ALLIED IRISH BANKS PLC
Form 6-K
August 01, 2006

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 1 August 2006

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- ________

Highlights - AIB Group interim results 2006

| | | |
|---|---|---|
| Basic earnings per share | EUR | 121.2c |
| less profit from Ark Life(1) | EUR | (18.2c) |
| less profit on Bankcentre(2) | EUR | (11.0c) |
| adjust for hedge volatility(3) under IFRS | EUR | 1.7c |
| Adjusted basic earnings per share | EUR | 93.7c up 29%(4) |

Divisional pre-tax profit performance (5)

- AIB Bank ROI up 19%

- Capital Markets up 58%

or 45% on an operating profit (6) basis

- AIB Bank UK up 18%

- Poland up 62%

- M&T contribution up 11%

Income / cost gap +6%

Cost income ratio down 2.7% to 52.4%

Exceptionally high credit provision write-backs

Return on equity 30.4%

Tier 1 capital ratio 8.0%

Interim dividend of EUR 25.3c, up 10%

AIB Group Chief Executive Eugene Sheehy said:

'The very strong results for the first six months of 2006 reflect buoyant well-spread growth in all our markets and the development of high quality franchises. This performance was achieved thanks to the outstanding commitment and dedication of our people throughout the group. While exceptionally good asset quality complemented the first half results, the strong operating performance and customer demand underpins confidence in the future growth and resilience of our business.'

(1) Includes the profit from Ark Life discontinued operation (EUR 132 million after tax) and the profit on the transfer of the management of certain investment contracts to Aviva as part of the Ark disposal (EUR 26 million after tax).

(2) Includes profit on the new Bankcentre development (EUR 29 million after tax) and part of the profit on the disposal of the existing Bankcentre (EUR 67 million after tax).

(3) The impact of interest rate hedge volatility (derivative ineffectiveness and volatility) under IFRS was a decrease of EUR19 million to profit before taxation for the half-year (EUR 15 million after tax).

(4) A 29% increase compared with EUR 72.4c for the half-year to June 2005, which includes the earnings in 2005 from Ark Life which is now a discontinued operation.

(5) Excluding the impact of exchange rate movements on the translation of foreign locations' profit.

(6) Operating profit excludes the EUR 26 million profit on the transfer of the management of certain investment contracts to Aviva as part of the disposal of Ark Life.

Results for the half-year ended 30 June 2005 have been restated to represent the results of Ark Life as a discontinued operation (note 2).

Dividend

The Board has declared an interim dividend of EUR 25.3c per share, an increase of 10% on the half-year ended 30 June 2005. The dividend will be paid on 26 September 2006 to shareholders on the Company's register of members at the close of business on 11 August 2006.

For further information please contact:


| | | |
|---|---|---|
| John O'Donnell | Alan Kelly | Catherine Burke |
| Group Finance Director | General Manager,Group Finance | Head of Corpora |
| Bankcentre | Bankcentre | Bankcentre |
| Dublin | Dublin | Dublin |
| 353-1-660-0311 | 353-1-660-0311 | 353-1-660-0311 |
| Ext. 14412 | Ext. 12162 | Ext. 13894 |


This results announcement and a detailed informative presentation can be viewed on our internet site at www.aibgroup.com/investorrelations

Forward-looking statements

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

Financial highlights (unaudited)

for the half-year ended 30 June 2006

| | Half-year 30 June 2006 EUR m | Half-yea 30 Jun 200 EUR |
|---|---|---|
| Results | | |
| Total operating income | 2,078 | 1,76 |
| Operating profit | 978 | 75 |
| Profit before taxation - continuing operations | 1,214 | 82 |
| Profit attributable to equity holders of the parent | 1,089 | 66 |
| Per EUR 0.32 ordinary share | | |
| Earnings - basic (note 12a) | 121.2c | 72.3 |
| Earnings - diluted (note 12b) | 120.1c | 71.7 |
| Dividend | 25.3c | 23.0 |
| Dividend payout | 21% | 32 |
| Net assets | 851c | 770 |

| | | |
|---|---|---|
| Performance measures | | |
| Return on average total assets | 1.67% | 1.23 |
| Return on average ordinary shareholders' equity | 30.4% | 20.1 |
| Balance sheet | | |
| Total assets | 144,073 | 115,93 |
| Ordinary shareholders' equity | 7,413 | 6,63 |
| Loans etc | 105,594 | 78,21 |
| Deposits etc | 123,349 | 93,64 |
| Capital ratios | | |
| Tier 1 capital | 8.0% | 7.7 |
| Total capital | 11.1% | 11.0 |

Allied Irish
Group
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Bankcentr
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Results for the half-year ended 30 June 2005 have been restated to represent the results of Ark Life as a discontinued operation (note 2).

Consolidated interim income statement (unaudited)

for the half-year ended 30 June 2006

| | Notes | Half-year 30 June 2006 EUR m | Hal 3 |
|---|---|---|---|
| Interest and similar income | 4 | 3,130 | |
| Interest expense and similar charges | 5 | 1,701 | |
| Net interest income | | 1,429 | |
| Dividend income | | 19 | |
| Fee and commission income | | 598 | |
| Fee and commission expense | | (76) | |
| Trading income | 6 | 79 | |
| Other operating income | 7 | 29 | |
| Other income | | 649 | |
| Total operating income | | 2,078 | |
| Administrative expenses | 8 | 1,018 | |
| Depreciation of property, plant and equipment | | 43 | |
| Amortisation/impairment of intangible assets and goodwill | | 27 | |
| Total operating expenses | | 1,088 | |
| Operating profit before provisions | | 990 | |
| Provisions for impairment of loans and receivables | 16 | 12 | |
| Provisions for liabilities and commitments | | - | |
| Amounts written off financial investments | | - | |

| | | |
|---|---|---|
| Operating profit | | 978 |
| Share of results of associated undertakings | | 86 |
| Profit on disposal of property | 9 | 90 |
| Construction contract income | 10 | 34 |
| Profit on disposal of businesses | | 26 |
| Profit before taxation - continuing operations | | 1,214 |
| Income tax expense - continuing operations | 11 | 221 |
| Profit after taxation - continuing operations | | 993 |
| Discontinued operation, net of taxation | 2 | 132 |
| Profit for the period | | 1,125 |
| Attributable to: | | |
| Equity holders of the parent | | 1,089 |
| Minority interests in subsidiaries | | 36 |
| | | 1,125 |
| Basic earnings per share - continuing operations | | 105.9c |
| Basic earnings per share - discontinued operations | | 15.3c |
| Total | 12(a) | 121.2c |
| Diluted earnings per share - continuing operations | | 105.0c |
| Diluted earnings per share - discontinued operations | | 15.1c |
| Total | 12(b) | 120.1c |

Results for the half-year ended 30 June 2005 have been restated to represent the results of Ark Life as a discontinued operation (note 2).

Consolidated interim balance sheet (unaudited)

30 June 2006

| | Notes | 30 June 2006 EUR m | 31 De |
|---|---|---|---|
| Assets | | | |
| Cash and balances at central banks | | 618 | |
| Treasury bills and other eligible bills | | 129 | |
| Items in course of collection | | 927 | |
| Trading portfolio financial assets | 14 | 10,820 | |
| Financial assets designated at fair value through profit or loss | | - | |
| Derivative financial instruments | 22 | 2,239 | |
| Loans and receivables to banks | | 9,932 | |
| Loans and receivables to customers | 15 | 95,662 | |
| Financial investments available for sale | 18 | 18,664 | |
| Interests in associated undertakings | | 1,846 | |
| Intangible assets and goodwill | | 516 | |
| Property, plant and equipment | | 625 | |
| Other assets | | 1,005 | |
| Current taxation | | 8 | |
| Deferred taxation | | 224 | |

| | | | |
|---|---|---|---|
| Prepayments and accrued income | | 807 | |
| Disposal group and assets classified as held for sale | | 51 | |
| Total assets | | 144,073 | 1 |
| Liabilities | | | |
| Deposits by banks | | 34,318 | |
| Customer accounts | 19 | 66,564 | |
| Trading portfolio financial liabilities | | 255 | |
| Derivative financial instruments | 22 | 1,992 | |
| Investment and insurance contract liabilities | | - | |
| Debt securities in issue | | 22,467 | |
| Current taxation | | 242 | |
| Other liabilities | | 2,590 | |
| Accruals and deferred income | | 1,020 | |
| Retirement benefit liabilities | | 644 | |
| Provisions for liabilities and commitments | | 133 | |
| Deferred taxation | | 9 | |
| Subordinated liabilities and other capital instruments | 20 | 4,693 | |
| Disposal group classified as held for sale | | - | |
| Total liabilities | | 134,927 | 1 |
| Shareholders' equity | | | |
| Share capital | | 294 | |
| Share premium account | | 1,693 | |
| Other equity interests | | 497 | |
| Reserves | | 519 | |
| Profit and loss account | | 4,907 | |
| Shareholders' equity | | 7,910 | |
| Minority interests | | 1,236 | |
| Total shareholders' equity including minority interests | | 9,146 | |
| Total liabilities, shareholders' equity and minority interests | | 144,073 | 1 |

Results for the half-year ended 30 June 2005 have been restated to represent the results of Ark Life as a discontinued operation (note 2).

Condensed interim statement of cash flows (unaudited)

For the half-year ended 30 June 2006

| Consolidated statement of cash flows | Half-year 30 June 2006 EUR m | Half-ye 30 Ju 20 EUR |
|---|---|---|
| Net cash flows from operating activities | 4,731 | 1,5 |
| Investing activities | | |
| Net increase in financial investments | (2,041) | ( |
| Additions to property plant and equipment and intangible assets | (94) | (5 |
| Disposal of property plant and equipment | 142 | |
| Investment in associated undertaking | - | |
| Disposal of associated undertakings | 3 | |
| Disposal of investment in businesses | 186 | |
| Dividends received from associated undertakings | 29 | |
| Cash flows from investing activities | (1,775) | (3 |

Financing activities

| | | |
|---|---|---|
| Issue of ordinary share capital | 35 | |
| Redemption of subordinated liabilities | - | (44 |
| Issue of new subordinated liabilities | 1,004 | 7 |
| Interest paid on subordinated liabilities | (70) | (2 |
| Equity dividends paid | (368) | (33 |
| Dividends on other equity interests | (38) | (3 |
| Dividends paid to minority interests | (35) | ( |
| Cash flows from financing activities | 528 | (8 |
| Net increase in cash and cash equivalents | 3,484 | 1,4 |
| Analysis of changes in cash | | |
| At beginning of period | 7,670 | 2,0 |
| Net cash inflow before the effect of exchange translation adjustments | 3,484 | 1,4 |
| Effect of exchange translation adjustments | (180) | |
| At end of period | 10,974 | 3,6 |

Results for the half-year ended 30 June 2005 have been restated to represent the results of Ark Life as a discontinued operation (note 2).

Consolidated interim statement of recognised income and expense (unaudited)

| | Half-year 30 June 2006 EUR m | Half- 30 E |
|---|---|---|
| Foreign exchange translation differences | (168) | |
| Net change in cash flow hedges, net of tax | (259) | |
| Net change in fair value of available for sale securities, net of tax | (136) | |
| Net actuarial gains and losses in retirement benefit schemes, net of tax | 492 | ( |
| Income and expense recognised directly in equity | (71) | |
| Profit for the period | 1,125 | |
| Total recognised income and expense for the period | 1,054 | 1 |
| Attributable to: | | |
| Equity holders of the parent | 1,018 | |
| Minority interests in subsidiaries | 36 | |
| Total recognised income and expense for the period | 1,054 | 1 |

Condensed consolidated interim reconciliation of movements in shareholders' equity (unaudited)

| | Half-year 30 June 2006 EUR m | Half 30 |
|---|---|---|
| Profit attributable to equity holders of the parent | 1,089 | |
| Transition adjustment at 1 January 2005 arising from IAS 32, IAS 39 and IFRS 4 | - | |
| Dividends on ordinary shares | (368) | |
| Dividends on other equity interests | (38) | |
| Share based payments | 17 | |

| | |
|---|---|
| Actuarial gain/(loss) recognised in retirement benefit schemes | 488 |
| Actuarial gain/(loss) recognised in associated undertaking | 4 |
| | |
| Other recognised (losses)/gains relating to the period | (559) |
| Other recognised (losses)/gains in associated undertaking | (35) |
| Other ordinary shares issued | 60 |
| Net movement in own shares | 83 |
| | |
| Net additions to shareholders' equity | 741 |
| Opening shareholders' equity | 7,169 |
| | |
| Closing shareholders' equity | 7,910 |
| | |
| Shareholders' equity: | |
| Ordinary shareholders' equity | 7,413 |
| Other equity interests | 497 |
| | 7,910 |

Commentary on results

Earnings per share

Adjusted earnings per share of EUR 93.7c (see note 13) was up 29% compared to EUR 72.4c for the half-year to June 2005,which includes the earnings in 2005 from Ark Life which is now a discontinued operation.

Rates of Exchange

The following table shows the average accounting rates and average effective rates for both periods. The average effective rates include the impact of currency hedging activities.

| | Average accounting rates half-year June 2006 | Average accounting rates half-year June 2005 | Avera effective rat half-ye June 20 |
|---|---|---|---|
| US dollar | 1.23 | 1.29 | 1. |
| Sterling | 0.69 | 0.69 | 0. |
| Polish zloty | 3.90 | 4.08 | 3. |

Basis of preparation

The results for the half-year ended 30 June 2005 have been restated to represent the results of Ark Life as a discontinued operation. The following commentary is on a continuing operations basis. The growth percentages are shown on an underlying basis, adjusted for the impact of exchange rate movements on the translation of foreign locations' profit and excluding interest rate hedge volatility under IFRS.

"Total operating income up 17%"
"Strong loan and deposit volume growth"

Total operating income

Total income increased by 17% to EUR 2,078 million.

| Total operating income | Half-year June 2006 EUR m | Half-ye June 20 EUR |
|---|---|---|
| Net interest income | 1,429 | 1,2 |
| Other income | 649 | 5 |
| Total operating income | 2,078 | 1,7 |

Commentary on results

Net interest income

Net interest income amounted to EUR 1,429 million, an increase of 16%. Strong loan and deposit growth in Republic of Ireland and UK, strong loan growth in Poland and continuing growth in loan arrangement fees were the key factors generating the increase. Loans to customers increased by 12% and customer accounts increased by 10% on a constant currency basis since 31 December 2005 (details of loan and deposit growth by division are contained on page 13 of this release).

| Average interest earning assets | Half-year June 2006 EUR m | Half-ye June 20 EUR |
|---|---|---|
| Average interest earning assets | 126,030 | 99,9 |

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

| Net interest margin | Half-year June 2006 % | Half-ye June 20 |
|---|---|---|
| Group net interest margin | 2.29 | 2.47( |

(2) The half-year to June 2005 net interest margin has been restated to exclude Ark Life.

The domestic and foreign margins for the half-year to June 2006 are reported on page 32 of this release.

AIB Group manages its business divisionally on a product margin basis with funding and groupwide interest exposure centralised and managed by Global Treasury. While a domestic and foreign margin is calculated for the purpose of statutory accounts, the analysis of net interest margin trends is best explained by analysing business factors as follows: The Group net interest margin amounted to 2.29%, a decrease of 18 basis points compared with the half-year to June 2005. The margin reduction was due to a combination of the following factors:

(a) loans increasing at a faster rate than deposits.

(b) a changing mix of products where stronger volume growth has been achieved in lower margin products; corporate loans, home loans and prime rate advances on the lending side and term deposits and other lower margin products on the deposit side.

(c) competitive pressures on loan and deposit pricing.

(d) lower yields on the re-investment of deposit and current account funds as they mature.

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

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

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

Commentary on results

"Strong increase in investment banking and asset management fees"

"Banking fees and commissions up 5%"

Other income

Other income was up 18% to EUR 649 million compared with the half-year to June 2005.

| Other income | Half-year June 2006 EUR m | Half-year June 2005 EUR m |
|---|---|---|
| Dividend income | 19 | 15 |
| Banking fees and commissions | 457 | 429 |
| Investment banking and asset management fees | 141 | 84 |
| Fee and commission income | 598 | 513 |
| Less: fee and commission expense | (76) | (70) |
| Trading income | 81 | 50 |
| Currency hedging profits / (losses) | 17 | (9) |
| Interest rate hedge volatility (IAS 39) | (19) | 2 |
| Trading income | 79 | 43 |

| | | |
|---|---|---|
| Other operating income | 29 | 37 |
| Total other income | 649 | 538 |

Dividend income increased 27% mainly reflecting growth in dividends from investments held by the Poland business.

Banking fees and commissions increased by 5%, due to increased business and transaction volumes in AIB Bank Republic of Ireland, AIB Bank UK, Poland and Corporate Banking and there was strong growth in credit card activity in Ireland.

Investment banking and asset management fees increased by 67% driven by particularly strong sales performances in Asset Management in Poland and BZWBK's brokerage operation. Total fee and commission income was up 15%.

Trading income increased, with strong growth in interest rate swap and foreign exchange income, bond management activities and increased volumes in the Poland Treasury business. Trading income excludes interest payable and receivable arising from these activities, which is included in net interest income.

Other income as a percentage of total income increased to 31.2% from 30.5% for the half-year June 2005.

Commentary on results

"Investment to ensure the long term health of the business"

"Improved efficiency"

- "Very good income / cost gap +6%"

- "Cost income ratio down 2.7% to 52.4%"

Total operating expenses

Operating expenses increased by 11% compared with the half-year to June 2005.

| Operating expenses | Half-year June 2006 EUR m | Half-year June 2005 EUR m |
|---|---|---|
| Personnel expenses | 699 | 630 |
| General and administrative expenses | 319 | 277 |
| Depreciation(1)/amortisation(2) | 70 | 65 |
| Total operating expenses | 1,088 | 972 |

Operating expenses were up 11%, in an environment of significantly higher business volumes and strong revenue growth. In this time of exceptional opportunity and income buoyancy, the decision has been made to invest to sustain the long-term health and development of the business. This has required investment in a resilient risk, compliance and corporate governance framework, recruitment of appropriate skills, the introduction of enhanced reward systems and the building of common operating systems. In addition, costs are being incurred to ensure compliance with a range of regulatory requirements such as Sarbanes Oxley and Basel II. Excluding regulatory driven costs and performance related remuneration resulting from very strong profit growth, the increase was

9%.

Personnel expenses were up 10%, due to higher pension costs and a higher level of variable performance related remuneration. General and administrative expenses were up 14% mainly due to consultancy and systems costs to ensure compliance with a range of previously mentioned regulatory requirements. Depreciation/amortisation increased by 6%, mainly due to the commencement of depreciation on the aforementioned recent investment initiatives.

Improved productivity was evident in a reduction in the cost income ratio by 2.7% to 52.4% from 55.1% in the half-year to June 2005.

(1) Depreciation of property, plant and equipment.

(2) Amortisation/impairment of intangible assets and goodwill.

Commentary on results

"Exceptionally positive bad debt experience reflecting benign credit environment"

"Reduction in impaired loans as a percentage of loans to 0.8%"

"Provision charge down to 3 basis points, not expected to recur"

"Very significant level of provision write-backs in the period"

Provisions

Total provisions were EUR 12 million, down from EUR 42 million in the half-year to June 2005.

| Provisions | Half-year June 2006 EUR m |
|---|---|
| Provisions for impairment of loans and receivables | 12 |
| Provisions for liabilities and commitments | - |
| Amounts written off financial investments | - |
| Total provisions | 12 |

Bad debt experience was exceptionally positive reflecting a benign credit environment and a significant level of provision write-backs in the period. There was a reduction in impaired loans as a percentage of total loans from 1.0% at 31 December 2005 to 0.8% at 30 June 2006 and the provision coverage for impaired loans increased to 81%. The provision for impairment of loans and receivables was EUR 12 million compared with EUR 46 million in the half-year to June 2005, representing a charge of 0.03% of average loans compared with 0.13% in the period to June 2005. The 0.03% charge represents EUR 14 million in the incurred but not reported ('IBNR') category and a net specific write-back of EUR 2 million.

In AIB Bank Republic of Ireland asset quality continued to be strong. Impaired loans as a percentage of total loans reduced to 0.6% at 30 June 2006 from 0.7%

at 31 December 2005 and the provision charge remained at 0.14% of average loans compared with the half-year to June 2005. All leading indicators of asset quality across the retail and commercial portfolios remain solid.

The bad debt charge in the UK division decreased to 0.08% compared with 0.11% for the half-year to June 2005 reflecting positive bad debt experience and very strong recoveries. Impaired loans remained at 0.9% of total loans compared with 31 December 2005.

In Capital Markets, there were exceptional non-recurring credit provision write-backs during the period. There was a net provision write-back of EUR 37 million or -0.39% of average loans and impaired loans reduced to 0.3% from 0.7% of total loans at 31 December 2005.

The provision charge in Poland was 0.31% of loans compared with 0.26% in the half-year to June 2005. The downward trend in impaired loans continued with the ratio of impaired loans as a percentage of loans declining to 6.3% from 6.8% at 31 December 2005.

There were no net provisions for liabilities and commitments or for amounts written off financial investments in the half-year to June 2006.

Share of results of associated undertakings

The profit in the half-year to June 2006 was EUR 86 million compared to EUR 70 million in the half-year to June 2005 and mainly reflects AIB's 23.9% share of the income after taxation of M&T Bank Corporation (EUR 80 million) and income after taxation from the recently completed venture in Life and Pensions with Hibernian.

Commentary on results

The following commentary is in respect of the total Group.

"Loans up 12%, deposits up 10%"

"Effective tax rate at 18.2%"

Balance sheet

Total assets amounted to EUR 144 billion compared to EUR 133 billion at 31 December 2005. Adjusting for the impact of currency, total assets were up 10% and loans to customers were up 12% since 31 December 2005 while customer accounts increased by 10%. Risk weighted assets excluding currency factors increased by 11% to EUR 111 billion.

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

| % change June 2006 v December 2005 | Risk weighted assets % change | Loans to customers % change |
|---|---|---|
| AIB Bank Republic of Ireland | 18 | 16 |
| AIB Bank UK | 9 | 9 |
| Capital Markets | 5 | 7 |
| Poland | 6 | 8 |
| AIB Group | 11 | 12 |

(1) Excludes money market funds

Assets under management/administration and custody

Assets under management in the Group amounted to EUR 15 billion and assets under administration and custody amounted to EUR 265 billion at 30 June 2006.

Taxation

The taxation charge was EUR 221 million compared with EUR 167 million in the half-year to June 2005. The effective tax rate was 18.2% compared with 20.2% in the half-year to June 2005 (or 18.4% excluding the bank levy). The taxation charge excludes taxation on share of results of associated undertakings. Share of results of associated undertakings is reported net of taxation in the Group profit before taxation. The effective tax rate is influenced by the geographic mix of profits, which are taxed at the rates applicable in the jurisdictions where we operate.

Commentary on results

"EPS guidance increased - growth targeted to be over 20% for year 2006"
"Return on equity 30.4%"

Return on equity and return on assets

The return on equity increased to 30.4% compared to 20.1% in the half-year to June 2005 and the return on assets was 1.67%, up from 1.23% in the half-year to June 2005. The return on equity was boosted by the profit on Bankcentre(1) and the profit on the disposal of Ark Life.

Capital ratios

A strong capital position was reflected in a Tier 1 ratio of 8.0% and a total capital ratio of 11.1%.

Outlook

Momentum and the operating performance in all our principal franchises is strong. The impaired loan provision charge in the first half-year should be considered exceptional due to very high levels of credit provision write-backs. Arising from positive business trends and well distributed customer demand, growth in adjusted basic earnings per share (2005 base EUR 145.9c) is now targeted to be over 20% for the full year 2006.

(1) Includes profit on the new Bankcentre development (EUR 29 million after tax) and part of the profit on the disposal of the existing Bankcentre (EUR 67 million after tax).

Divisional commentary

On a divisional basis, profit is measured in euro and consequently includes the impact of currency movements. The underlying percentage change is reported in the divisional income statements adjusting for the impact of exchange rate movements on the translation of foreign locations' profit.

AIB Bank Republic of Ireland division profit was up 19%

"Very strong revenue growth"
"Income / cost gap at +4%"
"Cost income ratio decreases to 49.4%"

AIB Bank Republic of Ireland Retail and commercial banking operations in Republic of Ireland, Channel Islands and Isle of Man; AIB Finance and Leasing and Card Services.

| AIB Bank Republic of Ireland income statement | Half-year June 2006 EUR m | Half-year June 2005 EUR m |
|---|---|---|
| Net interest income | 745 | 637 |
| Other income | 212 | 183 |
| Total operating income | 957 | 820 |
| Total operating expenses | 473 | 417 |
| Operating profit before provisions | 484 | 403 |
| Provisions | 35 | 27 |
| Operating profit | 449 | 376 |
| Share of results of associated undertakings | 4 | - |
| Profit on disposal of property | - | 4 |
| Profit before taxation | 453 | 380 |

AIB Bank Republic of Ireland generated growth in profit before tax of 19% underpinned by a continuing strong Irish economy and a dynamic AIB franchise. Operating income was up 17% and operating expenses were up 13% with the operating income/cost gap at +4%.

The strong profit growth reflects increased customer demand for products and services and the benefits of a refined branch operating model. Loans and deposits increased by 16% and 7% respectively since 31 December 2005 (+33% and +20% compared with June 2005), despite ongoing, though largely unchanged competitive pressure. Operating expenses were up 13%. Increased staff numbers reflecting higher activity levels across the business, annual salary inflation, the impact of a new career framework pay structure, performance related costs and pension costs were key drivers. In addition increased costs were incurred in a number of non-business related areas, including mandatory / regulatory driven project costs. The strong operating performance is further reflected in an improvement in the cost income ratio which reduced to 49.4% compared with 51.0% in June 2005. Asset quality remains strong and the provision charge for the half-year to 30 June 2006, was 0.14% of average loans, unchanged from the half-year to 30 June 2005. The increase in absolute amounts reflects the growth in loans.

Retail Banking reported a very strong half-year profit. Business lending growth was exceptionally strong, with personal lending, home mortgages and private banking activities all experiencing excellent increases reflecting buoyant customer response to competitive product offerings. Profit growth in AIB Card Services also increased significantly, resulting from strong revenue due to higher consumer spending and card balances, with costs flat compared with the comparative period. In AIB Finance and Leasing there was solid profit growth reflecting a strong growth in loan volumes and new business levels, particularly in the motor, plant and equipment and property finance sectors.

The recently completed venture in Life and Pensions with Hibernian is an important part of the wealth management platform being developed by AIB in Ireland.

Divisional commentary

Capital Markets division profit was up 58% on the half-year to June 2005

"Another excellent performance in Corporate Banking"
"Exceptional credit provision write-backs"
"Customer treasury business was very strong and wholesale trading performed well"
"Investment Banking profits show strong growth"
"Income / cost gap at +13%"

Capital Markets Global Treasury, Corporate Banking and Investment Banking.

| Capital Markets income statement | Half-year June 2006 EUR m | Half-year June 2005 EUR m |
|---|---|---|
| Net interest income | 239 | 214 |
| Other income | 227 | 194 |
| Total operating income | 466 | 408 |
| Total operating expenses | 202 | 200 |
| Operating profit before provisions | 264 | 208 |
| Provisions | (34) | 3 |
| Operating profit | 298 | 205 |
| Share of results of associated undertakings | 2 | 1 |
| Profit on disposal of business | 26 | - |
| Profit before taxation | 326 | 206 |

Profit before taxation at EUR 326 million was 58% ahead of the comparative period, with operating profit up 45%. The performance benefited from a combination of strong revenue growth, tight cost management and exceptional credit provision write-backs. Operating profit before provisions at EUR 264 million was 26% ahead of the comparative period.

Performance in Corporate Banking was excellent with operating profit before provisions up 24% and pre-tax profit up 59% on the comparative period. Loans increased by 7% since 31 December 2005 (21% since 30 June 2005), reflecting strong underlying growth, principally in our International and New York businesses, partly impacted by the repositioning of certain loan portfolios.

Overall, Global Treasury profit was up 36% compared with the half year to June 2005. Our Customer Treasury business performed strongly and was well ahead of the comparative period. Wholesale Treasury business performed well, in a difficult trading environment in the first half-year, with a good profit increase compared to 2005.

Investment Banking profit was 35% ahead of the half-year to June 2005. The result was underpinned by strong profit growth in asset management and stockbroking.

Operating expenses were in line with June 2005 with investment in growth businesses offset by the impact of selective business rationalisation during the latter half of 2005. The cost income ratio decreased to 43.5% from 49.1% reflecting increased productivity.

Exceptional credit provision write-backs were experienced during the period, reflecting the uniquely benign global credit environment. A conservative approach to credit management continues to be adopted and the quality of our loan portfolios remains strong.

Profit on disposal of business was earned on the transfer of the management of certain investment contracts to Aviva, as part of the Ark Life disposal.

The consistency and quality of growth underlines the capability within the division to identify, develop and sustain profitable sectors and niches.

Divisional commentary

AIB Bank UK division profit was up 18%

"Buoyant growth in customer volumes"
"Income / cost gap at +5%"
"Cost income ratio improves by 2.0% to 47.3%"

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

| AIB Bank UK income statement | Half-year June 2006 EUR m | Half-year June 2005 EUR m |
|---|---|---|
| Net interest income | 287 | 247 |
| Other income | 75 | 74 |
| Total operating income | 362 | 321 |
| Total operating expenses | 171 | 158 |
| Operating profit before provisions | 191 | 163 |
| Provisions | 7 | 8 |
| Operating profit | 184 | 155 |
| Profit on disposal of property | - | 1 |
| Profit before taxation | 184 | 156 |

AIB Bank UK had an excellent business performance in the half-year to June 2006 with profit before taxation increasing by 18%, continuing the trend of strong double-digit growth in recent periods. Loans and deposits increased by 9% and 13% respectively since 31 December 2005 and by 25% and 18% when compared with 30 June 2005,resulting in a net interest income increase of 17%. Other income was up 2%, reflecting growth in credit card income and banking commissions. Operating expenses were up 8%, due to increases in staff numbers, marketing expenditure and pension costs combined with annual salary increases. The cost income ratio improved from 49.3% to 47.3%.

Allied Irish Bank (GB), primarily a business bank, reported significant profit growth of 27% to EUR 103 million in 2006. This growth was driven primarily by strong volume growth with loans and deposits increasing by 27% and 21% respectively since 30 June 2005. This volume growth underpins the strength of customer demand and is the result of consistently focusing on chosen business sectors. Costs increased by 11% when compared against the same period last year, driven by the same factors noted above. The cost income ratio improved from 48.7% to 46.0% reflecting improved productivity.

In Northern Ireland, First Trust Bank increased profit before tax to EUR 81 million representing 9% growth on the same period last year (11% if the impact of property disposals is excluded). Loans and deposits were up 23% and 15% respectively when compared with 30 June 2005 with strong growth in business and home mortgage lending activity. Costs increased by 6% impacted by higher pension costs. Higher productivity resulted in an improvement in the cost income ratio from 50.0% to 48.7%.

Divisional commentary

Poland division profit was EUR 114 million, up 62%

"Substantial profit growth"
"Strong increase in customer lending"
"Exceptional growth in mutual funds"
"Income / cost gap + 17%"

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

BZWBK Wholesale Treasury and share of certain Investment Banking subsidiaries results are reported in Capital Markets division.

| Poland income statement | Half-year June 2006 EUR m | Half-yea June 200 EUR |
|---|---|---|
| Net interest income | 112 | 9 |
| Other income | 162 | 11 |
| Total operating income | 274 | 20 |
| Total operating expenses | 156 | 13 |
| Operating profit before provisions | 118 | 7 |
| Provisions | 4 | |
| Profit before taxation | 114 | 6 |

Profit before taxation was up by 62% on a local currency basis to EUR 114 million, reflecting increasingly strong momentum across the division's business lines, generated through higher business activity and volumes and the execution of its business strategy.

Total operating income increased by 26% with net interest income increasing by 16% and other income increasing by 34%. The first half-year saw a material pick up in the demand for credit. Total loans increased by 8% since December 2005 (12% since 30 June 2005), with the pick-up in retail lending continuing and an increased demand for business lending, which increased by 8%. Mortgage growth at 10% continued to be tempered by the market preference for foreign exchange denominated lending. Overall lending margins were maintained reflecting a better product mix, despite increasing competition in business and mortgage lending. Customer deposits increased by 3% since December 2005 (7% since 30 June 2005), with growth primarily in current accounts and foreign exchange deposits. Deposit growth must be seen in the context of customer preference for mutual funds in which we are achieving very significant growth (as outlined below). Lower interest rates and increased competition reduced deposit margins, compensated somewhat by a better product mix.

Other income growth of 34% was driven by a variety of positive factors, including exceptional growth in assets under management. Mutual fund balances increased 230% on June 2005 and market share increased to 16.4% in June 2006 from 12.6% in December 2005. Outstanding sales and favourable portfolio mix resulted in asset management income growth of 341%. The brokerage business enjoyed an excellent half-year with substantial increases in turnover, buoyed by the performance of the Warsaw Stock Exchange in the first half of 2006. In addition, E-business and payment fees, dividends, equity disposals and foreign exchange income also contributed to the strong growth.

Operating expenses increased by 9% reflecting increased business activity and higher performance related costs.

Impaired loans as a percentage of total loans continued to decline with the ratio at 6.3% at 30 June 2006 compared with 6.8% at 31 December 2005. Total provisions were at the same level as the half-year to June 2005. The credit provision charge as a percentage of average loans was 0.31%, compared with 0.26% in the half-year to June 2005.

Divisional commentary

Group

Group includes interest income earned on capital not allocated to divisions, the funding cost of certain acquisitions, hedging in relation to the translation of foreign locations' profit, unallocated costs of central services and the contribution from AIB's share of approximately 23.9% in M&T Bank Corporation ('M&T').

| Group income statement | Half-yea<br>June 200<br>EUR |
|---|---|
| Net interest income | 4 |
| Other income/(loss) | (27 |
| Total operating income | 1 |
| Total operating expenses | 8 |
| Operating loss | (67 |
| Share of results of associated undertaking - M&T | 8 |
| Profit on disposal of property | 9 |
| Construction contract income | 3 |
| Profit before taxation | 13 |

Group reported profit of EUR 137 million for the half-year to June 2006 compared with a profit of EUR 15 million in 2005. The increase mainly reflects profit on the partial disposal of the existing Bankcentre building and profit on the new Bankcentre development (total EUR 124 million).

Net interest income increased due to higher capital income resulting from higher capital balances (strong retained earnings and the return on the funds generated from the sale of Bankcentre and Ark Life). Other income/(loss) remained broadly in line with June 2005. In the half-year to June 2006 there was profit from the economic hedging of foreign currency translation including EUR 12 million of mark to market profit relating to economic hedges in place for the second half of 2006. The profit from foreign exchange hedging was offset by interest rate hedge volatility. Other income/(loss) in the half-year to June 2005 included economic hedging losses in relation to foreign currency translation hedging and interest rate hedge volatility.

Total operating expenses were higher due to increased compliance related spend, mainly Sarbanes Oxley and Basel II and systems development costs. Performance related costs were higher in line with strong profit growth.

AIB's share of M&T after-tax profit in 2006 amounted to EUR 80 million. On a local currency basis M&T's contribution of US$ 98 million increased by 11% relative to the half-year to June 2005 of US$ 88 million. AIB benefited from a 23.9% share of profit compared to a 23.3% share in the half-year to June 2005. M&T reported its half-year results on 12 July 2006, showing strong earnings growth with net income up 8% to US$ 415 million. US GAAP-basis diluted earnings per share was up 10% to US$ 3.64 from US$ 3.31 in the half-year to June 2005. Diluted net operating earnings per share, which excludes the amortisation of core deposit and other intangibles and branch acquisition related expenses, was US$ 3.79, up 10% from US$ 3.46.

Profit on disposal of property relates to part of the profit on the disposal of the existing Bankcentre building. Construction contract income reflects the profit from the new development at Bankcentre.

NOTES IN AIB 2006 INTERIM RESULTS PART 2

Notes

1 Accounting policies and presentation of financial information

The accounting policies that the Group applied in the preparation of the interim financial statements for the half year ended 30 June 2006 are in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU and are consistent with those set out in the Annual Report and Accounts for the year ended 31 December 2005.

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

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

Under IFRS 5,'Non-current assets held for sale and discontinued operations', the income and expenses, up to the date of disposal, the operations deemed to be disposed of, have been reported net of taxation as a discontinued operation below profit after taxation. The impact of the restatement on the previously reported June 2005 figures is outlined below. The assets and liabilities of Ark Life as 31 December 2005 were classified as held for sale, separate from other assets and liabilities on the balance sheet. There has been no restatement of 30 June 2005 balance sheet figures as the assets and liabilities were not held for sale at that date.

| | As previously reported EUR m | Discontinu operatio EUR |
|---|---|---|
| Net interest income | 1,268 | |
| Other income | 890 | 3 |
| Total operating income | 2,158 | 3 |
| Insurance and investment contract liabilities and claims | 355 | 3 |
| Total operating expenses | 985 | |
| Provisions | 42 | |
| Operating profit | 776 | |
| Share of results of associated undertakings | 70 | |
| Profit on disposal of property | 5 | |
| Profit before taxation | 851 | |
| Taxation | 169 | |
| Profit after taxation | 682 | |

The transaction gave rise to a profit of EUR 154m of which EUR 26m is treated as a profit on disposal of business and EUR 128m as a profit on disposal of a discontinued operation. The profit for Ark Life for the period to date of disposal is included within discontinued operations. The contribution of the venture for the 5 months ended June 2006 is included within share of results of associated undertakings. The carrying value of the investment is shown within interests in associated undertakings.

Notes

| 3 Segmental information | AIB Bank ROI EUR m | AIB Bank UK EUR m | Capital Markets EUR m | Poland EUR m |
|---|---|---|---|---|
| Operations by business segments(1) | | | | |
| Net interest income | 745 | 287 | 239 | 112 |
| Other income | 212 | 75 | 227 | 162 |
| Total operating income | 957 | 362 | 466 | 274 |
| Total operating expenses | 473 | 171 | 202 | 156 |

| | | | | |
|---|---|---|---|---|
| Provisions | 35 | 7 | (34) | 4 |
| Operating profit/(loss) | 449 | 184 | 298 | 114 |
| Share of results of associated undertakings | 4 | - | 2 | - |
| Profit on disposal of property | - | - | - | - |
| Construction contract income | - | - | - | - |
| Profit on disposal of business | - | - | 26 | - |
| Profit before taxation - continuing operations | 453 | 184 | 326 | 114 |
| Balance sheet | | | | |
| Total loans | 52,754 | 19,721 | 28,380 | 4,478 |
| Total deposits | 39,275 | 12,177 | 65,515 | 6,262 |
| Total assets | 58,261 | 21,851 | 50,134 | 7,702 |
| Total risk weighted assets | 45,997 | 19,874 | 39,654 | 4,716 |
| Net assets(2) | 3,070 | 1,326 | 2,647 | 315 |

| | AIB Bank ROI EUR m | AIB Bank UK EUR m | Capital Markets EUR m | Poland EUR m |
|---|---|---|---|---|
| Operations by business segments(1) | | | | |
| Net interest income | 637 | 247 | 214 | 93 |
| Other income | 183 | 74 | 194 | 115 |
| Total operating income | 820 | 321 | 408 | 208 |
| Total operating expenses | 417 | 158 | 200 | 136 |
| Provisions | 27 | 8 | 3 | 4 |
| Operating profit/(loss) | 376 | 155 | 205 | 68 |
| Share of results of associated undertakings | - | - | 1 | - |
| Profit on disposal of property | 4 | 1 | - | - |
| Profit before taxation - continuing operations | 380 | 156 | 206 | 68 |
| Balance sheet | | | | |
| Total loans | 39,858 | 15,772 | 18,546 | 3,827 |
| Total deposits | 29,260 | 10,576 | 47,771 | 5,869 |
| Total assets | 44,672 | 17,625 | 40,935 | 7,563 |
| Total risk weighted assets | 34,781 | 14,611 | 33,643 | 4,154 |
| Net assets(2) | 2,616 | 1,099 | 2,530 | 312 |

Notes

| 3 Segmental information (continued) | AIB Bank ROI EUR m | AIB Bank UK EUR m | Capital Markets EUR m | Poland EUR m |
|---|---|---|---|---|
| Operations by business segments(1) | | | | |
| Net interest income | 1,314 | 516 | 435 | 205 |
| Other income | 376 | 148 | 407 | 222 |
| Total operating income | 1,690 | 664 | 842 | 427 |
| Total operating expenses | 867 | 323 | 400 | 280 |
| Provisions | 55 | 21 | 46 | 15 |

| | | | | |
|---|---|---|---|---|
| Operating profit/(loss) | 768 | 320 | 396 | 132 |
| Share of results of associated undertakings | (1) | - | 2 | - |
| Profit on disposal of property | 12 | 2 | - | - |
| Construction contract income | - | - | - | - |
| Profit on disposal of businesses | - | - | 5 | - |
| Profit before taxation - continuing operations | 779 | 322 | 403 | 132 |
| Balance sheet | | | | |
| Total loans | 45,523 | 18,346 | 23,794 | 4,487 |
| Total deposits | 34,172 | 10,958 | 58,038 | 6,229 |
| Total assets | 55,224 | 20,031 | 44,371 | 7,813 |
| Total risk weighted assets | 39,073 | 18,335 | 38,974 | 4,640 |
| Net assets(2) | 2,564 | 1,203 | 2,558 | 305 |

| | Republic of Ireland | United States of America | United Kingdom | Poland | th |
|---|---|---|---|---|---|
| | EUR m | EUR m | EUR m | EUR m | |
| Operations by geographical segments(3) | | | | | |
| Net interest income | 891 | 26 | 381 | 126 | |
| Other income | 310 | 31 | 113 | 190 | |
| Total operating income | 1,201 | 57 | 494 | 316 | |
| Total operating expenses | 682 | 21 | 220 | 160 | |
| Provisions | 28 | (1) | (19) | 4 | |
| Operating profit | 491 | 37 | 293 | 152 | |
| Share of results of associated undertakings | 6 | 80 | - | - | |
| Profit on disposal of property | 90 | - | - | - | |
| Construction contract income | 34 | - | - | - | |
| Profit on disposal of business | 26 | - | - | - | |
| Profit before taxation - continuing operations | 647 | 117 | 293 | 152 | |
| Balance sheet | | | | | |
| Total loans | 69,964 | 3,881 | 26,837 | 4,478 | |
| Total deposits | 89,024 | 4,479 | 23,570 | 6,262 | |
| Total assets | 99,707 | 5,299 | 30,907 | 7,721 | |
| Net assets(2) | 4,593 | 538 | 1,909 | 338 | |

Notes

| | Republic of Ireland | United States of America | United Kingdom | Poland | th |
|---|---|---|---|---|---|
| 3 Segmental information (continued) | EUR m | EUR m | EUR m | EUR m | |
| Operations by geographical segments(3) | | | | | |
| Net interest income | 758 | 20 | 339 | 106 | |
| Other income | 249 | 37 | 124 | 125 | |
| Total operating income | 1,007 | 57 | 463 | 231 | |
| Total operating expenses | 596 | 35 | 198 | 140 | |
| Provisions | 21 | (2) | 19 | 4 | |
| Operating profit | 390 | 24 | 246 | 87 | |
| Share of results of associated undertakings | 1 | 69 | - | - | |
| Profit on disposal of property | 4 | - | 1 | - | |

| | | | | |
|---|---|---|---|---|
| Profit before taxation - continuing operations | 395 | 93 | 247 | 87 |
| | | | | |
| Balance sheet | | | | |
| Total loans | 49,987 | 2,428 | 21,780 | 3,827 |
| Total deposits | 62,020 | 3,730 | 22,027 | 5,869 |
| Total assets | 79,207 | 3,561 | 25,488 | 7,487 |
| Net assets(2) | 4,148 | 471 | 1,791 | 214 |

| | Republic of Ireland | United States of America | United Kingdom | Poland | th |
|---|---|---|---|---|---|
| | EUR m | EUR m | EUR m | EUR m | |
| Operations by geographical segments(3) | | | | | |
| Net interest income | 1,564 | 45 | 689 | 225 | |
| Other income | 537 | 68 | 252 | 251 | |
| Total operating income | 2,101 | 113 | 941 | 476 | |
| Total operating expenses | 1,239 | 62 | 413 | 290 | |
| Provisions | 70 | 1 | 54 | 15 | |
| | | | | | |
| Operating profit | 792 | 50 | 474 | 171 | |
| Share of results of associated undertakings | 1 | 148 | - | - | |
| Profit on disposal of property | 12 | - | 2 | - | |
| Construction contract income | 45 | - | - | - | |
| Profit on disposal of businesses | - | 4 | 1 | - | |
| Profit before taxation - continuing operations | 850 | 202 | 477 | 171 | |
| | | | | | |
| Balance sheet | | | | | |
| Total loans | 58,831 | 3,863 | 24,888 | 4,487 | |
| Total deposits | 77,971 | 4,021 | 21,291 | 6,229 | |
| Total assets | 91,622 | 5,071 | 28,411 | 7,815 | |
| Net assets(2) | 4,039 | 477 | 1,810 | 320 | |

Notes

3 Segmental information (continued)

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

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

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

| Half-year 30 June | Half-ye 30 Ju |
|---|---|

| 4 Interest and similar income | 2006<br>EUR m | 20<br>EUR |
|---|---|---|
| Interest on loans and receivables to banks | 140 | |
| Interest on loans and receivables to customers | 2,460 | 1,9 |
| Interest on trading portfolio financial assets | 181 | 1 |
| Interest on financial investments available for sale | 349 | 3 |
| | 3,130 | 2,4 |

| 5 Interest expense and similar charges | Half-year<br>30 June<br>2006<br>EUR m | Half-ye<br>30 Ju<br>20<br>EUR |
|---|---|---|
| Interest on amounts due to banks and customers | 1,187 | 9 |
| Interest on debt securities in issue | 424 | 2 |
| Interest on subordinated liabilities and other capital instruments | 90 | |
| | 1,701 | 1,1 |

| 6 Trading income | Half-year<br>30 June<br>2006<br>EUR m | Half-ye<br>30 Ju<br>20<br>EUR |
|---|---|---|
| Foreign exchange contracts | 61 | |
| Profits less losses from trading portfolio assets | (4) | |
| Interest rate contracts | 18 | (1 |
| Equity index contracts | 4 | |
| | 79 | |

| 7 Other operating income | Half-year<br>30 June<br>2006<br>EUR m | Half-ye<br>30 Ju<br>20<br>EUR |
|---|---|---|
| Profit on disposal of available for sale debt securities | 1 | |
| Profit on disposal of available for sale equity shares | 7 | |
| Profit on disposal of investments in associated undertakings | 2 | |
| Miscellaneous operating income | 19 | |
| | 29 | |

| 8 Administrative expenses | Half-year<br>30 June<br>2006<br>EUR m | Half-ye<br>30 Ju<br>20<br>EUR |
|---|---|---|
| Personnel expenses | 699 | 6 |
| General and administrative expenses | 319 | 2 |
| | 1,018 | 9 |

Notes

9 Profit on disposal of property

In April 2006, the Group announced that it had agreed a sale and leaseback of its existing headquarters building. The property has been sold in two lots, for a total consideration of EUR 378m. One part of the sale and leaseback transaction had completed at 30 June 2006, giving rise to the recognition of a profit of EUR 90m (tax charge EUR 23m). The second part of the transaction completed on 21 July 2006, giving rise to a profit of EUR 168m (tax charge EUR

32m), to be recognised in the second half of the year. The initial annual rent payable on these buildings is EUR 11.6m.

| 10 Construction contract income | Half-year 30 June 2006 EUR m | Half-year 30 June 2005 EUR m |
|---|---|---|
| Construction revenue | 62 | - |
| Construction expense | (28) | - |
| | 34 | - |

In 2005, Blogram Limited a property development company and subsidiary of Allied Irish Banks, p.l.c., contracted with the Serpentine Consortium to construct on a fixed price contract basis, a new development at Bankcentre, Ballsbridge, Dublin on the behalf of the consortium. At 30 June 2006, EUR 87m (31 December 2005: EUR 26m) was due from the consortium in respect of construction contracts in progress. A subsidiary of AIB has contracted with the Serpentine Consortium to lease the property on completion at an initial rent of EUR 16.1m per annum for a period of 33 years with a break clause at year 23.

| 11 Taxation | Half-year 30 June 2006 EUR m | Half-year 30 June 2005 EUR m |
|---|---|---|
| Allied Irish Banks, p.l.c. and subsidiaries | | |
| Corporation tax in Republic of Ireland | | |
| Current tax on income for the period(1) | 120 | 75 |
| Adjustments in respect of prior periods | - | 2 |
| | 120 | 77 |
| Double taxation relief | (14) | (10) |
| | 106 | 67 |
| Foreign tax | | |
| Current tax on income for the period | 139 | 106 |
| Adjustments in respect of prior periods | (6) | (1 |
| | 133 | 105 |
| | 239 | 172 |
| Deferred taxation | | |
| Origination and reversal of timing differences | (18) | (6 |
| Other | - | 1 |
| | (18) | (5) |
| Total income tax expense - continuing operations | 221 | 167 |
| Effective income tax rate - continuing operations | 18.2% | 20.2% |

(1) The 30 June 2005 and 31 December 2005 figures included a charge of EUR 14.7m and EUR 29.5m respectively in relation to the Irish Government bank levy.

Notes

| 12 Earnings per EUR 0.32 ordinary share | Half-year 30 June 2006 EUR m | Half-y 30 J 2 EU |
|---|---|---|
| (a) Basic | | |
| Profit attributable to equity holders of the parent | 1,089 | |
| Distributions to other equity holders | (38) | ( |
| Profit attributable to the ordinary shareholders | 1,051 | |
| Weighted average number of shares in issue during the period | 868.0m | 862 |
| Earnings per share | EUR 121.2c | EUR 72 |

| (b) Diluted | Half-year 30 June 2006 EUR m | Half-y 30 J 2 EU |
|---|---|---|
| Profit attributable to ordinary shareholders | 1,051 | |
| Dilutive impact of potential ordinary shares in associated company | (1) | |
| Adjusted profit attributable | 1,050 | |
| | Number of shares | |
| Weighted average number of shares in issue during the period | 868.0 | 86 |
| Dilutive effect of options outstanding | 6.6 | |
| Adjusted weighted average number of shares | 874.6 | 86 |
| Earnings per share - diluted | EUR 120.1c | EUR 71 |

| 13 Adjusted earnings per share | Half-year 30 June 2006 cent | Half-year 30 June 2005 cent | Basic Year 31 December 2005 cent | Half-year 30 June 2006 cent | H |
|---|---|---|---|---|---|
| Earnings per share | 121.2 | 72.3 | 151.0 | 120.1 | |
| EPS - discontinued operations | 15.3 | 2.9 | 5.3 | 15.1 | |
| EPS - continuing operations | 105.9 | 69.4 | 145.7 | 105.0 | |
| Adjustments: | | | | | |
| Profit on sale of Bankcentre | (7.6) | - | - | (7.6) | |
| Construction contract income | (3.4) | - | (4.4) | (3.3) | |
| Profit on disposal of business | (2.9) | - | - | (2.9) | |
| Hedge volatility | 1.7 | 0.1 | (0.7) | 1.7 | |

| | | | | |
|---|---|---|---|---|
| Adjusted EPS - continuing operations | 93.7 | 69.5 | 140.6 | 92.9 |

Adjusted earnings per share is presented to help understand the underlying performance of the Group. The adjustments in 2006 and 2005 are items that do not reflect the underlying business performance.

Notes

| 14 Trading portfolio financial assets | 30 June 2006 EUR m | 31 Dece E |
|---|---|---|
| Loans and receivables to banks | 3 | |
| Loans and receivables to customers | 18 | |
| Debt securities: | | |
| Government securities | 717 | |
| Other public sector securities | 39 | |
| Other debt securities | 9,913 | 9 |
| | 10,669 | 9 |
| Equity shares | 130 | |
| | 10,820 | 10 |

| 15 Loans and receivables to customers | 30 June 2006 EUR m | 31 Dece E |
|---|---|---|
| Loans and receivables to customers | 91,667 | 81 |
| Amounts receivable under finance leases | 1,634 | 1 |
| Amounts receivable under hire purchase contracts | 1,288 | 1 |
| Unquoted debt securities | 1,073 | 1 |
| | 95,662 | 85 |

| 16 Provisions for impairment of loans and receivables | 30 June 2006 EUR m | 31 Dece E |
|---|---|---|
| At beginning of period | 676 | |
| IFRS transition adjustment | - | ( |
| Transfer from debt securities | - | |
| Exchange translation adjustments | (14) | |
| Charge against income statement | 12 | |
| Amounts written back | (36) | |
| Recoveries of amounts written off in previous years | 4 | |
| At end of period | 642 | |
| | | |
| At end of period: | | |
| Specific | 468 | |
| IBNR | 174 | |
| | 642 | |
| | | |
| Amounts include: | | |
| Loans and receivables to banks | 2 | |
| Loans and receivables to customers | 640 | |
| | 642 | |

Notes

## 17 Risk elements in lending

Management has set out below the amount of loans, without giving effect to available security and before deduction of provisions, classified as (a) Impaired Loans and (b) Accruing loans which are contractually past due 90 days or more as to principal or interest:

| | 30 June 2006 EUR m | 31 Decem 2 EU |
|---|---|---|
| Impaired loans(1) | | |
| Republic of Ireland | 332 | |
| United Kingdom | 198 | |
| Poland | 248 | |
| Rest of world | 9 | |
| | 787 | |
| Accruing loans which are contractually past due 90 days or more as to principal or interest(2) | | |
| Republic of Ireland | 158 | |
| United Kingdom | 109 | |
| | 267 | |

(1)Total interest income that would have been recorded during the half-year ended 30 June 2006, had interest on gross impaired loans been included in income amounted to EUR 9m for Republic of Ireland (31 December 2005: EUR 15m; 30 June 2005: EUR 9m), EUR 4m for United Kingdom (31 December 2005: EUR 8m; 30 June 2005: EUR 3m) and EUR 9m for Poland (31 December 2005: EUR 23m; 30 June 2005: EUR 8m). Interest on impaired loans (net of provisions) included in income for the half-year ended 30 June 2006 totalled EUR 10m (31 December 2005: EUR 19m; 30 June 2005: EUR 5m).

(2)Overdrafts generally have no fixed repayment schedule and consequently are not included in this category.

| 18 Financial investments available for sale | 30 June 2006 EUR m | 31 Decem 2 EU |
|---|---|---|
| Debt securities: | | |
| Government securities | 8,273 | 8, |
| Other public sector securities | 915 | |
| Bank and building society certificates of deposit | 1,232 | |
| Other debt securities | 8,072 | 7, |
| | 18,492 | 16, |
| Equity shares | 172 | |
| | 18,664 | 16, |

Notes

| | 30 June 2006 | 31 Dece |
|---|---|---|
| 19 Customer accounts | EUR m | E |
| Current accounts | 22,512 | 20 |
| Demand deposits | 8,372 | 8 |
| Time deposits | 29,764 | 28 |
| | 60,648 | 57 |
| Securities sold under agreements to repurchase | 3 | |
| Other short-term borrowings | 5,913 | 5 |
| | 5,916 | 5 |
| | 66,564 | 62 |

20 Subordinated liabilities and other capital instruments

In June 2006, Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ('Preferred Securities') were issued in the amount of StgGBP 350,000,000 and EUR 500,000,000 through Limited Partnerships. The Preferred Securities were issued at par and have the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. ('AIB'). The Preferred Securities have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities.

The Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the Financial Regulator (i) upon the occurrence of certain events or (ii) on or after 14 June 2016 for the Stg GBP 350,000,000 Preferred Securities and 16 June 2016 for the EUR 500,000,000 Preferred Securities.

Distributions on the Preferred Securities are non-cumulative. The distributions on the Stg GBP 350,000,000 Preferred Securities will be payable at a rate of 6.271% semi-annually until 14 June 2016 and thereafter at a rate of 1.23% per annum above 3 month LIBOR, payable quarterly. The distributions on the EUR 500,000,000 Preferred Securities will be payable at a rate of 5.142% per annum up to 16 June 2016 and thereafter at the rate of 1.98% per annum above 3 month EURIBOR, payable quarterly.

In the event of the dissolution of the Limited Partnerships, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of AIB at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by AIB, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilities of AIB including subordinated liabilities.

| | 30 June 2006 | 31 Decem 2 |
|---|---|---|
| 21 Memorandum items: contingent liabilities and commitments | | |
| | EUR m | EU |
| Contingent liabilities: | | |
| Endorsements | - | |

| | | | |
|---|---|---|---|
| | Guarantees and assets pledged as collateral security | 6,526 | 7, |
| | Other contingent liabilities | 1,090 | 1, |
| | | 7,616 | 8, |
| Commitments: | | | |
| | Other commitments | 22,380 | 19, |
| | | 29,996 | 28, |

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

Notes

22 Derivative financial instruments

The following table presents the notional amounts and fair values of derivative financial instruments as at 30 June 2006 and 31 December 2005.

| | 30 June 2006 | | | |
|---|---|---|---|---|
| | Notional amount | Fair values | | Notional amount |
| | | Assets | Liabilities | |
| | EUR m | EUR m | EUR m | EUR m |
| Interest rate contracts(1) | 200,368 | 1,710 | (1,494) | 178,326 |
| Exchange rate contracts(1) | 13,522 | 242 | (216) | 19,799 |
| Equity contracts(1) | 5,904 | 284 | (275) | 4,386 |
| Credit derivatives | 639 | 3 | (7) | - |
| Total derivative financial instruments | 220,433 | 2,239 | (1,992) | 202,511 |

(1)Interest rate, exchange rate and equity contracts have been entered into for both hedging and trading purposes.

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

23 Average balance sheets and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the half-year ended 30 June 2006 and the year ended 31 December 2005. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

| Assets | Half-year ended 30 June 2006 Average balance EUR m | Interest EUR m | Average rate % | Year end Average balance EUR m |
|---|---|---|---|---|
| Loans and receivables to banks | | | | |
| Domestic offices | 5,061 | 80 | 3.2 | 4,596 |
| Foreign offices | 2,595 | 60 | 4.7 | 1,131 |
| Loans and receivables to customers | | | | |
| Domestic offices | 58,694 | 1,376 | 4.7 | 47,806 |
| Foreign offices | 31,893 | 1,018 | 6.4 | 27,664 |
| Trading portfolio financial assets | | | | |
| Domestic offices | 9,301 | 165 | 3.6 | 7,786 |
| Foreign offices | 963 | 16 | 3.3 | 1,308 |
| Financial investments | | | | |
| Domestic offices | 13,618 | 258 | 3.8 | 12,869 |
| Foreign offices | 3,905 | 91 | 4.7 | 3,220 |
| Total interest earning assets | | | | |
| Domestic offices | 86,674 | 1,879 | 4.4 | 73,057 |
| Foreign offices | 39,356 | 1,185 | 6.1 | 33,323 |
| Net interest on swaps | | 56 | | |
| Total average interest earning assets | 126,030 | 3,120 | 5.0 | 106,380 |
| Non-interest earning assets | 10,012 | | | 13,209 |
| Total average assets | 136,042 | 3,120 | 4.6 | 119,589 |
| Percentage of assets applicable to foreign activities | | | 31.6 | |

Notes

23 Average balance sheets and interest rates (continued)

| Liabilities and shareholders' equity | Half-year ended 30 June 2006 Average balance EUR m | Interest EUR m | Average rate % | Year Average balance EUR m |
|---|---|---|---|---|
| Due to banks | | | | |
| Domestic offices | 26,689 | 450 | 3.4 | 25,288 |
| Foreign offices | 2,250 | 45 | 4.0 | 1,963 |
| Due to customers | | | | |
| Domestic offices | 33,164 | 336 | 2.0 | 27,820 |
| Foreign offices | 20,675 | 346 | 3.4 | 18,545 |
| Other debt issued | | | | |
| Domestic offices | 12,451 | 187 | 3.0 | 7,001 |
| Foreign offices | 10,789 | 237 | 4.4 | 8,486 |
| Subordinated liabilities | | | | |
| Domestic offices | 3,771 | 87 | 4.7 | 2,925 |
| Foreign offices | 89 | 3 | 5.7 | - |
| Total interest earning liabilities | | | | |
| Domestic offices | 76,075 | 1,060 | 2.8 | 63,034 |
| Foreign offices | 33,803 | 631 | 3.8 | 28,994 |
| Total average interest earning liabilities | 109,878 | 1,691 | 3.1 | 92,028 |
| Non interest earning liabilities | 18,623 | | | 21,237 |

| | | | | |
|---|---|---|---|---|
| Total average liabilities | 128,501 | 1,691 | 2.7 | 113,265 |
| Shareholders' equity | 7,541 | | | 6,324 |
| Total average liabilities and shareholders' equity | 136,042 | 1,691 | 2.5 | 119,589 |
| Percentage of liabilities applicable to foreign activities | | | 30.6 | |

24 Post-balance sheet events

On 31 July 2006,subsequent to the interim balance sheet date, an interim dividend of EUR 25.3 cent per share was declared by the Board of Directors for payment on 26 September 2006. The interim dividend amounts to EUR 221 million and has not been recorded as a liability in the balance sheet.

25 Approval of accounts

The interim financial statements (unaudited) were approved by the Board of Directors on 31 July 2006.

Financial and other information

| | Half-year 30 June 2006 | Half-yea 30 Jun 2005(1 |
|---|---|---|
| Operating ratios | | |
| Operating expenses/operating income | 52.4% | 55.1 |
| Other income/operating income | 31.2% | 30.5 |
| Net interest margin | | |
| Group | 2.29% | 2.47 |
| Domestic | 2.04% | 2.30 |
| Foreign | 2.84% | 2.85 |
| Rates of exchange | | |
| EUR/US $ | | |
| Closing | 1.2713 | 1.209 |
| Average | 1.2287 | 1.289 |
| EUR/Stg | | |
| Closing | 0.6921 | 0.674 |
| Average | 0.6883 | 0.686 |
| EUR/PLN | | |
| Closing | 4.0546 | 4.038 |
| Average | 3.8991 | 4.082 |

(1)The results for the half-year ended 30 June 2005 have been restated to represent the results of Ark Life as a discontinued operation to reflect the disposal (note 2).

| Half-year 30 June | Half-yea 30 Jun |
|---|---|

| Capital adequacy information | 2006 EUR m | 200 EUR |
|---|---|---|
| Total risk weighted assets | 111,067 | 88,23 |
| Capital | | |
| Tier 1 | 8,913 | 6,79 |
| Tier 2 | 3,815 | 3,41 |
| | 12,728 | 10,20 |
| Supervisory deductions | 349 | 47 |
| Total | 12,379 | 9,72 |

Independent review report of KPMG to Allied Irish Banks, p.l.c.

Introduction

We have been engaged by the company to review the financial information for the six months ended 30 June 2006, which comprises the statement of accounting policies, consolidated interim income statement, consolidated interim balance sheet, consolidated condensed interim statement of cash flows, consolidated interim statement of recognised income and expense, condensed consolidated interim reconciliation of movements in shareholders' equity and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Irish Stock Exchange and the UK Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this review report, or for the conclusions we have reached.

Directors' responsibilities

This interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing this interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 Review of interim financial information issued by the Auditing Practices Board for use in Ireland and the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the 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 International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

KPMG

Chartered Accountants

Dublin

31 July 2006

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 1 August 2006

By: ____________________
John O'Donnell
Group Director, Finance,
Risk and Enterprise
Technology
Allied Irish Banks, p.l.c.