Allied Irish Banks, p.l.c.

Report & Accounts

2003

This is the new-style report and accounts document from AIB. The Chairman's statement is on pages 8/9 and the Group Chief Executive's review starts on page 12. It includes for the first time statements on Corporate and Social Responsibility, on page 16, and AIB and its people, on page 17. For the latest information, please visit our websites listed opposite.

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

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

Financial highlights

for the year ended 31 December 2003

	2003 € m	2002 Restated[1] € m	2001 Restated[1] € m
Results			
Total operating income	**3,176**	3,927	3,751[2]
Group profit before taxation	**1,011**	1,372	1,366[2]
Profit attributable	**677**	1,034	484
Profit retained	**174**	560	41
Per € 0.32 ordinary share			
Earnings – basic	**78.8c**	119.1c	56.2c
Earnings – adjusted *(note 21)*	**109.5c**	122.7c	108.6c
Earnings – diluted	**78.4c**	117.9c	55.9c
Dividend	**54.00c**	49.06c	43.80c
Dividend cover – times	**1.5**	2.4	1.3
Net assets	**587c**	471c	514c
Performance measures			
Return on average total assets	**0.90%**	1.24%	1.23%[2]
Return on average ordinary shareholders' equity	**14.5%**	23.7%	20.4%[2]
Return on average ordinary shareholders' equity - tangible[3]	**20.0%**	27.4%	24.7%
Balance sheet			
Total assets	**80,960**	85,821	89,061
Shareholders' funds: equity interests	**4,942**	4,180	4,554
Loans etc	**53,326**	58,483	57,445
Deposits etc	**66,195**	72,190	72,813
Capital ratios			
Tier 1 capital	**7.1%**	6.9%	6.5%
Total capital	**10.4%**	10.1%	10.1%

[1] *The accounts for the years ended 31 December 2002 and 2001 have been restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares and UITF Abstract 38 - Accounting for ESOP Trusts (Accounting policies - page 54).*

[2] *Adjusted to exclude the exceptional foreign exchange dealing losses in 2001 (note 8(b)).*

[3] *Tangible shareholders' equity excludes capitalised goodwill of € 1.4 billion at 31 December 2003 (2002: € 0.5 billion; 2001: € 0.5 billion). In addition, profit attributable has been adjusted to exclude goodwill amortisation of € 72.6 million at 31 December 2003 (2002: € 31.7 million; 2001: € 30.9 million) in arriving at return on average ordinary shareholders' equity - tangible.*

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Group Headquarters &
Registered Office
Bankcentre, Ballsbridge
Dublin 4, Ireland
Telephone +353 1 660 0311
Registered number 24173

AIB's total dividend in 2003 represents a rise of 10% on 2002 and reflects the AIB Board's confidence in the company's future earnings prospects. Over the past five years, compound growth in AIB's dividend was 14%.

Chairman's statement

2003 was a year of change for AIB. A series of major deals were completed and there was the challenge of operating in an economic environment where our base currency, the euro, strengthened against the US dollar, sterling and Polish zloty. All this led to a negative impact on some of our headline profit figures.

Dividend

I am pleased to report that the underlying story was very different with a positive operating performance across the group. This was the background to the AIB Board's decision in setting the level of this year's dividend. We are recommending a final dividend of EUR 35.0c per share payable on 30 April 2004 to shareholders on the company's register of members at the close of business on 5 March 2004.

This dividend, when taken with the interim dividend of EUR 19.0c, means AIB's total dividend in 2003 is EUR 54.0c. This is a rise of 10% on 2002 and reflects the AIB Board's confidence in the company's future earnings prospects. Over the past five years, compound growth in AIB's dividend was 14%.

Share buyback

The M&T transaction saw AIB receive almost US $900 million in cash. The AIB Board decided to return capital to shareholders and not to retain it. So between April and November 2003 AIB launched a significant share buyback programme which saw the group purchase 60.8 million of its own shares.

Changes in the board

There were some changes to the AIB Board in 2003. I took over as chairman of AIB Group last November. I want to record my appreciation of the contribution made by Lochlann Quinn who was an outstanding chairman of AIB over the past six years. He provided exemplary leadership when the Allfirst fraud occurred in 2002 – a time of real challenge for the group. Lochlann oversaw the transformation of AIB's US interests over the last two years and set a consistently high standard in the conduct of board business throughout his time as chairman.

Earlier in 2003, three new members joined the AIB Board. In February, Colm Doherty, Managing Director, AIB Capital Markets and Aidan McKeon, Managing Director, AIB Group (UK) p.l.c., were appointed. In April, Robert Wilmers, Chairman, President and CEO of M&T Bank Corporation, joined the board after AIB acquired its strategic stakeholding in M&T.

The Combined Code

As you may know, Sir Derek Higgs, a member of the AIB Board since 2000, was the author of a report on the role and effectiveness of non-executive directors for the British Government.

Total dividend EUR 54.0c

AIB's performance so far in 2004 has been strong - good growth in business volumes is expected to continue.

Sir Derek's report informed key changes to the *Combined Code: Principles of Good Governance and Code of Best Practice* which came into effect on 1 January this year. AIB is in the process of adopting the new code and this has led to changes in the board committees. John B McGuckian has been appointed the senior independent non-executive director. For more information, see the full corporate governance statement on page 50.

Risk management

During 2003, AIB made considerable progress in improving its risk management structure. This process has been led by Shom Bhattacharya who joined AIB as Group Chief Risk Officer in December 2002 from JP Morgan Private Bank in New York. In April, a new risk strategy was adopted by the board. This set clear objectives for improvements in risk management practices in all key risk areas. AIB's ultimate goal is to achieve an integrated enterprise-wide risk management framework which will enable the group to reap the benefits of our investment in improved customer information and meet the requirements of the proposed Basel/EU capital adequacy rules.

Corporate and Social Responsibility

AIB aims to be a good corporate citizen and on page 16 you will find more details of AIB's activities in the area of corporate and social responsibility.

Outlook

The prospects for 2004 are bright. The economies of America, Poland, the Republic of Ireland and the UK where AIB operates are all demonstrating encouraging signs.

In the US, business investment is set to grow strongly in 2004 with consumer spending remaining buoyant. The Polish economy is set to bounce back strongly with industrial output expanding rapidly, driven by good export demand. In the Republic of Ireland, GDP is set to hit around 4% this year, up from around 2% in 2003. Meanwhile, inflation is falling and should average 2% in 2004. Domestic demand is very strong in the UK with its manufacturing and export sectors doing well. GDP could rise to 3% while inflation should remain below 2%.

AIB's performance so far in 2004 has been strong – good growth in business volumes is expected to continue.

Finally, I want to acknowledge the contribution of staff and management over the past 12 months. I know they share with the AIB Board the goal of increasing shareholder value.

AIB is in good shape - and good heart - to seize the opportunities of renewed business momentum across all its markets.

Dermot Gleeson

Chairman
23 February 2004

The AIB Board and Executive Committee

Board of Directors

Dermot Gleeson *BA, LlM - Chairman*
Barrister, and member of the Adjunct Law Faculty of University College Dublin. Chairman of the Irish Council for Bioethics. Director of Independent News and Media plc and the Gate Theatre. Former Attorney General of Ireland and former member of the Council of State. Former Chairman of the Review Body on Higher Remuneration in the Public Sector. Joined the Board in 2000, and appointed Chairman in 2003. (Age 55)

Michael Buckley* *MA, LPh, MSI - Group Chief Executive*
Former Managing Director, AIB Poland Division and of AIB Capital Markets Division. Former Managing Director, NCB Group and public servant in Irish Government and EU. Was Chairman of the Review Body on Higher Remuneration in the Public Sector from 1995 to 2001. Director of M&T Bank Corporation, Buffalo, New York State, and member of the Maynooth University Foundation. Joined the Board in 1995. (Age 58)

Adrian Burke *B Comm, FCA - Audit Committee Chairman*
Vice Chairperson of the Institute of European Affairs. Former president of the Institute of Chartered Accountants in Ireland, former Managing Partner of Arthur Andersen in Ireland, and former Chairman of the Joint Ethics Board of the Institutes of Chartered Accountants in Ireland, Scotland, and England and Wales. Joined the Board in 1997. (Age 62)

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

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 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 64)

Sir Derek Higgs *BA, FCA*
Chairman of Partnerships UK plc and Business in the Environment, and a Senior Adviser to UBS Investment Bank. Deputy Chairman of The British Land Company PLC, Director of Egg plc, and Jones Lang LaSalle Inc. Author of the Higgs "Review of the Role and Effectiveness of Non-Executive Directors", conducted at the request of the UK Government. Former Chairman of S.G. Warburg & Co. Ltd. and former Director of Prudential plc.
Joined the Board in 2000. (Age 59)

Gary Kennedy* *BA, FCA*
Group Director, Finance & Enterprise Technology. Joined AIB and appointed to the Board in 1997. Member of the Board of the Industrial Development Agency and member of the Galway University Foundation. Director of M&T Bank Corporation, Buffalo, New York State, and former Vice President Enterprise Networks Europe and Managing Director, Northern Telecom (Ireland) Ltd. (Age 45)

John B McGuckian *BSc Econ - Senior Independent Non-Executive Director*
Chairman of Ulster Television plc, Chairman of AIB Group (UK) p.l.c., and a Director of a number of other companies in Ireland and the UK. Former Pro-Chancellor of The Queen's University, Belfast, and former Chairman of The International Fund for Ireland and of the Industrial Development Board for Northern Ireland. Joined the Board in 1977 and appointed Senior Independent Non-Executive Director in November 2003. (Age 64)

Aidan McKeon* *B Comm, MBS, M Sc (Mgt)*
Managing Director, AIB Group (UK) p.l.c. Joined AIB in 1965 and worked in Branch Banking, Human Resources and Corporate and Commercial Banking. Appointed General Manager, Commercial Banking in 1989, General Manager, Britain in 1996, and to his present position in 1999. Member of the CBI Financial Services Council and of the Executive Committee of Co-operation Ireland. Joined the Board in 2003. (Age 56)

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

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

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

Robert G Wilmers
Chairman, President and Chief Executive Officer of M&T Bank Corporation ("M&T"), Buffalo, New York State. Director of The Business Council of New York State, Inc., the Buffalo Niagara Partnership, and the Andy Warhol Foundation. Served as Chairman of the New York State Bankers' Association in 2002, and as a director of the Federal Reserve Bank of New York from 1993 to 1998. Joined the Board in April 2003, on the acquisition by AIB of a strategic stake in M&T. (Age 69)

* *Executive Directors*

Board Committees
Information concerning membership of the Board's Audit, Nomination & Remuneration, and Social Affairs Committees is given in the Corporate Governance statement on page 50.

Group Executive Committee

Michael Buckley – *Group Chief Executive*

Shom Bhattacharya – *Group Chief Risk Officer*

Gerry Byrne – *Managing Director, AIB Poland Division*

Colm Doherty – *Managing Director, AIB Capital Markets*

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

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

Mike Lewis – *Head of Group Strategic Human Resources*

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

Our divisional performance in 2003 was strong and our asset quality was excellent.

Group Chief Executive's Review

AIB's results for 2003 make complicated reading. Our reported basic earnings per share was EUR 78.8 cent compared with EUR 119.1 cent in 2002.

We carried out wide-ranging restructuring activity which, along with goodwill amortisation, cost us the equivalent of EUR 39.2 cent in 2003 basic earnings per share. But the restructuring actions will have a very beneficial effect on the future of the business. The Irish Government bank levy cost us the equivalent of a further EUR 3 cent and the weaker dollar, sterling and Polish zloty the equivalent of a further EUR 5 cent. There was also the impact of the 2002 decline in stock market values on the FRS 17 pension charge. This cost us the equivalent of EUR 5 cent.

AIB RESTRUCTURING ACTIVITIES 2003

- Merger of M&T/Allfirst/share buy-back
- Disposal of Govett business
- Cost reduction programme in Poland
- Early retirement scheme, principally in the Republic of Ireland

Our divisional performance in 2003 was strong and our asset quality was excellent.

AIB Bank Republic of Ireland division whose profit went up 14% (excluding early retirement costs), substantially outperformed the market in the business and mortgage lending sectors. Ark Life, our life and pensions subsidiary, is now more fully integrated into AIB's extensive branch network in the Republic and this has delivered a much improved performance in the second half of 2003.

Our GB&NI division saw a profit increase of 15% (excluding early retirement costs), and now has a cost/income ratio of 49%. Our business in Great Britain had a very successful year and saw a profit rise of 21%. Allied Irish Bank (GB) is now a premium business bank with strong brand recognition. Meanwhile, First Trust Bank, our retail franchise in Northern Ireland, outperformed its market in loan and mortgage growth.

We want to bring to our customers a distinctive combination of best products, best service, best relationships and finally, best delivery.

AIB Capital Markets' profit contribution was up 12% (excluding early retirement costs and those connected with the loss on the disposal of the Govett business). The investment we have made in making our Corporate Banking business more international is paying off while Global Treasury performed well in challenging markets. The sale of AIB's New York branch and the relocation of operational support of US corporate banking and treasury business to Dublin will bring positive efficiency benefits.

Profit in Poland was down 17% before restructuring costs. Big cuts in interest rates materially hit our deposit income. However, our management team completed an investment and restructuring programme in 2003. This will put us in a good position to capitalise on the improved business momentum in this economy which we began to see in the second half of the year.

In the US, the integration of Allfirst into M&T Bank was completed. It has achieved all its cost objectives and customer retention was excellent. Our strategic shareholding of 22.5% in M&T is delivering value to AIB shareholders. At the time of writing the M&T share price is up 25% on the level it was when we announced the merger in September 2002. M&T has indicated that it expects double-digit earnings growth in 2004.

The key to our operating performance in 2003 is the AIB Way – the distinctive AIB model of doing things that allows us to deliver a distinctive customer proposition, wherever we operate.

We want to bring to our customers a distinctive combination of best products (using third party suppliers where appropriate to meet customer needs), best service (with dependability at its heart), best relationships (built by knowledgeable and engaging employees) and finally, best delivery (with a wide range of channels available to our customers accessing our services).

2003 was the first full year of the implementation of this strategy. The year saw solid progress in our independently measured customer satisfaction ratings across the business. We had a particularly strong gain from an already high base in Great Britain.

We will deliver a distinctive value proposition to our customers only if our people feel good about working for AIB and have a competitive and winning mind-set. Just as we relentlessly measure customer satisfaction levels we also independently survey staff attitudes across a whole range of areas

I believe the changes we completed in 2003, which complicated our reported results, will begin to deliver real benefits this year.

such as leadership, teamwork, training and skills, commitment, loyalty and understanding of goals and objectives. Our end-2003 survey results showed that our people rate AIB well above the norm for global high performing companies. For details about this survey and our people policies, see pages 17/18.

I want to record my thanks to AIB's people for their hard work and contribution in 2003.

AIB is benefiting from a clear business strategy, consistently applied across the group.

Our aims for 2004 are to achieve:

- continuing strong volume growth in our businesses in the Republic, the UK and the US.
- stronger bottom line performance from our Poland division against the backdrop of expected 4.5% growth in that economy.

We also expect that

- our overall revenues will rise faster than our costs.
- our asset quality will remain solid.

I believe the changes we completed in 2003, which complicated our reported results, will begin to deliver real benefits this year.

The continuing strength of the euro will remain an adverse factor. Yet, overall, I expect a stronger earnings performance from AIB in 2004.

Michael Buckley

Michael Buckley

AIB Group Chief Executive
23 February 2004

AIB at a glance

- AIB's principal countries of operations are Ireland, Poland, the UK and the US. These were chosen as they are economies with strong potential, are politically stable, have a good spread of industrial and service sectors and they have high standards of regulation.
- AIB's dominant business strategy is to develop mutually rewarding customer relationships offering high quality banking advice, services and products. Relationship banking and investment management businesses account for more than 90% of AIB's activity.
- AIB has five divisions – AIB Bank Republic of Ireland, AIB Bank Great Britain & Northern Ireland, Capital Markets, Poland and Finance & Enterprise Technology.
- AIB Bank ROI division consists of the group's retail and commercial activities in the Republic of Ireland. It also includes Ark Life, AIB's life and pensions subsidiary, and other specialist businesses offering credit cards, car finance & leasing products, home mortgages and other services.
- AIB Bank GB&NI division provides retail and commercial banking services in Great Britain, where it operates under the name Allied Irish Bank (GB), and Northern Ireland where it trades as First Trust Bank.
- AIB Capital Markets comprises Investment Banking, Asset Management, Corporate Banking and Global Treasury activities of the group as well as the Allied Irish America network, which caters for the community and charity sector in the US.
- AIB also has a 22.5% stake in M&T Bank, one of the top regional banks in the US. AIB has representatives on the M&T Board and has a strong influence in developing the Buffalo-based bank's strategy.
- In Poland, AIB owns 70.5% of BZWBK which has more than 400 outlets mainly in the mid-west and south-west of the country.
- AIB Bank ROI holds approximately 42% of the group's assets, Capital Markets 35%, AIB Bank GB&NI 14%, Poland 7% and Group 2%.
- AIB maintains strong capital ratios, well above regulatory minimum requirements – Tier 1 is 7.1% and the total capital ratio is 10.4% at 31 December 2003.
- AIB shares are quoted on the Irish, London and New York stock exchanges.
- Shareholders in North America hold almost 35% of AIB shares while those in the Republic of Ireland have over 37%, the UK 20% and those in continental Europe and the rest the world about 8%. About 67% of AIB's shareholders are institutional and 33% are retail.
- The group is committed to a consistent dividend policy and has a strong record of dividend growth.

Corporate and Social Responsibility

Being a responsible corporate citizen is very important to AIB. We support the voluntary approach to corporate social responsibility and we will support best industry practices within AIB Group. To assist us in this aim we take an active role in Business in the Community (BITC) both in the Republic of Ireland and Northern Ireland. BITC is a unique movement of companies committed to continually improving their positive impact on society.

Our customers are the foundation of our business. We realise that our customers' interests must be central to everything we do. We maintain the highest standards of confidentiality in the safeguarding of information about our customers, their business and their accounts and we are committed to openness and transparency in communications with our customers.

We aim to ensure that we act at all times with integrity and professionalism, as well as behaving with prudence and skill. We have an AIB Code of Business Ethics, with which all employees of the group are expected to comply.

Allied Irish Bank GB has been recognised by the Forum of Private Business as being Britain's 'Best Business Bank' over the last 10 years. In 2004, Allied Irish Bank GB has also been acknowledged as being in the top quartile of all UK companies in terms of customer service, by The Leadership Factor survey. In the Republic of Ireland, through our external customer service satisfaction surveys, we have seen a strong upward trend in ratings over the past two years. BZWBK in Poland have been acclaimed for the services and products they provide to small and medium-sized enterprises.

We aim to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. This principle of sustainable development demands that we accept responsibility for the direct impact of our own operations on the environment.

We ensure that we meet our environmental risk obligations under laws and regulations in each of the jurisdictions in which we operate. In 2003, First Trust Bank, our subsidiary in Northern Ireland, was placed in the first quintile in an environmental survey conducted by the Arena Network. This corporate environmental survey covers 200 leading firms, 26 local authorities, 19 health trusts and 5 education and library boards. We have also embarked on waste reduction and recycling programmes in key locations.

AIB recognises that our involvement in our markets extends beyond pure commercial activities. We support a wide variety of groups in our local communities through our corporate giving and sponsorship activities, which encompass the environment, education, sport and the arts. Our major initiative is the AIB Better Ireland Programme. Following consultation with AIB staff, this programme has directed its resources into key concerns affecting children in Ireland. Since the introduction of the scheme in August 2001, over €5 million has been awarded to more than 450 projects throughout Ireland. In June 2003 Amárach Consultants carried out research with Irish adults into their views on corporate giving and charitable donation programmes. AIB was rated first in the Republic of Ireland in terms of association with such initiatives – 18% ahead of its nearest rival.

In 2003 BZWBK launched an affinity card together with the Polish Humanitarian Organisation. This charity aims to provide at least one hot meal, every day of the school year to children in need. BZWBK was able to provide 35,000 meals to children through their donations in 2003.

Many AIB staff members are volunteers in charities and projects within their communities. The AIB Staff Partnership Fund recognises and rewards their commitment by matching any funds they raise or by making a payment to the organisation to acknowledge the personal time given by the AIB staff member. AIB Capital Markets was a founder member of the Irish Financial Services Centre Dublin Inner City Trust approximately 10 years ago. The trust is made up of companies based in the IFSC area with an objective of generating funds for the local community. In 2003 a community creche supported by the trust was opened.

AIB and its people

AIB supports education initiatives such as the AIB Capital Markets-sponsored Junior Achievement programme. Staff volunteer their time and funding is provided to help young people to value the role of business and economics in improving the quality of their lives. Skoool.ie is an interactive website supporting secondary level students in the Republic of Ireland. This website was developed and is sustained in partnership with Intel and the Irish Times. First Trust Bank sponsor the Chair of Innovation at Queen's University Belfast and AIB has also contributed to a number of developments including a new Chair at the Children's Research Centre in Trinity College.

We want to attract and retain the best people. As an employer, AIB is committed to equal opportunity practices. We operate a range of family friendly practices including flexible hours, career breaks and teleworking in appropriate circumstances.

Employee Information – AIB Group	**2003**
The average full time equivalent employee numbers	**25,567**
Number of countries staff employed	**9**
Permanent/Temporary Staff (%)	**92%(P)/8%(T)**
Male/Female employees (%)	**34%(M)/66%(F)**
Average age of employees (years)	**37**
Average length of service (years)	**11**
Voluntary attrition rate	**4.29%**
Employee profit sharing share scheme (ROI & UK Divisions)	**90%**
Staff survey (response rate)	**86%**

At the heart of AIB's business strategy is the creation of a distinctive customer proposition that will deliver differentiation in all our market places and generate superior financial performance. This business strategy can be fulfilled only through our people. Our goal is to enhance our commitment culture so people are engaged and motivated to work to their full potential to achieve outstanding results and deliver superior, distinctive propositions to our customers.

AIB Group is acknowledged in the financial services sector as providing leading edge human resource management policies and practices fundamental to the achievement of business objectives. In late 2003 we were proud to be the recipient of the Supreme award in the National HR Awards presented by the Chartered Institute of Personnel and Development (RoI) for our Staff Survey. The judges in particular referred to the strong action focus of the survey, the use of the survey findings to inform business planning and also to the use of the People Focus Index (PFI) in assessing the effectiveness of management.

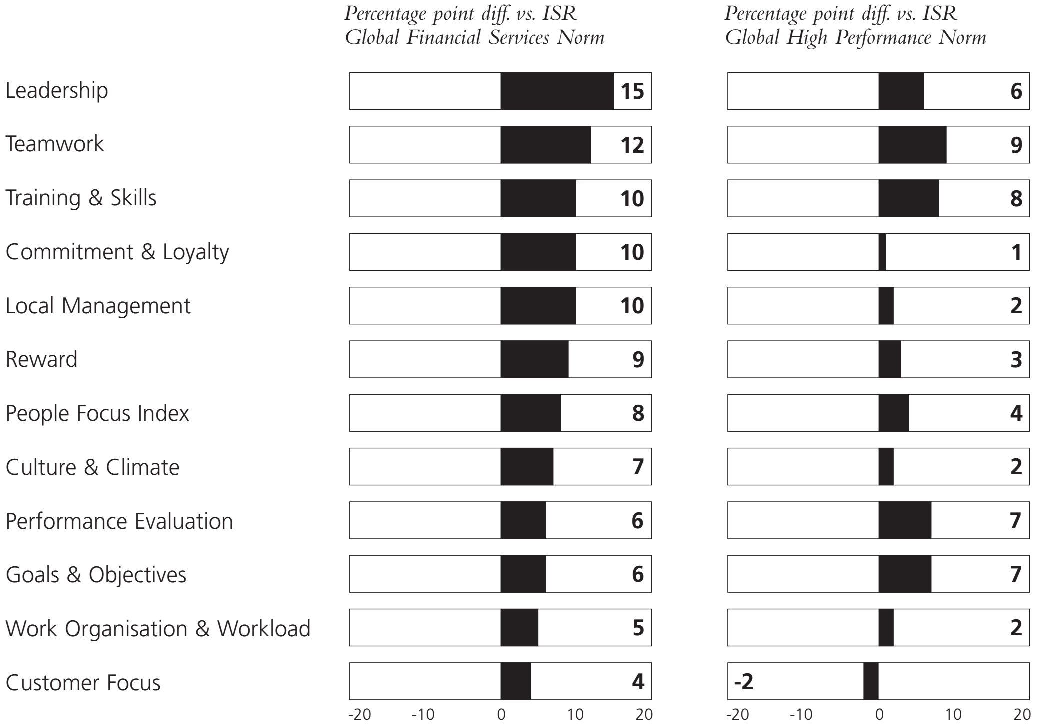
AIB Staff Survey

We measure the effectiveness of our people strategy and the strength of our commitment culture, through an annual survey of all staff across the group (with the exception of the Polish division). We have been conducting staff surveys in AIB since 1989 and the trend data allows us to measure our progress over time and against a number of external benchmarks including the Global Financial Services Norm (GFSN) and the Global High Performance Norm.

AIB has now been identified by ISR, our independent survey specialists, as a High Performing Company within their Global High Performance Norm Group. This places AIB, in terms of employee experience of working life, alongside such companies as Shell, Nokia, and AstraZeneca.

The survey incorporates a People Focus Index which has been developed by AIB. This is a

How does AIB compare externally?



range of questions which assesses the impact of local management style and behaviour on staff views of working life in AIB. This index has shown strong growth from 70% favourable in 2002 to 75% favourable in 2003, and compares well with the current global financial services norm of 68%.

Our Commitment Culture

The main elements in our commitment culture:

- We invest in the continuous development and growth in our people.
- We have a transparent meritocracy where job vacancies within the organisation at every level are subject to open competition.
- We communicate the key elements of reward, which are designed to incentivise superior levels of performance.
- We build strong people management skills and competencies in our first line management.
- We encourage all management to demonstrate strong leadership in building the strategic awareness of their teams.

Performance review

Implementation of UITF Abstract 37 'Purchases and sales of own shares' and UITF Abstract 38 'Accounting for Employee Share Ownership Plan ('ESOP') Trusts'

(see Accounting policies on page 54)

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

The application of UITF 37, has reduced profit before taxation for 2002 by € 3.3m and reduced long-term assurance assets attributable to policyholders and shareholders' funds at 31 December 2002 by € 52m.

The application of UITF 38 reduced consolidated total assets and consolidated total shareholders' funds at 31 December 2002 by € 176m.

Translation of foreign locations' profit

Approximately 50% of the Group's earnings are denominated in currencies other than the euro. Movements in exchange rates can therefore have an impact on earnings growth. In 2003, the US dollar, sterling and Polish zloty average accounting rates weakened relative to the euro by 17%, 9% and 13% respectively. The negative impact on earnings was partly offset by hedging profits of € 28 million, however the net effect of currency translation had a 4% negative impact on the adjusted earnings per share growth rate in 2003.

The average effective rates, including the impact of currency hedging activities, were as follows:

€ 1 : US$ 1.01 (2002 : US$ 0.90);
€ 1 : Stg£ 0.67 (2002 : Stg£ 0.63);
€ 1 : PLN 4.28 (2002 : PLN 4.13).

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 climates, conditions in various industries to which AIB Group is exposed and other external factors such as legal and regulatory requirements. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required general loan loss provision level.

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.

Some of the Group's financial instruments, including derivatives and debt securities held for trading purposes, are carried at fair value. Financial instruments entered into as trading transactions, together with any associated hedging thereof, are measured at fair value and the resultant profits and losses are included in dealing profits. Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. The use of different models or other assumptions could result in changes in financial results.

The Group provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded. In calculating the scheme liabilities, the directors have chosen a number of assumptions within an acceptable range. The impact on the profit and loss account or balance sheet could be materially different if an alternative set of assumptions were used.

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

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Divisional information

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

AIB Bank ROI division

AIB Bank ROI division encompasses the Group's retail and commercial banking operations in Ireland, Channel Islands and Isle of Man; AIB Finance & Leasing; Card Services and AIB's life and pensions subsidiary, Ark Life Assurance Company Limited. AIB Bank ROI provides banking services through a distribution network of some 289 locations (200 branches and 89 outlets) and in excess of 550 ATM's. AIB has an agency agreement with An Post, the national post office network, which enables AIB customers to carry out basic transactions at over 1,000 post office locations nationwide. A debit card 'Laser' is operated jointly with other financial institutions in Ireland.

In addition, the division offers 24 hour telephone and internet banking for the routine transactions of personal customers through which they can pay bills, transfer money between accounts, search for cheques and view and order statements. 24 hour telephone and internet banking is also suitable for sole trader business customers. For other business customers, an internet based banking service called iBusiness Banking is available. It offers secure internet banking and a comprehensive cash management solution, including domestic and cross-border payment functionality.

Branch banking services are provided across the range of customer segments, including individuals, small and medium sized commercial customers, farmers and the corporate sector. Through the branch network, the division provides a variety of savings and investment products, loans and overdrafts, home loans, home improvement loans, foreign exchange facilities, a full range of money transmission services and issues Visa® and Mastercard® credit cards.

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

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

AIB Bank GB & NI division

AIB GB & NI division operates through 34 branches and outlets throughout Britain, under the name Allied Irish Bank (GB) and as First Trust Bank in Northern Ireland where the bank maintains 60 branches. There are head offices in both London and Belfast. Both operations provide a full range of banking services including current accounts, overdraft and loan facilities, mortgages, deposits and investment services, and specialist corporate banking services.

Allied Irish Bank (GB) concentrates on the business, professional and not for profit markets and has successfully grown its operations through a relationship banking approach. It focuses particularly on providing specialist banking services to small to medium sized enterprises and to high net worth personal customers.

First Trust Bank provides banking services across the range of customer segments, including individuals, small and medium sized commercial customers and the corporate sector, with strong growth evident in personal home mortgages and also in business lending. Steady growth has been experienced in its telephone and internet based services. All regulated investment business is carried out through First Trust Independent Financial Advisers Limited, AIB Group (UK) p.l.c.'s subsidiary company for independent financial advice.

Capital Markets division

AIB Capital Markets division manages the Investment Banking, Asset Management, Corporate Banking and Global Treasury services of the Group (with the exception of the international Banking Services in BZWBK).

These services are delivered through the following main business units: Global Treasury, Investment Banking, AIB Asset Management Holdings, AIB Corporate Banking and Allied Irish America ('AIA').

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

Investment Banking provides a comprehensive range of services including corporate finance through AIB Corporate Finance Limited, corporate finance and stockbroking through Goodbody Stockbrokers, structuring cross-border financing transactions and providing sophisticated back-office services through AIB International Financial Services Limited, and custodial, trustee and fund administration services through joint ventures with The Bank of New York. Investment Banking services also include providing alternative asset management activities (i.e. hedge funds), venture capital funds and property fund activities (principally in Poland).

Asset Management is provided through AIB Investment Managers Limited ('AIBIM') in the Republic of Ireland. The company manages assets principally for institutional and retail clients. On 4 November 2003, AIB announced a restructuring of its UK and Singapore asset management activities. The majority of the management contracts of Govett Investments Limited were sold to Gartmore Investment Management p.l.c. *(note 14)*. The operations of Govett Investment Management Limited in the UK and AIB Govett (Asia) Limited in Singapore are being closed down.

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

At the end of 2002, the Capital Markets division took management responsibility for the AIA business following the sale of Allfirst. This business was reorganised during the year, the retail banking business was sold and the corporate banking business transferred to AIB Corporate Banking. The not for profit business remains as the core business for AIA, operating principally from New York, with offices in a number of other principal US cities. The operations also include associated fund raising businesses based in the US and in Canada.

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

Poland division

Poland division comprises BZWBK in which AIB has a 70.5% shareholding, together with its subsidiaries and associates. AIB completed the merger of its Polish operations in 2001, forming BZWBK, Poland's fifth largest bank

BZWBK's registered office is located in Wroclaw in south-western Poland. Key support functions are also located in corporate centers in Poznan and Warsaw. At the end of 2003, BZWBK operated through 400 branches. BZWBK offers comprehensive services to retail and corporate customers. These services include leasing, mortgages, asset management, investment fund, foreign trade settlement products. The bank operates mainly in the more prosperous western part of the country but also has a significant presence in major urban areas of Poland such as Warsaw, Krakow, Gdansk and Lodz. During 2003, the bank strengthened its position in the Warsaw market where it now has over 30 outlets.

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

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Summary Profit and Loss Account

	Year ended 31 December 2003			Year ended 31 December 2002 Restated[2]		
	Continuing activities € m	**Discontinued[1] activities € m**	**Total € m**	Continuing activities € m	Discontinued[1] activities € m	Total € m
Net interest income	**1,840**	**94**	**1,934**	1,830	521	2,351
Other finance income	**14**	**(2)**	**12**	63	(1)	62
Other income	**1,124**	**106**	**1,230**	1,055	459	1,514
Total operating income	**2,978**	**198**	**3,176**	2,948	979	3,927
Staff and other administrative expenses	**1,597**	**112**	**1,709**	1,582	516	2,098
Restructuring and integration costs in continuing businesses	**72**	**–**	**72**	–	13	13
Depreciation and amortisation	**170**	**9**	**179**	165	42	207
Total operating expenses	**1,839**	**121**	**1,960**	1,747	571	2,318
Group operating profit before provisions	**1,139**	**77**	**1,216**	1,201	408	1,609
Provisions for bad and doubtful debts	**142**	**10**	**152**	110	84	194
Other provisions	**25**	**–**	**25**	45	12	57
Total provisions	**167**	**10**	**177**	155	96	251
Group operating profit	**972**	**67**	**1,039**	1,046	312	1,358
Share of operating profits of associated undertakings	**143**	**–**	**143**	9	–	9
Share of restructuring and integration costs in associated undertaking	**(20)**	**–**	**(20)**	–	–	–
Amortisation of goodwill on acquisition of associated undertaking	**(42)**	**–**	**(42)**	–	–	–
Profit/(loss) on disposal of property	**32**	**–**	**32**	6	(1)	5
(Loss)/profit on disposal of businesses	**(142)**	**1**	**(141)**	–	–	–
Group profit on ordinary activities before taxation	**943**	**68**	**1,011**	1,061	311	1,372
Taxation on ordinary activities	**299**	**19**	**318**	232	74	306
Group profit on ordinary activities after taxation	**644**	**49**	**693**	829	237	1,066
Minority interests and non-equity dividends	**15**	**1**	**16**	28	4	32
Group profit attributable to ordinary shareholders	**629**	**48**	**677**	801	233	1,034

[1] *The discontinued activities in 2003 relate to the income and expense of Allfirst Financial Inc. from 1 January 2003 to 31 March 2003. The discontinued activities for the year ended 31 December 2002 relate to Allfirst Financial Inc. for the 12 months. (note 2).*

[2] *The figures for the year ended 31 December have been restated to reflect the implementation of UITF Abstract 37 – Purchases and sales of own shares.*

The following commentary on profit and loss account headings covers continuing activities, which exclude Allfirst, and is based on underlying percentage growth adjusting for the impact of exchange rate movements on the translation of foreign locations' profit and excludes restructuring and integration costs, early retirement costs, the reduction in other finance income (FRS 17) and the transfer of Ark Life's sales force to AIB's payroll (resulted in higher payroll costs which were previously recorded as a deduction in other income as part of Ark Life profit). A comment on discontinued activities is included in the divisional commentary on page 36. Discontinued activities refer to Allfirst, which was merged with M&T Bank on 1 April 2003 (see note 2 in the notes to the accounts).

Total income

Total income at € 2,978 million was up 6.5%.

Total operating income	**Year 2003 € m**	Year 2002 € m	*Underlying % Change 2003 v 2002*
Net interest income	**1,840**	1,830	*6*
Other finance income	**14**	63	–
Other income	**1,124**	1,055	*8*
Total operating income	**2,978**	2,948	*6.5*

A comment on net interest income and other income follows.

Average interest earning assets – continuing activities	**Year 2003 € m**	Year 2002 € m	*% Change[1] 2003 v 2002*
Domestic	**44,679**	38,663	*16*
Foreign	**23,591**	24,119	*-2*
Continuing activities	**68,270**	62,782	*9*

[1] This particular analysis is not adjusted for the impact of exchange rate movements. The 2% reduction in foreign assets was impacted by the weakening of the US dollar, sterling and Polish zloty relative to the euro, by 17%, 9% and 13% respectively. Excluding currency movements, foreign assets were higher.

Net interest margin – continuing activities[2]	**Year 2003 %**	Year 2002 %	*Basis Points Change*
Domestic	**2.54**	2.73	*-19*
Foreign	**2.98**	3.20	*-22*
Continuing activities	**2.70**	2.91	*-21*

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

Net interest income

Net interest income increased by 6% to € 1,840 million due to particularly strong lending growth in AIB Bank Republic of Ireland and AIB Bank GB & NI. Loans to customers increased by 21% and customer accounts increased by 11% on a constant currency basis *(details of loan and deposit growth by division are contained on page 26).*

The net interest margin amounted to 2.70%, a 21 basis point decrease on the year to December 2002. The principal reasons for the margin attrition include the balance sheet funding effect of assets growing at a faster pace than liabilities, changes in product mix, and lower interest rates. Lower interest rates in Ireland and Poland have reduced margins on deposits and non-interest bearing funds. The impact of lower investment yields has reduced the return on the investment of capital and deposit funds.

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Other income

Other income increased by 8% to € 1,124 million in 2003.

Banking fees and commissions, which account for over 70% of other income, increased by 15% following a similar increase in 2002. The strong growth resulted from increased volumes of business and a substantially higher level of arrangement fees due to strong lending growth. In Poland, growth in branch fees and commissions, and credit card income, was strong.

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

The increase in dealing profits was mainly driven by a strong performance from bond management activities.

The 6% increase in Ark Life profit reflects good growth in income from protection products and a significant increase of 40% in sales in the second half compared with the second half of 2002 *[see comment under AIB Bank Republic of Ireland on page 31 for further information].*

Profit from hedging of foreign earnings was € 24 million in 2003 (total Group was € 28 million with € 4 million attributed to discontinued activities) compared to a loss of € 6 million in 2002 (total Group was a profit of € 5 million with a profit of € 11 million attributed to discontinued activities) *[see comment on translation of foreign locations' profit on page 19 for further details].*

The other income as a percentage of total income ratio for continuing activities increased from 37.9% to 38.2%.

Other income	**Year 2003 € m**	Year 2002 € m	*Underlying % Change 2003 v 2002*
Dividend income	**15**	11	*56*
Banking fees and commissions	**830**	773	*15*
Asset management and investment banking fees	**128**	151	*-13*
Fees and commissions receivable	**958**	924	*10*
Less: fees and commissions payable	**(117)**	(108)	*14*
Dealing profits	**103**	86	*23*
Contribution of life assurance company	**60**	57	*6*
Other	**81**	91	*-2*
Other operating income	**141**	148	*1*
Hedging profits/(losses)	**24**	(6)	*–*
Total other income	**1,124**	1,055	*8*

Operating expenses	**Year 2003 € m**	Year 2002 € m	*Underlying % Change 2003 v 2002*
Staff costs	**1,082**	1,046	*8*
Other costs	**515**	536	*1*
Depreciation and amortisation	**170**	165	*9*
Operating expenses before restructuring/ early retirement costs	**1,767**	1,747	*6*
Early retirement costs	**62**	–	
Restructuring costs in continuing businesses	**10**	–	
Total operating expenses	**1,839**	1,747	

Total operating expenses

Operating expenses, excluding restructuring and early retirement costs and the Ark Life sales force reorganisation, increased by 6% compared with 2002. The 6% increase includes some costs relating to the development of new integrated groupwide reporting and information systems, investment in building top class risk and governance infrastructure and practices, and there were additional costs relating to the USA. The growth also includes the first full year of depreciation of € 19 million (1% in continuing activities cost growth terms) relating to our new branch technology platform in Poland.

Operating expenses increased

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

The tangible cost income ratio for continuing activities remained at 58%.

Provisions

Total provisions were € 167 million compared with € 155 million in 2002.

Provisions	**Year 2003 € m**	Year 2002 € m
Bad and doubtful debts	**142**	110
Contingent liabilities and commitments	**9**	2
Amounts written off fixed asset investments	**16**	43
Total provisions	**167**	155

The provision for bad and doubtful debts in the year to December 2003 was € 142 million compared with € 110 million in 2002. The year to December 2002 figure included the release of € 40 million of the € 50 million additional unallocated credit provision created in 2001. The release offset a US$ 38 million provision created in Allfirst (now a discontinued activity) in relation to one specific case in 2002.

Strong asset quality in AIB Bank Republic of Ireland was reflected in a lower provision charge of 0.24% of average loans compared with 0.26% in 2002 and a reduction in non-performing loans as a percentage of loans to 0.8%, down from 0.9% at 31 December 2002. The quality of both the retail and commercial portfolios has been maintained with no specific sectoral deterioration. Home mortgage lending continued to be buoyant without compromising credit quality.

Non-performing loans in AIB Bank GB & NI, as a percentage of loans, reduced to 0.8% of loans and provision cover increased to 148%. The bad debt provision charge as a percentage of average loans also reduced to 0.21%.

In Capital Markets, non-performing loans as a percentage of total loans reduced to 0.8% at 31 December 2003 from 1.1% in 2002. The portfolio remains well diversified in terms of industry sector and geographic concentration and we maintained our prudent underwriting stance. The provision charge at 0.4%(1) of average loans was marginally higher than 2002.

In Poland, the provision charge reduced to 1.0% of loans from 1.2% at 31 December 2002. The downward trend in non-performing loans continued, with non-performing loans as a percentage of total loans declining to 11% from 15% at 31 December 2002.

The underlying charge for the year represented 0.33%(1) of average loans compared with a 0.37% charge in 2002 (before the release of the unallocated credit provision). Group non-performing loans as a percentage of total loans reduced significantly to 1.4% (0.8% excluding Poland) from 2.0% in 2002. Total provision coverage for

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non-performing loans continues to be healthy at 94% (131% excluding Poland), with the total non-specific provision element increasing to € 316 million.

(1) *Includes the relevant charge relating to the credit element of contingent liabilities and commitments and the allocation of general provisions to cover amounts written off fixed asset investments.*

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

The provision for amounts written off fixed asset investments declined to € 16 million from € 43 million in 2002. In 2002, the general deterioration in equity markets led to a number of equity investment write-downs mainly in the technology and telecom sectors.

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

% change December 2003 v December 2002	Risk weighted assets *% change*	Loans to customers *% change*	Customer accounts *% change*
AIB Bank Republic of Ireland	28	28	*9*
AIB Bank GB & NI	26	25	*15*
Capital Markets	18[(1)]	4	*18*
Poland	4	4[(2)]	–
AIB Group	23	21	*11*

(1) *The increase in risk weighted assets includes higher treasury assets and growth in off-balance sheet credit facilities in Corporate Banking and Allied Irish America.*
(2) *The increase was 6% on an underlying basis excluding the impact of the central writedown of non-performing loans that were fully provided for.*

The divisional commentary on pages 31 to 35 contains additional comments on key business trends in relation to loans to customers and customer accounts.

Balance sheet

Total assets amounted to € 81 billion at 31 December 2003 compared to € 70 billion *(page 144)* at 31 December 2002. The US dollar, sterling and the Polish zloty weakened against the euro by 17%, 8% and 14% respectively resulting in a decline in the reported total balance sheet since 31 December 2002. Adjusting for the impact of currency, total assets were up 21% since 31 December 2002 while loans to customers increased by 21% and customer accounts by 11%. Risk weighted assets excluding currency factors increased by 23% to € 63 billion.

Assets under management /administration and custody

Assets under management in the Group amounted to € 12 billion and assets under administration and custody amounted to € 165 billion at 31 December 2003.

Commentary on half-year December 2003 performance

Business volumes continued to gain momentum with Group loans increasing by 24% and deposits increasing by 14% on an annualised basis since 30 June 2003. Other income growth was good with a substantially higher level of arrangement fees due to strong lending growth. Operating expenses increased by approximately 5% in the second half-year.

Asset quality further improved with non-performing loans as a percentage of total loans declining from 1.7% at 30 June 2003 to 1.4% at December 2003.

A provision of € 62 million was made in the second half in relation to an early retirement offer to a limited number of staff in Ireland and Britain. In Poland there was a restructuring charge of € 10 million in the second half-year covering the closure of branches and the writedown in value of properties and branch equipment. The impact of the disposal of Govett was recorded in this period. Also included was a restructuring charge of € 4 million relating to AIB's share of the charge taken by M&T following its acquisition of Allfirst. This charge was in addition to the € 16 million accounted for in the first half-year.

Taxation

The taxation charge was € 318 million, compared with € 306 million in 2002. The effective tax rate was 31.4% compared with 22.3% in 2002. The effective tax rate in 2003 was impacted by the Allfirst/M&T transaction, the Irish Government bank levy, the implementation of the early retirement programme and the writeback of goodwill on the disposal of Govett. The underlying rate for the year was 21.2% in 2003 after adjusting for these items. The underlying effective tax rate is influenced by the geographic mix of profits which are taxed at the rates applicable in the foreign jurisdictions.

Return on equity and return on assets

The tangible return on equity was 20%, having absorbed the loss on disposal of Govett and restructuring and early retirement costs. The basic return on equity was 14.5% and the return on assets was 0.9%.

Outlook

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

The Group has hedged over 70% of its projected 2004 foreign earnings with over 90% of US dollar translation exposure hedged. Allowing for this hedged position and recognising the € 28 million benefit of 2003 hedging strategies and the impact of current rates on the unhedged portion, the negative financial impact is expected to be 3% in adjusted earnings per share growth terms.

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

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

The total recognised gains relating to the year amounted to € 667 million compared to a recognised loss of € 130 million in 2002. Profit attributable for the year ended 31 December 2003 was € 1,034 million in 2002. The unrealised element of the gain recognised on the disposal of Allfirst of € 489 million has been reflected in the STRGL, in accordance with UITF 31 - 'Exchange of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or an associate'. Currency translation differences amounted to € 457 million negative compared to € 341 million negative in 2002. 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 on page 26, 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

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benefit schemes during 2003 charged to the STRGL, net of deferred tax of € 17 million, amounted to € 50 million compared to an actuarial loss of € 823 million in 2002. The actuarial loss is determined by valuations prepared in accordance with FRS 17 which requires retirement benefit plan assets and liabilities to be recorded at market values at the balance sheet date. These valuations are not an indication of the long-term funding position of the plans which are formally assessed by way of triennial actuarial valuations. The actuarial loss included € 257 million from a reduction in discount rates offset by a € 97 million experience gain on liabilities as well as a € 93 million experience gain on the pension scheme assets. The net pension liability on funded schemes recognised within shareholders' funds was € 485 million at 31 December 2003 compared with a net pension liability of € 482 million at 31 December 2002.

Cash flow

As reflected in the consolidated cash flow statement, there was a net decrease in cash of € 1,351 million during the year ended 31 December 2003. Net cash inflow from operating activities was € 1,631 million, which arose primarily as a result of a net cash inflow from trading activities of € 1,331 million. The disposal of Allfirst Financial Inc. resulted in a cash outflow from acquisitions and disposals of € 1,049 million. Cash outflows from financing were € 173 million. The repurchase of ordinary shares generated a cash outflow of € 812 million and this was partly offset by the issue of subordinated liabilities of € 603 million. Cash outflows from taxation were € 273 million while cash outflows in relation to equity dividends were € 378 million. Cash outflows as a result of capital expenditure and financial investment were €1,049 million, due to net cash outflows from disposals of debt and equity securities of €1,049 million.

International accounting standards

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

During 2003, the IASB issued a number of improvements to existing standards and it amended IAS 32 and IAS 39 which deal with the accounting for, and disclosure of, financial instruments. In the first quarter of 2004 new standards on share based payments (issued on 19 February 2004), business combinations and insurance contracts are expected. In addition, the limited amendment to IAS 39, 'Financial instruments: Recognition and Measurement', dealing with macro hedging, is expected to be finalised.

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

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

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

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

Hedge accounting

AIB's accounting policy for derivatives is set out on pages 57 and 58. Derivatives held for hedging purposes are accounted for on the same basis as the underlying assets and liabilities. Derivatives held as part of the Group's risk management strategy are accounted for on an accruals basis.

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

As set out in the Financial Review, AIB's non-trading book generates interest rate risk which is managed using interest rate swaps and other instruments. Application of the hedge accounting rules of IAS 39 will be difficult as products tend to reprice or mature on a behavioural rather than on a contractual basis. As a result, the extent to which the business objectives can be met through the use of derivatives will depend on the final form of the hedging rules which are due to be issued in March 2004.

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

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

Effective interest rate

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

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

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

Provisions for bad and doubtful debts

AIB's accounting policy for provisions for bad and doubtful debts is set out in pages 54 and 55.

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

The profit and loss account charge for credit provisioning under IAS is expected to be more volatile as provisions will reflect the economic climate at the reporting date.

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Long-term assurance business
AIB's accounting policy for its long term assurance business is set out on page 58. AIB accounts for the embedded values of its life businesses on the balance sheet, thus recognising the discounted value of future profits.

The IAS standards for life assurance have not been finalised. An interim standard is due to be released in late March 2004 with a more comprehensive standard on life assurance to be published at a later date. It is currently anticipated that any contracts that are largely investment in nature (i.e., do not contain significant insurance risk) will be accounted for as financial instruments under IAS 39. The split between insurance and investment products will depend on the final form of the IAS insurance standards.

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

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

Share based payments
The grant of options under the Group's share option schemes does not give rise to a profit and loss account charge under Irish GAAP.

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

The standard applies to all equity-settled share based payments granted after 7 November 2002 that are not yet vested at the effective date of IAS.

Goodwill
AIB's accounting policy in respect of goodwill is set out in the accounting policies on page 57. AIB currently amortises goodwill arising on acquisitions after 31 December 1997 over a maximum life of 20 years.

The IASB standard on business combinations is expected to require that goodwill should not be amortised but should be tested annually for impairment.

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

Divisional commentary

On a divisional basis profit is measured in euro and consequently includes the impact of currency movements. The underlying percentage change is reported in the divisional profit and loss accounts adjusting for the impact of exchange rate movements on the translation of foreign locations' profit. The profit segments by division have been restated to reflect the following: (a) the movement of Allied Irish America from USA division to Capital Markets division, (b) the centralisation of the management of our Treasury operations in Poland to Capital Markets division, (c) the implementation of UITF 37 'Purchases and sales of own shares', Capital Markets other income reduced by € 3 million in 2002, and (d) a change in the allocation of pension costs across business segments.

AIB Bank Republic of Ireland profit and loss account	Year 2003 as reported € m	Early retirement costs € m	Year 2003 before early retirement costs € m	Year 2002 € m	*Underlying % change*[1]
Net interest income	**1,016**	–	**1,016**	921	*11*
Other income	**389**	–	**389**	353	*7*
Total operating income	**1,405**	–	**1,405**	1,274	*10*
Operating expenses	**719**	–	**719**	667	*6*
Early retirement costs	**40**	**(40)**	–	–	–
Total operating expenses	**759**	**(40)**	**719**	667	*6*
Operating profit before provisions	**646**	**40**	**686**	607	*13*
Provisions	**62**	–	**62**	55	*13*
Operating profit	**584**	**40**	**624**	552	*13*
Profit on disposal of property	**13**	–	**13**	8	*71*
Profit on ordinary activities before taxation	**597**	**40**	**637**	560	*14*

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

AIB Bank Republic of Ireland profit was up 14% excluding early retirement costs.

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.

Banking operations enjoyed another good year of growth with profit increasing by 15%. Particularly strong lending growth and good deposit growth coupled with higher productivity and good underlying cost containment were the key drivers of this strong performance. Loans increased by 28% since December 2002, including home mortgages up 34% and other loans up 25%. Customer deposits increased by 9% with particularly strong growth in the second half-year, up 6% since June 2003. Operating expenses were up 6% excluding the transfer of the Ark Life sales force to AIB's payroll. This increase reflects costs associated with higher business activity levels and normal salary increases. The cost income ratio decreased from 52% to 51%.

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

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

Divisional commentary

AIB Bank GB & NI profit and loss account	Year 2003 as reported € m	Early retirement costs € m	Year 2003 before early retirement costs € m	Year 2002 € m	Underlying % change
Net interest income	**364**	**–**	**364**	363	*10*
Other income	**165**	**–**	**165**	166	*9*
Total operating income	**529**	**–**	**529**	529	*10*
Operating expenses	**260**	**–**	**260**	266	*8*
Early retirement costs	**15**	**(15)**	**–**	–	–
Total operating expenses	**275**	**(15)**	**260**	266	*8*
Operating profit before provisions	**254**	**15**	**269**	263	*12*
Provisions	**19**	**–**	**19**	22	*-3*
Operating profit	**235**	**15**	**250**	241	*14*
Profit on disposal of property	**2**	**–**	**2**	–	–
Profit on ordinary activities before taxation	**237**	**15**	**252**	241	*15*

AIB Bank GB & NI profit was up 15% excluding early retirement costs.

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

AIB Bank GB & NI had a very strong business performance in 2003 with profit increasing by 15% excluding early retirement costs. Loans and deposits increased by 25% and 15% respectively. Other income was up 9% as a consequence of a substantially higher level of arrangement fees due to strong lending growth. Productivity continued to improve with the cost income ratio reducing from 50% to 49% notwithstanding investment in business expansion initiatives. Credit quality remained strong with a reduction in the bad debt charge and non-performing loans reducing to 0.8% of total loans, evidence of a prudent and selective approach to new business development.

AIB Bank GB, primarily a focused business bank providing relationship banking with a strong customer service ethos, had very strong profit growth of 21% to € 125 million. Loans increased by 28% with significant growth in chosen markets including professional, higher education and not-for-profit sectors. Deposits were up 18%, in the professional sector the increase was over 40% reflecting the acquisition of new business, particularly in the legal and accounting segments. Future business development capacity continues to be enhanced with seven business development offices opened in 2003. Within our chosen niches, we are increasingly viewed by customers as offering a superior alternative to our competitors, based on our ability to deliver better value and service.

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

Capital Markets profit and loss account	Year 2003 as reported € m	Loss on disposal of Govett/early retirement costs € m	Year 2003 before loss on disposal of Govett/early retirement costs € m	Year 2002 € m	*Underlying % change*
Net interest income	**312**	**–**	**312**	313	*4*
Other income	**362**	**–**	**362**	381	*1*
Total operating income	**674**	**–**	**674**	694	*2*
Operating expenses	**387**	**–**	**387**	402	*2*
Early retirement costs	**3**	**(3)**	**–**	–	–
Total operating expenses	**390**	**(3)**	**387**	402	*2*
Operating profit before provisions	**284**	**3**	**287**	292	*2*
Provisions	**46**	**–**	**46**	63	*-23*
Operating profit	**238**	**3**	**241**	229	*9*
Share of operating profits of associated undertakings	**10**	**–**	**10**	10	–
(Loss)/profit on disposal of businesses	**(146)**	**153**	**7**	–	–
Profit on ordinary activities before taxation	**102**	**156**	**258**	239	*12*

Capital Markets profit was up 12% excluding the sale of Govett and early retirement costs.

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

Underlying profit before taxation increased by 12% reflecting a strong performance in challenging market conditions.

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

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

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

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

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

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

Divisional commentary

Poland profit and loss account	Year 2003 as reported € m	Restructuring costs € m	Year 2003 before restructuring costs € m	Year 2002 € m	Underlying % change[1]
Net interest income	**175**	**–**	**175**	263	*-24*
Other income	**173**	**–**	**173**	166	*20*
Total operating income	**348**	**–**	**348**	429	*-7*
Operating expenses	**298**	**–**	**298**	341	*-1*
Restructuring and integration costs	**10**	**(10)**	**–**	–	–
Total operating expenses	**308**	**(10)**	**298**	341	*-1*
Operating profit before provisions	**40**	**10**	**50**	88	*-22*
Provisions	**31**	**–**	**31**	46	*-23*
Operating profit	**9**	**10**	**19**	42	*-22*
Share of operating loss of associated undertakings	**(3)**	**–**	**(3)**	(1)	–
Loss on disposal of property	**–**	**–**	**–**	(2)	–
Profit on disposal of business	**4**	**–**	**4**	–	–
Profit on ordinary activities before taxation	**10**	**10**	**20**	39	*-17*

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

Poland profit was € 20 million before restructuring costs, down 17%.

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

In local currency terms profit was down 17% excluding restructuring costs. Net interest income was down 24% mainly due to the impact of lower interest rates on deposit margins. Customer demand for lending products increased in the second half-year with performing loans up 10% since 31 December 2002. Volume increases in home mortgage and commercial leasing portfolios were particularly good.

Other income growth was particularly strong at 20% reflecting good growth in credit, current account and card fees.

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

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

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

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

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

Group profit and loss account	Year 2003 as reported € m	Early retirement costs € m	Year 2003 before early retirement costs € m	Year 2002 € m
Net interest income	**(20)**	–	**(20)**	(25)
Other finance income	**12**	–	**12**	64
Other income	**38**	–	**38**	–
Total operating income	**30**	–	**30**	39
Operating expenses	**99**	–	**99**	71
Early retirement costs	**4**	**(4)**	**–**	–
Total operating expenses	**103**	**(4)**	**99**	71
Operating loss before provisions	**(73)**	**4**	**(69)**	(32)
Provisions	**8**	–	**8**	(30)
Operating loss	**(81)**	**4**	**(77)**	(2)
Share of operating profits of associated undertaking - M&T	**136**	–	**136**	–
Share of restructuring and integration costs in associated undertaking - M&T	**(20)**	–	**(20)**	–
Amortisation of goodwill on acquisition of associated undertaking - M&T	**(42)**	–	**(42)**	–
Profit on disposal of property	**17**	–	**17**	–
Profit on disposal of business	**1**	–	**1**	–
Profit/(loss) on ordinary activities before taxation	**11**	**4**	**15**	(2)

Group

Group *includes interest income earned on capital not allocated to divisions, the funding cost of certain acquisitions, hedging in relation to the translation of foreign locations' profit, unallocated costs of enterprise technology and central services, the impact of FRS 17 and the contribution from AIB's share of approximately 22.5% in M&T Bank Corporation ('M&T').*

Excluding early retirement costs, Group reported a profit of € 15 million for the year to December 2003, compared with a loss of € 2 million for the year to December 2002.

Under FRS 17, there was lower other finance income from our pension fund assets due to declines in stock market valuations in 2002. Other income included € 28 million hedging profits in relation to foreign currency translation exposure.

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

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

Divisional commentary

Allfirst profit and loss account	3 months to 31 March 2003 € m	Year 2002 € m
Net interest income	**87**	516
Other income	**103**	446
Total operating income	**190**	962
Operating expenses	**125**	558
Restructuring and integration costs	**–**	13
Total operating expenses	**125**	571
Operating profit before provisions	**65**	391
Provisions	**11**	95
Operating profit	**54**	296
Loss on disposal of property	**–**	(1)
Profit on ordinary activities before taxation	**54**	295

Allfirst profit was € 54 million for the period from 1 January to 31 March 2003.

Allfirst – The profit and loss account includes Allfirst for the full year in 2002 and only the period from 1 January to 31 March in 2003. Net interest income for the quarter to 31 March 2003 reduced due to lower yields on investment securities following a restructuring of the portfolio in the fourth quarter of 2002, partly offset by securities gains of US$ 26 million reflected in other income.

Discontinued activities profit was € 68 million. This includes the Allfirst profit of € 54 million, hedging profits of € 4 million and some capital and pension adjustments attributed to discontinued activities that are reported in Group.

Financial review

CAPITAL MANAGEMENT

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

The table opposite shows AIB Group's capital resources at 31 December 2003 and 2002. Capital resources increased by € 565 million during the year ended 31 December 2003.

	2003 € m	2002 Restated € m
Shareholders' funds equity	**4,942**	4,180
Shareholders' funds non-equity	**196**	235
Equity and non-equity minority interests	**158**	274
Reserve capital instruments	**497**	496
Undated capital notes	**357**	389
Dated capital notes	**1,276**	1,287
Total capital resources	**7,426**	6,861

The increase arose primarily within shareholders' funds equity which benefited from the Allfirst disposal and net retentions. This was partly offset by the share buyback programme, pension scheme actuarial losses and exchange rate movements. The disposal of Allfirst had a positive effect on shareholders' funds equity of € 1.5 billion reflecting the goodwill written back of € 1.0 billion and the realised gain recognised of € 0.5 billion.

The share buyback programme undertaken during the year, reduced shareholders funds by € 0.8 billion and this was partly offset by the issue of shares for staff incentive and dividend reinvestment schemes of € 170 million. The actuarial losses in the Group's retirement benefit plans, which are recognised directly in stockholders' equity under FRS 17 - Retirement benefits, amounted to € 50 million. The value of the US dollar, sterling, and Polish zloty weakened against the euro by 17%, 8% and 14% respectively, resulting in a negative foreign currency translation adjustment of € 607 million. Shareholders' funds benefited from net retentions of € 225 million.

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

Capital ratios

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

The EU Capital Adequacy Directive (CAD) distinguishes the risks associated with a bank's

Financial review

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

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

The Group was strongly capitalised at 31 December 2003 with the tier 1 ratio improving to 7.1% and the total capital ratio at 10.4%. Risk weighted assets reduced by € 6.6 billion to € 62.6 billion, primarily as a result of the deconsolidation of Allfirst.

Tier 1 capital decreased by € 355 million to € 4.5 billion. Negative currency translation movements was the primary reason for the decrease. The positive impact of net retentions and the writeback of goodwill on disposals was neutralised to a large extent by the share buyback programme and increased supervisory deductions.

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

Capital base	2003 € m	2002 € m
Tier 1		
Paid up ordinary share capital	**290**	287
Eligible reserves	**4,280**	4,064
Equity minority interests in subsidiaries	**158**	181
Non-cumulative preference shares	**196**	235
Reserve capital instruments	**497**	496
Less: supervisory deductions	**(970)**	(457)
Total tier 1 capital	**4,451**	4,806
Tier 2		
Fixed asset revaluation reserves	**490**	457
General provisions	**316**	427
Subordinated perpetual loan capital	**278**	294
Subordinated term loan capital	**1,355**	1,344
Total tier 2 capital	**2,439**	2,522
Gross capital	**6,890**	7,328
Supervisory deductions	**(389)**	(341)
Total capital	**6,501**	6,987
Risk weighted assets		
Banking book:		
On balance sheet	**48,831**	53,961
Off-balance sheet	**8,602**	11,521
	57,433	65,482
Trading book:		
Market risks	**4,566**	3,099
Counterparty and settlement risks	**616**	658
	5,182	3,757
Total risk weighted assets	**62,615**	69,239
Capital ratios		
Tier 1	**7.1%**	6.9%
Total	**10.4%**	10.1%

RISK MANAGEMENT

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

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

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

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

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

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

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

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

Financial review

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

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

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

Credit risk

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

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

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

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

Credit management and control

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk management and control
The principal aims of AIB's market risk management activities are to limit the adverse impact of interest rate, exchange rate and equity price movements on profitability and shareholder value and to enhance earnings within defined limits. Market risk management for AIB is

centralised in Capital Markets Division. Interest rate, foreign exchange rate and equity risks incurred in retail and corporate banking activities are transferred into Global Treasury where they are managed. The basic principle is that these risks are eliminated by matching the market risk characteristics of assets, liabilities and off-balance sheet items. Global Treasury has the discretion to run a small mismatch, subject to strict limits and is also responsible for AIB's investment and liquidity management activities.

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

Measurement methods

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

VaR

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

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

Sensitivity measures

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

Stress testing

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

Interest rate risk

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

In managing interest rate risk, a distinction is made between trading and non-trading activities. Trading activities are recorded in

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

	Trading		Non-trading	
	2003	2002	**2003**	2002
	€ m	€ m	**€ m**	€ m
Interest rate risk				
1 month holding period:				
Average	**9.3**	6.8	**25.9**	48.7
High	**11.6**	9.3	**49.6**	87.4
Low	**6.4**	4.7	**12.8**	23.0
31 December	**8.1**	6.4	**18.9**	48.5
1 day holding period:				
Average	**2.1**	1.5	**5.8**	10.9
High	**2.6**	2.1	**11.1**	19.5
Low	**1.4**	1.0	**2.9**	5.1
31 December	**1.8**	1.4	**4.2**	10.8

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

Trading book

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

Non-trading book

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

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

Foreign exchange rate risk

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

Foreign exchange rate risk - structural

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

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

Financial review

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

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

	2003 € m	2002 € m
US dollar	**1,499**	902
Sterling	**1,008**	1,206
Polish zloty	**129**	187
	2,636	2,295

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

The Group may choose to hedge all or part of its projected future foreign currency earnings, thereby fixing a translation rate for the amount hedged. The purpose of these hedges is to minimise the risk of significant fluctuations in the reported euro values of the Group's separate US dollar, sterling and Polish zloty earnings. A discussion on the impact of hedging profits is included in 'translation of foreign locations' profit' on page 19 of this report.

Foreign exchange rate risk - trading

Global Treasury manages AIB's exposure to foreign exchange rate risk arising from unhedged customer transactions and discretionary trading. The risk is that adverse movements in foreign exchange rates will result in losses. This risk is managed by setting limits on the earnings at risk and the value at risk ('VaR') from the open foreign exchange rate positions of the Group. Stop loss limits are also used to close out loss making positions. The following table sets out the VaR figures for trading foreign exchange rate risk for the years ended 31 December 2003 and 2002.

	2003 € m	2002 € m
Foreign exchange rate risk-trading		
1 month holding period:		
Average	**0.6**	0.9
High	**0.9**	1.9
Low	**0.3**	0.3
31 December	**0.5**	0.8
1 day holding period:		
Average	**0.1**	0.2
High	**0.2**	0.4
Low	**0.1**	0.1
31 December	**0.1**	0.2

Equity risk

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

Off-balance sheet financial instruments

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

Credit commitments

Contingent liabilities and commitments to extend credit are outlined in note 49. The Group's maximum exposure to credit loss in the event of non-performance by the other party, where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of these contracts.

	Trading		Non-trading	
	2003	2002	**2003**	2002
	€ m	€ m	**€ m**	€ m
Equity risk				
1 month holding period:				
Average	**14.5**	10.2	**–**	0.3
High	**19.3**	16.5	**–**	0.7
Low	**11.6**	6.2	**–**	0.1
31 December	**18.1**	9.9	**–**	–
1 day holding period:				
Average	**3.2**	2.3	**–**	0.1
High	**4.3**	3.7	**–**	0.2
Low	**2.6**	1.4	**–**	–
31 December	**4.1**	2.2	**–**	–

Derivative instruments

Derivative instruments are contractual agreements between parties whose value reflects movements in an underlying interest rate, foreign exchange rate, equity price or index. The table below shows the notional amount and gross replacement cost for trading and non-trading interest rate, exchange rate and equity contracts at 31 December 2003 and 2002. While notional principal amounts are used to express the volume of these transactions, the amounts subject to credit risk are much lower. This is because most derivatives involve payments based on the net differences between the rates expressed in the contracts and other market rates.

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

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

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

	2003		2002	
	Notional amount	**Gross replacement cost**	Notional amount	Gross replacement cost
	€ m	**€ m**	€ m	€ m
Interest rate contracts				
Trading	**72,736**	**736**	75,558	1,223
Non-trading	**27,045**	**294**	34,971	690
	99,781	**1,030**	110,529	1,913
Exchange rate contracts				
Trading	**14,753**	**464**	18,468	457
Non-trading	**812**	**37**	2,578	89
	15,565	**501**	21,046	546
Equity contracts				
Trading	**2,445**	**73**	2,037	27
Non-trading	**–**	**–**	–	–
	2,445	**73**	2,037	27

subsequent change in value is taken to the profit and loss account immediately.

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

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

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

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

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

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

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

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

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

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

Operational risk

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

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

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

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

Report of the Directors

for the year ended 31 December 2003

The Directors of Allied Irish Banks, p.l.c. present their report and the audited accounts for the year ended 31 December 2003. A Statement of the Directors' responsibilities in relation to the Accounts appears on page 140.

Results

The Group profit attributable to the ordinary shareholders amounted to € 677m and was arrived at as shown in the Consolidated Profit and Loss Account on pages 59 and 60.

Dividend

An interim dividend of EUR 19.0c per ordinary share, amounting to € 161m, was paid on 26 September 2003. It is recommended that a final dividend of EUR 35.0c per ordinary share, amounting to € 296m *(see Note 19)*, be paid on 30 April 2004, making a total distribution of EUR 54.0c per ordinary share for the year. The balance of profit to be transferred to the Profit and Loss Account amounts to € 174m.

Capital

Information concerning shares issued under the Dividend Reinvestment Plan, the Employees' Profit Sharing Schemes, the Allfirst Stock Option Plan and the Share Option Scheme is shown in Notes 43 and 47.

At the 2003 Annual General Meeting, shareholders granted authority for the Company, or any subsidiary, to make market purchases of up to 89 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. As at 31 December, 2003, some 55,534,156 shares so purchased were held as Treasury Shares; information in this regard is given in Note 47.

Accounting policies

The principal accounting policies adopted by the Group, together with information on changes therein, are set out on pages 54 to 58.

Review of activities

The Statement by the Chairman on pages 8 and 9 and the Review by the Group Chief Executive on pages 12 to 14 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 Robert G Wilmers, Chairman, President and Chief Executive Officer of M&T Bank Corporation ('M&T'), was appointed a Non-Executive Director on 1 April 2003, as the designee of M&T, pursuant to the Agreement and Plan of Reorganisation between the Company, Allfirst Financial Inc. and M&T, under which Allfirst was merged with M&T, in which the Company acquired a strategic stake.

Mr Lochlann Quinn retired as Chairman and a Non-Executive Director on 14 October 2003.

Mr Michael Buckley, Mr Dermot Gleeson, Sir Derek Higgs, Mr Gary Kennedy and Mr John B McGuckian retire by rotation at the 2004 Annual General Meeting and, being eligible, offer themselves for re-appointment.

Mr Padraic M Fallon retires at the Meeting in compliance with the Combined Code on Corporate Governance (having served in excess of nine years) and, being eligible, offers himself for re-appointment.

The names of the Directors appear on pages 10 and 11, together with a short biographical note on each Director.

Directors' and Secretary's Interests in the Share Capital

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

Substantial Interests in the Share Capital

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

Bank of Ireland Asset Management Limited	3.69%

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

An analysis of shareholdings is shown on page 154.

Corporate Governance

The Directors' Corporate Governance statement appears on pages 50 to 53.

Books of Account

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures, including those set out in the *Internal Control* section of the Corporate Governance statement on page 53, 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 90/91 and 148/149; 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 2003, the Group's safety statement was revised and re-issued to all offices in Ireland, with specific focus on local hazard identification and risk assessment. Regional Safety Co-ordinators were appointed in each region, with a view to co-ordinating and supporting the activities of safety officials at branch level.

Branches Outside the State

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

Auditors

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

Dermot Gleeson
Chairman

Michael Buckley
Group Chief Executive

23 February 2004

Corporate Governance

Corporate governance is concerned with how companies are managed and controlled. The Board is committed to the highest standards in that regard. This statement explains how the Company has applied the Principles set out in the Combined Code on Corporate Governance[1] ('the 1998 Code'), and reports on compliance with its Provisions.

A new Corporate Governance Code was published in July 2003. This replaces the 1998 Code, and applies to AIB with effect from 1 January 2004. The Board has considered the new Code and has made changes to AIB's corporate governance practices, with a view to continuing to pursue recognised high standards in this area. These changes are being implemented and will be commented on in the 2004 Annual Report and Accounts.

The Board

The importance of having an effective Board to lead and control the Company and the Group is reflected in a comprehensive range of matters specifically reserved for decision by the Board; at a high level this includes:

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

A scheduled Board meeting is held each month, except August, and additional meetings are held as required. Thirteen Board meetings were held during 2003. The Directors are provided in advance of each Board meeting with relevant documentation and information to enable them to discharge their duties. Any additional information requested by Directors is readily provided.

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

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

At 31 December 2003, the Board comprised 10 Non-Executive Directors and 4 Executive Directors. The names of the Directors, and their biographical notes, appear on pages 10 and 11. All Directors are required to bring independent judgement to bear on their duties as Directors. The majority of the Non-Executive Directors, i.e., Ms. Carol Moffett, Sir Derek Higgs and Messrs. Burke, Fallon, Gleeson, Godson, McGuckian, O'Leary, and Sullivan, are considered to be independent of Management and free from any business or other relationship with the Company or the Group that could materially interfere with the exercise of their independent judgement.

Mr. Dermot Gleeson, then Deputy Chairman, was the designated senior independent non-executive director until his appointment as Chairman with effect from 14 October 2003. He was succeeded as the senior independent non-executive director by Mr. John B. McGuckian on 5 November 2003. The senior independent non-executive director is available to shareholders if they have concerns which contact through the normal channels of Chairman or Group Chief Executive have failed to resolve, or for which such contact is inappropriate.

The Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. There is a procedure in place to enable the Directors to take independent professional advice, at the Company's expense. Non-Executive Directors appointed since 1990 are appointed for an initial period of six years, which may be extended for a further period of three years. Following initial appointment, Directors must retire at the next Annual General Meeting ('AGM') and go before the shareholders for re-appointment. Subsequently,

[1] *'The Combined Code: Principles of Good Governance and Code of Best Practice'*, adopted in 1998 by the Irish Stock Exchange and the UK Listing Authority.

Directors must submit themselves for re-appointment at intervals of not more than three years; however, Directors who have served more than nine years are subject to annual re-election by shareholders. The Directors going forward for re-appointment at the 2004 AGM under the three-year rule are Sir Derek Higgs and Messrs. Buckley, Gleeson, Kennedy and McGuckian, while Mr. Fallon is going forward for re-appointment under the one-year rule.

There is an induction process for new Directors. Its content varies as between Executive and Non-Executive Directors. In respect of the latter, the induction is designed to familiarise Non-Executive Directors with the Group and its operations, and comprises the provision of relevant reading material, including details of the Company's strategic and operational plans, and a programme of meetings with the Heads of Divisions and the senior management of businesses and support functions. All Directors on appointment are furnished with a booklet entitled 'Responsibilities, Functions and Operations of the Board and Code of Conduct for Directors'.

Board Committees

The Board is assisted in the discharge of its duties by Board Committees, whose purpose is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is usually reviewed annually by the Board. A description of these Committees, each of which operates under terms of reference or guidelines approved by the Board, and their membership during 2003, is given below. The minutes of all meetings of Board Committees are circulated to all Directors, for information, with their Board papers, and are formally noted by the Board. This provides an opportunity for Directors to seek additional information or to comment on issues being addressed at Committee level.

Audit Committee

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

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

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

The Terms of Reference of the Audit Committee are currently being updated to reflect legal and regulatory changes, and, when approved by the Board, will be available on AIB's internet website (www.aibgroup.com).

Nomination and Remuneration Committee

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

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

In January 2004, the Committee was divided into two committees, namely, a Nomination and Corporate Governance Committee, and a Remuneration Committee. Terms of Reference for each of these Committees are being

Corporate Governance

prepared and, when approved by the Board, will be available on AIB's website. The members of the Nomination and Corporate Governance Committee are Mr. Dermot Gleeson (Chairman), Mr. Michael Buckley, Mr. Don Godson, Mr. John B. McGuckian and Mr. Michael J Sullivan. The members of the Remuneration Committee are Mr. Dermot Gleeson (Chairman), Mr. Don Godson, Sir Derek Higgs, Mr. John B. McGuckian, and Mr. Jim O'Leary.

Social Affairs Committee

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

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

Directors' Remuneration

The Report on Directors' Remuneration and Interests appears on pages 122 to 127.

Relations with Shareholders

The Company recognises the importance of communication with shareholders. The Company circulates each year, along with the statutory Annual Report and Accounts, a short, user-friendly booklet explaining features of the Company's performance in the previous year. This also focuses on strategy, performance over the previous five years, and interaction with customers and the wider community. It also comments on the membership of the Board, and other issues.

The Company uses its website to communicate with shareholders. The presentations to fund managers and analysts of Annual and Interim Financial Results (in February and July, respectively) are broadcast live on the internet, and may be accessed on **www.aibgroup.com/webcast**. The Non-Executive Directors may attend those presentations to hear the views expressed. The times of the broadcasts are advertised in advance on the website. The Investor Relations section of the website is updated with the Company's Stock Exchange releases, including the interim trading statements issued in June and December, and formal presentations to analysts and investors, so that such documents are available for review by 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. Shareholders have the facility of accessing the Annual Report and Accounts on AIB's website, instead of receiving the document by post. The content of the website is being significantly upgraded and will shortly contain additional information about the Company, its governance, its business and other relevant matters.

All shareholders are invited to attend the 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 separate issue. The Chairman of the Audit Committee is available to answer questions about the Committee's activities. The proportion of proxy votes lodged for and against each resolution is indicated; this demonstrates what the voting position would be if all votes cast, including votes cast by shareholders not in attendance at the Meeting, were taken into account.

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

The Notice and related papers for the 2004 AGM will be sent to shareholders 30 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, Heads of Divisions, the Chief Financial Officer, and the Head of Group Investor Relations, and are governed by prescribed procedures to ensure that price-sensitive information is not divulged.

Accounts and Directors' Responsibilities

The Accounts and other information presented in this Report and Accounts are consistent with the Code Principle requiring the presentation of 'a balanced and understandable assessment of the Company's position and prospects'. The Statement concerning the responsibilities of the Directors in relation to the Accounts appears on page 140.

Going Concern

The Accounts continue to be prepared on a going concern basis, as the Directors are satisfied that the Company and the Group as a whole have the resources to continue in business for the foreseeable future. In forming this view, the Directors have reviewed the Group's budget for 2004.

Internal Control

The Directors acknowledge that they are responsible for the Group's system of internal control and for reviewing its effectiveness. Guidance ('Internal Control: Guidance for Directors on the Combined Code') has been issued by the Irish Stock Exchange and the London Stock Exchange to assist Directors in complying with the 1998 Code's requirements in respect of internal control. That Guidance states that systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group's system of internal control includes:

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

The Group's structure and on-going processes for identifying, evaluating and managing the significant credit, market and operational risks faced by the Group are described in pages 40 to 47. Those processes are regularly reviewed by the Board, and accord with the above-mentioned Guidance.

The Directors confirm that, with the assistance of reports from the Audit Committee and Management, they have reviewed the effectiveness of the Group's system of internal control for the year ended 31 December 2003.

Compliance Statement

As noted above, there was no designated senior independent non-executive director for a three-week period; otherwise, the Company was in full compliance with the Provisions of the 1998 Code throughout 2003.

Accounting policies

Accounting convention

The accounts on pages 59 to 139 have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments held for dealing purposes, assets held in the long-term assurance business and certain properties. The accounts comply with the requirements of Irish statute comprising the Companies Acts 1963 to 2001 and the European Communities (Credit Institutions: Accounts) Regulations, 1992, and with applicable accounting standards issued by the Accounting Standards Board, pronouncements of the Urgent Issues Task Force ('UITF'), and with the Statements of Recommended Practice issued by the British Bankers' Association and the Irish Bankers' Federation. 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 63.

Change in accounting policy and presentation of financial information

(a) *Own Shares*

The Group implemented UITF Abstract 37 'Purchases and sales of own shares' in the preparation of its accounts for the year ended 31 December 2003 and comparative figures have been restated. Under UITF 37, no gain or loss is recognised in the consolidated profit and loss account, or statement of total recognised gains and losses, as a result of transactions by the parent company or its subsidiary companies in its own shares. In addition, the cost of shares acquired by a parent company or its subsidiary companies is deducted in arriving at consolidated shareholders' funds. The application of UITF 37, has reduced profit before taxation for 2002 by € 3.3m (2001: nil) and reduced long-term assurance assets attributable to policyholders and shareholders' funds at 31 December 2002 by € 52m (2001: € 52m).

The Group implemented UITF Abstract 38 'Accounting for Employee Share Ownership Plan ('ESOP') Trusts' in the preparation of its accounts for the year ended 31 December 2003 and comparative figures have been restated. UITF 38 supersedes UITF 13 'Accounting for ESOP Trusts' and requires that until such time as the company's own shares held by an ESOP trust vest unconditionally in the employees, the consideration paid for the shares should be deducted in arriving at shareholders' funds. The application of UITF 38 reduced consolidated total assets and consolidated total shareholders' funds at 31 December 2002 by € 176m (2001: € 245m).

(b) *Changes in presentation of financial information*

The profit segments by division have been restated to reflect the following: (a) the movement of Allied Irish America from USA division to Capital Markets division; (b) the centralisation of the management of our Treasury operations in Poland to Capital Markets division; and (c) a change in the allocation of pension costs across business segments.

Basis of consolidation

The Group accounts include the accounts of Allied Irish Banks, p.l.c. *(the parent company)* and its subsidiary undertakings made up to the end of the financial year. Details of principal subsidiaries are given in note 31.

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

Interests in associated undertakings

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

Income and expense recognition

Interest income and expense is recognised 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 charged to profit and loss account as incurred.

Provisions for bad and doubtful debts

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

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

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

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

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

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

Debt securities

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

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

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 installment finance

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

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

Securitised assets

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

Operating leases

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

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

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

The Group reviews its depreciation rates regularly. Expenditure incurred to date amounting to € 62m 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 € 26m has been charged to the profit and loss account.

Equity shares

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

Impairment

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

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

Non-credit risk provisions

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

The Group provided in the year ended 31 December 1993, on a present value basis, for the cost of its future commitments arising under the agreements reached in relation to the funding of Icarom plc *(under Administration)*, formerly The Insurance Corporation of Ireland plc. The future commitments under the agreements were each discounted to their present value by applying an interest rate derived from the weighted average of the yield to maturity of Irish Government securities maturing on the same dates as the future commitments. The Group's policy is not to revise these discount rates for future changes in interest rates. The commitments are deducted from the present value provisions as they mature and interest at the relevant discount rates is charged annually to interest expense and added to the present value provisions. The present value provisions are included in other liabilities *(note 39)*.

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

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

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

Credit related instruments

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

Retirement benefits

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

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

Own shares

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

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

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

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

Derivatives

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

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

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

Non-trading derivative transactions, comprise transactions held for hedging purposes as part of the Group's risk management strategy, against assets, liabilities, positions or cash flows, themselves accounted for on an accruals basis. The gains and losses on these instruments (arising from changes in fair value) are not recognised in the profit and loss account immediately as they arise. Derivative transactions entered into for hedging purposes are recognised in the accounts on an accruals basis consistent with the accounting treatment of the underlying transaction or transactions being hedged. 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.

Assets and liabilities arising from derivative transactions are reported gross in other assets or liabilities reduced by the effects of qualifying netting agreements where the Group has the right to insist on net settlement that would survive the insolvency of the counterparty.

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.

Consolidated profit and loss account

for the year ended 31 December 2003

	Notes	Year 31 December 2003 Continuing activities € m	Discontinued[1] activities € m	Total € m	2002 Restated[2] € m	2001 € m
Interest receivable:						
Interest receivable and similar income arising from						
debt securities and other fixed income securities		700	12	**712**	946	1,198
Other interest receivable and similar income	4	2,773	125	**2,898**	3,807	4,148
Less: interest payable	5	(1,633)	(43)	**(1,676)**	(2,402)	(3,088)
Net interest income		1,840	94	**1,934**	2,351	2,258
Other finance income	6	14	(2)	**12**	62	67
Dividend income	7	15	1	**16**	14	11
Fees and commissions receivable		958	80	**1,038**	1,301	1,258
Less: fees and commissions payable		(117)	(8)	**(125)**	(138)	(128)
Dealing profits	8(a)	127	8	**135**	74	92
Exceptional foreign exchange dealing losses	8(b)	–	–	**–**	–	(789)
Other operating income	9	141	25	**166**	263	193
Other income		1,124	106	**1,230**	1,514	637
Total operating income		2,978	198	**3,176**	3,927	2,962
Before exceptional items		2,978	198	**3,176**	3,927	3,751
Exceptional foreign exchange dealing losses	8(b)	–	–	**–**	–	(789)
Administrative expenses						
Staff and other administrative expenses	10(a)	1,597	112	**1,709**	2,098	2,051
Restructuring and integration costs in continuing businesses	10(b)	72	–	**72**	13	38
		1,669	112	**1,781**	2,111	2,089
Depreciation and amortisation	11	170	9	**179**	207	195
Total operating expenses		1,839	121	**1,960**	2,318	2,284
Group operating profit before provisions		1,139	77	**1,216**	1,609	678
Before exceptional items		1,139	77	**1,216**	1,609	1,467
Exceptional foreign exchange dealing losses	8(b)	–	–	**–**	–	(789)
Provisions for bad and doubtful debts	26	142	10	**152**	194	179
Provisions for contingent liabilities and commitments		9	–	**9**	2	19
Amounts written off fixed asset investments	12	16	–	**16**	55	6
Group operating profit - continuing activities		972	67	**1,039**	1,358	474
Before exceptional items		972	67	**1,039**	1,358	1,263
Exceptional foreign exchange dealing losses	8(b)	–	–	**–**	–	(789)
Share of operating profits of associated undertakings		143	–	**143**	9	4
Share of restructuring and integration costs						
in associated undertaking		(20)	–	**(20)**	–	–
Amortisation of goodwill on acquisition of associated undertaking		(42)	–	**(42)**	–	–
Profit on disposal of property		32	–	**32**	5	6
(Loss)/profit on disposal of businesses	14&2	(142)	1	**(141)**	–	93
Group profit on ordinary activities						
before taxation ***(carried forward)***		943	68	**1,011**	1,372	577
Before exceptional items		943	68	**1,011**	1,372	1,366
Exceptional foreign exchange dealing losses	8(b)	–	–	**–**	–	(789)

Consolidated profit and loss account *(continued)*

for the year ended 31 December 2003

	Notes	Year 31 December 2003 Continuing activities € m	Discontinued[1] activities € m	Total € m	2002 Restated[2] € m	2001 € m
Group profit on ordinary activities before taxation ***(brought forward)***		943	68	**1,011**	1,372	577
Taxation on ordinary activities	16	299	19	**318**	306	55
Group profit on ordinary activities after taxation		644	49	**693**	1,066	522
Equity and non-equity minority interests in subsidiaries	17	10	1	**11**	24	23
Dividends on non-equity shares	18	5	–	**5**	8	15
		15	1	**16**	32	38
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.		629	48	**677**	1,034	484
Dividends on equity shares	19			**452**	429	380
Transfer to reserves	45			**51**	45	63
				503	474	443
Profit retained	20&46			**174**	560	41
Earnings per € 0.32 ordinary share – basic	21(a)			**78.8c**	119.1c	56.2c
Earnings per € 0.32 ordinary share – adjusted	21(b)			**109.5c**	122.7c	108.6c
Earnings per € 0.32 ordinary share – diluted	21(c)			**78.4c**	117.9c	55.9c

[1]This relates to the income and expense of Allfirst Financial Inc. from 1 January 2003 to 31 March 2003 (note 2).

[2]The amounts for the year ended 31 December 2002 have been restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares. The impact on the results for the year ended 31 December 2001 was not material (Accounting policies - page 54).

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

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

Consolidated balance sheet

31 December 2003

	Notes	2003 € m	2002 Restated € m
Assets			
Cash and balances at central banks		**838**	1,176
Items in course of collection		**339**	1,171
Central government bills and other eligible bills	22	**45**	24
Loans and advances to banks	23	**2,633**	4,788
Loans and advances to customers	24	**50,490**	53,447
Securitised assets		**719**	1,002
Less: non-returnable proceeds		**(516)**	(754)
	27	**203**	248
Debt securities	28	**18,127**	18,204
Equity shares	29	**180**	246
Interests in associated undertakings	30	**1,361**	31
Intangible fixed assets	32	**420**	457
Tangible fixed assets	33	**792**	1,178
Other assets		**1,507**	1,153
Deferred taxation	34	**174**	245
Prepayments and accrued income		**636**	927
Long-term assurance business attributable to shareholders	35	**405**	352
		78,150	83,647
Long-term assurance assets attributable to policyholders	35	**2,810**	2,174
		80,960	85,821
Liabilities			
Deposits by banks	36	**18,094**	16,137
Customer accounts	37	**44,612**	52,976
Debt securities in issue	38	**3,489**	3,077
Other liabilities	39	**3,144**	2,591
Accruals and deferred income		**595**	829
Pension liabilities	13	**502**	537
Provisions for liabilities and charges	40	**87**	60
Deferred taxation	34	**142**	527
Subordinated liabilities	41	**2,130**	2,172
Equity and non-equity minority interests in subsidiaries	42	**158**	274
Share capital	43	**295**	293
Share premium account	44	**1,885**	1,918
Reserves	45	**951**	490
Profit and loss account	46	**2,007**	1,714
Shareholders' funds including non-equity interests		**5,138**	4,415
		78,091	83,595
Long-term assurance liabilities to policyholders	35	**2,869**	2,226
		80,960	85,821
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**12**	72
Guarantees and assets pledged as collateral security		**4,157**	5,292
Other contingent liabilities		**722**	1,027
	49	**4,891**	6,391
Commitments:			
Commitments arising out of sale and option to resell transactions		**–**	2,062
Other commitments		**13,932**	17,890
	49	**13,932**	19,952

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

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

31 December 2003

	Notes	2003 € m	2002 Restated € m
Assets			
Cash and balances at central banks		**508**	571
Items in course of collection		**151**	144
Central government bills and other eligible bills	22	**45**	4
Loans and advances to banks	23	**14,982**	13,520
Loans and advances to customers	24	**34,314**	28,904
Debt securities	28	**15,378**	13,371
Equity shares	29	**26**	16
Interests in associated undertakings		**891**	–
Shares in Group undertakings	31	**230**	1,327
Tangible fixed assets	33	**470**	526
Other assets		**993**	347
Deferred taxation	34	**72**	40
Prepayments and accrued income		**785**	867
		68,845	59,637
Liabilities			
Deposits by banks	36	**28,831**	25,163
Customer accounts	37	**29,117**	26,080
Debt securities in issue	38	**3,218**	1,935
Other liabilities	39	**1,676**	897
Accruals and deferred income		**737**	758
Pension liabilities		**280**	258
Provisions for liabilities and charges	40	**58**	22
Deferred taxation	34	**10**	4
Subordinated liabilities	41	**2,130**	1,604
Share capital	43	**295**	293
Share premium account	44	**1,885**	1,918
Reserves	45	**101**	116
Profit and loss account	46	**507**	589
Shareholders' funds including non-equity interests		**2,788**	2,916
		68,845	59,637
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**2**	54
Guarantees and assets pledged as collateral security		**3,680**	3,455
Other contingent liabilities		**565**	558
	49	**4,247**	4,067
Commitments:			
Other commitments	49	**9,893**	8,624

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

Consolidated cash flow statement

for the year ended 31 December 2003

	Notes	2003 € m	2002 Restated € m	2001 Restated € m
Net cash inflow/(outflow) from operating activities		**1,631**	(121)	231
Dividends received from associated undertakings		**33**	1	4
Returns on investments and servicing of finance	53(a)	**(93)**	(138)	(131)
Equity dividends paid		**(378)**	(345)	(334)
Taxation	53(b)	**(273)**	(280)	(242)
Capital expenditure and financial investment	53(c)	**(1,049)**	1,379	700
Acquisitions and disposals	53(d)	**(1,049)**	(5)	(59)
Financing	53(e)	**(173)**	(129)	208
(Decrease)/increase in cash	53(f)	**(1,351)**	362	377

Reconciliation of Group operating profit to net cash inflow/(outflow) from operating activities	2003 € m	2002 Restated € m	2001 Restated € m
Group operating profit	**1,039**	1,358	474
Decrease/(increase) in prepayments and accrued income	**106**	1,162	(199)
(Decrease)/increase in accruals and deferred income	**(95)**	(1,191)	429
Provisions for bad and doubtful debts	**152**	194	179
Provisions for contingent liabilities and commitments	**9**	2	19
Amounts written off fixed asset investments	**16**	55	6
Increase in other provisions	**57**	16	19
Depreciation and amortisation	**174**	207	202
Amortisation of own shares	**–**	–	2
(Loss)/profit on disposal of businesses	**(141)**	–	93
Interest on subordinated liabilities	**47**	83	133
Interest on reserve capital instruments	**38**	38	35
Profit on disposal of debt securities and equity shares	**(40)**	(117)	(21)
Averaged gains on debt securities held for hedging purposes	**(1)**	(4)	(24)
Profit on disposal of associated undertakings	**–**	(1)	(1)
Amortisation of premiums net of (discounts) on debt securities held as financial fixed assets	**23**	(15)	(7)
Increase in long-term assurance business	**(53)**	(48)	(66)
Net cash inflow from trading activities	**1,331**	1,739	1,273
Net increase in deposits by banks	**4,207**	3,975	452
Net increase in customer accounts	**5,729**	2,299	4,647
Net increase in loans and advances to customers	**(10,043)**	(6,129)	(4,281)
Net decrease/(increase) in loans and advances to banks	**591**	982	(1,588)
(Increase)/decrease in central government bills	**(41)**	18	274
Net increase in debt securities and equity shares held for trading purposes	**(1,216)**	(1,180)	(1,394)
Net (increase)/decrease in items in course of collection	**(161)**	174	(374)
Net increase/(decrease) in debt securities in issue	**1,082**	(1,425)	533
Net increase/(decrease) in notes in circulation	**41**	(3)	44
(Increase)/decrease in other assets	**(920)**	(28)	460
Increase/(decrease) in other liabilities	**701**	(521)	283
Effect of exchange translation and other adjustments	**330**	(22)	(98)
	300	(1,860)	(1,042)
Net cash inflow/(outflow) from operating activities	**1,631**	(121)	231

Statement of total recognised gains and losses

	2003 € m	2002 Restated € m	2001 € m
Group profit attributable to the ordinary shareholders	**677**	1,034	484
Gain recognised on disposal of Allfirst *(note 2)*	**489**	–	–
Currency translation differences on foreign currency net investments	**(457)**	(341)	145
Actuarial loss recognised in retirement benefit schemes *(note 13)*	**(50)**	(823)	(402)
Actuarial gain recognised in associated undertaking	**8**	–	–
Prior year adjustment *(note 13(b))*	**–**	–	648
Total recognised gains/(losses) relating to the year	**667**	(130)	875

Reconciliation of movements in shareholders' funds

	2003 € m	2002 Restated € m	2001 Restated € m
Group profit attributable to the ordinary shareholders	**677**	1,034	484
Dividends on equity shares	**452**	429	380
	225	605	104
Gain recognised on disposal of Allfirst *(note 2)*	**489**	–	–
Goodwill written back on disposals	**1,043**	–	–
Actuarial loss recognised in retirement benefit schemes	**(50)**	(823)	(402)
Actuarial gain recognised in associated undertaking	**8**	–	–
Other recognised (losses)/gains relating to the year	**(491)**	(352)	152
Ordinary share buyback	**(812)**	–	–
Ordinary shares issued in lieu of cash dividend	**108**	76	23
Other ordinary share capital issued	**62**	39	37
Net movement in own shares *(note 48)*	**141**	37	(64)
Net addition to/(deduction from) shareholders' funds	**723**	(418)	(150)
Opening shareholders' funds	**4,415**	4,833	5,208
Prior year adjustment *(note 48)*	**–**	–	(225)
Closing shareholders' funds	**5,138**	4,415	4,833
Shareholders' funds:			
Equity interests	**4,942**	4,180	4,554
Non-equity interests	**196**	235	279
	5,138	4,415	4,833

Note of historical cost profits and losses

Reported profits on ordinary activities before taxation would not be materially different if presented on an unmodified historical cost basis.

1 Turnover

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

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

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

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

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

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

The financial statements for the year ended 31 December 2003 reflect the income and expenses of Allfirst for the period to 31 March 2003. These have been reported as discontinued activities in the profit and loss account. From 1 April 2003, the Group accounted for its investment in the enlarged M&T as an associated undertaking. The Group's 22.5% share of the income before restructuring costs and taxes of the enlarged M&T is reflected in the Group consolidated profit and loss account within the caption 'Share of operating profits of associated undertakings'. The Group's share of the taxation charge for the enlarged M&T is included in the Group's taxation charge. The Group's share of restructuring and integration costs within the enlarged M&T amounted to € 20m (€ 16m after taxation).

Accounting for the acquisition of the 22.5% interest in M&T

The Group's share of the assets and liabilities of M&T as at 1 April 2003 have been recorded at fair value in accordance with the accounting policies of the Group. The fair value of the consideration given represents the value of the 77.5% of Allfirst that is deemed to be transferred to M&T. The acquisition of the 22.5% interest in M&T comprised:

		Adjustments		
	Book value € m	**Revaluation € m**	**Other € m**	**Fair value € m**
Loans and advances to customers	**23,670**	**447**	**–**	**24,117**
Investment securities	**3,807**	**1**	**–**	**3,808**
Tangible fixed assets	**213**	**–**	**–**	**213**
Deferred taxation	**40**	**(56)**	**90**	**74**
Other assets	**1,852**	**–**	**(128)**	**1,724**
Core deposit and other intangibles	**99**	**–**	**(99)**	**–**
Non interest bearing deposits	**(3,582)**	**–**	**–**	**(3,582)**
Interest bearing liabilities	**(23,694)**	**(305)**	**–**	**(23,999)**
Other liabilities	**(390)**	**(488)**	**(73)**	**(951)**
Net assets	**2,015**	**(401)**	**(210)**	**1,404**
Group's share of net assets - 22.5%				**316**
Goodwill arising on the acquisition of M&T				**1,181**
Fair value of consideration given				**1,497**

The fair value adjustments made on the acquisition of the 22.5% interest in M&T arise as follows: -

Revaluation adjustments

Loans and advances to customers and investment securities were increased by €447m and €1m respectively to reflect their fair value. Interest bearing liabilities were increased by €305m to reflect their fair value. The reduction in the deferred tax asset relates to the deferred tax impact of the above adjustments. Other liabilities have been increased to reflect the dilutive impact of the M&T employee stock options outstanding on AIB's 22.5% interest in M&T.

Other adjustments

Core deposit and other intangibles were eliminated to reflect their treatment under Irish GAAP. Other assets were reduced by €61m and other liabilities by €8m to bring the accounting policies for originated mortgage servicing rights and mortgage commitments into line with AIB's accounting policy. Application of the Group Accounting policy on pensions and post retirement benefits gave rise to a reduction in other assets of €67m and an increase in other liabilities of €78m. The residual adjustment to other liabilities reflected the accrual of expenses incurred by M&T in the acquisition of Allfirst. The increase in the deferred tax asset reflects the deferred tax impact of the above adjustments.

The acquisition has been accounted for in accordance with UITF 31. Acquisition accounting has been adopted in respect of the transaction and the fair value adjustments have been presented on a provisional basis. The figures have been translated at an exchange rate of € 1=US$ 1.0891, the exchange rate prevailing at 1 April 2003. Goodwill arising has been capitalised on the balance sheet within the caption 'Interests in associated undertakings', and is being written off over 20 years.

The Group's share of profits of the enlarged M&T is set out in Note 30. It is not practicable to determine the Group's share of the post acquisition results of the 22.5% of M&T pre-merger acquired as part of the transaction. The profit after tax of M&T from 1 January 2003 to 31 March 2003 was US$ 116.5m on a US GAAP basis (Year ended 31 December 2002: US$ 456.8m).

	Year 31 December 2003						
3 Segmental information	**AIB Bank ROI €m**	**AIB Bank GB & NI €m**	**Capital Markets €m**	**Poland €m**	**Group €m**	**Allfirst €m**	**Total €m**
Operations by business segments[1]							
Net interest income	**1,016**	**364**	**312**	**175**	**(20)**	**87**	**1,934**
Other income (incl. other finance income)	**389**	**165**	**362**	**173**	**50**	**103**	**1,242**
Total operating income	**1,405**	**529**	**674**	**348**	**30**	**190**	**3,176**
Total operating expenses[2]	**759**	**275**	**390**	**308**	**103**	**125**	**1,960**
Provisions	**62**	**19**	**46**	**31**	**8**	**11**	**177**
Group operating profit/(loss)	**584**	**235**	**238**	**9**	**(81)**	**54**	**1,039**
Share of operating profits/(losses) of associated undertakings	**–**	**–**	**10**	**(3)**	**136**	**–**	**143**
Share of restructuring and integration costs of associated undertaking	**–**	**–**	**–**	**–**	**(20)**	**–**	**(20)**
Amortisation of goodwill on acquisition of associated undertaking	**–**	**–**	**–**	**–**	**(42)**	**–**	**(42)**
Profit on disposal of property	**13**	**2**	**–**	**–**	**17**	**–**	**32**
(Loss)/profit on disposals of businesses	**–**	**–**	**(146)**	**4**	**1**	**–**	**(141)**
Group profit on ordinary activities before taxation	**597**	**237**	**102**	**10**	**11**	**54**	**1,011**
Balance sheet							
Total loans	**27,428**	**10,353**	**12,404**	**2,939**	**202**	**–**	**53,326**
Total deposits	**24,572**	**7,881**	**29,318**	**4,222**	**202**	**–**	**66,195**
Total assets	**34,101**	**11,643**	**28,365**	**5,301**	**1,550**	**–**	**80,960**
Total risk weighted assets	**24,119**	**10,055**	**24,506**	**3,259**	**676**	**–**	**62,615**
Net assets[3]	**1,904**	**794**	**1,934**	**257**	**53**	**–**	**4,942**

3 Segmental information *(continued)*

Year 31 December 2002
Restated[4][5]

	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Allfirst € m	Total € m
Operations by business segments[1]							
Net interest income	921	363	313	263	(25)	516	2,351
Other income (incl. other finance income)	353	166	381	166	64	446	1,576
Total operating income	1,274	529	694	429	39	962	3,927
Total operating expenses[2]	667	266	402	341	71	571	2,318
Provisions	55	22	63	46	(30)	95	251
Group operating profit/(loss)	552	241	229	42	(2)	296	1,358
Share of operating profits/(losses) of associated undertakings	–	–	10	(1)	–	–	9
Profit/(loss) on disposal of property	8	–	–	(2)	–	(1)	5
Group profit/(loss) on ordinary activities before taxation	560	241	239	39	(2)	295	1,372
Balance sheet							
Total loans	21,367	8,967	13,371	3,473	143	11,162	58,483
Total deposits	22,522	7,449	24,482	5,014	132	12,591	72,190
Total assets	27,186	10,158	26,618	6,261	126	15,472	85,821
Total risk weighted assets	18,821	8,666	22,833	3,549	257	15,113	69,239
Net assets[3]	1,136	523	1,378	215	16	912	4,180

Year 31 December 2001
Restated[4]

	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Allfirst € m	Total € m
Operations by business segments[1]							
Net interest income	843	336	258	261	10	550	2,258
Other income (incl. other finance income)	359	161	365	154	59	395	1,493
Total operating income before exceptional item	1,202	497	623	415	69	945	3,751
Total operating expenses[2]	624	254	370	388	81	567	2,284
Provisions	44	19	43	9	55	34	204
Group operating profit/(loss) before exceptional item	534	224	210	18	(67)	344	1,263
Share of operating profits/(losses) of associated undertakings	–	–	6	(1)	(1)	–	4
Profit on disposal of property	2	1	–	3	–	–	6
Profit on disposal of business	–	–	–	–	93	–	93
Group profit on ordinary activities before taxation and exceptional item	536	225	216	20	25	344	1,366
Exceptional foreign exchange dealing losses	–	–	–	–	–	(789)	(789)
Group profit/(loss) on ordinary activities before taxation	536	225	216	20	25	(445)	577
Balance sheet[5]							
Total loans	17,797	7,784	13,894	4,646	97	13,227	57,445
Total deposits	21,016	7,015	21,770	5,968	116	16,928	72,813
Total assets	23,459	8,980	28,685	7,340	204	20,393	89,061
Total risk weighted assets	15,987	7,542	23,136	3,992	–	18,201	68,858
Net assets[3]	1,057	499	1,530	264	–	1,204	4,554

3 Segmental information *(continued)*	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
						Year 31 December 2003
Operations by geographical segments[6]						
Net interest income	**1,155**	**121**	**465**	**193**	**–**	**1,934**
Other finance income	**20**	**(2)**	**(6)**	**–**	**–**	**12**
Other income	**562**	**217**	**261**	**188**	**2**	**1,230**
Total operating income	**1,737**	**336**	**720**	**381**	**2**	**3,176**
Total operating expenses[2]	**1,056**	**210**	**369**	**322**	**3**	**1,960**
Provisions	**68**	**20**	**58**	**31**	**–**	**177**
Group operating profit/(loss)	**613**	**106**	**293**	**28**	**(1)**	**1,039**
Share of operating profits of associated undertakings	**7**	**136**	**–**	**–**	**–**	**143**
Share of restructuring and integration costs of associated undertakings	**–**	**(20)**	**–**	**–**	**–**	**(20)**
Share of goodwill amortisation on acquisition of associated undertakings	**–**	**(42)**	**–**	**–**	**–**	**(42)**
Profit on disposal of property	**30**	**–**	**2**	**–**	**–**	**32**
Profit/(loss) on disposals of businesses	**1**	**7**	**(153)**	**4**	**–**	**(141)**
Group profit/(loss) on ordinary activities before taxation	**651**	**187**	**142**	**32**	**(1)**	**1,011**
Balance sheet						
Total loans	**34,940**	**1,094**	**14,337**	**2,939**	**16**	**53,326**
Total deposits	**46,876**	**1,083**	**14,014**	**4,222**	**–**	**66,195**
Total assets	**54,667**	**2,101**	**18,880**	**5,295**	**17**	**80,960**
Net assets[3]	**2,979**	**369**	**1,316**	**278**	**–**	**4,942**

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

3 Segmental information *(continued)*	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
						Year 31 December 2001
Operations by geographical segments[6]						
Net interest income	889	627	450	289	3	2,258
Other finance income	60	2	5	–	–	67
Other income before exceptional item	590	426	246	165	(1)	1,426
Total operating income before exceptional item	1,539	1,055	701	454	2	3,751
Total operating expenses[2]	885	653	350	393	3	2,284
Provisions	132	44	19	9	–	204
Group operating profit/(loss) before exceptional item	522	358	332	52	(1)	1,263
Share of operating profits of associated undertakings	4	–	–	–	–	4
Profit on disposal of property	2	–	1	3	–	6
(Loss)/profit on disposal of business	(1)	–	–	–	94	93
Group profit on ordinary activities before taxation before exceptional item	527	358	333	55	93	1,366
Exceptional foreign exchange dealing losses	–	(789)	–	–	–	(789)
Group profit/(loss) on ordinary activities before taxation	527	(431)	333	55	93	577
Balance sheet[5]						
Total loans	27,224	14,665	10,899	4,646	11	57,445
Total deposits	33,062	19,078	14,705	5,968	–	72,813
Total assets	42,095	22,444	17,168	7,342	12	89,061
Net assets[3]	1,909	1,503	870	272	–	4,554

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

[2]Includes restructuring and integration costs in continuing businesses *(note 10(b))*.

[3]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]The December 2002 and 2001 amounts have been restated to reflect the divisional restructure as discussed in the Accounting policies on page 54.

[5]The figures for 2002 and 2001 have been restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares and UITF Abstract 38 - Accounting for ESOP Trusts *(note 48)*.

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

4 Other interest receivable and similar income	2003 € m	2002 € m	2001 € m
Interest on loans and advances to banks	**113**	196	255
Interest on loans and advances to customers	**2,622**	3,423	3,684
Income from leasing and hire purchase contracts	**163**	188	209
	2,898	3,807	4,148
Income from leasing and hire purchase contracts has been accounted for as follows:			
Investment period method	**99**	119	134
Sum of the digits method	**64**	69	75
	163	188	209

The aggregate rentals receivable from leasing contracts was € 500m (2002: € 505m).

5 Interest payable	2003 € m	2002 € m	2001 € m
Interest on deposits by banks and customer accounts	**1,490**	2,178	2,744
Interest on debt securities in issue	**101**	103	176
Interest on subordinated liabilities	**47**	83	133
Interest on reserve capital instruments	**38**	38	35
	1,676	2,402	3,088

6 Other finance income

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

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

7 Dividend income

The dividend income relates to income from equity shares.

8 Dealing profits

(a) Dealing profits (before exceptional losses)	2003 € m	2002 Restated € m	2001 € m
Foreign exchange contracts	**92**	78	75
Profits less losses from securities held for trading purposes	**23**	7	2
Interest rate contracts	**16**	(11)	15
Equity index contracts	**4**	–	–
	135	74	92

Dealing profits is a term prescribed by the European Communities (Credit Institutions: Accounts) Regulations, 1992. Dealing profits reflects trading income and excludes interest payable and receivable arising from these activities. Staff and other administrative expenses arising from trading activities are not included here but are included under the appropriate heading within administrative expenses *(note 10(a))*.

(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.

8 Dealing profits *(continued)*

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

The Group profit attributable to the ordinary shareholders of € 1,034m, for the year ended 31 December 2002, would reduce to € 1,016m 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 63 - 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.

9 Other operating income	**2003 € m**	2002 € m	2001 € m
Profit on disposal of debt securities held for investment purposes	**37**	106	24
Profit on disposal of investments in associated undertakings	**–**	1	1
Profit/(loss) on disposal of equity shares	**3**	11	(3)
Contribution of life assurance company *(note 35)*	**60**	57	84
Contribution from securitised assets *(note 27)*	**1**	4	5
Mortgage origination and servicing income	**2**	7	10
Miscellaneous operating income	**63**	77	72
	166	263	193

10 Administrative expenses

(a) Staff and other administrative expenses	**2003 € m**	2002 € m	2001 € m
Staff costs:			
Wages and salaries	**905**	1,097	1,066
Social security costs	**88**	105	104
Retirement benefits service costs *(note 13)*	**111**	122	106
Other staff costs	**53**	67	72
	1,157	1,391	1,348
Other administrative expenses	**552**	707	703
	1,709	2,098	2,051

(b) Restructuring and integration costs in continuing businesses	**2003 € m**	2002 € m	2001 € m
Restructuring costs	**72**[(1)]	13[(2)]	–
Integration costs	**–**	–	38[(3)]
	72	13	38

[(1)] During 2003, BZWBK undertook a branch network restructuring process under which it is proposed to close 38 branches across Poland. A provision of € 10m was recorded in 2003 in respect of this process.

AIB Group introduced an Early Retirement Package in 2003. This is a voluntary programme and is available to certain staff over the age of 50 working in Ireland and Northern Ireland with staff located in the UK who have repatriation rights to Ireland also included. A provision of € 62m has been made in the 2003 accounts to cater for the terms and conditions of the package. € 41m of this amount forms part of the retirement benefit past service cost in note 13.

[(2)] 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 13.

[(3)] The charge of € 38m in 2001 relates to the costs of integration of Bank Zachodni S.A. (Group interest 83.01%) with Wielkopolski Bank Kredytowy S.A. (Group interest 60.14%) through a share for share offering.

11 Depreciation and amortisation	**2003 € m**	2002 € m	2001 € m
Depreciation of tangible fixed assets:			
Property depreciation	**30**	37	37
Equipment depreciation	**118**	138	127
	148	175	164
Amortisation of goodwill on acquisition of subsidiaries *(note 32)*	**31**	32	31
	179	207	195

12 Amounts written off/(written back) fixed asset investments	**2003 € m**	2002 € m	2001 € m
Debt securities	**13**	19	6
Equity shares	**3**	36	(1)
Interests in associated undertakings	**–**	–	1
	16	55	6

13 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.

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

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

The following table summarises the financial assumptions adopted in 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	**2003 %**	2002 %	2001 %
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	**5.25**	5.60	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	**5.25**	5.75	6.00
Inflation assumptions	**2.5**	2.5	2.5
Other schemes			
Rate of increase in salaries	**4.0 - 4.25**	4.0 - 4.5	4.0 - 4.5
Rate of increase of pensions in payment	**0.0 - 2.5**	0.0 - 2.5	0.0 - 2.5
Discount rate	**5.25 - 6.02**	5.60 - 6.51	5.75 - 6.94
Inflation assumptions	**2.5 - 3.0**	2.5 - 3.0	2.5 - 3.0

13 Retirement benefits *(continued)*

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

	as at 31 December 2003		as at 31 December 2002		as at 31 December 2001	
	Long term rate of return expected %	**Value € m**	Long term rate of return expected %	Value € m	Long term rate of return expected %	Value € m
Equities	**8.2**	**1,670**	9.0	1,490	8.6	2,138
Bonds	**5.0**	**265**	5.2	333	5.6	391
Property	**7.5**	**255**	7.5	262	5.8	286
Cash	**3.0**	**82**	3.0	84	2.8	87
Total market value of assets	**7.6**	**2,272**	8.0	2,169	7.7	2,902
Actuarial value of liabilities		**(2,902)**		(2,879)		(2,645)
(Deficit)/surplus in the schemes		**(630)**		(710)		257
Related deferred tax asset/(liability)		**128**		173		(2)
Net pension (liability)/asset		**(502)**		(537)		255

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

	as at 31 December		
	2003 € m	2002 € m	2001 € m
Funded pension schemes in surplus	**–**	–	372
Funded pension schemes in deficit	**(485)**	(482)	(58)
Unfunded schemes	**(17)**	(55)	(59)
	(502)	(537)	255

Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to € 111,897 in aggregate to a number of former directors.

The following table sets out the components of the defined benefit cost for each of the three years ended 31 December 2003, 2002 and 2001.

	2003 € m	2002 € m	2001 € m
Other finance income			
Expected return on pension scheme assets	**161**	220	213
Interest on pension scheme liabilities	**(149)**	(158)	(146)
	12	62	67
Included within administrative expenses			
Current service cost	**81**	86	79
Past service cost *(inc. Early Retirement Programmes - Note 10(b))*	**50**	22	5
	131	108	84
Cost of providing defined retirement benefits	**119**	46	17

Analysis of the amount recognised in STRGL	**2003 € m**	2002 € m	2001 € m
Actual return less expected return on pension scheme assets	**93**	(862)	(438)
Experience gains and losses on scheme liabilities	**97**	(18)	(32)
Changes in demographic and financial assumptions	**(257)**	(123)	(32)
Actuarial loss recognised under FRS 17	**(67)**	(1,003)	(502)
Deferred tax	**17**	180	100
Recognised in STRGL	**(50)**	(823)	(402)

13 Retirement benefits *(continued)*

Movement in (deficit)/surplus during the year	**2003 € m**	2002 € m	2001 € m
Surplus in schemes at beginning of year	**(710)**	257	727
Movement in year:			
Current service cost	**(81)**	(86)	(79)
Past service cost	**(50)**	(22)	(5)
Contributions	**84**	50	50
Other finance income	**12**	62	67
Actuarial loss recognised under FRS 17	**(67)**	(1,003)	(502)
Disposal of subsidiary company	**158**	–	–
Translation adjustment	**24**	32	(1)
(Deficit)/surplus in schemes at end of year	**(630)**	(710)	257

History of experience gains and losses	**2003 € m**	2002 € m	2001 € m	2000 € m	1999 € m
Difference between expected and actual return on scheme assets:					
Amount	**93**	(862)	(438)	(158)	324
Percentage of scheme assets	**4%**	40%	15%	5%	10%
Experience gains and losses on scheme liabilities:					
Amount	**97**	(18)	(32)	(72)	(16)
Percentage of scheme liabilities	**3%**	1%	1%	3%	1%
Total amount recognised in STRGL:					
Amount	**(67)**	(1,003)	(502)	(248)	662
Percentage of scheme liabilities	**2%**	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 8%. The standard contribution rate in the UK is 5% and these members are also accruing benefits under SERPS (the State Earnings Related Pension Scheme). The total cost in respect of defined contribution schemes for 2003 was € 21m (2002: € 27m; 2001: € 22m).

(b) Implementation of FRS 17 'Retirement benefits'

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

14 (Loss)/profit on disposal of businesses

2003

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

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

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

14 (Loss)/profit on disposal of businesses *(continued)*

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

<u>2001</u>

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).

15 Group profit on ordinary activities before taxation			**2003 € m**	2002 € m	2001 € m
Is stated after:					
(i) Income:	Listed investments		**609**	691	778
	Unlisted investments		**119**	269	431
(ii) Expenses:	Operating lease rentals				
	Property		**41**	50	47
	Equipment		**1**	4	4
	Auditors' remuneration *(including VAT)*:				
	Statutory audit		**1.8**	2.1	1.8
	Further assurance services		**0.3**	0.4	0.9
	Other services:	Taxation services	**0.2**	0.1	0.6
		IT consultancy	**–**	–	0.4
		Other consultancy	**0.3**	0.8	1.2
			0.5	0.9	2.2

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 2003 and 2002 relates to KPMG since date of appointment. In the year ended 31 December 2003, 61% (2002: 70%) of the total audit services fees and 65% (2002: 84%) of the non-audit services fees were paid to overseas offices of the Auditors.

The Auditors' remuneration for 2001 relates to PricewaterhouseCoopers. During 2002 € 1.2m 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 Group has adopted a policy on the provision of non-audit services to the bank and its subsidiary companies. This policy includes the prohibition on the provision of certain services and the pre-approval by the Audit Committee of the engagement of the Auditor for non-audit work.

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

16 Taxation	2003 € m	2002 € m	2001 € m
Allied Irish Banks, p.l.c. and subsidiaries			
Corporation tax in Republic of Ireland			
Current tax on income for the period[1]	**173**	81	88
Adjustments in respect of prior periods	**4**	(7)	(6)
	177	74	82
Double taxation relief	**(49)**	(4)	(17)
	128	70	65
Foreign tax			
Current tax on income for the period	**210**	212	64
Adjustments in respect of prior periods	**–**	(4)	(8)
	210	208	56
Total current tax	**338**	278	121
Deferred tax			
Origination and reversal of timing differences	**(54)**	21	(66)
Other	**(5)**	6	–
Total deferred tax	**(59)**	27	(66)
Associated undertakings	**39**	1	–
Taxation on ordinary activities	**318**	306	55
Effective tax rate	**31.4%**	22.3%	9.5%
Effective tax rate - adjusted[2]	**24.0%**	22.3%	24.2%

[1]The December 2003 figure includes a charge of € 29.5m in relation to the Irish Government bank levy.

[2]The adjusted effective tax rate has been presented to eliminate the disposal of Govett and the withholding tax on the Allfirst dividend in 2003 and the effect of the exceptional foreign exchange dealing losses in 2001 *(note 8(b))*.

Factors affecting current tax charge for period

The current tax charge for 2003 is higher (2002 and 2001: lower) than the weighted average of the Group's statutory corporation tax rates across its geographic locations. The differences are explained below.

	2003 %	2002 %	2001 %
Weighted average corporation tax rate	**19.1**	23.8	25.0
Effects of:			
Expenses not deductible for tax purposes	**1.3**	0.8	0.9
Goodwill amortisation	**2.3**	0.7	0.6
Exempted income, income at reduced rates and tax credits	**(0.1)**	(1.9)	(3.9)
Net effect of differing tax rates overseas	**1.9**	0.7	0.8
Capital allowances in excess of depreciation	**–**	(1.0)	(0.2)
Other deferred tax timing differences	**3.8**	(2.0)	(2.2)
Tax on associated undertakings	**(3.9)**	(0.1)	–
Bank levy in Republic of Ireland	**2.9**	–	–
Goodwill on disposals of businesses	**3.6**	–	–
Withholding tax on Allfirst dividend	**3.9**	–	–
Exceptional item	**–**	–	(11.1)
Adjustments to tax charge in respect of previous periods	**(1.4)**	(0.8)	(1.0)
Effective current tax charge	**33.4**	20.2	8.9

17 Equity and non-equity minority interests in subsidiaries

	2003 € m	2002 € m	2001 € m
The profit attributable to minority interests is analysed as follows:			
Equity interest in subsidiaries	**10**	20	15
Non-equity interest in subsidiaries	**1**	4	8
	11	24	23

18 Dividends on non-equity shares

The dividends paid on the Non-cumulative preference shares of US$ 25 each amounted to € 5m (2002: € 8m; 2001: € 15m). Included in this figure is an amount of € 1m which has been accrued (2002: € 2m; 2001: € 2m) and amortised issue costs of € 0.5m (2002: € 0.4m; 2001: € 0.4m).

19 Dividends on equity shares

	2003 cent per € 0.32 share	2002 cent per € 0.32 share	2001 cent per € 0.32 share	2003 € m	2002 € m	2001 € m
Ordinary shares of € 0.32 each						
Interim dividend	**19.0**	17.25	15.40	**161**	154	136
Second interim dividend	**–**	–	28.40	**–**	–	250
Final dividend	**35.0**	31.81	–	**296**	283	–
	54.0	49.06	43.80	**457**	437	386
Employee share trusts[1]				**(5)**	(8)	(6)
				452	429	380

[1]In accordance with FRS 14 'Earnings per share', dividends of € 4.8m (2002: € 7.9m; 2001: € 5.8m) arising on the shares held by certain employee share trusts *(note 48)* are excluded in arriving at profit before taxation and deducted from the aggregate of dividends paid and proposed.

20 Profit retained

	2003 € m	2002 Restated € m	2001 € m
The transfer to the profit and loss account is dealt with in the Group accounts as follows:			
Allied Irish Banks, p.l.c.	**834**	76	3
Subsidiary undertakings	**(669)**	477	39
Associated undertakings	**9**	7	(1)
	174	560	41

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

21 Earnings per €0.32 ordinary share	2003	2002 Restated	2001
(a) Basic			
Group profit attributable to the ordinary shareholders[1]	**€ 677m**	€ 1,034m	€ 484m
Weighted average number of shares in issue during the year[1]	**859.6m**	868.7m	861.4m
Earnings per share	**EUR 78.8c**	EUR 119.1c	EUR 56.2c

[1]In accordance with FRS 14 - 'Earnings per share', dividends arising on the shares held by the employee share trusts *(note 48)* are excluded in arriving at profit before taxation and deducted from the aggregate of dividends paid and proposed. The shares held by the trusts are excluded from the calculation of weighted average number of shares in issue.

	Earnings per €0.32 ordinary share		
(b) Adjusted	**2003**	2002 Restated	2001 Restated
	cent per €0.32 share		
As reported	**78.8**	119.1	56.2
Adjustments			
Goodwill amortisation	**8.4**	3.6	3.6
Impact of Govett disposal on profit and loss account	**17.6**	–	–
Impact of Allfirst disposal on profit and loss account	**4.7**	–	–
Impact of disposal of interests in Keppel Capital Holdings Ltd.	**–**	–	(10.8)
Exceptional foreign exchange dealing losses *(note 8(b))*	**–**	–	59.6
	109.5	122.7	108.6

The adjusted earnings per share figure has been presented to eliminate the effect of the goodwill amortisation in all years, the impact of the Govett and Allfirst disposals in 2003 and the impact of the disposal of the Group's interests in Keppel Capital Holdings Ltd. and exceptional foreign exchange dealing losses in 2001.

(c) Diluted	**2003**	2002	2001
	Number of shares (millions)		
Weighted average number of shares in issue during the period	**859.6**	868.7	861.4
Dilutive effect of options outstanding	**4.7**	8.4	5.7
Diluted	**864.3**	877.1	867.1

The weighted average number of ordinary shares reflects the dilutive effect of options outstanding under the employee share trusts *(note 48)*, the Share option scheme *(note 43)* and the Allfirst Financial Inc. stock option plan up to the date of disposal of Allfirst *(note 43)*.

22 Central government bills and other eligible bills	**2003 Book amount € m**	**2003 Market value € m**	2002 Book amount € m	2002 Market value € m
Group				
Held as financial fixed assets				
Treasury bills and similar securities	**–**	**–**	23	23
Held for trading purposes				
Treasury bills	**45**		1	
	45		24	
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Treasury bills and similar securities	**–**	**–**	3	3
Held for trading purposes				
Treasury bills	**45**		1	
	45		4	

22 Central government bills and other eligible bills *(continued)*	Group € m	Allied Irish Banks, p.l.c. € m
Analysis of movements in central government bills and other eligible bills held as financial fixed assets		
At 1 January 2003	**23**	**3**
Exchange translation adjustments	**(1)**	**–**
Purchases	**983**	**6**
Disposals/maturities	**(991)**	**(9)**
Disposal of subsidiary undertaking	**(16)**	**–**
Amortisation of discounts	**2**	**–**
At 31 December 2003	**–**	**–**

	Group		Allied Irish Banks, p.l.c.	
23 Loans and advances to banks	2003 € m	2002 € m	2003 € m	2002 € m
Funds placed with the Central Bank of Ireland	**863**	1,039	**818**	988
Funds placed with other central banks	**17**	53	**5**	17
Funds placed with other banks	**1,753**	3,696	**14,159**	12,515
	2,633	4,788	**14,982**	13,520
Analysed by remaining maturity:				
Repayable on demand	**204**	1,555	**154**	91
Other loans and advances by remaining maturity:				
Over 5 years	**134**	160	**–**	–
5 years or less but over 1 year	**88**	77	**73**	32
1 year or less but over 3 months	**107**	457	**87**	415
3 months or less	**2,102**	2,541	**1,948**	2,111
	2,635	4,790	**2,262**	2,649
General and specific bad and doubtful debt provisions *(note 26)*	**2**	2	**–**	–
	2,633	4,788	**2,262**	2,649
Due from subsidiary undertakings:				
Subordinated			**115**	122
Unsubordinated			**12,605**	10,749
			12,720	10,871
			14,982	13,520
Amounts include:				
Due from associated undertakings	**1**	–	**–**	–

	Group	
	2003 € m	2002 € m
Concentrations of credit risk by geographical area		
Republic of Ireland	**2,282**	2,463
United States of America	**48**	1,459
United Kingdom	**239**	451
Poland	**63**	414
Rest of the world	**1**	1
	2,633	4,788

24 Loans and advances to customers	Group 2003 € m	Group 2002 € m	Allied Irish Banks, p.l.c. 2003 € m	Allied Irish Banks, p.l.c. 2002 € m
Loans and advances to customers	**47,828**	50,244	**34,198**	28,788
Amounts receivable under finance leases	**1,636**	2,143	**3**	3
Amounts receivable under hire purchase contracts	**873**	834	**–**	–
Money market funds	**153**	226	**113**	113
	50,490	53,447	**34,314**	28,904
Analysed by remaining maturity:				
Over 5 years	**20,699**	18,099	**12,365**	9,405
5 years or less but over 1 year	**12,841**	14,206	**8,122**	7,462
1 year or less but over 3 months	**7,677**	7,158	**4,866**	3,324
3 months or less	**9,935**	14,844	**6,042**	5,729
	51,152	54,307	**31,395**	25,920
General and specific bad and doubtful debt provisions *(note 26)*	**662**	860	**287**	271
	50,490	53,447	**31,108**	25,649
Due from subsidiary undertakings:				
Subordinated			**83**	83
Unsubordinated			**3,123**	3,172
			3,206	3,255
			34,314	28,904
Of which repayable on demand or at short notice	**13,064**	12,008	**11,427**	9,239

At 31 December 2003, €1,200m of loans and advances were pledged as collateral with the Irish Financial Services Regulatory Authority ('IFSRA'). At 31 December 2002, €979m and €630m of loans and advances were pledged as collateral with the IFSRA and The Federal Reserve Bank, respectively.

The cost of assets acquired for letting under finance leases and hire purchase contracts amounted to €1,234m (2002: €1,367m).

	Group 2003 € m	Group 2002 € m
Loans accounted for on a non-accrual basis (including loans where interest is accrued but provisions have been made against it)		
AIB Bank ROI division	**209**	194
AIB Bank GB & NI division	**84**	88
Capital Markets division	**82**	115
Poland division	**332**	486
USA division	**–**	107
	707	990

25 Loans and advances to customers – concentrations of credit risk

	2003		2002	
	€ m	**% of total loans[1]**	€ m	% of total loans[1]
Construction and property				
Republic of Ireland	**6,716**	**13.2**	4,796	8.8
United States of America	**93**	**0.2**	2,582	4.8
United Kingdom	**4,009**	**7.8**	2,860	5.3
Poland	**270**	**0.5**	221	0.4
	11,088	**21.7**	10,459	19.3

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.

	2003		2002	
	€ m	**% of total loans[1]**	€ m	% of total loans[1]
Residential mortgages				
Republic of Ireland	**10,271**	**20.0**	7,725	14.2
United States of America	**–**	**–**	374	0.7
United Kingdom	**2,499**	**4.9**	2,151	4.0
Poland	**388**	**0.8**	319	0.6
	13,158	**25.7**	10,569	19.5

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	
	2003 € m	2002 € m
Loans and advances to customers by geographical area		
Republic of Ireland	**32,459**	27,188
United States of America	**1,047**	11,135
United Kingdom	**14,097**	12,064
Poland	**2,887**	3,060
	50,490	53,447

26 Provisions for bad and doubtful debts	2003 Specific € m	2003 General € m	2003 Total € m	2002 Specific € m	2002 General € m	2002 Total € m
Group						
At 1 January	**435**	**427**	**862**	539	470	1,009
Exchange translation adjustments	**(33)**	**(18)**	**(51)**	(51)	(35)	(86)
Disposal of subsidiary undertaking	**(24)**	**(111)**	**(135)**	–	–	–
Disposed loans	**–**	**–**	**–**	(2)	–	(2)
Charge against profit and loss account	**–**	**152**	**152**	–	194	194
Transfer to specific	**134**	**(134)**	**–**	202	(202)	–
Amounts written off	**(182)**	**–**	**(182)**	(279)	–	(279)
Recoveries of amounts written off in previous years	**18**	**–**	**18**	26	–	26
At 31 December	**348**	**316**	**664**	435	427	862
Amounts include:						
Loans and advances to banks *(note 23)*	**2**	**–**	**2**	2	–	2
Loans and advances to customers *(note 24)*	**346**	**316**	**662**	433	427	860
	348	**316**	**664**	435	427	862
Allied Irish Banks, p.l.c.						
At 1 January	**96**	**175**	**271**	78	214	292
Exchange translation adjustments	**(1)**	**(2)**	**(3)**	(1)	(4)	(5)
Charge against profit and loss account	**–**	**154**	**154**	–	27	27
Transfer to specific	**148**	**(148)**	**–**	62	(62)	–
Amounts written off	**(148)**	**–**	**(148)**	(54)	–	(54)
Recoveries of amounts written off in previous years	**13**	**–**	**13**	11	–	11
At 31 December *(note 24)*	**108**	**179**	**287**	96	175	271

The provisions for bad and doubtful debts in Allied Irish Banks, p.l.c. at 31 December 2003 and 2002 relate to loans and advances to customers only.

27 Securitised assets	2003 € m	2002 € m
Securitised assets	**719**	1,002
Less: non-returnable proceeds	**(516)**	(754)
	203	248

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 providers of the finance have agreed that they will seek no further recourse to the Company above the non-returnable proceeds.

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

	2003 € m	2002 € m	2001 € m
Net interest income	**3**	4	5
Provisions for bad and doubtful debts	**2**	–	–
Contribution from securitised assets *(note 9)*	**1**	4	5

28 Debt securities

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

	2002			
	Book amount	Gross unrealised gains	Gross unrealised losses	Market value
	€ m	€ m	€ m	€ 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

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

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

	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

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

28 Debt securities *(continued)*

Analysed by remaining maturity	Group 2003 € m	Group 2002 € m	Allied Irish Banks, p.l.c. 2003 € m	Allied Irish Banks, p.l.c. 2002 € m
Due within one year	**2,783**	3,921	**2,064**	2,518
Due one year and over	**15,344**	14,283	**13,314**	10,853
	18,127	18,204	**15,378**	13,371

Analysed by listing status	2003 Book amount € m	2003 Market value € m	2002 Book amount € m	2002 Market value € m
Group				
Held as financial fixed assets				
Listed on a recognised stock exchange	**11,054**	**11,235**	10,276	10,491
Quoted elsewhere	**306**	**305**	2,340	2,370
Unquoted	**1,085**	**1,085**	830	829
	12,445	**12,625**	13,446	13,690
Held for trading purposes				
Listed on a recognised stock exchange	**5,595**		4,355	
Quoted elsewhere	**87**		355	
Unquoted	**–**		48	
	5,682		4,758	
	18,127		18,204	

There were no debt securities pledged to secure public funds, trust deposits, funds transactions and other purchases required by law in 2003 (2002: Book value of € 1,492m). Debt securities subject to repurchase agreements amounted to € 5,860m (2002: € 3,021m).

Subordinated debt securities included as financial fixed assets amounted to € 5m at 31 December 2003 (2002: € 5m).

The unamortised discounts net of premiums on debt securities held as financial fixed assets amounted to € 19m at 31 December 2003 (2002: Nil)

The cost of debt securities held for trading purposes amounted to € 5,655m (2002: € 4,738m).

Analysed by listing status	2003 Book amount € m	2003 Market value € m	2002 Book amount € m	2002 Market value € m
Allied Irish Banks, p.l.c.				
Held as financial fixed assets				
Listed on a recognised stock exchange	**9,233**	**9,388**	8,873	9,033
Quoted elsewhere	**–**	**–**	–	–
Unquoted	**787**	**787**	450	450
	10,020	**10,175**	9,323	9,483
Held for trading purposes				
Listed on a recognised stock exchange	**5,358**		4,048	
Quoted elsewhere	**–**		–	
Unquoted	**–**		–	
	5,358		4,048	
	15,378		13,371	

Debt securities subject to repurchase agreements amounted to € 5,824m (2002: € 2,291m).

The amount of unamortised premiums net of discounts on debt securities held as financial fixed assets was € 71m (2002: € 41m).

The cost of debt securities held for trading purposes was € 5,344m (2002: € 4,039m).

28 Debt securities *(continued)*

Analysis of movements in debt securities held as financial fixed assets	**Cost €m**	**Discounts and premiums €m**	**Amounts written off €m**	**Book amount €m**
Group				
At 1 January 2003	**13,400**	**63**	**(17)**	**13,446**
Exchange translation adjustments	**(950)**	**(8)**	**2**	**(956)**
Disposal of subsidiary undertaking	**(1,080)**	**–**	**–**	**(1,080)**
Purchases	**9,434**	**–**	**–**	**9,434**
Realisations/maturities	**(8,338)**	**1**	**10**	**(8,327)**
Charge to profit and loss account *(note 12)*	**–**	**–**	**(13)**	**(13)**
Amortisation of (premiums) net of discounts	**–**	**(23)**	**–**	**(23)**
Transfer to trading book	**(36)**	**1**	**(1)**	**(36)**
At 31 December 2003	**12,430**	**34**	**(19)**	**12,445**
Allied Irish Banks, p.l.c.				
At 1 January 2003	**9,352**	**(16)**	**(13)**	**9,323**
Exchange translation adjustments	**(676)**	**–**	**2**	**(674)**
Purchases	**7,160**	**–**	**–**	**7,160**
Realisations/maturities	**(5,761)**	**10**	**10**	**(5,741)**
Charge to profit and loss account	**–**	**–**	**(12)**	**(12)**
Amortisation of (premiums) net of discounts	**–**	**(36)**	**–**	**(36)**
At 31 December 2003	**10,075**	**(42)**	**(13)**	**10,020**

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

	Book amount €m	Gross unrealised gains €m	Gross unrealised losses €m	2002 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

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

	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

Analysis of movements in equity shares held as financial fixed assets	**Cost €m**	**Amounts written off €m**	**Book amount €m**
Group			
At 1 January 2003	**231**	**(43)**	**188**
Charge to profit and loss account *(note 12)*	**–**	**(3)**	**(3)**
Exchange translation adjustments	**(11)**	**1**	**(10)**
Disposal of subsidiary undertaking	**(40)**	**(1)**	**(41)**
Purchases	**26**	**–**	**26**
Disposals	**(48)**	**4**	**(44)**
At 31 December 2003	**158**	**(42)**	**116**

The cost of equity shares held for trading purposes amounted to €65m (2002: €78m).

30 Interests in associated undertakings

Share of net assets	2003 € m	2002 € m
At 1 January	**31**	10
Exchange translation adjustments	**(219)**	(1)
Transfer from subsidiary undertakings	**59**	–
Transfer from equity shares	**–**	10
Purchases	**1,481**	5
Profit retained	**9**	7
At 31 December	**1,361**	31

The Group's interests in associated undertakings are shown after accumulated provisions for write-downs of € 3m (2002: € 3m). There were no movements in the provisions during 2003 or 2002.

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

Goodwill	2003 € m	2002 € m
Additions during year	**1,181**	–
Exchange translation adjustments	**(162)**	–
At 31 December	**1,019**	–
Accumulated amortisation		
Charge for year	**42**	–
Exchange translation adjustments	**(4)**	–
At 31 December	**38**	–
Net book value		
At 31 December	**981**	–

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

Registered office: One M&T Plaza, Buffalo, New York 14203, USA
(Common stock shares of US $0.50 par value each – Group interest 22.2%[1])

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

30 Interests in associated undertakings *(continued)*

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

9 Months 31 December 2003 US $m	Summary of consolidated profit and loss account	9 Months 31 December 2003 € m
1,177	Net interest income	1,020
639	Other income	553
1,816	Total operating income	1,573
1,015	Operating expenses excluding restructuring costs	879
103	Restructuring costs	89
1,118	Total operating expenses	968
698	Group operating profit before provisions	605
98	Provisions	85
600	Group profit before taxation	520
199	Taxation	172
401	Group profit after taxation	348

31 December 2003 US $m	Summary of consolidated balance sheet	31 December 2003 € m
37,618	Loans etc	29,785
7,255	Investment securities	5,744
399	Fixed assets	316
1,641	Other assets	1,299
46,913	Total assets	37,144
33,188	Deposits etc	26,277
10,178	Other borrowings	8,058
1,537	Other liabilities	1,217
2,010	Shareholders' funds	1,592
46,913	Total liabilities	37,144

The contribution of the enlarged M&T from the date of acquisition to 31 December 2003 is as follows:

9 Months 31 December 2003 US $m	Contribution of M&T	9 Months 31 December 2003 € m
157	Share of operating profits	136
(23)	Share of restructuring and integration costs	(20)
(48)	Amortisation of goodwill	(42)
86	Contribution to Group profit before taxation	74
(44)	Taxation	(38)
42	Contribution to Group profit after taxation	36

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

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

31 Shares in Group undertakings	2003 € m	2002 € m
Allied Irish Banks, p.l.c.		
At 1 January	**1,327**	1,534
Additions	**2**	10
Disposal of subsidiary undertaking	**(10)**	–
Transfer to associated undertakings	**(1,032)**	–
Exchange translation adjustments	**(57)**	(217)
At 31 December	**230**	1,327
At 31 December		
Credit institutions	**42**	1,123
Other	**188**	204
Total – all unquoted	**230**	1,327

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 interest is 85.86%.

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

31 Shares in Group undertakings *(continued)*

Principal subsidiary undertakings incorporated outside the Republic of Ireland		Nature of business
AIB Group (UK) p.l.c.		Banking and financial services
trading as First Trust Bank in Northern Ireland		
trading as Allied Irish Bank (GB) in Great Britain		
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	
Bank Zachodni WBK S.A.		Banking and financial services
Registered office:	Rynek 9/11, 50-950 Wroclaw, Poland (Ordinary shares of PLN 10 each - Group interest 70.47%)	

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

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

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

32 Intangible fixed assets	**2003 € m**	2002 € m
Goodwill		
Cost at 1 January	**553**	560
Arising on acquisitions during the year	**–**	1
Exchange translation adjustments	**(8)**	(8)
At 31 December	**545**	553
Accumulated amortisation at 1 January	**96**	65
Charge for the year *(note 11)*	**31**	32
Exchange translation adjustments	**(2)**	(1)
At 31 December	**125**	96
Net book value		
At 31 December	**420**	457

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

33 Tangible fixed assets	Property Freehold € m	Long leasehold € m	Leasehold under 50 years € m	Equipment € m	Total € m
Group					
Cost at 1 January 2003	**661**	**130**	**165**	**1,125**	**2,081**
Disposals of Group Undertakings	**(110)**	**–**	**(53)**	**(237)**	**(400)**
Additions	**11**	**5**	**5**	**97**	**118**
Disposals	**(14)**	**(60)**	**(10)**	**(129)**	**(213)**
Exchange translation adjustments	**(42)**	**2**	**(5)**	**(51)**	**(96)**
At 31 December 2003	**506**	**77**	**102**	**805**	**1,490**
Accumulated depreciation at 1 January 2003	**104**	**12**	**91**	**696**	**903**
Disposals of Group Undertakings	**(28)**	**–**	**(27)**	**(134)**	**(189)**
Depreciation charge for the year	**24**	**2**	**11**	**120**	**157**
Impairment	**(3)**	**–**	**–**	**(2)**	**(5)**
Disposals	**(3)**	**(5)**	**(5)**	**(114)**	**(127)**
Exchange translation adjustments	**(9)**	**1**	**(4)**	**(29)**	**(41)**
At 31 December 2003	**85**	**10**	**66**	**537**	**698**
Net book value					
At 31 December 2003	**421**	**67**	**36**	**268**	**792**
At 31 December 2002	557	118	74	429	1,178

	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 2003	**283**	**120**	**57**	**474**	**934**
Additions	**7**	**3**	**3**	**62**	**75**
Disposals	**(3)**	**(57)**	**(2)**	**(60)**	**(122)**
Exchange translation adjustments	**–**	**–**	**(2)**	**(3)**	**(5)**
At 31 December 2003	**287**	**66**	**56**	**473**	**882**
Accumulated depreciation at 1 January 2003	**26**	**11**	**28**	**343**	**408**
Depreciation charge for the year	**8**	**2**	**5**	**52**	**67**
Disposals	**–**	**(5)**	**(2)**	**(53)**	**(60)**
Exchange translation adjustments	**–**	**–**	**(1)**	**(2)**	**(3)**
At 31 December 2003	**34**	**8**	**30**	**340**	**412**
Net book value					
At 31 December 2003	**253**	**58**	**26**	**133**	**470**
At 31 December 2002	257	109	29	131	526

The net book value of property occupied by the Group for its own activities was € 480m (2002: € 730m).

34 Deferred taxation	Group 2003 € m	Group 2002 € m	Allied Irish Banks, p.l.c. 2003 € m	Allied Irish Banks, p.l.c. 2002 € m
Deferred tax assets:				
Provision for bad and doubtful debts	**(87)**	(161)	**(24)**	(23)
Amortised income	**(23)**	(36)	**(5)**	(4)
Debt securities	**(2)**	(12)	**(1)**	–
Deferred compensation	**–**	(10)	**–**	–
Timing difference on provisions for future commitments in relation to the funding of Icarom plc *(under Administration)*	**(9)**	(10)	**(9)**	(10)
Other	**(53)**	(16)	**(33)**	(3)
Total gross deferred tax assets	**(174)**	(245)	**(72)**	(40)
Deferred tax liabilities:				
Assets leased to customers	**64**	443	**1**	1
Assets used in the business	**5**	24	**2**	–
Debt securities	**22**	53	**–**	3
Other	**51**	7	**7**	–
Total gross deferred tax liabilities	**142**	527	**10**	4
Net deferred tax (assets)/liabilities	**(32)**	282	**(62)**	(36)

For each of the years ended 31 December, 2003 and 2002 full provision has been made for capital allowances and other timing differences except as described below.

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

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

Analysis of movements in deferred taxation	Group 2003 € m	Group 2002 € m	Allied Irish Banks, p.l.c. 2003 € m	Allied Irish Banks, p.l.c. 2002 € m
At 1 January	**282**	300	**(36)**	(55)
Disposal of subsidiary undertaking	**(280)**	–	**–**	–
Exchange translation and other adjustments	**25**	(45)	**–**	–
Profit and loss account taxation (credit)/charge *(note 16)*	**(59)**	27	**(26)**	19
At 31 December	**(32)**	282	**(62)**	(36)

35 Long-term assurance business

Methodology

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

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

Income from Ark Life's long-term assurance business is set out below:	**2003 € m**	2002 € m
New business contribution	**39**	60
Contribution from existing business		
- expected return	**24**	25
- experience variances	**(1)**	2
Investment returns	**4**	2
Distribution costs	**(15)**	(20)
Operating profit	**51**	69
Other items:		
Change in value of future unit linked fees	**3**	(32)
Changes in economic assumptions	**–**	17
Exceptional items	**6**	3
Income from long-term assurance business before tax	**60**	57
Attributable tax	**8**	9
Income from long-term assurance business after tax	**52**	48

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:

	2003 %	2002 %
Risk adjusted discount rate	**10.0**	10.0
Weighted average investment return	**7.625**	7.625
Future expense inflation	**3.5**	3.5

35 Long-term assurance business *(continued)*

Balance sheet

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

	2003 € m	2002 € m
Investments:		
Cash and short-term placings with banks	**1,546**	1,250
Debt securities	**239**	223
Equity shares	**1,179**	849
Property	**45**	42
	3,009	2,364
Embedded value adjustment	**167**	153
Other assets – net	**98**	61
	3,274	2,578
Long-term assurance liabilities to policyholders	**(2,869)**	(2,226)
Long-term assurance business attributable to shareholders	**405**	352
Represented by:		
Shares at cost	**19**	19
Reserves	**376**	326
Profit and loss account	**10**	7
	405	352

Presentation in the Group balance sheet

Under UITF 37, holdings of shares in Allied Irish Banks, p.l.c., (by the parent or subsidiary companies), for any reason, are deducted in arriving at shareholders' funds. At 31 December 2003, shares in AIB with a value of € 59m (2002: € 52m; 2001: € 52m) were held within the long-term business funds to meet the liabilities to policyholders.

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

Modified statutory solvency basis

Ark Life's profit before tax on a modified statutory solvency basis was € 44m (2002: € 44m) and its profit after tax was € 39m (2002: € 37m). Ark Life's total assets on a modified statutory solvency basis were € 3,181m at 31 December 2003 (2002: € 2,482m) and its shareholders' funds at 31 December 2003 were € 237m (2002: € 199m). The following table provides a reconciliation of embedded value to the modified statutory solvency basis.

Reconciliation of embedded value to modified statutory solvency basis	**2003 € m**	2002 € m
Long-term assurance business attributable to the shareholder - embedded value basis	**405**	352
Value of in-force business	**(267)**	(251)
Other differences:		
Deferred acquisitions costs	**99**	89
Other adjustments	**–**	9
Shareholders' funds of life operations - modified statutory solvency basis	**237**	199

36 Deposits by banks	Group 2003 € m	Group 2002 € m	Allied Irish Banks, p.l.c. 2003 € m	Allied Irish Banks, p.l.c. 2002 € m
Federal funds purchased	**–**	491	**–**	–
Securities sold under agreements to repurchase	**6,093**	2,478	**6,093**	2,457
Other borrowings from banks	**12,001**	13,168	**22,738**	22,706
	18,094	16,137	**28,831**	25,163
Of which:				
Domestic offices	**16,040**	10,869		
Foreign offices	**2,054**	5,268		
	18,094	16,137		
With agreed maturity dates or periods of notice, by remaining maturity:				
Over 5 years	**348**	405	**310**	350
5 years or less but over 1 year	**91**	236	**77**	46
1 year or less but over 3 months	**2,509**	3,554	**2,504**	3,407
3 months or less but not repayable on demand	**14,838**	11,357	**14,596**	10,909
	17,786	15,552	**17,487**	14,712
Repayable on demand	**308**	585	**293**	58
	18,094	16,137	**17,780**	14,770
Due to subsidiary undertakings			**11,051**	10,393
			28,831	25,163
Amounts include:				
Due to associated undertakings	**3**	–	**–**	–

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

37 Customer accounts	Group 2003 € m	Group 2002 € m	Allied Irish Banks, p.l.c. 2003 € m	Allied Irish Banks, p.l.c. 2002 € m
Current accounts	**14,657**	16,428	**9,270**	8,106
Demand deposits	**6,788**	10,333	**5,004**	4,484
Time deposits	**19,539**	21,855	**11,246**	10,320
	40,984	48,616	**25,520**	22,910
Securities sold under agreements to repurchase	**–**	703	**–**	–
Other short-term borrowings	**3,628**	3,657	**3,597**	3,170
	3,628	4,360	**3,597**	3,170
	44,612	52,976	**29,117**	26,080
Of which:				
Non-interest bearing current accounts				
Domestic offices	**5,712**	6,020		
Foreign offices	**1,714**	5,004		
Interest bearing deposits, current accounts and short-term borrowings				
Domestic offices	**23,548**	19,950		
Foreign offices	**13,638**	22,002		
	44,612	52,976		
Analysed by remaining maturity:				
Over 5 years	**339**	232	**294**	136
5 years or less but over 1 year	**2,355**	3,134	**1,954**	1,553
1 year or less but over 3 months	**1,980**	2,730	**1,049**	526
3 months or less but not repayable on demand	**20,505**	19,434	**12,820**	10,568
	25,179	25,530	**16,117**	12,783
Repayable on demand	**19,433**	27,446	**12,689**	12,789
	44,612	52,976	**28,806**	25,572
Due to subsidiary undertakings			**311**	508
			29,117	26,080
Amounts include:				
Due to associated undertakings	**23**	28	**4**	1

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

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

38 Debt securities in issue

	Group 2003 € m	Group 2002 € m	Allied Irish Banks, p.l.c. 2003 € m	Allied Irish Banks, p.l.c. 2002 € m
Bonds and medium term notes:				
European medium term note programme	**1,255**	121	**1,255**	121
Medium term notes	**168**	–	**–**	–
Allfirst adjustable rate federal home loan bank advances:				
due 23 August, 2011	**–**	191	**–**	–
	1,423	312	**1,255**	121
Other debt securities in issue:				
Commercial paper	**261**	224	**158**	–
Commercial certificates of deposit	**1,805**	2,291	**1,805**	1,814
Master demand notes of Allfirst	**–**	250	**–**	–
	2,066	2,765	**1,963**	1,814
	3,489	3,077	**3,218**	1,935
Analysed by remaining maturity				
Bonds and medium term notes:				
Over 5 years	**–**	197	**–**	6
5 years or less but over 1 year	**1,423**	–	**1,255**	–
1 year or less but over 3 months	**–**	–	**–**	–
3 months or less	**–**	115	**–**	115
	1,423	312	**1,255**	121
Other debt securities in issue:				
5 years or less but over 1 year	**–**	8	**–**	8
1 year or less but over 3 months	**456**	685	**456**	463
3 months or less	**1,610**	2,072	**1,507**	1,343
	2,066	2,765	**1,963**	1,814
	3,489	3,077	**3,218**	1,935

39 Other liabilities

	Group 2003 € m	Group 2002 € m	Allied Irish Banks, p.l.c. 2003 € m	Allied Irish Banks, p.l.c. 2002 € m
Notes in circulation	**420**	410	**–**	–
Taxation	**169**	91	**109**	59
Dividend *(note 19)*	**296**	283	**296**	283
Provision for future commitments in relation to the funding of Icarom[1]	**79**	85	**79**	85
Short positions in securities[2]	**149**	266	**35**	97
Other	**2,031**	1,456	**1,157**	373
	3,144	2,591	**1,676**	897

[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 €101m (2002: €112m). The unwinding of the discount on the provision amounted to €5.1m (2002: €5.4m).

[2]Short positions in debt securities and equity securities in 2003 were € 147m and € 2m, respectively (2002: €250m and €16m, respectively).

40 Provisions for liabilities and charges	Contingent liabilities and commitments € m	Other € m	Total € m
Group			
At 1 January 2003	**18**	**42**	**60**
Exchange translation adjustments	**(1)**	**(3)**	**(4)**
Profit and loss account charge	**9**	**57**	**66**
Provisions utilised	**(10)**	**(15)**	**(25)**
Disposal of subsidiary undertaking	**(5)**	**(5)**	**(10)**
At 31 December 2003	**11**	**76**	**87**
Allied Irish Banks, p.l.c.			
At 1 January 2003	**9**	**13**	**22**
Exchange translation adjustments	**–**	**(1)**	**(1)**
Profit and loss account charge	**10**	**40**	**50**
Provisions utilised	**(10)**	**(3)**	**(13)**
At 31 December 2003	**9**	**49**	**58**

41 Subordinated liabilities	2003 € m	2002 € m
Allied Irish Banks, p.l.c.		
Undated loan capital	**357**	389
Dated loan capital	**1,276**	719
	1,633	1,108
Reserve capital instruments	**497**	496
Allfirst Financial Inc.		
Dated loan capital	**–**	568
	2,130	2,172
Undated loan capital		
US $100m Floating Rate Notes, Undated	**79**	95
US $100m Floating Rate Primary Capital Perpetual Notes, Undated	**79**	95
€ 200m Fixed Rate Perpetual Subordinated Notes	**199**	199
	357	389
Dated loan capital		
Allied Irish Banks, p.l.c.		
European Medium Term Note Programme:		
US $250m Floating Rate Notes due January 2010	**198**	238
€ 32.2m 6.7% Fixed Rate Notes due August 2009	**32**	32
€ 250m Floating Rate Notes due January 2010	**250**	249
€ 100m Floating Rate Notes due August 2010	**100**	100
€ 200m Floating Rate Notes due June 2013	**200**	100
Stg £350m Fixed Rate Notes due November 2030	**496**	–
	1,276	719
Allfirst Financial Inc.		
US $200m 7.2% Fixed Rate Subordinated Notes due July 2007	**–**	190
US $100m 6.875% Fixed Rate Subordinated Notes due June 2009	**–**	95
US $150m Floating Rate Subordinated Capital Income Securities due January 2027	**–**	141
US $150m Floating Rate Subordinated Capital Income Securities due February 2027	**–**	142
	–	568
	1,276	1,287
The dated loan capital outstanding is repayable as follows:		
In one year or less, or on demand	–	–
Between 1 and 2 years	–	–
Between 2 and 5 years	–	190
In 5 years or more	**1,276**	1,097
	1,276	1,287

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

41 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 Irish Financial Services Regulatory Authority ('IFSRA') (i) upon the occurrence of certain events, or (ii) on or after 28 February 2011, an authorised officer having reported to the Trustees within the previous six months that a solvency condition is met.

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

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

Undated loan capital

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

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 € 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 June 2003, an additional € 100m Floating Rate Notes due in June 2013 were issued. The € 200m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on the 12 June 2008 and on each interest payment date thereafter. In November 2003, Stg £350m Fixed Rate Notes due in November 2030 were issued. The Stg £350m Fixed Rate Notes, with interest payable annually in arrears on 26 November in each year, may be redeemed, in whole but not in part, on the 26 November 2025 and on each interest payment date thereafter. In all cases, redemption prior to maturity is subject to the necessary prior approval of the IFSRA.

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

42 Equity and non-equity minority interests in subsidiaries	**2003 € m**	2002 € m
Equity interest in subsidiaries	**158**	181
Non-equity interest in subsidiaries:		
Allfirst Financial, Inc.:		
Floating rate non-cumulative subordinated		
capital trust enhanced securities[1]	**–**	93
	158	274

[1] 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. On 1 April 2003, Allfirst was acquired by M&T Bank Corporation and AIB received a stake of approximately 22.5% in the enlarged M&T *(note 2)*.

43 Share capital

		2003 € m	2002 € m
Ordinary share capital			
Ordinary shares of €0.32 each			
Authorised:	1,160 million shares (2002: 1,160 million)		
Issued:	908 million shares (2002: 897 million)	**290**	287
Preference share capital			
Non-cumulative preference shares of US$ 25 each			
Authorised:	20.0 million shares (2002: 20.0 million)		
Issued:	0.25 million shares (2002: 0.25 million)	**5**	6
Non-cumulative preference shares of €1.27 each			
Authorised:	200.0 million shares (2002: 200.0 million)		
Issued:	Nil	**–**	–
Non-cumulative preference shares of Stg £ 1 each			
Authorised:	200.0 million shares (2002: 200.0 million)		
Issued:	Nil	**–**	–
Non-cumulative preference shares of Yen 175 each			
Authorised:	200.0 million shares (2002: 200.0 million)		
Issued:	Nil	**–**	–
		295	293

Movements in ordinary share capital

	2003 € m	2002 € m
At 1 January	**287**	284
New shares issued during year - see below	**3**	3
At 31 December	**290**	287

During the year ended 31 December 2003, the number of ordinary shares was increased from 897,446,519 to 907,621,316 as follows:

(a) under the dividend reinvestment plan, 5,693,140 shares were allotted to shareholders, at €11.80 per share, in respect of the final dividend for the year ended 31 December 2002, and 3,299,657 shares were allotted to shareholders, at €12.27 per share, in respect of the interim dividend for the year ended 31 December, 2003. These allotments were made in lieu of dividends amounting to €107.7m;

(b) by the issue of 946,000 shares to participants in the Company's share option scheme at prices of € 4.19, € 5.80, € 6.25, € 7.61, € 10.02 and € 11.90 per share; the consideration received for these shares was € 5.5m;

(c) by the issue of 236,000 shares to holders of Dauphin Deposit Corporation Inc. ('Dauphin', subsequently renamed 'Allfirst Financial Inc.') stock options, which were converted, on the acquisition of Dauphin, into options to purchase AIB American Depositary Shares. The consideration received for these shares was € 1.7m.

43 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'.

Share option scheme

The Company operates share option schemes 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.

In addition to the issue of shares referred to at (b) above, 3,092,500 ordinary shares, previously bought back by the Company under the authority granted by shareholders at the 2003 Annual General Meeting and held as Treasury Shares, were issued during 2003 to participants in the share option scheme, at prices of € 5.80, € 10.02 and € 11.90 per share. The consideration received for these shares was € 29.3m.

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

Allfirst Financial Inc. stock option plan

Under the terms of the Agreement and Plan of Merger between the Company, First Maryland Bancorp (subsequently renamed 'Allfirst') and Dauphin Deposit Corporation ('Dauphin', subsequently renamed 'Allfirst'), approved by shareholders at the 1997 Annual General Meeting, options to purchase Dauphin shares which were outstanding immediately prior to the merger of Allfirst and Dauphin were converted, at the holders' elections, into either cash or options to purchase a similar number of AIB American Depositary Shares ('converted options'). On 1 April 2003, the merger of Allfirst Financial Inc. ('Allfirst') with M&T Bank Corporation ('M&T') was completed, pursuant to the Agreement and Plan of Reorganisation dated 26 September 2002 by and among the Company, Allfirst and M&T. Under the terms of that Agreement, converted options outstanding immediately prior to that merger (over some 321,598 ordinary shares) remain in force.

In addition to the issue of shares referred to at (c) above, 46,000 ordinary shares held as Treasury Shares were issued during 2003 to participants in the Allfirst Financial Inc. stock option plan. The consideration received for these shares was € 0.1m.

At 31 December 2003, converted options were outstanding over 136,598 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 vest in full in the award-holders only if (a) the growth in the Company's EPS, as defined in the Rules of the Plan, in any three consecutive years within the five years following the grant is not less than the growth in the CPI plus 5% per annum, compound, over the same three year period; *and* (b) the growth in the Company's core EPS, as defined in the Rules of the Plan, over the three year period during which the criterion at (a) is satisfied, is such as to position the Company in the top 20% of the FTSE Eurotop Banks Retail Index. Partial vesting, on a reducing scale, will occur if the growth in the Company's core EPS positions the Company outside the top 20% of that Index but still within its top 45%, subject to the criterion at (a) being satisfied. Vested shares must be held until normal retirement date, except that award-holders may dispose of shares sufficient to meet the income tax liability arising on vesting.

43 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 shares. The aggregate number of shares issued under the share option schemes in any 10-year period may not exceed 5% of the issued ordinary shares. 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 Irish Financial Services Regulatory Authority, on or after 15 July 2008 (i) in whole or in part or (ii) prior to that date in certain circumstances in whole, but not in part. In each case, the preference shares will be redeemed at a price equal to US$ 1,000 per share (consisting of a redemption price of US$ 995.16 plus a special dividend of US$ 4.84 per share), plus accrued dividends.

44 Share premium account	**Group** **€ m**	**Allied Irish Banks, p.l.c.** **€ m**
At 1 January 2003	**1,918**	**1,918**
Premium arising on shares issued under:		
Executive share option scheme	**5**	**5**
Allfirst Financial, Inc. stock option plan	**2**	**2**
Profit and loss account	**(1)**	**(1)**
Exchange translation adjustments	**(39)**	**(39)**
At 31 December 2003	**1,885**	**1,885**

45 Reserves	**Group** **€ m**	**Allied Irish Banks, p.l.c.** **€ m**
At 1 January 2003		
Capital reserves	**359**	**–**
Revaluation reserves	**131**	**116**
	490	**116**
Transfer from/(to) profit and loss account:		
Unrealised gain on disposal of subsidiary undertaking	**489**	**–**
Non-distributable reserves of Ark Life	**51**	**–**
Property revaluation reserves	**(16)**	**(14)**
Exchange translation and other adjustments	**(63)**	**(1)**
At 31 December 2003	**951**	**101**
At 31 December 2003		
Capital reserves	**838**	**–**
Revaluation reserves	**113**	**101**
	951	**101**

46 Profit and loss account	Revenue Reserves	Share Repurchases	Own Shares	Group Total € m	Allied Irish Banks, p.l.c. € m
At 1 January 2003 as previously reported	1,984	(42)	–	1,942	592
Prior year adjustment	–	–	(228)	(228)	(3)
At January 1 2003 restated	1,984	(42)	(228)	1,714	589
Profit retained for the year	174	–	–	174	834
Writeback of goodwill on disposal of businesses	1,043	–	–	1,043	–
Disposal of subsidiary undertakings	–	–	123	123	(17)
Dividend reinvestment plan	105	–	–	105	105
Actuarial loss recognised in retirement benefit schemes *(note 13)*	(50)	–	–	(50)	(14)
Actuarial gain recognised in associated undertaking	8	–	–	8	–
Ordinary share bought back/purchased	–	(812)	(8)	(820)	(812)
Ordinary shares issued/sold	–	55	26	81	56
Share premium account	1	–	–	1	1
Transfer from property revaluation reserves	16	–	–	16	14
Exchange translation adjustments	(395)	–	7	(388)	(249)
At 31 December 2003	2,886	(799)	(80)	2,007	507
At 31 December 2003					
Allied Irish Banks, p.l.c. and subsidiaries				1,893	
Associated undertakings				114	
				2,007	

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 €364m at 31 December 2003 (2002: €1,507m).

Included within the profit and loss account reserve for the Group at 31 December 2003 is €485m (Allied Irish Banks, p.l.c.: €274m) relating to the net pension liability in funded retirement benefit schemes *(note 13)*.

47 Treasury shares

At the 2003 Annual General Meeting, shareholders granted authority for the Company, or any subsidiary, to make market purchases of up to 89 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. During the year, some 60,798,412 such shares were purchased, and applied as follows:

		2003
Treasury shares held, 1 January		–
Shares purchased		60,798,412
Shares re-issued under:		
AIB Share Option Schemes *(note 43)*	3,092,500	
Allfirst Financial Stock Option Plan *(note 43)*	46,000	
AIB Approved Employee Profit Sharing Schemes *(see below)*	2,125,756	5,264,256
Treasury shares held, 31 December		55,534,156

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.

47 Repurchase of shares ***(continued)***

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.

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

Purchase of ordinary shares

In September 1997, a subsidiary undertaking purchased 5.6 million ordinary shares of €0.32 each of the Company on the open market, at a price of €7.30 per share. The purchase was undertaken at foot of a resolution approved by 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 the Company continues to include these shares (nominal value €1.8m). The shares do not rank for dividend as the related dividend entitlements have been waived. The weighted average number of shares in the earnings per share calculation has been reduced to exclude these shares.

48 Own shares

The Group sponsors Sharesave schemes for eligible employees in the UK, the Isle of Man and Channel Islands. The trustees of the schemes have borrowed funds from Group companies, interest free, to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. These shares are used to satisfy commitments arising under the schemes. The trustees receive dividends on the shares which are used to meet the expenses. The cost of providing these shares is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit. At 31 December 2003, 0.3 million shares (2002: 0.3 million) were held by the trustees with a book value of € 3m (2002: € 4m) and a market value of € 4m (2002: € 5m).

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 2003, 0.2m shares (2002: 0.2m) were held by the trustees with a book value of € 2.1m (2002: € 2.1m) and a market value of € 2.5m (2002: € 2.6m).

Prior to its disposal to M&T Bank corporation *(note 2)* Allfirst Financial, Inc. sponsored the Allfirst Stock Option Plans, for the benefit of key employees of Allfirst. At 31 December 2002 Allfirst had lent US$ 178m to a trust to enable it to purchase AIB ordinary shares in the form of American Depositary Shares in the open market. The shares purchased are used to satisfy options which have been granted to Allfirst employees. Proceeds of option exercises are used to repay the loan to the trust. Under the terms of the trust, the trustees receive dividends on the shares which are used to meet the expenses of the trust. A similar scheme operated for certain eligible employees of our US operations. At 31 December 2003, 1.4 million ordinary shares were held by the trust with a cost of € 15m and a market value of € 22m.

Certain subsidiary companies hold shares in AIB for customer facilitation and in the normal course of business. At 31 December 2003, 4.7 million shares with a book and market value of € 60m (2002: € 52m) were held by subsidiary companies.

The accounting treatment is not intended to affect the legal characterisation of the transaction or to change the situation at law achieved by the parties to it. Thus, the inclusion of the shares as a deduction against shareholders' funds on the Group balance sheet does not imply that they have been purchased by the company as a matter of law.

Prior year adjustment

The Group has implemented UITF Abstract 37 'Purchases and sales of own shares' and UITF Abstract 38 'Accounting for Employee Share Ownership Plan trusts in its preparation of the accounts for the year ended 31 December 2003. The change in accounting policy arising from the adoption of UITF 37 and 38 has resulted in a prior year adjustment and comparative figures have been restated accordingly. The prior year adjustment to shareholders funds' at 1 January 2001 was € 225m.

49 Memorandum items: contingent liabilities and commitments

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

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

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

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

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

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

	2003		2002	
	Contract amount € m	**Risk weighted amount € m**	Contract amount € m	Risk weighted amount € m
Group				
Contingent liabilities				
Acceptances and endorsements	**12**	**12**	72	61
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	**4,157**	**4,053**	5,278	4,957
Assets pledged as collateral security	**–**	**–**	14	1
	4,157	**4,053**	5,292	4,958
Other contingent liabilities	**722**	**368**	1,027	520
	4,891	**4,433**	6,391	5,539
Commitments				
Sale and option to resell transactions	**–**	**–**	2,062	1,230
Other commitments:				
Documentary credits and short-term trade-related transactions	**126**	**31**	314	97
Forward asset purchases and forward deposits placed	**–**	**–**	24	5
Undrawn note issuance and revolving underwriting facilities	**76**	**29**	33	10
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over	**8,023**	**3,967**	9,073	4,387
Less than 1 year (1)	**5,707**	**–**	8,446	–
	13,932	**4,027**	17,890	4,499
	13,932	**4,027**	19,952	5,729
	18,823	**8,460**	26,343	11,268

(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**	
	2003 € m	2002 € m	**2003 € m**	2002 € m
Concentration of exposure				
Republic of Ireland	**1,685**	1,544	**7,552**	6,556
Unites States of America	**2,549**	4,316	**1,173**	8,743
United Kingdom	**632**	483	**4,393**	3,768
Poland	**25**	48	**814**	885
	4,891	6,391	**13,932**	19,952

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

	2003 Contract amount € m	**2003** Risk weighted amount € m	2002 Contract amount € m	2002 Risk weighted amount € m
Allied Irish Banks, p.l.c.				
Contingent liabilities				
Acceptances and endorsements	**2**	**2**	54	54
Guarantees and irrevocable letters of credit	**3,680**	**3,582**	3,455	3,334
Other contingent liabilities	**565**	**283**	558	279
	4,247	**3,867**	4,067	3,667
Commitments				
Other commitments:				
Documentary credits and short-term trade-related transactions	**96**	**19**	106	21
Undrawn note issuance and revolving underwriting facilities	**18**	**–**	13	–
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over	**5,982**	**2,954**	4,904	2,394
Less than 1 year[(1)]	**3,797**	**–**	3,601	–
	9,893	**2,973**	8,624	2,415
	14,140	**6,840**	12,691	6,082

[(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.

The Financial Services Authority in the UK ('FSA') is carrying out a review of the split capital trusts sector. Govett Investment Management Ltd ('Govett') managed four split capital trusts and one highly leveraged investment fund. AIB is co-operating fully with the FSA in its investigation. The FSA review is ongoing, and consequently the Directors are not in a position to forecast the outcome of the investigations, and any resultant regulatory actions. Accordingly the Directors do not consider it appropriate to make any provision in the financial statements.

Except as set out below, AIB Group is not, nor has been, involved in, nor are there, so far as the Company is aware, pending or threatened by or against AIB Group any legal or arbitration proceedings which may have, or have had during the previous twelve months, a significant effect on the financial position of AIB Group.

Class action and purported shareholder derivative action

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

On 13 May 2002, a purported shareholder derivative action was filed in the Circuit Court for Baltimore City, Maryland. A holder of AIB American Depositary Shares purports to sue certain present and former directors and officers of Allfirst Bank on behalf of AIB, alleging those persons are liable for the foreign exchange trading losses. No relief is sought in the purported derivative action against AIB, Allfirst or Allfirst Bank. On 30 December 2002, the court dismissed the action. On 10 January 2003, the plaintiffs filed a motion seeking to have the Court amend or revise the judgment, or to be granted leave to file an amended complaint.

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

Class action and purported shareholder derivative action ***(continued)***

This was dismissed on 3 March 2003. The plaintiffs filed a second such motion on 17 March 2003. The court dismissed this on 4 April 2003. On 20 June, 2003, the plaintiffs' petition to bypass the Maryland Court of Special Appeals and appeal directly to the Maryland Court of Appeals was denied by the Court of Appeals. The plaintiffs' appeal to the Maryland Court of Special Appeals was argued on 12 January, 2004 and a decision on this appeal remains pending.

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

50 Derivatives

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

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

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

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

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

50 Derivatives *(continued)*

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate and equity contracts at 31 December 2003 and 2002.

	Group		Allied Irish Banks, p.l.c.	
Interest rate contracts[1]	**2003 € m**	2002 € m	**2003 € m**	2002 € m
Notional principal amount	**99,781**	110,529	**97,201**	105,623
Gross replacement cost	**1,030**	1,913	**1,015**	1,756
Exchange rate contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**15,565**	21,046	**13,349**	16,567
Gross replacement cost	**501**	546	**496**	540
Equity contracts[1]	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**2,445**	2,037	**2,445**	2,037
Gross replacement cost	**73**	27	**73**	27

[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.

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**
2003				
Notional amount	**64,991**	**41,287**	**11,513**	**117,791**
Gross replacement cost	**694**	**655**	**255**	**1,604**
2002				
Notional amount	78,231	46,663	8,718	133,612
Gross replacement cost	990	1,094	402	2,486

Of the gross replacement cost € 1,416m (2002: € 2,208m) related to financial institutions and € 188m (2002: € 278m) 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	
	2003 € m	2002 € m	**2003 € m**	2002 € m
Republic of Ireland	**86,861**	63,723	**1,164**	1,315
Unites States of America	**3,400**	8,470	**66**	232
United Kingdom	**23,394**	56,541	**365**	922
Poland	**4,136**	4,878	**9**	17
	117,791	133,612	**1,604**	2,486

50 Derivatives *(continued)*

Trading activities

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

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

Nature and terms of trading instruments

The following table presents the notional amounts and fair values of the classes of derivative trading instruments at 31 December 2003 and 2002.

	2003		2002	
	Notional amounts[(1)] € m	**Fair values € m**	Notional amounts[(1)] € m	Fair values € m
Interest rate contracts:				
Interest rate swaps	**58,742**		65,613	
In a receivable position		**733**		1,199
In a payable position		**(627)**		(1,065)
Interest rate caps, floors and options	**2,650**		4,187	
Held		**9**		15
Written		**(9)**		(12)
Forward rate agreements	**6,920**		3,805	
In a favourable position		**3**		7
In an unfavourable position		**(5)**		(6)
Financial futures	**4,424**		1,926	
In a favourable position		**–**		1
In an unfavourable position		**(2)**		(4)
Other interest rate derivatives	**–**	**–**	27	–
Exchange rate contracts:				
Currency options	**1,246**	**4**	1,231	7
Forward FX contracts	**13,507**	**52**	17,237	55
Equity derivatives	**2,445**	**38**	2,037	–

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

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

The Group's credit exposure at 31 December 2003 and 2002 from derivatives held for trading purposes is represented by the fair value of instruments with a positive fair value. The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis and the level of credit risk is minimised by dealing with counterparties of good credit standing. All trading instruments are subject to market risk. As the traded instruments are recognised at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

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

50 Derivatives *(continued)*

Dealing profits

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

	2003 **€ m**	2002 Restated € m	2001 € m
Foreign exchange contracts	**92**	78	75
Profits less losses from securities held for trading purposes	**23**	7	2
Interest rate contracts	**16**	(11)	15
Equity index contracts	**4**	–	–
Total	**135**	74	92

Risk management activities

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

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

Derivative prices fluctuate in value as the underlying interest rate, foreign exchange rate, or equity prices change. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, will generally be offset by the unrealised depreciation or appreciation of the hedged items. This means that separate disclosure of market risk on derivatives used for hedging purposes is not meaningful.

To achieve its risk management objective, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, futures and options, as well as other contracts. The tables on the following pages present the notional and fair value amounts, weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by the Group at 31 December 2003 and 2002.

50 Derivatives *(continued)*

	Notional amount		Weighted average maturity in years		Weighted average rate Receive		Weighted average rate Pay		Estimated fair value	
	2003 € m	2002 € m	2003	2002	2003 %	2002 %	2003 %	2002 %	2003 € m	2002 € m
Interest rate swaps:										
Receive fixed										
1 year or less	13,276	7,414	0.43	0.42	2.72	4.10			54	95
1 - 5 years	3,255	4,919	2.66	2.75	4.49	5.11			112	279
Over 5 years	1,984	1,861	10.90	7.27	5.82	6.04			108	174
	18,515	14,194	1.95	2.12	3.36	4.70	2.15	2.73	274	548
Pay fixed										
1 year or less	2,156	4,821	0.46	0.43			3.77	4.39	(41)	(81)
1 - 5 years	3,603	5,412	2.55	2.97			4.19	4.84	(169)	(306)
Over 5 years	1,547	1,603	9.88	10.01			5.03	5.53	(102)	(168)
	7,306	11,836	3.49	2.89	2.46	2.58	4.24	4.75	(312)	(555)
Pay/receive floating										
1 year or less	–	132	–	0.76	–	1.93			–	–
1 - 5 years	10	10	2.75	3.75	3.68	3.68			–	–
Over 5 years	15	15	7.33	8.33	4.43	4.43			–	–
	25	157	5.50	1.67	4.13	2.28	4.21	2.03	–	–
Forward rate agreements:										
Loans										
1 year or less	–	239	–	0.38		3.92			–	2
	–	239	–	0.38		3.92			–	2
Deposits										
1 year or less	–	950	–	0.40			–	5.11	–	(8)
1 - 5 years	–	–	–	–			–	–	–	–
	–	950	–	0.40			–	5.11	–	(8)
Interest rate options:										
Purchased										
1 year or less	–	934	–	0.58	–	4.25			–	10
1 - 5 years	–	117	–	2.78	–	3.93			–	1
Over 5 years	–	25	–	7.12	–	3.40			–	2
	–	1,076	–	0.97	–	4.19			–	13
Written										
1 year or less	–	405	–	0.67	–	2.72			–	(10)
1 - 5 years	–	114	–	2.11	–	4.09			–	(1)
	–	519	–	0.98	–	3.02			–	(11)

50 Derivatives *(continued)*

	Notional amount		Weighted average maturity in years		Weighted average rate Receive		Pay		Estimated fair value	
	2003 € m	2002 € m	**2003**	2002	**2003 %**	2002 %	**2003 %**	2002 %	**2003 € m**	2002 € m
Financial futures:										
1 year or less	**944**	4,552	**0.58**	0.49	**3.00**	2.08	**2.83**	3.84	**–**	(7)
1 - 5 years	**83**	970	**1.72**	1.52	**–**	3.31	**3.44**	4.67	**–**	–
	1,027	5,522	**0.67**	0.67	**2.76**	2.29	**2.88**	3.99	**–**	(7)
Other interest rate derivatives:										
1 year or less	**68**	109	**0.20**	0.40	**3.30**	5.11	**2.80**	5.72	**(3)**	2
1 - 5 years	**79**	291	**3.14**	2.22	**5.42**	4.29	**6.94**	4.69	**(3)**	(5)
Over 5 years	**25**	78	**6.17**	6.27	**3.37**	7.48	**–**	7.27	**2**	(3)
	172	478	**2.42**	2.47	**4.28**	5.00	**4.34**	5.35	**(4)**	(6)

The carrying value of the interest rate derivative financial instruments held for risk management purposes was € 2m (2002: € 15m).

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 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
Additions	34,894	–	–
Maturities/amortisations	(29,826)	(910)	(192)
Cancellations	(4,050)	–	–
Transfer to trading derivatives	(395)	–	(43)
Exchange adjustments	(964)	(40)	(4)
At 31 December 2003	25,846	–	–

50 Derivatives ***(continued)***

Non-trading derivative deferred balances

Set out hereunder are deferred balances relating to settled transactions. These balances will be released to the profit and loss account in the same periods as the income and expense flows from the underlying transactions. At 31 December 2003 the Group had deferred income of € 8m (2002: € 35m) and deferred expense of € 20m (2002: € 62m) relating to non-trading derivatives. € 3m (2002: € 18m) of deferred income and € 10m (2002: € 41m) of deferred expense is expected to be released to the profit and loss account in 2004. During the year ended 31 December 2003, net deferred expense in relation to previous years of € 23m was released to the profit and loss account.

	2004 € 000	2005 € 000	2006 € 000	2007 € 000	2008 € 000	After 2008 € 000	Total € 000
Interest rate swaps							
Deferred income	1,335	727	725	611	136	–	3,534
Deferred expense	(193)	(301)	(149)	(202)	(124)	(122)	(1,091)
Forward rate agreements							
Deferred income	542	–	–	–	–	–	542
Deferred expense	(546)	–	–	–	–	–	(546)
Interest rate options							
Deferred income	–	–	–	–	–	–	–
Deferred expense	(293)	(173)	(129)	(40)	(40)	(44)	(719)
Financial futures							
Deferred income	1,292	565	502	488	488	543	3,878
Deferred expense	(8,546)	(2,622)	(2,297)	(1,597)	(1,220)	(909)	(17,191)
Currency options							
Deferred income	–	–	–	–	–	–	–
Deferred expense	(129)	–	–	–	–	–	(129)
	(6,538)	(1,804)	(1,348)	(740)	(760)	(532)	(11,722)

The above deferred balances have related 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 2003 the Group had net deferred expense of € 3m (2002: € 4m) relating to debt securities held for hedging purposes. Deferred expense of € 4m (2002: deferred expense € 1m) relating to these debt securities is expected to be released to the profit and loss account in 2004. During the year ended 31 December 2003, deferred expense in relation to previous years of € 1m 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 2003 was € 44m (2002: € 22m).

The net gain expected to be recognised in 2004 is € 12m (2002: € 16m) and thereafter a net loss of € 56m (2002: net loss of € 38m) is expected.

The net gain recognised in 2003 in respect of previous years was € 16m (2002: € 20m) and the net loss arising in 2003 which was not recognised in 2003 was € 5m (2002: € 27m).

51 Fair value of financial instruments

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

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

51 Fair value of financial instruments *(continued)*

Fair value information is not provided for certain financial instruments or for items that do not meet the definition of a financial instrument. These items include short-term debtors and creditors, intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2003.

The following table gives details of the carrying amounts and fair values of financial instruments at 31 December 2003 and 2002.

	31 December 2003		31 December 2002	
	Carrying amount € m	**Fair value € m**	Carrying amount € m	Fair value € m
Assets				
Trading financial instruments[1]				
Debt securities	**5,682**	**5,682**	4,758	4,758
Equity shares	**64**	**64**	58	58
Central government and other eligible bills	**45**	**45**	1	1
Non-trading financial instruments				
Cash and balances at central banks[1]	**838**	**838**	1,176	1,176
Items in course of collection[1]	**339**	**339**	1,171	1,171
Central government bills and other eligible bills	**–**	**–**	23	23
Loans and advances to banks[2]	**2,633**	**2,654**	4,788	4,826
Loans and advances to customers[2]	**50,490**	**50,625**	53,447	54,075
Securitised assets	**203**	**188**	248	220
Debt securities	**12,445**	**12,625**	13,446	13,690
Equity shares	**116**	**130**	188	203
Liabilities				
Trading financial instruments				
Short positions in securities[1]	**149**	**149**	266	266
Non-trading financial instruments				
Deposits by banks	**18,094**	**18,132**	16,137	16,162
Customer accounts	**44,612**	**44,616**	52,976	53,091
Debt securities in issue	**3,489**	**3,487**	3,077	3,106
Subordinated liabilities	**2,130**	**2,218**	2,172	2,362
Shareholders' funds: non-equity interests	**196**	**213**	235	227
Off-balance sheet assets/(liabilities)				
Trading financial instruments[1]				
Interest rate contracts	**102**	**102**	135	135
Exchange rate contracts	**56**	**56**	62	62
Equity contracts	**38**	**38**	–	–
Non-trading financial instruments				
Interest rate contracts	**2**	**(42)**	15	(24)
Exchange rate contracts	**3**	**3**	20	37

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

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

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

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

Central government bills and other eligible bills

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

Loans and advances to banks and loans and advances to customers

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

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

Securitised assets

The fair value of securitised assets is based on market prices received from external pricing services.

Debt securities and equity shares

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

Deposits by banks, customer accounts and debt securities in issue

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

Subordinated liabilities

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

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments entered into by the Group and other off-balance sheet financial guarantees are included in note 49. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

Derivatives

The Group uses various derivatives, designated as hedges, to manage its exposure to fluctuations in interest and exchange rates. The fair value of these instruments is estimated using market prices or pricing models consistent with the methods used for valuing similar instruments used for trading purposes. Derivatives used for trading purposes are marked to market using independent prices and are included in other assets/other liabilities on the consolidated balance sheet at 31 December 2003 and 2002.

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

Shareholders' funds: non-equity interests

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

52 Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2003 and 2002 is illustrated in the tables below. The interest sensitivity gap is split by functional currency. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements and any rate sensitive off-balance sheet contracts are also included. The tables show the sensitivity of the balance sheet at one point in time and are not necessarily indicative of positions at other dates. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The tables do not take into account the effect of interest rate options used by the Group to hedge its exposure. Details of options are given in note 50.

31 December 2003

	0-3 Months € m	3-6 Months € m	6-12 Months € m	1-5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets								
Central govt. bills and other eligible bills	–	–	–	–	–	–	45	45
Loans and advances to banks	2,039	26	11	33	–	524	–	2,633
Loans and advances to customers	43,135	1,697	1,753	2,806	1,302	–	–	50,693
Debt securities	3,451	979	927	5,167	1,921	–	5,682	18,127
Other assets	–	–	–	–	–	9,040	422	9,462
Total assets	48,625	2,702	2,691	8,006	3,223	9,564	6,149	80,960
Liabilities								
Deposits by banks	15,178	1,323	1,171	80	185	157	–	18,094
Customer accounts	32,415	879	889	1,745	382	8,302	–	44,612
Debt securities in issue	2,860	13	442	174	–	–	–	3,489
Subordinated liabilities	827	79	–	32	1,192	–	–	2,130
Other liabilities	–	–	–	–	–	7,017	480	7,497
Shareholders' funds	–	–	–	–	–	5,138	–	5,138
Total liabilities	51,280	2,294	2,502	2,031	1,759	20,614	480	80,960
Off-balance sheet items affecting interest rate sensitivity	4,758	(1,179)	(3,297)	189	(471)	–	–	–
	56,038	1,115	(795)	2,220	1,288	20,614	480	80,960
Interest sensitivity gap	(7,413)	1,587	3,486	5,786	1,935	(11,050)	5,669	–
Cumulative interest sensitivity gap	(7,413)	(5,826)	(2,340)	3,446	5,381	(5,669)	–	–
	Euro m	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	
Interest sensitivity gap	(3,387)	1,525	2,618	3,040	536	(6,987)	2,914	
Cumulative interest sensitivity gap	(3,387)	(1,862)	756	3,796	4,332	(2,655)	259	
	US $m	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	
Interest sensitivity gap	(1,066)	(121)	18	58	461	(503)	546	
Cumulative interest sensitivity gap	(1,066)	(1,187)	(1,169)	(1,111)	(650)	(1,153)	(607)	
	Stg m	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	
Interest sensitivity gap	(2,151)	(73)	715	2,043	879	(2,796)	1,292	
Cumulative interest sensitivity gap	(2,151)	(2,224)	(1,509)	534	1,413	(1,383)	(91)	
	PLN m	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	
Interest sensitivity gap	(173)	137	104	478	57	(776)	85	
Cumulative interest sensitivity gap	(173)	(36)	68	546	603	(173)	(88)	

52 Interest rate sensitivity ***(continued)***

31 December 2002
Restated

	0-3 Months € m	3-6 Months € m	6-12 Months € m	1-5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets								
Central govt. bills and other eligible bills	23	–	–	–	–	–	1	24
Loans and advances to banks	3,999	300	25	18	–	446	–	4,788
Loans and advances to customers	41,838	1,995	1,587	5,095	3,180	–	–	53,695
Debt securities	4,485	781	1,054	5,284	1,842	–	4,758	18,204
Other assets	–	–	–	–	–	8,997	113	9,110
Total assets	50,345	3,076	2,666	10,397	5,022	9,443	4,872	85,821
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	–	–	–	–	6,631	318	7,044
Shareholders' funds	–	–	–	–	–	4,415	–	4,415
Total liabilities	51,660	3,389	3,767	2,968	1,023	22,696	318	85,821
Off-balance sheet items affecting interest rate sensitivity	2,882	(843)	(1,961)	214	(292)	–	–	–
	54,542	2,546	1,806	3,182	731	22,696	318	85,821
Interest sensitivity gap	(4,197)	530	860	7,215	4,291	(13,253)	4,554	
Cumulative interest sensitivity gap	(4,197)	(3,667)	(2,807)	4,408	8,699	(4,554)	–	
	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 Consolidated cash flow statement	Notes	**2003 € m**	2002 € m	2001 € m
(a) Returns on investments and servicing of finance				
Interest paid on subordinated liabilities		**(84)**	(126)	(108)
Dividends paid on non-equity shares		**(5)**	(8)	(17)
Dividends paid to non-equity minority interests in subsidiaries		**(4)**	(4)	(6)
Net cash outflow from returns on investments and servicing of finance		**(93)**	(138)	(131)
(b) Taxation				
Tax paid, Republic of Ireland		**(128)**	(85)	(72)
Foreign tax paid		**(145)**	(195)	(170)
Net cash outflow from taxation		**(273)**	(280)	(242)
(c) Capital expenditure and financial investment				
Net (increase)/decrease in debt securities		**(1,070)**	1,506	904
Net decrease in equity shares		**21**	10	94
Additions to tangible fixed assets		**(118)**	(179)	(328)
Disposals of tangible fixed assets		**118**	42	30
Net cash (outflow)/inflow from capital expenditure		**(1,049)**	1,379	700
(d) Acquisitions and disposals				
Acquisition of Group undertakings		**–**	(1)	(59)
Investments in associated undertakings		**–**	(5)	(1)
Disposals of investments in subsidiary undertakings		**(1,049)**	1	1
Net cash outflow from acquisitions and disposals		**(1,049)**	(5)	(59)
(e) Financing				
Issue of ordinary share capital		**36**	27	23
Share buyback		**(812)**		
Redemption of subordinated liabilities		**–**	(247)	(311)
Issue of subordinated liabilities		**603**	100	–
Issue of reserve capital instrument		**–**	–	496
Redemption of preference shares		**–**	(9)	–
Net cash outflow from financing	53(h)	**(173)**	(129)	208
(f) Analysis of changes in cash				
At 1 January		**2,731**	2,652	2,222
Net cash (outflow)/inflow before the effect of exchange translation adjustments		**(1,351)**	362	377
Effect of exchange translation adjustments		**(338)**	(283)	53
At 31 December	53(g)	**1,042**	2,731	2,652

53 Consolidated cash flow statement *(continued)*	**2003 € m**	2002 € m	Change in year € m
(g) Analysis of cash			
Cash and balances at central banks	**838**	1,176	(338)
Loans and advances to banks (repayable on demand)	**204**	1,555	(1,351)
	1,042	2,731	(1,689)

The Group is required to maintain balances with the Irish Financial Services Regulatory Authority which amounted to €863m (2002: €1,039m). 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 €17m (2002: €53m).

	Share capital[(1)]		Subordinated liabilities		Non-equity minority interests	
	2003 € m	2002 € m	**2003 € m**	2002 € m	**2003 € m**	2002 € m
(h) Analysis of changes in financing[(2)]						
At 1 January	**2,211**	2,217	**2,172**	2,516	**93**	121
Effect of exchange translation adjustments	**(40)**	(45)	**(87)**	(199)	**(3)**	(19)
Cash inflow/(outflow) from financing	**7**	27	**603**	(147)	**–**	(9)
Disposal of subsidiary	**–**	–	**(547)**	–	**(90)**	–
Other movements	**3**	13	**(12)**	–	**–**	–
Amortisation of issue costs	**(1)**	(1)	**1**	2	**–**	–
At 31 December	**2,180**	2,211	**2,130**	2,172	**–**	93

[(1)]Includes share capital and share premium.

[(2)]Excludes an amount of € 783m (net of € 29m received for Treasury shares reissued) in respect of the repurchase of 60.8 million ordinary shares.

54 Report on directors' remuneration and interests

Remuneration policy

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

Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises only non-executive directors; during 2003 its members were: Mr Lochlann Quinn (Chairman, until his retirement from the Board on 14 October, 2003), Mr Dermot Gleeson (member of the Committee for the entire year, and Committee Chairman from 15 October, 2003), Sir Derek Higgs, Mr John B McGuckian and Mr Jim O'Leary. The Committee has a wide remit (see page 51) which includes, inter alia, determining, under advice to the Board, the specific remuneration packages of the executive directors.

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

Remuneration

	Fees[1]	Salary	Bonus[2]	Profit share[3]	Taxable benefits[4]	Pension contributions[5]	Total
							2003
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Executive directors							
Michael Buckley	**33**	**660**	**570**	**13**	**54**	**69**	**1,399**
Colm Doherty	**30**	**343**	**185**	**11**	**37**	**34**	**640**
Gary Kennedy	**33**	**381**	**275**	**13**	**45**	**38**	**785**
Aidan McKeon	**30**	**271**	**141**	**4**	**33**	**61**	**540**
	126	**1,655**	**1,171**	**41**	**169**	**202**	**3,364**
Non-executive directors							
Adrian Burke	**121**					**–**	**121**
Padraic M Fallon	**36**					**10**	**46**
Dermot Gleeson	**217**					**–**	**217**
Don Godson	**45**					**–**	**45**
Sir Derek Higgs	**63**					**–**	**63**
John B McGuckian	**89**					**10**	**99**
Carol Moffett	**41**					**–**	**41**
Jim O'Leary	**51**					**–**	**51**
Lochlann Quinn	**180**					**–**	**180**
Michael J Sullivan	**64**					**–**	**64**
Robert G. Wilmers[1]							
	907					**20**	**927**
Former directors							
Pensions[6]							**762**
Other payments[7]							**249**
							1,011
Total							**5,302**

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

Remuneration *(continued)*

	Fees[1] € 000	Salary € 000	Bonus[2] € 000	Profit share[3] € 000	Taxable benefits[4] € 000	Pension contributions[5] € 000	2002 Total € 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
Sir Derek 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

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

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

[3] Information on the employees' profit sharing schemes, which are operated on terms approved by the shareholders, is given in note 47.

[4] Taxable benefits include the use of a company car or the payment of a car allowance, and benefit arising from loans made at preferential interest rates.

[5] Pension contributions represent payments to defined benefit pension plans, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date. In 2002, an additional amount was provided to augment the funding of Mr Frank P Bramble's pension, in connection with his early retirement. The fees of the non-executive directors who joined the Board since 1990 are not pensionable.

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

Remuneration *(continued)*

The pension benefits earned during the year, and accrued at year-end, are as follows:

	Increase in accrued benefits during 2003[a] € 000	Accrued benefit at year-end[b] € 000	Transfer values[c] € 000
Executive directors			
Michael Buckley	106	401	1,721
Colm Doherty	26	139	249
Gary Kennedy	24	83	234
Aidan McKeon	40	192	795
Non-executive directors			
Padraic M Fallon	2	14	20
John B McGuckian	2	20	33

[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 2003.

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

(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, together with an amount of € 650,000 to amortise a deficit on the Non-Executive Directors' Pension Scheme, in accordance with actuarial advice.

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

Interests in shares

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

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

* *or later date of appointment*

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

Share options

Details of the executive directors' and the secretary's share options are given below. Information on the Share Option Schemes is given in note 43. The options outstanding at 31 December, 2003 are exercisable at various dates between 2004 and 2013. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected by shareholders at the Company's Registered Office.

	31 December 2003	1 January 2003*	Since 1 January 2003* Granted	Since 1 January 2003* Exercised	Price of options exercised	Market price at date of exercise	Weighted average subscription price of options outstanding at 31 December 2003
Directors:					€	€	€
Michael Buckley	**336,500**	281,500	115,000	60,000	5.80	11.68	12.52
Colm Doherty	**230,000**	250,000	–	20,000	4.19	11.55	11.26
Gary Kennedy	**185,000**	155,000	50,000	20,000	6.25	12.08	11.05
Aidan McKeon	**130,000**	70,000	60,000	–	–	–	11.98
Secretary:							
W M Kinsella	**45,500**	65,000	5,500	25,000	5.80	12.45	11.65

* *or later date of appointment*

Long Term Incentive Plan

Under the terms of the Long Term Incentive Plan approved by shareholders at the 2000 Annual General Meeting, awards of ordinary shares may be granted to key executives and other employees. Further information on the Long Term Incentive Plan is given in note 43.

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

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

* *or later date of appointment*

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

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

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

There were no changes in the above interests between 31 December, 2003 and 23 February, 2004, save for the receipt by Mr Aidan McKeon of 27 shares under the Company's UK Share Ownership Plan *(see note 47).*

Service contracts

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

55 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 2003 the aggregate amount outstanding in loans to persons who at any time during the year were directors was €45.8m in respect of 9 persons; the amount outstanding in respect of quasi-loans (effectively, credit card facilities), also to 9 persons, was €0.05m (2002: €42.8m in respect of loans to 6 persons and €0.03 million in respect of quasi-loans to 6 persons).

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

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

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

56 Commitments

Capital expenditure
Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to €73m (2002: €49m). Capital expenditure authorised, but not yet contracted for, amounted to €51m (2002: €90m).

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

	Property		Equipment	
	2003 € m	2002 € m	**2003 € m**	2002 € m
Operating leases which expire:				
Within one year	**1**	3	**–**	–
In the second to fifth year	**7**	14	**1**	2
Over five years	**29**	35	**–**	–
	37	52	**1**	2

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

57 Employees	**2003**[1]	2002
The average full-time equivalent employee numbers by division were as follows:		
AIB Bank ROI	**9,153**	9,253
AIB Bank GB & NI	**2,822**	2,800
Capital Markets	**2,972**	2,878
Poland	**8,675**	9,946
Group	**671**	689
Allfirst	**1,274**	5,367
	25,567	30,933

[1] The 2003 employee numbers reflect Allfirst up until 31 March 2003 and the movement of Allied Irish America from USA to Capital Markets division.

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

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

60 Reporting currency
The currency used in these accounts is the euro which is denoted by 'EUR' or the symbol €. The euro was introduced on 1 January 1999. Ireland joined the European Single Currency at the fixed translation rate of EUR 1=IR £0.787564. Each euro is made up of one hundred cent, denoted by the symbol 'c' in these accounts.

61 Financial and other information

	2003	2002
Operating ratios		
Operating expenses[1]/operating income	**59.4%**	58.7%[2]
Tangible operating expenses[3]/operating income	**58.5%**	57.9%[2]
Other income[4]/operating income	**39.1%**	40.1%[2]
Net interest margin:		
Group	**2.72%**	3.00%
Domestic	**2.54%**	2.73%
Foreign	**3.00%**	3.27%
Rates of exchange		
€ /US $		
Closing	**1.2630**	1.0487
Average	**1.1346**	0.9458
€ /Stg £		
Closing	**0.7048**	0.6505
Average	**0.6901**	0.6282
€ /PLN		
Closing	**4.7019**	4.0210
Average	**4.4157**	3.8473

[1]Excludes restructuring costs of € 72.4m and € 13.3m, in 2003 and 2002, respectively.

[2]The figures for 2002 have been restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares.

[3]Excludes amortisation of goodwill of € 30.8m (2002: € 31.7m) and restructuring/integration costs of € 72.4m (2002: € 13.3m).

[4]Other income includes other finance income.

Capital adequacy information	2003 € m	2002 € m
Risk weighted assets		
Banking book:		
On balance sheet	**48,831**	53,961
Off-balance sheet	**8,602**	11,521
	57,433	65,482
Trading book:		
Market risks	**4,566**	3,099
Counterparty and settlement risks	**616**	658
	5,182	3,757
Total risk weighted assets	**62,615**	69,239
Capital		
Tier 1	**4,451**	4,806
Tier 2	**2,439**	2,522
	6,890	7,328
Supervisory deductions	**389**	341
Total	**6,501**	6,987

61 Financial and other information *(continued)*

Currency information	Assets 2003 €m	Assets 2002 Restated €m	Liabilities 2003 €m	Liabilities 2002 Restated €m
Euro	**46,770**	38,252	**46,534**	38,643
Other	**34,190**	47,569	**34,426**	47,178
	80,960	85,821	**80,960**	85,821

62 Average balance sheets and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2003 and 2002. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

	Year ended 31 December 2003			Year ended 31 December 2002		
Assets	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %
Placings with banks						
Domestic offices	**3,138**	**85**	**2.7**	3,388	103	3.0
Foreign offices	**770**	**27**	**3.5**	1,884	81	4.3
Loans to customers[1]						
Domestic offices	**28,361**	**1,352**	**4.8**	23,530	1,360	5.8
Foreign offices	**18,642**	**1,012**	**5.4**	26,369	1,573	6.0
Placings with banks and loans to customers[1]						
Domestic offices	**31,499**	**1,437**	**4.6**	26,918	1,463	5.4
Foreign offices	**19,412**	**1,039**	**5.4**	28,253	1,654	5.9
Funds sold						
Domestic offices	**–**	**–**	**–**	–	–	–
Foreign offices	**288**	**4**	**1.3**	744	12	1.6
Debt securities and government bills						
Domestic offices	**11,278**	**397**	**3.5**	9,850	401	4.1
Foreign offices	**6,006**	**315**	**5.3**	9,311	550	5.9
installment credit and finance lease receivables						
Domestic offices	**1,902**	**108**	**5.7**	1,895	115	6.1
Foreign offices	**826**	**55**	**6.7**	1,280	73	5.7
Total interest earning assets						
Domestic offices	**44,679**	**1,942**	**4.3**	38,663	1,979	5.1
Foreign offices	**26,532**	**1,413**	**5.3**	39,588	2,289	5.8
	71,211	**3,355**	**4.7**	78,251	4,268	5.5
Allowance for loan losses	**(741)**			(956)		
Non-interest earning assets	**6,766**			8,962		
Total assets	**77,236**	**3,355**	**4.3**	86,257	4,268	4.9
Percentage of assets applicable to foreign activities			**37.9**			51.6

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

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

Liabilities and stockholders' equity	Year ended 31 December 2003 Average balance € m	Interest € m	Average rate %	Year ended 31 December 2002 Average balance € m	Interest € m	Average rate %
Interest bearing deposits and other short-term borrowings						
Domestic offices	**36,836**	**727**	**2.0**	31,005	837	2.7
Foreign offices	**21,230**	**606**	**2.9**	30,326	935	3.1
Funds purchased						
Domestic offices	**–**	**–**	**–**	–	–	–
Foreign offices	**264**	**3**	**1.2**	1,489	24	1.6
Subordinated liabilities						
Domestic offices	**1,682**	**78**	**4.7**	1,642	85	5.2
Foreign offices	**132**	**7**	**5.2**	682	36	5.3
Total interest bearing liabilities						
Domestic offices	**38,518**	**805**	**2.1**	32,647	922	2.8
Foreign offices	**21,626**	**616**	**2.8**	32,497	995	3.1
	60,144	**1,421**	**2.4**	65,144	1,917	2.9
Interest-free liabilities						
Current accounts	**7,798**			10,764		
Other liabilities	**4,219**			5,444		
Minority equity and non-equity interests	**191**			285		
Preference share capital	**215**			253		
Ordinary stockholders' equity	**4,669**			4,367		
Total liabilities and stockholders' equity	**77,236**	**1,421**	**1.8**	86,257	1,917	2.2
Percentage of liabilities applicable to foreign activities			**35.6**			50.0

63 Supplementary Group financial information for US reporting purposes

Exceptional foreign exchange dealing losses

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

Under US reporting requirements, the filing of AIB's 2001 financial statements by way of Annual Report on Form 20-F constituted a reissue of the financial statements for prior years. The US Securities and Exchange Commission requires all material errors in respect of prior years to be accounted for and reported as prior year adjustments, in the years in which they occurred. Accordingly, in AIB's Annual Report on Form 20-F for December 2001, the Fraud Losses were charged in the years in which they occurred and this approach has been reflected in the financial information provided in this note.

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

Exceptional foreign exchange dealing losses *(continued)*

The losses arising from the fraud occurred over a number of years. Reflecting the losses in the periods in which they arose would have the following impact on reported amounts for 2002 and prior periods.

	2002 € m	2001 € m	2000 € m	1999 € m	1998 € m
(Decrease)/increase in income before taxes	(28)	378	(228)	(45)	(11)
(Decrease)/increase in income tax expense	(10)	132	(80)	(16)	(4)
(Decrease)/increase in reported net income	(18)	246	(148)	(29)	(7)

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 Restated[1] € m	2001 € m
Consolidated net income as in the consolidated statements of income	1,034	484
Adjustments:		
Exceptional foreign exchange dealing losses	(18)	372
Administration expenses	(10)	6
Applicable taxes	10	(132)
Consolidated net income under alternative presentation	1,016	730

[1]The figures for 2002 and 2001 have been restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares and UITF Abstract 38 - Accounting for ESOP Trusts *(note 48)*.

63 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 Restated € m	2000 Restated € m	1999 Restated € m	1998 Restated € m
Ordinary stockholders' equity as in the consolidated balance sheet	4,554	4,719	4,291	2,829
Adjustments:				
Cumulative impact of recognition of losses in year they occurred	20	(210)	(58)	(23)
Consolidated ordinary stockholders' equity under alternative presentation	4,574	4,509	4,233	2,806
Consolidated total assets				
Total assets as in the consolidated balance sheet	89,061	80,318	67,790	53,875
Adjustments:				
Other assets	–	(323)	(89)	(36)
Consolidated total assets under alternative presentation	89,061	79,995	67,701	53,839
Consolidated total liabilities and ordinary stockholders' equity				
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet	89,061	80,318	67,790	53,875
Adjustments:				
Expense accruals	(11)	–	–	–
Other liabilities	(9)	(113)	(31)	(13)
Ordinary stockholders' equity	20	(210)	(58)	(23)
Consolidated total liabilities and ordinary stockholders' equity under alternative presentation	89,061	79,995	67,701	53,839

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

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

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 transaction. The purpose of these securities transactions is to minimise the risk associated with the AIB investment portfolio. These are classified as financial fixed assets.

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

Under US GAAP, debt securities held to maturity are recorded at amortized cost. Because AIB periodically sells and buys long-term debt securities in response to identified market conditions, including fluctuations in interest rates, debt securities classified as financial fixed assets in the Group balance sheet in the amount of € 12,445 million at December 31, 2003 would be classified for US GAAP purposes as 'available-for-sale'. At December 31, 2003 the market value of such securities was € 12,625 million. The excess of market value over amortized cost of the debt securities of € 180 million gave rise to an after tax reconciling item of € 158 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2002 debt securities in the amount of € 13,446 million would be classified as 'available-for-sale'. The Group uses these securities 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 negative in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2003 equity securities classified as financial fixed assets in the Group balance sheet in the amount of € 116 million would be classified as 'available-for-sale'. At December 31, 2003 the market value of these securities was € 130 million. The excess of book amount of these securities over market value was € 14 million giving rise to an after tax reconciling item of € 12 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

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.

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 57 and 58.

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

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

Internal derivative trades *(continued)*

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

FAS 133 - Derivatives and hedging activities

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

Trading instruments are 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. Under US GAAP, derivative trades entered into by the Group are adjusted to fair value through earnings.

In adopting Statement of Financial Accounting Standard No. 133, 'Accounting for Derivative Instruments and Hedging Activities' ('FAS 133') in its US GAAP reconciliation from January 1, 2001, AIB Group designated its derivative instruments anew for US reporting purposes on that date. The transition adjustment arising from this action was reflected in net income and other comprehensive income.

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.

63 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
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. Holdings of shares in Allied Irish Banks, p.l.c., previously recorded within long-term assurance assets/liabilities attributable to policyholders, are now deducted in arriving at shareholders' funds.

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

Dividends payable on ordinary shares
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 amortisation methods are used that are different when compared with IR GAAP.

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.

Special purpose vehicles/variable interest entities
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. In addition, linked presentation is adopted where assets have been securitised and the Group's exposure is limited to the net amount recognised as an asset in the balance sheet *(see note 27)*.

Under US GAAP, variable interest entities ('VIEs') are consolidated by their primary beneficiary. A company is deemed to be a primary beneficiary where it is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the VIE's residuals returns or both.

Accounting for Investment in M&T Bank
Under IR GAAP, the Group's share of the assets and liabilities of M&T as at 1 April 2003 have been recorded at fair value in accordance with the accounting policies of the Group. In addition, the Group's share of the profits of M&T reflect the IR GAAP accounting rules applied by the Group.

Under US GAAP, certain accounting policies used in relation to both the investment in M&T and the Group's share of profits of M&T are different when compared to IR GAAP.

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

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

Reconciliation of alternative presentation to US GAAP

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

	Year ended December 31		
Consolidated net income	**2003**	2002 Restated	2001
	(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 132)*	**€ 677**	€ 1,016	€ 730
Adjustments in respect of:			
Depreciation of freehold and long leasehold property	**2**	2	5
Long-term assurance policies	**(13)**	(27)	(48)
Goodwill	**30**	4	(110)
Premium on core deposit intangibles	**(1)**	(5)	(7)
Retirement benefits	**7**	(5)	53
Dividends on non-equity shares	**5**	8	15
Securities held for hedging purposes	**1**	(3)	(24)
Internal use computer software	**(1)**	1	6
Derivatives FAS 133 transition adjustment[1]	**–**	–	122
Derivatives FAS 133 adjustment	**11**	(82)	(107)
Gain recognised on the disposal of businesses	**832**	–	–
Share of income of associated undertakings	**33**	–	–
Deferred tax effect of the above adjustments	**(60)**	17	(5)
Net income in accordance with US GAAP	**€ 1,523**	€ 926	€ 630
Net income applicable to ordinary stockholders of AIB in accordance with US GAAP	**€ 1,518**	€ 918	€ 615
Equivalent to	**US $ 1,917**		
Income per American Depositary Share (ADS*) in accordance with US GAAP	**€ 3.53**	€ 2.11	€ 1.43
Equivalent to	**US $ 4.46**		
Year end exchange rate €/US $	**1.2630**		

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

	Year ended December 31		
Comprehensive income	**2003**	2002 Restated	2001
	(millions)		
Net income in accordance with US GAAP	**€ 1,523**	€ 926	€ 630
Net movement in unrealized holding gains on investment securities arising during the period	**(41)**	84	120
Derivatives FAS 133 transition adjustment[1]	**–**	–	41
Exchange translation adjustments	**(501)**	(480)	214
Comprehensive income	**€ 981**	€ 530	€ 1,005

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

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

Consolidated ordinary stockholders' equity	**2003**	2002 Restated	2001 Restated
		(millions except per share amounts)	
Ordinary stockholders' equity as in the consolidated balance sheet under alternative presentation *(page 133)*	**€ 4,942**	€ 4,180	€ 4,574
Revaluation of property	**(168)**	(201)	(204)
Depreciation of freehold and long leasehold property	**(27)**	(27)	(27)
Goodwill	**223**	925	1,070
Core deposit intangibles	**–**	12	19
Dividends payable on ordinary shares	**296**	284	250
Dividends on non-equity shares	**1**	1	1
Long-term assurance policies	**(276)**	(263)	(236)
Unrealized gains/(losses) not yet recognised on:			
Available-for-sale debt securities	**180**	244	169
Available-for-sale equity securities	**14**	15	–
Securities held for hedging purposes	**(3)**	(4)	(1)
Derivatives FAS 133 adjustment	**(16)**	(79)	5
Retirement benefits	**899**	1,012	77
Internal use computer software	**18**	18	17
Other recognised gains/(losses) in associated undertaking	**2**	–	–
Share of income of associated undertaking	**33**	–	–
Deferred tax effect of the above adjustments	**(146)**	(206)	(50)
Ordinary stockholders' equity in accordance with US GAAP	**€ 5,972**	€ 5,911	€ 5,664
Equivalent to	**US $ 7,543**		
Ordinary stockholders' equity per ADS in accordance with US GAAP	**€ 13.90**	€ 13.61	€ 13.15
Equivalent to	**US $ 17.55**		
Ordinary stockholders' equity per ADS in accordance with IR GAAP	**€ 11.50**	€ 9.62	€ 10.62
Equivalent to	**US $ 14.52**		

	2003	2002 Restated	2001 Restated
		(millions)	
Total assets as in the consolidated balance sheet under alternative presentation *(page 133)*	**€ 80,960**	€ 85,821	€ 89,061
Revaluation of property	**(168)**	(201)	(204)
Depreciation of freehold and long leasehold property	**(27)**	(27)	(27)
Goodwill	**223**	925	1,070
Core deposit intangibles	**–**	12	19
Available-for-sale debt securities	**180**	244	169
Available-for-sale equity securities	**14**	15	–
Derivatives FAS 133 adjustment	**(16)**	(79)	5
Retirement benefits	**899**	1,012	77
Internal use computer software	**18**	18	17
Special purpose vehicles/variable interest entities	**519**	1,057	667
Long-term assurance policies	**(276)**	(263)	(236)
Long-term assurance assets attributable to policyholders	**(2,810)**	(2,174)	(2,200)
Investment in associated undertaking	**38**	–	–
Acceptances	**11**	72	142
Total assets in accordance with US GAAP	**€ 79,565**	€ 86,432	€ 88,560
Equivalent to	**US $ 100,491**		

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

Consolidated total liabilities and ordinary stockholders' equity	**2003**	2002 Restated	2001 Restated
		(millions)	
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet under alternative presentation *(page 133)*	**€ 80,960**	€ 85,821	€ 89,061
Ordinary stockholders' equity	**1,030**	1,731	1,090
Dividends payable on ordinary shares	**(296)**	(284)	(250)
Dividends on non-equity shares	**(1)**	(1)	(1)
Acceptances	**11**	72	142
Securities held for hedging purposes	**3**	4	1
Debt securities in issue re special purpose vehicles/variable interest entities	**519**	1,057	667
Deferred taxation	**149**	206	50
Own shares	**59**	52	52
Long-term assurance liabilities to policyholders	**(2,869)**	(2,226)	(2,252)
Total liabilities and stockholders' equity in accordance with US GAAP	**€ 79,565**	€ 86,432	€ 88,560
Equivalent to	**US $ 100,491**		

Statement of changes in ordinary stockholders' equity	**2003**	2002 Restated	2001 Restated
		(millions)	
Opening balance	**€ 5,911**	€ 5,664	€ 5,002
Net income	**1,523**	926	630
Dividends payable on ordinary shares	**(440)**	(396)	(351)
Dividends on non-equity shares	**(5)**	(8)	(15)
Ordinary shares bought back	**(812)**	–	–
Issue of shares	**188**	115	60
Unrealized gains on debt securities and equity shares held as available-for-sale	**(42)**	84	120
FAS 133 transition adjustment	**–**	–	41
Goodwill written back	**217**	–	–
Exchange translation adjustments	**(501)**	(480)	214
Other movements	**(67)**	6	(37)
Closing balance	**€ 5,972**	€ 5,911	€ 5,664

64 Approval of accounts

The accounts were approved by the board of directors on 23 February 2004.

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 54 to 139, 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 54 to 139.

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 140, this includes responsibility for preparing the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board, the Listing Rules of the Irish Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the Company's balance sheet is in agreement with the books of account and report to you our opinion as to whether:

– the Company has kept proper books of account;

– the Report of the Directors is consistent with the financial statements;

– at the balance sheet date a financial situation existed that may require the company to hold an extraordinary general meeting, on the grounds that the net assets of the Company, as shown in the financial statements, are less than half of its share capital.

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

We review whether the statement on pages 50 to 53 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 2003 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 48 to 49 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 62, 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 2003 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
23 February 2004

Additional financial information

The following consolidated profit and loss account for the year ended 31 December 2002, as well as the consolidated balance sheet for 31 December 2002 on page 144, have been presented to facilitate comparisons to the financial statements presented in this report.

	Year ended 31 December 2002 Restated		
	Continuing activities € m	Discontinued activities € m	Total € m
Interest receivable:			
Interest receivable and similar income arising from debt securities and other fixed income securities	783	163	946
Other interest receivable and similar income	3,164	643	3,807
Less: interest payable	(2,117)	(285)	(2,402)
Net interest income	1,830	521	2,351
Other finance income	63	(1)	62
Other income	1,055	459	1,514
Total operating income	2,948	979	3,927
Total operating expenses	1,747	571	2,318
Group operating profit before provisions	1,201	408	1,609
Provisions for bad and doubtful debts	110	84	194
Provisions for contingent liabilities and commitments	2	–	2
Amounts written off fixed asset investments	43	12	55
Group operating profit	1,046	312	1,358
Share of operating profits of associated undertakings	9	–	9
Profit on disposal of property	6	(1)	5
Group profit on ordinary activities before taxation	1,061	311	1,372
Taxation on ordinary activities	232	74	306
Group profit on ordinary activities after taxation	829	237	1,066
Equity and non-equity minority interests in subsidiaries	20	4	24
Dividends on non-equity shares	8	–	8
	28	4	32
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	801	233	1,034
Dividends on equity shares			429
Transfer to reserves			45
			474
Profit retained			560

Additional financial information (continued)

	Year ended 31 December 2002 Restated		
	Continuing activities € m	**Discontinued activities € m**	**Total € m**
Assets			
Cash and balances at central banks	996	180	1,176
Items in course of collection	330	841	1,171
Central government bills and other eligible bills	11	13	24
Loans and advances to banks	3,364	1,424	4,788
Loans and advances to customers	43,708	9,739	53,447
Securitised assets – net	1,002	–	1,002
Less: non-returnable proceeds	(754)	–	(754)
	248	–	248
Debt securities	16,046	2,158	18,204
Equity shares	161	85	246
Interests in associated undertakings	31	–	31
Intangible fixed assets	457	–	457
Tangible fixed assets	954	224	1,178
Other assets	679	474	1,153
Deferred taxation	95	150	245
Prepayments and accrued income	791	136	927
Long-term assurance business attributable to shareholders	352	–	352
	68,223	15,424	83,647
Long-term assurance assets attributable to policyholders	2,174	–	2,174
	70,397	15,424	85,821
Liabilities			
Deposits by banks	14,883	1,254	16,137
Customer accounts	41,894	11,082	52,976
Debt securities in issue	2,159	918	3,077
Other liabilities	2,458	133	2,591
Accruals and deferred income	725	104	829
Pension liabilities	443	94	537
Provisions for liabilities and charges	49	11	60
Deferred taxation	116	411	527
Subordinated liabilities	1,605	567	2,172
Equity and non-equity minority interests in subsidiaries	181	93	274
Total liabilities	64,513	14,667	79,180
Shareholders' funds including non-equity interests			4,415
			83,595
Long-term assurance liabilities to policyholders			2,226
			85,821

Accounts in sterling, US dollars and Polish zloty

Summary of consolidated profit and loss account for the year ended 31 December 2003	**€ m**	**STG £m STG £ 0.7048 = € 1**	**US $m US $ 1.263 = € 1**	**PLN m PLN 4.7019 = € 1**
Group operating profit before provisions	**1,216**	**857**	**1,536**	**5,717**
Provisions	**177**	**125**	**224**	**833**
Group operating profit	**1,039**	**732**	**1,312**	**4,884**
Income from associated undertakings	**81**	**57**	**103**	**382**
Profit on disposal of property	**32**	**22**	**40**	**150**
Loss on disposal of businesses	**(141)**	**(99)**	**(178)**	**(662)**
Group profit on ordinary activities before taxation	**1,011**	**712**	**1,277**	**4,754**
Taxation	**318**	**224**	**402**	**1,495**
Group profit on ordinary activities after taxation	**693**	**488**	**875**	**3,259**
Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	**677**	**477**	**855**	**3,184**
Dividends on equity shares	**452**	**319**	**572**	**2,128**
Earnings per € 0.32 share – basic	**78.8c**	**55.5p**	**99.5¢**	**370.5 PLN**
Earnings per € 0.32 share – adjusted	**109.5c**	**77.2p**	**138.3¢**	**514.9 PLN**
Earnings per € 0.32 share – diluted	**78.4c**	**55.2p**	**99.0¢**	**368.4 PLN**

Summary of consolidated balance sheet 31 December 2003	**€ m**	**Stg £m**	**US $m**	**PLN m**
Assets				
Loans and advances to banks	**2,633**	**1,856**	**3,326**	**12,380**
Loans and advances to customers	**50,490**	**35,585**	**63,769**	**237,400**
Debt securities and equity shares	**18,307**	**12,903**	**23,122**	**86,077**
Intangible fixed assets	**420**	**296**	**530**	**1,974**
Tangible fixed assets	**792**	**558**	**1,000**	**3,724**
Other assets	**5,508**	**3,882**	**6,957**	**25,898**
Long-term assurance assets attributable to policyholders	**2,810**	**1,981**	**3,549**	**13,214**
	80,960	**57,061**	**102,253**	**380,667**
Liabilities				
Deposits by banks	**18,094**	**12,753**	**22,852**	**85,076**
Customer accounts	**44,612**	**31,443**	**56,345**	**209,761**
Debt securities in issue	**3,489**	**2,459**	**4,407**	**16,406**
Other liabilities	**4,470**	**3,151**	**5,645**	**21,017**
Subordinated liabilities	**2,130**	**1,501**	**2,690**	**10,015**
Equity and non-equity minority interests in subsidiaries	**158**	**111**	**200**	**743**
Shareholders' funds	**5,138**	**3,621**	**6,490**	**24,159**
Long-term assurance liabilities to policyholders	**2,869**	**2,022**	**3,624**	**13,490**
	80,960	**57,061**	**102,253**	**380,667**

Five year financial summary

2003 US $m	Summary of consolidated profit and loss account	2003 € m	2002(1) € m	2001 € m	2000 € m	1999 € m
					Year ended 31 December	
2,443	Net interest income before exceptional items	**1,934**	2,351	2,258	2,022	1,770
–	Deposit interest retention tax	**–**	**–**	–	(113)	–
2,443	Net interest income after exceptional items	**1,934**	2,351	2,258	1,909	1,770
15	Other finance income	**12**	62	67	71	71
1,554	Other income before exceptional item(1)	**1,230**	1,514	1,426	1,304	1,052
–	Exceptional foreign exchange dealing losses	**–**	–	(789)	–	–
4,012	Total operating income after exceptional items	**3,176**	3,927	2,962	3,284	2,893
2,476	Total operating expenses	**1,960**	2,318	2,284	1,997	1,658
1,536	Group operating profit before provisions	**1,216**	1,609	678	1,287	1,235
224	Provisions	**177**	251	204	134	92
1,312	Group operating profit	**1,039**	1,358	474	1,153	1,143
181	Share of operating profits of associated undertakings	**143**	9	4	3	3
(25)	Share of restructuring & integration costs in associated undertaking	**(20)**	–	–	–	–
(53)	Amortisation of goodwill on acquisition of associated undertaking	**(42)**	–	–	–	–
40	Profit on disposal of property	**32**	5	6	5	2
(178)	(Loss)/profit on disposal of businesses	**(141)**	–	93	–	15
1,277	Group profit before taxation	**1,011**	1,372	577	1,161	1,163
402	Taxation on ordinary activities	**318**	306	55	319	333
14	Equity and non-equity minority interests	**11**	24	23	38	28
6	Dividends on non-equity shares	**5**	8	15	20	16
855	Group profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	**677**	1,034	484	784	786
572	Dividends on equity shares	**452**	429	380	335	288
1.5	Dividend cover – times	**1.5**	2.4	1.3	2.3	2.7
99.5¢	Earnings per € 0.32 share – basic	**78.8c**	119.1c	56.2c	91.6c	92.5c
138.3¢	Earnings per € 0.32 share – adjusted	**109.5c**	122.7c	108.6c	106.7c	93.5c
99.0¢	Earnings per € 0.32 share – diluted	**78.4c**	117.9c	55.9c	91.0c	91.6c

2003 US $m	Summary of consolidated balance sheet	2003 €m	2002 €m	2001 €m	2000 €m	1999 €m
					Year ended 31 December	
102,253	Total assets(1)	**80,960**	85,821	89,061	80,318	67,790
67,352	Total loans	**53,326**	58,483	57,445	50,239	43,127
83,604	Total deposits	**66,195**	72,190	72,813	65,210	55,241
1,612	Dated capital notes	**1,277**	1,287	1,594	1,836	1,587
451	Undated capital notes	**357**	389	426	413	397
627	Reserve capital instruments	**496**	496	496	–	–
200	Equity and non-equity minority interests in subsidiaries	**158**	274	312	272	227
247	Shareholders' funds: non-equity interests	**196**	235	279	264	245
6,242	Shareholders' funds: equity interests(1)	**4,942**	4,180	4,554	4,719	4,291
9,379	Total capital resources	**7,426**	6,861	7,661	7,504	6,747

(1) The figures for 2002 in the consolidated profit and loss account and the figures for 2002, 2001, 2000 and 1999 in the consolidated balance sheet have been restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares and UITF Abstract 38 - Accounting for ESOP Trusts *(Accounting policies - page 54).*

Other financial data	2003 %	2002 %	2001 %	2000 %	1999 %
					Year ended 31 December
Return on average total assets	**0.90**	1.24	0.62(1)	1.12(2)	1.36
Return on average ordinary shareholders' equity(3)	**14.5**	23.7	10.4(1)	17.4(2)	20.9
Dividend payout ratio	**66.8**	41.5(3)	78.5	42.7	36.6
Average ordinary shareholders' equity as a percentage of average total assets(3)	**6.0**	5.1	5.8	6.1	5.9
Allowance for loan losses as a percentage of total loans to customers at year end	**1.3**	1.6	1.9	1.9	1.9
Net interest margin	**2.72**	3.00	2.99	3.02	3.27
Tier 1 capital ratio	**7.1**	6.9	6.5	6.3	6.4
Total capital ratio	**10.4**	10.1	10.1	10.8	11.3

(1)Excluding the impact of the exceptional foreign exchange dealing losses, the return on average total assets was 1.23% and the return on average ordinary shareholders' equity was 20.4%.

(2)Excluding the impact of the deposit interest retention tax settlement, the return on average total assets was 1.26% and the return on average ordinary shareholders' equity was 19.5%.

(3)Restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares and UITF Abstract 38 - Accounting for ESOP Trusts (Accounting policies - page 54).

US $	Supplementary information for US investors	2003 €	2002 €	2001 €	2000 €	1999 €
						Year ended 31 December
	Per American Depositary Share (ADS):(1)					
1.99	Net income per alternative presentation *(note 63)*	**1.58**	2.34(7)	1.70	1.49(2)	1.78
1.33	Dividend(3)	**1.05**	0.98	0.88	0.78	0.68
14.52	Net assets per alternative presentation *(note 63)*(7)	**11.50**	9.62	10.62	10.53	9.96
	Amounts in accordance with US GAAP:					
1,924m	Net income	**1,523m**	926m(7)	630m	571m(4)	663m
1,917m	Net income attributable to ordinary stockholders	**1,518m**	918m(7)	615m	551m(5)	647m
4.46	Net income per ADS	**3.53**	2.11(7)	1.43	1.29(6)	1.52
17.55	Net assets per ADS(7)	**13.90**	13.61	13.15	11.69	10.29
100,491m	Total assets(7)	**79,565m**	86,432m	88,560m	78,216m	65,929m
7,543m	Ordinary stockholders' equity(7)	**5,972m**	5,911m	5,664m	5,002m	4,374m

(1)With effect from close of business on 13 May 1999 the number of ordinary shares represented by one American Depositary Share was amended from six to two. Prior year data has been restated to reflect this change.

(2)€ 1.73 (US$ 1.61) when adjusted to exclude the impact of the deposit interest retention tax settlement.

(3)The actual dividend payable to US stockholders will depend on the €/US $ exchange rate prevailing.

(4)€ 674m (US$ 628m) when adjusted to exclude the impact of the deposit interest retention tax settlement.

(5)€ 654m (US$ 609m) when adjusted to exclude the impact of the deposit interest retention tax settlement.

(6)€ 1.53 (US$ 1.42) when adjusted to exclude the impact of the deposit interest retention tax settlement.

(7)Restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares and UITF Abstract 38 - Accounting for ESOP Trusts (Accounting policies - page 54).

	2003 %	2002 %	2001 %	2000 %	1999 %
					Year ended 31 December
Other financial data in accordance with US GAAP:					
Return on average total assets	**2.00**	1.10(2)	0.79	0.83(1)	1.15
Return on average ordinary stockholders' equity(2)	**25.10**	15.88	10.82	11.32(1)	15.05
Dividend payout ratio	**29.8**	46.6	61.7	60.7	44.4
Average ordinary stockholders' equity as a percentage of average total assets(2)	**7.87**	6.69	6.84	6.64	7.15

(1)Excluding the impact of the deposit interest retention tax settlement, the return on average total assets was 0.97% and the return on average ordinary shareholders' equity was 13.29%.

(2)Restated to reflect the implementation of UITF Abstract 37 - Purchases and sales of own shares and UITF Abstract 38 - Accounting for ESOP Trusts (Accounting policies - page 54).

Principal addresses

Ireland & Britain

Group Headquarters
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4, Ireland.
Telephone + 353 1 660 0311
http://www.aibgroup.com

AIB Bank (ROI)
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Telephone + 353 1 660 0311
Facsimile + 353 1 283 0490

First Trust Bank
First Trust Centre, PO Box 123,
92 Ann Street, Belfast BT1 3AY.
Telephone + 44 28 9032 5599
From ROI 048 9032 5599
Facsimile + 44 28 9043 8338
From ROI 048 9043 8338

Allied Irish Bank (GB)
Bankcentre, Belmont Road,
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Facsimile + 44 1895 239 774

AIB Finance & Leasing
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aibfinl@aib.ie

Ark Life Assurance Company Limited
8 Burlington Road, Dublin 4.
Telephone + 353 1 668 1199
Facsimile + 353 1 637 5737
info@arklife.ie

Credit Card Centre
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Facsimile + 353 1 668 5901
credcard@aib.ie

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AIB International Centre,
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Telephone + 353 1 874 0222
Facsimile + 353 1 679 5933

AIB Global Treasury
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Telephone + 353 1 874 0222
Facsimile + 353 1 679 5933

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Telephone + 44 207 606 3070
Facsimile + 44 207 606 5698

AIB Investment Managers Limited
AIB Investment House,
Percy Place, Dublin 4.
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Facsimile + 353 1 661 7038
aibim@iol.ie

AIB International Financial Services Limited
AIB International Centre, IFSC, Dublin 1.
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Facsimile + 353 1 874 3050

Goodbody Stockbrokers
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Telephone + 353 1 667 0400
Facsimile + 353 1 667 0422

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Bankcentre, Ballsbridge, Dublin 4.
Telephone + 353 1 660 0311
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AIB Irish Capital Management Limited
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Telephone + 353 1 668 8860
Facsimile + 353 1 668 8831

AIB/BNY Securities Services (Ireland) Limited
Guild House, Guild Street, IFSC,
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Telephone + 353 1 641 8500
Facsimile + 353 1 829 0833

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London EC3A 8AB.
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NY 10022.
Telephone + 1 212 339 8000
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405 Park Avenue, New York,
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Facsimile + 1 212 339 8325

AIB Treasury Services
405 Park Avenue, New York,
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Facsimile + 1 212 339 8006

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Rynek 9/11, 50-950 Wroclaw.
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Krolewska Building, 4^{th} floor,
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Frankfurt am Main, Germany.
Telephone + 49 69 971 4210
Facsimile + 49 69 971 42116

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

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

Additional information for shareholders

1. **Internet-based Shareholder Services**
   Ordinary Shareholders with access to the internet may
   - check their shareholdings on the Company's Share Register;
   - check recent dividend payment details; and
   - download standard forms required to initiate changes in details held by the Registrar,

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

   Shareholders may also use AIB's website to access the Company's Annual Report & Accounts.

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

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

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

5. **Dividend Reinvestment Plan**
   The Company operates a Dividend Reinvestment Plan, under which ordinary shareholders may be offered new shares in lieu of cash 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 154.

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 certain non-resident shareholders who have furnished valid declaration forms (see below), dividends paid by Irish-resident companies are subject to DWT at the standard rate of income tax, currently 20%. DWT, where applicable, is deducted 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 or ordinarily 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;
- Qualifying fund managers receiving a dividend for the benefit of an approved retirement fund or an approved minimum retirement fund;
- Qualifying savings managers receiving a dividend for the benefit of a special savings incentive account.

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*)**

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

– holds a licence under the Central Bank Act, 1971, or a similar authorisation under the law of a relevant territory, or is wholly 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 or other person (not being a company) 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 body of persons, such as a charity or superannuation fund, which is resident for tax purposes in a relevant territory;
(c) a company which is resident in a relevant territory and is not under the control (direct or indirect) of Irish resident(s);
(d) a company which is under the control (direct or indirect) of a person or persons resident for tax purposes in a relevant territory and which is not under the control (direct or indirect) of Irish resident(s); or
(e) a company, 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.

D. American Depositary Receipt ('ADR') Holders

An ADR holder who is beneficially entitled to the dividend and whose address:

- on the register of ADRs maintained by AIB's ADR programme administrator, the Bank of New York ('BONY'), or
- in the records of a further intermediary through which the dividend is paid

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

US Withholding Tax

Note: The following information, which is given for the general guidance of ADR holders, does not purport to be a definitive guide to relevant taxation provisions. While it is believed to be accurate at the time of finalising this Report for publication, ADR holders should take professional advice if they are in any doubt about their individual tax positions.

Notwithstanding entitlement to exemption from *Irish* DWT, referred to above, ADR holders should note that, under provisions introduced by the US Internal Revenue authorities, effective from 1 January, 2001, US-resident holders of ADRs may, in certain circumstances, be liable to a *US* withholding tax on dividends received on such ADRs. This would arise, for example, where a US resident, being the beneficial owner of ADRs issued by an overseas company, fails to provide the depositary bank - or, where applicable, the Registered Broker - with a Form W-9 (tax certified document), showing, inter alia, the holder's Social Security Number or Taxpayer Identification Number. Non-US residents holding ADRs are required to submit the applicable Form W8 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 154; (ii) the holder's Registered Broker, where applicable; or (iii) the holder's financial/taxation adviser.

AIB

Additional information for shareholders *(continued)*

Shareholding analysis
as at 31 December 2003

Size of shareholding	Shareholder Accounts Number	%	Shares* Number	%
1 – 1,000	39,330	45	13,882,367	1
1,001 – 5,000	36,344	41	59,010,391	7
5,001 – 10,000	6,198	7	40,460,115	5
10,001 – 100,000	5,543	6	119,212,311	14
100,001 – over	548	1	619,521,976	73
Total	**87,963**	**100**	**852,087,160**	**100**
Geographical division				
Republic of Ireland	60,168	68	318,853,858	37
Overseas	27,795	32	533,233,302	63
Total	**87,963**	**100**	**852,087,160**	**100**

* *Excludes 55,534,156 shares held as Treasury Shares – see note 47 on page 106.*

Financial calendar
Annual General Meeting: Thursday, 29 April 2004, commencing at 11.00 a.m.

Dividend payment dates - Ordinary Shares:

– Final Dividend 2003 – 30 April 2004
  (Share Certificates posted to Dividend Reinvestment Plan Participants – 6 May 2004)
– Interim Dividend 2004 – 27 September 2004

Interim results:
Unaudited interim results for the half-year ending 30 June 2004 will be announced on 27 July 2004. The Interim Report for the half-year ending 30 June 2004 will be published as a press advertisement in early-August 2004, and will also be available on the Company's website – www.aibgroup.com.

Shareholder enquiries should be addressed to:

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

For holders of ADRs in the United States:
The Bank of New York
Shareholder Relations
PO Box 11258
Church Street Station
New York, NY 10286-1258, USA
Telephone 1-888-BNY-ADRS / 1-888-269-2377
Website: **www.adrbny.com**
or
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