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AIB Finance Limited

Directors' Report and Financial Statements

Year Ended 31 December 2001

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

Daniel J. Covey

SECRETARY / ~~DIRECTOR~~

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DIRECTORS AND OTHER INFORMATION

Board of Directors at 31 December 2001

LC Larkin	(Chairman)
J O'Mahony	(Managing)
D Brophy	
GA Clarke	
WJ Finn	
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 2001.

Business review

The core business of the bank is the provision of loan and lease finance products and fixed term deposits. The group operates solely in the Republic of Ireland. The growth in the Irish economy was always expected to decelerate in 2001. However, the deceleration has been sharper than expected with the added impact of the weaker United States economy, compounded by the impact of the foot and mouth crisis in the United Kingdom. These negative factors have impacted on a broad range of sectors in the Irish economy. Despite these negative factors the loan and leasing business performed strongly with loans and advances to customers increasing by 9%. Term deposits reduced by 9%. The majority of these funds were redirected to investment products or non-term deposits within the AIB Group. Asset delinquency continues at historically low levels.

The outlook for 2002 remains positive with the Irish economy continuing to grow albeit at levels below those of previous years.

Results for the year

The group reported increased results for 2001 with group profit before taxation amounting to €63.6m, an increase of €48.1m. Excluding the impact of the Deposit Interest Retention Tax payment on 2000 profits the increase in group profit on ordinary activities before taxation for 2001 was 9.5%. Total operating income increased by 12.6% . Operating costs grew by 7.3% . Taxation amounted to €12.7m, which left €50.9m attributable to the shareholders of the company. The group decided to declare a final dividend of €20,000,000 in 2001 (2000:nil).

Books of account

The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Allied Irish Banks, p.l.c., Bankcentre, Ballsbridge, Dublin 4.

Euro

During the year the group successfully completed its preparation to deal with the impact of the introduction of the euro. Cost incurred related to systems development, communication and education programmes. A full disclosure of the AIB Group's euro costs are given in the financial statements of Allied Irish Banks, p.l.c. Since the year end, the transition of legal tender status from Irish pounds to euro has also been successfully managed.

Directors

The directors/secretary of the company at 31 December 2001 are set out below:

LC Larkin	(Chairman)
J O'Mahony	(Managing)
D Brophy	
GA Clarke	
WJ Finn	
JG Mansfield	
AP McKeon	
E Murphy	
DJ Coveney	(Secretary)

Mr AP McLeon and Mr E Murphy retire by rotation and, being eligible, offer themselves for re-election. Mr J O'Mahony was appointed to the board on 29 August 2001.

DIRECTORS' REPORT - continued

Interests of directors and officers in shares

The interests of directors and officers of the company in shares of group companies are set out below. The shares referred to are €0.32 ordinary shares in Allied Irish Banks, p.l.c. the holding company.

	Ordinary shares of €0.32 each 31/12/01		Ordinary shares of €0.32 each 01/01/01*	
	Shares Number	Options Number	Shares Number	Options Number
Directors				
LC Larkin	83,854	97,000	19,148	162,000
J O'Mahony	6,193	39,000	6,193	39,000
D Brophy	6,672	47,500	5,981	47,500
GA Clarke	3,775	57,000	3,067	62,000
WJ Finn	4,547	75,500	4,365	70,500
JG Mansfield	23,543	55,000	29,918	145,000
AP McKeon	4,558	40,000	3,895	80,000
E Murphy	4,035	34,800	3,357	54,800
Secretary				
DJ Coveney	10,507	15,000	9,983	10,000

* 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 Allied Irish Banks, p.l.c. employees including those of this group.

Auditors

The auditors, PricewaterhouseCoopers, have signified their willingness to continue in office in accordance with Section 160 of the Companies Act, 1963.

On behalf of the Board

LC Larkin

J O'Mahony

GA Clarke

14 February 2002

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 group and the company and of the profit or loss of the group for that period. In preparing the 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.
- 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 books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the Irish Companies Acts, 1963 to 2001, and the European Communities (Credit Institutions: Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

LC Larkin

J O'Mahony

GA Clarke

14 February 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIB FINANCE LIMITED

We have audited the financial statements on pages 8 to 36.

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 applicable Irish Law and accounting standards generally accepted in Ireland.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and auditing standards issued by the Auditing Practices Board applicable in Ireland.

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 Irish statute comprising the Companies Acts, 1963 to 2001, and the European Communities (Credit Institutions: 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 convene 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, information specified 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.

INDEPENDENT AUDITORS' REPORT - continued

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2001 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001, and the European Communities (Credit Institutions: 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 10, 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 2001 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

14 February 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year Ended 31 December 2001

	Notes	Year ended 31 December 2001 €'000	Year ended 31 December 2000 €'000
Interest receivable:			
- other interest receivable and similar income	2	462,028	391,615
Less: interest payable	3	(367,739)	(306,041)
Deposit Interest Retention Tax	5	-	(42,665)
Net interest income		94,289	42,909
Fees and commissions receivable		3,349	2,961
Fees and commissions payable		(4,266)	(6,260)
Other operating income		5,826	5,847
Other income		4,909	2,548
Total operating income		99,198	45,457
Administrative expenses	4	(25,702)	(23,942)
Depreciation	18	(962)	(975)
Total operating expenses		(26,664)	(24,917)
Group operating profit before provisions		72,534	20,540
Provisions for bad and doubtful debts	15	(8,893)	(5,060)
Group operating profit/profit on ordinary activities before taxation	6	63,641	15,480
Taxation	9	(12,713)	(9,905)
Group profit attributable to the shareholders of AIB Finance Limited	10	50,928	5,575
Dividends on equity shares - paid	11	(20,000)	-
Group retained profit for the year		30,928	5,575

Movements in profit and loss account reserves are shown in note 28.

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

On behalf of the Board

LC Larkin

J O'Mahony

GA Clarke

14 February 2002

CONSOLIDATED BALANCE SHEET
Year Ended 31 December 2001

	Notes	2001 €'000	2000 €'000
Assets			
Cash and balances at Central Bank		3	3
Due by parent undertaking	21	5,171,630	4,708,283
Due by fellow subsidiary undertakings		21,915	73,844
Loans and advances to banks	13	49,316	52,219
Loans and advances to customers	14	2,788,480	2,562,694
Unquoted investment	16	14	14
Shares in Group undertaking	17(a)	41,294	41,294
Tangible fixed assets	18	3,882	3,836
Other assets		18,021	19,955
Prepayments and accrued income		4,507	4,869
Total assets		8,099,062	7,467,011
Liabilities			
Deposits by banks	20	14,027	90,081
Due to parent undertaking	14	5,131,931	4,131,828
Due to fellow subsidiary undertakings		194,038	107,566
Customer accounts	21	2,109,655	2,316,549
Debt securities in issue	22	133,526	337,638
Other liabilities	23	178,357	181,348
Accruals and deferred income		20,214	25,988
Provisions for liabilities and charges	24	1,492	1,600
Deferred tax	19	54,074	43,594
Subordinated liabilities	25	50,790	50,790
Called up ordinary share capital	26	21,250	21,586
Share premium account	27	25,077	25,077
Reserves	28	42,813	42,477
Profit and loss account	28	121,818	90,889
Shareholders' funds: equity interests		210,958	180,029
Total liabilities		8,099,062	7,467,011
Memorandum items			
Off balance sheet items -			
Contingent liabilities:			
- guarantees and assets pledged as collateral security	29	2,647	2,647

On behalf of the Board

LC Larkin

J O'Mahony

GA Clarke

14 February 2002

COMPANY BALANCE SHEET
Year Ended 31 December 2001

	Notes	2001 €'000	2000 €'000
Assets			
Cash and balances at Central Banks		3	3
Due by parent undertaking	21	5,164,646	4,696,136
Due by fellow subsidiary undertakings		561,224	502,612
Loans and advances to banks	13	49,316	52,219
Loans and advances to customers	14	1,611,679	1,432,701
Unquoted investment	16	14	14
Shares in Group undertakings	17(b)	41,421	41,421
Tangible fixed assets	18	3,882	3,836
Other assets		12,318	9,208
Deferred taxation	19	1,589	1,332
Prepayments and accrued income		4,507	4,869
Total assets		7,450,599	6,744,351
Liabilities			
Deposits by banks	20	14,027	90,081
Due to parent undertaking	14	4,998,170	4,087,894
Due to fellow subsidiary undertakings		169,913	81,777
Customer accounts	21	2,109,655	2,316,549
Accruals and deferred income		17,030	21,833
Other Liabilities	23	6,456	4,910
Provisions for liabilities and charges	24	1,492	1,600
Subordinated liabilities	25	50,790	50,790
Called up ordinary share capital	26	21,250	21,586
Share premium account	27	25,077	25,077
Reserves	28	42,813	42,477
Profit and loss account	28	(6,074)	(223)
Shareholders' funds: equity interests		83,066	88,917
Total liabilities		7,450,599	6,744,351
Memorandum items			
Off balance sheet items - contingent liabilities:			
- guarantees and assets pledged as collateral security	29	2,647	2,647

On behalf of the Board

LC Larkin

J O'Mahony

GA Clarke

14 February 2002

CONSOLIDATED CASH FLOW STATEMENT
Year Ended 31 December 2001

	Notes	Year ended 31 December 2001 €'000	Year ended 31 December 2000 €'000
Net cash inflow/(outflow) from operating activities	30	21,131	(13,487)
Returns on investments and servicing of finance			
Dividends paid on equity shares		20,000	-
Taxation			
Payment in respect of Group relief		(1,962)	(5,334)
Corporation tax (paid)/refund		(1,142)	11,054
		(3,104)	5,720
Capital expenditure and financial investment			
Additions to tangible fixed assets		(1,194)	(969)
Disposals of tangible fixed assets		264	318
		(930)	(651)
Decrease in cash	30(ii)	(2,903)	(8,418)

On behalf of the Board

LC Larkin

J O'Mahony

GA Clarke

14 February 2002

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year Ended 31 December 2001

	2001 €'000	2000 €'000
Profit attributable to the ordinary shareholders	50,928	5,575
Exchange translation adjustments	1	187
Total recognised gains relating to the year	50,929	5,762

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS: EQUITY INTERESTS
Year Ended 31 December 2001

	2001 €'000	2000 €'000
Profit attributable to ordinary shareholders	50,928	5,575
Dividend	20,000	-
Profit retained for the year	30,928	5,575
Other recognised gains relating to the year	1	187
Net increase in shareholders' funds: equity interests	30,929	5,762
Opening shareholders' funds at 1 January 2001: equity interests	180,029	174,267
Closing shareholders' funds at 31 December 2001: equity interests	210,958	180,029

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

LC Larkin

J O'Mahony

GA Clarke

14 February 2002

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 2001, and the European Communities (Credit Institutions: 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 2001 and with relevant accounting standards.

Basis of consolidation
The group financial statements include the financial statements of AIB Finance Limited and its subsidiary undertakings made up to December 31, 2001.

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 loans and advances 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 Euro at the exchange rates ruling at the balance sheet date. All translation differences are recognised in the profit and loss account.

Profits in foreign currencies have been translated at average rates for the accounting period and the adjustment arising on the retranslation to balance sheet rates is included in the exchange translation adjustment on revenue reserves.

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 impairment 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
Up to 31 December 1999, Freehold and long leasehold properties were not depreciated. Since 1 January 2000, with the introduction of Financial Reporting Standard 15 'Tangible Fixed Assets', freehold and long leasehold properties are written off over their estimated useful economic lives subject to a maximum period of 50 years. 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.

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.

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. These derivative transactions are recognised in the financial statements in accordance with the accounting treatment of the underlying transaction or transactions 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

1 Accounting policies - continued

Pensions

It is AIB Finance Limited's policy to provide for pension and other post-retirement benefits at rates recommended by independent actuaries. Staff members of AIB Finance Limited are members of either the Allied Irish Banks, p.l.c. scheme ('main' scheme) or the AIB Finance Limited group scheme ('group' scheme). It is not possible to identify AIB Finance Limited's share of the underlying assets and liabilities of the main scheme. Consequently, the main scheme is accounted for as a defined contribution scheme.

AIB Finance Limited also operates a defined contribution scheme, the costs of which are charged to the profit and loss in the period in which they are incurred.

In relation to the defined benefit scheme operated by AIB Finance Limited, the disclosures required under the transitional arrangements of the Financial Reporting Statement 17 "Retirement Benefits" for the year ended 31st December 2001 are set out in Note 8 (b).

2 Other interest receivable and similar income

	2001 €'000	2000 €'000
Interest from parent undertaking	279,115	235,714
Interest from fellow subsidiary undertakings	4,547	5,293
Other	178,366	150,608
	462,028	391,615

3 Interest payable

	2001 €'000	2000 €'000
Interest to parent undertaking	269,510	197,221
Interest to fellow subsidiary undertakings	6,682	4,678
Other	91,547	104,142
	367,739	306,041

4 Administrative expenses

	2001 €'000	2000 €'000
Staff costs:		
- wages and salaries	11,354	10,463
- social security costs	1,148	985
- pension and other costs (Note 8)	1,092	1,020
	13,594	12,468
Other administrative expenses	12,108	11,474
	25,702	23,942

5 Deposit interest retention tax ("DIRT") - Exceptional item

On 3 October 2000, our parent, Allied Irish Banks, p.l.c. announced that it had reached a full and final settlement with the Irish Revenue Commissioners in relation to DIRT, interest and penalties in Ireland for the period April 1986 to April 1999. The settlement in respect of AIB Finance Limited amounted to €44.03m that included €1.37m paid in prior years. Although Allied Irish Banks, p.l.c. believes that it had an agreement with the Revenue Commissioners in 1991 in relation to DIRT, the Board of Allied Irish Banks, p.l.c. considered that concluding this settlement was in the best interests of shareholders, customers and staff. As a result an exceptional charge of €42.7m has been included in the accounts of AIB Finance Limited for the year ended 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS - continued

6 Group operating profit/profit on ordinary activities before taxation

	2001 €'000	2000 €'000
Is stated after charging/(crediting):		
Aggregate amounts receivable, including capital repayments under finance leases and hire purchase agreements	623,014	644,840
Loss on disposal of tangible fixed assets	(78)	(66)
Auditors' remuneration	71	65
Operating lease rentals	710	724

7 Emoluments of directors

	2001 €'000	2000 €'000
Other emoluments	275	296

8 Pension costs

(a) Staff members of AIB Finance Limited are members of either the Allied Irish Banks, p.l.c. scheme ('main' scheme) or the AIB Finance Limited scheme ('group' scheme). This group scheme, which covers eleven percent of employees, is a defined benefit scheme and the assets are held in trust funds separate from AIB Finance Limited. The remaining eighty-nine percent of employees are members of the main scheme. The total pension cost for AIB Finance Limited was €1.092m (2000: €1.019m) of which €0.147m (2000: €0.141m) was attributable to the group scheme.

The pension schemes operated are of both the defined benefit and defined contribution type. The defined benefit schemes were closed to new members from December 1997. Employees joining after December 1997 join on a defined contribution basis.

The most recent actuarial valuation of the group scheme and of the main scheme was 1st January 2001 by Mercer Ltd., Actuaries and Consultants. The actuarial valuations are available for inspection only to members of the schemes.

The majority of the group defined benefit schemes are funded and at the date of the most recent actuarial valuations, the market value of the assets of all Allied Irish Banks, p.l.c., schemes was €2,903m and the actuarial value of the assets was sufficient to cover the benefits that had accrued to the members.

The main defined benefit scheme is available to other parts of the Allied Irish Banks, p.l.c. group. The main scheme has been accounted for as a defined contribution scheme as it is not possible to identify the underlying assets and liabilities relating to AIB Finance Limited on a consistent and reasonable basis.

A description of the particulars of the latest valuations of the AIB group pension scheme is contained in the Annual Report of Allied Irish Banks, p.l.c.

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Pension costs - continued

The valuations used for the group defined benefit scheme have been based on the most recent actuarial valuations updated to 31 December 2001 by independent and qualified actuaries to take account of the requirements of Financial Reporting Standard 17. The valuations have been completed using the Projected Unit Method. As the scheme is closed to new entrants, under the Projected Unit Method, the current service cost and the standard contribution rates will increase as the members of the scheme approach retirement.

The total cost in respect of defined contribution schemes for 2001 was €0.277m.

(b) Financial assumptions – group scheme

The major assumptions used by the actuaries to calculate scheme liabilities under Financial Reporting Standard 17 are:

Rate of increase in salaries	4.0%
Rate of increase in pensions in payment	2.5%
Discount rate	5.75%
Inflation assumptions	2.5%

The assets in the group scheme and the long term rate of return expected at 31 December 2001 were:

	Long–term rate of return expected at 31 December 2001	Value at 31 December 2001 €'000
Equities	8.50%	24,646
Bonds	5.5%	5,895
Other	5.0%	2,764
		33,305

The following table sets out the fair value of the assets held by the group scheme together with the actuarial value of the liabilities:

	2001 €'000
Total market value of assets	33,305
Actuarial value of liability	29,932
Surplus in the group scheme	3,373
Less surplus cap	326
Recognised on the balance sheet	3,047
Deferred tax liability	(381)
Net pension asset	2,666

If the above amounts have been recognised in the financial statements, AIB Finance Limited's net assets and profit and loss reserve at 31 December 2001 would be as follows:

	2001 € 000's
Net assets excluding pension asset	210,958
Pension asset	2,666
Net assets including pension asset	213,624
Profit and loss reserve excluding pension asset	121,818
Pension reserve	2,666
Profit and loss reserve	124,484

NOTES TO THE FINANCIAL STATEMENTS - continued

9 Taxation on group profit on ordinary activities

	2001 €'000	2000 €'000
Irish corporation tax charge / (credit)	2,234	(1,601)
Deferred taxation on ordinary activities	10,479	11,506
	12,713	9,905

10 Group profit attributable to the shareholders of AIB Finance Limited

Of the Group profit attributable to ordinary shareholders, a profit of €14,146,752 (2000: (€23,976,631)) 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.

11 Dividends on equity shares

	2001 cent per share	2001 €'000	2000 cent per share	2000 €'000
Dividend paid	117.6	20,000	-	-

12 Assets

	2001 Group €'000	2001 Entity €'000	2000 Group €'000	2000 Entity €'000
(i) Assets and liabilities denominated in foreign currency:				
Denominated in €	7,542,367	6,894,095	6,694,967	6,073,546
Denominated in currencies other than €	556,695	556,504	772,043	670,805
Total assets	8,099,062	7,450,599	7,467,010	6,744,351
Denominated in €	7,542,385	6,894,096	6,695,036	6,073,594
Denominated in currencies other than €	556,677	556,503	771,974	670,757
Total liabilities	8,099,062	7,450,599	7,467,010	6,744,351
(ii) Assets leased to customers:				
Loans and advances to customers; finance leases	1,173,301	-	1,137,192	-

13 Loans and advances to banks

	2001 €'000	2000 €'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	49,316	52,219
	49,316	52,219

The Group is required to maintain balances with the Central Bank of Ireland which, at 31 December 2001, amounted to €49m (2000: €52m).

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Loans and advances to customers

	2001 Group €'000	2001 Entity €'000	2000 Group €'000	2000 Entity €'000
Analysed by remaining maturity:				
- over 5 years	843,654	670,078	778,909	595,211
- 5 years or less but over 1 year	1,253,520	613,165	1,172,493	560,809
- 1 year or less but over 3 months	478,730	211,922	424,180	179,992
- 3 months or less	251,888	138,825	221,017	117,249
General and specific bad and doubtful debt provisions (note 15)	(39,312)	(22,311)	(33,905)	(20,560)
	2,788,480	1,611,679	2,562,694	1,432,701

Group loans and advances to customers include €1,173m (2000: €1,137m) net investment in finance leases and €487m (2000: €498m) net investment in hire purchase contracts.

The cost of assets acquired for letting under finance leases and hire purchase contracts amounted to €654m (2000: €877m)

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

15 Provision for bad and doubtful debts

	2001 Specific €'000	2001 General €'000	2001 Total €'000	2000 Specific €'000	2000 General €'000	2000 Total €'000
(a) Group						
At 1 January	21,694	12,211	3,905	27,091	2,688	29,779
Charge against profits	8,462	431	8,893	5,060	-	5,060
Transfer from specific to general	-	-	-	(9,523)	9,523	-
Amounts written off	(4,480)	-	(4,480)	(2,406)	-	(2,406)
Recoveries	994	-	994	1,472	-	1,472
At 31 December	26,670	12,642	39,312	21,694	12,211	33,905
(b) Entity						
At 1 January	14,571	5,989	20,560	16,028	2,688	18,716
Charge against profits	1,874	127	2,001	1,040	-	1,040
Transfer from specific to general	-	-	-	(3,301)	3,301	-
Amounts written off	(1,187)	-	(1,187)	(406)	-	(406)
Recoveries	937	-	937	1,210	-	1,210
At 31 December	16,195	6,116	22,311	14,571	5,989	20,560

NOTES TO THE FINANCIAL STATEMENTS - continued

16 **Unquoted investment**	2001 €'000	2000 €'000
Group and Entity:		
Ordinary shares at cost	14	14

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.

17 **Shares in group undertakings**	2001		2000	
	Balance sheet	Market value	Balance sheet	Market value
(a) Group	€'000	€'000	€'000	€'000
(i) *Group and Entity:*				
Held as financial fixed assets:				
shares in parent company	41,294	72,800	41,294	69,160

(ii) *Group and Entity:*	*2001*		*2000*	
	Balance sheet	Market Value	Balance sheet	Market Value
	€'000	€'000	€'000	€'000
Analysed by listing status:				
Shares in parent company				
- listed on a recognised exchange	41,294	72,800	41,294	69,160

AIB Finance Limited acquired 5,600,000 ordinary shares of €0.32p 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 €7.30 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	2001 €'000	2000 €'000
Shares in parent company	41,294	41,294
Ordinary shares in subsidiary at cost	127	127
	41,421	41,421

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 2001. Interim financial statements of AIB Leasing Limited have been prepared to 31 December 2001 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

18 Tangible fixed assets

	Land €'000	Freehold and long leasehold €'000	Leases of less than 50 years unexpired €'000	Computer and other equipment €'000	Total €'000
Group & Equity					
At 1 January 2001	687	585	1,345	6,328	8,945
Additions	-	-	-	1,194	1,194
Disposals	-	-	-	(673)	(673)
At 31 December 2001	687	585	1,345	6,849	9,466
Accumulated depreciation					
At 1 January 2001	-	9	780	4,320	5,109
Disposals	-	-	-	(487)	(487)
Depreciation charge for the year	-	12	78	872	962
At 31 December 2001	-	21	858	4,705	5,584
Net book value at 31 December 2001	687	564	487	2,144	3,882
Net book value at 31 December 2000	687	576	565	2,008	3,836

Group and Entity:	2001 €'000	2000 €'000
Cost or valuation of freehold land and buildings:		
At valuation	1,272	1,272
At cost	-	-
	1,272	1,272
On the historical cost basis, land and buildings would have been included as follows:		
Cost	1,620	1,620
Accumulated depreciation	(876)	(787)
Net book value	744	833
Land and buildings occupied for own activities:		
Net book value	1,740	1,830

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 transitional provisions of FRS 15 'Tangible Fixed Assets' have been adopted by the Group and the valuation has not been updated.

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

19 Deferred taxation

	2001 Group €'000	2001 Entity €'000	2000 Group €'000	2000 Entity €'000
Provision for deferred taxation				
- capital allowances	(55,922)	55	(45,168)	39
- other timing differences	1,848	1,534	1,574	1,293
	(54,074)	1,589	(43,594)	1,332
At 1 January	(43,594)	1,332	(29,518)	1,148
Translation adjustment	(1)	-	(2,570)	-
Arising during the year	(10,479)	257	(11,506)	184
At 31 December	(54,074)	1,589	(43,594)	1,332

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.

20 Deposits by banks

Group and Entity:

	2001 €'000	2000 €'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- over 5 years	-	3,301
- 5 years or less but over 1 year	13,809	10,678
- 1 year or less but over 3 months	218	76,102
- 3 months or less but not repayable on demand	-	-
	14,027	90,081

21 *Customer accounts*

Group and Entity:

	2001 €'000	2000 €'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- over 5 years	8	179
- 5 years or less but over 1 year	17,153	30,537
- 1 year or less but over 3 months	137,527	201,340
- 3 months or less but not repayable on demand	1,889,847	1,989,109
	2,044,535	2,221,165
Repayable on demand	65,120	95,384
	2,109,655	2,316,549

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

22 Debt securities in issue

	2001 €'000	2000 €'000
Group:		
Analysed by remaining maturity:		
- 1 year or less but over 3 months	123,208	296,118
- 3 months or less	10,318	41,520
	133,526	337,638

23 Other liabilities

	2001 Group €'000	2001 Entity €'000	2000 Group €'000	2000 Entity €'000
Taxation	14,135	5,119	15,006	2,080
Other	164,222	1,337	166,342	2,830
	178,357	6,456	181,348	4,910

24 Provision for liabilities and charges

	Pension Obligations €'000	Other €'000	Total €'000
Group and Entity:			
At 1 January 2001	965	635	1,600
Provisions made	1,092	-	1,092
Provisions utilised	(1,175)	-	(1,175)
Provisions released	-	(25)	(25)
At 31 December 2001	882	610	1,492

25 Subordinated liabilities

	20001 €'000	2000 €'000
Group and Entity:		
Subordinated loan	19,046	19,046
Subordinated perpetual capital note	31,744	31,744
	50,790	50,790

(a) The subordinated loan of €19,046,071 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 €31,743,452 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

26 Called up ordinary share capital

	2001 €'000	2000 €'000
Group and Entity:		
Authorised:		
Ordinary shares of €1.25 each (2000: £1)	25,000	25,395
Issued and fully paid:		
Ordinary shares of €1.25 each (2000: £1)		
At 1 January and 31 December 2001	21,250	21,586

During the year, in accordance with the Economic and Monetary Union Act, 1998, the share capital was redenominated into euro and the nominal value was renominalised to €1.25. Consequently, the allotted and fully paid share capital was reduced by €0.336m and that amount was transferred to the capital conversion reserve fund.

27 Share premium account

	2001 €'000	2000 €'000
Group and Entity:		
At 1 January and 31 December 2001	25,077	25,077

28 Reserves

	Group €'000	Entity €'000
Revaluation reserve		
At 1 January 2000 and 31 December 2001	1,182	1,182
Capital reserve		
At 1 January 2000 and 31 December 2001	41,294	41,294
Capital conversion reserve fund		
At 1 January 2000	-	-
At 31 December 2001	336	336
Total reserves		
At 1 January 2000	42,477	42,477
At 31 December 2001	42,813	42,813
Profit and loss account		
At 1 January 2001	90,889	(223)
Currency Translation	1	2
Retention for the year	30,928	(5,853)
At 31 December 2001	121,818	(6,074)

NOTES TO THE FINANCIAL STATEMENTS - continued

29 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.

	2001		2000	
	Contract amount	Risk Weighted Amount	Contract amount	Risk Weighted Amount
	€'000	€'000	€'000	€'000
Group and Entity:				
Contingent liabilities				
Guarantees and assets pledged as collateral security:				
- guarantees and irrecoverable letters of credit	2,647	400	2,647	400
Interest rate contracts:				
- for hedging purposes	1,281,573	-	1,193,748	-

	2001 Group	2001 Entity	2000 Group	2000 Entity
	€'000	€'000	€'000	€'000
Undrawn formal standby facilities, credit lines and commitments to lend:				
- less than 1 year	57,138	19,046	63,487	43,171

(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 2001. 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

30 Consolidated cash flow statement

(i) Reconciliation of Group profit on ordinary activities before tax to net cash inflow from operating activities:

	2001 €'000	2000 €'000
Group operating profit before taxation	63,641	15,480
Decrease/(increase) in prepayments and accrued income	361	(1,983)
(Decrease)/increase in accruals and deferred income	(5,881)	3,969
Provisions for bad and doubtful debts	8,893	5,060
Depreciation and amortisation	962	975
Loss on sale of tangible fixed assets	(78)	(66)
Net cash inflow from trading activities	67,898	23,435
Decrease in deposits by banks	(77,029)	(686)
Decrease in customer accounts	(218,837)	(384,596)
Increase in loans and advances to customers	(233,754)	(521,215)
(Decrease)/increase in debt securities in issue	(204,113)	40,176
Decrease in amounts due by parent undertaking and fellow subsidiary undertakings	687,597	845,463
(Decrease)/increase in other assets	1,936	(2,812)
Decrease in other liabilities	(2,307)	(13,358)
Effect of exchange translation and other adjustments	(260)	106
Net cash inflow from operating activities	21,131	(13,487)

(ii) Analysis of changes in cash:

	2001 €'000	2000 €'000
At 1 January	52,222	60,640
Net cash outflow	(2,903)	(8,418)
At 31 December	49,319	52,222

(iii) Analysis of the balances of cash as shown in the balance sheet

	2001 €'000	2000 €'000	Change in year €'000
Cash and balances at Central Bank	3	3	-
Loans and advances to banks repayable on demand	49,316	52,219	(2,903)
	49,319	52,222	(2,903)

31 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

32 Directors' and officers' loans

On 31 December 2001, 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 €0.293m in respect of 2 people (2000: €265,164). 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 €Nil (2000: €Nil).

33 General

	Land and buildings 2001 €'000	Land and buildings 2000 €'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	609	635
	609	635
(ii) Average number of employees:		
The average number of persons employed by the group during the year was made up as follows:	357	401

34 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.

35 Reporting currency

The reporting currency used in these financial statements is the euro, which is denoted by the symbol "€".

36 Related party transactions

The company has availed of the exemption contained in Financial Reporting Standard No. 8 "Related Party Disclosures" in respect of subsidiary undertakings, where 90 percent or more of the voting rights are controlled within a group. During the year purchases of €143,895 (2000: €145,419) were made by the company from Kelly Systems Limited, a company in which Mr Leo Larkin is a minority shareholder.

NOTES TO THE FINANCIAL STATEMENTS - continued

37 Derivatives and other financial instruments

(Note: 'Group' refers to AIB Finance Limited and its subsidiaries and 'AIB Group' refers to Allied Irish Bank,s p.l.c. and its *subsidiaries, including AIB Finance Limited.)*

Set out below are details on risk management, interest rate sensitivities, fair values and derivative information for AIB Finance Limited.

It is the policy of the Allied Irish Banks, p.l.c., in so far as possible, to centralise the management of market, interest rate and liquidity risk. The majority of this is centrally managed by the Treasury Units of the Group's parent company, Allied Irish Banks, p.l.c.

Full details of the AIB Group's policies and its current position on managing its market, liquidity, credit and other related risks are set out in the Annual Report of Allied Irish Banks, p.l.c. A summary of those policies which directly impact AIB Finance Limited are set out below.

Risk management

Taking and managing risk for an appropriate return is central to creating shareholder value. Day-to-day risk management, in the AIB Group, centres on three major risks – credit risk, operational risk and market risk (including liquidity).

AIB Group's organisational structure for managing risk includes a set of committees and delegated authorities. The main Group-level comittees are the Group Executive Committee, the Group Credit Committee ('GCC'), the Group Asset and Liability Committee ('Group Alco'), and the Group Operational Risk Management Committee ('Group ORMCO').

Credit risk

Credit Risk is the exposure to loss due to counterparty default on credit obligations. It arises mainly on the AIB Group's retail, corporate, and interbank lending portfolios. Credit risk also arises in derivatives contracts to the extent that the default of a counterparty to the derivative transaction would expose the AIB Group to the need to replace the existing contracts at prices that could be less favourable than when the contract was entered into.

Credit risk is managed and controlled throughout the AIB Group on the basis of established credit processes and within a framework of credit policy and delegated authorities based on skill and experience. Credit grading and monitoring systems accommodate the early identification and management of deterioration in loan quality. In addition, the process is underpinned by an independent system of credit review. Credit grading systems continue to be refined to facilitate risk–based pricing, economic provisioning, attribution of capital and performance evaluation.

Credit exposures in excess of divisional credit authorities are approved by the Group Credit Committee that is chaired by a member of the Group Executive. The Committee comprises senior management from the operating divisions as well as AIB Group. The AIB Group Credit Committee approves key credit policies and influences strategic portfolio management. It also reviews trends in credit quality and determines overall provision adequacy. There is an independent credit risk management unit which has functional responsibility for credit risk across the AIB Group and provides executive support to the Group Credit Committee.

The credit management structure in each division is supported by a divisional credit policy framework and credit review process. Each division invests significantly in developing the professional skills of its lenders and in the continuous improvement of the credit assessment, control and monitoring processes. High priority is given to having a credit culture that is resilient through business cycles.

The Group's provisions for bad and doubtful debts for the year ended 31 December 2001 are set out in Note 15.

NOTES TO THE FINANCIAL STATEMENTS - continued

37 Derivatives and other financial instruments - continued

Operational risk

Operational risk, which is inherent in all business activities, is the exposure to loss from inadequate or failed internal processes, people and systems or from external events. Its excludes business risks such as the risk to income or margins from competitive pressure.

The management of operational risk is a line management responsibility. It is supported by specialist functions that assist and advise line management on specific operational risks. Examples include money laundering prevention, compliance, business continuity planning, information security and insurance. This is supplemented by a structured operational risk management ('ORM') programme.

An element of AIB Group's structured ORM programme is an operational risk self-assessment process. This process requires each business within the AIB Group to assess its operational risks and the effectiveness of the related controls to address these risks. It complements the risk-based audit approach applied by internal audit in its role as independent assessor of management's control and risk management processes. The role of AIB Group ORMCO is to influence and co-ordinate divisional actions in managing operational risk. There is an independent operational risk management unit in AIB Group Risk. This unit has functional responsibility for ORM policy on behalf of AIB Group ORMCO.

The Group also has in place an independent operational risk management unit which provides regular reporting of operational risk management information to the Management Board of AIB Finance Limited and the AIB Group ORMCO.

Risk management activities

In addition to meeting customer needs, the AIB Group's principal objective in holding or issuing derivatives for purposes other than trading is the management of interest rate and foreign exchange rate risks. The AIB Group has *significant business activities in a range of currencies. Foreign exchange rate risk arises as the value of these* transactions can fluctuate with exchange rate movements.

The operations of the AIB Group are exposed to risk of interest rate fluctuations to the extent that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives allow the AIB Group to modify the repricing or maturity characteristics of assets and liabilities in a cost efficient manner. This flexibility helps the AIB Group to achieve liquidity and risk management objectives.

Risk management activities are conducted in the context of the AIB Group's sensitivity to interest rate changes. For example, asset sensitivity arises due to interest earning assets repricing more frequently than interest bearing liabilities. This means that if interest rates are declining, margins will narrow as assets reprice downward more quickly than liabilities. The converse applies when rates are rising.

Derivatives fluctuate in value as interest rates rise or fall just as on balance sheet assets and liabilities fluctuate in value. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, as interest rates change, will generally be offset by the unrealised appreciation or depreciation of the hedged items. This means that separate disclosure of market risk on derivatives used for hedging purposes is not meaningful.

NOTES TO THE FINANCIAL STATEMENTS - continued

37 Derivatives and other financial instruments - continued

The Group uses derivatives as hedges to convert fixed interest rate contracts to floating. The Group typically employs hedges as follows:

- By employing an interest rate swap to match fixed rate loans to customers, AIB Finance Limited is effectively converting the fixed rate loans to floating rate loans that better match the floating rate deposits received from customers.

To achieve its risk management objective, the Group uses a combination of derivative financial instruments, particularly interest rate swaps.

Market risk

Market risk is the exposure to loss arising from adverse movements in interest rates, foreign exchange rates and equity prices. Liquidity risk is the exposure to loss from not having sufficient funds available at an economic price to meet actual and contingent customer commitments. Market and liquidity risks are an integral part of retail banking activities. Managing these risks also provides opportunities for treasury to add value through position-taking.

Assuming and managing these risks is an integral part of banking and can be an important source of profitability and shareholder value. The principal aims of the AIB Group's market risk exposure management are to limit the adverse impact of interest rate, exchange rate and equity price movements on profitability and shareholder value, and to enhance earnings within defined risk parameters.

Group ALCO is responsible for strategic balance sheet movement within the risk policies approved by the Board. It has a particular focus on capital management, funding/liquidity, market risk capacity and market risk governance. It comprises senior divisional and AIB Group management. In addition, there are local ALCO's in the major business areas of the AIB Group. Group ALCO policies determine the basis for managing the liquidity and interest rate risks arising from the structure of the Group's balance sheet.

The Credit Risk Officer allocates market risk limits to the divisional market risk-taking units. Market risks arising in the AIB Group's retail and commercial activities are transferred to the relevant treasury units. These units take positions in marketable securities and derivatives to mitigate these risks. The local ALCO's are responsible for identifying and measuring the risks and transferring them to treasury.

Guiding principles

AIB Group policies and practice in relation to market risk management reflect the following guiding principles:

(a) Key market risk activities are subject to a Board-approved policy framework.
(b) Market risk is centralised in the Treasury units, managed by skilled personnel, and monitored using appropriate systems and controls.
(c) Market risk is measured and monitored by risk management personnel operating independently of the risk-taking units.

The objective of liquidity management is to ensure that, at all times, the AIB Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties, at an economic price.

The Group Liquidity Policy is designed to provide adequate funding to cover both normal and abnormal working conditions. It also incorporates a liquidity contingency plan for critical situations. The policy adopts a cash-flow based approach and specifies the minimum amounts of high quality liquidity stock required. This is calculated as a percentage of retail and wholesale resources and undrawn credit facilities. In all cases, net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed predetermined target levels. The Group's liquidity is managed as part of the overall AIB Group liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS - continued

37 Derivatives and other financial instruments - continued

Interest rate sensitivity

The net interest rate sensitivity of the Group at December 31, 2001 is illustrated in the following table. This information is presented for five different time periods reflecting the balances of assets and liabilities with rates that are subject to change within each period, data regarding balances which are not sensitive to interest rate movements and any rate sensitive off-balance sheet contracts. The tables show the sensitivity of the balance sheet at one point in time and is not necessarily indicative of positions at other dates. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The interest rate sensitivity analysis for AIB Finance Limited as at 31 December 2001 is as follows :

Interest rate pricing 31 December 2001	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than one 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	49,316	-	-	-	-	-	49,316
Loans and advances to customers	1,036,549	173,230	322,143	1,072,920	236,973	(53,335)	2,788,480
Intergroup assets	4,920,525	126,979	99,778	46,263	-	-	5,193,545
Other assets	-	-	-	-	-	67,721	67,721
Total assets	6,006,390	300,209	421,921	1,119,183	236,973	14,386	8,099,062
Liabilities							
Deposits by banks	-	-	218	13,809	-	-	14,027
Customers accounts	1,953,057	82,211	57,004	15,554	1,829	-	2,109,655
Debt securities in issue	123,208	3,405	6,913	-	-	-	133,526
Subordinated liabilities	-	-	-	-	-	50,790	50,790
Inter group liabilities	4,920,012	242,874	28,901	11,680	122,502	-	5,325,969
Other liabilities	-	-	-	-	-	254,138	254,138
Stockholders' equity	-	-	-	-	-	210,957	210,957
Total liabilities	6,996,277	328,490	93,036	41,043	124,331	515,885	8,099,062
Off balance sheet items affecting interest rate sensitivity	1,138,290	54,186	(219,176)	(947,769)	(25,531)	-	-
Interest sensitivity gap	148,403	25,905	109,709	130,371	87,111	(501,499)	-
Cumulative interest sensitivity gap	148,403	174,308	284,017	414,388	501,499	-	-

NOTES TO THE FINANCIAL STATEMENTS - continued

37 Derivatives and other financial instruments - continued

The interest rate sensitivity analysis for AIB Finance Limited as at 31 December 2001 is as follows :

Interest rate pricing 31 December 2000	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than one 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	52,219	-	-	-	-	-	52,219
Loans and advances to customers	771,549	139,289	250,213	1,023,844	411,703	(33,904)	2,562,694
Intergroup assets	4,431,199	118,314	99,693	93,469	5,628	33,824	4,782,127
Other assets	-	-	-	-	-	69,971	69,971
Total assets	5,254,967	257,603	349,906	1,117,313	417,331	69,891	7,467,011
Liabilities							
Deposits by banks	-	26,125	49,977	10,678	3,301	-	90,081
Customers accounts	2,084,472	109,816	91,546	30,537	178	-	2,316,549
Debt securities in issue	296,118	41,520	-	-	-	-	337,638
Subordinated liabilities	-	-	-	-	-	50,790	50,790
Inter group liabilities	3,859,308	104,008	92,690	39,862	105,590	37,936	4,239,394
Other liabilities	-	-	-	-	-	252,530	252,529
Stockholders' equity	-	-	-	-	-	180,029	180,027
Total liabilities	6,239,898	281,469	234,213	81,077	109,069	521,285	7,467,011
Off balance sheet items affecting interest rate sensitivity	955,167	89,621	(141,277)	(851,270)	(52,241)	-	-
Interest sensitivity gap	(29,764)	65,755	(25,584)	184,966	256,021	451,394	-
Cumulative interest sensitivity gap	(29,764)	35,991	10,407	195,373	451,394	-	-

NOTES TO THE FINANCIAL STATEMENTS - continued

37 Derivatives and other financial instruments - continued

Interest rate options with a notional value of €11.092m (2000: €16.1m) 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 group's 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 17 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.
FRS 13 "Derivative and other Financial Instruments: Disclosures" requires disclosure of the fair value of financial instruments (both on and off-balance sheet) for which it is practicable to estimate such value.

The term "financial instruments" includes both financial assets and liabilities and also derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

Fair value is based upon quoted market prices where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and adjusted for differences between the quoted investment and the instrument being valued.

In certain cases, including some lendings to customers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Readers of these financial statements are advised to use caution when using data to evaluate the Group's financial position or to make comparisons with other institutions.

Fair value is not provided for certain financial instruments or for items that do not meet the definition of a financial instrument. These items include short-term debtors and creditors, intangible assets such as long term relationships with depositors, premises and equipment and shareholders' equity.

Furthermore, the concept of fair value assumes realisation of financial instruments by way of a sale. However in many cases a sale is unlikely, and the assets and liabilities will be held to maturity. Accordingly, the fair values calculated for the purposes of reporting under FRS 13 do not represent the value of the group as a going concern at 31 December 2001 and 2000.

NOTES TO THE FINANCIAL STATEMENTS - continued

37 Derivatives and other financial instruments – continued

The following table gives details of the carrying amounts and fair values of financial instruments at December 31, 2001 and 2000.

	2001		2000	
	Carrying Amount €'000	Fair Value €'000	Carrying Amount €'000	Fair Value €'000
Non Trading				
Assets				
Cash and balances at Central Bank	3	3	3	3
Due by parent undertaking	5,171,630	5,171,642	4,708,283	4,708,336
Due by fellow subsidiary undertakings	21,915	23,242	73,844	75,029
Loans and advances to banks	49,316	49,316	52,219	52,219
Loans and advances to customers	2,788,480	2,798,200	2,562,694	2,559,743
Equity Shares	41,294	72,800	41,294	69,160
Liabilities				
Due to parent undertaking	5,131,931	5,144,274	4,131,828	4,129,026
Due to fellow subsidiary undertakings	194,038	194,234	107,566	107,343
Debt securities	133,526	133,617	337,638	337,525
Deposits by banks	14,027	15,121	90,081	91,736
Customer accounts	2,109,655	2,109,662	2,316,549	2,316,950
Subordinated liabilities	50,790	50,790	50,790	50,790
Off-balance sheet (liabilities)/assets				
Interest rate contracts	(1,730)	(18,173)	(631)	152

Cash and balances at Central Bank
The fair value of these financial instruments is considered equal to the carrying value.

Due by parent undertaking and fellow subsidiary undertakings
AIB Finance Ltd. provides lending facilities of varying rates and maturities to its parent undertaking Allied Irish Banks, p.l.c and fellow subsidiary undertakings within the Allied Irish Banks, p.l.c. group. In determining the fair value of these facilities, the carrying amount of variable rate balances was considered to be at market value. The fair value of fixed rate balances was calculated by discounting expected cash flows using discount rates that reflected the credit and interest rate risk in the portfolio.

Loans and advances to banks and equity shares
AIB Finance Ltd. provides lending facilities of varying rates and maturities to business and personal customers. In determining the fair value of these loans, the carrying amount of variable rate loans was considered to be at market value, if there was no significant change in the credit risk of the borrower. The fair value of fixed rate loans was calculated by discounting expected cash flows using discount rates that reflected the credit and interest rate risk in the portfolio.

The fair value of equity is stated at market prices.

Due to parent undertaking
AIB Finance Ltd. receives lending facilities of varying rates and maturities from its parent undertaking Allied Irish Banks, p.l.c. and fellow subsidiary undertakings within the Allied Irish Banks, p.l.c. group. In determining the fair value of these facilities, the carrying amount of variable rate balances was considered to be at market value. The fair value of fixed rate balances was calculated by discounting expected cash flows using discount rates that reflected the credit and interest rate risk in the portfolio.

NOTES TO THE FINANCIAL STATEMENTS - continued

37 Derivatives and other financial instruments - continued

Debt securities, deposits by banks and customer accounts
The estimated value of unlisted debt securities is based on the anticipation of future cash flows arising from these items.

The fair value of current accounts and deposit liabilities payable on demand is equal to their book value. The fair value of all other deposits and borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by AIB Finance Limited.

Subordinated liabilities
The estimated fair value of subordinated liabilities is considered equal to the carrying value as they are issued at nil interest and are repayable upon demand.

Off-balance sheet assets/ (liabilities)
AIB Finance Limited uses various derivatives, designated as hedges, to manage its exposure to fluctuations in interest rates. The fair value of these instruments is estimated using market prices or pricing models consistent with the method used for valuing similar instruments.

Interest rate swaps held for non-trading purposes at 31 December 2001 have a negative fair value of €18.173m, (2000: €0.152m positive) and a negative carrying value in the balance sheet of €1.730m, (2000: €0.631m negative).

Interest rate options held for non-trading purposes at 31 December 2001 have a fair value of €43,086, (2000: €141,670) and a carrying value in the balance sheet of €48,419 (2000: €2,868).

The following table summarises the unrecognised gains and losses on hedges at 31 December 2001 and the movements therein during the year:

	2001 €m	2000 €m
Unrecognised (losses)/gains on hedges		
Unrecognised gains on hedges at 1 January 2001	0.783	2.053
Of which recognised in 2001	(0.4	(0.456)
Gains arising before 2001 that were not recognised in 2001	0.3	1.597
Losses arising during 2001 that were not recognised in 2001	(16.7	(0.814)
Unrecognised (losses)/gains on hedges at 31 December 2001	(16.4	0.783
Of which expected to be recognised in year to 31 December 2002	(2.7	0.550

38 Approval of financial statements

The financial statements were approved by the board of directors on 14 February 2002.