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ALLIED IRISH BANKS PLC
Form 6-K
June 16, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934

For the date of 16 June, 2005

ALLIED IRISH BANKS, public limited company

Bankcentre, Ballsbridge, Dublin 4, Republic of Ireland

Indicate by check mark whether the registrant files or will file annual reports
under cover of Form 20-F or Form 40-F.

Form 20-F..X... Form 40-F.....

Indicate by check mark whether the registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No ..X...

If "Yes" is marked, indicate below the file number assigned to the registrant
in connection with Rule 12g3-2(b): 82- _____

FOR IMMEDIATE RELEASE

16 JUNE 2005

Allied Irish Banks, p.l.c.

Trading Update

Allied Irish Banks, p.l.c. ("AIB") (NYSE:AIB) is issuing the following update on
trading before its half year close period.

The half year to 30 June 2005 is the first time we will report under
International Financial Reporting Standards (IFRS). For ease of comparison, the
following information and related comments are attached to this update:

- An audited restatement of 2004 Group profit and loss account and balance
sheet. This reflects the IFRS standards which are required to be applied to

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2004.

- An unaudited proforma of 2004 profit and loss account. In addition to the above restatement, further standards (IAS 32, IAS 39, IFRS 4) will affect our 2005 results. Where practical and as elaborated on in the attachment to this update, the proforma is presented as if these standards had applied to 2004.

The impact of IFRS on our financial performance is less than that previously outlined at our briefing on 1st March. Proforma IFRS earnings per share (EPS) in 2004 are 127.1c (125.6c previously outlined).

The strong, consistent and broad based performance we reported in 2004 is continuing this year. The key drivers of income growth remain unchanged. High rates of increase in both loans and deposits reflect further market share gains in targeted sectors and products in each of our franchises. Customer demand for our suite of deposit products has increased, notably in the Republic of Ireland. Income growth is expected to outpace cost growth again in 2005 - at an overall level and also within each of our operating divisions. The momentum in our operating divisions and the contribution we anticipate from our successful partnership with M&T are being complemented by strong asset quality.

At our IFRS briefing on 1st March and at our subsequent AGM, we said that we expected earnings per share for 2005 would be within a range of 135c - 137c. Based on strong current business trends and pipelines, together with better than anticipated asset quality, we are increasing our EPS guidance. We are now targeting EPS in 2005 to be in a range of 138c - 140c. This compares to the aforementioned 2004 base of 127.1c. Growth at the interim stage is expected to be particularly strong due to a very low bad debt provision charge.

This guidance for 2005 assumes:

- c. 1% adverse impact on EPS anticipated from currency translation of earnings.
- zero volatility due to accounting hedge ineffectiveness under IFRS. However, some volatility will arise and this will be disclosed separately in our accounts.

We are making good progress in an enterprise wide programme to enhance and integrate our risk management and compliance functions - a point acknowledged by S&P when that agency recently upgraded AIB's long term ratings. We have also initiated a comprehensive programme to review and improve all our operations and systems across the enterprise. Over time this action will generate further productivity, service quality and operational risk benefits.

We are actively managing our capital and funding positions. Both are well capable of supporting our ambitious organic growth plan.

REPUBLIC OF IRELAND DIVISION

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The Irish economy continues to provide very favourable conditions for our business. We expect GDP growth of around 6% this year.

We are reinforcing our position as the leading retail and commercial bank in Ireland. Customer demand for our products and services is strong. The special focus our relationship managers are placing on deposit growth and our competitive pricing are being very well received by customers and we are on track to increase deposits by around 15% in 2005. Loans are targeted to grow by over 20% reflecting our prime position in both the business and personal lending markets. In mortgages, we are growing our book at a similar rate to the overall market. This is being achieved by harvesting the potential of our customer base while maintaining prudent repayment capacity and loan to value criteria.

The impact of competition is largely unchanged and continues to be most evident in an increased demand for lower margin deposit and mortgage products. We remain in a strong competitive position, sustained by our model of identifying customer needs and offering good value products and services.

Ark Life is performing in line with expectations to achieve a higher operating profit this year compared to 2004 proforma IFRS outturn.

GREAT BRITAIN AND NORTHERN IRELAND DIVISION

Our business banking franchise in Great Britain is performing strongly and continues to gain share in our chosen sectors. The ongoing investment that we are making in our people, locations and systems is reflected again this year by strong increases in deposit and loan volumes. Our loan book is characterised by a combination of fast growth and high quality. The resilience of the loan book is underpinned by our in depth knowledge of the limited number of mid market business sectors in which we participate. We do not participate in the consumer credit market and our focus in the personal market is largely confined to individuals with whom we already have a business banking relationship.

In Northern Ireland First Trust is growing profits in line with expectations. Superior productivity relative to our larger rivals enables us to outperform in a highly competitive banking environment. We anticipate loans and deposits to grow in double digits.

We are targeting growth in loans and deposits for the division overall this year to be close to 25% and 20% respectively.

CAPITAL MARKETS

Customer revenues continue to be the key dynamic that places us on track to

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deliver another year of significant growth.

Corporate Banking remains the cornerstone of the division's profit. Loans in 2005 are targeted to increase by around 20% reflecting strong customer demand in both our domestic and international businesses. This growth is being achieved despite competitive forces driving prices down which has moderated our volume growth. We are maintaining our pricing discipline to ensure we continue to generate good risk adjusted returns relative to our cost of capital.

Treasury is benefiting from the resilience of customer relationships and is on track to achieve a good performance. In line with our conservative approach to proprietary trading, utilisation of our risk limits remains modest and the embedded value in our investment portfolios is positive.

Investment Banking is performing well and in line with expectations.

POLAND DIVISION

We expect to achieve good growth in 2005 on the much higher base of profits achieved following a very strong recovery in 2004.

Non interest income remains the principal driver of revenue. Notable features of this year's performance are the strong growth and market share gains we are achieving in electronic payment, investment fund and stockbroking fees. Deposit volumes are expected to increase by around 10%. Our corporate loan volumes are outperforming a still contracting market and while we are maintaining our share of local currency mortgages, we are not promoting higher risk f.x. mortgages. We are targeting an overall single digit increase in our loan book. Asset quality remains best in class and continues to improve.

Cost management is good and we expect income to grow faster than costs this year.

M&T BANK CORPORATION

Our partnership with M&T is progressing well and meeting all our expectations. At its Q1 results announcement, M&T reaffirmed guidance for double digit growth in diluted GAAP earnings per share for 2005. Features of the Q1 results included good demand for commercial loans, very resilient asset quality and tight cost management.

M&T management have said that their primary focus at present is on an organic growth agenda and to extract further synergies from the successful merger with Allfirst.

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Under IFRS we are now accounting for our share of M&T profits based on our average shareholding for the period (22.7% for 2004).

MARGINS

We continue to expect a reduction in our net interest margin to approximate 20 bps in 2005. The single biggest factor behind the attrition - loans growing faster than deposits - is unchanged. A combination of lower rates for the reinvestment of customer account funds, business mix and competition are lesser contributory factors.

NON INTEREST INCOME

A constant currency increase of around 7% is expected this year. The move to Effective Interest Rate under IFRS reduces the rate of growth in non-interest income - lending related fees are reflected in interest income and not non-interest income as heretofore. Increased account activity, corporate banking fees and the aforementioned performance in Poland are the primary sources of growth.

COSTS

We expect constant currency total costs this year to increase by around 6%. Growth at the interim stage is likely to be higher, mainly due to a ramp up in costs incurred from the second half of 2004 and continuing in 2005 to ensure compliance with a host of new regulatory requirements e.g. Sarbanes Oxley, Basel II.

The cost performance reflects tight management in the context of our strong business growth.

ASSET QUALITY

High quality is a consistent feature of the credit portfolios across our franchises. In the year to date we have had a very low level of gross new non-performing loans combined with strong recoveries. This is likely to mean that we will report a particularly low bad debt charge at the interim stage. The charge is also positively influenced by the new IFRS incurred loss provision rule. Our portfolio reviews do not point to a deterioration in quality. However, in view of our very strong and consistent loan growth, we believe the current experience to be exceptional. We now expect the charge in 2005 to be less than 20 bps of average loans, although IFRS makes forecasting more difficult.

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NOTE

Group results for the half-year ended 30th June 2005 will be announced on 3rd August 2005.

-ENDS-

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Allied Irish Banks, p.l.c.

Transition to IFRS

Restatement of 2004 financial information

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FORWARD-LOOKING STATEMENT

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 on the impact of International Financial Reporting 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.

Introduction

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 ('IR GAAP'). On 1 January 2005, AIB Group ('the Group'), in common with other listed entities within the European Union ('EU'), implemented the requirements of International Financial Reporting Standards and International Accounting Standards (collectively, 'IFRS') for the first time and these will be used for the purpose of preparing financial statements for the year ending 31 December 2005.

This document sets out the impact of these changes upon the Group's financial position and reconciles the restated comparatives to previously published 2004 IR GAAP financial statements.

Comparative information for 2004 has been restated to take into account the requirements of all of the IFRSs except for IAS 32 'Financial Instruments: Disclosure and Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts'. These three standards have been implemented with effect from 1 January 2005 and the opening balance sheet at this date has been adjusted accordingly.

Provisional accounting policies that the Group proposes to adopt in the

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preparation of its 2005 half-year and full-year results are also provided. These provisional accounting policies are in accordance with all standards and related interpretations that have been or are expected to be endorsed by the EU, and with all extant accounting standards and interpretations issued by the International Accounting Standards Board ('IASB').

Further standards and interpretations may be issued that could be applicable for financial years ending in 2005 or later but with the option for earlier adoption. The Group's first annual IFRS financial statements may, therefore, be prepared in accordance with different accounting policies to those used in this document and, as a result, the financial information in this document could be subject to change.

Summary

From 1 January 2005 the Group has been using International Financial Reporting Standards (IFRS). Although the move to IFRS changes the timing of earnings recognition, it is important to note that it does not impact on business fundamentals or cash flows. The implementation of IFRS may result in greater earnings volatility in future periods and the Group will endeavour to present the performance in a manner in which underlying business performance and trends are identifiable.

2004 Earnings restatement

The results for 2004 have been restated to take account of the International Financial Reporting Standards implemented with effect from 1 January 2004. This restatement of results for 2004 excludes adjustments for standards implemented with effect from 1 January 2005. The main changes to the 2004 profit and loss account resulting from the restatement are as follows:

	Year to December 2004	
	IR GAAP EUR m	IFRS Audited EUR m
Total income	3,264	3,608
Operating expenses	1,886	1,894
Profit on ordinary activities before taxation	1,418	1,430
Basic earnings per share	122.9c	132.0c

- Group profit on ordinary activities before taxation increased by EUR 12 million to EUR 1,430 million.

- Group profit attributable to ordinary shareholders increased by EUR 78 million to EUR 1,125 million.

- Basic earnings per share increased by EUR 9.1c from EUR 122.9c to EUR 132.0c.

The changes impacting basic earnings per share primarily reflect the positive accounting treatment of goodwill partly offset by additional expense in respect

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of dividend withholding tax on undistributed associate undertaking profits and employee share option schemes.

2004 Pro-forma earnings restatement

As outlined above, the restatement of results for 2004 excludes adjustments for standards implemented with effect from 1 January 2005. IAS 32, IAS 39 and IFRS 4 have been implemented from 1 January 2005. Had these standards been implemented in 2004, it would have impacted the accounting for derivatives, loan impairment, income recognition on loans ('EIR'), insurance accounting and classification of financial instruments. Set out below are the pro-forma impacts of EIR, insurance accounting and classification of financial instruments in order to establish a 2004 pro-forma IFRS restatement. Accounting for derivatives and loan impairment are not included in the pro-forma restatement.

	Year to December 20	
	IFRS	IFRS
	Audited EUR m	Pro-forma EUR m
Total income	3,608	3,602
Operating expenses	1,894	1,893
Profit on ordinary activities before taxation	1,430	1,425
Basic earnings per share	132.0c	127.1c

- 2004 pro-forma profit on ordinary activities before taxation reduced by EUR 5 million.
 - Effective interest rate adjustment reduced profit before taxation by EUR 28 million.
 - Insurance business (IFRS 4 / IAS 39 v embedded value accounting) reduced profit before taxation by EUR 24 million.
 - Classification of financial instruments increased profit before taxation by EUR47 million.

- Earnings per share reduced by EUR 4.9 c to EUR 127.1c.
 - Effective interest rate adjustment - EUR 2.5c decrease.
 - Insurance business - EUR 2.4c decrease.

Commentary on key differences

2004 Earnings restatement summary

The key differences between IFRS and IR GAAP impacting the profit and loss account for 2004 are described on pages 10 to 14 and the analysis of the impact of IFRS is detailed on page 39. These impacts are summarised below.

	Year to December 2	
	IR	IFRS
	GAAP	Audited

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	EUR m	EUR m
Total income (1)	3,264	3,608
Operating expenses (2)	1,886	1,894
Share of operating profits of associated undertakings (3)	201	132
Profit on ordinary activities before taxation	1,418	1,430
Basic earnings per share (4)	122.9c	132.0c

(1) The EUR 344 million increase in total income reflects

(a) the reclassification of the cost of employee benefits from net interest income to operating expenses.

(b) line by line profit and loss consolidation of insurance business (Ark Life).

(2) The EUR 8 million increase in operating expenses reflects

(a) line by line profit and loss consolidation of insurance business.

(b) the cost of employee benefits reclassified from net interest income.

(c) the charge in respect of share based payments.

(d) change in the treatment of software development costs.

(e) the benefit of not amortising goodwill in 2004.

(3) The share of after tax profits of associates is included as part of pre-tax profit. This reduces the share of operating profit of associated undertakings on the face of the profit and loss account by EUR 61 million with an offsetting reduction in the taxation charge. This classification is neutral from an earnings per share perspective. The application of IFRS to the results of associated undertakings also reduces the income from associated undertakings by EUR 8 million.

(4) The EUR 9.1c increase in the basic earnings per share reflects

(a) goodwill amortisation. +9.2c

(b) share based payments. -1.2c

(c) dividend withholding tax on associate company profits. -0.6c

(d) software development costs +0.7c

(e) other +1.0c

2004 Pro-forma earnings restatement summary

The additional impacts of applying IAS 32, IAS 39 and IFRS 4 are described on pages 15 to 20 and a pro-forma income statement for 2004 reflecting the impact

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of EIR, insurance accounting and classification of financial instruments is set out on page 45.

	Year to December 20	
	IFRS	IFRS
	Audited EUR m	Pro-forma EUR m
Total income (1)	3,608	3,602
Operating expenses	1,894	1,893
Profit on ordinary activities before taxation	1,430	1,425
Earnings per share (2)	132.0c	127.1c

(1) The decrease of EUR 6 million in total income reflects

(a) effective interest rate reduced total income by EUR 29 million.

(b) insurance business (Ark Life) reduced total income by EUR 24 million.

(c) classification of financial instruments increased total income by EUR 47 million.

(2) The 4.9c reduction in the earnings per share is outlined below

IFRS EPS	132.0c
EIR	(2.5c)
Insurance business	(2.4c)
Pro-forma IFRS EPS	127.1c

Balance sheet and shareholders' equity

The overall effect of the adoption of IFRS on the Group's balance sheet is set out below.

	31 December	1 January
	2004	2005
	IR GAAP EUR m	IFRS EUR m
Balance sheet		
Shareholders' equity	5,581	6,750

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Total assets	102,240	102,819
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The key differences between IFRS and IRGAAP are set out on pages 10 to 20 and the principal impacts of the transition to IFRS on equity at 1 January 2005 are set out below. The reconciliation of shareholders' equity at 31 December 2004 is set out in Appendix 4, and at 1 January 2005 incorporating the impacts of IAS 32, IAS 39 and IFRS 4, is set out in Appendix 5.

Dividends
 Effective interest rate
 Impairment
 Available for sale securities
 Derivatives
 Insurance accounting
 Classification of financial instruments
 Other

Total assets at 1 January 2005 increased by EUR 0.6 bn to EUR 102.8 bn, when compared to the IRGAAP balance sheet at 31 December 2004. The increase arose as a result of a number of different items which are detailed on pages 10 to 20. IFRS requires certain items, netted under previous GAAP, to be shown gross and this accounted for an increase of EUR 1.4bn, while other adjustments increased total assets by EUR 0.4bn. Consolidation of previous unconsolidated entities reduced total assets by EUR 1.2 bn due to the elimination of intra group transactions giving a net increase in total assets of EUR 0.6 bn.

31 December
 2004
 IR GAAP

Capital Ratios		%
Tier 1 capital		7.9
Total capital		10.7

The treatment of some items in the calculation of regulatory capital has still to be finalised, although the effect, if any, is not expected to be material. The Tier 1 capital ratio increased to 8.3% and the total capital ratio to 10.9%. The higher ratios reflect the benefit from the transition adjustments to equity, primarily a timing difference on the recording of the ordinary dividend. The mark to market of available-for-sale debt securities and derivatives classified

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as cash flow hedges are both excluded from the regulatory capital calculation.

Consolidated preliminary income statement

	Audit IF ye 31 Decemb 20 EUR
Interest and similar income	4,0
Interest expense and similar charges	1,9
Net interest income	2,1
Dividend income	
Fees and commissions income	1,0
Fees and commissions expense	(13
Net trading income	2
Other operating income	2
Other income	1,4
Total operating income	3,6
Insurance claims	3
Administrative expenses	1,7
Integration and restructuring costs	
Depreciation of property, plant and equipment	
Amortisation and impairment of intangible assets and goodwill	
Total operating expenses	1,8
Group operating profit before provisions	1,4
Impairment losses on loans and advances	(11
Provisions for contingent liabilities and commitments	(2
Amounts written off fixed assets	
Group operating profit	1,2
Share of profits of associated undertakings	1
Profit on disposal of property	
Profit on disposal of business	
Group profit on ordinary activities before taxation	1,4
Taxation on ordinary activities	2
Group profit on ordinary activities after taxation	1,1
Profit attributable to minority interests	
Preference dividends	
Profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	1,1
Earnings per EUR 0.32 ordinary share - basic	132
Earnings per EUR 0.32 ordinary share - diluted	131

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Consolidated preliminary balance sheet

	Audited IFRS 1 January 2005 EUR m	Audited IFRS 31 December 2004 EUR m	Unaudited Interim 30 June 2005 EUR m
Assets			
Cash and balances at central banks	887	887	
Items in course of collection	368	368	
Central government bills and other eligible bills	-	-	
Trading portfolio assets	7,957	-	
Assets held at fair value through profit and loss	1,871	-	
Derivative financial instruments	2,581	-	
Loans and advances to banks	2,538	2,540	2,538
Loans and advances to customers	65,692	64,738	59,692
Debt securities	-	24,501	24,501
Equity shares	-	1,641	1,641
Financial investments	15,720	-	
Interests in associated undertakings	1,395	1,379	1,395
Intangible assets and goodwill	540	540	
Property, plant and equipment	745	745	
Other assets	1,460	2,622	1,460
Deferred taxation	204	228	
Prepayments and accrued income	861	920	
Total assets	102,819	101,109	94,819
Liabilities			
Deposits by banks	20,428	20,428	23,428
Customer accounts	50,151	50,151	47,151
Trading portfolio liabilities	332	-	
Derivative financial instruments	2,541	-	
Investment contract liabilities	2,422	2,422	2,422
Debt securities in issue	11,805	11,805	6,805
Insurance contract liabilities	1,465	864	
Current taxation	197	175	
Other liabilities	1,593	3,388	3,593
Accruals and deferred income	700	913	
Retirement benefit liabilities	886	886	
Provisions for liabilities and charges	122	122	
Deferred taxation	38	52	
Subordinated liabilities	2,178	2,765	2,178
Total liabilities	94,858	93,971	88,858
Shareholders' equity			
Share capital	294	294	
Share premium account	1,693	1,693	1,693
Other equity interests	770	182	
Reserves	1,159	954	
Profit and loss account	2,834	2,804	2,834

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Shareholders' equity	6,750	5,927	5,
Minority interests	1,211	1,211	
Total shareholders' equity including minority interests	7,961	7,138	6,
Total liabilities, shareholders' equity and minority interests	102,819	101,109	94,

Summarised IFRS segmental information

	AIB Bank ROI EUR m	AIB Bank GB & NI EUR m	Capital Markets EUR m	Poland Yea EUR m
Operations by business segments				
Net interest income	1,206	416	360	174
Other income	670	189	390	188
Total operating income	1,876	605	750	362
Insurance claims	309	-	-	-
Total operating expenses	838	305	403	245
Provisions	44	13	29	29
Group operating profit/(loss)	685	287	318	88
Share of operating (loss)/profit of associated undertakings	(1)	-	4	1
Profit on disposal of property	7	1	-	1
Profit on disposal of businesses	-	-	4	13
Group profit on ordinary activities before taxation	691	288	326	103

	AIB Bank ROI EUR m	AIB Bank GB & NI EUR m	Capital Markets EUR m	Poland EUR m
Operations by business segments				
Net interest income	584	201	174	81
Other income	313	94	188	94
Total operating income	897	295	362	175
Insurance claims	156	-	-	-
Total operating expenses	406	152	186	118
Provisions	28	(3)	17	21

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Group operating profit/(loss)	307	146	159	36
Share of operating profit of associated undertakings	-	-	3	-
Profit on disposal of property	-	1	-	1
Profit on disposal of businesses	-	-	-	12
Group profit on ordinary activities before taxation	307	147	162	49

Changes in accounting policies - key differences from IRISH GAAP ('IR GAAP')

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

IR GAAP

IFRS

(a) Basis of consolidation

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

IAS 27 'Consolidated and separate financial statements'

requires that all entities are consolidated line by line basis, except in very limited circumstances. The assets and liabilities of a life assurance subsidiary will be consolidated line by line basis and all intra group transactions will be eliminated. The income and expense of a life assurance subsidiary will be shown as a relevant line item of the income statement. Under IR GAAP it was shown as a one line item.

Under IAS, movement in the value of the long-term assurance business is presented net of tax.

IFRS also requires the consolidation of all entities that was not required under IR GAAP, including securitisation vehicles where applicable.

Under IR GAAP, movements in the value of the long-term assurance business attributable to shareholders, was presented in the profit and loss account grossed up at the statutory tax rate.

IFRS impact:

This is principally a change in presentation on the face of the income statement and balance sheet. The balance sheet also reduced slightly due to the

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elimination of intra group transactions.

(b) Interests in associated undertakings

The attributable share of income of associated undertakings, based on accounts made up to the end of the financial year, is included in the consolidated profit and loss account using the equity method of accounting.

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

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

IFRS impact:

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

(c) Finance leases

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

Under IAS 17 'Leases', income from finance leasing transactions is apportioned over the period at a rate calculated to give a constant return on the investment in the lease. This method takes into account the taxation flows generated by the lease.

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

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

IFRS impact:

There is a change in the income recognition profile for individual transactions, but the overall impact on the income statement is not significant.

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

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

IR GAAP

(d) Software and software development costs

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

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

IFRS

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

IFRS impact:

The classification criteria of IFRS gives rise to a reclassification from tangible fixed assets to intangible assets, being the carrying value of previously recognised operating software.

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The recognition requirements within IAS 38 increases shareholders' equity due to an increase in capitalised assets. The impact on the income statement is dependent on the level of internal expenditure on computer software development in any period. There will be some reclassification impact as administrative expenses will be lower with an increase in the depreciation / amortisation charge.

(e) Employee and retirement benefits

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

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

Pension scheme assets are recognised in the balance sheet at their fair value based on current mid prices.

The net pension scheme liabilities are shown in the balance sheet net of deferred taxation.

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

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

The cost of providing pensions and other employee benefits is shown within administrative expenses and analysed in the notes to the accounts.

Pension scheme assets are recognised in the balance sheet at their fair value based on current mid prices.

Deferred taxation relating to the net pension scheme liabilities is shown in the balance sheet net of taxation.

Under IAS 19, the cost of providing benefits such as subsidised loans and preferential rates on deposits is charged to net interest income as it arises. Under IAS 19, the cost of providing benefits such as subsidised loans and preferential rates on deposits is charged to net interest income as it arises.

IFRS impact:

There is a presentation change on the face of the income statement. Other finance income, which is the expected return on pension scheme assets net of the change in value of plan liabilities, is now shown within administrative expenses. This gives rise to a reduction in operating expenses with no impact on profit before taxation. There is also a presentation change on the face of the income statement arising from the change in accounting treatment of certain benefits with an increase in net interest income and an increase in administrative expenses.

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

A transition adjustment arises on the application of IAS 19 which increases the retirement benefit liabilities and reduces shareholders' equity.

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

IR GAAP

IFRS

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(f) Taxation

Subject to certain exceptions, deferred taxation is recognised in full in respect of timing differences that have originated but not reversed at the balance sheet date.

Deferred tax is not provided on timing differences arising:- on the revaluation of property when no commitment has been made to sell the asset; when a taxable gain on the sale of an asset is rolled over into replacement assets; or on the potential additional tax that may be payable on the payment of a dividend by a subsidiary or associated undertaking where no commitment has been made to pay a dividend.

Under IAS 12 'Income Taxes' deferred tax assets are generally recognised in respect of temporary differences, subject to assessment of the recoverability of deferred tax assets. Deferred tax assets are recognised, only to the extent that it is probable that sufficient taxable profits will be available in the future in which these differences can be utilised.

Unremitted earnings from subsidiary companies may result in a deferred tax liability if the entity is able to control the timing of the distribution and it is probable that the earnings will be distributed in the foreseeable future.

IFRS impact:

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

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

(g) Foreign currency

Exchange adjustments arising from the retranslation of net investments, net of hedging profits and losses, are recognised in the statement of total recognised gains and losses.

The profit on disposal of a foreign operation is calculated based on the carrying value of the operation at the date of disposal. Previous exchange translation gains and losses remain in shareholders' equity.

IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires that all exchange differences arising on the retranslation of a foreign operation are recognised in a foreign exchange reserve component of equity.

On disposal of a foreign operation, exchange differences previously recognised in respect of that foreign operation are reversed in the income statement in arriving at profit or loss on disposal.

IFRS 1 permits companies to deem exchange differences as zero at 1 January 2004.

IFRS impact:

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

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

IR GAAP

IFRS

(h) Intangible assets and goodwill

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

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

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

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

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

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

IFRS impact:

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

The book value of goodwill existing at 31 December 2003 under IR GAAP is carried forward under IFRS 1 as at 1 January 2004, subject to two adjustments: the reversal of previously unrecognised intangible assets and the recognition criteria under IAS 38 'Intangible Assets'. These are reported separately to the extent they are included in goodwill at the date of transition. In addition, any adjustments to provisional amounts (hence goodwill) made during the first year of an acquisition are reflected in the comparative information.

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

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

Under IFRS 3, the acquirer shall not make any adjustments to the provisional fair value of assets and liabilities acquired in a business combination in the first 12 months of the acquisition date, with the exception of an adjustment to goodwill. These adjustments shall be made as if they had occurred at the acquisition date. There shall be no adjustment to the comparative information of an adjustment to the comparative information.

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

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

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

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

IR GAAP

IFRS

(i) Dividends

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

Under IAS 10 'Events after the balance sheet date' dividends declared after the balance sheet date are recognised as a liability at the balance sheet date.

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

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

IFRS impact:

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

(j) Share based payments

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

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

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

The expense is recognised over the period the options are expected to vest. Actual expense recognised over the vesting period will be based on the number of options that remain outstanding at the end of the vesting period.

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

If an award is made in respect of a share-based payment but an employee must complete a further period of service before entitlement to the award (a 'cliff' period), the expense is spread from the commencement of the service period, to the end of the cliff period, to the vesting date.

Shares awarded under the profit sharing schemes, as a

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bonus for previous service, are expensed immediately.

IFRS impact:

AIB has elected to apply IFRS 2 to all equity settled share based payments occurring after 7 November 2002 that have not vested by 1 January 2005.

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

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

AIB has implemented IAS 32 'Financial Instruments: Disclosure and Presentation', IAS39 'Financial Instruments; Recognition and Measurement' and IFRS 4 'Insurance Contracts' with effect from 1 January 2005.

IR GAAP

(k) Loan origination - interest income and expense recognition

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

IFRS

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

Costs associated with mortgage incentive are charged to interest income so as to give a constant yield over the expected maturity on the mortgage.

Fees and commissions received on the mortgage are recognised immediately when earned.

IFRS impact:

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

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

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Revisions of expected maturity of loans could generate income volatility.

(1) Loan impairment - allowance and provision for losses

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

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

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

Individual credit exposures are evaluated on the basis of the borrower's character, overall financial resources and payment record, the prospects for the realisation of collateral or other guarantees where applicable.

The estimated recoverable amount is based on the present value of expected future cash flows, which may be affected by restructuring or liquidation. Impairment allowances for credit losses are established as the difference between the carrying amount and the estimated recoverable amount.

IAS 39 allows collective assessment of individually insignificant items. Small loans are grouped together in homogeneous portfolios on the basis of common characteristics and impairment is assessed with reference to the loss history experienced by similar portfolios.

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

IR GAAP

(1) Loan impairment - allowance and provision for losses (continued)

is reviewed quarterly to ensure that it remains appropriate. of the asset pool.

Interest is not taken to profit when recovery is doubtful.

IFRS

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

Upon impairment the accrual of interest income is based on the original terms of the contract and is discontinued, but the increase of the carrying amount of impaired claims due to the passage of time is recognised as interest income.

IFRS impact:

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

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

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

(m) Financial instruments

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

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

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

Held-to-maturity

Financial instruments are designated as held-to-maturity when they are debt securities that are held on a continuing use basis by the Group for which the ability and intention to hold to maturity are demonstrated. Debt securities held to maturity are stated in the balance sheet at amortised cost, adjusted on an effective interest basis. Amortization of any premiums or discounts arising on acquisition and provisions for impairment are recognised immediately in the profit and loss account. Amortisation of premiums and discounts is recognised in net interest income. Provisions for impairment are recognised in the income statement.

Available-for-sale

Available-for-sale financial instruments are stated in the balance sheet at fair value with holding gains and losses reported net of tax in the profit and loss account as a separate component in shareholders' equity. Impairment arises on an available-for-sale financial instrument when a cumulative loss that has been recognised in the profit and loss account is removed and the impairment is recognised in the profit and loss account. When the conditions that

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

IR GAAP

IFRS

(m) Financial instruments (continued)

requirement for a provision no longer applies, the provision for debt securities may be reversed to the profit and loss account. No reversal of impairment on available for sale financial instruments is allowed until the security has been sold. Profits and losses on available for sale

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are recognised in the profit and loss account at the amortised cost of the security.

Held as fair value through profit and loss

Debt securities held as fair value through profit and loss are stated in the balance sheet at fair value with unrealised gains and losses recognised in profit and loss.

IFRS impact:

Almost all of AIB's financial instruments, which were previously held as financial fixed assets, are classified as available-for-sale on transition to IFRS. This has given rise to an adjustment to equity on transition.

(n) Derivatives

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows, themselves accounted for on an accruals basis. The gains and losses on these instruments (arising from changes in fair value) are not recognised in the profit and loss account immediately as they arise. Derivative transactions entered into for hedging purposes are recognised in the accounts on an accruals basis consistent with the accounting treatment of the underlying transaction or transactions being hedged. A derivative will only be classified as a hedge where it is designated as a hedge at its inception and where it is reasonably expected that the derivative substantially matches or eliminates the exposure being hedged.

Except as described below in respect of hedges of the income stream on Group capital, upon early termination of derivative financial instruments classified as hedges, any realised gain or loss is deferred and amortised to net interest income over the life of the original hedge as long as the designated assets or liabilities remain. Upon early termination of derivative transactions classified as hedges of the income stream on Group capital, any realised gain or loss is taken to the profit and loss account as it arises.

IAS 39 'Financial instruments: recognition and measurement' requires all derivatives to be measured at either assets or liabilities in the balance sheet at their fair value. The accounting for derivatives depends on the nature of the derivative and the resulting designation. The accounting is set out below.

Derivative transactions entered into for hedging purposes are classified as 'fair value through profit and loss' hedges. Hedge exposures to changes in the fair value of recognised asset or liability or firm commitment. Derivative transactions entered into for hedging purposes are classified as 'cash flow hedges' if they are hedging the exposure to variable cash flows of a recognised asset or liability or of a forecast transaction.

Interest income and expense on derivatives classified as hedges is recorded with interest income or expense as appropriate.

The mark to market of derivatives classified as fair value hedges is recognised in the income statement within other financial income. The mark to market of a fair value hedge is fair valued with respect to the exposure being hedged only as long as the hedge is effective and the mark to market of the hedged exposure is recognised in other financial income.

The mark to market of derivatives classified as cash flow hedges is accounted for in equity and is not subject to deferred tax impact. Subsequently it is recognised in the income statement in line with the recognition of the element of the hedge being hedged, as an asset or liability or highly probable

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

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date)

IR GAAP

IFRS

(n) Derivatives (continued)

probable forecast transaction. Any ineffectiveness is reported within other financial income in the income statement as it arises.

Where a derivative originally classified as a fair value hedge no longer meets the effectiveness criteria, the hedge relationship has ceased for any reason. The underlying hedged position is no longer measured at fair value. The fair value adjustment of the hedged item is recognized to the profit and loss account on an effective basis from the date the hedging relationship ceases.

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

IFRS impact:

AIB has implemented IAS 39 such that it complies with the full IAS 39 as published by the IASB. It has also complied with the hedge accounting requirements of the IASB unamended IAS 39 and has not implemented the option provided under the EU 'carved out' version of IAS 39.

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

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

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

(o) Netting

Under IR GAAP where the amounts owed by the Group and the counterparty are determinable and in freely convertible currencies and where the Group has the ability to insist on net settlement which is assured beyond doubt and is Under IAS 32 'Financial instruments: disclosure', netting is only allowed if the Group currently has a legally enforceable right to set off recognised amounts and intends either to

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based on a legal right to settle net that would survive basis, or to realise the asset and settle the insolvency of the counterparty, the amounts are shown simultaneously. in the balance sheet as net assets or net liabilities as appropriate.

IFRS impact:

There is a gross up of the balance sheet as a result of the requirement to show positions on the balance sheet gross unless there is the intention to settle net. The impact of qualifying netting agreements will be disclosed in the notes to the financial statements.

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

IR GAAP

IFRS

(p) Long term assurance business

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

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

The definition of Insurance under IFRS Contracts' restricts the use of embedded by the Group to products with significant

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

IFRS impact:

Accounting for contracts meeting the IFRS definition of insurance business is not impacted by IFRS 4.

Accounting for investment products under IAS 39 serves to delay the recognition of income for a number of reasons. There is a narrower definition of costs that can be deferred on the sale of investment products. Initial charges on sale of investment products are deferred and accrued over the expected life of the product. There is no opportunity to account for the future surpluses on an embedded value basis.

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

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(q) Acceptances

Acceptances are currently accounted for on a net basis. IAS 39 requires the recognition of a liability. There is no gross up of the amount to be paid and the acceptances from the date of acceptance amount receivable from the originator and thus no balance sheet asset due from the originator will also appear in the balance sheet in relation to these products.

IFRS impact:

This gives rise to a gross up of the balance sheet with no impact on equity.

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

IR GAAP

IFRS

(r) Classification of financial liabilities

Under IR GAAP capital instruments that are not shares should be treated as liabilities if they involve an obligation to transfer economic benefits. All other capital instruments should be reported in shareholders' funds.

Financial instruments with an obligation to pay interest or repay principal are classified in the balance sheet as liabilities. Issue expenses of capital instruments classified as liabilities are deducted from the carrying amount of issue and the total finance cost is calculated at a constant rate to the expected maturity date.

Financial instruments with no obligation to pay interest or repay principal are classified in the balance sheet as equity. With the exception of dividends declared on preference shares, dividends on financial instruments are accounted for as a movement in share capital and taken into account in the calculation of profit or loss declared. The issue costs of financial instruments classified as equity are deducted from the carrying amount of equity.

IFRS impact:

The US \$ 250 million non-cumulative preference shares have been classified as debt while certain subordinated debt issues together with the reserve capital instruments will be classified as equity.

This is a presentational change that will impact the face of the income statement and the balance sheet. Although pre-tax profit will be impacted, there is minimal impact on income attributable to ordinary shareholders. There will be an impact on income statement ratios including, net interest margin, cost income ratio and the effective tax rate.

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Special purpose audit report

SPECIAL PURPOSE AUDIT REPORT OF KPMG TO ALLIED IRISH BANKS, P.L.C. (THE COMPANY) ON ITS PRELIMINARY AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS') FINANCIAL INFORMATION

In accordance with the terms of our engagement letter we have audited the accompanying consolidated preliminary IFRS balance sheets of the Company and its subsidiaries ('the Group') as at 1 January 2004 and 31 December 2004, the related consolidated preliminary IFRS income statement for the year ended 31 December 2004, the 1 January 2005 consolidated preliminary balance sheet set out on pages 7 to 8 and the related notes and reconciliations set out on pages 25 to 42 (hereinafter referred to as 'preliminary IFRS financial information').

Included with the preliminary IFRS financial information set out on pages 7 to 8 are the consolidated preliminary balance sheet as at 30 June 2004 and the related consolidated preliminary income statement for the six-month period then ended ('the preliminary IFRS interim financial information'). We have not audited this preliminary IFRS interim financial information and therefore it is not covered by this opinion.

The preliminary IFRS financial information has been prepared by the Group as part of its transition to IFRS and as described on pages 25 to 26 to establish the financial position and results of operations of the Group in order to provide the comparative financial information and necessary opening adjustments at 1 January 2005 expected to be included in the first complete set of consolidated IFRS financial statements of the Group for the year ended 31 December 2005.

Respective responsibilities of Directors and KPMG

The Directors of the Company have accepted responsibility for the preparation of the preliminary IFRS financial information which has been prepared as part of the Group's conversion to IFRS. Our responsibilities, as independent auditors, are established in Ireland by the Auditing Practices Board, our profession's ethical guidance and the terms of our engagement.

Under the terms of engagement we are required to report to you our opinion as to whether the preliminary IFRS financial information has been properly prepared, in all material respects, in accordance with the respective accounting policy notes to the preliminary IFRS financial information. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information accompanying the preliminary IFRS financial information and consider whether it is consistent with the preliminary IFRS financial information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS financial information.

Our report has been prepared for the Company solely in connection with the Company's conversion to IFRS. Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of our report to any other party.

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Basis of audit opinion

We conducted our audit having regard to Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the preliminary IFRS financial information. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the preliminary IFRS financial information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the preliminary IFRS financial information is 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 preliminary IFRS financial information.

Emphasis of matters

Without qualifying our opinion, we draw your attention to the following matters:

- The basis of preparation set out on pages 25 to 26 explains why there is a possibility that the preliminary IFRS financial information may require adjustment before being used as the basis of preparing the final consolidated IFRS financial statements as at 31 December 2005.
- Due to a number of new and revised standards included within the body of standards that comprise IFRS, there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application. Therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the Group's first IFRS consolidated financial statements for the year ended 31 December 2005 may be subject to change.
- As described in the introduction on page 2, as part of its conversion to IFRS, the Group has prepared the preliminary IFRS financial information for the year ended 31 December 2004 to establish the financial position and results of operations of the Group necessary to provide the comparative financial information expected to be included in the Group's first complete set of IFRS consolidated financial statements as at 31 December 2005. The preliminary IFRS financial information does not include comparative financial information for the prior period.
- As explained in the basis of preparation, no adjustments have been made for any changes in estimates made at the time of approval of the 2004 consolidated financial statements under Irish generally accepted accounting principles on which the preliminary IFRS financial information is based.
- As permitted by IFRS 1, IAS 32, IAS 39 and IFRS 4 have not been applied to the preliminary IFRS financial information relating to 2004. The 1 January 2005 preliminary IFRS financial information has been prepared on the basis that IAS 32, IAS 39 and IFRS 4 were applied.

Opinion

In our opinion, the accompanying preliminary IFRS financial information has been properly prepared, in all material respects, in accordance with the basis of preparation and the provisional accounting policies set out on pages 27 to 37,

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which describe how IFRSs have been applied under IFRS 1, including the assumptions made by the Directors of the Company about the standards and interpretations expected to be effective, and the policies expected to be adopted, when they prepare the first complete set of consolidated IFRS financial statements of the Company for the year to 31 December 2005.

KPMG
Chartered Accountants
Dublin
16 June 2005

Special purpose review report

SPECIAL PURPOSE REVIEW REPORT OF KPMG TO ALLIED IRISH BANKS, P.L.C. ('THE COMPANY') ON ITS PRELIMINARY INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS') INTERIM FINANCIAL INFORMATION

In accordance with the terms of our engagement letter we have reviewed the accompanying consolidated preliminary IFRS balance sheet of the Company and its subsidiaries ('the Group') as at 30 June 2004 and the related consolidated preliminary IFRS income statement for the six month period then ended set out on pages 43 to 44 and which have been prepared in accordance with the IFRS measurement and recognition principles as set out in the basis of preparation and the provisional accounting policies on pages 25 to 37 (hereinafter referred to as 'the preliminary IFRS interim financial information').

As described on pages 25 to 26, and as part of the Group's transition to IFRS, the preliminary IFRS interim financial information has been prepared by the Group in advance of preparing the Company's first consolidated interim report, in accordance with IFRS measurement and recognition principles, as at and for six month period to 30 June 2005.

Respective responsibilities of Directors and KPMG

The Directors of the Company have accepted responsibility for the preparation of the preliminary IFRS interim financial information which has been prepared as part of the Group's conversion to IFRS. Our responsibilities under the terms of engagement are to report to you our review conclusions as to whether we are aware of any material modifications that should be made to the preliminary IFRS interim financial information which has been prepared, in all material respects, in accordance with the accounting policy notes to the preliminary IFRS interim financial information.

We read the other information accompanying the preliminary IFRS interim financial information and consider whether it is consistent with the preliminary IFRS interim financial information. We consider the implications for our review conclusions if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS interim financial information.

Our report has been prepared for the Company solely in connection with the Company's conversion to IFRS. Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of our report to any other party.

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Basis of review conclusion

We conducted our review having regard to Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board. A review consists principally of making enquiries of Group management and applying analytical procedures to the preliminary IFRS interim financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the preliminary IFRS interim financial information.

Emphasis of matters

Without qualifying our review conclusions, we draw your attention to the following matters:

- The basis of preparation set out on pages 25 to 26 explains why there is a possibility that the preliminary IFRS interim financial information may require adjustment before inclusion as comparative information in the Company's interim report for the six month period to 30 June 2005 when the Company prepares its first interim report applying the measurement and recognition principles of IFRS.

- Due to a number of new and revised standards included within the body of standards that comprise IFRS, there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application. Therefore the full financial effect of reporting under IFRS as it will be applied and reported on in the Group's first consolidated IFRS interim report as at and for the six month period to 30 June 2005 may be subject to change.

- The Company has prepared the preliminary IFRS interim financial information for the six month period ended 30 June 2004 to establish the financial position and results of operations of the Company necessary to provide the comparative financial information expected to be included in the Company's first interim report for the six month period to 30 June 2005. The preliminary IFRS interim financial information does not itself include comparative financial information for the prior period.

- As explained in the basis of preparation, no adjustments have been made for any changes in estimates made at the time of approval of the previous Irish GAAP interim report for the six month period ended 30 June 2004 on which the preliminary IFRS interim financial information is based, as required by IFRS 1.

- As permitted by IFRS 1, IAS 32, IAS 39 and IFRS 4 have not been applied to the preliminary IFRS interim financial information. There has been no related restatement of the 30 June 2004 balance sheet. Any adjustments will be shown as an equity movement on 1 January 2005.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the preliminary IFRS interim financial information on pages 7 to 8 as presented for the six month period ended 30 June 2004 which has been prepared, in all material respects, in accordance with the basis of preparation and the provisional accounting policies on pages 27 to 37, which describe how the measurement and recognition principles of IFRS have been applied under IFRS 1, including the assumptions made by the directors of the Company about the standards and interpretations expected to be effective, and the policies

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expected to be adopted, when they prepare the first complete set of consolidated IFRS financial statements of the Company for the year to 31 December 2005.

KPMG
Chartered Accountants
Dublin
16 June 2005

Allied Irish Banks, p.l.c. ("AIB") (NYSE:AIB)
Trading Update 16 June 2005 - PART 2

Basis of preparation

Appendix 1

First time adoption of International Financial Reporting Standards ('IFRS')

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 ('IR GAAP'). On 1 January 2005, AIB Group, in common with other listed entities within the European Union, implemented the requirements of International Financial Reporting Standards and International Accounting Standards (collectively, 'IFRS') for the first time and these will be used for the purpose of preparing financial statements for the year ending 31 December 2005. This document has been prepared based on the recognition and measurement requirements of IFRS issued by the International Accounting Standards Board ('IASB') and endorsed (or where there is a reasonable expectation of endorsement) by the European Union ('EU') by 31 December 2005, other than that in respect of the fair value option as described below.

The IFRS in effect at 31 December 2005 may differ from those applied in the preparation of the financial information in this document due to decisions that may be taken by the EU on endorsement, new or amended standards issued by the IASB, interpretative guidance issued by the International Financial Reporting Interpretations Committee ('IFRIC') and the requirements of companies legislation. In addition, as IFRS is currently being applied in Europe for the first time, certain practices in applying the standards may develop, which may be different than those adopted in this document. Therefore, the financial information in this document could be subject to change.

The financial information contained in this document complies with the EU 'carved out' version of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') which means that AIB has not availed of the option within the full IAS 39 to measure certain liabilities at fair value. The EU-endorsed version does not permit non-trading financial liabilities to be designated as 'at fair value through profit or loss'. However, it is expected that proposed amendments to IAS 39 will result in the EU endorsing a revised version of the standard that would permit such designation in certain circumstances ('the fair value option'). It is anticipated that the relevant transitional arrangements would permit designation as at 1 January 2005 for companies adopting IFRS from that date. Should this option be available, AIB would consider making use of the proposals where appropriate.

In accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards' ('IFRS 1'), there have been no adjustments to the estimates made at the time of the approval of the IR GAAP interim report for the six month period ended 30 June 2004 and the financial statements for the year ended 31 December 2004. IFRS 1 provides first time adopters of IFRS with certain exemptions. IFRS 1 also allows or requires a number of other exceptions to its general principle that the standards in force at the reporting date should be applied retrospectively. AIB has availed of certain exemptions as set out below:

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First time application relating to financial instruments and insurance contracts

AIB has 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 will 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 will be prepared on the basis of the Group's accounting policies under IR GAAP.

Share based payments

AIB has implemented the requirements of IFRS 2 'Share Based Payment' ('IFRS 2') to all equity settled share based payments granted after 7 November 2002 that had not vested by 1 January 2005.

Property, plant & equipment

AIB has retained its existing carrying value of occupied properties, plant and equipment at 1 January 2004 as deemed cost, rather than either reverting to historical cost or carrying out a valuation at the date of transition as permitted by IFRS 1.

Cumulative exchange differences

AIB has elected to deem cumulative exchange differences on the net investments in foreign branches and subsidiaries as zero at January 2004, as permitted by IFRS 1.

Employee benefits

AIB has recognised the cumulative actuarial gains and losses of defined benefit pension schemes and other post retirement benefits upon transition.

Business combinations

AIB has elected not to apply IFRS 3 'Business Combinations' to business combinations that arose prior to 1 January 2004.

Derecognition of financial instruments

Financial instruments derecognised prior to 1 January 2004 have not been re-recognised by the Group under IFRS.

Effects of the transition to IFRS

A description of the differences between IR GAAP and IFRS accounting policies is set out on pages 10 to 20. Reconciliations of balance sheets prepared under IR GAAP and IFRS at 1 January 2004, 30 June 2004 and 31 December 2004 are included on pages 38, 40 and 44. Reconciliations of the profit and loss account prepared in accordance with IR GAAP and prepared in accordance with IFRS for the periods ending 30 June 2004 and 31 December 2004 are included on pages 39 and 43. In addition, a reconciliation of the amount of shareholders' equity at 1 January 2005, before and after the application of IAS 32, IAS 39 and IFRS 4, and an explanation of the effects of their application on the 1 January 2005 balance sheet, is presented on pages 41 to 42 and pages 15 to 20.

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Provisional IFRS accounting policies

Appendix 2

This appendix sets out the Accounting policies that the Group expects to apply from 1 January 2005. Full details of the accounting policies applied in previous periods under IRGAAP can be found on pages 64 to 68 of the 2004 Annual Report.

1 Accounting convention

The restated financial information has been presented in accordance with International Accounting Standards and International Financial Reporting Standards (collectively 'IFRS') as endorsed by the EU or expected to be applicable at 31 December 2005.

The financial statements have been prepared in accordance with IFRS as required by European directives. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and certain asset and dealing positions.

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

The accounting policies have been consistently applied by Group entities.

2 Basis of consolidation.

The Group financial information includes the accounts of Allied Irish Banks, p.l.c. (the parent company) and its subsidiary undertakings made up to the end of the financial year. 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. 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.

Intra-group balances and any unrealised gains and losses, or income and expenses, arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated unless the transaction provides evidence of impairment of the asset transferred.

3 Interests in associated undertakings

An associate is generally one in which the Group's interest is greater than 20%

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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), or 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 entity.

The Group's share of the results of associates after tax 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 policies of the Group. Unrealised gains on transactions are eliminated to the extent of the Group's interest in the investee. Unrealised losses are also eliminated in the same way as unrealised gains unless the transaction provides evidence of impairment of the asset transferred.

4 Foreign currency translation

The consolidated financial statements are presented in Euro, which is the Group's presentational currency.

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 appropriate 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 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. Translation differences on equities classified as available-for-sale financial assets and non-monetary items, are included 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:

- o assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- o income and expenses are translated into Euro at the average rates of exchange during the period; and
- o all resulting exchange differences are included in cumulative translation reserves within shareholders' equity.

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Exchange differences arising from the translation of the net investment in a foreign operation, and of borrowings designated as hedges of such investments, are taken to a separate component of shareholders' equity and included in the profit or loss on disposal or partial disposal of the foreign operation.

5 Interest income and expense recognition

Interest income and expense is recognised in interest receivable in the income statement for all interest-bearing financial instruments classified as held to maturity, available for sale or other loans and advances using the effective interest method. (what about interest on trading securities) The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and 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 expected 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.

6 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 for 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.

7 Financial assets

The Group classifies its financial assets in the following categories: - financial assets at fair value through profit or loss; loans and receivables;

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held to maturity investments; and available for sale financial assets.

Purchases and sales of investments are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. With the exception of financial assets at fair value through profit and loss, financial assets are initially recognised at fair value including 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 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 where 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 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 so designated by management.

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. Gains and losses arising from changes in fair value are included directly in the income statement within other financial 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.

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 tainted and would be required to be reclassified as available for sale.

Available for sale

Available for sale investments 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 investments are those intended to be held for an indefinite period of time, which may be sold in response to needs

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for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale investments are 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.

8 Financial liabilities

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. The Group will consider applying the fair value option to certain financial liabilities if this is permitted.

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.

9 Property, plant & equipment

Property, plant and equipment is stated at 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 its economic life.

The Group generally 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 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.

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

10 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 either performed 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 on the acquisitions of associates is included in the carrying amount of those investments in the consolidated financial statements. Gains and 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 IRGAAP has not been reinstated and will not be included in calculating any subsequent profit or loss on disposal.

Computer software

Computer software is stated at cost, less amortisation 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.

11 Derivatives and hedge accounting

Derivatives, such as interest rate swaps, options, 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 as a result of activity generated by customers while others represent 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, themselves accounted for on an amortised cost basis.

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 valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are

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included in assets when their fair value is positive, and liabilities when their fair value is negative, unless there is the legal ability and intention to settle net. 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.

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.

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 and 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, the Group designates certain derivatives as either:

- (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- (2) hedges of probable future cash flows attributable to a recognised asset or liability, or a 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, the hedge is deemed ineffective. 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

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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.

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 this fair value hedging adjustment remains in equity until the hedged item affects profit or loss. 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 recognised initially 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 any derivative instrument that do not qualify for hedge accounting are recognised immediately in the income statement.

12 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

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as a result of one or more loss events that occurred after the initial recognition of the asset ('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 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 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 purposes of a collective evaluation of impairment, (individually

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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 advances 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 has 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.

13 Employee benefits

Retirement benefit obligations

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

The Group provides a number of defined benefit and defined contribution

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retirement benefit schemes the majority of which are funded. 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.

Full actuarial valuation of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each balance sheet date. Scheme assets are valued at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. 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 changes in shareholders' equity.

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

The cost of the Group's defined contribution schemes, are charged to the income statement in the accounting period in which they are incurred. Any contributions unpaid at the balance sheet date are included as a liability. The Group has no further obligations 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 which employees have provided services in the year. Bonuses are recognised to the extent that the Group has a present 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 employee expenses.

Share based compensation

The Group operates a number of share based compensation plans. 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 to be expensed is determined by reference to the fair value of the option 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 condition is met, provided that the non-market vesting conditions are met.

The expense related to share based payments is credited to shareholders' equity. Where the share based payment arrangements give rise to the issue of new shares,

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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 payment 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 recognised in the profit and loss account.

14 Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that 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. 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 are included in other liabilities.

When a leasehold property ceases to be used in the business, provision is made, where the unavoidable costs of the 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.

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 benefit 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 a present legal or constructive obligation 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.

15 Income tax, including deferred income tax

Income tax, including deferred income tax, on taxable profits is recognised as an expense in the period in which the profits arise. 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 timing differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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Deferred income tax is determined using tax rates based on legislation enacted or substantially 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 profit 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 liabilities including derivative contracts, provisions for pensions and other post retirement benefits and 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.

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.

Deferred tax related to items that are charged or credited to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

16 Impairment of property, plant and equipment 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 with its recoverable amount. The recoverable amount is determined as the higher of the net selling price of the asset and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement 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 a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed 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. For the purpose of conducting impairment reviews in respect of goodwill, the recoverable amount is determined as the higher of the net selling

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price of the cash-generating unit and its value in use. Cash-generating units are the lowest level at which management monitors the return on investment on assets.

17 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 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, and to loans and advances to banks or customers in the case of cash collateral paid away. Any interest payable or receivable arising is recorded as interest payable or interest income respectively.

Netting

Financial assets and 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.

18 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 was 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.

19 Sale and repurchase agreements (including stock borrowing and lending)

Investment and other securities 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

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appropriate.

Similarly, securities 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 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 Net trading income.

20 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.

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.

21 Share capital

Share issue costs

Incremental costs directly attributable to the issue of new shares or options or the acquisition of a business 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 interim dividend when it has been approved by the Board of directors. Dividends declared after the balance sheet date are disclosed in the subsequent events note.

Treasury shares

Where the Company or other members of the consolidated Group purchases the

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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 reissued, any consideration received is included in shareholders' equity.

22 Insurance and investment contracts

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. Tracker bonds which provide for a return of premium on death are regarded as containing significant insurance risk. Investment contracts are contracts that do not have significant insurance risk. There are no contracts with discretionary participating features.

Insurance contracts

The Group accounts for its insurance contracts using the embedded value basis. 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 the modified statutory basis. Premiums are recognised as revenue when due from the policyholder. Claims are the cost of all claims arising during the period.

Investment contracts

Investment contracts are primarily unit-linked. The liability is measured at fair value, which is the bid value of the assets held to match the liability, less an amount in respect of tax. Revenue in relation to investment management services is recognised as the services are provided. Premiums and claims are accounted for directly in the balance sheet as adjustments to the investment contract liability.

23 Segment reporting

Business segments are distinguishable components of the Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to different 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.

24 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 with original maturities of less than 3 months.

25 Trust activities

The Group commonly acts as trustees 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

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thereon are excluded from the financial statements, as they are not assets of the Group.

Reconciliation of consolidated preliminary balance sheet
As at 1 January 2004

Appendix 3

	Irish GAAP 31 December 2003 EUR m	Consol- idation (a) EUR m	Associated under- takings (b) EUR m	Finance Leases (c) EUR m	Software (d) EUR m	Taxation (f) EUR m	Intangible assets & goodwill (h) EUR m	Dividends (i) EUR m	pay E
Assets									
Cash and balances at central banks	838	-	-	-	-	-	-	-	-
Items in course of collection	339	-	-	-	-	-	-	-	-
Central government bills and other eligible bills	45	-	-	-	-	-	-	-	-
Loans and advances to banks	2,633	-	-	-	-	-	-	-	-
Loans and advances to customers	50,490	719	-	(118)	-	-	-	-	-
Securitised assets	203	(203)	-	-	-	-	-	-	-
Debt securities	18,127	239	-	-	-	-	-	-	-
Equity shares	180	1,120	-	-	-	-	-	-	-
Interests in associated undertakings	1,361	-	(5)	-	-	(5)	4	-	-
Intangible assets and goodwill	420	-	-	-	117	-	-	-	-
Property, plant and equipment	792	49	-	-	(88)	-	-	-	-
Other assets	1,507	329	-	-	(13)	20	-	-	-
Deferred taxation	174	-	-	1	-	(151)	-	-	-
Prepayments and accrued income	636	-	-	-	-	-	-	-	-
Long term assurance business attributable to shareholders	405	(405)	-	-	-	-	-	-	-
Long term assurance business attributable to policyholders	2,810	(2,810)	-	-	-	-	-	-	-
Total assets	80,960	(962)	(5)	(117)	16	(136)	4	-	-

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Liabilities

Deposits by banks	18,094	-	-	-	-	-	-	-	-
Customer accounts	44,612	(799)	-	-	-	-	-	-	-
Investment contract liabilities	-	2,085	-	-	-	-	-	-	-
Debt securities in issue	3,489	-	-	-	-	-	-	-	-
Insurance contract liabilities	-	799	-	-	-	-	-	-	-
Current taxation	-	3	-	-	-	200	-	-	-
Other liabilities	3,144	(146)	-	(116)	-	(169)	-	-	(298)
Accruals and deferred income	595	(65)	-	-	-	-	-	-	-
Retirement benefit liabilities	502	-	-	-	-	-	-	-	-
Provisions for liabilities and charges	87	-	-	-	-	-	-	-	-
Deferred taxation	142	30	-	-	3	(122)	-	-	-
Subordinated liabilities	2,130	-	-	-	-	-	-	-	-
Long term assurance business attributable to policyholders	2,869	(2,869)	-	-	-	-	-	-	-
Total liabilities	75,664	(962)	-	(116)	3	(91)	-	-	(298)
Share capital	290	-	-	-	-	-	-	-	-
Share premium account	1,694	-	-	-	-	-	-	-	-
Other equity interests	196	-	-	-	-	-	-	-	-
Reserves	951	-	-	-	-	(24)	-	-	-
Profit and loss account	2,007	-	(5)	(1)	13	(21)	4	298	298
Shareholders' equity	5,138	-	(5)	(1)	13	(45)	4	298	298
Equity and non-equity minority interests in subsidiaries	158	-	-	-	-	-	-	-	-
Total shareholders' equity including minority interests	5,296	-	(5)	(1)	13	(45)	4	298	298
Total liabilities, shareholders' equity and minority interests	80,960	(962)	(5)	(117)	16	(136)	4	-	-

Reconciliation of consolidated preliminary income statement

Appendix 4

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	Year ended 31 December 2004								
	Irish GAAP	Consolidation	Associated under-takings	Finance leases	Software	Taxation	Intangible assets & goodwill	Dividends	Share based payments
	EUR m	(a) EUR m	(b) EUR m	(c) EUR m	(d) EUR m	(f) EUR m	(h) EUR m	(i) EUR m	(j) EUR m
Interest and similar income	4,006	19	-	2	-	-	-	-	-
Interest expense and similar charges	1,970	(45)	-	-	-	-	-	-	-
Net interest income	2,036	64	-	2	-	-	-	-	-
Other finance income	18	-	-	-	-	-	-	-	-
Dividend income	27	33	-	-	-	-	-	-	-
Fees and commissions income	1,031	20	-	-	-	-	-	-	-
Fees and commissions expense	(131)	(5)	-	-	-	-	-	-	-
Dealing profits	96	139	-	-	-	-	-	-	-
Other operating income	187	79	-	-	-	-	-	-	-
Other income	1,210	266	-	-	-	-	-	-	-
Total operating income	3,264	330	-	2	-	-	-	-	-
Insurance claims	-	309	-	-	-	-	-	-	-
Administrative expenses	1,713	25	-	-	(14)	-	-	-	-
Integration and restructuring costs	9	-	-	-	-	-	-	-	-
Depreciation of property, plant and equipment	125	1	-	-	(59)	-	-	-	-
Amortisation/impairment of intangible assets & goodwill	39	-	-	-	66	-	(26)	-	-
Total operating expenses	1,886	26	-	-	(7)	-	(26)	-	-
Group operating profit before provisions	1,378	(5)	-	2	7	-	26	-	(4)
Impairment loss on loans and advances	(116)	2	-	-	-	-	-	-	-

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Provisions for contingent liabilities and commitments	(20)	-	-	-	-	-	-	-	-
Amounts written off fixed assets	1	-	-	-	-	-	-	-	-
Group operating profit	1,243	(3)	-	2	7	-	26	-	(1)
Share of results of associates and joint ventures	201	-	(60)	-	-	(5)	1	-	(1)
Amortisation of goodwill on acquisition of associates	(52)	-	-	-	-	-	52	-	(1)
Profit on disposal of property	9	-	-	-	-	-	-	-	(1)
Profit on disposal of business	17	-	-	-	-	-	-	-	(1)
Group profit before taxation	1,418	(3)	(60)	2	7	(5)	79	-	(1)
Taxation	336	(3)	(61)	-	1	(1)	-	-	(3)
Group profit after taxation	1,082	-	1	2	6	(4)	79	-	(1)
Profit attributable to minority interests	30	-	-	-	-	-	-	(2)	(1)
Preference dividends	5	-	-	-	-	-	-	(1)	(1)
	35	-	-	-	-	-	-	(3)	(1)
Profit attributable to ordinary shareholders	1,047	-	1	2	6	(4)	79	3	(1)

Reconciliation of consolidated preliminary balance sheet
As at 31 December 2004

Appendix 4

	Irish GAAP	Consolidation	Associated undertakings	Finance Leases	Software	Taxation	Intangible assets & goodwill	Dividends	Share base payment
	31 December 2004	(a)	(b)	(c)	(d)	(f)	(h)	(i)	(j)
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
Assets									
Cash and balances at central banks	887	-	-	-	-	-	-	-	-
Items in course									

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of collection	368	-	-	-	-	-	-	-	-
Central government bills and other eligible bills	-	-	-	-	-	-	-	-	-
Loans and advances to banks	2,320	220	-	-	-	-	-	-	-
Loans and advances to customers	64,836	-	-	(98)	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-
Debt securities	24,076	425	-	-	-	-	-	-	-
Equity shares	195	1,446	-	-	-	-	-	-	-
Interests in associated undertakings	1,317	-	12	-	-	(9)	52	-	7
Intangible assets and goodwill	380	-	-	-	133	-	27	-	-
Property, plant and equipment	785	51	-	-	(91)	-	-	-	-
Other assets	2,247	366	-	-	(18)	27	-	-	-
Deferred taxation	198	-	-	1	-	(137)	-	-	-
Prepayments and accrued income	918	-	-	-	-	-	-	-	2
Long term assurance business attributable to shareholders	467	(467)	-	-	-	-	-	-	-
Long term assurance business attributable to policyholders	3,246	(3,246)	-	-	-	-	-	-	-
Total assets	102,240	(1,205)	12	(97)	24	(119)	79	-	9
Liabilities									
Deposits by banks	20,428	-	-	-	-	-	-	-	-
Customer accounts	51,397	(1,246)	-	-	-	-	-	-	-
Investment contract liabilities	-	2,422	-	-	-	-	-	-	-
Debt securities in issue	11,805	-	-	-	-	-	-	-	-
Insurance contract liabilities	-	864	-	-	-	-	-	-	-
Current taxation	-	-	-	-	-	175	-	-	-
Other liabilities	3,900	41	-	(98)	-	(137)	-	(334)	-
Accruals and deferred income	911	-	-	-	-	-	-	-	(2)
Retirement benefit liabilities	676	-	-	-	-	-	-	-	-
Provisions for liabilities and									

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charges	122	-	-	-	-	-	-	-	-
Deferred taxation	123	34	-	-	4	(110)	-	-	1
Subordinated liabilities	2,765	-	-	-	-	-	-	-	-
Long term assurance business attributable to policyholders	3,320	(3,320)	-	-	-	-	-	-	-
Total liabilities	95,447	(1,205)	-	(98)	4	(72)	-	(334)	(1)
Share capital	294	-	-	-	-	-	-	-	-
Share premium account	1,693	-	-	-	-	-	-	-	-
Other equity interests	182	-	-	-	-	-	-	-	-
Reserves	977	-	-	-	-	(23)	-	-	-
Profit and loss account	2,435	-	12	1	20	(24)	79	336	10
Shareholders' equity	5,581	-	12	1	20	(47)	79	336	10
Equity and non-equity minority interests in subsidiaries	1,212	-	-	-	-	-	-	(2)	-
Total shareholders' equity including minority interests	6,793	-	12	1	20	(47)	79	334	10
Total liabilities, shareholders' equity and minority interests	(1,205)	12	(97)	24	(119)	79	-	9	166

Reconciliation of consolidated preliminary balance sheet
(including IAS 32, IAS 39 and IFRS 4)
As at 1 January 2005

Appendix 5

	IFRS 31 December	Loan origination	Loan impairment 2004	Financial instruments	Derivatives	Netting	Long-term assurance	Acceptanc
	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR
Assets								
Cash and balances at central banks	887	-	-	-	-	-	-	-

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Items in course of collection	368	-	-	-	-	-	-	-
Trading portfolio assets	-	-	-	7,957	-	-	-	-
Assets held at fair value through profit and loss	-	-	-	1,871	-	-	-	-
Derivative financial instruments	-	-	-	1,576	162	843	-	-
Loans and advances to banks	2,540	-	-	(2)	-	-	-	-
Loans and advances to customers	64,738	(111)	146	919	-	-	-	-
Debt securities	24,501	-	-	(24,501)	-	-	-	-
Equity shares	1,641	-	-	(1,641)	-	-	-	-
Financial instruments	-	-	-	15,720	-	-	-	-
Interests in associated undertakings	1,379	-	17	(1)	-	-	-	-
Intangible fixed assets	540	-	-	-	-	-	-	-
Property, plant and equipment	745	-	-	-	-	-	-	-
Other assets	2,622	-	-	(1,576)	12	601	(211)	-
Deferred taxation	228	-	(24)	-	-	-	-	-
Prepayments and accrued income	920	-	-	-	(59)	-	-	-
Total assets	101,109	(111)	139	322	115	1,444	(211)	-

Reconciliation of consolidated preliminary balance sheet
(including IAS 32, IAS 39 and IFRS 4)
As at 1 January 2005

Appendix 5

	IFRS 31 December 2004	Loan origination	Loan impairment	Financial instruments	Derivatives	Netting	Long-term assurance business	Acceptances
	EUR m	(k) EUR m	(l) EUR m	(m) EUR m	(n) EUR m	(o) EUR m	(p) EUR m	(q) EUR m
Liabilities								
Deposits by banks	20,428	-	-	-	-	-	-	-
Customer accounts	50,151	-	-	-	-	-	-	-
Trading portfolio liabilities	-	-	-	332	-	-	-	-
Derivative								

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financial instruments	-	-	-	1,475	223	843	-
Investment contract liabilities	2,422	-	-	-	-	-	-
Debt securities in issue	11,805	-	-	-	-	-	-
Insurance contract liabilities	864	-	-	-	-	601	-
Current taxation	175	-	-	22	-	-	-
Other liabilities	3,388	-	-	(1,807)	-	-	-
Accruals and deferred income	913	(26)	-	-	(151)	-	-
Retirement benefit liabilities	886	-	-	-	-	-	-
Provisions for liabilities and charges	122	-	-	-	-	-	-
Deferred taxation	52	(20)	-	27	5	-	(26)
Subordinated liabilities	2,765	-	-	-	-	-	-
Total liabilities	93,971	(46)	-	49	77	1,444	(26)
Share capital	294	-	-	-	-	-	-
Share premium account	1,693	-	-	-	-	-	-
Other equity interests	182	-	-	-	-	-	-
Reserves	954	-	-	136	254	-	(185)
Profit and loss account	2,804	(65)	139	137	(216)	-	-
Shareholders' equity	5,927	(65)	139	273	38	-	(185)
Equity and non-equity minority interests in subsidiaries	1,211	-	-	-	-	-	-
Total shareholders' equity including minority interests	7,138	(65)	139	273	38	-	(185)
Total liabilities, shareholders' equity and minority interests	101,109	(111)	139	322	115	1,444	(211)

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Reconciliation of consolidated preliminary income statement
(unaudited)

Appendix 6

	Half-year ended 30 June 2004								
	Irish GAAP Consolidation	Associated under- takings	Finance leases	Software	Taxation	Intangible assets & goodwill	Dividends		
	(a)	(b)	(c)	(d)	(f)	(h)	(i)		
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
Interest and similar income	1,826	7	-	1	-	-	-	-	-
Interest expense and similar charges	849	21	-	-	-	-	-	-	-
Net interest income	977	28	-	1	-	-	-	-	-
Other finance income	9	-	-	-	-	-	-	-	-
Dividend income	17	21	-	-	-	-	-	-	-
Fees and commissions income	486	21	-	-	-	-	-	-	-
Fees and commissions expense	(63)	(2)	-	-	-	-	-	-	-
Dealing profits	40	63	-	-	-	-	-	-	-
Other operating income	105	38	-	-	-	-	-	-	-
Other income	585	141	-	-	-	-	-	-	-
Total operating income	1,571	169	-	1	-	-	-	-	-
Insurance claims	-	156	-	-	-	-	-	-	-
Administrative expenses	819	13	-	-	(6)	-	-	-	-
Depreciation of property, plant and equipment	61	-	-	-	(29)	-	-	-	-
Amortisation/impairment of intangible assets & goodwill	15	-	-	-	32	-	(15)	-	-
Total operating expenses	895	13	-	-	(3)	-	(15)	-	-
Group operating profit before provisions	676	-	-	1	3	-	15	-	-
Impairment loss on loans and advances	(55)	-	-	-	-	-	-	-	-
Provisions for contingent liabilities and commitments	(8)	-	-	-	-	-	-	-	-
Amounts written off fixed assets	-	-	-	-	-	-	-	-	-
Group operating profit	613	-	-	1	3	-	15	-	-
Share of results of associates and joint ventures	98	-	(31)	-	-	(2)	-	-	-
Amortisation of goodwill on acquisition of associates	(26)	-	-	-	-	-	26	-	-
Profit on disposal of property	2	-	-	-	-	-	-	-	-
Profit on disposal of									

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business	12	-	-	-	-	-	-	-	-
Group profit before taxation	699	-	(31)	1	3	(2)	41	-	-
Taxation	175	-	(31)	-	1	-	-	-	-
Group profit after taxation	524	-	-	1	2	(2)	41	-	-
Profit attributable to minority interests	17	-	-	-	-	-	-	-	-
Preference dividends	2	-	-	-	-	-	-	-	-
	19	-	-	-	-	-	-	-	-
Profit attributable to shareholders	505	-	-	1	2	(2)	41	-	-

Reconciliation of consolidated preliminary balance sheet (unaudited) Appendix 6
As at 30 June 2004

	Irish GAAP 30 June 2004	Consol- idation (a)	Asso- ciated under takings (b)	Finance Leases (c)	Software (d)	Taxation (f)	Intangible assets & goodwill (h)	Dividends (i)	Sha bas payme EU
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	
Assets									
Cash and balances at central banks	599	-	-	-	-	-	-	-	-
Items in course of collection	625	-	-	-	-	-	-	-	-
Central government bills and other eligible bills	153	-	-	-	-	-	-	-	-
Loans and advances to banks	2,741	-	-	-	-	-	-	-	-
Loans and advances to customers	58,502	876	-	(120)	-	-	-	-	-
Securitised assets	205	(205)	-	-	-	-	-	-	-
Debt securities	23,974	254	-	-	-	-	-	-	-
Equity shares	178	1,292	-	-	-	-	-	-	-
Interests in associated undertakings	1,435	-	(5)	-	-	(8)	31	-	-
Intangible assets and goodwill	406	-	-	-	113	-	15	-	-
Property, plant and equipment	786	50	-	-	(81)	-	-	-	-
Other assets	1,471	346	-	-	(13)	20	-	-	-
Deferred taxation	179	-	-	-	-	(146)	-	-	-
Prepayments and accrued income	813	-	-	-	-	-	-	-	-
Long term assurance business attributable									

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to shareholders	426	(426)	-	-	-	-	-	-	-
Long term assurance business attributable to policyholders	3,057	(3,057)	-	-	-	-	-	-	-
Total assets	95,550	(870)	(5)	(120)	19	(134)	46	-	-
Liabilities									
Deposits by banks	23,838	-	-	-	-	-	-	-	-
Customer accounts	48,606	(866)	-	-	-	-	-	-	-
Investment contract liabilities	-	2,344	-	-	-	-	-	-	-
Debt securities in issue	6,826	-	-	-	-	-	-	-	-
Insurance contract liabilities	-	733	-	-	-	-	-	-	-
Current taxation	-	1	-	-	-	208	-	-	-
Other liabilities	3,628	-	-	(120)	-	(178)	-	(181)	-
Accruals and deferred income	732	-	-	-	-	-	-	-	-
Retirement benefit liabilities	448	-	-	-	-	-	-	-	-
Provisions for liabilities and charges	115	-	-	-	-	-	-	-	-
Deferred taxation	138	32	-	-	3	(117)	-	-	-
Subordinated liabilities	2,170	-	-	-	-	-	-	-	-
Long term assurance business attributable to policyholders	3,114	(3,114)	-	-	-	-	-	-	-
Total liabilities	89,615	(870)	-	(120)	3	(87)	-	(181)	-
Share capital	293	-	-	-	-	-	-	-	-
Share premium account	1,694	-	-	-	-	-	-	-	-
Other equity interests	203	-	-	-	-	-	-	-	-
Reserves	989	-	-	-	-	(24)	-	-	-
Profit and loss account	2,576	-	(5)	-	16	(23)	46	181	-
Shareholders' equity	5,755	-	(5)	-	16	(47)	46	181	-
Equity and non-equity minority interests in subsidiaries	180	-	-	-	-	-	-	-	-
Total shareholders' equity including minority interests	5,935	-	(5)	-	16	(47)	46	181	-
Total liabilities, shareholders' equity and minority interests	95,550	(870)	(5)	(120)	19	(134)	46	-	-

Consolidated pro-forma income statement

Appendix 7

Pro-forma

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	IFRS Year ended 31 December 2019 EUR m
Net interest income	2,200
Other income	1,300
Total operating income	3,600
Insurance claims	300
Total operating expenses	1,800
Provisions	100
Group operating profit	1,200
Share of operating profit of associated undertakings	100
Profit on disposal of property	
Profit on disposal of businesses	
Group profit on ordinary activities before taxation	1,400
Taxation on ordinary activities	200
Group profit on ordinary activities after taxation	1,100
Profit attributable to minority interests	
Dividends on non-equity instruments	
Profit attributable to the ordinary shareholders of Allied Irish Banks, p.l.c.	1,000
Pro-forma earnings per EUR 0.32 ordinary share - basic	127

Summarised IFRS segmental pro-forma information Appendix 7

Segmental information	Year			
	AIB Bank ROI EUR m	AIB Bank GB&NI EUR m	Capital Markets EUR m	Poland EUR m
Operations by business segments				
Net interest income	1,207	447	396	180
Other income	643	142	345	180
Total operating income	1,850	589	741	360
Insurance claims	309	-	-	-
Total operating expenses	839	303	403	245
Provisions	44	13	29	29
Group operating profit/(loss)	658	273	309	86
Share of operating (loss)/profit of associated undertakings	(1)	-	4	1
Profit on disposal of property	7	1	-	1
Profit on disposal of businesses	-	-	4	13
Group profit on ordinary activities before taxation	664	274	317	101

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Segmental information	AIB Bank ROI EUR m	AIB Bank GB&NI EUR m	Capital Markets EUR m	Poland EUR m
Operations by business segments				
Net interest income	585	215	192	84
Other income	308	71	162	91
Total operating income	893	286	354	175
Insurance claims	156	-	-	-
Total operating expenses	406	150	185	118
Provisions	28	(3)	17	21
Group operating profit	303	139	152	36
Share of operating profit of associated undertakings	-	-	3	-
Profit on disposal of property	-	1	-	1
Profit on disposal of businesses	-	-	-	12
Group profit on ordinary activities before taxation	303	140	155	49

Reconciliation of pro-forma consolidated

Appendix 7 income statement

	IFRS Audited EUR m	EIR EUR m	Insurance EUR m	Year Finan instrum E
Net interest income	2,134	73	-	
Other income	1,474	(102)	(24)	
Total operating income	3,608	(29)	(24)	
Insurance claims	309	-	-	
Total operating expenses	1,894	(1)	-	
Provisions	133	-	-	
Group operating profit/(loss)	1,272	(28)	(24)	
Share of operating profit/(loss) of associated undertakings	132	-	-	
Profit on disposal of property	9	-	-	
Profit on disposal of businesses	17	-	-	
Group profit on ordinary activities				

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before taxation	1,430	(28)	(24)	
	IFRS	EIR	Insurance	Half-y
	Unaudited			Finan
	EUR m	EUR m	EUR m	instrum
Net interest income	1,021	35	-	E
Other income	725	(54)	(2)	
Total operating income	1,746	(19)	(2)	
Insurance claims	156	-	-	
Total operating expenses	897	(1)	-	
Provisions	63	-	-	
Group operating profit/(loss)	630	(18)	(2)	
Share of operating profit of associated undertakings	62	-	-	
Profit on disposal of property	2	-	-	
Profit on disposal of businesses	12	-	-	
Group profit on ordinary activities before taxation	706	(18)	(2)	

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

ALLIED IRISH BANKS, p.l.c.
(Registrant)

Date 16 June, 2005

By: _____
Gary Kennedy
Group Director, Finance,
Risk and Enterprise
Technology
Allied Irish Banks, p.l.c.