2006

Annual Report

Allied Irish Banks, p.l.c.

Annual Report & Accounts 2006

AIB

Contents

Forward-Looking Information

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

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

Financial highlights

for the year ended 31 December 2006

	31 December 2006 € m	31 December 2005 € m
Results		
Total operating income	**4,326**	3,647
Operating profit	**1,908**	1,493
Profit before taxation - continuing operations	**2,615**	1,706
Profit attributable to equity holders of the parent	**2,185**	1,343
Per € 0.32 ordinary share		
Earnings – basic *(note 18(a))*	**246.8c**	151.0c
Earnings – diluted *(note 18(b))*	**244.6c**	149.8c
Dividend	**71.8c**	65.3c
Dividend payout	**29%**	44%
Net assets	**928c**	773c
Performance measures		
Return on average total assets	**1.63%**	1.20%
Return on average ordinary shareholders' equity	**29.0%**	20.6%
Balance sheet		
Total assets	**158,526**	133,214
Ordinary shareholders' equity	**8,108**	6,672
Loans etc	**120,015**	92,361
Deposits etc	**136,839**	109,520
Capital ratios[(1)]		
Tier 1 capital	**8.2%**	7.2%
Total capital	**11.1%**	10.7%

[(1)] The final dividend of € 407m has not been taken into account in the calculation of the Tier 1 and Total capital ratios. The Financial Regulator has issued a requirement that a Prudential Filter be applied to proposed final dividends with effect from July 2007. If applied at 31 December 2006, the Tier 1 and Total capital ratios would be 7.9% and 10.8% respectively.

Allied Irish Banks, p.l.c.
Group Headquarters &
Registered Office
Bankcentre, Ballsbridge
Dublin 4, Ireland
Telephone (01) 6600311
Registered number 24173

Chairman's Statement

AIB Group delivered an exceptional performance in 2006. Operating profit increased substantially across all our divisions and adjusted earnings per share was EUR 182.8c.

This is good news for shareholders. Your total dividend was 10% higher than 2005 with your final dividend at EUR 46.5c. This final dividend is payable on 10 May 2007 to shareholders on the company's register of members at the close of business on 16 March 2007.

The 2006 performance was achieved at a time when competition in all our marketplaces was intense. I want to place on record my thanks to all the people who work for AIB around the world for their contribution to these terrific results.

Board changes

There were a series of changes to the AIB Board over the past year. In September, we announced the appointment of two new non-executive Directors, Sean O'Driscoll and Bernard Somers.

Sean, Group Chief Executive of Glen Dimplex Group, is also a member of UCC's Foundation Board as well as the Enterprise Advisory Group established by the Irish Government to advise on the implementation of enterprise strategy for Ireland.

Bernard is a non-executive director of DCC plc, Independent News & Media plc, Irish Continental Group plc, South Wharf plc and is Chairman of eTel Group, a Central European telecommunications company. He is a former director of the Central Bank of Ireland.

In January 2007, Anne Maher and Dan O'Connor joined the AIB Board as non-executive directors.

Anne recently retired as Chief Executive of The Pensions Board for Ireland. She is a board member of the Irish Accounting and Auditing Supervisory Authority and was recently appointed as first Chair of the Medical Council's Performance Committee.

Dan was previously President and Chief Executive Officer, GE Consumer Finance Europe, based in Dublin and a Senior Vice-President of GE. He is a non-executive director of CRH.

Donal Forde, Managing Director of AIB Bank RoI Division, was also appointed to the AIB Board in January. He joined AIB in 1978 and was appointed Head of Treasury Services in 1998, with additional responsibility for AIB's International Payments and Accounts Services, as well as its business in International Trade Finance. Donal is responsible for AIB's retail banking operations in the Republic of Ireland.

I welcome all the new directors to the AIB Board. I know their collective experience of business in Ireland and internationally will further strengthen our board as we build on our successes and pursue sustained growth and development in the years ahead.

After this year's annual general meeting, two long serving members of the AIB Board are to step down. John B McGuckian, our Senior Independent non-executive director, has served on the AIB Board for more than 30 years.

Also retiring in May this year is Padraic Fallon who joined the AIB Board in 1988. I want to pay tribute to both John and Padraic for their outstanding contribution to the AIB Board over many years.

Corporate Governance and Risk Management
AIB continues to enhance its risk management resources and processes. Kieran Bennett succeeded to the position of Group Chief Credit Officer, on the retirement of David Meagher after a distinguished career. A senior Group Head of Market Risk Management, Steve Warr was recruited externally as was Eddie Ward in the new position of Deputy Group Chief Credit Officer.

A comprehensive Board-level Risk Assessment is well embedded across the businesses. The Risk Management Committee, comprising top management, reviews all risks on a regular basis to ensure management action. Basel II work is resulting in improved risk measurement tools which will better align capital estimation with the bank's actual risk exposures.

Economic outlook
The economic outlook in AIB's main markets remains generally bright. Prospects for the Irish economy in 2007 remain favourable with buoyant domestic demand the key driver of overall economic growth. Personal spending in particular should be supported by strong job growth and by maturing SSIAs. However, the pace of GDP growth is still likely to moderate from last year's growth rate of 6.0% as activity in the housing market decelerates and higher interest rates impact.

The US economy has clearly lost momentum as a result of downturns in the housing market and to a lesser extent in manufacturing. The consensus view is that this will prove to be a soft landing. Indeed, growth could start to pick up pace again before the end of 2007. Meanwhile, the Polish economy is expected to grow by about 6% this year, supported by a generally positive outlook for the global economy.

The UK economy is expected to grow above trend in 2007, with GDP underpinned by strong growth in the services sector. The pace of economic activity, however, is forecast to cool over the course of the year as higher interest rates start to bite.

The outlook
AIB's track record of growth over the past five years is impressive. AIB has been quick to meet the challenges of increased competition with a compelling mix of products and services. The group knows how vital it is to ensure its back-office operations are run in the most efficient way. It also understands the contribution made by its loyal and talented workforce to its continuing success.

The outlook for 2007 is positive. AIB is well positioned to continue to deliver excellent value to its shareholders - now and into the future.

Dermot Gleeson *Chairman*
5 March 2007

The Board and Group Executive Committee

Board of Directors

Dermot Gleeson *BA, LLM* - ***Chairman***
Barrister, and member of the Adjunct Law Faculty of University College Dublin and a member of Cork University President's Consultative Board. Member of the Royal Irish Academy and Chairman of the Irish Council for Bioethics. Director of 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 58)

Eugene Sheehy* *MSc* - ***Group Chief Executive***
Joined AIB in 1971 and spent 20 years in retail banking, including branch manager appointments in a number of Dublin branches. Appointed General Manager, Retail Operations in 1999, and Managing Director, AIB Bank, Republic of Ireland in 2001. Appointed Chief Executive Officer of AIB's USA Division and Executive Chairman-Designate of Allfirst Financial Inc. ("Allfirst") in March 2002. Appointed Chairman and CEO, Mid Atlantic Division, M&T Bank ("M&T"), and to the Executive Management Committee and Board of M&T Bank Corporation in April 2003, following the merger of Allfirst and M&T. Appointed AIB Group Chief Executive-Designate in March 2005, co-opted to the Board on 12 May 2005, and assumed responsibility as Group Chief Executive with effect from 1 July 2005. (Age 52)

Adrian Burke *B Comm, FCA* - ***Audit Committee Chairman***
Chairman of Coyle Hamilton Willis Limited and Director of Dairygold Co-Operative Society Limited. 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 65)

Kieran Crowley *BA, FCA*
Consultant. Founder of Crowley Services Dublin Ltd., which operates Dyno-Rod franchise in Ireland. Director of Bank Zachodni WBK, AIB's Polish subsidiary. Former member of IBEC National Executive Council and former Chairman of the Small Firms Association. Joined the Board in 2004. (Age 55)

Colm Doherty* *B Comm*
Managing Director, AIB Capital Markets plc. Director of M&T Bank Corporation and Director of Commerzbank Europe. 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 48)

Padraic M Fallon *BBS, MA, FRSA*
Chairman of Euromoney Institutional Investor PLC and Director of Daily Mail & General Trust Plc in Britain. Member of the Board of Trinity College Dublin Foundation. Joined the Board in 1988. Scheduled to retire from the Board at the AGM in May 2007. (Age 60)

Donal Forde* *MSc*
Managing Director, AIB Bank, Republic of Ireland. Joined AIB in 1978. Appointed Head of Treasury Services in 1998 and General Manager, Strategic Development Unit, AIB Bank in September 1999; assumed his current position in 2002. Director of Hibernian Group PLC. Fellow and former President of the Institute of Bankers in Ireland and past President of the Irish Banking Federation. Joined the Board in January 2007. (Age 46)

Don Godson *BE, MIE, FIEI, C.Eng* - ***Remuneration Committee Chairman***
Chairman of Project Management Holdings Ltd. Former Board Member of the Michael Smurfit Graduate School of Business at University College Dublin. Former Director and Group Chief Executive of CRH plc. Joined the Board in 1997. (Age 67)

Anne Maher *FIIPM, BCL*
Board member of the Irish Accounting and Auditing Supervisory Authority, first Chair of the Medical Council's Performance Committee. Member of the UK Professional Oversight Board, the FTSE Policy Group, and a Governor of the Pensions Policy Institute (UK). Former Chief Executive of The Pensions Board for Ireland. Joined the Board in January 2007. (Age 61)

John B McGuckian *BSc Econ* - ***Senior Independent Non-Executive Director***
Chairman of Ulster Television plc, Irish Continental Group plc, and AIB Group (UK) p.l.c., and a Director of a number of other companies in Ireland and the UK. Former ProChancellor of The Queen's University, Belfast, and former Chairman of The International Fund for Ireland and of the Industrial Development Board for Northern Ireland. Joined the Board in 1977 and appointed Senior Independent Non-Executive Director in 2003. Scheduled to retire from the Board at the AGM in May 2007. (Age 67)

Dan O'Connor *B Comm, FCA*
Director of CRH, former President and Chief Executive Officer, GE Consumer Finance Europe, and former Senior Vice-President of General Electric Company. Joined the Board in January 2007. (Age 47)

John O'Donnell* *FCMA, FCCA* - ***Group Finance Director***
Joined AIB in 1989 as Associate Director, AIB International Financial Services, becoming Managing Director in 1995. Appointed Managing Director, AIB Corporate Finance in 1996, Head of Investment Banking, AIB Capital Markets in 2001, and Group Finance Director-Designate in July 2005. Joined the Board on 11 January 2006. (Age 52)

Sean O'Driscoll *B Comm, FCA*
Group Chief Executive, Glen Dimplex Group. Member of Cork University President's Consultative Board. Appointed by the Irish Government as a member of the Enterprise Advisory Group advising on the implementation of enterprise strategy for Ireland and a high-level group overseeing Ireland's Asia strategy. Awarded an Honorary OBE for his contribution to British industry in April 2006. Joined the Board in September 2006. (Age 49)

Jim O'Leary *MA, MSI*
Lecturer in economics at the National University of Ireland, Maynooth. Former Chief Economist at Davy Stockbrokers, and former Director of Aer Lingus, the National Statistics Board and Gresham Hotel Group. Joined the Board in 2001. (Age 50)

Bernard Somers *B Comm, FCA*
Director of DCC plc, Independent News & Media plc, Irish Continental Group plc, South Wharf plc, and Chairman of eTel Group. Former director of the Central Bank of Ireland. Principal of Somers & Associates, corporate restructuring consultants. Joined the Board in September 2006. (Age 57)

Michael J Sullivan *JD*
Served as US Ambassador to Ireland from January 1999 to June 2001 and as Governor of the State of Wyoming, USA, between 1987 and 1995. Director of Kerry Group plc, Sletten Construction Inc., Cimarex Energy, Inc., First Interstate BancSystem, Inc., and a Trustee of the Catholic Diocese of Wyoming. Member of the Bar, State of Wyoming, and Partner, Rothgerber, Johnson & Lyons, LLC. Joined the Board in 2001. (Age 67)

Robert G Wilmers
Chairman 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, and the Andy Warhol Foundation. Served as Chairman of the New York State Bankers' Association in 2002, and as a Director of the Federal Reserve Bank of New York from 1993 to 1998. Joined the Board in 2003, as the designee of M&T, on the acquisition by AIB of a strategic stake in M&T. (Age 72)

Jennifer Winter *B Sc* - ***Corporate Social Responsibility Committee Chairman***
Chief Executive, the Barretstown Gang Camp Limited and Director of Project Management Holdings Ltd. Former Vice President GlaxoSmithKline Pharmaceuticals Limited UK and former Managing Director of SmithKline Beecham, Ireland. Joined the Board in 2004. (Age 47)

* Executive Directors

Board Committees
Information concerning membership of the Board's Audit, Corporate Social Responsibility, Nomination & Corporate Governance, and Remuneration Committees is given in the Corporate Governance statement on pages 40 to 46.

Group Executive Committee

Eugene Sheehy - *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)*
Robbie Henneberry - *Managing Director, AIB Group (UK) p.l.c.*
Steve Meadows - *Group Director, Operations & Technology*
John O'Donnell - *Group Finance Director*
Mary Toomey - *Head of Group Strategic Human Resources*

Group Chief Executive's Review

AIB Group had a tremendous 2006 – all our divisions delivered impressive profit growth.

This outcome is directly linked to the skills and endeavours of our staff. I want to thank them for their exceptional contribution over the year.

Demand for AIB's products and services is high. In 2006, we won new business and developed closer relationships with our existing customers in intensely competitive marketplaces.

AIB's growth trend is now well established. We are reaping the rewards for creating and nurturing excellent businesses over the past 40 years.

Key figures

In 2006, AIB's adjusted basic earnings per share of EUR 182.8c rose 25% over the 2005 figure. Asset quality was solid as was the Tier 1 capital ratio at 8.2%. The bad debt provision charge at 0.12% was down from 0.15% in 2005 while return on equity was 29%.

Operating expenses rose by 14% in 2006. This rise was at a time of increased business volumes, strong revenue growth and major investment in the efficiency of the organisation.

AIB's income continues to rise faster than its costs. Productivity is also improving with the cost income ratio reducing in 2006 by 1.7% to 53.5%.

Performance across the group

AIB Bank in the Republic of Ireland saw its profit increase by 24% in 2006. The bank's enhanced range of products and services and its customer relationship ethos saw the bank end the year with 100,000 new active customers.

AIB's new range of savings accounts appealed to existing AIB SSIA customers while also attracting new business. AIB is the bank of choice of business customers in the Republic and business lending growth was healthy in 2006 as was demand for personal loans and mortgages. AIB Card Services and AIB Finance & Leasing also had a successful 2006. Our joint venture with Hibernian Life Holdings Limited had a positive start.

AIB Capital Markets' operating profit in 2006 was up 29%. Strong revenue growth, a very low level of bad debt provisions and good core cost management were key factors in this result.

Corporate Banking, which operates globally, had an exceptionally successful year. Its international business is well established and its network of offices is expanding to meet demand.

Global Treasury profit before tax declined by 2% which was a very good outcome in difficult markets. Elsewhere, Investment Banking saw its profit before tax rise 62% with Goodbody Stockbrokers enjoying a strong year building on its well established reputation.

In 2006, AIB Capital Markets made €51 million after tax from the sale of its 50% share of AIB/BNY Security Services (Ireland) Limited to the Bank of New York. It also made €26 million after tax from certain investment contracts transferred to Aviva, as part of the Ark Life transaction.

AIB Bank UK's operating profit before tax rose by 18%. Loans and deposits increased by 19% and 22% respectively during 2006, with the growth distributed across both the business and personal sectors.

Allied Irish Bank (GB) reported buoyant profit growth of 23% to €209 million in 2006. This business bank, acclaimed as one of the best in Britain, continues to extend its range with the recruitment of experienced banking and wealth management specialists and the establishment of new offices. In Northern Ireland, First Trust Bank increased profit before tax by 11%.

AIB Poland saw its pre-tax profit grow by a spectacular 56% on a local currency basis. The

Polish economy is thriving and BZWBK, AIB's Polish bank, is well placed to meet the increased demand for loans.

Also in Poland, there was exceptional growth in the mutual fund business where balances have increased by 123% since December 2005. AIB now has 250,000 customers with assets under management. AIB's Warsaw-based brokerage business had a great year and contributed to a broad base of fee income from Poland.

AIB owns a 24% shareholding in M&T, a top US regional bank. In 2006, the contribution from this shareholding was down 4% to US$177 million. This decrease reflects the conversion of M&T's contribution from US GAAP to IFRS accounting standards. M&T's net income was up 10% to US$ 839 million in 2006. AIB's share of M&T after-tax profit in 2006 amounted to €141 million.

Major developments

AIB continued its sale and leaseback programme in 2006. This programme releases capital which can be better used by the bank to lend to customers.

Profit before tax on disposal of property in 2006 included €256 million from the Dublin Bankcentre building, €73 million on the sale of 11 branches in the Republic of Ireland and €29 million on the sale of Donnybrook House. Construction contract income of €96 million reflects the profit earned from the new development at Bankcentre, based on the stage of completion.

Single enterprise approach

Last year I explained AIB's desire to make the group more consistently operationally excellent.

The single enterprise approach to our operations and technology will reduce our operational risk and help AIB meet service quality and efficiency targets.

Progress in this area has been impressive in 2006. This is a programme that will take another two to three years to complete and will provide AIB with a cost base insensitive to volume, with better quality operations and enhanced customer service.

Strategy

Wherever we operate, AIB aims to deliver one distinctive customer proposition.

This consists 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.
- best delivery with a wide range of channels available to our customers accessing our services.

The future

2006 was a year of solid organic growth for AIB.

Ireland is our home market. Growth here continues to be strong and sustained. But the story of 2006 is that AIB's international business is growing stronger than our Irish business. This is good news as AIB is in a better position now in terms of not being dependent on any one economy.

We aim to be in the right markets, providing the right products and services at the right time to the right customers.

AIB today is energised, optimistic and confident about the future.

Eugene Sheehy *Group Chief Executive*
5 March 2007

Corporate Social Responsibility

AIB Group is a leading international financial organisation. As such it has responsibilities in terms of its employees, shareholders, business partners and the products and services that it provides.

We are fully committed to the management of all aspects of our business to the highest standards. This is reflected in our corporate social responsibility activities.

Community
AIB Group aims to add value and benefit to its local communities.

Our major initiative is the Better Ireland Programme which provides funding to groups working with disadvantaged children. In the last five years, more than €13 million has been donated to over 1,300 charities throughout Ireland.

One of the main elements of the Better Ireland Programme is the Schoolmate project which works with children most at risk of missing school at 17 different locations in Ireland. AIB has invested €1.27 million a year into this project since 2002. In 2005 the most frequently provided Schoolmate activity was after-school or homework clubs.

AIB supports staff who offer their time as volunteers, particularly through the Junior Achievement programme which helps young people understand the economics of life in partnership with business and educators. During the 2005/06 academic year we had 62 volunteers teaching programmes to almost 1,500 primary and secondary students in schools across Ireland – the equivalent of over 2,480 volunteer hours.

In London, 55 staff took part in London Cares Day, the city's biggest-ever volunteering day. The AIB staff worked at five schools on gardening projects and mural painting in playgrounds.

First Trust Bank has a staff charity programme which has been running since 2000. This year staff in Northern Ireland are set to raise their 500,000th pound for charities, money that in 2006 went to a group of hospice charities – Hospice Care at Home NI.

Capital Markets has worked with the Barton Trust to develop a special programme which will allow members of AIB's junior management personnel develop their leadership skills while working directly with a group of under-privileged children.

Some other projects running across AIB Group include:

- Allied Irish Bank (GB) supports young people being put through the London Irish Rugby Academy. The objective of the academy is to identify the most talented young rugby players and provide them with a comprehensive development programme.
- The 'Bank of Children's Smiles' programme in Poland. In 2006, the programme bought clothing and provided school dinners, stationery, copybooks and colouring books, and launched a Christmas parcel initiative. More than 55,000 children have been helped through this scheme, which was launched in 2003.
- Also in Poland, BZWBK's 'Summer in the City, Summer in the Country' initiative provided holidays for over 9,000 children at the seaside or in the mountains.

Following the FX charges issue during 2004, an agreement was reached between AIB and the Financial Regulator that when all reasonable efforts had been made to identify individual customers entitled to refunds, any money remaining should be applied to community purposes. During 2006, €10 million was donated to the Community Foundation for Ireland. This group aims to tackle the root causes of isolation and diversity across Ireland. A further €20.6 million was donated to charitable causes in areas including educational disadvantage and research into how a growing immigrant population could be integrated into Irish society.

Marketplace
Our customers are the foundation of our business. The AIB Code of Business Ethics places the core values of honesty, integrity and fairness at the centre of our relationship with customers as well as with shareholders and other stakeholders.

Across all our business areas, customer service standards are issued to staff and customer research and mystery shopping surveys are undertaken. In addition a single set of standards and technology for handling complaints across the group is being introduced this year.

In the Republic of Ireland a series of personal customer initiatives were introduced:
- Fee free transaction banking for AIB phone and internet banking and debit card users.
- A range of new savings and investment products.
- AIB was the first Irish bank to offer online international payments for personal customers.
- Travel and car insurance products were launched.

To reflect the diversity of our customer base, AIB in the Republic of Ireland developed a specific Polish offer which includes a new international service centre in Direct Banking, Polish-speaking staff in branches in areas where many Poles live, an AIB website with information in Polish (www.aib.ie/polska) and marketing material in Polish.

Allied Irish Bank (GB) has jointly won Britain's best business bank, the seventh consecutive time it has topped the poll.

AIB Investment Managers won the Best Balanced Pension Fund Award for its Yield Focus Fund in the annual Moneymate Investment Awards. The fund was ranked as the best performing fund with the lowest level of risk over five years.

We have a wide range of financial and other information and services on our websites. During 2006 we adopted the WA1 accessibility standards (level 2AA) as provided by the World Wide Web Consortium (W3C). These ensure that our website content can be navigated and read by everyone, regardless of their location, experience or the type of computer technology used.

AIB won the Golden Spider Award for Best Financial website which recognised the AIB personal portal and the AIB Internet Banking service. The website was further acknowledged at the Digital Media Awards and won the title Best Consumer Website.

AIB Bank RoI's Banking Support Services and BZWBK's International Payments and Payment Card Personalisation units achieved ISO accreditation during 2006. This complements existing accredited areas such as Business Services Centre in Belfast and Treasury Operations.

2006 saw AIB's largest sponsorship to date – the 2006 Ryder Cup. Independent research confirmed that AIB was the most visible and appealing sponsor of the event. The sponsorship was a success in terms of building our relationships with our customers and building our brand.

Environment
AIB recognises that we have responsibility not only to our local environments, but also in terms of reducing our impact on the global environment. A Group Environment policy was introduced in 2006.

In our head office areas, white paper, coloured paper, cardboard, cans and toner cartridges are being diverted from landfill and recycled.

A project was undertaken to replace PCs within Bankcentre, Dublin. Redundant machines are recycled at an approved recycling centre while newer PCs go to a charity called Camara Education. They refurbish these machines and send them to schools in Africa. It is expected that up to 2,800 PCs will be sent by the end of the project.

In AIB Bank (RoI), First Trust and Allied Irish Bank (GB) more than 7,500 flat screens were installed as part of the launch of our new branch banking technology. These screens consume over 50% less power than the old cathode ray tube monitors and are 98% recyclable.

In 2006 Allied Irish Bank (GB) decided not to send Christmas cards or calendars to its customers. Funds that would have otherwise been spent were donated to a staff nominated charity, Rainbow Trust, which provides support to families who have a child with a life threatening or terminal illness.

In the Republic, an environmental initiative in conjunction with the Department of Environment and the Irish Banking Federation was adopted to reduce ATM receipts. All customers now have to specifically request a receipt, thereby reducing littering.

The bank has also introduced credit card e-statements, allowing a customer to choose to receive their statement online rather than by paper.

It is AIB's policy to reduce energy consumption and to change to cleaner sources of energy where possible. Energy saving systems and devices are included in office designs, including low energy lighting, improved insulation, intelligent heating control systems and water usage controls.

People

Our people are very important to us and are our strength in delivering our business objectives. We currently employ more than 24,000 people, mainly in Ireland, the UK, Poland and the US. Our policies support our commitment to be an employer of choice and to provide a working environment which provides challenging objectives and allows employees to continuously develop and be rewarded fairly.

In AIB we have a number of policies and practices which support organisational diversity. These include a Code of Business Ethics, harassment policy, equal opportunities policy, fair and formal selection criteria for recruitment, speak up policy, prevention of bullying policy, paternity leave policy, formal induction process, appraisal training for managers, flexible working practices and family friendly practices. In 2006 an AIB Group Diversity statement reflecting all of these policies and practices was developed and will be supported by diversity training for all staff.

A major project to achieve the goal of automating HR processes, by giving staff self-service access to two key HR services, learning and performance management, was introduced.

The sole recognized trade union for bank officials in the Republic of Ireland, Northern Ireland and Great Britain is the Irish Bank Officials' Association (IBOA). Since February 2000, AIB and the IBOA have conducted their relations in keeping with agreed Partnership principles, which underpin the approach to be taken in employee and industrial relations.

The partnership model was used to negotiate and implement a new career, performance management and reward system known as Career Framework in the Republic of Ireland. This programme is designed to incorporate a modern, clear and transparent career, performance and reward structure. It applies to just over 7,000 staff on the traditional incremental pay scales and more than 98% of staff voluntarily opted into the scheme.

In the Republic of Ireland, as well as receiving the two general pay increases - 3% in May 2006 and 2% in November 2006 – negotiated as part of the new national pay agreement, *Towards 2016*, staff in scope for Career Framework received an additional pay increase of 2.5%.

In 2006, staff in Northern Ireland and Great Britain received annual pay increases of 2.8%. The average salary increase in the Poland division was 2.4%.

We survey all our staff at least once every two years. In autumn 2006, every employee was afforded the opportunity to participate in a comprehensive survey covering topics such as organisation culture, customer focus, performance management, reward, local management, leadership, and employee engagement. The response rate to the survey was 82% representing over 18,700 staff.

The survey findings are positive and encouraging, with strong improvements since the last full survey in 2004.

Aspects of particular note include:
- A strong confidence in customer focus and in particular improvements in views on the effectiveness of internal processes in delivery of our services.
- Performance evaluation is a particular strength, but there are indications that our skills with regard to ongoing performance feedback require continuing work.
- Investment in recent years in management development has produced real results in regard to our people management skills, such as delegation and training.
- Employee engagement is, in the main, strong, but there are some areas where we need to improve.

Survey reports were provided to 694 individual teams, with over 1,000 reports in all being made available. This enables the business to gain an understanding of staff perspectives on working life in AIB at many levels and ensures management can work on the issues of real importance to staff and the business.

The next full staff survey will be in autumn 2008.

Other people initiatives include:
- AIB Capital Markets Business Support Services (CMBSS) became the first financial services organisation to be awarded the prestigious FAS Excellence Through People Platinum Standard. This top level award was presented for implementing best practice in HR management. CMBSS was praised across a wide range of criteria including business planning, quality improvement, communications, work life balance and good management. The assessment also gave special praise to the overall AIB Group Corporate Social Responsibility policies.
- BZWBK was awarded the Investor in Human Capital title – the only bank among 15 companies to receive the honour. The award is made to companies which are recognised as leaders in human resource management. They were praised for recognising the role of staff in developing company values, promoting staff development and building positive relationships with and among staff.
- Under the AIB Graduate Progamme, high-potential graduates in their first year in the organisation are put through an intensive programme including development workshops, master classes from external industry leaders and our senior executives and coaching support from their line manager.

Employee Information AIB Group

	2005	2006
Total employees	24,403	24,085
Voluntary attrition rate (%)	5%	6%
Permanent/Temporary Staff (%)	91.6%(P) 8.4% (T)	91.5% (P) 8.5% (T)
Part-time/Full time Staff	11% (PT) 89% (FT)	10.9% (PT) 89.1% (FT)
Male/Female employees(%)	34% (M) 66% (F)	35% (M) 65% (F)

Performance review

Translation of foreign locations' profits

Approximately 29% of the Group's earnings are denominated in currencies other than the euro. As a result, movements in exchange rates can have an impact on earnings growth. In 2006, the US dollar and Sterling average accounting rates remained broadly stable relative to the euro and the Polish zloty strengthened relative to the euro by 3% compared with the year to December 2005.

Divisional information

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

AIB Bank ROI division

The AIB Bank RoI division, with total assets of € 66.2 billion at December 31, 2006 encompasses the Group's retail and commercial banking operations in Ireland, Channel Islands and Isle of Man; AIB Finance & Leasing; the Card Acquiring and Card Issuing businesses and AIB's life and pensions joint venture with Aviva. AIB Bank ROI provides banking services through a distribution network of some 275 locations (187 branches, 84 outlets and 4 business centres), and in excess of 750 automatic teller machines ("ATMs"). AIB cardholders also have access to over 56,000 LINK ATMs in the UK as well as close to 1 million Visa Plus serviced ATMs worldwide. AIB has an agency agreement with An Post, the national post office network, which enables AIB personal and business customers to carry out basic transactions at over 1,000 post office locations nationwide. AIB also offers customers a Debit card, which is co-branded Laser and Maestro and secured by the latest CHIP and PIN technology. This card provides customers Point of Sale access domestically via the Laser Scheme ("Laser" is operated jointly with other financial institutions in Ireland), ATM access domestically via bi-lateral agreements and internationally at any Point of Sale or ATM that displays the Maestro symbol. In addition, the division offers Internet and Telephone Banking services for personal customers, who can avail of a range of services including; view account information, pay bills, transfer money domestically and internationally, open savings accounts, apply for and draw down loans, purchase general insurance, top up mobile phones and buy and sell shares. The Internet banking service is protected by market leading, two-factor, authentication security features.

For 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 through a comprehensive relationship management structure to a full range of customer segments, including individuals, small and medium sized businesses ("SME's"), farmers and large commercial and corporate clients. Through the branch network, the division provides a broad suite of savings and investment products, loans and overdrafts, home mortgages, payment services and foreign exchange facilities, and also 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 lawyers, accountants and estate agents. It also lends directly to customers. Its lending services include vehicle, equipment and fleet leasing, retail and investment property loans, vehicle and equipment hire purchase, insurance premium financing and personal loans.

AIB Wealth Management unit comprises Private Banking and Investment & Protection. It provides a wide range of Wealth Management offerings, including Retirement, Investment and Tax Planning. AIB's joint venture with the Aviva subsidiary Hibernian Life & Pensions Limited provides a full range of products in this sector. In Ireland, general insurance products are sold in the branch network through alliances with partners in the insurance industry.

Capital Markets division

The activities of AIB Capital Markets, with total assets of € 54.1 billion at December 31, 2006, comprise corporate banking, global treasury (with the exception of the International Banking Services in BZWBK) and investment banking, which includes the asset management and stockbroking activities of the Group. These activities are delivered through AIB Corporate Banking, Global Treasury, Investment Banking and Allied Irish America ("AIA").

AIB Corporate Banking provides a fully integrated, relationship-based banking service to top-tier companies, both domestic and international, including financial institutions and Irish commercial state companies. AIB Corporate Banking's activities also include a dedicated unit focusing on developing and arranging acquisition and project finance principally in Ireland, the UK and Continental Europe, and has established Mezzanine Finance funds and CDO funds. The cumulative size of the CDO funds at December 31, 2006 was € 1.6 billion.

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 corporate, commercial and retail customers of the Group. It also provides import and export related financial services through its international activities.

Investment Banking provides a comprehensive range of services, including corporate finance through AIB Corporate Finance Limited; corporate finance and stockbroking through Goodbody Stockbrokers; structured cross-border financing transactions and sophisticated back-office services through AIB International Financial Services Limited and asset management through AIB Investment Managers Ltd ("AIBIM"). AIBIM manages assets principally for institutional and retail clients in the Republic of Ireland, with € 9.3 billion of funds under management. Investment Banking services also include the management of alternative asset management activities (i.e. hedge funds), venture capital funds and property fund activities (principally in Polish properties). During the year, the division sold its 50% stake in AIB/BNY Securities Services (Ireland) Ltd to its joint venture partner, Bank of New York.

AIA's core business activities are within the not for profit sector, operating principally from New York, but also with offices in a number of other US cities.

AIB Capital Markets is headquartered at Dublin's International Financial Services Centre and has operations in a number of principal UK, US and Polish cities, Frankfurt, Paris, Luxembourg, Budapest and Zurich and has recently established Corporate Banking offices in Toronto and Sydney.

AIB Bank UK division

The AIB Bank UK division, with total assets of € 24.6 billion, operates in two distinct markets, Great Britain and Northern Ireland, with different economies and operating environments. AIB UK is a division of Allied Irish Banks p.l.c., and also a separate legal entity, AIB Group (UK) p.l.c., registered in the UK and regulated by the FSA (Financial Services Authority).

Great Britain

In this market, the Division operates under the trading name Allied Irish Bank (GB) from 32 full service branches and 8 business development offices. The Divisional Head Office is located in Uxbridge, in West London, with significant back office processing undertaken at a Divisional Processing Centre in Belfast.

A full service is offered to business and personal customers, although there is a clear focus on relationship banking to the mid-corporate business sector, professionals, and High Net Worth individuals.

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

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

Northern Ireland

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

Performance review

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

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

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

Poland division

Poland division, with total assets of € 7.2 billion at December 31, 2006 comprises Bank Zachodni WBK ("BZWBK") in which AIB has a 70.5% shareholding, together with its subsidiaries and associates. BZWBK wholesale treasury and an element of BZWBK investment banking subsidiaries' results are reported in Capital Markets division. AIB completed the merger of its Polish operations in 2001, forming BZWBK which is now Poland's fifth largest bank. As at end 2006 Poland Division reported total assets of PLN 26.4 billion (EUR 6.9 billion), operated through 384 branches and 608 ATMs, and employed approximately 7,860 staff, including those in subsidiaries. BZWBK's registered office is located in Wroclaw in south-western Poland. Key support functions are also located in offices based in Poznan and Warsaw. BZWBK is a universal bank providing a full range of services for retail customers, small and medium-sized enterprises and corporate companies. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. Apart from core banking facilities, the offering of the bank includes custodian services, trade finance, transactions in the capital, FX, derivatives and money markets. Complementary to the bank's own product range are the specialized services provided in cooperation with subsidiaries, e.g. brokerage services, mutual funds, asset management, leasing and factoring products. The bank aligns its product structure and services with the requirements of individual customer segments in line with the adopted Customer Relationship Management (CRM) model. To increase efficiency of its operations, BZWBK encourages the use of its electronic banking services called BZWBK24 which give retail and business customers a convenient and safe access to the accounts via phone, mobile or the Internet, facilitate fund management and purchase of standard products (cash loans, credit cards, insurance). The bank operates mainly in the western part of the country and also has a significant presence in major urban areas across Poland such as Warsaw, Krakow, Gdansk and Lodz. BZWBK Corporate Business Centers based in Warsaw, Poznan, Wroclaw, Krakow, Gdansk, Szczecin and Katowice provide direct and comprehensive relationship-based services to large and mid-sized corporates. The bank's products are also available through the mobile sales network (self-employed financial advisors) and outlets of the financial intermediary. Both distribution channels were established in 2006 to acquire new customers in locations which are not covered by the bank's branch network.

Earnings per share

The table below shows the basic earnings per share excluding profit on disposal/development of property[(1)], profit on disposal of businesses[(2)] and adjusting for hedge volatility[(3)].

Earnings per share	Year 2006	Year 2005	% change 2006 v 2005
Basic - continuing operations[(4)]	**233.5c**	145.7c	*60*
Basic - discontinued operations	**13.3c**	5.3c	-
Basic - total	**246.8c**	151.0c	*63*
less profit on disposal/development of property[(1)]	**(42.8c)**	(4.4c)	-
less profit on disposal of businesses[(2)]	**(21.7c)**	–	-
adjust for hedge volatility under IFRS[(3)]	**0.5c**	(0.7c)	-
Adjusted basic earnings per share	**182.8c**	145.9c	*25*

(1) Includes profit on new Bankcentre development (construction contract income) and profit on the disposal of the existing Bankcentre (€ 352 million before tax, € 289 million after tax), profit on disposal of Donnybrook House (€ 29 million before tax, € 25 million after tax) and profit on sale of 11 branches in the Republic of Ireland (€ 73 million before tax, € 58 million after tax).

(2) Profit on disposal of Ark Life discontinued operation (€ 112 million after tax), profit from the sale of 50% stake of AIB/BNY Securities Services (Ireland) Limited to the Bank of New York Company (€ 51 million after tax) and the transfer by Ark Life of the management of certain investment contracts to Aviva as part of the disposal of Ark Life (€ 26 million after tax).

(3) The impact of interest rate hedge volatility (hedging ineffectiveness and derivative volatility) under IFRS was a decrease of € 4 million to profit before taxation for the year (€ 4 million after tax).

(4) Continuing operations exclude Ark Life, which is reported as a discontinued operation following its disposal, which was announced in 2005 (transaction completed 30 January 2006).

Basis of presentation

The following commentary is on a continuing operations basis. The growth percentages are shown on an underlying basis, adjusted for the impact of exchange rate movements on the translation of foreign locations' profit and excluding interest rate hedge volatility (hedging ineffectiveness and derivative volatility) under IFRS.

Total operating income

Total income increased by 18% to € 4,326 million.

Total operating income	Year 2006 € m	Year 2005 € m	Underlying % change 2006 v 2005
Net interest income	**2,999**	2,530	*18*
Other income	**1,327**	1,117	*17*
Total operating income	**4,326**	3,647	*18*

Average interest earning assets	Year 2006 € m	Year 2005 € m	% change [(1)] 2006 v 2005
Average interest earning assets	**132,542**	106,380	*25*

(1) This particular analysis is not adjusted for the impact of exchange rate movements.

Net interest margin	Year 2006 %	Year 2005 %	Basis point change
Group net interest margin	**2.26**	2.38	*-12*

Performance review

Other income	Year 2006 € m	Year 2005 € m	Underlying % change 2006 v 2005
Dividend income	**23**	17	*35*
Banking fees and commissions	**921**	863	*6*
Investment banking and asset management fees	**314**	198	*57*
Fee and commission income	**1,235**	1,061	*16*
Fee and commission expense	**(161)**	(145)	*10*
Trading income	**167**	119	*37*
Currency hedging profits/(losses)	**10**	(13)	-
Interest rate hedge volatility	**(4)**	6	-
Net trading income	**173**	112	*37*
Other operating income	**57**	72	*-23*
Total other income	**1,327**	1,117	*17*

Net interest income

Net interest income increased by 18% to € 2,999 million in the year to December 2006. The key drivers of the increase were strong loan and deposit growth in Republic of Ireland, UK and Poland. Loans to customers increased by 26% and customer accounts increased by 19% on a constant currency basis since 31 December 2005 (details of loan and deposit growth by division are contained on page 20).

The domestic and foreign margins for 2006 are reported on page 143.

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

The Group net interest margin amounted to 2.26%, a decrease of 12 basis points compared with 2005. The margin attrition between 2005 and 2006 was reduced by a lower level of growth in Treasury assets compared with the growth in retail and commercial assets. This mix impact reduced the margin attrition to 12 basis points from an underlying attrition of 16 basis points. The underlying margin reduction of 16 basis points was due to a combination of the following factors:

(a) loans increasing at a faster rate than deposits.
(b) lower yields on the re-investment of deposit and current account funds as they mature.
(c) a changing mix of products where stronger volume growth has been achieved in lower margin products; corporate loans, home loans and prime rate advances on the lending side and term deposits and other lower margin products on the deposit side.
(d) competitive pressures on loan and deposit pricing.

The margin reduction continues to be impacted by average loans increasing at a greater rate than average deposits compared with 2005. While this strong lending growth generated good incremental profit, the funding impact resulted in a reduction in the overall net interest margin calculation when net interest income is expressed as a percentage of average interest earning assets.

The impact of low yields on the investment of deposit and current account funds particularly affected AIB Bank Republic of Ireland and Poland divisions. As interest rates increase and more of the funds reinvest, over time the impact of this factor is expected to reduce.

While it is difficult to disaggregate trends in product margins between mix and competitive factors, competitive pricing behaviour did impact loan and deposit margins. The Group's new business lending continued to meet targeted return on capital hurdles.

Other income

Other income was up 17% to € 1,327 million since the year to December 2005.

Dividend income increased by 35% mainly reflecting growth in dividends from investments held by the Polish business.

Banking fees and commissions increased by 6%, reflecting increased business and transaction volumes in AIB Bank Republic of Ireland and Corporate Banking and good growth in credit card revenue in Ireland.

Investment banking and asset management fees increased by 57%

Operating expenses	**Year 2006 € m**	Year 2005 € m	*Underlying % change 2006 v 2005*
Personnel expenses	**1,502**	1,298	*15*
General and administrative expenses	**672**	583	*14*
Depreciation[(1)]/amortisation[(2)]	**140**	130	*6*
Total operating expenses	**2,314**	2,011	*14*

[(1)] Depreciation of property, plant and equipment.
[(2)] Amortisation/impairment of intangible assets and goodwill.

Provisions	**Year 2006 € m**	Year 2005 € m
Provisions for impairment of loans and receivables	**118**	115
Provisions for liabilities and commitments	**(15)**	20
Amounts written off financial investments available for sale	**1**	8
Total provisions	**104**	143

driven by particularly strong performances in Asset Management in Poland and BZWBK's brokerage operation and very good growth in Goodbody stockbrokers. Total fee and commission income was up 16%, driven by the 57% increase in investment banking and asset management fees and the 6% increase in banking fees and commissions.

Trading income increased, with strong growth in foreign exchange and interest rate management activities. Trading income excludes interest payable and receivable arising from these activities, which is included in net interest income. Accordingly the above trading income does not give the full picture in terms of trading activities, largely in Global Treasury. Interest income in Global Treasury decreased and total income was broadly flat relative to 2005.

Other income as a percentage of total income remained the same as 2005 at 31%.

Total operating expenses

Operating expenses increased by 14% compared with 2005.

Operating expenses increased by 14%, in a period of substantially increased business volumes and strong growth on the revenue line. As a consequence of the continuing growth opportunities available to the business and in order to develop capabilities to exploit them, the Group is investing in various programmes to sustain the long-term health and development of the business. This has included investment in appropriate skills, in enhanced reward systems, the ongoing building of common operating systems in line with our single enterprise agenda and in developing a resilient risk, compliance and corporate governance framework (including Sarbanes Oxley and Basel II).

Excluding regulatory driven costs, performance related remuneration resulting from very strong revenue growth and investment in our risk, compliance and corporate governance framework, the increase in costs was 9%. Personnel expenses increased by 15% reflecting a higher level of variable performance related remuneration linked to the strong revenue outperformance and salary increases.

General and administrative expenses were up 14% mainly due to consultancy, systems and infrastructure costs to ensure compliance with the changing regulatory requirements and to sustain the long-term development of the business. Depreciation/amortisation increased by 6%, reflecting the commencement of depreciation on the aforementioned recent investment initiatives.

Productivity improved with the cost income ratio reducing by 1.7% to 53.5% from 55.2% in 2005.

Provisions

Total provisions were € 104 million, down from € 143 million in 2005. The provision for impairment of loans and receivables was € 118 million compared with € 115 million in 2005, representing a charge of 0.12% of average loans compared with 0.15% in 2005. The lower charge reflects strong asset quality, good recoveries and a benign credit environment. Impaired loans as a percentage of total customer loans decreased from 1.0% at 31 December 2005 to 0.9% at 31 December 2006 with the total provision coverage for impaired loans at 76%.

In AIB Bank Republic of Ireland asset quality continued to

Performance review

be strong. Impaired loans as a percentage of total customer loans reduced to 0.6% at 31 December 2006 from 0.7% in 2005. The provision charge was 0.15% of average loans compared with 0.11% in 2005. The quality across all sectors of the retail and commercial portfolios remains very good.

In Capital Markets the provision charge was 0.02% compared with 0.22% in 2005 reflecting a strong level of provision recoveries, through realisation of exposures during the period as a result of the benign credit environment and strong liquidity in the corporate market. Impaired loans reduced to 0.6% from 0.7% of total customer loans at 31 December 2005.

In the UK division, the provision charge remained at 0.13% of average loans and impaired loans remained at 0.9% of total customer loans compared with 31 December 2005.

The provision charge in Poland decreased to 0.23% of loans from 0.40% in 2005. Asset quality continued to improve with the ratio of impaired loans as a percentage of customer loans declining to 4.9% from 6.8% at 31 December 2005.

There was a net credit in provisions for liabilities and commitments of € 15 million in 2006 compared with a provision of € 20 million in 2005, while provisions for amounts written off financial investments were € 1 million compared to € 8 million in 2005.

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

% change 31 December 2006 v 31 December 2005	Risk weighted assets *% change*	Loans to customers *% change*	Customer accounts[1] *% change*
AIB Bank Republic of Ireland	36	32	20
Capital Markets	8	17	9
AIB Bank UK	19	19	22
Poland	26	23	16
AIB Group	22	26	19

[1] Excludes money market funds.

Associated undertakings

The profit in 2006 was € 167 million compared to € 149 million in 2005 and mainly reflects AIB's 24.0% average share of the income after taxation of M&T Bank Corporation and income after taxation from the joint venture in Life and Pensions with Hibernian. M&T's contribution of US$ 177 million was down 4% relative to the year to December 2005 contribution of US$ 185 million. This decrease reflects the conversion of M&T's contribution from US GAAP to IFRS. The bank's application of IFRS to M&T's US GAAP numbers gave a lower result due to the movement of previously unallocated credit provisions to specific provisions in M&T's books (which are now classified as specific provisions under IFRS and reduce the M&T profit reported in AIB's books by € 15 million).

The profit in 2006 also included € 8 million from the disposal of investments in associated undertakings.

The following commentary is in respect of the total Group.

Balance sheet

Total assets amounted to € 159 billion at 31 December 2006 compared to € 133 billion at 31 December 2005. Adjusting for the impact of currency, total assets were up 20% and loans to customers were up 26% since 31 December 2005 while customer accounts increased by 19%. Risk weighted assets excluding currency factors increased by 22% to € 123 billion.

Assets under management/ administration and custody

Assets under management in the Group amounted to € 17 billion at 31 December 2006 compared with € 16 billion at 31 December 2005. AIB sold its 50% stake in AIB/BNY Securities Services (Ireland) Limited to its joint venture partner, Bank of New York during 2006. Assets under administration and custody relating to the AIB/BNY joint venture at 31 December 2005 were € 220 billion.

Income tax expense

The taxation charge was € 433 million compared with € 319 million in the year to December 2005. The effective tax rate was 16.6% compared with 18.7% (or 17.0% excluding the bank levy) in the year to December 2005. The taxation charge excludes taxation on share of results of associated undertakings. Share of results of associated undertakings is reported net of taxation in the Group profit before taxation. The effective tax rate is influenced by the geographic mix of profits, which are taxed at the rates applicable in the jurisdictions where we operate.

Return on equity and return on assets

The return on equity was 29.0%, compared to 20.6% in 2005. The return on assets was 1.63%, compared to 1.20% in 2005.

Capital ratios

A strong capital position was reflected in a Tier 1 ratio at 8.2% and a Total capital ratio of 11.1%.

Outlook

We operate in strong high growth economies and sectors which serve as firm foundations for our business. In 2007, income is again expected to grow at a faster rate than costs, driven by the strength of the customer business pipeline and focus on further productivity gains. Asset quality is expected to remain solid with the provision for bad debts anticipated to show only a moderate increase on the exceptionally low level in 2006. Based on these factors, we are targeting low double-digit growth in 2007 adjusted basic earnings per share compared to the adjusted basic earnings per share of EUR 182.8c in 2006.

Cashflow

As reflected in the consolidated statement of cash flows for the Group, there was a net increase in cash of € 6,891 million during the year ended 31 December 2006. Net cash inflow from operating activities was € 8,645 million. Cash inflows from financing were € 153 million. The issue of preferred securities generated cash inflows of € 1,008 million. Cash outflows from taxation were € 481 million while cash outflows in relation to equity dividends were € 587 million. Cash outflows as a result of investing activities were € 1,907 million, due primarily to net increases in financial investments of € 2,477 million, offset by cash inflows from the disposal of property, plant and equipment of € 489 million.

Statement of recognised income and expense ("SORIE")

The total recognised gains relating to the year amounted to € 2,006 million compared to recognised gains of € 1,295 million in 2005. Profit for the year ended 31 December 2006 was € 2,298 million compared to € 1,433 million in 2005. Currency translation adjustments amounted to € 149 million negative compared to € 301 million positive in 2005. The currency translation difference principally relates to the change in value of the Group's net investment in foreign operations arising from the weakening of the euro against the currencies in which the net foreign investments are held.

The net change in cash flow hedges was € 283 million negative in 2006. In accordance with IAS 39, the portion of the gain or loss on the hedging instrument deemed to be an effective hedge is recognised in the cashflow hedge reserve. Deferred gains and losses are transferred to the income statement in the period during which the hedged item affects profit or loss.

The net change in available for sale securities was € 13 million negative in 2006. This represents the net change in fair value of available for sale securities recognised in equity for the period.

The actuarial gain in retirement benefit schemes during 2006 charged to the SORIE, net of deferred tax, of € 35 million, amounted to a gain of € 200 million compared to a loss of € 285 million in 2005. The actuarial gain included experience loss on liabilities of € 121 million offset by a € 234 million experience gain on the pension scheme assets and a positive € 114 million impact from changes in the discount ratio offset by changes in mortality assumptions. The net pension scheme deficit on funded schemes recognised within shareholders' equity was € 854 million compared with a net pension deficit of € 1,137 million at 31 December 2005.

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 income statements adjusting for the impact of exchange rate movements on the translation of foreign locations' profit. The following commentary is on a continuing operations basis.

AIB Bank Republic of Ireland income statement	Year 2006 € m	Year 2005 € m	*Underlying % change 2006 v 2005*
Net interest income	**1,581**	1,314	*20*
Other income	**434**	376	*15*
Total operating income	**2,015**	1,690	*19*
Personnel expenses	**675**	568	*19*
General and administrative expenses	**270**	250	*8*
Depreciation/amortisation	**55**	49	*12*
Total operating expenses	**1,000**	867	*15*
Operating profit before provisions	**1,015**	823	*23*
Provisions for impairment of loans and receivables	**78**	45	*75*
Provisions for liabilities and commitments	**(4)**	10	-
Amounts written back financial investments available for sale	**(1)**	-	-
Total provisions	**73**	55	*33*
Operating profit	**942**	768	*23*
Associated undertakings	**18**	(1)	-
Profit on disposal of property	**6**	12	*-47*
Profit before taxation - continuing operations	**966**	779	*24*

AIB Bank Republic of Ireland profit of € 966 million was up 24%

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 Hibernian Life Holdings Limited, AIB's joint venture with Aviva Group p.l.c. in the life and pensions business.

AIB Bank Republic of Ireland generated growth in profit before tax of 24% from its continuing operations underpinned by a buoyant Irish economy and a refined and dynamic business model. Operating income was up 19% and operating expenses were up 15% with the operating income/cost gap at +4%.

The strong profit growth reflects increased customer demand for a competitively priced product range driven by a strong customer relationship management ethos in both front-line and back-office activities.

Loans and deposits increased by 32% and 20% respectively since 31 December 2005. AIB benefited from a pricing strategy to retain maturing SSIAs and deposit growth exceeded that of the overall market. Similarly total loan growth was ahead of the market and was well spread across business, personal and mortgage sectors. Operating expenses were up 15%. Key drivers were growth in staff numbers reflecting the increased levels of business activity, annual salary inflation, the impact of a new career framework pay structure, performance related costs, a higher advertising spend and increased costs associated with a number of mandatory/regulatory driven project costs. The strong operating performance is reflected in a further improvement in the cost income ratio to 49.6% compared with 51.3% in 2005. Asset quality remains good and the provision charge for the year to 31 December 2006, was 0.15% of average loans, up 0.04% compared with the year to 31 December 2005.

Retail Banking reported a very strong out-turn for the year where business lending growth continued to be exceptionally strong and personal lending, home mortgages and private banking also experienced excellent growth. Profit growth in AIB Card Services also increased significantly benefiting from strong growth in revenue. AIB Finance & Leasing saw solid operating profit growth reflecting increased new business levels across all key sectors.

In early 2006, AIB completed its joint venture with Hibernian Life Holdings Limited of which AIB owns 24.99%. This represents an important part of the AIB wealth management platform in the distribution of life and pension products. The share of operating profit of associated undertakings from Hibernian Life Holdings Limited was € 11 million in 2006.

Capital Markets income statement	**Year 2006 € m**	Year 2005 € m	*Underlying % change 2006 v 2005*
Net interest income	**490**	435	*13*
Other income	**464**	407	*14*
Total operating income	**954**	842	*13*
Personnel expenses	**302**	280	*8*
General and administrative expenses	**123**	103	*19*
Depreciation/amortisation	**13**	17	*-21*
Total operating expenses	**438**	400	*10*
Operating profit before provisions	**516**	442	*17*
Provisions for impairment of loans and receivables	**5**	34	*-86*
Provisions for liabilities and commitments	**1**	4	*-72*
Amounts written back financial investments available for sale	**2**	8	*-78*
Total provisions	**8**	46	*-84*
Operating profit	**508**	396	*29*
Associated undertakings	**2**	2	*-26*
Profit on disposal of property	**79**	5	*1,615*
Profit before taxation	**589**	403	*46*

Capital Markets division profit of € 589 million was up 46%. Operating profit up 29%.

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

Profit before taxation of € 589 million, including profit on disposal of businesses, grew by 46% on 2005 or 29% on an operating profit basis driven by strong revenue growth, an exceptionally low level of bad debt provisions and good core cost management in each of the key business areas.

Corporate Banking performed exceptionally well, with profit before provisions up 26% and profit before taxation up 42%. Loans were up by 17%, driven by continued focus on customer relationships and new product development. Growth in established international businesses, new structured product initiatives and the opening of new overseas offices contributed to the underlying performance.

Overall Global Treasury profit before tax declined marginally (2%) on 2005, against a backdrop of significant challenges in money markets impacted by increased interest rates and inflationary pressures. This belied particularly strong growth in the customer treasury business in Ireland, Britain and Poland and a robust performance in bond management activities.

Investment Banking experienced exceptional growth with profit before tax up 62%, reflecting quality product development and strong customer relationships, particularly in Polish asset management and stockbroking services. In Ireland stockbroking reflected strong growth in equity trading, corporate advisory services and structured investments.

Costs continued to be managed closely with higher performance related costs partly offset by the impact of selective business rationalisation in 2005 and notwithstanding the impact of once-off technology, compliance and marketing costs, the division's cost income ratio decreased to 45.9% from 47.5% in 2005.

Strong recoveries of credit provisions arising from realisation of exposures, was a factor during the year and a conservative approach to credit management continued to prevail in a benign global credit environment.

Profit on disposal of businesses arose from the transfer by Ark Life of the management of certain investment contracts to Aviva, as part of the Ark Life disposal (€ 26 million after tax), and from the sale of our 50% share of AIB/BNY Security Services (Ireland) Limited to the Bank of New York Company (€ 51 million after tax).

The division's growth continues to be underpinned by its ability to identify and bring to market new quality product initiatives within profitable sectors and niches.

Divisional commentary

AIB Bank UK income statement	**Year 2006 € m**	Year 2005 € m	*Underlying % change 2006 v 2005*
Net interest income	**593**	516	*14*
Other income	**154**	148	*4*
Total operating income	**747**	664	*12*
Personnel expenses	**238**	224	*6*
General and administrative expenses	**94**	89	*4*
Depreciation/amortisation	**11**	10	*12*
Total operating expenses	**343**	323	*6*
Operating profit before provisions	**404**	341	*18*
Provisions	**26**	21	*26*
Operating profit	**378**	320	*18*
Profit on disposal of property	**1**	2	-
Profit before taxation	**379**	322	*17*

AIB Bank UK division profit was up 17% to € 379 million

AIB Bank UK *Retail and commercial banking operations in Great Britain and Northern Ireland.*

AIB Bank UK division reported another strong business performance in 2006 with profit before taxation increasing by 17%, continuing the trend of strong double-digit growth in recent periods. Loans and deposits increased by 19% and 22% respectively during 2006, with the growth well spread across both the business and personal sectors. Customer deposit and current account balances grew very strongly, with excellent growth in personal and business current accounts. Net interest income increased by 14%. Other income increased by 4%, with an increased focus on diversifying income away from traditional sources of fee income towards alternative income streams. Operating expenses increased by 6%, due to normal salary increases and investment in customer and corporate marketing activity. Overall, the cost income ratio improved significantly from 48.7% to 45.9%, reflecting a combination of the strong revenue growth and management action taken to manage cost growth. The bad debt chage of 0.13% of average loans, is consistent with 2005 and reflects the good credit quality in the portfolio.

Allied Irish Bank (GB), which focuses on business banking, reported strong profit growth of 23% to € 209 million in 2006. This growth was primarily driven by a combination of strong lending and deposit volume growth and by good management of lending margins in a competitive environment. Loan and deposit balances increased by 16% and 24% respectively since 31 December 2005, with growth in lending balances increasing to 24% when measured on an average balance basis. Costs increased by 4% when compared with last year, reflecting good cost management, with a resultant improvement in the cost income ratio from 48.7% to 44.1%.

In Northern Ireland, First Trust Bank increased profit before tax to € 170 million representing 11% growth on last year. Loan and deposit balances were up 26% and 19% respectively when compared with 31 December 2005, with strong growth in business and mortgage lending activity combining with significant growth in current account balances. Costs increased by 8% impacted by normal salary increases and by increased operating costs, the latter reflecting additional investment in the personal market and improvements to the branch network technology platform. The cost income ratio improved marginally from 48.6% to 48.2%.

Poland income statement	**Year 2006 € m**	Year 2005 € m	*Underlying % change 2006 v 2005*
Net interest income	**236**	205	*11*
Other income	**302**	222	*32*
Total operating income	**538**	427	*22*
Personnel expenses	**170**	137	*18*
General and administrative expenses	**120**	99	*16*
Depreciation/amortisation	**40**	44	*-14*
Total operating expenses	**330**	280	*12*
Operating profit before provisions	**208**	147	*41*
Provisions for impairment of loans and receivables	**9**	14	*-36*
Provisions for liabilities and commitments	**(2)**	1	-
Total provisions	**7**	15	*-53*
Operating profit	**201**	132	*52*
Associated undertakings	**6**	-	-
Profit before taxation	**207**	132	*56*

Poland division profit was € 207 million, up 56%.

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

Profit before taxation grew by an exceptional 56% on a local currency basis. This reflected the very strong momentum across the business lines of the division in a favourable economic climate, resulting in significantly higher business activity and volumes.

Total operating income increased by 22% with net interest income up by 11%. There was a substantial pick up in the demand for credit in 2006, with momentum particularly noted in the second half-year. Total loans increased by 23% from December 2005 due to strong business lending growth, which was ahead of the market growth, and the ongoing pick up in retail lending. Mortgage growth at 26% benefited in the second half-year from the reduced market preference for foreign exchange denominated lending and growing customer demand for zloty mortgages, the sector in which the bank actively participates. Overall lending margins were largely flat reflecting improved product mix, offsetting increasing competition in business and mortgage lending. Customer deposits increased by 16% from December 2005, with growth primarily in current accounts and foreign exchange deposits. Business deposits increased by 26%. Personal deposits were higher by 8% which is a strong performance given customer preference for mutual funds in the market. Lower interest rates and increased competition reduced deposit margins, which was somewhat compensated for by a better product mix.

Other income growth of 32% was driven by a variety of positive factors, primarily by the exceptional growth in the mutual fund business where balances increased by 123% since December 2005 and market share increased to 17.4% at 31 December 2006 from 12.6% at 31 December 2005. A high level of sales and favourable portfolio mix resulted in asset management net income growth of 202%. The brokerage business enjoyed a tremendous year, buoyed by the performance of the Warsaw Stock Exchange in 2006 with substantial increases in turnover and resultant fee income. In addition, dividends, equity investment disposals, foreign exchange income and e-business and payment fees all contributed to the strong growth recorded in other income.

Operating expenses increased by 12% reflecting increased business activity and investment in developing the franchise in Poland. Staff costs increased by 18% reflecting higher staff numbers, substantial increase in performance related costs, including a once-off year end payment to staff related to the very strong revenue growth. Operating costs continue to be carefully managed. Better business generation opportunities have resulted in increased spend on marketing and IT in particular. The cost income ratio fell to 60.3% from 65.7%.

Impaired loans as a percentage of total loans have continued to improve with the ratio at 4.9% at 31 December 2006 compared with 6.8% at 31 December 2005, reflecting strong asset quality as the loan book increased. The credit provision charge as a percentage of average loans was 0.23%, compared with 0.40% in 2005.

Divisional commentary

Group income statement	Year 2006 € m	Year 2005 € m
Net interest income	**99**	60
Other income/(loss)	**(27)**	(36)
Total operating income	**72**	24
Personnel expenses	**117**	89
General and administrative expenses	**65**	42
Depreciation/amortisation	**21**	10
Total operating expenses	**203**	141
Operating loss before provisions	**(131)**	(117)
Provisions for impairment of loans and receivables	**-**	1
Provisions for liabilities and commitments	**(10)**	5
Total provisions	**(10)**	6
Operating loss	**(121)**	(123)
Associated undertaking	**141**	148
Profit on disposal of property	**358**	-
Construction contract income	**96**	45
Profit before taxation	**474**	70

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 central services, the contribution from AIB's share of approximately 24.0% in M&T Bank Corporation ("M&T") and profit on disposal of property.*

Group reported profit before taxation of € 474 million for the year to December 2006 compared with a profit of € 70 million in 2005. The increase includes profit on disposal of property and construction contract income (total € 454 million - see below for detail).

Net interest income increased due to higher capital income resulting from higher capital balances (strong retained earnings and the return on the funds generated from the disposal of property and the sale of businesses). Other income/(loss) includes hedging profits/(losses) in relation to foreign currency translation hedging and interest rate hedge volatility (hedging ineffectiveness and derivative volatility). Total operating expenses were higher due to increased compliance related spend, mainly Sarbanes Oxley and Basel II and investment in systems and infrastructure to sustain the long-term development of the business in line with our single enterprise agenda. Performance related costs were higher in line with strong profit growth.

M&T reported its annual results on 11 January 2007, showing net income up 7% to US$ 839 million. US GAAP-basis diluted earnings per share was up 10% to US$ 7.37 from US$ 6.73 in the year to December 2005. Diluted net operating earnings per share, which excludes the amortisation of core deposit and other intangible assets and merger-related expenses, was US$ 7.73 in 2006, up 10% from US$ 7.03 in 2005. AIB's share of M&T after-tax profit in 2006 amounted to € 141 million. On a local currency basis M&T's contribution of US$ 177 million was down 4% relative to the year to December 2005 contribution of US$ 185 million. This decrease reflects the conversion of M&T's contribution from US GAAP to IFRS. The bank's application of IFRS to M&T's US GAAP numbers gave a lower result due to the movement of previously unallocated credit provisions to specific provisions in M&T's books (which are now classified as specific provisions under IFRS and reduce the M&T profit reported in AIB's books by € 15 million).

Profit on disposal of property includes profit on the disposal of the existing Bankcentre building (€ 256 million before tax), profit on the sale of 11 branches in the Republic of Ireland (€ 73 million before tax) and profit on disposal of Donnybrook House (€ 29 million before tax). Construction contract income of € 96 million reflects the profit earned from the new development at Bankcentre, based on the stage of completion.

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CAPITAL MANAGEMENT

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

The table opposite shows AIB Group's capital resources at 31 December 2006 and 31 December 2005. Capital resources increased by € 2.5 billion during the year ended 31 December 2006.

The increase arose as a result of issues of perpetual preferred securities of € 1 billion. In addition, shareholders' equity increased arising from net retentions and pension scheme actuarial gains offset by exchange rate movements.

The sterling and Polish zloty strengthened by 2% and 1% respectively relative to the euro, while the US dollar weakened by 10% relative to the euro, resulting in a net negative foreign currency translation adjustment of € 152 million. Shareholders' equity benefited from net retentions of € 1,560 million and the re-issue of shares for staff incentive schemes of € 87 million. The actuarial gains in the Group's retirement benefit schemes, which the Group has recognised directly in shareholders' equity under IAS 19 – Employee benefits, amounted to € 200 million.

Capital raising during the year raised € 1 billion in capital notes reflecting the issue of Stg£ 350 million and € 500 million in perpetual preferred securities.

	31 December 2006 € m	31 December 2005 € m
Shareholders' equity*	**8,605**	7,169
Equity and non-equity minority interests	**1,307**	1,248
Preference shares	**189**	210
Perpetual preferred securities	**1,016**	–
Undated capital notes	**871**	868
Dated capital notes	**2,668**	2,678
Total capital resources	**14,656**	12,173

*Includes other equity interests

Capital ratios

In carrying out the Group's overall capital resources policy, a guiding factor is the supervisory requirements of the Financial Regulator, 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 preference shares. 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, certain provisions for impairment 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 Financial Regulator sets individual capital ratios for credit institutions under its jurisdiction.

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

The Capital Requirements Directive (CRD) amends the existing CAD for the prudential regulation of credit institutions and investment firms across the EU. It is a major piece of legislation that introduces a modern prudential framework, relating capital levels

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more closely to risks.

The CRD implements in the EU the revised Basel framework which is based on three "Pillars":-
Pillar 1: minimum capital requirements for credit, market and operational risks;
Pillar 2: supervisory review - establishing a constructive dialogue between a firm and the regulator on the risks, the risk management and capital requirements of the firm; and
Pillar 3: market discipline - robust requirements on public disclosure intended to give the market a stronger role in ensuring that firms hold an appropriate level of capital.

A project is in place across the Group to prepare for the implementation of the CRD.

The table opposite shows the components and calculation of the Group's Tier 1 and total capital ratios at 31 December 2006 and 31 December 2005.

The Group was strongly capitalised at 31 December 2006 with the Tier 1 ratio at 8.2% and the total capital ratio at 11.1%. Risk weighted assets increased by € 21.4 billion reflecting strong loan growth across the Group.

Tier 1 capital increased by € 2.8 billion to € 10.1 billion. This increase was primarily as a result of issues of Tier 1 capital of € 1 billion, strong retentions of € 1.6 billion and the positive impact of property and business disposals of € 0.3 billion.

Tier 2 capital reduced by a net € 0.25 billion, primarily as a result of the reduction in fixed asset revaluation reserves reflecting the disposal of Ark Life and the disposal of property.

Supervisory deductions decreased by € 177 million, reflecting the disposal of Ark Life.

Capital base	31 December 2006 € m	31 December 2005 € m
Tier 1		
Paid up ordinary share capital	**294**	294
Eligible reserves	**7,975**	6,161
Equity and non equity minority interests in subsidiaries	**1,307**	1,248
Non-cumulative preference shares	**189**	210
Non-cumulative perpetual preferred securities	**1,016**	-
Reserve capital instruments	**497**	497
Less: supervisory deductions	**(1,162)**	(1,135)
Total tier 1 capital	**10,116**	7,275
Tier 2		
Fixed asset revaluation reserves	**110**	381
IBNR provisions	**189**	162
Subordinated perpetual loan capital	**871**	868
Subordinated term loan capital	**2,668**	2,678
Total tier 2 capital	**3,838**	4,089
Gross capital	**13,954**	11,364
Supervisory deductions	**(310)**	(487)
Total capital	**13,644**	10,877
Risk weighted assets		
Banking book:		
On balance sheet	**101,285**	79,520
Off-balance sheet	**13,033**	14,682
	114,318	94,202
Trading book:		
Market risks	**8,172**	6,891
Counterparty and settlement risks	**544**	563
	8,716	7,454
Total risk weighted assets	**123,034**	101,656
Capital ratios		
Tier 1	**8.2%**	7.2%
Total	**11.1%**	10.7%

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 continues to modify and enhance 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 through a Group Chief Risk Officer ("Group CRO") 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 Finance Director, Group Chief Risk Officer, Group Director of Operations, 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.

The *Group Risk Management Committee ("RMC")* is the principal executive forum for the review and discussion of enterprise-wide risk governance. In addition, it reviews the adequacy of internal controls and has governance responsibility for the aggregate risk exposures of the Group. The Committee is chaired by the Group CRO (the Group CEO is the co-chair) and includes all members of the Group Executive Committee as well as the Group Internal Auditor and the Group Head of Regulatory Compliance and Business Ethics. 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 Finance Director and has responsibility for the Group's capital, funding, liquidity and structural balance sheet activities. It is supported in this role by a Group Asset and Liability Management ("ALM") function. In addition each of the four operating divisions has a Credit Committee, an ALCO and an ORMCo (in AIB Bank UK Division, the Division ORMCo is subsumed in the Divisional Operations Committee).

The Group CRO has responsibility for the Enterprise Risk Management ("ERM") framework, the key elements of which are:

– Risk Governance and Policies
– Risk Philosophy/Principles/ Culture
– Risk Management Organisation
– Risk Management Process, which includes risk assessment, controls, monitoring and reporting
– Risk Appetite and Risk Strategy.

Each of the four operating divisions and the Operations and Technology group ("O&T") have dedicated risk management functions, with Divisional CROs reporting directly to the Group CRO. In addition, the Group Chief Credit Officer ("CCO"), the Group Head of Operational Risk Management and the Group Head of Market Risk Management have functional responsibility for these risks at the centre and are members of the Group CRO's Management Team. Each Division has dedicated credit risk management and operational risk management functions. The Capital Markets Division also has a dedicated Market Risk Management function. The Divisional CCO chairs the credit committee in each Division.

Two other functions (in addition to Group Finance) play very important roles in overseeing the risk control environment. These are Regulatory Compliance and Business Ethics ("RCBE") and Group Internal Audit ("GIA").

Regulatory Compliance and Business Ethics ("RCBE") is an enterprise-wide function which identifies compliance obligations in each of the operating markets and provides advice and guidance to management and staff on addressing compliance risks. Primary responsibility for compliance lies with line management. Compliance risks are associated with failures to comply with laws, regulations, rules, self-regulatory standards and the codes of conduct applicable to the Group's business activities. Such failures can give rise to legal or regulatory sanctions, material financial loss, or a loss of reputation to the bank.

The regulatory compliance function also promotes the embedding of an ethical framework within our businesses to ensure that we operate with honesty, fairness and integrity in all our dealings with customers.

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Regulatory compliance supports management in the development of appropriate policies and procedures that will ensure compliance with all our conduct of business obligations. Compliance teams are located in each Division to work closely with management to identify and control compliance risks. The regulatory compliance function assesses and monitors the compliance risks faced by our businesses, and independently reports to the Audit Committee on the compliance framework operating across the Group, and on line management's attention to compliance issues.

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

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

Credit risk

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

Credit management and control

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

The Board determines the credit authority for the Group Credit Committee ("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, recognising the parameters of the Group Large Exposure Policy, credit exposures which are in excess of divisional credit authorities. The GCC comprises senior divisional and Group-based management and is chaired by the Group Chief Credit Officer.

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

Credit risk on derivatives

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

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

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

Country risk

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

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

Settlement risk

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

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

Rating methodologies

Internal rating models, which comprise both grading and scoring systems, lie at the heart of credit management within AIB. They are used to differentiate between credits on the basis of estimated probability of default. In conjunction with the preparations for Basel II, a significant review and upgrade of all material models is being carried out with a view to ensuring appropriate quality and standards are maintained, and that processes are in place to continuously review and validate these models.

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

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

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

Provisioning for impairment

AIB provides for impairment in a prompt and conservative way across the credit portfolios. The rating models provide a systematic discipline in triggering the need for provisioning on a timely basis.

In January 2005, AIB introduced amended impairment provisioning methodologies in compliance with the International Financial Reporting Standards (IFRS).

In applying these methodologies, AIB has identified two types of provisions, a) Specific and b) Incurred But Not Reported (IBNR) – i.e. collective provisions for earning loans.

Specific provisions arise when the recovery of a specific loan or group of loans is significantly in doubt. The amount of the specific provision will reflect the financial position of the borrower and the net realisable value of any security held for the loan or group of loans. In practice, the specific provision is the difference between the present value of expected future cash flows for the impaired loan(s) and the carrying/book value.

IBNR provisions are maintained to cover loans which are impaired at the balance sheet date, and while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR impairment provisions can only be raised for incurred losses and are not allowed for losses that are expected to happen as a result of likely future events.

IBNR provisions are determined by reference to loss experience in our portfolios and to the credit environment at balance sheet date.

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

Credit performance measurement framework

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

The most important inputs into the determination of the expected loss and the economic capital are the Probability of Default ("PD"), the Loss Given Default ("LGD") and the Exposure At Default ("EAD"). The 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, amongst other things, the security held by AIB. EAD for many products is equal to the outstanding exposure but for some products, such as credit lines and derivative contracts, the EAD may be higher than the outstanding exposure. The methodology used in determining economic capital is in line with best practice.

Further information on credit risk

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

– Amounts written off financial investments available for sale *(Note 11)*
– Loans and receivables to banks *(Note 25)*
– Loans and receivables to customers *(Note 26)*
– Provisions for impairment of loans and receivables *(Note 27)*
– Financial investments available for sale *(Note 30)*
– Provisions for liabilities and commitments *(Note 44)*
– Memorandum items: contingent liabilities and commitments *(Note 50)*

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, foreign exchange or interest rate risk management products, 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 risk limits. Market risk management for AIB is, in the main, 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. In addition, Goodbody Stockbrokers manage market risk that is inherent in its activity in the equity markets. The basic principle is that these risks in non-trading areas are eliminated by matching the market risk characteristics of assets and liabilities. Global Treasury manages the market risk inherent in these transactions in conjunction with its own discretionary risk positions in accordance with predefined market risk limits. In addition, Global Treasury has responsibility for the funding and liquidity management of the Group Balance Sheet and the management of structural market risk positions on behalf of the Group ALCO.

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 market risk management team which works closely with Group Market Risk Management and is 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 activities and market risk strategy. It approves policies and promotes best practice for measurement, monitoring and control of market risk.

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 which assumes a normal distribution and is calculated to a 99% confidence level. This means that in one month in a hundred the actual loss from the market risk activity could be greater than the simulated loss. 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 potential 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.

The following table illustrates the VaR figures for interest rate risk for the years ended 31 December 2006 and 2005.

	Trading		Non-trading	
	2006	2005	**2006**	2005
	€ m	€ m	**€ m**	€ m
Interest rate risk				
1 month holding period:				
Average	**10.7**	8.6	**40.6**	28.5
High	**15.6**	14.5	**48.9**	37.3
Low	**7.6**	3.1	**30.2**	18.6
31 December	**9.4**	9.1	**46.9**	32.5
1 day holding period:				
Average	**2.3**	1.8	**8.7**	6.1
High	**3.3**	3.1	**10.4**	8.0
Low	**1.6**	0.7	**6.4**	4.0
31 December	**2.0**	1.9	**10.0**	6.9

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 Global Treasury. A stop-loss limit framework is also used to manage the risk of loss from positions that are subject to mark-to-market accounting.

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

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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 2006, trading book interest rate risk was predominantly concentrated in 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 and derivatives hedging interest rate risk within these 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 instruments with interest rates fixed for several years. The size and maturity of this portfolio is determined by characteristics of the interest-free or fixed rate liabilities or assets and, in the case of equity, an assumed average maturity. 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 2006 is illustrated in note 52.

Foreign exchange rate risk

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

Foreign exchange rate risk - structural

Structural foreign exchange rate risk arises from the Group's non-trading net asset position in foreign currencies. Structural risk exposure arises almost entirely from the Group's net investments in its sterling, US dollar and Polish zloty-based subsidiaries and associates. 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.

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.

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

At 31 December 2006 and 2005, the Group's structural foreign exchange position, against the euro, was as follows:

	2006 € m	2005 € m
US dollar	**1,516**	1,627
Sterling	**1,257**	1,029
Polish zloty	**511**	392
	3,284	3,048

This position indicates that a 10% increase in the value of the euro against these currencies at 31 December 2006 would result in a charge to be taken to reserves of € 328 million.

The Group also has a structural exposure to foreign exchange risk arising from the Group's share of the earnings from its sterling, US dollar and Polish zloty-based subsidiaries. The Group seeks to reduce this exposure through a programme of sales of currency through foreign exchange forwards and options. The Group's policy limits the extent of forward sales to the extent of the budgeted foreign currency income and does not allow hedging of profits beyond the current year. At 31 December 2006 and 2005, there were no outstanding contracts to sell future currency profits arising in these subsidiaries. Group ALCO sets the framework and reviews the management of these activities.

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. A stop-loss limit framework is also used to manage the risk of loss from foreign exchange rate risk trading positions. The table sets out the VaR figures for trading foreign

	Trading	
	2006	2005
	€ m	€ m
Foreign exchange rate risk-trading		
1 month holding period:		
Average	**1.4**	1.2
High	**2.5**	3.0
Low	**0.7**	0.5
31 December	**0.9**	0.9
1 day holding period:		
Average	**0.3**	0.2
High	**0.5**	0.6
Low	**0.1**	0.1
31 December	**0.2**	0.2

exchange rate risk for the years ended 31 December 2006 and 2005.

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. A stop-loss limit framework is also used to manage the risk of loss from equity risk trading positions. The table sets out the VaR figures for equity risk for the years ended 31 December 2006 and 2005.

Off-balance sheet financial instruments and derivatives

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

	Trading	
	2006	2005
	€ m	€ m
Equity risk		
1 month holding period:		
Average	**14.0**	13.6
High	**20.0**	18.5
Low	**13.0**	11.1
31 December	**14.2**	13.6
1 day holding period:		
Average	**3.0**	2.9
High	**4.3**	4.0
Low	**1.7**	1.8
31 December	**3.0**	2.9

Credit commitments

Contingent liabilities and commitments to extend credit are outlined in note 50. The Group's maximum exposure to credit loss in the event of non-performance by the other party, where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of these contracts.

Derivative financial instruments

Derivative financial instruments are contractual agreements between parties whose value reflects movements in an underlying interest rate, foreign exchange rate, equity price or index. The table on page 36 shows the notional principal amount and gross replacement cost for trading and non-trading interest rate, exchange rate and equity contracts at 31 December 2006 and 2005. 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 balance sheet assets or liabilities, the changes in value are generally offset by the value changes in the hedged items.

The Group uses derivative transactions to hedge interest rate risk and the accounting treatment of these transactions is set out in the Accounting policies section *(see page 56).* The Group uses both fair value hedges and cash flow hedges to achieve its hedge objective.

Derivatives are classified as fair value hedges where the hedging objective is to eliminate the risk of changes in fair value arising from interest rate fluctuations of fixed rate assets or liabilities.

Derivatives are classified as cash flow hedges where the hedging objective is to eliminate the risk of interest rate fluctuations over the hedging period for variable rate loan portfolios.

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

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	2006		2005	
	Notional principal amount € m	**Gross replacement cost € m**	Notional principal amount € m	Gross replacement cost € m
Interest rate contracts				
Trading	**145,600**	**689**	126,885	685
Non-trading	**71,835**	**476**	51,441	461
	217,435	**1,165**	178,326	1,146
Exchange rate contracts				
Trading	**20,226**	**107**	19,799	238
Non-trading	-	-	-	-
	20,226	**107**	19,799	238
Equity contracts				
Trading	**6,485**	**438**	4,386	253
Non-trading	**-**	**-**	-	-
	6,485	**438**	4,386	253
Credit derivative contracts				
Trading	**570**	**-**	-	-
Non-trading	**-**	**-**	-	-
	570	**-**	-	-

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 by the Group to hedge income and expenses arising from non-euro denominated assets and liabilities. 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.

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 takes positions in credit risk through credit derivatives, primarily Credit Default Swaps ("CDS"). It has little activity in purchasing derivatives to hedge credit risk.

Any activity in this area is approved through the normal credit approval process.

Liquidity risk

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties, at an economic price. The Group achieves this through the maintenance of a stock of high quality liquid assets, active management of the maturity profile of the Group's liabilities to avoid concentrations of repayments and active involvement in the interbank market, supplemented by US dollar commercial paper and CD issuances together with a euro medium-term note and covered bond programs to diversify sources of funding. The Group's stock of liquid assets is maintained at a level considered sufficient to meet the withdrawal of deposits or calls on commitments in both normal and abnormal trading conditions. In all cases, net outflows are monitored on a daily basis and the required minimum stock of liquid assets can be increased if these outflows exceed predetermined target levels. Global Treasury, through its wholesale treasury operations manages, on a global basis, the liquidity and funding requirements of the Group.

Euro, sterling, US dollar and Polish zloty represent the most important currencies to AIB Group from a liquidity perspective. The Group has an established retail deposit base in Ireland, UK and Poland which together with wholesale market products, funds asset growth. Although a significant element of these retail deposits are contractually repayable on demand or at short notice, the Group's substantial customer base and geographic spread generally ensures that these current and deposit accounts represent a stable and predictable source of funds. The retail deposit base in Ireland and the UK continues to grow strongly, though at a lower level than customer loan growth. The Group's deposit levels in Poland also continue to increase and overall deposit balances exceed loan assets.

The Group has sufficient liquidity to meet its current funding requirements and operates a funding strategy to meet future funding needs. The Group also operates a liquidity contingency plan for critical situations.

Counterparty ratings of AIB are as follows: Moody's long-term "Aa3" and short-term "P-1"; Fitch long-term "AA-" and "F1+" short-term; Standard and Poors long-term single "A+"and "A -1" short-term.

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 loss, or damaged reputation, due to deficiencies or errors in the Group's internal operations which may be attributable to employees, the organisation, control routines, processes or technology, or due to external events and relations. Operational risks are inherent in all activities within the organisation, in outsourced activities and in all interaction with external parties.

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

An element of AIB's operational risk management framework is ongoing monitoring through self-assessment of risks, 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 review and 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 2006

The Directors of Allied Irish Banks, p.l.c. ("the Company") present their report and the audited accounts for the year ended 31 December 2006. A Statement of the Directors' responsibilities in relation to the Accounts appears on page 146.

Results

The Group profit attributable to the ordinary shareholders of the Company amounted to € 2,185m and was arrived at as shown in the Consolidated Income Statement on page 63.

Dividend

An interim dividend of EUR 25.3c per ordinary share, amounting to € 221m, was paid on 26 September 2006. It is recommended that a final dividend of EUR 46.5c per ordinary share, amounting to € 407m (see Note 63), be paid on 10 May 2007, making a total distribution of EUR 71.8c per ordinary share for the year. The profit attributable to the ordinary shareholders of the Company, which has been transferred to reserves, and the dividends paid during 2006, are dealt with as shown in the "Reconciliation of movements in shareholders' equity" on page 69.

Capital

There were no allotments of new shares during the year. Details of treasury shares re-issued under the AIB Employee Share Schemes, and the Allfirst Financial Stock Option Plan, are given in Note 47.

At the 2006 Annual General Meeting ("AGM"), shareholders granted authority for the Company, or any subsidiary, to make market purchases of up to 91.8 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. As at 31 December 2006 some 42.8 million shares purchased in previous years under similar authority were held as Treasury Shares; information in this regard is given in Note 47.

Accounting policies

The principal accounting policies, together with the basis of preparation of the accounts, are set out on pages 47 to 62.

Review of activities

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

Directors

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

- Mr. John O'Donnell was appointed an Executive Director on 11 January 2006;
- Mr. Sean O'Driscoll was appointed a Non-Executive Director on 7 September 2006;
- Mr. Bernard Somers was appointed a Non-Executive Director on 7 September 2006;
- Mr. Donal Forde was appointed an Executive Director on 11 January 2007;
- Ms. Anne Maher was appointed a Non-Executive Director on 11 January 2007;
- Mr. Daniel O'Connor was appointed a Non-Executive Director on 11 January 2007;

Messrs. Padraic M. Fallon and John B. McGuckian will retire at the 2007 AGM and will not offer themselves for re-appointment. All other Directors will retire at the 2007 AGM and, being eligible, offer themselves for re-appointment.

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

Directors' and Secretary's Interests in the Share Capital

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

Substantial Interests in the Share Capital

The following substantial interests in the Ordinary Share Capital had been notified to the Company at 5 March 2007:

Bank of Ireland Asset Management Limited 5.30% (5.56% when Treasury Shares are excluded).

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

An analysis of shareholdings is shown on page 157.

Corporate Governance
The Directors' Corporate Governance statement appears on pages 40 to 46.

Books of Account
The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures, including those set out in the *Internal Control* section of the Corporate Governance statement on pages 45 and 46, 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 111/112 and 152/153; and at the Company's other principal offices, as shown on those pages.

Principal Risks and Uncertainties
Information concerning the principal risks and uncertainties facing the Company and the Group, as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC), is set out in the *"Risk Management"* section of the Financial Review.

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

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

Dermot Gleeson
Chairman

Eugene Sheehy
Group Chief Executive

5 March 2007

Corporate Governance

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

The Board

Role

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

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

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

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

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

Meetings

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

The Board held 11 scheduled meetings during 2006 and one additional out-of-course meeting. One of those meetings was held in Cork and one in Belfast. Attendance at Board meetings and meetings of Committees of the Board is reported on below. During a number of Board meetings, the Non-Executive Directors met in the absence of the Executive Directors, in accordance with good governance standards. In addition to their attendance at Board and Committee meetings, Non-Executive Directors attended Board meetings of overseas subsidiaries and held consultative meetings with the Chairman. The Directors also met the Company's principal regulator.

Membership

It is the policy of the Board that a significant majority of the Directors should be Non-Executive. At 31 December 2006, there were 12 Non-Executive Directors and 3 Executive Directors. On 11 January 2007, a further 2 Non-Executive Directors and 1 Executive Director were appointed to the Board. Non-Executive Directors are appointed so as to maintain an appropriate balance on the Board, and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control of the Group.

The names of the Directors, and their biographical notes, appear on pages 6 and 7. All Directors are required to act in the best interests of the Company, and to bring independent judgement to bear in discharging their duties as Directors. Mr. Robert G Wilmers serves as a Director of the Company as the designee of M&T Bank Corporation, in which AIB holds a 24.2% interest at 31 December 2006. In these circumstances, Mr. Wilmers is not determined to be independent for the purposes of the Code. The Board has determined that all other Non-Executive Directors, in office at 31 December 2006, are independent in character and judgement and free from any business or other relationship with the Company or the Group that could affect their judgement. While two of the Non-Executive Directors have served in excess of nine years and are members of the

[1]The Code, which was adopted in 2003 by the Irish Stock Exchange and the UK Listing Authority, was updated by the Financial Reporting Council in June 2006 following consultation exercises. AIB intends to comply with the updated Code in advance of its formal adoption by the Irish Stock Exchange and the UK Listing Authority.

Attendance at Board and Board Committee Meetings

Name	Board		Audit Committee		Remuneration Committee		Nomination & Corporate Governance Committee		Corporate Social Responsibility Committee	
	A	B	A	B	A	B	A	B	A	B
Adrian Burke	11	11	11	11	–	–	–	–	–	–
Kieran Crowley	11	11	11	11	–	–	–	–	4	4
Colm Doherty	11	11	–	–	–	–	–	–	–	–
Padraic M Fallon	11	6	–	–	–	–	5	4	4	1
Dermot Gleeson	11	11	–	–	5	5	5	5	–	–
Don Godson	11	11	–	–	5	5	5	5	–	–
John B McGuckian	11	11	–	–	5	5	5	5	–	–
John O'Donnell	11	11	–	–	–	–	–	–	–	–
Sean O'Driscoll*	4	4	–	–	–	–	–	–	–	–
Jim O'Leary	11	11	11	11	5	4	–	–	–	–
Eugene Sheehy	11	11	–	–	–	–	5	5	–	–
Bernard Somers*	4	3	–	–	–	–	–	–	–	–
Michael J Sullivan	11	10	11	10	–	–	5	5	–	–
Robert G Wilmers	11	7	–	–	–	–	–	–	–	–
Jennifer Winter	11	11	–	–	–	–	–	–	4	4

* *appointed to the Board on 7 September 2006*

Column A indicates the number of scheduled meetings held during 2006, or, in the case of persons appointed to the Board during the year, the number of scheduled meetings held during the period when such persons were Directors; Column B indicates the number of meetings attended by each Director during 2006.

Non-Executive Directors' Pension Scheme ("the Scheme"), both have been determined by the Board to be independent. In that regard, the benefits accruing to the Directors concerned - Mr. Padraic M Fallon and Mr. John B McGuckian - from their historical membership of the Scheme are not considered to be significant to them, and their tenure as Directors has not affected their ability to bring independent judgement to bear in discharging their duties. Both Mr. Fallon and Mr. McGuckian retire from the Board at the Annual General Meeting ("AGM") on 9 May 2007, after long and distinguished service. Two other directors, namely, Mr. Don Godson and Mr. Adrian Burke, have recently marginally exceeded nine years service; Mr. Godson is scheduled to retire from the board on 31 December 2007 and Mr. Burke at the 2008 AGM. Both Directors have been deemed by the Board to be independent.

Chairman

Mr. Dermot Gleeson has been Chairman of the Board since 2003. His responsibilities include the leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new Directors, and reviewing the performance of individual Directors. Mr. Gleeson's term as Chairman will expire in April 2011.

Group Chief Executive

The day-to-day management of the Group has been delegated to the Group Chief Executive, Mr. Eugene Sheehy, who took up that position on 1 July 2005. His responsibilities include the formulation of strategy and related plans, and, subject to Board approval, their execution. He is also responsible for ensuring an effective organisation structure, for the appointment, motivation and direction of the senior executive management, and for the operational management of all the Group's businesses.

Senior Independent Non-Executive Director

Mr. John B McGuckian, the Senior Independent Non-Executive Director, is available to

Corporate Governance

shareholders if they have concerns which contact through the normal channels of Chairman or Group Chief Executive have failed to resolve, or for which such contact is considered by the shareholder(s) concerned to be inappropriate. In anticipation of Mr. McGuckian's impending retirement from the Board at the AGM on 9 May 2007, Mr. Michael J Sullivan has been appointed Senior Independent Non-Executive Director with effect from that date.

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

Performance Evaluation
Evaluations of the performances of the Board, individual Directors, and Board Committees were conducted during the year by Mr. John B McGuckian, the Senior Independent Non-Executive Director, who held discussions with each of the Directors who served for the full year. The results were presented to the Board. An evaluation of the performance of the Chairman was conducted in his absence by the Non-Executive Directors, under the Chairmanship of Mr. McGuckian, who had also consulted the Executive Directors.

Terms of Appointment
Non-Executive Directors are appointed for a three-year term, with the possibility of renewal for a further three years; the term may be further extended, in exceptional circumstances, on the recommendation of the Nomination and Corporate Governance Committee. Following appointment, Directors are required by the Articles of Association to retire at the next AGM, and may go before the shareholders for re-appointment. Subsequently, all Directors are required to submit themselves for re-appointment at intervals of not more than three years. In 2005 and 2006, the Directors decided, as a measure of strengthened corporate governance, to retire from office at the AGM, and offer themselves for re-appointment. It is intended that this practice will apply again at the 2007 AGM.

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

Induction and Professional Development
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 briefing material, including details of the Company's strategic and operational plans, and a programme of meetings with the Group Chief Executive, the Heads of Divisions and the senior management of businesses and support functions. During 2006, a number of internal seminars on the accounting policies and practices of the Group were conducted for the benefit of the Directors. Directors were also offered the opportunity to attend external courses and seminars to update their knowledge and were briefed on the Basel II regulatory capital framework.

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

Audit Committee

Members: Mr. Adrian Burke, Chairman; Mr. Kieran Crowley; Mr. Jim O'Leary; and Mr. Michael J Sullivan.

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

The Audit Committee reviews the Group's annual and interim accounts; the scope of the audit; the findings, conclusions and recommendations of the internal and external Auditors; reports on compliance; the nature and extent of non-audit services provided by the Auditors; and the effectiveness of internal controls. The Committee is responsible for making recommendations on the appointment, re-appointment and removal of the Auditors, ensuring the cost-effectiveness of the audit, and for confirming the independence of the Auditors, the Group Internal Auditor, and the Group General Manager, Regulatory Compliance, 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 report is submitted annually to the Board, showing the issues considered by the Committee. There is a process in place by which the Audit Committee reviews and, if considered appropriate, approves, within parameters approved by the Board, any non-audit services undertaken by the Auditors, and the related fees. This ensures that the objectivity and independence of the Auditors is safeguarded. During the year, the Audit Committee reviewed its own functioning and terms of reference. This was facilitated by a report prepared by the Group Internal Auditor and work undertaken by external consultants. Arising from that review, a number of modifications were made to strengthen the Committee's functioning and its terms of reference were updated.

The Audit Committee met on eleven occasions during 2006. The following attend the Committee's meetings, by invitation: the Auditors; the Group Finance Director; the Group Head of Accounting and Finance; the Group Chief Risk Officer; the Group General Manager, Regulatory Compliance; and the Group Internal Auditor.

Corporate Social Responsibility Committee

Members: Ms. Jennifer Winter, Chairman; Mr. Kieran Crowley, Mr. Padraic M Fallon.

The responsibilities of the Corporate Social Responsibility ("CSR") Committee are to recommend Group CSR policies and objectives, review and direct CSR activities across the Group, monitor CSR best practice developments, and review and approve corporate-giving budgets and substantial philanthropic donations.

The Committee met on four occasions during 2006.

Nomination and Corporate Governance Committee

Members: Mr. Dermot Gleeson, Chairman; Mr. Padraic M Fallon Mr. Don Godson; Mr. John B McGuckian; Mr. Eugene Sheehy and Mr. Michael J Sullivan.

The Nomination and Corporate Governance Committee's responsibilities include: recommending candidates to the Board for appointment as Directors; reviewing the size, structure and composition of the Board; and reviewing succession planning. The search for suitable candidates for the Board is a continuous process, and recommendations for appointment are made, based on merit and objective criteria, following an appraisal process and interviews. During 2006 and immediately after the year-end, appointments were made to the Board on the recommendation of the Nomination and Corporate Governance Committee. The Committee is also responsible for reviewing the Company's corporate governance policies and practices. During the year, the Committee reviewed its performance and terms of reference, arising from which a number of modifications were made to the terms of reference.

The Committee met on five occasions during 2006.

Remuneration Committee

Members: Mr. John B McGuckian, Chairman (until 31 May 2006); Mr. Don Godson, Chairman (from 1 June 2006); Mr. Dermot Gleeson and Mr. Jim O'Leary.

The Remuneration Committee's responsibilities include

Corporate Governance

recommending to the Board:
(a) Group remuneration policies and practices;
(b) the remuneration of the Chairman of the Board (which matter is considered in his absence);
(c) performance-related bonus schemes for Executives; and
(d) the operation of share-based incentive schemes.

The Committee also determines the remuneration of the Group Chief Executive, and, in consultation with the Group Chief Executive, the remuneration of the other Executive Directors and the other members of the Group Executive Committee, under advice to the Board. The Committee receives independent professional advice from remuneration consultants. During the year, the Committee reviewed its performance and terms of reference, arising from which a number of modifications were made to the terms of reference.

The Committee met on five occasions during 2006.

Directors' Remuneration

The Report on Directors' Remuneration and Interests appears on pages 135 to 139.

Relations with Shareholders

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

Website

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

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

Annual General Meeting

All shareholders are invited to attend the AGM and to participate in the proceedings. Shareholders are invited to submit written questions in advance of the AGM, and the more frequently raised questions are dealt with at the AGM. Subsequently, the Chairman writes to each shareholder who has submitted a question. At the AGM, it is practice to give an update on the Group's performance and developments of interest, by way of video presentation. Separate resolutions are proposed on each separate issue. The proportion of proxy votes lodged for and against each resolution is indicated; this shows what the voting position would be if all votes cast, including votes cast by shareholders not in attendance, were taken into account. With effect from the 2007 AGM, in compliance with the updated Combined Code on Corporate Governance published in June 2006:
- proxy forms will provide the option for shareholders to direct their proxies to withhold their vote;
- information previously provided at the AGM, and made available on AIB's website shortly thereafter, will be enhanced to include:
(1) the number of shares in respect of which proxy appointments have been validly made for each resolution;
(2) the number of votes for and against each resolution; and
(3) the number of shares in respect of which votes have been withheld.

The Chairmen of the Board's Committees are available to answer questions about the Committees' activities.

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

The Company's 2007 AGM is scheduled to be held on 9 May, at the Radisson SAS Hotel in Galway, and it is intended that the Notice of the Meeting will be posted to shareholders on 5 April. This represents a notice period of 33 calendar days or 20 working days.

Institutional Shareholders
The Company held over 300 meetings with its principal institutional shareholders and with financial analysts and brokers during 2006. The Group Chief Executive, the Group Finance Director, Heads of Divisions, other Executive Management as requested by shareholders, and the General Manager, Group Finance participated in those meetings, at which care was taken to ensure that price-sensitive information was not divulged. Company representatives also spoke at a number of investor conferences. The Chairman and the Senior Independent Non-Executive Director are available to meet institutional shareholders, and the links with those shareholders and the communication of their views to the Board were strengthened through the following steps:
- the Chairman wrote to institutional shareholders in Ireland, the UK, Europe and North America, offering to meet them if they considered such meetings to be useful;
- a research project was undertaken by external consultants into the views of AIB's largest institutional shareholders (controlling 25% of AIB's shares), and the results were presented to the Board;
- institutional shareholders and financial analysts and brokers attended the Group's "Meet the Management" conference in London, on 8 November 2006, which was also attended by the Chairman;
- the General Manager, Group Finance reported on institutional shareholders' views to the Board; and
- analysts' and brokers' briefings on the Company were circulated to the Directors, on receipt, throughout the year.

Accountability and Audit
Accounts and Directors' Responsibilities
The Accounts and other information presented in the 2006 Annual 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 146.

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 2007.

Internal Control
The Directors acknowledge that they are responsible for the Group's system of internal control and for reviewing its effectiveness. The Turnbull Guidance *("Internal Control: Revised Guidance for Directors on the Combined Code")*, issued by the Financial Reporting Council in October 2005, assists Directors in complying with the Code's requirements in respect of internal control. That Guidance states that systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group's system of internal control includes:
- a clearly-defined management structure, with defined lines of authority and accountability;
- a comprehensive annual budgeting and financial reporting system, which incorporates clearly-defined and communicated common accounting policies and financial control procedures, including those relating to authorisation limits; capital expenditure and investment procedures; physical and computer security; and business continuity planning. The accuracy and integrity of the Group's financial information is confirmed through Divisional and Group-level reports to the Group Finance Director;
- the Group Internal Audit function, which is responsible for independently assessing the adequacy, effectiveness and sustainability of the Group's governance, risk management and control processes; (the Group Internal Auditor attended the Board on two occasions in 2006 in confidential session in the absence of management);
- the Group Risk Management function, which is responsible for ensuring that risks are identified, assessed and managed throughout the Group;
- the Group Regulatory Compliance function, which

reports independently through the Group General Manager, Regulatory Compliance, 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, including reports on the design and operating effectiveness of the internal controls over financial reporting in compliance with the requirements of Section 404 of the US Sarbanes-Oxley Act 2002, reviews the Group's Statutory Accounts and other published financial statements and information, and ensures that no restrictions are placed on the scope of the statutory audit or on the independence of the Internal Audit and Regulatory Compliance functions. The Audit Committee reports to the Board on these matters, and on compliance with relevant laws and regulations, and related issues;
- appropriate policies and procedures relating to capital management, asset and liability management (including interest rate risk, exchange rate risk and liquidity management), credit risk management, and operational risk management. Independent testing of the risk management and control framework is undertaken by the Internal Audit function;
- regular review by the Board of overall strategy, business plans, variances against budgets and other performance data.

The Group's structure and processes for identifying, evaluating and managing the significant credit, market and operational risks faced by the Group are described in pages 30 to 37. Those processes, which have been in place throughout the year and up to the date of the approval of the Accounts, 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 2006.

Compliance Statement

The foregoing explains how the Company has applied the principles set out in the Code. The Company has complied, throughout 2006, with the Code's provisions. A brief description of the significant differences between AIB's corporate governance practices and those followed by US companies under the New York Stock Exchange's listing standards is provided on AIB's website: **www.aibgroup.com.**

Accounting policies

The significant accounting policies that the Group applied in the preparation of the financial statements for the year ended 31 December 2006 are set out below.

1 Reporting entity

Allied Irish Banks, p.l.c. (the parent company) is a company domiciled in Ireland. The address of the company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The consolidated financial statements include the accounts of Allied Irish Banks, p.l.c. (the parent company) and its subsidiary undertakings, collectively referred to as the "Group", where appropriate, including certain special purpose entities and are made up to the end of the financial year. The Group is primarily involved in retail and corporate banking, investment banking and asset management services.

2 Statement of compliance

The consolidated financial statements have been presented in accordance with the recognition and measurement principles of International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as adopted by the European Union ("EU") and applicable at 31 December 2006. The accounting policies have been consistently applied by Group entities. The financial statements also comply with the requirements of Irish Statute comprising the Companies Acts 1963 to 2006 and the European Communities (Credit Institutions:Accounts) Regulations, 1992 as amended by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 and the Asset Covered Securities Act 2001. Both the parent company and the Group financial statements have been prepared in accordance with IFRSs as adopted by the EU. In publishing the parent company financial statements together with the Group financial statements, AIB has taken advantage of the exemption in paragraph 2 of the European Communities (Credit Institutions: Accounts) Regulations, 1992 not to present its individual income statement and related notes that form part of these approved financial statements.

3 Basis of preparation

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of impairment of financial assets, retirement benefit liabilities and fair value of certain financial assets and financial liabilities. A description of these estimates and judgments is set out within item 32 of this section.

4 Basis of consolidation

Subsidiary undertakings

A subsidiary is one where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group until the date that control ceases.

A special purpose entity is an entity created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Group's consolidated financial statements where the substance of the relationship is that the Group controls the special purpose entity.

4 Basis of consolidation *(continued)*

The Group uses the purchase method of accounting to account for the acquisition of subsidiary undertakings. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the transaction, plus costs directly attributable to the acquisition. Identifiable assets acquired are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from the financial statements, as they are not assets of the Group.

Associated undertakings

An associate is generally one in which the Group's interest is greater than 20% and less than 50% and in which the Group has significant influence, but not control, over the entity's operating and financial policies.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in the equity of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment (net of any accumulated impairment loss). When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

The Group's share of the results of associates after tax reflects the Group's proportionate interest in the associates and is based on financial statements made up to a date not earlier than three months before the balance sheet date, adjusted to conform with the accounting polices of the Group.

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses, arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

5 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except for qualifying cash flow hedges. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on equities classified as available-for-sale financial assets, together with exchange differences on non-monetary assets are reported directly in equity.

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the Euro are translated into Euro as follows:

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into Euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions; and
- Since 1 January 2004, the Group's date of transition to IFRS, all resulting exchange differences are included in the foreign currency translation reserve within shareholders' equity. When a foreign operation is disposed of in part or in full, the relevant amount of the foreign currency translation reserve is transferred to the income statement.

6 Interest income and expense recognition

Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of binomial assets and financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument,or when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Interest income and expense presented in the income statement includes:-

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method.
- Interest on available-for-sale investment securities on an effective interest method.
- Interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges.

7 Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided, unless they have been included in the effective interest rate calculation. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees, together with related direct costs, for loan facilities where draw down is probable are deferred and recognised as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment on a straight line basis.

8 Net trading income

Net trading income comprises gains less losses relating to trading assets and liabilities, and includes all realised and unrealised fair value changes.

9 Net income from other financial assets designated at fair value through profit or loss

Net income from other financial assets designated at fair value through profit or loss relates to non-qualifying derivatives held for risk managment purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

10 Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

11 Operating leases

Payment made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received, or premiums paid, at inception of the lease are recognised as an integral part of the total lease expense, over the term of the lease.

12 Employee benefits

Retirement benefit obligations

The Group provides employees with post retirement benefits mainly in the form of pensions.

The Group provides a number of defined benefit and defined contribution retirement benefit schemes. In addition, the Group contributes, according to local law in the various countries in which it operates, to Governmental and other plans which have the characteristics of defined contribution plans. The majority of the defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each balance sheet date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods discounting that benefit at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date is recognised in the balance sheet. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

The cost of providing defined benefit pension schemes to employees, comprising the current service cost, past service cost, the expected return on plan assets and the change in the present value of scheme liabilities arising from the passage of time is charged to the income statement within personnel expenses.

The cost of the Group's defined contribution schemes, is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the balance sheet date are included as a liability. The Group has no further obligation under these plans once these contributions have been paid.

Short-term employee benefits

Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that the Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised staff loans and preferential rates on staff deposits is charged within personnel expenses.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without the realistic possibility of withdrawal, to a formal plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

Share based compensation

The Group operates a number of equity settled share based compensation plans. For grants of options after 7 November 2002, the fair value of the employee services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in exchange for the shares or share options granted is recognised in the income statement over the period during which the employees become unconditionally entitled to the options, which is the vesting period. The amount expensed is determined by reference to the fair value of the options granted. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the share price at date of grant of the option, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms relate to market conditions. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately the amount recognised in the income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting conditions are met, provided that the non-market vesting conditions are met.

The expense relating to share based payments is credited to shareholders' equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium when the options are exercised. When the share based payments give rise to the reissue of shares from treasury shares, the proceeds of issue are credited to shareholders' equity. In addition, there is a transfer between the share based payment reserve and profit and loss account, reflecting the cost of the share based payment already recognised in the income statement.

13 Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Payments are deducted from the present value of the provision and interest at the relevant discount rates is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other financial income. The present value of provisions is included in other liabilities.

When a leasehold property ceases to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

Where the Group has a 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 restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated.

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 in the notes to the financial statements unless they are remote.

14 Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred income tax is provided, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post retirement benefits, tax losses carried forward, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets and liabilities that affect neither accounting nor taxable profit.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

15 Construction contracts

Revenue from construction contacts is recognised when it is probable that the economic benefits of the transaction will flow to the Group and when the revenue, the costs (both incurred and future), the outcome of the contract and its stage of completion can all be measured reliably. Once the above criteria are met, both contract revenue and contract costs are recognised by reference to the stage of completion of the contract.

When the outcome of a construction contract cannot be estimated reliably, no profit is recognised, but revenue is recognised to the extent of costs incurred that are probable of recovery. Costs are recognised as an expense in the income statement in the accounting period in which the work is performed.

16 Impairment of property, plant and equipment, goodwill and intangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill is subject to an impairment review as at the balance sheet date each year. The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit, with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets.The recoverable amount is determined as the higher of the net selling price of the asset or cash generating unit and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed.

17 Impairment of financial assets

It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the balance sheet date.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset on or before the balance sheet date, ("a loss event") and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Group would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   i. adverse changes in the payment status of borrowers in the portfolio;
   ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and includes these performing assets under the

17 Impairment of financial assets *(continued)*

collective incurred but not reported ("IBNR") assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR) financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real 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 against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Assets acquired in exchange for loans and receivables in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of an asset. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset and not as an impairment of the original instrument.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the instrument below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that had been previously recognised directly in equity is removed from equity and recognised in the income statement. Reversals of impairment of equity shares are not recognised in the income statement and increases in the fair value of equity shares after impairment are recognised directly in equity.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt securities are recognised in the income statement.

18 Financial assets

The Group classifies its financial assets into the following categories: - financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available for sale financial assets.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value, however, with the exception of financial assets at fair value through profit or loss, the initial fair value includes direct and incremental transaction costs.

The fair value of assets traded in active markets is based on current bid prices. In the absence of current bid prices, the Group establishes a fair value using valuation techniques. These include the use of recent arm's-length transactions, reference to other similar instruments, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available-for-sale equity securities are recognised in the income statement when the entity's right to receive payment is established. Impairment losses

18 Financial assets *(continued)*

and translation differences on monetary items are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category has two sub categories: - Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is held primarily for the purpose of selling in the short term, or if it is so designated by management, subject to certain criteria.

The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within net trading income.

Derivatives are also classified in this category unless they have been designated as hedges.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group's management has the intention and ability to hold to maturity. If the Group was to sell other than an insignificant amount of held to maturity assets, the entire category would be required to be reclassified as available for sale.

Available for sale

Available for sale financial assets are non-derivative financial investments that are designated as available for sale and are not categorised into any of the other categories described above. Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement.

Parent Company accounts: Investment in subsidiary and associated undertakings

The company accounts for investments in subsidiary and associated undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, the company accounts for it at the lower of its carrying value and fair value less costs to sell.

19 Financial liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement using the effective interest method.

Preference shares, which carry a mandatory coupon, are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

20 Property, plant and equipment

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets' economic life.

The Group uses the following useful lives when calculating depreciation:

Freehold buildings and long-leasehold property	50 years
Short leasehold property	Life of lease, up to 50 years
Costs of adaptation of freehold and leasehold property	
Branch properties	up to 10 years*
Office properties	up to 15 years*
Computers and similar equipment	3 – 5 years
Fixtures and fittings and other equipment	3 – 10 years

*Subject to the maximum remaining life of the lease.

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement.

It is Group policy not to revalue its property, plant and equipment.

21 Intangible assets

Goodwill

Goodwill may arise on the acquisition of subsidiary and associated undertakings. Purchased goodwill is the excess of the fair value of the purchase consideration and direct costs of making the acquisition, over the fair value of the Group's share of the assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition. For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is performed either using market rates or by using risk-free rates and risk adjusted expected future cash flows.

Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment in the consolidated financial statements. Gains or losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

Goodwill previously written off to reserves under Irish GAAP has not been reinstated and will not be included in calculating any subsequent profit or loss on disposal.

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 5 years. Other intangible assets are amortised over the life of the asset.

22 Derivatives and hedge accounting

Derivatives, such as interest rate swaps, options and forward rate agreements are used for trading and for hedging purposes.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental 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.

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques, and discounted cash flow models and options pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle net.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative, and reported at fair value with gains and losses being recognised in the income statement.

Hedging

All derivatives are carried at fair value in the balance sheet and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and when transactions meet the criteria specified in IAS 39 "Financial Instruments: Recognition and Measurement", the Group designates certain derivatives as either: -

(1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
(2) hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge); or
(3) hedges of a net investment in a foreign operation.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b) the derivative expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

22 Derivatives and hedge accounting ***(continued)***

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For available for sale items the fair value hedging adjustment remains in equity until the hedged item affects the income statement. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in shareholders' equity, and recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time, remains in equity and is recognised in the income statement when the forecast transaction arises. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

23 Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement. No reclassifications are made in respect of prior periods.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented on the income statement (including comparatives) as a separate amount, comprising the total of the post tax profit or loss of the discontinued operations for the period together with any post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on disposal of the assets/disposal groups constituting discontinued operations.

24 Collateral & netting

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

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general,

Collateral (continued)
not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability or asset. These items are assigned to deposits received from banks or other counterparties in the case of cash collateral received. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Group will pledge collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and receivables continues to be recorded on the balance sheet. Collateral paid away in the form of cash is recorded in loans and advances to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. This is not generally the case with master agreements, and the related assets and liabilities are presented gross in the balance sheet.

25 Financial guarantees
Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ("facility guarantees"), and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees.

26 Sale and repurchase agreements (including stock borrowing and lending)
Financial assets may be lent or sold subject to a commitment to repurchase them ("repos"). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the balance sheet as appropriate.

Similarly, when securities are purchased subject to a commitment to resell ("reverse repos"), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

27 Leases
Lessor
Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the Group's balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

27 Leases ***(continued)***

Lessee

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

28 Shareholders' equity

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Group.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when it has been approved for payment by the Board of Directors. Dividends declared after the balance sheet date are disclosed in the dividends note *(note 63)*.

Treasury shares

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

Capital reserves

Capital reserves represent transfers from retained earnings in accordance with relevant legislation.

Revaluation reserves

Revaluation reserves represent the surplus which arose on revaluation of properties prior to the implementation of IAS at 1 January, 2004.

Other equity interests

Other equity interests relate to the Reserve Capital Instruments *(note 48)*.

Available for sale securities reserves

Available for sale securities reserves represent the net unrealised change in the fair value of financial investments available for sale.

Revenue reserves

Revenue reserves represent retained earnings from subsidiaries and associated undertakings.

Share based payments reserves

The share based payment expense charged to the income statement is credited to the share based payment reserves over the vesting period of the shares and options. Upon grant of shares and exercise of options the amount in respect of the award charged to the share based payment reserves is transferred to revenue reserves.

Cash flow hedging reserve

Cash flow hedging reserve represents the net gains/losses on effective cash flow hedging instruments that will be recycled to the income statement when the hedged transaction affects profit or loss.

Foreign currency translation reserve

The foreign currency translation reserve represents the cumulative gains and losses on the retranslation of the Groups' net investment in foreign operations.

29 Insurance and investment contracts

In its consolidation of Ark Life, up to date of disposal, and in accounting for its interest in Hibernian Life Holdings Limited, the Group has classified its Long Term Assurance business in accordance with IFRS 4 "Insurance Contracts". Insurance contracts are those contracts containing significant insurance risk. In the case of life contracts, insurance risk exists if the amount payable on the occurrence of an insured event exceeds the assets backing the contract, or could do so in certain circumstances, and the product of the probability of the insured event occurring and the excess amount payable has commercial substance. In particular, guaranteed equity bonds which guarantee a return of the original premium irrespective of the current value of the backing assets are deemed to be insurance contracts notwithstanding that at the balance sheet date there may be no excess of the original premium over the backing assets. Investment contracts are contracts that do not have significant insurance risk.

Insurance contracts

The Group accounts for its insurance contracts using the european embedded value principles, published by the CFO Forum. The embedded value comprises two components: the net assets attributable to the Group and the present value of the in-force business ("VIF"). The change in the VIF before tax is accounted for as revenue. The value is estimated as the net present value of future cash flows attributable to the Group before tax, based on the market value of the assets at the balance sheet date, using assumptions that reflect experience and a long-term outlook for the economy and then discounting at an appropriate risk discount rate.

Insurance contract liabilities are calculated on a statutory basis. Premiums are recognised as revenue when due from the policyholder. Claims, which together with the increase in insurance contract liabilities are recognised in the income statement as they arise, are the cost of all claims arising during the period.

Investment contracts

Investment contracts are primarily unit-linked. Unit linked liabilities are deemed equal to the value of units attaching to contracts at the balance sheet date. The liability is measured at fair value, which is the bid value of the assets held to match the liability. Increases in investment contract liabilities are recognised in the income statement as they arise. Revenue in relation to investment management services is recognised as the services are provided. Certain upfront fees and charges have been deferred and are recognised as income over the life of the contract. Premiums and claims are accounted for directly in the balance sheet as adjustments to the investment contract liability.

30 Segment reporting

Business segments are distinguishable components of the Group that provide products and services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those of components operating in other economic environments. The Group has determined that business segments are the primary reporting segments.

31 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with original maturities of less than three months.

32 Accounting estimates and judgements

The estimates that have a significant impact on the financial statements and estimates with a significant risk of material adjustment in the next year are set out below:-

Loan impairment

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which AIB Group is exposed and other external factors such as legal and regulatory requirements. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required incurred but not reported ("IBNR") loan loss provision level.

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan or overdraft account. The amount of the specific provision made in AIB Group's consolidated financial

32 Accounting estimates and judgements *(continued)*

Loan impairment (continued)

statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. The management process for the identification of loans requiring provision is underpinned by independent tiers of review.

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

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

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

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

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

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

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

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

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

Fair value of financial instruments

Some of the Group's financial instruments are carried at fair value, including all derivatives, financial assets at fair value through profit or loss and financial investments available for sale.

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

Retirement benefits

The Group provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded. In relation to the defined benefit schemes, a full actuarial valuation is undertaken every three years and is updated to reflect current conditions in the intervening periods. Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

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

33 Prospective accounting changes

The following standards/amendments to standards have been approved by the International Accounting Standards Board (IASB), and were adopted by the EU in January 2006 but not early adopted by the Group. These will be adopted in 2007 and thereafter:-

Amendment to IAS 1 - Presentation of Financial Statements - Capital Disclosures (effective 1 January 2007). This amendment requires disclosure, both quantitative and qualitative, of an entity's objectives, policies and processes for managing capital. The impact is not expected to be material in terms of Group reporting.

IFRS 7 - Financial Instruments: Disclosures (effective 1 January 2007). This standard updates and augments the disclosure requirements of IAS 30 "Disclosures on the Financial Statements of Banks and Similar Financial Institutions", and IAS 32 "Financial Instruments: Disclosure and Presentation" and IFRS 4 "Insurance Contracts" and requires the additional qualitative and quantitative disclosures set out below.

Qualitative disclosures

Further information regarding each type of financial instrument risk including the exposures to risk and how they arise, the Group's objectives, policies and processes for managing the risk, the methods used to measure the risk, and any changes from the previous period.

Quantitative disclosures

Further information regarding each type of the Group's financial instrument risk including a summary of quantitative data about exposure to that risk at the reporting date including any concentrations of credit risk, financial assets that are either past due or impaired, any collateral and other credit enhancements obtained, liquidity risk, market risk, and capital objectives and policies.
The impact of IFRS 7 is not expected to be material in terms of Group reporting.

IFRIC 7 - Applying the restatement approach under IAS 29 "Financial Reporting in Hyperinflationary Economies". This interpretation, (effective 1 January 2007) provides guidance on applying the requirements of IAS 29 which deals with financial reporting in hyperinflationary economies. This will not have any impact for Group reporting purposes.

IFRIC 8 - Scope of IFRS 2 (effective 1 January 2007). This Interpretation clarifies that the accounting standard IFRS 2 "Share-based Payment" applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less that the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. This IFRIC is not expected to have a material impact on the Group.

IFRIC 9 - Reassessment of Embedded Derivatives (effective 1 January 2007). This Interpretation clarifies whether an entity should reassess whether an embedded derivative needs to be separated from the host contract after the initial hybrid contract is recognised. IFRIC 9 concludes that reassessment is prohibited, unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. This IFRIC is not expected to have a material impact on the Group.

The EU Transparency Directive is due for transposition into Irish law in 2007. Accordingly, it will impact Group reporting from 1 January 2008. The Directive seeks to enhance transparency in EU capital markets in order to improve investor protection and market efficiency. The Directive sets out publication deadlines and content requirements in relation to annual financial reports and half yearly financial reports. In addition, there is a new requirement for issuers with shares listed on the Irish Stock Exchange to publish management statements during the financial year. This directive is not expected to have a significant impact on Group reporting.

The IASB announced on 1 July 2006 that it will not require the application of new IFRSs under development or major amendments to existing IFRSs before 1 January 2009. Delaying implementation of new standards until 2009 provides four years of stability in the IFRS platform of standards for those companies that adopted IFRSs in 2005. Companies will however, be permitted to adopt a new standard on a voluntary basis before its effective date. Interpretations and minor amendments to correct problems identified in practice are not subject to this 2009 delay.

Consolidated income statement

for the year ended 31 December 2006

	Notes	**2006 € m**	2005 € m
Interest and similar income	3	**6,928**	5,151
Interest expense and similar charges	4	**3,929**	2,621
Net interest income		**2,999**	2,530
Dividend income	5	**23**	17
Fee and commission income		**1,235**	1,061
Fee and commission expense		**(161)**	(145)
Net trading income	6	**173**	112
Other operating income	7	**57**	72
Other income		**1,327**	1,117
Total operating income		**4,326**	3,647
Administrative expenses	8	**2,174**	1,881
Amortisation/impairment of intangible assets and goodwill	35	**53**	47
Depreciation of property, plant and equipment	36	**87**	83
Total operating expenses		**2,314**	2,011
Operating profit before provisions		**2,012**	1,636
Provisions for impairment of loans and receivables	27	**118**	115
Provisions for liabilities and commitments	44	**(15)**	20
Amounts written off financial investments available for sale	11	**1**	8
Operating profit		**1,908**	1,493
Associated undertakings	31	**167**	149
Profit on disposal of property	12	**365**	14
Construction contract income	13	**96**	45
Profit on disposal of businesses	14	**79**	5
Profit before taxation – continuing operations		**2,615**	1,706
Income tax expense - continuing operations	16	**433**	319
Profit after taxation – continuing operations		**2,182**	1,387
Discontinued operation, net of taxation	1 & 33	**116**	46
Profit for the period		**2,298**	1,433
Attributable to:			
Equity holders of the parent		**2,185**	1,343
Minority interests in subsidiaries	17	**113**	90
		2,298	1,433
Basic earnings per share – continuing operations	18(c)	**233.5c**	145.7c
Basic earnings per share – discontinued operations		**13.3c**	5.3c
Total	18(a)	**246.8c**	151.0c
Diluted earnings per share – continuing operations	18(d)	**231.4c**	144.6c
Diluted earnings per share – discontinued operations		**13.2c**	5.2c
Total	18(b)	**244.6c**	149.8c

D Gleeson, Chairman. E Sheehy, Group Chief Executive. J O'Donnell, Group Finance Director. W M Kinsella, Secretary.

Consolidated balance sheet

as at 31 December 2006

	Notes	**2006 € m**	2005 € m
Assets			
Cash and balances at central banks		**989**	742
Treasury bills and other eligible bills	22	**196**	201
Items in course of collection		**527**	402
Trading portfolio financial assets	23	**8,953**	10,113
Derivative financial instruments	24	**2,890**	2,439
Loans and receivables to banks	25	**12,900**	7,129
Loans and receivables to customers	26	**107,115**	85,232
Financial investments available for sale	30	**19,665**	16,864
Interests in associated undertakings	31	**1,792**	1,656
Intangible assets and goodwill	35	**550**	517
Property, plant and equipment	36	**593**	706
Other assets		**1,117**	778
Current taxation		**17**	18
Deferred taxation	37	**256**	253
Prepayments and accrued income		**927**	801
Disposal group and assets classified as held for sale	38	**39**	5,363
Total assets		**158,526**	133,214
Liabilities			
Deposits by banks	39	**33,433**	29,329
Customer accounts	40	**74,875**	62,580
Trading portfolio financial liabilities	41	**191**	240
Derivative financial instruments	24	**2,531**	1,967
Debt securities in issue	42	**28,531**	17,611
Current taxation		**112**	133
Other liabilities	43	**1,757**	1,599
Accruals and deferred income		**1,410**	1,092
Retirement benefit liabilities	10	**937**	1,227
Provisions for liabilities and commitments	44	**93**	140
Deferred taxation	37	**–**	32
Subordinated liabilities and other capital instruments	45	**4,744**	3,756
Disposal group classified as held for sale	38	**–**	5,091
Total liabilities		**148,614**	124,797
Shareholders' equity			
Share capital	46	**294**	294
Share premium account		**1,693**	1,693
Other equity interests	48	**497**	497
Reserves		**543**	1,152
Profit and loss account		**5,578**	3,533
Shareholders' equity		**8,605**	7,169
Minority interests in subsidiaries	49	**1,307**	1,248
Total shareholders' equity including minority interests		**9,912**	8,417
Total liabilities, shareholders' equity and minority interests		**158,526**	133,214

D Gleeson, Chairman. E Sheehy, Group Chief Executive. J O'Donnell, Group Finance Director. W M Kinsella, Secretary.

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

as at 31 December 2006

	Notes	**2006 € m**	2005 € m
Assets			
Cash and balances at central banks		**514**	503
Items in course of collection		**274**	202
Trading portfolio financial assets	23	**8,717**	9,579
Derivative financial instruments		**2,599**	2,319
Loans and receivables to banks	25	**56,057**	26,262
Loans and receivables to customers	26	**59,883**	60,142
Financial investments available for sale	30	**16,127**	14,092
Interests in associated undertakings		**903**	891
Investments in Group undertakings	34	**1,408**	271
Intangible assets	35	**111**	64
Property, plant and equipment	36	**358**	465
Other assets		**401**	318
Current taxation		**17**	13
Deferred taxation	37	**148**	114
Prepayments and accrued income		**704**	634
Assets classified as held for sale	38	**33**	6
Total assets		**148,254**	115,875
Liabilities			
Deposits by banks	39	**61,859**	43,831
Customer accounts	40	**51,818**	42,666
Trading portfolio financial liabilities	41	**184**	230
Derivative financial instruments		**2,148**	1,821
Debt securities in issue	42	**20,971**	16,684
Current taxation		**49**	62
Other liabilities	43	**578**	479
Accruals and deferred income		**1,224**	1,028
Retirement benefit liabilities		**620**	807
Provisions for liabilities and commitments	44	**76**	119
Subordinated liabilities and other capital instruments	45	**3,728**	3,756
Total liabilities		**143,255**	111,483
Shareholders' equity			
Share capital	46	**294**	294
Share premium account		**1,693**	1,693
Other equity interests	48	**497**	497
Reserves		**(129)**	299
Profit and loss account		**2,644**	1,609
Shareholders' equity		**4,999**	4,392
Total liabilities and shareholders' equity		**148,254**	115,875

D Gleeson, Chairman. E Sheehy, Group Chief Executive. J O'Donnell, Group Finance Director. W M Kinsella, Secretary.

Statement of cash flows

for the year ended 31 December 2006

		Group		Allied Irish Banks, p.l.c.	
	Notes	**2006 € m**	2005 € m	**2006 € m**	2005 € m
Reconciliation of profit before taxation to net cash inflow from operating activities					
Profit before taxation(1)		**2,733**	1,754	**1,669**	1,545
Adjustments for:					
Profit on disposal of businesses		**(191)**	(5)	**(178)**	–
Construction contract income		**(96)**	(45)	**–**	(9)
Profit on disposal of property		**(365)**	(14)	**(406)**	(12)
Investment income		**(44)**	(41)	**(252)**	(713)
Associated undertakings		**(167)**	(149)	**–**	–
Provisions for impairment of loans and receivables		**118**	115	**79**	127
Provisions for liabilities and commitments		**(15)**	20	**(12)**	19
Amounts written off financial investments available for sale		**1**	8	**–**	2
Increase in other provisions		**11**	32	**8**	17
Depreciation, impairment and amortisation		**140**	130	**80**	69
Interest on subordinated liabilities and other capital instruments		**214**	132	**182**	132
Profit on disposal of financial investments available for sale		**(11)**	(19)	**2**	(15)
Share based payment		**54**	32	**38**	24
Amortisation of premiums and discounts		**64**	64	**59**	84
Increase in long-term assurance business		**(6)**	(55)	**–**	–
(Increase)/decrease in prepayments and accrued income		**(131)**	83	**(75)**	11
Increase in accruals and deferred income		**306**	332	**203**	248
		2,615	2,374	**1,397**	1,529
Net increase in deposits by banks		**4,649**	8,019	**18,550**	8,206
Net increase in customer accounts		**12,329**	11,414	**9,433**	7,554
Net increase in loans and receivables to customers		**(22,137)**	(18,350)	**(13,836)**	(14,309)
Net increase in loans and receivables to banks		**(32)**	(30)	**(10,603)**	(2,941)
Net decrease/(increase) in trading portfolio financial assets/liabilities		**909**	(1,942)	**610**	(1,868)
Net increase/(decrease) in derivative financial instruments		**117**	(447)	**46**	(315)
Net decrease/(increase) in treasury bills and other eligible bills		**15**	(177)	**–**	–
Net increase in items in course of collection		**(121)**	(29)	**(71)**	(24)
Net increase in debt securities in issue		**11,224**	5,223	**4,531**	5,960
Net increase in notes in circulation		**18**	21	**–**	–
(Increase)/decrease in other assets		**(322)**	(1,467)	**(171)**	286
Increase/(decrease) in other liabilities		**75**	419	**61**	(47)
Effect of exchange translation and other adjustments		**(213)**	(116)	**(61)**	(175)
Net cash inflow from operating assets and liabilities		**6,511**	2,538	**8,489**	2,327
Net cash inflow from operating activities before taxation		**9,126**	4,912	**9,886**	3,856
Taxation paid		**(481)**	(351)	**(235)**	(200)
Net cash inflow from operating activities		**8,645**	4,561	**9,651**	3,656
Investing activities *(note a)*		**(1,907)**	(262)	**(2,948)**	177
Financing activities *(note b)*		**153**	508	**(886)**	570
Increase in cash and cash equivalents		**6,891**	4,807	**5,817**	4,403
Opening cash and cash equivalents		**7,670**	2,773	**5,968**	1,539
Effect of exchange translation adjustments		**(206)**	90	**(171)**	26
Closing cash and cash equivalents	53	**14,355**	7,670	**11,614**	5,968

Statement of cash flows *(continued)*

for the year ended 31 December 2006

	Group		Allied Irish Banks, p.l.c.	
	2006 € m	2005 € m	**2006 € m**	2005 € m
(a) Investing activities				
Net increase in financial investments available for sale	**(2,477)**	(264)	**(2,538)**	(460)
Additions to property, plant and equipment	**(144)**	(100)	**(113)**	(71)
Disposal of property, plant and equipment	**489**	89	**497**	36
Additions to intangible assets	**(87)**	(36)	**(75)**	–
Investment in associated undertakings	**–**	(3)	**–**	–
Investments in Group undertakings	**–**	–	**(1,156)**	(41)
Disposal of investment in subsidiaries and businesses	**268**	11	**185**	–
Dividends received from associated undertakings	**44**	41	**–**	–
Dividends received from subsidiaries companies	**–**	–	**252**	713
Cash flows from investing activities	**(1,907)**	(262)	**(2,948)**	177
(b) Financing activities				
Re-issue of treasury shares	**48**	47	**48**	47
Purchase of own shares	–	–	**(128)**	–
Redemption of subordinated liabilities	**–**	(630)	**–**	(630)
Issue of subordinated liabilities	**–**	1,813	**–**	1,813
Issue of perpetual preferred securities	**1,008**	–	**–**	–
Interest paid on subordinated liabilities	**(196)**	(90)	**(180)**	(90)
Equity dividends paid on ordinary shares	**(587)**	(532)	**(588)**	(532)
Dividends on other equity interests	**(38)**	(38)	**(38)**	(38)
Dividends paid to minority interests	**(82)**	(62)	**–**	–
Cash flows from financing activities	**153**	508	**(886)**	570

[(1)] Represents profit before taxation – continuing activities, as per the Consolidated income statement, adjusted for the discontinued activity pre-tax profit of € 118m in 2006 (2005: € 48m).

Discontinued activities contributed to the increase in cash and cash equivalents as follows:- Operating activities: € Nil; Investing activities € 154m; and Financing activities € Nil.

Statement of recognised income and expense

	Group		Allied Irish Banks, p.l.c.	
	2006 € m	2005 € m	**2006 € m**	2005 € m
Foreign exchange translation differences	**(149)**	301	**6**	7
Net change in cash flow hedges, net of tax	**(283)**	(76)	**(261)**	(81)
Net change in fair value of available for sale securities, net of tax	**(13)**	(6)	**(109)**	(6)
Net actuarial gains/(losses) in retirement benefit schemes, net of tax	**200**	(285)	**150**	(216)
Net other gains and losses relating to the period	**(47)**	(72)	**–**	–
Income and expense recognised	**(292)**	(138)	**(214)**	(296)
Profit for the period	**2,298**	1,433	**1,451**	1,394
Total recognised income and expense for the period	**2,006**	1,295	**1,237**	1,098
Attributable to:				
Equity holders of the parent	**1,859**	1,191	**1,237**	1,098
Minority interests in subsidiaries	**147**	104	**–**	–
Total recognised income and expense for the period	**2,006**	1,295	**1,237**	1,098

Consolidated reconciliation of movements in shareholders' equity

	Share capital € m	Share premium € m	Capital reserves € m	Revaluation reserves € m	Other equity interests € m	Treasury shares € m	Revenue reserves € m	Share based payments reserves € m	Available for sale securities reserves € m	Cash flow hedging reserve € m	Foreign currency translation reserve € m	Total € m
2005												
At 1 January 2005	294	1,693	712	88	497	(686)	3,543	14	136	254	(73)	6,472
Profit attributable to equity holders of the parent	-	-	46	-	-	-	1,297	-	-	-	-	1,343
Dividends on ordinary shares	-	-	-	-	-	-	(532)	-	-	-	-	(532)
Dividends on other equity interests	-	-	-	-	-	-	(38)	-	-	-	-	(38)
Share based payments	-	-	-	-	-	-	-	16	-	-	-	16
Actuarial losses recognised in retirement benefit schemes	-	-	-	-	-	-	(285)	-	-	-	-	(285)
Other recognised (losses)/gains relating to the period	-	-	-	(3)	-	-	(69)	-	(6)	(76)	287	133
Ordinary shares re-issued	-	-	-	-	-	66	-	-	-	-	-	66
Net movement in own shares	-	-	-	-	-	-	(6)	-	-	-	-	(6)
At 31 December 2005	294	1,693	758	85	497	(620)	3,910	30	130	178	214	7,169
2006												
At 1 January 2006	**294**	**1,693**	**758**	**85**	**497**	**(620)**	**3,910**	**30**	**130**	**178**	**214**	**7,169**
Profit attributable to equity holders of the parent	**-**	**-**	**4**	**-**	**-**	**-**	**2,181**	**-**	**-**	**-**	**-**	**2,185**
Dividends on ordinary shares	**-**	**-**	**-**	**-**	**-**	**-**	**(587)**	**-**	**-**	**-**	**-**	**(587)**
Dividends on other equity interests	**-**	**-**	**-**	**-**	**-**	**-**	**(38)**	**-**	**-**	**-**	**-**	**(38)**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**27**	**-**	**-**	**-**	**30**
Actuarial gains recognised in retirement benefit schemes	**-**	**-**	**-**	**-**	**-**	**-**	**200**	**-**	**-**	**-**	**-**	**200**
Other recognised losses relating to the period	**-**	**-**	**-**	**-**	**-**	**-**	**(47)**	**-**	**(44)**	**(283)**	**(152)**	**(526)**
Other movements	**-**	**-**	**(235)**	**(50)**	**-**	**-**	**293**	**-**	**-**	**-**	**-**	**8**
Ordinary shares re-issued	**-**	**-**	**-**	**-**	**-**	**87**	**-**	**-**	**-**	**-**	**-**	**87**
Net movement in own shares	**-**	**-**	**-**	**-**	**-**	**(41)**	**118**	**-**	**-**	**-**	**-**	**77**
At 31 December 2006	**294**	**1,693**	**527**	**35**	**497**	**(574)**	**6,033**	**57**	**86**	**(105)**	**62**	**8,605**

Reconciliation of movements in shareholders' equity - Allied Irish Banks, p.l.c.

	Share capital € m	Share premium € m	Revaluation reserves € m	Other equity interests € m	Treasury shares € m	Revenue reserves € m	Share based payments reserves € m	Available for sale securities reserves € m	Cash flow hedging reserve € m	Foreign currency translation reserve € m	Total € m
2005											
At 1 January 2005	294	1,693	80	497	(686)	1,618	6	58	250	(26)	3,784
Profit attributable to equity holders of the parent	-	-	-	-	-	1,394	-	-	-	-	1,394
Dividends on ordinary shares	-	-	-	-	-	(532)	-	-	-	-	(532)
Dividends on other equity interests	-	-	-	-	-	(38)	-	-	-	-	(38)
Share based payments	-	-	-	-	-	-	7	-	-	-	7
Actuarial losses recognised in retirement benefit schemes	-	-	-	-	-	(216)	-	-	-	-	(216)
Other recognised (losses)/gains relating to the period	-	-	(2)	-	-	1	-	(6)	(81)	7	(81)
Ordinary shares re-issued	-	-	-	-	66	-	-	-	-	-	66
Net movement in own shares	-	-	-	-	-	8	-	-	-	-	8
At 31 December 2005	294	1,693	78	497	(620)	2,235	13	52	169	(19)	4,392
2006											
At 1 January 2006	**294**	**1,693**	**78**	**497**	**(620)**	**2,235**	**13**	**52**	**169**	**(19)**	**4,392**
Profit attributable to equity holders of the parent	**-**	**-**	**-**	**-**	**-**	**1,451**	**-**	**-**	**-**	**-**	**1,451**
Dividends on ordinary shares	**-**	**-**	**-**	**-**	**-**	**(588)**	**-**	**-**	**-**	**-**	**(588)**
Dividends on other equity interests	**-**	**-**	**-**	**-**	**-**	**(38)**	**-**	**-**	**-**	**-**	**(38)**
Share based payments	**-**	**-**	**-**	**-**	**-**	**3**	**30**	**-**	**-**	**-**	**33**
Actuarial gains recognised in retirement benefit schemes	**-**	**-**	**-**	**-**	**-**	**150**	**-**	**-**	**-**	**-**	**150**
Other recognised (losses)/gains relating to the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(109)**	**(261)**	**6**	**(364)**
Other movements	**-**	**-**	**(58)**	**-**	**-**	**58**	**-**	**-**	**-**	**-**	**-**
Ordinary shares re-issued	**-**	**-**	**-**	**-**	**87**	**-**	**-**	**-**	**-**	**-**	**87**
Net movement in own shares	**-**	**-**	**-**	**-**	**(128)**	**4**	**-**	**-**	**-**	**-**	**(124)**
At 31 December 2006	**294**	**1,693**	**20**	**497**	**(661)**	**3,275**	**43**	**(57)**	**(92)**	**(13)**	**4,999**

1 Disposal of Ark Life Assurance Company Limited ("Ark Life"). Acquisition of an interest of 24.99% in Hibernian Life Holdings Limited

On 30 January 2006, the previously announced venture with Aviva Group p.l.c. for the manufacture and distribution of life and pensions products in the Republic of Ireland was completed. The transaction brought together Hibernian Life & Pensions Limited ("HLP") and Ark Life under a holding company Hibernian Life Holdings Limited of which AIB owns 24.99%. AIB has entered into an exclusive agreement to distribute the life and pensions products of the venture.

Under IFRS 5, "Non-current assets held for sale and discontinued operations", the income and expenses for 2005 and for the period up to 30 January 2006, the date of disposal of Ark Life, of the operations deemed to be disposed of have been reported net of taxation as a discontinued operation below profit after taxation. The assets and liabilities of Ark Life *(note 33)* as at 31 December 2005 were classified as held for sale, separate from other assets and liabilities on the balance sheet.

The transaction is accounted for as an exchange of 75.01% of Ark Life for 24.99% of HLP and a cash payment of € 165m. Under this approach, the 24.99% of Ark Life that is owned by AIB, both directly before the transaction and indirectly thereafter, is treated as being owned throughout the transaction.

The transaction gave rise to a profit before and after taxation of € 138m of which € 26m (relating to the transfer by Ark Life of the management contracts of the Ark funds from AIB to Aviva) is treated as a profit on disposal of business and € 112m as a profit on disposal of a discontinued operation. The profit after taxation for Ark Life for the period to date of disposal of € 4m (2005: € 46m) is included within discontinued operations. The contribution of the venture for the 11 months ended December 2006 is included in the income statement within share of results of associated undertakings. The carrying value of the investment is shown in the balance sheet within interests in associated undertakings.

Accounting for the acquisition of the 24.99% interest in Hibernian Life and Pensions Limited

The Group's share of the assets and liabilities of HLP as at 30 January 2006 has 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 75.01% of Ark Life that is deemed to be transferred to Hibernian Life Holdings Limited. Acquisition accounting has been adopted in respect of the transaction and the acquisition of the 24.99% interest in HLP comprised:

	€ m
Book value of assets acquired	**520**
Adjustments	**146**
Intangible assets recognised	**67**
Net assets	**733**
Group's share of net assets - 24.99%	**183**
Goodwill arising on the acquisition of HLP	**12**
Fair value of consideration given	**195**

The adjustments reflect bringing HLP's accounting policies in line with AIB's, primarily in respect of accounting for insurance contracts. AIB accounts for insurance contracts using the embedded value basis and the adjustments of € 146m primarily reflect the recognition of embedded value on the insurance contracts in force on HLP's books, offset by other adjustments to bring HLP's accounting policies in line with AIB's and fair value adjustments. The intangible assets recognised relate to the value of management contracts not recognised within HLP's books. Goodwill arising has been capitalised on the balance sheet within the caption "Interests in associated undertakings".

The Group's share of profits of Hibernian Life Holdings Limited is set out in Note 33.

2 Segmental information	AIB Bank ROI € m	Capital Markets € m	AIB Bank UK € m	Poland € m	Group € m	2006 Total € m
Operations by business segments[1]						
Net interest income	1,581	490	593	236	99	2,999
Other income	434	464	154	302	(27)	1,327
Total operating income	2,015	954	747	538	72	4,326
Administrative expenses	945	425	332	290	182	2,174
Amortisation of intangible assets and goodwill	17	4	–	21	11	53
Depreciation of property, plant and equipment	38	9	11	19	10	87
Total operating expenses	1,000	438	343	330	203	2,314
Operating profit/(loss) before provisions	1,015	516	404	208	(131)	2,012
Provisions for impairment of loans and receivables	78	5	26	9	–	118
Provisions for liabilities and commitments	(4)	1	–	(2)	(10)	(15)
Amounts (written back)/written off financial investments available for sale	(1)	2	–	–	–	1
Operating profit/(loss)	942	508	378	201	(121)	1,908
Associated undertakings	18	2	–	6	141	167
Profit on disposal of property	6	–	1	–	358	365
Construction contract income	–	–	–	–	96	96
Profit on disposal of businesses	–	79	–	–	–	79
Profit before taxation – continuing operations	966	589	379	207	474	2,615
Discontinued operation – net of taxation	116	–	–	–	–	116
Balance sheet						
Total loans	60,083	33,040	22,117	4,573	202	120,015
Interests in associated undertakings	268	5	–	3	1,516	1,792
Total assets	66,200	54,093	24,580	7,195	6,458	158,526
Total deposits	46,503	70,067	13,624	6,614	31	136,839
Total liabilities[2]	46,217	71,656	14,551	6,941	9,249	148,614
Total risk weighted assets	53,307	40,538	22,334	5,826	1,029	123,034
Ordinary shareholders' equity[2]	3,549	2,629	1,476	374	80	8,108
Capital expenditure	104	24	15	24	64	231

2 Segmental information *(continued)*

	AIB Bank ROI € m	Capital Markets € m	AIB Bank UK € m	Poland € m	Group € m	Total € m
						2005
Operations by business segments[1]						
Net interest income	1,314	435	516	205	60	2,530
Other income	376	407	148	222	(36)	1,117
Total operating income	1,690	842	664	427	24	3,647
Administrative expenses	818	383	313	236	131	1,881
Amortisation/impairment of intangible assets and goodwill	16	7	1	21	2	47
Depreciation of property, plant and equipment	33	10	9	23	8	83
Total operating expenses	867	400	323	280	141	2,011
Operating profit/(loss) before provisions	823	442	341	147	(117)	1,636
Provisions for impairment of loans and receivables	45	34	21	14	1	115
Provisions for liabilities and commitments	10	4	–	1	5	20
Amounts written off financial investments available for sale	–	8	–	–	–	8
Operating profit/(loss)	768	396	320	132	(123)	1,493
Associated undertakings	(1)	2	–	–	148	149
Profit on disposal of property	12	–	2	–	–	14
Construction contract income	–	–	–	–	45	45
Profit on disposal of businesses	–	5	–	–	–	5
Profit before taxation – continuing operations	779	403	322	132	70	1,706
Discontinued operation - net of taxation	46	–	–	–	–	46
Balance sheet						
Total loans	45,523	23,794	18,346	4,487	211	92,361
Interests in associated undertakings	6	14	–	19	1,617	1,656
Total assets	55,224	44,371	20,031	7,813	5,775	133,214
Total deposits	34,172	58,038	10,958	6,229	123	109,520
Total liabilities[2]	39,137	59,014	11,888	6,658	8,100	124,797
Total risk weighted assets	39,073	38,974	18,335	4,640	634	101,656
Ordinary shareholders' equity[2]	2,564	2,558	1,203	305	42	6,672
Capital expenditure	71	13	16	19	17	136

2 Segmental information *(continued)*

	Republic of Ireland € m	United Kingdom € m	Poland € m	United States of America € m	Rest of the world € m	Total € m
						2006
Operations by geographical segments[3]						
Net interest income	1,899	769	264	54	13	2,999
Other income	665	240	351	61	10	1,327
Total operating income	2,564	1,009	615	115	23	4,326
Administrative expenses	1,401	425	297	42	9	2,174
Amortisation of intangible assets and goodwill	32	1	20	–	–	53
Depreciation of property, plant and equipment	54	12	20	1	–	87
Total operating expenses	1,487	438	337	43	9	2,314
Operating profit before provisions	1,077	571	278	72	14	2,012
Provisions for impairment of loans and receivables	70	41	9	–	(2)	118
Provisions for liabilities and commitments	(14)	1	(2)	–	–	(15)
Amounts written off financial investments available for sale	1	–	–	–	–	1
Operating profit	1,020	529	271	72	16	1,908
Associated undertakings	20	–	6	141	–	167
Profit on disposal of property	364	1	–	–	–	365
Construction contract income	96	–	–	–	–	96
Profit on disposal of businesses	77	1	–	1	–	79
Profit before taxation – continuing operations	1,577	531	277	214	16	2,615
Discontinued operation - net of taxation	116	–	–	–	–	116
Balance sheet						
Total loans	80,853	29,880	5,315	3,315	652	120,015
Interests in associated undertakings	273	–	3	1,516	–	1,792
Total assets	109,272	33,908	9,109	5,578	659	158,526
Total deposits	96,773	29,020	7,072	3,920	54	136,839
Total liabilities[2]	104,609	31,932	7,812	4,202	59	148,614
Ordinary shareholders' equity[2]	5,164	2,022	398	478	46	8,108
Capital expenditure	192	15	24	–	–	231

2 Segmental information *(continued)*

	2005					
	Republic of Ireland € m	United Kingdom € m	Poland € m	United States of America € m	Rest of the world € m	Total € m
Operations by geographical segments[3]						
Net interest income	1,564	689	225	45	7	2,530
Other income	537	252	251	68	9	1,117
Total operating income	2,101	941	476	113	16	3,647
Administrative expenses	1,169	401	245	59	7	1,881
Amortisation/impairment of intangible assets and goodwill	23	1	21	2	–	47
Depreciation of property, plant and equipment	47	11	24	1	–	83
Total operating expenses	1,239	413	290	62	7	2,011
Operating profit before provisions	862	528	186	51	9	1,636
Provisions for impairment of loans and receivables	46	53	14	(1)	3	115
Provisions for liabilities and commitments	18	1	1	–	–	20
Amounts written off financial investments available for sale	6	–	–	2	–	8
Operating profit	792	474	171	50	6	1,493
Associated undertakings	1	–	–	148	–	149
Profit on disposal of property	12	2	–	–	–	14
Construction contract income	45	–	–	–	–	45
Profit on disposal of businesses	–	1	–	4	–	5
Profit before taxation – continuing operations	850	477	171	202	6	1,706
Discontinued operation - net of taxation	46	–	–	–	–	46
Balance sheet						
Total loans	58,831	24,888	4,487	3,863	292	92,361
Interests in associated undertakings	20	–	19	1,617	–	1,656
Total assets	90,731	28,411	7,815	5,962	295	133,214
Total deposits	77,971	21,291	6,229	4,021	8	109,520
Total liabilities[2]	90,653	23,046	6,730	4,359	9	124,797
Ordinary shareholders' equity[2]	4,039	1,810	320	477	26	6,672
Capital expenditure	100	16	19	1	–	136

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

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

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

2 Segmental information ***(continued)***

Gross revenue by business segment

	AIB Bank ROI € m	Capital Markets € m	AIB Bank UK € m	Poland € m	Group € m	Eliminations € m	Total € m
							2006
External customers	**3,080**	**2,764**	**1,497**	**641**	**974**	**–**	**8,956**
Inter-segment revenue	**1,335**	**2,057**	**616**	**1**	**80**	**(4,089)**	**–**
Total gross revenue	**4,415**	**4,821**	**2,113**	**642**	**1,054**	**(4,089)**	**8,956**
							2005
External customers	2,232	2,260	1,246	700	39	–	6,477
Inter-segment revenue	903	1,260	333	8	286	(2,790)	–
Total gross revenue	3,135	3,520	1,579	708	325	(2,790)	6,477

Gross revenue from external customers equates to: interest and similar income; dividend income; fee and commission income; net trading income; other operating income; profit on disposal of property; construction contract income; and profit on disposal of businesses. The amounts relate to continuing operations only.

3 Interest and similar income	**2006 € m**	2005 € m
Interest on loans and receivables to banks	**307**	167
Interest on loans and receivables to customers	**5,444**	4,032
Interest on trading portfolio financial assets	**380**	305
Interest on financial investments available for sale	**797**	647
	6,928	5,151

Interest income in 2006 includes € 69m removed from equity in respect of cash flow hedges.

4 Interest expense and similar charges	**2006 € m**	2005 € m
Interest on deposits by banks	**1,163**	775
Interest on customer accounts	**1,597**	1,169
Interest on debt securities in issue	**955**	545
Interest on subordinated liabilities and other capital instruments	**214**	132
	3,929	2,621

Interest expense in 2006 includes € 18m removed from equity in respect of cash flow hedges.

5 Dividend income

The dividend income relates to income from equity shares held as financial investments available for sale.

6 Net trading income	**2006 € m**	2005 € m
Foreign exchange contracts	**101**	59
Profits less losses from trading portfolio financial assets	**60**	84
Interest rate contracts	**4**	(32)
Equity index contracts	**8**	1
	173	112

7 Other operating income	**2006 € m**	2005 € m
(Loss)/profit on disposal of available for sale debt securities	**(4)**	17
Profit on disposal of available for sale equity shares	**15**	2
Miscellaneous operating income	**46**	53
	57	72

8 Administrative expenses	**2006 € m**	2005 € m
Personnel expenses		
Wages & salaries	**1,074**	948
Share-based payment schemes *(note 9)*	**57**	34
Retirement benefits *(note 10)*	**144**	133
Social security costs	**119**	104
Other personnel expenses	**108**	79
	1,502	1,298
General and administrative expenses	**672**	583
	2,174	1,881

9 Share-based payment schemes

The Group operates a number of share-based compensation schemes as outlined below on terms approved by the shareholders. The requirements of IFRS 2 "Share-based payment" have been applied to all equity share based payments granted after 7 November 2002 that had not vested by 1 January 2005.

The share-based payment schemes which AIB Group operates in respect of ordinary shares in Allied Irish Banks, p.l.c., are:

(i) AIB Share Option Schemes
(ii) Employee Profit Sharing Schemes
(iii) AIB Save As You Earn (SAYE) Share Option Scheme UK
(iv) Long Term Incentive Plans
(v) AIB Group Performance Share Plan 2005

BZWBK operates a Long Term Incentive scheme with grants of shares in BZWBK and this scheme is described under Long Term Incentive Plans below.

(i) AIB Share Option Schemes

The **"AIB Group Share Option Scheme"** ("the 2000 Scheme") was approved by shareholders at the 2000 AGM and replaced the Executive Share Option Scheme ("the 1986 Scheme") introduced some years previously. The former scheme has been replaced by the AIB Group Performance Share Plan 2005 (see below), to the extent that further grants of options over the Company's shares will not be made, except in exceptional circumstances. Options are outstanding under both of the aforementioned option schemes, which operated as follows: Options were granted at the market price, being the middle market quotation of the Company's shares on the Irish Stock Exchange on the day preceding the date on which the option is granted. The exercise of options granted under the 1986 Scheme is conditional on the achievement of earnings per share ("EPS") growth of at least 2% per annum, compounded, above the increase in the Irish Consumer Price Index ("CPI") over a period of not less than three and not more than five years from date of grant. The exercise of options granted under the 2000 scheme is conditional on the achievement of EPS growth of at least 5% per annum, compounded, 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 settled through the issue/re-issue of shares. Options granted under the 1986 Scheme may be exercised only between the third and seventh anniversaries of their grant; options granted under the 2000 Scheme may be exercised only between the third and tenth anniversaries of their grant.

9 Share-based payment schemes *(continued)*

The following table summarises the share option scheme activity over each of the two years ended 31 December 2006 and 2005.

	2006		2005	
	Number of options ‘000	**Weighted average exercise price €**	Number of options ‘000	Weighted average exercise price €
Outstanding at 1 January	**18,627.8**	**12.47**	21,025.2	11.90
Granted	**–**	**–**	1,459.0	16.21
Exercised	**(4,346.1)**	**11.07**	(3,487.9)	10.55
Forfeited	**(239.2)**	**13.05**	(368.5)	12.74
Outstanding at 31 December	**14,042.5**	**12.90**	18,627.8	12.47
Exercisable at 31 December	**6,599.3**	**12.03**	3,938.4	11.71

The following tables present the number of options outstanding at 31 December 2006 and 2005.

			31 December 2006
Range of exercise price	**Weighted average remaining contractual life in years**	**Number of options outstanding ‘000**	**Weighted average exercise price €**
€10.02 - €11.98	**2.92**	**4,168.3**	**11.29**
€12.60 - €13.90	**6.41**	**8,464.2**	**13.14**
€16.20 - €18.63	**8.34**	**1,410.0**	**16.21**

			31 December 2005
Range of exercise price	Weighted average remaining contractual life in years	Number of options outstanding ‘000	Weighted average exercise price €
€10.02 - €11.98	3.34	7,910.3	11.00
€12.60 - €13.90	7.39	9,280.5	13.15
€16.20 - €18.63	9.32	1,437.0	16.21

The binomial option pricing model has been used in estimating the value of the options granted during 2005.

The expected volatility is based on an analysis of historical volatility over the ten years prior to the grant of the awards. The following table details the assumptions used, and the resulting fair values provided by the option pricing model in respect of options being expensed in accordance with IFRS 2.

	2005	2004
Number of options granted in the year (‘000)	1,459.0	3,223.5
Exercise price	€16.21	€12.60
Vesting period (years)	3	3
Expected volatility	28.1%	30.5%
Options life (years)	10	10
Risk free rate	3.37%	4.25%
Expected dividends expressed as a dividend yield	3.8%	3.8%
Fair value per option	€4.19	€3.24

9 Share-based payment schemes ***(continued)***

(ii) Employee Profit Sharing Schemes

The Company operates the **"AIB Approved Employees' Profit Sharing Scheme 1998"** ("the Scheme") on terms approved by the shareholders at the 1998 Annual General Meeting. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods (i.e., a continuous employment for at least one year prior to the last day of the relevant accounting period). The Directors, at their discretion, may set aside each year, for distribution under the Scheme, a sum not exceeding 5% of eligible profits of participating companies.

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 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. During 2006, 1,024,309 ordinary shares, with a value of € 20.1m, were distributed to employees participating in the Profit Sharing Scheme in the Republic of Ireland. In addition, 674,966 ordinary shares, with a value of € 13.2 million, were purchased by employees through the salary foregone facility.

In December 2002 a **Share Ownership Plan** ("the Plan") was launched 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 acquisition by eligible employees of shares in a number of categories: Partnership Shares, in which each eligible employee may invest up to Stg £ 1,500 per annum from salary; Free Shares, involving the award by the Company of shares up to the value of Stg £ 3,000 per annum per employee, and Dividend Shares, which may be acquired by each eligible employee, by re-investing dividends of up to Stg £ 1,500 per annum.

To participate in the Plan, eligible employees must have been in the continuous employment of the Group from the 1st July prior to the grant date. During 2006, a total of 292,123 ordinary shares with a value of € 5.7m (2005: 274,251 ordinary shares with a value of € 4.3m) were awarded under the Free Share category. Free Shares are forfeited on a sliding scale should the employee leave the service of the Group within three years of grant date. The market value was determined as the mid-market price of the Company's shares on the Irish Stock Exchange daily official list on the relevant date.

The following table summarises activity in the Free Share category during 2006 and 2005.

	2006 Number of shares '000	2005 Number of shares '000
Outstanding at 1 January	**916.6**	661.5
Granted	**292.1**	274.2
Forfeited	**(17.7)**	(19.1)
Outstanding at 31 December	**1,191.0**	916.6

(iii) AIB Save As You Earn (SAYE) Share Option Scheme UK

The Company operates a **"Save As You Earn Share Option Scheme'** ("the Scheme") in the UK. The Scheme is open to all employees of AIB Group in the UK who have completed six months continuous service at the date of grant. Under the Scheme, employees may opt to save fixed amounts on a regular basis, over a three-year period, subject to a maximum monthly saving of Stg £ 250 per employee. At the end of the three-year period, (a) a tax-free bonus equal to a multiple of the participants monthly contribution is added in line with rates approved by the Inland Revenue (1.9 times and 1.4 times) for contracts entered into in 2005 and 2006 respectively; and (b) the participant has 6 months in which to exercise the option and purchase ordinary shares at the option price (fixed price being the average price per AIB ordinary share, on the London Stock Exchange on the day prior to grant date, less 20% discount); or the participant may withdraw the savings and bonus amount.

9 Share-based payment schemes ***(continued)***

The following table summarises option activity during 2006 and 2005.

	2006		2005	
	Number of options '000	**Weighted average exercise price €**	Number of options '000	Weighted average exercise price €
Outstanding at 1 January	**1,434.7**	**10.17**	1,186.5	9.57
Granted	**189.1**	**15.99**	299.2	13.02
Forfeited	**(72.9)**	**10.60**	(51.0)	13.02
Exercised	**(1.5)**	**10.79**	-	-
Outstanding at 31 December	**1,549.4**	**10.60**	1,434.7	10.17
Exercisable at 31 December	**-**	**-**	-	-

The binomial option pricing model has been used in estimating the value of the options granted. The expected volatility is based on historical volatility over the three and a half years prior to the grant of the SAYE options.

The following table details the assumptions used, and the resulting fair values provided by the option pricing model in respect of options being expensed in accordance with IFRS 2.

	2006	2005	2004
Share price at grant date	**€19.99**	€16.28	€11.96
Exercise price	**€15.99**	€13.02	€9.57
Vesting period (years)	**3**	3	3
Expected volatility	**20.0%**	27.3%	30.5%
Options life (years)	**3.5**	3.5	3.5
Expected life (years)	**3**	3	3
Risk-free rate	**3.38%**	2.48%	3.40%
Expected dividends expressed as a dividend yield	**3.8%**	3.8%	3.8%
Fair value per option	**€4.06**	€3.99	€3.26

(iv) Long Term Incentive Plans

Under the terms of the **'AIB Group Long Term Incentive Plan'** ("LTIP"), approved by shareholders at the 2000 Annual General Meeting, conditional grants of awards of 465,300 ordinary shares in aggregate were outstanding to 101 employees at 31 December 2006. 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 Irish CPI plus 5% per annum, compounded, 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 Eurofirst 300 Banks 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 the 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. The conditional grants of awards under the LTIP have not vested. The conditional grants of awards made in 2001 lapsed during 2006 having failed to meet the EPS performance conditions. The LTIP was replaced by the AIB Group Performance Share Plan 2005.

9 Share-based payment schemes *(continued)*

BZWBK Long Term Incentive Scheme

During 2006, BZWBK introduced a **"Long Term Incentive Scheme"** ("the Scheme") on terms approved by its shareholders. The scheme is designed to provide market-competitive incentives for senior executives, in the context of BZWBK's long-term performance against stretching growth targets over the three financial years 2006 - 2008. Conditional awards of shares were made to employees with vesting to take place on the date of the AGM approving financial statements for the last year of the scheme.
25% of shares will vest if EPS performance over the three year period exceeds the growth in the Polish Consumer Price Index (CPI) plus 5% per annum with up to 100% vesting on a straight-line basis if compounded EPS performance over the three year period exceeds CPI plus 12% p.a. There is no re-test and the grant will expire after 3 years.

During 2006, conditional awards of 132,476 ordinary shares of BZWBK were granted to no more than 100 individuals.

The following table summarises option activity during 2006:

	2006	
	Number of shares	**Weighted average exercise price €**
Outstanding at 1 January	**–**	**–**
Granted	**132,476**	**2.57**
Forfeited	**(4,253)**	**2.57**
Outstanding at 31 December	**128,223**	**2.57**

The Black Scholes model has been used in estimating the value of the grant. The expected volatility is based on an analysis of historical volatility based on approximately 7 months preceeding the grant date.

The following table details the assumptions used and the resulting fair values provided by the option pricing model.

	2006
Number of BZWBK shares granted in the year	**132,476**
Exercise price	**€2.57**
Vesting period (years)	**3**
Expected volatility	**37.38%**
Risk-free rate	**4.6%**
Expected dividends expressed as a dividend yield	**2.25%**
Fair value per option	**€38.65**

(v) AIB Group Performance Share Plan 2005

The **"AIB Group Performance Share Plan 2005"** was approved by the shareholders at the 2005 AGM. This Plan is designed to provide market-competitive incentives for senior executives, in the context of the Company's long-term performance against stretching growth targets and the overall return to shareholders. Conditional grants of awards of ordinary shares are made to employees. These awards vest in full on the third anniversary of the grant if the performance conditions at (a) and (b) below are met:
(a) 50% of awards will vest if the growth in the Company's EPS over the three-year period beginning with the year of grant is not less than the increase in the Irish Consumer Price Index ("CPI") plus 10% per annum, compounded over that period; and
(b) 50% of awards will vest if:

(1) in respect of awards granted in 2005, the Company's Total Shareholder Return ("TSR") (the calculation of which is set out in the Rules of the Plan) over the period referred to at (a) above relative to a peer group of at least 15 banks (listed in the Rules of the Plan) is such as to position AIB not below the 80th percentile;

(2) in respect of awards granted in 2006 and subsequent years, the Company's TSR over the period referred to at (a) above relative to the banks in the FTSE Eurofirst 300 Banks Index (listed in the Rules of the Plan) is such as to position AIB not below the 80th percentile.

9 Share-based payment schemes *(continued)*

For performance below these levels, the following vesting will apply:

- 10% of awards will vest if the growth in the Company's EPS over the three-year period beginning with the year of grant is not less than the increase in the CPI plus 5% per annum, compounded over that period;
- 10% of awards will also vest if the Company's TSR over the period relative to the peer group (at (b)(1) in respect of awards granted in 2005, and at (b)(2) in respect of awards granted in 2006 or subsequently) is not less than the median TSR of that peer group;
- Between these levels of performance (i.e., EPS growth over the period of CPI plus more than 5% and up to 10% p.a., compounded, and TSR between the median and the 80th percentile) awards will vest on a graduated scale;
- No awards will vest if performance is below the minimum levels stated above.

At 31 December 2006, conditional grants of awards of 1,597,781 ordinary shares in aggregate were outstanding to 150 employees.

The expense arising from the conditional grants of awards is determined as follows:

- the market value of the shares at the date of grant, adjusted to take into account the expected vesting, is used to determine the value of the award subject to the EPS vesting criteria; and
- the expected vesting of the shares is used to determine the value of the award subject to the Total Shareholder Return vesting criteria.

The following table summarises share activity during 2006 and 2005.

	2006	2005
	Number of shares '000	Number of shares '000
Outstanding at 1 January	**290.9**	-
Granted	**1,315.7**	290.9
Forfeited	**(8.8)**	-
Outstanding at 31 December	**1,597.8**	290.9

The fair value of the shares are € 19.11 and € 17.65 for 2006 and 2005 respectively.

Income statement expense

The total expense arising from share-based payment transactions amounted to € 57m in the year ended 31 December 2006 (2005: € 34m).

Limitations on share-based payment schemes

The company complies with guidelines issued by the Irish Association of Investment Managers in relation to shares issued under the above schemes.

10 Retirement benefits

The Group operates a number of pension and retirement benefit plans for employees, the majority of which are funded. These include defined benefit and defined contribution plans.

(i) Defined benefit schemes

The Group operates a number of defined benefit schemes, the most significant being the AIB Group Irish Pension Scheme ("the Irish scheme") and the AIB Group UK Pension Scheme ("the UK scheme"). Approximately 35 per cent of staff in the Republic of Ireland are members of the Irish scheme while 46 per cent of staff in the UK are members of the UK scheme. The defined benefit schemes in Ireland and the UK were closed to new members from December 1997. Retirement benefits for the defined benefit schemes are calculated by reference to service and pensionable salary at normal retirement date. Independent actuarial valuations for the main Irish and UK schemes are carried out on a triennial basis. The last such valuations were carried out on 30 June 2006 using the Attained Age Method. The schemes, are funded and a contribution rate of 28.6% (previously 26%) has been set for the Irish Scheme with effect from 1 January 2007. A contribution rate of 30.8% of salaries together with annual payments of £17m from 1 January 2007 to 31 December 2011 increasing to £29m per annum for five years thereafter (previously 44.6%) have been set for the UK scheme. During 2006, the Group contributed a further £52m to the UK scheme in addition to the agreed contribution rate, towards the current deficit. The Group has agreed with the Trustees of the Irish scheme that it will aim to reduce the deficit over 17 years (UK scheme: 10 years). The total contribution to the defined benefit pension schemes in 2007 is estimated to be € 139m approximately. The actuarial valuations are available for inspection to the members of the schemes.

10 Retirement benefits ***(continued)***

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

Financial assumptions	as at 31 December 2006 %	2005 %
Irish scheme		
Rate of increase in salaries	**4.75**	4.00*
Rate of increase of pensions in payment	**2.25**	2.25
Expected return on plan assets	**6.35**	6.46
Discount rate	**4.70**	4.30
Inflation assumptions	**2.25**	2.25
UK scheme		
Rate of increase in salaries	**4.00***	4.00*
Rate of increase of pensions in payment	**2.75**	2.75
Expected return on plan assets	**6.34**	6.57
Discount rate	**5.00**	4.75
Inflation assumptions	**2.50**	2.50
Other schemes		
Rate of increase in salaries	**3.0 - 4.75**	4.0 - 4.0
Rate of increase of pensions in payment	**0.0 - 3.0**	0.0 - 2.75
Expected return on plan assets	**5.9 - 6.7**	6.2 - 6.9
Discount rate	**4.5 - 5.5**	4.30 - 5.75
Inflation assumptions	**2.25 - 2.75**	2.25 - 2.75

*4.75% including salary scale improvements.

Mortality assumptions

An actuarial review was carried out at June 2006 into the mortality experience of the Group's Irish and UK schemes. This review concluded that the mortality assumptions set out below include sufficient allowance for future improvements in mortality rates.

The current life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes are the following:

	as at 31 December 2006 Irish scheme Years	UK scheme Years
Retiring today age 63		
Males	**21.7**	**23.1**
Females	**24.6**	**26.0**
Retiring in 10 years at age 63		
Males	**23.9**	**25.0**
Females	**26.9**	**27.8**

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the AIB Group Pension Schemes. Set out in the table below is a sensitivity analysis for the key assumptions for the AIB Group Irish and UK pension schemes. Note that the change in assumptions are independent of each other i.e. the effect of the reflected change in the discount rate assumes that there has been no change in the rate of mortality assumption and vice versa.

Assumption	Change in assumption	Impact on scheme liabilities Irish scheme	UK scheme
Inflation	Increase by 0.25%	Increase by 3.2%	Increase by 3.8%
Salary growth	Increase by 0.25%	Increase by 2.1%	Increase by 2.0%
Discount rate	Increase by 0.25%	Decrease by 5.7%	Decrease by 5.9%
Rate of mortality	Increase life expectancy by 1 year	Increase by 2.6%	Increase by 2.5%

10 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 asset.

	as at 31 December 2006			as at 31 December 2005		
	Long term rate of return expected %	**Value € m**	**Plan assets %**	Long term rate of return expected %	Value € m	Plan assets %
Equities	**7.1**	**2,602**	**70**	7.3	2,267	72
Bonds	**4.1**	**478**	**13**	3.6	463	15
Property	**6.0**	**348**	**10**	6.3	287	9
Cash/other	**4.0**	**269**	**7**	2.6	118	4
Total market value of assets	**6.4**	**3,697**	**100**	6.5	3,135	100
Actuarial value of liabilities of funded schemes		**(4,551)**			(4,272)	
Deficit in the funded schemes		**(854)**			(1,137)	
Unfunded schemes		**(83)**			(90)	
Net pension deficit		**(937)**			(1,227)	

At 31 December 2006, the pension scheme assets included AIB shares amounting to € 76m (31 December 2005: € 64m). Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to € 111,647 in aggregate to a number of former directors.

The following table sets out the components of the defined benefit cost for each of the two years ended 31 December 2006 and 2005.

	2006 € m	2005 € m
Included in administrative expenses:		
Current service cost	**132**	103
Past service cost	**7**	14
Settlements and curtailments	**–**	(1)
Expected return on pension scheme assets	**(205)**	(179)
Interest on pension scheme liabilities	**191**	171
Cost of providing defined retirement benefits	**125**	108

The actual return on plan assets during the year ended 31 December 2006 was € 439m (2005: € 553m).

Movement in defined benefit obligation during the year	**2006 € m**	2005 € m
Defined benefit obligation at beginning of year	**4,362**	3,414
Current service cost	**132**	103
Past service cost	**7**	14
Interest cost	**191**	171
Actuarial losses (net)	**7**	718
Benefits paid	**(89)**	(84)
Curtailments and settlements	**–**	(1)
Translation adjustment on non-euro schemes	**24**	27
Defined benefit obligation at end of year	**4,634**	4,362

10 Retirement benefits *(continued)*

Movement in the fair value of plan assets during the year	**2006 € m**	2005 € m
Fair value of plan assets at beginning of year	**3,135**	2,528
Expected return	**205**	179
Actuarial gains and losses	**234**	374
Contributions by employer	**193**	121
Benefits paid	**(89)**	(84)
Translation adjustment on non-euro schemes	**19**	17
Fair value of plan assets at end of year	**3,697**	3,135

Analysis of the amount recognised in the statement of recognised income and expense	**2006 € m**	2005 € m
Actual return less expected return on pension scheme assets	**234**	374
Experience gains and losses on scheme liabilities	**(121)**	(62)
Changes in demographic and financial assumptions	**114**	(656)
Actuarial gain/(loss) recognised	**227**	(344)
Deferred tax	**(35)**	59
Recognised in the statement of recognised income and expense[(1) (2)]	**192**	(285)

[(1)] *Of which € 150m (2005: € 216m) was recognised in the parent company.*

[(2)] *SORIE total includes € 8m (2005: € Nil) in respect of associated undertakings.*

History of experience gains and losses	**2006 € m**	2005 € m	2004 € m	2003 € m	2002 € m
Difference between expected and actual return on scheme assets:					
Amount	**234**	374	99	93	(862)
Percentage of scheme assets	**6%**	12%	4%	4%	40%
Experience gains and losses on scheme liabilities:					
Amount	**(121)**	(62)	(150)	97	(18)
Percentage of scheme liabilities	**2%**	1%	4%	3%	1%
Total gross amount recognised in SORIE [(1)]:					
Amount	**227**	(344)	(230)	(67)	(1,003)
Percentage of scheme liabilities	**5%**	8%	7%	2%	35%

[(1)] *Statement of recognised income and expense*

Defined benefit pension plans	**2006 € m**	2005 € m	2004 € m	2003 € m	2002 € m
Funded defined benefit obligation	**4,551**	4,272	3,356	2,855	2,879
Plan assets	**3,697**	3,135	2,528	2,225	2,169
Deficit within funded plans	**854**	1,137	828	630	710

(ii) Defined contribution schemes

The Group operates a number of defined contribution schemes. The defined benefit schemes in Ireland and the UK were closed to new members from December 1997. Employees joining after December 1997 join on a defined contribution basis. The standard contribution rate in Ireland is 8%. The standard contribution rate in the UK is 5% and these members are also accruing benefits under SERPS (the State Earnings Related Pension Scheme). The total cost in respect of defined contribution schemes for 2006 was € 19m (2005: € 25m). For Allied Irish Banks, p.l.c., the total cost amounted to € 14m (2005: € 16m).

11 Amounts written off financial investments available for sale	**2006 € m**	2005 € m
Debt securities	**–**	1
Equity shares	**1**	7
	1	8

12 Profit on disposal of property

In addition to the sale of properties which were excess to business requirements, giving rise to profit on disposal of € 7m (2005: € 14m), the Group undertook a significant property sale and leaseback programme during 2006. The leases qualify as operating leases and the profit arising on these transactions is included in profit on disposal of property. Details of the more significant of these transactions are set out below:

	Profit recognised € m	Tax charge € m	Initial rent payable € m	Minimum lease term
Bankcentre Headquarters Building - Blocks A to D	**167**	**32**	**4.5**	**4 yrs, 11 mths, 3 weeks**
Bankcentre Headquarters Building - Blocks E to H	**89**	**17**	**7.1**	**20 years**
Donnybrook House	**29**	**4**	**1.2**	**1 year**
11 Branches	**73**	**15**	**3.1**	**15 years**
	358	**68**	**15.9**	

The commitments in respect of the operating lease rentals are included in Note 56 Commitments, operating lease rentals.

13 Construction contract income	**2006 € m**	2005 € m
Construction revenue	**171**	81
Construction expense	**(75)**	(36)
	96	45

In 2005, AIB sold land at its Bankcentre headquarters to a syndicate of investors, the Serpentine Consortium. The consortium has outsourced the construction of a new development on the above land to Blogram Limited, a subsidiary of Allied Irish Banks, p.l.c., on a fixed price contract basis. The total consideration amounts to € 367.8m of which € 55.0m has been received. At 31 December 2006, € 196.5m was due from the consortium in respect of construction contracts in progress.

Dohcar Limited, a subsidiary of Allied Irish Banks, p.l.c., has contracted with the Serpentine Consortium to lease the property on completion at an initial rent of € 16.1m per annum for a period of 30 years with a break clause at year 23. Future lease rental commitments in respect of this transaction have been reported in the accounts *(see note 56)*.

The nature of this transaction, which includes the sale of land, an agreement to construct a building and an agreement to lease the building represents a linked transaction and meets the definition under IFRS of a sale and leaseback. Because the significant income from the transaction arises from the construction contract, the income is recognised in accordance with IAS 11 "Construction Contracts".

14 Profit on disposal of businesses

2006

The profit on disposal of businesses in 2006 of € 79m includes profit relating to the transfer by Ark Life of investment management contracts in conjunction with the sale of Ark Life of € 26m (tax charge € Nil) (*note 1)*; AIB's 50% stake in AIB/BNY Securities Services (Ireland) Ltd of € 51m (tax charge € Nil); and Ketchum Canada Inc. of € 1m (tax charge € Nil), and the accrual of € 1m (tax charge € 0.3m), arising from the sale of the Govett business in 2003.

2005

The profit on disposal of businesses in 2005 of € 5m relates to the sale of Community Counselling Services of € 4m (tax charge € 1m), and the accrual of € 1m (tax charge € 0.3m), arising from the sale of the Govett business in 2003.

15 Auditor's remuneration		**2006 € m**	2005 € m
Auditor's remuneration *(including VAT)*:			
Audit work:	Statutory audit	**2.6**	2.5
	Audit related services	**8.2**	1.9
Non-audit work :	Taxation services	**0.5**	0.8
	Other consultancy	**0.5**	1.2
		1.0	2.0
		11.8	6.4

15 Auditor's remuneration ***(continued)***

Audit related services include fees for assignments which are of an audit nature. These fees include assignments where the Auditor provides assurance to third parties, and in 2006 includes fees in respect of preparation for Sarbanes Oxley implementation.

In the year ended 31 December 2006, 39% (2005: 43%) of the total statutory audit fees and 29% (2005: 31%) of the audit related services fees were paid to overseas offices of the Auditor.

The Group policy on the provision of non-audit services to the bank and its subsidiary companies 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 Auditor. It is Group policy to subject all large consultancy assignments to competitive tender.

16 Income tax expense - continuing operations	**2006 € m**	2005 € m
Allied Irish Banks, p.l.c. and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the period[(1)]	**252**	160
Adjustments in respect of prior periods	**3**	1
	255	161
Double taxation relief	**(23)**	(10)
	232	151
Foreign tax		
Current tax on income for the period	**220**	163
Adjustments in respect of prior periods	**(14)**	(11)
	206	152
	438	303
Deferred taxation		
Origination and reversal of temporary differences	**(5)**	16
Total income tax expense - continuing operations	**433**	319
Effective income tax rate – continuing operations	**16.6%**	18.7%

[(1)]Includes a charge of € 29.5m in the year ended 31 December 2005 in relation to the Irish Government bank levy.

Factors affecting the effective income tax rate

The effective income tax rate for 2006 and 2005 is lower than the weighted average of the Group's statutory corporation tax rates across its geographic locations. The differences are explained below.

	2006 %	2005 %
Weighted average corporation tax rate	**18.2**	20.7
Effects of:		
Expenses not deductible for tax purposes	**0.6**	0.4
Exempted income, income at reduced rates and tax credits	**(1.0)**	(1.2)
Income taxed at higher rates	**0.8**	-
Net effect of differing tax rates overseas	**0.2**	0.3
Capital allowances in excess of depreciation	**-**	0.2
Other differences	**0.2**	(0.1)
Tax on associated undertakings	**(1.9)**	(3.0)
Bank levy in Republic of Ireland	**-**	1.7
Adjustments to tax charge in respect of previous periods	**(0.5)**	(0.3)
Effective income tax rate - continuing operations	**16.6**	18.7

17 Minority interests in subsidiaries	2006 € m	2005 € m
The profit attributable to minority interests is analysed as follows:		
Ordinary share interest in subsidiaries	**65**	42
Other equity interest in subsidiaries *(note 49)*	**48**	48
	113	90

18 Earnings per share	2006 € m	2005 € m
(a) Basic		
Profit attributable to equity holders of the parent	**2,185**	1,343
Distributions to other equity holders *(note 20)*	**(38)**	(38)
Profit attributable to ordinary shareholders	**2,147**	1,305
Weighted average number of shares in issue during the period	**870.1m**	864.5m
Earnings per share	**EUR 246.8c**	EUR 151.0c

(b) Diluted	2006 € m	2005 € m
Profit attributable to ordinary shareholders *(note 18(a))*	**2,147**	1,305
Dilutive impact of potential ordinary shares in subsidiary and associated companies	**(2)**	(1)
Adjusted profit attributable to ordinary shareholders	**2,145**	1,304
	Number of shares (millions)	
Weighted average number of shares in issue during the period	**870.1**	864.5
Dilutive effect of options outstanding	**7.0**	5.7
Potential weighted average number of shares	**877.1**	870.2
Earnings per share - diluted	**EUR 244.6c**	EUR 149.8c

(c) Continuing operations	2006 € m	2005 € m
Profit attributable to ordinary shareholders *(note 18(a))*	**2,147**	1,305
Discontinued operations	**116**	46
Profit attributable to ordinary shareholders - continuing operations	**2,031**	1,259
Weighted average number of shares in issue during the period	**870.1m**	864.5m
Earnings per share continuing operations	**EUR 233.5c**	EUR 145.7c

(d) Continuing operations - diluted	2006 € m	2005 € m
Profit attributable to ordinary shareholders - continuing operations *(note 18(c))*	**2,031**	1,259
Dilutive impact of potential ordinary shares in subsidiary and associated companies	**(2)**	(1)
Adjusted profit attributable to ordinary shareholders - continuing operations	**2,029**	1,258
	Number of shares (millions)	
Weighted average number of shares in issue during the period	**870.1**	864.5
Dilutive effect of options outstanding	**7.0**	5.7
Potential weighted average number of shares	**877.1**	870.2
Earnings per share continuing operations - diluted	**EUR 231.4c**	EUR 144.6c

19 Adjusted earnings per share

	Profit attributable 2006 € m	Profit attributable 2005 € m	Earnings per share 2006 cent	Earnings per share 2005 cent
(a) Basic Earnings per share				
As reported *(note 18(a))*	**2,147**	1,305	**246.8**	151.0
Adjustments:				
Construction contract income	**(82)**	(38)	**(9.4)**	(4.4)
Hedge volatility[(1)]	**4**	(6)	**0.5**	(0.7)
Profit on disposal of property	**(290)**	–	**(33.4)**	–
Profit on disposal of businesses*	**(189)**	–	**(21.7)**	–
	1,590	1,261	**182.8**	145.9

	Profit attributable 2006 € m	Profit attributable 2005 € m	Earnings per share 2006 cent	Earnings per share 2005 cent
Diluted Earnings per share				
As reported *(note 18(b))*	**2,145**	1,304	**244.6**	149.8
Adjustments:				
Construction contract income	**(82)**	(38)	**(9.3)**	(4.4)
Hedge volatility[(1)]	**4**	(6)	**0.5**	(0.7)
Profit on disposal of property	**(290)**	–	**(33.2)**	–
Profit on disposal of businesses*	**(189)**	–	**(21.5)**	–
	1,588	1,260	**181.1**	144.7

* *of which Ark Life amounts to € 112m which is included within discontinued activities*

	Profit attributable 2006 € m	Profit attributable 2005 € m	Earnings per share 2006 cent	Earnings per share 2005 cent
(b) Basic Earnings per share – continuing operations				
As reported *(note 18(c))*	**2,031**	1,259	**233.5**	145.7
Adjustments:				
Construction contract income	**(82)**	(38)	**(9.4)**	(4.4)
Hedge volatility[(1)]	**4**	(6)	**0.5**	(0.7)
Profit on disposal of property	**(290)**	–	**(33.4)**	–
Profit on disposal of businesses	**(77)**	–	**(8.8)**	–
	1,586	1,215	**182.4**	140.6

	Profit attributable 2006 € m	Profit attributable 2005 € m	Earnings per share 2006 cent	Earnings per share 2005 cent
Diluted Earnings per share – continuing operations				
As reported *(note 18(d))*	**2,029**	1,258	**231.4**	144.6
Adjustments:				
Construction contract income	**(82)**	(38)	**(9.3)**	(4.4)
Hedge volatility[(1)]	**4**	(6)	**0.5**	(0.7)
Profit on disposal of property	**(290)**	–	**(33.2)**	–
Profit on disposal of businesses	**(77)**	–	**(8.7)**	–
	1,584	1,214	**180.7**	139.5

Although not required under IFRS, adjusted earnings per share is presented to help understand the underlying performance of the Group. The adjustments in 2006 and 2005 are items that management believe do not reflect the underlying business performance. The adjustment in respect of profit on sale of property relates only to the profit on sale of properties that are subject to sale and leaseback arrangements, *(note 12).* The adjustments listed above are shown net of taxation.

[(1)]Included in net trading income

20 Distributions to other equity holders

Distributions to other equity holders are recognised in equity when declared by the Board of Directors. In 2006, the distribution on the € 500m Reserve Capital Instruments (RCIs) amounted to € 38m (2005: € 38m).

21 Distributions on equity shares	2006 cent per € 0.32 share	2005 cent per € 0.32 share	2006 € m	2005 € m
Ordinary shares of € 0.32 each				
Final dividend 2005 (2004)	**42.3**	38.5	**367**	332
Interim dividend 2006 (2005)	**25.3**	23.0	**221**	200
Total	**67.6**	61.5	**588**	532

Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend, when it has been declared by the Board of Directors and paid in the period. Dividends declared after the balance sheet date are disclosed in note 63.

22 Treasury bills and other eligible bills

Treasury bills amounting to € 196m (2005: € 201m) were held as available for sale. Their maturity profile is set out in note 52. At 31 December 2006 there was a fair value loss of € 2m recognised in equity (2005: € Nil).

	Group		Allied Irish Banks, p.l.c.	
23 Trading portfolio financial assets	**2006 € m**	2005 € m	**2006 € m**	2005 € m
Loans and receivables to banks	**3**	3	**3**	3
Loans and receivables to customers	**25**	72	**25**	72
Debt securities:				
Government securities	**274**	922	**96**	424
Other public sector securities	**–**	19	**–**	19
Other debt securities[1]	**8,527**	9,008	**8,527**	9,008
	8,801	9,949	**8,623**	9,451
Equity shares	**124**	89	**66**	53
	8,953	10,113	**8,717**	9,579

	Group		Allied Irish Banks, p.l.c.	
	2006 € m	2005 € m	**2006 € m**	2005 € m
Of which listed:				
Debt securities	**8,801**	9,949	**8,623**	9,451
Equity instruments	**109**	79	**66**	48
Of which unlisted:				
Loans and receivables to banks	**3**	3	**3**	3
Loans and receivables to customers	**25**	72	**25**	72
Equity shares	**15**	10	**–**	5
	8,953	10,113	**8,717**	9,579

[1]Other debt securities include € 4,832m (2005: € 5,770m) of bank eurobonds and € 3,039m (2005: € 2,646m) of corporate collateralised mortgage obligations.

23 Trading portfolio financial assets *(continued)*

Analysed by residual maturity as follows:	Within one year € m	Between one and five years € m	Five years and over € m	Total € m
				2006
Group				
Loans and receivables to banks	**3**	**–**	**–**	**3**
Loans and receivables to customers	**–**	**15**	**10**	**25**
Debt securities	**1,066**	**3,722**	**4,013**	**8,801**
	1,069	**3,737**	**4,023**	**8,829**
Allied Irish Banks, p.l.c.				
Loans and receivables to banks	**3**	**–**	**–**	**3**
Loans and receivables to customers	**–**	**15**	**10**	**25**
Debt securities	**936**	**3,674**	**4,013**	**8,623**
	939	**3,689**	**4,023**	**8,651**

Analysed by residual maturity as follows:	Within one year € m	Between one and five years € m	Five years and over € m	Total € m
				2005
Group				
Loans and receivables to banks	3	–	–	3
Loans and receivables to customers	40	18	14	72
Debt securities	1,884	4,652	3,413	9,949
	1,927	4,670	3,427	10,024
Allied Irish Banks, p.l.c.				
Loans and receivables to banks	3	–	–	3
Loans and receivables to customers	40	18	14	72
Debt securities	1,419	4,619	3,413	9,451
	1,462	4,637	3,427	9,526

24 Derivative financial instruments

The 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.

Derivatives are used to service customer requirements, to manage the Group's interest rate, exchange rate and equity exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices. The majority of the Group's derivative activities are undertaken at the parent company level and the discussion below applies equally to the parent company and Group.

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.

24 Derivative financial instruments *(continued)*

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate, equity and credit derivative contracts for 2006 and 2005.

	Group		Allied Irish Banks, p.l.c.	
Interest rate contracts(1)	**2006 € m**	2005 € m	**2006 € m**	2005 € m
Notional principal amount	**217,435**	178,326	**194,657**	161,774
Gross replacement cost	**1,165**	1,146	**1,105**	1,080
Exchange rate contracts(1)	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**20,226**	19,799	**17,507**	17,133
Gross replacement cost	**107**	238	**71**	194
Equity contracts(1)	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**6,485**	4,386	**6,184**	4,089
Gross replacement cost	**438**	253	**438**	253
Credit derivatives(1)	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**570**	–	**570**	–
Gross replacement cost	**–**	–	**–**	–
Total	**€ m**	€ m	**€ m**	€ m
Notional principal amount	**244,716**	202,511	**218,918**	182,996
Gross replacement cost	**1,710**	1,637	**1,614**	1,527

(1)Interest rate contracts are entered into for both hedging and trading purposes. Exchange rate, equity and credit derivative contracts are entered into for trading purposes only.

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance 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 principal amount and gross replacement cost of interest rate, exchange rate, equity contracts and credit derivatives by maturity.

	Residual maturity			
	< 1 year € m	**1 < 5 years € m**	**5 years + € m**	**Total € m**
2006				
Notional principal amount	**146,629**	**73,469**	**24,618**	**244,716**
Gross replacement cost	**695**	**717**	**298**	**1,710**
2005				
Notional principal amount	131,780	54,060	16,671	202,511
Gross replacement cost	557	645	435	1,637

24 Derivative financial instruments *(continued)*

AIB Group has the following concentration of exposures in respect of notional principal amount and gross replacement cost of all interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		Gross replacement cost	
	2006 **€ m**	2005 € m	**2006** **€ m**	2005 € m
Republic of Ireland	**192,329**	161,589	**1,403**	1,318
United States of America	**3,712**	4,134	**34**	40
United Kingdom	**24,952**	18,449	**182**	184
Poland	**23,723**	18,339	**91**	95
	244,716	202,511	**1,710**	1,637

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 the remainder represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income.

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.

The Group's credit exposure at 31 December 2006 and 2005 from derivatives held for trading purposes is represented by the fair value of instruments with a positive fair value, € 2,470m (2005: € 1,849m). 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.

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 notional principal 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 2006 and 2005, are presented within this note.

24 Derivative financial instruments *(continued)*

The following table shows the notional principal amounts and the fair values of derivative financial instruments analysed by product and purpose as at 31 December 2006 and 31 December 2005.

	31 December 2006			31 December 2005		
	Notional principal amount	**Fair values**		Notional principal amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives - over the counter (OTC)						
Interest rate swaps	**93,020**	**768**	**(723)**	91,154	556	(642)
Cross-currency interest rate swaps[(1)]	**2,018**	**1,042**	**(1,024)**	1,509	766	(754)
Forward rate agreements	**27,233**	**13**	**(12)**	17,056	8	(7)
Interest rate options	**3,302**	**8**	**(8)**	2,716	4	(4)
Other interest rate contracts	**446**	**2**	**(3)**	178	–	–
Total OTC interest rate contracts	**126,019**	**1,833**	**(1,770)**	112,613	1,334	(1,407)
Interest rate derivatives - exchange traded						
Interest rate futures	**19,581**	**–**	**(3)**	14,272	–	(5)
Interest rate contracts total	**145,600**	**1,833**	**(1,773)**	126,885	1,334	(1,412)
Foreign exchange derivatives - (OTC)						
Currency forwards	**329**	**3**	**(10)**	2,451	8	(11)
Currency swaps	**12,773**	**165**	**(154)**	14,640	232	(216)
Currency options bought & sold	**7,124**	**31**	**(22)**	2,664	21	(17)
Total OTC foreign exchange derivatives	**20,226**	**199**	**(186)**	19,755	261	(244)
Foreign exchange derivatives - exchange traded						
Foreign exchange traded options	**–**	**–**	**–**	44	–	–
Foreign exchange derivatives total	**20,226**	**199**	**(186)**	19,799	261	(244)
Equity index options *(OTC)*	**6,393**	**437**	**(423)**	4,386	254	(123)
Equity index options - exchange traded	**92**	**1**	**–**	–	–	–
Equity index contracts total	**6,485**	**438**	**(423)**	4,386	254	(123)
Credit derivatives (OTC)						
Credit derivatives	**570**	**–**	**–**	–	–	–
Credit derivatives contracts total	**570**	**–**	**–**	–	–	–
Total trading contracts	**172,881**	**2,470**	**(2,382)**	151,070	1,849	(1,779)
Derivatives designated as fair value hedges						
Interest rate swaps *(OTC)*	**47,374**	**396**	**(116)**	32,923	368	(170)
Derivatives designated as cash flow hedges						
Interest rate swaps *(OTC)*	**24,461**	**24**	**(33)**	18,518	222	(18)
Total hedging contracts	**71,835**	**420**	**(149)**	51,441	590	(188)
Total derivative financial instruments	**244,716**	**2,890**	**(2,531)**	202,511	2,439	(1,967)

[(1)]Cross currency interest rate swaps have an exchange of nominals on settlement. Such nominals are therefore shown gross on the balance sheet.

The total hedging ineffectiveness charged to the income statement on cash flow hedges amounted to € 13.0m (2005: € 4.3m) is included in net trading income.

24 Derivative financial instruments *(continued)*

This table presents the notional principal and fair value amounts, weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by Group for 2006 and 2005.

	Notional principal amount		Weighted average maturity in years		Weighted average rate Receive		Weighted average rate Pay		Estimated fair value	
	2006 € m	2005 € m	**2006**	2005	**2006 %**	2005 %	**2006 %**	2005 %	**2006 € m**	2005 € m
Interest rate derivatives designated as fair value hedges										
Interest rate swaps:										
Pay fixed										
1 year or less	**1,058**	1,248	**0.32**	0.42	**3.76**	2.81	**4.12**	3.99	**(13)**	(21)
1 - 5 years	**1,747**	1,902	**2.81**	2.52	**3.72**	3.09	**3.98**	4.40	**(10)**	(53)
Over 5 years	**1,034**	872	**13.41**	12.85	**4.11**	3.44	**4.79**	5.10	**(8)**	(62)
	3,839	4,022	**4.98**	4.11	**3.83**	3.08	**4.24**	4.42	**(31)**	(136)
Receive fixed										
1 year or less	**24,209**	19,874	**0.23**	0.27	**4.26**	3.14	**4.29**	2.98	**247**	153
1 - 5 years	**4,957**	170	**2.47**	3.56	**3.45**	5.00	**3.59**	4.33	**15**	14
Over 5 years	**2,863**	1,834	**11.08**	14.63	**4.79**	5.34	**4.10**	5.11	**21**	155
	32,029	21,878	**1.55**	1.50	**4.18**	3.33	**4.16**	3.17	**283**	322
Pay/receive floating										
1 year or less	**3,511**	10	**0.60**	0.75	**3.85**	3.69	**3.87**	3.88	**9**	-
1 - 5 years	**5,807**	5,231	**3.16**	2.28	**3.63**	2.56	**3.64**	2.51	**12**	8
Over 5 years	**2,188**	1,782	**7.73**	8.17	**3.84**	2.71	**3.85**	2.67	**7**	4
	11,506	7,023	**3.25**	3.77	**3.74**	2.60	**3.75**	2.55	**28**	12
Interest rate derivatives designated as cash flows hedges										
Interest rate swaps:										
Pay fixed										
1 year or less	**417**	284	**0.72**	0.59	**3.67**	2.27	**3.09**	2.99	**3**	-
1 - 5 years	**2,980**	2,311	**2.83**	2.97	**3.63**	2.45	**3.38**	3.05	**35**	(5)
Over 5 years	**379**	266	**6.54**	6.93	**3.65**	2.38	**3.94**	3.82	**2**	(9)
	3,776	2,861	**2.97**	3.10	**3.64**	2.42	**3.40**	3.12	**40**	(14)
Receive fixed										
1 year or less	**4,692**	2,121	**0.43**	0.52	**4.26**	4.11	**4.02**	2.64	**29**	12
1 - 5 years	**12,013**	10,714	**2.86**	2.66	**4.06**	3.87	**4.09**	2.68	**(38)**	131
Over 5 years	**3,980**	2,822	**7.20**	6.71	**4.61**	4.62	**4.50**	2.56	**(40)**	75
	20,685	15,657	**3.15**	3.10	**4.21**	4.04	**4.15**	2.65	**(49)**	218

The pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities, primarily floating rate notes. The cash flows are expected to occur in periods up to 2016. The receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets, primarily the variable rate loan portfolio. The cash flows are expected to occur in periods up to 2016. The fair value hedges are entered into to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily available for sale securities and fixed rate liabilities. The fair values of financial instruments are set out in note 51.

24 Derivative financial instruments ***(continued)***

Netting financial assets and financial liabilities

Derivatives financial instruments are shown on the balance sheet at their fair value, those with a positive fair value are reported as assets and those with a negative fair value are reported as liabilities.

The Group has a number of master netting agreements in place which allow it to net positive and negative fair values on derivatives contracts in the event of default by the counterparty. The effect of netting contracts subject to master netting agreements would reduce the balance sheet carrying amount of derivative assets and liabilities by € 503m (2005: € 502m).

25 Loans and receivables to banks	**Group 2006 € m**	Group 2005 € m	**Allied Irish Banks, p.l.c. 2006 € m**	Allied Irish Banks, p.l.c. 2005 € m
Analysed by residual maturity:				
Over 5 years	**128**	146	**–**	–
5 years or less but over 1 year	**–**	11	**–**	11
1 year or less but over 3 months	**420**	376	**325**	87
3 months or less	**11,468**	6,282	**10,270**	5,203
Repayable on demand	**886**	316	**830**	262
	12,902	7,131	**11,425**	5,563
Provisions for impairment of loans and receivables *(note 27)*	**2**	2	**–**	–
	12,900	7,129	**11,425**	5,563
Due from subsidiary undertakings:				
Subordinated			**118**	117
Unsubordinated			**44,514**	20,582
			44,632	20,699
			56,057	26,262
Amounts include:				
Reverse repurchase agreements	**5,138**	2,259	**5,138**	2,259
Due from associated undertakings	**–**	–	**–**	–

	Group 2006 € m	Group 2005 € m
Loans and receivables to banks by geographical area[(1)]		
Republic of Ireland	**9,967**	4,260
United States of America	**861**	1,366
United Kingdom	**1,334**	677
Poland	**736**	824
Rest of the world	**2**	2
	12,900	7,129

Under reverse repurchase agreements, the Group has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of collateral received amounted to € 5,138m (2005: € 2,259m). The collateral received consisted of government securities of € 4,671m (2005: € 2,171m) and other securities of € 467m (2005: € 88m). The fair value of collateral sold or repledged amounted to € 1,896m (2005: € Nil). The collateral sold or repledged consisted of government securities of € 1,432m (2005: € Nil) and other securities of € 464m (2005: € Nil).

(1) The classification of loans and receivables to banks by geographical area is based primarily on the location of the office recording the transaction.

26 Loans and receivables to customers	2006 € m	2005 € m
Group		
Loans and receivables to customers	**103,651**	81,845
Amounts receivable under finance leases and hire purchase contracts *(note 28)*	**3,003**	2,774
Unquoted securities	**1,166**	1,287
Provisions for impairment of loans and receivables *(note 27)*	**(705)**	(674)
	107,115	85,232
Analysed by residual maturity:		
Over 5 years	**39,769**	32,583
5 years or less but over 1 year	**30,538**	22,110
1 year or less but over 3 months	**18,357**	15,192
3 months or less	**19,156**	16,021
	107,820	85,906
Provisions for impairment of loans and receivables *(note 27)*	**(705)**	(674)
	107,115	85,232
Of which repayable on demand or at short notice	**28,418**	21,245
Amounts include:		
Due from associated undertakings	**18**	-
Allied Irish Banks, p.l.c.		
Loans and receivables to customers	**59,126**	59,512
Amounts receivable under finance leases *(note 28)*	**66**	67
Unquoted securities	**1,031**	877
Provisions for impairment of loans and receivables *(note 27)*	**(340)**	(314)
	59,883	60,142
Analysed by residual maturity:		
Over 5 years	**13,795**	22,204
5 years or less but over 1 year	**17,933**	15,348
1 year or less but over 3 months	**12,435**	9,257
3 months or less	**11,538**	9,926
	55,701	56,735
Provisions for impairment of loans and receivables *(note 27)*	**(340)**	(314)
	55,361	56,421
Due from subsidiary undertakings:		
Subordinated	**83**	83
Unsubordinated	**4,439**	3,638
	4,522	3,721
	59,883	60,142
Of which repayable on demand or at short notice	**26,013**	19,285
Amounts include:		
Due from associated undertakings	**18**	-

Amounts include reverse repurchase agreements of € 4m (2005: € 4m). The unwind of the impairment provision discount amounting to € 25m (2005: € 19m) is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

26 Loans and receivables to customers *(continued)*	Group 2006 € m	Group 2005 € m
Impaired loans by division		
AIB Bank ROI	**366**	308
AIB Bank UK	**205**	166
Capital Markets	**130**	132
Poland	**232**	262
	933	868

27 Provisions for impairment of loans and receivables

	2006			2005		
	Specific € m	**IBNR[1] € m**	**Total € m**	Specific € m	IBNR[1] € m	Total € m
Group						
At beginning of period	**514**	**162**	**676**	478	282	760
IFRS transition adjustment	**–**	**–**	**–**	(3)	(143)	(146)
Exchange translation adjustments	**(2)**	**1**	**(1)**	13	3	16
Charge against income statement	**–**	**118**	**118**	–	115	115
Transfer to specific	**92**	**(92)**	**–**	95	(95)	–
Amounts written off	**(96)**	**–**	**(96)**	(72)	–	(72)
Recoveries of amounts written off in previous years	**10**	**–**	**10**	3	–	3
At end of period	**518**	**189**	**707**	514	162	676
Amounts include:						
Loans and receivables to banks *(note 25)*	**2**	**–**	**2**	2	–	2
Loans and receivables to customers *(note 26)*	**516**	**189**	**705**	512	162	674
	518	**189**	**707**	514	162	676
Allied Irish Banks, p.l.c.[2]						
At beginning of period	**233**	**81**	**314**	203	172	375
IFRS transition adjustment	**–**	**–**	**–**	(14)	(98)	(112)
Exchange translation adjustments	**–**	**–**	**–**	2	–	2
Internal transfer of loan portfolios	**(5)**	**(5)**	**(10)**	9	–	9
Charge against income statement	**–**	**79**	**79**	–	127	127
Transfer to specific	**71**	**(71)**	**–**	120	(120)	–
Amounts written off	**(45)**	**–**	**(45)**	(88)	–	(88)
Recoveries of amounts written off in previous years	**2**	**–**	**2**	1	–	1
At end of period	**256**	**84**	**340**	233	81	314

[1]Incurred but not reported

[2]The provisions for impairment of loans and receivables in Allied Irish Banks, p.l.c. at 31 December 2006 and 2005 relate to loans and receivables to customers only.

28 Amounts receivable under finance leases and hire purchase contracts	Group **2006** **€ m**	2005 € m	Allied Irish Banks, p.l.c. **2006** **€ m**	2005 € m
Gross receivables				
Not later than 1 year	**944**	1,004	**8**	19
Later than one year and not later than 5 years	**2,178**	1,871	**37**	44
Later than 5 years	**181**	146	**27**	13
Total	**3,303**	3,021	**72**	76
Unearned future finance income	**(309)**	(254)	**(6)**	(9)
Deferred costs incurred on origination	**9**	7	**–**	–
Total	**3,003**	2,774	**66**	67
Present value of minimum payments analysed by residual maturity				
Not later than 1 year	**871**	916	**7**	18
Later than one year and not later than 5 years	**1,974**	1,725	**34**	42
Later than 5 years	**158**	133	**25**	7
Present value of minimum payments	**3,003**	2,774	**66**	67
Provision for uncollectible minimum payments receivable amounted to:[1]	**24**	16	**–**	–
Unguaranteed residual values accruing to the benefit of the Group	**12**	12	**–**	–

[1]Included in the provision for impairment of loans and receivables to customers *(note 27)*.

29 Loans and receivables to customers – concentrations of credit risk	Group 2006 € m	Group 2005 € m
Loans and receivables to customers by geographical area[2]		
Republic of Ireland	**70,886**	54,571
United States of America	**2,454**	2,497
United Kingdom	**28,546**	24,210
Poland	**4,579**	3,663
Rest of the world	**650**	291
	107,115	85,232

	2006 € m	2006 % of total loans[1]	2005 € m	2005 % of total loans[1]
Construction and property				
Republic of Ireland	**22,604**	**20.9**	14,863	17.3
United States of America	**629**	**0.6**	620	0.7
United Kingdom	**10,492**	**9.7**	8,819	10.3
Poland	**1,105**	**1.0**	531	0.6
Rest of the world	**320**	**0.3**	101	0.1
	35,150	**32.5**	24,934	29.0

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

	2006 € m	2006 % of total loans[1]	2005 € m	2005 % of total loans[1]
Residential mortgages				
Republic of Ireland	**21,420**	**19.8**	17,054	19.9
United Kingdom	**4,540**	**4.2**	3,802	4.4
Poland	**684**	**0.6**	540	0.6
	26,644	**24.6**	21,396	24.9

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 Group loans and receivables to customers and are gross of provisions and unearned income *(note 26)*.
[2] The geographical distribution of loans and receivables to customers is primarily on the location of the office recording the transaction.

30 Financial investments available for sale

The following tables give, for the Group and Allied Irish Banks, p.l.c. at 31 December 2006 and 31 December 2005, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses net of hedging not recognised in the income statement.

31 December 2006	Fair Value € m	Unrealised Gross Gains € m	Unrealised Gross Losses € m	Net Unrealised Gains/(Losses) € m	Tax effect € m	Net after tax € m
Group						
Debt securities						
Irish government securities	477	8	(4)	4	(1)	3
Euro government securities	3,236	16	(29)	(13)	–	(13)
Non Euro government securities	2,453	27	(9)	18	(3)	15
Non European government securities	1,358	–	(16)	(16)	2	(14)
U.S. Treasury & U.S. government agencies	116	–	–	–	–	–
Collateralised mortgage obligations	2,260	3	(1)	2	–	2
Other asset backed securities	417	–	–	–	–	–
Euro bank securities	3,508	2	(36)	(34)	4	(30)
Non Euro bank securities	3,501	2	(9)	(7)	1	(6)
Certificates of deposit	1,591	1	(1)	–	–	–
Other investments	455	6	-	6	(1)	5
Total debt securities	19,372	65	(105)	(40)	2	(38)
Equity shares	293	203	–	203	(31)	172
Total	19,665	268	(105)	163	(29)	134
Allied Irish Banks, p.l.c.						
Debt securities						
Irish government securities	436	8	(4)	4	(1)	3
Euro government securities	2,789	7	(27)	(20)	3	(17)
Non Euro government securities	673	–	(5)	(5)	1	(4)
Non European government securities	1,358	–	(16)	(16)	2	(14)
U.S. Treasury & U.S. government agencies	95	–	–	–	–	–
Collateralised mortgage obligations	2,260	3	(1)	2	–	2
Other asset backed securities	417	–	–	–	–	–
Euro bank securities	3,508	2	(36)	(34)	4	(30)
Non Euro bank securities	3,501	2	(9)	(7)	1	(6)
Certificates of deposit	663	–	(1)	(1)	–	(1)
Other investments	408	6	–	6	(1)	5
Total debt securities	16,108	28	(99)	(71)	9	(62)
Equity shares	19	5	–	5	(1)	4
Total	16,127	33	(99)	(66)	8	(58)

The amount removed from equity and recognised in the income statement in respect of financial investments available for sale amounted to a charge of € 77m during 2006, Allied Irish Banks, p.l.c. € 83m.

30 Financial investments available for sale *(continued)*

31 December 2005	Fair Value € m	Unrealised Gross Gains € m	Unrealised Gross Losses € m	Net Unrealised Gains/(Losses) € m	Tax effect € m	Net after tax € m
Group						
Debt securities						
Irish government securities	492	10	–	10	(1)	9
Euro government securities	3,943	41	(12)	29	(6)	23
Non Euro government securities	2,877	39	(1)	38	(7)	31
Non European government securities	1,035	13	(2)	11	(1)	10
U.S. Treasury & U.S. government agencies	516	4	(1)	3	–	3
Collateralised mortgage obligations	638	1	(1)	–	–	–
Other asset backed securities	534	2	–	2	–	2
Euro bank securities	3,457	18	(11)	7	(1)	6
Non Euro bank securities	2,149	6	(1)	5	(1)	4
Certificates of deposit	731	1	–	1	–	1
Other investments	321	3	(2)	1	–	1
Total debt securities	16,693	138	(31)	107	(17)	90
Equity shares	171	64	(3)	61	(8)	53
Total	16,864	202	(34)	168	(25)	143
Allied Irish Banks, p.l.c.						
Debt securities						
Irish government securities	492	10	–	10	(1)	9
Euro government securities	3,529	27	(11)	16	(2)	14
Non Euro government securities	1,192	5	(1)	4	(1)	3
Non European government securities	1,035	13	(2)	11	(1)	10
U.S. Treasury & U.S. government agencies	491	4	(1)	3	–	3
Collateralised mortgage obligations	638	1	(1)	–	–	–
Other asset backed securities	367	1	–	1	–	1
Euro bank securities	3,457	18	(11)	7	(1)	6
Non Euro bank securities	2,149	6	(1)	5	(1)	4
Certificates of deposit	421	1	–	1	–	1
Other investments	316	3	(2)	1	–	1
Total debt securities	14,087	89	(30)	59	(7)	52
Equity shares	5	–	–	–	–	–
Total	14,092	89	(30)	59	(7)	52

The amount removed from equity and recognised in the income statement in respect of financial investments available for sale amounted to income of € 91m during 2005, Allied Irish Banks, p.l.c. € 91m.

30 Financial investments available for sale ***(continued)***

Analysis of movements in financial investments available for sale	Debt securities € m	Equity shares € m	Total € m
Group			
At 1 January 2006	16,693	171	16,864
Exchange translation adjustments	(203)	2	(201)
Purchases	24,616	19	24,635
Sales	(12,283)	(40)	(12,323)
Maturities	(9,159)	–	(9,159)
Provisions for impairment	–	(1)	(1)
Amortisation of (premiums) net of discounts	(64)	–	(64)
Movement in unrealised (losses)/gains	(228)	142	(86)
At 31 December 2006	19,372	293	19,665
Allied Irish Banks, p.l.c.			
At 1 January 2006	14,087	5	14,092
Exchange translation adjustments	(235)	–	(235)
Purchases	19,934	9	19,943
Sales	(12,209)	–	(12,209)
Maturities	(5,197)	–	(5,197)
Amortisation of (premiums) net of discounts	(59)	–	(59)
Movement in unrealised (losses)/gains	(213)	5	(208)
At 31 December 2006	16,108	19	16,127

30 Financial investments available for sale ***(continued)***

Analysis of movements in financial investments available for sale	Debt securities € m	Equity shares € m	Total € m
Group			
At 1 January 2005	15,546	174	15,720
Exchange translation adjustments	650	6	656
Purchases	9,782	15	9,797
Sales	(5,068)	(18)	(5,086)
Maturities	(4,122)	–	(4,122)
Provisions for impairment	(1)	(7)	(8)
Amortisation of (premiums) net of discounts	(64)	–	(64)
Movement in unrealised (losses)/gains	(30)	1	(29)
At 31 December 2005	16,693	171	16,864
Allied Irish Banks, p.l.c.			
At 1 January 2005	13,160	2	13,162
Exchange translation adjustments	563	–	563
Purchases	7,485	4	7,489
Sales	(4,939)	–	(4,939)
Maturities	(2,075)	–	(2,075)
Transfer from subsidiary company	19	–	19
Provisions for impairment	(1)	(1)	(2)
Amortisation of (premiums) net of discounts	(84)	–	(84)
Movement in unrealised losses	(41)	–	(41)
At 31 December 2005	14,087	5	14,092

	Group		Allied Irish Banks, p.l.c.	
Debt securities analysed by remaining maturity	**2006 € m**	2005 € m	**2006 € m**	2005 € m
Due within one year	**4,206**	4,825	**2,844**	3,849
After one year, but within five years	**9,148**	7,645	**7,666**	6,340
After five years, but within ten years	**3,464**	2,865	**3,044**	2,540
After ten years	**2,554**	1,358	**2,554**	1,358
	19,372	16,693	**16,108**	14,087

30 Financial investments available for sale *(continued)*

The following table gives for the Group and Allied Irish Banks, p.l.c. at 31 December 2006, an analysis of the securities portfolio with unrealised losses not recognised in the income statement, distinguished between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months.

	2006 Fair value			2006 Unrealised losses		
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Group						
Debt securities						
Irish government securities	42	35	77	(3)	(1)	(4)
Euro government securities	1,578	695	2,273	(15)	(14)	(29)
Non Euro government securities	905	61	966	(8)	(1)	(9)
Non European government securities	1,100	156	1,256	(13)	(3)	(16)
Collateralised mortgage obligations	–	77	77	–	(1)	(1)
Euro bank securities	1,543	1,050	2,593	(14)	(22)	(36)
Non Euro bank securities	1,595	–	1,595	(9)	–	(9)
Certificates of deposit	630	–	630	(1)	–	(1)
Total debt securities	7,393	2,074	9,467	(63)	(42)	(105)
Equity shares	–	–	–	–	–	–
Total	7,393	2,074	9,467	(63)	(42)	(105)
Allied Irish Banks, p.l.c.						
Debt securities						
Irish government securities	42	35	77	(3)	(1)	(4)
Euro government securities	1,456	695	2,151	(13)	(14)	(27)
Non Euro government securities	587	–	587	(5)	–	(5)
Non European government securities	1,100	156	1,256	(13)	(3)	(16)
Collateralised mortgage obligations	–	77	77	–	(1)	(1)
Euro bank securities	1,543	1,050	2,593	(14)	(22)	(36)
Non Euro bank securities	1,595	–	1,595	(9)	–	(9)
Certificates of deposit	630	–	630	(1)	–	(1)
Total debt securities	6,953	2,013	8,966	(58)	(41)	(99)
Equity shares	–	–	–	–	–	–
Total	6,953	2,013	8,966	(58)	(41)	(99)

Available for sale financial investments with unrealised losses of more than 12 months have been assessed for impairment and based on the credit risk profile of the counterparties involved, it has been determined that impairment has not arisen at this time.

30 Financial investments available for sale *(continued)*

The following table gives for the Group and Allied Irish Banks, p.l.c. at 31 December 2005, an analysis of the securities portfolio with unrealised losses not recognised in the income statement, distinguished between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months.

	2005 Fair Value			2005 Unrealised losses		
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Group						
Debt securities						
Euro government securities	1,804	221	2,025	(10)	(2)	(12)
Non Euro government securities	1,638	196	1,834	(1)	–	(1)
Non European government securities	137	81	218	–	(2)	(2)
U.S. Treasury & U.S. government agencies	102	13	115	(1)	–	(1)
Collateralised mortgage obligations	313	43	356	(1)	–	(1)
Euro bank securities	1,271	192	1,463	(9)	(1)	(10)
Non Euro bank securities	244	194	438	(1)	(1)	(2)
Other investments	416	–	416	(2)	–	(2)
Total debt securities	5,925	940	6,865	(25)	(6)	(31)
Equity shares	6	–	6	–	(3)	(3)
Total	5,931	940	6,871	(25)	(9)	(34)
Allied Irish Banks, p.l.c.						
Debt securities						
Euro government securities	1,729	221	1,950	(10)	(1)	(11)
Non Euro government securities	234	96	330	(1)	–	(1)
Non European government securities	137	81	218	–	(2)	(2)
U.S. Treasury & U.S. government agencies	77	13	90	(1)	–	(1)
Collateralised mortgage obligations	313	43	356	(1)	–	(1)
Euro bank securities	1,271	192	1,463	(9)	(1)	(10)
Non Euro bank securities	244	194	438	(1)	(1)	(2)
Other investments	250	–	250	(2)	–	(2)
Total debt securities	4,255	840	5,095	(25)	(5)	(30)
Equity shares	–	–	–	–	–	–
Total	4,255	840	5,095	(25)	(5)	(30)

Available for sale financial investments with unrealised losses of more than twelve months have been assessed for impairment and based on the credit risk profile of the counterparties involved, it has been determined that impairment has not arisen at this time.

31 Interests in associated undertakings

Included in the Group income statement is the contribution from investments in associated undertakings as follows:

Income statement	**2006**	2005
Share of results of associated undertakings	**159**	149
Profit on disposal of investments in associated undertakings	**8**	–
	167	149

31 Interests in associated undertakings ***(continued)***

Share of net assets including goodwill	**2006 € m**	2005 € m
At 1 January	**1,656**	1,379
IFRS transition adjustments	**–**	16
Exchange translation adjustments	**(183)**	225
Transfer from group undertakings/additions	**276**	–
Purchases	**–**	3
Disposals	**(26)**	(4)
Profit for the period	**159**	149
Dividends received	**(44)**	(41)
Deferral of profit on disposal of Bankcentre	**(24)**	–
Unrealised gains/(losses) on financial investments available for sale	**7**	(13)
Actuarial gain recognised in retirement benefit schemes	**8**	–
Share based payment	**10**	7
M&T market repurchase of shares	**(47)**	(65)
At 31 December	**1,792**	1,656
Analysed as to:		
M & T Bank Corporation *(Note 32)*	**1,516**	1,617
Hibernian Life Holdings Limited *(Note 33)*	**263**	–
Other	**13**	39
	1,792	1,656
Of which listed on a recognised stock exchange	**1,524**	1,634

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

Goodwill	**2006 € m**	2005 € m
Balance at 1 January	**1,058**	917
Additions during year	**12**	–
Exchange translation adjustments	**(110)**	141
At 31 December	**960**	1,058

Principal associated undertakings		**Nature of business**
M&T Bank Corporation[(1)]		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 24.2%[(1)])	
Hibernian Life Holdings Limited[(2)]		Manufacturer and distributor of life and pension products
Registered office:	1 Park Place, Hatch Street, Dublin 2, Ireland. (Ordinary shares of € 1.25 par value each – Group interest 24.99%)	

[(1)] *The Group interest is held directly by Allied Irish Banks, p.l.c. and carried at cost at € 891m in the parent company balance sheet. AIB accounts for its share of profits of M&T on the basis of its average interest in M&T throughout the period, which amounted to 24.0% during 2006 (2005: 23.5%). The agreement with M&T provides for the maintenance of AIB's interest in M&T at a minimum of 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. M&T shares are listed on the New York Stock Exchange and the fair value of the investment in M&T at 31 December 2006 was € 2,477m (2005: € 2,468m).*

[(2)] *The Group interest is held directly by Allied Irish Banks, p.l.c. and carried at cost of € 12m in the parent company balance sheet.*

31 Interests in associated undertakings *(continued)*

Other than as described for M&T and Hibernian Life Holdings Limited, the Group's interests in associated undertakings are non-credit institutions 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.

32 Interest in M&T Bank Corporation

The summary consolidated income statement, summary balance sheet and contribution of M&T Bank Corporation for 2006 and 2005 under IFRS are as follows:

Year ended 31 December 2005 US $m	**Year ended 31 December 2006 US $m**	**Summary of consolidated income statement**	**Year ended 31 December 2006 € m**	Year ended 31 December 2005 € m
1,713	**1,793**	Net interest income	**1,427**	1,372
967	**1,045**	Other income	**832**	775
2,680	**2,838**	Total operating income	**2,259**	2,147
1,410	**1,512**	Total operating expenses	**1,203**	1,129
1,270	**1,326**	Group operating profit before impairment provisions	**1,056**	1,018
43	**216**[(1)]	Impairment provisions	**172**[(1)]	34
1,227	**1,110**	Group profit before taxation	**884**	984
409	**345**	Taxation	**275**	328
818	**765**	Group profit after taxation	**609**	656

31 December 2005 US $m	**31 December 2006 US $m**	**Summary of consolidated balance sheet**	**31 December 2006 € m**	31 December 2005 € m
41,698	**44,328**	Cash, loans and receivables	**33,658**	35,346
8,400	**7,252**	Investment securities	**5,506**	7,120
337	**335**	Fixed assets	**254**	286
1,990	**2,319**	Other assets	**1,762**	1,687
52,425	**54,234**	Total assets	**41,180**	44,439
37,144	**39,935**	Deposits	**30,323**	31,486
11,495	**10,141**	Other borrowings	**7,700**	9,744
903	**916**	Other liabilities	**696**	765
2,883	**3,242**	Shareholders' funds	**2,461**	2,444
52,425	**54,234**	Total liabilities and shareholders' funds	**41,180**	44,439

Year ended 31 December 2005 US $m	**Year ended 31 December 2006 US $m**	**Contribution of M&T**	**Year ended 31 December 2006 € m**	Year ended 31 December 2005 € m
288	**266**	Gross contribution	**212**	230
(103)	**(89)**	Taxation	**(71)**	(82)
185	**177**	Contribution to Group profit before taxation	**141**	148

[(1)] The impairment provisions in 2006 reflect the allocation by M&T to specific provisions of previously unallocated provisions (which had not been recognised by AIB under IFRS).

33 Interest in Hibernian Life Holdings Limited

Ark Life Assurance Company Limited

The following table sets out the income and expense from long-term assurance business included in the income statement for the year ended 31 December 2005.

Income and expense from Ark Life's long-term assurance business	2005 € m
Net interest income	113
Other income	740
Total operating income	853
Increase in insurance and investment contract liabilities, and claims	762
Total operating expenses	27
Income before taxation	64
Taxation	4
Income after taxation	60
Analysed as to:	
Continuing operations	14
Discontinued operations	46

Some elements of the Ark Life business are being retained within the Group and this gives rise to the analysis outlined above between continuing operations and discontinued operations. Income after taxation of Ark Life amounting to € 4m was included within discontinued activities for the period to 30 January 2006.

Balance sheet

The assets and liabilities of Ark Life included in the consolidated balance sheet as at 31 December 2005 of the Group were as follows:

	31 December 2005 € m
Assets	
Loans and receivables to banks	191
Assets held at fair value through profit or loss	2,638
Property, plant and equipment	52
Reinsurance assets	748
Placings with Group companies	1,428
Other assets	371
Total assets	5,428
Liabilities	
Investment contract liabilities	2,953
Insurance contract liabilities	1,923
Other liabilities	215
Total liabilities	5,091
Shareholders' equity	337
Total liabilities and shareholders' equity	5,428

33 Interests in Hibernian Life Holdings Limited ***(continued)***

Presentation in the Group balance sheet at 31 December 2005

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' equity. At 31 December 2005, shares in AIB with a value of € 77m were held within the long-term business funds to meet the liabilities to policyholder. Long-term assurance assets attributable to policyholder 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. As a result the assets of Ark Life, € 5,351m (being total assets of € 5,428m net of AIB shares of € 77m) were included in the Group balance sheet within the caption, "Disposal group and assets classified as held for sale". Ark Life's liabilities of € 5,091m were included in the liabilities caption, "Disposal group classified as held for sale".

Hibernian Life Holdings Limited

The contribution of Hibernian Life Holdings Limited ("HLH") from 30 January 2006 is included within share of results of associated undertakings as follows:-

	2006 € m
Share of income of HLH	**26**
Amortisation of intangible assets	**2**
Share of income before taxation	**24**
Taxation attributable to policyholder returns	**12**
Profit attributable to shareholders before taxation	**12**
Taxation	**1**
Included within associated undertakings	**11**

In addition to the income described above, the Group recognised fee income on the sale of life insurance and investment products amounting to € 31m for the year ended 31 December 2006 (2005: € 26m).

The assets and liabilities of Hibernian Life Holdings Limited at 31 December 2006, accounted for in accordance with the accounting policies of the Group, and taking into account the acquisition adjustments, are set out below:

Summary of consolidated balance sheet	31 December 2006 € m
Cash and placings with banks	**762**
Financial investments	**11,648**
Investment property	**765**
Property, plant and equipment	**15**
Reinsurance assets	**2,145**
Other assets	**821**
Total assets	**16,156**
Investment contract liabilities	**6,742**
Insurance contract liabilities	**7,055**
Other liabilities	**1,253**
Shareholders' equity	**1,106**
Total liabilities and shareholders' equity	**16,156**

34 Investments in Group undertakings	**2006 € m**	2005 € m
Allied Irish Banks, p.l.c.		
At 1 January	**271**	225
Additions	**1,156**	46
Transfer to interests in associated undertakings	**(12)**	-
Disposals	**(7)**	-
At 31 December	**1,408**	271
At 31 December		
Credit institutions	**747**	42
Other	**661**	229
Total – all unquoted	**1,408**	271

The share in Group undertakings are included in the accounts on a historical cost basis. Investments in Group undertakings includes € 300m (2005: € Nil) of subordinated debt.

Principal subsidiary undertakings incorporated in the Republic of Ireland	Nature of business
AIB Capital Markets plc*	Financial services
AIB Corporate Finance Limited	Corporate finance
AIB Leasing Limited	Leasing
AIB Fund Management Limited	Unit trust management
AIB Investment Managers Limited	Investment management
AIB International Financial Services Limited	International financial services
Goodbody Holdings Limited	Stockbroking and corporate finance
AIB Mortgage Bank*	Issue of Mortgage Covered Securities
AIB Debt Management Limited	Financing and securities investment

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

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

All regulated banking entities are subject to regulations which require them to maintain capital ratios at agreed levels and so govern the availability of funds available for distribution.

AIB Mortgage Bank

AIB Mortgage Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c. regulated by the Central Bank and Financial Services Authority of Ireland. Its principal purpose is to issue mortgage covered securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Act, 2001.

On 13 February 2006, Allied Irish Banks, p.l.c. transferred its Irish branch originated residential mortgage business to AIB Mortgage Bank, amounting to € 13.6bn in mortgage loans.

In March 2006 AIB Mortgage Bank launched a € 15 billion Mortgage Covered Securities Programme. As at 31 December 2006, the total amounts of principal outstanding in respect of mortgage covered securities issued was € 5.5bn. At the same date, the total amounts of principal outstanding in the cover assets pool including mortgage loans and cash was € 8.7bn.

As at 31 December 2006, AIB Mortgage Bank had a Mortgage Backed Promissory Notes ("MBPN") facility with the Central Bank and Financial Services Authority of Ireland, none of which was in use at the balance sheet date. This facility is referred to in more detail in note 39.

34 Investments 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, JE4 8WT	
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.

Guarantees given to subsidiaries by Allied Irish Banks, p.l.c.

Each of the companies listed below, and consolidated into these accounts, have availed of the exemption from filing its individual accounts as set out in Section 17 of the Companies (Amendment) Act 1986. In accordance with the Act, Allied Irish Banks, p.l.c. has irrevocably guaranteed the liabilities of these subsidiaries.

AIB Asset Management Holdings (Ireland) Limited
AIB Alternative Investment Services Limited
AIB Capital Management Holdings Limited
AIB Capital Markets plc
AIB Corporate Banking Limited
AIB Corporate Finance Limited
AIB Corporate Services Limited
AIB Equity Capital Limited
AIB Financial Consultants Limited
AIB Fund Management Limited
AIB I.F.S.C.H.D. Limited
AIB International Consultants Limited
AIB International Financial Services Limited
AIB International Leasing Limited
AIB Investment Managers Limited
AIB Leasing Limited
AIB Stockbrokers Limited
AIB Services Limited
AIB Venture Capital Limited
Allied Combined Trust Limited
Allied Irish Banks (Holdings & Investments) Limited
Allied Irish Capital Management Limited
Allied Irish Finance Limited
Allied Irish Leasing Limited
Allied Irish Nominees Limited
Allied Irish Securities Limited
Ark Life Nominees Limited
Allied Irish Securities (Ireland) Limited
Ark Life Trustees Limited
Co-Ordinated Trustees Limited
Dhittier Limited
Errol Limited
Eyke Limited
First Venture Fund Limited
Goodbody Corporate Finance
Goodbody Economic Consultants Limited
Goodbody Financial Services
Goodbody Holdings Limited
Goodbody Pensioneer Trustees Limited
Goodbody Alternative Investment Management Limited
Goodbody Alternative Fund Management Limited
Goodbody Stockbrokers
Halderstone Limited
Jib Ross Limited
Kahn Holdings
Lavworth Limited
Percy Nominees Limited
PPP Projects Limited
Shamberg Limited
Sillard Limited
Skyraven Limited
The Hire Purchase Company of Ireland Limited
Webbing Ireland Limited

35 Intangible assets and goodwill	Goodwill € m	Software € m	Other € m	Total € m
Group				
At 1 January 2005	415	259	3	677
Additions	–	36	–	36
Exchange translation adjustments	4	8	–	12
Disposals	(17)	–	–	(17)
At 31 December 2005	402	303	3	708
Additions	**–**	**84**	**3**	**87**
Exchange translation adjustments	**(1)**	**1**	**–**	**–**
Disposals	**(2)**	**(1)**	**–**	**(3)**
At 31 December 2006	**399**	**387**	**6**	**792**
Amortisation and impairment losses				
At 1 January 2005	8	126	3	137
Amortisation for the year	–	45	–	45
Impairment charge	2	–	–	2
Exchange translation adjustments	2	5	–	7
At 31 December 2005	12	176	3	191
Amortisation for the year	**–**	**52**	**1**	**53**
Exchange translation adjustments	**–**	**1**	**–**	**1**
Disposals	**(2)**	**(1)**	**–**	**(3)**
At 31 December 2006	**10**	**228**	**4**	**242**
Net book value				
At 31 December 2005	390	127	–	517
At 31 December 2006	**389**	**159**	**2**	**550**

The goodwill relates principally to the acquisition of the holding in Bank Zachodni WBK S.A. ("BZWBK"). The investment in BZWBK which is quoted on a recognised stock exchange has been assessed for impairment at 31 December 2006 and 2005. The market value at 31 December 2006 of the shareholding in BZWBK S.A. of € 3.0bn (2005: € 1.9bn) exceeds the carrying amount including goodwill of the investment by € 1.9bn (2005: € 0.9bn).

The remaining goodwill amounts which relate to unquoted investments, have been assessed for impairment through discounting projected cash flows with the resultant impairment charge, if any, recognised in the period.

Internally generated intangible assets under construction amounted to € 42m (2005: € 21m).

	2006			2005
	Software € m	**Other € m**	**Total € m**	Software € m
Allied Irish Banks, p.l.c.				
Balance at 1 January	**162**	**–**	**162**	132
Additions	**72**	**3**	**75**	30
Balance at 31 December	**234**	**3**	**237**	162
Amortisation				
Balance at 1 January	**98**	**–**	**98**	75
Amortisation for period	**27**	**1**	**28**	23
Balance at 31 December	**125**	**1**	**126**	98
Net book value at 31 December	**109**	**2**	**111**	64

Internally generated intangible assets under construction amounted to € 31m (2005: € 15m).

36 Property, plant & equipment	Freehold € m	Long leasehold € m	Property leasehold under 50 years € m	Equipment € m	Total € m
Group					
Cost at 1 January 2006	**498**	**99**	**150**	**550**	**1,297**
Disposal of Group undertakings	**–**	**–**	**–**	**(1)**	**(1)**
Transfers to assets held for sale	**(27)**	**–**	**–**	**–**	**(27)**
Additions	**31**	**7**	**10**	**96**	**144**
Disposals	**(149)**	**(25)**	**–**	**(17)**	**(191)**
Exchange translation adjustments	**2**	**–**	**1**	**2**	**5**
At 31 December 2006	**355**	**81**	**161**	**630**	**1,227**
Accumulated depreciation at 1 January 2006	**96**	**18**	**95**	**382**	**591**
Disposal of Group undertakings	**–**	**–**	**–**	**(1)**	**(1)**
Depreciation charge for the year	**13**	**2**	**11**	**61**	**87**
Disposals	**(31)**	**(3)**	**–**	**(12)**	**(46)**
Exchange translation adjustments	**1**	**–**	**–**	**2**	**3**
At 31 December 2006	**79**	**17**	**106**	**432**	**634**
Net book value					
At 31 December 2006	**276**	**64**	**55**	**198**	**593**

The net book value of property occupied by the Group for its own activities was € 370m.

	Freehold € m	Long leasehold € m	Property leasehold under 50 years € m	Equipment € m	Total € m
Allied Irish Banks, p.l.c.					
Cost at 1 January 2006	**312**	**87**	**62**	**300**	**761**
Transfers to assets held for sale	**(27)**	**–**	**–**	**–**	**(27)**
Additions	**30**	**5**	**4**	**74**	**113**
Disposals	**(146)**	**(23)**	**–**	**(8)**	**(177)**
Exchange translation adjustments	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2006	**169**	**69**	**66**	**365**	**669**
Accumulated depreciation at 1 January 2006	**48**	**15**	**38**	**195**	**296**
Depreciation charge for the year	**7**	**2**	**5**	**39**	**53**
Disposals	**(31)**	**(3)**	**–**	**(3)**	**(37)**
Exchange translation adjustments	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2006	**24**	**14**	**43**	**230**	**311**
Net book value					
At 31 December 2006	**145**	**55**	**23**	**135**	**358**

The net book value of property occupied by the Allied Irish Banks, p.l.c. for its own activities was € 206m.

36 Property, plant & equipment *(continued)*	Freehold €m	Long leasehold €m	Property leasehold under 50 years €m	Equipment €m	Total €m
Group					
Cost at 1 January 2005	537	93	139	517	1,286
Disposal/transfers of Group undertakings	(51)	–	(1)	(2)	(54)
Additions	21	7	8	64	100
Disposals	(19)	(1)	–	(45)	(65)
Exchange translation adjustments	10	–	4	16	30
At 31 December 2005	498	99	150	550	1,297
Accumulated depreciation at 1 January 2005	90	16	85	350	541
Disposal of Group undertakings	–	–	–	(2)	(2)
Depreciation charge for the year	16	2	8	57	83
Disposals	(12)	–	–	(33)	(45)
Exchange translation adjustments	2	–	2	10	14
At 31 December 2005	96	18	95	382	591
Net book value					
At 31 December 2005	402	81	55	168	706

The net book value of property occupied by the Group for its own activities was € 531m.

	Freehold €m	Long leasehold €m	Property leasehold under 50 years €m	Equipment €m	Total €m
Allied Irish Banks, p.l.c.					
Cost at 1 January 2005	306	81	56	267	710
Additions	19	6	4	43	72
Disposals	(13)	–	–	(10)	(23)
Exchange translation adjustments	–	–	2	–	2
At 31 December 2005	312	87	62	300	761
Accumulated depreciation at 1 January 2005	40	13	34	169	256
Depreciation charge for the year	8	2	4	32	46
Disposals	–	–	–	(8)	(8)
Exchange translation adjustments	–	–	–	2	2
At 31 December 2005	48	15	38	195	296
Net book value					
At 31 December 2005	264	72	24	105	465

The net book value of property occupied by Allied Irish Banks, p.l.c. for its own activities was € 360m.

Property leased to others had a book value of € 7m (2005: € 7m). Included in the carrying amount of property and equipment is expenditure recognised for both property and equipment in the course of construction amounting to € 13m and € 17m respectively (2005: € 4m and € 6m). In Allied Irish Banks, p.l.c. these amounts are € 13m and € 10m respectively (2005: € 3m and € 5m).

37 Deferred taxation	Group 2006 € m	Group 2005 € m	Allied Irish Banks, p.l.c. 2006 € m	Allied Irish Banks, p.l.c. 2005 € m
Deferred tax assets:				
Provision for impairment of loans and receivables	**(64)**	(69)	**(11)**	(10)
Amortised income	**(24)**	(31)	**(5)**	(14)
Debt securities	**–**	–	**(10)**	(1)
Retirement benefits	**(165)**	(221)	**(76)**	(97)
Temporary difference on provisions for future commitments in relation to the funding of Icarom plc *(under Administration)*	**(8)**	(9)	**(8)**	(9)
Cash flow hedges	**(19)**	–	**(13)**	–
Other	**(45)**	(8)	**(52)**	(32)
Total gross deferred tax assets	**(325)**	(338)	**(175)**	(163)
Deferred tax liabilities:				
Assets leased to customers	**9**	25	**–**	–
Assets used in the business	**33**	34	**27**	25
Debt securities	**27**	30	**–**	–
Cash flow hedges	**–**	28	**–**	24
Total gross deferred tax liabilities	**69**	117	**27**	49
Net deferred tax assets	**(256)**	(221)	**(148)**	(114)
Represented on the balance sheet as follows:				
Deferred tax assets	**(256)**	(253)	**(148)**	(114)
Deferred tax liabilities	**–**	32	**–**	–
	(256)	(221)	**(148)**	(114)

For each of the years ended 31 December, 2006 and 2005 full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	Group 2006 € m	Group 2005 € m	Allied Irish Banks, p.l.c. 2006 € m	Allied Irish Banks, p.l.c. 2005 € m
At 1 January	**(221)**	(176)	**(114)**	(110)
IFRS transition adjustment	**–**	10	**–**	18
Exchange translation and other adjustments	**(21)**	(11)	**–**	–
Deferred tax through equity	**(9)**	(60)	**(32)**	(36)
Income statement *(note 16)*	**(5)**	16	**(2)**	14
At 31 December	**(256)**	(221)	**(148)**	(114)

37 Deferred taxation *(continued)*

Net deferred tax assets of € 179m are expected to be recovered after more than 12 months; Allied Irish Banks, p.l.c. € 104m. Deferred tax assets have not been recognised in respect of tax losses amounting to € 41m (2005: € 49m); Allied Irish Banks, p.l.c. € Nil (2005: € Nil).

Tax losses of € 5.3m expire in 2010 and € 0.4m expiring thereafter. There is no expiration date on the remaining € 35.3m. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

The net deferred tax asset on items recognised directly in equity amounted to € 157m (2005: € 163m); Allied Irish Banks, p.l.c. € 99m (2005: € 74m).

38 Disposal group and assets classified as held for sale

On 30 January 2006, the previously announced venture with Aviva Group p.l.c for the manufacture and distribution of life and pensions products in the Republic of Ireland was completed (note 1). The transaction brought together Hibernian Life and Pensions Limited and Ark Life under a holding company Hibernian Life Holdings Limited of which AIB owns 24.99%. AIB has entered into an exclusive agreement to distribute the life and pensions products of the venture. Ark Life assets and liabilities were included in the balance sheet at 31 December 2005 as a disposal group classified as held for sale (note 33).

In August 2006, the Group announced a programme for the sale and leaseback of branches. A sale and leaseback transaction of 25 branches in the Republic of Ireland has not been completed at 31 December 2006 and these branches are therefore held within the category "Disposal Group and assets classified as held for sale". The sale and leaseback programme is an effective means of monetising assets to generate capital to support the growth of the business. The premises concerned will continue to operate as AIB branches and there will be no impact on the staff who work there or on the services provided to customers. The branches held for sale are recorded within Group business segment assets.

39 Deposits by banks	Group 2006 € m	Group 2005 € m	Allied Irish Banks, p.l.c. 2006 € m	Allied Irish Banks, p.l.c. 2005 € m
Securities sold under agreements to repurchase	**12,523**	11,038	**12,204**	10,785
Other borrowings from banks	**20,910**	18,291	**49,655**	33,046
	33,433	29,329	**61,859**	43,831
Of which:				
Domestic offices	**30,727**	27,401		
Foreign offices	**2,706**	1,928		
	33,433	29,329		
With agreed maturity dates or periods of notice,				
by remaining maturity:				
Over 5 years	**17**	53	**3**	7
5 years or less but over 1 year	**631**	517	**482**	460
1 year or less but over 3 months	**3,192**	2,271	**3,149**	2,114
3 months or less but not repayable on demand	**28,537**	25,843	**28,346**	25,547
	32,377	28,684	**31,980**	28,128
Repayable on demand	**1,056**	645	**669**	369
	33,433	29,329	**32,649**	28,497
Due to subsidiary undertakings			**29,210**	15,334
			61,859	43,831
Amounts include:				
Due to associated undertakings	**-**	-	**-**	-

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.

The carrying amount of financial assets pledged as security for liabilities amounted to € 13,021m (2005: € 11,265m); Allied Irish Banks, p.l.c. € 13,005m (2005: € 11,012m).

At 31 December 2006 no deposits by credit institutions are secured by way of charge to the Central Bank and Financial Services Authority of Ireland ("CBFSAI") . At 31 December 2005 € 930m of the deposits by credit institutions comprised the bank's obligations to the CBFSAI under the terms of the Mortgage Backed Promissory Note ("MBPN") programme. These obligations had been secured by way of a first floating charge to the CBFSAI over all its right, title, interest and benefit, in € 1,193m of loans and receivables to customers. Otherwise than with the prior written consent of the CBFSAI, the Group had pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged assets.

40 Customer accounts	Group 2006 € m	Group 2005 € m	Allied Irish Banks, p.l.c. 2006 € m	Allied Irish Banks, p.l.c. 2005 € m
Current accounts	**25,151**	20,909	**15,052**	13,068
Demand deposits	**8,924**	8,013	**6,760**	6,018
Time deposits	**33,831**	28,118	**23,038**	18,046
	67,906	57,040	**44,850**	37,132
Securities sold under agreements to repurchase	**1**	6	**-**	-
Other short-term borrowings	**6,968**	5,534	**6,968**	5,534
	6,969	5,540	**6,968**	5,534
	74,875	62,580	**51,818**	42,666
Of which:				
Non-interest bearing current accounts				
Domestic offices	**8,715**	7,816		
Foreign offices	**2,632**	2,086		
Interest bearing deposits, current accounts and short-term borrowings				
Domestic offices	**38,844**	32,977		
Foreign offices	**24,684**	19,701		
	74,875	62,580		
Analysed by remaining maturity:				
Over 5 years	**301**	200	**297**	150
5 years or less but over 1 year	**1,901**	2,308	**1,531**	1,851
1 year or less but over 3 months	**4,774**	3,573	**3,274**	2,355
3 months or less but not repayable on demand	**34,520**	28,130	**22,623**	17,083
	41,496	34,211	**27,725**	21,439
Repayable on demand	**33,379**	28,369	**21,816**	19,074
	74,875	62,580	**49,541**	40,513
Due to subsidiary undertakings			**2,277**	2,153
			51,818	42,666
Amounts include:				
Due to associated undertakings	**55**	38	**32**	7

41 Trading portfolio financial liabilities	Group 2006 € m	Group 2005 € m	Allied Irish Banks, p.l.c. 2006 € m	Allied Irish Banks, p.l.c. 2005 € m
Debt securities				
Government securities	**184**	219	**183**	219
Corporate listed	**1**	2	**1**	2
	185	221	**184**	221
Equity instruments - listed	**6**	19	**-**	9
	191	240	**184**	230

At 31 December 2006 and 31 December 2005, the debt securities within trading portfolio financial liabilities had a residual maturity of less than one year.

42 Debt securities in issue	Group 2006 € m	Group 2005 € m	Allied Irish Banks, p.l.c. 2006 € m	Allied Irish Banks, p.l.c. 2005 € m
Bonds and medium term notes:				
European medium term note programme	**10,456**	6,656	**10,456**	6,656
Bonds and other medium term notes	**5,648**	209	**-**	-
	16,104	6,865	**10,456**	6,656
Other debt securities in issue:				
Commercial paper	**1,912**	718	**-**	-
Commercial certificates of deposit	**10,515**	10,028	**10,515**	10,028
	12,427	10,746	**10,515**	10,028
	28,531	17,611	**20,971**	16,684
Analysed by remaining maturity				
Bonds and medium term notes:				
Over 5 years	**945**	1,298	**2**	1,250
5 years or less but over 1 year	**10,904**	5,494	**6,355**	5,406
1 year or less but over 3 months	**3,565**	51	**3,425**	-
3 months or less	**690**	22	**674**	-
	16,104	6,865	**10,456**	6,656
Other debt securities in issue:				
5 years or less but over 1 year	**154**	1,578	**154**	1,578
1 year or less but over 3 months	**3,213**	3,402	**3,050**	3,388
3 months or less	**9,060**	5,766	**7,311**	5,062
	12,427	10,746	**10,515**	10,028
	28,531	17,611	**20,971**	16,684

43 Other liabilities

	Group 2006 € m	Group 2005 € m	Allied Irish Banks, p.l.c. 2006 € m	Allied Irish Banks, p.l.c. 2005 € m
Notes in circulation	**501**	484	**–**	–
Items in transit	**308**	332	**36**	35
Creditors	**198**	99	**123**	44
Future commitments in relation to the funding of Icarom(1)	**60**	69	**60**	69
Other	**690**	615	**359**	331
	1,757	1,599	**578**	479

(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 3.94% was applied in the year ended 31 December 2006 (2005: 3.21%) in discounting the cost of the future commitments arising under this agreement. The undiscounted amount was € 69m (2005: €78m). The unwinding of the discount on the provision amounted to €2.3m (2005: €2.3m).

44 Provisions for liabilities and commitments

	Liabilities and commitments € m	Other provisions € m	Total € m
Group			
At 1 January 2006	**61**	**79**	**140**
Exchange translation adjustment	**–**	**–**	**–**
Amounts charged to income statement	**2**	**24**	**26**
Amounts written back to income statement	**(17)**	**(13)**	**(30)**
Provisions utilised	**(8)**	**(35)**	**(43)**
At 31 December 2006	**38**	**55**	**93**
Allied Irish Banks, p.l.c.			
At 1 January 2006	**57**	**62**	**119**
Exchange translation adjustments	**–**	**–**	**–**
Amounts charged to income statement	**2**	**18**	**20**
Amounts written back to income statement	**(16)**	**(10)**	**(26)**
Provisions utilised	**(8)**	**(29)**	**(37)**
At 31 December 2006	**35**	**41**	**76**
Group			
At 1 January 2005	58	64	122
Exchange translation adjustments	–	1	1
Amounts charged to income statement	28	47	75
Amounts written back to income statement	(8)	(15)	(23)
Provisions utilised	(17)	(18)	(35)
At 31 December 2005	61	79	140
Allied Irish Banks, p.l.c.			
At 1 January 2005	56	44	100
Exchange translation adjustments	–	1	1
Amounts charged to income statement	24	36	60
Amounts written back to income statement	(5)	(11)	(16)
Provisions utilised	(18)	(8)	(26)
At 31 December 2005	57	62	119

The provisions recognised within this caption include, where applicable, amounts in respect of: onerous lease contracts; restructuring and re-organisation costs; repayments to customers; legal claims and other contingencies including provisions in respect of losses expected under off-balance sheet items. The provisions expected to be settled within one year amount to € 56m (2005: € 67m).

45 Subordinated liabilities and other capital instruments	2006 € m	2005 € m
Allied Irish Banks, p.l.c.		
Undated loan capital	**871**	868
Dated loan capital	**2,668**	2,678
US $250m non-cumulative preference shares	**189**	210
	3,728	3,756
Subsidiary undertakings		
Perpetual preferred securities	**1,016**	–
	4,744	3,756
Undated loan capital		
Allied Irish Banks, p.l.c.		
US $100m Floating Rate Primary Capital Perpetual Notes	**76**	85
€ 200m Fixed Rate Perpetual Subordinated Notes	**199**	199
Stg £400m Perpetual Callable Step-Up Subordinated Notes	**596**	584
	871	868
Subsidiary undertakings		
Stg £350m Fixed Rate/Floating Rate Guaranteed Non-Voting Non-cumulative Perpetual Preferred Securities	**519**	–
€ 500m Fixed Rate/Floating Rate Guaranteed Non-Voting Non-cumulative Perpetual Preferred Securities	**497**	–
	1,016	–
	1,887	868
Dated loan capital		
Allied Irish Banks, p.l.c.		
European Medium Term Note Programme:		
€ 200m Floating Rate Notes due June 2013	**200**	200
US $400m Floating Rate Notes due July 2015	**303**	338
€ 400m Floating Rate Notes due March 2015	**400**	400
€ 500m Callable Subordinated Step-up Floating Rate Notes due 2017	**499**	499
Stg £500m Callable Subordinated Fixed/Floating Rate Notes due March 2025	**745**	730
Stg £350m Fixed Rate Notes due November 2030	**521**	511
	2,668	2,678

	2006 € m	2005 € m
The dated loan capital outstanding is repayable as follows:		
In one year or less	**-**	–
Between 1 and 2 years	**-**	–
Between 2 and 5 years	**-**	–
In 5 years or more	**2,668**	2,678
	2,668	2,678

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

45 Subordinated liabilities and other capital instruments *(continued)*

Undated loan capital

The US$ 100m Floating Rate Primary Capital Perpetual Notes have no final maturity but may be redeemed at par at the option of the Bank, with the prior approval of the Central Bank and Financial Services Authority of Ireland ("the Financial Regulator"). Interest is payable 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 Financial Regulator, on each coupon payment date on or after 3 August 2009. The Stg £ 400m Perpetual Callable Step-Up Subordinated Notes with interest payable annually up to 1 September 2015, and with interest payable quarterly thereafter, have no final maturity but may be redeemed at the option of the Bank, with the prior approval of the Financial Regulator, on 1 September 2015 and every interest payment date thereafter.

Perpetual preferred securities

In June 2006, Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ("Preferred Securities") were issued in the amount of Stg£ 350,000,000 and € 500,000,000 through Limited Partnerships. The Preferred Securities were issued at par and have the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. ("AIB"). The Preferred Securities have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities. The substitution of the Preferred Securities with fully paid non-cumulative preference shares issued by the Guarantor is subject, in particular cases, to certain events and conditions that are beyond the control of both the Guarantor and the holders of the Preferred Securities.

The Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the Financial Regulator (i) upon the occurrence of certain events or (ii) on or after 14 June 2016 for the Stg £ 350,000,000 Preferred Securities and 16 June 2016 for the € 500,000,000 Preferred Securities.

Distributions on the Preferred Securities are non-cumulative. The distributions on the Stg £ 350,000,000 Preferred Securities will be payable at a rate of 6.271% semi-annually until 14 June 2016 and thereafter at a rate of 1.23% per annum above 3 month LIBOR, payable quarterly. The distributions on the € 500,000,000 Preferred Securities will be payable at a rate of 5.142% per annum up to 16 June 2016 and thereafter at a rate of 1.98% per annum above 3 month EURIBOR, payable quarterly.

In the event of the dissolution of the Limited Partnerships, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of AIB at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by AIB, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilities of AIB including subordinated liabilities.

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 € 200m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on 12 June 2008 and on each interest payment date thereafter. The US$ 400m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after July 2010. The € 400m Floating Rate Notes with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after March 2010. The € 500m Callable Subordinated Step-Up 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 24 October 2012. The Stg £ 500m Subordinated Callable Fixed/Floating Rate Notes, with interest payable annually, up to 10 March 2020 and with interest payable quarterly from 10 June 2020 thereafter may be redeemed, in whole but not in part on any interest payment date falling in or after 10 March 2025. 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 Financial Regulator. There is no exchange exposure as the proceeds of these notes are retained in their respective currencies.

45 Subordinated liabilities and other capital instruments *(continued)*

US$ 250m non-cumulative preference shares

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

46 Share capital		**2006 € m**	2005 € m
Ordinary share capital			
Ordinary shares of €0.32 each			
Authorised:	1,160 million shares (2005: 1,160 million)		
Issued :	918 million shares (2005: 918 million)	**294**	294

Movements in ordinary share capital

There were no movements in issued ordinary shares during 2006 or 2005.

Preference share capital

The company has authorisation from shareholders to issue preference share capital as follows:

20m non-cumulative preference shares of US$ 25 each
200m non-cumulative preference shares of €1.27 each
200m non-cumulative preference shares of Stg £ 1 each
200m non-cumulative preference shares of Yen 175 each

47 Own shares

Share repurchases

At the 2006 Annual General Meeting, shareholders granted authority for the Company, or any subsidiary, to make market purchases of up to 91.8 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. During the year ended 31 December 2006, the Company purchased 5.6 million ordinary shares, previously held by AIB Finance Ltd., a subsidiary of the Company, at a market price of € 22.90 per share. The 5.6 million shares in question will be held by AIB as Treasury Shares. Also during the year, ordinary shares previously purchased under a similar authority, and held as Treasury Shares, were re-issued as follows:

	2006	2005
At 1 January	**43,539,597**	48,889,789
Shares re-issued under:		
AIB Share Option Schemes	**(4,346,120)**	(3,487,950)
Allfirst Financial Stock Option Plan	**(35,000)**	(26,400)
AIB Approved Employee Profit Sharing Schemes	**(1,980,398)**	(1,835,842)
	(6,361,518)	(5,350,192)
Purchase of shares held by subsidiary company	**5,600,000**	-
At 31 December	**42,778,079**	43,539,597

47 Own shares *(continued)*

The cost of share repurchases less proceeds of shares reissued has been charged to the profit and loss account reserve.

The shares issued during 2006 to participants in the AIB share option schemes were issued at prices of € 10.02, € 11.98 and € 13.30 per share. The consideration received for these shares was € 48.1m.

The consideration received for the shares issued during 2006 on the exercise of Dauphin converted options to participants in the Allfirst Financial Inc. Stock Option Plan was € 0.2m.

During 2006, the Company re-issued from its pool of Treasury Shares 1,980,398 ordinary shares to the Trustees of the employees' profit sharing schemes, at € 19.60 per share. The consideration received for these shares was € 38.8m.

Allfirst Financial Inc. Stock Option Plan

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

At 31 December 2006, converted options were outstanding over 45,598 ordinary shares (2005: 80,598 ordinary shares).

Employee share schemes and trusts

The Group sponsors a number of employee share plans whereby purchases of shares are made in the open market to satisfy commitments under the schemes.

At 31 December 2006, 2.0 million shares (2005: 2.2 million) were held by trustees with a book value of € 23.2m (2005: € 26.0m), and a market value of € 44.6m (2005: € 39.9m). The book value is deducted from the profit and loss account reserve while the shares continue to be held by the Group.

The Group sponsors SAYE 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 2006, 1.4 million shares (2005: 1.4 million) were held by the trustees with a book value of € 18.3m (2005: € 17.9m) and a market value of € 31.3m (2005: € 25.1m).

In 2001, the AIB Group Employee Share Trust was established to satisfy commitments arising under the AIB Group Long-Term Incentive Plan (LTIP). Funds were provided to the trustees to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. The trustees have waived their entitlement to dividends. At 31 December 2006, 0.2 million shares (2005: 0.2 million) were held by the trustees with a book value of € 1.3m (2005: € 1.3m) and a market value of € 4.5m (2005: € 3.6m).

Performance Share Plan

Prior to its disposal to M&T Bank Corporation, 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 Allied Irish Banks, p.l.c. 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 AIB's US operations. At 31 December 2006, 0.4 million (2005: 0.6 million) ordinary shares were held by the trust with a cost of € 3.6m (2005: € 6.7m) and a market value of € 8.8m (2005: € 11.1m).

47 Own shares *(continued)*

Subsidiary companies

Certain subsidiary companies hold shares in AIB for customer facilitation and in the normal course of business. At 31 December 2006, 0.3 million shares (2005: 4.5 million) with a book and market value of € 6.6m (2005: € 81.6m) 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.

48 Other equity interests

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 Financial Regulator (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.

49 Minority interests in subsidiaries	**2006 € m**	2005 € m
Equity interest in subsidiaries	**317**	258
Non-cumulative Perpetual Preferred Securities	**990**	990
	1,307	1,248

Non-cumulative Perpetual Preferred Securities

In December 2004, Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ("Preferred Securities") in the amount of € 1,000,000,000 were issued through a Limited Partnership. The Preferred Securities were issued at par and have the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. ("AIB"). The Preferred Securities have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities.

The Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the Financial Regulator (i) upon the occurrence of certain events, or (ii) on or after 17 December 2014, subject to the provisions of the Limited Partnership Act, 1907.

Distributions on the Preferred Securities are non-cumulative. The distributions will be payable at a rate of 4.781% per annum up to 17 December 2014 and thereafter at the rate of 1.10% per annum above 3 month EURIBOR, reset quarterly. The discretion of the Board of Directors of AIB to resolve that a distribution should not be paid is unfettered.

In the event of the dissolution of the Limited Partnership, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of AIB at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by AIB, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilities of AIB including subordinated liabilities.

50 Memorandum items: contingent liabilities and commitments

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

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

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

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

	2006		2005	
	Contract amount €m	**Risk weighted amount €m**	Contract amount € m	Risk weighted amount € m
Group				
Contingent liabilities				
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	**5,902**	**5,675**	7,157	7,142
Other contingent liabilities	**1,191**	**537**	1,396	982
	7,093	**6,212**	8,553	8,124
Commitments				
Documentary credits and short-term trade-related transactions	**314**	**112**	297	111
Undrawn note issuance and revolving underwriting facilities	**145**	**67**	173	86
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year[1]	**10,613**	**-**	6,579	-
1 year and over	**12,984**	**6,475**	12,509	6,223
	24,056	**6,654**	19,558	6,420
	31,149	**12,866**	28,111	14,544

[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**	
	2006 €m	2005 € m	**2006 € m**	2005 € m
Concentration of exposure				
Republic of Ireland	**2,345**	3,860	**12,819**	9,165
United States of America	**3,211**	3,366	**3,417**	3,007
United Kingdom	**1,470**	1,287	**6,010**	6,069
Poland	**67**	40	**1,777**	1,237
Rest of the world	**-**	-	**33**	80
	7,093	8,553	**24,056**	19,558

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

	2006 Contract amount € m	**2006** Risk weighted amount € m	2005 Contract amount € m	2005 Risk weighted amount € m
Allied Irish Banks, p.l.c.				
Contingent liabilities				
Guarantees and irrevocable letters of credit	**4,904**	**4,687**	6,384	6,384
Other contingent liabilities	**927**	**412**	1,223	888
	5,831	**5,099**	7,607	7,272
Commitments				
Documentary credits and short-term trade-related transactions	**115**	**23**	107	21
Undrawn note issuance and revolving underwriting facilities	**14**	**1**	11	6
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year[1]	**8,089**	**-**	4,409	-
1 year and over	**10,278**	**5,123**	10,528	5,238
	18,496	**5,147**	15,055	5,265
	24,327	**10,246**	22,662	12,537

[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 to 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.

Following the foreign exchange pricing issue in 2004, Allied Irish Banks, p.l.c. agreed a management action plan with the Financial Regulator which included:- the introduction of a speak up policy as an additional channel to help staff raise concerns; the improvement and simplification of product delivery processes; and the strengthening of enterprise-wide quality assurance, risk and compliance functions. On 27 September 2006 Allied Irish Banks, p.l.c. announced that following a comprehensive review of products and services with the purpose of identifying any shortcomings or issues and correcting them appropriately, a range of issues under foreign exchange and other headings were identified. The bank stated that most of these were dealt with and restitution, where appropriate, had been or would be made and that it continued to deal with the Financial Regulator in this regard. The bank further stated that it had completed investigations into two major issues - the application of incorrect margins or overcharging on foreign exchange transactions in the early 1990s and other instances related to interest overcharging which arose in the late 1980s. In relation to all of these matters, the bank announced that payment of restitution to customers, where it had been possible to identify the amount, had been or would be made. This amounted to € 11m. Where identification was not possible, it was agreed with the Financial Regulator that a payment of € 20.6m would be made to charity. This amount has since been paid.

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.

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

Class action and purported shareholder derivative action

On 5 March, 2002 and on 24 April, 2002, separate class action lawsuits under the Securities Exchange Act, 1934 of the United States were filed in the United States District Court for the Southern District of New York against AIB, Allfirst and certain serving and past officers and directors of Allfirst and its subsidiaries, seeking compensatory damages, legal fees and other costs and expenses relating to alleged misrepresentations in filings of AIB and Allfirst. On 3 May, 2002, a motion to consolidate both cases and to appoint a lead plaintiff was filed with the Court. On 7 December, 2004 the Court granted this motion. In accordance with the direction of the Court, the plaintiffs filed an amended and consolidated complaint on 7 February, 2005. Certain of the defendants (including AIB and Allfirst) filed a motion to dismiss the consolidated amended complaint on 8 April, 2005. In December 2005 a settlement was reached, under which all claims are to be dismissed without any admission of liability or wrongdoing by any defendant. The class of security holders will receive a cash payment of US$ 2.5 million, out of which the Court will be asked to award Attorneys' fees to class counsel. On 17 July, 2006 the Court approved the settlement.

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 purported to sue certain present and former directors and officers of Allfirst Bank on behalf of AIB, alleging those persons were liable for the foreign exchange trading losses. No relief was 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 judgement, or to be granted leave to file an amended complaint. This was dismissed on 3 March, 2003. The plaintiffs filed a second such motion on 17 March, 2003. The Court dismissed this on 4 April, 2003. On 20 June, 2003, the plaintiffs' petition to bypass the Maryland Court of Special Appeals and appeal directly to the Maryland Court of Appeals was denied by the Maryland Court of Appeals. The plaintiffs' appeal to the Maryland Court of Special Appeals was argued on 12 January, 2004. On 3 December, 2004 the Maryland Court of Special Appeals affirmed the dismissal of the action. On 21 January, 2005, the plaintiff petitioned the Maryland Court of Appeals to hear an appeal from this decision. Oral argument on this appeal was heard on 1 September, 2005 and judgment delivered on 13 December, 2005. By a vote of six to one, the Court upheld the judgment of the Court of Special Appeals affirming the dismissal of the action. On 11 January, 2006 the Attorneys for the Plaintiff filed a motion asking the Court of Appeals to reconsider its decision. On 6 February, 2006 the Court of Appeal dismissed this motion.

51 Fair value of financial instruments

The term "financial instruments" includes both financial assets and financial liabilities and also derivatives. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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.

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 2006.

51 Fair value of financial instruments *(continued)*

The following table gives details of the carrying amounts and fair values of financial instruments of the Group at 31 December 2006 and 2005.

	2006		2005	
	Carrying amount € m	**Fair value € m**	Carrying amount € m	Fair value € m
Assets				
Trading financial instruments[1]				
Trading portfolio financial assets	**8,953**	**8,953**	10,113	10,113
Trading derivative financial instruments	**2,470**	**2,470**	1,849	1,849
Non-trading financial instruments				
Cash and balances at central banks[1]	**989**	**989**	742	742
Treasury bills and other eligible bills	**196**	**196**	201	201
Items in course of collection[1]	**527**	**527**	402	402
Loans and receivables to banks[2]	**12,900**	**12,913**	7,129	7,129
Loans and receivables to customers[2]	**107,115**	**107,068**	85,232	85,290
Financial investments available for sale	**19,665**	**19,665**	16,864	16,864
Hedging derivative financial instruments	**420**	**420**	590	590
Liabilities				
Trading financial instruments				
Trading portfolio financial liabilities	**191**	**191**	240	240
Trading derivative financial instruments	**2,382**	**2,382**	1,779	1,779
Non-trading financial instruments				
Deposits by banks	**33,433**	**33,431**	29,329	29,328
Customer accounts	**74,875**	**74,836**	62,580	62,604
Debt securities in issue	**28,531**	**28,415**	17,611	17,609
Hedging derivative financial instruments	**149**	**149**	188	188
Subordinated liabilities and other capital instruments	**4,744**	**4,724**	3,756	3,859

[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 impairment and related unearned income.

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

Trading portfolio financial assets/liabilities

Trading portfolio financial assets/liabilities are measured at fair value by reference to quoted market prices where available.

Loans and receivables to banks and loans and receivables to customers

The fair value of money market funds and loans and receivables 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.

The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques including, using recent arm's length market transactions; reference to fair value of another similar instrument; discounted cash flow analysis; and option pricing models 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.

51 Fair value of financial instruments *(continued)*

Financial investments available for sale

The fair value of listed financial investments is based on market prices received from external pricing services or bid quotations received from external securities dealers. The estimated value of unlisted financial investments 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 and other capital instruments

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

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments entered into by the Group and other off-balance sheet financial guarantees are included in note 50. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

Derivative financial instruments

Derivatives used for trading purposes are marked to market using independent prices and are included in the consolidated balance sheet at 31 December 2006 and 2005. The Group uses various derivatives, designated as hedges, to manage its exposure to fluctuations in interest 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. Details of derivatives in place, including fair values, are included in note 24.

52 Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2006 and 2005 is illustrated in the tables below. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements 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.

52 Interest rate sensitivity *(continued)*

											31 December 2006
	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets											
Treasury bills and other eligible bills	-	35	161	-	-	-	-	-	-	-	196
Trading portfolio financial assets	-	-	-	-	-	-	-	-	-	8,953	8,953
Loans and receivables to banks	11,088	726	320	-	-	-	-	128	638	-	12,900
Loans and receivables to customers	82,144	11,365	4,802	1,849	1,646	1,221	1,396	2,692	-	-	107,115
Financial investments available for sale	4,686	2,962	2,658	2,052	1,483	1,355	2,924	1,252	293	-	19,665
Other assets	-	-	-	-	-	-	-	-	7,227	2,470	9,697
Total assets	97,918	15,088	7,941	3,901	3,129	2,576	4,320	4,072	8,158	11,423	158,526
Liabilities											
Deposits by banks	17,539	13,006	2,666	39	-	39	-	-	144	-	33,433
Customer accounts	50,189	7,072	4,121	807	495	290	157	397	11,347	-	74,875
Trading portfolio financial liabilities	-	-	-	-	-	-	-	-	-	191	191
Debt securities in issue	4,103	15,349	3,441	192	4,515	3	1	927	-	-	28,531
Subordinated liabilities and other capital instruments	1,067	600	-	-	199	-	-	2,878	-	-	4,744
Other liabilities	-	-	-	-	-	-	-	60	5,705	2,382	8,147
Shareholders' equity	-	-	-	-	-	-	-	-	8,605	-	8,605
Total liabilities and stockholders equity	72,898	36,027	10,228	1,038	5,209	332	158	4,262	25,801	2,573	158,526
Derivative financial instruments affecting interest rate sensitivity	9,253	1,569	(6,254)	(899)	(196)	(41)	(679)	(2,753)	-	-	-
	82,151	37,596	3,974	139	5,013	291	(521)	1,509	25,801	2,573	158,526
Interest sensitivity gap	15,767	(22,508)	3967	3,762	(1,884)	2,285	4,841	2,563	(17,643)	8,850	
Cumulative interest sensitivity gap	15,767	(6,741)	(2,774)	988	(896)	1,389	6,230	8,793	(8,850)	-	
	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	
Interest sensitivity gap	19,452	(18,530)	2,305	2,285	(3,275)	1,296	2,534	1,511	(13,971)	5,609	
Cumulative interest sensitivity gap	19,452	922	3,227	5,512	2,237	3,533	6,067	7,578	(6,393)	(784)	
	US $m	US $m	US $m	US $m	US $m	US $m	US $m	US $m	US $m	US $m	
Interest sensitivity gap	(2,971)	708	167	879	201	146	687	142	864	522	
Cumulative interest sensitivity gap	(2,971)	(2,263)	(2,096)	(1,217)	(1,016)	(870)	(183)	(41)	823	1,345	
	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	
Interest sensitivity gap	2,195	(4,027)	894	317	757	535	1,427	735	(4,262)	1,475	
Cumulative interest sensitivity gap	2,195	(1,832)	(938)	(621)	136	671	2,098	2,833	(1,429)	46	
	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	
Interest sensitivity gap	(2,214)	64	351	235	287	311	137	228	(400)	226	
Cumulative interest sensitivity gap	(2,214)	(2,150)	(1,799)	(1,564)	(1,277)	(966)	(829)	(601)	(1,001)	(775)	

52 Interest rate sensitivity *(continued)*

31 December 2005

	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								
Treasury bills and other eligible bills	24	177	–	–	–	–	–	201
Loans and receivables to banks	5,947	72	222	–	–	888	–	7,129
Trading portfolio financial assets	–	–	–	–	–	–	10,113	10,113
Loans and receivables to customers	69,956	2,523	2,274	7,169	2,716	594	–	85,232
Financial investments available for sale	4,412	1,796	2,219	5,776	2,486	175	–	16,864
Other assets	–	–	–	–	–	11,818	1,857	13,675
Total assets	80,339	4,568	4,715	12,945	5,202	13,475	11,970	133,214
Liabilities								
Deposits by banks	26,728	1,103	1,207	78	–	213	–	29,329
Trading portfolio financial liabilities	–	–	–	–	–	–	240	240
Customer accounts	47,653	1,708	1,622	1,638	74	9,885	–	62,580
Debt securities in issue	14,479	984	1,814	334	–	–	–	17,611
Subordinated liabilities and other capital instruments	1,149	85	–	–	2,522	–	–	3,756
Other liabilities	–	–	–	–	–	10,829	1,700	12,529
Shareholders' equity	–	–	–	–	–	7,169	–	7,169
Total liabilities	90,009	3,880	4,643	2,050	2,596	28,096	1,940	133,214
Derivative financial instruments affecting interest rate sensitivity	9,327	(1,785)	(3,423)	(112)	(4,007)	–	–	–
	99,336	2,095	1,220	1,938	(1,411)	28,096	1,940	133,214
Interest sensitivity gap	(18,997)	2,473	3,495	11,007	6,613	(14,621)	10,030	
Cumulative interest sensitivity gap	(18,997)	(16,524)	(13,029)	(2,022)	4,591	(10,030)	–	
	Euro m	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	
Interest sensitivity gap	(8,234)	959	2,607	6,764	4,683	(12,620)	4,816	
Cumulative interest sensitivity gap	(8,234)	(7,275)	(4,668)	2,096	6,779	(5,841)	(1,025)	
	US $m	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	
Interest sensitivity gap	(6,338)	909	575	2,107	433	2,064	1,702	
Cumulative interest sensitivity gap	(6,338)	(5,429)	(4,854)	(2,747)	(2,314)	(250)	1,452	
	Stg m	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	
Interest sensitivity gap	(1,344)	214	51	1,789	1,441	(3,590)	1,417	
Cumulative interest sensitivity gap	(1,344)	(1,130)	(1,079)	710	2,151	(1,439)	(22)	
	PLN m	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	
Interest sensitivity gap	(1,652)	588	250	228	–	(503)	573	
Cumulative interest sensitivity gap	(1,652)	(1,064)	(814)	(586)	(586)	(1,089)	(516)	

53 Statement of cash flows

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 3 months maturity from the date of acquisition:

	Group		Allied Irish Banks, p.l.c.	
	2006 € m	2005 € m	**2006 € m**	2005 € m
Cash and balances at central banks	**989**	742	**514**	503
Loans and receivables to banks	**12,354**	6,598	**11,100**	5,465
Short term investments	**1,012**	330	**–**	–
At 31 December	**14,355**	7,670	**11,614**	5,968

The Group is required to maintain balances with the Central Bank and Financial Services Authority of Ireland which amounted to €2,636m at 31 December 2006 (2005: €2,694m). The Group is also required by law to maintain reserve balances with the Bank of England and with the National Bank of Poland. At December 2006, such reserve balances amounted to €755m (2005: €505m). Amounts with central banks are included within cash and balances at central banks and loans and receivables to banks.

54 Report on directors' remuneration and interests

Remuneration policy

The Company's policy in respect of the remuneration of the executive directors aims to support and enhance business performance, and to underpin and reinforce a high-performance and ethical culture. Remuneration packages and structures are such as to 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 (Kepler Associates, who report to the Remuneration Committee and who have not been engaged to provide any other services to the Group); the responsibilities and complexity of the roles of the individuals concerned; their individual performances measured against specific and challenging objectives; and the Group's overall performance. A high proportion of the remuneration of the senior executives will be delivered through variable pay, including equity. Senior executives participating in the AIB Group Performance Share Plan 2005 *(see note 9)* are expected to build up, over time, ownership of the Company's shares to the equivalent of annual basic salary.

Remuneration Committee

The Remuneration Committee comprises only non-executive directors; during 2006 its members were: Mr. John B McGuckian, Chairman (until 31 May 2006), Mr. Don Godson, Chairman (from 1 June 2006), Mr. Dermot Gleeson, and Mr. Jim O'Leary. The Committee has a wide remit which includes, inter alia, determining, under advice to the Board, the specific remuneration packages of the executive directors.

The following tables summarise the total remuneration of the Directors.

							2006
	Fees(1)	Salary	Bonus(2)	Profit share(3)	Taxable benefits(4)	Pension contributions(5)	Total
Remuneration	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Executive directors							
Colm Doherty	–	570	1,200	12	45	148	1,975
John O'Donnell	–	415	500	12	40	108	1,075
Eugene Sheehy	–	860	1,300	–	52	224	2,436
	–	1,845	3,000	24	137	480	5,486
Non-executive directors							
Adrian Burke	167					–	167
Kieran Crowley	139					–	139
Padraic M Fallon	51					3	54
Dermot Gleeson	408					–	408
Don Godson	71					–	71
John B McGuckian	120					14	134
Sean O'Driscoll	12					–	12
Jim O'Leary	86					–	86
Bernard Somers	12					–	12
Michael J Sullivan	96					–	96
Robert G Wilmers	–					–	–
Jennifer Winter	87					–	87
	1,249					17	1,266
Former directors							
Pensions(6)							762
Other payments(7)							940
							1,702
Total							8,454

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

Remuneration	Fees[1] € 000	Salary € 000	Bonus[2] € 000	Profit share[3] € 000	Taxable benefits[4] € 000	Pension contributions[5] € 000	2005 Total € 000
Executive directors							
Michael Buckley (retired 30 June 2005)	17	430	400	13	66	533	1,459
Colm Doherty	–	471	900	13	45	122	1,551
Gary Kennedy	–	470	265	13	53	2,133	2,934
Aidan McKeon	35	403	256	4	34	180	912
Eugene Sheehy (appointed 12 May 2005)	–	510	426	–	36	132	1,104
	52	2,284	2,247	43	234	3,100	7,960
Non-executive directors							
Adrian Burke	127					–	127
Kieran Crowley	85					–	85
Padraic M Fallon	44					11	55
Dermot Gleeson	375					–	375
Don Godson	95					–	95
Sir Derek Higgs (resigned 5 October 2005)	75					–	75
John B McGuckian	141					11	152
Jim O'Leary	97					–	97
Michael J Sullivan	98					–	98
Robert G Wilmers	–					–	–
Jennifer Winter	58					–	58
	1,195					22	1,217
Former directors							
Pensions[6]							758
							758
Total							9,935

(1) Fees comprise a basic fee, paid at a rate of € 36,500 per annum (with effect from 26 April 2006; during 2005 it was paid at a rate of € 35,000 per annum), in respect of service as a director, and additional remuneration paid to any non-executive director who holds the office of Chairman, or who is the Chairman of the Audit Committee, or the Remuneration Committee, or is the Senior Independent Director, or who performs additional services, such as through membership of Board Committees or the board of a subsidiary company.

In 2005, the Board discontinued the practice of paying fees to Executive Directors, save in the case of Mr. Michael Buckley (who retired on 30 June 2005) and Mr. Aidan McKeon (who retired from the Board on 31 December 2005).

A fee of € 36,023 was paid to M&T Bank Corporation ("M&T") in the year ended 31 December 2006 (2005: € 35,000), in respect of Mr. Robert G. Wilmers's directorship of the Company as the designee of M&T, pursuant to the Agreement and Plan of Reorganisation, dated 26 September 2002, by and among the Company, Allfirst Financial Inc. and M&T, as approved by shareholders at the Extraordinary General Meeting held on 18 December 2002 ("the Agreement").

Messrs. Eugene Sheehy, Colm Doherty and Michael Buckley (who retired as Group Chief Executive and Director of AIB on 30 June 2005) served as AIB-designated Directors of M&T, pursuant to the Agreement. The fees payable in this regard, which amounted to € 57,178 in 2006 (2005: € 55,323), were paid to AIB, except that the portion of this figure payable in respect of Mr. Buckley (€ 24,182) was paid direct to Mr. Buckley (2005: € 10,656 from date of his retirement on 30 June 2005).

(2) The executive directors participate in a discretionary, performance-related, incentive scheme for senior executives under which bonuses may be earned on the achievement of specific, performance-related objectives, reviewed annually.

(3) Information on the employees' profit sharing schemes, which are operated on terms approved by the shareholders, is given in note 9.

(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.

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

Remuneration *(continued)*

(5) "Pension contributions" represent:

(a) payments to defined benefit pension schemes, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date. The contribution rate in 2006 in repect of the Executive Directors, as a percentage of pensionable emoluments, is 26.0% (2005: 26.0% in respect of the Republic of Ireland scheme and 44.6% in respect of the UK pension scheme). The fees of the non-executive directors who joined the Board since 1990 are not pensionable; and

(b) in respect of 2005, one-off payments to the pension scheme to meet the scheme's liabilities arising from the retirements of;

(i) Mr. Michael Buckley, some seven months prior to his normal retirement date (funding impact: € 0.416m), and

(ii) Mr. Gary Kennedy – see Note 55 (funding impact: € 2.011m).

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

	Increase in accrued benefits during 2006[a] € 000	Accrued benefit at year-end[b] € 000	Transfer values[c] € 000
Executive directors			
Colm Doherty	53	248	666
Eugene Sheehy	30	456	467
John O'Donnell	13	198	201
Non-executive directors			
Padraic M Fallon	0.3	17.1	3.8
John B McGuckian	0.9	24.3	16.0

(a) Increases are after adjustment for inflation, and arise in consequence of (i) additional pensionable service; and (ii) increases in pensionable earnings.

(b) The figures represent the accumulated total amounts of accrued benefits (i.e. annual pension) payable at normal retirement dates, as at 31 December 2006.

(c) The figures show the transfer values of the increases in accrued benefits during 2006. These transfer values do not represent sums paid or due, but the amounts that the Company's pension scheme would transfer to another pension scheme, in relation to the benefits accrued in 2006, in the event of the member leaving service.

(6) "Pensions" (€ 762,000) represents the payment of pensions to former directors or their dependants granted on an ex-gratia basis and fully provided for in the Balance Sheet, together with an amount of € 650,000 to amortise a deficit in the Non-Executive Directors' Pension Scheme, in accordance with actuarial advice (2005: € 758,000, inclusive of € 650,000 in respect of amortisation of the Pension Scheme deficit).

(7) "Other payments" represents the remuneration of Mr. Aidan McKeon from 1 January 2006 until his retirement as an Executive on 28 February 2006, and the payment to Mr. Gary Kennedy of € 738,675 on foot of approvals given by the shareholders at the 2006 Annual General Meeting (see note 55).

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

Interests in shares

The beneficial interests of the Directors and the Secretary in office at 31 December 2006, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary Shares	**31 December, 2006**	1 January, 2006*
Directors:		
Adrian Burke	**11,004**	11,004
Kieran Crowley	**12,520**	7,520
Colm Doherty	**71,116**	70,469
Padraic M Fallon	**8,979**	8,979
Dermot Gleeson	**60,000**	32,826
Don Godson	**65,000**	50,000
John B McGuckian	**72,911**	72,911
John O'Donnell	**9,491**	8,844
Sean O'Driscoll	**3,503**	3,503
Jim O'Leary	**4,000**	4,000
Eugene Sheehy	**105,284**	71,284
Bernard Somers	**–**	–
Michael J Sullivan	**1,700**	1,700
Robert G Wilmers	**405,059**	152,459
Jennifer Winter	**480**	280
Secretary:		
W M Kinsella	**40,697**	40,050

** or later date of appointment*

Share Options

Details of the Executive Directors' and the Secretary's options to subscribe for ordinary shares are given below. Information on the Share Option Schemes, including policy on the granting of options, is given in note 9. The vesting of these options in the individuals concerned is dependent on Earnings Per Share ("EPS") targets being met. Subject thereto, the options outstanding at 31 December 2006 are exercisable at various dates between 2007 and 2015. 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, 2006	1 January, 2006*	**Since 1 January 2006***		**Weighted average price of options exercised**	**Market price at date of exercise**	**Weighted average subscription price of options outstanding at 31 December 2006**
			Granted	**Exercised**			
Directors:					**€**	**€**	**€**
Colm Doherty	**185,000**	185,000	–	–	–	–	12.83
John O'Donnell	**96,000**	96,000	–	–	–	–	13.23
Eugene Sheehy	**120,000**	154,000	–	34,000	10.60	18.30	13.78
Secretary:							
W M Kinsella	**40,500**	40,500	–	–	–	–	13.99

** or later date of appointment*

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

Long Term Incentive Plans

Details of the Executive Directors' and the Secretary's conditional grants of awards of ordinary shares are given below. These conditional awards are subject to onerous performance targets being met, in terms of EPS growth and total shareholder return. Information on the Long Term Incentive Plans, including policy on the granting of awards, is given in note 9. The conditional grants of awards outstanding at 31 December 2006 may vest between 2007 and 2009, depending on the date of the grant.

	31 December 2006	Lapsed during 2006	Granted during 2006	1 January 2006*
Directors:				
Colm Doherty	91,391	20,000	37,676	73,715
John O'Donnell	67,737	6,000	31,397	42,340
Eugene Sheehy	182,375	7,000	83,725	105,650
Secretary:				
W M Kinsella	10,314	-	5,814	4,500

** or later date of appointment*

Apart from the interests set out above, the Directors and Secretary in office at year-end, and their spouses and minor children, have no other interests in the shares of the Company.

There were no changes in the Directors' and Secretary's interests between 31 December 2006 and 5 March 2007, except with respect to Directors appointed post year-end, namely, Mr. Donal Forde, Ms. Anne Maher and Mr. Daniel O'Connor who were appointed to the Board on 11 January 2007. Their interest (inclusive of the interests of their spouses and minor children) in the ordinary shares of the Company are as follows:

- Mr. Donal Forde has interests in 43,445 ordinary shares; he has options over 115,000 ordinary shares, and conditional grants of awards of 67,471 ordinary shares under the Long Term Incentive Plans;
- Ms. Anne Maher has no interests in the ordinary shares of the Company; and
- Mr. Daniel O'Connor has interests in 8,000 ordinary shares.

The year-end closing price, on the Irish Stock Exchange, of the Company's ordinary shares was € 22.50 per share; during the year, the price ranged from € 16.75 to € 23.00 per share.

Service Contracts

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

55 Related party transactions

(a) Transactions with subsidiary undertakings

Allied Irish Banks, p.l.c. ("AIB") is the ultimate parent company of the Group. Banking transactions are entered into by AIB with its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions on an "arms length" basis. Balances between AIB and its subsidiaries are detailed in notes 25, 26, 34, 39 and 40.

(b) Associated undertakings and joint ventures

From time to time the Group provides certain banking and financial services for associated undertakings. Details of loans to associates are set out in Note 25 and 26, while deposits from associates are set out in Notes 39 and 40.

(c) Sale and Leaseback of Blocks E, F, G and H Bankcentre to Hibernian Life and Pensions Ltd. ("HLP")

On 9 June 2006, the Group agreed the sale and leaseback of blocks E, F, G, and H at Bankcentre *(note 12)*. The lease is for 20 years. The blocks were sold to HLP for a total consideration of € 170.5m. AIB hold a 24.99% share of Hibernian Life and Holdings Ltd. (HLH) which is the holding company for Ark Life and HLP. The initial annual rent payable on blocks E, F, G and H per annum is € 7.1m. The rent is paid through Wallkav Ltd, a wholly owned subsidiary of AIB p.l.c.

55 Related party transactions ***(continued)***

(d) Provision of banking and related services to Group Pension Funds, unit trusts and investment funds managed by Group Companies

The Group provides certain banking and financial services for the AIB Group Pension Funds and also for unit trusts and investment funds managed by Group companies. Such services are provided on terms similar to those that apply to third parties and are not material to the Group.

(e) Compensation of Key Management Personnel

The following disclosures are made in accordance with the provisions of IAS 24 - *Related Party Disclosures,* in respect of the compensation of key management personnel. Under IAS 24, "Key Management Personnel" are defined as comprising directors (executive and non-executive) together with senior executive officers, (namely, the members of the Group Executive Committee (see pages 6 and 7) and, in 2005, the Chief Financial Officer, up to the date of his retirement on 30 September 2005).

The figures shown below include the figures separately reported in respect of directors' remuneration, shown in the *"Report on Directors' Remuneration and Interests"* in note 54.

	2006 **€ m**	2005 € m
Short-term employee benefits[1]	**12.3**	11.2
Post-employment benefits[2]	**2.1**	6.3
Termination benefits[3]	**0.8**	0.9
Equity compensation benefits[4]	**3.1**	1.8
Total	**18.3**	20.2

[1] *comprises (a) in the case of executive directors and the other senior executive officers: salary, directors' fees, bonus, profit share scheme benefits, medical insurance, benefit-in-kind arising from preferential loans and use of company car (or payment in lieu), and other short-term benefits, and (b) in the case of non-executive directors: directors' fees. Figures for 2006 relate to 3 executive directors (2005:5) - see "Report on Directors' Remuneration and Interests" in Note 54: 7 other senior executive officers (2005:9); and 11 non-executive directors (2005: 10), excluding Mr. R.G.Wilmers, fees in respect of whose service as a designated director of M&T Bank Corporation ("M&T"), amounting to € 36,023 (2005: € 35,000) were paid to M&T;*

[2] *comprises (a) payments to defined benefit pension schemes, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date in respect of 3 executive directors (2005:5); 2 non-executive directors (2005:2); and 7 other senior executive officers (2005:9); (b) one-off payments in 2005 to such schemes to meet liabilities arising from augmented pension benefits paid on retirement (see Note 54 - "Report on Directors' Remuneration and Interests") in respect of 2 executive directors and 2 senior executive officers; (c) the payment of pensions to former directors or their dependants, granted on an ex gratia basis; and (d) an amount of € 650,000 (2005: € 650,000) to amortise a deficit in the Non-Executive Directors' Pension Scheme, in accordance with actuarial advice;*

[3] *lump sum payments made in 2006 to Mr. Gary Kennedy (see page 141), and on retirement to Mr. Aidan McKeon, and lump sum payments made in 2005 on retirement to two senior executive officers, neither of whom was a director;*

[4] *the value of awards made to executive directors and other senior executive officers under the company's share option scheme and long term incentive plans (which are described in Note 9); the value shown, which has been determined by applying the valuation techniques described in Note 9, relate to 3 executive directors and 6 other senior executive officers in 2006 (2005: 3 executive directors and 9 other senior executive officers).*

(f) Transactions with Key Management Personnel

(1) At 31 December 2006, deposit and other credit balances held by Key Management Personnel amounted to € 5.3m (2005: € 5.0m).

(2) Loans to non-executive Directors are made in the ordinary course of business on normal commercial terms. Loans to executive directors and other senior executive officers are made (i) on terms applicable to other employees in the Group, in accordance with established policy, within limits set on a case by case basis, and/or (ii) otherwise, on normal commercial terms.

55 Related party transactions ***(continued)***

The following amounts were outstanding at year-end in loans, or quasi-loans (effectively, credit card facilities) to persons who at any time during the year were key management personnel:

	31 December 2006		31 December 2005	
	Loans	**Quasi-loans**	Loans	Quasi-loans
A. Directors	**€ 3.7m**	**€ 0.05m**	€ 2.6m	€ 0.04m
(number of persons)	***(7)***	***(11)***	*(6)*	*(8)*
B. Other Senior Executive Officers *	**€ 3.7m**	**€ 0.03m**	€ 2.1m	€ 0.03m
(number of persons)	***(5)***	***(6)***	*(6)*	*(8)*
Total	**€ 7.4m**	**€ 0.08m**	€ 4.7m	€ 0.07m
(number of persons)	***(12)***	***(17)***	*(12)*	*(16)*

* *Group Executive Committee members (other than executive directors, whose figures are included at A)*

(g) Indemnities

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

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

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

Allied Irish Banks, p.l.c. has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Republic of Ireland defined benefit and defined contribution pension schemes, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default. Mr. Adrian Burke, a Director of the Company, is a Director of the above-mentioned trustee companies.

(h) Payment to a former Director

In accordance with shareholder approval given at the 2006 Annual General Meeting, a payment of € 738,675 was made to Mr. Gary Kennedy, who resigned as a director of the company on 31 December 2005, which included compensation for loss of office, and covered fees in relation to legal, pension, taxation and other advice.

56 Commitments

Capital expenditure

Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to € 162m (2005: € 188m). For Allied Irish Banks, p.l.c. outstanding capital commitments amounted to € 75m (2005: € 46m). Capital expenditure authorised, but not yet contracted for, amounted to € 144m (2005: € 140m). For Allied Irish Banks, p.l.c. this amounted to € 82m (2005: € 43m).

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out below:

	Group		Allied Irish Banks, p.l.c.	
	2006 € m	2005 € m	**2006 € m**	2005 € m
One year	**45**	18	**40**	16
One to two years	**58**	21	**52**	19
Two to three years	**55**	34	**50**	32
Three to four years	**53**	31	**49**	31
Four to five years	**47**	43	**43**	43
Over five years	**554**	434	**226**	214
Total	**812**	581	**460**	355

Significant leases are set out in notes 12 & 13 together with initial rents payable and minimum lease terms. Other operating leases in place have various lease terms.

In addition, the term of the lease of the new Bankcentre development, outlined in note 13, shall commence from the date of issue of the completion certificate for the development, or sections thereof, or if later the date on which the contract price under the development agreement has been paid.

There are no contingent rents payable and all lease payments are at fair value.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date were € 8m (2005: € 13m). For Allied Irish Banks, p.l.c. this was € 7m (2005: € 9m).

Operating lease payments recognised as an expense for the period were € 46m (2005: € 37m). Sublease income amounted to € 2m (2005: € 1m). For Allied Irish Banks, p.l.c. operating lease payments recognised were € 37m (2005: € 27m). Sublease income for Allied Irish Banks, p.l.c. amounted to € 2m (2005: € 1m).

57 Employees

The average full-time equivalent employee numbers by division (excluding employees on career breaks or long term absences) were as follows:

	2006	2005
AIB Bank ROI	**9,116**	9,208
AIB Bank UK	**2,941**	2,887
Capital Markets	**2,357**	2,459
Poland	**7,385**	7,188
Group	**1,183**	714
	22,982	22,456

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 Reporting currency

The currency used in these accounts is the euro which is denoted by "EUR" or the symbol €. Each euro is made up of one hundred cent, denoted by the symbol "c" in these accounts.

60 Financial and other information

	2006	2005
Operating ratios		
Operating expenses/operating income	**53.5%**	55.2%
Other income/operating income	**30.7%**	30.6%
Net interest margin:		
Group	**2.26%**	2.38%
Domestic	**2.04%**	2.17%
Foreign	**2.77%**	2.83%
Rates of exchange		
€ /US $		
Closing	**1.3170**	1.1797
Average	**1.2566**	1.2484
€ /Stg £		
Closing	**0.6715**	0.6853
Average	**0.6822**	0.6851
€ /PLN		
Closing	**3.8310**	3.8600
Average	**3.8965**	4.0276

Capital adequacy information	**31 December 2006 € m**	31 December 2005 € m
Risk weighted assets		
Banking book:		
On balance sheet	**101,285**	79,520
Off-balance sheet	**13,033**	14,682
	114,318	94,202
Trading book:		
Market risks	**8,172**	6,891
Counterparty and settlement risks	**544**	563
	8,716	7,454
Total risk weighted assets	**123,034**	101,656
Capital		
Tier 1	**10,116**	7,275
Tier 2	**3,838**	4,089
	13,954	11,364
Supervisory deductions	**310**	487
Total	**13,644**	10,877
Capital ratios[1]		
Tier 1	**8.2%**	7.2%
Total	**11.1%**	10.7%

[1] The final dividend of € 407m has not been taken into account in the calculation of the Tier 1 and Total capital ratios. The Financial Regulator has issued a requirement that a Prudential Filter be applied to proposed final dividends with effect from July 2007. If applied at 31 December 2006, the Tier 1 and Total capital ratios would be 7.9% and 10.8% respectively.

60 Financial and other information *(continued)*

Currency information	Assets 2006 € m	Assets 2005 € m	Liabilities 2006 € m	Liabilities 2005 € m
Euro	**92,189**	75,806	**92,974**	76,831
Other	**66,337**	57,408	**65,552**	56,383
	158,526	133,214	**158,526**	133,214

61 Average balance sheets and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2006 and 2005. 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 2006			Year ended 31 December 2005		
Assets	**Average balance € m**	**Interest € m**	**Average rate %**	Average balance € m	Interest € m	Average rate %
Loans and receivables to banks						
Domestic offices	**4,930**	**191**	**3.9**	4,596	117	2.5
Foreign offices	**2,307**	**116**	**5.1**	1,131	50	4.4
Loans and receivables to customers						
Domestic offices	**62,641**	**3,162**	**5.1**	47,806	2,084	4.4
Foreign offices	**33,133**	**2,177**	**6.6**	27,664	1,768	6.4
Trading portfolio financial assets						
Domestic offices	**9,205**	**349**	**3.8**	7,786	257	3.3
Foreign offices	**1,316**	**31**	**2.3**	1,308	48	3.7
Financial investments available for sale						
Domestic offices	**14,671**	**588**	**4.0**	12,869	470	3.7
Foreign offices	**4,339**	**209**	**4.8**	3,220	177	5.5
Total interest earning assets						
Domestic offices	**91,447**	**4,290**	**4.7**	73,057	2,928	4.0
Foreign offices	**41,095**	**2,533**	**6.2**	33,323	2,043	6.1
Net interest on swaps		**85**			125	
Total average interest earning assets	**132,542**	**6,908**	**5.2**	106,380	5,096	4.8
Non-interest earning assets	**8,827**			13,209		
Total average assets	**141,369**	**6,908**	**4.9**	119,589	5,096	4.3
Percentage of assets applicable to foreign activities			**31.5**			31.1

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

Liabilities and shareholders' equity	**Year ended 31 December 2006** Average balance € m	Interest € m	Average rate %	Year ended 31 December 2005 Average balance € m	Interest € m	Average rate %
Due to banks						
Domestic offices	**28,375**	**1,067**	**3.8**	25,288	693	2.7
Foreign offices	**2,098**	**96**	**4.6**	1,963	81	4.1
Due to customers						
Domestic offices	**36,101**	**809**	**2.2**	27,820	473	1.7
Foreign offices	**21,282**	**768**	**3.6**	18,545	642	3.5
Other debt issued						
Domestic offices	**13,615**	**456**	**3.4**	7,001	171	2.4
Foreign offices	**10,144**	**499**	**4.9**	8,486	374	4.4
Subordinated liabilities						
Domestic offices	**3,542**	**182**	**5.2**	2,925	132	4.5
Foreign offices	**551**	**32**	**5.8**	–	–	–
Total interest earning liabilities						
Domestic offices	**81,633**	**2,514**	**3.1**	63,034	1,469	2.3
Foreign offices	**34,075**	**1,395**	**4.1**	28,994	1,097	3.8
Total average interest earning liabilities	**115,708**	**3,909**	**3.4**	92,028	2,566	2.8
Non-interest earning liabilities	**18,263**			21,237		
Total liabilities	**133,971**	**3,909**	**2.9**	113,265	2,566	2.3
Stockholders' equity	**7,398**			6,324		
Total average liabilities and stockholders' equity	**141,369**	**3,909**	**2.8**	119,589	2,566	2.2
Percentage of liabilities applicable to foreign operations			**30.2**			30.7

62 Post-balance sheet events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2006 Financial Statements. On 5 March 2007, the Board of Directors reviewed the Financial Statements and authorised them for issue. These Financial Statements will be submitted to the Annual General Meeting of Shareholders to be held on 9 May 2007 for approval.

63 Dividends

Final dividends are not accounted for until they have been approved at the Annual General Meeting of Shareholders to be held on 9 May 2007. It is recommended that a final dividend of Eur 46.5c per ordinary share, amounting to € 407m, be paid on 10 May 2007. The Financial Statements for the year ended 31 December 2006 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2007.

64 Form 20-F

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

65 Approval of accounts

The accounts were approved by the Board of Directors on 5 March 2007.

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 responsible for preparing the Annual Report and the group and parent company accounts, in accordance with applicable law and regulations.

The Companies Acts require the directors to prepare group and parent company accounts for each financial year. Under the Acts, the directors are required to prepare the group accounts in accordance with international financial reporting standards ("IFRS"), adopted from time to time by the European Commission.

The accounts are required by law and IFRS to present fairly the financial position and performance of the group; the Companies Acts provide in relation to such accounts that references to accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors consider that, in preparing the accounts on pages 47 to 145, which have been prepared on a going concern basis, the parent 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 are responsible for taking all reasonable steps to secure that the company causes to be kept proper books of account that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Acts. They have also general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with that law and those rules.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Auditor's Report

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

We have audited the group and parent company financial statements of Allied Irish Banks, p.l.c. for the year ended 31 December 2006 ("the financial statements") which comprise the Group Consolidated Income Statement, the Group Consolidated and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense, Group Consolidated and Parent Company Reconciliation of movements in shareholders' equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditor's 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 146.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and, in the case of the parent company applied in accordance with the provisions of the Companies Acts 1963 to 2006, and have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion: proper books of account have been kept by the company; at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and the information given in the Report of the Directors is consistent with the financial statements.

In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the parent company's balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, 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 other information contained in the Annual Report 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the parent company's affairs as at 31 December 2006; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation.

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

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet, 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 2006 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 Auditor
1 Harbourmaster Place
International Financial Services Centre
Dublin 1
Ireland

5 March 2007

Notes:

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

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

Accounts in sterling, US dollars and Polish zloty

Summary of consolidated income statement for the year ended 31 December 2006	€ m	Stg £m STG £ 0.6715 = € 1	US $m US $1.3170 = € 1	PLN m PLN 3.8310 = € 1
Operating profit before provisions	2,012	1,351	2,650	7,708
Provisions	104	70	137	398
Operating profit	1,908	1,281	2,513	7,310
Associated undertakings	167	112	220	640
Profit on disposal of property	365	245	481	1,398
Construction contract income	96	65	126	368
Profit on disposal of businesses	79	53	104	302
Profit before taxation - continuing operations	2,615	1,756	3,444	10,018
Income tax expense - continuing operations	433	291	570	1,658
Profit after taxation - continuing operations	2,182	1,465	2,874	8,360
Discontinued operation, net of taxation	116	78	153	444
Profit for the period	2,298	1,543	3,027	8,804
Minority interests in subsidiaries	113	76	149	433
Profit attributable to equity holders of the parent	2,185	1,467	2,878	8,371
Basic earnings per share	246.8c	165.7p	325.0¢	945.5PLN
Diluted earnings per share	244.6c	164.3p	322.1¢	937.1PLN

Summary of consolidated balance sheet 31 December 2006	€ m	Stg £m	US $m	PLN m
Assets				
Trading portfolio financial assets	8,953	6,012	11,791	34,299
Derivative financial instruments	2,890	1,941	3,806	11,071
Loans and receivables to banks	12,900	8,662	16,989	49,420
Loans and receivables to customers	107,115	71,928	141,070	410,358
Financial investments available for sale	19,665	13,205	25,899	75,337
Intangible assets and goodwill	550	369	724	2,107
Property, plant and equipment	593	398	781	2,272
Disposal group and assets classified as held for sale	39	26	51	149
Other assets	5,821	3,908	7,666	22,300
	158,526	106,449	208,777	607,313
Liabilities				
Deposits by banks	33,433	22,450	44,031	128,082
Customer accounts	74,875	50,278	98,610	286,846
Derivative financial instruments	2,531	1,700	3,333	9,696
Debt securities in issue	28,531	19,159	37,575	109,302
Other liabilities	4,500	3,021	5,926	17,239
Subordinated liabilities and other capital instruments	4,744	3,185	6,248	18,175
Minority interests in subsidiaries	1,307	878	1,721	5,007
Shareholders' equity	8,605	5,778	11,333	32,966
	158,526	106,449	208,777	607,313

Five year financial summary

2006 US $m	Summary of consolidated income statement[1]	2006 IFRS € m	2005 IFRS € m	2004 IFRS € m	2003 IR GAAP € m	2002 IR GAAP € m
					Year ended 31 December	
3,950	Net interest income	**2,999**	2,530	2,072	1,934	2,351
–	Other finance income	**–**	–	–	12	62
1,748	Other income	**1,327**	1,117	1,144	1,230	1,514
5,698	Total operating income	**4,326**	3,647	3,216	3,176	3,927
3,048	Total operating expenses	**2,314**	2,011	1,869	1,960	2,318
2,650	Operating profit before provisions	**2,012**	1,636	1,347	1,216	1,609
137	Provisions	**104**	143	133	177	251
2,513	Operating profit	**1,908**	1,493	1,214	1,039	1,358
220	Associated undertakings	**167**	149	132	143	9
–	Share of restructuring & integration costs in associated undertaking	**–**	–	–	(20)	–
–	Amortisation of goodwill on acquisition of associated undertaking	**–**	–	–	(42)	–
481	Profit on disposal of property	**365**	14	9	32	5
126	Construction contract income	**96**	45	–	–	–
104	Profit/(loss) on disposal of businesses	**79**	5	17	(141)	–
3,444	Profit before taxation - continuing operations	**2,615**	1,706	1,372	1,011	1,372
570	Income tax expense - continuing operations	**433**	319	267	318	306
2,874	Profit after taxation - continuing operations	**2,182**	1,387	1,105	693	1,066
153	Discontinued operation, net of taxation	**116**	46	53	–	–
3,027	Profit for the period	**2,298**	1,433	1,158	693	1,066
325.0¢	Basic earnings per share	**246.8c**	151.0c	132.0c	78.8c	119.1c
322.1¢	Diluted earnings per share	**244.6c**	149.8c	131.5c	78.4c	117.9c

2006 US $m	Summary of consolidated balance sheet[1]	2006 IFRS € m	2005 IFRS € m	2004 IFRS € m	2003 IR GAAP € m	2002 IR GAAP € m
					As at 31 December	
208,777	Total assets	**158,526**	133,214	101,109	80,960	85,821
158,059	Total loans	**120,015**	92,361	67,278	53,326	58,483
180,216	Total deposits	**136,839**	109,520	82,384	66,195	72,190
3,514	Dated capital notes	**2,668**	2,678	1,923	1,276	1,287
1,147	Undated loan capital	**871**	868	346	357	389
1,587	Other capital instruments	**1,205**	210	497	497	496
1,721	Minority interests in subsidiaries	**1,307**	1,248	1,211	158	274
655	Shareholders' equity: other interests	**497**	497	182	196	235
10,678	Ordinary shareholders' equity	**8,108**	6,672	5,745	4,942	4,180
19,302	Total capital resources	**14,656**	12,173	9,904	7,426	6,861

Five year financial summary *(continued)*

Other financial data[1]	2006 IFRS %	2005 IFRS %	2004 IFRS %	2003 IR GAAP %	2002 IR GAAP %
					Year ended 31 December
Return on average total assets	**1.63**	1.20	1.22	0.90	1.24
Return on average ordinary shareholders' equity	**29.0**	20.6	20.7	14.5	23.7
Dividend ratio	**29.3**	43.5	45.5	66.8	41.5
Average ordinary shareholders' equity as a percentage of average total assets	**5.2**	5.3	5.7	6.0	5.1
Allowance for loan losses as a percentage of total loans to customers at year end	**0.7**	0.8	1.2	1.3	1.6
Net interest margin	**2.26**	2.38	2.45	2.72	3.00
Tier 1 ratio	**8.2**	7.2	8.2	7.1	6.9
Total ratio	**11.1**	10.7	10.9	10.4	10.1

[1]Up to and including the year ended 31 December 2004, AIB's primary financial statements were prepared in accordance with Irish Generally Accepted Accounting Principles ("Irish GAAP"). On 1 January 2005, AIB Group implemented the requirements of International Financial Reporting Standards and International Accounting Standards (collectively, "IFRS") for the first time and these were used for the purpose of preparing the financial statements for the years ended 31 December 2005 and 31 December 2006. These financial statements have been prepared based on the recognition and measurement requirements of IFRS issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("EU").

AIB availed of transitional provisions for IAS 32 "Financial Instruments: Disclosure and Presentation" ("IAS 32"), IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and IFRS 4 "Insurance Contracts" ("IFRS 4") and did not present comparative information in accordance with these standards in its 2005 financial statements. Accordingly, comparative information for 2004 in respect of financial instruments and insurance contracts has been prepared on the basis of the Group's accounting policies under Irish GAAP. Thus the five year trends will not be entirely comparable.

Principal Addresses

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From ROI 048 9043 8338

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All numbers are listed with international codes. To dial a location from within the same jurisdiction, drop the county 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: +353-1-247 5411. Facsimile: +353-1-216 3151.
Website: **www.computershare.com**
e-mail: **web.queries@computershare.ie**

4. Payment of Dividends direct to a bank account

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

5. American Depositary Shares

American Depositary Shares provide US residents wishing to invest in overseas securities with a share certificate and dividend payment in a form familiar and convenient to them. The Company's ordinary share and non-cumulative preference share ADR programmes are administered by The Bank of New York – see address on page 157.

6. Dividend Reinvestment Plan – US ADR Holders

AIB's ordinary share ADR holders who wish to re-invest their dividends may participate in The Bank of New York's Global Buy Direct program, details of which may be obtained from The Bank of New York at 1-888-269-2377.

7. Direct Deposit of Dividend Payments – US ADR Holders

Ordinary Share ADR holders may elect to have their dividends deposited direct into a bank account through electronic funds transfer. Information concerning this service may be obtained from The Bank of New York at 1-888-269-2377.

8. Dividend Withholding Tax ("DWT")

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

General

With certain exceptions, which include dividends received by non-resident shareholders who have furnished valid declaration forms (see below), dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, currently 20%. The following summarises the position in respect of different categories of shareholder:

A. Irish Resident Shareholders

– ***Individuals***

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

– ***Shareholders not liable to DWT***

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

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Qualifying Fund Managers who receive the dividend in respect of an approved retirement or minimum retirement fund;
- Qualifying Savings Managers who receive the dividend in connection with assets held in a Special Savings Incentive Account;
- Collective Investment Undertakings;
- Charities exempt from income tax on their income;
- Athletic/amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ("SPIA");
- Certain permanently incapacitated persons who are exempt from income tax; trusts established for the benefit of such persons; and Thalidomide victims exempt from income tax in respect of income arising from the investment of certain compensation payments;
- The Administrator of a Personal Retirement Savings Account ("PRSA") who receives the dividend in respect of the PRSA assets; and
- Certain Unit Trusts (Revenue-approved Charities and Pension Schemes) which are exempt from Capital Gains Tax where the dividends are received in relation to units in the trust.

Copies of the relevant declaration form may be obtained from the Company's Registrar at the address shown at 3 above, or from the Revenue Commissioners at the above address. Once lodged with the Company's Registrar, the declaration form remains current from its date of issue until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to a shareholder not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the DWT so deducted.

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

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

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

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

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

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

* A "relevant territory" means a Member State of the European Union, other than the Republic of Ireland, or a country with which the Republic of Ireland has entered into a double taxation agreement.

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

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

(a) an individual who is neither resident nor ordinarily resident in the Republic of Ireland and who is resident for tax purposes in a relevant territory (as defined at * above);

(b) an unincorporated entity resident for tax purposes in a relevant territory and not so resident in the Republic of Ireland;

(c) a company resident in a relevant territory (and not so resident in the Republic of Ireland) which is controlled by a non-Irish resident/residents;
(d) a company not resident in the Republic of Ireland and which is controlled by a person or persons resident for tax purposes in a relevant territory; or
(e) a company not resident in the Republic of Ireland, the principal class of whose shares are traded on a recognised stock exchange in a relevant territory or on such other stock exchange as may be approved by the Minister for Finance, including a company which is a 75% subsidiary of such a company; or
a company not resident in the Republic of Ireland that is wholly-owned by two or more companies, each of whose principal class of shares is so traded.

Under a proposed legislative amendment, which may be enacted by the date of receipt by shareholders of this annual report, the meaning of a recognised stock exchange will include an exchange in the Republic of Ireland.
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 notice in writing from the Irish Revenue Commissioners, stating that they have noted the information provided by the trustees.
– **Categories (c), (d) and (e) above:** The company's auditor must certify the declaration. In addition, where the company is resident in a relevant territory, the declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes.

Once lodged with the Company's Registrar, declaration forms remain current from their date of issue until 31 December in the fifth year following the year of issue, or, within such period, until the shareholder notifies the Registrar that entitlement to exemption is no longer applicable.

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

C. Dividend Statements

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

D. American Depositary Receipt ("ADR") Holders

An ADR holder whose address:
- on the register of ADRs maintained by AIB's ADR programme administrator, the Bank of New York ("BONY"), or
- in the records of a further intermediary through which the dividend is paid

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

US Withholding Tax:

Note: The following information, which is given for the general guidance of ADR holders, does not purport to be a definitive guide to relevant taxation provisions. While it is believed to be accurate at the time of finalising this Report for publication, ADR holders should take professional advice if they are in any doubt about their individual tax positions.

Notwithstanding entitlement to exemption from Irish DWT, referred to above, ADR holders should note that US-resident holders of ADRs may, in certain circumstances, be liable to a US withholding tax on dividends received on such ADRs. This would arise, for example, where a US resident, being the beneficial owner of ADRs issued by an overseas company, fails to provide the depositary bank – or, where applicable, the Registered Broker – with a Form W-9 (tax certified document), showing, inter alia, the holder's Social Security Number or Taxpayer Identification Number. Non-US residents holding ADRs are required to submit a Form W-8 to the depositary bank/Registered Broker, as appropriate, to become tax certified and to avoid US witholding 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 157;
(ii) the holder's Registered Broker, where applicable; or
(iii) the holder's financial/taxation adviser.

9. **Shareholding analysis**
as at 31 December 2006

Size of shareholding	Shareholder Accounts * Number	%	Shares ** Number	%
1 – 1,000	41,718	58	14,664,565	2
1,001 – 5,000	20,904	29	51,239,171	6
5,001 – 10,000	4,749	7	35,350,446	4
10,001 – 100,000	4,080	6	64,755,920	7
100,001 – over	400	0	709,647,389	81
Total	**71,851**	**100**	**875,657,491**	**100**
Geographical division				
Republic of Ireland	57,506	80	311,478,088	36
Elsewhere	14,345	20	564,179,403	64
Total	**71,851**	**100**	**875,657,491**	**100**

* Shareholder account numbers reflect US ADR account holders (12,500 approx.) held in a single nominee account
** Excludes 42,778,079 shares held as Treasury Shares - see note 47 on page 124.

Financial calendar
Annual General Meeting: Wednesday, 9 May 2007, commencing at 11.00am, at the Radisson SAS Hotel, Lough Atalia Road, Galway.
Dividend payment dates - Ordinary Shares:
– Final Dividend 2006 – 10 May 2007
– Interim Dividend 2007 – 25 September 2007

Interim results
Unaudited interim results for the half-year ending 30 June 2007 will be announced on 1 August 2007. The Interim Report for the half-year ending 30 June 2007 will be published as a press advertisement in early August 2007, 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 1 247 5411
Facsimile: +353 1 216 3151
e-mail: **web.queries@computershare.ie**
Website: (for on-line shareholder enquiries)
www.aibgroup.com - click on 'Check your Shareholding'
or
www.computershare.com

For holders of ADRs in the United States:
The Bank of New York,
Shareholder Relations,
PO Box 11258,
Church Street Station,
New York, NY 10286-1258, USA
Telephone 1-888-BNY-ADRS/1-888-269-2377
Website: **www.adrbny.com**
or
Ann Kerman
AIB Shareholder Relations,
300 North 2nd Street
7th Floor
Suite 711
Harrisburg PA 17101,
USA
Telephone 1-800-458 0348
e-mail: **ann.l.kerman@aibny.com**

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