Allied Irish Banks, p.l.c.

Report & Accounts 2004

Annual Report and Accounts 2004

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Contents

Forward-Looking Information

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

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

Financial highlights

for the year ended 31 December 2004

	2004 € m	2003 € m	2002 € m
Results			
Total operating income	**3,264**	3,176	3,927
Group profit before taxation	**1,418**	1,011	1,372
Profit attributable	**1,047**	677	1,034
Profit retained	**477**	174	560
Per € 0.32 ordinary share			
Earnings – basic *(note 21)*	**122.9c**	78.8c	119.1c
Earnings – adjusted *(note 21)*	**133.1c**	109.5c	122.7c
Earnings – diluted *(note 21)*	**122.4c**	78.4c	117.9c
Dividend	**59.40c**	54.00c	49.06c
Dividend cover – times	**2.0**	1.5	2.4
Net assets	**628c**	587c	471c
Performance measures			
Return on average total assets	**1.17%**	0.90%	1.24%
Return on average ordinary shareholders' equity	**20.2%**	14.5%	23.7%
Return on average ordinary shareholders' equity - tangible(1)	**29.6%**	20.0%	27.4%
Balance sheet			
Total assets	**102,240**	80,960	85,821
Shareholders' funds: equity interests	**5,399**	4,942	4,180
Loans etc	**67,156**	53,326	58,483
Deposits etc	**83,630**	66,195	72,190
Capital ratios			
Tier 1 capital	**7.9%**	7.1%	6.9%
Total capital	**10.7%**	10.4%	10.1%

(1) *Tangible shareholders' equity excludes capitalised goodwill of € 1.2 billion at 31 December 2004 (2003: € 1.4 billion; 2002: € 0.5 billion). In addition, profit attributable has been adjusted to exclude goodwill amortisation and impairment of € 90.4 million at 31 December 2004 (2003: € 72.6 million; 2002: € 31.7 million) in arriving at return on average ordinary shareholders' equity - tangible.*

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Registered number 24173

Chairman's statement

I am pleased to report that AIB achieved excellent financial results in 2004. Our total shareholder return in 2004 was 26% which puts us well ahead of our peer group.

The fact that these results were achieved against the backdrop of the foreign exchange charges issue in the Republic of Ireland speaks eloquently of the skill and commitment of the staff in all divisions and the strength of our relationships with our customers, as well as their loyalty and understanding. I want to thank AIB's staff and management for their outstanding contribution in 2004. I also want to thank AIB's customers across the group for their understanding during what was at times a difficult year.

Regulatory issues arising in 2004

Uniquely among developed countries, banking charges in Ireland are price regulated. In May 2004, the Irish Financial Services Regulatory Authority (IFSRA) discovered that some charges filed with them by AIB in the mid-1990s for foreign exchange (FX) did not correspond with the rates charged at the counter. Although the rates charged at the counter were market rates which as a matter of law we were entitled to charge, we decided that we would refund the difference between the charges as filed and the actual charges applied.

We did this because filing inaccurately breached our obligations to our regulator, IFSRA, and our customers, each of whom should be able to trust us without question on a matter such as this.

We took a €50 million charge in our 2004 accounts to cover refunds and costs relating to this and some other smaller (non-FX) charging issues. Out of the €50 million figure, €36 million has been set aside for customer refunds, including interest. €25.6 million (including interest) of this was specifically for FX refunds with the balance relating to other refunds. Associated costs, for example those connected to the inquiries, made up the remaining €14 million set aside.

So far, we have refunded more than €17 million to customers. Despite serious efforts on our part, both through our branch network and media notices, to encourage FX refund claims, the flow of these claims from customers is much lower than we anticipated. The average refund per transaction is less than €12. We will continue to honour valid claims indefinitely. We aim to carry out full refunds on the non-FX charges matters where possible. Monies not claimed will be applied to charitable purposes.

A separate matter concerned tax compliance issues and some deal allocation practices connected with an investment vehicle called Faldor, which was set up in 1989 and terminated in the mid-1990s. Upon discovery in September 2003, these issues were reported by AIB to IFSRA and other relevant authorities including the Revenue Commissioners.

The investigation that followed found that Faldor was the only investment vehicle of this kind and that it did not receive any advantage in deal allocation to the disadvantage of other customers. The financial impact on AIB of remedying the matters investigated was not material. The inquiry also found that high quality deal allocation practices and standards have been in place in AIB Investment Managers since 1997. (The Investment Intermediaries Act of 1995 introduced formal deal allocation rules in the Irish market.) The Revenue Commissioners have stated that they have no matter outstanding in relation to these issues with AIB.

The IFSRA reports on all of these matters were issued on 23 July and 7 December.

Disciplinary action concerning people in our employment in terms of the Faldor and the FX charging matters is in progress. On my own behalf, on behalf of the AIB Board and on behalf of the company, may I express our sincere apologies for these lapses.

AIB has reviewed the way staff can raise concerns. A new Speak Up policy has been introduced to enhance existing procedures. This gives staff a choice of contacting AIB's Regulatory Compliance department, using confidential helplines, taking their concerns directly to myself or the Group CEO or contacting our regulator directly. As a further alternative employees can go to an external service provider in the United Kingdom.

Corporate Governance

Good corporate governance and regulatory compliance continues to be at the top of the agenda for companies around the world. AIB, in common with other banks and financial institutions, has implemented the *Combined Code: Principles of Good Governance and Code of Best Practice*.

This led to changes in our board committees. For more information on this, see the full corporate governance statement on page 58.

Board changes

There were changes in the composition of the AIB Board in 2004. Carol Moffett left the board after nine years of service. I want to thank her for her committed service to AIB. In August, Jennifer Winter and Kieran Crowley were appointed to the AIB Board. Jennifer Winter is a scientist who was Managing Director of SmithKline Beecham, Ireland and Vice-President GlaxoSmithKline, UK, before taking over as CEO of the Barretstown Gang Camp, the children's charity. Kieran Crowley is a chartered accountant and a former Chairman of the Small Firms Association in Ireland.

Corporate Social Responsibility

AIB aims to be a good corporate citizen and it was good to see that our CSR approach won a Chambers of Commerce in Ireland award. On page 11 you will find more details of AIB's achievements and activities in the corporate social responsibility area.

Dividend

The AIB Board is recommending a final dividend of EUR 38.5c per share payable on 28 April 2005 to shareholders on the company's register of members at the close of business on 4 March 2005. This dividend, when added to the interim dividend of EUR 20.9c per share, amounts to a total dividend of EUR 59.4c per share, an increase of 10% on 2003. It means compound growth in AIB's dividend was 12% over the last five years.

AIB has decided to suspend its dividend reinvestment plan due to the increasing dilutive impact on earnings per share growth. This means the 2004 final dividend will be paid in cash to all shareholders. A special low-cost dealing facility will be made available to shareholders to enable them to increase their holding should they wish.

Outlook

Looking ahead to the rest of 2005, the outlook is very positive. AIB is focussing on balancing the demands of continued business growth with the requirements to carry out its operations in an efficient, compliant and ethical manner.

Dermot Gleeson

Chairman
21 February 2005

The AIB Board and Executive Committee

Board of Directors

Dermot Gleeson *BA, LlM - Chairman*
Barrister, and member of the Adjunct Law Faculty of University College Dublin. Former Attorney General of Ireland and former member of the Council of State. Former Chairman of the Review Body on Higher Remuneration in the Public Sector. Member of the Royal Irish Academy and Chairman of the Irish Council for Bioethics. Director of the Gate Theatre and the Barretstown Gang Camp Limited. Joined the Board in 2000, and appointed Chairman in 2003. (Age 56)

Michael Buckley* *MA, LPh, MSI - Group Chief Executive*
Former Managing Director, AIB Poland Division and of AIB Capital Markets Division. Former Managing Director, NCB Group and public servant in Irish Government and EU. Was Chairman of the Review Body on Higher Remuneration in the Public Sector from 1995 to 2001. Director of M&T Bank Corporation, Buffalo, New York State. Joined the Board in 1995. (Age 59)

Adrian Burke *B Comm, FCA - Audit Committee Chairman*
Vice Chairperson of the Institute of European Affairs. Former president of the Institute of Chartered Accountants in Ireland, former Managing Partner of Arthur Andersen in Ireland, and former Chairman of the Joint Ethics Board of the Institutes of Chartered Accountants in Ireland, Scotland, and England and Wales. Joined the Board in 1997. (Age 63)

Kieran Crowley *BA, FCA*
Consultant. Founder of Crowley Services Dublin Ltd., which operates Dyno-Rod franchise in Ireland. Member of IBEC National Executive Council and former Chairman of Small Firms Association. Joined the Board in August 2004. (Age 53)

Colm Doherty* *B Comm*
Managing Director, AIB Capital Markets plc. Joined AIB International Financial Services in 1988, and became its Managing Director in 1991. Appointed Head of Investment Banking in 1994, and assumed his present position in 1999. Member of the International Financial Services Centre Clearing House Group. Joined the Board in 2003. (Age 46)

Padraic M Fallon *BBS, MA, FRSA*
Chairman of Euromoney Institutional Investor PLC and Director of Daily Mail & General Trust Plc in Britain. Member of the Board of Trinity College Dublin Foundation. Joined the Board in 1988. (Age 58)

Don Godson *BE, MIE, FIEI, C Eng*
Chairman of Project Management Holdings Ltd. Board Member of the Michael Smurfit Graduate School of Business at University College Dublin. Former Director and Chief Executive of CRH plc. Joined the Board in 1997. (Age 65)

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

Gary Kennedy* *BA, FCA*
Group Director, Finance & Enterprise Technology. 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. Director of M&T Bank Corporation, Buffalo, New York State, and former Vice President Enterprise Networks Europe and Managing Director, Northern Telecom (Ireland) Ltd. (Age 46)

John B McGuckian *BSc Econ - Senior Independent Non-Executive Director*
Chairman of Ulster Television plc, Irish Continental Group plc, and AIB Group (UK) p.l.c., and a Director of a number of other companies in Ireland and the UK. Former Pro-Chancellor of The Queen's University, Belfast, and former Chairman of The International Fund for Ireland and of the Industrial Development Board for Northern Ireland. Joined the Board in 1977 and appointed Senior Independent Non-Executive Director in 2003. (Age 65)

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

Jim O'Leary *MA, MSI*
Lecturer in economics at the National University of Ireland, Maynooth. Former Chief Economist at Davy Stockbrokers, and former Director of Aer Lingus, the National Statistics Board and Gresham Hotel Group. Joined the Board in 2001. (Age 48)

Michael J Sullivan *JD*
Served as US Ambassador to Ireland from January 1999 to June 2001 and as Governor of the State of Wyoming, USA, between 1987 and 1995. Director of Kerry Group plc, Sletten Construction Inc., Cimarex Energy, Inc., First Interstate BancSystem, Inc., and a Trustee of the Catholic Diocese of Wyoming. Member of the Bar, State of Wyoming. Joined the Board in 2001. (Age 65)

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

Jennifer Winter *BSc*
Chief Executive, the Barretstown Gang Camp Limited. Former Vice President GlaxoSmithKline Pharmaceuticals UK and former Managing Director of SmithKline Beecham, Ireland. Joined the Board in August 2004. (Age 44)

* *Executive Directors*

Board Committees
Information concerning membership of the Board's Audit, Nomination & Corporate Governance, Remuneration, and Corporate Social Responsibility Committees is given in the Corporate Governance statement on pages 58 to 63.

Group Executive Committee

Michael Buckley – *Group Chief Executive*

Shom Bhattacharya – *Group Chief Risk Officer*

Gerry Byrne – *Managing Director, AIB Poland Division*

Colm Doherty – *Managing Director, AIB Capital Markets*

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

Gary Kennedy – *Group Director, Finance & Enterprise Technology*

Mike Lewis – *Head of Group Strategic Human Resources*

Aidan McKeon – *Managing Director, AIB Group (UK) p.l.c.*

Group Chief Executive's Review

AIB's financial performance in 2004 was a story of strong, broadly-based growth across all our markets. This was all the more remarkable for being achieved despite the many challenges faced by the group during the year, especially in the Republic of Ireland.

The FX charging issue and other regulatory matters are dealt with in greater detail in the Chairman's Statement.

I would like to make two points about these matters. We have agreed a detailed Management Action Plan with our Irish regulator, the Irish Financial Services Regulatory Authority. This plan, which will be implemented vigorously, aims to improve and simplify product delivery processes in the Republic of Ireland, as well as further strengthen enterprise-wide quality assurance, risk and compliance functions. This will build on the work started in 2002 in the areas of risk, compliance and internal audit.

Research undertaken at the height of the public scrutiny showed an understandable fall-off in employee morale. But our staff survey in October indicated that morale was recovering. This survey also found that AIB remains ahead of the Global ISR Financial Services norms in terms of staff attitudes in 11 out of the 13 categories examined. For more on this, see pages 12 and 13.

Business Performance

The events of 2004 reaffirmed the strengths of our people in managing customer relationships.

I want to acknowledge the contribution of all our employees to this excellent business performance.

Growth was the keyword in terms of our 2004 results. AIB's adjusted earnings per share for 2004 rose by 13% when compared to a 2003 base of EUR 118.0 cent which excludes restructuring and early retirement costs. Our tangible return on equity was 29.6%. Asset quality remained strong and our capital position was strengthened with Tier 1 now at 7.9%.

We had strong income growth of 11%. Our cost growth was well contained at 7%, of which 1% was due to the investigation costs. As a result, we materially improved our productivity and our tangible cost income ratio fell 2% to 56.3%.

So what were the reasons behind our strong 2004 performance? In many ways, this was due to the improvements we have made in recent years in organising ourselves to provide a distinctive proposition to our customers.

There are three main elements to this work. Firstly, we have a cadre of dedicated relationship managers based in our branches. Secondly, we have regional business banking centres, staffed by experienced business developers backed by localised credit support teams. Finally, we have centrally-based teams with specialist sectoral expertise as well as a well-developed direct banking service.

This structure supports AIB's distinctive and traditional strengths in relationship building. It is important that we continue to invest in infrastructure and technology - and that we continue to develop the skills and professionalism of our people.

I am happy that we continue to make real progress in winning market share across all our markets. These gains were achieved in intensely competitive sectors such as mortgages, deposits, business and personal lending, stockbroking and investment products.

Our goals for 2004 included volume growth in our businesses in the Republic, the UK and the US and stronger bottom-line performance from our Poland division. I am pleased that we achieved these objectives. AIB is operating in strongly growing economies - and each of our divisions delivered impressive profit growth performance.

AIB Bank Republic of Ireland division saw its profit rise by 11% - this would have been 19% if the €50 million charge for the FX and related matters was excluded. The Irish economy was back on a fast growth track in 2004 and the division generated loan and deposit growth well ahead of the overall market. Loans increased by 30%. Deposit growth was a particular focus in the year with an increase of 16%, compared with 9% in the previous year. Business banking, mortgage and credit card businesses also did particularly well. AIB Bank in the Republic also achieved improved productivity and had a reduced bad debt provision charge.

Profit increased by 16% in AIB Bank GB and NI. First Trust made market share gains in Northern Ireland in both business banking and mortgages. Overall loans grew by 23% and deposits grew by 10%. In Great Britain we have recruited over 90 experienced business development managers in the last two years. Five new business development offices and two full business banking branches were also opened during 2004. GB's loan book grew by 33% and deposits by 19%. For the sixth time in a row, Allied Irish Bank (GB) won the Forum of Private Business Best Business Bank award.

AIB Capital Markets had a very good year, with the profit contribution growing by 30%. Corporate Banking, which accounts for about half of the division's profits, saw 32% loan growth, with customer demand strong both domestically and internationally. This was an exceptional performance. Global Treasury and Investment Banking business was also substantially ahead of 2003.

Our Poland division recovered well after a difficult 2003. Profit on a local currency basis increased by 135% with good growth recorded in deposits, mortgages, commercial leasing and credit cards. Income growth was 8%, with strong cost management resulting in a reduction in costs of 9%. Fee income growth was very good, thanks to fine performances from the division's asset management, brokerage and international payments businesses. We now have five specialised business banking centres in operation in Warsaw, Krakow, Wroclaw, Poznan and Gdansk. These will drive our business lending in the years to come. The operation in Poland is now regarded as one of the best-managed banks in the country.

M&T's contribution to AIB on a local currency basis of US $243 million increased by 15% relative to our US regional banking interests in the previous year. This is the latest in a long line of fine performances and underscores the ability of M&T's management to drive growth from a variety of income sources, depending on market conditions.

Implementing New Regulatory Standards

The volume and frequency of regulatory change continued apace in 2004. The industry is facing new requirements under Basel II, Sarbanes Oxley and International Financial Reporting Standards as well as a number of directives created by the EU Financial Services Action Plan, and some very demanding new Irish corporate governance legislation and regulatory codes.

During 2004 we saw an increase in the amount of resources devoted to implementing new systems and processes to meet these compliance requirements and, where possible, deliver business benefits to us. We continue to regard these projects as strategic imperatives and I am confident that we will meet these new regulatory requirements.

Strategy

There is a set AIB approach to doing things that allows us to deliver a distinctive customer proposition, wherever we operate. We want to bring to our customers a distinctive combination of best products (using third party suppliers where appropriate to meet customer needs), best service (with dependability at its heart), best relationships (built by knowledgeable and engaging employees) and finally, best delivery (with a wide range of channels available to our customers accessing our services).

Looking to 2005

AIB is positioned in high growth economies. We are seeing very good business momentum to date in 2005. Our guidance for adjusted earnings per share growth in 2005, on an Irish GAAP basis, would be for a range of EUR 142c to EUR 144c. In our home market, the Irish economy is in a very healthy state, growing at about 5% per annum. Employment growth in 2004 was 2.8% and is expected to be broadly similar in 2005.

Well-managed growth is the theme of our objectives for 2005.

We are striking a balance between four main aims.

These are:

- continuing strong business growth
- completion of our investment in our enterprise control infrastructure
- delivery of the regulatory projects to meet new international standards
- achieving operational excellence improvements.

During 2005 we will be recruiting a Director of Operations. This role will take ownership of all operational support activities across the enterprise and will focus on improving efficiency and service as well as reducing operational risk.

AIB's relationship with its customers, its engagement with its employees – and its wider contribution to the communities in which it operates – remain at the heart of everything we do.

Michael Buckley

Michael Buckley

AIB Group Chief Executive
21 February 2005

Corporate Social Responsibility

Being a responsible corporate citizen is very important to AIB, wherever we operate. We support the voluntary approach to corporate social responsibility and follow best industry practices.

A sub-committee of the main AIB Board – the Corporate Social Responsibility Committee – assists the company in discharging its social responsibilities.

In November 2004, AIB Bank in the Republic received the Chambers of Commerce of Ireland CSR Award. This recognised AIB's development of flexible workplace practices – about 14% of AIB staff in the Republic have a family friendly working arrangement – as well as its involvement in community projects through the Better Ireland programme.

Business in the Community

AIB takes an active role in Business in the Community in both the Republic and Northern Ireland. BITC is a unique movement of companies committed to continually improving their positive impact on society.

In Northern Ireland, a number of First Trust Bank employees took part in the BITC's Ready for Change initiative, completing short-term secondments in community and voluntary organisations. First Trust Bank Managing Director Dennis Licence is chairman of BITC Northern Ireland.

First Trust Bank is also in the BITC Percent Club, investing at least 1% of pre-tax profit back into the community.

Environment

More than 300 AIB and First Trust Bank branches have connected to green electricity since the start of 2004. This environmentally friendly electricity is generated from renewable resources such as wind, low-impact hydroelectric developments and biomass energy.

AIB plans to connect head office locations in the Republic to another form of environmentally friendly electricity called brown energy generated from resources such as natural gas. These locations cannot use green energy due to the very high demand for power day and night.

First Trust Bank won a Tidy Belfast Platinum Award for its head office buildings and branch locations in Belfast city centre.

Community

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

One major initiative is the AIB Better Ireland Programme. It focuses on three main issues affecting children in Ireland – drug and alcohol abuse, poverty and its affect on education, and homelessness.

The programme has donated almost €9 million to 650 projects since it began three and a half years ago. In 2004, €2.84 million was donated. One of the main elements of the programme is the Schoolmate project which was developed in partnership with Barnardos, the Irish Society for the Prevention of Cruelty to Children and Focus Ireland. Schoolmate is about improving the lives of children most at risk of missing school by supporting a range of measures aimed at preventing school failure and educational disadvantage.

Better Ireland also supports other groups working in the area of the three causes as well as staff involvement. The AIB Partnership Fund recognises staff commitment to various charities and projects by matching any funds they raise or by making a payment to the organisation to recognise the personal time given by the employee.

Research from Amarach Consulting conducted in July 2004 found that 45% of Irish adults identified AIB as the company most associated with corporate giving.

AIB Bank in the Republic launched a website in September 2004 for five to ten year olds. The site aims to promote financial literacy through games, guides and financial information.

Allied Irish America supports community development by providing grants to low income housing organisations. AIA is also involved in the Painted Turtle Camp in California which is affiliated to the Hole in the Wall Gang camps founded by actor Paul Newman.

In 2004, BZWBK launched the Bank of Children's Smiles. This focuses on providing support to children from poor or unemployed families and last year helped more than 20,000 children with a donation of more than PLN 1 million (€240,000).

The AIB Prize is an annual award which provides an opportunity for emerging artists by supporting a first solo exhibition for the winner.

BZWBK's affinity credit card with the Polish Humanitarian Organisation continued to raise funds to provide at least one hot meal every school day to children in need. More than 112,000 dinners were provided in 2004.

More than 60 AIB employees took part in Junior Achievement, teaching primary and second level schoolchildren about the world of business.

Allied Irish Bank (GB) has a range of sponsorships in the public sector and with faith-based charities including the City & Guilds Bursary, Coleg Gwent, Epsom College, the Girls School Association and the State Boarding Schools Association. It also has an on-going commitment to the Duke of Edinburgh's Award.

In September 2004, First Trust Bank won the overall award from the Northern Ireland Council for Voluntary Action Link Awards. This award recognised the bank's staff charity support for ChildLine Northern Ireland in 2003. First Trust Bank's staff charity for 2004 is the Sargent Cancer Care for Children.

AIB launched the Staff Tsunami Fund in partnership with the aid agency GOAL in early 2005 in response to the emergency in South East Asia. Staff across the group have already raised more than €800,000 – which is being matched on a three to one basis by AIB. The total is expected to reach €4 million and will be donated to GOAL for long-term regeneration projects in Sri Lanka.

The AIB Code of Business Ethics

Honesty, integrity and fairness are at the heart of AIB's relationship with its shareholders, its customers and other stakeholders. A new Code of Business Ethics, jointly sponsored by the Chairman and the Group Chief Executive, was launched in January 2004. The Code sets out our ethical standards for doing business and is mandatory for all employees. The code can be viewed on the AIB website.

The Code is a central governance document and forms the basis for AIB policies, including a new Speak Up policy. A Leadership Code for senior executives was introduced in October 2004.

AIB is committed to reviewing the effectiveness of the Code of Business Ethics on an ongoing basis to ensure that it is appropriate to the needs of the business and is being followed. This was done in the early part of 2005 and concluded that staff now have a high awareness of the ethical standards required in their job and that the code is generally well understood. Work is continuing to fully embed the Code.

AIB encourages its staff to speak up through the channels provided.

AIB surveys its employees – one of its most important stakeholders – with the aim of improving business performance. By identifying the key issues for staff, AIB can focus on improving those aspects of their working lives that have maximum impact on employee engagement, and therefore on productivity.

In Ireland and the UK AIB has surveyed staff annually for a number of years. This survey, which has voluntary response rates of over 80%, provides management with insights on the views of employees and informs HR strategy, processes and practices. This survey approach was also introduced in AIB Poland in 2004.

The staff survey has shown strong and continuous improvement in most aspects of working life in AIB in recent years. Perhaps not surprisingly given the difficult events of last year, the 2004 findings show a reversal in this trend.

However, when AIB is compared to its peer companies in the financial services sector, the employee's experience of working life is relatively positive. Particular AIB strengths include performance evaluation, training, goal and role clarity, and effectiveness of line management. Teamwork also remains a key strength of the AIB culture.

While these aspects remain strong against the ISR Global High Performance norm, there are less impressive ratings on other aspects.

A number of initiatives have been put in place in the last six months to address the issues identified by staff in the survey.
These include:

- a commitment to a balanced approach to pursuing well-managed growth, ensuring the right balance between regulation/control and empowerment,
- reviews of product delivery processes and procedures,
- realignment of a range of responsibilities through organisational restructuring,
- a substantial Management Action Programme addressing the compliance and regulatory issues that were identified in 2004.

Employee Information – AIB Group

	2004	2003
Total employees	**23,834**	23,902
Number of countries staff employed	**10**	9
Permanent/Temporary Staff (%)	**92%(P)/8%(T)**	92%(P)/8%(T)
Male/Female employees (%)	**34%(M)/66%(F)**	34%(M)/66%(F)
Voluntary attrition rate (%)	**4.8%**	4.29%
Participation rate: Employee profit sharing share scheme (ROI & UK only)	**90%**	90%

* All data as at year end

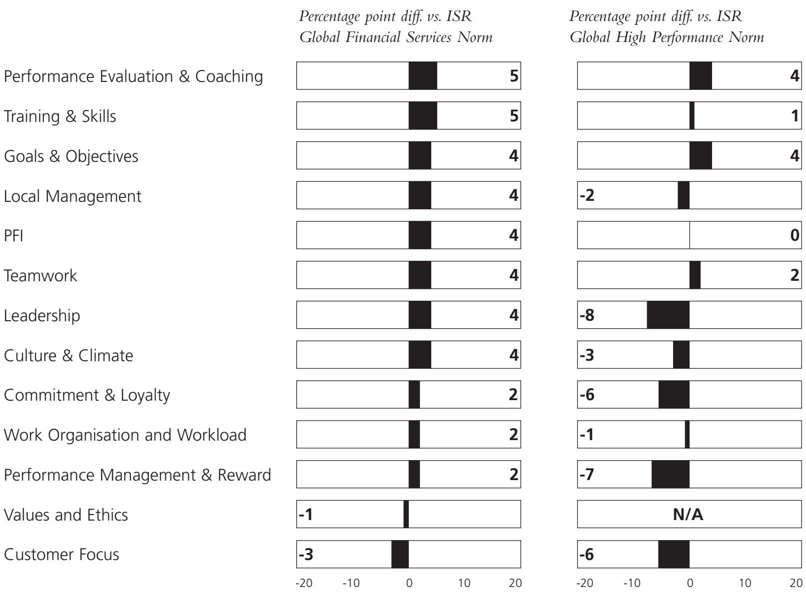
The survey findings in the Poland division show a very high sense of capability and role clarity among all staff. This reflects the success of the major change programmes which have taken place over the past four years. The findings indicate that a concentration on line management people skills will bring benefits, and that there is still some way to go in regard to further training and development of staff in Poland.

Specific questions on the Code of Business Ethics were included as part of the 2004 Staff Survey in an effort to measure how well the Code is understood by employees. This discovered that staff have a clear understanding of the ethical standards required in their job and regard it as relevant to their work. However, perceptions of its relevance and its help in the working day varies across the group.

Employees have the opportunity to raise issues locally and with senior management through the group's Speak Up policy launched in 2004. The Speak Up policy also provides an additional external helpline manned by the charity Public Concern at Work.

AIB Group employees nominated more than 15,000 of their colleagues for recognition awards last year with over 2,000 people honoured. The Recognition Programme aims to acknowledge individuals who actively demonstrate AIB's key internal behaviours.

How does AIB compare to external norms?



AIB Group 2004 (N=11,780)
ISR Global Financial Services Norm (N=149,828)
ISR Global High Performance Norm (N=144,522)

Shaded difference bar denotes a statistically significant difference: AIB Group 2004 vs relevant benchmark

Performance review

Translation of foreign locations' profits

Approximately 50% of the Group's earnings are denominated in currencies other than the euro. As a result, movements in exchange rates can have an impact on earnings growth. In 2004, the US dollar and Polish zloty average accounting rates weakened relative to the euro by 9% and 3% respectively and sterling strengthened relative to the euro by 1% compared with the year to December 2003. These rate movements, coupled with hedging profits of € 28 million in the year to December 2003 (€ 1 million in 2004) had a 4% negative impact on the adjusted earnings per share growth rate in the year to December 2004. The average effective rates including, the impact of currency hedging activities, were as follows:
€ 1 : US$ 1.17 (2003 : US$ 1.01);
€ 1 : Stg£ 0.70 (2003 : Stg£ 0.67);
€ 1 : PLN 4.58 (2003 : PLN 4.28).

Critical accounting policies

AIB's financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial instruments held for dealing purposes, assets held in the long-term assurance business and certain properties. The accounts comply with Irish statute and with Irish Generally Accepted Accounting Principles ('Irish GAAP') as well as general practices followed by the financial services industry in Ireland and the UK, except as described in Note 63 of the Notes to the accounts. In the preparation of its financial statements the Group adopts the accounting policies and estimation techniques that the Directors believe are most appropriate in the circumstances for the purpose of giving a true and fair view of the Group's state of affairs, income and cashflows. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results.

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

Provisions for bad and doubtful debts

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

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

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

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

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

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

– Probability of default i.e. the likelihood of a customer defaulting on its obligations over the next 12 months,

– Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default, and

– Exposure at default i.e. exposure is calculated by adding the expected drawn balance plus a percentage of the unused limits.

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

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

Fair value of financial instruments

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

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

Goodwill

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

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

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Retirement benefits

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

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

Long term assurance

Changes in the net present value of the profits inherent in the in-force policies of the long-term assurance business are included in the profit and loss account. In estimating the net present value of the profits inherent in the in-force policies, the calculations use assumed economic parameters (future investment returns, expense inflation and risk discount rate), taxation, mortality, persistency, expenses and the required levels of regulatory and solvency capital. The returns on fixed interest investments are set to market yields at the period end. The expense inflation assumption reflects long-term expectations of both earnings and retail price inflation.

The risk discount rate is set to market yields on Government securities plus a margin to allow for the risks borne. The mortality, persistency and expenses assumptions are chosen to represent best estimates of future experience and are based on current business experience. There is an acceptable range in which these estimates can validly fall, and the income recognised in the accounts could be significantly altered if different estimates had been chosen.

The application of other accounting policies, for example, impairment and equity shares require the use of estimation techniques that involve making assumptions about future market conditions which could impact on the timing and amounts recognised in the consolidated profit and loss account and the consolidated balance sheet.

Divisional information

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

AIB Bank ROI division

The AIB Bank ROI division, with total assets of € 43.1 billion at 31 December, 2004 encompasses the Group's retail and commercial banking operations in Ireland, Channel Islands and Isle of Man; AIB Finance & Leasing; Card Services and AIB's life and pensions subsidiary, Ark Life Assurance Company Limited. AIB Bank ROI provides banking services through a distribution network of some 281 locations (190 branches and 91 outlets), and in excess of 682 automatic teller machines ('ATMs'). AIB cardholders also have access to over 53,960 LINK ATMs in the UK as well as 855,000 Visa Plus serviced ATMs worldwide. AIB has an agency agreement with An Post, the national post office network, which enables AIB customers to carry out basic transactions at over 1,000 post office locations nationwide. A debit card 'Laser' is operated jointly with other financial institutions in Ireland.In addition, the division offers telephone and internet banking for the routine transactions of personal customers through which they can pay bills, transfer money between accounts, search for cheques and view and order statements. Telephone and internet banking is also suitable for sole trader business customers. For other business customers, an internet based banking service called iBusiness Banking is available. It offers secure internet banking and a comprehensive cash management solution, including domestic and cross-border payment functionality.

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

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

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

AIB Bank GB & NI division

The AIB Bank GB & NI division, with total assets of € 15.1 billion, operates in two distinct markets, Great Britain and Northern Ireland, with different economies and operating environments. AIB Group (UK) p.l.c., registered in the UK and regulated by the FSA (Financial Services Authority), operates as the legal entity for the division.

Great Britain

In this market, the division operates under the trading name Allied Irish Bank (GB) from 32 full service branches and 12 business development offices. The Divisional Head Office is located in Uxbridge, west of London, with significant back office processing undertaken at a Divisional Centre in Belfast.

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

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

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

Northern Ireland

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

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

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

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

Capital Markets division

AIB Capital Markets, with total assets of € 32.4 billion at 31 December, 2004, manages the Investment Banking, Asset Management, Stockbroking, Corporate Banking and Global Treasury Services of the Group (with the exception of the International Banking Services in BZWBK).

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

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

Investment Banking provides a comprehensive range of services including corporate finance through AIB Corporate Finance Limited, corporate finance and stockbroking through Goodbody Stockbrokers, structuring cross-border financing transactions and provides sophisticated back-office services through AIB International Financial Services Limited, and custodial, trustee and fund administration services through joint ventures with The Bank of New York. At 31 December, 2004, the AIB/The Bank of New York joint venture, AIB/BNY Fund Management (Ireland) Ltd., had € 99 billion of funds under administration. AIB/BNY Trust Company Limited had assets under custody of € 84 billion. Investment Banking services also include the provision of alternative asset management activities (i.e. hedge funds), venture capital funds and property fund activities (principally property in Poland). Asset management is provided through AIB Investment Managers Limited (AIBIM) in the Republic of Ireland. The company manages assets principally for institutional and retail clients with € 9.9 billion of funds under management.

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

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

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

Poland division

Poland division, with total assets of € 6.7 billion at 31 December, 2004 comprises Bank Zachodni WBK (BZWBK) in which AIB has a 70.5% shareholding, together with its subsidiaries and associates. (BZWBK Wholesale Treasury and share of Investment Banking subsidiaries results are reported in Capital Markets division). AIB completed the merger of its Polish operations in 2001, forming BZWBK, Poland's fifth largest bank.

BZWBK's registered office is located in Wroclaw in south-western Poland. Key support functions are also located in offices based in Poznan and Warsaw. At the end of 2004, the Bank had total assets of PLN 26.2 billion, operated through 387 branches and outlets and 578 ATMs. It employed approximately 7,470 staff, including subsidiaries. BZWBK offers comprehensive services to retail and corporate customers. Apart from core banking products and services, the Bank's offering include mortgages, credit cards, retail bonds, mutual funds, treasury and capital market products, leasing and factoring facilities, foreign trade services and asset management. In providing many of its specialised services the Bank is supported by its subsidiaries. BZWBK operates mainly in the western part of the country and also has a significant presence in major urban areas across Poland such as Warsaw, Krakow, Gdansk and Lodz. The Bank now has over 40 outlets in the Warsaw market.

BZWBK Corporate Business Centers based in Poznan, Warsaw, Wroclaw, Krakow and Gdansk provide direct and comprehensive relationship-based services to large and mid-sized corporates with credit exposures in excess of PLN 4 million. It is the aim of these Centers to provide a top quality customer service proposition and at the same time ensure the highest standards of credit underwriting. This relationship approach is expected to continue to provide real benefits both for the customer and BZWBK.

Performance review

Summary Profit and Loss Account

	2004			2003
		Continuing activities	Discontinued[1] activities	Total
	€ m	€ m	€ m	€ m
Net interest income	**2,036**	1,840	94	1,934
Other finance income	**18**	14	(2)	12
Other income	**1,210**	1,124	106	1,230
Total operating income	**3,264**	2,978	198	3,176
Staff and other administrative expenses	**1,713**	1,597	112	1,709
Restructuring costs in continuing businesses	**9**	72	–	72
Depreciation and amortisation	**164**	170	9	179
Total operating expenses	**1,886**	1,839	121	1,960
Group operating profit before provisions	**1,378**	1,139	77	1,216
Provisions for bad and doubtful debts	**116**	142	10	152
Other provisions	**19**	25	–	25
Total provisions	**135**	167	10	177
Group operating profit	**1,243**	972	67	1,039
Share of operating profits of associated undertakings	**201**	143	–	143
Share of restructuring and integration costs in associated undertaking	**–**	(20)	–	(20)
Amortisation of goodwill on acquisition of associated undertaking	**(52)**	(42)	–	(42)
Profit on disposal of property	**9**	32	–	32
Profit/(loss) on disposal of businesses	**17**	(142)	1	(141)
Group profit on ordinary activities before taxation	**1,418**	943	68	1,011
Taxation on ordinary activities	**336**	299	19	318
Group profit on ordinary activities after taxation	**1,082**	644	49	693
Minority interests and non-equity dividends	**35**	15	1	16
Group profit attributable to ordinary shareholders	**1,047**	629	48	677

[1] The discontinued activities in 2003 relate to the income and expense of Allfirst Financial Inc. from 1 January 2003 to 31 March 2003 (see note 2 to the accounts).

The following commentary on profit and loss account headings covers continuing activities, which exclude Allfirst in 2003, and is based on underlying percentage growth adjusting for the impact of exchange rate movements on the translation of foreign locations' profit and excludes the transfer of Ark Life's sales force to AIB's payroll (resulted in higher payroll costs which were previously recorded as a deduction in other income as part of Ark Life profit). Allfirst, which was merged with M&T Bank Corporation ('M&T') on 1 April 2003, is a discontinued activity.

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

Total income

Total income increased by 11% to € 3,264 million in 2004.

Total operating income	**Year 2004 € m**	Year 2003 € m	*Underlying % Change 2004 v 2003*
Net interest income	**2,036**	1,840	*11*
Other finance income	**18**	14	*28*
Other income	**1,210**	1,124	*11*
Total operating income	**3,264**	2,978	*11*

A comment on net interest income and other income follows.

Average interest earning assets – continuing activities	**Year 2004 € m**	Year 2003 € m	*% Change[1] 2004 v 2003*
Average interest earning assets	**84,288**	68,270	*23*

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

Net interest margin – continuing activities[2]	**Year 2004 %**	Year 2003 %	*Basis Points Change*
Net interest margin	**2.42**	2.70	*-28*
Business margin			*-20*
Technical margin			*-8*

[2] The net interest margin for AIB Group for the year to December 2003 is included in note 61 to the accounts.

Domestic and foreign margins – continuing activities	**Year 2004 %**	Year 2003 %	*Basis Points Change*
Domestic	**2.19**	2.54	*-35*
Foreign	**2.90**	2.98	*-8*
Net interest margin	**2.42**	2.70	*-28*

Net interest income

Net interest income increased by 11% to € 2,036 million after incurring € 12 million of investigation related charges. Strong loan and deposit growth in Republic of Ireland and GB & NI divisions as well as exceptional loan growth in Corporate Banking were the key factors generating the increase. Loans to customers increased by 28% and customer accounts increased by 14% on a constant currency basis since December 2003 *(details of loan and deposit growth by division are contained on page 24).*

As disclosed in our interim results announcement, AIB introduced a new policy in respect of the investment of its capital funds. This action increased our balance sheet debt securities with a corresponding reduction in off balance sheet derivatives, the effect of which has increased reported average interest earning assets with no impact on net interest income except for any reduction in yield. This technical factor reduced the reported net interest margin by 8 basis points.

The domestic margin for the year, adjusted for the technical factor, was down 24 basis points compared with 2003 and the foreign margin decreased by 8 basis points. The domestic margin in the second half was 2 basis points lower than the first half and the foreign margin declined 18 basis points on the first half.

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

The Group net interest margin was 2.42% in 2004, with the business margin reducing by 20 basis points on 2003. The margin reduction was due to a

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continuation of trends evident in 2002 and 2003 with loans increasing at a stronger rate than deposits, higher growth in mid-market loans in the Republic of Ireland and the United Kingdom, a changing mix of products, growth in our international corporate operations and the impact of low interest rates on deposit margins and capital income.

Average loans increased at over double the rate of deposits compared with 2003 and was the largest factor in the margin reduction. While this strong lending growth generated good incremental profit, the funding impact resulted in a reduction in the overall net interest margin calculation when net interest income is expressed as a percentage of average earning assets.

While it is difficult to disaggregate trends in product margins between mix and competitive factors, competitive pricing behaviour did have some impact on deposit margins in Ireland and the United Kingdom. Our new business lending continued to meet our targeted return on economic capital hurdles. The full year impact in 2004 of ECB and Polish interest rate cuts in 2003 also had a negative impact on retail deposit margins.

The structural effect of loans growing faster than deposits and changes in business mix are expected to be continuing features with consequent impact on the net interest margin calculation. Our expectation is that the Group net interest margin will again reduce by around 20 basis points in 2005.

Other income

Other income at € 1,210 million was up 11%.

Banking fees and commissions increased by 6%, or 9% excluding € 24 million of investigation related charges and amounted to over 70% of other income. The strong growth reflects increased business volumes and strong growth in lending related fees in Republic of Ireland, GB & NI and Corporate Banking. In Poland there was good growth in international payment fees and credit card income.

Investment banking revenues were higher due to particularly strong growth in Goodbody Stockbrokers and a good increase in AIB Corporate Finance. Asset Management revenues were lower following the sale, in November 2003, of Govett to Gartmore Investment Management p.l.c.

Ark Life profit was € 72 million compared with the 2003 profit of € 60 million. The profit increase included € 12 million from a reduction in the discount rate used in the calculation of its embedded value profit after providing for the solvency margin. The discount rate was reduced from 10% to 7.5% in the fourth quarter.

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

Dividend income increased significantly reflecting a very strong increase in Poland.

The other income as a percentage of total income reduced from 38.2% to 37.6%.

Other income	**Year 2004 € m**	Year 2003 € m	*Underlying % Change 2004 v 2003*
Dividend income	**27**	15	*80*
Banking fees and commissions	**873**	830	*6*
Asset management and investment banking fees	**158**	128	*23*
Fees and commissions receivable	**1,031**	958	*8*
Less: fees and commissions payable	**(131)**	(117)	*12*
Dealing profits	**95**	103	*-6*
Contribution of life assurance company	**72**	60	*18*
Profit on termination of off-balance sheet instruments	**36**	–	*–*
Other	**79**	81	*–*
Other operating income	**187**	141	*34*
Hedging profits	**1**	24	*–*
Total other income	**1,210**	1,124	*11*

Total operating expenses

Operating expenses increased by 7% compared with 2003, (excluding restructuring and early retirement costs in both years and the Ark Life sales force reorganisation in 2003).

The increase of 7% includes € 14 million of costs relating to the investigation. Excluding these costs the increase was 6%. The growth of 6% should be viewed in the context of significantly higher business volumes and buoyant revenue growth.

Staff costs were up 5% due to higher business activity levels and normal salary increases partly offset by some benefits from the early retirement programme provided for in 2003. Other costs increased by 13%, or 11% excluding investigation related charges. The 11% increase includes consultancy and other costs to facilitate AIB's preparation for Basel II, Sarbanes Oxley and IFRS, strengthening of compliance and internal audit structures and investment in growth businesses.

Depreciation and amortisation decreased by 3% reflecting lower depreciation in Poland following branch rationalisations in 2003 and the sale of AIB's IFSC property in 2003.

Productivity improved significantly with the tangible cost income ratio reducing to 56.3% from 58.3% in 2003.

Operating expenses	**Year 2004 € m**	Year 2003 € m	*Underlying % Change 2004 v 2003*
Staff costs	**1,132**	1,082	*5*
Other costs	**581**	515	*13*
Depreciation and amortisation	**164**	170	*-3*
Operating expenses before restructuring/ early retirement costs	**1,877**	1,767	*7*
Early retirement costs	**–**	62	
Restructuring costs in continuing businesses	**9**	10	
Total operating expenses	**1,886**	1,839	

Provisions

Total provisions decreased from € 167 million in 2003 to € 135 million in 2004.

Provisions	**Year 2004 € m**	Year 2003 € m
Bad and doubtful debts	**116**	142
Contingent liabilities and commitments	**20**	9
Amounts (written back)/written off fixed asset investments	**(1)**	16
Total provisions	**135**	167

The provision for ***bad and doubtful debts*** was € 116 million compared with € 142 million in 2003, representing a charge of 0.20% of average loans compared with 0.30% in 2003. The reduction reflected strong asset quality across divisions and favourable economic environments in 2004. There was a reduction in non-performing loans as a percentage of total loans from 1.4% at 31 December 2003 to 1.2% at 31 December 2004 and provision coverage for non-performing loans was 87%.

Asset quality was strong in AIB Bank Republic of Ireland where non-performing loans reduced to 0.6% of average loans from 0.8% in 2003. There was also a reduction in the provision charge as a percentage of average loans from 0.24% to 0.14% in 2004. The provision benefited from recoveries with all portfolios proving robust.

In AIB Bank GB & NI, provision experience was particularly good with the bad debt charge reducing from 0.21% to 0.11% in 2004. Non-performing loans increased from 0.8% to 1.0% at 31 December 2004 but underlying trends remained positive.

Asset quality in Capital Markets was strong with non-performing loans remaining at 0.8% and the provision charge at 0.27% of average loans.

In Poland, the provision charge reduced to 0.9% of loans from 1.0% in 2003 including a

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€ 4 million general provision release. Asset quality continued to improve with non-performing loans continuing a downward trend and as a percentage of loans declined to 8.4% from 10.9%.

Provisions for ***contingent liabilities and commitments*** increased from € 9 million in 2003 to € 20 million in 2004 while provisions for ***amounts (written back)/written off fixed asset investments*** decreased from € 16 million to a net credit of € 1 million in 2004.

Share of operating profits of associated undertakings

The operating profit in 2004 was € 201 million compared to € 143 million in 2003 and mainly reflects AIB's 22.5% share of the income before taxes of M&T Bank Corporation, under Irish GAAP, for the year 2004 and the period from 1 April 2003 to 31 December 2003.

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

% change December 2004 v December 2003	Risk weighted assets *% change*	Loans to customers *% change*	Customer accounts *% change*
AIB Bank Republic of Ireland	29	30	*16*
AIB Bank GB & NI	25	29	*15*
Capital Markets	25	31	*6*
Poland	16	6	*10*
AIB Group	26	28	*14*

The divisional commentary on pages 26 to 30 contains additional comments on key business trends in relation to loans to customers and customer accounts.

Balance sheet

Total assets amounted to € 102 billion at 31 December 2004 compared to € 81 billion at 31 December 2003. Adjusting for the impact of currency, total assets and loans to customers were up 26% and 28% respectively since 31 December 2003 while customer accounts increased by 14%. Risk weighted assets excluding currency factors increased by 26% to € 79 billion.

Assets under management/ administration and custody

Assets under management in the Group amounted to € 13 billion and assets under administration and custody amounted to € 183 billion at 31 December 2004.

Taxation

The taxation charge was € 336 million compared with € 318 million in 2003. The effective tax rate was 23.7% compared with 31.4% in 2003 (24.0% having adjusted for taxation arising on the Allfirst / M&T transaction and the sale of Govett). The effective tax rate is influenced by the geographic mix of profits which are taxed at the rates applicable in the foreign jurisdictions.

Return on equity and return on assets

The tangible return on equity increased to 29.6% compared to 20.0% in 2003. The basic return on equity increased to 20.2% from 14.5% in 2003 and the return on assets was 1.17%, up from 0.90% in 2003.

Capital ratios

The Group was strongly capitalised at 31 December 2004 with the Tier 1 ratio at 7.9% and the total capital ratio at 10.7%. These ratios include the € 1.0 billion of perpetual preferred securities issued in December 2004.

Commentary on half-year December 2004 performance

Adjusted earnings per share increased by 7% in the half-year to December 2004 compared with the half-year to June 2004. There was strong business momentum in the second half with all divisions performing well. Loan and deposit volumes increased by 29% and 18% respectively on an annualised basis since 30 June 2004.

Capital Markets performed very well and enjoyed a very strong fourth quarter performance.

In Ark Life, there were technical adjustments, including a reduction in the discount rate used in the calculation of its embedded value profits from 10% to 7.5% generating profit of € 12 million, after providing for the solvency margin.

In the second half the effective tax rate was lower, benefiting from some taxation provision releases.

The strong business momentum coupled with the above mentioned items delivered a particularly strong second half adjusted earnings per share of EUR 68.7c.

Outlook

Accounts for 2005 will be prepared under IFRS for the first time. This will also result in a restatement of 2004 results in line with IFRS. To facilitate shareholders the following outlook is prepared on the traditional Irish Generally Accepted Accounting Principles ('IR GAAP') basis, as it allows the use of these 2004 accounts as a reference base. Adjusted earnings per share amounted to EUR 133.1c in 2004. This outcome benefited from some taxation provision releases and technical adjustments in Ark Life.

Our business is expected to continue to perform very strongly and we are anticipating another year in 2005 of buoyant loan and deposit growth. The decline in the US dollar will affect the euro translation of these profits, with an overall negative impact of approximately 1% to 2% in earnings per share growth terms anticipated from currency translation of earnings. Based on these factors our guidance for adjusted earnings per share growth in 2005 on an Irish GAAP basis would be for a range of EUR 142c to EUR 144c.

Cashflow

As reflected in the consolidated cash flow statement, there was a net increase in cash of € 60 million during the year ended 31 December 2004. Net cash inflow from operating activities was € 3,168 million, of which € 1,625 million arose from trading activities. Cash inflows from financing were € 1,744 million. The issue of preferred securities and subordinated liabilities generated cash inflows of € 990 million and € 733 million respectively. Cash outflows from taxation were € 317 million while cash outflows in relation to equity dividends were € 340 million. Cash outflows as a result of capital expenditure and financial investment were € 4,130 million, due primarily to net increases in debt securities of € 4,044 million and expenditure on property and equipment of € 112 million.

Statement of total recognised gains and losses ('STRGL')

The total recognised gains relating to the year amounted to € 780 million compared to recognised gains of € 667 million in 2003. Profit for the year ended 31 December 2004 was € 1,047 million compared to € 677 million in 2003. At 31 December 2003 the unrealised element of the gain recognised on the disposal of Allfirst of € 489 million was included and this is not repeated in 2004. Currency translation adjustments amounted to € 69 million negative compared to € 457 million negative in 2003. The currency translation difference relates to the change in value of the Group's net investment in foreign subsidiaries arising from the weakening of the US dollar and the strengthening of the Polish zloty against the euro.

The actuarial loss in retirement benefit schemes during 2004 charged to the STRGL, net of deferred tax of € 33 million, amounted to € 197 million compared to € 50 million in 2003. The actuarial loss included € 179 million from a reduction in discount rates and an experience loss on liabilities of € 150 million offset by a € 99 million experience gain on the pension scheme assets. The net pension scheme liability on funded schemes recognised within shareholders' funds was € 652 million compared with a net pension liability of € 485 million at 31 December 2003.

Divisional commentary

On a divisional basis profit is measured in euro and consequently includes the impact of currency movements. The underlying percentage change is reported in the divisional profit and loss accounts adjusting for the impact of exchange rate movements on the translation of foreign locations' profit. The profit segments by division for 2003 have been restated to reflect a change in the allocation of pension costs across business segments. Previously business segments accounted for the normalised pension contribution rate appropriate to individual pension schemes. The full impact of FRS 17 (Retirement Benefits) is now charged to each operating division. Each division now accounts for the full service cost, the expected return on pension scheme assets and the interest on pension scheme liabilities.

AIB Bank Republic of Ireland profit and loss account	Year 2004 € m	Year 2003 before early retirement costs € m	Early retirement costs € m	Year 2003 as reported € m	*Underlying % change*[1]
Net interest income	**1,126**	1,016	–	1,016	*11*
Other finance income	**20**	17	–	17	*22*
Other income	**399**	389	–	389	*1*
Total operating income	**1,545**	1,422	–	1,422	*8*
Operating expenses	**812**	747	–	747	*8*
Early retirement costs	**–**	–	40	40	*–*
Total operating expenses	**812**	747	40	787	*8*
Operating profit before provisions	**733**	675	(40)	635	*9*
Provisions	**44**	62	–	62	*-29*
Operating profit	**689**	613	(40)	573	*12*
Share of operating losses of associated undertakings	**(1)**	–	–	–	*–*
Profit on disposal of property	**7**	13	–	13	*–*
Profit on ordinary activities before taxation	**695**	626	(40)	586	*11*

[1] Excludes currency movements and the impact of the transfer of the Ark Life sales force to AIB's payroll.

AIB Bank Republic of Ireland profit was up 11%.

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.

The divisional profit increase of 11% included € 50 million of investigation related charges. The profit was up 19% before these charges. Operating income and operating expenses were both up 8%. Excluding the investigation related charges these growth rates were 11% and 6% respectively, demonstrating a strong operating income/cost gap.

Banking operations performed strongly with profit increasing by 19%. Particularly strong loan and deposit growth, higher productivity and a reduced bad debt provision charge were the key performance drivers. Loans increased by 30% and deposits performed particularly well with a 16% increase since 31 December 2003. Operating expenses were up 6% excluding the transfer of the Ark Life sales force to AIB's payroll and investigation related costs. Higher levels of business volumes and customer activity coupled with normal salary increases were the main drivers of the 6% increase. The cost income ratio was 52.5% and was impacted by the € 50 million investigation related charges, excluding these the ratio decreased to 50.4%.

There was a particularly good increase in AIB Card Services profit resulting from higher loan volumes, a 21% increase in merchant turnover, good growth in fee income reflecting higher consumer spending and a lower bad debt charge. In AIB Finance and Leasing, profit was higher reflecting a 17% increase in loan volumes and a lower bad debt charge. Ark Life reported profit of € 72 million, an 18% increase compared with the 2003 profit of € 60 million. The profit increase included € 12 million from a reduction in the discount rate used in the calculation of its embedded value profit after providing for the solvency margin. The discount rate was reduced from 10% to 7.5% in the fourth quarter. While Annual Premium Equivalent (APE) sales marginally decreased from € 104 million to € 100 million, there was a significant increase of 30% in new pension APE sales.

AIB Bank GB & NI profit and loss account	**Year 2004 € m**	Year 2003 before early retirement costs € m	Early retirement costs € m	Year 2003 as reported € m	*Underlying % change*
Net interest income	**411**	364	–	364	*12*
Other finance income	**(6)**	(5)	–	(5)	*8*
Other income	**191**	165	–	165	*14*
Total operating income	**596**	524	–	524	*12*
Operating expenses	**295**	261	–	261	*11*
Early retirement costs	**–**	–	15	15	*–*
Total operating expenses	**295**	261	15	276	*11*
Operating profit before provisions	**301**	263	(15)	248	*13*
Provisions	**13**	19	–	19	*-35*
Operating profit	**288**	244	(15)	229	*17*
Profit on disposal of property	**1**	2	–	2	*–*
Profit on ordinary activities before taxation	**289**	246	(15)	231	*16*

AIB Bank GB & NI profit was up 16%.

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

AIB Bank GB & NI continued its strong business performance in the year to 31 December 2004 with profit before taxation increasing by 16%. Loans and deposits increased by 29% and 15% respectively since 31 December 2003. Other income increased by 14%, mainly due to higher levels of arrangement fees, reflecting the growth in the loan book. While investment continued in future business development capability and regulatory driven projects, the cost income ratio reduced to 49.5%. Credit quality also remained robust and was reflected in a 35% decrease in the bad debt provision charge compared to 2003.

Allied Irish Bank (GB), primarily a business bank, achieved very significant profit growth of 21% to €149 million in 2004. There was very substantial expansion in our business base with loans and deposits increasing by 33% and 19% respectively. Significant growth was achieved in niche corporate markets, in line with strategic targets and this focus has now been extended to include the hotel and healthcare sectors. Future business capacity continues to be enhanced with five business development offices and two full business banking branches opened in the year. For the sixth consecutive occasion, 'Britain's Best Business Bank' award from the Forum of Private Business was won by Allied Irish Bank (GB) with the improved score reflecting growing out-performance in customer satisfaction, relative to our competitors.

First Trust Bank, a retail bank in Northern Ireland, also reported good profit growth with a 12% increase to € 140 million. Loans and deposits were buoyant, up 23% and 10% respectively with strong growth emanating from corporate and home mortgage lending activity, resulting in increased market share. The cost income ratio was maintained at 49%. Automation of delivery channels and improving marketing and customer relationship systems will further enhance productivity in 2005.

Divisional commentary

Capital Markets profit and loss account	Year 2004 € m	Year 2003 before loss on disposal of Govett/early retirement costs € m	Loss on disposal of Govett/early retirement costs € m	Year 2003 as reported € m	*Underlying % change*
Net interest income	**359**	312	–	312	*16*
Other finance income	**3**	2	–	2	*38*
Other income	**389**	365	–	365	*9*
Total operating income	**751**	679	–	679	*12*
Operating expenses	**403**	391	–	391	*5*
Early retirement costs	**–**	–	3	3	*–*
Total operating expenses	**403**	391	3	394	*5*
Operating profit before provisions	**348**	288	(3)	285	*22*
Provisions	**29**	46	–	46	*-37*
Operating profit	**319**	242	(3)	239	*34*
Share of operating profits of associated undertakings	**6**	7	–	7	*-26*
Profit/(loss) on disposal of businesses	**4**	7	(153)	(146)	*–*
Profit on ordinary activities before taxation	**329**	256	(156)	100	*30*

Capital Markets profit was up 30%.

Capital Markets *Global Treasury, Corporate Banking, Investment Banking and Allied Irish America ('AIA').*

Profit before taxation increased by 30% reflecting a very strong performance across each business area.

Corporate Banking performed exceptionally with operating profit up 30% and pre-tax profit up 54% on the comparative period. We experienced significant customer loan growth in both the domestic and international businesses leading to a 32% increase in advances in 2004. International businesses continued to experience substantial profit growth, notably in acquisition finance, structured finance, United Kingdom and US banking units. We retain a rigorous approach to credit risk management and continue to seek to optimise value in a quality loan portfolio.

Global Treasury profit was 20% ahead of the comparative period. Our wholesale business performed very strongly, despite having exceptionally low trading risk limits at work during the year. We were well positioned to take advantage of movements in interest rates and credit spreads and generated substantial value from our trading activities. Our customer business continued to perform very well.

Investment Banking profit was substantially ahead of 2003. Strong profit growth experienced in stockbroking services, equity trading, and corporate advisory work was underpinned by substantial market share gains across each of these businesses.

The tangible cost income ratio reduced substantially from 57% in 2003 to 52% in 2004. Operating expenses were 5% higher than 2003 reflecting a substantial investment in the growth of our business internationally and a higher level of variable costs.

Total provisions declined due to a lower credit related charge, reflecting the strong quality of our credit portfolio together with a significantly reduced level of equity investment write-downs compared to 2003.

Poland profit and loss account	Year 2004 € m	Year 2003 before restructuring costs € m	Restructuring costs € m	Year 2003 as reported € m	*Underlying % change*[1]
Net interest income	**174**	175	–	175	*2*
Other income	**188**	170	–	170	*13*
Total operating income	**362**	345	–	345	*8*
Operating expenses	**268**	298	–	298	*-9*
Restructuring costs	**–**	–	10	10	–
Total operating expenses	**268**	298	10	308	*-9*
Operating profit before provisions	**94**	47	(10)	37	*67*
Provisions	**29**	31	–	31	*-4*
Operating profit	**65**	16	(10)	6	*119*
Share of operating profit of associated undertakings	**1**	–	–	–	–
Profit on disposal of property	**1**	–	–	–	–
Profit on disposal of business	**13**	4	–	4	–
Profit on ordinary activities before taxation	**80**	20	(10)	10	*135*

[1] Percentage growth excludes restructuring costs and currency movements. As goodwill is a euro denominated asset, goodwill amortisation is excluded when calculating trends on a constant currency basis.

Poland profit was € 80 million, up 135%.

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

The profit before taxation was € 80 million in 2004 compared with € 10 million in 2003. Excluding restructuring costs of € 10 million in 2003, the profit on a local currency basis increased by 135%.

Net interest income increased by 2% with increased volumes in both loans and deposits offset by lower deposit margins. Demand for lending products improved with performing loans up 10% since 31 December 2003. Growth was recorded in key strategic products, namely mortgages, commercial leasing and credit cards. Business loans performed well in a difficult environment when overall demand for credit in the market declined in the period. Customer deposits performed strongly, particularly in the second half year benefiting from higher interest rates and better economic climate and were up 10% on 31 December 2003.

Other income growth of 13% was driven by exceptional dividend income, strong growth in international payment fees, asset management and distribution fees and brokerage revenues.

Operating expenses were lower by 9%. This reflects the ongoing focus on strong cost management together with the realisation of benefits of previous restructuring. Staff numbers have decreased by over 3,500 since the merger of WBK and Bank Zachodni in 2001 and now stand at approximately 7,500 in December 2004 (7,800 in December 2003). Staff costs reduced by 5%, operating costs by 8% and depreciation by 19%.

The provision experience across the portfolio improved considerably in the year, with the exception of provisions raised on a very small number of corporate cases. The charge as a percentage of average loans declined from 1.0% in 2003 to 0.9% in 2004 including a € 4 million general provision release. The downward trend in non-performing loans continued with non-performing loans as a percentage of total loans declining from 10.9% to 8.4%.

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

Divisional commentary

Group profit and loss account	Year 2004 € m	Year 2003 before early retirement costs € m	Early retirement costs € m	Year 2003 as reported € m
Net interest income	**(34)**	(20)	–	(20)
Other finance income	**1**	–	–	–
Other income	**43**	38	–	38
Total operating income	**10**	18	–	18
Operating expenses	**99**	66	–	66
Restructuring and early retirement costs	**9**	–	4	4
Total operating expenses	**108**	66	4	70
Operating loss before provisions	**(98)**	(48)	(4)	(52)
Provisions	**20**	8	–	8
Operating loss	**(118)**	(56)	(4)	(60)
Share of operating profits of associated undertaking - M&T	**195**	136	–	136
Share of restructuring and integration costs in associated undertaking - M&T	**–**	(20)	–	(20)
Amortisation of goodwill on acquisition of associated undertaking - M&T	**(52)**	(42)	–	(42)
Profit on disposal of property	**–**	17	–	17
Profit on disposal of business	**–**	1	–	1
Profit on ordinary activities before taxation	**25**	36	(4)	32

Group

Group *includes interest income earned on capital not allocated to divisions, the funding cost of certain acquisitions, hedging in relation to the translation of foreign locations' profit, unallocated costs of enterprise technology and central services, and the contribution from AIB's share of approximately 22.5% in M&T Bank Corporation ('M&T').*

Group reported profit of € 25 million for 2004 compared with a profit of € 32 million in 2003 (€ 36 million excluding early retirement costs).

Net interest income decreased due to lower capital income as a result of lower investment yields. Other income included gains of € 36 million (€ 23 million net of loss of yield) made in relation to closing out capital invested positions. Other income in 2003 included € 28 million hedging profits in relation to foreign currency translation exposure compared to a profit of € 1 million in 2004.

Operating expenses were higher facilitating AIB's preparation for Basel II and Sarbanes Oxley. During 2004 there were costs relating to preparation for IFRS, strengthening of compliance and internal audit structures and higher pension service costs and corporate donations.

Restructuring costs were € 9 million in 2004 relating to a write-down of property values at Group level. There were early retirement costs of € 4 million in 2003.

Provisions increased from € 8 million in 2003 to € 20 million in 2004.

AIB's share of M&T profit in 2004 amounted to € 195 million, before goodwill amortisation. On a local currency basis M&T's contribution to AIB of US$ 243 million increased by 15% relative to the Allfirst quarter March 2003 combined with M&T nine months to December 2003 contribution of US$ 212 million excluding restructuring costs. M&T reported its full year results on 11 January 2005, showing strong earnings growth with US GAAP-basis diluted earnings per share up 21% to US$ 6.00 from US$ 4.95 in 2003. Diluted net operating earnings per share, which excludes the amortisation of core deposit and other intangibles and merger related expenses, was US$ 6.38, up 12% from US$ 5.70.

In 2003 there was a profit of € 17 million from the sale of AIB's IFSC property.

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CAPITAL MANAGEMENT

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

The table opposite shows AIB Group's capital resources at 31 December 2004 and 2003. Capital resources increased by € 2.1 billion during the year ended 31 December 2004.

The increase arose primarily as a result of the issue of € 1 billion perpetual preferred securities and an increase in capital notes. In addition shareholders' equity increased arising from net retentions offset by pension plan actuarial losses and exchange rate movements.

In December 2004 AIB issued € 1 billion of perpetual preferred securities. This issue qualifies as Tier 1 capital and is included as non-equity minority interests.

The US dollar weakened by 7% and the Polish zloty strengthened by 15%, while the value of Sterling remained neutral relative to the euro, resulting in a negative foreign currency translation adjustment of € 51 million. Shareholders' equity benefited from net retentions of € 536 million and the issue of shares for dividend reinvestment and staff incentive schemes of € 205 million. The actuarial losses in the Group's retirement benefit schemes, which are recognised directly in shareholders' equity under FRS 17 – Retirement benefits, amounted to € 197 million.

	2004 **€ m**	2003 € m
Shareholders' funds equity	**5,399**	4,942
Shareholders' funds non-equity	**182**	196
Equity and non-equity minority interests	**1,212**	158
Reserve capital instruments	**497**	497
Undated capital notes	**345**	357
Dated capital notes	**1,923**	1,276
Total capital resources	**9,558**	7,426

There was a net increase in capital notes reflecting the issue of US$400 million and € 400 million offset by the redemption of € 32.2 million in subordinated capital.

Capital ratios

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

The EU Capital Adequacy Directive (CAD) distinguishes the risks associated with a bank's trading book from those in its banking book. Trading book risks are defined as those risks

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undertaken in order to benefit in the short-term from movements in market prices such as interest rates, foreign exchange rates and equity prices. The remaining risks, relating to the normal retail and wholesale banking activities, are regarded as banking book risks.

The table opposite shows the components and calculation of the Group's tier 1 and total capital ratios at December 31, 2004 and 2003.

The Group was strongly capitalised at 31 December 2004 with the tier 1 ratio improving to 7.9% and the total capital ratio at 10.7%. Risk weighted assets increased by € 15.9 billion reflecting strong loan growth across the Group.

Tier 1 capital increased by € 1.8 billion to € 6.2 billion. This increase was as a result of the issue of € 1 billion of perpetual preferred securities in December 2004 and the positive impact of net retentions.

Tier 2 capital increased by € 220 million primarily as a result of subordinated debt issues. In calculating the capital ratios for the Group the subordinated capital that was redeemed in January 2005, US$ 250 million and € 200 million, has not been included as capital.

Supervisory deductions increased by € 80 million, primarily reflecting the increase in long-term assurance business attributable to shareholders.

Capital base	**2004 € m**	2003 € m
Tier 1		
Paid up ordinary share capital	**294**	290
Eligible reserves	**4,885**	4,280
Equity and non equity minority interests in subsidiaries	**1,212**	158
Non-cumulative preference shares	**182**	196
Reserve capital instruments	**497**	497
Less: supervisory deductions	**(850)**	(970)
Total tier 1 capital	**6,220**	4,451
Tier 2		
Fixed asset revaluation reserves	**547**	490
General provisions	**277**	316
Subordinated perpetual loan capital	**273**	278
Subordinated term loan capital	**1,562**	1,355
Total tier 2 capital	**2,659**	2,439
Gross capital	**8,879**	6,890
Supervisory deductions	**(469)**	(389)
Total capital	**8,410**	6,501
Risk weighted assets		
Banking book:		
On balance sheet	**61,718**	48,831
Off-balance sheet	**10,960**	8,602
	72,678	57,433
Trading book:		
Market risks	**5,149**	4,566
Counterparty and settlement risks	**712**	616
	5,861	5,182
Total risk weighted assets	**78,539**	62,615
Capital ratios		
Tier 1	**7.9%**	7.1%
Total	**10.7%**	10.4%

RISK MANAGEMENT

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

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

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

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

- Policies, instructions and guidelines
- Identification of risk
- Risk analysis
- Risk measurement
- Credit and Market risk limits
- Monitoring and control, and
- Reporting.

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

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

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

In undertaking its responsibilities, internal audit adopts a risk-based approach, which translates into a comprehensive programme of work that provides an independent assessment of key governance, risk management and control processes. Included in its work are reviews of the self-assessments of operational risks and controls undertaken by the businesses. There is also an ongoing review of risk

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identification standards and risk management methodologies which includes testing of the risk mitigators adopted by management.

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

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

Credit risk

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

Credit management and control

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

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

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

Credit risk on derivatives

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

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

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

Country risk

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

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

Settlement risk

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

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

Rating methodologies

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

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

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

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

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

Provisioning for bad & doubtful debts

AIB provides for bad and doubtful debts in a prompt and conservative way across the credit portfolios. The rating models provide a systematic discipline in triggering the need for provisioning on a timely basis. There are two types of provisions i.e. specific and general.

Specific provisions arise when the recovery of a specific loan is in significant doubt. The amount of the specific provision will reflect the financial condition of the borrower and the net realisable value of any security held for the loan.

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

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

Credit performance measurement framework

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

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

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

Further information on credit risk

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

– Amounts written off/(written back) fixed asset investments *(Note 12)*
– Loans and advances to banks *(Note 23)*
– Loans and advances to customers *(Notes 24, 25)*
– Provision for bad and doubtful debts *(Note 26)*
– Securitised assets *(Note 27)*
– Debt securities *(Note 28)*
– Provisions for liabilities and charges *(Note 40)*
– Memorandum items - contingent liabilities and commitments *(Note 49)*

Market risk

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

Risk management and control

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

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

Measurement methods

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

VaR

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

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

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

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

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

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

The following table illustrates the VaR figures for interest rate risk for the years ended 31 December 2004 and 2003.

	Trading		Non-trading	
	2004	2003	**2004**	2003
	€ m	€ m	**€ m**	€ m
Interest rate risk				
1 month holding period:				
Average	**7.0**	9.3	**18.5**	25.9
High	**10.3**	11.6	**26.4**	49.6
Low	**4.0**	6.4	**11.8**	12.8
31 December	**7.0**	8.1	**13.6**	18.9
1 day holding period:				
Average	**1.6**	2.1	**4.1**	5.8
High	**2.3**	2.6	**5.9**	11.1
Low	**0.9**	1.4	**2.6**	2.9
31 December	**1.6**	1.8	**3.0**	4.2

Trading book
The interest rate trading book includes all securities and interest rate derivatives that are held for trading purposes in Global Treasury. These are revalued daily at market prices (marked to market) and any changes in value are immediately recognised in income. During 2004, trading book interest rate risk was predominantly concentrated in the euro, sterling and the US dollar.

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

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requirements can bring about a need to alter the portfolio. Group ALCO sets the framework and reviews the management of these activities.

AIB's net interest rate sensitivity as at 31 December 2004 is illustrated in note 52.

Foreign exchange rate risk

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

Foreign exchange rate risk - structural

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

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

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

At 31 December 2004 and 2003, the Group's structural foreign exchange position was as follows:

	2004 € m	2003 € m
US dollar	**1,458**	1,499
Sterling	**1,309**	1,008
Polish zloty	**254**	129
	3,021	2,636

This position indicates that a 10% movement in the value of the euro against these currencies at 31 December 2004 would result in an amount to be taken to reserves of € 302 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. A discussion on the impact of hedging profits is included in 'translation of foreign locations' profit' on page 14 of this report.

Foreign exchange rate risk - trading

Global Treasury manages AIB's exposure to foreign exchange rate risk arising from unhedged customer transactions and discretionary trading. The risk is that adverse movements in foreign exchange rates will result in losses. This risk is managed by setting limits on the earnings at risk and the value at risk ('VaR') from the open foreign exchange rate positions of the Group. Stop loss limits are also used to close out loss making positions. The table below sets out the VaR figures for trading foreign exchange rate risk for the years ended 31 December 2004 and 2003.

	2004 € m	2003 € m
Foreign exchange rate risk-trading		
1 month holding period:		
Average	**0.9**	0.6
High	**1.7**	0.9
Low	**0.4**	0.3
31 December	**1.3**	0.5
1 day holding period:		
Average	**0.2**	0.1
High	**0.4**	0.2
Low	**0.1**	0.1
31 December	**0.3**	0.1

Equity risk

Global Treasury manages the equity risk arising on its convertible bond portfolio and from stock market linked investment products (tracker bonds) sold to customers. Goodbody Stockbrokers manage the equity risk in its Principal Trading Account. The risk is that adverse movements in share, share index or equity option prices will result in losses for the Group. This risk is managed by setting limits on the earnings at risk and the value at risk ('VaR') from the open equity positions of the Group. Stop loss limits are also used to close out loss making positions. The table below sets out the VaR figures for equity risk for the years ended 31 December 2004 and 2003.

	Trading	
	2004 € m	2003 € m
Equity risk		
1 month holding period:		
Average	**20.7**	14.5
High	**26.2**	19.3
Low	**14.6**	11.6
31 December	**18.4**	18.1
1 day holding period:		
Average	**4.6**	3.2
High	**5.9**	4.3
Low	**3.3**	2.6
31 December	**4.1**	4.1

Off-balance sheet financial instruments

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

Credit commitments

Contingent liabilities and commitments to extend credit are outlined in note 49. 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 40 shows the notional amount and gross replacement cost for trading and non-trading interest rate, exchange rate and equity contracts at 31 December 2004 and 2003. While notional principal amounts are used to express the volume of these transactions, the amounts subject to credit risk are much lower. This is because most derivatives involve payments based on the net differences between the rates expressed in the contracts and other market rates.

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

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

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

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	2004		2003	
	Notional amount	**Gross replacement cost**	Notional amount	Gross replacement cost
	€ m	**€ m**	€ m	€ m
Interest rate contracts				
Trading	**109,372**	**765**	72,736	736
Non-trading	**31,695**	**294**	27,045	294
	141,067	**1,059**	99,781	1,030
Exchange rate contracts				
Trading	**15,870**	**599**	14,753	464
Non-trading	**–**	**–**	812	37
	15,870	**599**	15,565	501
Equity contracts				
Trading	**3,575**	**112**	2,445	73
Non-trading	**–**	**–**	–	–
	3,575	**112**	2,445	73

rates defined in the contract.

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

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

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

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

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

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

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

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

Operational risk

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

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

An element of AIB's operational risk management framework is ongoing monitoring through self-assessment of control deficiencies and weaknesses, the tracking of incidents and loss events and the use of a structured lessons learned process to ensure that, once identified, control deficiencies are communicated and remedied across the Group. The lessons learned from the investigations relating to foreign exchange and other issues in 2004, have been used to strengthen operational risk management processes in AIB.

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

Implementation of IFRS

AIB's primary financial statements for the year ended 31 December 2004 are prepared in accordance with Irish generally accepted accounting principles ('IR GAAP') which differ in certain significant respects from International Financial Reporting Standards ('IFRS'). Arising from the adoption of a regulation by the European Commission, from 1 January 2005, the Group accounts of all listed companies incorporated in the European Union ('EU') are required to be prepared on the basis of IFRS as endorsed by the EU. In its implementation of IFRS, AIB intends also to comply fully with IFRS as issued by the International Accounting Standards Board ('IASB'). AIB's date of transition to IFRS for statutory reporting purposes is 1 January 2004. Certain standards are not applicable to the comparative periods as discussed below. As a result, further transition adjustments arise at 1 January 2005.

A Group wide programme has been in place since 2003 to ensure full compliance with IFRS in 2005. The significant deliverables included the necessary adjustments to the Group accounting policies, addressing the business impacts and making the necessary adjustments to the Group's accounting and reporting systems, including replacement where necessary. Progress is monitored by a Group level steering committee.

AIB's first results prepared under IFRS will be published in the interim report for the six months to 30 June 2005. It is intended that audited comparative data for 2004 will be filed with the Irish and London Stock Exchanges in the second quarter of 2005.

The discussion below has been prepared on the basis of IFRS expected to be in effect for the year ending 31 December 2005. The IFRS in effect at that date may differ due to decisions that may be taken by the EU on endorsement, interpretative guidance issued by the IASB/International Financial Reporting Interpretations Committee ('IFRIC') and the requirements of companies legislation. This could have an effect on the 2005 financial statements. In addition, the impact that the new accounting treatments will have on the calculation of regulatory capital is not fully known and this could have an effect on the Group's capital requirements and resulting ratios.

The Group continues to evaluate the balance sheet and income statement effects of adopting IFRS and therefore the audit of the impact of transition to IFRS has not been completed at the date of this report. Until this work has been finalised, it is possible that further effects not discussed herewith will be identified.

Implementation of IFRS – accounting policy choices

IFRS 1 'First-time Adoption of International Financial Reporting Standards' ('IFRS 1') provides first time adopters of IFRS with certain exemptions. IFRS 1 also allows or requires a number of other exceptions to its general principle that the standards in force at the reporting date should be applied retrospectively. AIB has availed of certain exemptions as set out below:

- AIB intends not to present comparative information in accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' ('IAS 32'), IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') and IFRS 4 'Insurance Contracts' ('IFRS 4'). Accordingly, comparative information for 2004 in respect of financial instruments and insurance contracts will be prepared on the basis of the Group's current accounting policies under IR GAAP.
- AIB intends to implement the requirements of IFRS 2 'Share Based Payments' to all share based payments granted after 7 November 2002 that have not vested by 1 January 2005.
- AIB intends to retain its existing carrying value of occupied properties at 1 January 2004 to be used as deemed cost.
- AIB has elected to deem cumulative exchange differences on the net investments in foreign branches and subsidiaries as zero at 1 January 2004, as permitted by IFRS 1.
- AIB intends to continue to recognise the actuarial gains and losses upon transition, and for future periods in the statement of recognised income and expense, in the period in which they arise, as permitted under the revised IAS 19 'Employee Benefits'.
- AIB has elected not to apply IFRS 3 'Business Combinations' to business combinations prior to 1 January 2004.

- AIB will implement IAS 39 such that it complies with the full IAS 39 as published by the IASB. It will comply with the hedge accounting requirements of the unamended IAS 39 and will not implement the option provided under the EU 'carved out' version of IAS 39. AIB will comply with the fair value requirements of the EU 'carved out' version which will mean not availing of the option to measure certain liabilities at fair value.

As a result of availing of the above exemptions certain changes will apply from 1 January 2004 followed by further changes (due to IAS 32, IAS 39 and IFRS 4) to apply from 1 January 2005. The discussion below deals with these changes on the basis of the date from which they become applicable.

AIB expects the main differences arising on transition to IFRS reporting to be as follows:

Applying to comparatives from 1 January 2004 (and to the IFRS opening balance sheet at that date)

- Consolidation - line-by-line consolidation of life assurance subsidiary;
- Associated undertakings – change in presentation on the face of the profit and loss account;
- Finance leases – tax effects are no longer taken into account when allocating finance lease income;
- Software development costs - classified as intangible assets and some reclassification impact on profit and loss;
- Retirement benefits – presentation change on the face of the profit and loss account;
- Deferred tax – overall increase in deferred tax liabilities;
- Foreign currency - presentation changes within equity;
- Goodwill – ceasing to amortise goodwill, separate recognition of intangibles going forward;
- Dividends – dividends proposed but not declared are no longer recognised as a liability at the balance sheet date;
- Share based payments – recognition of an expense in relation to the fair value of employee share options;
- Employee benefits - presentation change on face of profit and loss account.

Applying from 1 January 2005 (and to the IFRS balance sheet at that date)

- Loan origination – change in the income recognition profile for interest related fee income and costs;
- Loan impairment – lower balance sheet carrying value of provisions for losses on loans not specifically identified as impaired;
- Debt securities - mainly classified as available for sale, and carried at fair value in the balance sheet;
- Derivatives – the inclusion of all derivatives in the balance sheet at fair value;
- Netting – Gross up of the balance sheet due to revised rules on netting;
- Long term assurance business - delayed recognition of income from life assurance;
- Acceptances - Gross up of the balance sheet with no impact on equity;
- Financial liabilities – the presentation of certain preference shares as liabilities.

Implementation of IFRS

Changes applying to comparatives from 1 January 2004 (and to the IFRS balance sheet at that date)

IR GAAP	IFRS

Basis of consolidation

IR GAAP: 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.

IFRS: IAS 27 'Consolidated and separate financial statements' requires that all entities are consolidated on a line by line basis. The assets and liabilities of the life assurance subsidiary will be consolidated on a line by line basis and all intra group transactions will be eliminated. The income and expense of the life assurance subsidiary will be shown within each relevant line item of the income statement whereas under IR GAAP it was shown as a one line item.

IFRS impact:
This is principally a change in presentation on the face of the income statement and balance sheet. The balance sheet will also reduce slightly due to the elimination of intra group transactions.

Interests in associated undertakings

IR GAAP: 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.

The Group share of tax of associates is included within the Group's tax charge in the Group profit and loss account and disclosed separately in the notes to the accounts.

IFRS: IAS 1 'Presentation of Financial Statements' requires the Group to include its share of the income of associated undertakings as a single item on a net of tax basis in the consolidated income statement.

IFRS impact:
This is principally a change in presentation. Profit before taxation will reduce, and the taxation charge will reduce, with no impact on earnings per share.

Finance leases

IR GAAP: Income from finance leasing transactions is apportioned over the primary leasing period on an after tax basis in proportion to the net cash investment using the investment period method.

Rentals received in advance but not yet amortised to the profit and loss account are included in other liabilities.

IFRS: Under IAS 17 'Leases', income from finance leasing transactions is apportioned over the primary leasing period at a rate calculated to give a constant rate of return on the investment in the lease, without taking into account the taxation flows generated by the lease.

Finance lease receivables are stated in the balance sheet at the gross rentals receivable, less income allocated to future periods and provisions for impairment.

IFRS impact:
There will be a change in the income recognition profile for individual transactions, but the overall impact on the income statement is not expected to be significant.

The reclassification of rentals received in advance from liabilities to assets will reduce the size of the balance sheet.

Changes applying to comparatives from 1 January 2004 (and to the IFRS opening balance sheet at that date)

IR GAAP	IFRS

Tangible fixed assets

IR GAAP: The Group adopted the transitional arrangements of FRS 15 'Tangible Fixed Assets' and chose to retain the book amounts of previously revalued assets in its accounting records.

IFRS: AIB intends to adopt the cost model under IAS 16 'Property, Plant and Equipment' whereby fixed assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. IFRS 1 permits the carrying value at date of transition to IFRS (including where properties have been revalued) to be used as deemed cost in certain circumstances

IFRS impact:
None

Software and software development costs

IR GAAP: Operating software and application software are capitalised with computer hardware within tangible fixed assets.

AIB capitalises software development costs under FRS 15, when it leads to the creation of a definable software asset, subject to a de-minimis limit.

IFRS: IAS 38 'Intangible assets & system development costs' requires capitalisation of computer software development costs as an intangible asset, where the entity will generate future economic benefits from the asset, that will flow to the entity, and the cost of the asset can be measured reliably. Capitalised costs are amortised over the software's estimated useful life.

IFRS impact:
The classification criteria of IFRS will lead to reclassification from tangible fixed assets to intangible assets, being the carrying value of previously recognised operating software.

The recognition requirements within IAS 38 will generate an increase in equity due to an increase in capitalised assets. The impact on the income statement is not expected to be material but will be dependent on the level of internal expenditure on computer software development in any period. There will be some reclassification impact as administrative expenses will be lower with an increase in the depreciation/amortisation charge.

Retirement benefits

IR GAAP: AIB implemented FRS 17 'Retirement Benefits' in the preparation of its accounts for the year ended 2001.

The current service cost and past 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 net pension scheme liabilities are shown in the balance sheet net of deferred taxation.

IFRS: The approach within IAS 19 'Employee Benefits' is similar to FRS 17. AIB will continue to recognise the actuarial gains and losses directly in equity through the statement of recognised income and expense.

The cost of providing pensions and post retirement benefits will be shown within employee costs and analysed in the notes to the accounts.

Deferred taxation relating to the recognition of the net pension scheme liabilities is shown within deferred taxation.

Implementation of IFRS

Changes applying to comparatives from 1 January 2004 (and to the IFRS opening balance sheet at that date)

IR GAAP	IFRS

Retirement benefits *(continued)*

IFRS impact:
This is a presentation change on the face of the income statement with a reduction in operating expenses due to the recognition of other finance income as a part of the employee benefit expense.

The change in the manner in which deferred tax on the net pension scheme liabilities is presented will give rise to a gross up of deferred tax assets and pension scheme liabilities.

Deferred taxation

IR GAAP	IFRS
Subject to certain exceptions, deferred taxation is recognised in full in respect of timing differences that have originated but not reversed at the balance sheet date. Deferred tax is not provided on timing differences arising:- on the revaluation of property when no commitment has been made to sell the asset; when a taxable gain on the sale of an asset is rolled over into replacement assets; or on the potential additional tax that may be payable on the payment of a dividend by a subsidiary or associated undertaking where no commitment has been made to pay a dividend.	Under IAS 12 'Income Taxes' deferred tax liabilities and assets are generally recognised in respect of all temporary differences, subject to assessment of the recoverability of deferred tax assets. Deferred tax assets are recognised, only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilised. Unremitted earnings from subsidiary and associated companies may result in a deferred tax liability unless the Group entity is able to control the timing of remittances and it is probable that the earnings will not be remitted in the foreseeable future.

IFRS impact:
Additional deferred tax balances will arise on transition in respect of temporary differences not previously recognised. These include temporary differences relating to the revaluation of properties and the roll over of taxable gains and the additional tax that may arise on unremitted profits of associated and subsidiary companies.

There will be income statement implications from IAS 12, particularly the requirement to reflect the additional tax that would be payable on the remittance of profits by associated companies.

Foreign currency

IR GAAP	IFRS
Exchange adjustments arising from the retranslation of net investments, net of hedging profits and losses, are recognised in the statement of total recognised gains and losses. The profit on disposal of a foreign operation is calculated based on the carrying value of the operation at the date of disposal. Previous exchange translation gains and losses remain in shareholders' equity.	IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires that all exchange differences arising on the retranslation of a foreign operation with a different functional currency than the Euro, should be recognised in a foreign exchange reserve as a separate component of equity. On disposal of a foreign operation the exchange differences previously recognised in reserves relating to that foreign operation are reversed and recognised in the income statement in arriving at the profit or loss on disposal. IFRS 1 permits companies to deem cumulative exchange differences as zero at 1 January 2004.

Changes applying to comparatives from 1 January 2004 (and to the IFRS opening balance sheet at that date)

IR GAAP	IFRS

Foreign currency *(continued)*

IFRS impact:
This will primarily be a presentational change within shareholders' funds. In addition, gains on any future disposals of subsidiaries will be higher or lower depending on whether the functional currency of the subsidiary has appreciated against the Euro since the later of 1 January 2004 or date of the acquisition or recognition of the increase in the investment through profits retained in the foreign operation.

Intangible assets and goodwill

Goodwill and intangible assets arising on acquisitions of subsidiary and associated undertakings prior to 1 January 1998 have been written off to reserves in the year of acquisition.

Goodwill, arising on the acquisitions of subsidiary and associated undertakings since 31 December 1998, is capitalised as an asset on the balance sheet. Purchased goodwill is the excess of cost over the fair value of the Group's share of net assets acquired. Intangible assets were not identified as a separate component of goodwill on acquisitions arising prior to December 31 2004.

Goodwill is amortised to the profit and loss account over its estimated useful economic lives. The useful economic life of goodwill is determined at the time of acquisition, taking into consideration factors such as the nature of the business acquired, the market in which it operates and its position in that market.

In all cases goodwill is subject to a maximum life of 20 years and is subject to an impairment review in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill'.

On the disposal of subsidiary or associated undertakings, any unamortised goodwill together with goodwill previously written off directly to reserves is included with the Group's share of net assets of the undertaking disposed, in the calculation of the profit or loss on disposal.

Under FRS 7 'Fair values in Acquisition Accounting' the acquirer is permitted, in certain circumstances, to finalise the fair value adjustments in the period after the one in which the acquisition was completed. Any necessary adjustments to those provisional fair value adjustments and the corresponding adjustment to goodwill are recognised in the financial statements for that period. There is no

IFRS 1 'First-time adoption of International Financial Reporting Standards' does not require the reinstatement of goodwill previously written off to reserves.

The book value of goodwill existing at 31 December 2003 under IR GAAP is carried forward under IFRS 1 from 1 January 2004, subject to two adjustments. If there are previously unrecognised intangible assets that meet the recognition criteria under IAS 38 'Intangible Assets', these are reported separately to the extent that they are included in goodwill at the date of transition. In addition, any adjustments to provisional fair values (and hence goodwill) made during the first twelve months after an acquisition are reflected in the comparative information.

Under IFRS 3, 'Business Combinations' intangible assets are identified separately from purchased goodwill on acquisitions of subsidiary and associated undertakings. Intangible assets are capitalised as assets on the balance sheet and amortised over their expected lives and subject to regular impairment reviews. Goodwill is capitalised as an asset, without amortisation but with impairment reviews carried out at least on an annual basis in accordance with IAS 36 'Impairment of Assets'. AIB will apply IFRS 3 to all acquisitions occurring after 1 January 2004.

At the date of disposal of subsidiary or associated undertakings, the related amount of goodwill is included in the calculation of the gain or loss on disposal. Goodwill charged directly against reserves under previous GAAP is not recognised in any profit or loss arising on disposal under IFRS 3.

Under IFRS 3, the acquirer shall only recognise adjustments to the provisional fair values of assets and liabilities acquired in a business combination within 12

Implementation of IFRS

Changes applying to comparatives from 1 January 2004 (and to the IFRS opening balance sheet at that date)

IR GAAP	IFRS

Intangible assets and goodwill *(continued)*

adjustment to the prior year information.

months of the acquisition date, with a corresponding adjustment to goodwill. These adjustments are reflected as if they had occurred at the acquisition date, by way of an adjustment to the comparative information.

IFRS impact:
From 1 January 2004, there will be no amortisation of Goodwill recorded at 31 December 2003 (after adjusting for intangible assets required to be recognised under IFRS and any adjustments made to provisional fair values on acquisitions).

The cessation of goodwill amortisation will have a positive impact on the income statement. However, goodwill will be the subject of impairment testing at least annually under IFRS. In the event of impairment, the absence of previous amortisation would lead to larger impairment charges than would have been necessary under IR GAAP.

Goodwill previously written off to reserves prior to 1998 is not taken into account in the calculation of profit or loss on disposal of subsidiary or associated undertakings. This will generate a higher profit, or lower loss, on disposal of subsidiary or associated undertakings acquired prior to 1998, under IFRS.

Dividends

Equity dividends declared after the balance sheet date but before the accounts are approved by the Directors are treated as a deduction on the face of the profit and loss account and as a liability at the balance sheet date.

Dividends on preference shares are included in the profit and loss account on an accruals basis in accordance with FRS 4 'Capital Instruments'.

Under IAS 10 'Events after the balance sheet date' dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

In respect of preference shares recognised as shareholders' equity, dividends are accounted for as a movement in shareholders' funds and as a charge against earnings per share when they are declared.

IFRS impact:
There will be an increase in shareholders' funds on transition as no liability will be recorded in respect of the final dividend. Where dividends on preference shares are paid annually, in the second half of the year, the distribution is a charge against EPS only in the second half of the year.

Share based payments

No expense is recognised for grants of options under the share option schemes. Under these schemes the options are granted with a strike price equal to the market value of the underlying share at the date of grant.

An expense is recognised for grants awarded under the Long term incentive plan schemes, equivalent to the intrinsic value of the shares awarded. This is charged to the profit and loss account over the vesting period, based on the number of options that are expected to vest.

IFRS 2 'Share-based Payment' requires a fair value based method of accounting for all share-based payments. This value is determined using an options pricing model.

The expense is recognised over the period in which the options are expected to vest. Actual expense recognised over the vesting period will be determined by the meeting of the vesting conditions and the options that remain outstanding at the end of the vesting period.

Changes applying to comparatives from 1 January 2004 (and to the IFRS opening balance sheet at that date)

IR GAAP	IFRS

Share based payments *(continued)*

IR GAAP

An expense is recognised in respect of Save-As-You-Earn schemes. The expense equates to the discount given to the employees on the market price of the shares, and is charged to profit and loss over the savings period.

Shares awarded under the profit sharing schemes, as a bonus for previous service, are expensed immediately.

IFRS

If an award is made in respect of service in the past but an employee must complete a further specified period of service before entitlement to the award (the vesting period), the expense is spread from the date of commencement of the service period, to which the reward relates, to the vesting date.

IFRS impact:
AIB will elect to apply IFRS 2 to all share based payments occurring after 7 November 2002 that have not vested by 1 January 2005.

Applying IFRS 2 to AIB's share based payment schemes will give rise to a higher expense than that arising under IR GAAP. It will also give rise to some changes in the timing of recognition of the expense with a transition adjustment at 1 January 2004.

Employee benefits

The cost of providing employees with benefits such as subsidised loans and preferential rates on deposits is charged to net interest income.

Under IAS 19, the cost of providing staff benefits should be accounted for within staff costs.

IFRS impact:
This is a presentation change on the face of the income statement within an increase in net interest income and an increase in administrative expenses.

Changes applying from 1 January 2005 (and to the IFRS balance sheet at that date)

Loan origination - interest income and expense recognition

Interest income and expense is recognised in the profit and loss on an accruals basis over contract lives except in respect of non-performing loans where interest is not taken to the profit and loss account when recovery is doubtful. Fees which are considered to increase the yield on transactions are spread over the lives of the underlying transactions on a level yield basis. All costs associated with mortgage incentive schemes are charged in the period in which the expense is incurred. Fees and commissions received for services provided are recognised when earned. Fees and commissions payable to third parties in connection with lending arrangements are charged to the profit and loss account as incurred.

Interest income and interest related fees and costs, are recognised at a constant rate to the expected maturity date.

Costs associated with mortgage incentives are accrued to interest income so as to give a constant rate to expected maturity on the mortgage.

Fees and commissions received on the completion of a significant act are recognised immediately.

Implementation of IFRS

Changes applying from 1 January 2005 (and to the IFRS balance sheet at that date)

IR GAAP **IFRS**

Loan origination - interest income and expense recognition *(continued)*

IFRS impact:
On transition, certain fees receivable, and fees and commissions payable that had previously been taken to the profit and loss account are treated as deferred income and deferred costs and shown within loans and receivables. This will give rise to a small reclassification from liabilities and a transition adjustment to equity. These deferred fees and costs will be amortised on an effective interest basis to the profit and loss account over the expected residual lives of the financial instruments.

The change in policy will also lead to a reclassification from fee income/fee expense and administrative expenses to interest income with an impact on the net interest margin.

Revisions of expected maturity of loans could generate income volatility.

Loan impairment - allowance and provision for losses

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

General provisions are also made to cover loans which are impaired at balance sheet date, and while not specifically identified, are known from experience to be present in any portfolio of bank advances. The Group holds general provisions at a level deemed appropriate by management taking into account a number of factors including:– the credit grading profiles and movements within credit grades; historic loan loss rates; local and international economic climates and portfolio sector profiles/industry conditions. The level of general provisions is reviewed quarterly to ensure that it remains appropriate.

Interest is not taken to profit when recovery is doubtful.

Under IAS 39, impairment provisions are recognised on an incurred loss basis if there is objective evidence that the Group will be unable to collect all amounts due on a loan according to the original contractual terms.

Individual credit exposures are evaluated based upon the borrower's character, overall financial condition, resources and payment record, the prospects for recovery from the realisation of collateral or the calling in of guarantees where applicable.

The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

IAS 39 allows collective assessment of impairment for individually insignificant items. Smaller value impaired loans are grouped together in homogeneous pools sharing common characteristics and impairment is measured by reference to the loss history experience of the asset pool.

Where no objective evidence of impairment exists for an individual asset but there are indications of incurred losses in the portfolio, IAS 39 permits the creation of provisions for credit losses on an incurred loss basis.

Upon impairment the accrual of interest income based on the original terms of the claim is discontinued, but the increase of the present value of

Changes applying from 1 January 2005 (and to the IFRS balance sheet at that date)

IR GAAP	IFRS
Loan impairment - allowance and provision for losses *(continued)*	impaired claims due to the passage of time is reported as interest income.

IFRS impact:
Application of the IFRS incurred loss model to AIB will result in a reduction in the overall level of provisions carried at the balance sheet date and a transition adjustment to equity.

The incurred loss model under IFRS will lead to a more volatile impairment charge in the income statement. In addition, on recognition of individual impairment, the impairment loss will be higher than that recorded under current GAAP due to the requirement to discount the recoverable cash flows.

The higher impairment loss will be offset by the recognition of income in the net recoverable amount due to the passage of time.

Debt securities

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

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

Under IAS 32 and 39, all debt securities and equity shares are classified and disclosed within one of the following three categories: held-to-maturity; available-for-sale; or held as fair value through profit or loss.

Held-to-maturity

Financial instruments are designated as held-to-maturity when they are debt securities held on a continuing use basis by the Group for which the Group has the ability and intention to hold to maturity. These debt securities are stated in the balance sheet at cost, adjusted on an effective interest basis for the amortisation of any premiums or discounts arising on acquisition and provisions for impairment. The amortisation of premiums and discounts is included in net interest income. Provisions for impairment are included in earnings.

Available-for-sale

Available-for-sale financial instruments are stated in the balance sheet at fair value with unrealised holding gains and losses reported net of applicable taxes as a separate component in shareholders equity. Where impairment arises on an available-for-sale security, the cumulative loss that has been recognised in equity is removed and the impairment is recognised in the profit and loss account. When the conditions that created the requirement for a provision no longer exist, the provision for debt securities may be reversed through the profit and loss account. No reversal of provisions for impairment on available for sale equity

Implementation of IFRS

Changes applying from 1 January 2005 (and to the IFRS balance sheet at that date)

IR GAAP	IFRS
Debt securities *(continued)*	securities is allowed until the security has been disposed of. Profits and losses on available for sale debt securities are recognised in the profit and loss account based on the amortised cost of the security. *Held as fair value through profit and loss* Debt securities held as fair value through profit and loss are stated in the balance sheet at market value with unrealised gains and losses recognised immediately in profit and loss.

IFRS impact:
Almost all of AIB's debt securities, which were previously held as financial fixed assets, will be classified as available-for-sale on transition to IFRS. This will give rise to an adjustment to equity on transition.

Derivatives

IR GAAP	IFRS
Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows, themselves accounted for on an accruals basis. The gains and losses on these instruments (arising from changes in fair value) are not recognised in the profit and loss account immediately as they arise. Derivative transactions entered into for hedging purposes are recognised in the accounts on an accruals basis consistent with the accounting treatment of the underlying transaction or transactions being hedged. A derivative will only be classified as a hedge where it is designated as a hedge at its inception and where it is reasonably expected that the derivative substantially matches or eliminates the exposure being hedged. Except as described below in respect of hedges of the income stream on Group capital, upon early termination of derivative financial instruments classified as hedges, any realised gain or loss is deferred and amortised to net interest income over the life of the original hedge as long as the designated assets or liabilities remain. Upon early termination of derivative transactions classified as hedges of the income stream on Group capital, any realised gain or loss is taken to the profit and loss account as it arises.	IAS 39 'Financial instruments: recognition and measurement' requires all derivatives be recognised as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation as described below. Derivative transactions entered into for hedging purposes are classified as 'fair value hedges' if they hedge exposures to changes in the fair value of a recognised asset or liability or firm commitment. Derivative transactions entered into for hedging purposes are classified as 'cash flow hedges' if they are hedging the exposure to variable cash flows of a recognised asset or liability or of a highly probable forecast transaction. Interest income and expense on derivatives classified as hedges is recorded within interest income or expense as appropriate. The mark to market of derivatives classified as fair value hedges is recognised in the income statement within other financial income. The hedged item in a fair value hedge is fair valued with respect to the risk being hedged only as long as the hedge remains effective and the mark to market of the hedged item is recorded in other financial income. The mark to market of derivatives designated as cash flow hedges is accounted for in equity, net of the deferred tax impact. Subsequently it is released into

IR GAAP	IFRS

Derivatives *(continued)*

the income statement in line with the income statement recognition of the element of the hedged asset, liability or highly probable forecast transaction. Any ineffective portion is reported within other financial income in the income statement as it arises.

Where a derivative originally classified as a fair value hedge no longer meets the effectiveness tests, or the hedge relationship has ceased for any reason, the underlying hedged position is no longer marked to market. The fair value adjustment of the hedged item is amortised to the profit and loss account on an effective interest rate basis from the date the hedging relationship ceases.

Where a cash flow hedging instrument expires or is sold, terminated or exercised, the cumulative gain or loss on the instrument, that remains recognised directly in equity from the period when the hedge was effective, is released from equity in line with the income statement recognition of the underlying hedged position.

IFRS impact:
AIB will implement IAS 39 such that it complies with the full IAS 39 as published by the IASB. It will comply with the hedge accounting requirements of the IASB unamended IAS 39 and will not implement the option provided under the EU 'carved out' version of IAS 39.

The effectiveness rules within IAS 39 have a stricter definition of qualifying hedges and this will result in the recognition of current hedging derivatives at fair value with no matching offset where the associated hedging relationship does not meet the IAS 39 hedging requirements. There will also be an impact on transition due to fair value movements on derivatives in existing hedge relationships, that will be allowable as cash flow hedges, being taken to the cash flow hedging reserve in equity.

There may be some additional volatility in earnings as a result of a stricter definition of a qualifying hedge relationship under IFRS, the effectiveness of hedging strategies and the resulting recognition of hedge ineffectiveness in the income statement. The amount of this additional volatility in income will depend, in part, on the extent to which the fair value option for liabilities available within IAS 39, but carved out in the EU adopted version of IAS 39, is ultimately endorsed by the EU.

In addition to the classification of derivatives as fair value hedges, AIB intends, where possible, to hedge its interest rate exposure using cash flow hedging. This will give rise to volatility in equity.

Netting

Under IR GAAP where the amounts owed by the Group and the counterparty are determinable and in freely convertible currencies and where the Group has the ability to insist on net settlement which is assured beyond doubt and is based on a legal right to settle net that would survive the insolvency of the counterparty,

Under IAS 32 'Financial instruments: disclosure and presentation', netting is only allowed if the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Changes applying from 1 January 2005 (and to the IFRS balance sheet at that date)

IR GAAP	IFRS

Netting *(continued)*

the amounts are shown in the balance sheet as net assets or net liabilities as appropriate.

IFRS impact:
It is expected that there will be some gross up of the balance sheet as a result of the requirement to show positions on the balance sheet gross unless there is the intention to settle net. The impact of qualifying netting agreements will be disclosed in the notes to the accounts.

Long term assurance business

Under IR GAAP the value placed on the Group's long-term assurance business attributable to shareholders represents a valuation of the policies in force together with the net tangible assets of the business including any surplus retained in the long-term business fund which could be transferred to shareholders. The value of the in force business is calculated by projecting future surpluses and other net cash flows attributable to the shareholder arising from business written by the balance sheet date and discounting the result at an appropriate discount rate.

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.

The definition of Insurance under IFRS 4 'Insurance Contracts' restricts the use of embedded value accounting by the Group to products with significant insurance risk.

Investment type products that do not meet the definition of insurance contracts must be accounted for under IAS 39. The inclusion of a valuation of the discounted future earnings expected to emerge from the business currently in force will no longer be possible for such contracts. Any investment management element of such contracts will be accounted for under IAS 18 'Revenue'. This requires that investment management fees (and incremental directly attributable costs) be spread over the period in which services are provided.

IFRS impact:
Accounting for contracts meeting the IFRS definition of insurance business is not impacted by IFRS 4. Accounting for investment products under IAS 39 serves to delay the recognition of income for a number of reasons. There is a narrower definition of costs that can be deferred on the sale of investment products. Initial charges on sale of investment products are deferred and accrued in over the expected life of the product. There is no opportunity to account for the future surpluses on an embedded value basis.

As a consequence, there will be a reduction in equity on transition as the valuation of the discounted future earnings expected to emerge from the business currently in force in the balance sheet will decrease. Income will be recognised on these contracts in later periods due to the change in the valuation basis.

Acceptances

Acceptances are currently accounted for on a net basis. There is no gross up of the amount to be paid and the amount receivable from the originator and thus no balance appears in the balance sheet in relation to these products.

IAS 39 requires the recognition of a liability for acceptances from the date of acceptance. A corresponding asset due from the originator will also be recognised.

IFRS impact:
This will give rise to a gross up of the balance sheet with no impact on equity.

Changes applying from 1 January 2005 (and to the IFRS balance sheet at that date)

IR GAAP	IFRS
Classification of financial liabilities Under IR GAAP capital instruments that are not shares should be treated as liabilities if they involve an obligation to transfer economic benefits. All other capital instruments should be reported in shareholders' funds.	Financial instruments with an obligation to pay interest or repay principal are classified in the balance sheet as liabilities. Issue expenses of capital instruments classified as liabilities are deducted from the proceeds of issue and the total finance cost is recognised at a constant rate to the expected maturity date. Financial instruments with no obligation to pay interest or repay principal are classified as equity. With the execption of dividends declared on ordinary shares, dividends on financial instruments within equity are accounted for as a movement in shareholders' funds and taken into account in the calculation of EPS when declared. The issue costs of financial instruments classified as equity are deducted from shareholders' funds.

IFRS impact:
The existing preference shares will be classified as debt while the reserve capital instruments will be classified as equity.

This is a presentational change that will impact the face of the income statement and the balance sheet. Although pre-tax profit will be impacted, there will be no impact on income attributable to ordinary shareholders. There will be an impact on income statement ratios including, net interest margin, cost income ratio and the effective tax rate.

Report of the Directors

for the year ended 31 December 2004

The Directors of Allied Irish Banks, p.l.c. present their report and the audited accounts for the year ended 31 December 2004. A Statement of the Directors' responsibilities in relation to the Accounts appears on page 149.

Results

The Group profit attributable to the ordinary shareholders amounted to € 1,047m and was arrived at as shown in the Consolidated Profit and Loss Account on pages 69 and 70.

Dividend

An interim dividend of EUR 20.9c per ordinary share, amounting to € 179m, was paid on 24 September 2004. It is recommended that a final dividend of EUR 38.5c per ordinary share, amounting to € 333m (see Note 19), be paid on 28 April 2005, making a total distribution of EUR 59.4c per ordinary share for the year. The balance of profit to be transferred to the Profit and Loss Account amounts to € 477m.

Capital

Information concerning new shares allotted under the Company's Dividend Reinvestment Plan is shown in Note 43 on page 112. Details of treasury shares re-issued under the Approved Employees' Profit Sharing Schemes, the Allfirst Stock Option Plan, and the AIB Share Option Scheme, are given in Note 47 on pages 114 and 115.

At the 2004 Annual General Meeting, shareholders granted authority for the Company, or any subsidiary, to make market purchases of up to 90 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. As at 31 December 2004 some 48,889,789 shares so purchased were held as Treasury Shares; information in this regard is given in Note 47.

Accounting policies

The principal accounting policies adopted by the Group, together with information on changes therein, are set out on pages 64 to 68.

Review of activities

The Statement by the Chairman on pages 4 and 5 and the Review by the Group Chief Executive on pages 8 to 10 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:
- Ms Carol Moffett retired as a Non-Executive Director on 31 August 2004;
- Mr Kieran Crowley was appointed a Non-Executive Director on 24 August 2004;
- Ms Jennifer Winter was appointed a Non-Executive Director on 24 August 2004.

In accordance with the Articles of Association, Mr Crowley and Ms Winter retire at the 2005 Annual General Meeting and, being eligible, offer themselves for re-appointment.

Mr Adrian Burke, Mr Colm Doherty, Mr Don Godson, Mr Jim O'Leary and Mr Mike Sullivan retire by rotation at the 2005 AGM and, being eligible, offer themselves for re-appointment.

Mr Padraic M Fallon and Mr John B McGuckian retire at the Meeting in compliance with the Combined Code on Corporate Governance (each having served in excess of nine years) and, being eligible, offer themselves for re-appointment.

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

Directors' and Secretary's Interests in the Share Capital

The interests of the Directors and Secretary in the share capital of the Company are shown in Note 54 on pages 134 and 135.

Substantial Interests in the Share Capital

The following substantial interests in the Ordinary Share Capital had been notified to the Company at 15 February 2005:

Bank of Ireland Asset Management Limited 6.04% (6.38% when Treasury Shares are excluded).

None of the clients on whose behalf these shares are held had a beneficial interest in 3% or more of the Ordinary Share Capital. An analysis of shareholdings is shown on page 162.

Corporate Governance
The Directors' Corporate Governance statement appears on pages 58 to 63.

Books of Account
The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures, including those set out in the Internal Control section of the Corporate Governance statement on pages 62 to 63, 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 99/100 and 156/157; 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 2004, safety officials in branch and other office locations in the Republic of Ireland participated in health and safety training workshops, to support health and safety management at local level. The Group's Fire Safety Manual was revised and distributed to all AIB Bank properties, and a programme of fire safety training workshops was run for safety officials, to ensure the application of best fire safety management practice in this area.

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

Auditors
The Auditors, KPMG, have signified their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.

Dermot Gleeson
Chairman

Michael Buckley
Group Chief Executive

21 February 2005

Corporate Governance

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

The Board

Role

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

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

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

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

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

Meetings

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

The Board met on 16 occasions in 2004. Two of those meetings related to the approval of the Accounts, following their previous consideration by the Audit Committee and the Board, and were attended by the Chairman, the Group Chief Executive, the Group Director, Finance & Enterprise Technology, and, on one occasion, the Chairman of the Audit Committee. Attendance at the other meetings is reported on below. During a number of those meetings, the Non-Executive Directors met in the absence of the Executive Directors, in accordance with good governance standards. In addition to their attendance at Board meetings, individual Non-Executive Directors attended board meetings of overseas subsidiaries, met regulators, and held numerous consultative meetings with the Chairman.

Attendance at meetings

Dermot Gleeson	14/14
Michael Buckley	14/14
Adrian Burke	14/14
Kieran Crowley*	6/6
Colm Doherty	14/14
Padraic M Fallon	12/14
Don Godson	12/14
Sir Derek Higgs	14/14
Gary Kennedy	14/14
Carol Moffett#	8/9
John B McGuckian	13/14
Aidan McKeon	13/14
Jim O'Leary	13/14
Michael J Sullivan	14/14
Robert G Wilmers	6/14
Jennifer Winter*	6/6

*Appointed 24 August 2004
#Retired 31 August 2004

Membership

It is the policy of the Board that a significant majority of the Directors should be Non-Executive. At 31 December 2004, there were 11 Non-Executive Directors and 4 Executive Directors. Non-Executive Directors are appointed so as to maintain an appropriate balance on the Board, and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control of the Group.

The names of the Directors, and their biographical notes, appear on pages 6 and 7. All

[1] *The Code was adopted in 2003 by the Irish Stock Exchange and the UK Listing Authority.*

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

Chairman

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

Group Chief Executive

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

Senior Independent Non-Executive Director

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

Company Secretary

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

Performance Evaluation

Evaluations of the performances of the Board, individual Directors, and Board Committees were conducted during the year by the Chairman, using a detailed questionnaire and meetings with each of the Directors. The results were presented to the Board. An evaluation of the performance of the Chairman was conducted in his absence by the Non-Executive Directors, under the Chairmanship of Mr John B McGuckian, the Senior Independent Non-Executive Director, who had consulted the Executive Directors.

Terms of Appointment

Non-Executive Directors appointed during 2004 were appointed for a three-year term, with the possibility of renewal for a further three years. Following appointment, Directors are required to retire at the next Annual General Meeting, and may go before the shareholders for re-appointment. Subsequently, all Directors are required to submit themselves for re-appointment at intervals of not more than three years, except that Directors who have served for more than nine years are subject to annual re-appointment by shareholders.

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

Induction

There is an induction process for new Directors. Its content varies as between Executive and Non-Executive Directors. In respect of the latter, the induction is designed to familiarise Non-

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Executive Directors with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Company's strategic and operational plans, and a programme of meetings with the Heads of Divisions and the senior management of businesses and support functions. During the year, offers were made to major shareholders of the opportunity to meet newly-appointed Non-Executive Directors. Directors also attend external courses and seminars to update their knowledge.

Board Committees

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

Audit Committee

Members: Mr Adrian Burke, Chairman; Mr Kieran Crowley (from 14 October); Sir Derek Higgs; Mr Jim O'Leary; and Mr Michael J Sullivan.

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

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

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

The Audit Committee met on nine occasions during 2004. All the members attended all the meetings. The following attend the Committee's meetings, by invitation: the Auditors; the Group Director, Finance & Enterprise Technology; the Chief Financial Officer; the Group Chief Risk Officer; the Group General Manager, Regulatory Compliance & Business Ethics; and the Group Internal Auditor.

Corporate Social Responsibility Committee

Members: Ms Carol Moffett, Chairman (until her retirement as a Director on 31 August); Mr Dermot Gleeson, Chairman (from 1 September); Mr Padraic M Fallon; Mr Don Godson (until 7 October); and Ms Jennifer Winter (from 7 October).

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

The Committee met on 4

occasions during 2004. All the members attended all the meetings, except Mr Fallon, who attended three of the meetings.

Nomination and Corporate Governance Committee

Members: Mr Dermot Gleeson, Chairman; Mr Michael Buckley; Mr Don Godson; Mr John B McGuckian; and Mr Michael J Sullivan.

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

The Committee met on three occasions during 2004. All the members attended all the meetings. Based on information available to the Company, and without resort to external search consultants or open advertising, the Committee considered candidates for appointment as Non-Executive Directors, and made recommendations to the Board in that regard.

Remuneration Committee

Members: Mr Dermot Gleeson, Chairman; Mr Don Godson; Sir Derek Higgs; Mr John B McGuckian; and Mr Jim O'Leary. The Remuneration Committee's responsibilities include recommending to the Board: (a) Group remuneration policies and practices; (b) performance-related pay schemes; (c) the annual operation of incentive schemes; and (d) executive and managerial salary ranges. The Committee also determines the remuneration of the Group Chief Executive, the other Executive Directors, and the other members of the Group Executive Committee, under advice to the Board.

The Committee met on three occasions during 2004. All the members attended all the meetings, except Mr O'Leary, who attended two of the meetings.

Directors' Remuneration

The Report on Directors' Remuneration and Interests appears on pages 132 to 135.

Relations with Shareholders

To strengthen communication with shareholders, the Company circulates each year, along with the statutory Annual Report and Accounts, a short booklet explaining features of the Company's performance in the previous year. This also focuses on strategy, performance over the previous five years, and interactions with customers and the wider community, and comments on the membership of the Board and other issues.

Website

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

The Company's presentations to fund managers and analysts of Annual and Interim Financial Results (in February and July, respectively) are broadcast live on the internet, and may be accessed on **www.aibgroup.com/webcast**. The times of the broadcasts are announced in advance on the website, which is updated with the Company's Stock Exchange releases, including the Trading Updates issued in June and December, and formal presentations to analysts and investors. These items are thus available for review by all shareholders with internet access.

Annual General Meeting

All shareholders are invited to attend the Annual General Meeting ('AGM') and to participate in the proceedings. Shareholders were invited to submit written questions in advance of the 2004 AGM. Those questions were dealt with at the AGM. Subsequently, the Chairman wrote to each shareholder who had submitted a question. At the AGM, it is practice to give an update on the Group's performance and developments of interest, by way of video presentation. Separate resolutions are proposed on each separate issue.

The Chairmen of the Board's Committees are available to answer questions about the Committees' activities. The proportion of proxy votes lodged for and against each resolution is indicated; this shows what the voting position would be if all

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votes cast, including votes cast by shareholders not in attendance, were taken into account.

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

It is intended that the Notice of the 2005 AGM and related papers will be posted to shareholders 29 calendar days and 21 working days before the Meeting, which is scheduled for 27 April.

Institutional Shareholders

The Company held over 300 meetings with its principal institutional shareholders and with financial analysts and brokers during 2004. The Group Chief Executive, the Group Director, Finance & Enterprise Technology, Heads of Divisions, the Chief Financial Officer, other Executive Management as requested by shareholders, and the Head of Investor Relations participate in those meetings, which are governed by prescribed procedures to ensure that price-sensitive information is not divulged. Company representatives also spoke at a number of investor conferences, and hosted such a conference in London in May 2004, when presentations were made by the senior Management Team to approximately 90 shareholders and analysts; that conference was attended by the Chairman and one of the Non-Executive Directors. The Combined Code suggests that the Senior Independent Non-Executive Director should attend meetings with major shareholders in order to develop a balanced understanding of their issues and concerns. While this did not occur in 2004, its objective was, nevertheless, met through the steps outlined below, which were taken to strengthen the communication of shareholders' views to the Board:

- The Chairman wrote to institutional shareholders in Ireland, the UK, and North America, offering to meet them if they considered such meetings to be useful.
- The Chairman held discussions with institutional shareholders, and further such meetings are planned for 2005.
- The Head of Investor Relations reported on institutional shareholders' views to the Board.
- A research project was undertaken by external consultants into the views of AIB's largest institutional shareholders (controlling c.26% of total issued shares), and the results were presented to the Board.
- Analysts' and brokers' briefings on the Company were circulated to the Directors, on receipt.

Accountability and Audit

Accounts and Directors' Responsibilities

The Accounts and other information presented in this Report and Accounts are consistent with the Code Principle requiring the presentation of 'a balanced and understandable assessment of the Company's position and prospects'. The Statement concerning the responsibilities of the Directors in relation to the Accounts appears on page 149.

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 2005.

Internal Control

The Company's risk governance and internal controls were strengthened during the year by the adoption by the Board of recommendations made in a number of third-party reports. A Code of Business Ethics for all employees of the Group, approved by the Board, was formally launched during the year; the Code subsumed a Statement of Business Principles, which had been adopted by the Board in 2001.

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

The Group's system of internal control includes:

- a clearly-defined management structure, with defined lines of authority and accountability;
- a comprehensive annual budgeting and financial reporting system, which incorporates clearly-defined and communicated common accounting policies and financial control procedures, including those relating to authorisation limits; capital expenditure and investment procedures; physical and computer security; and business continuity planning. The accuracy and integrity of the Group's financial information is confirmed through Divisional and Group-level reports to the Chief Financial Officer;
- the Group Risk Management function, which is responsible for ensuring that risks are identified, assessed and managed throughout the Group;
- the General Manager, Regulatory Compliance & Business Ethics, who reports independently to the Audit Committee on the compliance framework across the Group and on management's attention to compliance matters;
- the Audit Committee, which receives reports on various aspects of control, reviews the Group's statutory Accounts and other published financial statements and information, and ensures that no restrictions are placed on the scope of the statutory audit or on the independence of the Internal Audit and Regulatory Compliance functions. The Audit Committee reports to the Board on these matters, and on compliance with relevant laws and regulations, and related issues;
- appropriate policies and procedures relating to capital management, asset and liability management (including interest rate risk, exchange rate risk and liquidity management), credit risk management, and operational risk management. Independent testing of the risk management and control framework is undertaken by the Internal Audit function;
- regular review by the Board of overall strategy, business plans, variances against operating and capital budgets and other performance data.

The Group's structure and on-going processes for identifying, evaluating and managing the significant credit, market and operational risks faced by the Group are described in pages 34 to 41. Those processes are regularly reviewed by the Board, and accord with the above-mentioned Guidance.

The Directors confirm that, with the assistance of reports from the Audit Committee and Management, they have reviewed the effectiveness of the Group's system of internal control for the year ended 31 December 2004.

Compliance Statement

The foregoing explains how the Company has applied the principles set out in the Code. The Company has complied, throughout 2004, with the Code's provisions, save that the briefing of the Senior Independent Non-Executive Director regarding the views of major shareholders was done through the mechanisms described above, rather than through meetings with them.

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

Accounting policies

Accounting convention

The accounts on pages 69 to 148 have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments held for dealing purposes, assets held in the long-term assurance business and certain properties. The accounts comply with the requirements of Irish statute comprising the Companies Acts 1963 to 2003 and the European Communities (Credit Institutions: Accounts) Regulations, 1992, and with applicable accounting standards issued by the Accounting Standards Board, pronouncements of the Urgent Issues Task Force ('UITF'), and with the Statements of Recommended Practice ('SORP's') issued by the British Bankers' Association and the Irish Bankers' Federation except as described below in respect of the change in accounting policy for certain derivative transactions.

The preparation of accounts requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. Some estimation techniques involve significant amounts of management valuation judgements, often in areas which are inherently uncertain. The estimation techniques which are considered to be most complex are in the areas of provisions for bad and doubtful debts, fair value of financial instruments, the useful economic lives of goodwill, the value of the long-term assurance business, and retirement benefits.

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 63.

Change in accounting policy and divisional restatements

(a) Derivatives

The Group has amended its policy in respect of the accounting for termination of derivative transactions held to hedge the impact of fluctuations in interest rates on the income stream on the Group's capital fund. Previously it was Group policy that, on early termination of all non-trading derivative transactions, any realised gain or loss was deferred and amortised to net interest income over the life of the original hedge, as long as the designated assets or liabilities remained. This policy has not been amended in respect of hedging positions generated from the Group's retail businesses and treasury operations. Non-trading derivatives held for hedging purposes are accounted for on an accruals basis. Upon early termination of derivative transactions, classified as hedges of the income stream on Group capital, any realised gain or loss is taken to profit and loss account as it arises. The amendment to the accounting policy does not comply with the SORP on Derivatives which requires that the gains and losses should be amortised over the life of the underlying position. The change in accounting policy follows a revision in the Bank's policy with respect to the investment of its capital funds. The directors believe that the new accounting policy is more appropriate than the previous accounting policy in dealing with the financial impact of this revision because of the manner in which the Group's capital funds are now managed.

The change in accounting policy had a positive impact of € 23m in the year ended 31 December 2004. The change in accounting policy has no impact on the reported numbers for prior years.

(b) Divisional restatements

The profit segments by division have been restated to reflect a change in the allocation of pension costs across business segments. Previously business segments accounted for the normalised pension contribution rate appropriate to individual pension schemes. The full impact of FRS 17 (retirement benefits) is now charged to each operating division. Each division now accounts for the full service cost, the expected return on pension scheme assets and the interest on pension scheme liabilities.

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

An associated undertaking generally is one in which the Group's interest is greater than 20% and less than 50% and where the Group exercises significant influence over the entity's operating and financial policies. Interests in associated undertakings are included in the consolidated balance sheet at the Group's share of the net assets of the undertakings concerned, less provisions for any impairment in value. Goodwill arising on the acquisition of associates occurring after 1 January 1998 is included within the carrying amount of the associate less amortisation to date. The attributable share of income of associated undertakings, based on accounts made up to the end of the financial year, is included in the consolidated profit and loss account using the equity method of accounting.

Income and expense recognition

Interest income and expense is recognised in the profit and loss on an accruals basis except in respect of non-performing loans where interest is not taken to profit and loss account when recovery is doubtful. Fees which are considered to increase the yield on transactions are spread over the lives of the underlying transactions on a level yield basis. All costs associated with mortgage incentive schemes are charged in the period in which the expense is incurred. Fees and commissions received for services provided are recognised when earned. Fees and commissions payable to third parties in connection with lending arrangements are charged to profit and loss account as incurred. Expenses are charged to profit and loss account as incurred.

Provisions for bad and doubtful debts

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

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

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

General provisions are also made to cover loans which are impaired at balance sheet date, and while not specifically identified, are known from experience to be present in any portfolio of bank advances. The Group holds general provisions at a level deemed appropriate by management taking into account a number of factors including:- the credit grading profiles and movements within credit grades; historic loan loss rates; local and international economic climates and portfolio sector profiles/industry conditions. The level of general provisions is reviewed quarterly to ensure that it remains appropriate.

Loans and advances to banks and customers are reported in the balance sheet having deducted the total provisions for bad and doubtful debts *(note 26)*.

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

Debt securities

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

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

Sale and repurchase agreements (including stock borrowing and lending)

Securities may be lent or sold subject to a commitment to repurchase them. Securities sold are retained on the balance sheet where substantially all the risks and rewards of ownership remain with the Group. Similarly, securities purchased subject to a commitment to resell are treated as collateralised lending transactions where the Group does not acquire the risks or rewards of ownership.

The cash lending/borrowing elements of these transactions are included with loans and advances to banks, loans and advances to customers, deposits by banks and customer accounts, as appropriate. The Group aims to generate increased income from these activities as well as providing a source of funding of its own holdings of securities.

Finance leases

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership. Finance lease receivables are recorded within loans and advances to customers, and are stated in the balance sheet at the cost of asset, including gross earnings to date, less rentals earned to date and provisions for impairment. In addition rentals received in advance but not yet amortised to profit and loss account are included in other liabilities.

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

Hire purchase and installment finance

Amounts receivable under hire purchase contracts are stated in the balance sheet at the cost of the asset, including gross earnings to date less rentals received to date and provisions for impairment.

Interest and charges on hire purchase and on installment credit agreements are taken to 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.

Accounting policies *(continued)*

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

Tangible fixed assets
Tangible fixed assets include freehold and leasehold properties, property adaptation works, computer hardware, software and communication technology, motor vehicles and other machines and equipment.

It is Group policy not to revalue its tangible fixed assets. The Group adopted the transitional arrangements of FRS 15 'Tangible Fixed Assets' and chose to retain the book amounts of previously revalued assets in its accounting records.

Tangible fixed assets are depreciated on a straight line basis over their estimated useful economic lives.

No depreciation is provided on freehold land. Freehold and long leasehold properties are written off over their estimated useful lives of 50 years.

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

The estimated useful life for costs of adaptation of freehold and leasehold property are 10 years for branch properties and 15 years for office properties, in all cases subject to the maximum remaining life of a lease. Such costs are included within property in the balance sheet total of tangible fixed assets.

Computer hardware, operating software and application software are written off over their estimated useful lives of 3 to 5 years, while other equipment and furnishings are written off over 3 to 10 years. The estimated useful life of motor vehicles is 5 years.

The Group reviews its depreciation rates regularly.

Software development costs which lead to the creation of a definable software asset, are capitalised subject to a de-minimis limit.

Expenditure incurred to date amounting to € 75m 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 € 39m has been charged to the profit and loss account.

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

Impairment
Tangible fixed assets and goodwill are subject to impairment review in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill' if there is evidence of changes in circumstances that the carrying amount of the fixed asset or goodwill may not be recoverable. For the purpose of conducting impairment reviews, income generating units are identified as groups of assets, liabilities and associated goodwill that generate income that is largely independent of other income streams.

The impairment review comprises a comparison of the carrying amount of the fixed asset or goodwill with its recoverable amount, which is the higher of net realisable value and value in use. Net realisable value is calculated by reference to the amount at which the asset could be disposed of. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including that resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. Any loss is recognised in the profit and loss account in the year in which impairment occurs through the writing down of the asset. If the occurrence of an external event gives rise to the reversal of an impairment loss, the reversal is recognised in the profit and loss account, by increasing the carrying amount of the fixed asset or goodwill in the period in which it occurs.

Non-credit risk provisions
Provisions are recognised for present obligations arising as a consequence of past events where it is probable that a transfer of economic benefits will be necessary to settle the obligation and it can be reliably estimated.

The Group provided in the year ended 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)*.

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

Where the Group has a detailed formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring, by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of the restructuring including retirement benefit and redundancy costs. The provision raised is normally utilised within twelve months.

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

Credit related instruments

The Group treats credit related instruments (other than credit derivatives) as contingent liabilities and these are not recognised on the balance sheet unless and until the Group is called upon to make a payment under the instrument. Assets arising from payments to a third party where the Group is awaiting reimbursement from a customer are shown on the balance sheet where reimbursement is considered to be virtually certain. Fees for providing these instruments are taken to profit and loss account over the life of the instrument and reflected in fees and commissions receivable.

Retirement benefits

AIB Group provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are 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. Schemes in surplus are shown as assets on the balance sheet net of the deferred tax impact. Schemes in deficit together with unfunded schemes are shown on the balance sheet as liabilities net of the deferred tax impact. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The current service cost and past 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

Except as outlined below deferred taxation is recognised in full in respect of timing differences that have originated but not reversed at the balance sheet date. Deferred tax is not provided on timing differences arising:- on the revaluation of property when no commitment has been made to sell the asset; when a taxable gain on the sale of an asset is rolled over into replacement assets; or on the potential additional tax that may be payable on the payment of a dividend by a subsidiary where no commitment has been made to pay a dividend.

Deferred tax assets are recognised to the extent that, on the basis of the available evidence, it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. The calculation of the deferred taxation asset or liability is based on the taxation rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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 recognised in the statement of total recognised gains and losses.

Profits and losses arising in foreign currencies have been translated at average rates for the year. The adjustment arising on the retranslation of profits and losses to balance sheet rates is recognised in the statement of total recognised gains and losses.

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

Goodwill may arise on the acquisition of subsidiary and associated undertakings. Purchased goodwill is the excess of cost over the fair value of the Group's share of net assets acquired. In accordance with FRS 10 'Goodwill and Intangible Assets', purchased goodwill and intangible assets arising on acquisition of subsidiary and associated undertakings, occurring after 1 January 1998, are capitalised as assets on the balance sheet and amortised to profit and loss account over their estimated useful economic lives. The useful economic life of goodwill is determined at the time of acquisition, taking into consideration factors such as the nature of the business acquired, the market in which it operates and its position in that market. In all cases goodwill is subject to a maximum life of 20 years and is subject to an impairment review in accordance with FRS 11, 'Impairment of Fixed Assets and Goodwill'. Impairment charges, if any, are included within goodwill amortisation.

Goodwill arising on acquisitions of subsidiary and associated undertakings prior to 31 December 1997 has been written off to the profit and loss account *(note 46)* in the year of acquisition. In accordance with the transitional arrangements of FRS 10 this goodwill was not reinstated when FRS 10 was implemented. At the date of disposal of subsidiary or associated undertakings, any unamortised goodwill, or goodwill written off directly to profit and loss account on acquisitions prior to 1 January 1998, is included with the Group's share of net assets of the undertaking disposed in the calculation of the profit or loss on disposal.

Own shares

Shares in Allied Irish Banks, p.l.c. held by the parent company or its subsidiary companies, including those held within the long-term assurance assets attributable to policyholders, are deducted in arriving at consolidated shareholders' funds. Profits or losses on transactions in AIB shares are excluded from the Group profit and loss account.

Shares held by Employee Share Trusts are deducted in arriving at shareholders' funds where the shares have not vested unconditionally in the employees.

Where shares are granted to employees at a discount to market price the cost of providing these shares is charged to the profit and loss on a systematic basis over the period to date of vesting. Dividend income received by the schemes is excluded in arriving at profit before taxation, and dividends on equity shares is reduced accordingly.

Shares held by the trusts and by Group companies are excluded from the earnings per share calculation.

Derivatives

The Group uses derivatives, such as interest rate swaps, options, forward rate agreements and financial futures for trading and non-trading purposes *(note 50)*. The accounting treatment of these derivative instruments is dependent on the purpose for which they are entered into.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise as a result of activity generated by customers while others represent proprietary trading with a view to generating incremental income. Trading instruments and hedges thereof are recognised in the accounts at fair value with the adjustment arising included in other assets and other liabilities as appropriate.

Gains and losses arising from trading activities are included in dealing profits in the profit and loss account using the mark to market method of accounting. Interest and dividend income arising together with the funding costs relating to trading activities are included in net interest income.

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

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

Netting

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

Where the amounts owed by the Group and the counterparty are determinable and in freely convertible currencies, and where the Group has the ability to insist on net settlement which is assured beyond doubt and is based on a legal right to settle net that would survive the insolvency of the counterparty, the amounts are shown in the balance sheet as net assets or net liabilities as appropriate.

Long-term assurance business

The value placed on the Group's long-term assurance business attributable to shareholders represents a valuation of the policies in force together with the net tangible assets of the business including any surplus retained in the long-term business funds which could be transferred to shareholders. The value of the inforce business is calculated by projecting future surpluses and other net cash flows attributable to the shareholder arising from business written by the balance sheet date and discounting the result at an appropriate discount rate. The value is determined on the advice of a qualified actuary on an after tax basis and is included separately in the consolidated balance sheet.

Movements in the value placed on the Group's long-term assurance business attributable to 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 2004

	Notes	2004 € m	2003[1] € m	2002[1] € m
Interest receivable:				
Interest receivable and similar income arising from				
debt securities and other fixed income securities		**888**	712	946
Other interest receivable and similar income	4	**3,118**	2,898	3,807
Less: interest payable	5	**(1,970)**	(1,676)	(2,402)
Net interest income		**2,036**	1,934	2,351
Other finance income	6	**18**	12	62
Dividend income	7	**27**	16	14
Fees and commissions receivable		**1,031**	1,038	1,301
Less: fees and commissions payable		**(131)**	(125)	(138)
Dealing profits	8	**96**	135	74
Other operating income	9	**187**	166	263
Other income		**1,210**	1,230	1,514
Total operating income		**3,264**	3,176	3,927
Administrative expenses				
Staff and other administrative expenses	10(a)	**1,713**	1,709	2,098
Restructuring costs in continuing businesses	10(b)	**9**	72	13
		1,722	1,781	2,111
Depreciation and amortisation	11	**164**	179	207
Total operating expenses		**1,886**	1,960	2,318
Group operating profit before provisions		**1,378**	1,216	1,609
Provisions for bad and doubtful debts	26	**116**	152	194
Provisions for contingent liabilities and commitments		**20**	9	2
Amounts (written back)/written off fixed asset investments	12	**(1)**	16	55
Group operating profit		**1,243**	1,039	1,358
Share of operating profits of associated undertakings		**201**	143	9
Share of restructuring and integration costs				
in associated undertaking		**–**	(20)	–
Amortisation of goodwill on acquisition of associated undertaking		**(52)**	(42)	–
Profit on disposal of property		**9**	32	5
Profit/(loss) on disposal of businesses	14 & 2	**17**	(141)	–
Group profit on ordinary activities before taxation		**1,418**	1,011	1,372
Taxation on ordinary activities	16	**336**	318	306
Group profit on ordinary activities after taxation		**1,082**	693	1,066
Equity and non-equity minority interests in subsidiaries	17	**30**	11	24
Dividends on non-equity shares	18	**5**	5	8
		35	16	32
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.		**1,047**	677	1,034

Consolidated profit and loss account *(continued)*

for the year ended 31 December 2004

	Notes	2004 € m	2003[1] € m	2002[1] € m
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.		**1,047**	677	1,034
Dividends on equity shares	19	**511**	452	429
Transfer to reserves	45	**59**	51	45
		570	503	474
Profit retained	20 & 46	**477**	174	560
Earnings per € 0.32 ordinary share – basic	21(a)	**122.9c**	78.8c	119.1c
Earnings per € 0.32 ordinary share – adjusted	21(b)	**133.1c**	109.5c	122.7c
Earnings per € 0.32 ordinary share – diluted	21(c)	**122.4c**	78.4c	117.9c

[1]The consolidated profit and loss account for 2002 reflects the consolidation of Allfirst for a full year, while the profit and loss account for 2003 reflects the consolidation of Allfirst for the period to 31 March 2003 (see note 2).

D Gleeson, Chairman. M Buckley, Group Chief Executive. G Kennedy, Group Director, Finance & Enterprise Technology. W M Kinsella, Secretary.

The movements in the Group profit and loss account are shown in note 46.

Consolidated balance sheet

31 December 2004

	Notes	2004 € m	2003 € m
Assets			
Cash and balances at central banks		**887**	838
Items in course of collection		**368**	339
Central government bills and other eligible bills	22	**–**	45
Loans and advances to banks	23	**2,320**	2,633
Loans and advances to customers	24	**64,836**	50,490
Securitised assets		**–**	719
Less: non-returnable proceeds		**–**	(516)
	27	**–**	203
Debt securities	28	**24,076**	18,127
Equity shares	29	**195**	180
Interests in associated undertakings	30	**1,317**	1,361
Intangible fixed assets	32	**380**	420
Tangible fixed assets	33	**785**	792
Other assets		**2,247**	1,507
Deferred taxation	34	**198**	174
Prepayments and accrued income		**918**	636
Long-term assurance business attributable to shareholders	35	**467**	405
		98,994	78,150
Long-term assurance assets attributable to policyholders	35	**3,246**	2,810
		102,240	80,960
Liabilities			
Deposits by banks	36	**20,428**	18,094
Customer accounts	37	**51,397**	44,612
Debt securities in issue	38	**11,805**	3,489
Other liabilities	39	**3,900**	3,144
Accruals and deferred income		**911**	595
Pension liabilities	13	**676**	502
Provisions for liabilities and charges	40	**122**	87
Deferred taxation	34	**123**	142
Subordinated liabilities	41	**2,765**	2,130
Equity and non-equity minority interests in subsidiaries	42	**1,212**	158
Share capital	43	**299**	295
Share premium account	44	**1,870**	1,885
Reserves	45	**977**	951
Profit and loss account	46	**2,435**	2,007
Shareholders' funds including non-equity interests		**5,581**	5,138
		98,920	78,091
Long-term assurance liabilities to policyholders	35	**3,320**	2,869
		102,240	80,960
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**14**	12
Guarantees and assets pledged as collateral security		**5,394**	4,157
Other contingent liabilities		**830**	722
	49	**6,238**	4,891
Commitments	49	**16,127**	13,932

D Gleeson, Chairman. M Buckley, Group Chief Executive. G Kennedy, Group Director, Finance & Enterprise Technology. W M Kinsella, Secretary.

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

31 December 2004

	Notes	2004 € m	2003 € m
Assets			
Cash and balances at central banks		**514**	508
Items in course of collection		**178**	151
Central government bills and other eligible bills	22	**–**	45
Loans and advances to banks	23	**18,489**	14,982
Loans and advances to customers	24	**44,696**	34,314
Debt securities	28	**20,895**	15,378
Equity shares	29	**28**	26
Interests in associated undertakings		**826**	891
Shares in Group undertakings	31	**225**	230
Tangible fixed assets	33	**476**	470
Other assets		**1,524**	993
Deferred taxation	34	**77**	72
Prepayments and accrued income		**767**	785
		88,695	68,845
Liabilities			
Deposits by banks	36	**34,448**	28,831
Customer accounts	37	**34,727**	29,117
Debt securities in issue	38	**10,330**	3,218
Other liabilities	39	**2,360**	1,676
Accruals and deferred income		**735**	737
Pension liabilities		**438**	280
Provisions for liabilities and charges	40	**100**	58
Deferred taxation	34	**3**	10
Subordinated liabilities	41	**2,765**	2,130
Share capital	43	**299**	295
Share premium account	44	**1,870**	1,885
Reserves	45	**100**	101
Profit and loss account	46	**520**	507
Shareholders' funds including non-equity interests		**2,789**	2,788
		88,695	68,845
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**2**	2
Guarantees and assets pledged as collateral security		**4,732**	3,680
Other contingent liabilities		**636**	565
	49	**5,370**	4,247
Commitments	49	**11,902**	9,893

D Gleeson, Chairman. M Buckley, Group Chief Executive. G Kennedy, Group Director, Finance & Enterprise Technology. W M Kinsella, Secretary.

Consolidated cash flow statement

for the year ended 31 December 2004

	Notes	**2004 € m**	2003 € m	2002 € m
Net cash inflow/(outflow) from operating activities		**3,168**	1,631	(121)
Dividends received from associated undertakings		**37**	33	1
Returns on investments and servicing of finance	53(a)	**(111)**	(93)	(138)
Equity dividends paid		**(340)**	(378)	(345)
Taxation	53(b)	**(317)**	(273)	(280)
Capital expenditure and financial investment	53(c)	**(4,130)**	(1,049)	1,379
Acquisitions and disposals	53(d)	**9**	(1,049)	(5)
Financing	53(e)	**1,744**	(173)	(129)
Increase/(decrease) in cash	53(f)	**60**	(1,351)	362

Reconciliation of Group operating profit to net cash inflow/(outflow) from operating activities	**2004 € m**	2003 € m	2002 € m
Group operating profit	**1,243**	1,039	1,358
(Increase)/decrease in prepayments and accrued income	**(280)**	106	1,162
Increase/(decrease) in accruals and deferred income	**302**	(95)	(1,191)
Provisions for bad and doubtful debts	**116**	152	194
Provisions for contingent liabilities and commitments	**20**	9	2
Amounts (written back)/written off fixed asset investments	**(1)**	16	55
Increase in other provisions	**33**	57	16
Depreciation and amortisation	**164**	174	207
Profit/(loss) on disposal of businesses	**17**	(141)	–
Interest on subordinated liabilities	**68**	47	83
Interest on reserve capital instruments	**38**	38	38
Profit on disposal of debt securities and equity shares	**(17)**	(40)	(117)
Profit on termination of off-balance sheet instruments	**(36)**	–	–
Average gains on debt securities held for hedging purposes	**(2)**	(1)	(4)
Profit on disposal of associated undertakings	**(1)**	–	(1)
Amortisation of premiums net of (discounts) on debt securities held as financial fixed assets	**24**	23	(15)
Increase in long-term assurance business	**(63)**	(53)	(48)
Net cash inflow from trading activities	**1,625**	1,331	1,739
Net increase in deposits by banks	**2,703**	4,207	3,975
Net increase in customer accounts	**6,488**	5,729	2,299
Net increase in loans and advances to customers	**(14,420)**	(10,043)	(6,129)
Net decrease in loans and advances to banks	**345**	591	982
Decrease/(increase) in central government bills	**45**	(41)	18
Net increase in debt securities and equity shares held for trading purposes	**(2,066)**	(1,216)	(1,180)
Net (increase)/decrease in items in course of collection	**(29)**	(161)	174
Net increase/(decrease) in debt securities in issue	**8,303**	1,082	(1,425)
Net increase/(decrease) in notes in circulation	**30**	41	(3)
Increase in other assets	**(735)**	(920)	(28)
Increase/(decrease) in other liabilities	**737**	701	(521)
Effect of exchange translation and other adjustments	**142**	330	(22)
	1,543	300	(1,860)
Net cash inflow/(outflow) from operating activities	**3,168**	1,631	(121)

Statement of total recognised gains and losses

	2004 € m	2003 € m	2002 € m
Group profit attributable to the ordinary shareholders	**1,047**	677	1,034
Gain recognised on disposal of Allfirst *(note 2)*	**–**	489	–
Currency translation differences on foreign currency net investments	**(69)**	(457)	(341)
Actuarial loss recognised in retirement benefit schemes *(note 13)*	**(197)**	(50)	(823)
Actuarial (loss)/gain recognised in associated undertaking	**(1)**	8	–
Total recognised gains/(losses) relating to the year	**780**	667	(130)

Reconciliation of movements in shareholders' funds

	2004 € m	2003 € m	2002 € m
Group profit attributable to the ordinary shareholders	**1,047**	677	1,034
Dividends on equity shares	**511**	452	429
	536	225	605
Gain recognised on disposal of Allfirst *(note 2)*	**–**	489	–
Goodwill written back on disposals	**–**	1,043	–
Actuarial loss recognised in retirement benefit schemes *(note 13)*	**(197)**	(50)	(823)
Actuarial (loss)/gain recognised in associated undertaking	**(1)**	8	–
Other recognised losses relating to the year	**(80)**	(491)	(352)
Ordinary share buyback	**–**	(812)	–
Ordinary shares issued in lieu of cash dividend	**134**	108	76
Other ordinary share capital issued	**71**	62	39
Net movement in own shares *(note 48)*	**(20)**	141	37
Net addition to/(deduction from) shareholders' funds	**443**	723	(418)
Opening shareholders' funds	**5,138**	4,415	4,833
Closing shareholders' funds	**5,581**	5,138	4,415
Shareholders' funds:			
Equity interests	**5,399**	4,942	4,180
Non-equity interests	**182**	196	235
	5,581	5,138	4,415

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 Acquisition of a strategic stake in M&T Bank Corporation. Disposal of Allfirst Financial Inc.

AIB's US subsidiary, Allfirst, was acquired by M&T on 1 April 2003. AIB received 26.7 million M&T shares, representing a stake of approximately 22.5% in the enlarged M&T, together with US$ 886.1m in cash. The agreement allowed for the cash consideration to be reduced by the amount of a pre-close dividend from Allfirst to AIB and prior to closing a dividend of US$ 865.0m was declared and paid by Allfirst Financial Inc. Consequently, the cash consideration payable by M&T reduced to US$ 21.1m.

The transaction is accounted for in accordance with the Urgent Issue Task Force Abstract No. 31 'Exchanges of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or an associate' ('UITF 31'). Under UITF 31, the transaction is accounted for as an exchange of 77.5% of Allfirst for 22.5% of M&T pre-merger. Under this approach, the 22.5% of Allfirst that is owned by AIB, both directly before the transaction and indirectly thereafter, is treated as being owned throughout the transaction. The total recognised gains arising from the transaction amounted to € 449m (after tax) and was reflected in the accounts for the year ended 31 December 2003 as follows:-

Gain recognised on the disposal of Allfirst	€ m
Recognised in the profit and loss account	(40)
Recognised in the statement of total recognised gains and losses	489
	449

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

The consolidated profit and loss account for the year ended 31 December 2002 reflects the consolidation of Allfirst for a full year, while the profit and loss account for the year ended 31 December 2003 reflects the consolidation of Allfirst for the period to 31 March 2003.

To facilitate comparisons to the year ended 31 December 2004 financial statements presented in this Annual Report, the consolidated profit and loss accounts for the years ended 31 December 2003 and 31 December 2002, split between continuing and discontinued activities (arising from the disposal of Allfirst Financial Inc. on 1 April 2003), have been presented in the Additional Financial Information section on page 152 of this Annual Report.

						Year 31 December 2004
3 Segmental information	**AIB Bank ROI € m**	**AIB Bank GB & NI € m**	**Capital Markets € m**	**Poland € m**	**Group € m**	**Total € m**
Operations by business segments[(1)]						
Net interest income	**1,126**	**411**	**359**	**174**	**(34)**	**2,036**
Other finance income	**20**	**(6)**	**3**	**–**	**1**	**18**
Other income	**399**	**191**	**389**	**188**	**43**	**1,210**
Total operating income	**1,545**	**596**	**751**	**362**	**10**	**3,264**
Total operating expenses	**812**	**295**	**403**	**268**	**108**	**1,886**
Provisions	**44**	**13**	**29**	**29**	**20**	**135**
Group operating profit/(loss)	**689**	**288**	**319**	**65**	**(118)**	**1,243**
Share of operating (loss)/profit of associated undertakings	**(1)**	**–**	**6**	**1**	**195**	**201**
Amortisation of goodwill on acquisition of associated undertaking	**–**	**–**	**–**	**–**	**(52)**	**(52)**
Profit on disposal of property	**7**	**1**	**–**	**1**	**–**	**9**
Profit on disposal of businesses	**–**	**–**	**4**	**13**	**–**	**17**
Group profit on ordinary activities before taxation	**695**	**289**	**329**	**80**	**25**	**1,418**
Balance sheet						
Total loans	**35,671**	**13,755**	**13,798**	**3,765**	**167**	**67,156**
Total deposits	**28,424**	**9,084**	**40,537**	**5,452**	**133**	**83,630**
Total assets	**43,065**	**15,082**	**32,398**	**6,666**	**5,029**	**102,240**
Total risk weighted assets	**31,194**	**12,531**	**29,650**	**4,238**	**926**	**78,539**
Net assets[(2)]	**2,145**	**861**	**2,038**	**291**	**64**	**5,399**

3 Segmental information *(continued)*	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Allfirst € m	Total € m
							Year 31 December 2003[3]
Operations by business segments[1]							
Net interest income	1,016	364	312	175	(20)	87	1,934
Other finance income	17	(5)	2	–	–	(2)	12
Other income	389	165	365	170	38	103	1,230
Total operating income	1,422	524	679	345	18	188	3,176
Total operating expenses	787	276	394	308	70	125	1,960
Provisions	62	19	46	31	8	11	177
Group operating profit/(loss)	573	229	239	6	(60)	52	1,039
Share of operating profits of associated undertakings	–	–	7	–	136	–	143
Share of restructuring and integration costs in associated undertaking	–	–	–	–	(20)	–	(20)
Amortisation of goodwill on acquisition of associated undertaking	–	–	–	–	(42)	–	(42)
Profit on disposal of property	13	2	–	–	17	–	32
(Loss)/profit on disposal of businesses	–	–	(146)	4	1	–	(141)
Group profit on ordinary activities before taxation	586	231	100	10	32	52	1,011
Balance sheet							
Total loans	27,428	10,353	12,404	2,939	202	–	53,326
Total deposits	24,572	7,881	29,318	4,222	202	–	66,195
Total assets	34,101	11,643	28,365	5,301	1,550	–	80,960
Total risk weighted assets	24,119	10,055	24,506	3,259	676	–	62,615
Net assets[2]	1,904	794	1,934	257	53	–	4,942

	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Allfirst € m	Total € m
							Year 31 December 2002[3]
Operations by business segments[1]							
Net interest income	921	363	313	263	(25)	516	2,351
Other finance income	40	(1)	7	–	18	(2)	62
Other income	353	166	382	165	–	448	1,514
Total operating income	1,314	528	702	428	(7)	962	3,927
Total operating expenses	681	266	405	341	54	571	2,318
Provisions	55	22	63	46	(30)	95	251
Group operating profit/(loss)	578	240	234	41	(31)	296	1,358
Share of operating profits of associated undertakings	–	–	9	–	–	–	9
Profit/(loss) on disposal of property	8	–	–	(2)	–	(1)	5
Group profit/(loss) on ordinary activities before taxation	586	240	243	39	(31)	295	1,372
Balance sheet							
Total loans	21,367	8,967	13,371	3,473	143	11,162	58,483
Total deposits	22,522	7,449	24,482	5,014	132	12,591	72,190
Total assets	27,186	10,158	26,618	6,261	126	15,472	85,821
Total risk weighted assets	18,821	8,666	22,833	3,549	257	15,113	69,239
Net assets[2]	1,136	523	1,378	215	16	912	4,180

3 Segmental information *(continued)*	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
						Year 31 December 2004
Operations by geographical segments[4]						
Net interest income	**1,283**	**23**	**538**	**190**	**2**	**2,036**
Other finance income	**25**	**(1)**	**(6)**	**–**	**–**	**18**
Other income	**636**	**102**	**261**	**205**	**6**	**1,210**
Total operating income	**1,944**	**124**	**793**	**395**	**8**	**3,264**
Total operating expenses	**1,130**	**81**	**383**	**288**	**4**	**1,886**
Provisions	**72**	**(4)**	**38**	**29**	**–**	**135**
Group operating profit	**742**	**47**	**372**	**78**	**4**	**1,243**
Share of operating profits of associated undertakings	**5**	**195**	**–**	**1**	**–**	**201**
Amortisation of goodwill on acquisition of associated undertaking	**–**	**(52)**	**–**	**–**	**–**	**(52)**
Profit on disposal of property	**7**	**–**	**1**	**1**	**–**	**9**
Profit on disposal of business	**–**	**–**	**4**	**13**	**–**	**17**
Group profit on ordinary activities before taxation	**754**	**190**	**377**	**93**	**4**	**1,418**
Balance sheet						
Total loans	**42,744**	**1,467**	**19,060**	**3,765**	**120**	**67,156**
Total deposits	**56,535**	**2,691**	**18,952**	**5,452**	**–**	**83,630**
Total assets	**70,458**	**2,449**	**22,546**	**6,666**	**121**	**102,240**
Net assets[2]	**3,460**	**260**	**1,370**	**298**	**11**	**5,399**

	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
						Year 31 December 2003
Operations by geographical segments[4]						
Net interest income	1,155	121	465	193	–	1,934
Other finance income	20	(2)	(6)	–	–	12
Other income	562	217	261	188	2	1,230
Total operating income	1,737	336	720	381	2	3,176
Total operating expenses	1,056	210	369	322	3	1,960
Provisions	68	20	58	31	–	177
Group operating profit/(loss)	613	106	293	28	(1)	1,039
Share of operating profits of associated undertakings	7	136	–	–	–	143
Share of restructuring and integration costs of associated undertakings	–	(20)	–	–	–	(20)
Amortisation of goodwill on acquisition of associated undertaking	–	(42)	–	–	–	(42)
Profit on disposal of property	30	–	2	–	–	32
Profit/(loss) on disposal of businesses	1	7	(153)	4	–	(141)
Group profit/(loss) on ordinary activities before taxation	651	187	142	32	(1)	1,011
Balance sheet						
Total loans	34,944	1,095	14,336	2,935	16	53,326
Total deposits	46,876	1,083	14,014	4,222	–	66,195
Total assets	54,667	2,101	18,880	5,295	17	80,960
Net assets[2]	2,979	369	1,316	278	–	4,942

3 Segmental information *(continued)*	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
						Year 31 December 2002
Operations by geographical segments[4]						
Net interest income	1,050	563	455	283	–	2,351
Other finance income	62	(2)	2	–	–	62
Other income	538	555	234	184	3	1,514
Total operating income	1,650	1,116	691	467	3	3,927
Total operating expenses	924	676	363	351	4	2,318
Provisions	71	109	25	47	(1)	251
Group operating profit	655	331	303	69	–	1,358
Share of operating profits of associated undertakings	9	–	–	–	–	9
Profit/(loss) on disposal of property	8	(1)	–	(2)	–	5
Group profit on ordinary activities before taxation	672	330	303	67	–	1,372
Balance sheet						
Total loans	29,899	12,594	12,516	3,473	1	58,483
Total deposits	37,944	14,453	14,779	5,014	–	72,190
Total assets	45,151	17,629	16,769	6,271	1	85,821
Net assets[2]	1,873	1,179	895	233	–	4,180

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

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

[3] The December 2003 and 2002 amounts have been restated to reflect the divisional restatements as discussed in Accounting Policies page 64.

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

4 Other interest receivable and similar income	**2004 € m**	2003 € m	2002 € m
Interest on loans and advances to banks	**94**	113	196
Interest on loans and advances to customers	**2,866**	2,622	3,423
Income from leasing and hire purchase contracts	**158**	163	188
	3,118	2,898	3,807
Income from leasing and hire purchase contracts has been accounted for as follows:			
Investment period method	**93**	99	119
Sum of the digits method	**65**	64	69
	158	163	188

The aggregate rentals receivable from leasing contracts was € 485m (2003: € 500m).

5 Interest payable	**2004 € m**	2003 € m	2002 € m
Interest on deposits by banks and customer accounts	**1,608**	1,490	2,178
Interest on debt securities in issue	**256**	101	103
Interest on subordinated liabilities	**68**	47	83
Interest on reserve capital instruments	**38**	38	38
	1,970	1,676	2,402

6 Other finance income

Under FRS 17 'Retirement benefits', the net of the interest cost on liabilities and the expected return on assets is recorded as other finance income adjacent to interest. The interest cost represents the unwinding of the discount on the 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	**2004 € m**	2003 € m	2002 € m
Foreign exchange contracts	**67**	92	78
Profits less losses from securities held for trading purposes	**54**	23	7
Interest rate contracts	**(30)**	16	(11)
Equity index contracts	**5**	4	–
	96	135	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)*.

9 Other operating income	**2004 € m**	2003 € m	2002 € m
Profit on disposal of debt securities held for investment purposes	**15**	37	106
Profit on termination of off-balance sheet instruments	**36**	–	–
Profit on disposal of investments in associated undertakings	**1**	–	1
Profit on disposal of equity shares	**2**	3	11
Contribution of life assurance company *(note 35)*	**72**	60	57
Contribution from securitised assets *(note 27)*	**3**	1	4
Mortgage origination and servicing income	**–**	2	7
Miscellaneous operating income	**58**	63	77
	187	166	263

10 Administrative expenses

(a) Staff and other administrative expenses	**2004 € m**	2003 € m	2002 € m
Staff costs:			
Wages and salaries	**890**	905	1,097
Social security costs	**86**	88	105
Retirement benefits service costs *(note 13)*	**115**	111	122
Other staff costs	**41**	53	67
	1,132	1,157	1,391
Other administrative expenses	**581**	552	707
	1,713	1,709	2,098

(b) Restructuring costs in continuing businesses

During 2003, BZWBK commenced a branch network restructuring process resulting in the closure of approximately 40 branches across Poland. A provision of € 10m was recorded in 2003 in respect of this process with a further charge of € 9m in 2004.

AIB Group introduced an Early Retirement Package in 2003 for certain staff over the age of 50 working in Ireland and Northern Ireland with staff located in the UK who have repatriation rights to Ireland also included. A provision of € 62m was made in the 2003 accounts of which € 41m forms part of the retirement benefit past service cost in note 13. Approximately 250 people left the organisation during 2004 under the package.

The charge of € 13m in 2002 relates to the cost of an Allfirst Early Retirement Program. This also forms part of the retirement benefit past service cost in note 13.

11 Depreciation and amortisation	**2004 € m**	2003 € m	2002 € m
Depreciation of tangible fixed assets:			
Property depreciation	**23**	30	37
Equipment depreciation	**102**	118	138
	125	148	175
Amortisation and impairment of goodwill on acquisition of subsidiaries *(note 32)*	**39**	31	32
	164	179	207

12 Amounts (written back)/written off fixed asset investments	**2004 € m**	2003 € m	2002 € m
Debt securities	**(4)**	13	19
Equity shares	**3**	3	36
	(1)	16	55

13 Retirement benefits

(a) Description of retirement benefit schemes

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

Defined benefit schemes

The Group operates a number of defined benefit schemes the most significant being the AIB Group Irish Pension Scheme (the Irish scheme) and the AIB Group UK Pension Scheme (the UK scheme). Approximately fifty per cent of staff in the Republic of Ireland are members of the the Irish scheme while the majority of staff in the UK are members of the the UK scheme. Retirement benefits for the defined benefit schemes are calculated by reference to service and pensionable salary at normal retirement date.

Independent actuarial valuations, for the main Irish and UK schemes, are carried out on a triennial basis. The last such valuations were carried out on 30 June 2003 using the Projected Unit Method. The schemes are funded and contribution rates of 26.0% and 44.6% have been set for the Irish and UK schemes respectively with effect from 1 January, 2004. As both these schemes are closed to new entrants, under the Projected Unit Method, the current service cost and the standard contribution rates will increase as members of the schemes approach retirement. The actuarial valuations are available for inspection only to the members of the schemes.

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

	as at 31 December		
Financial assumptions	**2004 %**	2003 %	2002 %
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	**4.90**	5.25	5.60
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	**2.75**	2.50	2.50
Discount rate	**5.30**	5.25	5.75
Inflation assumptions	**2.5**	2.5	2.5
Other schemes			
Rate of increase in salaries	**4.0 - 4.25**	4.0 - 4.25	4.0 - 4.50
Rate of increase of pensions in payment	**0.0 - 2.75**	0.0 - 2.50	0.0 - 2.50
Discount rate	**4.90 - 5.75**	5.25 - 6.02	5.60 - 6.51
Inflation assumptions	**2.5 - 2.75**	2.5 - 3.00	2.5 - 3.00

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 2004		as at 31 December 2003		as at 31 December 2002	
	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	**7.8**	**1,803**	8.2	1,670	9.0	1,490
Bonds	**4.1**	**344**	5.0	265	5.2	333
Property	**6.4**	**274**	7.5	255	7.5	262
Cash	**3.0**	**130**	3.0	82	3.0	84
Total market value of assets	**6.9**	**2,551**	7.6	2,272	8.0	2,169
Actuarial value of liabilities		**(3,384)**		(2,902)		(2,879)
Deficit in the schemes		**(833)**		(630)		(710)
Related deferred tax asset		**157**		128		173
Net pension liability		**(676)**		(502)		(537)

The net pension liability is recognised on the balance sheet as follows:-

	as at 31 December		
	2004 € m	2003 € m	2002 € m
Funded pension schemes in deficit	**(652)**	(485)	(482)
Unfunded schemes	**(24)**	(17)	(55)
	(676)	(502)	(537)

Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to € 69,756 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 2004, 2003 and 2002.

	2004 € m	2003 € m	2002 € m
Other finance income			
Expected return on pension scheme assets	**171**	161	220
Interest on pension scheme liabilities	**(153)**	(149)	(158)
	18	12	62
Included within administrative expenses			
Current service cost	**91**	81	86
Past service cost	**3**	50	22
	94	131	108
Cost of providing defined retirement benefits	**76**	119	46

Analysis of the amount recognised in STRGL	**2004 € m**	2003 € m	2002 € m
Actual return less expected return on pension scheme assets	**99**	93	(862)
Experience gains and losses on scheme liabilities	**(150)**	97	(18)
Changes in demographic and financial assumptions	**(179)**	(257)	(123)
Actuarial loss recognised under FRS 17	**(230)**	(67)	(1,003)
Deferred tax	**33**	17	180
Recognised in STRGL	**(197)**	(50)	(823)

13 Retirement benefits *(continued)*

Movement in (deficit)/surplus during the year	**2004 € m**	2003 € m	2002 € m
Surplus in schemes at beginning of year	**(630)**	(710)	257
Movement in year:			
Current service cost	**(91)**	(81)	(86)
Past service cost	**(3)**	(50)	(22)
Contributions	**102**	84	50
Other finance income	**18**	12	62
Actuarial loss recognised under FRS 17	**(230)**	(67)	(1,003)
Disposal of subsidiary company	**–**	158	–
Translation adjustment	**1**	24	32
Deficit in schemes at end of year	**(833)**	(630)	(710)

History of experience gains and losses	**2004 € m**	2003 € m	2002 € m	2001 € m	2000 € m
Difference between expected and actual return on scheme assets:					
Amount	**99**	93	(862)	(438)	(158)
Percentage of scheme assets	**4%**	4%	40%	15%	5%
Experience gains and losses on scheme liabilities:					
Amount	**(150)**	97	(18)	(32)	(72)
Percentage of scheme liabilities	**4%**	3%	1%	1%	3%
Total amount recognised in STRGL:					
Amount	**(230)**	(67)	(1,003)	(502)	(248)
Percentage of scheme liabilities	**7%**	2%	35%	19%	10%

Defined contribution schemes

The Group operates a number of defined contribution schemes. The defined benefit schemes in Ireland and the UK were closed to new members from December 1997. Employees joining after December 1997 join on a defined contribution basis. The standard contribution rate in Ireland is 8%. The standard contribution rate in the UK is 5% and these members are also accruing benefits under SERPS (the State Earnings Related Pension Scheme). The total cost in respect of defined contribution schemes for 2004 was € 21m (2003: € 21m; 2002: € 27m).

(b) Implementation of FRS 17 'Retirement benefits'

The Group adopted FRS 17 in the preparation of its accounts for the year ended 31 December 2001 and comparative figures were restated. The change in accounting policy arising from the adoption of FRS 17 gave rise to a net credit to shareholders' funds of € 648m at 1 January 2001.

14 Profit/(loss) on disposal of businesses

<u>2004</u>

The profit on disposal of businesses in 2004 of € 17m relates to the sale of BZWBK's subsidiary, CardPoint S.A. of € 13m (tax charge € 2m), and the accrual of € 4m (tax charge € 1m), arising from the sale of the Govett business in 2003.

<u>2003</u>

The loss on disposal of businesses of € 141m relates to the loss on disposal of Govett of € 153m (loss of € 152m after tax), offset by the realised gain on disposal of Allfirst of € 1m (loss of € 40m after tax), the profit on disposal of the AIB New York retail branch of € 7m (tax charge € 3m) and the profit on disposal of Polsoft of € 4m (tax charge € 1m).

In 2003, AIB sold the majority of the Govett business its UK based asset management business to Gartmore. Certain management contracts were excluded from the sale and were managed by AIB's Irish based asset management company, AIB Investment Managers (AIB IM). The operations of AIB IM were otherwise unaffected by this transaction.

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

14 Profit/(loss) on disposal of businesses ***(continued)***

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

15 Group profit on ordinary activities before taxation				**2004** **€ m**	2003 € m	2002 € m
Is stated after:						
(i) Income:	Listed investments			**807**	609	691
	Unlisted investments			**108**	119	269
(ii) Expenses:	Operating lease rentals					
		Property		**40**	41	50
		Equipment		**–**	1	4
	Auditors' remuneration *(including VAT)*:					
		Statutory audit		**1.8**	1.8	2.1
		Further assurance services		**0.4**	0.3	0.4
		Other services:	Taxation services	**0.4**	0.2	0.1
			Other consultancy	**0.4**	0.3	0.8
				0.8	0.5	0.9
(iii) Investigation related charges				**50**	–	–

Audit further assurance services include fees for assignments which are of an audit nature. These fees include assignments where the Auditors provide assurance to third parties.

In the year ended 31 December 2004, 53% (2003: 61%) of the total statutory audit fees and 41% (2003: 65%) of the further assurance and other services fees were paid to overseas offices of the Auditors.

The Group has adopted a policy on the provision of non-audit services to the bank and its subsidiary companies. This policy includes the prohibition on the provision of certain services and the pre-approval by the Audit Committee of the engagement of the Auditors for non-audit work.

The Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditors. It is Group policy to subject all large consultancy assignments to competitive tender.

Investigation related charges

During 2004, AIB provided € 50 million for investigation related charges and costs. The investigation related primarily to the failure to notify the Regulator as required by law in respect of the application of certain regulated charges on foreign exchange products. An amount of € 12 million was charged to net interest income, € 24 million was charged to other income and there was € 14 million of costs included in other administrative expenses. The amount includes a refund to customers of approximately € 26 million including interest in respect of notification errors and approximately € 10 million including interest in relation to non-regulated charges.

16 Taxation

	2004 € m	2003 € m	2002 € m
Allied Irish Banks, p.l.c. and subsidiaries			
Corporation tax in Republic of Ireland			
Current tax on income for the period[1]	**138**	173	81
Adjustments in respect of prior periods	**(5)**	4	(7)
	133	177	74
Double taxation relief	**(13)**	(49)	(4)
	120	128	70
Foreign tax			
Current tax on income for the period	**181**	210	212
Adjustments in respect of prior periods	**(11)**	–	(4)
	170	210	208
Total current tax	**290**	338	278
Deferred tax			
Origination and reversal of timing differences	**(7)**	(54)	21
Other	**(8)**	(5)	6
Total deferred tax	**(15)**	(59)	27
Associated undertakings	**61**	39	1
Taxation on ordinary activities	**336**	318	306
Effective tax rate	**23.7%**	31.4%	22.3%
Effective tax rate - adjusted	**23.7%[2]**	24.0%[2]	22.3%

[1]The December 2004 figure includes a charge of € 29.5m (2003:€ 29.5m; 2002: nil) in relation to the Irish Government bank levy.
[2]The adjusted effective tax rate has been presented to eliminate the disposal of Govett in 2004 and 2003 and the withholding tax on the Allfirst dividend in 2003.

Factors affecting current tax charge for period

The current tax charge for 2004 is lower (2003: higher; 2002: lower) than the weighted average of the Group's statutory corporation tax rates across its geographic locations. The differences are explained below.

	2004 %	2003 %	2002 %
Weighted average corporation tax rate	**20.5**	19.1	23.8
Effects of:			
Expenses not deductible for tax purposes	**2.8**	2.8	0.8
Goodwill amortisation	**0.6**	0.8	0.7
Exempted income, income at reduced rates and tax credits	**(1.2)**	(0.1)	(1.9)
Net effect of differing tax rates overseas	**0.2**	1.9	0.7
Capital allowances in excess of depreciation	**0.1**	–	(1.0)
Other deferred tax timing differences	**0.8**	3.8	(2.0)
Tax on associated undertakings	**(4.4)**	(3.9)	(0.1)
Bank levy in Republic of Ireland	**2.1**	2.9	–
Goodwill on disposal of businesses	**–**	3.6	–
Withholding tax on Allfirst dividend	**–**	3.9	–
Adjustments to tax charge in respect of previous periods	**(1.1)**	(1.4)	(0.8)
Effective current tax charge	**20.4**	33.4	20.2

17 Equity and non-equity minority interests in subsidiaries	**2004 € m**	2003 € m	2002 € m
The profit attributable to minority interests is analysed as follows:			
Equity interest in subsidiaries	**28**	10	20
Non-equity interest in subsidiaries	**2**	1	4
	30	11	24

18 Dividends on non-equity shares

The dividends paid on the Non-cumulative preference shares of US$ 25 each amounted to € 5m (2003: € 5m; 2002: € 8m). Included in this figure is an amount of € 1m which has been accrued (2003: € 1m; 2002: € 2m) and amortised issue costs of € 0.4m (2003: € 0.5m; 2002: € 0.4m).

19 Dividends on equity shares	**2004** cent per € 0.32 share	2003 cent per € 0.32 share	2002 cent per € 0.32 share	**2004 € m**	2003 € m	2002 € m
Ordinary shares of € 0.32 each						
Interim dividend	**20.9**	19.0	17.25	**179**	161	154
Final dividend	**38.5**	35.0	31.81	**333**	296	283
	59.4	54.0	49.06	**512**	457	437
Employee share trusts[1]				**(1)**	(5)	(8)
				511	452	429

[1]In accordance with FRS 14 'Earnings per share', dividends of € 0.8m (2003: € 4.8m; 2002: € 7.9m) arising on the shares held by certain employee share trusts *(note 48)* are excluded in arriving at profit before taxation and deducted from the aggregate of dividends paid and proposed.

20 Profit retained	**2004 € m**	2003 € m	2002 € m
The transfer to the profit and loss account is dealt with in the Group accounts as follows:			
Allied Irish Banks, p.l.c.	**68**	834	76
Subsidiary undertakings	**359**	(669)	477
Associated undertakings	**50**	9	7
	477	174	560

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

	2004	2003	2002
(a) Basic			
Group profit attributable to the ordinary shareholders[(1)]	**€ 1,047m**	€ 677m	€ 1,034m
Weighted average number of shares in issue during the year[(1)]	**852.0m**	859.6m	868.7m
Earnings per share	**EUR 122.9c**	EUR 78.8c	EUR 119.1c

[(1)]In accordance with FRS 14 - 'Earnings per share', dividends arising on the shares held by the employee share trusts *(note 48)* 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	**2004**	2003 cent per €0.32 share	2002
As reported	**122.9**	78.8	119.1
Adjustments			
Goodwill amortisation and impairment	**10.6**	8.4	3.6
Impact of Govett disposal on profit and loss account	**(0.4)**	17.6	–
Impact of Allfirst disposal on profit and loss account	**–**	4.7	–
	133.1	109.5	122.7

The adjusted earnings per share figure has been presented to eliminate the effect of the goodwill amortisation in all years, goodwill impairment loss in 2004, the impact of the Govett disposal in 2004 and 2003 and the Allfirst disposal in 2003.

(c) Diluted	**2004**	2003	2002
		Number of shares (millions)	
Weighted average number of shares in issue during the period	**852.0**	859.6	868.7
Dilutive effect of options outstanding	**3.1**	4.7	8.4
Diluted	**855.1**	864.3	877.1

The weighted average number of ordinary shares reflects the dilutive effect of options outstanding under the employee share trusts *(note 48)*, the share option scheme *(note 47)* and the Allied Irish Bank stock option plan *(note 47)*.

	2004		2003	
22 Central government bills and other eligible bills	**Book amount € m**	**Market value € m**	Book amount € m	Market value € m
Group and Allied Irish Banks, p.l.c.				
Held for trading purposes				
Treasury bills	**–**	**–**	45	–
	–	**–**	45	–

	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 2004	**–**	**–**
Purchases	**651**	**–**
Disposals/maturities	**(652)**	**–**
Amortisation of discounts	**1**	**–**
At 31 December 2004	**–**	**–**

23 Loans and advances to banks	Group 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
Funds placed with the Central Bank and Financial Services Authority of Ireland	**446**	863	**400**	818
Funds placed with other central banks	**450**	17	**7**	5
Funds placed with other banks	**1,424**	1,753	**18,082**	14,159
	2,320	2,633	**18,489**	14,982
Analysed by remaining maturity:				
Repayable on demand	**246**	204	**171**	154
Other loans and advances by remaining maturity:				
Over 5 years	**127**	134	**–**	–
5 years or less but over 1 year	**30**	88	**30**	73
1 year or less but over 3 months	**279**	107	**229**	87
3 months or less	**1,640**	2,102	**722**	1,948
	2,322	2,635	**1,152**	2,262
General and specific bad and doubtful debt provisions *(note 26)*	**2**	2	**–**	–
	2,320	2,633	**1,152**	2,262
Due from subsidiary undertakings:				
Subordinated			**256**	115
Unsubordinated			**17,081**	12,605
			17,337	12,720
			18,489	14,982
Amounts include:				
Due from associated undertakings	**1**	1	**–**	–

Loans and advances to banks by geographical area	Group 2004 € m	Group 2003 € m
Republic of Ireland	**1,152**	2,282
United States of America	**81**	48
United Kingdom	**685**	239
Poland	**400**	63
Rest of the world	**2**	1
	2,320	2,633

24 Loans and advances to customers	Group 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
Loans and advances to customers	**62,219**	47,828	**44,678**	34,198
Amounts receivable under finance leases	**1,625**	1,636	**1**	3
Amounts receivable under hire purchase contracts	**968**	873	**–**	–
Money market funds	**24**	153	**17**	113
	64,836	50,490	**44,696**	34,314
Analysed by remaining maturity:				
Over 5 years	**26,349**	20,699	**16,341**	12,365
5 years or less but over 1 year	**16,932**	12,841	**11,344**	8,122
1 year or less but over 3 months	**10,177**	7,677	**6,594**	4,866
3 months or less	**12,036**	9,935	**7,599**	6,042
	65,494	51,152	**41,878**	31,395
General and specific bad and doubtful debt provisions *(note 26)*	**658**	662	**289**	287
	64,836	50,490	**41,589**	31,108
Due from subsidiary undertakings:				
Subordinated			**83**	83
Unsubordinated			**3,024**	3,123
			3,107	3,206
			44,696	34,314
Of which repayable on demand or at short notice	**16,640**	13,064	**14,881**	11,427

At 31 December 2004, € 1,192m (2003: € 1,200m) of loans and advances were pledged as collateral with the Central Bank and Financial Services Authority of Ireland.

The cost of assets acquired for letting under finance leases and hire purchase contracts amounted to € 1,568m (2003: € 1,234m).

	Group 2004 € m	Group 2003 € m
Loans accounted for on a non-accrual basis (including loans where interest is accrued but provisions have been made against it)		
AIB Bank ROI division	**221**	209
AIB Bank GB & NI division	**139**	84
Capital Markets division	**100**	82
Poland division	**299**	332
	759	707

25 Loans and advances to customers – concentrations of credit risk	2004 € m	2004 % of total loans[1]	2003 € m	2003 % of total loans[1]
Construction and property				
Republic of Ireland	**10,059**	**15.3**	6,716	13.2
United States of America	**191**	**0.3**	93	0.2
United Kingdom	**5,769**	**8.8**	4,009	7.8
Poland	**365**	**0.6**	270	0.5
	16,384	**25.0**	11,088	21.7

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.

	2004 € m	2004 % of total loans[1]	2003 € m	2003 % of total loans[1]
Residential mortgages				
Republic of Ireland	**13,236**	**20.2**	10,271	20.0
United Kingdom	**3,090**	**4.7**	2,499	4.9
Poland	**477**	**0.7**	388	0.8
	16,803	**25.6**	13,158	25.7

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 relate to loans and advances to customers and are gross of provisions and unearned income and exclude money market funds.

	Group 2004 € m	Group 2003 € m
Loans and advances to customers by geographical area		
Republic of Ireland	**41,592**	32,459
United States of America	**1,386**	1,047
United Kingdom	**18,375**	14,097
Poland	**3,365**	2,872
Rest of the world	**118**	15
	64,836	50,490

26 Provisions for bad and doubtful debts			2004			2003
	Specific € m	**General € m**	**Total € m**	Specific € m	General € m	Total € m
Group						
At 1 January	**348**	**316**	**664**	435	427	862
Exchange translation adjustments	**23**	**2**	**25**	(33)	(18)	(51)
Disposal of subsidiary undertaking	**–**	**–**	**–**	(24)	(111)	(135)
Transfer to contingent liabilities and commitments	**–**	**(15)**	**(15)**	–	–	–
Charge against profit and loss account	**–**	**116**	**116**	–	152	152
Transfer to specific	**142**	**(142)**	**–**	134	(134)	–
Amounts written off	**(151)**	**–**	**(151)**	(182)	–	(182)
Recoveries of amounts written off in previous years	**21**	**–**	**21**	18	–	18
At 31 December	**383**	**277**	**660**	348	316	664
Amounts include:						
Loans and advances to banks *(note 23)*	**2**	**–**	**2**	2	–	2
Loans and advances to customers *(note 24)*	**381**	**277**	**658**	346	316	662
	383	**277**	**660**	348	316	664
Allied Irish Banks, p.l.c.						
At 1 January	**108**	**179**	**287**	96	175	271
Exchange translation adjustments	**–**	**(1)**	**(1)**	(1)	(2)	(3)
Transfer to contingent liabilities and commitments	**–**	**(15)**	**(15)**	–	–	–
Charge against profit and loss account	**–**	**64**	**64**	–	154	154
Transfer to specific	**65**	**(65)**	**–**	148	(148)	–
Amounts written off	**(62)**	**–**	**(62)**	(148)	–	(148)
Recoveries of amounts written off in previous years	**16**	**–**	**16**	13	–	13
At 31 December *(note 24)*	**127**	**162**	**289**	108	179	287

The provisions for bad and doubtful debts in Allied Irish Banks, p.l.c. at 31 December 2004 and 2003 relate to loans and advances to customers only.

27 Securitised assets	**2004 € m**	2003 € m
Securitised assets	**–**	719
Less: non-returnable proceeds	**–**	(516)
	–	203

The securitised assets at 31 December 2003 relates to a securitisation transaction originated in 1999. These assets were redeemed in December 2004 as a result of this transaction being restructured.

The contribution from these securitised assets, which includes a loss on the disposal of assets from the portfolio as part of the restructure, is included in other operating income and analysed below.

	2004 € m	2003 € m	2002 € m
Net interest income	**3**	3	4
Other income	**(2)**	–	–
Total income	**1**	3	4
Provisions for bad and doubtful debts	**(2)**	2	–
Contribution from securitised assets *(note 9)*	**3**	1	4

28 Debt securities	**2004** Book amount € m	Gross unrealised gains € m	Gross unrealised losses € m	Market value € m
Group				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	**7,101**	**137**	**(11)**	**7,227**
Other public sector securities	**854**	**13**	**–**	**867**
Issued by other issuers:				
Bank and building society certificates of deposit	**585**	**–**	**–**	**585**
Other debt securities	**7,710**	**119**	**(6)**	**7,823**
	16,250	**269**	**(17)**	**16,502**
Held for trading purposes				
Issued by public bodies:				
Government securities	**1,048**			**1,048**
Other public sector securities	**73**			**73**
Issued by other issuers:				
Bank and building society certificates of deposit	**–**			**–**
Other debt securities	**6,705**			**6,705**
	7,826			**7,826**
	24,076	**269**	**(17)**	**24,328**

	2003 Book amount € m	Gross unrealised gains € m	Gross unrealised losses € m	Market value € m
Group				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	5,237	109	–	5,346
Other public sector securities	562	7	–	569
Issued by other issuers:				
Bank and building society certificates of deposit	589	–	(1)	588
Other debt securities	6,057	94	(29)	6,122
	12,445	210	(30)	12,625
Held for trading purposes				
Issued by public bodies:				
Government securities	630			630
Other public sector securities	85			85
Issued by other issuers:				
Bank and building society certificates of deposit	–			–
Other debt securities	4,967			4,967
	5,682			5,682
	18,127	210	(30)	18,307

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
				2004
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	**5,486**	**108**	**(11)**	**5,583**
Other public sector securities	**692**	**12**	**–**	**704**
Issued by other issuers:				
Bank and building society certificates of deposit	**284**	**–**	**–**	**284**
Other debt securities	**7,093**	**119**	**(6)**	**7,206**
	13,555	**239**	**(17)**	**13,777**
Held for trading purposes				
Issued by public bodies:				
Government securities	**562**			**562**
Other public sector securities	**73**			**73**
Issued by other issuers:				
Bank and building society certificates of deposit	**–**			**–**
Other debt securities	**6,705**			**6,705**
	7,340			**7,340**
	20,895	**239**	**(17)**	**21,117**

	Book amount € m	Gross unrealised gains € m	Gross unrealised losses € m	Market value € m
				2003
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	3,627	81	–	3,708
Other public sector securities	409	7	–	416
Issued by other issuers:				
Bank and building society certificates of deposit	504	–	(1)	503
Other debt securities	5,480	92	(24)	5,548
	10,020	180	(25)	10,175
Held for trading purposes				
Issued by public bodies:				
Government securities	310			310
Other public sector securities	86			86
Issued by other issuers:				
Bank and building society certificates of deposit	–			–
Other debt securities	4,962			4,962
	5,358			5,358
	15,378	180	(25)	15,533

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

28 Debt securities *(continued)*

Analysed by remaining maturity	Group 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
Due within one year	**4,048**	2,783	**2,867**	2,064
Due one year and over	**20,028**	15,344	**18,028**	13,314
	24,076	18,127	**20,895**	15,378

Analysed by listing status	2004 Book amount € m	2004 Market value € m	2003 Book amount € m	2003 Market value € m
Group				
Held as financial fixed assets				
Listed on a recognised stock exchange	**14,076**	**14,325**	11,054	11,235
Quoted elsewhere	**376**	**376**	306	305
Unquoted	**1,798**	**1,801**	1,085	1,085
	16,250	**16,502**	12,445	12,625
Held for trading purposes				
Listed on a recognised stock exchange	**7,560**		5,595	
Quoted elsewhere	**266**		87	
Unquoted	**–**		–	
	7,826		5,682	
	24,076		18,127	

Debt securities subject to repurchase agreements amounted to € 8,780m (2003: € 5,860m).

Subordinated debt securities included as financial fixed assets amounted to € 126m at 31 December 2004 (2003: € 20m).

The unamortised premiums net of discounts on debt securities held as financial fixed assets amounted to € 53m at 31 December 2004 (2003: unamortised discount net of premiums € 19m).

The cost of debt securities held for trading purposes amounted to € 7,761m (2003: € 5,655m).

Analysed by listing status	2004 Book amount € m	2004 Market value € m	2003 Book amount € m	2003 Market value € m
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Listed on a recognised stock exchange	**12,606**	**12,825**	9,233	9,388
Quoted elsewhere	**–**	**–**	–	–
Unquoted	**949**	**952**	787	787
	13,555	**13,777**	10,020	10,175
Held for trading purposes				
Listed on a recognised stock exchange	**7,340**		5,358	
Quoted elsewhere	**–**		–	
Unquoted	**–**		–	
	7,340		5,358	
	20,895		15,378	

Debt securities subject to repurchase agreements amounted to € 8,600m (2003: € 5,824m).

The amount of unamortised premiums net of discounts on debt securities held as financial fixed assets was € 162m (2003: € 71m).

The cost of debt securities held for trading purposes was € 7,279m (2003: € 5,344m).

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 2004	**12,430**	**33**	**(18)**	**12,445**
Exchange translation adjustments	**(294)**	**1**	**(1)**	**(294)**
Purchases	**14,281**	**–**	**–**	**14,281**
Realisations/maturities	**(10,174)**	**7**	**5**	**(10,162)**
Amounts written back to profit and loss account *(note 12)*	**–**	**–**	**4**	**4**
Amortisation of (premiums) net of discounts	**–**	**(24)**	**–**	**(24)**
At 31 December 2004	**16,243**	**17**	**(10)**	**16,250**
Allied Irish Banks, p.l.c.				
At 1 January 2004	**10,075**	**(42)**	**(13)**	**10,020**
Exchange translation adjustments	**(444)**	**(1)**	**1**	**(444)**
Purchases	**12,381**	**–**	**–**	**12,381**
Realisations/maturities	**(8,376)**	**31**	**5**	**(8,340)**
Amounts written back to profit and loss account	**–**	**–**	**4**	**4**
Amortisation of (premiums) net of discounts	**–**	**(66)**	**–**	**(66)**
At 31 December 2004	**13,636**	**(78)**	**(3)**	**13,555**

29 Equity shares				**2004**
	Book amount €m	**Gross unrealised gains €m**	**Gross unrealised losses €m**	**Market value €m**
Group				
Held as financial fixed assets				
Listed on a recognised stock exchange	**5**	**15**	**(1)**	**19**
Unquoted	**106**	**9**	**(3)**	**112**
	111	**24**	**(4)**	**131**
Held for trading purposes				
Listed on a recognised stock exchange	**78**			**78**
Unquoted	**6**			**6**
	84			**84**
	195	**24**	**(4)**	**215**

				2003
	Book amount €m	Gross unrealised gains €m	Gross unrealised losses €m	Market value €m
Group				
Held as financial fixed assets				
Listed on a recognised stock exchange	6	11	(1)	16
Unquoted	110	5	(1)	114
	116	16	(2)	130
Held for trading purposes				
Listed on a recognised stock exchange	64			64
	180	16	(2)	194

29 Equity shares *(continued)*	**Book amount** **€ m**	**Gross unrealised gains** **€ m**	**Gross unrealised losses** **€ m**	**Market value** **€ m**
				2004
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Unquoted	**2**	**–**	**–**	**2**
Held for trading purposes				
Listed on a recognised stock exchange	**23**			**23**
Unquoted	**3**			**3**
	26			**26**
	28	**–**	**–**	**28**

	Book amount € m	Gross unrealised gains € m	Gross unrealised losses € m	Market value € m
				2003
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Unquoted	2	–	–	2
Held for trading purposes				
Listed on a recognised stock exchange	24			24
	26	–	–	26

Analysis of movements in equity shares held as financial fixed assets	**Cost** **€ m**	**Amounts written off** **€ m**	**Book amount** **€ m**
Group			
At 1 January 2004	**158**	**(42)**	**116**
Charge to profit and loss account *(note 12)*	**–**	**(3)**	**(3)**
Exchange translation adjustments	**2**	**–**	**2**
Purchases	**6**	**–**	**6**
Disposals	**(15)**	**5**	**(10)**
At 31 December 2004	**151**	**(40)**	**111**

The cost of equity shares held for trading purposes amounted to €82m (2003: €65m).

30 Interests in associated undertakings

Share of net assets including goodwill	2004 € m	2003 € m
At 1 January	**1,361**	31
Exchange translation adjustments	**(100)**	(219)
Transfer from subsidiary undertakings	**–**	59
Purchases	**7**	1,473
Disposals	**–**	–
Profit retained	**50**	9
Actuarial (loss)/gain	**(1)**	8
At 31 December	**1,317**	1,361

The Group's interests in associated undertakings are shown after accumulated provisions for write-downs of nil (2003: € 3m).

The movements in the provisions are as follows:

	2004 € m	2003 € m
At 1 January	**3**	3
Disposals	**(3)**	–
At 31 December	**–**	3

Included in the Group's share of net assets of associates is goodwill as follows:

Goodwill	2004 € m	2003 € m
Cost at 1 January	**1,019**	–
Additions during year[1]	**8**	1,181
Exchange translation adjustments	**(71)**	(162)
At 31 December	**956**	1,019
Accumulated amortisation at 1 January	**38**	–
Charge for year	**52**	42
Exchange translation adjustments	**(4)**	(4)
At 31 December	**86**	38
Net book value		
At 31 December	**870**	981

[1]€ 5m of the goodwill arising during 2004 relates to the finalisation of the M&T fair value adjustments reflecting an adjustment to other liabilities, in respect of the dilutive impact of the M&T employee stock options outstanding on AIB's interest in M&T. The remainder relates to acquisitions during the year.

Principal associated undertakings	Nature of business
M&T Bank Corporation	Banking and financial services

Registered office: One M&T Plaza, Buffalo, New York 14203, USA
(Common stock shares of US $0.50 par value each – Group interest 23.1%[2])

[2]*Group interest is held directly by Allied Irish Banks, p.l.c.. The agreement with M&T provides for the maintenance of AIB's interest in M&T at 22.5% through share repurchase programmes effected by M&T and through rights provided to AIB which allow it to subscribe for additional shares in M&T at fair market value.*

30 Interests in associated undertakings *(continued)*

The summary consolidated profit and loss of M&T Bank Corporation for the twelve months ended 31 December 2004 and nine months ended 31 December 2003 and summary balance sheet as at 31 December 2004 and 2003 under Irish GAAP are as follows:

9 Months 31 December 2003 US $m	**12 Months 31 December 2004 US $m**	**Summary of consolidated profit and loss account**	**12 Months 31 December 2004 € m**	9 Months 31 December 2003 € m
1,177	**1,613**	Net interest income	**1,293**	1,020
639	**922**	Other income	**739**	553
1,816	**2,535**	Total operating income	**2,032**	1,573
1,118	**1,357**	Total operating expenses	**1,088**	968
698	**1,178**	Group operating profit before provisions	**944**	605
98	**95**	Provisions	**76**	85
600	**1,083**	Group profit before taxation	**868**	520
199	**338**	Taxation	**271**	172
401	**745**	Group profit after taxation	**597**	348

31 December 2003 US $m	**31 December 2004 US $m**	**Summary of consolidated balance sheet**	**31 December 2004 € m**	31 December 2003 € m
37,618	**39,508**	Loans etc	**29,005**	29,785
7,255	**8,516**	Investment securities	**6,252**	5,744
399	**367**	Fixed assets	**270**	316
1,641	**1,635**	Other assets	**1,200**	1,299
46,913	**50,026**	Total assets	**36,727**	37,144
33,188	**35,493**	Deposits etc	**26,058**	26,277
10,178	**11,221**	Other borrowings	**8,238**	8,058
1,537	**781**	Other liabilities	**573**	1,217
2,010	**2,531**	Shareholders' funds	**1,858**	1,592
46,913	**50,026**	Total liabilities and shareholders' funds	**36,727**	37,144

The contribution of the enlarged M&T for the twelve months ended 31 December 2004 and the nine months ended 31 December 2003 is as follows:

9 Months 31 December 2003 US $m	**12 Months 31 December 2004 US $m**	**Contribution of M&T**	**12 Months 31 December 2004 € m**	9 Months 31 December 2003 € m
157	**243**	Share of operating profits	**195**	136
(23)	**–**	Share of restructuring and integration costs	**–**	(20)
(48)	**(64)**	Amortisation of goodwill	**(52)**	(42)
86	**179**	Contribution to Group profit before taxation	**143**	74
(44)	**(76)**	Taxation	**(60)**	(38)
42	**103**	Contribution to Group profit after taxation	**83**	36

With the exception of M&T, the Group's interests in associated undertakings are non-credit institutions, are unlisted and are held by subsidiary undertakings.

In accordance with the European Communities (Credit Institutions: Accounts) Regulations, 1992, Allied Irish Banks, p.l.c. will annex a full listing of associated undertakings to its annual return to the companies registration office.

31 Shares in Group undertakings	2004 € m	2003 € m
Allied Irish Banks, p.l.c.		
At 1 January	**230**	1,327
Additions	**–**	2
Disposal of subsidiary undertaking	**(5)**	(10)
Transfer to associated undertakings	**–**	(1,032)
Exchange translation adjustments	**–**	(57)
At 31 December	**225**	230
At 31 December		
Credit institutions	**42**	42
Other	**183**	188
Total – all unquoted	**225**	230

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	Unit trust management
AIB Investment Managers Limited	Investment management
AIB International Financial Services Limited	International financial services
Ark Life Assurance Company Limited*	Life assurance and pensions business
Goodbody Holdings Limited	Stockbroking and corporate finance

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

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

31 Shares in Group undertakings ***(continued)***

Principal subsidiary undertakings incorporated outside the Republic of Ireland		Nature of business
AIB Group (UK) p.l.c. trading as First Trust Bank in Northern Ireland trading as Allied Irish Bank (GB) in Great Britain		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, JE4 8WT	
AIB Bank (Isle of Man) Limited*		Banking services
Registered office:	10 Finch Road, Douglas, Isle of Man	
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.

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	**2004 € m**	2003 € m
Goodwill		
Cost at 1 January	**545**	553
Exchange translation adjustments	**(3)**	(8)
At 31 December	**542**	545
Accumulated amortisation at 1 January	**125**	96
Charge for the year *(note 11)*	**31**	31
Impairment loss *(note 11)*	**8**	–
Exchange translation adjustments	**(2)**	(2)
At 31 December	**162**	125
Net book value		
At 31 December	**380**	420

Intangible fixed assets comprise purchased goodwill arising on acquisition of subsidiary undertakings. Prior to 1 January 1998 goodwill arising on acquisition of subsidiary and associated undertakings was taken directly to profit and loss account reserves.

33 Tangible fixed assets	Property Freehold €m	Long leasehold €m	Leasehold under 50 years €m	Equipment €m	Total €m
Group					
Cost at 1 January 2004	**506**	**77**	**102**	**805**	**1,490**
Disposal of group undertaking	**–**	**–**	**–**	**(7)**	**(7)**
Additions	**16**	**3**	**13**	**80**	**112**
Disposals	**(16)**	**–**	**(3)**	**(174)**	**(193)**
Exchange translation adjustments	**21**	**–**	**(1)**	**34**	**54**
At 31 December 2004	**527**	**80**	**111**	**738**	**1,456**
Accumulated depreciation at 1 January 2004	**85**	**10**	**66**	**537**	**698**
Disposal of group undertaking	**–**	**–**	**–**	**(6)**	**(6)**
Depreciation charge for the year	**14**	**3**	**6**	**102**	**125**
Impairment loss	**9**	**–**	**–**	**–**	**9**
Disposals	**(10)**	**–**	**(3)**	**(169)**	**(182)**
Reclassification	**–**	**–**	**3**	**(3)**	**–**
Exchange translation adjustments	**8**	**–**	**–**	**19**	**27**
At 31 December 2004	**106**	**13**	**72**	**480**	**671**
Net book value					
At 31 December 2004	**421**	**67**	**39**	**258**	**785**
At 31 December 2003	421	67	36	268	792

	Property Freehold €m	Long leasehold €m	Leasehold under 50 years €m	Equipment €m	Total €m
Allied Irish Banks, p.l.c.					
Cost at 1 January 2004	**287**	**66**	**56**	**473**	**882**
Additions	**15**	**2**	**6**	**54**	**77**
Disposals	**(2)**	**–**	**–**	**(158)**	**(160)**
Exchange translation adjustments	**–**	**–**	**(1)**	**–**	**(1)**
At 31 December 2004	**300**	**68**	**61**	**369**	**798**
Accumulated depreciation at 1 January 2004	**34**	**8**	**30**	**340**	**412**
Depreciation charge for the year	**7**	**2**	**4**	**53**	**66**
Disposals	**(1)**	**–**	**–**	**(155)**	**(156)**
Reclassification	**–**	**–**	**3**	**(3)**	**–**
At 31 December 2004	**40**	**10**	**37**	**235**	**322**
Net book value					
At 31 December 2004	**260**	**58**	**24**	**134**	**476**
At 31 December 2003	253	58	26	133	470

The net book value of property occupied by the Group for its own activities was € 516m (2003: € 513m).

34 Deferred taxation	Group 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
Deferred tax assets:				
Provision for bad and doubtful debts	**(99)**	(87)	**(24)**	(24)
Amortised income	**(28)**	(23)	**(8)**	(5)
Debt securities	**(11)**	(2)	**(8)**	(1)
Timing difference on provisions for future commitments in relation to the funding of Icarom plc *(under Administration)*	**(9)**	(9)	**(9)**	(9)
Other	**(51)**	(53)	**(28)**	(33)
Total gross deferred tax assets	**(198)**	(174)	**(77)**	(72)
Deferred tax liabilities:				
Assets leased to customers	**46**	64	**–**	1
Assets used in the business	**7**	5	**3**	2
Debt securities	**22**	22	**–**	–
Other	**48**	51	**–**	7
Total gross deferred tax liabilities	**123**	142	**3**	10
Net deferred tax assets	**(75)**	(32)	**(74)**	(62)

For each of the years ended 31 December, 2004 and 2003 full provision has been made for capital allowances and other timing differences except as described below.

No provision is made for tax that could be payable on any future remittance of the past earnings of certain subsidiary undertakings.

No provision is made for tax on capital gains which might arise on the disposal of properties at their balance sheet amounts due to the expectation that the greater portion of land and buildings will be retained by the Group. Accordingly deferred tax has not been recognised on the revaluation gains and losses that have arisen on the Group's property portfolio. If deferred tax had been recognised it would have amounted to € 23m approximately. In view of the substantial number of properties involved and the likelihood of a material tax liability arising being remote no provision is made in the accounts in respect of a tax liability arising until a decision is made to sell the properties involved. No provision is made in respect of certain taxable gains in the Republic of Ireland which have been rolled over into replacement assets. Finance Act 2003 changed the legislation in respect of roll over relief in the Republic of Ireland. However, where taxable gains had been rolled over prior to the amendments introduced in Finance Act 2003 the rolled over gains can continue to be rolled over again on disposal of the replacement assets. Therefore a tax liability is unlikely to crystallise.

Analysis of movements in deferred taxation	Group 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
At 1 January	**(32)**	282	**(62)**	(36)
Disposal of subsidiary undertaking	**–**	(280)	**–**	–
Exchange translation and other adjustments	**(28)**	25	**(1)**	–
Profit and loss account taxation credit *(note 16)*	**(15)**	(59)	**(11)**	(26)
At 31 December	**(75)**	(32)	**(74)**	(62)

35 Long-term assurance business

Methodology

The value of the shareholder's interest in the long-term assurance business ('the embedded value') is comprised of the net tangible assets of Ark Life Assurance Company Limited ('Ark Life'), including any surplus retained in the long-term business funds, which could be transferred to shareholders, and the present value of the in-force business. The value of the in-force business is calculated by projecting future surpluses and other net cash flows attributable to the shareholder arising from business written by the balance sheet date and discounting the result at a risk discount rate.

Surpluses arise following annual actuarial valuations of the long-term business funds, which are carried out in accordance with the statutory requirements designed to ensure and demonstrate the solvency of the funds. Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and administrative expenses. Surpluses can be projected by making realistic assumptions about future experience, having regard to both actual experience and forecast long-term economic trends. Other net cash flows principally comprise annual management charges and other fees levied upon the policyholders by Ark Life.

Changes in the embedded value, which are determined on a post-tax basis, are included in the profit and loss account and described as contribution from life assurance company. For the purpose of presentation, the change in this value is grossed up at the underlying rate of corporation tax.

Analysis of income from long-term assurance business

Income from long-term assurance business included in the profit and loss account can be divided into those items comprising the operating profit of the business and other items.

Included within operating profit are the following items:

New business contribution: this represents the value from new business written during the year after taking into account the cost of acquisition but before the allowance for the cost of distribution.

Contribution from existing business: this comprises the following elements:

- The expected return arising from the unwinding of the discount rate; and
- Experience variances caused by the differences between the actual experience during the year and the expected experience.

Investment returns: this represents the investment return on both the net tangible assets and the value of the shareholder's interest in the long-term business account.

Distribution costs: this represents commission payable from Ark Life to AIB Group for the distribution of its products.

Included within other items are:

Change in value of future unit linked fees: this represents the unsmoothed impact of the discounted value of future unit linked fees at the end of the year as a result of investment returns being different from those assumed at the start of the year.

Changes in operating assumptions: this represents the effect of changes in demographic factors such as mortality and morbidity, and assumptions in respect of lapses and expense levels.

Changes in economic assumptions: this represents the effect of changes in the economic assumptions referred to below.

Exceptional items: this includes any other items which by virtue of their size or incidence, are considered not to form part of the ongoing operating profit.

35 Long-term assurance business ***(continued)***

Income from Ark Life's long-term assurance business is set out below:	**2004 € m**	2003 € m
New business contribution	**39**	39
Contribution from existing business		
- expected return	**27**	24
- experience variances	**(2)**	(1)
Investment returns	**4**	4
Distribution costs	**(13)**	(15)
Operating profit	**55**	51
Other items:		
Change in value of future unit linked fees	**–**	3
Changes in economic assumptions	**12**	–
Changes in operating assumptions	**4**	–
Exceptional items	**1**	6
Income from long-term assurance business before tax	**72**	60
Attributable tax	**9**	8
Income from long-term assurance business after tax	**63**	52

Assumptions

The economic assumptions have been revised at the balance sheet date and allowance has been made for the cost of maintaining the solvency margin. The operating assumptions have been adjusted to more accurately reflect current experience.

The principal economic assumptions are as follows: -

	2004 %	2003 %
Risk adjusted discount rate	**7.5**	10.0
Weighted average investment return	**5.875**	7.625
Future expense inflation	**4.0**	3.5
Corporation tax rate	**12.5**	12.5

35 Long-term assurance business *(continued)*

Balance sheet

The assets and liabilities of Ark Life representing the value of the assurance business together with the policyholders' funds are:

	2004 **€ m**	2003 € m
Investments:		
Cash and short-term placings with banks	**1,466**	1,546
Debt securities	**425**	239
Equity shares	**1,521**	1,179
Property	**51**	45
	3,463	3,009
Embedded value adjustment	**198**	167
Other assets – net	**126**	98
	3,787	3,274
Long-term assurance liabilities to policyholders	**(3,320)**	(2,869)
Long-term assurance business attributable to shareholders	**467**	405
Represented by:		
Shares at cost	**19**	19
Reserves	**435**	376
Profit and loss account	**13**	10
	467	405

Presentation in the Group balance sheet

Under UITF 37, holdings of shares in Allied Irish Banks, p.l.c., (by the parent or subsidiary companies), for any reason, are deducted in arriving at shareholders' funds. At 31 December 2004, shares in AIB with a value of € 74m (2003: € 59m) were held within the long-term business funds to meet the liabilities to policyholders.

Long-term assurance assets attributable to policyholders are presented in the Group balance sheet net of the carrying value of the shares in AIB held within the fund. Group shareholders' funds have been reduced by a similar amount.

Modified statutory solvency basis

Ark Life's profit before tax on a modified statutory solvency basis was € 36m (2003: € 44m) and its profit after tax was € 32m (2003: € 39m). Ark Life's total assets on a modified statutory solvency basis were € 3,658m at 31 December 2004 (2003: € 3,181m) and its shareholders' funds at 31 December 2004 were € 268m (2003: € 237m). The following table provides a reconciliation of embedded value to the modified statutory solvency basis.

Reconciliation of embedded value to modified statutory solvency basis	**2004** **€ m**	2003 € m
Long-term assurance business attributable to the shareholder - embedded value basis	**467**	405
Value of in-force business	**(296)**	(267)
Other differences:		
Deferred acquisitions costs	**97**	99
Shareholders' funds of life operations - modified statutory solvency basis	**268**	237

36 Deposits by banks	Group 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
Securities sold under agreements to repurchase	**8,523**	6,093	**8,421**	6,093
Other borrowings from banks	**11,905**	12,001	**26,027**	22,738
	20,428	18,094	**34,448**	28,831
Of which:				
Domestic offices	**18,450**	16,040		
Foreign offices	**1,978**	2,054		
	20,428	18,094		
With agreed maturity dates or periods of notice, by remaining maturity:				
Over 5 years	**555**	348	**527**	310
5 years or less but over 1 year	**50**	91	**–**	77
1 year or less but over 3 months	**6,456**	2,509	**6,368**	2,504
3 months or less but not repayable on demand	**13,014**	14,838	**12,787**	14,596
	20,075	17,786	**19,682**	17,487
Repayable on demand	**353**	308	**255**	293
	20,428	18,094	**19,937**	17,780
Due to subsidiary undertakings			**14,511**	11,051
			34,448	28,831
Amounts include:				
Due to associated undertakings	**2**	3	**2**	3

37 Customer accounts

	Group 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
Current accounts	**17,099**	14,657	**10,886**	9,270
Demand deposits	**7,321**	6,788	**5,433**	5,004
Time deposits	**22,676**	19,539	**14,269**	11,246
	47,096	40,984	**30,588**	25,520
Securities sold under agreements to repurchase	**77**	–	**–**	–
Other short-term borrowings	**4,224**	3,628	**4,139**	3,597
	4,301	3,628	**4,139**	3,597
	51,397	44,612	**34,727**	29,117
Of which:				
Non-interest bearing current accounts				
Domestic offices	**6,522**	5,712		
Foreign offices	**1,920**	1,714		
Interest bearing deposits, current accounts and short-term borrowings				
Domestic offices	**26,676**	23,548		
Foreign offices	**16,279**	13,638		
	51,397	44,612		
Analysed by remaining maturity:				
Over 5 years	**276**	339	**240**	294
5 years or less but over 1 year	**3,407**	2,355	**2,920**	1,954
1 year or less but over 3 months	**2,423**	1,980	**1,171**	1,049
3 months or less but not repayable on demand	**20,846**	20,505	**12,689**	12,820
	26,952	25,179	**17,020**	16,117
Repayable on demand	**24,445**	19,433	**16,312**	12,689
	51,397	44,612	**33,332**	28,806
Due to subsidiary undertakings			**1,395**	311
			34,727	29,117
Amounts include:				
Due to associated undertakings	**23**	17	**8**	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 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
Bonds and medium term notes:				
European medium term note programme	**3,250**	1,255	**3,250**	1,255
Other medium term notes	**288**	168	**–**	–
	3,538	1,423	**3,250**	1,255
Other debt securities in issue:				
Commercial paper	**1,187**	261	**–**	158
Commercial certificates of deposit	**7,080**	1,805	**7,080**	1,805
	8,267	2,066	**7,080**	1,963
	11,805	3,489	**10,330**	3,218
Analysed by remaining maturity				
Bonds and medium term notes:				
5 years or less but over 1 year	**3,423**	1,423	**3,250**	1,255
1 year or less but over 3 months	**115**	–	**–**	–
	3,538	1,423	**3,250**	1,255
Other debt securities in issue:				
5 years or less but over 1 year	**676**	–	**676**	–
1 year or less but over 3 months	**2,016**	456	**2,016**	456
3 months or less	**5,575**	1,610	**4,388**	1,507
	8,267	2,066	**7,080**	1,963
	11,805	3,489	**10,330**	3,218

39 Other liabilities	Group 2004 € m	Group 2003 € m	Allied Irish Banks, p.l.c. 2004 € m	Allied Irish Banks, p.l.c. 2003 € m
Notes in circulation	**450**	420	**–**	–
Taxation	**137**	169	**80**	109
Dividend *(note 19)*	**333**	296	**333**	296
Provision for future commitments in relation to the funding of Icarom(1)	**72**	79	**72**	79
Short positions in securities(2)	**332**	149	**229**	35
Other	**2,576**	2,031	**1,646**	1,157
	3,900	3,144	**2,360**	1,676

(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 € 89m (2003: € 101m). The unwinding of the discount on the provision amounted to € 4.7m (2003: € 5.1m).

(2)Short positions in debt securities and equity securities in 2004 were € 313m and € 19m, respectively (2003: € 147m and € 2m, respectively).

40 Provisions for liabilities and charges	Contingent liabilities and commitments €m	Other €m	Total €m
Group			
At 1 January 2004	11	76	87
Exchange translation adjustments	1	1	2
Profit and loss account charge	20	33	53
Provisions utilised	–	(35)	(35)
Transfer from provisions for bad and doubtful debts	15	–	15
At 31 December 2004	47	75	122
Allied Irish Banks, p.l.c.			
At 1 January 2004	9	49	58
Profit and loss account charge	21	28	49
Provisions utilised	–	(22)	(22)
Transfer from provisions for bad and doubtful debts	15	–	15
At 31 December 2004	45	55	100

41 Subordinated liabilities	**2004 € m**	2003 € m
Allied Irish Banks, p.l.c.		
Undated loan capital	**345**	357
Dated loan capital	**1,923**	1,276
	2,268	1,633
Reserve capital instruments	**497**	497
	2,765	2,130
Undated loan capital		
US $100m Floating Rate Notes, Undated	**73**	79
US $100m Floating Rate Primary Capital Perpetual Notes, Undated	**73**	79
€ 200m Fixed Rate Perpetual Subordinated Notes	**199**	199
	345	357
Dated loan capital		
Allied Irish Banks, p.l.c.		
European Medium Term Note Programme:		
€ 32.2m 6.7% Fixed Rate Notes due August 2009	**–**	32[1]
US $250m Floating Rate Notes due January 2010	**184[2]**	198
€ 250m Floating Rate Notes due January 2010	**250[3]**	250
€ 100m Floating Rate Notes due August 2010	**100**	100
€ 200m Floating Rate Notes due June 2013	**200**	200
US $400m Floating Rate Notes due July 2015	**293**	–
€ 400m Floating Rate Notes due March 2015	**400**	–
Stg £350m Fixed Rate Notes due November 2030	**496**	496
	1,923	1,276
The dated loan capital outstanding is repayable as follows:		
In one year or less	**434**	–
Between 1 and 2 years	**–**	–
Between 2 and 5 years	**–**	–
In 5 years or more	**1,489**	1,276
	1,923	1,276

[1]The € 32.2m Fixed Rate Notes were redeemed on 20 August 2004.
[2]The US$ 250m Floating Rate Notes were redeemed on 24 January 2005.
[3]The € 250m Floating Rate Notes were redeemed on 25 January 2005.

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

Undated loan capital

The US$ Undated Floating Rate Loan capital notes have no final maturity but may be redeemed at par at the option of the Bank, with the prior approval of the Irish Financial Services Regulatory Authority ('IFSRA'). 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, with the prior approval of the IFSRA, on each coupon payment date on or after 3 August 2009.

41 Subordinated liabilities ***(continued)***

Dated loan capital

The European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank. The € 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. The € 200m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on the 12 June 2008 and on each interest payment date thereafter. In July 2004, US$ 400m Floating Rate Notes due in July 2015 were issued. The US$ 400m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after July 2010. In December 2004, € 400m Floating Rate Notes due in March 2015 were issued. The € 400m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after March 2010. The Stg £350m Fixed Rate Notes, with interest payable annually in arrears on 26 November in each year, may be redeemed, in whole but not in part, on the 26 November 2025 and on each interest payment date thereafter. In all cases, redemption prior to maturity is subject to the necessary prior approval of the IFSRA. There is no exchange exposure as the proceeds of these notes are retained in their respective currencies.

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 IFSRA (i) upon the occurrence of certain events, or (ii) on or after 28 February 2011, an authorised officer having reported to the Trustees within the previous six months that a solvency condition is met.

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

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

42 Equity and non-equity minority interests in subsidiaries	**2004 € m**	2003 € m
Equity interest in subsidiaries	**220**	158
Non-equity interest in subsidiaries	**992**	-
	1,212	158

Non-equity interest in subsidiaries

In December 2004, Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ('Preferred Securities') in the amount of € 1,000,000,000 were issued through a Limited Partnership. The Preferred Securites were issued at par and have the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. ('AIB'). The Preferred Securities have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities.

The Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the IFSRA (i) upon the occurrence of certain events, or (ii) on or after 17 December 2014, subject to the provisions of the Limited Partnership Act, 1907.

Distributions on the Preferred Securities are non-cumulative. The distributions will be payable at a rate of 4.781% per annum up to 17 December 2014 and thereafter at the rate of 1.10% per annum above 3 month EURIBOR, reset quarterly. The discretion of the Board of Directors of AIB to resolve that a distribution should not be paid is unfettered.

In the event of the dissolution of the Limited Partnership, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of AIB at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by AIB, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilites of AIB including subordinated liabilites.

43 Share capital		2004 € m	2003 € m
Ordinary share capital			
Ordinary shares of €0.32 each			
Authorised:	1,160 million shares (2003: 1,160 million)		
Issued:	918 million shares (2003: 908 million)	**294**	290
Preference share capital			
Non-cumulative preference shares of US$ 25 each			
Authorised:	20.0 million shares (2003: 20.0 million)		
Issued:	0.25 million shares (2003: 0.25 million)	**5**	5
Non-cumulative preference shares of €1.27 each			
Authorised:	200.0 million shares (2003: 200.0 million)		
Issued:	Nil	**–**	–
Non-cumulative preference shares of Stg £ 1 each			
Authorised:	200.0 million shares (2003: 200.0 million)		
Issued:	Nil	**–**	–
Non-cumulative preference shares of Yen 175 each			
Authorised:	200.0 million shares (2003: 200.0 million)		
Issued:	Nil	**–**	–
		299	295

Movements in ordinary share capital		
At 1 January	**290**	287
New shares issued during year - see below	**4**	3
At 31 December	**294**	290

During the year ended 31 December 2004, the number of ordinary shares in issue was increased from 907,621,316 to 918,435,570, through the allotment of 10,814,254 shares under the Company's dividend reinvestment plan, as follows:

(a) 6,443,950 shares were allotted to shareholders, at € 12.20 per share, in respect of the final dividend for the year ended 31 December 2003; and

(b) 4,370,304 shares were allotted to shareholders, at € 12.77 per share, in respect of the interim dividend for the year ended 31 December 2004.

These allotments were made in lieu of dividends amounting to € 134.4m.

Preference share capital

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

44 Share premium account	Group € m	Allied Irish Banks, p.l.c. € m
At 1 January 2004	1,885	1,885
Profit and loss account	(1)	(1)
Exchange translation adjustments	(14)	(14)
At 31 December 2004	1,870	1,870

45 Reserves	Group € m	Allied Irish Banks, p.l.c. € m
At 1 January 2004		
Capital reserves	838	–
Revaluation reserves	113	101
	951	101
Transfer from/(to) profit and loss account:		
Non-distributable reserves of Ark Life	59	–
Property revaluation reserves	(1)	(1)
Exchange translation and other adjustments	(32)	–
At 31 December 2004	977	100
At 31 December 2004		
Capital reserves	866	–
Revaluation reserves	111	100
	977	100

46 Profit and loss account	Revenue Reserves	Share Repurchases	Own Shares	Group Total € m	Allied Irish Banks, p.l.c. € m
At January 1 2004	2,886	(799)	(80)	2,007	507
Profit retained for the year	477	–	–	477	68
Dividend reinvestment plan	130	–	–	130	130
Actuarial loss recognised in retirement benefit schemes *(note 13)*	(197)	–	–	(197)	(177)
Actuarial loss recognised in associated undertaking	(1)	–	–	(1)	–
Ordinary shares bought back/purchased	–	–	(22)	(22)	–
Ordinary shares issued/sold	–	71	2	73	71
Share premium account	1	–	–	1	1
Transfer from property revaluation reserves	1	–	–	1	1
Exchange translation adjustments	(35)	–	1	(34)	(81)
At 31 December 2004	3,262	(728)	(99)	2,435	520
At 31 December 2004					
Allied Irish Banks, p.l.c. and subsidiaries				2,238	
Associated undertakings				197	
				2,435	

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 €347m at 31 December 2004 (2003: €364m).

Included within the profit and loss account reserve for the Group at 31 December 2004 is €652m (Allied Irish Banks, p.l.c.: €425m) relating to the net pension liability in funded retirement benefit schemes *(note 13)*.

47 Share repurchases

At the 2004 Annual General Meeting, shareholders granted authority for the Company, or any subsidiary, to make market purchases of up to 90 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. During the year ended 31 December 2004, some 6,644,367 ordinary shares previously purchased under a similar authority, and held as Treasury shares, were re-issued as follows:

	2004	2003
At 1 January	**55,534,156**	–
Shares purchased	**–**	60,798,412
Shares re-issued under:		
AIB Share Option Schemes	**4,338,350**	3,092,500
Allfirst Financial Stock Option Plan	**29,600**	46,000
AIB Approved Employee Profit Sharing Schemes	**2,276,417**	2,125,756
	6,644,367	5,264,256
At 31 December	**48,889,789**	55,534,156

In addition, 5.6 million ordinary shares were purchased by a subsidiary undertaking in 1997 at a cost of € 42m, on which the related dividend entitlements have been waived.

AIB Share option schemes

The Company operates share option schemes on terms approved by the shareholders. Officials may participate in the schemes at the discretion of the directors. Options are granted at the market price, being the middle-market quotation of the Bank's shares on the Irish Stock Exchange on the day preceding the date on which the option is granted. The exercise of options granted between 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 their grant in the case of options granted subsequent to that date.

The shares issued during 2004 to participants in the schemes were issued at prices of € 5.80, € 6.25, € 10.02 and € 11.90 per share. The consideration received for these shares was € 44.0m.

At 31 December 2004, options were held by some 3,845 participants over 21,025,229 ordinary shares in aggregate (2.3% of the issued ordinary share capital, 2.4% net of 48,889,789 Treasury Shares held at that date), at prices ranging from € 10.02 to € 13.90 per share; these options may be exercised at various dates up to 28 April 2014.

Allfirst Financial Inc. stock option plan

Under the terms of the Agreement and Plan of Merger between the Company, First Maryland Bancorp (subsequently renamed 'Allfirst') and Dauphin Deposit Corporation ('Dauphin', subsequently renamed 'Allfirst'), approved by shareholders at the 1997 Annual General Meeting, options to purchase Dauphin shares which were outstanding immediately prior to the merger were converted, at the holders' elections, into either cash or options to purchase a similar number of AIB American Depositary Shares ('converted options'). On 1 April 2003, the merger of Allfirst Financial Inc. ('Allfirst') with M&T Bank Corporation ('M&T') was completed, pursuant to the Agreement and Plan of Reorganisation dated 26 September 2002 by and among the Company, Allfirst and M&T. Under the terms of that Agreement, converted options outstanding immediately prior to that merger (over some 321,598 ordinary shares) remained in force.

The consideration received for the shares issued during 2004 to participants in the Allfirst Financial Stock Option Plan was € 0.2m.

At 31 December 2004, converted options were outstanding over 106,998 ordinary shares.

47 Share repurchases *(continued)*

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

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 minimum service periods. The directors at their discretion may set aside each year a sum not exceeding 5% of eligible profits of participating companies in the Republic of Ireland and the UK.

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

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

During 2004 the company introduced a *Save as You Earn Share Option Scheme* for eligible employees in the UK. The scheme replaced a similar scheme that had matured in 2002. Under the Scheme employees may opt to save fixed amounts on a regular basis, over a three year period, subject to a maximum monthly saving of Stg £250 per employee, and to utilise amounts so saved in the acquisition of market-purchased shares in the Company.

During 2004, the Company re-issued from its pool of Treasury Shares 2,276,417 ordinary shares to the Trustees of the employees' profit sharing schemes, at € 11.96 per share. The consideration received for these shares was € 27.2m.

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 10-year period may not exceed 10% of the issued ordinary share capital. The aggregate number of shares issued under the share option schemes in any 10-year period may not exceed 5% of the issued ordinary share capital. The Company complies with guidelines issued by the Irish Association of Investment Managers in relation to those schemes.

48 Own shares

The Group sponsors Sharesave schemes for eligible employees in the UK, the Isle of Man and Channel Islands. The trustees of the schemes have borrowed funds from Group companies, interest free, to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. These shares are used to satisfy commitments arising under the schemes. The trustees receive dividends on the shares which are used to meet the expenses. The cost of providing these shares is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit. At 31 December 2004, 1.0 million shares (2003: 0.3 million) were held by the trustees with a book value of € 10.5m (2003: € 3.0m) and a market value of € 15.2m (2003: € 4.4m).

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 open 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 2004, 0.2m shares (2003: 0.2m) were held by the trustees with a book value of € 1.3m (2003: € 2.1m) and a market value of € 3.1m (2003: € 2.5m).

Prior to its disposal to M&T Bank Corporation *(note 2)* Allfirst Financial, Inc. sponsored the Allfirst Stock Option Plans, for the benefit of key employees of Allfirst. At 31 December 2002 Allfirst had lent US$ 178m to a trust to enable it to purchase 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. A similar scheme operated for certain eligible employees of our US operations. At 31 December 2004, 1.4 million ordinary shares were held by the trust with a cost of € 13.3m and a market value of € 20.1m.

Certain subsidiary companies hold shares in AIB for customer facilitation and in the normal course of business. At 31 December 2004, 4.8 million shares (2003: 4.7 million) with a book and market value of € 73.7m (2003: € 59.5m) were held by subsidiary companies.

The accounting treatment is not intended to affect the legal characterisation of the transaction or to change the situation at law achieved by the parties to it. Thus, the inclusion of the shares as a deduction against shareholders' funds on the Group balance sheet does not imply that they have been purchased by the company as a matter of law.

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 IFSRA guidelines implementing the EC Own Funds and Solvency Ratio Directives.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for on balance sheet lending.

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.

	2004		2003	
	Contract amount € m	**Risk weighted amount € m**	Contract amount € m	Risk weighted amount € m
Group				
Contingent liabilities				
Acceptances and endorsements	**14**	**14**	12	12
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	**5,394**	**5,287**	4,157	4,053
Other contingent liabilities	**830**	**420**	722	368
	6,238	**5,721**	4,891	4,433
Commitments				
Documentary credits and short-term trade-related transactions	**267**	**103**	126	31
Forward asset purchases and forward deposits placed	**88**	**18**	–	–
Undrawn note issuance and revolving underwriting facilities	**108**	**54**	76	29
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over	**9,999**	**4,944**	8,023	3,967
Less than 1 year [1]	**5,665**	**–**	5,707	–
	16,127	**5,119**	13,932	4,027
	22,365	**10,840**	18,823	8,460

[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.

	Contingent liabilities		**Commitments**	
	2004 € m	2003 € m	**2004 € m**	2003 € m
Concentration of exposure				
Republic of Ireland	**2,580**	1,685	**7,945**	7,552
Unites States of America	**2,614**	2,549	**1,820**	1,173
United Kingdom	**1,004**	632	**4,970**	4,393
Poland	**40**	25	**1,392**	814
	6,238	4,891	**16,127**	13,932

49 Memorandum items: contingent liabilities and commitments *(continued)*

	2004 Contract amount € m	**2004** Risk weighted amount € m	2003 Contract amount € m	2003 Risk weighted amount € m
Allied Irish Banks, p.l.c.				
Contingent liabilities				
Acceptances and endorsements	**2**	**2**	2	2
Guarantees and irrevocable letters of credit	**4,732**	**4,635**	3,680	3,582
Other contingent liabilities	**636**	**318**	565	283
	5,370	**4,955**	4,247	3,867
Commitments				
Documentary credits and short-term trade-related transactions	**86**	**17**	96	19
Undrawn note issuance and revolving underwriting facilities	**–**	**–**	18	–
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over	**8,111**	**4,010**	5,982	2,954
Less than 1 year[1]	**3,705**	**–**	3,797	–
	11,902	**4,027**	9,893	2,973
	17,272	**8,982**	14,140	6,840

[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.

Except as set out below, AIB Group is not, nor has been, involved in, nor are there, so far as the Company is aware, pending or threatened by or against AIB Group any legal or arbitration proceedings which may have, or have had during the previous twelve months, a significant effect on the financial position of AIB Group.

Class action and purported shareholder derivative action

On 5 March 2002 and on 24 April 2002, separate class action lawsuits, under the Securities Exchange Act, 1934 of the United States, were filed in the United States District Court for the Southern District of New York against AIB, Allfirst and certain serving and past officers and directors of Allfirst and its subsidiaries, seeking compensatory damages, legal fees and other costs and expenses relating to alleged misrepresentations in filings of AIB and Allfirst. On 3 May 2002, a motion to consolidate both cases and to appoint a lead plaintiff was filed with the Court. On 7 December, 2004 the court granted this motion and directed that the plaintiffs file a consolidated complaint by 7 February, 2005 (which has now been received). The defendants have a further 30 days to respond. AIB intends to vigorously defend the action. It is not practicable to predict the outcome of the action against AIB and Allfirst and any financial impact on AIB, but on the basis of current information, the directors do not believe that the action is likely to have a materially adverse effect on AIB.

On 13 May 2002, a purported shareholder derivative action was filed in the Circuit Court for Baltimore City, Maryland. A holder of AIB American Depositary Shares purports to sue certain present and former directors and officers of Allfirst Bank on behalf of AIB, alleging those persons are liable for the foreign exchange trading losses. No relief is sought in the purported derivative action against AIB, Allfirst or Allfirst Bank. On 30 December 2002, the Court dismissed the action. On 10 January 2003, the plaintiffs filed a motion seeking to have the Court amend or revise the judgment, or to be granted leave to file an amended complaint. This was dismissed on 3 March 2003. The plaintiffs filed a second such motion on 17 March 2003. The court dismissed this on 4 April 2003. On 20 June 2003, the plaintiffs' petition to bypass the Maryland Court of Special Appeals and appeal directly to the Maryland Court of Appeals was denied by the Court of Appeals. The plaintiffs' appeal to the Maryland Court of Special Appeals was dismissed on 3 December, 2004. On 21 January, 2005 the plaintiffs' appealed the decision to the Maryland Court of Appeals. It is not known when this appeal will be heard.

49 Memorandum items: contingent liabilities and commitments *(continued)*

Class action and purported shareholder derivative action *(continued)*

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

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 in the Financial review.

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

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

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

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

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate and equity contracts at 31 December 2004 and 2003.

	Group		Allied Irish Banks, p.l.c.	
Interest rate contracts[1]	**2004 € m**	2003 € m	**2004 € m**	2003 € m
Notional principal amount	**141,067**	99,781	**133,896**	97,201
Gross replacement cost	**1,059**	1,030	**1,009**	1,015
Exchange rate contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**15,870**	15,565	**13,690**	13,349
Gross replacement cost	**599**	501	**444**	496
Equity contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**3,575**	2,445	**3,575**	2,445
Gross replacement cost	**112**	73	**112**	73

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

50 Derivatives *(continued)*

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

The following table analyses the notional amount and gross replacement cost of interest rate, exchange rate and equity contracts by maturity.

	Residual maturity			
	< 1 year €m	**1 < 5 years €m**	**5 years + €m**	**Total €m**
2004				
Notional amount	**100,303**	**46,330**	**13,879**	**160,512**
Gross replacement cost	**758**	**655**	**357**	**1,770**
2003				
Notional amount	64,991	41,287	11,513	117,791
Gross replacement cost	694	655	255	1,604

Of the gross replacement cost, € 1,528m (2003: € 1,416m) related to financial institutions and € 242m (2003: € 188m) related to non-financial institutions.

AIB Group has the following concentration of exposures in respect of notional amount and gross replacement cost of all interest rate, exchange rate and equity contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional amount		Gross replacement cost	
	2004 €m	2003 €m	**2004 €m**	2003 €m
Republic of Ireland	**121,896**	86,861	**1,316**	1,164
Unites States of America	**3,268**	3,400	**43**	66
United Kingdom	**26,798**	23,394	**219**	365
Poland	**8,550**	4,136	**192**	9
	160,512	117,791	**1,770**	1,604

50 Derivatives ***(continued)***

Trading activities

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

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

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 2004 and 2003.

	2004		2003	
	Notional amounts[(1)] € m	**Fair values € m**	Notional amounts[(1)] € m	Fair values € m
Interest rate contracts:				
Interest rate swaps	**73,150**		58,742	
In a receivable position		**750**		733
In a payable position		**(597)**		(627)
Interest rate caps, floors and options	**3,524**		2,650	
Held		**6**		9
Written		**(6)**		(9)
Forward rate agreements	**14,595**		6,920	
In a favourable position		**13**		3
In an unfavourable position		**(12)**		(5)
Financial futures	**18,103**		4,424	
In a favourable position		**1**		–
In an unfavourable position		**(3)**		(2)
Exchange rate contracts:				
Currency options	**1,946**	**2**	1,246	4
Forward FX contracts	**13,909**	**17**	13,507	52
Other FX derivatives	**15**	**–**	–	–
Equity derivatives	**3,575**	**70**	2,445	38

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

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

The Group's credit exposure at 31 December 2004 and 2003 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.

50 Derivatives ***(continued)***

Dealing profits

The following table summarises the Group's dealing profits by category of instrument.

	2004 € m	2003 € m	2002 € m
Foreign exchange contracts	**67**	92	78
Profits less losses from securities held for trading purposes	**54**	23	7
Interest rate contracts	**(30)**	16	(11)
Equity index contracts	**5**	4	–
Total	**96**	135	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 risks.

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

Derivative prices fluctuate in value as the underlying interest rate, foreign exchange rate, or equity prices change. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, will generally be offset by the unrealised depreciation or appreciation of the hedged items. This means that separate disclosure of market risk on derivatives used for hedging purposes is not meaningful.

To achieve its risk management objective, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, futures and options, as well as other contracts. The tables on the following pages present the notional and fair value amounts, weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by the Group at 31 December 2004 and 2003.

50 Derivatives *(continued)*

	Notional amount		Weighted average maturity in years		Weighted average rate Receive		Weighted average rate Pay		Estimated fair value	
	2004 € m	2003 € m	**2004**	2003	**2004 %**	2003 %	**2004 %**	2003 %	**2004 € m**	2003 € m
Interest rate swaps:										
Receive fixed										
1 year or less	**16,640**	13,276	**0.31**	0.43	**2.84**	2.72			**100**	54
1 - 5 years	**1,210**	3,255	**2.84**	2.66	**4.53**	4.49			**60**	112
Over 5 years	**2,304**	1,984	**9.38**	10.90	**3.46**	5.82			**107**	108
	20,154	18,515	**1.50**	1.95	**3.01**	3.36	**2.11**	2.15	**267**	274
Pay fixed										
1 year or less	**1,339**	2,156	**0.55**	0.46			**3.95**	3.77	**(20)**	(41)
1 - 5 years	**3,234**	3,603	**2.94**	2.55			**4.47**	4.19	**(132)**	(169)
Over 5 years	**1,640**	1,547	**9.51**	9.88			**4.14**	5.03	**(124)**	(102)
	6,213	7,306	**4.16**	3.49	**2.13**	2.46	**4.27**	4.24	**(276)**	(312)
Pay/receive floating										
1 year or less	**500**	–	**0.42**	–	**4.26**	–			**–**	–
1 - 5 years	**1,610**	10	**2.73**	2.75	**2.14**	3.68			**3**	–
Over 5 years	**600**	15	**10.10**	7.33	**2.18**	4.43			**–**	–
	2,710	25	**3.94**	5.50	**2.54**	4.13	**2.49**	4.21	**3**	–
Forward rate agreements:										
Loans										
1 year or less	**1,931**	–	**0.61**	–	**2.52**		**–**		**1**	–
	1,931	–	**0.61**	–	**2.52**		**–**		**1**	–
Deposits										
1 year or less	**665**	–	**0.99**	–	**–**		**3.38**	–	**(2)**	–
	665	–	**0.99**	–	**–**		**3.38**	–	**(2)**	–
Financial futures:										
1 year or less	**–**	944	**–**	0.58	**–**	3.00	**–**	2.83	**–**	–
1 - 5 years	**–**	83	**–**	1.72	**–**	–	**–**	3.44	**–**	–
	–	1,027	**–**	0.67	**–**	2.76	**–**	2.88	**–**	–
Other interest rate derivatives:										
1 year or less	**22**	68	**0.75**	0.20	**2.17**	3.30	**6.75**	2.80	**(5)**	(3)
1 - 5 years	**–**	79	**–**	3.14	**–**	5.42	**–**	6.94	**–**	(3)
Over 5 years	**–**	25	**–**	6.17	**–**	3.37	**–**	–	**–**	2
	22	172	**0.75**	2.42	**2.17**	4.28	**6.75**	4.34	**(5)**	(4)

The carrying value of the interest rate derivative financial instruments held for risk management purposes was € 48m (2003: € 2m).

50 Derivatives *(continued)*

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 2002	26,187	950	239
Additions	34,894	–	–
Maturities/amortisations	(29,826)	(910)	(192)
Cancellations	(4,050)	–	–
Transfer to trading derivatives	(395)	–	(43)
Exchange adjustments	(964)	(40)	(4)
At 31 December 2003	25,846	–	–
Additions	61,454	2,671	9,557
Maturities/amortisations	(52,099)	(2,006)	(7,626)
Cancellations	–	–	–
Transfer to trading derivatives	(6,102)	–	–
Exchange adjustments	(22)	–	–
At 31 December 2004	29,077	665	1,931

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 2004 the Group had deferred income of € 4m (2003: € 8m) and deferred expense of € 9m (2003: € 20m) relating to non-trading derivatives. € 1m (2003: € 3m) of deferred income and € 3m (2003: € 10m) of deferred expense would be expected to be released to the profit and loss account in 2005 under IR GAAP. During the year ended 31 December 2004, net deferred expense in relation to previous years of € 7m was released to the profit and loss account.

	2005 € 000	2006 € 000	2007 € 000	2008 € 000	2009 € 000	After 2009 € 000	Total € 000
Interest rate swaps							
Deferred income	765	696	582	424	353	1,293	4,113
Deferred expense	(116)	(116)	(116)	(116)	(110)	–	(574)
Forward rate agreements							
Deferred income	–	–	–	–	–	–	–
Deferred expense	(734)	–	–	–	–	–	(734)
Interest rate options							
Deferred income	9	1	–	–	–	–	10
Deferred expense	–	–	–	–	–	–	–
Financial futures							
Deferred income	–	–	–	–	–	–	–
Deferred expense	(2,413)	(2,448)	(1,492)	(1,076)	(92)	(395)	(7,916)
	(2,489)	(1,867)	(1,026)	(768)	151	898	(5,101)

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 2004 the Group had net deferred income of € 2m (2003: deferred expense € 3m) relating to debt securities held for hedging purposes. Deferred income of € 2m (2003: deferred expense € 4m) relating to these debt securities would be expected to be released to the profit and loss account in 2005 under IR GAAP. During the year ended 31 December 2004, deferred income in relation to previous years of € 7m 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 loss on instruments used for hedging as at 31 December 2004 was € 60m (2003: € 44m).

The net loss expected to be recognised in 2005 is € 4m (2003: net gain of € 12m) and thereafter a net loss of € 56m (2003: net loss of € 56m) is expected under IR GAAP.

The net gain recognised in 2004 in respect of previous years was € 4m (2003: € 16m) and the net loss arising in 2004 which was not recognised in 2004 was € 11m (2003: net loss of € 5m).

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 instruments and adjusted for differences between the quoted instrument and the instrument being valued. In certain cases, including some lendings to customers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Readers of these financial statements are advised to use caution when using the data to evaluate the Group's financial position or to make comparisons with other institutions.

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 2004.

The following table gives details of the carrying amounts and fair values of financial instruments at 31 December 2004 and 2003.

	31 December 2004		31 December 2003	
	Carrying amount € m	**Fair value € m**	Carrying amount € m	Fair value € m
Assets				
Trading financial instruments[1]				
Debt securities	**7,826**	**7,826**	5,682	5,682
Equity shares	**84**	**84**	64	64
Central government and other eligible bills	**–**	**–**	45	45
Non-trading financial instruments				
Cash and balances at central banks[1]	**887**	**887**	838	838
Items in course of collection[1]	**368**	**368**	339	339
Loans and advances to banks[2]	**2,320**	**2,336**	2,633	2,654
Loans and advances to customers[2]	**64,836**	**65,148**	50,490	50,625
Securitised assets	**–**	**–**	203	188
Debt securities	**16,250**	**16,502**	12,445	12,625
Equity shares	**111**	**131**	116	130
Liabilities				
Trading financial instruments				
Short positions in securities[1]	**332**	**332**	149	149
Non-trading financial instruments				
Deposits by banks	**20,428**	**20,447**	18,094	18,132
Customer accounts	**51,397**	**51,476**	44,612	44,616
Debt securities in issue	**11,805**	**11,805**	3,489	3,487
Subordinated liabilities	**2,765**	**2,882**	2,130	2,218
Shareholders' funds: non-equity interests	**1,174**	**1,178**	196	213
Off-balance sheet assets/(liabilities)				
Trading financial instruments[1]				
Interest rate contracts	**152**	**152**	102	102
Exchange rate contracts	**19**	**19**	56	56
Equity contracts	**70**	**70**	38	38
Non-trading financial instruments				
Interest rate contracts	**48**	**(12)**	2	(42)
Exchange rate contracts	**–**	**–**	3	3

[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.

Securitised assets

The fair value of securitised assets is based on market prices received from external pricing services.

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 2004 and 2003.

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 Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2004 and 2003 is illustrated in the tables below. The interest sensitivity gap is split by functional currency. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements and any rate sensitive off-balance sheet contracts are also included. The tables show the sensitivity of the balance sheet at one point in time and are not necessarily indicative of positions at other dates. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The tables do not take into account the effect of interest rate options used by the Group to hedge its exposure. Details of options are given in note 50.

31 December 2004

	0-3 Months € m	3-6 Months € m	6-12 Months € m	1-5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets								
Loans and advances to banks	1,251	186	85	–	–	798	–	2,320
Loans and advances to customers	54,984	2,184	1,683	3,456	2,529	–	–	64,836
Debt securities	3,687	898	1,344	6,806	3,515	–	7,826	24,076
Other assets	–	–	–	–	–	10,102	906	11,008
Total assets	59,922	3,268	3,112	10,262	6,044	10,900	8,732	102,240
Liabilities								
Deposits by banks	13,716	3,360	3,086	–	183	83	–	20,428
Customer accounts	37,253	1,275	1,100	2,662	226	8,881	–	51,397
Debt securities in issue	9,501	1,087	1,068	149	–	–	–	11,805
Subordinated liabilities	1,500	73	–	–	1,192	–	–	2,765
Other liabilities	–	–	–	–	–	9,053	1,211	10,264
Shareholders' funds	–	–	–	–	–	5,581	–	5,581
Total liabilities	61,970	5,795	5,254	2,811	1,601	23,598	1,211	102,240
Off-balance sheet items affecting interest rate sensitivity	5,131	(4,560)	(1,835)	1,933	(669)	–	–	–
	67,101	1,235	3,419	4,744	932	23,598	1,211	102,240
Interest sensitivity gap	(7,179)	2,033	(307)	5,518	5,112	(12,698)	7,521	
Cumulative interest sensitivity gap	(7,179)	(5,146)	(5,453)	65	5,177	(7,521)	–	
	Euro m	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	
Interest sensitivity gap	(960)	2,313	102	2,676	3,222	(11,149)	3,675	
Cumulative interest sensitivity gap	(960)	1,353	1,455	4,131	7,353	(3,796)	(121)	
	US $m	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	
Interest sensitivity gap	(4,087)	147	198	458	341	2,195	1,122	
Cumulative interest sensitivity gap	(4,087)	(3,940)	(3,742)	(3,284)	(2,943)	(748)	374	
	Stg m	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	
Interest sensitivity gap	(615)	88	(590)	1,713	1,411	(3,463)	1,392	
Cumulative interest sensitivity gap	(615)	(527)	(1,117)	596	2,007	(1,456)	(64)	
	PLN m	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	
Interest sensitivity gap	(1,267)	(98)	(26)	510	116	187	345	
Cumulative interest sensitivity gap	(1,267)	(1,365)	(1,391)	(881)	(765)	(578)	(233)	

52 Interest rate sensitivity *(continued)*

	31 December 2003							
	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	–	–	–	–	–	–	45	45
Loans and advances to banks	2,039	26	11	33	–	524	–	2,633
Loans and advances to customers	43,135	1,697	1,753	2,806	1,302	–	–	50,693
Debt securities	3,451	979	927	5,167	1,921	–	5,682	18,127
Other assets	–	–	–	–	–	9,040	422	9,462
Total assets	48,625	2,702	2,691	8,006	3,223	9,564	6,149	80,960
Liabilities								
Deposits by banks	15,178	1,323	1,171	80	185	157	–	18,094
Customer accounts	32,415	879	889	1,745	382	8,302	–	44,612
Debt securities in issue	2,860	13	442	174	–	–	–	3,489
Subordinated liabilities	827	79	–	32	1,192	–	–	2,130
Other liabilities	–	–	–	–	–	7,017	480	7,497
Shareholders' funds	–	–	–	–	–	5,138	–	5,138
Total liabilities	51,280	2,294	2,502	2,031	1,759	20,614	480	80,960
Off-balance sheet items affecting interest rate sensitivity	4,758	(1,179)	(3,297)	189	(471)	–	–	–
	56,038	1,115	(795)	2,220	1,288	20,614	480	80,960
Interest sensitivity gap	(7,413)	1,587	3,486	5,786	1,935	(11,050)	5,669	–
Cumulative interest sensitivity gap	(7,413)	(5,826)	(2,340)	3,446	5,381	(5,669)	–	–
	Euro m	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	
Interest sensitivity gap	(3,387)	1,525	2,618	3,040	536	(6,987)	2,914	
Cumulative interest sensitivity gap	(3,387)	(1,862)	756	3,796	4,332	(2,655)	259	
	US $m	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	
Interest sensitivity gap	(1,066)	(121)	18	58	461	(503)	546	
Cumulative interest sensitivity gap	(1,066)	(1,187)	(1,169)	(1,111)	(650)	(1,153)	(607)	
	Stg m	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	
Interest sensitivity gap	(2,151)	(73)	715	2,043	879	(2,796)	1,292	
Cumulative interest sensitivity gap	(2,151)	(2,224)	(1,509)	534	1,413	(1,383)	(91)	
	PLN m	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	
Interest sensitivity gap	(173)	137	104	478	57	(776)	85	
Cumulative interest sensitivity gap	(173)	(36)	68	546	603	(173)	(88)	

53 Consolidated cash flow statement	Notes	**2004 € m**	2003 € m	2002 € m
(a) Returns on investments and servicing of finance				
Interest paid on subordinated liabilities		**(105)**	(84)	(126)
Dividends paid on non-equity shares		**(4)**	(5)	(8)
Dividends paid to minority interests in subsidiaries		**(2)**	(4)	(4)
Net cash outflow from returns on investments and servicing of finance		**(111)**	(93)	(138)
(b) Taxation				
Tax paid, Republic of Ireland		**(122)**	(128)	(85)
Foreign tax paid		**(195)**	(145)	(195)
Net cash outflow from taxation		**(317)**	(273)	(280)
(c) Capital expenditure and financial investment				
Net (increase)/decrease in debt securities		**(4,044)**	(1,070)	1,506
Net decrease in equity shares		**6**	21	10
Additions to tangible fixed assets		**(112)**	(118)	(179)
Disposals of tangible fixed assets		**20**	118	42
Net cash (outflow)/inflow from capital expenditure		**(4,130)**	(1,049)	1,379
(d) Acquisitions and disposals				
Acquisition of Group undertakings		**–**	–	(1)
Investments in associated undertakings		**(7)**	–	(5)
Disposals of investments in subsidiary undertakings		**15**	(1,049)	1
Disposals of investments in associated undertakings		**1**	–	–
Net cash inflow/(outflow) from acquisitions and disposals		**9**	(1,049)	(5)
(e) Financing				
Issue of ordinary share capital		**53**	36	27
Share buyback		**–**	(812)	–
Redemption of subordinated liabilities		**(32)**	–	(247)
Issue of subordinated liabilities		**733**	603	100
Issue of preferred securities		**990**	–	–
Redemption of preference shares		**–**	–	(9)
Net cash inflow/(outflow) from financing	53(h)	**1,744**	(173)	(129)
(f) Analysis of changes in cash				
At 1 January		**1,042**	2,731	2,652
Net cash inflow/(outflow) before the effect of exchange translation adjustments		**60**	(1,351)	362
Effect of exchange translation adjustments		**31**	(338)	(283)
At 31 December	53(g)	**1,133**	1,042	2,731

53 Consolidated cash flow statement *(continued)*	**2004 € m**	2003 € m	Change in year € m
(g) Analysis of cash			
Cash and balances at central banks	**887**	838	49
Loans and advances to banks (repayable on demand)	**246**	204	42
	1,133	1,042	91

The Group is required to maintain balances with the Central Bank and Financial Services Authority of Ireland which amounted to €446m (2003: €863m). The Group is also required by law to maintain reserve balances with the Bank of England and with the National Bank of Poland. Such reserve balances amounted to €621m (2003: €151m).

	Share capital[1]		**Subordinated liabilities**		**Non-equity minority interests**	
	2004 € m	2003 € m	**2004 € m**	2003 € m	**2004 € m**	2003 € m
(h) Analysis of changes in financing[2]						
At 1 January	**2,180**	2,211	**2,130**	2,172	**–**	93
Effect of exchange translation adjustments	**(14)**	(40)	**(67)**	(87)	**–**	(3)
Cash inflow from financing	**–**	7	**701**	603	**990**	–
Disposal of subsidiary	**–**	–	**–**	(547)	**–**	(90)
Other movements	**4**	3	**–**	(12)	**2**	–
Amortisation of issue costs	**(1)**	(1)	**1**	1	**–**	–
At 31 December	**2,169**	2,180	**2,765**	2,130	**992**	–

[1]Includes share capital and share premium.

[2]Excludes an amount of € 53m received for Treasury shares reissued (2003: a share buyback of € 783m net of shares reissued of € 29m).

54 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, align individual and company success. In considering such packages, cognisance is taken of: the levels of remuneration for comparable positions, as advised by external consultants; the responsibilities and complexity of the roles of the individuals concerned; their individual performances measured against specific and challenging objectives: and the Group's overall performance.

Remuneration Committee

The Remuneration Committee comprises only non-executive directors; during 2004 its members were: Mr Dermot Gleeson (Chairman), Mr Don Godson, Sir Derek Higgs, Mr John B McGuckian and Mr Jim O'Leary. The Committee has a wide remit (see page 61) which includes, inter alia, determining, under advice to the Board, the specific remuneration packages of the executive directors.

Remuneration

							2004
	Fees[1]	Salary	Bonus[2]	Profit share[3]	Taxable benefits[4]	Pension contributions[5]	Total
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Executive directors							
Michael Buckley	35	775	360	13	52	210	1,445
Colm Doherty	35	418	340	13	43	109	958
Gary Kennedy	35	415	235	13	38	108	844
Aidan McKeon	35	356	242	4	38	159	834
	140	1,964	1,177	43	171	586	4,081
Non-executive directors							
Adrian Burke	146					–	146
Kieran Crowley	18					–	18
Padraic M Fallon	44					11	55
Dermot Gleeson	285					–	285
Don Godson	62					–	62
Sir Derek Higgs	71					–	71
John B McGuckian	103					11	114
Carol Moffett	33					–	33
Jim O'Leary	68					–	68
Michael J Sullivan	95					–	95
Robert G Wilmers[1]	–					–	–
Jennifer Winter	39					–	39
	964					22	986
Former directors							
Pensions[6]							758
Other payments[7]							84
							842
Total							5,909

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

Remuneration *(continued)*

	Fees[1]	Salary	Bonus[2]	Profit share[3]	Taxable benefits[4]	Pension contributions[5]	2003 Total
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Executive directors							
Michael Buckley	33	660	570	13	54	69	1,399
Colm Doherty	30	343	185	11	37	34	640
Gary Kennedy	33	381	275	13	45	38	785
Aidan McKeon	30	271	141	4	33	61	540
	126	1,655	1,171	41	169	202	3,364
Non-executive directors							
Adrian Burke	121					–	121
Padraic M Fallon	36					10	46
Dermot Gleeson	217					–	217
Don Godson	45					–	45
Sir Derek Higgs	63					–	63
John B McGuckian	89					10	99
Carol Moffett	41					–	41
Jim O'Leary	51					–	51
Lochlann Quinn	180					–	180
Michael J Sullivan	64					–	64
Robert G Wilmers[1]	–					–	–
	907					20	927
Former directors							
Pensions[6]							762
Other payments[7]							249
							1,011
Total							5,302

[1] Fees comprise a basic fee of € 35,000 per annum paid in respect of service as a director, and additional remuneration paid to any non-executive director who holds the office of Chairman, Chairman of the Audit Committee, or Senior Independent Director, or who performs services outside the ordinary duties of a director, such as through membership of Board Committees, or who serves on the board of a subsidiary company.
A fee of € 35,000 was paid to M&T Bank Corporation ('M&T'), in the year ended 31 December 2004 (2003: € 25,861), in respect of Mr Robert G Wilmers's directorship of the Company as the designee of M&T, pursuant to the Agreement and Plan of Reorganisation, dated 26 September 2002, by and among the Company, Allfirst Financial Inc. and M&T, as approved by shareholders at the Extraordinary General Meeting held on 18 December 2002 ('the Agreement').
Messrs. Buckley and Kennedy serve as Directors of M&T, pursuant to the Agreement, and fees payable in this regard, which amounted to € 56,718 in aggregate in 2004, are paid to AIB.

[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 100% of annual salary. The bonuses paid in 2003 included special bonuses of € 250,000 and € 125,000 paid to Mr Michael Buckley and Mr Gary Kennedy, respectively, in recognition of the roles they played in AIB's acquisition of a strategic stake in M&T Bank Corporation.

[3] Information on the employees' profit sharing schemes, which are operated on terms approved by the shareholders, is given in note 47.

[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 interest rates.

[5] Pension contributions represent payments to defined benefit pension plans, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date. The contribution rates, as a percentage of pensionable emoluments, are 26.0% in respect of the Republic of Ireland pension scheme (2003: 10.0%) and 44.6% in respect of the UK pension scheme (2003: 22.6%). The fees of the non-executive directors who joined the Board since 1990 are not pensionable.

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

Remuneration *(continued)*

The pension benefits earned during the year, and accrued at year-end, are as follows:

	Increase in accrued benefits during 2004[a] € 000	Accrued benefit at year-end[b] € 000	Transfer values[c] € 000
Executive directors			
Michael Buckley	106	516	1,905
Colm Doherty	15	157	159
Gary Kennedy	16	103	172
Aidan McKeon	26	224	850
Non-executive directors			
Padraic M Fallon	1	15	15
John B McGuckian	1	22	21

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

[b] Figures represent the accumulated total amounts of accrued benefits payable at normal retirement dates, as at 31 December 2004.

[c] Figures show the transfer values of the increases in accrued benefits during 2004. 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 2004, in the event of the member leaving service.

[6] 'Pensions' (€ 758,000) represents the payment of pensions to former directors or their dependants, granted on an ex-gratia basis and fully provided for in the balance sheet, together with an amount of € 650,000 to amortise a deficit on the Non-Executive Directors' Pension Scheme, in accordance with actuarial advice (2003: € 762,000, inclusive of € 650,000 in respect of amortisation of Pension Scheme deficit).

[7] Other payments comprise a payment of € 83,507 to Mr Jeremiah E Casey under the terms of a post-retirement consultancy contract approved by shareholders at the 1999 Annual General Meeting (2003: € 220,342).

Interests in shares

The beneficial interests of the directors and the secretary in office at 31 December 2004, and of their spouses and minor children, are as follows:

Ordinary Shares	**31 December 2004**	1 January 2004*
Directors:		
Michael Buckley	**239,808**	238,672
Adrian Burke	**11,004**	10,677
Kieran Crowley	**5,020**	1,994
Colm Doherty	**57,218**	24,872
Padraic M Fallon	**8,979**	8,664
Dermot Gleeson	**22,826**	12,250
Don Godson	**38,599**	25,099
Sir Derek Higgs	**5,000**	5,000
Gary Kennedy	**101,124**	48,913
John B McGuckian	**72,911**	69,737
Aidan McKeon	**27,853**	7,298
Jim O'Leary	**4,000**	4,000
Michael J Sullivan	**1,700**	1,700
Robert G Wilmers	**52,459**	50,619
Jennifer Winter	**–**	–
Secretary:		
W M Kinsella	**39,489**	38,833

* *or later date of appointment*

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

Share options

Details of the executive directors' and the secretary's share options are given below. Information on the Share Option Schemes is given in note 47. The options outstanding at 31 December 2004 are exercisable at various dates between 2005 and 2014. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected by shareholders at the Company's Registered Office.

	31 December 2004	1 January 2004	Since 1 January 2004 Granted	Since 1 January 2004 Exercised	Price of options exercised	Market price at date of exercise	Weighted average subscription price of options outstanding at 31 December 2004
Directors:					€	€	€
Michael Buckley	**336,500**	336,500	–	–	–	–	12.52
Colm Doherty	**230,000**	230,000	30,000	30,000	5.80	12.05	12.15
Gary Kennedy	**165,000**	185,000	30,000	50,000	6.25	12.05	12.79
Aidan McKeon	**137,000***	130,000	30,000	20,000	5.80	12.50	12.94
Secretary:							
W M Kinsella	**40,500**	45,500	5,000	10,000	11.90	13.78	11.70

**Options over 3,000 shares lapsed on 23 March 2004*

Long Term Incentive Plan

Under the terms of the Long Term Incentive Plan, approved by shareholders at the 2000 Annual General Meeting, awards of shares may be granted to key executives and other employees. Further information on the Long Term Incentive Plan is given in note 47.

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

	Total as at 31 December 2004	Granted during 2004	Total as at 1 January 2004
Directors:			
Michael Buckley	38,000	–	38,000
Colm Doherty	35,000	–	35,000
Gary Kennedy	20,000	–	20,000
Aidan McKeon	14,000	–	14,000
Secretary:			
W M Kinsella	4,500	–	4,500

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

The closing price, on the Irish Stock Exchange, of the Company's ordinary shares was € 15.35 per share; during the year the price ranged from € 11.60 to € 15.35 per share.

There were no changes in the above interests between 31 December 2004 and 21 February 2005 save for the receipt by Mr Aidan McKeon of 23 shares under the Company's UK Share Ownership Plan *(see note 47)*.

Service Contracts

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

55 Related party transactions

(a) Transactions with subsidiary undertakings

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

(b) Associated undertakings and joint ventures

From time to time the Group provides certain banking and financial services for associated undertakings. Details of loans to associates are set out in Note 23, while deposits from associates are set out in Notes 36 and 37.

(c) Provision of banking and related services to Group Pension Funds, unit trusts and investment funds managed by Group Companies

The Group provides certain banking and financial services for the AIB Group Pension Funds and also for unit trusts and investment funds managed by Group companies. Such services are provided on terms similar to those that apply to third parties and are not material to the Group.

(d) Loans to Directors

Loans to non-executive directors are made in the ordinary course of business on normal commercial terms, while loans to executive directors are made on terms applicable to other employees in the Group, in accordance with established policy. At 31 December 2004 the aggregate amount outstanding in loans to persons who at any time during the year were directors was € 3.4m in respect of 8 persons; the amount outstanding in respect of quasi-loans (effectively, credit card facilities), also to 8 persons, was € 0.04m (2003: € 45.8m in respect of loans to 9 persons and € 0.05m in respect of quasi-loans to 9 persons).

(e) Indemnities

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

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

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

Allied Irish Banks, p.l.c. has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Republic of Ireland defined benefit and defined contribution pension schemes, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default. Mr Adrian Burke, a director of the Company, is a director of the above-mentioned trustee companies.

(f) Executive Recruitment Consultancy Services

During 2004 the Company retained the services of Spencer Stuart and Associates Limited, London ('SpencerStuart'), an executive recruitment consultancy firm. Sir Derek Higgs, a Director of the Company, is an advisor to SpencerStuart in the UK. The transaction with SpencerStuart, which is on normal commercial terms, is not considered material to the Group.

56 Commitments

Capital expenditure

Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to €99m (2003: €73m). Capital expenditure authorised, but not yet contracted for, amounted to €214m (2003: €51m).

Operating lease rentals

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

	Property		Equipment	
	2004 € m	2003 € m	**2004 € m**	2003 € m
Operating leases which expire:				
Within one year	**–**	1	**–**	–
In the second to fifth year	**7**	7	**–**	1
Over five years	**31**	29	**–**	–
	38	37	**–**	1

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

57 Employees	**2004**	2003
The average full-time equivalent employee numbers by division were as follows:		
AIB Bank ROI	**9,438**	9,153
AIB Bank GB & NI	**2,918**	2,822
Capital Markets	**2,478**	2,612
Poland	**7,298**	8,675
Group	**647**	671
Allfirst	**–**	1,274
	22,779	25,207

58 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.

59 Form 20-F

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

60 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. 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.

61 Financial and other information	**2004**	2003
Operating ratios		
Operating expenses[1]/operating income	**57.5%**	59.4%
Tangible operating expenses[2]/operating income	**56.3%**	58.5%
Other income[3]/operating income	**37.6%**	39.1%
Net interest margin:		
Group	**2.42%**	2.72%
Domestic	**2.19%**	2.54%
Foreign	**2.90%**	3.00%
Rates of exchange		
€/US $		
Closing	**1.3621**	1.2630
Average	**1.2474**	1.1346
€/Stg £		
Closing	**0.7051**	0.7048
Average	**0.6813**	0.6901
€/PLN		
Closing	**4.0845**	4.7019
Average	**4.5314**	4.4157

[1]Excludes restructuring costs of € 8.7m in 2004 (2003: € 72.4m).
[2]Excludes amortisation and impairment of goodwill of € 38.8m (2003: € 30.8m) and restructuring costs of € 8.7m in 2004 (2003: € 72.4m).
[3]Other income includes other finance income.

Capital adequacy information	**2004 € m**	2003 € m
Risk weighted assets		
Banking book:		
On balance sheet	**61,718**	48,831
Off-balance sheet	**10,960**	8,602
	72,678	57,433
Trading book:		
Market risks	**5,149**	4,566
Counterparty and settlement risks	**712**	616
	5,861	5,182
Total risk weighted assets	**78,539**	62,615
Capital		
Tier 1	**6,220**	4,451
Tier 2	**2,659**	2,439
	8,879	6,890
Supervisory deductions	**469**	389
Total	**8,410**	6,501

61 Financial and other information *(continued)*

Currency information	Assets 2004 €m	Assets 2003 €m	Liabilities 2004 €m	Liabilities 2003 €m
Euro	**56,826**	46,770	**56,946**	46,534
Other	**45,414**	34,190	**45,294**	34,426
	102,240	80,960	**102,240**	80,960

62 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 2004 and 2003. 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 2004			Year ended 31 December 2003		
Assets	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %
Placings with banks						
Domestic offices	**2,859**	**66**	**2.3**	3,138	85	2.7
Foreign offices	**824**	**28**	**3.4**	770	27	3.5
Loans to customers[1]						
Domestic offices	**35,328**	**1,592**	**4.5**	28,361	1,352	4.8
Foreign offices	**20,681**	**1,185**	**5.7**	18,642	1,012	5.4
Placings with banks and loans to customers[1]						
Domestic offices	**38,187**	**1,658**	**4.3**	31,499	1,437	4.6
Foreign offices	**21,505**	**1,213**	**5.6**	19,412	1,039	5.4
Funds sold						
Domestic offices	**–**	**–**	**–**	–	–	–
Foreign offices	**–**	**–**	**–**	288	4	1.3
Debt securities and government bills						
Domestic offices	**17,270**	**636**	**3.7**	11,278	397	3.5
Foreign offices	**4,736**	**252**	**5.3**	6,006	315	5.3
Installment credit and finance lease receivables						
Domestic offices	**1,874**	**104**	**5.5**	1,902	108	5.7
Foreign offices	**716**	**54**	**7.5**	826	55	6.7
Total interest earning assets						
Domestic offices	**57,331**	**2,398**	**4.2**	44,679	1,942	4.3
Foreign offices	**26,957**	**1,519**	**5.6**	26,532	1,413	5.3
	84,288	**3,917**	**4.6**	71,211	3,355	4.7
Allowance for loan losses	**(671)**			(741)		
Non-interest earning assets	**9,028**			6,766		
Total assets	**92,645**	**3,917**	**4.2**	77,236	3,355	4.3
Percentage of assets applicable to foreign activities			**32.3**			37.9

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

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

Liabilities and stockholders' equity	Year ended 31 December 2004 Average balance €m	Interest €m	Average rate %	Year ended 31 December 2003 Average balance €m	Interest €m	Average rate %
Interest bearing deposits and other short-term borrowings						
Domestic offices	**49,209**	**1,037**	**2.1**	36,836	727	2.0
Foreign offices	**22,021**	**738**	**3.3**	21,230	606	2.9
Funds purchased						
Domestic offices	**–**	**–**	**–**	–	–	–
Foreign offices	**–**	**–**	**–**	264	3	1.2
Subordinated liabilities						
Domestic offices	**2,273**	**106**	**4.7**	1,682	78	4.7
Foreign offices	**–**	**–**	**–**	132	7	5.2
Total interest bearing liabilities						
Domestic offices	**51,482**	**1,143**	**2.2**	38,518	805	2.1
Foreign offices	**22,021**	**738**	**3.3**	21,626	616	2.8
	73,503	**1,881**	**2.6**	60,144	1,421	2.4
Interest-free liabilities						
Current accounts	**7,706**			7,798		
Other liabilities	**5,880**			4,219		
Minority equity and non-equity interests	**188**			191		
Preference share capital	**197**			215		
Ordinary stockholders' equity	**5,171**			4,669		
Total liabilities and stockholders' equity	**92,645**	**1,881**	**2.0**	77,236	1,421	1.8
Percentage of liabilities applicable to foreign activities			**30.6**			35.6

63 Supplementary Group financial information for US reporting purposes

Exceptional foreign exchange dealing losses

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 AIB's 2001 financial statements by way of Annual Report on Form 20-F constituted a reissue of the financial statements for prior years. The US Securities and Exchange Commission requires all material errors in respect of prior years to be accounted for and reported as prior year adjustments, in the years in which they occurred. Accordingly, in AIB's Annual Report on Form 20-F for December 2001, the Fraud Losses were charged in the years in which they occurred and this approach has been reflected in the financial information provided in this note.

63 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 2002 and prior periods.

	2002 € m	2001 € m	2000 € m	1999 € m
(Decrease)/increase in income before taxes	(28)	378	(228)	(45)
(Decrease)/increase in income tax expense	(10)	132	(80)	(16)
(Decrease)/increase in reported net income	(18)	246	(148)	(29)

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 for the year ended 31 December 2002.

	2002 € m
Consolidated net income as in the consolidated statements of income	1,034
Adjustments:	
Exceptional foreign exchange dealing losses	(18)
Administration expenses	(10)
Applicable taxes	10
Consolidated net income under alternative presentation	1,016

Alternative presentation of consolidated balance sheet

Reflecting the losses in the period in which they arose, had no impact on consolidated ordinary stockholders' equity, consolidated total assets and consolidated total liabilities for the year ended 31 December 2002.

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

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).

IR GAAP	US GAAP
Debt securities and equity securities	
Debt and equity 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 transaction. The purpose of these securities transactions is to minimise the risk associated with the AIB investment portfolio. These are classified as financial fixed assets.	The Group has applied SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities'. Debt securities held to maturity are recorded at amortised 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 are classified as 'available-for-sale'[1].
Debt securities held for hedging purposes	
Profits and losses on disposal of debt securities held as financial fixed assets to hedge the Group's sensitivity to movements in market interest rates are deferred and amortised to the profit and loss account over the lives of the underlying transactions.	Profits and losses on disposal of debt securities are recognised immediately in the profit and loss account.
Internal derivative trades	
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. 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 page 68.	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 recognised in the consolidated net income statement.
FAS 133 - Derivatives and hedging activities	
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.	All derivatives are recognised 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 recognised asset or liability or an unrecognised 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 use of the derivatives and the resulting designations. Derivative trades entered into by the Group are adjusted to fair value through earnings.

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

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

IR GAAP	US GAAP
Revaluation of property	
Property may be carried at either original cost or subsequent valuation less related depreciation, calculated where applicable on the revalued amount.	Revaluations are not permitted to be reflected in the financial statements.
Deferred taxation	
Deferred taxation is recognised in full in respect of timing differences that have originated but not reversed at the balance sheet date.	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.
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.	Goodwill arising on acquisitions prior to December 31, 2001 was capitalised and written off over its useful life, up to a maximun of 20 years. With effect from January 1, 2002, due to the introduction of FAS 142 'Goodwill and Other Intangible Assets', goodwill is not amortised but retained at its value and reviewed for impairment.
Core deposit intangibles	
The component of goodwill arising on acquisition of bank subsidiary undertakings which relates to retail depositors is termed core deposit intangibles. Core deposit intangibles arising prior to December 31, 1997 have been written off to reserves in the year of acquisition, as a component of goodwill. Core deposit intangibles arising after January 1, 1998, are subsumed within goodwill and amortised over its useful life up to a maximum of 20 years.	Capitalized core deposit intangibles are amortised through income over the estimated average life of the retail depositor relationship. In AIB's case a period of 10 years has been used.
Long-term assurance policies	
The shareholders' interest in the long-term assurance business represents a valuation of the investment in policies in force together with the net tangible assets of the business. Holdings of shares in Allied Irish Banks, p.l.c., previously recorded within long-term assurance assets/liabilities attributable to policyholders, are now deducted in arriving at shareholders' funds.	Premiums are recognised as revenue when due from policyholders. The costs of claims are recognised when insured events occur. For traditional business, the present value of estimated future policy benefits is accrued when premium revenue is recognised. Acquisition costs are capitalised and charged to expense in proportion to premium revenue recognised. For unit-linked business, acquisition costs are amortised 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 recognised as income over the same amortisation period and using the same amortisation schedule as for acquisition costs. Holdings of shares in Allied Irish Banks, p.l.c., are netted off against ordinary stockholders equity.
Dividends payable on ordinary shares	
AIB records proposed dividends on ordinary shares, which are declared after period end, in the period to which they relate.	Dividends are recorded in the period in which they are declared.
Dividends on non-equity shares	
AIB records dividends on non-equity shares in the profit and loss account on an accruals basis.	Dividends are recorded as a charge against ordinary stockholders' equity in the period in which they are declared.

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

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

IR GAAP	US GAAP
Acceptances	
The Group presents acceptances as a contingent liability in a footnote to the financial statements.	Acceptances outstanding are presented as a liability, with an equal amount presented as an asset, 'customers' acceptance liability.
Retirement benefits	
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 recognised through the statement of total recognised gains and losses. Scheme assets are valued at fair value and scheme liabilities are measured using the projected unit method. The net scheme assets and liabilities, reduced by deferred tax amounts are shown on the face of the balance sheet.	Certain assumptions primarily in relation to the recognition of actuarial gains and losses and amortisation methods are used that are different when compared with IR GAAP.
Internal use computer software	
Certain specific costs incurred in respect of software for internal use can be capitalised and amortised. All other costs are expensed.	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.
Special purpose vehicles/variable interest entities	
Special purpose vehicles are consolidated as quasi-subsidiaries where risks and rewards from operations are similar to those which would be obtained for subsidiaries. In addition, linked presentation is adopted where assets have been securitised and the Group's exposure is limited to the net amount recognised as an asset in the balance sheet *(see note 27)*.	Variable interest entities ('VIEs') are consolidated by their primary beneficiary. A company is deemed to be a primary beneficiary where it is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the VIE's residuals returns or both.
Accounting for Investment in M&T Bank	
The Group's share of the assets and liabilities of M&T as at 1 April 2003 have been recorded at fair value in accordance with the accounting policies of the Group. In addition, the Group's share of the profits of M&T reflects the IR GAAP accounting rules applied by the Group.	Certain accounting policies used in relation to both the investment in M&T and the Group's share of profits of M&T are different when compared to IR GAAP.

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

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

(1)**Debt securities and equity securities**

Under US GAAP, at December 31,2004, debt securities in the amount of € 16,250 million at December 31, 2004 would be classified as 'available-for-sale'. At December 31, 2004 the market value of such securities was € 16,502 million. The excess of market value over amortised cost of the debt securities of € 252 million gave rise to an after tax reconciling item of € 220 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2003, debt securities in the amount of € 12,445 million would be classified as 'available-for-sale'. At December 31, 2003 the market value of such securities was € 12,625 million. The excess of market value over amortised cost of the debt securities of € 180 million, gave rise to an after tax reconciling item of € 158 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2002, debt securities in the amount of € 13,446 million would be classified as 'available-for-sale'. At December 31, 2002 the market value of such securities was € 13,690 million. The excess of market value over amortised cost of the debt securities of € 244 million, gave rise to an after tax reconciling item of € 199 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2004, equity securities in the amount of € 111 million would be classified as 'available-for-sale'. At December 31, 2004 the market value of these securities was € 131 million. The excess of market value of these securities over book amount was € 20 million giving rise to an after tax reconciling item of € 18 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2003, equity securities in the amount of € 116 million would be classified as 'available-for-sale'. At December 31, 2003 the market value of these securities was € 130 million. The excess of market value of these securities over book amount was € 14 million giving rise to an after tax reconciling item of € 12 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2002, equity securities in the amount of € 188 million would be classified as 'available-for-sale'. At December 31, 2002, the market value of these securities was € 203 million. The excess of market value of these securities over book amount was € 15 million giving rise to an after tax reconciling item of € 13 million positive in the consolidated ordinary shareholders' equity for US GAAP purposes.

63 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).

	Year ended December 31		
Consolidated net income	**2004**	2003	2002
	(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 141)*	**€ 1,047**	€ 677	€ 1,016
Adjustments in respect of:			
Depreciation of freehold and long leasehold property	**2**	2	2
Long-term assurance policies	**(58)**	(13)	(27)
Goodwill	**26**	30	4
Premium on core deposit intangibles	**–**	(1)	(5)
Retirement benefits	**(29)**	7	(5)
Dividends on non-equity shares	**7**	5	8
Securities held for hedging purposes	**5**	1	(3)
Internal use computer software	**2**	(1)	1
Derivatives FAS 133 adjustment	**113**	11	(82)
Gain recognised on the disposal of businesses	**–**	832	–
Share of income of associated undertakings	**39**	33	–
Deferred tax effect of the above adjustments	**1**	(60)	17
Net income in accordance with US GAAP	**€ 1,155**	€ 1,523	€ 926
Net income applicable to ordinary stockholders of AIB in accordance with US GAAP	**€ 1,148**	€ 1,518	€ 918
Equivalent to	**US $ 1,563**		
Income per American Depositary Share (ADS*) in accordance with US GAAP	**€ 2.69**	€ 3.53	€ 2.11
Equivalent to	**US $ 3.67**		
Year end exchange rate €/US $	**1.3621**		

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

	Year ended December 31		
Comprehensive income	**2004**	2003	2002
		(millions)	
Net income in accordance with US GAAP	**€ 1,155**	€ 1,523	€ 926
Net movement in unrealised holding gains on investment securities arising during the period	**68**	(41)	84
Exchange translation adjustments	**(88)**	(501)	(480)
Comprehensive income	**€ 1,135**	€ 981	€ 530

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

Consolidated ordinary stockholders' equity	**2004**	2003	2002
		(millions except per share amounts)	
Ordinary stockholders' equity as in the consolidated balance sheet under alternative presentation *(page 141)*	**€ 5,399**	€ 4,942	€ 4,180
Revaluation of property	**(165)**	(168)	(201)
Depreciation of freehold and long leasehold property	**(27)**	(27)	(27)
Goodwill	**275**	223	925
Core deposit intangibles	**–**	–	12
Dividends payable on ordinary shares	**333**	296	284
Dividends on non-equity shares	**3**	1	1
Long-term assurance policies	**(334)**	(276)	(263)
Unrealized gains not yet recognised on:			
Available-for-sale debt securities	**252**	180	244
Available-for-sale equity securities	**20**	14	15
Securities held for hedging purposes	**2**	(3)	(4)
Derivatives FAS 133 adjustment	**46**	(16)	(79)
Retirement benefits	**1,087**	899	1,012
Internal use computer software	**19**	18	18
Other recognised gains in associated undertaking	**4**	2	–
Share of income of associated undertaking	**64**	33	–
Deferred tax effect of the above adjustments	**(181)**	(146)	(206)
Ordinary stockholders' equity in accordance with US GAAP	**€ 6,797**	€ 5,972	€ 5,911
Equivalent to	**US $ 9,258**		
Ordinary stockholders' equity per ADS in accordance with US GAAP	**€ 15.96**	€ 13.90	€ 13.61
Equivalent to	**US $ 21.74**		
Ordinary stockholders' equity per ADS in accordance with IR GAAP	**€ 12.67**	€ 11.50	€ 9.62
Equivalent to	**US $ 17.26**		

	2004	2003	2002
		(millions)	
Total assets as in the consolidated balance sheet under alternative presentation *(page 141)*	**€ 102,240**	€ 80,960	€ 85,821
Revaluation of property	**(165)**	(168)	(201)
Depreciation of freehold and long leasehold property	**(27)**	(27)	(27)
Goodwill	**275**	223	925
Core deposit intangibles	**–**	–	12
Available-for-sale debt securities	**252**	180	244
Available-for-sale equity securities	**20**	14	15
Derivatives FAS 133 adjustment	**46**	(16)	(79)
Retirement benefits	**1,087**	899	1,012
Internal use computer software	**19**	18	18
Special purpose vehicles/variable interest entities	**–**	519	1,057
Long-term assurance policies	**(334)**	(276)	(263)
Long-term assurance assets attributable to policyholders	**(3,246)**	(2,810)	(2,174)
Investment in associated undertaking	**74**	38	–
Acceptances	**12**	11	72
Total assets in accordance with US GAAP	**€ 100,253**	€ 79,565	€ 86,432
Equivalent to	**US $ 136,555**		

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

Consolidated total liabilities and ordinary stockholders' equity	**2004**	2003	2002
		(millions)	
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet under alternative presentation *(page 141)*	**€ 102,240**	€ 80,960	€ 85,821
Ordinary stockholders' equity	**1,398**	1,030	1,731
Dividends payable on ordinary shares	**(333)**	(296)	(284)
Dividends on non-equity shares	**(3)**	(1)	(1)
Acceptances	**12**	11	72
Securities held for hedging purposes	**(2)**	3	4
Debt securities in issue re special purpose vehicles/variable interest entities	**–**	519	1,057
Deferred taxation	**187**	149	206
Own shares	**74**	59	52
Long-term assurance liabilities to policyholders	**(3,320)**	(2,869)	(2,226)
Total liabilities and stockholders' equity in accordance with US GAAP	**€ 100,253**	€ 79,565	€ 86,432
Equivalent to	**US $ 136,555**		

Statement of changes in ordinary stockholders' equity	**2004**	2003	2002
		(millions)	
Opening balance	**€ 5,972**	€ 5,911	€ 5,664
Net income	**1,155**	1,523	926
Dividends payable on ordinary shares	**(474)**	(440)	(396)
Dividends on non-equity shares	**(7)**	(5)	(8)
Ordinary shares bought back	**–**	(812)	–
Issue of shares	**185**	188	115
Unrealised gains on debt securities and equity shares held as available-for-sale	**68**	(42)	84
Goodwill written back	**–**	217	–
Exchange translation adjustments	**(88)**	(501)	(480)
Other movements	**(14)**	(67)	6
Closing balance	**€ 6,797**	€ 5,972	€ 5,911

64 Approval of accounts

The accounts were approved by the board of directors on 21 February 2005.

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.

The directors consider that, in preparing the accounts on pages 64 to 148, which have been prepared on a going concern basis, the Company and the Group have, following discussions with the auditors, used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which, following discussions with the auditors, they consider applicable have been followed (subject to any explanations and any material departures disclosed in the notes to the accounts).

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

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

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

Independent auditors' report

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

We have audited the financial statements on pages 64 to 148.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 149, this includes responsibility for preparing the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board, the Listing Rules of the Irish Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the Company's balance sheet is in agreement with the books of account and report to you our opinion as to whether:

– the Company has kept proper books of account;
– the Report of the Directors is consistent with the financial statements;
– at the balance sheet date a financial situation existed that may require the company to hold an extraordinary general meeting, on the grounds that the net assets of the Company, as shown in the financial statements, are less than half of its 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 review whether the Corporate Governance statement on pages 58 to 63 reflects the Company's compliance with the nine provisions of the 2003 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance Statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Independent auditors' report *(continued)*

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003 and all Regulations to be construed as one with those Acts.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company and proper returns, adequate for the purposes of our audit, have been received from branches not visited by us. The balance sheet of the Company is in agreement with the books of account.

In our opinion, the information given in the Report of the Directors on pages 56 to 57 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 72, 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 2004 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.

KPMG

Chartered Accountants
Registered Auditors
Dublin
21 February 2005

Additional financial information

The following consolidated profit and loss account for the years ended 31 December 2003 and 2002 have been presented to facilitate comparisons to the financial statements presented in this report.

	Year ended 31 December 2003			Year ended 31 December 2002		
	Continuing activities €m	Discontinued activities €m	Total €m	Continuing activities €m	Discontinued activities €m	Total €m
Interest receivable:						
Interest receivable and similar income arising from debt securities and other fixed income securities	700	12	**712**	783	163	**946**
Other interest receivable and similar income	2,773	125	**2,898**	3,164	643	**3,807**
Less: interest payable	(1,633)	(43)	**(1,676)**	(2,117)	(285)	**(2,402)**
Net interest income	1,840	94	**1,934**	1,830	521	**2,351**
Other finance income	14	(2)	**12**	63	(1)	**62**
Other income	1,124	106	**1,230**	1,055	459	**1,514**
Total operating income	2,978	198	**3,176**	2,948	979	**3,927**
Total operating expenses	1,839	121	**1,960**	1,747	571	**2,318**
Group operating profit before provisions	1,139	77	**1,216**	1,201	408	**1,609**
Provisions for bad and doubtful debts	142	10	**152**	110	84	**194**
Provisions for contingent liabilities and commitments	9	–	**9**	2	–	**2**
Amounts written off fixed asset investments	16	–	**16**	43	12	**55**
Group operating profit	972	67	**1,039**	1,046	312	**1,358**
Share of operating profits of associated undertakings	143	–	**143**	9	–	**9**
Share of restructuring and integration costs in associated undertaking	(20)	–	**(20)**	–	–	**–**
Amortisation of goodwill in acquisition of associated undertaking	(42)	–	**(42)**	–	–	**–**
Profit/(loss) on disposal of property	32	–	**32**	6	(1)	**5**
(Loss)/profit on disposal of business	(142)	1	**(141)**	–	–	**–**
Group profit on ordinary activities before taxation	943	68	**1,011**	1,061	311	**1,372**
Taxation on ordinary activities	299	19	**318**	232	74	**306**
Group profit on ordinary activities after taxation	644	49	**693**	829	237	**1,066**
Equity and non-equity minority interests in subsidiaries	10	1	**11**	20	4	**24**
Dividends on non-equity shares	5	–	**5**	8	–	**8**
	15	1	**16**	28	4	**32**
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	629	48	**677**	801	233	**1,034**
Dividends on equity shares			**452**			**429**
Transfer to reserves			**51**			**45**
			503			**474**
Profit retained			**174**			**560**

Accounts in sterling, US dollars and Polish zloty

Summary of consolidated profit and loss account for the year ended 31 December 2004	**€ m**	**STG £m STG £ 0.7051 = € 1**	**US $m US $ 1.3621 = € 1**	**PLN m PLN 4.0845 = € 1**
Group operating profit before provisions	**1,378**	**972**	**1,877**	**5,628**
Provisions	**135**	**95**	**184**	**551**
Group operating profit	**1,243**	**877**	**1,693**	**5,077**
Income from associated undertakings	**149**	**105**	**203**	**609**
Profit on disposal of property	**9**	**6**	**12**	**37**
Profit on disposal of businesses	**17**	**12**	**23**	**69**
Group profit on ordinary activities before taxation	**1,418**	**1,000**	**1,931**	**5,792**
Taxation	**336**	**237**	**458**	**1,372**
Group profit on ordinary activities after taxation	**1,082**	**763**	**1,473**	**4,420**
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	**1,047**	**738**	**1,425**	**4,276**
Dividends on equity shares	**511**	**360**	**696**	**2,087**
Earnings per € 0.32 share – basic	**122.9c**	**86.7p**	**167.4¢**	**502.1 PLN**
Earnings per € 0.32 share – adjusted	**133.1c**	**93.9p**	**181.3¢**	**543.8 PLN**
Earnings per € 0.32 share – diluted	**122.4c**	**86.3p**	**166.7¢**	**499.9 PLN**

Summary of consolidated balance sheet 31 December 2004	**€ m**	**Stg £m**	**US $m**	**PLN m**
Assets				
Loans and advances to banks	**2,320**	**1,636**	**3,160**	**9,476**
Loans and advances to customers	**64,836**	**45,713**	**88,313**	**264,823**
Debt securities and equity shares	**24,271**	**17,112**	**33,060**	**99,135**
Intangible fixed assets	**380**	**268**	**518**	**1,552**
Tangible fixed assets	**785**	**553**	**1,069**	**3,206**
Other assets	**6,402**	**4,514**	**8,720**	**26,149**
Long-term assurance assets attributable to policyholders	**3,246**	**2,288**	**4,421**	**13,258**
	102,240	**72,084**	**139,261**	**417,599**
Liabilities				
Deposits by banks	**20,428**	**14,403**	**27,825**	**83,438**
Customer accounts	**51,397**	**36,237**	**70,008**	**209,931**
Debt securities in issue	**11,805**	**8,323**	**16,080**	**48,217**
Other liabilities	**5,732**	**4,041**	**7,807**	**23,412**
Subordinated liabilities	**2,765**	**1,949**	**3,766**	**11,294**
Equity and non-equity minority interests in subsidiaries	**1,212**	**855**	**1,651**	**4,950**
Shareholders' funds	**5,581**	**3,935**	**7,602**	**22,796**
Long-term assurance liabilities to policyholders	**3,320**	**2,341**	**4,522**	**13,561**
	102,240	**72,084**	**139,261**	**417,599**

Five year financial summary

2004 US $m	Summary of consolidated profit and loss account	2004 € m	2003 € m	2002 € m	2001 € m	2000 € m
		Year ended 31 December				
2,773	Net interest income before exceptional items	**2,036**	1,934	2,351	2,258	2,022
–	Deposit interest retention tax	**–**	–	–	–	(113)
2,773	Net interest income after exceptional items	**2,036**	1,934	2,351	2,258	1,909
25	Other finance income	**18**	12	62	67	71
1,648	Other income before exceptional item	**1,210**	1,230	1,514	1,426	1,304
–	Exceptional foreign exchange dealing losses	**–**	–	–	(789)	–
4,446	Total operating income after exceptional items	**3,264**	3,176	3,927	2,962	3,284
2,569	Total operating expenses	**1,886**	1,960	2,318	2,284	1,997
1,877	Group operating profit before provisions	**1,378**	1,216	1,609	678	1,287
184	Provisions	**135**	177	251	204	134
1,693	Group operating profit	**1,243**	1,039	1,358	474	1,153
274	Share of operating profits of associated undertakings	**201**	143	9	4	3
–	Share of restructuring & integration costs in associated undertaking	**–**	(20)	–	–	–
(71)	Amortisation of goodwill on acquisition of associated undertaking	**(52)**	(42)	–	–	–
12	Profit on disposal of property	**9**	32	5	6	5
23	Profit/(loss)on disposal of businesses	**17**	(141)	–	93	–
1,931	Group profit before taxation	**1,418**	1,011	1,372	577	1,161
458	Taxation on ordinary activities	**336**	318	306	55	319
41	Equity and non-equity minority interests	**30**	11	24	23	38
7	Dividends on non-equity shares	**5**	5	8	15	20
1,425	Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	**1,047**	677	1,034	484	784
696	Dividends on equity shares	**511**	452	429	380	335
2.0	Dividend cover – times	**2.0**	1.5	2.4	1.3	2.3
167.4¢	Earnings per € 0.32 share – basic	**122.9c**	78.8c	119.1c	56.2c	91.6c
181.3¢	Earnings per € 0.32 share – adjusted	**133.1c**	109.5c	122.7c	108.6c	106.7c
166.7¢	Earnings per € 0.32 share – diluted	**122.4c**	78.4c	117.9c	55.9c	91.0c

2004 US $m	Summary of consolidated balance sheet	2004 €m	2003 €m	2002 €m	2001 €m	2000 €m
		Year ended 31 December				
139,261	Total assets	**102,240**	80,960	85,821	89,061	80,318
91,473	Total loans	**67,156**	53,326	58,483	57,445	50,239
113,913	Total deposits	**83,630**	66,195	72,190	72,813	65,210
2,619	Dated capital notes	**1,923**	1,276	1,287	1,594	1,836
470	Undated capital notes	**345**	357	389	426	413
677	Reserve capital instruments	**497**	497	496	496	–
1,651	Equity and non-equity minority interests in subsidiaries	**1,212**	158	274	312	272
248	Shareholders' funds: non-equity interests	**182**	196	235	279	264
7,354	Shareholders' funds: equity interests	**5,399**	4,942	4,180	4,554	4,719
13,019	Total capital resources	**9,558**	7,426	6,861	7,661	7,504

Other financial data	2004 %	2003 %	2002 %	2001 %	2000 %
	Year ended 31 December				
Return on average total assets	**1.17**	0.90	1.24	0.62[1]	1.12[2]
Return on average ordinary shareholders' equity	**20.2**	14.5	23.7	10.4[1]	17.4[2]
Dividend payout ratio	**48.8**	66.8	41.5	78.5	42.7
Average ordinary shareholders' equity as a percentage of average total assets	**5.6**	6.0	5.1	5.8	6.1
Allowance for loan losses as a percentage of total loans to customers at year end	**1.0**	1.3	1.6	1.9	1.9
Net interest margin	**2.42**	2.72	3.00	2.99	3.02
Tier 1 capital ratio	**7.9**	7.1	6.9	6.5	6.3
Total capital ratio	**10.7**	10.4	10.1	10.1	10.8

(1)Excluding the impact of the exceptional foreign exchange dealing losses, the return on average total assets was 1.23% and the return on average ordinary shareholders' equity was 20.4%.
(2)Excluding the impact of the deposit interest retention tax settlement, the return on average total assets was 1.26% and the return on average ordinary shareholders' equity was 19.5%.

US $	Supplementary information for US investors	2004 €	2003 €	2002 €	2001 €	2000 €
		Year ended 31 December				
	Per American Depositary Share (ADS):[1]					
3.35	Net income per alternative presentation *(note 63)*	**2.46**	1.58	2.34	1.70	1.49[2]
1.63	Dividend[3]	**1.20**	1.05	0.98	0.88	0.78
17.26	Net assets per alternative presentation *(note 63)*	**12.67**	11.50	9.62	10.62	10.53
	Amounts in accordance with US GAAP:					
1,573m	Net income	**1,155m**	1,523m	926m	630m	571m[4]
1,563m	Net income attributable to ordinary stockholders	**1,148m**	1,518m	918m	615m	551m[5]
3.67	Net income per ADS	**2.69**	3.53	2.11	1.43	1.29[6]
21.74	Net assets per ADS	**15.96**	13.90	13.61	13.15	11.69
136,555m	Total assets	**100,253m**	79,565m	86,432m	88,560m	78,216m
9,258m	Ordinary stockholders' equity	**6,797m**	5,972m	5,911m	5,664m	5,002m

(1)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.
(2)€ 1.73 (US$ 1.61) when adjusted to exclude the impact of the deposit interest retention tax settlement.
(3)The actual dividend payable to US stockholders will depend on the €/US $ exchange rate prevailing.
(4)€ 674m (US$ 628m) when adjusted to exclude the impact of the deposit interest retention tax settlement.
(5)€ 654m (US$ 609m) when adjusted to exclude the impact of the deposit interest retention tax settlement.
(6)€ 1.53 (US$ 1.42) when adjusted to exclude the impact of the deposit interest retention tax settlement.

	2004 %	2003 %	2002 %	2001 %	2000 %
	Year ended 31 December				
Other financial data in accordance with US GAAP:					
Return on average total assets	**1.30**	2.00	1.10	0.79	0.83[1]
Return on average ordinary stockholders' equity	**19.21**	25.10	15.88	10.82	11.32[1]
Dividend payout ratio	**44.5**	29.8	46.6	61.7	60.7
Average ordinary stockholders' equity as a percentage of average total assets	**6.57**	7.87	6.69	6.84	6.64

(1)Excluding the impact of the deposit interest retention tax settlement, the return on average total assets was 0.97% and the return on average ordinary shareholders' equity was 13.29%.

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Telephone + 44 1534 883 000
Facsimile + 44 1534 883 112

AIB Corporate Banking Germany
Reuterweg 49, D-60323,
Frankfurt am 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

AIB Hungary
Dohány Utca 12,
H-1074 Budapest,
Hungary.
Telephone + 36 1 328 6805
Facsimile + 36 1 328 6801

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

Additional information for shareholders

1. **Internet-based Shareholder Services**
   Ordinary Shareholders with access to the internet may
   - check their shareholdings on the Company's Share Register;
   - check recent dividend payment details; and
   - download standard forms required to initiate changes in details held by the Registrar,
   by accessing AIB's website at **www.aibgroup.com**, clicking on the *'Check your Shareholding'* option, and following the on-screen instructions. When prompted, the Shareholder Reference Number (shown on the shareholder's share certificate, dividend counterfoil and personalised circulars) should be entered. These services may also be accessed via the Registrar's website at **www.computershare.com**.

   Shareholders may also use AIB's website to access the Company's Annual Report and Accounts.

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

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

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

5. **American Depositary Shares**
   American Depositary Shares provide US residents wishing to invest in overseas securities with a share certificate and dividend payment in a form familiar and convenient to them.
   The Company's ordinary share and non-cumulative preference share ADR programmes are administered by The Bank of New York – see address on page 162.

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 certain non-resident shareholders who have furnished valid declaration forms (see below), dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, currently 20%. The following summarises the position in respect of different categories of shareholder:

A. **Irish Resident Shareholders**

– Individuals

DWT is deducted from dividends paid, 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;
- Qualifying Fund Managers who receive the dividend in respect of benefit of an approved retirement fund or minimum retirement fund;
- Qualifying Savings Managers who receive the dividend in connection with assets held in a Special Savings Account;
- Collective Investment Undertakings;
- Charities exempt from income tax on their income;
- Athletic/amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ('SPIA');
- Certain permanently incapacitated persons who are exempt from income tax; trusts established for the benefit of such persons; and Thalidomide victims exempt from income tax in respect of income arising from the investment of certain compensation payments.

Copies of the relevant declaration form may be obtained from the Company's Registrar at the address shown at 3 above, or from the Revenue Commissioners at the above address.
Once lodged with the Company's Registrar, the declaration form remains current from its date of issue until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to a shareholder not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the DWT so deducted.

– Qualifying Intermediaries (other than American 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*)**

– Qualifying Intermediaries (other than American Depositary Banks – see D below) *(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 * on page 159);
(b) an unincorporated entity resident for tax purposes in a relevant territory;
(c) a company which is resident in a relevant territory and controlled by a non-Irish resident/residents;
(d) a company not resident in the Republic of Ireland, and which is controlled by a person or persons resident for tax purposes in a relevant territory; or
(e) a company, not resident in the Republic of Ireland, the principal class of whose shares are traded on a recognised stock exchange in a relevant territory or on such other stock exchange as may be approved by the Minister for Finance, including a company which is a 75% subsidiary of such a company;
or
a company not resident in the Republic of Ireland that is wholly-owned by two or more companies, each of whose principal class of shares is so traded.

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

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

Once lodged with the Company's Registrar, declaration forms remain current from their date of issue until 31 December in the fifth year following the year of issue, or, within such period, until the shareholder notifies the Registrar that entitlement to exemption is no longer applicable.

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

C. Dividend Statements

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

D. American Depositary Receipt ('ADR') Holders

An ADR holder whose address:

- on the register of ADRs maintained by AIB's ADR programme administrator, the Bank of New York ('BONY'), or
- in the records of a further intermediary through which the dividend is paid

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

US Withholding Tax

Note: The following information, which is given for the general guidance of ADR holders, does not purport to be a definitive guide to relevant taxation provisions. While it is believed to be accurate at the time of finalising this Report for publication, ADR holders should take professional advice if they are in any doubt about their individual tax positions.

Notwithstanding entitlement to exemption from *Irish* DWT, referred to above, ADR holders should note that US-resident holders of ADRs may, in certain circumstances, be liable to a *US* withholding tax on dividends received on such ADRs. This would arise, for example, where a US resident, being the beneficial owner of ADRs issued by an overseas company, fails to provide the depositary bank - or, where applicable, the Registered Broker - with a Form W-9 (tax certified document), showing, inter alia, the holder's Social Security Number or Taxpayer Identification Number. Non-US residents holding ADRs are required to submit a Form W-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 162; (ii) the holder's Registered Broker, where applicable; or (iii) the holder's financial/taxation adviser.

Additional information for shareholders *(continued)*

Shareholding analysis
as at 31 December 2004

Size of shareholding	Shareholder Accounts* Number	%	Shares** Number	%
1 – 1,000	38,285	57	12,962,703	1
1,001 – 5,000	20,045	30	46,035,761	5
5,001 – 10,000	4,654	7	32,677,129	4
10,001 – 100,000	4,032	6	94,948,456	11
100,001 – over	376	–	682,921,732	79
Total	**67,392**	**100**	**869,545,781**	**100**
Geographical division				
Republic of Ireland	56,992	85	277,272,669	32
Elsewhere	10,400	15	592,273,112	68
Total	**67,392**	**100**	**869,545,781**	**100**

* *Shareholder account numbers reflect US ADR account holders (17,000 approx) held in a single nominee account*

** *Excludes 48,889,789 shares held as Treasury Shares – see note 47 on page 114.*

Financial calendar

Annual General Meeting: Wednesday, 27 April 2005, commencing at 11.00 a.m., at Jurys Hotel, Ballsbridge, Dublin 4.

Dividend payment dates - Ordinary Shares:

- Final Dividend 2004 – 28 April 2005
- Interim Dividend 2005 – 23 September 2005

Interim results:

Unaudited interim results for the half-year ending 30 June 2005 will be announced on 3 August 2005. The Interim Report for the half-year ending 30 June 2005 will be published as a press advertisement in early-August 2005, and will also be available on the Company's website – **www.aibgroup.com**.

Shareholder enquiries should be addressed to:

For holders of Ordinary Shares:
Computershare Investor Services (Ireland) Ltd.
Heron House,
Corrig Road,
Sandyford Industrial Estate,
Dublin 18, Ireland.
Telephone +353 1 216 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: **www.adrbny.com**
or
Ann Kerman,
AIB Shareholder Relations,
300 North 2nd Street,
7th Floor,
Suite 711,
Harrisburg PA 17101,
USA.
Telephone 1-800-458-0348
Email: ann.l.kerman@aibny.com

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