.
Telephone + 49 69 971 4210
Facsimile + 49 69 971 42116

AIB Bank (Isle of Man) Limited
PO Box 186, 10 Finch Road,
Douglas, Isle of Man IM99 1QE.
Telephone + 44 1624 639639
Facsimile + 44 1624 639636

All numbers are listed with international codes. To dial a location from within the same jurisdiction, drop the country code after the + sign and place a 0 before the area code. This does not apply to calls to First Trust from Ireland (Republic).

Additional information for shareholders

1. **Stock Exchange Listings**
   Allied Irish Banks, p.l.c. is an Irish registered company. Its ordinary shares are traded on the Irish Stock Exchange, the London Stock Exchange and, in the form of American Depositary Shares (ADS), on the New York Stock Exchange (symbol AIB). Each ADS represents two ordinary shares and is evidenced by an American Depositary Receipt (ADR). The Company's non-cumulative preference shares are listed on the Irish Stock Exchange, and are eligible for trading in the USA, in the form of American Depositary Shares, in the National Association of Securities Dealers, Inc.'s PORTAL system under rule 144A.

2. **Registrar**
   The Company's Registrar is:
   Computershare Investor Services (Ireland) Ltd., Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
   Telephone: +353-1-216 3100. Facsimile: +353-1-216 3151.
   Website: http:// www.computershare.com e-mail: web.queries@computershare.ie

   Ordinary Shareholders with access to the internet may
   – check their shareholdings on the Company's Share Register;
   – check recent dividend payment details; and
   – download standard forms required to initiate changes in details held by the Registrar

   by accessing AIB's website at www.aibgroup.com, clicking on the 'Check your Shareholding' option, and following the on-screen instructions. When prompted, the Shareholder Reference Number (shown on the shareholder's share certificate, dividend counterfoil and personalised circulars) should be entered. Alternatively, this facility may be accessed via the Registrar's website at www.computershare.com.

3. **Payment of Dividends direct to a bank account**
   Ordinary Shareholders resident in Ireland or the UK may have their dividends paid by electronic transfer direct to a designated bank account, under advice from the Company of full details of the amounts so credited. Shareholders who wish to avail of this facility should contact the Registrar (*see 2 above*).

4. **Dividend Reinvestment Plan - Ordinary Shareholders**
   The Company operates a Dividend Reinvestment Plan, under which shareholders are usually offered the right to elect to receive new shares in lieu of cash in respect of their dividends.

5. **American Depositary Shares**
   American Depositary Shares provide US residents wishing to invest in overseas securities with a share certificate and dividend payment in a form familiar and convenient to them.

   The Company's ordinary share and non-cumulative preference share ADR programmes are administered by The Bank of New York - see address on page 133.

6. **Dividend Reinvestment Plan - US ADR Holders**
   AIB's ordinary share ADR holders who wish to re-invest their dividends may participate in The Bank of New York's *Global Buy Direct* program, details of which may be obtained from The Bank of New York at 1-800-943-9715.

7. **Direct Deposit of Dividend Payments - US ADR Holders**
   Ordinary share ADR holders may elect to have their dividends deposited direct into a bank account through electronic funds transfer. Information concerning this service may be obtained from The Bank of New York at 1-888-269-2377.

8. **Dividend Withholding Tax ('DWT')**

Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from:
DWT Section, Office of the Revenue Commissioners, Government Offices, Nenagh, Co. Tipperary, Ireland.
Telephone: +353-67-33533. Facsimile: +353-67-33822. E-mail: infodwt@revenue.ie.

General

With certain exceptions, which include dividends received by non-resident shareholders who have furnished valid declaration forms (see below), dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, currently 20%. DWT, where applicable, is deducted by the Bank from dividends paid in cash or as new shares issued under the Dividend Reinvestment Plan (see 4 above). Therefore, Plan participants who are subject to DWT receive shares to the value of the dividend after deduction of DWT. The following summarises the position in respect of different categories of shareholder:

A. Irish Resident Shareholders

– Individuals

DWT is deducted from dividends paid, whether in the form of cash or as new shares, to individuals resident in the Republic of Ireland for tax purposes. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT is available either for offset against their income tax liability, or for repayment, where it exceeds the total income tax liability.

– Shareholders not liable to DWT

The following classes of shareholder who receive the dividend in a beneficial capacity are exempt from DWT, provided the shareholder furnishes a properly completed declaration, on a standard form (see below) to the Registrar, not less than three working days prior to the relevant dividend payment record date:

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Collective Investment Undertakings;
- Charities exempt from income tax on their income;
- Athletic/amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ('SPIA');
- Certain permanently incapacitated persons who are exempt from income tax; trusts established for the benefit of such persons; and Thalidomide victims exempt from income tax in respect of income arising from the investment of certain compensation payments.

Copies of the relevant declaration form may be obtained from the Company's Registrar at the address shown at 2 above, or from the Revenue Commissioners at the above address.
Once lodged with the Company's Registrar, the declaration form remains current from its date of issue until 31 December in the fifth year following the year of issue, or, within such period, until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to a shareholder not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the DWT so deducted.

– Qualifying Intermediaries (other than American Depositary Banks – see D below)

Dividends received by a shareholder who is a qualifying intermediary on behalf of a shareholder not liable to DWT may be received without deduction of DWT. A 'qualifying intermediary' is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory*, and:

**A 'relevant territory' means a member state of the European Communities, other than the Republic of Ireland, or a country with which the Republic of Ireland has entered into a double taxation agreement.*

8. **Dividend Withholding Tax ('DWT')** ***(continued)***

– holds a licence under the Central Bank Act, 1971, or a similar authorisation under the law of a relevant territory, or is owned by a company which holds such a licence;
– is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
– otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary; and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

Information concerning the conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown above. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company's Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT.

A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown above.

B. Shareholders not resident for tax purposes in the Republic of Ireland

The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:

(a) an individual who is neither resident nor ordinarily resident in the Republic of Ireland and who is resident for tax purposes in a relevant territory (as defined at * above);
(b) an unincorporated entity resident for tax purposes in a relevant territory;
(c) a company resident in a relevant territory and controlled by a non-Irish resident/residents;
(d) a company not resident in the Republic of Ireland and which is controlled by a person or persons resident for tax purposes in a relevant territory; or
(e) a company not resident in the Republic of Ireland, the principal class of whose shares are traded on a recognised stock exchange in a relevant territory or on such other stock exchange as may be approved by the Minister for Finance, including a company which is a 75% subsidiary of such a company;
or
a company not resident in the Republic of Ireland that is wholly-owned by two or more companies, each of whose principal class of shares is so traded.

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form (available from the Irish Revenue Commissioners and from the Company's Registrar), to the Registrar not less than three working days in advance of the relevant dividend payment record date, and:

– ***Categories (a) and (b) above:*** The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by (i) a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary; and (ii) a certificate from the Irish Revenue Commissioners, certifying that they have noted the information provided by the trustees.

– ***Categories (c), (d) and (e) above:*** The company's auditor must certify the declaration. In addition, in the case of companies in category (c) above, the declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes.

Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without deduction of DWT – see 'Qualifying Intermediaries' under 'Irish Resident Shareholders' at A above.

C. Dividend Statements

Each shareholder, including those receiving shares under the Dividend Reinvestment Plan, receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

8. **Dividend Withholding Tax ('DWT')** ***(continued)***

D. American Depositary Receipt ('ADR') Holders

An ADR holder whose address:

– on the register of ADRs maintained by AIB's ADR programme administrator, The Bank of New York ('BONY'), or

– in the records of a further intermediary through which the dividend is paid

is located in the United States of America is exempt from DWT, provided BONY or the intermediary concerned, as the case may be, satisfies certain conditions. In such circumstances, there is no requirement for the holder to make a declaration in order to obtain exemption from Irish DWT.

US Withholding Tax

Notwithstanding entitlement to exemption from *Irish* DWT, referred to above, ADR holders should note that, under provisions introduced by the US Internal Revenue authorities, effective from 1 January, 2001, US-resident holders of ADRs may, in certain circumstances, be liable to a *US* withholding tax on dividends received on such ADRs. This would arise, for example, where a US resident, being the beneficial owner of ADRs issued by an overseas company, fails to provide the depositary bank - or, where applicable, the Registered Broker - with a Form W-9 (tax certified document), showing, inter alia, the holder's Social Security Number or Taxpayer Identification Number. Non-US residents holding ADRs are required to submit a Form W-8BEN to the depositary bank/Registered Broker, as appropriate, to become tax certified and to avoid US withholding tax.

ADR holders with queries in this regard should contact either (i) The Bank of New York, in the case of holders registered direct with that institution – see address on page 133; (ii) the holder's Registered Broker, where applicable; or (iii) the holder's financial/taxation adviser.

Shareholding analysis
as at 31 December 2001

Size of shareholding	Shareholder Accounts Number	%	Shares Number	%
1 – 1,000	36,809	39	13,600,303	1
1,001 – 5,000	37,991	41	103,821,878	12
5,001 – 10,000	13,865	15	102,635,294	12
10,001 – 100,000	4,340	5	107,007,400	12
100,001 – over	348	–	559,625,140	63
Total	**93,353**	**100**	**886,690,015**	**100**
Geographical division				
Republic of Ireland	57,398	61	328,075,305	37
Overseas	35,955	39	558,614,710	63
Total	**93,353**	**100**	**886,690,015**	**100**

Financial calendar

Annual General Meeting: Wednesday, 29 May 2002

Dividend payment dates – Ordinary Shares:

– Second Interim Dividend 2001 - 26 April 2002
(Share Certificates posted to Dividend Reinvestment Plan Participants - 2 May 2002)

– Interim Dividend 2002 - 27 September 2002

Interim results:
Unaudited interim results for the half-year ending 30 June 2002 will be announced on 31 July 2002.

Shareholder enquiries should be addressed to:

For holders of Ordinary Shares:
Computershare Investor Services (Ireland) Ltd.
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland
Telephone +353 1 216 3100
Facsimile +353 1 216 3151
Website (for on-line shareholder enquiries):
www.aibgroup.com – click on 'Check your Shareholding'
or
www.computershare.com

For holders of ADRs in the United States:
The Bank of New York
Shareholder Relations
PO Box 11258
Church Street Station
New York, NY 10286-1258
USA
Telephone 1-888-BNY-ADRS
1-888-269-2377
Website: http://www.adrbny.com
or
Allfirst
Shareholder Relations
213 Market Street, PO Box 2961
Harrisburg, PA 17105-2961
Telephone 1-800-458 0348
Email: ann.l.kerman@allfirst.com

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