FC 7277

AIB Finance Limited

Financial Statements

Year Ended 31 December 1999

CERTIFIED TO BE TRUE COPIES OF THE FINANCIAL STATEMENTS AS LAID BEFORE THE MEMBERS AT THE ANNUAL GENERAL MEETING.

Daniel J. Corkey

SECRETARY/ DIRECTOR

AIB.
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830274.

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DIRECTORS AND OTHER INFORMATION

Board of Directors at 31 December 1999

LC Larkin (Chairman)
WJ Finn (Managing)
D Brophy
AG Clarke
JG Mansfield
AP McKeon
E Murphy

Solicitors and Law Agent

Office of the Law Agent
Bankcentre
Ballsbridge
Dublin 4

Secretary and Registered Office

DJ Coveney
Bankcentre
Ballsbridge
Dublin 4

Bankers

Allied Irish Banks, p.l.c.

Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
George's Quay
Dublin 2

DIRECTORS' REPORT

The directors submit herewith their report and audited financial statements for the year ended 31 December 1999.

Business review

The core business of the bank is the provision of loan and lease finance products and fixed term deposits. The company operates solely in the Republic of Ireland. The strong economic performance and the interest rate environment had a mixed impact on our core businesses. Our loan and leasing business performed strongly with loans and advances to customers increasing by 33%. Term deposits were impacted severely by the interest rate environment and reduced by 30%. The majority of these funds were redirected to investment products or non-term deposits within the AIB Group.

The outlook for 2000 is very positive for our loan and leasing products. The outlook for our term deposit book is uncertain while interest rates remain low.

Results for the year

The Group reported reduced results for 1999 with group profit before taxation amounting to IR£39,970, a decrease of IR£12,393 on previous year's reported profit. Taxation amounted to IR£12,569 which left IR£27,401 attributable to shareholders of the company.

Year 2000

AIB Group has had a Year 2000 programme in place since 1995, including a Year 2000 steering group in each division reporting to the AIB Group Year 2000 committee which is chaired by a Board director. A comprehensive programme covering business systems and supporting technology was carried out and the planned internal certification testing process for all critical IT systems was substantially completed by 30 June 1999. Preparations for the millennium change also included a full review and extension of existing contingency plans.

Midnight on 31 December 1999 passed without incident and since then all our services continue to operate as normal. AIB Group is continuing to carefully monitor its risks in the area of credit, liquidity and regulatory compliance and will continue to be vigilant, maintaining a Year 2000 focus as we approach key dates throughout the Year 2000.

A full disclosure of the AIB Group's Year 2000 costs are given in the financial statements of Allied Irish Banks, p.l.c.

Euro

Since 1 January 1999 the AIB Group, including the AIB Finance Group, has been providing customers with full banking requirements in relation to the euro. Costs incurred to date relate to systems development, communication and education programmes. The estimated remaining expenditure includes costs in respect of further systems development. A full disclosure of the AIB Group's euro costs are given in the financial statements of Allied Irish Banks, p.l.c.

Directors

The directors/secretary of the company at 31 December 1999 are set out below:

LC Larkin	(Chairman)
WJ Finn	(Managing)
D Brophy	
AG Clarke	
JG Mansfield	
AP McKeon	
E Murphy	
DJ Coveney	(Secretary)

Mr AG Clarke and Mr WJ Finn retire by rotation and, being eligible, offer themselves for re-election.

Mr D Brophy having been co-opted to the Board on 9 August 1999 will retire at the annual general meeting and, being eligible, will offer himself for re-election.

DIRECTORS' REPORT - continued

Interests of directors and officers in shares

	Ordinary shares of €0.32 each 31/12/99		Ordinary shares of IR£0.25 each 01/01/99 *	
	Shares Number	Options Number	Shares Number	Options Number
Directors				
LC Larkin	21,536	149,000	20,386	140,000
WJ Finn	3,332	60,500	2,721	49,500
D Brophy	5,001	40,000	4,964	40,000
AG Clarke	3,074	59,000	3,066	50,000
JG Mansfield	26,750	195,000	25,777	190,000
AP McKeon	2,965	103,000	3,854	130,000
E Murphy	3,713	50,000	3,788	50,000
Secretary				
DJ Coveney	9,349	-	8,911	-

* or date of appointment if later.

Safety, Health and Welfare at Work Act, 1989
Allied Irish Banks, p.l.c. has prepared a safety statement which applies to all group employees including those of this company.

Auditors
The auditors, PricewaterhouseCoopers will continue in office in accordance with Section 160(2) of the Companies Act 1963.

On behalf of the Board

WJ Finn

D Brophy

AG Clarke

E Murphy

15 February 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit and loss of the company and the group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- Disclose and explain any material departures from applicable accounting standards.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 1999, and the European Communities (Companies: Group Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

WJ Finn

D Brophy

AG Clarke

E Murphy

15 February 2000

PricewaterhouseCoopers
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George's Quay
Dublin 2
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AUDITORS' REPORT TO THE MEMBERS OF AIB FINANCE LIMITED

We have audited the financial statements on pages 8 to 31.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Directors' Report and, as described on page 5, for preparing the financial statements in accordance with Accounting Standards generally accepted in Ireland. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts, 1963 to 1999, and the European Communities (Companies: Group Accounts) Regulations, 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to hold an extraordinary general meeting; such a financial situation may exist if the net assets of the company, as stated in the balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information required by law regarding directors' remuneration or directors' transactions is not disclosed.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

AUDITORS' REPORT - continued

Opinion
In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1999 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 1999, and the European Communities (Companies: Group Accounts) Regulations, 1992.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report on pages 3 to 4 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 9, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 1999 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin

15 February 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year Ended 31 December 1999

	Notes	Year ended 31 December 1999 IR£'000	Year ended 31 December 1998 IR£'000
Interest receivable:			
- interest receivable and similar income arising from debt securities and other fixed income securities		-	584
- other interest receivable and similar income	2	220,000	293,956
Less: interest payable	3	(158,531)	(224,497)
Net interest income		61,469	70,043
Fees and commissions receivable		761	494
Fees and commissions payable		(3,670)	(2,340)
Other operating income		4,434	3,807
Other income		1,525	1,961
Total operating income		62,994	72,004
Administrative expenses	4	(18,397)	(15,827)
Depreciation	17	(686)	(685)
Total operating expenses		19,083	16,512
Group operating profits before provisions		43,911	55,492
Provisions for bad and doubtful debts	14	(3,941)	(3,129)
Group profit on ordinary activities before taxation	5	39,970	52,363
Taxation on group profit on ordinary activities	8	(12,569)	(14,816)
Impact of change in Irish corporation tax rates	8	-	(5,400)
Group profit attributable to the shareholders of AIB Finance Limited	9	27,401	32,147
Dividends on equity shares	10	(31,500)	-
Retained (Loss)/Profit for the year		(4,099)	32,147

Movements in profit and loss account reserves are shown in note 27.

All of the above results are in respect of continuing operations.

On behalf of the Board

WJ Finn

D Brophy

AG Clarke

E Murphy

15 February 2000

CONSOLIDATED BALANCE SHEET
Year Ended 31 December 1999

	Notes	1999 IR£'000	1998 IR£'000
Assets			
Cash and balances at Central Bank		2	2
Loans and advances to banks	12	47,756	17,854
Loans and advances to customers	13	1,611,750	1,208,573
Unquoted investment	15	11	11
Shares in Group undertaking	16	32,522	32,522
Tangible fixed assets	17	3,225	2,913
Other assets		13,488	6,982
Prepayments and accrued income		2,272	2,404
Due by parent undertaking	20	2,324,360	3,268,176
Due by fellow subsidiary undertakings		56,065	50,025
Total assets		4,091,451	4,589,462
Liabilities			
Deposits by banks	19	71,629	67,658
Customer accounts	20	2,128,826	3,064,614
Debt securities in issue	21	234,272	196,976
Other liabilities	22	151,688	130,903
Accruals and deferred income		17,353	20,664
Provisions for liabilities and charges	23	1,695	1,709
Deferred tax	18	23,247	8,150
Subordinated liabilities	24	40,000	40,000
Called up ordinary share capital	25	17,000	17,000
Share premium account	26	19,750	19,750
Reserves	27	33,453	33,453
Profit and loss account	27	67,043	71,284
Shareholders' funds: equity interests		137,246	141,487
Due to parent undertaking	13	1,261,783	915,297
Due to fellow subsidiary undertakings		23,712	2,004
Total liabilities		4,091,451	4,589,462
Memorandum items			
Off balance sheet items -			
Contingent liabilities:			
- guarantees and assets pledged as collateral security	28	2,676	3,406

On behalf of the Board

WJ Finn

D Brophy

AG Clarke

E Murphy

15 February 2000

COMPANY BALANCE SHEET
Year Ended 31 December 1999

	Notes	1999 IR£'000	1998 IR£'000
Assets			
Cash and balances at Central Banks		2	2
Loans and advances to banks	12	47,756	17,854
Loans and advances to customers	13	830,600	607,818
Unquoted investment	15	11	11
Shares in Group undertakings	16	32,622	32,622
Tangible fixed assets	17	3,225	2,913
Other assets		5,658	3,079
Deferred taxation	18	904	1,628
Prepayments and accrued income		2,272	2,404
Due by parent undertaking	20	2,317,451	3,252,620
Due by fellow subsidiary undertakings		391,559	50,242
Total assets		3,632,060	3,971,193
Liabilities			
Deposits by banks	19	71,629	67,658
Customer accounts	20	2,128,826	3,064,614
Other liabilities	22	3,944	13,646
Accruals and deferred income		15,177	18,116
Provisions for liabilities and charges	23	1,695	1,709
Subordinated liabilities	24	40,000	40,000
Called up ordinary share capital	25	17,000	17,000
Share premium account	26	19,750	19,750
Reserves	27	33,453	33,453
Profit and loss account	27	18,560	42,576
Shareholders' funds: equity interests		88,763	112,779
Due to parent undertaking	13	1,279,639	649,253
Due to fellow subsidiary undertakings		2,387	3,418
Total liabilities		3,632,060	3,971,193
Memorandum items			
Off balance sheet items - contingent liabilities:			
- guarantees and assets pledged as collateral security	28	2,676	3,406

On behalf of the Board

WJ Finn

D Brophy

AG Clarke

E Murphy

15 February 2000

CONSOLIDATED CASH FLOW STATEMENT
Year Ended 31 December 1999

	Notes	Year ended 31 December 1999 IR£'000	Year ended 31 December 1998 IR£'000
Net cash inflow from operating activities	29	72,729	6,828
Returns on investments and servicing of finance			
Dividends paid on equity shares		(31,500)	-
Taxation			
Corporation tax paid		(10,395)	(12,333)
Capital expenditure and financial investment			
Sale of debt securities		-	10,500
Additions to tangible fixed assets		(1,076)	(821)
Disposals of tangible fixed assets		144	171
		(932)	9,850
		29,902	4,345
Increase in cash	29(ii)	29,902	4,345

On behalf of the Board

WJ Finn

D Brophy

AG Clarke

E Murphy

15 February 2000

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year Ended 31 December 1999

	1999 IR£'000	1998 IR£
(Loss)/Profit attributable to the ordinary shareholders	(4,099)	32,147
Exchange translation adjustments	(142)	-
Premises revaluation	-	619
Total recognised (losses)/gains relating to the year	(4,241)	32,766

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS: EQUITY INTERESTS
Year Ended 31 December 1999

	1999 IR£'000	1998 IR£'000
(Loss)/Profit attributable to ordinary shareholders	(4,099)	32,147
(Loss)/Profit absorbed for the year	(4,099)	32,147
Premises revaluation	-	619
Other recognised losses	(142)	-
Net (decrease)/increase in shareholders' funds: equity interests	(4,241)	32,766
Opening shareholders' funds at 1 January 1999: equity interests	141,487	108,721
Closing shareholders' funds at 31 December 1999: equity interests	137,246	141,487

NOTE OF HISTORICAL COST PROFITS AND LOSSES

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

On behalf of the Board

WJ Finn

D Brophy

AG Clarke

E Murphy

15 February 2000

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The significant accounting policies adopted by the company are as follows:

Basis of preparation
The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 1999, and the European Communities (Companies: Group Accounts) Regulations 1992. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

Accounting convention
The Group accounts have been prepared under the historical cost convention modified by the inclusion of certain fixed assets and securities at valuation and in accordance with the provisions of the European Communities (Credit Institutions: Accounts) Regulations, 1992 (the regulations) relating to banking groups, the requirements of the Companies Acts 1963 to 1999 and with relevant accounting standards.

Basis of consolidation
The financial statements of AIB Finance Limited and its subsidiary undertakings are made up to December 31, 1999. (See note 16).

Income and expense recognition
Interest income and expense is recognised on an accruals basis. Fees which, in effect, increase the yield on transactions are spread over the lives of the underlying transactions on a level yield basis. Fees and commissions received for services provided are recognised when earned. Expenses are, in general, charged to profit and loss account as accrued.

Provisions for bad and doubtful debts
Specific provisions for bad and doubtful debts are based on a detailed assessment of individual instalment debts in arrears and by reference to information available to management in the case of debts not repayable by fixed instalments. Specific provisions have been made in respect of all identified impaired advances. General provision has been made in respect of losses which although not yet specifically identified, are known from experience to be present.

Provisions made during the year, less existing provisions no longer required and recoveries of bad debts previously written off, are charged against profits.

Loans and advances are written down to estimated realisable value when there is no realistic prospect of recovery. Interest of doubtful collectability is held in suspense.

Finance leases
Income from leasing transactions is apportioned over the primary leasing period in proportion to the monthly balance of finance outstanding. Leases are apportioned by the investment period method after tax. Government grants in respect of these assets are credited to the profit and loss account on the same basis.

Foreign currencies
Assets and liabilities denominated in foreign currencies are translated into Irish pounds at the exchange rates ruling at the balance sheet date.

All translation differences are recognised in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting policies - continued

Debt securities and equity shares
Shares and securities intended for use on a continuing basis in the Group's activities are classified as fixed asset investment securities. Such shares and securities are stated at cost less provision for any permanent diminution in value. The cost of dated investment securities is adjusted for the amortisation of premiums or discounts on a level-yield basis over the period to maturity. The amortisation of premiums or discounts is included in interest income.

Deferred taxation
Tax deferred or accelerated by timing differences is accounted for to the extent that it is probable that a liability or asset will arise. It is calculated at rates expected to be applicable when the liabilities or assets are expected to crystallise. No account has been taken of taxation which might arise on disposal of the Group's land and buildings at their revalued amounts.

Hire purchase and instalment finance
Income from hire purchase and instalment credit transactions is calculated by the sum of the digits method over the period of the agreements after allocating sums to cover the setting up costs of the transactions.

Depreciation
Freehold and long leasehold properties are not depreciated. The directors do not consider the depreciation of freehold and long leasehold properties to be significant in view of the useful economic lives of these properties and, having regard to the high standard at which they are maintained, their residual values. The costs of adapting buildings to their use for the company have been separately identified and these are written off over their estimated useful life subject to a maximum period of 20 years.

Leasehold properties with less than 50 years unexpired are written off by equal annual instalments over the remaining terms of the leases.

Depreciation on equipment is provided on a straight line basis at rates which will write off these assets over their expected useful lives, which for furnishings are 10 years and for computers, motor vehicles and other equipment are 3 to 10 years.

Pensions
The pension cost is assessed in accordance with the advice of qualified actuaries so as to recognise the cost of pension on a systematic basis over employees' service lives.

Derivatives
Transactions are undertaken in derivative financial instruments, "derivatives", which include interest rate swaps and similar instruments, for non trading purposes. Derivatives classified as non trading are those entered into for the purposes of matching or eliminating risk from potential movement in interest rates.

A derivative is designated as non trading where there is an offset between the effects of potential movements in market rates on the derivative and designated non trading asset or liability being hedged. Income and expense on non trading derivatives are recognised as they accrue over the life of the instruments as an adjustment to "Interest payable" or Interest receivable".

Operating leases
Rentals are charged to the profit and loss account in equal instalments over the lease term.

Commissions
All commissions paid in respect of new business introduced are written off in the financial year in which they arise.

NOTES TO THE FINANCIAL STATEMENTS - continued

2 Other interest receivable and similar income

	1999 IR£'000	1998 IR£'000
Interest from parent undertaking	123,840	203,448
Interest from fellow subsidiary undertakings	3,866	3,919
Other	92,294	86,589
	220,000	293,956

3 Interest payable

	1999 IR£'000	1998 IR£'000
Interest to parent undertaking	82,435	56,620
Interest to fellow subsidiary undertakings	1,180	488
Other	74,916	167,389
	158,531	224,497

4 Administrative expenses

	1999 IR£'000	1998 IR£'000
Staff costs:		
- wages and salaries	7,671	6,752
- social security costs	712	599
- pension and other costs (Note 7)	716	810
	9,099	8,161
Other administrative expenses	9,298	7,666
	18,397	15,827

5 Group profit on ordinary activities before taxation

	1999 IR£'000	1998 IR£'000
Is stated after charging/(crediting):		
Aggregate amounts receivable, including capital repayments under finance leases and hire purchase agreements	411,469	327,469
Profits on disposal of tangible fixed assets	(66)	(107)
Auditors' remuneration	40	53
Operating lease rentals	577	1,107

6 Emoluments of directors

	1999 IR£'000	1998 IR£'000
Other emoluments	232	422

NOTES TO THE FINANCIAL STATEMENTS - continued

7 Pension costs

The Group operates a pension scheme for its employees. This scheme, which covers fifteen percent of its employees, is a defined benefit scheme and the assets are held in trust funds separate from the Group. The remaining eighty-five percent of employees are members of the Allied Irish Banks, p.l.c. pension scheme. The total pension cost for the Group was IR£0.716m (1998: IR£0.810m) of which IR£0.130m (1998:IR£0.167m) was attributable to the AIF Group's scheme.

An independent actuarial valuation of the Group's scheme was carried out by Noble Lowndes IPT Actuarial Services Limited, as at 1 January 1998.

The principal actuarial assumption adopted is that there would be a real rate of return of 2½% p.a., i.e. a rate of interest return of 7% p.a. and a rate of pensionable salary increase of 4½%.

The market value of the assets at the valuation date was IR£19.6m and the actuarial value was sufficient to cover 105% of the future benefits that had accrued to members after allowing for expected increases in earnings. The employers' contribution rate over the average remaining service life of the members of the scheme takes account of the current actuarial funding level. Details of the Allied Irish Banks, p.l.c. pension scheme are contained in the published accounts of Allied Irish Banks, p.l.c. for the year ended 31 December 1999.

8 Taxation on group profit on ordinary activities

	1999 IR£'000	1998 IR£'000
Irish corporation tax (credit)/charge	(2,528)	11,538
Deferred taxation on ordinary activities	15,097	3,278
	12,569	14,816
Impact of change in tax rates [1]	-	5,400
	12,569	20,216

[1] During 1998, the Irish government announced that it had reached agreement with the EU commission on the arrangements for phasing in a 12½% general rate of corporation tax. In December 1998, the Minister for Finance announced a phased reduction in the Irish corporation tax rates, commenced 1 January 1999, to achieve a 12½% corporation tax rate for all trading income with effect from 1 January 2003. From 1 January, 2000 the rate of corporation tax applying to non-trading income will be 25%. Arising from the proposed reduction in corporation tax rates, timing differences will reverse at rates of corporation tax lower than those provided for on origination. As a result, a charge of IR£5.4m was made in the year ended 31 December 1998.

9 Group profit attributable to the shareholders of AIB Finance Limited

Of the Group profit attributable to ordinary shareholders, a profit of IR£7,627,604 (1998: IR£15,876,850) has been dealt with in the accounts of AIB Finance Limited. As permitted by Regulation 5(2) of the European Communities (Credit Institutions: Accounts) Regulations, 1992, the profit and loss account of AIB Finance Limited has not been presented separately.

10 Dividends on equity shares

	1999 pence per share	1999 IR£'000	1998 pence per share	1998 IR£'000
Dividend paid	185.3	31,500	-	-

NOTES TO THE FINANCIAL STATEMENTS - continued

11 Assets

	1999 Group IR£'000	1999 Entity IR£'000	1998 Group IR£'000	1998 Entity IR£'000
(i) Assets and liabilities denominated in foreign currency:				
Denominated in IR£	3,490,933	3,112,104	4,176,223	3,558,134
Denominated in currencies other than IR£	600,518	519,956	413,239	413,059
Total assets	4,091,451	3,632,060	4,589,462	3,971,193
Denominated in IR£	3,490,889	3,112,046	4,176,240	3,558,134
Denominated in currencies other than IR£	600,562	520,014	413,222	413,059
Total liabilities	4,091,451	3,632,060	4,589,462	3,971,193
(ii) Assets leased to customers:				
Loans and advances to customers; finance leases	779,687	-	599,450	-

12 Loans and advances to banks

	1999 IR£'000	1998 IR£'000
Group and Entity:		
Analysed by remaining maturity:		
- over 5 years	-	-
- 5 years or less but over 1 year	-	-
- 1 year or less but over 3 months	-	-
- 3 months or less	47,756	17,854
	47,756	17,854

The Group is required to maintain balances with the Central Bank of Ireland which, at 31 December 1999, amounted to IR£47.756m (1998: IR£17.854m).

NOTES TO THE FINANCIAL STATEMENTS - continued

13 Loans and advances to customers

	1999 Group IR£'000	1999 Entity IR£'000	1998 Group IR£'000	1998 Entity IR£'000
Analysed by remaining maturity:				
- over 5 years	508,202	342,762	337,302	263,193
- 5 years or less but over 1 year	733,271	330,358	566,415	229,952
- 1 year or less but over 3 months	262,730	104,469	213,770	73,151
- 3 months or less	131,000	67,751	111,417	55,224
General and specific bad and doubtful debt provisions (note 14)	(23,453)	(14,740)	(20,331)	(13,702)
	1,611,750	830,600	1,208,573	607,818

Group loans and advances to customers include IR£779.7m (1998: IR£599.45m) net investment in finance leases and IR£300.9m (1998: IR£195.07m) net investment in hire purchase contracts.

The cost of assets acquired for letting under finance leases and hire purchase contracts amounted to IR£683.9m (1998: IR£465.9m).

The amounts "Due to parent undertaking", for both group and entity, have a similar maturity profile to loans and advances to customers.

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Provision for bad and doubtful debts

	1999 Specific IR£'000	1999 General IR£'000	1999 Total IR£'000	1998 Specific IR£'000	1998 General IR£'000	1998 Total IR£'000
(a) **Group**						
At 1 January	18,214	2,117	20,331	15,459	2,117	17,576
Charge against profits	3,941	-	3,941	3,129	-	3,129
Amounts written off	(1,482)	-	(1,482)	(1,049)	-	(1,049)
Recoveries	663	-	663	675	-	675
At 31 December	21,336	2,117	23,453	18,214	2,117	20,331
Loans and advances to customers			23,453			20,331
(b) **Entity**						
At 1 January	11,585	2,117	13,702	10,257	2,117	12,374
Charge against profits	874	-	874	819	-	819
Amounts written off	(467)	-	(467)	(137)	-	(137)
Recoveries	631	-	631	646	-	646
At 31 December	12,623	2,117	14,740	11,585	2,117	13,702
Loans and advances to customers			14,740			13,702

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Unquoted investment

	1999 IR£'000	1998 IR£'000
Group and Entity:		
Ordinary shares at cost	11	11

AIB Finance Limited has an 11% interest in Irish Credit Bureau. The directors do not believe that the market value is materially different from the cost.

16 Shares in group undertakings

(a) Group	1999 Balance sheet IR£'000	1999 Market value IR£'000	1998 Balance sheet IR£'000	1998 Market Value IR£'000
(i) *Group and Entity:*				
Held as financial fixed assets:				
shares in parent company	32,522	49,925	32,522	67,368

(ii) *Group and Entity:*	1999 Balance sheet IR£'000	1999 Market value IR£'000	1998 Balance sheet IR£'000	1998 Market Value IR£'000
Analysed by listing status:				
Shares in parent company				
- listed on a recognised exchange	32,522	49,925	32,522	67,368

AIB Finance Limited acquired 5,600,000 ordinary shares of IR£0.25p each in its parent company, Allied Irish Banks, p.l.c. on 12 September 1998. The shares were acquired on the open market at a price of IR£5.75 per share. In accordance with the Companies Act 1990, the cost of the purchase of these shares has been deducted from distributable reserves. The shares do not rank for dividend as the related dividend entitlements have been waived.

(b) Entity	1999 IR£'000	1998 IR£'000
Shares in parent company	32,522	32,522
Ordinary shares in subsidiary at cost	100	100
	32,622	32,622

Principal subsidiary undertakings

AIB Finance Limited has a 100% interest in AIB Leasing Limited whose country of incorporation is the Republic of Ireland. For commercial reasons the financial year end of AIB Leasing Limited is 31 March 1999. Interim financial statements of AIB Leasing Limited have been prepared to 31 December 1999 for inclusion in the group's audited financial statements. The principal business of the subsidiary is the provision of leasing services in the Republic of Ireland.

In presenting details of the principal subsidiary undertakings, the exemption permitted by the European Communities (Credit Institutions: Accounts) Regulations, 1992, has been availed of, and in accordance with the regulations, AIB Finance Limited will annex to its annual return to the Companies Registration Office a full listing of subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Tangible fixed assets

	Land IR£'000	Freehold and long leasehold IR£'000	Leases of less than 50 years unexpired IR£'000	Computer and other equipment IR£'000	Total IR£'000
Group & Equity					
At 1 January 1999	-	1,002	1,059	4,023	6,084
Transfers	-	-	-	-	-
Additions	-	-	-	1,076	1,076
Disposals	-	-	-	(380)	(380)
Reclassification	541	(541)	-	-	-
At 31 December 1999	541	461	1,059	4,719	6,780
Accumulated depreciation					
At 1 January 1999	-	-	497	2,674	3,171
Transfer	-	-	-	-	-
Disposals	-	-	-	(302)	(302)
Depreciation charge for the year	-	-	56	630	686
Write back on revaluation	-	-	-	-	-
At 31 December 1999	-	-	553	3,002	3,555
Net book value at 31 December 1999	541	461	506	1,717	3,225
Net book value at 31 December 1998	-	1,002	562	1,349	2,913

Group and Entity:	1999 IR£'000	1998 IR£"000
Cost or valuation of freehold land and buildings:		
At valuation	1,002	1,002
At cost	-	-
	1,002	1,002
On the historical cost basis, land and buildings would have been included as follows:		
Cost	1,276	1,276
Accumulated depreciation	(591)	(532)
Net book value	685	744
Land and buildings occupied for own activities:		
Net book value	1,508	1,538

The group's freehold and long leasehold property were valued by external valuers, DTZ Sherry Fitzgerald International Property advisors, as at 31 December 1998.

The valuation was carried out on the basis of Existing Use Value with a depreciation replacement cost analysis of adaption works not reflecting in the Existing Use Value for properties owner occupied by the company and on the basis of Open Market Value in respect of properties, held as an investment, held for development, surplus to requirements, land and sites and properties occupied by subsidiaries. Both bases are in accordance with the Appraisal and Valuation Manual issued by the Society of Chartered Surveyors (SCS).

NOTES TO THE FINANCIAL STATEMENTS - continued

18 Deferred taxation

	1999 Group IR£'000	1999 Entity IR£'000	1998 Group IR£'000	1998 Entity IR£'000
Provision for deferred taxation				
- capital allowances	(24,251)	59	(9,851)	166
- other timing differences	1,004	845	1,701	1,462
	(23,247)	904	(8,150)	1,628
At 1 January	(8,150)	1,628	461	962
Increase due to corporation tax rate reductions	-	-	(5,400)	-
Arising during the year	(15,097)	(724)	(3,211)	666
At 31 December	(23,247)	904	(8,150)	1,628

The provision for Irish deferred taxation relating to capital allowances has been made at the rate of corporation tax at which the liability is expected to crystallise.

Provision is not made for any liability which might arise in the event of Group properties being realised at balance sheet values. Most of these properties are occupied for the purposes of the Group's trade and any gains arising on disposal are normally rolled-over.

19 Deposits by banks

Group and Entity:

	1999 IR£'000	1998 IR£'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- over 5 years	2,753	7,010
- 5 years or less but over 1 year	64,076	60,648
- 1 year or less but over 3 months	4,800	-
- 3 months or less but not repayable on demand	-	-
	71,629	67,658

20 Customer accounts

Group and Entity:

	1999 IR£'000	1998 IR£'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- over 5 years	496	459
- 5 years or less but over 1 year	47,811	46,490
- 1 year or less but over 3 months	164,540	588,728
- 3 months or less but not repayable on demand	1,761,397	2,268,312
	1,974,244	2,903,989
Repayable on demand	154,582	160,625
	2,128,826	3,064,614

The amounts "due by parent undertaking", for both group and entity, have a similar maturity profile to customer accounts.

NOTES TO THE FINANCIAL STATEMENTS - continued

21 Debt securities in issue

	1999 IR£'000	1998 IR£'000
Group:		
Analysed by remaining maturity:		
- 1 year or less but over 3 months	8,033	6,584
- 3 months or less	226,239	190,392
	234,272	196,976

22 Other liabilities

	1999 Group IR£'000	1999 Entity IR£'000	1998 Group IR£'000	1998 Entity IR£'000
Taxation	8,574	5,126	21,497	9,071
Other	143,114	(1,182)	109,406	4,575
	151,688	3,944	130,903	13,646

23 Provision for liabilities and charges

	Pension Obligations IR£'000	Other IR£'000	Total IR£'000
Group and Entity:			
At 1 January 1999	671	1,038	1,709
Provisions made	716	-	716
Provisions utilised	(560)	(20)	(580)
Provisions released	-	(150)	(150)
At 31 December 1999	827	868	1,695

24 Subordinated liabilities

	1999 IR£'000	1998 IR£'000
Group and Entity:		
Subordinated loan	15,000	15,000
Subordinated perpetual capital note	25,000	25,000
	40,000	40,000

(a) The subordinated loan of IR£15,000,000 received from the parent company, Allied Irish Banks, p.l.c., and is repayable at the option of the company. Under the terms of the loan agreement, all claims of the lender (Allied Irish Banks, p.l.c.) shall be subordinated to claims of depositors and other creditors of AIB Finance Limited.

(b) The subordinated perpetual capital note of IR£25,000,000 was received from the parent company, Allied Irish Banks, p.l.c., and is repayable at the option of the company at any time after 31 October 2002 at its principal amount. Under the terms of the note agreement, all claims of the lender (Allied Irish Banks, p.l.c.) shall be subordinated to claims of depositors and other creditors of AIB Finance Limited.

NOTES TO THE FINANCIAL STATEMENTS - continued

25 Called up ordinary share capital

	1999 IR£'000	1998 IR£'000
Group and Entity:		
Authorised:		
Ordinary shares of IR£1 each	20,000	20,000
Issued and fully paid:		
Ordinary shares of IR£1 each		
At 1 January and 31 December 1999	17,000	17,000

26 Share premium account

	1999 IR£'000	1998 IR£'000
Group and Entity:		
At 1 January and 31 December 1999	19,750	19,750

27 Reserves

	Group IR£'000	Entity IR£'000
Revaluation reserve		
At 1 January 1999 and 31 December 1999	931	931
Capital reserve		
At 1 January 1999 and 31 December 1999	32,522	32,522
At 31 December 1999	33,453	33,453
Profit and loss account		
At 1 January 1999	71,284	42,576
Currency Translation	(142)	(144)
Retention for the year	(4,099)	(23,872)
At 31 December 1999	67,043	18,560

28 Memorandum items, Interest rate contracts, Contingent Liabilities and Commitments

The tables below give, for the Group and AIB Finance Limited, the nominal principal amounts and risk weighted amounts of off-balance-sheet transactions. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with the Central Bank of Ireland's guidelines implementing the Basle agreement on capital adequacy.

NOTES TO THE FINANCIAL STATEMENTS - continued

28 Memorandum items, Interest rate contracts, Contingent Liabilities and Commitments - continued

	1999		1998	
	Contract amount	Risk Weighted Amount	Contract amount	Risk weighted amount
	IR£'000	IR£'000	IR£'000	IR£'000
Group and Entity:				
Contingent liabilities				
Guarantees and assets pledged as collateral security:				
- guarantees and irrecoverable letters of credit	2,676	746	3,406	721
Interest rate contracts:				
- for hedging purposes	786,118	-	612,810	-

	1999 Group IR£'000	1999 Entity IR£'000	1998 Group IR£'000	1998 Entity IR£'000
Undrawn formal standby facilities, credit lines and commitments to lend:				
- less than 1 year	45,000	15,000	20,000	1,000

(i) There exists a contingent liability to repay in whole or in part the grants received on finance leases to customers if certain events set out in the agreements occur.

(ii) The company has guaranteed all the liabilities of its subsidiary company, AIB Leasing Limited and its subsidiaries (Allied Irish Finance Limited, Allied Irish Leasing Limited, AIB International Leasing Limited and The Hire Purchase Company of Ireland Limited), this guarantee was in place throughout the financial period ended 31 December 1999. The subsidiary company, AIB Leasing Limited and its subsidiaries have availed of the exemption from filing their individual accounts as set out in Section 17 of the Companies (Amendment) Act, 1986.

(iii) Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

(iv) **Deposit Interest Retention Tax**
Deposit Interest Retention Tax ("DIRT") is a withholding tax introduced by the Finance Act, 1986. Financial institutions are required to deduct DIRT from interest payable on certain deposits with them ("relevant deposits") and make a return to the Revenue Commissioners ("Revenue") of the interest paid in that year and of the appropriate DIRT.

A financial institution is obliged to treat every deposit as a relevant deposit unless satisfied that it is not. When an institution has so satisfied itself, it is entitled to continue to so treat the deposit until it comes into possession of information which could "reasonably be taken to indicate that the deposit was, or might have been, a relevant deposit".

The legislation excludes certain deposits from the definition of relevant deposits. In particular it excludes a deposit in respect of which, the beneficial owner of any interest is non-resident, or is a company, charity or pension fund and, in all cases, an appropriate declaration in the required form is made to the financial institution. The legislation also provides for a reduced rate of DIRT to apply to "special savings accounts" where certain conditions are met and an appropriate declaration in the required form is made. In 1991, the Revenue approached the company's parent Allied Irish Banks, p.l.c., (AIB) and indicated that more effective procedures for the collection and payment of DIRT were required in the area of non-resident accounts. AIB introduced these new procedures in all licensed deposit takers within the Group, including AIB Finance Limited. (References to AIB following incorporates reference to AIB Finance Limited). AIB believes that it reached an agreement or arrangement with the Revenue at that time under which no liability would attach to the Bank in respect of DIRT between 1986 and 1991.

NOTES TO THE FINANCIAL STATEMENTS - continued

28 Memorandum items, Interest rate contracts, Contingent Liabilities and Commitments - continued

Deposit interest retention tax – continued

In 1998, the Committee of Public Accounts of the lower house of the Oireachtas (parliament) investigated media reports concerning a substantial number of "bogus non-resident accounts" in AIB in 1991, and, as a result, the Comptroller and Auditor General ("the Comptroller") carried out an investigation into the operation of DIRT in financial institutions between 1986 and 1998. Following these media reports, AIB completed an exercise ("the Look Back Report") for the purpose of considering the DIRT potentially at issue between 1986 and 1991 in relation to certain deposit accounts.

The Comptroller's Report on his investigation was submitted to the Dail on 19 July 1999. The Report set out the facts as found by the Comptroller and outlined the events occurring between AIB and the Revenue in 1991.

The Committee of Public Accounts established a sub-committee ("Sub-Committee") which decided to hear further evidence on what, in its opinion, were conflicts of fact arising directly or indirectly from the Comptroller's Report or from earlier proceedings of the Committee of Public Accounts.

The Sub-Committee's Report following the hearings – the First Report of the Parliamentary Inquiry into D.I.R.T., was adopted by the Committee of Public Accounts on 15 December 1999. The Report covers many financial institutions in Ireland including AIB. In addition it deals with Ministers for Finance, the Department of Finance, the Revenue Commissioners and the Central Bank, and contains proposals and recommendations.

The Committee of Public Accounts and the Sub-Committee have expressly acknowledged that they have no function in determining questions of law or the existence or quantification of any tax liability. The Sub-Committee's findings of fact remain open for determination in any litigation which may ensue between the Revenue and AIB and through the normal processes of the tax code. The "findings" of the Sub-Committee have no legal effect.

The Sub-Committee stated as one of its specific findings in relation to AIB that there was no deal, agreement or amnesty in 1991 involving the write-off of DIRT.

On 16 December 1999 AIB issued a press release in which it accepted its share of responsibility for failings in the administration of DIRT and noted that AIB had already confirmed that abuses had taken place. As the next step in the process of moving towards a resolution AIB indicated that it would continue to work with the Revenue and saw this as the appropriate forum for taking the issue forward. However, AIB did not agree with the findings in the Sub-Committee's Report on the outcome of the exchanges between AIB and the Revenue in 1991. AIB rejected the contention that no reliance could be placed on the written documentation generated within AIB in relation to its negotiations with the Revenue. AIB further stated that the outcome of these negotiations was a question of law and AIB was considering its position.

An audit by the Revenue of AIB's compliance with all aspects of DIRT legislation has been under way since April 1999. The Finance Bill 2000 includes a provision which if enacted, would require the Revenue to report on their audits to the Committee of Public Accounts by 1 November 2000.

A wide range of uncertainties affect AIB's obligations in respect of DIRT. The outcome of a number of these would only be confirmed on the occurrence of uncertain future events now wholly within AIB's control. Among these uncertainties are, the outcome of the issue in relation to the agreement or arrangement with the Revenue in 1991, the outcome of the Revenue audit, the amount and basis of any assessment the Revenue may raise on AIB in respect of DIRT, and whether AIB would be successful in challenging any such assessment.

The Directors cannot reliably estimate the amount or range of any obligation in respect of DIRT as given the uncertainties outlined above, they have no reliable basis for so doing. In this regard the Directors have also considered the Look Back Report, but given the purpose for which the report was prepared the Directors do not believe that it provides a reliable base for estimating a DIRT obligation. Consequently a contingent liability arises in respect of DIRT.

NOTES TO THE FINANCIAL STATEMENTS - continued

28 Memorandum items, Interest rate contracts, Contingent Liabilities and Commitments - continued

Deposit interest retention tax – continued

A contingent liability also arises in respect of interest, penalties and fines. In addition to the factors outlined above, the outcome of this contingent liability also depends upon the resolution of a number of further uncertainties again not wholly within AIB's control. These are, principally, the amount and basis of any assessment the Revenue would raise on AIB in respect of interest, what penalties and fines the Revenue might seek to recover, whether the Revenue would depart from their previous practice in respect of penalties, and whether any default which might be established on the part of AIB arose as a result of fraud or neglect.

A further contingent liability arises from a view expressed in the Sub-Committee's Report on a practice of the Revenue. From the introduction of DIRT in 1986 up to the time of the Sub-Committee's Report, the Revenue did not seek to impose a liability for DIRT in cases where, although the appropriate declaration (including of non-residence) had not been completed in respect of all required details (or in certain instances was not held), the deposit in question otherwise qualified for the payment of interest without deduction of DIRT (or, as appropriate, at the reduced rate of DIRT applying to special savings accounts). Apart from the factors of uncertainty outlined above, the outcome of this contingent liability also depends on whether the Revenue would depart from their previous practice in respect of documentation and the degree of non adherence to the requirements of the legislation in any particular case.

In view of the uncertainties referred to, it is not practicable to estimate the financial effect of the contingent liabilities outlined in the previous two paragraphs.

29 Consolidated cash flow statement

	1999 IR£'000	1998 IR£'000
(i) Reconciliation of Group profit on ordinary activities before tax to net cash inflow from operating activities:		
Group operating profit before taxation	39,970	52,363
Decrease/(increase) in prepayments and accrued income	122	(410)
Decrease in accruals and deferred income	(3,774)	(2,758)
Provisions for bad and doubtful debts	3,941	3,129
Depreciation and amortisation	686	685
Profit on sale of tangible fixed assets	(66)	(107)
Increase in other assets	(7,382)	(1,404)
Increase in other liabilities	33,659	9,248
Net cash inflow from trading activities	67,156	60,746
Decrease in deposits by banks	(539)	(15,196)
(Decrease)/increase in customer accounts	(984,645)	253,612
Increase in loans and advances to customers	(404,899)	(289,090)
Increase in debt securities in issue	37,296	23,308
Decrease/(increase) in amounts due by parent undertaking and fellow subsidiary undertakings	1,358,492	(23,095)
Effect of exchange translation and other adjustments	(132)	(3,457)
Net cash inflow from operating activities	72,729	6,828

NOTES TO THE FINANCIAL STATEMENTS - continued

29 Consolidated cash flow statement - continued

	1999 IR£'000	1998 IR£'000
(ii) Analysis of changes in cash:		
At 1 January	17,856	13,511
Net cash inflow	29,902	4,345
At 31 December	47,758	17,856

(iii) Analysis of the balances of cash as shown in the balance sheet	1999 IR£'000	1998 IR£'000	Change in year IR£'000
Cash and balances at Central Bank	2	2	-
Loans and advances to banks repayable on demand	47,756	17,854	29,902
	47,758	17,856	29,902

30 Segmental information

- **Geographical segments**
  All business is derived in the Republic of Ireland, therefore no geographical segmentation is deemed necessary.

- No separate breakdown has been given of gross income as this mainly comprises interest receivable and no further breakdown is deemed necessary.

- **Classes of business**
  All income and assets are derived from banking activities.

31 Directors' and officers' loans

On 31 December 1999, the aggregate amounts outstanding for persons who, at any time during the financial year ending on that date, were directors under transactions, arrangements and agreements within paragraph 43(1)(a) of the Companies Act, 1990 was IR£406,300 in respect of 5 people (1998: IR£95,500). On the same date, the aggregate amounts outstanding for persons who at any time during the financial year ending on that date were connected with directors under transactions, arrangements and agreements within paragraph 43(1)(a) of the said Act, but subject to paragraph 43(6)(b) of the Act, was IR£Nil (1998: IR£Nil).

32 General

	Land and buildings 1999 IR£'000	Land and buildings 1998 IR£'000
(i) Operating lease commitments:		
At the year-end, annual commitments under non-cancellable operating leases were:		
Group and Entity:		
Expiring:		
- between one and five years	-	-
- in five years or more	520	490
	520	490
(ii) Average number of employees:		
The average number of persons employed by the group during the year was made up as follows:	317	284

NOTES TO THE FINANCIAL STATEMENTS - continued

33 Ultimate parent company

The company is a wholly owned subsidiary of Allied Irish Banks, p.l.c. The directors regard that company as being the ultimate parent company. The smallest and largest group into which these financial statements are consolidated is that headed by Allied Irish Banks, p.l.c. which is incorporated in the Republic of Ireland. Copies of the financial statements of Allied Irish Banks, p.l.c. are available from the Secretary, Allied Irish Banks, p.l.c., Bankcentre, Ballsbridge, Dublin 4.

34 Reporting currency

The reporting currency used in these financial statements is the Irish pound, which is denoted by the symbol "IR£".

35 Related party transactions

The directors have availed of the exemptions in the Financial Reporting Standard No. 8 "Related Party Disclosures" which permits qualifying subsidiaries of an undertaking not to disclose details of transactions and balances between group entities, that are eliminated on consolidation. During the year purchases of IR£112,842 were made by the company from Kelly Systems Limited, a company in which Mr Leo Larkin is a minority shareholder.

36 Derivatives and other financial instruments

Risk management and control
The group operates established procedures for the management and control of risks associated with its business activities. Risk can arise principally from the failure of customers to meet the terms of their lease and loan obligations (credit risk), from the inability to maintain sufficient funds (liquidity risk), from operational processes (operational risk) and from adverse movements in market rates (market risk).

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

Credit exposures in excess of Group credit authorities are approved by the parent's Group Credit Committee. The parent's Group Credit Committee approves key credit policies and influences strategic portfolio management.

Liquidity risk
The objectives of liquidity management is to ensure the availability, at all times of sufficient funds to meet the demands of customers for additional borrowings or to replace existing deposits as they mature or are withdrawn. In meeting this objective the group has available to it at all times the resources of its parent company.

Operational risk
Operational risk is the potential for loss caused by a breakdown in information, communication, transaction processing and operating systems. The Group mitigates operational risk by maintaining a comprehensive system of internal controls, maintaining key back-up facilities and undertaking regular contingency planning. Internal controls include the establishment of systems and procedures to monitor transactions, operational systems and documentation.

Market risk
Market risk is the potential adverse change in the Group's income arising from movements in interest rates foreign exchange rates or other market prices. The Group recognises that the effective management of interest rate risk is essential to the maintenance of stable earnings. The Group does not have a trading book and market risk is managed within a non trading book.

NOTES TO THE FINANCIAL STATEMENTS - continued

36 Derivatives and other financial instruments - continued

Interest rate risk - continued

The Groups non trading book consists of its term deposits and loan/lease books. Interest rate risk arises primarily from interest rate repricing mismatches on the Group's fixed rate loan and leasing book and customer deposit accounts which are predominantly short term in nature. In addition mismatches will result from intergroup lending and borrowing. The interest rate exposure of this book is managed using interest rate swaps and other conventional hedging instruments.

The table below provides an indication of the interest rate pricing mismatch in the company's balance sheet. Items have been allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

Interest rate pricing	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than on year	More than 1 year but not more than 5 years	More than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loans and advances to banks	47,756	-	-	-	-	-	47,756
Loans and advances to customers	392,304	81,663	163,326	656,326	341,774	(23,453)	1,611,940
Intergroup assets	2,094,193	58,203	58,203	72,941	-	47,655	2,331,195
Other assets	-	-	-	-	-	100,560	100,560
Total assets	2,534,253	139,866	221,529	729,267	341,774	124,762	4,091,451
Liabilities							
Deposits by banks	-	-	4,800	64,076	2,752	-	71,628
Customers accounts	1,915,979	95,366	69,173	47,811	497	-	2,128,826
Debt securities in issue	226,239	8,032	-	-	-	-	234,271
Subordinated liabilities	-	-	-	-	-	40,000	40,000
Inter group liabilities	949,978	121,750	44,500	140,210	-	29,057	1,285,495
Other liabilities	-	-	-	-	-	193,984	193,984
Stockholders' equity	-	-	-	-	-	137,247	137,247
Total liabilities	3,092,196	225,148	118,473	252,097	3,249	400,288	4,091,451
Off balance sheet items affecting interest rate sensitivity *	(542,509)	(131,421)	114,879	538,909	20,142	-	-
Interest sensitivity gap	(15,434)	46,139	(11,823)	(61,739)	318,383	(275,526)	
Cumulative interest sensitivity gap	(15,434)	30,705	18,882	(42,857)	275,526	-	-

**Generally this will reflect notional principal amounts of off balance sheet items*

NOTES TO THE FINANCIAL STATEMENTS - continued

36 Derivatives and other financial instruments - continued

Forward Rate Agreements (FRA's) with a notional value of £25m and over the counter interest rate options (OTC's) with a notional value of £11.9m are excluded from the above table. These instruments are used by the Group to manage interest rate risk and have maturities less than 1 year.

Interest rate gaps will arise in the Groups balance sheet and such gaps are effectively controlled as part of the parent's interest rate repricing management.

Currency Risk

It is the policy of the Group not to maintain material open currency positions. Currency risk is effectively hedged through lending and borrowing to the parent company.

Equity Risk

As described in note 16 to the financial statements, the Group has made equity investments. Such investment decisions have been made in conjunction with the parent's strategic decisions.

Fair value of derivatives and financial instruments.

Derivatives

Derivatives held for non-trading purposes at 31 December 1999 has a fair value of IR£532,669 and a carrying value in the balance sheet of IR£2,149,694.

On Balance Sheet Items

Fair values for these items have not been disclosed as they do not meet the "liquid and active" criteria as defined by Financial Reporting Standard 13, "Derivatives and other financial instruments: disclosures".

Unrecognised gains and losses on hedges

Gains and losses on instruments used for hedging are recognised in line with the underlying items which are being hedged. The unrecognised net gains on instruments used for hedging as at 31 December 1999 were IR£0.553m.

The net losses expected to be recognised in 2000 are IR£2.387m.

The net gains recognised in 1999 in respect of previous years were IR£20.320m and the net gains arising in 1999 which were unrecognised in 1999 were IR£0.054m.

There are no recognised gains and losses on hedges as at 31 December 1999 and 1998.

37 Approval of financial statements

The financial statements were approved by the board of directors on 15 February 2000.