Annual Report & Accounts **2002**

for the year ended 31 December 2002

Financial highlights

for the year ended 31 December 2002

	2002	2001 Restated[1]	2000
	€ m	€ m	€ m
Results			
Total operating income	**3,930**	3,751[2]	3,397[2]
Group profit before taxation	**1,375**	1,366[2]	1,274[2]
Profit attributable	**1,037**	484	784
Profit retained	**563**	41	379
Per € 0.32 ordinary share			
Earnings – basic	**119.4c**	56.2c	91.6c
Earnings – adjusted *(note 22)*	**123.0c**	119.4c	106.7c
Earnings – diluted	**118.2c**	55.9c	91.0c
Dividend	**49.06c**	43.80c	38.75c
Dividend cover – times	**2.4**	1.3	2.3
Net assets	**494c**	551c	566c
Performance measures			
Return on average total assets	**1.24%**	1.23%[2]	1.26%[2]
Return on average ordinary shareholders' equity	**22.4%**	19.4%[2]	18.7%[2]
Balance sheet			
Total assets	**86,049**	89,359	80,543
Shareholders' funds: equity interests	**4,408**	4,851	4,944
Loans etc	**58,483**	57,445	50,239
Deposits etc	**72,190**	72,813	65,210
Capital ratios			
Tier 1 capital	**6.9%**	6.5%	6.3%
Total capital	**10.1%**	10.1%	10.8%

[1] *The results for the year ended 31 December 2001 have been restated to reflect the implementation of UITF Abstract 33 - Obligations in Capital Instruments.*

[2] *Adjusted to exclude the exceptional foreign exchange dealing losses in 2001 (note 9(b)) and the impact of the deposit interest retention tax settlement in 2000 (note 6).*

Allied Irish Banks, p.l.c.
Group Headquarters &
Registered Office
Bankcentre, Ballsbridge
Dublin 4, Ireland
Telephone +353 1 660 0311
Registered number 24173

Forward-Looking Statements

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

Contents

Chairman's statement

AIB performed well in 2002 despite the severe setback of the Allfirst fraud. Profit attributable to ordinary shareholders amounted to €1,037 million, a 4% increase over the 2001 figure when you exclude the effect of the Allfirst loss.

The Board is recommending a final dividend of EUR 31.81c per share payable on 25 April 2003 to shareholders on the company's register of members at the close of business on 28 February 2003.

That dividend together with the interim dividend of EUR 17.25c amounts to a total dividend of EUR 49.06c, an increase of 12% on 2001.

Last year's report covered in detail our response to the Allfirst fraud. The further actions taken by the Board during the year are outlined on page 26 of this report.

In September, we announced a strategic partnership with M&T Bank Corporation, which reaffirmed our commitment to the US market. This deal, which is awaiting the approval of the regulators, is of major significance to AIB. It will see Allfirst merged into one of the US's most successful regional banks. AIB will have a 22.5% shareholding in the enlarged M&T. When the deal is finalised, AIB will nominate four members to the M&T Board and Bob Wilmers, M&T's Chairman, President and CEO, will become a member of the AIB Board.

In April, we put our audit out to tender, and in June shareholders approved the appointment of KPMG as AIB's Auditors.

Frank Bramble retired from the AIB Board in April 2002 and two executive directors joined the board in February 2003. These are Colm Doherty, Managing Director, AIB Capital Markets, and Aidan McKeon, Managing Director, AIB Group (UK) p.l.c.

My second three-year term of office ended on 31 December 2002. Last October, I was asked by the Board to remain as Chairman until the end of 2003. I will be succeeded by Dermot Gleeson, Deputy Chairman. Dermot has also been appointed the Senior Independent Non-Executive Director in line with the requirements of the corporate governance combined code. This code is due to be updated later in the year. This follows the publication of the Higgs Review, commissioned by the UK Government from Derek Higgs, an AIB non-executive director. AIB will, of course, review its corporate governance practices in light of these developments.

This is my last Chairman's statement.

I would like to express my deep appreciation to all my Board colleagues for their support, dedication, advice and friendship since I became Chairman. I would also like to thank the management and staff who worked closely with me for their advice and guidance.

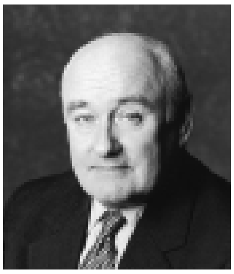
AIB has strong businesses in four economies - Ireland, the UK, Poland and the US. Whilst economic growth will vary over time in these markets, we have tremendous opportunities for consistent long-term growth in profit and dividends, and I have every confidence in AIB's future.

Lochlann Quinn

Lochlann Quinn

Chairman
18 February 2003

Directors

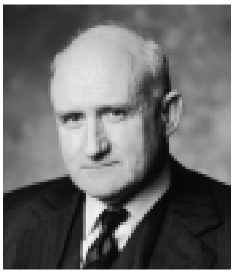


Lochlann Quinn
B Comm, FCA
Chairman

Deputy Chairman of Glen Dimplex and a Director of Glen Dimplex related companies in the UK, France, Germany, Holland and Canada. Chairman of the National Gallery of Ireland. Board Member of the Michael Smurfit Graduate School of Business at University College Dublin. Joined the Board in 1995 and appointed Chairman in 1997. (Age 61)

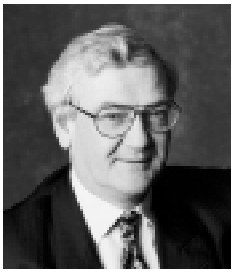
Colm Doherty*
B Comm

Managing Director, AIB Capital Markets Division. Joined AIB in 1988 as an Associate Director, AIB International Financial Services, 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. Co-opted to the Board on 13 February 2003. (Age 45)



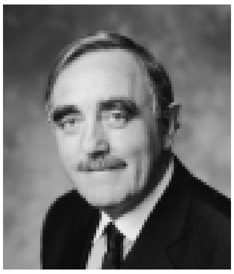
Dermot Gleeson
BA, LlM
Deputy Chairman and Senior Independent Non-Executive Director

Director of Independent News and Media PLC, and the Gate Theatre. Served as Attorney General of Ireland and a member of the Council of State from 1994 to 1997. Chaired the Review Body on Higher Remuneration in the Public Sector from 1986 to 1992. Vice Chairman of the Irish Council for Bioethics. Joined the Board in 2000. (Age 54)



Padraic M Fallon
BBS, MA, FRSA

Chairman of Euromoney Institutional Investor PLC and Director of Daily Mail & General Trust Plc in Britain. Joined the Board in 1988. (Age 56)

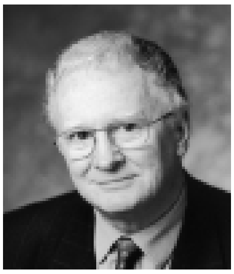


Michael Buckley*
MA, LPh, MSI
Group Chief Executive

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. Chairman of the Review Body on Higher Remuneration in the Public Sector from 1995 to 2001. Member of the Maynooth University Foundation. Joined the Board in 1995. (Age 57)

Don Godson
BE, MIE, FIEI, C Eng

Director and former Chief Executive of CRH plc. Chairman of Project Management Holdings Ltd. Board Member of the Michael Smurfit Graduate School of Business at University College Dublin. Joined the Board in 1997. (Age 63)



Adrian Burke
B Comm, FCA
Audit Committee Chairman

President of the Institute of Chartered Accountants in Ireland and Council Member of the Institute of European Affairs. 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 61)

Derek A Higgs
BA, FCA

Chairman of Partnerships UK plc and Business in the Environment and a Senior Adviser to UBS Warburg. Deputy Chairman of The British Land Company PLC, Director of Egg plc, Jones Lang LaSalle Inc. and London Regional Transport. Author of the UK Government commissioned Review of the Role and Effectiveness of Non-Executive Directors. Former Chairman of S.G. Warburg & Co. Ltd. and former Director of Prudential plc. Joined the Board in 2000. (Age 58)

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. Former Vice President Enterprise Networks Europe and Managing Director, Northern Telecom (Ireland) Ltd. (Age 44)

Carol Moffett

Fellow of the Irish Management Institute. Former member of the Board of Co-operation Ireland and former Director of the Irish Trade Board. Joined the Board in 1995. (Age 50)

John B McGuckian
BSc Econ

Chairman of Ulster Television plc and a Director of a number of other companies in Ireland and the UK. Former Pro-Chancellor of The Queen's University, Belfast, and former Chairman of The International Fund for Ireland and of the Industrial Development Board for Northern Ireland. Joined the Board in 1977. (Age 63)

Jim O'Leary
MA Econ

Lecturer in economics at the National University of Ireland, Maynooth. Former Chairman of the Public Sector Benchmarking Body. Former Chief Economist at Davy Stockbrokers and former Director of Aer Lingus and the National Statistics Board. Joined the Board in 2001. (Age 46)

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. Was 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. Co-opted to the Board on 13 February 2003. (Age 55)

Michael J Sullivan
JD

Served as US Ambassador to Ireland from January 1999 to June 2001 and as Governor of the State of Wyoming between 1987 and 1995. Director of Sletten Construction Inc. and of Cimarex Energy Inc., and a Trustee of the Catholic Diocese of Wyoming. Has served as a Director of Wyoming National-West Bank and on the Board of Advisors of Norwest/Wyoming Bank. Member of the Bar, State of Wyoming. Joined the Board in 2001. (Age 63)

* Executive Directors

Board Committees

Audit Committee
Adrian Burke, Chairman
Dermot Gleeson
Derek A Higgs
Michael J Sullivan

Nomination and Remuneration Committee
Lochlann Quinn, Chairman
Dermot Gleeson
(from 1 November 2002)
Derek A Higgs
John B McGuckian
Jim O'Leary (from 1 June 2002)

Social Affairs Committee
Carol Moffett, Chairman
Padraic M Fallon
Don Godson

Group Chief Executive's review

AIB faced exceptional challenges in 2002. The business environment was the most difficult for over a decade. We also had to cope with the foreign exchange fraud in Allfirst. The proof of our resilience and the quality of our franchises is the fact that we continued to grow our business.

We had two key objectives after the discovery of the fraud at Allfirst. We had to be decisive and open in managing the crisis - and we had to ensure momentum was sustained in our core business.

The Allfirst fraud led to a major redesign of our risk management architecture. We have made great progress in implementing the recommendations of both Deloitte Touche Tohmatsu and the First Manhattan Consulting Group. Key appointments have been made. Shom Bhattacharya joined us in December 2002 as Group Chief Risk Officer and has become a member of the AIB Group Executive team. In February 2003, Paul Shantz took up the role of Group Internal Auditor, taking responsibility for an integrated global internal audit structure.

During 2002 credit quality management was a huge priority for all banks. We saw some deterioration in the grade profile of our corporate loan books, but our dynamic and conservative grading process enabled early action on deteriorating loans. The quality of the rest of our loan books was very solid. Our overall bad debt charge was 0.37% of average loans, compared with 0.36% in 2001. Non-performing loans amounted to 1.8% of total loans compared with 2.0% in 2001.

But what about business momentum? As you read through the more detailed commentary in this report, you will see how AIB grew its income by 6% against a 4% growth in costs in 2002. Productivity improved across a broad range of businesses, leading to an overall reduction in our tangible cost/income ratio from 59% to 57.8%. Adjusted earnings per share of EUR 123.0c were up 3% on 2001 (adjusted earnings per share excludes goodwill amortisation in both years and the Allfirst fraud losses in 2001). Our return on equity was 22.4%.

On 26 September 2002 we announced our partnership with M&T Bank Corporation. It offers exciting opportunities to AIB in the US. We will be a strategic investor in one of the largest, best-performing regional banks in the world's leading economy. Allfirst will be merged into M&T Bank, subject to regulatory approvals, in the next few months. At this time, Eugene Sheehy will leave the AIB Group Executive, join M&T's top management team and become a director of that bank. Donal Forde, who succeeded Eugene as Managing Director of AIB Bank (RoI), has been a member of the Group Executive since March 2002.

Group Executive Committee

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.

Eugene Sheehy
Chairman & CEO, USA Division

Our priorities for 2003 include continuing to make improvements in productivity, maintaining our asset quality and relentlessly pursuing our core strategy. This strategy involves developing and delivering a distinctive customer proposition, wherever we operate. We have built our business plans consistently around this strategy. Our aim is to bring to our customers a 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 to access our services). We believe that this strategy will deliver superior and sustainable profit growth.

By mid-2003, we will have 1,200 staff in our Republic of Ireland and Northern Ireland branch networks devoting 80% of their time exclusively to customer relationship development. We want to excel in identifying and meeting the financial services needs of our customers. In creating value for them we will create value for AIB. We are also changing the way we deliver our banking services to our business customers in Ireland.

In Poland, we are putting the finishing touches to the creation of a very efficient banking platform. The Polish economy is showing early signs of recovery from a particularly slow growth phase, during which our bank, Bank Zachodni WBK, outperformed its competitors in a number of key areas. We aim to continue to grow our Polish business at a pace which allows us to continue to manage risk better than our competitors, while meeting our medium term objective of increasing the return on equity.

We have developed a very strong business banking brand in Great Britain. Since 1994, we have consistently been voted the UK's best business bank. In 2003, we will continue our measured but sustained recruitment of experienced business bankers into our British business. Our aim is to double our business development capability there over the next three years.

AIB Capital Markets division continues to expand in a number of countries. Corporate Banking is extending its range as are our advisory and financial service outsourcing businesses. The principal goal is building enduring customer relationships.

AIB is a more focused, more determined and more integrated bank across all its territories than it was a year ago.

With our strategy intact, our priorities clear, our business performing strongly, I remain positive about AIB's future prospects.

Michael Buckley

Michael Buckley
AIB Group Chief Executive
18 February 2003

Performance review

Implementation of UITF Abstract 33 – Obligations in Capital Instruments

(see Accounting policies on page 42)

The Group has implemented UITF 33 in the accounts for the year ended 31 December 2002 and comparative periods have been restated. Implementation of the UITF results in AIB's € 500 million of Reserve Capital Instruments ('RCIs') being treated as subordinated liabilities rather than shareholders' funds. The related interest cost (2002: € 38 million; 2001: € 35 million) is now included within interest expense whereas previously the amount was included in 'Dividends on non-equity shares'. This change in accounting treatment reduces pre-tax profit with no impact on earnings per share.

Exchange rates

The exchange rates used in the preparation of the accounts are set out in note 62. A significant proportion of the Group's earnings are denominated in currencies other than the euro. As a result movements in exchange rates can impact the reported value of the foreign currency earnings. The Group may choose to hedge all or part of its projected future foreign earnings thereby fixing a translation rate for the amount hedged. Although the US dollar, sterling and Polish zloty accounting rates weakened by 5%, 1% and 5% respectively, the impact on Group profit before taxation in 2002 was not material when the outcome of hedging strategies is taken into account.

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 the requirements of 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. 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, profit and cashflows. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results.

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

In addition, 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 life of 20 years was used. The application of other accounting policies, for example, measuring shareholders' interest in the long-term assurance fund, impairment, debt securities and equity shares, retirement benefits and derivatives, require the use of estimation techniques that involve making assumptions about future market conditions which could impact on the timing and amounts recognised in the consolidated profit and loss account and the consolidated balance sheet.

Summary profit and loss account

	Year 2002 € m	Year 2001 before exceptional € m	Exceptional Item[1] € m	Year 2001 as restated € m	% *Change excl. exceptional*
Net interest income	**2,351**	2,258	–	2,258	*4*
Other finance income	**62**	67	–	67	*-7*
Other income	**1,517**	1,426	(789)	637	*6*
Total operating income	**3,930**	3,751	(789)	2,962	*5*
Staff costs	**1,391**	1,348	–	1,348	*3*
Other costs	**707**	703	–	703	–
Restructuring and integration costs in continuing businesses	**13**	38	–	38	–
Depreciation and amortisation	**207**	195	–	195	*6*
Total operating expenses	**2,318**	2,284	–	2,284	*1*
Group operating profit before provisions	**1,612**	1,467	(789)	678	*10*
Provisions for bad and doubtful debts	**194**	179	–	179	*9*
Other provisions	**57**	25	–	25	–
Total provisions	**251**	204	–	204	*23*
Group operating profit - continuing activities	**1,361**	1,263	(789)	474	*8*
Income from associated undertakings	**9**	4	–	4	–
Profit on disposal of property	**5**	6	–	6	–
Profit on disposal of business	**–**	93	–	93	–
Group profit on ordinary activities before taxation	**1,375**	1,366	(789)	577	*1*
Taxation on ordinary activities	**306**	331	(276)	55	*-8*
Group profit on ordinary activities after taxation	**1,069**	1,035	(513)	522	*3*
Minority interests and non-equity dividends	**32**	38	–	38	*-18*
Group profit attributable to ordinary shareholders	**1,037**	997	(513)	484	*4*
Basic earnings per share	**119.4c**	–	–	56.2c	*112*
Adjusted earnings per share[2]	**123.0c**	119.4c	(59.6c)	59.8c	*3*

Group operating profit before provisions was up 10% to € 1,612 million for the year December 2002.

Group profit attributable to ordinary shareholders amounted to € 1,037 million, up 114% or 4% excluding the exceptional item in 2001. Adjusted earnings per share[2] at EUR 123.0c per share showed an increase of 3% and basic earnings per share was up 112% to EUR 119.4c per share.

[1] *Exceptional foreign exchange dealing losses (see note 9(b)).*

[2] *Adjusted earnings per share excludes goodwill amortisation in both years and the exceptional foreign exchange dealing losses in 2001 (see note 22(b)).*

Performance review

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

Net interest income

Net interest income at € 2,351 million increased by 7% compared with 2001 due to strong lending growth particularly in AIB Bank Republic of Ireland and AIB Bank GB & NI. Loans to customers increased by 12% and customer accounts increased by 4%.

The net interest margin was 3.00%, a 1 basis point increase on 2001. A particularly strong interest rate management performance by Global Treasury was offset in margin terms by changes in product mix, the margin effect of lower interest rates on deposits and non-interest bearing funds and the impact of loans increasing at a stronger rate than deposits. All our principal markets experienced lower interest rates, the margin impact of this trend was alleviated by asset and liability and interest rate management activities.

Risk weighted assets, loans to customers and customer accounts

(excluding money market funds)

% Change December 2002 v December 2001	Risk weighted assets *% Change*	Loans to customers *% Change*	Customer accounts *% Change*
AIB Bank Republic of Ireland	18	20	7
AIB Bank GB & NI	23	23	13
USA	2	–4	–3[1]
Capital Markets	–1	1	–2
Poland	3	8	–7[2]
AIB Group (excluding currency factors)	10	12	4

[1] Deposits at 31 December 2001 benefited from an exceptionally high level of short-term corporate deposits. Average core deposits for the year were up 1%.

[2] Combined deposits and mutual funds volumes were down 2%. The decrease mainly reflected the lower interest rate environment and the impact on the savings market of the introduction of a withholding tax on deposits, however average deposits were up 1%.

The divisional commentary on pages 19 to 24 contains additional comments on key business trends in relation to loans to customers and customer accounts.

Average interest earning assets

Half-year Dec 2002 € m	Half-year June 2002 € m	% *Change*		**Year 2002 € m**	Year 2001 € m	% *Change*
39,274	38,042	*3*	Domestic	**38,663**	35,417	*9*
38,424	40,771	*–6*	Foreign	**39,588**	40,176	*–1*
77,698	78,813	*–1*	Total	**78,251**	75,593	*4*

Net interest margin

Half-year Dec 2002 %	Half-year June 2002 %	*Basis Points Change*		**Year 2002 %**	Year 2001 %	*Basis Points Change*
2.69	2.78	*–9*	Domestic	**2.73**	2.59	*+14*
3.21	3.33	*–12*	Foreign	**3.27**	3.34	*–7*
2.95	3.06	*–11*	Total	**3.00**	2.99	*+1*

Other income

Other income increased by 6% to € 1,517 million in 2002 and as a percentage of total operating income was 40.2% compared with 39.8% in 2001.

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

Asset management and investment banking revenues were lower due to a decline in asset values, reduced business volumes and the general impact of difficult equity markets. The restructuring of the AIB joint venture with Bank of New York impacted the trend as it is now reported as income from associated undertakings.

Dealing profits were lower as a result of a more difficult trading environment.

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

Other operating income includes securities gains of US$ 80 million resulting from a restructuring of the securities portfolio in Allfirst and a US$ 10 million provision for residual values in the auto lease portfolio.

Other income	Year 2002 € m	Year 2001 € m	Underlying % Change excl. exceptional
Dividend income	**14**	11	*30*
Banking fees and commissions	**1,045**	962	*15*
Asset management fees	**158**	185	*–11*
Investment banking fees	**98**	111	*–11*
Fees and commissions receivable	**1,301**	1,258	*4*
Less: fees and commissions payable	**(138)**	(128)	*10*
Dealing profits	**77**	92	*–30*
Contribution of life assurance company	**57**	84	*–32*
Other	**206**	109	*106*
Other operating income	**263**	193	*43*
Total other income	**1,517**	1,426	*6*

Total operating expenses

Operating expenses excluding restructuring and integration costs at € 2,305 million were higher by 4% compared with 2001.

Operating expense growth was lower than expectations with a 4% increase compared with a 10% increase in 2001. While business volumes increased substantially, tight cost management and cost saving initiatives improved productivity. In AIB Bank Republic of Ireland normal salary increases were partly offset by a cost savings programme in central supports, the cost income ratio remained at 51%. The Group continued to invest in our core businesses, major items being the opening of new offices and recruitment of experienced

Operating expenses	Year 2002 € m	Year 2001 € m	Underlying % Change 2002 v 2001
Staff costs	**1,391**	1,348	*4*
Other costs	**707**	703	*3*
Depreciation and amortisation	**207**	195	*8*
Operating expenses before integration costs	**2,305**	2,246	*4*
Restructuring and integration costs in continuing businesses	**13**	38	*–*
Total operating expenses	**2,318**	2,284	*3*

Performance review

business and corporate bankers in Great Britain, expansion of Corporate Banking activities in New York and the implementation of a new technology platform in Poland. Realisation of integration benefits from the merger of WBK and Bank Zachodni in Poland was evident while expansion of the franchise continued. The Group's tangible cost income ratio, excluding restructuring and integration costs was 57.8%, down 1.2% compared with 2001, with notable reductions in Capital Markets, AIB Bank GB & NI and Poland.

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

Provisions

Total provisions were € 251 million compared with € 204 million in 2001.

Provisions	**Year 2002 € m**	Year 2001 € m
Bad and doubtful debts	**194**	179
Contingent liabilities and commitments	**2**	19
Amounts written off fixed asset investments	**55**	6
Total provisions	**251**	204

The provision for bad and doubtful debts in the year to December 2002 was € 194 million compared with € 179 million in 2001. A provision of US$ 38 million was created in Allfirst in relation to one specific case and was offset by an identical release of € 40 million from the additional unallocated credit provision of € 50 million created at Group level in 2001. This € 50 million provision was created to provide an additional provision pool at Group level against the potential impact that the international macroeconomic downturn might have on asset quality.

Asset quality was strong in AIB Bank Republic of Ireland with non-performing loans remaining at 0.9% of loans at 31 December 2002. Retail and commercial portfolios benefited from careful positioning in the past in relation to risk assessment and sectoral exposures. While home mortgage lending was buoyant, loan quality was very high and prudent criteria continued to be applied. The average loan to value ratio for new business was 68% in 2002.

In AIB Bank GB & NI, asset quality further improved with non-performing loans reducing to 1.0% of loans, down from 1.3% in 2001. The bad debt charge reflected mainly general provisions with a small net specific charge.

In Allfirst, profit and loss provisions increased by US$ 49 million reflecting the above US$ 38 million provision. Non-performing loans amounted to US$ 112 million compared with US$ 77 million at 31 December 2001 reflecting deterioration in the corporate book. Provisions as a percentage of loans in Allfirst increased from 1.4% to 1.5% with coverage for non-performing loans amounting to 140%.

2002 was a more difficult year in the international corporate market and Capital Markets experienced higher provisions and non-performing loans. The provision charge amounted to 0.37% of average loans and reflected a prudent and cautious approach with an objective of early provision recognition. The portfolio remains well diversified in terms of industry sector and geographic concentration.

In Poland, the gross provision charge declined in 2002 from 1.9% of loans (before the use in 2001 of general provisions of € 47 million created on the acquisition of WBK and Bank Zachodni) to 1.2%. Including the use of general provisions in 2001, headline provisions increased by € 25 million in 2002. Non-performing loans as a percentage of total loans declined to 15% from 18% at 31 December 2001 mainly due to the write off of older non-performing loans which had been fully provided for. Excluding this factor the underlying ratio would have shown a small reduction compared with 2001.

The Group charge for the year represented 0.37% of average loans compared with a 0.36% charge, including the additional unallocated provision, in 2001. Group non-performing loans as a percentage of total loans amounted to 1.8% or 1.0% excluding Poland, and total provision coverage for non-performing loans was 87% (123% excluding Poland). We continued to maintain prudent provision cover. Total non-specific provisions amounted to € 427 million and specific provision cover for non-performing loans was strong at 44%.

The provision for contingent liabilities and commitments in the year to December 2002 was € 2 million compared with € 19 million in 2001. The 2001 provision was mainly in relation to one specific case.

The provision for amounts written off fixed asset investments in the year to December 2002 was € 55 million compared to € 6 million in 2001. The general deterioration in equity markets led to write-downs of € 36 million for a number of equity investments including € 17 million in the technology sector, € 2 million in telecoms and venture capital write-downs of € 12 million in Allfirst. The provision charge also included provisions of € 19 million related to debt security portfolios.

Taxation	Year 2002	Year 2001
Tax charge	**€ 306m**	€ 55m
Irish corporation tax rate	**16.0%**	20.0%
Effective tax rate - adjusted(1)	**22.3%**	24.2%

Reconciliation of statutory corporation tax rate	%	%
Corporation tax rate in Republic of Ireland	**16.0**	20.0
Effective tax rate on foreign income	**7.9**	6.9
Tax exempted income and income at a reduced rate	**(0.5)**	(2.5)
Other items	**(1.1)**	(0.2)
Effective tax rate - adjusted(1)	**22.3**	24.2

(1) The adjusted effective tax rate has been presented to eliminate the effect of the exceptional foreign exchange losses in 2001.

Taxation

The taxation charge was € 306 million, compared with € 55 million (€ 331 million excluding the exceptional item) in 2001. The effective tax rate was 22.3% compared with 24.2% in 2001. Both 2002 and 2001 benefited from one-off items. On an underlying basis the effective tax rate was 24.1% in 2002 and 25.9% in 2001. This underlying decrease was primarily due to the reduction in the standard rate of Irish corporation tax and changes in the geographic and business mix of profits.

The Group's profits in its operations outside of Ireland are taxed at a range of rates up to 47%. Changes in the geographic mix of profits within the Group will therefore have an impact on future effective tax rates. In Ireland the general corporation tax rate will be 12.5% in 2003 (16% in 2002). During 2002 the Irish Government announced the introduction of a levy on financial institutions for 2003 and the following two years. The Group's levy payment is estimated at € 30 million per annum and will increase the Group tax charge for the relevant years.

Return on equity and return on assets

The return on equity was 22.4% benefiting from the strong attributable profit performance and the impact of the reduced value of pension assets on the equity base in line with FRS 17. The return on assets was 1.24% and the return on risk weighted assets, a measure of the efficient use of capital, was 1.56%.

Performance review

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

When the profit attributable of € 1,037 million is adjusted for the currency translation differences on foreign currency net investments and the actuarial loss recognised in the retirement benefit schemes, the total recognised losses relating to the year amounted to € 127 million compared to a recognised gain of € 875 million in 2002. A recognised gain of € 648 million was included in 2001 relating to the first time recognition of FRS 17 in the accounts. Currency translation differences amounted to € 341 million negative compared to € 145 million positive in 2001. 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, sterling and Polish zloty against the euro. As outlined in the balance sheet discussion below, the weakening of the currencies also reduced the euro value of the assets designated in those currencies. The objective of the Group's capital management activities is to neutralise the impact of currency movements on the capital ratios. The Group's net investment is held in the currency of those subsidiaries to protect the Group's capital ratios from fluctuations in exchange rates.

The actuarial loss in retirement benefit schemes during 2002 charged to the STRGL, net of deferred tax, amounted to € 823 million. The decline in world-wide equity markets had a significant impact on the value of the Group's funded retirement benefit schemes and the actuarial loss arises mainly as a result of the difference between the actual return and the expected return on the pension scheme assets. The actuarial loss is determined by valuations prepared in accordance with FRS 17 which requires retirement benefit scheme assets and liabilities to be recorded at market values at the balance sheet date. These valuations are not indicative of the long-term funding position of the schemes which are formally assessed by way of triennial actuarial valuations. The actuarial loss recognised also included € 123 million from a reduction in the discount rates together with € 18 million from experience gains and losses on scheme liabilities. The net pension liability on funded schemes recognised within shareholders' funds was € 482 million at December 2002. This compares to a net pension asset within shareholders' funds of € 314 million at December 2001.

The decline in value of the retirement benefit scheme assets will also impact the profit and loss account - other finance income, during 2003. During 2002, the value of the assets reduced by € 733 million, including the effect of exchange rate and other movements. As it is not considered appropriate to significantly adjust the assumptions on asset returns to compensate for the decline in the market value of the assets in 2002, the reduction in asset values will have a negative impact of approximately € 47 million on other finance income in 2003.

Balance sheet

Total assets amounted to € 86 billion at 31 December 2002 compared to € 89 billion at 31 December 2001. The US dollar, sterling and Polish zloty weakened against the euro by 16%, 6% and 13% respectively, resulting in a decline in the reported total balance sheet since 31 December 2001. Adjusting for the impact of currency, total assets were up 5% since 31 December 2001 while loans to customers increased by 12% and customer accounts by 4%. Risk weighted assets increased by 1% to € 69 billion, excluding currency factors there was an increase of 10%.

Assets under management/ administration and custody

Assets under management in the Group amounted to € 26 billion at 31 December 2002 and assets under administration and custody amounted to € 276 billion at 31 December 2002.

Commentary on half–year December 2002 performance

The second half-year profit on ordinary activities before taxation amounted to € 672 million compared with € 703 million in the first half. The second half-year was negatively impacted by the Allfirst restructuring costs and the reduction in embedded values in Ark Life. Excluding these items, profit was up 4% on a constant currency basis.

Net interest income of € 1,154 million was up 1% on the half-year to June 2002. The first half benefited from a very strong performance from interest rate management activities in Global Treasury. Other income increased by 8% to € 772 million particularly due to securities gains in Allfirst which were partly offset by Ark Life's performance. Operating expenses at € 1,173 million were broadly in line with expectations. The Group credit provision charge as a percentage of average loans was similar to the first half.

Cash flow

As shown in the consolidated cash flow statement, there was a net increase in cash of € 362 million during the year ended 31 December 2002. Net cash outflow from operating activities was € 121 million. Cash outflows from financing were € 129 million, primarily due to the redemption of subordinated liabilities of € 247 million offset by the issue of subordinated liabilities of € 100 million. Cash outflows from taxation were € 280 million while cash outflows in relation to equity dividends were € 345 million. These outflows were offset by a cash inflow from capital expenditure, primarily due to net cash inflows from disposals of debt and equity securities of € 1,516 million.

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

It was announced on 26 September 2002 that AIB is entering into a strategic relationship with M&T Bank Corporation ('M&T') whereby AIB's US subsidiary, Allfirst, will be acquired by M&T. As a result of the transaction, AIB will acquire a strategic shareholding of 26.7 million M&T shares, representing a stake of approximately 22.5% in the enlarged M&T. AIB will also receive US$ 886m in cash.

The transaction, which is expected to be completed by the end of the first quarter of 2003, is subject to regulatory approvals. Shareholders of both M&T and AIB approved the transaction in December 2002.

The transaction has no impact on the accounts of AIB for 2002. The transaction will be 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 the existing M&T. Under this approach, the 22.5% of Allfirst that is owned by AIB, both directly before the transaction and indirectly thereafter, is treated as being owned throughout the transaction. The transaction will give rise to a gain, which will be recognised on completion.

The 2003 accounts will also reflect the income and expenses of Allfirst for the period during which it remains a 100% subsidiary of the Group. Following completion of the transaction, the Group will account for its investment in the enlarged M&T as an associated undertaking. The Group will include its share of the profits of the enlarged M&T in the Group profit and loss account within the caption 'Income from associated undertakings'. AIB will also account for its 22.5% share of the costs associated with the merger, calculated in accordance with Irish GAAP.

Performance review

Prospective accounting developments

International accounting standards
The European Commission has adopted a regulation on the application of International Accounting Standards ('IASs'). This requires that the Group accounts of all listed companies in the EU should, from January 2005, be drawn up on the basis of adopted International Accounting Standards. The 'adoption' of the International Accounting Standards Board ('IASB') standards is the responsibility of the Accounting Regulatory Committee of the European Commission. Under the terms of the EU regulation, member state governments have the option to decide whether adopted IASs should be applied more widely than in the group accounts of listed companies. The Group is currently considering the implications of the regulation and expects to prepare its first financial statements in accordance with 'adopted' International Accounting Standards for the year ended 31 December 2005.

During 2002, the IASB proposed improvements to a number of its standards, and the Accounting Standards Board ('ASB') in the UK instituted a convergence programme whereby six of these standards when updated would be substituted for existing UK/Irish standards. AIB continues to monitor progress on the convergence programme.

Share-based payment
In November 2002, the ASB issued Financial Reporting Exposure Draft 31 – Share-based payment ('FRED 31') which would apply to all entities and all types of share based payment transactions including all employee share option schemes. The proposed standard would require entities to recognise an expense in the profit and loss account in respect of share based payments over the period in which the services are rendered by the employees. The expense will be measured by reference to the fair value of the equity instruments granted taking into account the terms and conditions upon which those equity instruments were granted. The comment period for the exposure draft closes in early March 2003 and the ASB expects to publish a standard during 2003 which would come into effect on 1 January 2004. AIB is currently examining the implications of the FRED, however implementation of the standard will give rise to a profit and loss account charge.

Outlook

The economic outlook internationally is uncertain at present, investment expenditure is sluggish and corporate customers are generally inclined to protect their balance sheets rather than expand their operations. However, AIB's operations are positioned to generate strong revenue growth, particularly in our high growth core banking franchises and the Group is planning for double-digit lending growth in 2003. AIB is combining its traditional prudent and cautious approach to risk assessment with leveraging our relationship banking approach and maximising the benefits of our customer relationship management systems. In 2003 we will have a number of one off and significant items i.e. the transition of our Allfirst franchise in the USA to M&T Bank (subject to regulatory approvals), the impact of lower other finance income from our pension fund assets due to declines in stock market valuations, and the imposition of the Irish Government Bank Levy. Excluding these items, underlying adjusted earnings per share in 2003 is expected to increase in mid single-digits based on projected strong growth in business volumes.

Divisional commentary

On a divisional basis profit is measured in euro and consequently includes the impact of currency movements.

AIB Bank Republic of Ireland profit was € 590 million, up 5% on the year to December 2001.

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

AIB Bank Republic of Ireland profit and loss account	**Year 2002 € m**	Year 2001 € m	*% Change 2002 v 2001*
Net interest income	**921**	843	*9*
Other finance income	**40**	43	*–7*
Other income	**353**	359	*–2*
Total operating income	**1,314**	1,245	*6*
Total operating expenses	**677**	641	*6*
Operating profit before provisions	**637**	604	*5*
Provisions	**55**	44	*23*
Operating profit - continuing activities	**582**	560	*4*
Profit on disposal of property	**8**	2	*–*
Profit on ordinary activities before taxation	**590**	562	*5*

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

Costs increased by 6% due to higher business activity levels and salary increases relating to the National Programme for Prosperity and Fairness partly offset by cost saving initiatives in central supports, with the cost income ratio remaining at 51%.

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

Divisional commentary

AIB Bank GB & NI profit was € 240 million, up 8% on the year to December 2001.

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

Profit in AIB Bank GB & NI increased by 9% on a constant currency basis. There was a particularly strong performance in Britain as a result of substantially increased business volumes. Average loans increased by 15% with significant growth in retail and professional sectors. In Northern Ireland, home loan activity was buoyant with an increase of 17% in total home loans. Average deposits were up 11% as a result of increased business development activity. The Division expanded its business development capability with the opening of new offices in Britain and recruitment of experienced business bankers.

Notwithstanding business expansion initiatives, costs were well managed with the cost income ratio declining from 52% to 50%.

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

In December, the Forum of Private Business voted AIB GB 'Britain's Best Business Bank'. This was the fifth consecutive time the bank was awarded this biennial title.

AIB Bank GB & NI profit and loss account	**Year 2002 € m**	Year 2001 € m	*% Change 2002 v 2001*
Net interest income	**363**	336	*8*
Other finance income	**(1)**	3	–
Other income	**166**	161	*3*
Total operating income	**528**	500	*6*
Total operating expenses	**266**	259	*2*
Operating profit before provisions	**262**	241	*9*
Provisions	**22**	19	*18*
Operating profit - continuing activities	**240**	222	*8*
Profit on disposal of property	**–**	1	–
Profit on ordinary activities before taxation	**240**	223	*8*

USA reported a profit of € 308 million, down 13% on the year to December 2001.

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

USA profit & loss account	Year 2002 € m	Year 2001 € m	% Change 2002 v 2001
Net interest income	**549**	584	*–6*
Other finance income	**(2)**	2	–
Other income	**528**	446	*18*
Total operating income	**1,075**	1,032	*4*
Operating expenses	**655**	638	*3*
Restructuring costs in continuing businesses	**13**	–	–
Total operating expenses	**668**	638	*5*
Operating profit before provisions	**407**	394	*4*
Provisions	**98**	39	*154*
Operating profit - continuing activities	**309**	355	*–13*
(Loss)/profit on disposal of property	**(1)**	–	–
Profit on ordinary activities before taxation	**308**	355	*–13*

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

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

On 26 September 2002, AIB announced that it was entering into a strategic relationship with M&T Bank Corporation ('M&T') whereby M&T would acquire AIB's US subsidiary Allfirst with AIB obtaining a 22.5% share in the enlarged M&T and a cash payment of US$ 886 million.

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

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

Divisional commentary

Capital Markets profit was € 209 million, up 8% on the year to December 2001.

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

The 8% growth in profit reflected a strong performance in 2002 with Capital Markets activities operating in very difficult market conditions. There was good revenue growth which together with tight cost management delivered a 14% increase in operating profit before provisions.

Capital Markets profit and loss account	Year 2002 € m	Year 2001 € m	% Change 2002 v 2001
Net interest income	**271**	210	*29*
Other finance income	**7**	8	*–11*
Other income	**282**	305	*–8*
Total operating income	**560**	523	*7*
Total operating expenses	**300**	296	*1*
Operating profit before provisions	**260**	227	*14*
Provisions	**60**	38	*56*
Operating profit - continuing activities	**200**	189	*6*
Income from associated undertakings	**9**	5	*91*
Profit on ordinary activities before taxation	**209**	194	*8*

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

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

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

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

Operating expenses were well controlled. Excluding the restructuring of the AIB joint venture with Bank of New York (see comment below on associated undertakings), costs were up 3% due to normal cost inflation and expansion of the corporate business internationally partly offset by good cost management. The cost income ratio declined significantly by 3% to 54%.

A full discussion on provisions is contained in the provisions section on page 14.

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

Poland profit was € 61 million for the year 2002.

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

Operating profit before provisions was up 36% on the 2001 level of € 80 million, adjusting for integration costs.

In local currency terms revenue was up 10% despite slower economic conditions. Net interest income increased by 4% due to growth in business volumes and a stable net interest margin. Deposit margins declined in the substantially lower interest rate environment while lower funding costs and wider loan margins were positive features. Loans increased by 8%, a level below historical trends, due to management adopting a cautious approach in the more difficult economic environment. The savings market was sluggish with combined deposits and mutual funds volumes down 2% on December 2001, however average deposits were up 1%. The market was affected by tougher business conditions and the introduction of a new withholding tax on deposits.

Other income was up 21% including strong growth in card and current account fees and branch commissions. Operating expenses were up 3% reflecting implementation of a new branch technology platform offset by tight cost control and realisation of integration benefits.

Poland profit and loss account	**Year 2002 € m**	Year 2001 € m	*% Change 2002 v 2001*
Net interest income	**272**	275	*–1*
Other finance income	**–**	–	–
Other income	**188**	163	*15*
Total operating income	**460**	438	*5*
Operating expenses	**351**	358	*–2*
Integration costs in continuing businesses	**–**	38	–
Total operating expenses	**351**	396	*–11*
Operating profit before provisions	**109**	42	*160*
Provisions	**46**	9	*417*
Operating profit - continuing activities	**63**	33	*89*
(Loss)/profit on disposal of property	**(2)**	3	–
Profit on ordinary activities before taxation	**61**	36	*71*

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

Divisional commentary

Group

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

Group reported a loss of € 33 million for the year to December 2002, compared with a loss of € 4 million in 2001. The increased loss arose mainly from lower capital income due to the impact on capital arising from the exceptional foreign exchange dealing losses in Allfirst in 2001 and lower investment yields. The 2001 loss included € 93 million profit from the sale of AIB's interest in KCH and a € 50 million additional unallocated credit provision created at Group level. The 2002 result included the release of € 40 million of this € 50 million provision offset by additional provisions in relation to unquoted investments.

Group profit and loss account	**Year 2002 € m**	Year 2001 € m
Net interest income	**(25)**	10
Other finance income	**18**	11
Other income	**–**	(8)
Total operating income	**(7)**	13
Total operating expenses	**56**	54
Operating loss before provisions	**(63)**	(41)
Provisions	**(30)**	55
Operating loss – continuing activities	**(33)**	(96)
Income from associated undertakings	**–**	(1)
Profit on disposal of business	**–**	93
Loss on ordinary activities before taxation	**(33)**	(4)

Financial review

CAPITAL MANAGEMENT

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

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

	2002 € m	2001 € m
Shareholders' funds – equity	**4,408**	4,851
Shareholders' funds – non-equity	**235**	279
Equity and non-equity minority interests	**274**	312
	4,917	5,442
Reserve capital instruments	**496**	496
Undated capital notes	**389**	426
Dated capital notes	**1,287**	1,594
	7,089	7,958

Capital resources reduced by € 869 million during the year ended 31 December 2002. The decrease arose primarily as a result of the impact of the weakening of US dollar, sterling and Polish zloty exchange rates against the euro as well as the impact of weaker international equity markets on the Group's retirement benefit scheme assets. The value of the US dollar, sterling, and Polish zloty weakened against the euro by 16%, 6% and 13% respectively, resulting in a negative foreign currency translation adjustment of € 628 million. The actuarial losses in the Group's retirement benefit schemes, which are recognised directly in shareholders' funds under FRS 17 - Retirement benefits, amounted to € 823 million. Shareholders' funds benefited from net retentions of € 608 million and issues of share capital € 115 million. The redemption and maturity of dated capital notes of € 247 million were offset by the issue of € 100 million in subordinated debt due in 2013.

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

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

Capital base	2002 € m	2001 € m
Tier 1		
Shareholders' funds as defined for regulatory purposes	**4,668**	4,421
Other tier 1 capital	**770**	798
Supervisory deductions	**(632)**	(740)
Total tier 1 capital	**4,806**	4,479
Tier 2		
Qualifying loan capital	**1,638**	1,859
Other tier 2 capital	**884**	900
Total tier 2 capital	**2,522**	2,759
Gross capital	**7,328**	7,238
Supervisory deductions	**(341)**	(294)
Total capital	**6,987**	6,944
Risk weighted assets		
Banking book:		
On balance sheet	**53,961**	54,839
Off-balance sheet	**11,521**	10,854
	65,482	65,693
Trading book:		
Market risks	**3,099**	2,897
Counterparty and settlement risks	**658**	268
	3,757	3,165
Total risk weighted assets	**69,239**	68,858
Capital ratios		
Tier 1	**6.9%**	6.5%
Total	**10.1%**	10.1%

Financial review

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

The Group's capital ratios remained strong with the tier 1 ratio improving to 6.9% and the total capital ratio at 10.1%. Tier 1 capital increased by € 327 million to € 4.8 billion reflecting net retentions of € 563 million, issue of shares € 115 million, and lower deduction for own shares of € 69 million. These were offset by € 420 million of currency translation and other movements. Tier 2 capital decreased by € 237 million since December 2001 reflecting redemptions of subordinated debt, lower general provisions for bad and doubtful debts, and currency factors, partly offset by the issue of € 100 million in new subordinated debt and an increase in shareholders' funds qualifying as tier 2 capital. Supervisory deductions increased by € 47 million, primarily reflecting the increase in the long-term assurance business attributable to shareholders. Risk weighted assets increased marginally to € 69.2 billion, 10% excluding currency factors.

The Basel Committee on Banking Supervision and the European Union have developed proposals to significantly revise the capital adequacy regime in operation for all 'internationally active banks'. These proposals are designed to bring the capital adequacy regime more into line with best practice risk management in financial institutions. The regime is based on three so-called 'Pillars'. Pillar One sets the rules for determining the capital requirements for credit risk and securitisations and introduces a new capital requirement for operational risk. Pillar Two enhances the supervisory role of the regulators. Pillar Three sets out detailed disclosure requirements designed to strengthen the role of the market in bringing discipline to risk management practices in banks and other financial institutions. While these proposals have yet to be finalised and adopted, the Group has participated actively in the consultative process surrounding them and has participated in the Quantitative Impact Studies (QIS) requested by the Basel Committee as part of its preparation for their implementation.

RISK GOVERNANCE AND OVERSIGHT

Arising from the findings of the Independent Report submitted by Promontory Financial Group and Wachtell, Lipton, Rosen & Katz, the Board took a number of actions to strengthen the risk management and control processes in operation at the Group. These include:

• The appointment of Mr John Heimann, former Comptroller of the Currency in the US and Chairman of Merrill Lynch Global Financial Institutions, as special advisor to the Board on risk management organisation across the Group. Under his direction Deloitte Touche Tohmatsu ('D&T') was engaged to review the credit and operational risk management activities of the Group and advise on best practice. First Manhattan Consulting Group ('FMCG') performed the same role with regard to the Group's asset and liability and liquidity management practices. It had previously been engaged to review the control environment in Global Treasury following the Board's decision to centralise the Group's Treasury Management activities in Dublin. The consultants' recommendations were adopted by the Board in July 2002. Detailed implementation plans were developed and significant progress has been made in implementing these recommendations.

• The appointment of Mr Shom Bhattacharya as Group Chief Risk Officer ('CRO'). The CRO reports to the Group Chief Executive and the Audit Committee and is a member of the Group Executive Committee.

• The establishment of a Group-wide internal audit function and the appointment of a new Head of Group Internal Audit – Mr Paul Shantz.

• The appointment of Mr Philip Brennan as General Manager of Regulatory Compliance & Business Ethics with an independent reporting line to the Audit Committee and the Board.

• Steps to strengthen the linkages between (a) the Board and the Boards of the banking subsidiaries, and (b) the Board's Committees and those of the subsidiary Boards.

RISK MANAGEMENT

Taking and managing risk for an appropriate return is central to creating shareholder value. The Group's Risk-adjusted Return on Capital ('RAROC') programme is at an advanced stage of implementation – risk-adjusted pricing models are used in corporate portfolios and are being rolled-out to commercial lending portfolios. It is planned that risk-based measures will progressively be incorporated into the evaluation of business performance. Day-to-day risk management in AIB Group centres on three major risks – credit risk, operational risk and market risk (including liquidity).

Credit risk is the exposure to loss due to counterparty default on credit obligations. It arises mainly in the Group's retail, commercial, corporate, and interbank lending portfolios. Credit risk also arises in derivative contracts where the default of a counterparty to the transaction could expose the Group to loss.

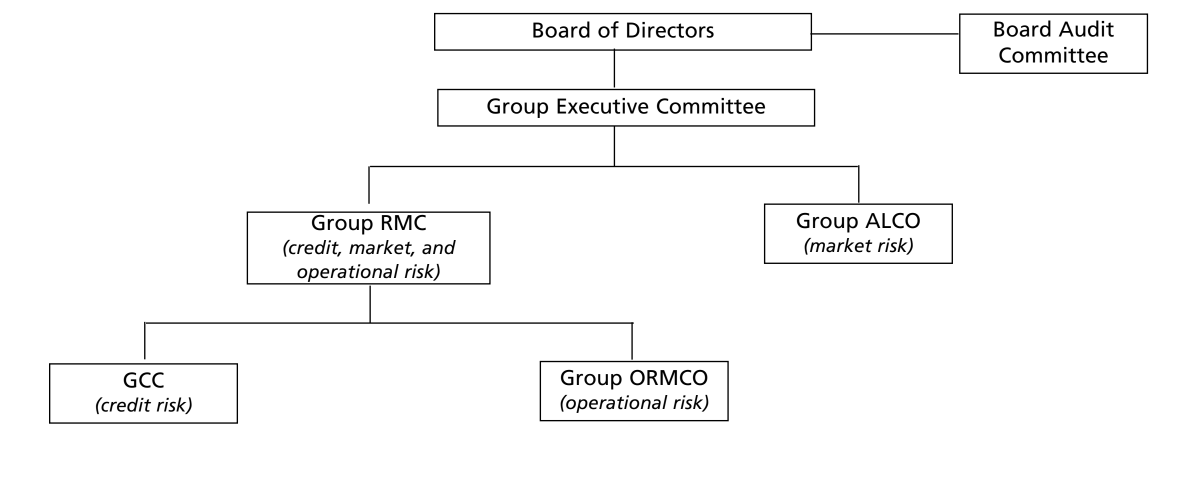
Operational risk, which is inherent in all business activities, is the exposure to loss from inadequate or failed internal processes, people and systems or from external events.

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

Organisational structure for managing risk

AIB manages risk through a set of committees and dedicated risk officers and functions with delegated authorities spread throughout the Group. The committee structure is outlined below. 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 manages the strategic business risks of the Group. It sets the business strategy within which the risk management function operates and oversees its activities. On Mr Heimann's recommendation the Group Risk Management Committee ('RMC') was established to direct and co-ordinate risk management activities across the Group. The Group CRO chairs this committee. The role of the Group Asset and Liability Committee ('Group ALCO') was revised following the establishment of the RMC. This committee is chaired by the Group Director, Finance & Enterprise Technology and has responsibility for co-ordinating the Group's capital management

Group-level risk management structure



Financial review

activities and for funding and liquidity management. The Group Credit Committee ('GCC') and the Group Operational Risk Management Committee ('Group ORMCO') are subcommittees of the RMC.

The risk management function in the Group was reorganised following Mr Heimann's recommendations. The Group CRO has responsibility for risk management and control activities across the Group. Divisional CROs were appointed to head up the risk management functions in each of the Divisions. These report directly to the Group CRO who shares responsibility with the Head of each Division for setting risk management objectives and ensuring the availability of adequate risk management skills and expertise. Each Division has its own Credit Committee and Operational Risk Management Committee, which report to the equivalent Group-level committees. The Group CRO is supported at the centre by specialist officers with functional responsibility for credit and operational risk. The CRO at Capital Markets Division carries the functional responsibility for market risk. This structure is designed to develop a more cohesive risk management organisation that serves the dual needs of supporting the business through sharing of expertise and best practice while at the same time ensuring that appropriate controls are in place at all times.

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

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

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

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

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

Managing credit risk

Credit risk is managed and controlled throughout the Group on the basis of established credit processes and within a framework of credit policy and delegated authorities based on skill and experience. Credit grading and monitoring systems accommodate the early identification and management of deterioration in loan quality. In addition, the credit management process is underpinned by an independent system of credit review. The credit grading systems across the Group continue to be refined to facilitate risk-based pricing, economic provisioning, attribution of capital and performance evaluation.

The Board, in exercising its role in relation to credit risk, determines the credit authority of the GCC, approves certain high-level credit policies and reviews credit performance.

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

The Group CRO has functional responsibility for ensuring that groupwide credit risk activities are governed by appropriate and robust policies and best practices. The Group CRO also has responsibility to report independently to the Group Chief Executive, Audit Committee and the Board on credit performance, credit quality and the adequacy of provisions.

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

Managing operational risk

The management of operational risk is a line management responsibility. It is supported by small operational risk management teams at Group and in each of the Divisions as well as specialist functions in areas such as money laundering prevention, business continuity planning, information security and insurance. These operational risk management teams are responsible for the development and implementation of a structured operational risk management ('ORM') programme, which is being strengthened on the recommendations of D&T.

An element of AIB's structured ORM programme is an operational risk self-assessment process. This process requires each business within the Group to assess its operational risks and the effectiveness of the related controls to address these risks. This raises awareness of control weaknesses and allows management to target specific actions to strengthen the control processes. It complements the risk-based audit approach used by Group Internal Audit in its role as independent assessor of management's control and risk management processes.

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.

Managing market risk

The principal aims of the Group'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 risk parameters. The processes for managing market risk have changed to take account of the Board's decision to centralise market risk in Global Treasury and the establishment of the RMC.

Asset and liability management ('ALM') units operate in each of the retail divisions. These have responsibility for identifying interest rate and foreign exchange risks and transferring these to Global Treasury.

Global Treasury is responsible for managing these risks. It also manages the Group's liquidity and funding activities. The process of risk transfer to Global Treasury and the Group's funding and liquidity activities are overseen by Group ALCO, which is supported by ALCOs in each Division. Group ALCO also carries responsibility for capital and balance sheet management.

In addition to interest rate and foreign exchange rate risk, equity risk arises in Global Treasury from the management of the Group's convertible bond portfolio and the hedging of stock market linked investment products (tracker bonds) sold to customers. Equity risk also arises in the Group's stockbroking business.

These risks are managed by setting limits on the amount of the Group's capital and forecast earnings that can be put at risk. These limits are based on the risk measurement methodologies set out below. The Board delegates authority to the Group CRO to allocate these limits on its behalf and charges him with ensuring that the risk measurement methodologies used to determine these limits are appropriate for the risks being taken and that appropriate monitoring and control procedures are in place.

The RMC reviews market risk strategy, appetite and policies and promotes best practice for measurement, monitoring and control.

Liquidity risk

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties, at an economic price. The Group achieves this through the maintenance of a stock of high quality liquid assets and active involvement in the interbank market. The liquid asset stock is maintained at a level considered sufficient to meet the withdrawal of deposits or calls on commitments in both normal and abnormal trading conditions. In all cases, net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed predetermined target levels.

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

The Group also operates a liquidity contingency plan for critical situations. For a period following the announcement of the fraudulent foreign exchange trading activities in Allfirst Bank on 6 February 2002, Group liquidity was managed in accordance with this plan. Allfirst Bank became a net seller of federal funds as a result of actions taken under the liquidity contingency plan, which included the sale of investment securities and receipt of funding from AIB. Allfirst Bank initially experienced a small decrease in core deposits and it was required, in the interest of maintaining good customer relations, to purchase approximately US$ 300 million in variable rate demand bonds ('VRDBs'), which were backed by a standby letter of credit. These were later successfully reissued to the market.

MARKET RISK MEASUREMENT

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

For internal risk measurement and management purposes, AIB Group uses a VaR methodology. Risk is calculated as the probable maximum loss in fair value that could arise in one month from a 'worst case' movement in market rates *(interest, foreign exchange, equity, as applicable)* with a 99% degree of probability. This means that there is a one in one hundred chance that potential loss could be greater than that estimated using historical observations of weekly price volatility in interest and foreign exchange rates and equity prices over the previous period of three years. VaR figures are quoted using both one-month and one-day holding periods.

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

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

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

Interest rate risk

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 the Group's assets and liabilities. This risk is managed by setting limits on the probable maximum loss in fair value (VaR) on the aggregate open interest rate 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 the Group's retail and commercial activities is managed through the non-trading book. The reported interest rate VaR figures represent the average, high, low and year-end probable maximum loss in respect of both trading and non-trading book positions held in Global Treasury.

The following table illustrates the VaR figures for interest rate risk for the years ended 31 December 2002 and 2001.

	Trading		Non-trading	
	2002	2001	**2002**	2001
	€ m	€ m	**€ m**	€ m
Interest rate risk				
1 month holding period:				
Average	**6.8**	9.5	**48.7**	73.4
High	**9.3**	12.0	**87.4**	88.8
Low	**4.7**	7.3	**23.0**	58.4
31 December	**6.4**	9.6	**48.5**	69.9
1 day holding period:				
Average	**1.5**	2.1	**10.9**	16.4
High	**2.1**	2.7	**19.5**	19.9
Low	**1.0**	1.6	**5.1**	13.1
31 December	**1.4**	2.2	**10.8**	15.6

Trading book

The interest rate trading book incorporates all securities and interest rate derivatives that are held for trading purposes in the Group's Global Treasury units. These are revalued daily at market prices (marked to market) and any changes in value are immediately recognised in income. During 2002, trading book interest rate risk was predominantly concentrated in the euro, sterling and the US dollar although positions were also taken in Polish zloty and a number of other developed country markets.

Non-trading book

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

AIB Group's banking businesses have a substantial level of interest-free current accounts, equity and other interest-free or fixed rate liabilities and assets. Unless carefully managed, the net income from these funds will fluctuate directly with movements in short-term interest rates. Group policy is to manage the earnings volatility arising from the impact of interest rate movements on such funds. This is achieved 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 circumstances and evolving customer requirements can change the desirable investment life and composition of this portfolio. Group ALCO reviews the management of these activities.

Financial review

Interest rate sensitivity
The net interest rate sensitivity of the Group at 31 December 2002 and 2001 is illustrated in note 53.

Foreign exchange rate risk - structural

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

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

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

At 31 December 2002 and 2001, the Group's structural foreign exchange position was as follows:

	2002 € m	2001 € m
US dollar	**1,071**	1,096
Sterling	**1,210**	1,185
Polish zloty	**187**	209
	2,468	2,490

This position indicates that a 10% movement in the value of the euro against these currencies at 31 December 2002 would result in an amount to be taken to reserves of € 247 million.

The Group may choose to hedge all or part of its projected future foreign currency earnings, thereby fixing a translation rate for the amount hedged. The purpose of these hedges is to minimise the risk of significant fluctuations in the reported euro values of the Group's separate US dollar, sterling and Polish zloty earnings. In the year ended 31 December 2002, certain US dollar, sterling and Polish zloty profits were hedged during the year and translated at the following exchange rates € 1: US $0.9062; € 1: Stg £0.6273; € 1: PLN 4.0076.

Foreign exchange rate risk – trading

Global Treasury manages the Group's exposure to foreign exchange 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 probable maximum loss in fair value (VaR) on the aggregate open foreign exchange position for the Group's discretionary portfolio. Stop-loss limits are also used to close out loss-making positions.

The following table illustrates the VaR figures for trading foreign exchange rate risk for the years ended 31 December 2002 and 2001.

	2002 € m	2001 € m
Foreign exchange rate risk-trading		
1 month holding period:		
Average	**0.9**	2.1
High	**1.9**	4.4
Low	**0.3**	0.5
31 December	**0.8**	4.4
1 day holding period:		
Average	**0.2**	0.5
High	**0.4**	1.0
Low	**0.1**	0.1
31 December	**0.2**	1.0

Equity risk

Global Treasury manages the equity risk arising in its convertible bond portfolio and from hedging stock market linked investment products (tracker bonds) sold to customers. Goodbody stockbrokers manage the equity risk arising in its Principal Trading Account. The risk is that adverse movements in share, share index, or share option prices would result in loss to the Group. This risk is managed by setting limits on the probable maximum loss in fair value (VaR) on open equity positions. Stop-loss limits are also used to close out

	Trading		Non-trading	
	2002	2001	**2002**	2001
	€ m	€ m	**€ m**	€ m
Equity risk				
1 month holding period:				
Average	**10.2**	13.0	**0.3**	0.5
High	**16.5**	20.0	**0.7**	0.8
Low	**6.2**	10.3	**0.1**	0.1
31 December	**9.9**	12.1	**–**	0.1
1 day holding period:				
Average	**2.3**	2.9	**0.1**	0.1
High	**3.7**	4.5	**0.2**	0.2
Low	**1.4**	2.3	**–**	–
31 December	**2.2**	2.7	**–**	–

loss-making positions. The table above illustrates the VaR figures for equity risk for the years ended 31 December 2002 and 2001.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

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

Credit commitments

Contingent liabilities and commitments to extend credit are outlined in note 50. 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 some underlying interest rate, foreign exchange rate, share price or index level. The table on page 34 shows the notional amount and gross replacement cost for trading and non-trading interest rate, exchange rate and equity contracts at 31 December 2002 and 2001. 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 uses derivatives to hedge interest rate, foreign exchange rate and equity risk. The Group also makes controlled use of derivatives for discretionary trading purposes.

The values of derivative instruments can rise and fall as market rates change. Where they are used to hedge other assets and liabilities, the changes in value are generally offset by the value changes in the hedged items. As long as the derivative instrument is effective in offsetting the risk of the associated asset or liability, both at the time it is entered into and throughout the hedge period, it is accounted for in accordance with the accounting treatment for the item or items being hedged. Swaps, forward rate agreements, futures and option contracts are used to hedge 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 interest payments based on variable or fixed interest rates. They are used to convert variable rate assets or liabilities into fixed rate assets or liabilities or vice versa or to change the maturity profile of the underlying assets or liabilities. Currency swaps are interest rate swaps where one or both sides of the swap is payable in a different currency. These allow Global Treasury to change the currency profile of an interest rate risk position.

Forward rate agreements are individually negotiated contracts that allow customers to fix the rates at which they will borrow or lend in the future.

Financial review

Financial futures are exchange-traded contracts that allow investors to speculate on the future direction of interest rates, stock indices, commodities etc. They are also an effective and cheap way to hedge against movement in certain market rates. They are used in the Group to hedge exposures arising from the sale of forward rate agreements or guaranteed equity products. They are also used to manage the interest rate risk 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. These are used to limit the variability in the rate payable on future loans and deposits.

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 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.

	2002		2001	
	Notional amount	**Gross replacement cost**	Notional amount	Gross replacement cost
	€ m	**€ m**	€ m	€ m
Interest rate contracts				
Trading	**75,558**	**1,223**	46,015	586
Non-trading	**34,971**	**690**	70,136	846
	110,529	**1,913**	116,151	1,432
Exchange rate contracts				
Trading	**18,468**	**457**	18,766	217
Non-trading	**2,578**	**89**	7,739	63
	21,046	**546**	26,505	280
Equity contracts				
Trading	**2,037**	**27**	23	1
Non-trading	**–**	**–**	2,870	194
	2,037	**27**	2,893	195

Measurement and control of off-balance sheet financial instruments

The market risk exposure arising from derivative transactions is controlled within the risk limits set for the management of interest rate, foreign exchange and equity risk. In addition, the Group sets limits on the counterparty credit risk it is prepared to take on derivatives. Unlike loans or investments, credit risk on derivatives change over the life of the derivative contract with the movement in the underlying market rate. For example, in a pay-fixed, receive floating interest rate swap, the Group is exposed to credit risk when variable interest rates rise above the agreed fixed rate, as under such circumstances, it is due to receive payment from the counterparty. Where variable interest rates fall below the agreed fixed rate, the counterparty is exposed to the credit risk of the Group.

Credit risk on derivatives is measured using a simulation methodology that models the potential movement in value of the portfolio over the remaining period to maturity and assumes counterparty default in adverse circumstances for the Group. Counterparty netting and credit support agreements are used to mitigate the credit risk.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for on balance sheet lending, including counterparty credit approval, limit setting and monitoring procedures.

Report of the Directors

for the year ended 31 December 2002

The Directors of Allied Irish Banks, p.l.c. present their report and the audited accounts for the year ended 31 December 2002. A Statement of the Directors' responsibilities in relation to the Accounts appears on page 128.

Results

The Group profit attributable to the ordinary shareholders amounted to € 1,037 million and was arrived at as shown in the Consolidated Profit and Loss Account on pages 47 and 48.

Dividend

An interim dividend of EUR 17.25c per ordinary share, amounting to € 154 million, was paid on 27 September 2002. It is recommended that a final dividend of EUR 31.81c per ordinary share, amounting to € 283 million *(see Note 20)*, be paid on 25 April 2003, making a total distribution of EUR 49.06c per ordinary share for the year. The balance of profit to be transferred to the Profit and Loss Account amounts to € 563 million.

Capital

Information concerning allotments of shares under the Dividend Reinvestment Plan, the Approved Employees' Profit Sharing Schemes, the Allfirst Stock Option Plan and the Share Option Scheme is shown in Note 45 on pages 91 and 92.

At the 2002 Annual General Meeting, shareholders renewed authority for the Company, or any subsidiary, to make market purchases of up to 50 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution.

Accounting policies

The principal accounting policies adopted by the Group, together with information on changes therein, are set out on pages 42 to 46.

Review of activities

The Statement by the Chairman on pages 4 and 5 and the Review by the Group Chief Executive on pages 8 and 9 contain a review of the development of the business of the Group during the year, of recent events, and of likely future developments.

Directors

Mr Frank P Bramble retired as an Executive Director on 19 April 2002.

Mr Dermot Gleeson was appointed Deputy Chairman with effect from 8 October 2002.

Mr Colm Doherty and Mr Aidan McKeon were appointed Executive Directors with effect from 13 February 2003. In accordance with the Articles of Association, Mr Doherty and Mr McKeon retire at the 2003 Annual General Meeting and, being eligible, offer themselves for re-appointment.

Mr Adrian Burke, Mr Padraic M Fallon, Mr Don Godson and Mr Lochlann Quinn retire by rotation at the 2003 Annual General Meeting 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 55 on pages 112 to 114.

Substantial Interests in the Share Capital

The following substantial interest in the Ordinary Share Capital had been notified to the Company at 18 February 2003:

The Capital Group Companies, Inc.	4.84%

At the same date, subsidiaries of the Company had aggregate interests in 3.52% of the Ordinary Share Capital. With the exception of 5.6 million shares (0.6%) held by a subsidiary *(see Note 49)*, these shares represented non-beneficial interests. None of the clients for whom these shares and the shares of The Capital Group Companies, Inc. are held had a beneficial interest in 3% or more of the Ordinary Share Capital.

An analysis of shareholdings is shown on page 140.

Report of the Directors

for the year ended 31 December 2002

Corporate Governance

The Directors' Corporate Governance Statement appears on pages 37 to 40.

Books of Account

To secure compliance with the Company's obligation to keep proper books of account, the measures taken by the Directors are the use of appropriate systems and procedures, including those set out in the *Internal Control* section of the Corporate Governance Statement on pages 37 to 40, 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 77/78 and 134/135; 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 2002, particular emphasis was focused at the beginning of the year on health and safety issues arising from the handling and distribution of the new euro notes and coins, while later in the year the Company participated in European Safety Week, an EU initiative supported by the Health and Safety Authority.

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

KPMG, Chartered Accountants, were appointed Auditors during the year and have signified their willingness to continue in office under Section 160(2) of the Companies Act, 1963.

Lochlann Quinn
Chairman

Michael Buckley
Group Chief Executive

18 February 2003

Corporate Governance Statement

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

Directors

The Board

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

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

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

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

At 31 December, 2002, the Board comprised 10 Non-Executive Directors and 2 Executive Directors. On 13 February 2003 two additional Executive Directors were co-opted to the Board (see 'Report of the Directors' on page 35), bringing Board strength to 14, comprising 10 Non-Executive Directors and 4 Executive Directors. All Directors bring independent judgement to bear on issues of strategy, performance, resources, and standards of conduct. All Non-Executive Directors are considered to be independent of Management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Nevertheless, in compliance with a Code provision that there should be a designated senior independent Non-Executive director, other than the Chairman, to whom concerns can be conveyed, Mr Dermot Gleeson, Deputy Chairman, was so designated by the Board, with effect from 8 October, 2002. This designation does not preclude shareholders from conveying concerns to any of the other Non-Executive Directors, as was previously the position.

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

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

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

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

Directors are required to submit themselves for re-election every three years.

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-Executive Directors with the Group and its operations, and comprises principally a

Corporate Governance Statement

programme of meetings with the Heads of Divisions and the senior management of businesses and support functions, and briefings on the Company's strategic and operational plans. All Directors on appointment are furnished with a booklet entitled *'Responsibilities, Functions and Operations of the Board and Code of Conduct for Directors'*.

Board Committees

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

Audit Committee

Members: Mr Adrian Burke, Chairman, Mr Dermot Gleeson, Mr Derek A Higgs and Mr Michael J Sullivan.

The Audit Committee met on twelve occasions during 2002. The Auditors are invited to attend meetings of the Audit Committee, along with the Group Chief Executive, the Group Director, Finance & Enterprise Technology, the Deputy Head of Finance & Enterprise Technology, the Group Chief Risk Officer, the General Manager, Regulatory Compliance & Business Ethics, and the Group Internal Auditor. The Audit Committee reviews the Group's annual and interim accounts; the scope of the audit and the findings, conclusions and recommendations of the internal and external Auditors; reports on compliance, the nature and extent of non-audit services provided by the Auditors; and the effectiveness of internal controls. The Committee is responsible for ensuring the cost-effectiveness of the audit and for confirming the independence of the Auditors, the Group Internal Auditor, and the General Manager, Regulatory Compliance & Business Ethics, each of whom it meets separately at least once each year, in confidential session, in the absence of Management. Each of these parties has unrestricted access to the Chairman of the Audit Committee.

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

Nomination and Remuneration Committee

Members: Mr Lochlann Quinn, Chairman, Mr Dermot Gleeson (from 1 November 2002), Mr Derek A Higgs, Mr John B McGuckian, and Mr Jim O'Leary (from 1 June 2002).

The Nomination and Remuneration Committee met on five occasions during 2002. The Committee is responsible for recommending candidates to the Board for appointment as Directors. Its remit also includes, inter alia, recommending to the Board appropriate remuneration policies, and determining, under advice to the Board, the specific remuneration packages of the Executive Directors.

Social Affairs Committee

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

The Social Affairs Committee met on five occasions during 2002. Its role, as defined in guidelines approved by the Board, is to assist the Company in discharging its social responsibilities. This includes developing corporate-giving and sponsorship policies and reviewing responses to a range of social responsibility issues.

Directors' Remuneration

The Report on Directors' Remuneration and Interests appears on pages 109 to 114.

Relations with Shareholders

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

The Company also uses its internet website **(www.aibgroup.com)** to communicate with its shareholders. The Investor Relations section of the website is updated with the Company's Stock Exchange releases and formal presentations to analysts and investors, as they are made, so that such documents are available for review by shareholders. The site also contains the Company's most recent Annual and Interim Reports, together with the Annual Report on Form 20-F when filed with the US Securities and Exchange Commission. Since August 2001, shareholders have been offered the facility of accessing the Annual Report and Accounts on AIB's internet website, instead of receiving them by post.

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

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

In accordance with company law, the Notice of the AGM and related papers are required to be sent to shareholders not less than 21 days before the Meeting. The Code suggests that these papers should be sent to shareholders 'at least 20 working days before the meeting'. In respect of the 2003 AGM, it is intended that the Notice and related papers will be despatched 28 calendar days and 20 working days before the Meeting.

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

Accountability and Audit

Accounts and Directors' Responsibilities

The Accounts and other information presented in this Report and Accounts are consistent with the Code Principle requiring the presentation of 'a balanced and understandable assessment of the Company's position and prospects'. The Statement concerning the responsibilities of the Directors in relation to the Accounts appears on page 128.

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 2003.

Internal Control

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

AIB

Corporate Governance Statement

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 General Manager, Regulatory Compliance & Business Ethics reports independently to the Audit Committee on the compliance framework across the Group and on Management's attention to compliance matters;
- the Audit Committee, which receives reports on various aspects of control, reviews the Group's statutory Accounts and other published financial statements and information, and ensures that no restrictions are placed on the scope of the statutory audit or on the independence of the Internal Audit function. The Audit Committee reports to the Board on these matters, compliance with relevant laws and regulations, and related matters;
- appropriate policies and procedures relating to capital management, asset and liability management (including interest rate risk, exchange rate risk and liquidity management), credit risk management, and operational risk management; independent testing of the risk management and control framework is undertaken by the Internal Audit function;
- the Group Risk function is responsible for ensuring that risks are identified, assessed and managed throughout the Group;
- regular review by the Board of overall strategy, business plans, variances against operating and capital budgets and other performance data.

The above-mentioned Guidance provides that the Board should summarise the process it (either directly or, where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control. The Group's structure and on-going processes for identifying, evaluating and managing the significant credit, market and operational risks faced by the Group are described in pages 28 to 34. Those processes are regularly reviewed by the Board, and accord with the above-mentioned Guidance.

The Code provides that the Directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to the shareholders that they have done so. The Directors confirm that, with the assistance of reports from the Audit Committee and Management, they have reviewed the effectiveness of the Group's system of internal control for the year ended 31 December 2002.

Compliance Statement

The Company was in full compliance at 31 December 2002 with the Provisions of the Code, having designated a Senior Independent Non-Executive Director in October 2002, as indicated above.

Financial contents

Accounting policies

Accounting convention

The accounts on pages 47 to 127 have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments held for dealing purposes, assets held in the long-term assurance business and certain properties. The accounts comply with the requirements of Irish statute comprising the Companies Acts 1963 to 2001 and the European Communities (Credit Institutions: Accounts) Regulations, 1992, and with applicable accounting standards issued by the Accounting Standards Board, pronouncements of the Urgent Issues Task Force, and with the Statements of Recommended Practice issued by the British Bankers' Association and the Irish Bankers' Federation. The preparation of accounts requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates.

The effect on the Group's consolidated net income and ordinary shareholders' equity had US Generally Accepted Accounting Principles ('US GAAP') been applied in the preparation of these accounts is set out in note 64.

Change in accounting policy and presentation of financial information

(a) Deferred taxation

The Group has adopted Financial Reporting Standard ('FRS') 19 'Deferred Tax' in the preparation of its accounts for the year ended 31 December 2002. Previously it was Group policy to provide deferred tax where there was a reasonable probability that the deferred tax asset or liability would crystallise in the foreseeable future. Under FRS 19, deferred tax is recognised on all timing differences. The change in policy did not have a material impact on the results for each of the years ended 31 December 2002, 2001 and 2000. Under FRS 19, deferred tax assets and liabilities are required to be disclosed separately on the face of the balance sheet. Comparative figures have been restated.

(b) Change in presentation of financial information

The Group has implemented UITF 33 - 'Obligations in Capital Instruments' in the preparation of its accounts for the year ended 31 December 2002 and comparative figures have been restated.

Under UITF 33 the € 500m 7.5% Step-Up Callable Perpetual Reserve Capital Instruments (RCIs), which were issued during 2001, are treated as a subordinated liability rather than shareholders' funds. The related interest cost is included within interest expense whereas previously the amount was included in 'Dividends on non-equity shares'. The effect on 2001 is to reduce net interest income and Group profit before taxation and exceptional items by € 35 million. Dividends on non-equity shares reduced by € 35 million and the impact on profit attributable was neutral.

Funded retirement benefit schemes in surplus are now shown as assets on the balance sheet while funded retirement benefit schemes in deficit together with unfunded schemes are shown on the balance sheet as liabilities. Previously these would have been presented as a net figure.

(c) Comparative amounts

Comparative amounts have been reclassified to accord with the presentation of information in the accounts for 2002.

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 32.

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 book value of the net assets of the undertakings concerned, less provisions for any impairment in value. Goodwill arising on the acquisitions of associates occuring 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 on an accruals basis. Fees which, in effect, increase the yield on transactions are spread over the lives of the underlying transactions on a level yield basis. Fees and commissions received for services provided are recognised when earned. Expenses are, in general, charged to profit and loss account as accrued. However, in some cases, expenses incurred in the setting up of transactions are deferred and are charged to profit and loss account over the lives of the transactions.

Provisions for bad and doubtful debts

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 27)*.

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.

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

Finance leases

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership. Finance lease receivables are stated in the balance sheet at the cost of 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 instalment 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 instalment credit agreements are taken to profit and loss account by the sum of the digits method over the period of the agreements after deducting the costs of setting up the transactions.

Securitised assets

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

Operating leases

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

Tangible fixed assets

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 instalments 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. Expenditure incurred to date amounting to € 83 million on the development of computer systems has been capitalised and included under equipment. This expenditure is written off over a maximum period of 5 years and to date € 24 million 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 41)*.

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 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.

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. 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 review in accordance with FRS 11, 'Impairment of Fixed Assets and Goodwill'.

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 48)* 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 held within certain Employee Share Trusts are recognised as assets on the balance sheet of the Group in accordance with UITF Abstract 13 'Accounting for ESOP trusts'.

Where shares have been 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. In accordance with UITF Abstract 13, dividend income received by the schemes is excluded in arriving at profit before taxation, and dividends on equity shares is reduced accordingly. In addition, shares held by the trusts 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 51)*. 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. Assets and liabilities arising are reported gross in other assets or liabilities reduced by the effects of qualifying netting agreements where the Group has the right to insist on net settlement that would survive the insolvency of the counterparty. 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. 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.

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.

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 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.

Critical accounting policies

AIB's financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties and investments and comply with Irish statute and with Irish Generally Accepted Accounting Principles as well as general practices followed by the financial services industry in Ireland and the UK. 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, profit and cashflows. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results.

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

In addition, 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 life of 20 years was used. The application of other accounting policies, including measuring the shareholders' interest in the Long-term assurance fund, impairment, debt securities and equity shares, retirement benefits and derivatives, require the use of estimation techniques that involve making assumptions about future market conditions which could impact on the timing and amounts recognised in the consolidated profit and loss account and the consolidated balance sheet.

Consolidated profit and loss account

for the year ended 31 December 2002

	Notes	**2002** **€ m**	2001 Restated[1] € m	2000 € m
Interest receivable:				
Interest receivable and similar income arising from				
debt securities and other fixed income securities		**946**	1,198	1,140
Other interest receivable and similar income	4	**3,807**	4,148	3,987
Less: interest payable	5	**(2,402)**	(3,088)	(3,105)
Deposit interest retention tax	6	**–**	–	(113)
Net interest income		**2,351**	2,258	1,909
Other finance income	7	**62**	67	71
Dividend income	8	**14**	11	6
Fees and commissions receivable		**1,301**	1,258	1,101
Less: fees and commissions payable		**(138)**	(128)	(108)
Dealing profits	9(a)	**77**	92	103
Exceptional foreign exchange dealing losses	9(b)	**–**	(789)	–
Other operating income	10	**263**	193	202
Other income		**1,517**	637	1,304
Total operating income		**3,930**	2,962	3,284
Before exceptional items		**3,930**	3,751	3,397
Exceptional foreign exchange dealing losses	9(b)	**–**	(789)	–
Deposit interest retention tax	6	**–**	–	(113)
Administrative expenses:				
Staff and other administrative expenses	11(a)	**2,098**	2,051	1,826
Restructuring and integration costs in continuing businesses	11(b)	**13**	38	–
		2,111	2,089	1,826
Depreciation and amortisation	12	**207**	195	171
Total operating expenses		**2,318**	2,284	1,997
Group operating profit before provisions		**1,612**	678	1,287
Before exceptional items		**1,612**	1,467	1,400
Exceptional foreign exchange dealing losses	9(b)	**–**	(789)	–
Deposit interest retention tax	6	**–**	–	(113)
Provisions for bad and doubtful debts	27	**194**	179	133
Provisions for contingent liabilities and commitments		**2**	19	2
Amounts written off/(written back) fixed asset investments	13	**55**	6	(1)
Group operating profit – continuing activities		**1,361**	474	1,153
Before exceptional items		**1,361**	1,263	1,266
Exceptional foreign exchange dealing losses	9(b)	**–**	(789)	–
Deposit interest retention tax	6	**–**	–	(113)
Income from associated undertakings		**9**	4	3
Profit on disposal of property		**5**	6	5
Profit on disposal of business	15	**–**	93	–
Group profit on ordinary activities before taxation ***(carried forward)***		**1,375**	577	1,161
Before exceptional items		**1,375**	1,366	1,274
Exceptional foreign exchange dealing losses	9(b)	**–**	(789)	–
Deposit interest retention tax	6	**–**	–	(113)

Consolidated profit and loss account *(continued)*

for the year ended 31 December 2002

	Notes	**2002** **€ m**	2001 Restated[1] € m	2000 € m
Group profit on ordinary activities before taxation *(brought forward)*		**1,375**	577	1,161
Taxation on ordinary activities	17	**306**	55	319
Group profit on ordinary activities after taxation		**1,069**	522	842
Equity and non-equity minority interests in subsidiaries	18	**24**	23	38
Dividends on non-equity shares	19	**8**	15	20
		32	38	58
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.		**1,037**	484	784
Dividends on equity shares	20	**429**	380	335
Transfer to reserves	47	**45**	63	70
		474	443	405
Profit retained	21&48	**563**	41	379
Earnings per € 0.32 ordinary share – basic	22(a)	**119.4c**	56.2c	91.6c
Earnings per € 0.32 ordinary share – adjusted	22(b)	**123.0c**	119.4c	106.7c
Earnings per € 0.32 ordinary share – diluted	22(c)	**118.2c**	55.9c	91.0c

[1] *The figures for 2001 have been restated to reflect the interest cost of the Reserve Capital Instruments as interest expense rather than 'Dividends on non-equity shares' in accordance with UITF 33.*

L Quinn, 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 48.

Consolidated balance sheet

31 December 2002

	Notes	2002 € m	2001 € m
Assets			
Cash and balances at central banks		**1,176**	1,175
Items in course of collection		**1,171**	1,536
Central government bills and other eligible bills	23	**24**	49
Loans and advances to banks	24	**4,788**	6,047
Loans and advances to customers	25	**53,447**	51,216
Securitised assets		**1,002**	1,099
Less: non-returnable proceeds		**(754)**	(917)
	28	**248**	182
Debt securities	29	**18,204**	20,082
Equity shares	30	**246**	332
Interests in associated undertakings	31	**31**	10
Intangible fixed assets	33	**457**	495
Tangible fixed assets	34	**1,178**	1,305
Own shares	35	**176**	245
Other assets		**1,153**	1,260
Deferred taxation	36	**245**	417
Prepayments and accrued income		**927**	2,080
Pension assets	14	**–**	372
Long-term assurance business attributable to shareholders	37	**352**	304
		83,823	87,107
Long-term assurance assets attributable to policyholders	37	**2,226**	2,252
		86,049	89,359
Liabilities			
Deposits by banks	38	**16,137**	13,223
Customer accounts	39	**52,976**	54,557
Debt securities in issue	40	**3,077**	5,033
Other liabilities	41	**2,591**	3,272
Accruals and deferred income		**829**	2,159
Pension liabilities	14	**537**	117
Provisions for liabilities and charges	42	**60**	71
Deferred taxation	36	**527**	717
Subordinated liabilities	43	**2,172**	2,516
Equity and non-equity minority interests in subsidiaries	44	**274**	312
Share capital	45	**293**	291
Share premium account	46	**1,918**	1,926
Reserves	47	**490**	463
Profit and loss account	48	**1,942**	2,450
Shareholders' funds including non-equity interests		**4,643**	5,130
		83,823	87,107
Long-term assurance liabilities to policyholders	37	**2,226**	2,252
		86,049	89,359
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**72**	142
Guarantees and assets pledged as collateral security		**5,292**	5,245
Other contingent liabilities		**1,027**	1,125
	50	**6,391**	6,512
Commitments:			
Commitments arising out of sale and option to resell transactions		**2,062**	402
Other commitments		**17,890**	18,597
	50	**19,952**	18,999

L Quinn, 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 2002

	Notes	2002 € m	2001 € m
Assets			
Cash and balances at central banks		**571**	455
Items in course of collection		**144**	227
Central government bills and other eligible bills	23	**4**	7
Loans and advances to banks	24	**13,520**	11,586
Loans and advances to customers	25	**28,904**	25,496
Debt securities	29	**13,371**	13,625
Equity shares	30	**16**	18
Shares in Group undertakings	32	**1,327**	1,534
Tangible fixed assets	34	**526**	562
Other assets		**350**	361
Deferred taxation	36	**40**	57
Prepayments and accrued income		**867**	1,805
Pension assets		**–**	358
		59,640	56,091
Liabilities			
Deposits by banks	38	**25,163**	21,858
Customer accounts	39	**26,080**	24,335
Debt securities in issue	40	**1,935**	1,893
Other liabilities	41	**897**	800
Accruals and deferred income		**758**	1,781
Pension liabilities		**258**	14
Provisions for liabilities and charges	42	**22**	28
Deferred taxation	36	**4**	2
Subordinated liabilities	43	**1,604**	1,726
Share capital	45	**293**	291
Share premium account	46	**1,918**	1,926
Reserves	47	**116**	132
Profit and loss account	48	**592**	1,305
Shareholders' funds including non-equity interests		**2,919**	3,654
		59,640	56,091
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**54**	96
Guarantees and assets pledged as collateral security		**3,455**	3,266
Other contingent liabilities		**558**	549
	50	**4,067**	3,911
Commitments:			
Other commitments	50	**8,624**	7,734

L Quinn, 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 2002

	Notes	**2002** **€ m**	2001 Restated € m	2000 € m
Net cash (outflow)/inflow from operating activities		**(121)**	231	2,433
Dividends received from associated undertakings		**1**	4	–
Returns on investments and servicing of finance	54(a)	**(138)**	(131)	(184)
Equity dividends paid		**(345)**	(334)	(228)
Taxation	54(b)	**(280)**	(242)	(199)
Capital expenditure and financial investment	54(c)	**1,379**	700	(3,004)
Acquisitions and disposals	54(d)	**(5)**	(59)	2
Financing	54(e)	**(129)**	208	164
Increase/(decrease) in cash	54(f)	**362**	377	(1,016)

Reconciliation of Group operating profit to net cash (outflow)/inflow from operating activities	**2002** **€ m**	2001 Restated € m	2000 € m
Group operating profit	**1,361**	474	1,153
Decrease/(increase) in prepayments and accrued income	**1,162**	(199)	(607)
(Decrease)/increase in accruals and deferred income	**(1,191)**	429	355
Provisions for bad and doubtful debts	**194**	179	133
Provisions for contingent liabilities and commitments	**2**	19	2
Amounts written off/(written back) fixed asset investments	**55**	6	(1)
Increase in other provisions	**16**	19	11
Depreciation and amortisation	**207**	202	171
Amortisation of own shares	**–**	2	1
Profit on disposal of business	**–**	93	–
Interest on subordinated liabilities	**83**	133	155
Interest on reserve capital instruments	**38**	35	–
Profit on disposal of debt securities and equity shares	**(117)**	(21)	(23)
Averaged gains on debt securities held for hedging purposes	**(4)**	(24)	(16)
Profit on disposal of associated undertakings	**(1)**	(1)	(5)
Amortisation of discounts on debt securities held as financial fixed assets	**(15)**	(7)	(2)
Increase in long-term assurance business	**(48)**	(66)	(72)
Net cash inflow from trading activities	**1,742**	1,273	1,255
Net increase in deposits by banks	**3,975**	452	3,621
Net increase in customer accounts	**2,299**	4,647	4,854
Net increase in loans and advances to customers	**(6,129)**	(4,281)	(5,812)
Net decrease/(increase) in loans and advances to banks	**982**	(1,588)	(1,015)
Decrease in central government bills	**18**	274	445
Net increase in debt securities and equity shares held for trading purposes	**(1,180)**	(1,394)	(710)
Net decrease/(increase) in items in course of collection	**174**	(374)	(160)
Net (decrease)/increase in debt securities in issue	**(1,425)**	533	(266)
Net (decrease)/increase in notes in circulation	**(3)**	44	23
(Increase)/decrease in other assets	**(28)**	460	(595)
(Decrease)/increase in other liabilities	**(521)**	279	674
Effect of exchange translation and other adjustments	**(25)**	(94)	119
	(1,863)	(1,042)	1,178
Net cash (outflow)/inflow from operating activities	**(121)**	231	2,433

Statement of total recognised gains and losses

	2002 € m	2001 € m	2000 € m
Group profit attributable to the ordinary shareholders	**1,037**	484	784
Currency translation differences on foreign currency net investments	**(341)**	145	130
Actuarial loss recognised in retirement benefit schemes *(note 14)*	**(823)**	(402)	(201)
Prior year adjustment *(note 14(b))*	**–**	648	–
Total recognised (losses)/gains relating to the year	**(127)**	875	713

Reconciliation of movements in shareholders' funds

	2002 € m	2001 € m	2000 € m
Group profit attributable to the ordinary shareholders	**1,037**	484	784
Dividends on equity shares	**429**	380	335
	608	104	449
Other recognised (losses)/gains relating to the year	**(387)**	160	150
Actuarial loss recognised in retirement benefit schemes *(note 14)*	**(823)**	(402)	(201)
New ordinary share capital subscribed	**39**	37	27
Ordinary shares issued in lieu of cash dividend	**76**	23	78
Net (deduction from)/addition to shareholders' funds	**(487)**	(78)	503
Opening shareholders' funds	**5,130**	5,208	4,705
Closing shareholders' funds	**4,643**	5,130	5,208
Shareholders' funds:			
Equity interests	**4,408**	4,851	4,944
Non-equity interests	**235**	279	264
	4,643	5,130	5,208

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

It was announced on 26 September 2002 that AIB is entering into a strategic relationship with M&T Bank Corporation ('M&T') whereby AIB's US subsidiary, Allfirst, will be acquired by M&T. As a result of the transaction, AIB will acquire a strategic shareholding of 26.7 million M&T shares, representing a stake of approximately 22.5% in the enlarged M&T. AIB will also receive US$ 886m in cash.

The transaction, which is expected to be completed by the end of the first quarter of 2003, is subject to regulatory approvals. Shareholders of both M&T and AIB approved the transaction in December 2002.

The transaction has no impact on the accounts of AIB for 2002. The transaction will be 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 the existing M&T. Under this approach, the 22.5% of Allfirst that is owned by AIB, both directly before the transaction and indirectly thereafter, is treated as being owned throughout the transaction. The transaction will give rise to a gain, which will be recognised on completion.

The 2003 accounts will also reflect the income and expenses of Allfirst for the period during which it remains a 100% subsidiary of the Group. Following completion of the transaction, the Group will account for its investment in the enlarged M&T as an associated undertaking. The Group will include its share of the profits of the enlarged M&T in the Group profit and loss account within the caption 'Income from associated undertakings'. AIB will also account for its 22.5% share of the costs associated with the merger, calculated in accordance with Irish GAAP.

2 Turnover

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

3 Segmental information	**2002 € m**	2001 € m	2000 € m
Operations by business segments[1]			
Net interest income[2]			
AIB Bank ROI	**921**	843	738
AIB Bank GB & NI	**363**	336	318
USA	**549**	584	537
Capital Markets	**271**	210	127
Poland	**272**	275	252
Group	**(25)**	10	50
	2,351	2,258	2,022
Deposit interest retention tax	**–**	–	(113)
	2,351	2,258	1,909
Other finance income			
AIB Bank ROI	**40**	43	46
AIB Bank GB & NI	**(1)**	3	4
USA	**(2)**	2	4
Capital Markets	**7**	8	8
Poland	**–**	–	1
Group	**18**	11	8
	62	67	71
Other income			
AIB Bank ROI	**353**	359	357
AIB Bank GB & NI	**166**	161	151
USA	**528**	446	381
Capital Markets	**282**	305	304
Poland	**188**	163	153
Group	**–**	(8)	(42)
	1,517	1,426	1,304
Exceptional foreign exchange dealing losses	**–**	(789)	–
	1,517	637	1,304

3 Segmental information *(continued)*	**2002 € m**	2001 € m	2000 € m
Operations by business segments[1]			
Total operating income			
AIB Bank ROI	**1,314**	1,245	1,141
AIB Bank GB & NI	**528**	500	473
USA	**1,075**	1,032	922
Capital Markets	**560**	523	439
Poland	**460**	438	406
Group	**(7)**	13	16
	3,930	3,751	3,397
Exceptional foreign exchange dealing losses	**–**	(789)	–
Deposit interest retention tax	**–**	–	(113)
	3,930	2,962	3,284
Total operating expenses			
AIB Bank ROI	**677**	641	593
AIB Bank GB & NI	**266**	259	248
USA	**668**	638	554
Capital Markets	**300**	296	265
Poland	**351**	396	296
Group	**56**	54	41
	2,318	2,284	1,997
Provisions			
AIB Bank ROI	**55**	44	36
AIB Bank GB & NI	**22**	19	20
USA	**98**	39	38
Capital Markets	**60**	38	18
Poland	**46**	9	23
Group	**(30)**	55	(1)
	251	204	134
Group profit on ordinary activities before taxation[2]			
AIB Bank ROI	**590**	562	516
AIB Bank GB & NI	**240**	223	205
USA	**308**	355	330
Capital Markets	**209**	194	159
Poland	**61**	36	88
Group	**(33)**	(4)	(24)
	1,375	1,366	1,274
Exceptional foreign exchange dealing losses	**–**	(789)	–
Deposit interest retention tax	**–**	–	(113)
	1,375	577	1,161

3 Segmental information *(continued)*

	2002 € m	2001 € m	2000 € m
Operations by business segments[1]			
Total loans			
AIB Bank ROI	**21,367**	17,797	15,669
AIB Bank GB & NI	**8,967**	7,784	7,443
USA	**12,286**	14,586	12,995
Capital Markets	**12,247**	12,535	10,386
Poland	**3,473**	4,646	3,645
Group	**143**	97	101
	58,483	57,445	50,239
Total deposits			
AIB Bank ROI	**22,522**	21,016	18,609
AIB Bank GB & NI	**7,449**	7,015	6,410
USA	**12,823**	17,226	15,941
Capital Markets	**24,250**	21,472	19,271
Poland	**5,014**	5,968	4,897
Group	**132**	116	82
	72,190	72,813	65,210
Total assets			
AIB Bank ROI	**27,239**	23,512	21,333
AIB Bank GB & NI	**10,161**	8,993	8,507
USA	**17,234**	22,427	20,538
Capital Markets	**25,026**	26,881	23,635
Poland	**6,261**	7,340	6,129
Group	**128**	206	401
	86,049	89,359	80,543
Total risk weighted assets			
AIB Bank ROI	**18,821**	15,987	14,302
AIB Bank GB & NI	**8,666**	7,542	6,789
USA	**19,234**	22,403	20,318
Capital Markets	**18,599**	18,821	14,879
Poland	**3,662**	4,105	3,655
Group	**257**	–	279
	69,239	68,858	60,222
Net assets			
AIB Bank ROI	**1,198**	1,126	1,174
AIB Bank GB & NI	**552**	532	557
USA	**1,225**	1,578	1,668
Capital Markets	**1,184**	1,326	1,222
Poland	**233**	289	300
Group	**16**	–	23
	4,408	4,851	4,944

[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.

3 Segmental information *(continued)*	**2002 € m**	2001 € m	2000 € m
Operations by geographical segments[3]			
Interest income			
Republic of Ireland	**2,020**	2,089	1,951
United States of America	**984**	1,254	1,359
United Kingdom	**1,002**	1,000	1,059
Poland	**747**	1,001	756
Rest of the world	**–**	2	2
	4,753	5,346	5,127
Other finance income			
Republic of Ireland	**62**	60	62
United States of America	**(2)**	2	4
United Kingdom	**2**	5	5
Poland	**–**	–	–
Rest of the world	**–**	–	–
	62	67	71
Dividend income			
Republic of Ireland	**4**	4	1
United States of America	**4**	5	–
United Kingdom	**1**	–	–
Poland	**5**	1	4
Rest of the world	**–**	1	1
	14	11	6
Fees and commissions receivable			
Republic of Ireland	**446**	457	428
United States of America	**462**	433	355
United Kingdom	**236**	225	207
Poland	**155**	142	109
Rest of the world	**2**	1	2
	1,301	1,258	1,101
Dealing profits/(losses)			
Republic of Ireland	**63**	62	25
United States of America	**(11)**	16	2
United Kingdom	**24**	12	44
Poland	**1**	2	32
Rest of the world	**–**	–	–
	77	92	103
Exceptional foreign exchange dealing losses	**–**	(789)	–
	77	(697)	103
Other operating income			
Republic of Ireland	**79**	110	121
United States of America	**120**	13	37
United Kingdom	**11**	30	20
Poland	**53**	44	24
Rest of the world	**–**	(4)	–
	263	193	202

3 Segmental information *(continued)*	**2002 € m**	2001 € m	2000 € m
Operations by geographical segments[3]			
Gross income			
Republic of Ireland	**2,674**	2,782	2,588
United States of America	**1,557**	1,723	1,757
United Kingdom	**1,276**	1,272	1,335
Poland	**961**	1,190	925
Rest of the world	**2**	–	5
	6,470	6,967	6,610
Exceptional foreign exchange dealing losses	**–**	(789)	–
	6,470	6,178	6,610
Total operating expenses			
Republic of Ireland	**924**	885	801
United States of America	**676**	653	569
United Kingdom	**363**	350	332
Poland	**351**	393	292
Rest of the world	**4**	3	3
	2,318	2,284	1,997
Provisions			
Republic of Ireland	**71**	132	51
United States of America	**109**	44	38
United Kingdom	**25**	19	23
Poland	**47**	9	23
Rest of the world	**(1)**	–	(1)
	251	204	134
Group profit on ordinary activities before taxation[2]			
Republic of Ireland	**675**	527	577
United States of America	**330**	358	301
United Kingdom	**303**	333	286
Poland	**67**	55	106
Rest of the world	**–**	93	4
	1,375	1,366	1,274
Exceptional foreign exchange dealing losses	**–**	(789)	–
Deposit interest retention tax	**–**	–	(113)
	1,375	577	1,161
Total loans			
Republic of Ireland	**29,899**	27,224	24,027
United States of America	**12,594**	14,665	13,018
United Kingdom	**12,516**	10,899	9,545
Poland	**3,473**	4,646	3,645
Rest of the world	**1**	11	4
	58,483	57,445	50,239

3 Segmental information *(continued)*	**2002 € m**	2001 € m	2000 € m
Operations by geographical segments(3)			
Total deposits			
Republic of Ireland	**37,944**	33,062	29,055
United States of America	**14,453**	19,078	17,585
United Kingdom	**14,779**	14,705	13,672
Poland	**5,014**	5,968	4,897
Rest of the world	**–**	–	1
	72,190	72,813	65,210
Total assets			
Republic of Ireland	**45,205**	42,148	36,956
United States of America	**17,798**	22,672	21,020
United Kingdom	**16,774**	17,184	16,191
Poland	**6,271**	7,343	6,128
Rest of the world	**1**	12	248
	86,049	89,359	80,543
Net assets			
Republic of Ireland	**1,975**	2,245	2,009
United States of America	**1,243**	1,257	1,700
United Kingdom	**944**	1,029	914
Poland	**246**	320	300
Rest of the world	**–**	–	21
	4,408	4,851	4,944

(2)The figures for 2001 have been restated to reflect the interest cost of the Reserve Capital Instruments as interest expense rather than 'Dividends on non-equity shares'.

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

Assets by segment

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

4 Other interest receivable and similar income	**2002 € m**	2001 € m	2000 € m
Interest on loans and advances to banks	**196**	255	238
Interest on loans and advances to customers	**3,423**	3,684	3,544
Income from leasing and hire purchase contracts	**188**	209	205
	3,807	4,148	3,987
Income from leasing and hire purchase contracts has been accounted for as follows:			
Investment period method	**119**	134	135
Sum of the digits method	**69**	75	70
	188	209	205

The aggregate rentals receivable from leasing contracts was € 505m (2001: € 501m).

5 Interest payable	**2002** **€ m**	2001 Restated € m	2000 € m
Interest on deposits by banks and customer accounts	**2,178**	2,744	2,701
Interest on debt securities in issue	**103**	176	249
Interest on subordinated liabilities	**83**	133	155
Interest on reserve capital instruments	**38**	35	–
	2,402	3,088	3,105

6 Deposit interest retention tax ('DIRT')

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

7 Other finance income

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

A description of the retirement benefit schemes operated by the Group is provided in note 14.

8 Dividend income

The dividend income relates to income from equity shares.

9 Dealing profits

(a) Dealing profits (before exceptional losses)	**2002** **€ m**	2001 € m	2000 € m
Foreign exchange contracts	**78**	75	69
Profits less losses from securities held for trading purposes	**10**	2	42
Interest rate contracts	**(11)**	15	(8)
	77	92	103

Dealing profits is a term prescribed by the European Communities (Credit Institutions: Accounts) Regulations, 1992. Dealing profits reflects trading income and excludes interest payable and receivable arising from these activities. Staff and other administrative expenses arising from trading activities are not included here but are included under the appropriate heading within administrative expenses *(note 11(a))*.

(b) Exceptional foreign exchange dealing losses

AIB accounted for the losses arising from the fraudulent foreign exchange trading activities at Allfirst Bank ('Fraud Losses') by way of an exceptional pre-tax charge of € 789m (of which € 341m related to prior periods) in its accounts for the year ended 31 December 2001. The losses occurred over a number of years as follows:- 2002: US$ 17.2m; 2001: US$ 373.3m; 2000: US$ 211.0m; 1999: US$ 48.2m; 1998: US$ 12.4m; and 1997: US$ 29.1m.

The Group profit attributable to the ordinary shareholders of € 1,037m, for the year ended 31 December 2002, would reduce to € 1,019m if the Fraud Losses and associated costs which were charged in 2001 as part of the exceptional item, were taken into account.

Treatment of exceptional foreign exchange dealing losses for US reporting purposes

For US reporting purposes, the Fraud Losses are required to be charged in the years in which they occurred. Accordingly in Note 64 - Supplementary Group financial information for US reporting purposes, the Group profit attributable to stockholders of AIB is restated to reflect the Fraud Losses and associated costs in the periods in which they occurred.

10 Other operating income	**2002 € m**	2001 € m	2000 € m
Profit/(loss) on disposal of debt securities held for investment purposes	**106**	24	(1)
Profit on disposal of investments in associated undertakings	**1**	1	5
Profit/(loss) on disposal of equity shares	**11**	(3)	24
Contribution of life assurance company *(note 37)*	**57**	84	95
Contribution from securitised assets *(note 28)*	**4**	5	4
Mortgage origination and servicing income	**7**	10	3
Miscellaneous operating income	**77**	72	72
	263	193	202

11 Administrative expenses

(a) Staff and other administrative expenses	**2002 € m**	2001 € m	2000 € m
Staff costs:			
Wages and salaries	**1,097**	1,066	934
Social security costs	**105**	104	85
Retirement benefits service costs *(note 14)*	**122**	106	113
Other staff costs	**67**	72	60
	1,391	1,348	1,192
Other administrative expenses	**707**	703	634
	2,098	2,051	1,826

(b) Restructuring and integration costs in continuing businesses

Allfirst Financial Inc.

Allfirst introduced an early retirement program in August 2002 for certain qualifying employees which provided additional service credits for those employees who retired on 1 December 2002. The charge of € 13m in 2002 relates to the cost of the enhanced benefits that were provided to the employees who retired. This also forms part of the retirement benefit past service cost in note 14.

Bank Zachodni WBK S.A.

On 13 June 2001, Bank Zachodni S.A. (Group interest 83.01%) merged with Wielkopolski Bank Kredytowy S.A. (Group interest 60.14%) through a share for share offering. The enlarged company, now called Bank Zachodni WBK S.A. (Group interest 70.47%), is listed on the Warsaw stock exchange. The charge of € 38m in 2001 relates to the costs of integration of the two businesses.

12 Depreciation and amortisation	**2002 € m**	2001 € m	2000 € m
Depreciation of tangible fixed assets:			
Property depreciation	**37**	37	32
Equipment depreciation	**138**	127	113
	175	164	145
Amortisation of goodwill *(note 33)*	**32**	31	26
	207	195	171

13 Amounts written off/(written back) fixed asset investments	**2002 € m**	2001 € m	2000 € m
Debt securities	**19**	6	(1)
Equity shares	**36**	(1)	–
Interests in associated undertakings	**–**	1	–
	55	6	(1)

14 Retirement benefits

(a) Description of retirement benefit schemes

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

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

Independent actuarial valuations, for the main Irish and UK schemes, are carried out on a triennial basis. The last such valuation was carried out on 1 January 2001 using the Projected Unit Method. The schemes are funded and contribution rates of 10.0% and 22.6% have been set for the Irish and UK schemes respectively. As both these schemes are closed to new entrants, under the Projected Unit Method, the current service cost and the standard contribution rates will increase as members of the schemes approach retirement. Independent actuarial valuations of the US schemes are carried out annually. The last such valuation was carried out on 31 December 2002 using the Projected Unit Method. The actuarial valuations are available for inspection only to the members of the schemes.

The following table summarises the financial assumptions adopted in respect of the main schemes. 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	**2002 %**	2001 %	2000 %
Irish scheme			
Rate of increase in salaries	**4.0**	4.0	4.0
Rate of increase of pensions in payment	**2.5**	2.5	2.5
Discount rate	**5.60**	5.75	5.75
Inflation assumptions	**2.5**	2.5	2.5
UK scheme			
Rate of increase in salaries	**4.0**	4.0	4.0
Rate of increase of pensions in payment	**2.5**	2.5	2.5
Discount rate	**5.75**	6.00	6.00
Inflation assumptions	**2.5**	2.5	2.5
US scheme			
Rate of increase in salaries	**4.5**	4.5	4.0
Rate of increase of pensions in payment	**–**	–	–
Discount rate	**6.51**	6.94	7.47
Inflation assumptions	**3.0**	3.0	3.0

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 2002		as at 31 December 2001		as at 31 December 2000	
	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	**9.0**	**1,490**	8.6	2,138	7.4	2,280
Bonds	**5.2**	**333**	5.6	391	5.9	443
Other	**6.3**	**346**	4.9	373	5.1	407
Total market value of assets	**8.0**	**2,169**	7.7	2,902	6.9	3,130
Actuarial value of liabilities		**(2,879)**		(2,645)		(2,403)
(Deficit)/surplus in the schemes		**(710)**		257		727
Related deferred tax asset/(liability)		**173**		(2)		(102)
Net pension (liability)/asset		**(537)**		255		625

14 Retirement benefits *(continued)*

The net pension (liability)/asset is recognised on the balance sheet as follows:-

	as at 31 December		
	2002 € m	2001 € m	2000 € m
Funded pension schemes in surplus	**–**	372	671
Funded pension schemes in deficit	**(482)**	(58)	–
Unfunded schemes	**(55)**	(59)	(46)
	(537)	255	625

Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to € 105,992 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 2002, 2001 and 2000.

	2002 € m	2001 € m	2000 € m
Other finance income			
Expected return on pension scheme assets	**220**	213	203
Interest on pension scheme liabilities	**(158)**	(146)	(132)
	62	67	71
Included within administrative expenses			
Current service cost	**86**	79	75
Past service cost	**22**	5	21
	108	84	96
Cost of providing defined retirement benefits	**46**	17	25

Analysis of the amount recognised in STRGL	**2002 € m**	2001 € m	2000 € m
Actual return less expected return on pension scheme assets	**(862)**	(438)	(158)
Experience gains and losses on scheme liabilities	**(18)**	(32)	(72)
Changes in demographic and financial assumptions	**(123)**	(32)	(18)
Actuarial loss recognised under FRS 17	**(1,003)**	(502)	(248)
Deferred tax	**180**	100	47
Recognised in STRGL	**(823)**	(402)	(201)

Movement in (deficit)/surplus during the year	**2002 € m**	2001 € m	2000 € m
Surplus in scheme at beginning of year	**257**	727	946
Movement in year:			
Current service cost	**(86)**	(79)	(75)
Past service cost	**(22)**	(5)	(21)
Contributions	**50**	50	47
Other finance income	**62**	67	71
Actuarial loss recognised under FRS 17	**(1,003)**	(502)	(248)
Translation adjustment	**32**	(1)	7
(Deficit)/surplus in scheme at end of year	**(710)**	257	727

14 Retirement benefits *(continued)*

History of experience gains and losses	**2002 € m**	2001 € m	2000 € m	1999 € m
Difference between expected and actual return on scheme assets:				
Amount	**(862)**	(438)	(158)	324
Percentage of scheme assets	**40%**	15%	5%	10%
Experience gains and losses on scheme liabilities:				
Amount	**(18)**	(32)	(72)	(16)
Percentage of scheme liabilities	**1%**	1%	3%	1%
Total amount recognised in STRGL:				
Amount	**(1,003)**	(502)	(248)	662
Percentage of scheme liabilities	**35%**	19%	10%	31%

The Group operates a number of defined contribution schemes. The defined benefit schemes in Ireland and the UK were closed to new members from December 1997. Employees joining after December 1997 join on a defined contribution basis. The standard contribution rate in Ireland is 10%. The standard contribution rate in the UK is 5% and these members are also accruing benefits under SERPS (the State Earnings Related Pension Scheme). Allfirst provides a defined contribution plan whereby eligible employees can contribute, subject to certain limitations, varying percentages of their annual compensation. Allfirst matches 100% of the first 3% and 50% of the next 3% of an employee's contribution. The total cost in respect of defined contribution schemes for 2002 was € 27m (2001: € 22m; 2000: € 17m).

(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.

15 Profit on disposal of business

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

16 Group profit on ordinary activities before taxation			**2002 € m**	2001 € m	2000 € m
Is stated after:					
(i) Income:	Listed investments		**681**	778	651
	Unlisted investments		**279**	431	495
(ii) Expenses:	Operating lease rentals				
	Property		**50**	47	46
	Equipment		**4**	4	4
	Auditors' remuneration *(including VAT)*:				
	Audit services:	Statutory audit	**2.1**	1.8	1.7
		Audit related services	**0.4**	0.9	0.8
			2.5	2.7	2.5
	Non-audit services:	IT consultancy	**–**	0.4	4.0
		Taxation services	**0.1**	0.6	1.0
		Other consultancy	**0.8**	1.2	0.8
			0.9	2.2	5.8

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

KPMG were appointed Auditors at the reconvened Annual General Meeting on 26 June 2002. The Auditors' remuneration (including VAT) set out above for 2002 relates to KPMG only since date of appointment. In the year ended 31 December 2002, 70% of the total audit services fees and 84% of the non-audit services fees were paid to overseas offices of the Auditors.

16 Group profit on ordinary activities before taxation ***(continued)***

The Auditors' remuneration for 2001 and 2000 relates to PricewaterhouseCoopers. During 2002 € 1.2m was paid to PricewaterhouseCoopers in respect of audit related services. In the year ended 31 December 2001, 73% of the total audit services fees (2000: 70%) and 64% of the non audit services fees (2000: 56%) were paid to overseas offices of the Auditors. Included in non-audit services for 2001 are fees for work associated with the merger of Bank Zachodni and Wielkopolski Bank Kredytowy. The level of non-audit services fees for 2000 is primarily due to fees for a number of significant IT assignments.

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

17 Taxation	**2002 € m**	2001 € m	2000 € m
Allied Irish Banks, p.l.c. and subsidiaries			
Corporation tax in Republic of Ireland			
Current tax on income for the period	**81**	88	69
Adjustments in respect of prior periods	**(7)**	(6)	(1)
	74	82	68
Double taxation relief	**(4)**	(17)	(15)
	70	65	53
Foreign tax			
Current tax on income for the period	**212**	64	146
Adjustments in respect of prior periods	**(4)**	(8)	(5)
	208	56	141
Total current tax	**278**	121	194
Deferred tax			
Origination and reversal of timing differences	**21**	(66)	125
Other	**6**	–	–
Total deferred tax	**27**	(66)	125
Associated undertakings	**1**	–	–
Taxation on ordinary activities	**306**	55	319
Effective tax rate - adjusted	**22.3%**	24.2%[1]	25.8%[1]

[1] The adjusted effective tax rate has been presented to eliminate the effect of the exceptional foreign exchange dealing losses in 2001 *(note 9(b))* and the deposit interest retention tax settlement in 2000 *(note 6)*.

Factors affecting current tax charge for period

The current tax charge for the period is lower than the weighted average of the Group's statutory corporation tax rates across its geographic locations. The differences are explained below.

	2002 %	2001 %	2000 %
Weighted average corporation tax rate	**23.8**	25.0	28.3
Effects of:			
Expenses not deductible for tax purposes	**1.5**	1.5	1.7
Exempted income, income at reduced rates and tax credits	**(1.9)**	(3.9)	(3.1)
Capital allowances in excess of depreciation	**(1.0)**	(0.2)	(0.3)
Other deferred tax timing differences	**(1.4)**	(1.4)	(9.4)
Exceptional item	**–**	(11.1)	–
Adjustments to tax charge in respect of previous periods	**(0.8)**	(1.0)	(0.5)
Effective current tax charge	**20.2**	8.9	16.7

18 Equity and non-equity minority interests in subsidiaries

	2002 € m	2001 € m	2000 € m
The profit attributable to minority interests is analysed as follows:			
Equity interest in subsidiaries	**20**	15	28
Non-equity interest in subsidiaries	**4**	8	10
	24	23	38

19 Dividends on non-equity shares

	2002 € m	2001 € m	2000 € m
Non-cumulative preference shares of US $25 each			
Dividends paid and accrued*	**8**	15	20
Amortisation of issue costs	**–**	–	–
	8	15	20

**Includes an amount of € 2m which has been accrued (2001: € 2m; 2000: € 4m).*

20 Dividends on equity shares

	2002 cent per € 0.32 share	2001 cent per € 0.32 share	2000 cent per € 0.32 share	**2002 € m**	2001 € m	2000 € m
Ordinary shares of € 0.32 each						
Interim dividend	**17.25**	15.40	13.50	**154**	136	117
Second interim dividend	**–**	28.40	–	**–**	250	–
Final dividend	**31.81**	–	25.25	**283**	–	221
	49.06	43.80	38.75	**437**	386	338
Employee share trusts[1]				**(8)**	(6)	(3)
				429	380	335

[1]In accordance with FRS 14 'Earnings per share', dividends of € 7.9m (2001: € 5.8m; 2000: € 3.4m) arising on the shares held by certain employee share trusts *(note 35)* are excluded in arriving at profit before taxation and deducted from the aggregate of dividends paid and proposed.

21 Profit retained

	2002 € m	2001 € m	2000 € m
The transfer to the profit and loss account is dealt with in the Group accounts as follows:			
Allied Irish Banks, p.l.c.	**76**	3	202
Subsidiary undertakings	**480**	39	174
Associated undertakings	**7**	(1)	3
	563	41	379

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.

22 Earnings per €0.32 ordinary share

	2002	2001	2000
(a) Basic			
Group profit attributable to the ordinary shareholders[1]	**€ 1,037m**	€ 484m	€ 784m
Weighted average number of shares in issue during the year[1]	**868.7m**	861.4m	856.1m
Earnings per share	**EUR 119.4c**	EUR 56.2c	EUR 91.6c

[1]In accordance with FRS 14 - 'Earnings per share', dividends arising on the shares held by the employee share trusts *(note 35)* 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	**2002**	2001 cent per €0.32 share	2000
As reported	**119.4**	56.2	91.6
Adjustments			
Exceptional foreign exchange dealing losses *(note 9(b))*	**–**	59.6	–
Deposit interest retention tax *(note 6)*	**–**	–	12.0
Goodwill amortisation	**3.6**	3.6	3.1
	123.0	119.4	106.7

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

(c) Diluted	**2002**	2001	2000
		Number of shares (millions)	
Weighted average number of shares in issue during the period	**868.7**	861.4	856.1
Dilutive effect of options outstanding	**8.4**	5.7	5.8
Diluted	**877.1**	867.1	861.9

The weighted average number of ordinary shares reflects the dilutive effect of options outstanding under the employee share trusts *(note 35)*, the Share option scheme *(note 45)* and the Allfirst Financial Inc. stock option plan *(note 45)*.

	2002		2001	
23 Central government bills and other eligible bills	**Book amount € m**	**Market value € m**	Book amount € m	Market value € m
Group				
Held as financial fixed assets				
Treasury bills and similar securities	**23**	**23**	45	45
Held for trading purposes				
Treasury bills	**1**		4	
	24		49	
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Treasury bills and similar securities	**3**	**3**	4	4
Held for trading purposes				
Treasury bills	**1**		3	
	4		7	

23 Central government bills and other eligible bills *(continued)*	Group € m	Allied Irish Banks, p.l.c. € m
Analysis of movements in central government bills and other eligible bills held as financial fixed assets		
At 1 January 2002	**45**	**4**
Exchange translation adjustments	**(6)**	**(1)**
Purchases	**1,020**	**11**
Disposals/maturities	**(1,041)**	**(11)**
Amortisation of discounts	**5**	**–**
At 31 December 2002	**23**	**3**

	Group		Allied Irish Banks, p.l.c.	
24 Loans and advances to banks	**2002** **€ m**	2001 € m	**2002** **€ m**	2001 € m
Funds placed with the Central Bank of Ireland	**1,039**	399	**988**	344
Funds placed with other central banks	**53**	34	**17**	5
Funds placed with other banks	**3,696**	5,614	**12,515**	11,237
	4,788	6,047	**13,520**	11,586
Analysed by remaining maturity:				
Repayable on demand	**1,555**	1,477	**91**	234
Other loans and advances by remaining maturity:				
Over 5 years	**160**	230	**–**	8
5 years or less but over 1 year	**77**	219	**32**	61
1 year or less but over 3 months	**457**	722	**415**	462
3 months or less	**2,541**	3,401	**2,111**	2,132
	4,790	6,049	**2,649**	2,897
General and specific bad and doubtful debt provisions *(note 27)*	**2**	2	**–**	–
	4,788	6,047	**2,649**	2,897
Due from subsidiary undertakings:				
Subordinated			**122**	125
Unsubordinated			**10,749**	8,564
			10,871	8,689
			13,520	11,586

	Group	
	2002 **€ m**	2001 € m
Concentrations of credit risk by geographical area		
Republic of Ireland	**2,463**	2,894
United States of America	**1,459**	1,219
United Kingdom	**451**	423
Poland	**414**	1,500
Rest of the world	**1**	11
	4,788	6,047

25 Loans and advances to customers	Group 2002 € m	Group 2001 € m	Allied Irish Banks, p.l.c. 2002 € m	Allied Irish Banks, p.l.c. 2001 € m
Loans and advances to customers	**50,244**	47,674	**28,788**	25,311
Amounts receivable under finance leases	**2,143**	2,447	**3**	4
Amounts receivable under hire purchase contracts	**834**	863	**–**	–
Money market funds	**226**	232	**113**	181
	53,447	51,216	**28,904**	25,496
Analysed by remaining maturity:				
Over 5 years	**18,099**	17,502	**9,405**	8,005
5 years or less but over 1 year	**14,206**	17,032	**7,462**	6,026
1 year or less but over 3 months	**7,158**	8,247	**3,324**	3,654
3 months or less	**14,844**	9,442	**5,729**	4,990
	54,307	52,223	**25,920**	22,675
General and specific bad and doubtful debt provisions *(note 27)*	**860**	1,007	**271**	292
	53,447	51,216	**25,649**	22,383
Due from subsidiary undertakings:				
Subordinated			**83**	83
Unsubordinated			**3,172**	3,030
			3,255	3,113
			28,904	25,496
Of which repayable on demand or at short notice	**12,008**	10,889	**9,239**	8,073
Amounts include:				
Due from associated undertakings	**–**	–	**–**	–

€ 979m and € 630m (2001: € 958m and € 923m) of loans and advances were pledged as collateral with the Central Bank of Ireland and The Federal Reserve Bank, respectively.

The cost of assets acquired for letting under finance leases and hire purchase contracts amounted to € 1,367m (2001: € 1,406m).

	Group 2002 € m	Group 2001 € m
Non-performing loans – Loans accounted for on a non-accrual basis		
AIB Bank ROI division	**194**	162
AIB Bank GB & NI division	**88**	107
USA division	**107**	87
Capital Markets division	**115**	34
Poland division	**486**	643
	990	1,033

26 Loans and advances to customers – concentrations of credit risk

	2002		2001	
	€ m	**% of total loans[1]**	€ m	% of total loans[1]
Construction and property				
Republic of Ireland	**4,796**	**8.8**	4,062	7.8
United States of America	**2,582**	**4.8**	2,988	5.7
United Kingdom	**2,860**	**5.3**	2,156	4.1
Poland	**221**	**0.4**	230	0.4
	10,459	**19.3**	9,436	18.0

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.

	2002		2001	
	€ m	**% of total loans[1]**	€ m	% of total loans[1]
Residential mortgages				
Republic of Ireland	**7,725**	**14.2**	5,930	11.3
United States of America	**374**	**0.7**	550	1.1
United Kingdom	**2,151**	**4.0**	1,965	3.8
Poland	**319**	**0.6**	181	0.3
	10,569	**19.5**	8,626	16.5

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	
	2002 € m	2001 € m
Loans and advances to customers by geographical area		
Republic of Ireland	**27,188**	24,147
United States of America	**11,135**	13,446
United Kingdom	**12,064**	10,477
Poland	**3,060**	3,146
Rest of the world	**–**	–
	53,447	51,216

27 Provisions for bad and doubtful debts	Specific € m 2002	General € m 2002	Total € m 2002	Specific € m 2001	General € m 2001	Total € m 2001
Group						
At 1 January	**539**	**470**	**1,009**	436	436	872
Exchange translation adjustments	**(51)**	**(35)**	**(86)**	32	14	46
Disposed loans	**(2)**	**–**	**(2)**	–	–	–
Charge against profit and loss account	**–**	**194**	**194**	–	179	179
Transfer to specific	**202**	**(202)**	**–**	159	(159)	–
Amounts written off	**(279)**	**–**	**(279)**	(113)	–	(113)
Recoveries of amounts written off in previous years	**26**	**–**	**26**	25	–	25
At 31 December	**435**	**427**	**862**	539	470	1,009
Amounts include:						
Loans and advances to banks *(note 24)*	**2**	**–**	**2**	2	–	2
Loans and advances to customers *(note 25)*	**433**	**427**	**860**	537	470	1,007
	435	**427**	**862**	539	470	1,009
Allied Irish Banks, p.l.c.						
At 1 January	**78**	**214**	**292**	65	150	215
Exchange translation adjustments	**(1)**	**(4)**	**(5)**	–	2	2
Charge against profit and loss account	**–**	**27**	**27**	–	91	91
Transfer to specific	**62**	**(62)**	**–**	29	(29)	–
Amounts written off	**(54)**	**–**	**(54)**	(28)	–	(28)
Recoveries of amounts written off in previous years	**11**	**–**	**11**	12	–	12
At 31 December *(note 25)*	**96**	**175**	**271**	78	214	292

The provisions for bad and doubtful debts in Allied Irish Banks, p.l.c. at 31 December 2002 and 2001 relate to loans and advances to customers only.

28 Securitised assets	2002 € m	2001 € m
Securitised assets	**1,002**	1,099
Less: non-returnable proceeds	**(754)**	(917)
	248	182

In July 1999 a subsidiary company entered into an agreement whereby it securitised and sold part of its Asset Backed Securities portfolio to a third party. Subsequent to the initial securitisaton, additional assets have been transferred to the third party as provided for under the terms of the agreement. AIB is not obliged, nor does it intend, to support any losses in this portfolio in excess of the net amount recognised as an asset on the balance sheet.

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

	2002 € m	2001 € m	2000 € m
Net interest income	**4**	5	5
Other income	**–**	–	–
Total operating income	**4**	5	5
Total operating expenses	**–**	–	1
	4	5	4
Provisions for bad and doubtful debts	**–**	–	–
Contribution from securitised assets *(note 10)*	**4**	5	4

				2002
29 Debt securities	**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	**4,931**	**170**	**–**	**5,101**
Other public sector securities	**2,503**	**31**	**(1)**	**2,533**
Issued by other issuers:				
Bank and building society certificates of deposit	**124**	**–**	**–**	**124**
Other debt securities	**5,888**	**87**	**(43)**	**5,932**
	13,446	**288**	**(44)**	**13,690**
Held for trading purposes				
Issued by public bodies:				
Government securities	**833**			**833**
Other public sector securities	**73**			**73**
Issued by other issuers:				
Bank and building society certificates of deposit	**45**			**45**
Other debt securities	**3,807**			**3,807**
	4,758			**4,758**
	18,204	**288**	**(44)**	**18,448**

				2001
	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	5,014	87	(19)	5,082
Other public sector securities	4,012	48	(7)	4,053
Issued by other issuers:				
Bank and building society certificates of deposit	518	1	–	519
Other debt securities	6,755	87	(28)	6,814
	16,299	223	(54)	16,468
Held for trading purposes				
Issued by public bodies:				
Government securities	511			511
Other public sector securities	47			47
Issued by other issuers:				
Bank and building society certificates of deposit	48			48
Other debt securities	3,177			3,177
	3,783			3,783
	20,082	223	(54)	20,251

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

29 Debt securities ***(continued)***	**Book amount €m**	**Gross unrealised gains €m**	**Gross unrealised losses €m**	**Market value €m**
				2002
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	**3,581**	**111**	**–**	**3,692**
Other public sector securities	**356**	**4**	**–**	**360**
Issued by other issuers:				
Bank and building society certificates of deposit	**124**	**–**	**–**	**124**
Other debt securities	**5,262**	**82**	**(37)**	**5,307**
	9,323	**197**	**(37)**	**9,483**
Held for trading purposes				
Issued by public bodies:				
Government securities	**170**			**170**
Other public sector securities	**73**			**73**
Issued by other issuers:				
Bank and building society certificates of deposit	**–**			**–**
Other debt securities	**3,805**			**3,805**
	4,048			**4,048**
	13,371	**197**	**(37)**	**13,531**

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

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

29 Debt securities *(continued)*

Analysed by remaining maturity	Group 2002 € m	Group 2001 € m	Allied Irish Banks, p.l.c. 2002 € m	Allied Irish Banks, p.l.c. 2001 € m
Due within one year	**3,921**	4,596	**2,518**	2,875
Due one year and over	**14,283**	15,486	**10,853**	10,750
	18,204	20,082	**13,371**	13,625

Analysed by listing status	2002 Book amount € m	2002 Market value € m	2001 Book amount € m	2001 Market value € m
Group				
Held as financial fixed assets				
Listed on a recognised stock exchange	**9,867**	**10,118**	10,133	10,255
Quoted elsewhere	**2,749**	**2,743**	4,826	4,877
Unquoted	**830**	**829**	1,340	1,336
	13,446	**13,690**	16,299	16,468
Held for trading purposes				
Listed on a recognised stock exchange	**4,355**		3,525	
Quoted elsewhere	**355**		170	
Unquoted	**48**		88	
	4,758		3,783	
	18,204		20,082	

Debt securities with a book value of € 1,492m (2001: € 1,033m) were pledged to secure public funds, trust deposits, funds transactions and other purposes required by law. Debt securities subject to repurchase agreements amounted to € 3,021m (2001: € 2,192m).

Subordinated debt securities included as financial fixed assets amounted to € 5m at 31 December 2002 (2001: € 5m).

There were no unamortised discounts net of premiums on debt securities held as financial fixed assets in 2002 (2001: € 98m).

The cost of debt securities held for trading purposes amounted to € 4,738m (2001: € 3,801m).

Analysed by listing status	2002 Book amount € m	2002 Market value € m	2001 Book amount € m	2001 Market value € m
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Listed on a recognised stock exchange	**8,464**	**8,660**	8,819	8,914
Quoted elsewhere	**409**	**373**	621	613
Unquoted	**450**	**450**	851	847
	9,323	**9,483**	10,291	10,374
Held for trading purposes				
Listed on a recognised stock exchange	**4,048**		3,294	
Quoted elsewhere	**–**		40	
Unquoted	**–**		–	
	4,048		3,334	
	13,371		13,625	

Debt securities subject to repurchase agreements amounted to € 2,291m (2001: € 1,415m).

The amount of unamortised premiums net of discounts on debt securities held as financial fixed assets was € 41m (2001: € 17m).

The cost of debt securities held for trading purposes was € 4,039m (2000: € 3,347m).

29 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 2002	**16,251**	**53**	**(5)**	**16,299**
Exchange translation adjustments	**(1,445)**	**(6)**	**2**	**(1,449)**
Purchases	**9,765**	**–**	**–**	**9,765**
Realisations/maturities	**(11,171)**	**1**	**5**	**(11,165)**
Charge to profit and loss account *(note 13)*	**–**	**–**	**(19)**	**(19)**
Amortisation of discounts net of (premiums)	**–**	**15**	**–**	**15**
At 31 December 2002	**13,400**	**63**	**(17)**	**13,446**
Allied Irish Banks, p.l.c.				
At 1 January 2002	**10,317**	**(20)**	**(6)**	**10,291**
Exchange translation adjustments	**(763)**	**1**	**1**	**(761)**
Purchases	**4,246**	**–**	**–**	**4,246**
Realisations/maturities	**(4,448)**	**16**	**5**	**(4,427)**
Charge to profit and loss account	**–**	**–**	**(13)**	**(13)**
Amortisation of (premiums) net of discounts	**–**	**(13)**	**–**	**(13)**
At 31 December 2002	**9,352**	**(16)**	**(13)**	**9,323**

				2002
30 Equity shares	**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	**52**	**10**	**(2)**	**60**
Unquoted	**136**	**8**	**(1)**	**143**
	188	**18**	**(3)**	**203**
Held for trading purposes				
Listed on a recognised stock exchange	**58**			**58**
	246	**18**	**(3)**	**261**

				2001
	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	127	20	(23)	124
Unquoted	156	15	(12)	159
	283	35	(35)	283
Held for trading purposes				
Listed on a recognised stock exchange	49			49
	332	35	(35)	332

30 Equity shares *(continued)*	Book amount € m	Gross unrealised gains € m	Gross unrealised losses € m	2002 Market value € m
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Listed on a recognised stock exchange	**–**	**–**	**–**	**–**
Unquoted	**3**	**–**	**–**	**3**
	3	**–**	**–**	**3**
Held for trading purposes				
Listed on a recognised stock exchange	**13**			**13**
	16	**–**	**–**	**16**

	Book amount € m	Gross unrealised gains € m	Gross unrealised losses € m	2001 Market value € m
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Listed on a recognised stock exchange	–	–	–	–
Unquoted	3	–	–	3
	3	–	–	3
Held for trading purposes				
Listed on a recognised stock exchange	15			15
	18	–	–	18

Analysis of movements in equity shares held as financial fixed assets	**Cost € m**	**Amounts written off € m**	**Book amount € m**
Group			
At 1 January 2002	**300**	**(17)**	**283**
Charge to profit and loss account *(note 13)*	**–**	**(36)**	**(36)**
Exchange translation adjustments	**(29)**	**2**	**(27)**
Transfer to associated undertakings *(note 31)*	**(10)**	**–**	**(10)**
Transfer to trading equity securities	**(22)**	**–**	**(22)**
Purchases	**69**	**–**	**69**
Disposals	**(77)**	**8**	**(69)**
At 31 December 2002	**231**	**(43)**	**188**

The cost of equity shares held for trading purposes amounted to €78m (2001: €53m).

31 Interests in associated undertakings	2002 € m	2001 € m
At 1 January	**10**	8
Exchange translation adjustments	**(1)**	–
Transfer from equity shares *(note 30)*	**10**	3
Charge to profit and loss account *(note 13)*	**–**	(1)
Purchases	**5**	1
Profit retained	**7**	(1)
At 31 December	**31**	10

The Group's interests in associated undertakings are shown after accumulated provisions for write-downs of € 3m (2001: € 3m). The movements in the provisions are as follows:

	2002 € m	2001 € m
At 1 January	**3**	2
Charge to profit and loss account	**–**	1
At 31 December	**3**	3

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

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

32 Shares in Group undertakings

	2002 € m	2001 € m
Allied Irish Banks, p.l.c.		
At 1 January	**1,534**	1,457
Additions	**10**	–
Exchange translation adjustments	**(217)**	77
At 31 December	**1,327**	1,534
At 31 December		
Credit institutions	**1,123**	1,328
Other	**204**	206
Total – all unquoted	**1,327**	1,534

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

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

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

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

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

32 Shares in Group undertakings *(continued)*

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

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

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

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

33 Intangible fixed assets

	2002 € m	2001 € m
Goodwill		
Cost at 1 January	**560**	500
Arising on acquisitions during the year	**1**	59
Exchange translation adjustments	**(8)**	1
At 31 December	**553**	560
Accumulated amortisation at 1 January	**65**	34
Charge for the year *(note 12)*	**32**	31
Exchange translation adjustments	**(1)**	–
At 31 December	**96**	65
Net book value		
At 31 December	**457**	495

Intangible fixed assets comprise purchased goodwill arising on acquisition of subsidiary and associated undertakings. Prior to 1 January 1998 goodwill arising on acquisition of subsidiary and associated undertakings was taken directly to profit and loss account reserves. The goodwill arising on acquisitions during 2002 and 2001 is set out in the following table:

	2002 € m	2001 € m
Community Counselling Service Co., Inc.	**–**	51
Bank Zachodni WBK S.A.	**–**	4
Other	**1**	4
	1	59

34 Tangible fixed assets

	Property			Equipment	Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Group					
Cost at 1 January 2002	**725**	**130**	**168**	**1,349**	**2,372**
Additions	**25**	**2**	**16**	**136**	**179**
Disposals	**(33)**	**(1)**	**(4)**	**(265)**	**(303)**
Exchange translation adjustments	**(56)**	**(1)**	**(15)**	**(95)**	**(167)**
At 31 December 2002	**661**	**130**	**165**	**1,125**	**2,081**
Accumulated depreciation at 1 January 2002	**96**	**9**	**90**	**872**	**1,067**
Depreciation charge for the year	**22**	**3**	**12**	**138**	**175**
Disposals	**(5)**	**–**	**(2)**	**(259)**	**(266)**
Exchange translation adjustments	**(9)**	**–**	**(9)**	**(55)**	**(73)**
At 31 December 2002	**104**	**12**	**91**	**696**	**903**
Net book value					
At 31 December 2002	**557**	**118**	**74**	**429**	**1,178**
At 31 December 2001	629	121	78	477	1,305

34 Tangible fixed assets *(continued)*	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 2002	**296**	**119**	**53**	**589**	**1,057**
Additions	**10**	**2**	**8**	**44**	**64**
Disposals	**(23)**	**(1)**	**(2)**	**(155)**	**(181)**
Exchange translation adjustments	**–**	**–**	**(2)**	**(4)**	**(6)**
At 31 December 2002	**283**	**120**	**57**	**474**	**934**
Accumulated depreciation at 1 January 2002	**18**	**8**	**25**	**444**	**495**
Depreciation charge for the year	**8**	**3**	**5**	**54**	**70**
Disposals	**–**	**–**	**–**	**(153)**	**(153)**
Exchange translation adjustments	**–**	**–**	**(2)**	**(2)**	**(4)**
At 31 December 2002	**26**	**11**	**28**	**343**	**408**
Net book value					
At 31 December 2002	**257**	**109**	**29**	**131**	**526**
At 31 December 2001	278	111	28	145	562

The net book value of property occupied by the Group for its own activities was € 730m (2001: € 799m).

35 Own shares

Allfirst Financial, Inc. sponsors the Allfirst Stock Option Plans, for the benefit of key employees of Allfirst. Allfirst has lent US$ 178m (2001: US$ 201m) to a trust to enable it to purchase AIB ordinary shares in the form of American Depositary Shares in the open market. The shares purchased are used to satisfy options which have been granted to Allfirst employees. Proceeds of option exercises are used to repay the loan to the trust. Under the terms of the trust, the trustees receive dividends on the shares which are used to meet the expenses of the trust. Allfirst will provide funds as necessary to cover expenses net of dividend revenue. At 31 December 2002, 15.9 million ordinary shares (2001: 18.1 million) were held by the trust with a cost of € 169m (2001: € 228m) and a market value of € 204m (2001: € 238m).

In 1999, the Group sponsored a Save As You Earn Share Option Scheme, the AIB Group 1999 Sharesave Scheme for eligible employees in the UK. In 2001 a similar scheme was set up for employees in the Isle of Man and Channel Islands. The trustees of the scheme have borrowed funds from Group companies, interest free, to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. These shares are used to satisfy commitments arising under the scheme. The trustees receive dividends on the shares which are used to meet the expenses of the scheme. The cost of providing these shares is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit. At 31 December 2002, 0.4 million shares (2001: 1.5 million) were held by the trustees with a book value of € 4m (2001: € 15m) and a market value of € 5m (2001: € 19m).

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 2002, 0.2m shares (2001: 0.2m) were held by the trustees with a book value of € 2.1m (2001: € 1.5m) and a market value of € 2.6m (2001: € 2.6m).

In accordance with the requirements of UITF Abstract 13 the shares held by the above employee share schemes have been recognised on the balance sheet of the Group and the dividend income received by the schemes of € 7.9m (2001: € 5.8m; 2000: € 3.4m) has been excluded in arriving at profit before taxation.

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

36 Deferred taxation	Group 2002 € m	Group 2001 € m	Allied Irish Banks, p.l.c. 2002 € m	Allied Irish Banks, p.l.c. 2001 € m
Deferred tax assets:				
Provision for bad and doubtful debts	**(161)**	(183)	**(23)**	(28)
Amortised income	**(36)**	(47)	**(4)**	(3)
Debt securities	**(12)**	(14)	**–**	–
Deferred compensation	**(10)**	(12)	**–**	–
Timing difference on provisions for future commitments in relation to the funding of Icarom plc *(under Administration)*	**(10)**	(11)	**(10)**	(11)
Exceptional foreign exchange dealing losses	**–**	(125)	**–**	–
Other	**(16)**	(25)	**(3)**	(15)
Total gross deferred tax assets	**(245)**	(417)	**(40)**	(57)
Deferred tax liabilities:				
Assets leased to customers	**443**	543	**1**	1
Assets used in the business	**24**	23	**–**	–
Debt securities	**53**	68	**3**	–
Other	**7**	83	**–**	1
Total gross deferred tax liabilities	**527**	717	**4**	2
Net deferred tax liabilities/(assets)	**282**	300	**(36)**	(55)

For the year ended December 31, 2002, 2001 and 2000 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 € 28m approximately. Furthermore certain taxable gains in the Republic of Ireland have been rolled over into replacement assets. In February 2003, the Minister for Finance published the Finance Bill which, if passed, will change the legislation in the Republic of Ireland in respect of roll over relief. As a result, a disposal of certain properties would give rise to the crystalisation of a tax liability of € 8m 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.

Analysis of movements in deferred taxation	Group 2002 € m	Group 2001 € m	Allied Irish Banks, p.l.c. 2002 € m	Allied Irish Banks, p.l.c. 2001 € m
At 1 January	**300**	364	**(55)**	(50)
Exchange translation and other adjustments	**(45)**	2	**–**	(5)
Profit and loss account taxation charge/(credit)	**27**	(66)	**19**	–
At 31 December	**282**	300	**(36)**	(55)

37 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 rate which reflects the shareholder's overall risk premium.

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

Changes in the embedded value, which are determined on a post-tax basis, are included in the 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 establishing technical provisions and reserves.

Contribution from existing business: this comprises the following elements:

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

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

Distribution costs: this represents the actual cost of acquiring new business during the year and includes bonuses paid to sales consultants and other direct sales costs but does not include any allowance for the cost of referral generation from the branch network.

Included within other items are:

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

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

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

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

Income from Ark Life's long-term assurance business is set out below:	**2002 € m**	2001 € m
New business contribution	**60**	65
Contribution from existing business		
- expected return	**25**	18
- experience variances	**2**	3
Investment returns	**2**	3
Distribution costs	**(20)**	(17)
Operating profit	**69**	72
Other items:		
Change in value of future unit linked fees	**(32)**	(3)
Changes in economic assumptions	**17**	–
Exceptional items	**3**	15
Income from long-term assurance business before tax	**57**	84
Attributable tax	**9**	17
Income from long-term assurance business after tax	**48**	67

Assumptions

The economic assumptions are based on a long-term view of economic activity and are therefore not adjusted for market movements which are considered to be short-term. This approach is considered to be the most appropriate given the long-term nature of the portfolio of products. The principal economic assumptions used are as follows:

	2002 %	2001 %
Risk adjusted discount rate	**10.0**	12.0
Weighted average investment return	**7.625**	9.0
Future expense inflation	**3.5**	5.0

37 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:

	2002 € m	2001 € m
Investments:		
Cash and short-term placings with banks	**1,250**	1,019
Debt securities	**223**	256
Equity shares	**849**	1,034
Property	**42**	43
	2,364	2,352
Embedded value adjustment	**153**	142
Other assets – net	**61**	62
	2,578	2,556
Long-term assurance liabilities to policyholders	**(2,226)**	(2,252)
Long-term assurance business attributable to shareholders	**352**	304
Represented by:		
Shares at cost	**19**	19
Reserves	**326**	281
Profit and loss account	**7**	4
	352	304

Modified statutory solvency basis

Ark Life's profit before tax on a modified statutory solvency basis was € 44m (2001: € 35m) and its profit after tax was € 37m (2001: € 28m). Ark Life's total assets on a modified statutory solvency basis were € 2,482m at 31 December 2002 (31 December 2001: € 2,482m) and its shareholders' funds at 31 December 2002 were € 199m (31 December 2001: € 162m). The following table provides a reconciliation of embedded value to the modified statutory solvency basis.

Reconciliation of embedded value to modified statutory solvency basis	**2002 € m**	2001 € m
Long-term assurance business attributable to the shareholder - embedded value basis	**352**	304
Value of in-force business	**(251)**	(228)
Other differences:		
Deferred acquisitions costs	**89**	76
Other adjustments	**9**	10
Shareholders' funds of life operations - modified statutory solvency basis	**199**	162

38 Deposits by banks

	Group		Allied Irish Banks, p.l.c.	
	2002	2001	**2002**	2001
	€ m	€ m	**€ m**	€ m
Federal funds purchased	**491**	546	**–**	–
Securities sold under agreements to repurchase	**2,478**	1,742	**2,457**	1,631
Other borrowings from banks	**13,168**	10,935	**22,706**	20,227
	16,137	13,223	**25,163**	21,858
Of which:				
Domestic offices	**10,869**	7,899		
Foreign offices	**5,268**	5,324		
	16,137	13,223		
With agreed maturity dates or periods of notice, by remaining maturity:				
Over 5 years	**405**	428	**350**	302
5 years or less but over 1 year	**236**	289	**46**	33
1 year or less but over 3 months	**3,554**	2,781	**3,407**	2,696
3 months or less but not repayable on demand	**11,357**	8,871	**10,909**	8,456
	15,552	12,369	**14,712**	11,487
Repayable on demand	**585**	854	**58**	264
	16,137	13,223	**14,770**	11,751
Due to subsidiary undertakings			**10,393**	10,107
			25,163	21,858

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

39 Customer accounts	Group 2002 € m	Group 2001 € m	Allied Irish Banks, p.l.c. 2002 € m	Allied Irish Banks, p.l.c. 2001 € m
Current accounts	**16,428**	16,300	**8,106**	7,603
Demand deposits	**10,333**	11,165	**4,484**	4,330
Time deposits	**21,855**	22,896	**10,320**	9,321
	48,616	50,361	**22,910**	21,254
Securities sold under agreements to repurchase	**703**	726	**–**	–
Other short-term borrowings	**3,657**	3,470	**3,170**	3,081
	4,360	4,196	**3,170**	3,081
	52,976	54,557	**26,080**	24,335
Of which:				
Non-interest bearing current accounts				
Domestic offices	**6,020**	5,857		
Foreign offices	**5,004**	6,140		
Interest bearing deposits, current accounts and short-term borrowings				
Domestic offices	**19,950**	18,074		
Foreign offices	**22,002**	24,486		
	52,976	54,557		
Analysed by remaining maturity:				
Over 5 years	**232**	654	**136**	110
5 years or less but over 1 year	**3,134**	2,688	**1,553**	921
1 year or less but over 3 months	**2,730**	3,150	**526**	707
3 months or less but not repayable on demand	**19,434**	19,743	**10,568**	10,275
	25,530	26,235	**12,783**	12,013
Repayable on demand	**27,446**	28,322	**12,789**	11,933
	52,976	54,557	**25,572**	23,946
Due to subsidiary undertakings			**508**	389
			26,080	24,335
Amounts include:				
Due to associated undertakings	**28**	2	**1**	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.

40 Debt securities in issue

	Group 2002 € m	Group 2001 € m	Allied Irish Banks, p.l.c. 2002 € m	Allied Irish Banks, p.l.c. 2001 € m
Bonds and medium term notes:				
European medium term note programme	**121**	84	**121**	84
Allfirst adjustable rate federal home loan bank advances:				
due 23 August, 2011	**191**	227	**–**	–
	312	311	**121**	84
Other debt securities in issue:				
Master demand notes of Allfirst	**250**	301	**–**	–
Commercial paper	**224**	133	**–**	–
Commercial certificates of deposit	**2,291**	4,288	**1,814**	1,809
	2,765	4,722	**1,814**	1,809
	3,077	5,033	**1,935**	1,893
Analysed by remaining maturity				
Bonds and medium term notes:				
Over 5 years	**197**	233	**6**	6
5 years or less but over 1 year	**–**	–	**–**	–
1 year or less but over 3 months	**–**	72	**–**	72
3 months or less	**115**	6	**115**	6
	312	311	**121**	84
Other debt securities in issue:				
5 years or less but over 1 year	**8**	89	**8**	15
1 year or less but over 3 months	**685**	2,176	**463**	421
3 months or less	**2,072**	2,457	**1,343**	1,373
	2,765	4,722	**1,814**	1,809
	3,077	5,033	**1,935**	1,893

41 Other liabilities

	Group 2002 € m	Group 2001 € m	Allied Irish Banks, p.l.c. 2002 € m	Allied Irish Banks, p.l.c. 2001 € m
Notes in circulation	**410**	441	**–**	–
Taxation	**91**	–	**59**	65
Dividend *(note 20)*	**283**	250	**283**	250
Provision for future commitments in relation to the funding of Icarom[1]	**85**	91	**85**	91
Short positions in securities[2]	**266**	205	**97**	31
Other	**1,456**	2,285	**373**	363
	2,591	3,272	**897**	800

[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 € 112m (2001: € 123m). The unwinding of the discount on the provision amounted to € 5.4m (2001: € 5.8m).

[2]Short positions in debt securities and equity securities in 2002 were € 250m and € 16m, respectively.

42 Provisions for liabilities and charges	Contingent liabilities and commitments € m	Other € m	Total € m
Group			
At 1 January 2002	32	39	71
Exchange translation adjustments	(2)	(4)	(6)
Profit and loss account charge	2	16	18
Provisions utilised	(14)	(9)	(23)
At 31 December 2002	18	42	60
Allied Irish Banks, p.l.c.			
At 1 January 2002	22	6	28
Profit and loss account charge	–	7	7
Provisions utilised	(13)	–	(13)
At 31 December 2002	9	13	22

43 Subordinated liabilities	2002 € m	2001 € m
Allied Irish Banks, p.l.c.		
Undated loan capital	**389**	426
Dated loan capital	**719**	804
	1,108	1,230
Reserve capital instruments	**496**	496
Allfirst Financial Inc.		
Dated loan capital	**568**	787
Bank Zachodni WBK S.A.		
Dated loan capital	**–**	3
	2,172	2,516
Undated loan capital		
US $100m Floating Rate Notes, Undated	**95**	113
US $100m Floating Rate Primary Capital Perpetual Notes, Undated	**95**	114
€ 200m Fixed Rate Perpetual Subordinated Notes	**199**	199
	389	426
Dated loan capital		
Allied Irish Banks, p.l.c.		
European Medium Term Note Programme:		
US $250m Floating Rate Notes due January 2010	**238**	283
€ 45.1m Floating Rate Notes due February 2007	**–**	45
€ 37.6m 7.25% Fixed Rate Notes due October 2007	**–**	38
€ 32.2m 6.7% Fixed Rate Notes due August 2009	**32**	32
Stg £35m 8% Fixed Rate Notes due October 2007	**–**	57
€ 250m Floating Rate Notes due January 2010	**249**	249
€ 100m Floating Rate Notes due August 2010	**100**	100
€ 100m Floating Rate Notes due June 2013	**100**	–
	719	804
Allfirst Financial Inc.		
US $100m 8.375% Fixed Rate Subordinated Notes due May 2002	**–**	113
US $200m 7.2% Fixed Rate Subordinated Notes due July 2007	**190**	226
US $100m 6.875% Fixed Rate Subordinated Notes due June 2009	**95**	113
US $150m Floating Rate Subordinated Capital Income Securities due January 2027	**141**	167
US $150m Floating Rate Subordinated Capital Income Securities due February 2027	**142**	168
	568	787
Bank Zachodni WBK S.A.		
PLN 10m Fixed Rate Loan due July 2002	**–**	3
	1,287	1,594
The dated loan capital outstanding is repayable as follows:		
In one year or less, or on demand	**–**	161
Between 1 and 2 years	**–**	–
Between 2 and 5 years	**190**	–
In 5 years or more	**1,097**	1,433
	1,287	1,594

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

43 Subordinated liabilities ***(continued)***

Reserve capital instruments

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

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

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

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 Central Bank of Ireland. 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 Central Bank of Ireland, on each coupon payment date on or after 3 August 2009.

Dated loan capital

The European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank. The US$ 250m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after January 2005. The € 45.1m Floating Rate Notes were redeemed in February 2002. The € 37.6m Fixed Rate Notes and the Stg £ 35m Fixed Rate Notes were redeemed on 1 October 2002 and 31 October 2002, respectively. The € 32.2m Fixed Rate Notes, with interest payable annually, may be redeemed, in whole but not in part, on 20 August 2004. The € 250m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, in or after January 2005. The € 100m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on the interest payment date falling in August 2005. In December 2001, € 100m Floating Rate Notes due in June 2013 were issued. The € 100m 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 all cases, redemption prior to maturity is subject to the necessary prior approval of the Central Bank of Ireland.

The 8.375% Fixed Rate Subordinated Notes were repaid in May 2002. The 7.2% Fixed Rate Subordinated Notes and the Floating Rate Subordinated Capital Income Securities of Allfirst are subordinated in right of payment to the ordinary creditors of Allfirst. The 7.2% Fixed Rate Subordinated Notes, with interest payable semi-annually, may not be redeemed prior to maturity and are not subject to any sinking fund. The 6.875% Fixed Rate Subordinated Notes mature on 1 June 2009, with interest payable semi-annually and are not redeemable prior to maturity. The US$ 150m Floating Rate Subordinated Capital Income Securities due January 2027, with interest payable quarterly, are redeemable in whole or in part on or after 15 January 2007, or at any time, in whole but not in part, upon the occurrence of a special event. The US$ 150m Floating Rate Subordinated Capital Income Securities due February 2027, with interest payable quarterly, are redeemable in whole or in part on or after 1 February 2007, or at any time, in whole but not in part, upon the occurrence of a special event. In either case such redemption is subject to the necessary prior approval of the Federal Reserve and the Central Bank of Ireland.

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

44 Equity and non-equity minority interests in subsidiaries	**2002 € m**	2001 € m
Equity interest in subsidiaries	**181**	191
Non-equity interest in subsidiaries:		
Allfirst Financial, Inc.:		
Cumulative preferred stock[(1)]	**–**	10
Floating rate non-cumulative subordinated capital trust enhanced securities[(2)]	**93**	111
	93	121
	274	312

44 Equity and non-equity minority interests in subsidiaries *(continued)*

(1)This preferred stock was redeemed on 15 July 2002.

(2)Allfirst issued 100,000 floating rate non-cumulative subordinated capital trust enhanced securities through a subsidiary on 13 July 1999. The distribution rate on the securities is three month LIBOR plus 1.5% of the stated liquidation amount of US$ 1,000 per security, reset quarterly.

45 Share capital		**2002 € m**	2001 € m
Ordinary share capital			
Ordinary shares of €0.32 each			
Authorised:	1,160 million shares (2001: 1,160 million)		
Issued:	897 million shares (2001: 887 million)	**287**	284
Preference share capital			
Non-cumulative preference shares of US$ 25 each			
Authorised:	20.0 million shares (2001: 20.0 million)		
Issued:	0.25 million shares (2001: 0.25 million)	**6**	7
Non-cumulative preference shares of €1.27 each			
Authorised:	200.0 million shares (2001: 200.0 million)		
Issued:	Nil	**–**	–
Non-cumulative preference shares of Stg £ 1 each			
Authorised:	200.0 million shares (2001: 200.0 million)		
Issued:	Nil	**–**	–
Non-cumulative preference shares of Yen 175 each			
Authorised:	200.0 million shares (2001: 200.0 million)		
Issued:	Nil	**–**	–
		293	291

Movements in ordinary share capital	**2002 € m**	2001 € m
At 1 January	**284**	281
New shares issued during year - see below	**3**	3
At 31 December	**287**	284

During the year ended 31 December 2002 the issued ordinary share capital was increased from 886,690,015 to 897,446,519 ordinary shares as follows:

(a) under the dividend reinvestment plan, 4,552,960 shares were allotted to shareholders, at €12.99 per share, in respect of the second interim dividend for the year ended 31 December 2001, and 1,293,867 shares were allotted to shareholders, at €13.12 per share, in respect of the interim dividend for the year ended 31 December 2002. These allotments were made in lieu of dividends amounting to €76.12m;

(b) by the issue of 1,358,433 shares to the trustees of the employees' profit sharing schemes at €12.41 per share; the consideration received for these shares was €16.86m;

(c) by the issue of 3,156,500 shares to participants in the executive share option scheme at prices of €3.38, €4.19, €5.80, €6.25, €7.61 and €11.90 per share; the consideration received for these shares was €18.6m;

(d) by the issue of 394,744 shares to holders of Dauphin Deposit Corporation (now Allfirst) stock options, which were converted, on the acquisition of Dauphin, into options to purchase AIB American Depositary Shares. The consideration received for these shares was €3.34m.

45 Share capital *(continued)*

Dividend reinvestment plan

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

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 £ 1,500 per annum from salary; *Free Shares*, involving the award by the Company of shares up to the value of £ 3,000 per annum per employee; and *Dividend Shares*, which may be acquired by employees by re-investing dividends of up to £ 1,500 per annum.

Share option scheme

The Company operates a share option scheme on terms approved by the shareholders. Officials may participate in the scheme at the discretion of the directors. Options are granted at the market price, being the middle market quotation of the Bank's shares on the Irish Stock Exchange on the 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. At 31 December 2002, options were held by some 3,555 participants over 29,518,229 ordinary shares in aggregate (3.3% of the issued ordinary share capital), at prices ranging from € 4.19 to € 15.46 per share; these options may be exercised at various dates up to 4 December, 2012.

Allfirst Financial Inc. stock option plan

Under the terms of the Agreement and Plan of Merger between the Company, First Maryland Bancorp (now 'Allfirst') and Dauphin Deposit Corporation ('Dauphin', now 'Allfirst'), approved by shareholders at the 1997 Annual General Meeting, options to purchase Dauphin shares which were outstanding immediately prior to the merger were converted, at the holders' elections, into either cash or options to purchase a similar number of AIB American Depositary Shares. At 31 December 2002, options so converted were outstanding over 418,598 ordinary shares.

AIB Long Term Incentive Plan

Under the terms of the AIB Long Term Incentive Plan, approved by shareholders at the 2000 Annual General Meeting, conditional grants of awards of ordinary shares have been made in respect of 1,305,200 ordinary shares, in aggregate, to 234 employees. These awards will not vest in the award holders unless (a) the growth in the Company's EPS, as defined in the Rules of the Plan, in any three consecutive years within the five years following the grant is not less than the growth in the CPI plus 5% per annum, compound, over the same three year period; *and* (b) the growth in the Company's core EPS, as defined in the Rules of the Plan, over the three year period during which the criterion at (a) is satisfied, is such as to position the Company in the top 20% of the FTSE Eurotop Banks Retail Index. Partial vesting, on a reducing scale, will occur if the growth in the Company's 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.

45 Share capital *(continued)*

Limitations on profit sharing and share option schemes

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

Preference share capital

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

46 Share premium account	Group € m	Allied Irish Banks, p.l.c. € m
At 1 January 2002	**1,926**	**1,926**
Premium arising on shares issued under:		
Employees' profit sharing schemes	**17**	**17**
Executive share option scheme	**17**	**17**
Allfirst Financial, Inc. stock option plan	**3**	**3**
Profit and loss account	**(1)**	**(1)**
Exchange translation adjustments	**(44)**	**(44)**
At 31 December 2002	**1,918**	**1,918**

47 Reserves	Group € m Restated	Allied Irish Banks, p.l.c. € m Restated
At 1 January 2002		
Capital reserves	**315**	**–**
Revaluation reserves	**148**	**132**
	463	**132**
Transfer from/(to) profit and loss account:		
Non-distributable reserves of Ark Life	**45**	**–**
Property revaluation reserves	**(15)**	**(15)**
Exchange translation and other adjustments	**(3)**	**(1)**
At 31 December 2002	**490**	**116**
At 31 December 2002		
Capital reserves	**359**	**–**
Revaluation reserves	**131**	**116**
	490	**116**

48 Profit and loss account	Group € m	Allied Irish Banks, p.l.c. € m
At 1 January 2002	**2,450**	**1,305**
Profit retained for the year	**563**	**76**
Dividend reinvestment plan	**74**	**74**
Actuarial loss recognised in retirement benefit schemes *(note 14)*	**(823)**	**(625)**
Share premium account	**1**	**1**
Transfer from property revaluation reserves	**15**	**15**
Exchange translation adjustments	**(338)**	**(254)**
At 31 December 2002	**1,942**	**592**
At 31 December 2002		
Allied Irish Banks, p.l.c. and subsidiaries	**1,931**	
Associated undertakings	**11**	
	1,942	

The cumulative goodwill arising on acquisitions of subsidiary and associated undertakings which are still part of the Group, and charged against profit and loss account reserves of the Group, amounted to €1,507m at 31 December 2002 (2001: €1,754m).

Included within the profit and loss account reserve for the Group at 31 December 2002 is €482m (Allied Irish Banks, p.l.c.: €245m) relating to the net pension liability in funded retirement benefit schemes *(note 14)*.

49 Repurchase of ordinary shares

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

50 Memorandum items: contingent liabilities and commitments

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

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

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

The risk weighted amount is obtained by applying credit conversion factors and counterparty risk weightings in accordance with the Central Bank of Ireland's guidelines implementing the EC Own Funds and Solvency Ratio Directives.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for on balance sheet lending.

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

	2002		2001	
	Contract amount € m	**Risk weighted amount € m**	Contract amount € m	Risk weighted amount € m
Group				
Contingent liabilities				
Acceptances and endorsements	**72**	**61**	142	109
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	**5,278**	**4,957**	5,222	4,852
Assets pledged as collateral security	**14**	**1**	23	2
	5,292	**4,958**	5,245	4,854
Other contingent liabilities	**1,027**	**520**	1,125	570
	6,391	**5,539**	6,512	5,533
Commitments				
Sale and option to resell transactions	**2,062**	**1,230**	402	402
Other commitments:				
Documentary credits and short-term trade-related transactions	**314**	**97**	235	76
Forward asset purchases and forward deposits placed	**24**	**5**	5	2
Undrawn note issuance and revolving underwriting facilities	**33**	**10**	100	12
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over	**9,073**	**4,387**	8,905	4,308
Less than 1 year [1]	**8,446**	**–**	9,352	–
	17,890	**4,499**	18,597	4,398
	19,952	**5,729**	18,999	4,800
	26,343	**11,268**	25,511	10,333

[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**	
	2002 € m	2001 € m	**2002 € m**	2001 € m
Concentration of exposure				
Republic of Ireland	**1,544**	1,451	**6,556**	6,119
Unites States of America	**4,316**	4,504	**8,743**	9,022
United Kingdom	**483**	469	**3,768**	3,055
Poland	**48**	88	**885**	803
	6,391	6,512	**19,952**	18,999

50 Memorandum items: contingent liabilities and commitments ***(continued)***

	2002		2001	
	Contract amount	**Risk weighted amount**	Contract amount	Risk weighted amount
	€ m	**€ m**	€ m	€ m
Allied Irish Banks, p.l.c.				
Contingent liabilities				
Acceptances and endorsements	**54**	**54**	96	96
Guarantees and irrevocable letters of credit	**3,455**	**3,334**	3,266	3,151
Other contingent liabilities	**558**	**279**	549	275
	4,067	**3,667**	3,911	3,522
Commitments				
Other commitments:				
Documentary credits and short-term trade-related transactions	**106**	**21**	68	14
Undrawn note issuance and revolving underwriting facilities	**13**	**–**	76	–
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over	**4,904**	**2,394**	4,245	2,082
Less than 1 year[(1)]	**3,601**	**–**	3,345	–
	8,624	**2,415**	7,734	2,096
	12,691	**6,082**	11,645	5,618

[(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 actions

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. 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. An alleged 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 have filed a motion seeking to have the Court amend or revise the judgement, or to be granted leave to file an amended complaint.

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.

51 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, 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.

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

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate and equity contracts at 31 December 2002 and 2001.

	Group		**Allied Irish Banks, p.l.c.**	
	2002	2001	**2002**	2001
Interest rate contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**110,529**	116,151	**105,623**	111,135
Gross replacement cost	**1,913**	1,432	**1,756**	1,335
Exchange rate contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**21,046**	26,505	**16,567**	18,988
Gross replacement cost	**546**	280	**540**	272
Equity contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**2,037**	2,893	**2,037**	2,893
Gross replacement cost	**27**	195	**27**	195

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

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

51 Derivatives *(continued)*

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**
2002				
Notional amount	**78,231**	**46,663**	**8,718**	**133,612**
Gross replacement cost	**990**	**1,094**	**402**	**2,486**
2001				
Notional amount	72,545	63,912	9,092	145,549
Gross replacement cost	617	1,045	245	1,907

Of the gross replacement cost € 2,208m (2001: € 1,596m) related to financial institutions and € 278m (2001:€ 311m) 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	
	2002 € m	2001 € m	**2002 € m**	2001 € m
Republic of Ireland	**63,723**	60,029	**1,315**	964
Unites States of America	**8,470**	12,309	**232**	155
United Kingdom	**56,541**	66,831	**922**	772
Poland	**4,878**	6,380	**17**	16
	133,612	145,549	**2,486**	1,907

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.

51 Derivatives *(continued)*

Nature and terms of trading instruments

The following table presents the notional amounts and fair values of the classes of derivative trading instruments at 31 December 2002 and 2001.

	2002		2001	
	Notional amounts[1] € m	**Fair values € m**	Notional amounts[1] € m	Fair values € m
Interest rate contracts:				
Interest rate swaps	**65,613**		34,817	
In a receivable position		**1,199**		538
In a payable position		**(1,065)**		(444)
Interest rate caps, floors and options	**4,187**		5,293	
Held		**15**		20
Written		**(12)**		(21)
Forward rate agreements	**3,805**		5,092	
In a favourable position		**7**		5
In an unfavourable position		**(6)**		(6)
Financial futures	**1,926**		776	
In a favourable position		**1**		22
In an unfavourable position		**(4)**		(19)
Other interest rate derivatives	**27**	**–**	37	–
Exchange rate contracts:				
Currency options	**1,231**	**7**	2,391	(460)
Forward FX contracts	**17,237**	**55**	16,375	4
Currency swaps	**–**	**–**	–	–
Equity derivatives	**2,037**	**–**	23	1

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

Details of debt securities held for trading purposes are outlined in note 29 to the financial statements.

The Group's credit exposure at 31 December 2002 and 2001 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.

51 Derivatives *(continued)*

Dealing profits

The following table summarises the Group's dealing profits (before the exceptional losses in 2001) by category of instrument.

	2002 € m	2001 € m	2000 € m
Foreign exchange contracts	**78**	75	69
Profits less losses from securities held for trading purposes	**10**	2	42
Interest rate contracts	**(11)**	15	(8)
Total	**77**	92	103

Risk management activities

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

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

Derivative prices fluctuate in value as the underlying interest rate, foreign exchange rate, or equity prices change. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, will generally be offset by the 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 2002 and 2001.

51 Derivatives *(continued)*

	Notional amount		Weighted average maturity in years		Weighted average rate Receive		Weighted average rate Pay		Estimated fair value	
	2002 € m	2001 € m	**2002**	2001	**2002 %**	2001 %	**2002 %**	2001 %	**2002 € m**	2001 € m
Interest rate swaps:										
Receive fixed										
1 year or less	**7,414**	9,216	**0.42**	0.48	**4.10**	4.78			**95**	205
1 - 5 years	**4,919**	18,023	**2.75**	2.25	**5.11**	5.14			**279**	373
5 - 10 years	**1,861**	2,574	**7.27**	7.43	**6.04**	6.05			**174**	84
	14,194	29,813	**2.12**	2.15	**4.70**	5.11	**2.73**	3.95	**548**	662
Pay fixed										
1 year or less	**4,821**	7,991	**0.43**	0.58			**4.39**	4.82	**(81)**	(134)
1 - 5 years	**5,412**	15,784	**2.97**	2.22			**4.84**	5.16	**(306)**	(385)
5 - 10 years	**1,603**	1,823	**10.01**	9.27			**5.53**	5.78	**(168)**	(50)
	11,836	25,598	**2.89**	2.21	**2.58**	3.54	**4.75**	5.10	**(555)**	(569)
Pay/receive floating										
1 year or less	**132**	–	**0.76**	–	**1.93**	–			**–**	–
1 - 5 years	**10**	99	**3.75**	2.00	**3.68**	2.46			**–**	–
5 - 10 years	**15**	15	**8.33**	9.33	**4.43**	4.43			**–**	–
	157	114	**1.67**	2.96	**2.28**	2.72	**2.03**	3.26	**–**	–
Forward rate agreements:										
Loans										
1 year or less	**239**	1,582	**0.38**	0.44	**3.92**	4.57			**2**	5
	239	1,582	**0.38**	0.44	**3.92**	4.57			**2**	5
Deposits										
1 year or less	**950**	2,807	**0.40**	0.52			**5.11**	4.50	**(8)**	(2)
1 - 5 years	**–**	740	**–**	1.33			**–**	5.46	**–**	1
	950	3,547	**0.40**	0.69			**5.11**	4.70	**(8)**	(1)
Interest rate options:										
Purchased										
1 year or less	**934**	1,491	**0.58**	0.67	**4.25**	4.19			**10**	1
1 - 5 years	**117**	818	**2.78**	2.02	**3.93**	3.56			**1**	23
5 - 10 years	**25**	27	**7.12**	8.00	**3.40**	4.45			**2**	–
	1,076	2,336	**0.97**	1.23	**4.19**	3.97			**13**	24
Written										
1 year or less	**405**	303	**0.67**	0.66	**2.72**	4.75			**(10)**	(1)
1 - 5 years	**114**	756	**2.11**	1.90	**4.09**	3.52			**(1)**	(20)
	519	1,059	**0.98**	1.54	**3.02**	3.87			**(11)**	(21)

51 Derivatives *(continued)*

	Notional amount		Weighted average maturity in years		Weighted average rate Receive		Pay		Estimated fair value	
	2002 € m	2001 € m	**2002**	2001	**2002 %**	2001 %	**2002 %**	2001 %	**2002 € m**	2001 € m
Financial futures:										
1 year or less	**4,552**	4,303	**0.49**	0.58	**2.08**	2.85			**(7)**	1
1 - 5 years	**970**	994	**1.52**	1.49	**3.31**	5.02			**–**	(1)
	5,522	5,297	**0.67**	0.74	**2.29**	3.26			**(7)**	-
Other interest rate derivatives:										
1 year or less	**109**	294	**0.40**	0.73	**5.11**	5.76			**2**	1
1 - 5 years	**291**	380	**2.22**	2.53	**4.29**	4.54			**(5)**	12
5 - 10 years	**78**	116	**6.27**	6.92	**7.48**	7.38			**(3)**	(10)
	478	790	**2.47**	2.51	**5.00**	5.42	**5.35**	5.61	**(6)**	3
Equity derivatives:										
1 year or less	**–**	849	**–**	0.50					**–**	(1)
1 - 5 years	**–**	1,941	**–**	2.70					**–**	(2)
5 - 10 years	**–**	80	**–**	5.25					**–**	–
	–	2,870	**–**	2.12					**–**	(3)

The carrying value of the interest rate derivative financial instruments held for risk management purposes was € 15m (2001: € 94m).

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 2000	50,631	2,525	2,187
Additions	40,361	7,849	4,498
Maturities/amortisations	(34,315)	(6,851)	(5,095)
Cancellations	(1,767)	(50)	(51)
Exchange adjustments	615	74	43
At 31 December 2001	55,525	3,547	1,582
Additions	28,962	2,012	3,574
Maturities/amortisations	(31,720)	(4,391)	(4,816)
Cancellations	(1,243)	–	–
Transfer to trading derivatives	(23,411)	(94)	(52)
Exchange adjustments	(1,926)	(124)	(49)
At 31 December 2002	26,187	950	239

51 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 2002 the Group had deferred income of € 35m (2001: € 65m) and deferred expense of € 62m (2001: € 89m) relating to non-trading derivatives. € 18m (2001: € 38m) of deferred income and € 41m (2001: € 52m) of deferred expense is expected to be released to the profit and loss account in 2003. During the year ended 31 December 2002, net deferred expense in relation to previous years of € 13m was released to the profit and loss account.

	2003 € 000	2004 € 000	2005 € 000	2006 € 000	2007 € 000	After 2007 € 000	Total € 000
Interest rate swaps							
Deferred income	4,397	3,263	2,428	2,356	1,909	233	14,586
Deferred expense	(2,688)	(2,358)	(818)	(672)	(569)	(2,279)	(9,384)
Forward rate agreements							
Deferred income	2,910	–	–	–	–	–	2,910
Deferred expense	(5,384)	–	–	–	–	–	(5,384)
Interest rate options							
Deferred income	3,685	380	241	68	–	–	4,374
Deferred expense	(3,339)	(956)	(681)	(186)	(43)	(91)	(5,296)
Financial futures							
Deferred income	7,493	2,400	868	501	488	1,080	12,830
Deferred expense	(30,163)	(5,474)	(2,173)	(1,643)	(1,038)	(1,730)	(42,221)
	(23,089)	(2,745)	(135)	424	747	(2,787)	(27,585)

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 2002 the Group had deferred expense of € 4m (2001: € 1m) relating to debt securities held for hedging purposes. Deferred expense of € 1m (2001: deferred income € 3m) relating to these debt securities is expected to be released to the profit and loss account in 2003. During the year ended 31 December 2002, deferred income in relation to previous years of € 3m 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 2002 was € 22m (2001: net gain of € 25m).

The net gain expected to be recognised in 2003 is € 16m (2001: € 20m) and thereafter a net loss of € 38m (2001: net gain of € 5m) is expected.

The net gain recognised in 2002 in respect of previous years was € 20m (2001: net gain of € 52m) and the net loss arising in 2002 which was not recognised in 2002 was € 27m (2001: € 61m).

52 Fair value of financial instruments

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

Fair value is based upon quoted market prices where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and adjusted for differences between the quoted instrument and the instrument being valued. In certain cases, including some lendings to customers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Readers of these financial statements are advised to use caution when using these data to evaluate the Group's financial position or to make comparisons with other institutions.

52 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 2002.

The following table gives details of the carrying amounts and fair values of financial instruments at 31 December 2002 and 2001.

	31 December 2002		31 December 2001	
	Carrying amount € m	**Fair value € m**	Carrying amount € m	Fair value € m
Assets				
Trading financial instruments[1]				
Debt securities	**4,758**	**4,758**	3,783	3,783
Equity shares	**58**	**58**	49	49
Central government and other eligible bills	**1**	**1**	4	4
Non-trading financial instruments				
Cash and balances at central banks[1]	**1,176**	**1,176**	1,175	1,175
Items in course of collection[1]	**1,171**	**1,171**	1,536	1,536
Central government bills and other eligible bills	**23**	**23**	45	45
Loans and advances to banks[2]	**4,788**	**4,826**	6,047	6,060
Loans and advances to customers[2]	**53,447**	**54,075**	51,216	51,498
Securitised assets	**248**	**220**	182	160
Debt securities	**13,446**	**13,690**	16,299	16,468
Equity shares	**188**	**203**	283	283
Liabilities				
Trading financial instruments				
Short positions in securities[1]	**266**	**266**	205	205
Non-trading financial instruments				
Deposits by banks	**16,137**	**16,162**	13,223	13,261
Customer accounts	**52,976**	**53,091**	54,557	54,615
Debt securities in issue	**3,077**	**3,106**	5,033	5,041
Subordinated liabilities	**2,172**	**2,362**	2,516	2,539
Shareholders' funds: non-equity interests	**235**	**227**	279	267
Off-balance sheet assets/(liabilities)				
Trading financial instruments[1]				
Interest rate contracts	**135**	**135**	95	95
Exchange rate contracts	**62**	**62**	(456)	(456)
Equity contracts	**–**	**–**	1	1
Non-trading financial instruments				
Interest rate contracts	**15**	**(24)**	94	103
Exchange rate contracts	**20**	**37**	9	28
Equity contracts	**–**	**–**	–	(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.

52 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 50. 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 2002 and 2001.

Details of derivatives in place, including fair values, are included in note 51.

Shareholders' funds: non-equity interests

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

53 Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2002 and 2001 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 51.

31 December 2002

	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	23	–	–	–	–	–	1	24
Loans and advances to banks	3,999	300	25	18	–	446	–	4,788
Loans and advances to customers	41,838	1,995	1,587	5,095	3,180	-	–	53,695
Debt securities	4,485	781	1,054	5,284	1,842	–	4,758	18,204
Other assets	–	–	–	–	–	8,997	341	9,338
Total assets	50,345	3,076	2,666	10,397	5,022	9,443	5,100	86,049
Liabilities								
Deposits by banks	12,159	1,819	1,641	59	167	292	–	16,137
Customer accounts	36,071	1,145	1,868	2,472	62	11,358	–	52,976
Debt securities in issue	2,269	330	258	214	6	–	–	3,077
Subordinated liabilities	1,066	95	–	223	788	–	–	2,172
Other liabilities	95	–	–	–	–	6,403	546	7,044
Shareholders' funds	–	–	–	–	–	4,643	–	4,643
Total liabilities	51,660	3,389	3,767	2,968	1,023	22,696	546	86,049
Off-balance sheet items affecting interest rate sensitivity	2,882	(843)	(1,961)	214	(292)	–	–	–
	54,542	2,546	1,806	3,182	731	22,696	546	86,049
Interest sensitivity gap	(4,197)	530	860	7,215	4,291	(13,253)	4,554	
Cumulative interest sensitivity gap	(4,197)	(3,667)	(2,807)	4,408	8,699	(4,554)	–	
	Euro m	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	
Interest sensitivity gap	(89)	342	626	1,947	1,855	(6,873)	1,803	
Cumulative interest sensitivity gap	(89)	253	879	2,826	4,681	(2,192)	(389)	
	US $m	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	
Interest sensitivity gap	(1,761)	446	(120)	2,890	1,328	(3,237)	869	
Cumulative interest sensitivity gap	(1,761)	(1,315)	(1,435)	1,455	2,783	(454)	415	
	Stg m	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	
Interest sensitivity gap	(993)	(398)	177	2,150	1,039	(3,251)	991	
Cumulative interest sensitivity gap	(993)	(1,391)	(1,214)	936	1,975	(1,276)	(285)	
	PLN m	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	
Interest sensitivity gap	(1,201)	(197)	40	213	54	225	502	
Cumulative interest sensitivity gap	(1,201)	(1,398)	(1,358)	(1,145)	(1,091)	(866)	(364)	

53 Interest rate sensitivity *(continued)*

31 December 2001

	0-3 Months € m	3-6 Months € m	6-12 Months € m	1-5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets								
Central govt. bills and other eligible bills	16	29	–	–	–	–	4	49
Loans and advances to banks	4,764	537	143	33	–	570	–	6,047
Loans and advances to customers	35,669	2,365	2,034	6,242	5,088	–	–	51,398
Debt securities	5,126	1,469	2,195	4,400	3,109	–	3,783	20,082
Other assets	–	–	–	–	–	11,404	379	11,783
Total assets	45,575	4,400	4,372	10,675	8,197	11,974	4,166	89,359
Liabilities								
Deposits by banks	9,862	2,151	713	47	110	340	–	13,223
Customer accounts	36,666	1,792	1,470	2,302	582	11,745	–	54,557
Debt securities in issue	3,813	601	298	89	232	–	–	5,033
Subordinated liabilities	496	113	209	664	1,034	–	–	2,516
Other liabilities	112	–	–	–	–	7,791	997	8,900
Shareholders' funds	–	–	–	–	–	5,130	–	5,130
Total liabilities	50,949	4,657	2,690	3,102	1,958	25,006	997	89,359
Off-balance sheet items affecting interest rate sensitivity	2,801	117	(311)	(968)	(1,639)	–	–	–
	53,750	4,774	2,379	2,134	319	25,006	997	89,359
Interest sensitivity gap	(8,175)	(374)	1,993	8,541	7,878	(13,032)	3,169	
Cumulative interest sensitivity gap	(8,175)	(8,549)	(6,556)	1,985	9,863	(3,169)	–	
	Euro m	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	
Interest sensitivity gap	(1,045)	(598)	724	3,997	2,136	(6,431)	1,835	
Cumulative interest sensitivity gap	(1,045)	(1,643)	(919)	3,078	5,214	(1,217)	618	
	US $m	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	
Interest sensitivity gap	(1,998)	(179)	317	3,184	2,889	(3,857)	116	
Cumulative interest sensitivity gap	(1,998)	(2,177)	(1,860)	1,324	4,213	356	472	
	Stg m	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	
Interest sensitivity gap	(2,955)	(196)	139	1,555	2,963	(2,812)	819	
Cumulative interest sensitivity gap	(2,955)	(3,151)	(3,012)	(1,457)	1,506	(1,306)	(487)	
	PLN m	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	
Interest sensitivity gap	(1,382)	(196)	744	(173)	(86)	(113)	248	
Cumulative interest sensitivity gap	(1,382)	(1,578)	(834)	(1,007)	(1,093)	(1,206)	(958)	

54 Consolidated cash flow statement	Notes	2002 € m	2001 € m	2000 € m
(a) Returns on investments and servicing of finance				
Interest paid on subordinated liabilities		**(126)**	(108)	(150)
Dividends paid on non-equity shares		**(8)**	(17)	(20)
Dividends paid to non-equity minority interests in subsidiaries		**(4)**	(6)	(14)
Net cash outflow from returns on investments and servicing of finance		**(138)**	(131)	(184)
(b) Taxation				
Tax paid, Republic of Ireland		**(85)**	(72)	(82)
Foreign tax paid		**(195)**	(170)	(117)
Net cash outflow from taxation		**(280)**	(242)	(199)
(c) Capital expenditure and financial investment				
Net decrease/(increase) in debt securities		**1,506**	904	(2,763)
Net decrease/(increase) in equity shares		**10**	94	(67)
Additions to tangible fixed assets		**(179)**	(328)	(237)
Disposals of tangible fixed assets		**42**	30	63
Net cash inflow/(outflow) from capital expenditure		**1,379**	700	(3,004)
(d) Acquisitions and disposals				
Acquisition of Group undertakings		**(1)**	(59)	–
Investments in associated undertakings		**(5)**	(1)	(4)
Disposals of investments in associated undertakings		**1**	1	6
Net cash (outflow)/inflow from acquisitions and disposals		**(5)**	(59)	2
(e) Financing				
Issue of ordinary share capital		**27**	23	15
Redemption of subordinated liabilities		**(247)**	(311)	–
Issue of subordinated liabilities		**100**	–	149
Issue of reserve capital instrument		**–**	496	–
Redemption of preference shares		**(9)**	–	–
Net cash (outflow)/inflow from financing	54(h)	**(129)**	208	164
(f) Analysis of changes in cash				
At 1 January		**2,652**	2,222	3,130
Net cash inflow/(outflow) before the effect of exchange translation adjustments		**362**	377	(1,016)
Effect of exchange translation adjustments		**(283)**	53	108
At 31 December	54(g)	**2,731**	2,652	2,222

54 Consolidated cash flow statement *(continued)*	**2002 € m**	2001 € m	Change in year € m
(g) Analysis of cash			
Cash and balances at central banks	**1,176**	1,175	1
Loans and advances to banks (repayable on demand)	**1,555**	1,477	78
	2,731	2,652	79

The Group is required to maintain balances with the Central Bank of Ireland which amounted to €1,039m (2001: €399m). The Group is also required by law to maintain reserve balances with the Federal Reserve Bank in the United States of America, the Bank of England and with the National Bank of Poland. Such reserve balances amounted to €53m (2001: €34m).

	Share capital[1]		**Subordinated liabilities**		**Non-equity minority interests**	
	2002 € m	2001 Restated € m	**2002 € m**	2001 Restated € m	**2002 € m**	2001 € m
(h) Analysis of changes in financing						
At 1 January	**2,217**	2,165	**2,516**	2,249	**121**	114
Effect of exchange translation adjustments	**(45)**	15	**(199)**	80	**(19)**	7
Cash inflow/(outflow) from financing	**27**	23	**(147)**	185	**(9)**	–
Other movements	**13**	14	**–**	–	**–**	–
Amortisation of issue costs	**(1)**	–	**2**	2	**–**	–
At 31 December	**2,211**	2,217	**2,172**	2,516	**93**	121

[1]Includes share capital and share premium.

55 Report on directors' remuneration and interests

Remuneration policy

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

Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises only non-executive directors; during 2002 its members were: Mr. Lochlann Quinn (Chairman), Mr. Dermot Gleeson (from 1 November), Mr. Derek A Higgs, Mr. John B McGuckian and Mr. Jim O'Leary (from 1 June). The Committee has a wide remit which includes, inter alia, determining, under advice to the Board, the specific remuneration packages of the executive directors.

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

Remuneration

	Fees[1]	Salary	Bonus[2]	Profit share[3]	Taxable benefits[4]	Pension contributions[5]	Total
							2002
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Executive directors							
Frank P Bramble	9	236	–	–	4	666	915
Michael Buckley	29	539	250	13	52	57	940
Gary Kennedy	29	296	125	10	45	30	535
	67	1,071	375	23	101	753	2,390
Non-executive directors							
Adrian Burke	80					–	80
Padraic M Fallon	31					–	31
Dermot Gleeson	88					–	88
Don Godson	41					–	41
Derek A Higgs	69					–	69
John B McGuckian	83					–	83
Carol Moffett	41					–	41
Jim O'Leary	37					–	37
Lochlann Quinn	216					–	216
Michael J Sullivan	57					–	57
	743					–	743
Former directors							
Pensions[6]							106
Other payments[7]							487
							593
Total							3,726

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

Remuneration *(continued)*

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

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

(2) The executive directors participate in a discretionary, performance-related, incentive scheme for senior executives under which bonuses may be earned on the achievement of specific, performance-related objectives, reviewed annually. The bonus may range from 0% to 60% of annual salary, except that the bonus for Mr. Frank P Bramble, former Chief Executive, USA Division, ranged from 0% to 160% of annual salary.

(3) Information on the employees' profit sharing schemes, which are operated on terms approved by the shareholders, is given in note 45.

(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. Taxable benefits also include any allowances related to the undertaking of international assignments within the Group.

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

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

Remuneration *(continued)*

	Increase in accrued benefits during 2002(a) € 000	Accrued benefit at year-end(b) € 000	Transfer values(c) € 000
Executive directors			
Frank P Bramble	9	375	85
Michael Buckley	1	285	15
Gary Kennedy	10	57	84
Non-executive directors			
Padraic M Fallon	0.4	11	4
John B McGuckian	0.06	17	0.7

(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 2002 and as at actual retirement date in respect of Mr. Bramble.

(c)Figures show the transfer values of the increases in accrued benefits during 2002. 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 2002, in the event of the member leaving service.

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

(7) Other payments comprise

(a) payments by Allfirst Financial Inc. ('Allfirst') of € 169,060 to Mr Frank P Bramble following his retirement from the Board; these payments comprised (i) salary of € 98,096 for the period from his retirement from the Board on 19 April 2002 up to 31 May 2002, and (ii) pension funding costs of € 70,396 and taxable benefits of € 568 for that period;

(b) remuneration of € 280,474 paid to Mr Jeremiah E Casey under the terms of a post-retirement consultancy contract approved by shareholders at the 1999 Annual General Meeting (2001: € 296,634), and

(c) payments of € 37,950, in aggregate, to two former directors who served on the boards of subsidiary companies (2001: € 67,760 to one such director).

Interests in shares

The beneficial interests of the directors and secretary in office at 31 December 2002, and of their spouses and minor children, are as follows:

Ordinary Shares	31 December 2002	1 January 2002
Directors:		
Michael Buckley	**177,610**	176,605
Adrian Burke	**10,642**	10,642
Padraic M Fallon	**8,377**	8,148
Dermot Gleeson	**12,056**	2,000
Don Godson	**25,099**	25,099
Derek A Higgs	**5,000**	5,000
Gary Kennedy	**26,776**	25,355
John B McGuckian	**67,557**	66,113
Carol Moffett	**13,125**	15,675
Jim O'Leary	**–**	–
Lochlann Quinn	**420,055**	314,588
Michael J Sullivan	**700**	700
Secretary:		
W M Kinsella	**14,674**	13,897

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

Share options

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

Details of the executive directors' share options are given below; additional information in relation to the Share Option Scheme, in which non-executive directors do not participate, is given in note 45.

	31 December 2002	1 January 2002	**Since 1 January 2002**		**Price of options exercised**	**Market price at date of exercise**	**Weighted average subscription price of options outstanding at 31 December 2002**
			Granted	**Exercised**			
Directors:					**€**	**€**	**€**
Michael Buckley	**281,500**	216,500	65,000	–	–	–	10.77
Gary Kennedy	**155,000**	105,000	50,000	–	–	–	9.71
Secretary:							
W M Kinsella	**65,000**	60,000	5,000	–	–	–	9.26

The options outstanding at 31 December 2002 are exercisable at various dates between 2003 and 2012. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected by shareholders at the Company's Registered Office.

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 (see note 45). These awards will not vest in the award holders unless (a) the growth in the Company's EPS, as defined in the Rules of the Plan, in any three consecutive years within the five years following the grant is not less than the growth in the CPI plus 5% per annum, compound, over the same three year period; *and* (b) the growth in the Company's core EPS, as defined in the Rules of the Plan, over the three year period during which the criterion at (a) is satisfied, is such as to position the Company in the top 20% of the FTSE Eurotop Banks Retail Index. Partial vesting, on a reducing scale, will occur if the growth in the Company's 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.

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

Long Term Incentive Plan *(continued)*

The following conditional grants of awards of ordinary shares have been made under the terms of the Plan:

	Total as at 31 December 2002	Granted during 2002	Total as at 1 January 2002
Directors:			
Michael Buckley	38,000	20,000	18,000
Gary Kennedy	20,000	10,000	10,000
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 year-end market price, on the Irish Stock Exchange, of the Company's ordinary shares was € 12.86 per share; during the year the price ranged from € 10.92 to € 15.70 per share.

There were no changes in the above interests between 31 December, 2002 and 18 February, 2003.

Service contracts

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

56 Transactions with 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 2002 the aggregate amount outstanding in loans to persons who at any time during the year were directors was € 42.8m in respect of 6 persons; the amount outstanding in respect of quasi-loans (effectively, credit card facilities), to 6 persons, was € 0.03m (2001: € 42.8m in respect of loans to 7 persons and € 0.07m in respect of quasi-loans to 7 persons).

57 Commitments

Capital expenditure

Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to €49m (2001: €69m). Capital expenditure authorised, but not yet contracted for, amounted to €90m (2001: €152m).

Operating lease rentals

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

	Property		Equipment	
	2002 € m	2001 € m	**2002 € m**	2001 € m
Operating leases which expire:				
Within one year	**3**	3	**–**	–
In the second to fifth year	**14**	18	**2**	1
Over five years	**35**	33	**–**	–
	52	54	**2**	1

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

58 Employees	**2002**	2001
The average full-time equivalent employee numbers by division were as follows:		
AIB Bank ROI	**9,935**	9,548
AIB Bank GB & NI	**3,050**	2,909
USA	**5,885**	5,912
Capital Markets	**2,492**	2,213
Poland	**9,946**	11,100
Group	**735**	715
	32,043	32,397

59 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.

60 Form 20-F

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

61 Reporting currency

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

62 Financial and other information	2002	2001 Restated
Operating ratios		
Operating expenses[1]/operating income	**58.6%**	59.9%[2]
Tangible operating expenses[3]/operating income	**57.8%**	59.0%[2]
Other income[4]/operating income	**40.2%**	39.8%[2]
Net interest margin:		
Group	**3.00%**	2.99%
Domestic	**2.73%**	2.59%
Foreign	**3.27%**	3.34%
Rates of exchange		
€ /US $		
Closing	**1.0487**	0.8813
Average	**0.9458**	0.8947
€ /Stg £		
Closing	**0.6505**	0.6085
Average	**0.6282**	0.6198
€ /PLN		
Closing	**4.0210**	3.4953
Average	**3.8473**	3.6573

[1]Excludes restructuring costs of € 13.3m in 2002 and integration costs of € 38.2m in 2001.
[2]Adjusted to exclude the impact of the exceptional foreign exchange dealing losses in 2001. Including the exceptional foreign exchange dealing losses, operating expenses/operating income was 77.1%, tangible operating expenses/operating income was 74.8% and other income/operating income was 23.8%.
[3]Excludes amortisation of goodwill of € 31.7m (2001: € 30.9m) and restructuring/integration costs of € 13.3m (2001: € 38.2m).
[4]Other income includes other finance income.

Capital adequacy information	2002 € m	2001 € m
Risk weighted assets		
Banking book:		
On balance sheet	**53,961**	54,839
Off-balance sheet	**11,521**	10,854
	65,482	65,693
Trading book:		
Market risks	**3,099**	2,897
Counterparty and settlement risks	**658**	268
	3,757	3,165
Total risk weighted assets	**69,239**	68,858
Capital		
Tier 1	**4,806**	4,479
Tier 2	**2,522**	2,759
	7,328	7,238
Supervisory deductions	**341**	294
Total	**6,987**	6,944

62 Financial and other information *(continued)*

Currency information	Assets		Liabilities	
	2002 € m	2001 € m	**2002 € m**	2001 € m
Euro	**38,307**	35,966	**38,697**	35,356
Other	**47,742**	53,393	**47,352**	54,003
	86,049	89,359	**86,049**	89,359

63 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 2002 and 2001. 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.

Assets	**Year ended 31 December 2002**			Year ended 31 December 2001		
	Average balance €m	**Interest €m**	**Average rate %**	Average balance € m	Interest € m	Average rate %
Placings with banks						
Domestic offices	**3,388**	**103**	**3.0**	3,441	138	4.0
Foreign offices	**1,884**	**81**	**4.3**	2,041	117	5.7
Loans to customers[1]						
Domestic offices	**23,530**	**1,360**	**5.8**	21,210	1,390	6.6
Foreign offices	**26,369**	**1,573**	**6.0**	25,026	2,051	8.2
Placings with banks and loans to customers[1]						
Domestic offices	**26,918**	**1,463**	**5.4**	24,651	1,528	6.2
Foreign offices	**28,253**	**1,654**	**5.9**	27,067	2,168	7.9
Funds sold						
Domestic offices	**–**	**–**	**–**	–	–	–
Foreign offices	**744**	**12**	**1.6**	93	2	2.7
Debt securities and government bills						
Domestic offices	**9,850**	**401**	**4.1**	8,886	432	4.9
Foreign offices	**9,311**	**550**	**5.9**	11,558	784	6.8
Instalment credit and finance lease receivables						
Domestic offices	**1,895**	**115**	**6.1**	1,880	119	6.3
Foreign offices	**1,280**	**73**	**5.7**	1,458	90	6.2
Total interest earning assets						
Domestic offices	**38,663**	**1,979**	**5.1**	35,417	2,079	5.9
Foreign offices	**39,588**	**2,289**	**5.8**	40,176	3,044	7.6
	78,251	**4,268**	**5.5**	75,593	5,123	6.8
Allowance for loan losses	**(956)**			(939)		
Non-interest earning assets	**8,962**			9,560		
Total assets	**86,257**	**4,268**	**4.9**	84,214	5,123	6.1
Percentage of assets applicable to foreign activities			**51.6**			53.3

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

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

	Year ended 31 December 2002			Year ended 31 December 2001		
Liabilities and stockholders' equity	**Average balance € m**	**Interest € m**	**Average rate %**	Average balance € m	Interest € m	Average rate %
Interest bearing deposits and other short-term borrowings						
Domestic offices	**31,005**	**837**	**2.7**	27,285	1,044	3.8
Foreign offices	**30,326**	**935**	**3.1**	32,519	1,588	4.9
Funds purchased						
Domestic offices	**–**	**–**	**–**	–	–	–
Foreign offices	**1,489**	**24**	**1.6**	1,694	65	3.8
Subordinated liabilities						
Domestic offices	**1,642**	**85**	**5.2**	1,906	116	6.1
Foreign offices	**682**	**36**	**5.3**	788	52	6.6
Total interest bearing liabilities						
Domestic offices	**32,647**	**922**	**2.8**	29,191	1,160	4.0
Foreign offices	**32,497**	**995**	**3.1**	35,001	1,705	4.9
	65,144	**1,917**	**2.9**	64,192	2,865	4.5
Interest-free liabilities						
Current accounts	**10,764**			9,578		
Other liabilities	**5,182**			4,996		
Minority equity and non-equity interests	**285**			298		
Preference share capital	**253**			253		
Ordinary stockholders' equity	**4,629**			4,897		
Total liabilities and stockholders' equity	**86,257**	**1,917**	**2.2**	84,214	2,865	3.4
Percentage of liabilities applicable to foreign activities			**50.0**			53.7

64 Supplementary Group financial information for US reporting purposes

Exceptional foreign exchange dealing losses

As set out in note 9(b), in accordance with Irish Generally Accepted Accounting Principles (IR GAAP) the total costs arising from the fraud in Allfirst Treasury have been reflected by way of an exceptional charge of € 789 million (after tax € 513 million) in the accounts for the year ended December 31, 2001.

Under US reporting requirements, the filing of 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.

64 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	1998 € m	1997 € m
(Decrease)/increase in income before taxes	**(28)**	378	(228)	(45)	(11)	(24)
(Decrease)/increase in income tax expense	**(10)**	132	(80)	(16)	(4)	(8)
(Decrease)/increase in reported net income	**(18)**	246	(148)	(29)	(7)	(16)

Alternative presentation of consolidated statements of income

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

	2002 € m	2001 Restated[1] € m	2000 € m
Net interest income[2]	**2,351**	2,258	2,022
Deposit interest retention tax	**–**	–	(113)
Net interest income	**2,351**	2,258	1,909
Other income, including other finance income[3]	**1,579**	1,493	1,375
Exceptional foreign exchange dealing losses	**(18)**	(417)	(228)
Total operating income	**3,912**	3,334	3,056
Total operating expenses	**2,328**	2,278	1,997
Group operating income before provisions	**1,584**	1,056	1,059
Provisions	**251**	204	134
Group operating income	**1,333**	852	925
Income from associated undertakings	**9**	4	3
Income on disposal of property	**5**	6	5
Income on disposal of business	**–**	93	–
Income before taxes, preference dividends and minority interests	**1,347**	955	933
Applicable taxes	**296**	187	239
	1,051	768	694
Equity and non-equity minority interests in subsidiaries	**24**	23	38
Dividends on non-equity shares	**8**	15	20
	32	38	58
Consolidated net income under alternative presentation	**1,019**	730	636

[1]The figures for 2001 have been restated to reflect the interest cost of the Reserve Capital Instruments as interest expense rather than 'Dividends on non-equity shares' in accordance with UITF 33.

[2]Excluding charge in respect of DIRT in 2000 *(note 6)*.

[3]Excluding exceptional foreign exchange dealing losses in all years *(note 9(b))*.

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

Alternative presentation of consolidated balance sheet

Reflecting the losses in the period in which they arose would have had the following impact on consolidated ordinary stockholders' equity, consolidated total assets and consolidated total liabilities. The losses had no impact on consolidated ordinary stockholders' equity, consolidated total assets and consolidated total liabilities for the year ended 31 December 2002.

Consolidated ordinary stockholders' equity	2001 € m	2000 € m	1999 € m	1998 € m	1997 € m
Ordinary stockholders' equity as in the consolidated balance sheet	4,851	4,944	4,460	2,829	2,299
Adjustments:					
Cumulative impact of recognition of losses in year they occurred	20	(210)	(58)	(23)	(17)
Consolidated ordinary stockholders' equity under alternative presentation	4,871	4,734	4,402	2,806	2,282
Consolidated total assets					
Total assets as in the consolidated balance sheet	89,359	80,543	67,959	53,875	48,004
Adjustments:					
Other assets	–	(323)	(89)	(36)	(26)
Consolidated total assets under alternative presentation	89,359	80,220	67,870	53,839	47,978
Consolidated total liabilities and ordinary stockholders' equity					
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet	89,359	80,543	67,959	53,875	48,004
Adjustments:					
Expense accruals	(11)	–	–	–	–
Other liabilities	(9)	(113)	(31)	(13)	(9)
Ordinary stockholders' equity	20	(210)	(58)	(23)	(17)
Consolidated total liabilities and ordinary stockholders' equity under alternative presentation	89,359	80,220	67,870	53,839	47,978

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

Alternative presentation of consolidated balance sheet *(continued)*

The following consolidated balance sheet illustrates this presentation.

	2001 € m	2000 € m
Assets		
Cash and balances at central banks	1,175	938
Items in course of collection	1,536	1,116
Central government bills and other eligible bills	49	297
Loans and advances to banks	6,047	4,193
Loans and advances to customers less allowance for loan losses	51,216	45,880
Securitized assets	182	166
Debt securities	20,082	18,986
Equity shares	332	412
Interests in associated undertakings	10	8
Intangible assets	495	466
Property and equipment	1,305	1,127
Own shares	245	177
Other assets	1,260	1,322
Deferred taxation	417	247
Prepayments and accrued income	2,080	1,835
Pension assets	372	671
Long-term assurance business attributable to stockholders	304	238
	87,107	78,079
Long-term assurance assets attributable to policyholders	2,252	2,141
Total assets	89,359	80,220
Liabilities and stockholders' equity		
Deposits by banks	13,223	12,478
Customer accounts	54,557	48,437
Debt securities in issue	5,033	4,295
Other liabilities	3,263	2,966
Accruals and deferred income	2,148	1,684
Pension liabilities	117	46
Provisions for liabilities and charges	71	43
Deferred taxation	717	611
Subordinated liabilities	2,516	2,249
Minority equity and non-equity interests in consolidated subsidiaries	312	272
Non-equity stockholders interests	279	264
Ordinary stockholders' equity	4,871	4,734
	87,107	78,079
Long-term assurance liabilities to policyholders	2,252	2,141
Total liabilities and stockholders' equity	89,359	80,220

Summary of significant differences between Irish and United States accounting principles

The following is a description of the significant differences between Irish generally accepted accounting principles (IR GAAP) and those applicable in the United States of America (US GAAP).

Debt securities and equity securities

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

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

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

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

Under US GAAP, debt securities held to maturity are recorded at amortized cost. Because AIB periodically sells and buys long-term debt securities in response to identified market conditions, including fluctuations in interest rates, debt securities classified as financial fixed assets in the Group balance sheet in the amount of € 13,446 million at December 31, 2002 would be classified for US GAAP purposes as 'available-for-sale'. The purpose of these securities transactions is to minimise the risk associated with the AIB investment portfolio. At December 31, 2002 the market value of such securities was € 13,690 million. The excess of market value over amortized cost of the debt securities of € 244 million gave rise to an after tax reconciling item of € 199 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2001 debt securities in the amount of € 16,299 million would be classified as 'available-for-sale'. The Group uses these securities to minimise the risk associated with the AIB investment portfolio. At December 31, 2001 the market value of such securities was € 16,468 million. The excess of market value over amortized cost of the debt securities of € 169 million, gave rise to an after tax reconciling item of € 125 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

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

Under US GAAP, at December 31, 2002 equity securities classified as financial fixed assets in the Group balance sheet in the amount of € 188 million would be classified as 'available-for-sale'. At December 31, 2002 the market value of these securities was € 203 million. The excess of book amount of these securities over market value was € 15 million giving rise to an after tax reconciling item of € 13 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

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

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

Debt securities held for hedging purposes

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

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

Internal derivative trades

Under IR GAAP, where underlying Group subsidiaries and business units undertake internal derivative trades with the Group central treasury to transfer risk from the banking book to the trading book, the Group central treasury is allowed to aggregate and/or offset trades with similar characteristics for the purposes of establishing an effective hedge position against the underlying risk.

Under IR GAAP, where positions established with external counterparties offset the net risk, hedge accounting is to be applied to internal derivative trades. The accounting policy for derivatives under IR GAAP is described more fully on pages 45 and 46.

Under US GAAP, contemporaneous offset with external counterparties is required if hedge accounting is to be applied to internal derivative trades. As a consequence, trades not satisfying this requirement have been accounted for at fair value with gains or losses being recognized in the consolidated net income statement. From January 1, 2001 the adjustment for internal derivative trades is included with the Derivatives FAS 133 adjustment.

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

FAS 133 - Derivatives and hedging activities

Under IR GAAP, the Group uses derivatives for both trading and hedging purposes. The accounting treatment for these derivative instruments is dependent on whether they are entered into for trading or hedging purposes.

Trading instruments are recognized in the accounts at fair value with the adjustment arising included in other assets and other liabilities, as appropriate, in the consolidated balance sheet. Gains and losses arising from trading activities are included in dealing profits in the profit and loss account using the mark to market method of accounting.

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

Under US GAAP, all derivatives are recognized as either assets or liabilities in the statement of financial position and measured at fair value. The recognition of the changes in the fair value of a derivative depends upon its intended use. Derivatives that do not qualify for hedging treatment must be adjusted to fair value through earnings. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign currency denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivatives and the resulting designations. In adopting Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ('FAS 133') in its US GAAP reconciliation from January 1, 2001, AIB Group designated its derivative instruments anew for US reporting purposes on that date. The transition adjustment arising from this action was reflected in net income and other comprehensive income.

Revaluation of property

Under IR GAAP, property may be carried at either original cost or subsequent valuation less related depreciation, calculated where applicable on the revalued amount.

Under US GAAP, revaluations are not permitted to be reflected in the financial statements.

Deferred taxation

Under IR GAAP, deferred taxation is recognized in full in respect of timing differences that have originated but not reversed at the balance sheet date.

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

Goodwill

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

Under US GAAP, with effect from January 1, 2002, due to the introduction of FAS 142 "Goodwill and Other Intangible Assets", goodwill is not amortized but retained at its value and reviewed for impairment.

Core deposit intangibles

Under US GAAP, the component of goodwill arising on acquisition of bank subsidiary undertakings which relates to retail depositors is termed core deposit intangibles. Under IR GAAP, core deposit intangibles arising prior to December 31, 1997 have been written off to reserves in the year of acquisition, as a component of goodwill. Core deposits arising after January 1, 1998, are subsumed within goodwill and amortized over its useful life up to a maximum of 20 years.

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

Long-term assurance policies

Under IR GAAP, 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.

Under US GAAP, premiums are recognized as revenue when due from policyholders. The costs of claims are recognized when insured events occur. For traditional business, the present value of estimated future policy benefits is accrued when premium revenue is recognized. Acquisition costs are capitalized and charged to expense in proportion to premium revenue recognized. For unit-linked

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

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

Long-term assurance policies ***(continued)***
business, acquisition costs are amortized over the life of the contracts at a constant rate based on the present value of estimated gross profits. Initial income in respect of future services is not earned in the period assessed but recognized as income over the same amortization period and using the same amortization schedule as for acquisition costs.

Dividends payable on ordinary shares
Under IR GAAP, AIB records proposed dividends on ordinary shares, which are declared after period end, in the period to which they relate.

Under US GAAP, dividends are recorded in the period in which they are declared.

Dividends on non-equity shares
Under IR GAAP, AIB records dividends on non-equity shares in the profit and loss account on an accruals basis. Under US GAAP, dividends are recorded as a charge against ordinary stockholders' equity in the period in which they are declared.

Acceptances
Under IR GAAP, the Group presents acceptances as a contingent liability in a footnote to the financial statements. In the US, acceptances outstanding are presented as a liability, with an equal amount presented as an asset, 'customers' acceptance liability'.

Retirement benefits
Under IR GAAP, the expected return on pension assets, net of the interest cost on pension liabilities, is credited to other finance income while the service cost is charged to other administrative expenses. Actuarial gains and losses are recognized through the statement of total recognized gains and losses. Scheme assets are valued at fair value and scheme liabilities are measured using the projected unit method. The net scheme assets and liabilities, reduced by deferred tax amounts are shown on the face of the balance sheet.

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

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

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

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

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

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

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

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

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

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

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

Reconciliation of alternative presentation to US GAAP

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

Consolidated net income	Year ended December 31 2002	2001 Restated	2000
		(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 119)*	**€ 1,019**	€ 730	€ 636
Adjustments in respect of:			
Depreciation of freehold and long leasehold property	**2**	5	–
Long-term assurance policies	**(27)**	(48)	(70)
Goodwill	**4**	(110)	(78)
Premium on core deposit intangibles	**(5)**	(7)	(9)
Retirement benefits	**(5)**	53	94
Dividends on non-equity shares	**8**	15	20
Securities held for hedging purposes	**(3)**	(24)	(25)
Derivatives hedging available-for-sale securities	**–**	–	(9)
Internal derivative trades	**–**	–	(6)
Internal use computer software	**1**	6	11
Derivatives FAS 133 transition adjustment[1]	**–**	122	–
Derivatives FAS 133 adjustment	**(82)**	(107)	–
Deferred tax effect of the above adjustments	**17**	(5)	7
Net income in accordance with US GAAP	**€ 929**	€ 630	€ 571
Net income applicable to ordinary stockholders of AIB in accordance with US GAAP	**€ 921**	€ 615	€ 551
Equivalent to	**US $ 966**		
Income per American Depositary Share (ADS*) in accordance with US GAAP	**€ 2.12**	€ 1.43	€ 1.29
Equivalent to	**US $ 2.22**		
Year end exchange rate €/US $	**1.0487**		

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

Comprehensive income	Year ended December 31 2002	2001 Restated	2000
		(millions)	
Net income in accordance with US GAAP	**€ 929**	€ 630	€ 571
Net movement in unrealized holding gains on investment securities arising during the period	**84**	120	110
Derivatives FAS 133 transition adjustment[1]	**–**	41	–
Exchange translation adjustments	**(480)**	214	233
Comprehensive income	**€ 533**	€ 1,005	€ 914

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

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

Consolidated ordinary stockholders' equity	**2002**	2001	2000
	(millions except per share amounts)		
Ordinary stockholders' equity as in the consolidated balance sheet under alternative presentation *(page 120)*	**€ 4,408**	€ 4,871	€ 4,734
Revaluation of property	**(201)**	(204)	(210)
Depreciation of freehold and long leasehold property	**(27)**	(27)	(27)
Goodwill	**925**	1,070	1,097
Core deposit intangibles	**12**	19	26
Dividends payable on ordinary shares	**284**	250	221
Dividends on non-equity shares	**1**	1	–
Long-term assurance policies	**(263)**	(236)	(188)
Unrealized gains/(losses) not yet recognised on:			
Available-for-sale debt securities	**244**	169	16
Available-for-sale equity securities	**15**	–	(6)
Derivatives hedging available-for-sale securities	**–**	–	(63)
Securities held for hedging purposes	**(4)**	(1)	26
Internal derivative trades	**–**	–	(10)
Derivatives FAS 133 adjustment	**(79)**	5	–
Retirement benefits	**1,012**	77	(476)
Internal use computer software	**18**	17	11
Own shares	**(176)**	(245)	(177)
Deferred tax effect of the above adjustments	**(206)**	(50)	76
Ordinary stockholders' equity in accordance with US GAAP	**€ 5,963**	€ 5,716	€ 5,050
Equivalent to	**US $ 6,254**		
Ordinary stockholders' equity per ADS in accordance with US GAAP	**€ 13.37**	€ 12.98	€ 11.56
Equivalent to	**US $ 14.02**		
Ordinary stockholders' equity per ADS in accordance with IR GAAP	**€ 9.88**	€ 11.06	€ 10.84
Equivalent to	**US $ 10.37**		

	2002	2001	2000
		(millions)	
Total assets as in the consolidated balance sheet under alternative presentation *(page 120)*	**€ 86,049**	€ 89,359	€ 80,220
Revaluation of property	**(201)**	(204)	(210)
Depreciation of freehold and long leasehold property	**(27)**	(27)	(27)
Goodwill	**925**	1,070	1,097
Core deposit intangibles	**12**	19	26
Available-for-sale debt securities	**244**	169	16
Available-for-sale equity securities	**15**	–	(6)
Derivatives hedging available-for-sale securities	**–**	–	(63)
Internal derivative trades	**–**	–	(10)
Derivatives FAS 133 adjustment	**(79)**	5	–
Retirement benefits	**1,012**	77	(476)
Internal use computer software	**18**	17	11
Own shares	**(176)**	(245)	(177)
Special purpose vehicles	**1,057**	667	–
Long-term assurance policies	**(263)**	(236)	(188)
Long-term assurance assets attributable to policyholders	**(2,226)**	(2,252)	(2,141)
Securitized assets	**–**	–	(3)
Acceptances	**72**	142	147
Total assets in accordance with US GAAP	**€ 86,432**	€ 88,561	€ 78,216
Equivalent to	**US $ 90,642**		

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

Consolidated total liabilities and ordinary stockholders' equity	**2002**	2001	2000
		(millions)	
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet under alternative presentation *(page 120)*	**€ 86,049**	€ 89,359	€ 80,220
Ordinary stockholders' equity	**1,555**	845	316
Dividends payable on ordinary shares	**(284)**	(250)	(221)
Dividends on non-equity shares	**(1)**	(1)	–
Acceptances	**72**	142	147
Securities held for hedging purposes	**4**	1	(26)
Securitized assets	**–**	–	(3)
Debt securities in issue re special purpose vehicles	**1,057**	667	–
Deferred taxation	**206**	50	(76)
Long-term assurance liabilities to policyholders	**(2,226)**	(2,252)	(2,141)
Total liabilities and stockholders' equity in accordance with US GAAP	**€ 86,432**	€ 88,561	€ 78,216
Equivalent to	**US $ 90,642**		

Statement of changes in ordinary stockholders' equity	**2002**	2001	2000
		(millions)	
Opening balance	**€ 5,716**	€ 5,050	€ 4,420
Net income	**929**	630	571
Dividends payable on ordinary shares	**(396)**	(351)	(302)
Dividends on non-equity shares	**(8)**	(15)	(20)
Issue of shares	**115**	60	105
Unrealized gains on debt securities and equity shares held as available-for-sale	**84**	120	110
FAS 133 transition adjustment	**–**	41	–
Own shares	**69**	(68)	(55)
Exchange translation adjustments	**(480)**	214	233
Other movements	**(66)**	35	(12)
Closing balance	**€ 5,963**	€ 5,716	€ 5,050

65 Approval of accounts

The accounts were approved by the board of directors on 18 February 2003.

Statement of Directors' responsibilities in relation to the Accounts

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out within their audit report, is made with a view to distinguishing for 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 42 to 127, 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 42 to 127.

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 128, 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 regarding directors' remuneration and transactions is not disclosed.

We review whether the statement on pages 37 to 40 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or 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.

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 2002 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 2001 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 35 to 36 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 50, 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 2002 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
18 February 2003

Notes:

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

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

Accounts in sterling, US dollars and Polish zloty

Summary of consolidated profit and loss account for the year ended 31 December 2002	**€ m**	**STG £m STG £0.6505 = €1**	**US $m US $1.0487 = €1**	**PLN m PLN 4.0210 = €1**
Group operating profit before provisions	**1,612**	**1,048**	**1,690**	**6,482**
Provisions	**251**	**163**	**263**	**1,009**
Group operating profit	**1,361**	**885**	**1,427**	**5,473**
Income from associated undertakings	**9**	**6**	**10**	**37**
Profit on disposal of property	**5**	**3**	**5**	**20**
Group profit on ordinary activities before taxation	**1,375**	**894**	**1,442**	**5,530**
Taxation	**306**	**199**	**321**	**1,232**
Group profit on ordinary activities after taxation	**1,069**	**695**	**1,121**	**4,298**
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	**1,037**	**675**	**1,088**	**4,170**
Dividends on equity shares	**429**	**279**	**450**	**1,726**
Earnings per € 0.32 share – basic	**119.4c**	**77.7p**	**125.2¢**	**480.1 PLN**
Earnings per € 0.32 share – adjusted	**123.0c**	**80.0p**	**129.0¢**	**494.6 PLN**
Earnings per € 0.32 share – diluted	**118.2c**	**76.9p**	**124.0¢**	**475.3 PLN**

Summary of consolidated balance sheet 31 December 2002	**€ m**	**Stg £m**	**US $m**	**PLN m**
Assets				
Loans and advances to banks	**4,788**	**3,115**	**5,022**	**19,254**
Loans and advances to customers	**53,447**	**34,767**	**56,050**	**214,911**
Debt securities and equity shares	**18,450**	**12,002**	**19,349**	**74,188**
Intangible fixed assets	**457**	**297**	**479**	**1,836**
Tangible fixed assets	**1,178**	**766**	**1,235**	**4,736**
Other assets	**5,503**	**3,580**	**5,770**	**22,127**
Long-term assurance assets attributable to policyholders	**2,226**	**1,448**	**2,334**	**8,950**
	86,049	**55,975**	**90,239**	**346,002**
Liabilities				
Deposits by banks	**16,137**	**10,497**	**16,923**	**64,886**
Customer accounts	**52,976**	**34,461**	**55,556**	**213,018**
Debt securities in issue	**3,077**	**2,002**	**3,227**	**12,373**
Other liabilities	**4,544**	**2,955**	**4,765**	**18,268**
Subordinated liabilities	**2,172**	**1,413**	**2,278**	**8,734**
Equity and non-equity minority interests in subsidiaries	**274**	**178**	**287**	**1,102**
Shareholders' funds	**4,643**	**3,021**	**4,869**	**18,671**
Long-term assurance liabilities to policyholders	**2,226**	**1,448**	**2,334**	**8,950**
	86,049	**55,975**	**90,239**	**346,002**

Five year financial summary

2002 US $m	Summary of consolidated profit and loss account[1]	2002 € m	2001 Restated € m	2000 € m	1999 € m	1998 € m
			Year ended 31 December			
2,466	Net interest income before exceptional item	**2,351**	2,258	2,022	1,770	1,609
–	Deposit interest retention tax	**–**	–	(113)	–	–
2,466	Net interest income after exceptional item	**2,351**	2,258	1,909	1,770	1,609
65	Other finance income	**62**	67	71	71	–
1,590	Other income before exceptional item	**1,517**	1,426	1,304	1,052	980
–	Exceptional foreign exchange dealing losses	**–**	(789)	–	–	–
4,121	Total operating income after exceptional items	**3,930**	2,962	3,284	2,893	2,589
2,431	Total operating expenses	**2,318**	2,284	1,997	1,658	1,442
1,690	Group operating profit before provisions	**1,612**	678	1,287	1,235	1,147
263	Provisions	**251**	204	134	92	134
1,427	Group operating profit	**1,361**	474	1,153	1,143	1,013
10	Income from associated undertakings	**9**	4	3	3	4
5	Profit on disposal of property	**5**	6	5	2	32
–	Profit on disposal of business	**–**	93	–	15	–
1,442	Group profit before taxation	**1,375**	577	1,161	1,163	1,049
321	Taxation on ordinary activities	**306**	55	319	333	315
–	Impact of phased reduction in Irish corporation tax rates on deferred tax balances	**–**	–	–	–	55
321		**306**	55	319	333	370
25	Equity and non-equity minority interests	**24**	23	38	28	29
8	Dividends on non-equity shares	**8**	15	20	16	17
1,088	Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	**1,037**	484	784	786	633
450	Dividends on equity shares	**429**	380	335	288	239
2.4	Dividend cover – times	**2.4**	1.3	2.3	2.7	2.7
125.2¢	Earnings per € 0.32 share – basic	**119.4c**	56.2c	91.6c	92.5c	74.7c
129.0¢	Earnings per € 0.32 share – adjusted	**123.0c**	119.4c	106.7c	93.5c	81.1c
124.0¢	Earnings per € 0.32 share – diluted	**118.2c**	55.9c	91.0c	91.6c	73.7c

2002 US $m	Summary of consolidated balance sheet[1]	2002 €m	2001 €m	2000 €m	1999 €m	1998 €m
			Year ended 31 December			
90,239	Total assets	**86,049**	89,359	80,543	67,959	53,875
61,332	Total loans	**58,483**	57,445	50,239	43,127	35,496
75,706	Total deposits	**72,190**	72,813	65,210	55,241	44,840
1,350	Dated capital notes	**1,287**	1,594	1,836	1,587	970
408	Undated capital notes	**389**	426	413	397	170
520	Reserve capital instruments	**496**	496	–	–	–
287	Equity and non-equity minority interests in subsidiaries	**274**	312	272	227	213
246	Shareholders' funds: non-equity interests	**235**	279	264	245	210
4,623	Shareholders' funds: equity interests	**4,408**	4,851	4,944	4,460	2,829
7,434	Total capital resources	**7,089**	7,958	7,729	6,916	4,392

[1] *The financial data in the above tables and the supplementary tables on page 133 reflects the implementation of FRS 17 - Retirement benefits ('FRS 17') in each of the years 1999 to 2002. FRS 17 was implemented in the preparation of the Accounts for 2001 with restatement of 2000 and 1999. It was not practicable to restate the earlier years as the data was not available.*

Other financial data	2002 %	2001 Restated %	2000 %	1999 %	1998 %
					Year ended 31 December
Return on average total assets[1]	**1.24**	0.62[2]	1.12[3]	1.36	1.28[4]
Return on average ordinary shareholders' equity	**22.4**	9.9[2]	16.7[3]	20.9	25.4[4]
Dividend payout ratio	**41.4**	78.5	42.7	36.6	37.9
Average ordinary shareholders' equity as a percentage of average total assets	**5.4**	5.8	6.3	6.1	4.7
Allowance for loan losses as a percentage of total loans to customers at year end	**1.6**	1.9	1.9	1.9	1.8
Net interest margin[1]	**3.00**	2.99	3.02	3.27	3.33
Tier 1 capital ratio	**6.9**	6.5	6.3	6.4	7.5
Total capital ratio	**10.1**	10.1	10.8	11.3	11.1

[1]The 2001 amounts have been restated to reflect the implementation of UITF Abstract 33 - Obligations in Capital Instruments.
[2]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 19.4%.
[3]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 18.7%.
[4]Excluding the impact of the phased reduction in Irish corporation tax rates on deferred tax balances, the return on average total assets was 1.39% and the return on average ordinary shareholders' equity was 27.3%.

US $	Supplementary information for US investors	2002 €	2001 Restated €	2000 €	1999 €	1998 €
						Year ended 31 December
	Per American Depositary Share (ADS):[1]					
2.46	Net income per alternative presentation *(note 64)*[2]	**2.35**	1.70	1.49[3]	1.78	1.48
1.04	Dividend[4]	**0.98**	0.88	0.78	0.68	0.56
–	Tax credit on dividend[5]	**–**	–	–	–	0.07
10.37	Net assets per alternative presentation *(note 64)*	**9.88**	11.06	10.84	10.23	6.57
	Amounts in accordance with US GAAP:					
974m	Net income[2]	**929m**	630m	571m[6]	663m	650m
966m	Net income attributable to ordinary stockholders	**921m**	615m	551m[7]	647m	633m
2.22	Net income per ADS	**2.12**	1.43	1.29[8]	1.52	1.49
14.02	Net assets per ADS	**13.37**	12.98	11.56	10.27	8.80
90,642m	Total assets	**86,432m**	88,561m	78,216m	65,929m	53,603m
6,254m	Ordinary stockholders' equity	**5,963m**	5,716m	5,050m	4,420m	3,761m

[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]The 2001 amounts have been restated to reflect the implementation of UITF Abstract 33 - Obligations in Capital Instruments.
[3]€ 1.73 (US$ 1.61) when adjusted to exclude the impact of the deposit interest retention tax settlement.
[4]The actual dividend payable to US stockholders will depend on the €/US $ exchange rate prevailing.
[5]For dividends payable after 5 April 1999 the tax credit is zero.
[6]€ 674m (US$ 628m) when adjusted to exclude the impact of the deposit interest retention tax settlement.
[7]€ 654m (US$ 609m) when adjusted to exclude the impact of the deposit interest retention tax settlement.
[8]€ 1.53 (US$ 1.42) when adjusted to exclude the impact of the deposit interest retention tax settlement.

	2002 %	2001 Restated %	2000 %	1999 %	1998 %
					Year ended 31 December
Other financial data in accordance with US GAAP:					
Return on average total assets[1]	**1.11**	0.79	0.83[2]	1.15	1.25
Return on average ordinary stockholders' equity	**15.80**	11.25	11.33[2]	15.27	17.90
Dividend payout ratio	**46.6**	61.7	60.7	44.4	37.7
Average ordinary stockholders' equity as a percentage of average total assets	**6.78**	6.61	6.65	7.06	6.68

[1]The 2001 amounts have been restated to reflect the implementation of UITF Abstract 33 - Obligations in Capital Instruments.
[2]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 13.30%.

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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. Alternatively, these services may 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 & 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 (ADS), on the New York Stock Exchange (symbol AIB). Each ADS represents two ordinary shares and is evidenced by an American Depositary Receipt (ADR). The Company's non-cumulative preference shares are listed on the Irish Stock Exchange, and are eligible for trading in the USA, in the form of American Depositary Shares, in the National Association of Securities Dealers, Inc.'s PORTAL system under rule 144A.

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: http:// 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 by electronic transfer direct to a designated bank account, under advice from the Company of full details of the amounts so credited. Shareholders who wish to avail of this facility should contact the Registrar (*see 3 above*).

5. **Dividend Reinvestment Plan - Ordinary Shareholders**

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

6. **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 140.

7. **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.

8. **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.

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

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

General

With certain exceptions, which include dividends received by non-resident shareholders who have furnished valid declaration forms (see below), dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, currently 20%. DWT, where applicable, is deducted by the Bank from dividends paid in cash or as new shares issued under the Dividend Reinvestment Plan (see 5 above). Therefore, Plan participants who are subject to DWT receive shares to the value of the dividend after deduction of DWT. The following summarises the position in respect of different categories of shareholder:

A. Irish Resident Shareholders

– Individuals

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

– Shareholders not liable to DWT

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

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

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

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

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

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

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

– holds a licence under the Central Bank Act, 1971, or a similar authorisation under the law of a relevant territory, or is owned by a company which holds such a licence;
– is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
– otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary;

and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

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

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

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

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

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

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

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

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

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

C. Dividend Statements

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

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

D. American Depositary Receipt ('ADR') Holders

An ADR holder whose address:

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

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

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

US Withholding Tax

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 publication of this Report, 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, under provisions introduced by the US Internal Revenue authorities, effective from 1 January, 2001, US-resident holders of ADRs may, in certain circumstances, be liable to a *US* witholding 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 140; (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 2002

Size of shareholding	Shareholder Accounts Number	%	Shares Number	%
1 – 1,000	37,238	42	12,911,155	2
1,001 – 5,000	34,530	39	92,503,131	10
5,001 – 10,000	12,837	14	93,067,216	10
10,001 – 100,000	4,265	5	107,508,381	12
100,001 – over	396	–	591,456,636	66
Total	**89,266**	**100**	**897,446,519**	**100**
Geographical division				
Republic of Ireland	55,749	62	297,646,738	33
Overseas	33,517	38	599,799,781	67
Total	**89,266**	**100**	**897,446,519**	**100**

Financial calendar

Annual General Meeting: Thursday, 24 April 2003

Dividend payment dates – Ordinary Shares:

– Final Dividend 2002 - 25 April 2003
(Share Certificates posted to Dividend Reinvestment Plan Participants - 1 May 2003)

– Interim Dividend 2003 - 26 September 2003

Interim results:

Unaudited interim results for the half-year ending 30 June 2003 will be announced on 30 July 2003. The Interim Report for the half-year ending 30 June 2003 will be published as a press advertisement shortly thereafter, instead of being posted to shareholders. It 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: http://www.adrbny.com
or
Allfirst
Shareholder Relations
Telephone 1-800-458-0348
Email: ann.l.kerman@allfirst.com

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