

## 55. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN INTERNATIONAL AND UNITED STATES ACCOUNTING PRINCIPLES

The following is a description of the significant differences between International Financial Reporting Standards (“IFRS”) and those applicable in the United States of America (“US GAAP”).

IFRS	US GAAP
<p><b>Credit Provisioning</b></p> <p>Under IAS 39, impairment provisions are recognized on an incurred loss basis if there is objective evidence that the Group will be unable to collect all amounts due on a loan according to the original contractual terms.</p> <p>Individual credit exposures are evaluated based upon the borrower’s character, overall financial condition, resources and payment record, the prospects for recovery from the realization of collateral or the calling in of guarantees where applicable.</p> <p>The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.</p> <p>IAS 39 allows collective assessment of impairment for individually insignificant items. Smaller value impaired loans are grouped together in homogeneous pools sharing common characteristics and impairment is measured by reference to the loss history experience of the asset pool.</p> <p>Where no objective evidence of impairment exists for an individual asset but there are indications of incurred losses in the portfolio, IAS 39 permits the creation of provisions for credit losses on an incurred loss basis, based on statistical data.</p> <p>Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued, but the increase of the present value of impaired claims due to the passage of time is reported as interest income. If, in a subsequent period, an event occurs that reduces/reverses the impairment loss, this reversal is recognized in the income statement.</p>	<p>Under SFAS 114 “Accounting by Creditors for Impairment of a Loan”, impairment should be assessed on a loan by loan basis. If an impaired loan has risk characteristics similar to other loans, all such loans can be aggregated based on historical experience. The average recovery period and average recovery amount can be used as a method for calculating the cash flows and timing of cash flows for impaired loans. Impairment should be calculated based on the present value of expected future cash flows discounted at the loan’s effective interest rate. Impairment losses once recognized cannot be reversed, until cash has been received.</p>
<p><b>Stock Compensation</b></p> <p>IFRS 2 “Share-based payment” requires a fair value based method of accounting for all share-based-payments. This value is determined using an options pricing model. The expense is recognized over the period in which the options are expected to vest.</p>	<p>The Group continues to apply the provisions of APB 25 - “Accounting for stock issued to employees” and accounts for share based payments using the intrinsic value method.</p>
<p><b>Derivatives and hedging activities</b></p> <p>IAS 39 ‘Financial instruments: recognition and measurement’ requires all derivatives be recognized as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation as described below. In respect of derivatives that do not qualify for hedge accounting, the fair value adjustment is reflected in the income statement. Derivative transactions entered into for hedging purposes are classified as ‘fair value hedges’ if they hedge exposures to changes in the fair value of a recognized 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 recognized asset or liability or of a highly probable forecast transaction.</p>	<p>All derivatives are recognized as either assets or liabilities in the statement of financial position and measured at fair value. The recognition of the changes in the fair value of a derivative depends upon its intended use. Derivatives that do not qualify for hedging treatment must be adjusted to fair value through earnings. If certain conditions are met, a derivative may be specifically designed as (a) a hedge of the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognised firm commitment, an available-for-sale security, or</p>

## IFRS

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

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

The mark to market of derivatives designated as cash flow hedges is accounted for in equity, net of the deferred tax impact. Subsequently it is released into the income statement in line with the income statement recognition of the element of the hedged asset, liability or highly probable forecast transaction. Any ineffective portion 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 tests, or the hedge relationship has ceased for any reason, the underlying hedged position is no longer marked to market. The fair value adjustment of the hedged item is amortized to the profit and loss account on an effective interest rate basis from the date the hedging relationship ceases.

Where a cash flow hedging instrument expires or is sold, terminated or exercised, the cumulative gain or loss on the instrument, that remains recognized directly 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.

### Revaluation of property

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

### Deferred taxation

Under IAS 12, "Income Taxes" deferred tax liabilities and assets are generally recognized in respect of all temporary differences, subject to assessment of the recoverability of deferred tax assets. Deferred tax assets are recognized, only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilized.

### Goodwill

From January 1, 2004, goodwill recognized in the IFRS balance sheet is not amortized but tested annually for impairment. Goodwill written off to reserves prior to January 1, 2004 in accordance with Irish GAAP has not been reinstated on the balance sheet.

### Long-term assurance policies

The Group accounts for its insurance contracts using the embedded value basis. The embedded values comprises two components: the net assets attributable to the Group and the present value of the in-force business.

## US GAAP

foreign currency denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designations.

The Group has elected not to satisfy the prescriptive hedging requirements of SFAS 133, which requires that forecast transactions be specifically identified. Therefore, IFRS hedging derivatives have been marked to market with the gain or loss recognized in net income for US GAAP purposes.

Revaluations are not permitted to be reflected in the financial statements.

The liability method is used with deferred tax assets and liabilities are recognized for all temporary differences. A valuation allowance is raised against a deferred tax asset where it is more likely than not that some portion of the deferred tax asset will not be realized.

Goodwill arising on acquisitions prior to December 31, 2001 was capitalized and written off over its useful life, up to a maximum of 20 years. With effect from January 1, 2002, due to the introduction of FAS 142 "Goodwill and Other Intangible Assets", goodwill is not amortized but retained at its value and reviewed for impairment. Goodwill is reviewed for impairment on an annual basis.

Premiums are recognized as revenue when due from policyholders. The costs of claims are recognized when insured events occur. For traditional business, the present value of estimated future policy benefits is accrued when premium revenue is recognised.

## IFRS

### Retirement benefits

Actuarial gains and losses are recognized through the statement of recognized income and expenditure. Scheme assets are valued at fair value and scheme liabilities are measured using the projected unit method. The net scheme assets and liabilities, reduced by deferred tax amounts are shown on the face of the balance sheet.

### Available for sale securities

IAS 39 states that changes in the value of debt securities attributable to foreign exchange fluctuations are taken to net income.

Unquoted equity shares are measured at fair value.

### Special purpose entities/variable interest entities

Special purpose entities (SPEs) are consolidated by an entity when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

### Accounting for Investment in M&T Bank

The Group's share of the assets and liabilities of M&T as at April 1, 2003 have been recorded at fair value in accordance with the accounting policies of the Group. In addition, the Group's share of the profits of M&T reflects the IFRS accounting rules applied by the Group.

### Construction contract income/sale and leaseback

Income from the sale and leaseback of the Bankcentre development is accounted for under IAS 11 - "Construction Contracts" and SIC 27 - "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". Such income is therefore recognized on a percentage completion basis.

## US GAAP

Acquisition costs are capitalized and charged to expense in proportion to premium revenue recognized. For unit-linked business, acquisition costs are amortized over the life of the contracts at a constant rate based on the present value of estimated gross profits. Initial income in respect of future services is not earned in the period assessed but recognized as income over the same amortization period and using the same amortization schedule as for acquisition costs. Holdings of shares in Allied Irish Banks, p.l.c., are netted off against ordinary stockholders equity

SFAS 87 "Employers' Accounting for Pensions" prescribes a similar method of actuarial valuations for pension liabilities and measurements of plan assets at fair value. Where the accumulated benefit obligation exceeds the value of plan assets, the Group recognizes an additional minimum pension liability equal to this excess, as long as the excess is greater than any accrual already established for unfunded pension costs. SFAS 87 requires recognition of all actuarial gains and losses in the statement of income. Under US GAAP, the Group elects to use the "corridor method", where by actuarial gains and losses outside a certain range are recognized in the income statement, in equal amounts over the remaining service lives of current employees. That range is equal to 10% of the greater of plan assets and plan liabilities. The remaining additional minimum pension liability is recognized directly in Other Comprehensive income.

EITF 96-15 "Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign Currency Denominated Available for sale Debt Securities", states that the change in value of debt securities attributable to foreign exchange fluctuations is taken directly to reserves - "Other Comprehensive Income" and transferred to the income statement on disposal of the instrument. Unquoted equity shares are measured at cost, less any provisions for impairment.

Variable interest entities ("VIEs") are consolidated by their primary beneficiary. A company is deemed to be a primary beneficiary where it is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the VIE's residuals returns or both.

Certain accounting policies used in relation to both the investment in M&T and the Group's share of profits of M&T are different when compared to IFRS.

The sale and leaseback of the Bankcentre development is accounted for under SFAS 28 - "Accounting for Sales with Leasebacks - an amendment of FASB Statement No. 13" and as such the income is deferred and recognized over the lease term.

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**IFRS****US GAAP****Loan Origination**

Interest income and expense is recognized in the income statement for all interest bearing financial instruments using the effective interest method. In calculating the effective interest rate, estimated cash flows are calculated 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 integral part of the effective interest rate, transactions 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.

Under IAS 39 certain internal costs are excluded from the effective interest calculations and are taken to the income statement as incurred.

SFAS 91 "Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" requires loan origination fees and direct costs (including certain internal costs) to be deferred and recognized over the life of the loan as an adjustment of yield.

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Notes to Consolidated Financial Statements - (Continued)

Consolidated net income

	Years ended December 31,	
	2005	2004
	(Euro in millions)	
Net income (Group profit attributable to the stockholders of AIB) as in the consolidated statement of income	1,343	1,150
Adjustments in respect of:		
Depreciation of freehold and long leasehold property	2	2
Disposal of revalued properties	2	—
Long-term assurance policies	(12)	(58)
Retirement benefits	(59)	(29)
Securities held for hedging purposes	—	5
Derivatives FAS 133 adjustment	(90)	113
Share of income of associated undertakings	4	(9)
Share based payment	16	4
Taxation	(14)	(1)
Construction contract income/sale and leaseback	(53)	—
Foreign exchange losses on available for sale securities	(352)	—
Loan impairment	132	—
Loan origination	(5)	—
Other	(11)	(8)
Deferred tax effect of the above adjustments	63	7
Net income in accordance with US GAAP	966	1,176
Net income applicable to ordinary stockholders of AIB in accordance with US GAAP	€ 928	1,169
Equivalent to	US\$ 1,095	
Income per American Depositary Share (ADS*) in accordance with US GAAP	€ 2.23	2.74
Equivalent to	US\$ 2.63	
Diluted income per American Depositary Share (ADS*) in accordance with US GAAP	€ 2.22	2.73
Equivalent to	US\$ 2.62	
Year end exchange rate €/US\$	1.1797	

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

Comprehensive income

	Years ended December 31,	
	2005	2004
	(Euro in millions)	
Net income in accordance with US GAAP	966	1,176
Net movement in unrealized holding gains on investment securities arising during the period, net of tax of €43 million (2004; €10 million)	302	68
Minimum pension liability adjustment, net of tax of €73 million	(171)	—
Currency translation adjustments	306	(88)
Comprehensive income	1,403	1,156

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Notes to Consolidated Financial Statements - (Continued)

Consolidated ordinary stockholders' equity

	December 31,	
	2005	2004
	(Euro in millions except per share amounts)	
Ordinary stockholders' equity as in the consolidated balance sheet	6,672	5,745
Revaluation of property	(161)	(165)
Depreciation of freehold and long leasehold property	(27)	(27)
Goodwill	296	248
Long-term assurance policies	(135)	(334)
Available-for-sale securities	(50)	272
Securities held for hedging purposes	—	2
Derivatives FAS 133 adjustment	—	46
Retirement benefits	1,111	1,137
Share based payment	—	(4)
Construction contract income/sale and leaseback	(53)	—
Taxation	—	14
Loan origination fees deferred	—	(85)
Loan origination costs deferred	80	85
Loan impairment	(14)	—
Other recognized gains in associated undertakings	(39)	(7)
Share of income of associated undertakings	(2)	11
Other	—	17
Deferred tax effect of the above adjustments	(83)	(158)
Ordinary stockholders' equity in accordance with US GAAP	€ 7,595	6,797
Equivalent to	US\$ 8,960	
Ordinary stockholders' equity per ADS in accordance with US GAAP	€ 17.57	15.96
Equivalent to	US\$ 20.73	
Ordinary stockholders' equity per ADS in accordance with IFRS	€ 15.44	12.67
Equivalent to	US\$ 18.21	

Statement of changes in ordinary stockholders' equity

	December 31,	
	2005	2004
	(Euro in millions)	
Opening balance	6,797	5,951
Net income for year	966	1,176
Dividends on equity shares	(532)	(474)
Dividends on other equity interests	(38)	(7)
Issue of shares	66	185
Net change in available for sale securities, net of tax	302	68
Minimum pension liability adjustment, net of tax	(171)	—
Other recognized gains/losses	(79)	—
Net movement in own shares	(6)	—
Currency translation adjustments	306	(88)
Other movements	(16)	(14)
Closing balance	7,595	6,797

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Notes to Consolidated Financial Statements - (Continued)

Consolidated total assets

	December 31,	
	2005	2004
	(Euro in millions)	
Total assets as in the consolidated balance sheet	133,214	101,109
Revaluation of property	(161)	(165)
Depreciation of freehold and long leasehold property	(27)	(27)
Goodwill	296	248
Available-for-sale securities	(50)	272
Derivatives FAS 133 adjustment	—	46
Retirement benefits	1,111	1,087
Long-term assurance policies	(135)	(334)
Share based payment	—	(4)
Construction contract income/sale and leaseback	(53)	—
Loan origination fees deferred	—	(85)
Loan origination costs deferred	80	85
Loan impairment	(14)	—
Consolidation effect of Ark Life	—	(2,041)
Investment in associated undertaking	(41)	5
Acceptances	—	12
Other	—	45
Total assets in accordance with US GAAP	€ 134,220	100,253
Equivalent to	US\$ 158,339	
Consolidated total liabilities and ordinary stockholders' equity		

	December 31,	
	2005	2004
	(Euro in millions)	
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet	133,214	101,109
Ordinary stockholders' equity	923	1,052
Acceptances	—	12
Consolidation effect of Ark Life	—	(2,041)
Share based payment	—	1
Securities held for hedging purposes	—	(2)
Other	—	(60)
Deferred taxation	83	182
Total liabilities and ordinary stockholders' equity in accordance with US GAAP	€ 134,220	100,253
Equivalent to	US\$ 158,339	

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Notes to Consolidated Financial Statements - (Continued)

Debt securities

The following table shows the maturity distribution of the available-for-sale investment portfolio of the Group at December 31, 2005 based upon market value.

	Maturity distribution of available-for-sale investment portfolio December 31, 2005				
	Maturing				
	In one year or less	After one year through 5 years	After five years through 10 years	After 10 years	Total
	(Euro in millions)				
Irish Government	47	246	22	177	492
Other European Government	2,705	3,124	991	—	6,820
Non European Government Securities	140	501	394	—	1,035
Collateralized mortgage obligations <sup>(1)</sup>	—	—	110	528	638
Other asset backed securities	2	48	149	335	534
Other securities	1,931	3,726	1,199	318	7,174
<b>Total</b>	<b>4,825</b>	<b>7,645</b>	<b>2,865</b>	<b>1,358</b>	<b>16,693</b>

<sup>(1)</sup> The maturity distribution is based upon long-term cash flow estimates for each security type and coupon rate.

The following table categorizes AIB Group's available-for-sale investment portfolio by maturity and weighted average yield at December 31, 2005.

	December 31, 2005							
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	Euro	Yield %	Euro	Yield %	Euro	Yield %	Euro	Yield %
	(Euro in millions)							
Irish Government	47	5.4	246	4.0	22	4.3	177	4.1
Other European Government	2,705	3.1	3,124	3.2	991	4.1	—	—
Non European Government Securities	140	3.6	501	4.5	394	4.2	—	—
Collateralized mortgage obligations	—	—	—	—	110	3.4	528	2.3
Other asset backed securities	2	4.7	48	5.1	149	6.2	335	4.1
Other securities	1,931	3.9	3,726	3.8	1,199	3.9	318	4.1
<b>Total</b>	<b>4,825</b>	<b>3.4</b>	<b>7,645</b>	<b>3.6</b>	<b>2,865</b>	<b>4.2</b>	<b>1,358</b>	<b>3.4</b>

The weighted average yield for each range of maturities is calculated by dividing the annual interest prevailing at the balance sheet date by market value of securities held at that date.

Investment securities sales

In the available-for-sale portfolio, proceeds from sales of debt securities during the years ended December 31, 2005 and 2004 amounted to €9 billion and €10 billion respectively. Gross realized gains and losses arising on the sale of these debt securities were as follows:

	Years ended December 31,	
	2005	2004
	(Euro in millions)	
Gross realized gains	75	23
Gross realized losses	(58)	(8)
	<u>17</u>	<u>15</u>

There were no investment securities classified as held-to-maturity during the years ended December 31, 2005 and 2004. The cost of securities sold by the Group is determined using both the portfolio method of average cost and the specific identification method.

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Notes to Consolidated Financial Statements - (Continued)

**Equity securities**

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

*Equity securities sales*

In the "available-for-sale" portfolio, proceeds from sales of equity securities during the years ended December 31, 2005 and 2004 amounted to €8 million and €10 million respectively. Gross realized gains and losses arising on the sale of these equity securities were as follows:

	Years ended December 31,	
	2005	2004
	(Euro in millions)	
Gross realized gains	2	2
Gross realized losses	—	—
	<u>2</u>	<u>2</u>

**Loan impairment**

In January 2005, the Group introduced a new impairment provisioning methodology. This methodology included a number of changes in the approach used to estimate the loan impairment provisions and the accumulation and examination of additional information relating to credit trends and other factors relevant to the Group's loan portfolio. The application of this revised methodology and the consideration of this additional information had the impact of reducing the estimate of the total credit provisions by €146 million at January 1, 2005. This has been treated as a change in estimate in the 2005 income statement under US GAAP.

The consolidated net income reconciliation also includes an adjustment of €14 million debit relating to the reversal of impairment losses on loans where cash has not been received.

**Special purpose vehicles/variable interest entities**

The Group has a significant variable interest in four collateralized debt obligations ("CDOs") set up since 2001, three of which invest in European sub investment grade leveraged finance assets and one in US High Yield Bonds. The cumulative size of these CDOs at December 31, 2005 is €1,481 million (2004: €1,484 million). The Group's investment and maximum exposure totals €44 million (2004: €47 million). There is no recourse to the Group by third parties in relation to these CDOs. The Group was deemed not to be the primary beneficiary of any VIE at December 31, 2005.

**Retirement benefits**

The provisions of SFAS No. 87 "Employers' Accounting for Pensions" is applied when accounting for retirement benefits under US GAAP. The disclosure requirements of SFAS No. 87 have been amended by SFAS No. 132 "Employers Disclosures about Pensions and Other Post-Retirement Benefits". The Group has applied SFAS No. 87 and SFAS No.132 in preparing its US GAAP information.

The impact of these pronouncements has been included in the US GAAP reconciliation in respect of the main AIB pension plans. These plans make up approximately 95% of AIB Group's plans in terms of assets and actuarial liabilities.

The components of total pension expense for the main AIB pension plan which arise under SFAS No. 87 are estimated to be as follows:

	Years ended December 31,	
	2005	2004
	(Euro in millions)	
Service cost	97	86
Interest cost	161	145
Expected return on plan assets	(173)	(164)
Amortization of loss	81	29
Other	1	4
	<u>167</u>	<u>100</u>

An expected rate of return of 6.5% on plan assets was used in determining the net periodic pension cost for the year ended December 31, 2005 (2004: 6.9%).

Actuarial assumptions used in determining the projected benefit obligation at December 31, 2005 included a discount rate in the range of 4.3% - 4.75% (2004: 4.9% - 5.3%), and an increase in future compensation expense of 4% (2004: 4%).

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**Notes to Consolidated Financial Statements - (Continued)**

The following is a reconciliation of the beginning and ending balances of the benefit obligation, the fair value of the plan assets and an analysis of the funded status of the plans for the years ended December 31, 2005 and 2004.

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Euro in millions)</b>	
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	3,217	2,709
Service cost	97	86
Prior service cost	14	—
Interest cost	161	145
Actuarial gain	674	355
Transfers from other Group schemes	34	—
Currency translation adjustments	20	(3)
Benefits paid	(77)	(75)
Benefit obligation at end of year	<u>4,140</u>	<u>3,217</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	2,447	2,130
Employers' contributions	109	134
Actual return on plan assets	516	260
Currency translation adjustments	12	(2)
Fair value of plan assets transferred	25	—
Benefits paid	(77)	(75)
Fair value of plan assets at end of year	<u>3,032</u>	<u>2,447</u>
	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Euro in millions)</b>	
Funded status	(1,108)	(770)
Unrecognized transition obligation	47	54
Unrecognized net loss	1,328	1,095
Unrecognized prior service cost	13	—
Unrecognized prior service credit	(55)	(62)
Net amount recognized	<u>225</u>	<u>317</u>

The amounts recognized in the statement of financial position consist of:

Prepaid pension cost	—	317
Accrued benefit cost	(79)	—
Intangible assets	60	—
Minimum liability adjustment - Other Comprehensive Income (OCI)	244	—
Net amount recognized	<u>225</u>	<u>317</u>

There was a minimum liability at December 31, 2005 of €79 million, giving rise to a minimum liability adjustment in Other Comprehensive Income of €171 million, net of tax.

The unrecognized prior service credit arose during the nine months ended December 31, 1992 mainly as a result of changes in the terms of the plans, following the restructure of the main Irish and UK plans during 1991.

**Plan assets**

The long term asset allocation policy for the assets of the AIB Group Irish Pension Scheme ("the Irish Scheme"), representing the bulk of defined pension assets and liabilities of the Group is as follows:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Equities	63%	65%
Bonds	13%	18%
Property	10%	14%
Alternative funds	14%	3%

The investment manager has discretion to vary the asset allocation policy on a tactical basis. In general, the asset allocation of the smaller defined benefit pension schemes operated by the Group will not differ significantly from that set out above. Further detail on the actual asset allocation and the long term rate of return expected is detailed in Note 14 – Retirement benefits.

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**Notes to Consolidated Financial Statements - (Continued)**

**Plan objectives**

The Trustees' long-term investment objectives are to:

- Limit the risk of the assets failing to meet the liability of the Schemes over the long-term, and
- Maximize returns consistent with an acceptable level of risk so as to control the long-term costs of the Defined Benefit Schemes.

The Trustees consider that the investment policy is consistent with meeting their overall long-term investment objectives. In pursuit of these long-term objectives, the Trustees establish an overall benchmark for the allocation of the Defined Benefit Schemes' assets between asset categories. In addition, each permitted asset class has its own benchmarks, such as the stock market or property valuation indices and desired levels of performance where relevant. As the main defined benefit scheme (the Irish scheme) is a closed scheme, the asset allocation will be reviewed at least triennially, or more frequently if circumstances require it. The process involves an extensive asset and liability review.

Benefits expected to be paid over each of the next five years and in aggregate for the five years thereafter are:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011-2016</u>
	(Euro in millions)					
AIB Group Irish Pension Scheme	66	71	76	81	87	535
AIB Group UK Pension Scheme	11	12	13	14	15	90

For the year ended December 31, 2006 AIB Group expects to contribute €65 million for the AIB Group Irish Pension Scheme and €33 million for the AIB Group UK Pension Scheme.

Included in the pension assets of the AIB Group Irish Pension Scheme at December 31, 2005 was an amount of €64 million in relation to investments in the ordinary share capital of Allied Irish Banks, p.l.c. (€65 million at December 31, 2004).

**Post-retirement benefits**

Post-retirement benefit liabilities are assessed actuarially on a similar basis to pension liabilities and are discounted at a long-term interest cost. Variations from regular cost are expressed as a percentage of payroll and are spread over the average remaining service lives of current eligible employees.

Under SFAS No. 106 "Employers' Accounting for Post-Retirement Benefits other than Pensions", there are certain differences in the actuarial method used and variations in the computation of regular cost as compared with IFRS. The disclosure requirements of SFAS No. 106 have been amended by SFAS No. 132 "Employers Disclosures about Pensions and Other Post-Retirement Benefits".

The Group has applied SFAS No. 106 and SFAS No. 132 in preparing its US GAAP information.

The following table shows the components of the net periodic post-retirement benefit cost for the years ended December 31, 2005 and 2004.

	<u>Years ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	(Euro in millions)	
Service cost	2	1
Interest cost	4	1
	<u>6</u>	<u>2</u>

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Notes to Consolidated Financial Statements - (Continued)

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 6.5% for 2005 and is assumed to decrease gradually to 5.0% in the year 2008 and will remain at that level thereafter. Increasing or decreasing the assumed health care cost trend rates by one percentage point in each future year would have an immaterial impact on post-retirement benefits costs.

The following is a reconciliation of the beginning and ending balances of the benefit obligation and an analysis of the funded status and the amounts recognized in the Group's consolidated statement of condition.

	Years ended December 31,	
	2005	2004
	(Euro in millions)	
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	23	16
Service cost	2	1
Interest cost	4	1
Amendments	35	—
Actuarial loss	23	6
Benefits paid	(4)	(1)
Benefit obligation at end of year	83	23
Plan assets at fair value	—	—
Funded status	(83)	(23)
Unrecognized net loss	23	6
Accrued post-retirement benefit cost	(60)	(17)

The assumptions used in developing the present value of the post-retirement benefit obligation are as follows:

	Years ended December 31,	
	2005	2004
Discount rate	4.30	4.90

**Stock compensation plans**

At December 31, 2005 the Group had three stock based compensation plans as outlined below. AIB has accounted for its stock based compensation plans under the provisions of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and related interpretations. Statement of Financial Accounting Standards 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), allows a company to recognize stock-based compensation using a fair-value based method of accounting if it so elects. AIB has elected not to adopt the recognition provisions of SFAS 123. The compensation cost charged against income for the Group's performance based plans for the years ended December 31, 2005 and 2004 was €34 million and €25 million respectively.

For the purposes of providing the pro forma disclosures required under SFAS 123, the fair values of stock options granted were estimated at the date of the grants using a binomial option pricing model for 2005 and Black Scholes model for 2004. The following table presents the pro-forma net income and basic and diluted earnings per share that would have been recognized in the consolidated financial statements if the fair value method of accounting for stock options had been used for the years ended December 31, 2005 and 2004.

	Years ended December 31,	
	2005	2004
	(Euro in millions)	
Net income applicable to ordinary stockholders of AIB in accordance with US GAAP as reported	928	1,169
Stock based compensation expense under fair value method, net of tax	(22)	(20)
Pro-forma net income applicable to ordinary stockholders of AIB in accordance with US GAAP	906	1,149
<b>Net income per American Depositary Share</b>		
Basic, as reported	2.23	2.74
Basic, pro-forma	2.18	2.70
Diluted, as reported	2.22	2.73
Diluted, pro-forma	2.17	2.69

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ALLIED IRISH BANKS, p.l.c.

Notes to Consolidated Financial Statements - (Continued)

**AIB Share option scheme**

See note 13 to the consolidated financial statements.

**Employee profit sharing schemes**

See note 13 to the consolidated financial statements.

*Allfirst 1997 and 1999 Stock Option Plans*

Allfirst's 1997 and 1999 Stock Option Plans provide for the grant to key employees of options to acquire AIB ADSs. The options are granted at no less than the fair market value of the ADSs at the date of the grant. Options granted in 1998 through 2001, with the exception of options granted under the Allfirst Shares Plan, vest one half in 24 months and one half in 36 months from the grant date and must be exercised within 10 years of the grant date or they will expire. Options granted on December 29, 1997 vested six months from the grant date and must be exercised within seven years of the grant date or they will expire. During 1999, Allfirst implemented an all employee stock option program called Allfirst Shares which is part of the 1997 Stock Option Plan. Each full and part-time employee who was eligible for employee benefits and was employed by the Company as of May 4, 1999 received an option to purchase up to 100 AIB ADSs. The options may be exercised: (i) any time after May 4, 2002 and before May 4, 2004, as long as the closing price of AIB ADSs has equalled or exceeded 150% of the exercise price for five consecutive days at any time after the grant date; or (ii) any time after May 4, 2004, regardless of the price of the ADSs. The options must be exercised within 10 years or they will expire. Options under the 1999 Stock Option Plan vest based on certain performance criteria. During 2002, 2001 and 2000, options were granted under the 1997 Stock Option Plan, while options were granted under the 1999 Stock Option Plan in 2001 and 2000.

Allfirst and an independent Trustee created a trust, for the purpose of acquiring AIB ADSs in the open market with the proceeds of a loan from Allfirst. Generally, the Trust will acquire AIB ADSs in an amount equal to the number of stock options granted at or about each grant date. Proceeds from option exercises and any dividends and other earnings on the trust assets will be used to repay the loan to the trust. Option holders have no preferential rights with respect to the trust assets, and the trust assets are subject to the claims of Allfirst's general creditors in the event of insolvency. AIB will not issue any securities in connection with the 1997 or 1999 Stock Option Plan, will not receive any proceeds from the exercise of the options, and otherwise has no rights or obligations with respect to the Stock Option Plans.

The 1999 Stock Option Plan was transferred to M&T Bank Corporation on April 1, 2003 as part of its acquisition of Allfirst Financial Inc.

The 1997 Stock Option Plan has been succeeded by the Allied Irish Bank 2003 Stock Option Plan, as discussed below.

*Allied Irish Bank 2003 Stock Option Plan*

The Allied Irish Banks p.l.c. 2003 Stock Option Plan constitutes a successor stock option plan with respect to the Allfirst Financial Inc. 1997 Stock Option Plan for selected employees and officers of the Company and/or its Affiliates and selected Directors of its Affiliates.

The options are granted at no less than fair market value of the ADR's on grant date. Options granted under this Plan vest one half on the second anniversary of the grant date, and the remaining half on the third anniversary of the grant date. The options must be exercised within 10 years of the date of grant or they will expire. Any option transferred from the Allfirst Plan shall be exercisable as of the effective date in accordance with its terms.

The Company has created a Trust for the purpose of acquiring AIB ADR's on the open market and holding these ADR's for which Options are granted under the Plan. ADR's representing not more than 25 million Ordinary Shares or such greater numbers as may be approved by the Board, may be purchased under the plan.

No options awards were granted from this plan in 2004 or 2005. See also note 46 to the consolidated financial statements.

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Notes to Consolidated Financial Statements - (Continued)

The following summarizes option activity during 2005 and 2004.

	December 31, 2005		December 31, 2004	
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at beginning of year	608.2	\$ 27.65	697.0	\$ 27.77
Granted	—	—	—	—
Exercised	(301.8)	\$ 28.63	(32.6)	\$ 28.60
Forfeited	(1.2)	\$ 28.60	(56.2)	\$ 28.60
Outstanding at end of year	305.2	\$ 26.56	608.2	\$ 27.65

<sup>(1)</sup> Represent number of AIB ADSs.

The following table summarizes information about fixed options outstanding at December 31, 2005:

	Options outstanding			Options exercisable	
	Number outstanding at 12/31/2005 '000	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 12/31/2005 '000	Weighted average exercise price
<b>Grant date</b>					
8/14/00	35.0	4.6 years	17.72	35.0	17.72
2001 Grants	35.0	5.0 - 5.8 years	21.65	35.0	21.65
2002 Grants	235.2	6.3 - 6.9 years	28.60	235.2	28.60
Total	305.2	6.5 years	\$ 26.56	305.2	\$ 26.56

For purposes of providing the pro-forma disclosures required under SFAS No.123, the fair values of stock options granted in 2002 and 2001, were estimated at the date of the grants using a Black-Scholes option pricing model.

The Black-Scholes option pricing model was originally developed for use in estimating the fair value of traded options which have different characteristics from the Allfirst's employee stock options. The model is also sensitive to changes in the subjective assumptions which can materially affect the fair value estimate. As a result, management believes that the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee stock options.

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

Grant date	Expected future dividend yield	Volatility factor	Risk free interest rate	Expected life	Fair value per share of options granted
8/14/00	2.61%	0.3399	6.24%	5.5 years	\$ 5.81
2001 Grants	3.02%	0.3704	5.29%	7 years	\$ 7.47
2002 Grants	3.43%	0.3295	4.42%	10 years	\$ 8.67

**Impaired loans**

SFAS 114 and 118 applies only to impaired loans, the measurement of which is based upon the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market value, or the fair value of the collateral dependent.

Smaller balance homogeneous consumer loans that are collectively evaluated for impairment are outside the scope of SFAS 114, as are debt securities and leases.

Reserves for probable credit losses related to these loans are included in the allowance for credit losses applicable to other than impaired loans. The Group's charge off policy for impaired loans is consistent with its policy for loan charge offs to the allowance. Impaired loans are charged off when an impaired loan, or portion thereof, is considered uncollectible. Interest income received on impaired loans is recorded on a cash basis, which is consistent with the Group's method of interest recognition on non-accrual loans.

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Notes to Consolidated Financial Statements - (Continued)

At December 31, 2005 and 2004 the Group estimated that the difference between the carrying value of its loan portfolio on the basis of SFAS No. 114 and 118 and its value in the Group's accounts was such that no adjustment to net income or consolidated ordinary stockholders' equity was required.

At December 31, 2005, the Group's net investment in impaired loans amounts to €744 million (2004: €663 million). €683 million (2004: €628 million) of this net investment included specific provisions of €458 million (2004: €333 million). The average level of such impaired lendings during 2005 was approximately €774 million (2004: €704 million). Interest income recognized on impaired loans during the year ended December 31, 2005 amounted to €23 million (2004: €15 million).

**Cash flow statements**

The consolidated cash flow statements on page 104 have been completed in accordance with IAS 7. The principal difference between the standards relates to the classification of certain transactions as follows.

IAS 7 "Cash and cash equivalents" defines cash as cash on hand and demand deposits, and cash equivalents as short-term, highly liquid investments that are readily available to known amounts of cash and which are subject to an insignificant risk of changes in value. Whilst "short-term" is not defined, the standard suggests a cut off of three months or less from the date of acquisition of the investment, to ensure that investments held for investing activities are not included. The standard also allows for the inclusion of bank overdrafts where they form an integral part of the company's cash management.

	Classification under	
	IAS 7	SFAS 95
Non-equity dividends paid	Financing activities	Financing activities
Equity dividends paid	Financing activities	Financing activities
Taxation paid	Operating activities	Operating activities
Net movement in lendings to customers	Operating activities	Investing activities
Net change in finance lease balances receivable	Operating activities	Investing activities
Net increase in deposits	Operating activities	Financing activities
Net movement in current and deposit accounts and other short-term liabilities	Operating activities	Financing activities