Allied Irish Banks p.l.c.

Half-Yearly Financial Report

For the half year ended 30 June 2014

Allied Irish Banks, p.l.c.

This Half-Yearly Financial Report 2014 and the Annual Financial Report 2013 together with detailed presentations can be viewed on our internet site at: www.aibgroup.com/investorrelations

Forward-looking information

This document contains certain forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended, with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are discussed in more detail in the Group's Annual Financial Report 2013 and which has been filed on Form 20-F with the US Securities and Exchange Commission. In addition to matters relating to the Group's business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the foregoing list of important factors is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement.

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Half-Year 2014 Financial Summary

"AIB has achieved its stated aim of returning to sustainable profitability on a post provision basis in 2014 with our half-year results reflecting strong improvements in margins, funding position and capital ratios."

Operating performance

Profit before tax
€ 437m € 1,275m ▲
Return to post provision profit

Net interest margin[1]
1.60% 32bps ▲
Continuing positive momentum in NIM

Pre-provision operating profit[2]
€ 560m € 395m ▲
Underlying business model growth in pre-provision profit

Staff numbers[3]
11,385 10% ▼
Achieving cost reduction targets

Total provisions
€ 92m € 646m ▼
Material reduction in provision charge

Operating expenses[2]
€ 686m 9% ▼
Cost reductions in line with expectation

Balance sheet

Net loans
€64.6bn
Net loan reduction €1.1bn v Dec 13

Loan to deposit ratio[4]
96% 4% ▼
Loan to deposit ratio further reduced

Monetary authority funding
€ 3.7bn € 9.0bn ▼
Funding model stabilising and improving

Provision coverage ratio[5]
55%
Ratio in line with December 2013

Impaired loans
€ 26.0bn € 2.9bn ▼
Reduction mainly due to debt restructuring

Funding issuances in H1 2014
€ 1.0bn
€ 500m unsecured, € 500m secured

Domestic Irish Franchise Customers[6]

Online customers[7]
918k

Personal, Business & Corporate customers
2.2m

Mobile banking customers
517k

SME applications in H1 2014
17k

Mortgage approvals in H1 2014
37% market share

Approvals in H1 2014
€ 4.6bn
28% increase v H1 2013

(1) Net interest margin excluding eligible liabilities guarantee ("ELG").
(2) Before exceptional items. Exceptional items are detailed on page 7.
(3) Period end staff numbers on a full time equivalent basis ("FTE") at 30 June 2014, down 1,333 on 30 June 2013.
(4) Includes Repos of € 5.9 billion.
(5) Specific provisions as a percentage of impaired loans.
(6) Domestic Core Bank customer metrics.
(7) Online includes mobile, tablet, internet and iBB.

Chief Executive's review

AIB has achieved its stated aim of returning to sustainable profitability on a post provision basis in 2014 with our half year results reflecting strong improvements in margins, funding position and capital ratios. The Group has demonstrated its capacity to support economic recovery with loan approvals, including the UK segment, of € 5.6 billion, up 33% year on year. Our mortgage arrears and overall levels of impaired loans are reducing and our performance in the first half of the year saw a material reduction in provision charges. As the Irish economy and the Group recovers, we remain focused on growth and maximising value for the Irish State, as 99.8% shareholder, and all other stakeholders over time.

Meeting Strategic Objectives

Introduction

We have made continued progress in the first six months of 2014 and have reached an important milestone in the Group's recovery by returning to profitability on a post provision basis. This reflects the consistent focus on the delivery of our strategic objectives, improved economic conditions and the ongoing commitment of our employees. The Irish and UK segments were profitable which demonstrates the growing strength in the Group's underlying franchise. We are well positioned in the market segments in which we operate and continue to seek appropriate lending opportunities. We are supporting our customers by continuing to invest in simpler and more effective technology to allow convenient and accessible banking services to suit our customers' requirements. Balance sheet fundamentals continue to stabilise with improving capital, liquidity and funding metrics coupled with a reduction in impaired loans and NAMA senior bonds.

Business summary

Lending approvals and customer proposition

We are actively supporting sustainable lending opportunities and are driving the 'open for business' agenda with our personal, business and corporate banking customers in Ireland and the UK. We approved over € 5.6 billion in lending in the first six months of the year and customer drawdowns were c. 37% higher than in H1 2013.

We have maintained our strong market share position with c. 37% share of mortgage approvals in Ireland albeit that the overall levels of mortgage activity in the market remains low relative to historic norms. Given the demand and supply dynamics in the mortgage market, we are actively engaging with relevant stakeholders in this regard.

For Irish businesses we are focused on our new lending origination strategy and are providing specialist sector expertise to our customers including the ongoing publication of Sector Outlook Reports. During the first six months of the year we launched a € 500 million Agri fund, a € 350 million New Homes Development fund and a € 200 million export fund. Overall credit demand is improving and lending approvals to Irish business customers were c. € 2.6 billion or c. 42% higher in H1 2014 in comparison to 2013.

Our strategic approach to corporate banking is sector driven and based on a differentiated service model. Overall activity in the Irish Corporate Banking market has been stronger in the first half of 2014 and our drawdowns were c. 40% higher than the same period in 2013.

Delivering differentiated customer service through our Omni Channel Strategy

The investment in technology and digitisation to deliver convenient and accessible banking services to our customers has resulted in the launch of a number of online deposit and lending products (including mortgage applications) and services in the first half of the year. These include online account opening facilities and the enhancement of 'self-service kiosks' in our branches which will result in greater convenience and control for the customer. We now have over 500,000 active mobile banking customers and over 900,000 active online users. The number of over the counter transactions in our branch network has reduced materially in the last eighteen months which enables our staff to spend more time on strengthening customer relationships.

AIB UK

Continued focus on delivering objectives, which are aligned to the strategy of the Group, has resulted in cost savings and significantly higher levels of revenue. Additionally overall asset quality continues to improve. The customer product strategy and proposition continues to be aligned with the rest of the Group.

Customers

AIB has placed the customer at the heart of our strategy. We appreciate the support we have received from our customers in the difficult economic environment of recent years. Delivering professional, quality customer service is a key priority for the Group in all our engagements.

Financial Performance

Return to profitability

Profit before tax for the first six months of 2014 was € 437 million, a € 1.28 billion improvement on the loss before tax in the corresponding period a year earlier.

Compared to H1 2013, net interest income, net interest margin and other income increased and operating expenses declined in H1 2014. The Group remains on track to meet its € 350 million cost reduction target in 2014 relative to 2012 levels and continued cost discipline and reductions will remain an ongoing component of the Group's strategy in 2015.

There were a number of specific transactions in H1 2014 that had a positive impact including disposals in the Available for Sale ("AFS") portfolio, bespoke asset sales and the receipt of a coupon on NAMA subordinated bonds for the first time.

Impairment charges reduced

Total impaired loans reduced from € 28.9 billion at December 2013 to € 26.0 billion at June 2014. Impaired loans have now decreased by € 3.2 billion or 11% since June 2013. This reduction reflects improving economic conditions coupled with restructuring activity completed with customers in difficulty, partially offset by a growth, albeit at a slower pace, in new impaired loans.

Given the continued stabilisation in the asset quality of our loan portfolios, the existing stock of provisions held on the Group's balance sheet, the ongoing level of restructuring activity of customer loans and the improving economic environment, our impairment charges materially reduced in the first half of the year.

Meeting targets for arrears management

A key priority for the Group is the resolution of both business and mortgage customers in arrears and continued steady progress has been made in relation to both the offer and conclusion of solutions with these customers. We are seeing ongoing evidence of increased engagement and are concluding solutions on commercial terms. Importantly, the total number of accounts in arrears in the Irish residential mortgage portfolio declined by 6% in H1 2014 with total arrears for owner-occupier mortgages down 9%. At 30 June 2014, c. 34k mortgage accounts were in arrears greater that 90 days. At this date, customers comprising c. 20k accounts have engaged with the Bank and have been offered a sustainable solution. c. 8k solutions have been concluded.

Continued progress in Balance sheet stabilisation

Customer accounts increased in the first six months of the year, reflecting improved current account flows and the recognition of deposits from Ark Life as customer accounts following sale of that business. The Group continues to actively manage liability pricing against the backdrop of a declining asset base. The Group's loan to deposit ratio declined to 96%, down 4% from December 2013.

Strengthened funding profile

Following the successful and balanced return to the funding markets in late 2012 and 2013, we continued the positive momentum in the first half of 2014 with € 1.0 billion in funding issuances. This included an asset covered security issuance and senior unsecured funding. Our funding from monetary authorities continues to reduce substantially, down 71% since December 2013.

Capital

Capital Position

The Group's capital ratios remain robust and have improved during the period. The Group's capital ratios are on a Capital Requirements Directive ("CRD IV") basis from 1 January 2014. Further details are set out in the Capital section pages 24 to 26 of this report.

AIB is currently undergoing a Comprehensive Assessment by the European Central Bank ("ECB") prior to the introduction of the Single Supervisory Mechanism in November 2014. The comprehensive assessment includes an asset quality review and, in collaboration with the European Banking Authority ("EBA"), a stress test with the results expected in Q4 2014.

Capital Structure

Resolutions to reorganise the share capital of the Group were passed at the EGM held on 19 June 2014. These included the renominalisation of the ordinary shares and a resolution to allow for the creation of distributable reserves totalling € 5.0 billion. An application was made to the Irish High Court in July 2014 in relation to the creation of distributable reserves which is currently being considered by the High Court. Furthermore, the ADR Depositary, The Bank of New York Mellon has now advised that it has completed the sale of the remaining ordinary shares underlying the ADSs. AIB understands that the Depositary will shortly commence the process of remitting the cash from the proceeds of sales to the ADS holders

As previously indicated, discussions are continuing with the Department of Finance over the future shape of the Group's capital structure, particularly in reference to the possible conversion of some or all of the 2009 Preference Shares into common equity and options in respect of the Contingent Capital Notes. The discussions are being undertaken with reference to the Group's evolving operating performance and regulatory capital requirements with a view to creating maximum value for the State over time. Any actions in relation to capital structure decisions would have regard to the timing of the ongoing Comprehensive Assessment and would be subject to all required regulatory and shareholder approvals.

Valuation

AIB currently has c. 523 billion shares in issue, 99.8% of which are held by the National Pensions Reserve Fund Commission ("NPRFC"). This includes the issuance of 500 billion ordinary shares to the NPRFC in July 2011 at a price of € 0.01 per share. Based on the number of shares currently in issue and the closing share price of Monday 28 July 2014, AIB trades on a valuation multiple of c. 6 x (excluding the 2009 preference shares) 30 June 2014 Net Asset Value ("NAV"). The Group continues to note that the median for comparable European banks is c. 1 x NAV.

AIB Restructuring Plan

The recent approval of the AIB Restructuring Plan by the European Commission is an endorsement of AIB's recovery and progress and reflects the extensive internal restructuring and change that has already taken place at the bank over the last number of years. The commitments outlined in the approval are in line with our own existing operational plans and medium term targets and will be implemented between now and December 2017. Further details on the Restructuring Plan can be found on page 27 of this report.

Relationship with the Irish State
The Group has received significant support and investment from the Irish State over the last number of years and is deeply cognisant of its responsibilities to maximise the value of this investment over time. The Group is now profitable and generating capital and has paid € 2 billion in fees and coupons on capital instruments since 2008 to the Irish State. The Group is focused on increasing this level of return over time with any returns subject to the timing preferences of the Irish State, the financial performance of the Group, evolving regulatory and market capital requirements and all relevant approvals.

The Group's day to day engagement with the State is governed by the March 2012 Relationship Framework document specified by the Minister for Finance.

Outlook
Economic conditions have shown steady improvement in the main markets in which AIB operates, however, the Group still faces a number of challenges including reductions in the size of the Group's net loan book and resolution of the Group's impaired loans.

Subject to continued stabilisation in economic conditions and the conclusion of the Comprehensive Assessment, we expect the underlying operating performance to remain profitable for the remainder of 2014.

The Group remains focused on delivering our strategic objectives including steady progress towards reaching our medium term performance targets. Further reductions in the balance of impaired loans are expected in H2 2014 driven by improving economic conditions and restructuring of customers in arrears. The Group is well positioned from a capital and funding perspective to support and benefit from continued recovery in the Irish economy.

Staff
I would like to thank our staff for their commitment in contributing to the recovery of AIB despite the many challenges that the Group has faced. As we move forward in this process I am confident in our staff's determination to ensure AIB's service levels and customer focus are paramount in all of our engagements with customers.

David Duffy
Chief Executive Officer
29 July 2014

Operating and financial review

Basis of presentation

The following operating and financial review is prepared in line with how the Group's performance is reported to management. The information presented excludes exceptional and one-off items that management believes obscures the underlying performance trends in the business. A list of the items classified as exceptional and one-off are included below. Percentages presented throughout this report are calculated on the underlying figures and therefore may differ from the percentages based on the rounded numbers in the report.

Exceptional items

The Group's performance is presented to exclude those items that management believe obscures the underlying performance trends in the business.

– Restructuring and restitution expenses of € 42 million in the half-year to June 2014 compared to € 28 million in the half-year to June 2013. These include costs associated with a range of management actions including:
  - restitution expenses
  - transformation expenses
  - re-organisation of premises
  - expenses in H1 2013 relating to the acquisition of AIB's interest in Ark Life Assurance Company Limited ("Ark Life").

– Termination benefits: Termination benefits from the voluntary severance programme were € 7 million in the half-year to June 2014 compared to € 40 million in the half-year to June 2013. See note 9 to the financial statements for further detail.

– Profit/(loss) on transfer of financial instruments to NAMA: There was € 7 million of a profit on transfer of financial instruments to NAMA in the half-year to June 2014 compared to a loss of € 24 million in the half-year to June 2013. This is due to valuation adjustments on previous transfers of financial assets to NAMA (see note 7 to the financial statements for further detail).

– Loss on disposal of loans: The non-core deleveraging programme was completed in 2013. The half-year to June 2013 included a loss of € 187 million. Gains/losses in 2014 on disposal of loans are included in other income as part of the underlying business performance.

– Aviva Life Holdings ("ALH") was disposed of in 2013 and a € 10 million gain was included in the half-year to June 2013. See note 13 to the financial statements for further detail.

– Interest rate hedge volatility is no longer classified as an exceptional item for the purpose of the operating and financial review and accordingly the half-year to June 2013 has been re-presented. Interest rate hedge volatility is included in other income and was € 2 million negative in the half-year to June 2014 compared to € 3 million positive in the half-year to June 2013.

Operating and financial review

Summary income statement	Half-year June 2014 € m	Half-year June 2013 € m	% change
Net interest income	**807**	595	*36*
Net fee and commission income	**195**	183	*7*
Trading and other operating income	**244**	141	*73*
Other income(1)	**439**	324	*35*
Total operating income	**1,246**	919	*36*
Personnel expenses	**(389)**	(448)	*-13*
General and administrative expenses	**(255)**	(255)	*-*
Depreciation(2), impairment and amortisation(3)	**(42)**	(51)	*-18*
Total operating expenses	**(686)**	(754)	*-9*
Operating profit before provisions	**560**	165	*239*
Provisions for impairment on loans and receivables	**(92)**	(744)	*-88*
Provisions for liabilities and commitments	**-**	(3)	*-*
Writeback of provisions for impairment on financial investments available for sale	**-**	9	*-*
Total provisions	**(92)**	(738)	*-88*
Operating profit/(loss)	**468**	(573)	*-*
Associated undertakings	**9**	3	*200*
Profit on disposal of property	**2**	-	*-*
Profit on disposal of business	**-**	1	*-*
Profit/(loss) from continuing operations before exceptional items	**479**	(569)	*-*
Profit/(loss) on disposal of loans and transfer of financial instruments to NAMA	**7**	(211)	*-*
Gain arising on disposal of Aviva Life Holdings ("ALH")	**-**	10	*-*
Termination benefits	**(7)**	(40)	*-*
Restructuring and restitution expenses	**(42)**	(28)	*-*
Total exceptional items	**(42)**	(269)	*-*
Profit/(loss) before taxation from continuing operations	**437**	(838)	*-*
Income tax (charge)/credit from continuing operations	**(60)**	80	*-*
Profit/(loss) after taxation from continuing operations	**377**	(758)	*-*
Profit after taxation from discontinued operations	**34**	-	*-*
Profit/(loss) for the period	**411**	(758)	*-*
	%	%	
Cost income ratio(4)	**55**	82	
Operating contribution before provisions by segment	**€ m**	€ m	
Domestic Core Bank ("DCB")	**622**	306	*103*
AIB UK	**84**	20	*320*
Financial Solutions Group ("FSG")	**34**	47	*-28*
Group	**(180)**	(208)	*13*
Operating profit before provisions	**560**	165	*239*

(1)Other income includes interest rate hedge volatility with 2013 re-presented (€ 2 million negative in the half-year to June 2014, € 3 million positive in the half-year to June 2013).

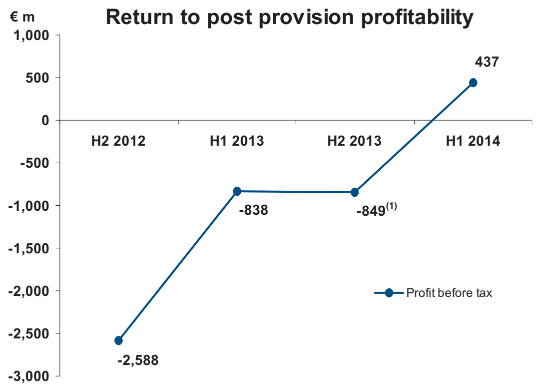
(2)Depreciation of property, plant and equipment.

(3)Impairment and amortisation of intangible assets.

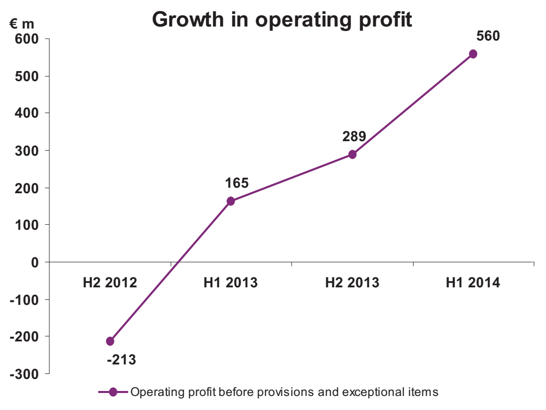
(4)Excluding exceptional items.

Overview of results

Profit before taxation of € 437 million in the half-year to June 2014 compared to a loss of € 838 million in the half-year to June 2013. This marked a return to post provision profitability in line with the previously communicated target of achieving post provision profitability in 2014. The performance reflected higher levels of income, lower costs and a significant reduction in provisions.



Operating profit before provisions and exceptional items of € 560 million in the half-year to June 2014 compared to a profit of € 165 million in the half-year to June 2013, a € 395 million increase.



Net interest income increased by € 212 million (36%) compared to the half-year to June 2013, reflecting a lower ELG charge (€ 91 million lower) as a result of the cessation of the ELG scheme, a lower cost of deposits and other liabilities and higher asset pricing, partly offset by lower average interest earning assets. Other income was € 115 million (35%) higher with higher banking fee and commission income and increased non-banking income.

Total operating expenses were € 68 million (9%) lower compared to the half-year to June 2013. This reduction in costs mainly related to the impact of staff exits as part of the voluntary severance/early retirement schemes.

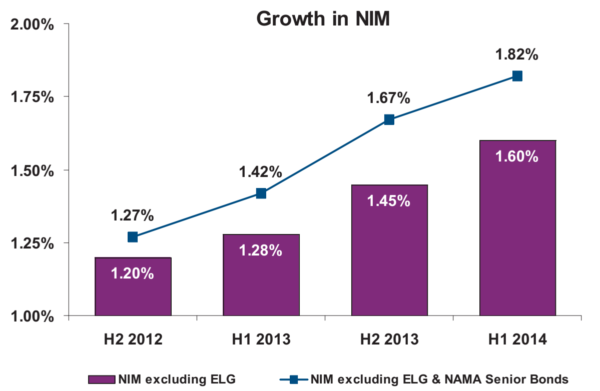
Provisions for impairment on loans and receivables reduced by € 652 million to € 92 million in the half-year to June 2014. See the Risk management section (page 28 to page 70) for more detail on provisions.

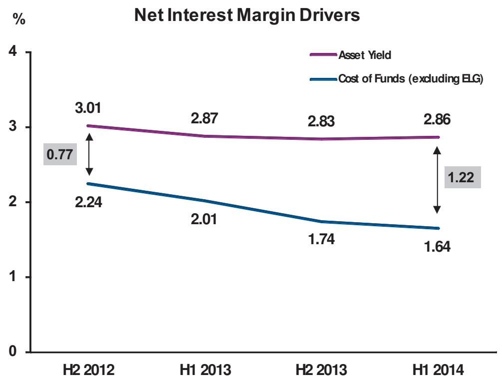
[1] H2 2013 included consideration of the Central Bank of Ireland Balance Sheet Assessment and impairment guidelines in that period.

Net interest income

- NIM excluding ELG up 32 bps to 1.60%.
- Lower cost of customer accounts, reduced funding costs and NAMA senior bond redemptions.
- Negative impact of low yielding NAMA bonds in H1 2014 of 22 bps.

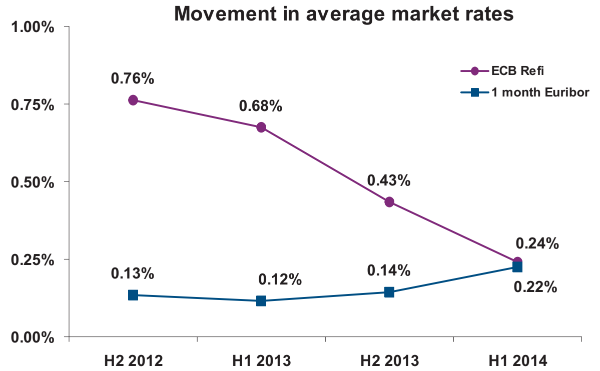
	Half-year June 2014 € m	Half-year June 2013 € m	*% change*
Net interest income	**807**	595	*36*
Average interest earning assets	**105,706**	112,844	*-6*
	%	%	change
Group net interest margin	**1.54**	1.06	0.48
Group net interest margin excluding ELG	**1.60**	1.28	0.32
Group net interest margin excluding ELG and NAMA Senior Bonds	**1.82**	1.42	0.40





Net interest income increased by € 212 million (36%) to € 807 million in the half-year to June 2014 from € 595 million in the half-year to June 2013. The increase of € 212 million was mainly due to lower costs of funding, a reduction in the cost of the ELG scheme of € 91 million partly offset by lower loan income on lower loan balances.

The reduction in funding costs largely resulted from deposit pricing actions on interest bearing customer accounts during 2013 and 2014. The gross cost of customer accounts decreased from 207 basis points ("bps") in the half-year to June 2013 to 139 bps in the half-year to June 2014.



Market rates in the half-year to June 2013 and the half-year to June 2014 resulted in lower yields on assets and reduced the cost of interest earning liabilities.

The impact of the lower interest rate environment on asset yields and the Group's continued deposit pricing actions to manage down the cost of customer accounts resulted in the gap between asset yields and the cost of funds increasing from 77 bps in H2 2012 to 122 bps in H1 2014.

Yield %	**H2 2012**	**H1 2013**	**H2 2013**	**H1 2014**
Customer loans	3.28	3.27	3.39	3.37
Customer accounts(1)	2.58	2.07	1.68	1.39

Eligible liabilities guarantee ("ELG")

The ELG charge was € 32 million in the half year to June 2014 compared with € 123 million in the half-year to June 2013. The reduction in the charge was due to the cessation of the ELG scheme in the Republic of Ireland for new liabilities in March 2013. As existing liabilities that are covered by the scheme mature, the ELG charge will continue to reduce.

ELG charge	€ m
Half-year to December 2012	173
Half-year to June 2013	123
Half-year to December 2013	50
Half-year to June 2014	32

(1)Includes Repos.

Average Balance Sheet[1]

Assets	Half-year ended 30 June 2014 Average balance €m	Interest €m	Average rate %	Half-year ended 30 June 2013 Average balance €m	Interest €m	Average rate %
Loans and receivables to customers	**66,244**	**1,108**	**3.37**	71,980	1,165	3.27
NAMA senior bonds	**14,168**	**47**	**0.67**	17,261	79	0.92
Financial investments available for sale	**19,517**	**300**	**3.10**	17,633	317	3.63
Other interest earning assets	**5,777**	**12**	**0.40**	5,970	10	0.34
Net interest on swaps		**33**			35	
Average interest earning assets	**105,706**	**1,500**	**2.86**	112,844	1,606	2.87
Non interest earning assets	**9,029**			9,499		
Total assets	**114,735**	**1,500**		122,343	1,606	
Liabilities & shareholders' equity						
Deposits by banks	**21,219**	**31**	**0.30**	27,605	77	0.56
Customer accounts	**49,486**	**342**	**1.39**	51,471	529	2.07
Subordinated liabilities	**1,376**	**128**	**18.69**	1,291	120	18.80
Other debt issued	**9,145**	**160**	**3.54**	8,893	162	3.68
Average interest earning liabilities	**81,226**	**661**	**1.64**	89,260	888	2.01
Non interest earning liabilities	**22,423**			21,940		
Shareholders' equity	**11,086**			11,143		
Total liabilities & shareholders' equity	**114,735**	**661**		122,343	888	
Net interest income excluding ELG		**839**	**1.60**		718	1.28
Eligible liabilities guarantee ("ELG")[1]		**(32)**	**(0.06)**		(123)	(0.22)
Net interest income including ELG		**807**	**1.54**		595	1.06

[1]The Average Balance Sheet (note 38 to the financial statements) is presented differently and includes the cost of ELG in interest within liabilities and shareholders' equity.

Wholesale market rates in the two periods impacted on the yields included in the table above. The average 1 month Euribor rate which is used for most non-mortgage lending and deposit pricing increased from 12 bps to 22 bps while the average ECB Refi rate reduced from 68 bps to 24 bps.

Interest income from loans was lower than in the half-year to June 2013 as a result of a € 5.7 billion reduction in average loans as loan amortisation and deleveraging exceeded new lending. Lower loan balances and their impact on income along with movements in wholesale market rates were partly offset by loan pricing actions during 2013/2014 and higher margins on new lending.

Interest income from financial investments available for sale reduced € 17 million following disposals, despite increased investment to manage income volatility on interest free liabilities in a lower interest rate environment. NAMA senior bond interest income reduced € 32 million as a result of both lower interest rates and reduced volumes following redemptions of € 0.9 billion in the second half of 2013 and € 3.8 billion during the half-year to June 2014.

Average interest earning assets reduced from € 113 billion to € 106 billion as lower customer loans of € 5.7 billion and lower NAMA senior bonds of € 3.1 billion were partly offset by increases in financial investments available for sale of € 1.9 billion. Net interest on swaps reduced € 2 million mainly due to the impact of the lower interest rate environment on new or renewed swaps.

The cost of interest earning liabilities reduced from € 888 million in the half-year to June 2013 to € 661 million in the half-year to June 2014 due to a reduced funding requirement which resulted in lower volumes of monetary authority funding. This resulted in lower funding costs along with the impact of wholesale market rates on customer accounts and monetary authority funding.

The net interest margin excluding ELG increased 32 bps from 1.28% in the half-year to June 2013 to 1.60% in the half-year to June 2014. The net interest margin has continued an upward trajectory since its trough in Q3 2012. The factors contributing to the increase of 32 bps were a contraction in yields on interest earning assets (1 bp) more than offset by a decrease in the cost of funding those assets (33 bps).

Excluding the impact of the Group's low yielding NAMA senior bonds, the net interest margin excluding ELG was 1.82% in the half-year to June 2014 compared to 1.42% in the half-year to June 2013.

Other income

- 8% increase in banking fees and commissions.
- Improved other operating income due to disposals of government bonds and loans.
- Dividend of € 25 million received on the NAMA subordinated bond.

Other income before exceptional items was € 439 million in the half-year to June 2014 compared with € 324 million in the half-year to June 2013, an increase of € 115 million (35%). Other income consisted of net fee and commission income of € 195 million compared to € 183 million, trading/other income of € 219 million compared to income of € 141 million and dividend income of € 25 million.

Other income	Half-year June 2014 € m	Half-year June 2013 € m	% change
Dividend income	**25**	-	-
Banking fees and commissions	***211***	*196*	*8*
Investment banking and asset management fees	***3***	*3*	-
Fee and commission income	**214**	199	*8*
Less: Fee and commission expense	**(19)**	(16)	*19*
Net trading income[(1)]	**8**	65	*-88*
Other operating income	**211**	76	*178*
Other income before exceptional items	**439**	324	*35*

[(1)]Trading income includes foreign exchange contracts, debt securities and interest rate contracts, credit derivative contracts, equity securities and index contracts. See table below.

Dividend income
Dividend income in the half-year to June 2014 related to the receipt of a dividend of € 25 million on the NAMA subordinated bonds.

Net fee and commission income
Net fee and commission income was € 12 million (7%) higher than the half-year to June 2013 as current account fee income increased. This was partly offset by lower other fee and commission income following a transition in customer usage from credit cards to debit cards which generate lower income.

Net trading income	Half-year June 2014 € m	Half-year June 2013 € m	% change
Foreign exchange contracts	**23**	17	*35*
Debt securities and interest rate contracts	**(15)**	43	-
Equity securities and index contracts	**-**	5	-
Net trading income	**8**	65	*-88*

Net trading income
Trading income of € 8 million in the half-year to June 2014 compared to income of € 65 million in the half-year to June 2013. Foreign exchange contracts improved € 6 million to € 23 million in the half-year to June 2014. Debt securities and interest rate contracts were € 15 million negative due to a € 26 million negative valuation adjustment to the derivative portfolio. This included a € 15 million negative funding valuation adjustment associated with uncollaterised derivative contracts. The half-year to June 2013 of € 43 million for debt securities and interest rate contracts included € 35 million from the termination of a portfolio of credit derivative contracts and € 7 million positive credit valuation adjustment.

Other operating income	Half-year June 2014 € m	Half-year June 2013 € m	% change
Profit on disposal of AFS securities	**149**	24	*521*
Loss on termination of hedging swaps	**(40)**	(8)	*400*
Gain on disposal of AFS securities	**109**	16	*581*
Gain on disposal of loans to customers	**43**	-	-
Income on settlement of a claim	**27**	-	-
Re-estimating the timing of cash flows on NAMA senior bonds	**22**	62	*-65*
Miscellaneous operating income	**10**	(2)	-
Other operating income	**211**	76	*178*

Other operating income
Other operating income of € 211 million in the half-year to June 2014 compared to income of € 76 million in the half-year to June 2013. Other operating income in the half-year to June 2014 included a net gain of € 109 million from the disposal of available for sale debt and equity securities compared to a net gain of € 16 million in the half-year to June 2013. Having considered NAMA's current performance against achieving its strategic objectives, AIB has reviewed its expected pattern of repayments on the NAMA senior bonds and has recognised a gain of € 22 million reflecting a revised pattern of repayments including those received in the period (AIB will continue to review NAMA's actual and projected performance against both NAMA's strategic objectives and the revised expected pattern of repayments). A similar gain of € 62 million was recognised in the half-year to June 2013. Other operating income included a gain of € 43 million on disposal of loans and receivables to customers and € 5 million income from foreign exchange gains in the half-year to June 2014 compared to a € 5 million charge from foreign exchange gains in the half-year to June 2013.

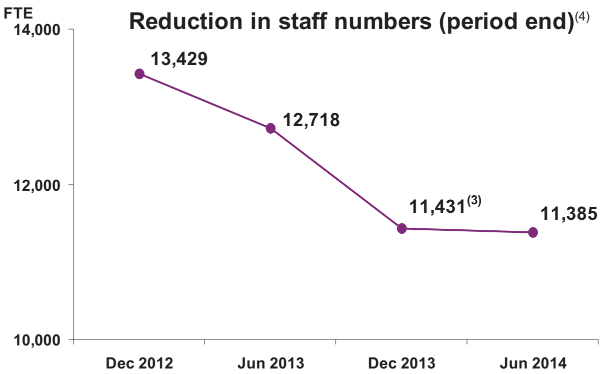
Operating and financial review

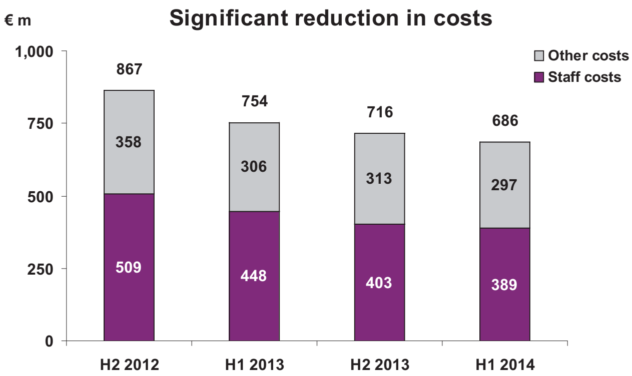
Total operating expenses

- Costs down € 68 million (9%).
- Average staff numbers down 1,751 (13%).
- Ongoing cost management with cost income ratio down to 55% from 82%.

Operating expenses	Half-year June 2014 € m	Half-year June 2013 € m	% change
Personnel expenses	**389**	448	*-13*
General and administrative expenses	**255**	255	-
Depreciation[(1)], impairment and amortisation[(2)]	**42**	51	*-18*
Total operating expenses before exceptional items	**686**	754	*-9*
Staff numbers at period end (FTE)[(4)]	**11,385**	12,718	*-10*
Average staff numbers (FTE)[(4)]	**11,361**	13,112	*-13*

Total operating expenses before exceptional items were € 686 million in the half-year to June 2014 compared with € 754 million in the half-year to June 2013, a reduction of € 68 million (9%). The reduction is evident across the main cost classifications and was mainly as a result of lower staff numbers and the impact of ongoing cost management.





Personnel expenses

Personnel expenses reduced € 59 million (13%) with a reduction in costs reflecting lower staff numbers. Average staff numbers reduced by 1,751 (13%) which reflected the early retirement/voluntary severance in 2013 and 2014 and selective outsourcing of some back office and support functions. As part of the early retirement/voluntary severance scheme a total of 2,967 staff have left to date under the scheme.

General and administrative expenses

General and administrative expenses were € 255 million in the half-year to June 2014, in line with the half-year to June 2013 with reductions across most classifications as part of ongoing cost management and control offset by an increase in costs as a result of outsourcing initiatives, and in relation to marketing and public relations.

Depreciation, impairment and amortisation

The charge for depreciation, impairment and amortisation of € 42 million was € 9 million (18%) lower than the half-year to June 2013. The acceleration of depreciation in prior periods resulted in a lower depreciation charge in the half-year to June 2014, relative to the half-year to June 2013.

(1)Depreciation of property, plant and equipment.
(2)Impairment and amortisation of intangible assets.
(3)Excluding Ark Life staff numbers of 146. Ark Life was held for sale at 31 December 2013.
(4)Staff numbers quoted in the commentary above are on a full time equivalent ("FTE") basis.

Asset quality

See Risk management section commencing on page 28. Commentary on AIB's asset quality commences on page 30 with commentary on provision charge on page 40.

Associated undertakings

Income from associated undertakings in the half-year to June 2014 was € 9 million compared with income of € 3 million in the half-year to June 2013.

Income tax

The total taxation charge for the half-year to June 2014 was € 60 million compared with a total taxation credit of € 80 million in the half-year to June 2013 reflecting a return to profitability in the half-year to June 2014 as compared with the losses at half-year to June 2013. Subject to specific exceptions, deferred tax assets in respect of accumulated tax losses continue to be recognised in full on the basis that it is expected that tax losses will be utilised in full against future profit. These exceptions are set out in note 24 to the financial statements.

Discontinued operations

Profit on the disposal of Ark Life Assurance Company Limited of € 34 million, following completion of the sale on 8 May 2014 has been reported under discontinued operations. See note 13 to the financial statements.

Balance sheet commentary

- Reduction in NAMA Senior bonds of € 3.8 billion to € 11.8 billion due to redemptions in H1 2014.
- Loan deposit ratio reduced from 100% to 96%.
- € 9 billion reduction in ECB funding.

Balance sheet	30 June 2014 € bn	31 Dec 2013 € bn	% change
Gross loans to customers	**80.0**	82.8	*-3*
Provisions	**(15.4)**	(17.1)	*-10*
Net loans to customers	**64.6**	65.7	*-2*
Financial investments available for sale	**20.2**	20.4	*-1*
NAMA senior bonds	**11.8**	15.6	*-24*
Other assets	**14.0**	16.0	*-13*
Total assets	**110.6**	117.7	*-6*
Customer accounts	**67.0**	65.7	*2*
Deposits by banks - ECB	**3.7**	12.7	*-71*
Other market funding	**12.8**	10.4	*23*
Debt securities in issue	**9.2**	8.8	*5*
Other liabilities	**6.7**	9.6	*-30*
Total liabilities	**99.4**	107.2	*-7*
Shareholders' equity	**11.2**	10.5	*7*
Total liabilities & shareholders' equity	**110.6**	117.7	*-6*
	%	%	*change*
Loan deposit ratio	**96**	100	*-4*

The following commentary highlights the main components of the balance sheet at 30 June 2014 and the movement in these components since 31 December 2013 unless otherwise noted.

Loans to customers

Gross loans to customers

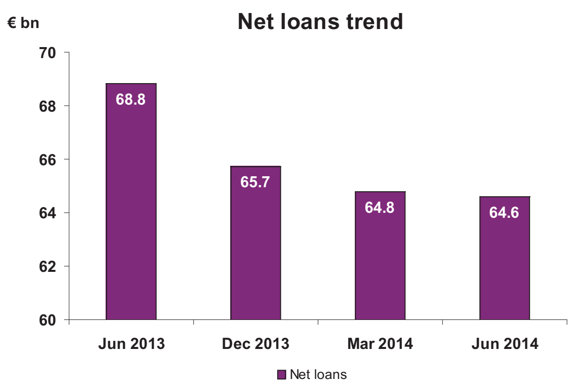
Gross loans at € 80.0 billion were down € 2.8 billion (3%) since 31 December 2013 due to restructuring and utilisation of provisions of € 1.9 billion and loan amortisation of € 3.5 billion partly offset by new lending of € 2.6 billion. New lending of € 2.6 billion in the half-year to June 2014 was 37% higher than the half-year to June 2013.

Provisions

Balance sheet provisions have decreased from € 17.1 billion to € 15.4 billion mainly due to write-offs and the utilisation of provisions as part of structuring sustainable solutions for customers. See the Risk management section on page 40 for more detail on the movement in provisions during 2014.

Net loans to customers

Net loans reduced € 1.1 billion (2%) and reflect the gross loan movements as set out above along with the impact of provisions.



Financial investments available for sale ("AFS")

AFS assets decreased from € 20.4 billion to € 20.2 billion during the half-year to June 2014. Sales of € 4.7 billion and maturities of € 0.6 billion were offset by purchases of € 4.2 billion and an increase in fair value of € 1.0 billion. The increase in fair value of € 1.0 billion was driven by a tightening of Irish Sovereign credit spreads and also a fall in fixed interest rates as well as an uplift in the NAMA subordinated debt holding of € 0.2 billion. To improve diversification, Irish Sovereign and Sovereign Guaranteed Bank Debt was reduced through sales and maturities of € 1.3 billion and Spanish and Italian Sovereign holdings were increased by € 0.6 billion each. The sale of the Asset Backed Securities portfolio of € 0.5 billion was partially offset by an increase in Supranational and Government Agency securities of € 0.2 billion and this improved the proportion of High Quality Liquid Assets ("HQLA") within the portfolio. Due to the improvement in the Irish Sovereign market, the sales of securities and equities generated net income of € 109 million net of hedge termination costs. Further detail in respect of AFS is covered on pages 64 to 66.

NAMA senior bonds

In the half-year to June 2014 € 3.8 billion of NAMA bonds were redeemed by NAMA. This resulted in a balance of € 11.8 billion at 30 June 2014 compared to € 15.6 billion at 31 December 2013.

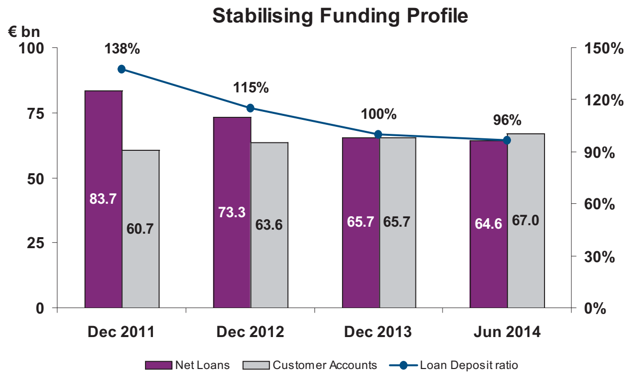
Other assets

Other assets of € 14.0 billion comprised of:

- cash and loans to banks of € 6.9 billion up 11% from € 6.2 billion.
- deferred taxation of € 3.7 billion broadly in line with 2013.
- derivative financial instruments of € 1.7 billion up 6% from € 1.6 billion.
- the remaining assets of € 1.7 billion were broadly in line with 2013.
- at 31 December 2013 Ark Life assets of € 2.7 billion were classified as held for sale. Ark Life was disposed in May 2014. See note 13 to the financial statements for further detail.

Customer accounts

Customer accounts increased € 1.3 billion (2%) to € 67.0 billion due to an underlying increase of € 0.3 billion with strong growth in current accounts offset by a reduction in deposits, recognition of deposits from Ark Life € 0.9 billion as customer accounts following deconsolidation / sale of Ark Life in May 2014 and an increase in Repos of € 0.1 billion. The average cost of customer accounts dropped from 207 bps in the half-year to June 2013 to 139 bps in the half-year to June 2014.



Deposits by banks - ECB

There was a reduction of € 9 billion (71%) in monetary authority funding during the period as the overall funding requirement reduced during the half-year to June 2014. This was as a result of ongoing loan amortisation exceeding new lending, NAMA senior bond redemptions, higher customer accounts and increased other market funding.

Other market funding

Other market funding increased € 2.4 billion in the half-year to June 2014 as more normalised market conditions emerged and AIB was able to access additional sources of funds.

Debt securities in issue

Debt securities in issue increased € 0.4 billion from € 8.8 billion to € 9.2 billion during the half-year to June 2014. € 0.4 billion Asset Covered Securitisation bonds ("ACS") matured and € 0.3 billion of AIB Senior ELG covered debt was bought back in the half-year to June 2014. These maturities were more than offset by a 5 year € 500 million fixed rate senior unsecured debt issue and a 7 year AIB Mortgage Bank ACS issuance of € 500 million in the half-year to June 2014. The two issuances above have been part of a balanced and measured re-engagement in the wholesale markets.

Other liabilities

Other liabilities of € 6.7 billion comprised of:

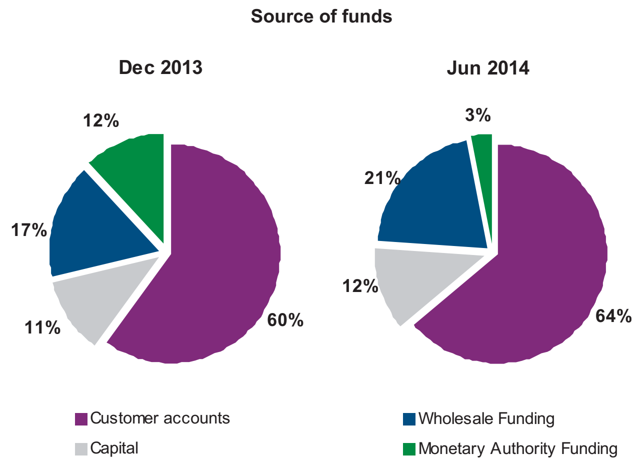
- derivative financial instruments of € 2.1 billion up € 0.1 billion (5%) from € 2.0 billion.
- contingent capital notes with a carrying value of € 1.4 billion (nominal value of € 1.6 billion) broadly in line with 2013, the notes mature in 2016.
- retirement benefit liabilities € 0.7 billion compared to € 0.2 billion in 2013.
- the remaining liabilities of € 2.5 billion were broadly in line with 2013.
- At 31 December 2013 Ark Life liabilities of € 3.6 billion were classified as held for sale. Ark Life was sold in May 2014. See note 13 to the financial statements for further detail.

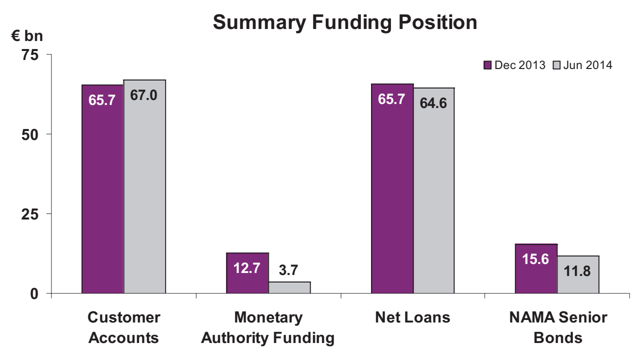
Shareholders' equity

Shareholders' equity increased € 0.7 billion from € 10.5 billion in 2013 to € 11.2 billion in the half-year to June 2014. This increase was mainly due to profit for the half-year to June 2014 of € 0.4 billion and positive fair value gains on available for sale securities and cash flow hedges of € 0.8 billion. The net pension deficit reserve has increased by € 0.5 billion from a deficit of € 0.1 billion at 31 December 2013 to € 0.6 billion at 30 June 2014 mainly due to a reduction in the discount rate used to calculate the pension scheme's liabilities.

Funding

At 30 June 2014, the Group held € 39 billion in qualifying liquid assets/contingent funding (excluding liquid assets in AIB Group (UK) p.l.c. which are unavailable for use at an overall Group level) of which approximately € 22 billion was used in repurchase or secured loan agreements. Customer accounts contributed 64% of the total funding requirement at 30 June 2014, up from 60% at 31 December 2013.





Capital

See Capital section on pages 24 to 26.

Half-year analysis

Half-year balance sheet metrics	**30 June 2014 € bn**	31 December 2013 € bn	30 June 2013 € bn	31 December 2012 € bn
Gross loans	**80.0**	82.8	85.2	89.3
Gross loans held for sale	**-**	-	0.1	0.6
Net loans	**64.6**	65.7	68.7	72.9
Net loans held for sale	**-**	-	0.1	0.4
Customer accounts	**67.0**	65.7	64.8	63.6

Half-year income statement	**Half-year 30 June 2014 € m**	Half-year 31 December 2013 € m	Half-year 30 June 2013 € m	Restated* Half-year 31 December 2012 € m
Net interest income before ELG	**839**	800	718	711
ELG	**(32)**	(50)	(123)	(173)
Net interest income	**807**	750	595	538
Other income	**439**	255	324	116
Total operating income	**1,246**	1,005	919	654
Total operating expenses	**(686)**	(716)	(754)	(867)
Operating profit/(loss) before provisions	**560**	289	165	(213)
Total provisions	**(92)**	(1,166)	(738)	(1,556)
Operating profit/(loss)	**468**	(877)	(573)	(1,769)
Associated undertakings	**9**	4	3	9
Profit on disposal of property	**2**	1	-	2
Profit on disposal of business	**-**	-	1	5
Profit/(loss) before exceptional items	**479**	(872)	(569)	(1,753)

	%	%	%	%
Cost income ratio[(1)]	**55**	71	82	133
Net interest margin excluding ELG	**1.60**	1.45	1.28	1.20
Loan deposit ratio	**96**	100	106	115
Loan deposit ratio excluding repos	**106**	110	115	115

*Restated due to change in accounting policy for employee benefits (note 60 in the 2013 Annual Financial Report).

Half-year 30 June 2014 v Half-year 31 December 2013

Net loans including held for sale reduced by € 1.1 billion (2%) as a result of loan amortisation and provisions, and customer accounts increased € 1.3 billion (2%) resulting in a reduction in the loan deposit ratio, from 100% to 96%.

Net interest margin excluding ELG of 1.60% was 15 bps higher due to lower funding costs and the impact of asset and deposit re-pricing.

Operating profit before provisions of € 560 million in the half-year to June 2014 was € 271 million (94%) higher compared to the half-year to December 2013. The increase reflected higher net interest income as a result of lower funding costs and ELG, higher other income due to the disposal of available for sale debt and equity securities and gains on disposal of loans and receivables to customers, and lower operating expenses mainly driven by lower staff numbers. The cost income ratio improved from 71% to 55%.

Profit before exceptional items of € 479 million in the half-year to June 2014 was € 1,351 million higher compared to the loss of € 872 million in the half-year to December 2013.

[(1)]Excluding exceptional items.

Segment reporting

AIB reports the following key segments: Domestic Core Bank ("DCB"), AIB UK, Financial Solutions Group ("FSG") and Group. Reporting on this segment basis commenced in 2013. A summary description of each segment is outlined below with a more comprehensive overview available on pages 11 to 14 in the 2013 Annual Financial Report.

Domestic Core Bank ("DCB") services the personal, business and corporate customers of AIB in the Republic of Ireland, in addition to wealth management services and has a strong presence in all key sectors including SMEs, mortgages, personal and corporate banking. All owner occupier mortgages in the Republic of Ireland are reported in DCB. This segment also includes the Group's treasury and capital markets functions.

AIB UK comprises retail and commercial banking operations in Great Britain operating under the trading name Allied Irish Bank (GB) ("AIB GB") and in Northern Ireland operating under the trading name First Trust Bank ("FTB"). UK Structured Lending Services ("SLS") deals with AIB UK customers in difficulty within one centre of expertise.

Financial Solutions Group ("FSG") segment is dedicated to supporting business and personal customers in financial difficulties on a case by case basis and Third Party Servicing of NAMA loans. Non-impaired loans connected to customers in financial difficulty are also reported in this segment.

Group includes central control and support functions costs which include operations & technology, risk, audit, finance, general counsel, human resources and corporate affairs & strategy. Certain overheads related to these activities are managed and reported in the Group segment.

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in the 'Group' segment. Funding and liquidity charges are based on each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs. Income on capital is allocated to segments based on each segment's capital requirement. The cost of services between segments and from central support functions is based on the estimated actual cost incurred in providing the service. A summarised view of the Group's segmental performance is available in note 1 to the financial statements.

Segment transfers

AIB completed non-core deleveraging during 2013 under the Financial Measures Programme. Upon completion of the non-core deleveraging target, certain assets were transferred back to the relevant segments. The table below gives a summary of the balance sheet transfers at 1 July 2013.

Balance sheet transfers	DCB € bn	AIB UK € bn	FSG € bn	Total € bn
Non-core				
Gross loans to customers	1.7	5.0	(6.7)	-
Credit provisions	(0.4)	(1.7)	2.1	-
Net loans to customers	1.3	3.3	(4.6)	-

In addition a decision was made to transfer management of Corporate Banking Britain ("CBB") to AIB UK segment as part of a strategy change to grow and manage the corporate business under the AIB GB brand. This transfer is set out below.

Balance sheet transfers	DCB € bn	AIB UK € bn	FSG € bn	Total € bn
CBB				
Gross loans to customers	(0.7)	0.7	-	-
Credit provisions	-	-	-	-
Net loans to customers	(0.7)	0.7	-	-
Customer accounts	(0.9)	0.9	-	-

The transfers set out above were effective from 1 July 2013. If the transfers had been effective from 1 January 2013, the estimated contribution statement impact for the first half of 2013 is set out in the table below.

H1 2013 Contribution statement	DCB € m	AIB UK € m	FSG € m	Total € m
Net interest income	14	15	(29)	-
Other income	(1)	(1)	2	-
Total operating expenses	1	(6)	5	-
Total provisions	(14)	(46)	60	-
Operating contribution	-	(38)	38	-

Domestic Core Bank ("DCB")

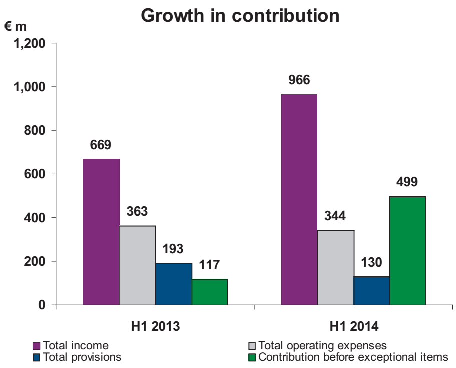
- Contribution before exceptional items of € 499 million compared to a contribution of € 117 million in the half-year to June 2013.
- New lending approvals of € 4.6 billion in the half-year to June 2014.

DCB balance sheet metrics(1)	30 June 2014 € bn	31 Dec 2013 € bn	% change
Gross loans	**47.3**	47.6	-1
Net loans	**44.1**	44.3	-
Customer accounts	**54.6**	53.6	2
	%	%	change
Loan deposit ratio	**81**	83	-2

DCB contribution statement(1)	Half-year June 2014 € m	Half-year June 2013 € m	% change
Net interest income before ELG	**607**	513	*18*
ELG	**(22)**	(111)	*-80*
Net interest income	**585**	402	*46*
Other income(2)	**381**	267	*43*
Total operating income	**966**	669	*44*
Total operating expenses	**(344)**	(363)	*-5*
Operating contribution before provisions	**622**	306	*103*
Total provisions	**(130)**	(193)	*-33*
Operating contribution	**492**	113	*335*
Associated undertakings	**5**	4	*25*
Contribution before disposal of property	**497**	117	*325*
Profit on disposal of property	**2**	-	-
Contribution before exceptional items	**499**	117	*326*
	%	%	*change*
Cost income ratio	**36**	54	*-18*

Balance sheet

Gross loans reduced € 0.3 billion since 31 December 2013 as repayments exceeded new lending on the mortgage portfolio partly offset by growth in SME and corporate loans. Customer accounts increased € 1.0 billion (2%) since 31 December 2013. Excluding the increase in Repos of € 0.1 billion and the recognition of deposits from Ark Life of € 0.9 billion as customer accounts following deconsolidation/sale of Ark Life, customer accounts were in line with 31 December 2013 with strong growth in current accounts offset by a reduction in deposits as a result of liability pricing management.



Contribution

DCB operating contribution before provisions of € 622 million for the half-year to June 2014 was € 316 million (103%) higher than the half-year to June 2013 with income € 297 million (44%) higher and costs € 19 million (5%) lower. After provisions of € 130 million the contribution before exceptional items was € 499 million, compared to a contribution of € 117 million for the half-year to June 2013.

Net interest income

Net interest income of € 585 million for the half-year to June 2014 was € 183 million (46%) higher than the half-year to June 2013. Taking account of the transfers(1), net interest income was € 169 million higher than the half-year to June 2013 due to reductions in the ELG charge following cessation of the ELG scheme for new liabilities on 28 March 2013, lower customer deposit costs and lower wholesale funding costs. These positive impacts were partly offset by lower loan volumes, lower income on NAMA bonds, and the impact of lower interest rates and yields on treasury operations.

Other income

Other income improved € 114 million (43%) to € 381 million due to the disposal of available for sale debt and equity securities as a result of the restructuring of the portfolio and a gain on disposal of corporate loans. Higher current account fees also contributed.

Operating expenses

Total operating expenses reduced € 19 million (5%) to € 344 million for the half-year to June 2014 as reduced staff numbers resulted in lower salary and associated costs compared with the half-year to June 2013. Personnel expenses of € 202 million were € 18 million (8%) lower than the half-year to June 2013 mainly as a result of reductions in staff numbers. General and administrative expenses of € 121 million were € 3 million higher than the half-year to June 2013 due to higher outsourcing costs. The charge for depreciation, impairment and amortisation of € 21 million was € 4 million (16%) lower than the half-year to June 2013.

Provisions

Total provisions of € 130 million for the half-year to June 2014 were € 63 million lower than the half-year to June 2013. Taking account of the transfers(1), total provisions were € 77 million lower than the half-year to June 2013. The decrease was mainly due to a reduced charge on the mortgage portfolio. In addition, there was a € 7 million loans to banks provision release.

(1)The balance sheet transfers were effective on 1 July 2013. If the transfers had been effective from 1 January 2013, the estimated contribution statement impact for the first half of 2013 is set out on page 19.

(2)Other income includes interest rate hedge volatility with 2013 re-presented.

AIB UK

• Contribution before exceptional items of £ 17 million for the half-year to June 2014 compared to £ 5 million.

• Cost income ratio improvement, 51% for the half-year to June 2014 compared to 79%.

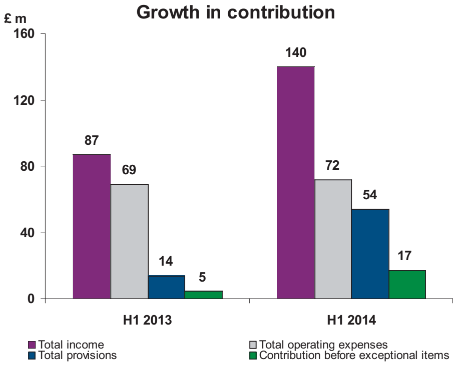
• New lending approvals of £ 0.8 billion.

AIB UK balance sheet metrics[1]	**30 June 2014 £ bn**	31 Dec 2013 £ bn	% change
Gross loans	**10.5**	11.2	-6
Net loans	**8.8**	9.4	-6
Customer accounts	**9.0**	9.1	-1
	%	%	change
Loan deposit ratio	**98**	103	-5

AIB UK contribution statement[1]	**Half-year June 2014 £ m**	Half-year June 2013 £ m	% change
Net interest income before ELG	**109**	63	73
ELG	**(4)**	(3)	33
Net interest income	**105**	60	75
Other income	**35**	27	30
Total operating income	**140**	87	61
Total operating expenses	**(72)**	(69)	4
Operating contribution before provisions	**68**	18	278
Total provisions	**(54)**	(14)	286
Operating contribution	**14**	4	250
Associated undertakings	**3**	1	200
Contribution before exceptional items	**17**	5	240
Contribution before exceptional items € m	**22**	5	340
	%	%	change
Cost income ratio	**51**	79	-28

Balance sheet

AIB UK gross loans to customers decreased £ 0.7 billion (6%) to £ 10.5 billion since 31 December 2013 following loan repayments during the period of £ 1.3 billion partly offset by new lending of £ 0.6 billion. Customer accounts of £ 9.0 billion are broadly in line with the balance at 31 December 2013. Loan deposit ratio has decreased to 98% in the half-year to June 2014 compared to 103% in 2013. The decrease was mainly driven by reductions in net loans.



Contribution

AIB UK operating contribution before provisions of £ 68 million was £ 50 million higher than the contribution of £ 18 million for the half-year to June 2013 with income £ 53 million (61%) higher and costs £ 3 million (4%) higher. The contribution before exceptional items was £ 17 million, an improvement of £ 12 million (240%) on the half-year to June 2013 contribution of £ 5 million.

Net interest income

Net interest income of £ 105 million was £ 45 million (75%) higher than the half-year to June 2013. Taking account of the transfers[1], net interest income was £ 33 million higher than the half-year to June 2013 due to lower funding costs as a result of deposit pricing actions along with the impact of loan repricing.

Other income

Other income of £ 35 million for the half-year to June 2014 was £ 8 million (30%) higher than the half-year to June 2013 principally due to the disposal of available for sale equity securities.

Total operating expenses

Total operating expenses of £ 72 million for the half-year to June 2014 were £ 3 million (4%) higher than the half-year to June 2013 due to loan transfers[1]. Taking account of the transfers[1], total operating expenses were £ 2 million lower than the half-year to June 2013 as reduced staff numbers resulted in lower salary and associated costs partly offset by higher general and administrative expenses.

The increase in total income and the small increase in total operating expenses resulted in an improvement of 28% in the cost income ratio from 79% for the half-year to June 2013 to 51% for the half-year to June 2014. Taking account of the transfers[1], the improvement in the cost income ratio was 23%.

Provisions

Total provisions of £ 54 million were £ 40 million higher than the half-year to June 2013 due to loan transfers[1]. Taking account of the transfers[1], provisions were broadly in line with the half-year to June 2013 with the net specific charge lower than 2013 offset by a lower IBNR release in the half-year to June 2014.

[1]The balance sheet transfers were effective on 1 July 2013. If the transfers had been effective from 1 January 2013, the estimated contribution statement impact for the first half of 2013 is set out on page 19.

Financial Solutions Group ("FSG")

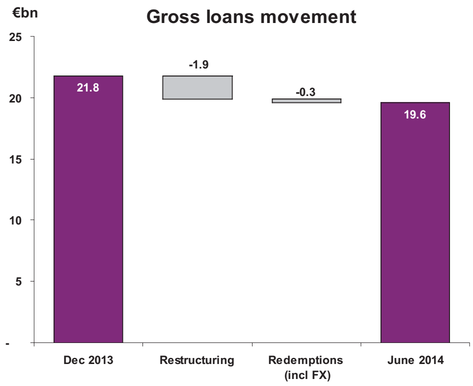
- Contribution before exceptional items of € 138 million compared to a negative of € 486 million in the half-year to June 2013.
- Reduction in gross loans due to restructuring activity during the period.
- Total provisions reduced significantly compared to the half-year to June 2013 due to lower impaired loans and improving economic conditions.

FSG balance sheet metrics(1)	30 June 2014 € bn	31 Dec 2013 € bn	% change
Gross loans	**19.6**	21.8	-10
Net loans	**9.6**	10.2	-6
Customer accounts	**1.2**	1.1	9

FSG contribution statement(1)	Half-year June 2014 € m	Half-year June 2013 € m	% change
Net interest income before ELG	**98**	124	-21
ELG	**(5)**	(8)	-38
Net interest income	**93**	116	-20
Other income	**9**	20	-55
Total operating income	**102**	136	-25
Total operating expenses	**(68)**	(89)	-24
Operating contribution before provisions	**34**	47	-28
Total provisions	**104**	(531)	-
Operating contribution	**138**	(484)	-
Associated undertakings	**-**	(2)	-
Contribution before exceptional items	**138**	(486)	-
	%	%	change
Cost income ratio	**67**	65	2

Balance sheet

Gross loans reduced € 2.2 billion (10%) since 31 December 2013 mainly due to debt restructuring during the period. Provisions have reduced € 1.6 billion (14%) since 31 December 2013 due to lower level of new impaired loans, reduced top-up provisions, and writebacks of provisions due to restructuring activity



Contribution

FSG operating contribution before provisions of € 34 million in the half-year to June 2014 was € 13 million lower than the half-year to June 2013 with income € 34 million (25%) lower and total operating expenses € 21 million (24%) lower. The contribution before exceptional items was € 138 million, an improvement of € 624 million compared with the half-year to June 2013 negative contribution of € 486 million.

Net interest income

Net interest income of € 93 million in the half-year to June 2014 was € 23 million (20%) lower than the half-year to June 2013. Taking account of the transfers(1), net interest income was € 6 million higher than the half-year to June 2013 mainly due to reduced income from lower loan balances more than offset by lower funding costs.

Other income

Other income of € 9 million in the half-year to June 2014 was € 11 million (55%) lower than the half-year to June 2013 due to € 6 million loss on disposal of loans and lower interest rate swap income. The half-year to June 2013 included a recovery on a swap that was previously impaired.

Operating expenses

Total operating expenses reduced € 21 million (24%) to € 68 million in the half-year to June 2014 compared with the half-year to June 2013. Taking account of the transfers(1), total operating expenses were € 16 million lower than the half-year to June 2013, with lower salary and associated costs due to lower average staff numbers. General and administrative expenses were lower than the half-year to June 2013 mainly due to lower external consultancy, legal and advisory fees.

Provisions

Total provisions release of € 104 million in the half-year to June 2014 was € 635 million lower than the provision charge of € 531 million in the half-year to June 2013. Taking account of the transfers(1), total provisions were € 575 million lower than the half-year to June 2013 due to lower levels of both new impaired loans and top-ups of existing provisions, the impact of restructuring and improving economic conditions.

(1)The balance sheet transfers were effective on 1 July 2013. If the transfers had been effective from 1 January 2013, the estimated contribution statement impact for the first half of 2013 is set out on page 19.

Group

• Total operating expenses have reduced by € 33 million (15%).

Contribution

Group negative operating contribution before provisions of € 180 million for the half-year to June 2014 was € 28 million lower than the negative operating contribution of € 208 million for the half-year to June 2013 with income € 5 million lower and total operating expenses € 33 million lower.

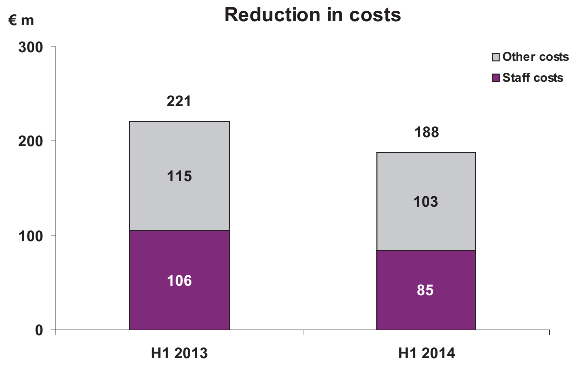
Operating expenses

Total operating expenses decreased € 33 million (15%) to € 188 million for the half-year to June 2014 due to lower salary and associated costs resulting from reduced staff numbers, lower external consultancy and advisory fees and lower occupancy costs. Operating expenses in Group include unallocated overheads relating to operations & technology, risk, audit, finance, general counsel, human resources and corporate affairs & strategy.

Personnel expenses of € 85 million for the half-year to June 2014 were € 21 million (20%) lower than for the half-year to June 2013 as a result of the reduction in staff numbers and associated staff costs.

General and administrative expenses of € 87 million for the half-year to June 2014 were € 8 million (8%) lower than for the half-year to June 2013 due to lower occupancy costs as a result of restructuring and the impact of lower staff numbers, and lower external consultancy and advisory fees.

Group contribution statement	Half-year June 2014 € m	Half-year June 2013 € m	% change
Net interest income	**2**	7	*-71*
Other income[1]	**6**	6	*-*
Total operating income	**8**	13	*-38*
Total operating expenses	**(188)**	(221)	*-15*
Operating contribution before provisions	**(180)**	(208)	*13*
Total provisions	**-**	2	*-*
Contribution before disposal of business	**(180)**	(206)	*13*
Contribution on disposal of business	**-**	1	*-*
Contribution before exceptional items	**(180)**	(205)	*12*



[1]Other income includes interest rate hedge volatility with 2013 re-presented.

Capital[1]

Capital regulation

The European Union ("EU") adopted legislative package, known as CRD IV, came into force on 1 January 2014, with some of the new provisions being phased-in from 2014. CRD IV consists of the Capital Requirements Regulation ("CRR") which is directly applicable across firms in the EU, and the new Capital Requirements Directive ("CRD"), which must be implemented by member states of the European Economic Area through national law.

CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. On 31 March 2014, the Minister for Finance, signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 give effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in Irish law. These new regulations include enhanced requirements for quality and quantity of capital, a basis for new liquidity and leverage requirements, new rules for counterparty risk, and new macro prudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions. Some of the new provisions of CRD IV are being introduced on a phased basis from 2014, these typically follow 20% in 2014, 40% in 2015 etc. until 2018. The main exception[2] to this relates to the deduction for the deferred tax asset which will be deducted at 10% per annum commencing in 2015. AIB commenced reporting to its regulators under the transitional CRD IV rules during H1 2014. The transitional capital ratios presented on the following page take account of these phasing arrangements. The fully loaded capital ratios represent the full implementation of CRD IV.

A new system of financial supervision, the Single Supervisory Mechanism (''SSM''), comprising the European Central Bank (''ECB'') and the national competent authorities of EU countries has been established. It is expected that the ECB will assume its new banking supervision responsibilities on 4 November 2014. The Central Bank of Ireland ("CBI") has advised that until such time as formal capital guidance is issued by the SSM to replace the Prudential Capital Assessment Review (''PCAR'') 2011 requirements, the CBI expects AIB to maintain a capital buffer over the minimum ECB requirements (i.e. common equity tier 1 ("CET1") ratio of 8%). The AIB Board approved a buffer of 2% to the ECB requirement in 2014 i.e. a transitional CET1 ratio of 10%.

The table on the following page summarises AIB Group's capital position.

Balance Sheet Assessment 2013

In the fourth quarter of 2013, the CBI concluded a Balance Sheet Assessment ("BSA") of the three credit institutions covered under the Credit Institutions (Eligible Liability Guarantee Scheme) 2009, including AIB. This review included an assessment of asset quality, risk weighted assets and point in time capital adequacy as at 30 June 2013. As disclosed in early December 2013, AIB was advised of the findings of this review and considered them in the preparation of the Group's year end December 2013 impairment provisions, capital position and financial statements.

ECB Comprehensive Assessment 2014

The ECB is currently undertaking a comprehensive assessment of the banking system, to be concluded in October 2014. This ECB exercise entails a Supervisory Risk Assessment, an Asset Quality Review and a Stress Test in order to provide a forward-looking view of banks' shock absorption capacity under stress.

[1]Capital ratios have been presented including the benefit of the retained profit in the period. Under Article 26 (2) of the CRR, financial institutions may include interim profits only with the prior permission of the competent authority and such permission is being sought.

[2]The CBI published their 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 24 December 2013, updated on 21 May 2014 to reflect national transposition of CRD IV, which clarifies the application of transitional rules in Ireland under CRD IV.

Capital[1]

Regulatory capital and capital ratios

Basel II as reported 31 December 2013 € m		CRD IV transitional basis Pro-forma[1] 30 June 2014 € m	CRD IV transitional basis Pro-forma 1 January 2014 € m	CRD IV fully loaded basis[2] Pro-forma[1] 30 June 2014 € m	CRD IV fully loaded basis[2] Pro-forma 1 January 2014 € m
	Core/common equity tier 1 capital				
10,494	Gross common equity tier 1	**11,229**	10,494	**11,229**	10,494
	Regulatory adjustments				
(179)	– Goodwill and intangibles	**(172)**	(179)	**(172)**	(179)
(34)	– Cash flow hedge reserves	**(228)**	(34)	**(228)**	(34)
(284)	– Reversal of fair value of contingent capital instrument	**(237)**	(284)	**–**	–
(642)	– Available for sale securities	**(1,245)**	(649)	**–**	–
(151)	– Pension	**232**	(132)	**(54)**	(54)
–	– Deferred tax	**–**	–	**(3,785)**	(3,838)
(158)	– Unconsolidated financial investments	**–**	–	**–**	–
(120)	– Other	**(18)**	(93)	**–**	–
(1,568)		**(1,668)**	(1,371)	**(4,239)**	(4,105)
8,926	**Core/common equity tier 1 capital**	**9,561**	9,123	**6,990**	6,389
	Tier 2 capital				
833	Subordinated debt	**699**	828	**699**	828
595	Credit provisions	**460**	453	**136**	132
140	Other	**18**	93	**–**	–
	Regulatory adjustments				
(158)	– Unconsolidated financial investments	**–**	–	**–**	–
1,410	**Total tier 2 capital**	**1,177**	1,374	**835**	960
10,336	**Total capital**	**10,738**	10,497	**7,825**	7,349
	Risk weighted assets				
59,038	Credit risk	**55,046**	56,489	**55,046**	56,489
177	Market risk	**178**	177	**178**	177
3,174	Operational risk	**2,822**	3,174	**2,822**	3,174
–	Credit valuation adjustment	**1,231**	1,037	**1,231**	1,037
6	Other	**5**	6	**5**	6
62,395	**Total risk weighted assets**	**59,282**	60,883	**59,282**	60,883
14.3%	Core tier 1/common equity tier 1 ratio	**16.1%**	15.0%	**11.8%**	10.5%
16.6%	Total capital ratio	**18.1%**	17.2%	**13.2%**	12.1%

Basel II as reported 31 December 2013		CRD IV transitional basis 30 June 2014	CRD IV fully loaded basis[2] 30 June 2014
	Excluding retained profit in the period[1]		
14.3%	Core tier 1/common equity tier 1 ratio	**15.2%**	**10.8%**
16.6%	Total capital ratio	**17.1%**	**12.2%**

[1]Capital ratios have been presented including the benefit of the retained profit in the period. Under Article 26 (2) of the CRR, financial institutions may include interim profits only with the prior permission of the competent authority and such permission is being sought.

Excluding retained profits in the period which require prior permission as noted above, transitional CET1 ratio would reduce from 16.1% to 15.2% and transitional Total capital ratio would fall from 18.1% to 17.1% at 30 June 2014.

[2]Fully loaded ratios are calculated including the 2009 Preference Shares (which will continue to be considered as CET1 until 31 December 2017).

Pro-forma capital ratios at 1 January 2014

Transitional ratio

On implementation of CRD IV, the pro-forma Common equity tier 1 ("CET1") ratio on a transitional basis at 1 January 2014 was 15.0%. This compared to a Basel II core tier 1 ratio of 14.3% at 31 December 2013.

Under CRD IV, the supervisory deductions in relation to Ark Life (unconsolidated financial investments), which were deducted 50:50 from tier 1 and tier 2 capital under Basel II, are no longer applicable.

Under CRD IV, the main changes to risk weighted assets ("RWAs") include: a) a substantial element of deferred tax assets is removed from the credit RWAs; b) the life assurance business, Ark Life, generates additional credit RWAs; c) a credit valuation adjustment is included, where AIB is required to hold additional capital for entering into over-the-counter ("OTC") derivative contracts.

Fully loaded ratio

On implementation of CRD IV, the pro-forma CET1 ratio on a fully loaded basis at 1 January 2014 was 10.5%. This compared to a Basel II core tier 1 ratio of 14.3% at 31 December 2013. Under CRD IV, deferred tax assets relating to unutilised tax losses are deducted in arriving at a fully loaded CET1. In addition, the available for sale ("AFS") reserve and pension reserve form part of the fully loaded CET1. The movements in RWAs from Basel II to CRD IV are explained above.

Pro-forma capital ratios at 30 June 2014[(1)]

Transitional ratio

The CET1 transitional ratio has increased from a pro-forma 15.0% at 1 January 2014 to 16.1% at 30 June 2014. This is driven primarily by retained earnings in the first half of the year, a release of tier 2 capital to CET1 following the disposal of Ark Life, partly offset by the impact of the higher pension deficit at 30 June 2014. The decline in credit RWAs reflects the disposal of Ark Life and a further decrease in RWAs in respect of a reduction in net loans and the changed profile of the AFS portfolio. The RWAs attaching to operational risk reduced by € 0.4 billion in the six months to 30 June 2014, reflecting the reduced levels of income in the annual calculation.

The CET1 transitional ratio, at 16.1%, is significantly in excess of the minimum CET1 ratio of 8% set by the ECB as a benchmark for the Comprehensive Assessment exercise. The total capital transitional ratio has increased from 17.2% at 1 January 2014 to 18.1% at 30 June 2014. This reflects the increase in CET1 capital described above, offset by a € 0.2 billion reduction in tier 2 capital, primarily relating to a) the continuing reduction in the tier 2 qualifying amount of the contingent capital instrument that is due to mature in July 2016 and b) the transfer of tier 2 capital to CET1 following the disposal of Ark Life.

Fully loaded ratio

The fully loaded CET1 ratio has increased from 10.5% at 1 January 2014 to 11.8% at 30 June 2014. CET1 capital on a fully-loaded basis has increased by a pro-forma € 0.6 billion, reflecting retained earnings for the first six months to 30 June 2014 and an increase in the value of AFS reserves (€ 0.6 billion), including a revaluation of the Group's NAMA subordinated bonds (€ 0.2 billion). These were partly offset by an impact of € 0.5 billion following the increase in the pension deficit, which arose as a result of a decrease in the discount rate applied in the valuation of pension liabilities. The total capital ratio on a fully loaded basis has increased from 12.1% to 13.2%, reflecting the factors outlined above, partly offset by the continuing reduction in the tier 2 qualifying amount of the contingent capital instrument.

The fully loaded capital ratios include the 2009 Preference Shares which continue to be considered as CET1 until 31 December 2017. Excluding the 2009 Preference Shares, the reported fully loaded CET1 of 11.8% at 30 June 2014 would reduce to 5.9%.

Leverage ratio

CRD IV also introduces a leverage ratio, designed to act as a non-risk sensitive back-stop measure to reduce the risk of a build-up of excessive leverage in an individual bank and the financial system as a whole. It is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on full implementation of CRD IV, the Leverage Ratio, including the 2009 Preference Shares, is 6% (31 December 2013: 5%). This primarily reflects an increase in tier 1 capital as outlined above and a reduction in asset balances. Excluding the 2009 Preference Shares, the reported Leverage ratio of 6% at 30 June 2014 would reduce to 3%.

The Group issued its most recent Pillar 3 disclosures in May 2014.

[(1)]Capital ratios have been presented including the benefit of the retained profit in the period. Under Article 26 (2) of the CRR, financial institutions may include interim profits only with the prior permission of the competent authority and such permission is being sought.
Excluding retained profits in the period which require prior permission as noted above, transitional CET1 ratio would reduce from 16.1% to 15.2% and transitional Total capital ratio would fall from 18.1% to 17.1% at 30 June 2014.

Restructuring plan

Approval of AIB Restructuring Plan

On 7 May 2014, the European Commission approved under State Aid rules AIB's Restructuring Plan. In arriving at its final decision, the European Commission acknowledged the significant number of restructuring measures previously implemented by AIB comprising business divestments, asset deleveraging, Liability Management Exercises and significant cost reduction actions. The Commission concluded that the Restructuring Plan sets out the path to restoring long term viability. The plan covers the period from 2014 to 2017.

Restructuring Plan Commitments

AIB has committed to a range of measures relating to customers in difficulty; cost caps and reductions; acquisitions and exposures; coupon payments; promoting competition; and the repayment of aid to the State. All of the commitments are aligned to AIB's operational plans and are supportive of the Bank's return to viability.

Decision document

As part of the AIB Restructuring Plan approval process, the European Commission will publish a decision document which sets out the basis for the approval of the plan. The redacted document will present forward looking projections and information relating to AIB. These projections are point in time, underpinned by prevailing economic outlooks, and are by their nature subject to change. Because there are risks, uncertainties, and other important factors that could cause the actual results and performance of AIB to be materially different from the financial projections contained in the decision document, the projections should not be treated as indicative of future financial performance.

AIB published medium term performance targets on 5 March 2014. AIB will continue to provide updated financial guidance via management statements and financial results announcements.

Update on risk management and governance*

The Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Group, increase earnings or cash-flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations.

The principal risks and uncertainties to the Group for the remaining six months of the year are unchanged from the risks and uncertainties set out on pages 61 to 66 of the Annual Financial Report 2013.

The Group's risk governance and risk management framework is set out on pages 67 to 69 of the Annual Financial Report 2013. There are no material changes to the Group's governance framework.

The Group has adopted an Enterprise-wide approach to risk management. Processes and controls are in place for (a) the identification and assessment; (b) the management and mitigation; and (c) the monitoring and reporting of its risks. These are set out in the Risk Management section of the Annual Financial Report 2013 (pages 71 to 86 for credit risk together with credit profile from pages 87 to 152 and pages 153 to 169 for the other risk types).

Details of the Group's exposures to specific risks are outlined on pages 87 to 169 of the Annual Financial Report 2013.

Updates have been provided in this Report on the current status of the following specific risks:
- Capital – pages 24 to 26;
- Credit risks including asset quality and impairment – pages 29 to 67; and
- Liquidity and funding – pages 68 to 70.

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk

The following tables set out various credit risk disclosures on (i) loans and receivables to customers; (ii) loans and receivables within disposal groups and non-current assets held for sale; and (iii) financial investments available for sale:

For the purpose of these disclosures, the following definitions are relevant:

Satisfactory: credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans.

Criticised loans include:

- **Watch:** credit exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cashflow.
- **Vulnerable:** credit where repayment is in jeopardy from normal cashflow and may be dependent on other sources.
- **Impaired:** a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact such that the present value of future cash flows is less than the gross carrying value of the financial asset or group of financial assets i.e. requiring a provision to be raised through the income statement.

Percentages: Percentages presented throughout the tables in this section are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on rounded numbers presented.

Overview of credit risk at 30 June 2014

The Group is predominantly Ireland and United Kingdom focussed, with material concentrations in residential mortgages, property and construction and SMEs.

The following table summarises the credit profile of the loan portfolio by asset class:

						30 June 2014
Loan portfolio profile	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**SME/other commercial € m**	**Corporate € m**	**Total € m**
Gross loans to customers	**39,833**	**4,112**	**17,977**	**13,727**	**4,404**	**80,053**
Of which impaired	**9,171**	**1,359**	**10,739**	**4,352**	**416**	**26,037**
Specific impairment charge (half year to June 2014)	**47**	**55**	**52**	**12**	**30**	**196**
Total impairment charge (half year to June 2014)	**(23)**	**48**	**28**	**25**	**21**	**99**
Statement of financial position provisions (specific and IBNR)	**3,762**	**1,106**	**7,252**	**3,000**	**256**	**15,376**
Specific provisions/impaired loans	**35%**	**78%**	**65%**	**66%**	**45%**	**55%**
Total provisions/total loans	**9%**	**27%**	**40%**	**22%**	**6%**	**19%**

						31 December 2013
Loan portfolio profile	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	Total € m
Gross loans to customers	40,764	4,291	19,710	13,779	4,307	82,851
Of which impaired	9,083	1,423	13,154	4,775	476	28,911
Specific impairment charge (half year to June 2013)	413	96	383	170	33	1,095
Total impairment charge (half year to June 2013)	222	85	272	144	18	741
Specific impairment charge (full year 2013)	696	147	817	349	49	2,058
Total impairment charge (full year 2013)	813	125	724	221	30	1,913
Statement of financial position provisions (specific and IBNR)	3,952	1,147	8,438	3,239	307	17,083
Specific provisions/impaired loans	37%	77%	62%	66%	48%	55%
Total provisions/total loans	10%	27%	43%	24%	7%	21%

Group overview

The key points affecting the credit profile of the loan portfolio as outlined on pages 32 to 63 are:

- The Irish and global economies continue to show signs of improvement, however, the high level of existing debt within both businesses and households in Ireland continues to cause challenges. Demand for credit has improved somewhat with increased drawdowns of new loans observed in the six months to 30 June 2014, in particular in the corporate and SME sectors.
- The Group's focus on working with customers to restructure the loan portfolio intensified in the six months to June 2014, with the quantum of impaired loans reducing by € 2.9 billion. The reduction reflects write-offs, repayments due to asset sales, and restructures. Initial indications are that loan restructuring is being completed on average within existing provision levels.
- The income statement specific provision charge was € 0.2 billion for the six months to 30 June 2014, reduced from € 1.1 billion in the same period in 2013. The key drivers of the reduction were fewer new loans moving to impaired, and writeback of provisions due to significant restructuring activity. Credit quality shows signs of improvement, with downward migration to criticised credit grades reduced.

Loans and receivables to customers reduced by 3% or € 2.8 billion since 31 December 2013, primarily due to restructuring and utilisation of provisions. The level of satisfactory loans increased slightly in the six months to 30 June 2014 compared to a reduction of € 4.4 billion in the six months to 30 June 2013, due to the improved demand for credit in 2014 and the completion of the non-core deleveraging programme in 2013.

Statement of financial position specific provisions of € 14.3 billion were held for the impaired book at 30 June 2014, a reduction of € 1.6 billion from 31 December 2013. The reduction was driven by write offs and the utilisation of provisions as part of structuring sustainable solutions for customers. Write-offs for the six months to 30 June 2014 were € 1.9 billion compared to € 0.5 billion for the first six months in 2013 and € 1.1 billion for the full year 2013.

Specific provision cover was unchanged at 55% at 30 June 2014 compared to 31 December 2013.

Overview of credit risk at 30 June 2014

Group overview *(continued)*

Statement of financial position IBNR provisions of € 1.1 billion were held at 30 June 2014 compared to € 1.2 billion at 31 December 2013, with the decrease primarily due to improvements in credit environment and house price assumptions. The IBNR provision level of 2.0% of performing loans is reduced slightly compared to 2.2% at 31 December 2013. The outcomes of independent reviews of certain higher risk portfolios helped to inform management's view of the incurred loss remaining in the performing book. It was also influenced by the level of arrears, requests for forbearance, levels of watch and vulnerable loans and continued improvements in credit processes.

The income statement provision charge for loans and receivables was € 0.1 billion or 0.24% of average customer loans in the six months to June 2014 compared with € 0.7 billion or 1.69% in the equivalent period in 2013. The provision charge comprised of € 0.2 billion in specific provisions off-set by a release of IBNR provisions of € 0.1 billion (30 June 2013: € 1.1 billion in specific provisions and a release of IBNR provisions of € 0.4 billion).

Residential mortgages – pages 41 to 53

€ 37.3 billion (94%) of the residential mortgage portfolio relates to residential mortgages in the Republic of Ireland, split 81% owner-occupier and 19% buy-to-let, with most of the remaining € 2.6 billion (6%) relating to residential mortgages in Northern Ireland. Total residential mortgages in arrears in the Republic of Ireland decreased in the six months to 30 June 2014 and remain below the industry average[(1)]. There was a notable decrease in loans in arrears for less than 90 days over the same period in addition to a reduction in the number of loans entering arrears due to an improved economic climate. Whilst impaired loans in the Republic of Ireland increased by € 0.1 billion in the period, the level of newly impaired loans decreased in 2014, continuing the trend observed in 2013. New impaired loans were split 80% owner occupier (2% of the opening non-impaired book) and 20% buy-to-let (3% of the opening non-impaired book). Specific provision cover decreased from 37% to 35%, driven primarily by an improvement in the peak-to-trough house price decline assumption used in the calculation of collective provisions, which was revised from 55% to 52% during the period, broadly in line with recent Central Statistics Office ("CSO") Residential Property Price Index movements which improved from a 46% fall from peak at 31 December 2013 to a 43% fall from peak at 30 June 2014.

Other personal lending – page 54

The other personal lending portfolio at € 4.1 billion has reduced by € 0.2 billion in the period. Personal lending loans have continued to reduce, reflecting accelerated repayments and subdued demand for new loans and other credit facilities. The level of impaired loans has decreased slightly since 31 December 2013, whilst the specific provision cover increased marginally from 77% to 78%.

Property and construction – pages 55 to 57

The property and construction portfolio comprises 67% investment loans (€ 12.0 billion), 29% land and development loans (€ 5.2 billion) and 4% of other property and construction loans (€ 0.8 billion). Credit quality within the portfolio is stabilising, with the level of criticised loans reducing from € 16.1 billion at 31 December 2013 to € 14.1 billion at 30 June 2014 mainly due to restructuring activity and the utilisation of provisions. The rate of new impairment continued to decrease during the six months to 30 June 2014 reflecting the improved market dynamics and the fact that 67% of this portfolio was already impaired at the start of 2014. Specific provision cover increased from 62% to 65% and impaired loans have decreased by € 2.4 billion mainly due to an increase in restructuring and the utilisation of provisions. There are continuing signs that the commercial property market in the Republic of Ireland is recovering and transactional activity in the six months to 30 June 2014 is up significantly on 2013.

SME/other commercial – pages 58 to 59

The SME/other commercial portfolio, of which 67% relates to the Republic of Ireland, is dependent on the Irish and UK domestic economies and reduced by € 0.1 billion in 2014. Criticised loans reduced by € 0.4 billion to € 7.0 billion mainly due to restructuring and repayments. The specific provision cover at 66% is unchanged from December 2013. Whilst there has been some improvement in the domestic market, the economic conditions remain challenging with many SME's experiencing difficulties managing the finances of their businesses. AIB continues to engage in restructuring existing facilities in order to sustain viable businesses. Whilst overall demand for credit remains low, there is evidence that positive macroeconomic indicators are now starting to show in increased credit activity.

Corporate lending – page 60

The corporate lending portfolio continues to perform better than other sectors due to its lesser reliance on the domestic economy and property markets. Economic stability has been more evident in the corporate sector which in turn has translated into improving credit quality throughout the portfolio. Criticised loans have decreased by € 0.2 billion. The provision cover for impaired loans has decreased slightly from 48% to 45%.

[(1)]Industry average as published in the Central Bank of Ireland Residential Mortgage and Repossessions Statistics as at 31 March 2014, based on number of accounts.

Credit risk – Credit profile of the loan portfolio

AIB Group's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. The overdraft provides a demand credit facility combined with a current account. Borrowings occur when the customer's drawings take the current account into debit. The balance may, therefore, fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

The tables below show loans and receivables to customers by industry sector including loans and receivables within disposal groups and non-current assets held for sale:

(i) Loans and receivables to customers;
(ii) Impaired loans and receivables to customers; and
(iii) Provisions for impairment on loans and receivables to customers.

	30 June 2014				31 December 2013			
Loans and receivables to customers*	**Loans and receivables to customers €m**	**Disposal groups and non-current assets held for sale €m**	**Total €m**	**Total %**	Loans and receivables to customers €m	Disposal groups and non-current assets held for sale €m	Total €m	Total %
Agriculture	**1,821**	**–**	**1,821**	**2.2**	1,798	–	1,798	2.2
Energy	**309**	**–**	**309**	**0.4**	259	28	287	0.3
Manufacturing	**1,601**	**–**	**1,601**	**2.0**	1,503	–	1,503	1.8
Property and construction	**17,977**	**–**	**17,977**	**22.5**	19,710	–	19,710	23.8
Distribution	**6,712**	**–**	**6,712**	**8.4**	6,870	–	6,870	8.3
Transport	**950**	**–**	**950**	**1.2**	963	–	963	1.2
Financial	**713**	**–**	**713**	**0.9**	648	–	648	0.8
Other services	**5,657**	**–**	**5,657**	**7.1**	5,657	–	5,657	6.8
Personal								
Residential mortgages	**39,833**	**–**	**39,833**	**49.8**	40,764	–	40,764	49.2
Other	**4,112**	**–**	**4,112**	**5.1**	4,291	–	4,291	5.2
Lease financing	**368**	**–**	**368**	**0.4**	360	–	360	0.4
Gross loans and receivables	**80,053**	**–**	**80,053**	**100.0**	82,823	28	82,851	100.0
Unearned income	**(112)**	**–**	**(112)**		(101)	–	(101)	
Deferred costs	**65**	**–**	**65**		74	–	74	
Provisions for impairment	**(15,376)**	**–**	**(15,376)**		(17,083)	–	(17,083)	
Total statement of financial position	**64,630**	**–**	**64,630**		65,713	28	65,741	
Gross loans and receivables analysed as to:								
Neither past due nor impaired	**51,022**	**–**	**51,022**		50,326	28	50,354	
Past due but not impaired	**2,994**	**–**	**2,994**		3,586	–	3,586	
Impaired - provisions held	**26,037**	**–**	**26,037**		28,911	–	28,911	
	80,053	**–**	**80,053**		82,823	28	82,851	

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Credit profile of the loan portfolio

	30 June 2014			31 December 2013		
	Loans and receivables to customers	**Disposal groups and non-current assets held for sale**	**Total**	Loans and receivables to customers	Disposal groups and non-current assets held for sale	Total
Impaired loans and receivables to customers*	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Agriculture	**342**	**–**	**342**	338	–	338
Energy	**94**	**–**	**94**	66	–	66
Manufacturing	**329**	**–**	**329**	391	–	391
Property and construction	**10,739**	**–**	**10,739**	13,154	–	13,154
Distribution	**2,663**	**–**	**2,663**	3,026	–	3,026
Transport	**107**	**–**	**107**	156	–	156
Financial	**180**	**–**	**180**	230	–	230
Other services	**941**	**–**	**941**	917	–	917
Personal						
Residential mortgages	**9,171**	**–**	**9,171**	9,083	–	9,083
Other	**1,359**	**–**	**1,359**	1,423	–	1,423
Lease financing	**112**	**–**	**112**	127	–	127
Total	**26,037**	**–**	**26,037**	28,911	–	28,911

	30 June 2014			31 December 2013		
	Loans and receivables to customers	**Disposal groups and non-current assets held for sale**	**Total**	Loans and receivables to customers	Disposal groups and non-current assets held for sale	Total
Provisions for impairment on loans and receivables to customers*	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Agriculture	**242**	**–**	**242**	250	–	250
Energy	**48**	**–**	**48**	35	–	35
Manufacturing	**222**	**–**	**222**	241	–	241
Property and construction	**6,948**	**–**	**6,948**	8,114	–	8,114
Distribution	**1,632**	**–**	**1,632**	1,831	–	1,831
Transport	**83**	**–**	**83**	109	–	109
Financial	**98**	**–**	**98**	134	–	134
Other services	**626**	**–**	**626**	634	–	634
Personal						
Residential mortgages	**3,222**	**–**	**3,222**	3,333	–	3,333
Other	**1,058**	**–**	**1,058**	1,092	–	1,092
Lease financing	**112**	**–**	**112**	125	–	125
Specific	**14,291**	**–**	**14,291**	15,898	–	15,898
IBNR	**1,085**	**–**	**1,085**	1,185	–	1,185
Total	**15,376**	**–**	**15,376**	17,083	–	17,083

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Credit profile of the loan portfolio

The following table analyses loans and receivables to customers by segment showing portfolio split, asset quality and impairment provisions:

	30 June 2014				31 December 2013			
Gross loans and receivables to customers*	**DCB € m**	**AIB UK € m**	**FSG € m**	**Total € m**	DCB € m	AIB UK € m	FSG € m	Total € m
Residential mortgages:								
Owner-occupier	**30,113**	**2,227**	**–**	**32,340**	30,714	2,252	–	32,966
Buy-to-let	**3,691**	**354**	**3,448**	**7,493**	3,817	361	3,620	7,798
	33,804	**2,581**	**3,448**	**39,833**	34,531	2,613	3,620	40,764
Other personal	**2,275**	**423**	**1,414**	**4,112**	2,318	432	1,541	4,291
Property and construction	**2,747**	**5,060**	**10,170**	**17,977**	2,772	5,208	11,730	19,710
SME/other commercial	**4,726**	**4,491**	**4,510**	**13,727**	4,637	4,302	4,840	13,779
Corporate	**3,771**	**556**	**77**	**4,404**	3,268	905	134	4,307
Total	**47,323**	**13,111**	**19,619**	**80,053**	47,526	13,460	21,865	82,851
Analysed as to asset quality								
Satisfactory	**32,814**	**7,078**	**1,191**	**41,083**	33,019	7,048	973	41,040
Watch	**4,255**	**1,325**	**553**	**6,133**	4,587	1,481	718	6,786
Vulnerable	**3,071**	**1,247**	**2,482**	**6,800**	3,034	1,251	1,829	6,114
Impaired	**7,183**	**3,461**	**15,393**	**26,037**	6,886	3,680	18,345	28,911
Total criticised loans	**14,509**	**6,033**	**18,428**	**38,970**	14,507	6,412	20,892	41,811
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**31**	**46**	**94**	**49**	31	48	96	50
Impaired loans/total loans	**15**	**26**	**78**	**33**	14	27	84	35
Impairment provisions – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**2,422**	**2,085**	**9,784**	**14,291**	2,401	2,070	11,427	15,898
IBNR	**728**	**136**	**221**	**1,085**	828	132	225	1,185
Total impairment provisions	**3,150**	**2,221**	**10,005**	**15,376**	3,229	2,202	11,652	17,083
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**34**	**60**	**64**	**55**	35	56	62	55
Total provisions/impaired loans	**44**	**64**	**65**	**59**	47	60	64	59
Total provisions/total loans	**7**	**17**	**51**	**19**	7	16	53	21

	Half-year 30 June 2014				Half-year 30 June 2013			
Income statement – impairment charge	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**222**	**67**	**(93)**	**196**	327	43	725	1,095
IBNR	**(85)**	**(1)**	**(11)**	**(97)**	(129)	(28)	(197)	(354)
Total impairment charge	**137**	**66**	**(104)**	**99**	198	15	528	741
	%	**%**	**%**	**%**	%	%	%	%
Impairment charge/average loans	**0.58**	**0.99**	**(0.98)**	**0.24**	0.83	0.35	3.40	1.69

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Credit profile of the loan portfolio

Credit profile of loans and receivables to customers

The following table profiles the asset quality of the Group's loans and receivables:

						30 June 2014
Asset quality*	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**SME/other commercial € m**	**Corporate € m**	**Total € m**
Neither past due nor impaired	**29,018**	**2,506**	**6,667**	**8,897**	**3,934**	**51,022**
Past due but not impaired	**1,644**	**247**	**571**	**478**	**54**	**2,994**
Impaired – provisions held	**9,171**	**1,359**	**10,739**	**4,352**	**416**	**26,037**
Gross loans and receivables	**39,833**	**4,112**	**17,977**	**13,727**	**4,404**	**80,053**
Specific provisions	**(3,222)**	**(1,058)**	**(6,948)**	**(2,878)**	**(185)**	**(14,291)**
IBNR provisions	**(540)**	**(48)**	**(304)**	**(122)**	**(71)**	**(1,085)**
Total provisions for impairment	**(3,762)**	**(1,106)**	**(7,252)**	**(3,000)**	**(256)**	**(15,376)**
Gross loans and receivables less provisions	**36,071**	**3,006**	**10,725**	**10,727**	**4,148**	**64,677**
Unearned income						**(112)**
Deferred costs						**65**
Net loans and receivables						**64,630**

						31 December 2013
Asset quality*	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	Total € m
Neither past due nor impaired	29,688	2,535	5,898	8,442	3,791	50,354
Past due but not impaired	1,993	333	658	562	40	3,586
Impaired – provisions held	9,083	1,423	13,154	4,775	476	28,911
Gross loans and receivables	40,764	4,291	19,710	13,779	4,307	82,851
Specific provisions	(3,333)	(1,092)	(8,114)	(3,131)	(228)	(15,898)
IBNR provisions	(619)	(55)	(324)	(108)	(79)	(1,185)
Total provisions for impairment	(3,952)	(1,147)	(8,438)	(3,239)	(307)	(17,083)
Gross loans and receivables less provisions	36,812	3,144	11,272	10,540	4,000	65,768
Unearned income						(101)
Deferred costs						74
Net loans and receivables						65,741

Loans are assessed for impairment if they are past due, typically, for more than ninety days or if the borrower exhibits an inability to meet its obligations to the Group based on objective evidence of loss events ('impairment triggers')[(1)]. Loans are deemed impaired upon assessment that all the expected future cashflows, either from the loan itself or from the associated collateral, will not be sufficient to repay the loan, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The category of 'Past due but not impaired' includes loans and mortgages where negotiations with the borrower on new terms and conditions have not concluded to full completion of documentation and therefore, the facility remains outside its original terms. When a loan or exposure is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

The 'Neither past due nor impaired' element of the portfolio as at 30 June 2014 amounted to € 51.0 billion, which is an increase from € 50.4 billion as at 31 December 2013, which reflects the demand for credit in the period. As at 30 June 2014, 80% of loans that are 'Neither past due nor impaired' are in a Satisfactory grade with the remaining 20% being in Watch or Vulnerable grades (31 December 2013: 81% satisfactory).

An aged analysis of the past due but not impaired portfolio by sector is outlined on page 36.

[(1)]Examples of impairment triggers are set out on pages 81 and 82 of the Annual Financial Report 2013.

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due but not impaired gross loans and receivables to customers*

The table below sets out the aged analysis of contractually past due but not impaired loans and receivables to customers by industry sector and segment:

							30 June 2014
Industry sector	**1–30 days € m**	**31–60 days € m**	**61–90 days € m**	**91–180 days € m**	**181–365 days € m**	**> 365 days € m**	**Total € m**
Agriculture	**29**	**14**	**14**	**20**	**31**	**27**	**135**
Energy	**30**	**–**	**–**	**4**	**2**	**2**	**38**
Manufacturing	**17**	**2**	**1**	**4**	**2**	**7**	**33**
Property and construction	**127**	**34**	**47**	**91**	**90**	**182**	**571**
Distribution	**63**	**16**	**29**	**34**	**15**	**33**	**190**
Transport	**3**	**1**	**1**	**1**	**2**	**4**	**12**
Financial	**4**	**–**	**1**	**1**	**1**	**–**	**7**
Other services	**39**	**12**	**8**	**19**	**16**	**23**	**117**
Personal							
Residential mortgages	**735**	**293**	**202**	**168**	**149**	**97**	**1,644**
Credit cards	**28**	**9**	**5**	**4**	**1**	**–**	**47**
Other	**60**	**14**	**15**	**37**	**24**	**50**	**200**
	1,135	**395**	**323**	**383**	**333**	**425**	**2,994**
Segment							
DCB	**918**	**316**	**219**	**215**	**145**	**140**	**1,953**
AIB UK	**113**	**27**	**31**	**49**	**32**	**23**	**275**
FSG	**104**	**52**	**73**	**119**	**156**	**262**	**766**
	1,135	**395**	**323**	**383**	**333**	**425**	**2,994**
As a percentage of	**%**	**%**	**%**	**%**	**%**	**%**	**%**
total gross loans	**1.4**	**0.5**	**0.4**	**0.5**	**0.4**	**0.5**	**3.7**

							31 December 2013
Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
Agriculture	62	13	17	15	11	34	152
Energy	1	1	–	1	–	1	4
Manufacturing	21	4	1	5	4	20	55
Property and construction	210	61	48	64	119	156	658
Distribution	71	13	18	20	37	32	191
Transport	7	1	–	2	1	3	14
Financial	11	2	–	2	3	1	19
Other services	90	11	18	16	13	19	167
Personal							
Residential mortgages	857	391	280	245	144	76	1,993
Credit cards	33	9	6	4	1	–	53
Other	122	22	18	44	27	47	280
	1,485	528	406	418	360	389	3,586
Segment							
DCB	1,141	414	282	245	151	109	2,342
AIB UK	154	45	57	55	43	25	379
FSG	190	69	67	118	166	255	865
	1,485	528	406	418	360	389	3,586
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.8	0.6	0.5	0.5	0.4	0.5	4.3

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due but not impaired gross loans and receivables to customers*_(continued)_

The figures reported are inclusive of overdrafts, bridging loans and cases with expired limits.

Loans past due but not impaired have reduced by € 0.6 billion to € 3.0 billion or 3.7% of total loans and receivables to customers (31 December 2013: € 3.6 billion or 4.3%), mainly due to a reduction in arrears less than 90 days.

Residential mortgage loans past due but not impaired at € 1.6 billion represent 55% of the total past due but not impaired loans (31 December 2013: € 2.0 billion: 56%). The level of residential mortgage loans in early arrears (less than 30 days) has decreased by 14% in the six months to 30 June 2014, due to active management of early arrears cases and the improving economic environment. Property and construction loans past due but not impaired represent a further 19% or € 0.6 billion (31 December 2013: 18% or € 0.7 billion) of total loans past due but not impaired, with other personal including credit cards at 8% or € 0.2 billion (31 December 2013: 9% or € 0.3 billion).

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Credit profile of the loan portfolio

Impaired loans for which provisions are held*

The following table shows impaired loans which are assessed for impairment either individually or collectively with the relevant specific impairment provisions:

30 June 2014*

	Gross loans and receivables € m	Impaired loans: Individually assessed € m	Impaired loans: Collectively assessed € m	Impaired loans: Total € m	Impaired loans: % of total loans	Specific impairment provisions: Total € m	Specific impairment provisions: % of impaired loans
Retail							
Residential mortgages	39,833	4,317	4,854	9,171	23	3,222	35
Other personal lending	4,112	828	531	1,359	33	1,058	78
Total retail	43,945	5,145	5,385	10,530	24	4,280	41
Commercial							
Property and construction	17,977	10,287	452	10,739	60	6,948	65
SME/commercial	13,727	3,669	683	4,352	32	2,878	66
Total commercial	31,704	13,956	1,135	15,091	48	9,826	65
Corporate	4,404	416	–	416	9	185	45
Total	80,053	19,517	6,520	26,037	33	14,291	55
Specific impairment provisions at 30 June 2014		11,467	2,824	14,291			
		%	%	%			
Specific provision cover percentage		59	43	55			

31 December 2013*

	Gross loans and receivables € m	Impaired loans: Individually assessed € m	Impaired loans: Collectively assessed € m	Impaired loans: Total € m	Impaired loans: % of total loans	Specific impairment provisions: Total € m	Specific impairment provisions: % of impaired loans
Retail							
Residential mortgages	40,764	4,104	4,979	9,083	22	3,333	37
Other personal lending	4,291	866	557	1,423	33	1,092	77
Total retail	45,055	4,970	5,536	10,506	23	4,425	42
Commercial							
Property and construction	19,710	12,668	486	13,154	67	8,114	62
SME/commercial	13,779	4,054	721	4,775	35	3,131	66
Total commercial	33,489	16,722	1,207	17,929	54	11,245	63
Corporate	4,307	476	–	476	11	228	48
Total	82,851	22,168	6,743	28,911	35	15,898	55
Specific impairment provisions at 31 December 2013		12,875	3,023	15,898			
		%	%	%			
Specific provision cover percentage		58	45	55			

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Credit profile of the loan portfolio

Provisions – income statement*

The following table analyses the income statement impairment provision charge/(credit):

				Half-year 30 June 2014
	DCB € m	**AIB UK € m**	**FSG € m**	**Total € m**
Specific provisions – Individually significant loans and receivables	**112**	**52**	**(278)**	**(114)**
– Individually insignificant loans and receivables	**110**	**15**	**185**	**310**
IBNR	**(85)**	**(1)**	**(11)**	**(97)**
Total provisions for impairment charge on loans and receivables to customers	**137**	**66**	**(104)**	**99**
Provisions for impairment charge on loans and receivables to banks				**(7)**
Provisions charge for liabilities and commitments				**–**
Provisions for impairment charge on financial investments available for sale				**–**
Total				**92**

				Half-year 30 June 2013
	DCB € m	AIB UK € m	FSG € m	Total € m
Specific provisions – Individually significant loans and receivables	153	17	603	773
– Individually insignificant loans and receivables	174	26	122	322
IBNR	(129)	(28)	(197)	(354)
Total provisions for impairment charge on loans and receivables to customers	198	15	528	741
Provisions for impairment charge on loans and receivables to banks				3
Provisions charge for liabilities and commitments				3
(Writeback)/provisions for impairment charge on financial investments available for sale				(9)
Total				738

The following table analyses by segment the income statement provision charge/(credit) for loans and receivables to customers:

			Half-year 30 June 2014			Half-year 30 June 2013
	Residential mortgages € m	**Other € m**	**Total € m**	Residential mortgages € m	Other € m	Total € m
DCB	**6**	**131**	**137**	111	87	198
AIB UK	**6**	**60**	**66**	(15)	30	15
FSG	**(35)**	**(69)**	**(104)**	126	402	528
Total	**(23)**	**122**	**99**	222	519	741

The following table analyses by segment the impairment provision charge/(credit) as a percentage of average loans and receivables to customers expressed as basis points ("bps"):

			Half-year 30 June 2014			Half-year 30 June 2013
	Residential mortgages bps	**Other bps**	**Total bps**	Residential mortgages bps	Other bps	Total bps
DCB	**3**	**200**	**58**	64	132	83
AIB UK	**45**	**112**	**99**	(103)	100	35
FSG	**(197)**	**(78)**	**(98)**	533	305	340
Total	**(12)**	**59**	**24**	105	228	169

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Credit risk – Credit profile of the loan portfolio

Provisions for impairment on loans and receivables to customers – income statement

The income statement provision charge for loans and receivables to customers was € 99 million or 0.24% of average customer loans compared with € 741 million or 1.69% for the first six months of 2013. The provision charge comprised of € 196 million in specific provisions off-set by a release of IBNR provisions of € 97 million (30 June 2013: € 1,095 million in specific provisions off-set by a release of IBNR provisions of € 354 million). The specific provision charge was € 0.2 billion for the six months to 30 June 2014 reduced from € 1.1 billion in the same period in 2013. The reduction was driven by a lower level of new impaired loans, and writeback of provisions due to restructuring activity in FSG.

The six months to 30 June 2014 income statement provision charge of € 137 million in DCB comprises a specific charge of € 222 million off-set by an IBNR release of € 85 million. This compares to an income statement provision charge of € 198 million for the same period in 2013 and which was off-set by a release of IBNR provision of € 129 million. The reduction is primarily related to a reduced charge on the mortgage portfolio. The DCB non-mortgage sectors experienced an increase in provision charge of € 44 million for the six months to 30 June 2014 compared to the same period in 2013. This mainly reflects the low level of criticised loans in DCB during 2013. This was driven by the segment split which resulted in non-mortgage vulnerable loans and impaired loans at 31 December 2012 being reported in FSG.

There was an income statement provision release in FSG for the six months to 30 June 2014 of € 104 million, which comprised a specific provision release of € 93 million and an IBNR release of € 11 million. This compares to an income statement provision charge of € 528 million for the same period in 2013, including a release of IBNR provision of € 197 million. The provision release reflects the lower levels of new impaired loans and provision writeback as a result of debt restructuring.

The six months to 30 June 2014 income statement provision charge of € 66 million in AIB UK comprises a specific charge of € 67 million off-set by an IBNR release of € 1 million. This compares to an income statement provision charge of € 15 million for the same period in 2013 and which included a release of IBNR provision of € 28 million. The specific provision charge in AIB UK in the period to 30 June 2014 increased by € 24 million compared to the same period in 2013 and primarily is a result of the increased portfolio classified as AIB UK from 1 July 2013.

Risk management

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages*

The following tables show an analysis by segment of Republic of Ireland residential mortgages setting out credit quality and impairment provisions:

	DCB			FSG			Total		30 June 2014
Statement of financial position	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**
Total gross residential mortgages	**30,113**	**3,691**	**33,804**	**–**	**3,448**	**3,448**	**30,113**	**7,139**	**37,252**
In arrears (>30 days past due)[(1)]	**5,901**	**839**	**6,740**	**–**	**2,980**	**2,980**	**5,901**	**3,819**	**9,720**
In arrears (>90 days past due)[(1)]	**5,523**	**788**	**6,311**	**–**	**2,942**	**2,942**	**5,523**	**3,730**	**9,253**
Of which impaired	**5,283**	**738**	**6,021**	**–**	**2,854**	**2,854**	**5,283**	**3,592**	**8,875**
Statement of financial position specific provisions	**1,560**	**296**	**1,856**	**–**	**1,224**	**1,224**	**1,560**	**1,520**	**3,080**
Statement of financial position IBNR provisions	**406**	**76**	**482**	**–**	**34**	**34**	**406**	**110**	**516**
Provision cover percentage	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Specific provisions/impaired loans	**29.5**	**40.1**	**30.8**	**–**	**42.9**	**42.9**	**29.5**	**42.3**	**34.7**

Income statement - impairment charge	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**Half-year 30 June 2014 € m**
Income statement specific provisions	**33**	**27**	**60**	**–**	**(23)**	**(23)**	**33**	**4**	**37**
Income statement IBNR provisions	**(27)**	**(27)**	**(54)**	**–**	**(12)**	**(12)**	**(27)**	**(39)**	**(66)**
Total impairment charge	**6**	**–**	**6**	**–**	**(35)**	**(35)**	**6**	**(35)**	**(29)**

[(1)]Includes all impaired loans whether past due or not.

*Forms an integral part of the condensed consolidated interim financial statements

Risk management

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages* *(continued)*

									31 December 2013
	DCB			FSG			Total		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Total gross residential mortgages	30,714	3,817	34,531	–	3,620	3,620	30,714	7,437	38,151
In arrears (>30 days past due)(1)	5,943	775	6,718	–	3,110	3,110	5,943	3,885	9,828
In arrears (>90 days past due)(1)	5,395	729	6,124	–	3,069	3,069	5,395	3,798	9,193
Of which impaired	5,130	673	5,803	–	2,985	2,985	5,130	3,658	8,788
Statement of financial position specific provisions	1,657	266	1,923	–	1,281	1,281	1,657	1,547	3,204
Statement of financial position IBNR provisions	443	103	546	–	46	46	443	149	592
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	32.3	39.4	33.1	–	42.9	42.9	32.3	42.3	36.5

									Half-year 30 June 2013
Income statement - impairment charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Income statement specific provisions	197	45	242	–	148	148	197	193	390
Income statement IBNR provisions	(101)	(30)	(131)	–	(22)	(22)	(101)	(52)	(153)
Total impairment charge	96	15	111	–	126	126	96	141	237

(1)Includes all impaired loans whether past due or not.

*Forms an integral part of the audited financial statements

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages *(continued)*

Residential mortgages in the Republic of Ireland (reported in the DCB and FSG segments) amounted to € 37.3 billion at 30 June 2014 compared to € 38.2 billion at 31 December 2013, the decrease primarily relating to loan repayments in the period which exceeded the demand for new lending. The split of the residential mortgage portfolio was 81% owner-occupier and 19% buy-to-let and comprised 40% tracker rate, 53% variable rate and 7% fixed rate mortgages.

Total loan arrears in the residential mortgage portfolio decreased by 6% in the period, driven by a decrease of 9% in the owner-occupier portfolio resulting from improved economic conditions and increased restructuring activity. There was a decrease in loans in early arrears (less than 90 days past due) in the period as well as a reduction in the numbers of new accounts entering arrears. The total number of accounts in arrears greater than 90 days past due at 12.8% decreased in the period, and remains below the industry average[(1)] of 13.7%. For the owner-occupier book, loans in arrears greater than 90 days were also below industry average at 30 June 2014 at 10.5% compared to 12.2% for the industry[(1)]. For the buy-to-let portfolio, loans greater than 90 days past due at 25.7% exceeded the industry average[(1)] of 21.5%. The total amount of repayments overdue on residential mortgages was € 1.1 billion at 30 June 2014 compared to € 1.0 billion at 31 December 2013.

Included in the residential mortgage loan portfolio is € 5.4 billion of loans which were subject to forbearance measures at 30 June 2014 (31 December 2013: € 5.0 billion), of which € 3.3 billion was impaired (31 December 2013: € 2.9 billion). The increase in the portfolio subject to forbearance in comparison to that at 31 December 2013 is reflective of the Group's focus on agreeing sustainable solutions with customers.

47% of the total residential mortgage portfolio was in negative equity at the half-year end (31 December 2013: 51%) caused by the decrease in house prices since their peak in 2007; however the quantum of negative equity in the portfolio reduced from € 4.6 billion at 31 December 2013 to € 4.0 billion at 30 June 2014, reflecting the increase in residential property prices in Ireland during 2014 and loan amortisation.

Total owner-occupier and buy-to-let impaired loans remained relatively stable in the six months to 30 June 2014 at € 8.9 billion, with an increase of € 0.1 billion from 31 December 2013 at € 8.8 billion. The pace of increase in impaired loans continued to slow, with the amount of new impaired loans in the period showing a decrease in comparison to those during both the first half and second half of 2013.

Statement of financial position specific provisions of € 3.1 billion were held for the impaired portfolio at 30 June 2014 and provided cover of 34.7% compared to 36.5% at 31 December 2013, driven mainly by a reduction in the peak-to-trough house price assumption used in the calculation of the collective provisions. The decrease from 55% to 52% in the assumption, in line with the change in market prices, resulted in a reduction in the specific cover level, primarily in the owner-occupier portfolio which has a larger proportion of collective specific provisions. Statement of financial position IBNR provisions of € 0.5 billion were held at 30 June 2014 compared to € 0.6 billion at 31 December 2013, with the decrease due primarily to the reduction in the peak-to-trough house price assumption and the improved credit environment.

The income statement specific provision charge for the six months to 30 June 2014 was € 37 million compared to € 390 million for the six months to 30 June 2013. The improvement in the Irish economy, including lower unemployment and a continued stabilisation in property prices resulted in lower levels of impairment in 2014. The reduction in the peak-to-trough house price assumption was also a contributing factor to the lower charge. The income statement IBNR release for the six months to 30 June 2014 of € 66 million compares to a release of € 153 million for the six months to 30 June 2013.

Statement of financial position specific provisions of € 1.0 billion were held against the forborne impaired portfolio of € 3.3 billion providing cover of 31.3%. In relation to the non-impaired forborne loans of € 2.1 billion, of which € 0.8 billion is on an interest only arrangement or an arrangement to repay amounts greater than interest only, statement of financial position IBNR provisions of € 0.2 billion were held at 30 June 2014.

[(1)]Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 31 March 2014, based on numbers of accounts.

Credit risk – Credit profile of the loan portfolio

Credit quality profile of residential mortgages

The following table profiles the asset quality of the Republic of Ireland residential mortgage portfolio:

	30 June 2014			31 December 2013		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	**23,595**	**3,230**	**26,825**	24,032	3,458	27,490
Past due but not impaired	**1,235**	**317**	**1,552**	1,552	321	1,873
Impaired - provisions held	**5,283**	**3,592**	**8,875**	5,130	3,658	8,788
Gross residential mortgages	**30,113**	**7,139**	**37,252**	30,714	7,437	38,151
Provisions for impairment	**(1,966)**	**(1,630)**	**(3,596)**	(2,100)	(1,696)	(3,796)
	28,147	**5,509**	**33,656**	28,614	5,741	34,355

Residential mortgages which were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically, for more than ninety days or if the borrower exhibits an inability to meet their obligations to the Group based on objective evidence of loss events ("impairment triggers")(1) such as a request for a forbearance measure. Loans are deemed impaired where the expected future cashflows either from the loan itself or from associated collateral will not be sufficient to repay the loan and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

(1)Examples of impairment triggers are set out on pages 81 and 82 of the Annual Financial Report 2013.

The following table profiles the Republic of Ireland residential mortgage portfolio that was past due but not impaired:

	30 June 2014			31 December 2013		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**617**	**90**	**707**	739	94	833
31 - 60 days	**231**	**51**	**282**	324	49	373
61 - 90 days	**147**	**38**	**185**	224	38	262
91 - 180 days	**108**	**47**	**155**	165	62	227
181 - 365 days	**85**	**51**	**136**	72	46	118
Over 365 days	**47**	**40**	**87**	28	32	60
Total past due but not impaired	**1,235**	**317**	**1,552**	1,552	321	1,873
Total gross residential mortgages	**30,113**	**7,139**	**37,252**	30,714	7,437	38,151

The amount of loans past due but not impaired at 30 June 2014 decreased by 17% in comparison to 31 December 2013, driven by a decrease in loans in arrears for less than 90 days in the owner-occupier book.

Credit risk – Credit profile of the loan portfolio

Residential mortgages which were impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was impaired:

	30 June 2014			31 December 2013		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	**959**	**782**	**1,741**	686	873	1,559
1 - 30 days	**211**	**150**	**361**	173	165	338
31 - 60 days	**136**	**103**	**239**	146	126	272
61 - 90 days	**117**	**89**	**206**	152	125	277
91 - 180 days	**494**	**240**	**734**	615	308	923
181 - 365 days	**768**	**486**	**1,254**	916	494	1,410
Over 365 days	**2,598**	**1,742**	**4,340**	2,442	1,567	4,009
Total impaired	**5,283**	**3,592**	**8,875**	5,130	3,658	8,788
Total gross residential mortgages	**30,113**	**7,139**	**37,252**	30,714	7,437	38,151

Impaired loans increased by € 0.1 billion in the six months to 30 June 2014, with the pace of increase in impaired loans slowing in 2014 in comparison to both the first half and second half of 2013. This reduction in the pace of increase in impaired loans is especially evident in the buy-to-let portfolio, driven by an improved economic environment, including an increase in private rents, increases in residential property values and an increase in restructuring. Of the residential mortgage portfolio that was impaired at 30 June 2014, € 1.7 billion or 20% was not past due (31 December 2013: € 1.6 billion or 18%), of which € 1.0 billion (31 December 2013: € 0.8 billion) was subject to forbearance measures at 30 June 2014 and were deemed to be impaired as part of their assessment for a forbearance solution.

Credit risk – Credit profile of the loan portfolio

Forbearance – residential mortgages

The Group has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty, which builds on and formalises the Group's Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty.

Further details on MARS are set out on page 80 of the 2013 Annual Financial Report, along with the forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments.

The following table analyses the movements in the stock of loans subject to forbearance by (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages:

	30 June 2014		31 December 2013	
Republic of Ireland owner-occupier	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**19,848**	**2,952**	22,248	3,544
Additions	**8,734**	**1,183**	6,873	981
Expired arrangements[(1)]	**(3,258)**	**(532)**	(8,706)	(1,463)
Payments	**–**	**(90)**	–	(107)
Interest	**–**	**26**	–	35
Closed accounts[(2)]	**(403)**	**(26)**	(521)	(35)
Other movements	**(15)**	**(1)**	(46)	(3)
At end of period	**24,906**	**3,512**	19,848	2,952

	30 June 2014		31 December 2013	
Republic of Ireland buy-to-let	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**8,309**	**1,998**	8,925	2,233
Additions	**1,331**	**294**	2,061	459
Expired arrangements[(1)]	**(1,465)**	**(302)**	(2,577)	(612)
Payments	**–**	**(56)**	–	(73)
Interest	**–**	**11**	–	14
Closed accounts[(2)]	**(126)**	**(45)**	(146)	(26)
Other movements	**15**	**1**	46	3
At end of period	**8,064**	**1,901**	8,309	1,998

	30 June 2014		31 December 2013	
Republic of Ireland – Total	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**28,157**	**4,950**	31,173	5,777
Additions	**10,065**	**1,477**	8,934	1,440
Expired arrangements[(1)]	**(4,723)**	**(834)**	(11,283)	(2,075)
Payments	**–**	**(146)**	–	(180)
Interest	**–**	**37**	–	49
Closed accounts[(2)]	**(529)**	**(71)**	(667)	(61)
Other movements	**–**	**–**	–	–
At end of period	**32,970**	**5,413**	28,157	4,950

[(1)]Expired arrangements relate to loans subject to forbearance that are included in the forbearance stock at 1 January but whose temporary forbearance arrangements expired during the period. Consequently, such loans are not included in the forbearance stock at the period end.

[(2)]Accounts closed during the period due primarily to customer repayments and redemptions.

Loans subject to forbearance measures increased by € 0.5 billion in the six months to 30 June 2014 (2013: decrease of € 0.8 billion) due to an increase in split mortgages and arrears capitalisations, offset by decreases in interest only and reduced payment arrangements. The number of expired arrangements decreased in the period in comparison the number of expired arrangements in 2013 which had seen the expiry of a large number of interest only arrangements. The movement in forbearance stock is discussed in more detail on page 48.

Credit risk – Credit profile of the loan portfolio

Forbearance – residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

The following tables analyse by type of forbearance, (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages that were subject to forbearance measures in the Republic of Ireland:

						30 June 2014
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland owner-occupier		€ m		€ m		€ m
Interest only	4,880	773	2,590	424	2,290	349
Reduced payment (greater than interest only)	1,513	288	955	207	558	81
Payment moratorium	365	54	118	17	247	37
Arrears capitalisation	10,771	1,555	6,376	1,002	4,395	553
Term extension	5,771	610	784	89	4,987	521
Split mortgages	1,381	210	1,381	210	–	–
Other	225	22	175	17	50	5
Total forbearance	**24,906**	**3,512**	**12,379**	**1,966**	**12,527**	**1,546**

						30 June 2014
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland buy-to-let		€ m		€ m		€ m
Interest only	2,407	633	1,586	457	821	176
Reduced payment (greater than interest only)	889	202	518	125	371	77
Payment moratorium	127	22	77	15	50	7
Arrears capitalisation	3,645	909	3,167	827	478	82
Term extension	822	113	162	26	660	87
Split mortgages	–	–	–	–	–	–
Other	174	22	160	21	14	1
Total forbearance	**8,064**	**1,901**	**5,670**	**1,471**	**2,394**	**430**

						30 June 2014
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland – Total		€ m		€ m		€ m
Interest only	7,287	1,406	4,176	881	3,111	525
Reduced payment (greater than interest only)	2,402	490	1,473	332	929	158
Payment moratorium	492	76	195	32	297	44
Arrears capitalisation	14,416	2,464	9,543	1,829	4,873	635
Term extension	6,593	723	946	115	5,647	608
Split mortgages	1,381	210	1,381	210	–	–
Other	399	44	335	38	64	6
Total forbearance	**32,970**	**5,413**	**18,049**	**3,437**	**14,921**	**1,976**

Credit risk – Credit profile of the loan portfolio

Forbearance – residential mortgages *(continued)*

						31 December 2013
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	4,189	694	1,771	320	2,418	374
Reduced payment (greater than interest only)	1,661	350	980	238	681	112
Payment moratorium	352	54	113	16	239	38
Arrears capitalisation	7,067	1,150	4,555	805	2,512	345
Term extension	6,233	657	989	108	5,244	549
Split mortgages	236	35	162	23	74	12
Other[(1)]	110	12	75	6	35	6
Total forbearance	19,848	2,952	8,645	1,516	11,203	1,436

						31 December 2013
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	3,276	844	2,196	620	1,080	224
Reduced payment (greater than interest only)	1,157	258	721	166	436	92
Payment moratorium	110	23	80	17	30	6
Arrears capitalisation	2,926	758	2,606	701	320	57
Term extension	810	112	143	23	667	89
Split mortgages	–	–	–	–	–	–
Other[(1)]	30	3	22	3	8	–
Total forbearance	8,309	1,998	5,768	1,530	2,541	468

						31 December 2013
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland – Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	7,465	1,538	3,967	940	3,498	598
Reduced payment (greater than interest only)	2,818	608	1,701	404	1,117	204
Payment moratorium	462	77	193	33	269	44
Arrears capitalisation	9,993	1,908	7,161	1,506	2,832	402
Term extension	7,043	769	1,132	131	5,911	638
Split mortgages	236	35	162	23	74	12
Other[(1)]	140	15	97	9	43	6
Total forbearance	28,157	4,950	14,413	3,046	13,744	1,904

[(1)]Mainly comprise 'voluntary sale for loss' solutions.

As noted previously, loans subject to forbearance measures increased by € 0.5 billion in the six months to 30 June 2014 compared to a decrease in 2013 of € 0.8 billion. The decrease in 2013 (mainly interest only) was driven by the Group's strategy to ensure that forbearance solutions agreed with customers are sustainable in the long term. The focus on sustainable solutions is now beginning to be observed in the forbearance stock with an increase in split mortgages of € 0.2 billion in the six months to 30 June 2014. There has also been an increase in arrears capitalisations, with half of these by number involving relatively small values of, on average, € 300. These movements were offset by decreases in the stock of loans on interest only arrangements and those with arrangements to pay reduced payments, which each reduced by € 0.1 billion.

The majority of the loans subject to forbearance measures at 30 June 2014 were loans on which arrears have been capitalised (46% of the total forbearance stock) and, as these loans remain within the stock of forbearance for a period of 5 years, include some loans

Credit risk – Credit profile of the loan portfolio

Forbearance – residential mortgages *(continued)*

where the interest only arrangement had expired at 30 June 2014 but where a capitalisation of arrears had been applied at some time over the last 5 years.

The stock of loans subject to forbearance measures and more than 90 days in arrears and/or impaired increased in the period. This reflects the continued focus by the Group on the development of sustainable forbearance solutions for customers, including customers whose loans are impaired.

Residential mortgages subject to forbearance measures – past due but not impaired

All loans that are assessed for a forbearance solution are tested for impairment either individually or collectively, irrespective of whether such loans are past due or not. Where the loans are deemed not to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was past due but not impaired:

			30 June 2014			31 December 2013
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**174**	**26**	**200**	154	22	176
31 - 60 days	**69**	**15**	**84**	70	13	83
61 - 90 days	**49**	**10**	**59**	53	11	64
91 - 180 days	**53**	**16**	**69**	55	22	77
181 - 365 days	**43**	**19**	**62**	34	14	48
Over 365 days	**24**	**15**	**39**	14	13	27
Total past due but not impaired	**412**	**101**	**513**	380	95	475
Total forbearance	**3,512**	**1,901**	**5,413**	2,952	1,998	4,950

The amount of loans subject to forbearance and past due but not impaired increased in the period in line with the increase in the stock of loans subject to forbearance measures and driven by an increase in the arrears of less than 30 days. The proportion of the portfolio past due but not impaired reduced marginally in the period from 10% at 31 December 2013 to 9% at 30 June 2014.

Residential mortgages subject to forbearance measures – impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was impaired:

			30 June 2014			31 December 2013
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	**584**	**407**	**991**	331	439	770
1 - 30 days	**149**	**70**	**219**	98	78	176
31 - 60 days	**84**	**52**	**136**	72	62	134
61 - 90 days	**62**	**47**	**109**	64	63	127
91 - 180 days	**192**	**120**	**312**	205	143	348
181 - 365 days	**266**	**218**	**484**	246	217	463
Over 365 days	**509**	**507**	**1,016**	397	479	876
Total impaired	**1,846**	**1,421**	**3,267**	1,413	1,481	2,894
Total forbearance	**3,512**	**1,901**	**5,413**	2,952	1,998	4,950

As noted above, the amount of impaired loans subject to forbearance at 30 June 2014 increased in the period. Statement of financial position specific provisions of € 1.0 billion were held against the forborne impaired book at 30 June 2014, providing cover of 31.3%, while the income statement specific provision charge was € 40 million for the period.

Credit risk – Credit profile of the loan portfolio

Republic of Ireland residential mortgages – properties in possession[1]

AIB seeks to avoid repossession through working with customers, but where agreement cannot be reached, AIB proceeds to repossession of the property or the appointment of a fixed asset receiver, using external agents to realise the maximum value as soon as is practicable. Where the Group believes that the proceeds of sale of a property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance and the remaining loan continues to be recognised on the statement of financial position.

For the purpose of the following table, a residential property is considered to be in AIB's possession when AIB has taken possession of and is in a position to dispose of the property. This includes situations of repossession, voluntary surrender and abandonment of the property. This is a change from previously reported repossessions. Accordingly, the stock of residential properties in possession at 31 December 2013 now includes 218 properties which were in AIB's possession through abandonment, but where AIB had not secured legal title. The Group intends to dispose of all such properties in the foreseeable future.

The number (stock) of properties in possession is set out below:

	30 June 2014		31 December 2013	
	Stock	**Balance outstanding € m**	Stock	Balance outstanding € m
Owner-occupier	**346**	**94**	308	82
Buy-to-let	**64**	**14**	70	18
Total	**410**	**108**	378	100

[1]The number of residential properties in possession relates to those held as security for residential mortgages only.

The increase in the stock of residential properties in possession in the period relates to the addition of 87 properties, partly offset by the disposal of 55 properties. The majority of the properties taken into possession in the period were by way of voluntary surrender or abandonment of the property.

The disposal of 55 residential properties in the Republic of Ireland in the period resulted in a total loss on disposal of € 10 million (before specific impairment provisions) and compares to 2013 when 92 residential properties were disposed of resulting in a total loss of € 19 million. Losses on the sale of such properties are recognised in the income statement as part of the specific provision charge.

Credit risk – Credit profile of the loan portfolio

United Kingdom ("UK") residential mortgages

The following table analyses the UK residential mortgage portfolio showing impairment provisions:

	30 June 2014			31 December 2013		
Statement of financial position	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	**2,227**	**354**	**2,581**	2,252	361	2,613
In arrears (>30 days past due)[1]	**297**	**63**	**360**	325	66	391
In arrears (>90 days past due)[1]	**273**	**59**	**332**	295	60	355
Of which impaired	**246**	**50**	**296**	243	52	295
Statement of financial position specific provisions	**110**	**32**	**142**	99	30	129
Statement of financial position IBNR provisions	**20**	**4**	**24**	24	3	27
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**45.0**	**63.6**	**48.1**	40.6	58.5	43.8

			Half-year 30 June 2014			Half-year 30 June 2013
Income statement - impairment charge	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Income statement specific provisions	**9**	**1**	**10**	14	9	23
Income statement IBNR provisions	**(5)**	**1**	**(4)**	(29)	(9)	(38)
Total impairment charge	**4**	**2**	**6**	(15)	–	(15)

[1]Includes all impaired loans whether past due or not.

Total loans in arrears in the UK residential mortgage portfolio decreased in the six months to June 2014 driven by improved economic conditions, with total loans in arrears greater than 90 days reducing from 12.5% to 11.5%. Statement of financial position specific provisions of € 142 million were held at 30 June 2014 and provided cover of 48.1% (31 December 2013: € 129 million providing cover of 43.8%). IBNR statement of financial position provisions of € 24 million were held at 30 June 2014, down from € 27 million at 31 December 2013, reflecting management's view of incurred loss in the non-impaired book.

Credit quality profile of United Kingdom residential mortgages

The following table profiles the asset quality of the UK residential mortgage portfolio:

	30 June 2014			31 December 2013		
United Kingdom	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	**1,905**	**288**	**2,193**	1,906	292	2,198
Past due but not impaired	**76**	**16**	**92**	103	17	120
Impaired - provisions held	**246**	**50**	**296**	243	52	295
Gross residential mortgages	**2,227**	**354**	**2,581**	2,252	361	2,613
Provisions for impairment	**(130)**	**(36)**	**(166)**	(123)	(33)	(156)
	2,097	**318**	**2,415**	2,129	328	2,457

Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages which were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically for more than ninety days, or if the borrower exhibits an inability to meet its obligations to the Group based on objective evidence of loss events ("impairment triggers")(1) such as a request for forbearance. Loans are deemed impaired where the expected future cashflows either from the loan itself or from associated collateral will not be sufficient to repay the loan and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

(1)Examples of impairment triggers are set out on pages 81 and 82 of the Annual Financial Report 2013.

The following table profiles the UK residential mortgage portfolio that was past due but not impaired:

			30 June 2014			31 December 2013
United Kingdom	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**25**	**3**	**28**	21	3	24
31 - 60 days	**9**	**2**	**11**	15	3	18
61 - 90 days	**15**	**2**	**17**	15	3	18
91 - 180 days	**10**	**3**	**13**	16	2	18
181 - 365 days	**8**	**5**	**13**	20	6	26
Over 365 days	**9**	**1**	**10**	16	–	16
Total	**76**	**16**	**92**	103	17	120
Total gross residential mortgages	**2,227**	**354**	**2,581**	2,252	361	2,613

The amount of loans past due but not impaired at 30 June 2014 decreased in comparison to 31 December 2013, driven by a decrease in residential mortgages that were past due for more than 90 days.

United Kingdom residential mortgages which were impaired

The following table profiles the UK residential mortgage portfolio that was impaired:

			30 June 2014			31 December 2013
United Kingdom	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Not in arrears	**15**	**3**	**18**	10	1	11
1 - 30 days	**7**	**1**	**8**	2	1	3
31 - 60 days	**2**	**–**	**2**	4	–	4
61 - 90 days	**5**	**2**	**7**	10	1	11
91 - 180 days	**16**	**3**	**19**	17	5	22
181 - 365 days	**26**	**7**	**33**	51	15	66
Over 365 days	**175**	**34**	**209**	149	29	178
Total impaired	**246**	**50**	**296**	243	52	295
Total gross residential mortgages	**2,227**	**354**	**2,581**	2,252	361	2,613

The stock of impaired loans remained stable at 30 June 2014 in comparison to 31 December 2013, with an increase of € 1 million in the period.

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages – properties in possession[(1)]

AIB seeks to avoid repossession through working with customers, but where agreement cannot be reached, AIB proceeds to repossession of the property or the appointment of a fixed asset receiver, using external agents to realise the maximum value as soon as is practicable. Where the Group believes that the proceeds of sale of a property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance and the remaining loan continues to be recognised on the statement of financial position.

For the purpose of the following table, a residential property is considered to be in AIB's possession when AIB has taken possession of and is in a position to dispose of the property. This includes situations of repossession, voluntary surrender and abandonment of the property.

The number (stock) of properties in possession is set out below:

	30 June 2014		31 December 2013	
	Stock	**Balance outstanding € m**	Stock	Balance outstanding € m
Owner-occupier	**118**	**34**	136	36
Buy-to-let	**50**	**10**	76	14
Total	**168**	**44**	212	50

[(1)]The number of residential properties in possession relates to those held as security for residential mortgages only.

The decrease in the stock of properties in possession in the six months to 30 June 2014 relates to the disposal of 132 properties in the period, partly offset by the addition of 88 properties.

The disposal of 132 residential properties in the period resulted in a loss on disposal of € 16 million (before specific impairment provisions) and compares to 2013 when 205 residential properties were disposed of resulting in a loss on disposal of € 24 million. Losses on the sale of such properties are recognised in the income statement as part of the specific provision charge.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Other personal lending

The following table analyses other personal lending by segment showing asset quality and impairment provisions:

	30 June 2014				31 December 2013			
	DCB € m	AIB UK € m	FSG € m	Total € m	DCB € m	AIB UK € m	FSG € m	Total € m
Analysed as to asset quality								
Satisfactory	1,841	252	61	2,154	1,909	259	57	2,225
Watch	160	47	34	241	169	46	41	256
Vulnerable	130	50	178	358	132	50	205	387
Impaired	144	74	1,141	1,359	108	77	1,238	1,423
Total criticised loans	434	171	1,353	1,958	409	173	1,484	2,066
Total gross loans and receivables	2,275	423	1,414	4,112	2,318	432	1,541	4,291
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	19	40	96	48	18	40	96	48
Impaired loans/total loans	6	18	81	33	5	18	80	33
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	108	55	895	1,058	75	54	963	1,092
IBNR	27	3	18	48	29	3	23	55
Total impairment provisions	135	58	913	1,106	104	57	986	1,147
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	75	73	78	78	69	70	78	77
Total provisions/impaired loans	94	77	80	81	96	74	80	81
Total provisions/total loans	6	13	65	27	4	13	64	27

	Half-year 30 June 2014				Half-year 30 June 2013			
Income statement – impairment charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	37	2	16	55	16	–	80	96
IBNR	(1)	(1)	(5)	(7)	1	(4)	(8)	(11)
Total impairment charge	36	1	11	48	17	(4)	72	85
	%	%	%	%	%	%	%	%
Impairment charge/average loans	3.18	0.17	1.57	2.30	1.50	(2.45)	7.96	3.75

The other personal lending portfolio at € 4.1 billion, or 5% of total loans and receivables has reduced by € 0.2 billion for the period to 30 June 2014 and comprises € 3.2 billion in loans and overdrafts and € 0.9 billion in credit card facilities.

Personal lending loans have continued to reduce, reflecting accelerated repayments and subdued demand for new loans and other credit facilities. This is despite an increase in retail spending year on year due to improving consumer confidence and better labour market conditions.

At 30 June 2014, € 2.0 billion or 48% of the portfolio is criticised of which impaired loans amount to € 1.4 billion (31 December 2013: € 2.1 billion or 48% and € 1.4 billion). The Group has statement of financial position specific provisions of € 1.1 billion providing cover on impaired loans of 78% (31 December 2013: € 1.1 billion or 77%).

The income statement provision charge for the six months to 30 June 2014 was € 48 million or 2.30% of average customer loans, compared with € 85 million or 3.75% in the year to 30 June 2013. The reduction in impairment charge reflects an improvement in the sector, with levels of new impaired loans reduced compared to 2013.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction

The following table analyses property and construction by segment showing asset quality and impairment provisions:

	30 June 2014				31 December 2013			
	DCB € m	**AIB UK € m**	**FSG € m**	**Total € m**	DCB € m	AIB UK € m	FSG € m	Total € m
Investment								
Commercial investment	**2,187**	**2,312**	**5,100**	**9,599**	2,187	2,323	6,030	10,540
Residential investment	**272**	**850**	**1,287**	**2,409**	281	781	1,380	2,442
	2,459	**3,162**	**6,387**	**12,008**	2,468	3,104	7,410	12,982
Land and development								
Commercial development	**136**	**115**	**985**	**1,236**	133	184	1,050	1,367
Residential development	**97**	**1,188**	**2,640**	**3,925**	105	1,338	3,087	4,530
	233	**1,303**	**3,625**	**5,161**	238	1,522	4,137	5,897
Contractors	**55**	**155**	**158**	**368**	66	155	183	404
Housing associations	**–**	**440**	**–**	**440**	–	427	–	427
Total gross loans and receivables	**2,747**	**5,060**	**10,170**	**17,977**	2,772	5,208	11,730	19,710
Analysed as to asset quality								
Satisfactory	**1,683**	**1,435**	**739**	**3,857**	1,714	1,398	470	3,582
Watch	**335**	**723**	**300**	**1,358**	383	788	472	1,643
Vulnerable	**285**	**552**	**1,186**	**2,023**	255	534	542	1,331
Impaired	**444**	**2,350**	**7,945**	**10,739**	420	2,488	10,246	13,154
Total criticised loans	**1,064**	**3,625**	**9,431**	**14,120**	1,058	3,810	11,260	16,128
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**39**	**72**	**93**	**79**	38	73	96	82
Impaired loans/total loans	**16**	**46**	**78**	**60**	15	48	87	67
Impairment provisions – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**188**	**1,476**	**5,284**	**6,948**	149	1,459	6,506	8,114
IBNR	**89**	**91**	**124**	**304**	123	80	121	324
Total impairment provisions	**277**	**1,567**	**5,408**	**7,252**	272	1,539	6,627	8,438
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**42**	**63**	**67**	**65**	35	59	63	62
Total provisions/impaired loans	**63**	**67**	**68**	**68**	65	62	65	64
Total provisions/total loans	**10**	**31**	**53**	**40**	10	30	56	43

	Half-year 30 June 2014				Half-year 30 June 2013			
Income statement – impairment charge	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**52**	**39**	**(39)**	**52**	40	15	328	383
IBNR	**(29)**	**7**	**(2)**	**(24)**	8	3	(122)	(111)
Total impairment charge	**23**	**46**	**(41)**	**28**	48	18	206	272
	%	**%**	**%**	**%**	%	%	%	%
Impairment charge/average loans	**1.69**	**1.79**	**(0.74)**	**0.29**	3.44	1.47	2.54	2.53

Risk management

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction *(continued)*

The property and construction sector at 30 June 2014 amounted to 22% of total loans and receivables, or 17% of loans and receivables less provisions. The portfolio is comprised of 67% investment loans (€ 12.0 billion), 29% land and development loans (€ 5.2 billion) and 4% other property and construction loans (€ 0.8 billion).

There are continuing signs that the commercial property market in the Republic of Ireland is recovering and transactional activity for the six months to 30 June 2014 has increased significantly on 2013. The improvement in demand is observed particularly in prime locations such as Dublin city centre, although some increases are now evident in secondary locations also. Demand is strong from foreign investors but also from domestic investors who are becoming increasingly active through real estate investment trusts ("REITs"). Conditions in the UK continue to improve in 2014 with demand remaining strong, with London and the South East out performing other areas.

Credit quality within the portfolio is stabilising, with the level of criticised loans reducing from € 16.1 billion at 31 December 2013 to € 14.1 billion at 30 June 2014. Movement of loans into the criticised grades continued, albeit at a reduced rate. Vulnerable loans have increased in the six months to the 30 June 2014, and is primarily due to the increased restructuring of impaired loans following which, loans are typically classed initially as vulnerable.

Impaired loans amounted to € 10.7 billion or 60% of the portfolio (31 December 2013: € 13.2 billion or 67%). The rate of new impairment continued to decrease during the period to 30 June 2014 reflecting the improving market dynamics and the fact that 67% of this portfolio was already impaired at the start of 2014. The statement of financial position specific provision cover has increased to 65% (31 December 2013: 62%) and impaired loans have decreased by € 2.4 billion mainly due to an increase in restructuring and the utilisation of provisions.

The income statement specific impairment charge on the property and construction loan portfolio for the period to 30 June 2014 of € 52 million or 0.53% (annualised) of average customer loans compares with € 383 million or 3.57% of average loans for the comparable period to June 2013. The reduced specific provision charge reflects lower levels of new impaired loans and provision writeback as a result of debt restructuring. A release of IBNR provision of € 24 million for the period to 30 June 2014 compares with a release of € 111 million in the comparable period in 2013.

Investment

Investment property loans amounted to € 12.0 billion at 30 June 2014 (31 December 2013: € 13.0 billion) of which € 9.6 billion related to commercial investment. The reduction in the portfolio was largely as a result of restructuring, utilisation of provisions and amortisation. € 7.7 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, € 4.0 billion in the United Kingdom, € 0.1 billion in the United States of America and € 0.2 billion in other geographical locations.

Following on from 2013 which saw a significant improvement in the property investment market, recent evidence signals that the recovery continues to gain pace in 2014. Dublin continues to account for the majority of activity with some indications that investors are shifting towards assets in good secondary locations.

Early 2014 has seen the highest volume of office take up in 10 years. With office vacancy rates declining due to a lack of new office developments in recent years, further rental growth in the sector is expected. The retail sector has seen increased transactions in prime areas and shopping centres, with Dublin rents stabilising, having fallen since 2007.

€ 8.9 billion or 74% of the investment property portfolio was criticised at 30 June 2014 compared with € 10.2 billion or 78% at 31 December 2013. Included in criticised loans were € 5.9 billion of loans which were impaired (31 December 2013: € 7.6 billion) on which the Group had € 3.2 billion in statement of financial position specific provisions, providing cover of 55% (31 December 2013: € 3.9 billion,51%). Total statement of financial position provisions as a percentage of total loans are 29%, down from 32% at December 2013 for this sector. The total provision cover has reduced due to restructures and utilisation of provisions.

The income statement specific impairment charge on the investment property element of the property and construction portfolio was € 8 million or 0.12% of average property investment customer loans compared with € 236 million or 3.44% for the same period to June 2013. The reduction was due to lower new impaired loans as well as significant writeback of provisions due to restructuring.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction *(continued)*

Land and development

At 30 June 2014, Group land and development loans amounted to € 5.2 billion (31 December 2013: € 5.9 billion). € 3.9 billion of this portfolio related to loans in the Republic of Ireland and € 1.3 billion in the United Kingdom.

There are indications of improvement in the Republic of Ireland land and development market, with a shortage in the Dublin housing market fuelling demand for quality urban sites, and increases in rents and capital values once again making development feasible. While there is increased activity evident in 2014 it is typically concentrated in relatively small lot sizes and in well located sites.

€ 4.8 billion of the land and development portfolio was criticised at 30 June 2014 (31 December 2013: € 5.6 billion), including € 4.6 billion of loans which were impaired (31 December 2013: € 5.3 billion) on which the Group had € 3.6 billion in statement of financial position specific provisions providing cover of 77% (31 December 2013: 77%). The income statement impairment charge for the period to 30 June 2014 reduced to € 42 million or 1.51% (annualised) of average land and development customer loans compared with € 120 million or 3.50% for the same period to 30 June 2013, mainly due to lower new impairments and restructuring.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – SME/other commercial lending

The following table analyses SME/other commercial lending by segment showing asset quality and impairment provisions:

	30 June 2014				31 December 2013			
	DCB € m	AIB UK € m	FSG € m	Total € m	DCB € m	AIB UK € m	FSG € m	Total € m
Agriculture	1,168	62	518	1,748	1,133	58	528	1,719
Distribution:								
Hotels	384	810	874	2,068	355	870	946	2,171
Licensed premises	238	147	584	969	240	154	638	1,032
Retail/Wholesale	910	256	1,102	2,268	914	226	1,189	2,329
Other distribution	80	22	102	204	82	22	105	209
	1,612	1,235	2,662	5,509	1,591	1,272	2,878	5,741
Other services	1,170	2,525	778	4,473	1,196	2,414	828	4,438
Other	776	669	552	1,997	717	558	606	1,881
Total gross loans and receivables	4,726	4,491	4,510	13,727	4,637	4,302	4,840	13,779
Analysed as to asset quality								
Satisfactory	3,425	3,105	226	6,756	3,407	2,792	230	6,429
Watch	695	434	160	1,289	748	472	133	1,353
Vulnerable	330	300	700	1,330	273	323	626	1,222
Impaired	276	652	3,424	4,352	209	715	3,851	4,775
Total criticised loans	1,301	1,386	4,284	6,971	1,230	1,510	4,610	7,350
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	28	31	95	51	27	35	95	53
Impaired loans/total loans	6	15	76	32	5	17	80	35
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	145	372	2,361	2,878	101	375	2,655	3,131
IBNR	58	19	45	122	51	22	35	108
Total impairment provisions	203	391	2,406	3,000	152	397	2,690	3,239
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	53	57	69	66	48	52	69	66
Total provisions/impaired loans	74	60	70	69	73	56	70	68
Total provisions/total loans	4	9	53	22	3	9	56	24

	Half-year 30 June 2014				Half-year 30 June 2013			
Income statement – impairment charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	53	6	(47)	12	16	5	149	170
IBNR	8	(3)	8	13	8	11	(45)	(26)
Total impairment charge	61	3	(39)	25	24	16	104	144
	%	%	%	%	%	%	%	%
Impairment charge/average loans	2.58	0.16	(1.64)	0.37	1.03	1.06	3.01	1.96

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – SME/other commercial lending *(continued)*

At 30 June 2014, the SME/other commercial lending portfolio amounted to 17% of total loans and receivables, (17% of loans and receivables less provisions). The geographical split is 67% of advances in the Republic of Ireland and the remaining 33% in the United Kingdom.

The SME portfolio in both Ireland and the United Kingdom is concentrated in sectors which are reliant on the domestic economies. Whilst there has been some improvement in the domestic market, the economic conditions remain challenging with many SME's experiencing difficulties managing the finances of their businesses. AIB continues to engage in restructuring existing facilities in order to sustain viable businesses. Whilst overall demand for credit remains low, there is evidence that positive macro economic indicators are now starting to show increased credit activity.

The distribution sector comprises 40% of the portfolio and is split between hotels, licensed premises and retail. Whilst there has been some improvement in the domestic market and some growth in the hotel/leisure sector, partially driven by increasing foreign tourist numbers, trading conditions remain challenging. Retail sales are showing an improved trend year to date. The agriculture sector continues to perform well with strong credit demand, particularly in the dairy sub-sector. The other services sector comprises 33% of the portfolio and includes businesses such as business administration, community, social and personal services and health care.

Credit quality within the portfolio is stabilising due to the improving economic environment, with the level of criticised loans reducing from € 7.4 billion to € 7.0 billion mainly due to restructuring and repayments. This is partly off-set by continued movement of loans into the criticised grades, albeit at a reduced rate. Within criticised loans, impaired loans amounted to € 4.4 billion, a reduction of 9% from 31 December 2013. The specific provision cover at 66% is unchanged from December 2013.

The income statement provision charge for the six months to 30 June 2014 was € 25 million or 0.37% of average advances (annualised) compared with € 144 million or 1.96% for the 6 months to 30 June 2013, reflecting a lower level of new impairments and writeback of provisions due to restructuring.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Corporate lending

The following table analyses corporate lending by segment showing asset quality and impairment provisions:

	30 June 2014				31 December 2013			
	DCB € m	**AIB UK € m**	**FSG € m**	**Total € m**	DCB € m	AIB UK € m	FSG € m	Total € m
Satisfactory	**3,321**	**454**	**22**	**3,797**	2,686	772	53	3,511
Watch	**86**	**9**	**–**	**95**	99	6	–	105
Vulnerable	**66**	**2**	**28**	**96**	137	23	55	215
Impaired	**298**	**91**	**27**	**416**	346	104	26	476
Total criticised loans	**450**	**102**	**55**	**607**	582	133	81	796
Total gross loans and receivables	**3,771**	**556**	**77**	**4,404**	3,268	905	134	4,307
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**12**	**18**	**70**	**14**	18	15	60	18
Impaired loans/total loans	**8**	**16**	**35**	**9**	11	11	19	11
Impairment provisions – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**124**	**40**	**21**	**185**	153	53	22	228
IBNR	**71**	**–**	**–**	**71**	79	–	–	79
Total impairment provisions	**195**	**40**	**21**	**256**	232	53	22	307
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**42**	**44**	**79**	**45**	44	51	85	48
Total provisions/impaired loans	**65**	**44**	**79**	**62**	67	51	85	64
Total provisions/total loans	**5**	**7**	**27**	**6**	7	6	16	7

	Half-year 30 June 2014				Half-year 30 June 2013			
Income statement – impairment charge	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**20**	**10**	**–**	**30**	13	–	20	33
IBNR	**(9)**	**–**	**–**	**(9)**	(15)	–	–	(15)
Total impairment charge	**11**	**10**	**–**	**21**	(2)	–	20	18
	%	**%**	**%**	**%**	%	%	%	%
Impairment charge/average loans	**0.73**	**2.26**	**0.00[1]**	**1.00**	(0.12)	–	2.89	0.74

[1]Impairment charge rounded to Nil.

The corporate portfolio amounted to € 4.4 billion or 6% of total loans and receivables at 30 June 2014 compared with € 4.3 billion at 31 December 2013. New drawdowns in the year to date have increased significantly, however, this new business has been offset by restructuring activity along with accelerated scheduled repayments and amortisation.

The credit profile of the corporate lending portfolio continues to outperform the other loan portfolios due to less reliance on the domestic market, and on the property market. Economic stability has been more evident in the corporate sector which in turn has translated into improving credit quality throughout the portfolio. Criticised loans have decreased by € 0.2 billion in 2014. The provision cover for impaired loans has decreased slightly from 48% to 45%.

The income statement provision charge for the period to 30 June 2014 was € 21 million or 1.00% of average customer loans (30 June 2013: € 18 million or 0.74%).

Credit risk – credit profile of the loan portfolio

Internal credit ratings*

The Group uses various rating tools in managing its credit risk. The Risk management section of the Annual Financial Report 2013 (pages 71 and 72) highlights the role of rating tools in identifying and managing loans including those of lower credit quality. These lower credit quality loans are referred to as 'Criticised loans' and include Watch, Vulnerable and Impaired, and which are defined below.

For reporting purposes loans and receivables to customers are categorised into:
– (i) Neither past due nor impaired;
– (ii) Past due but not impaired; and
– (iii) Impaired.

Neither past due nor impaired are those loans that are neither contractually past due and/or have not been categorised as impaired by the Group.

Past due but not impaired are those loans where a contractually due payment has not been made. 'Past due days' is a term used to describe the cumulative number of days a missed payment is overdue. In the case of instalment type facilities, days past due arise once an approved limit has been exceeded.

This category can also include an element of facilities where negotiation with the borrower on new terms and conditions has not yet concluded to fulfilment while the original loan facility remains outside its original terms. When a facility is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

Impaired loans are defined as follows: a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

Loans that are neither past due nor impaired are further classified into 'Good upper, Good lower, Watch and Vulnerable', which are described as follows:

Good upper: Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.
Good lower: Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.
Watch: The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.
Vulnerable: Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources.

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – credit profile of the loan portfolio

Internal credit ratings* *(continued)*

Internal credit ratings of loans and receivables to customers

The internal credit ratings profile of loans and receivables to customers by asset class is as follows:

						30 June 2014
	Residential mortgages € m	**Other personal € m**	**Property and construction € m**	**SME/other commercial € m**	**Corporate € m**	**Total € m**
Neither past due nor impaired						
Good upper	**12,350**	**158**	**121**	**64**	**701**	**13,394**
Good lower	**12,072**	**1,932**	**3,651**	**6,595**	**3,045**	**27,295**
Watch	**2,627**	**204**	**1,281**	**1,208**	**95**	**5,415**
Vulnerable	**1,969**	**212**	**1,614**	**1,031**	**92**	**4,918**
Total	**29,018**	**2,506**	**6,667**	**8,898**	**3,933**	**51,022**
Past due but not impaired						
Good upper	**5**	**1**	**1**	**1**	**10**	**18**
Good lower	**92**	**63**	**84**	**96**	**41**	**376**
Watch	**523**	**37**	**77**	**81**	**–**	**718**
Vulnerable	**1,024**	**146**	**409**	**299**	**4**	**1,882**
Total	**1,644**	**247**	**571**	**477**	**55**	**2,994**
Total impaired	**9,171**	**1,359**	**10,739**	**4,352**	**416**	**26,037**
Total gross loans and receivables	**39,833**	**4,112**	**17,977**	**13,727**	**4,404**	**80,053**
Unearned income						**(112)**
Deferred costs						**65**
Impairment provisions						**(15,376)**
Total						**64,630**

						31 December 2013
	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	Total € m
Neither past due nor impaired						
Good upper	13,070	190	153	83	696	14,192
Good lower	12,148	1,915	3,295	6,211	2,793	26,362
Watch	2,776	207	1,538	1,243	105	5,869
Vulnerable	1,694	223	912	905	197	3,931
Total	29,688	2,535	5,898	8,442	3,791	50,354
Past due but not impaired						
Good upper	10	2	–	1	2	15
Good lower	65	118	134	134	20	471
Watch	653	49	105	110	–	917
Vulnerable	1,265	164	419	317	18	2,183
Total	1,993	333	658	562	40	3,586
Total impaired	9,083	1,423	13,154	4,775	476	28,911
Total gross loans and receivables	40,764	4,291	19,710	13,779	4,307	82,851
Unearned income						(101)
Deferred costs						74
Impairment provisions						(17,083)
Total						65,741

The table above shows an increase in vulnerable loans in the property and construction sector of € 0.7 billion. This is primarily due to the increased restructuring of impaired loans in the six months to 30 June 2014. Following a restructure, which results in an upgrade from impaired, loans are typically classed initially as vulnerable.

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Credit profile of the loan portfolio

Leveraged debt by geographic location and industry sector

Leveraged lending (including the financing of management buy-outs, buy-ins and private equity buy-outs) is conducted primarily through specialist lending teams. The leveraged loan book is held as part of the loans and receivables to customers portfolio. Specific impairment provisions of Nil (31 December 2013: € 0.5 million) are currently held against impaired exposures of Nil (31 December 2013: € 14 million). The unfunded element below includes off-balance sheet facilities and the undrawn element of facility commitments.

	30 June 2014		31 December 2013	
Leveraged debt by geographic location*	**Funded € m**	**Unfunded € m**	Funded € m	Unfunded € m
United Kingdom	**37**	**–**	44	3
Rest of Europe	**5**	**–**	20	1
United States of America	**256**	**5**	271	21
Rest of the World	**–**	**–**	–	–
	298	**5**	335	25

Funded leveraged debt by industry sector*	**30 June 2014 € m**	31 December 2013 € m
Distribution	**32**	40
Energy	**2**	–
Financial	**7**	11
Manufacturing	**63**	78
Transport	**67**	83
Other services	**127**	122
	298	334

Large exposures (including disposal groups and non-current assets held for sale)

AIB's Group Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 30 June 2014, the Group's top 50 on-balance sheet gross loans and receivables amounted to € 5.1 billion, and accounted for 6.4% (€ 5.6 billion and 6.7% at 31 December 2013) of the Group's on-balance sheet total gross loans and receivables to customers. No single customer exposure exceeded regulatory guidelines. In addition, the Group holds NAMA senior bonds amounting to € 11.8 billion (31 December 2013: € 15.6 billion).

*Forms an integral part of the condensed consolidated interim financial statements.

Credit risk – Financial investments available for sale portfolio*

The following table analyses the carrying value (fair value), of the financial investments available for sale portfolio:

	30 June 2014 € m	31 December 2013 € m
Debt securities		
Irish Government securities	**9,445**	10,328
Euro government securities	**3,100**	1,968
Non Euro government securities	**381**	608
Supranational banks and government agencies	**3,271**	3,092
Other asset backed securities	**15**	535
Euro bank securities	**3,594**	3,671
Non Euro bank securities	**–**	34
Non Euro corporate securities	**3**	3
Other investments	**12**	12
Total debt securities	**19,821**	20,251
Equity securities		
Equity securities – NAMA subordinated bonds	**304**	73
Equity securities – other	**39**	44
Total equity securities	**343**	117
Total financial investments available for sale	**20,164**	20,368

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Financial investments available for sale portfolio* *(continued)*

Debt securities

Debt securities available for sale ("AFS") have decreased from a fair value of € 20.3 billion at 31 December 2013 to € 19.8 billion at 30 June 2014. Sales and maturities of € 5.4 billion were partially offset by purchases of € 4.2 billion and an increase in fair value of € 0.7 billion.

Within the portfolio, there was a reduction in Irish sovereign holdings of € 0.9 billion and purchases of Spanish and Italian sovereign bonds (€ 0.6 billion each) in order to diversify sovereign holdings. Other movements in the portfolio were focussed on moving into assets which assist the Group's Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") e.g. sale of asset backed securities and Spanish covered bonds and purchases of supranational and higher rated covered bonds in other jurisdictions.

The increase in fair value was due to a tightening of Irish sovereign spreads and the impact of lower interest rates on fixed rate security holdings. In the rebalancing of the AFS portfolio for diversification and improved LCR/NSFR position, a net gain of € 93 million (including the cost of early termination of interest rate hedges where the hedged AFS were disposed of) was realised, mostly through the sale of Irish sovereign and sovereign guaranteed securities.

The external ratings profile of the portfolio continues to remain strong with all except € 17 million of holdings being rated Investment grade. The breakdown by rating was: AAA: 25% (2013: 23%); AA: 19% (2013: 19%); A: 2% (2013: 2%); and BBB: 54% (2013: 55%).

Equity securities

Equity securities available for sale increased by € 0.2 billion due to the increase in fair value of the NAMA subordinated debt holding. NAMA subordinated bonds are included within AFS equity securities. The fair value of these bonds at 30 June 2014 increased to € 304 million (31 December 2013: € 73 million) as the fair value price estimate was increased from 15.5% to 64.62% due to continued improvements in NAMA's financial position and forecasts.

Asset backed securities

The asset backed securities portfolio was reduced to € 15 million during the first half of 2014. Asset backed holdings in Spain, Portugal and the United Kingdom were sold off as the concentration in the portfolio was switched to higher quality assets in stronger European economies.

Bank securities

At 30 June 2014, the fair value of bank securities of € 3.6 billion (31 December 2013: € 3.7 billion) included € 2.8 billion of covered bonds (31 December 2013: € 2.8 billion), € 0.2 billion of government guaranteed senior bank debt (31 December 2013: € 0.4 billion), and € 0.6 billion of senior unsecured bank debt (31 December 2013: € 0.5 billion). Spanish and Irish bank securities were reduced by € 0.4 billion each and Dutch and Canadian holdings were increased by € 0.2 billion each, with smaller increases in Austrian, French, German and Swedish holdings.

Republic of Ireland

The fair value of Irish debt securities in the AFS category amounted to € 9.6 billion at 30 June 2014 (31 December 2013: € 10.8 billion) and consisted of sovereign debt € 9.5 billion (31 December 2013: €10.3 billion) and covered bonds of € 0.1 billion (31 December 2013: € 0.1 billion). The Group no longer holds Irish Government guaranteed senior bank debt (31 December 2013: €0.4 billion). The NAMA subordinated debt holding is classified as an available for sale equity and has a fair value of € 304 million (31 December 2013: €73 million).

In addition to Irish Government securities outlined above, NAMA senior debt amounting to € 11.99 billion nominal (31 December 2013: € 15.8 billion), which is guaranteed by the Irish Government is classified as loans and receivables to customers.

Spain

The fair value of Spanish debt securities at 30 June 2014 was € 0.6 billion (31 December 2013: € 0.7 billion). During the period, all Spanish holdings of asset backed securities and covered bonds were sold and € 0.6 billion of sovereign debt was purchased across a range of issues with maturities between 5 and 8 years.

Italy

The fair value of Italian debt securities of € 0.8 billion at 30 June 2014 comprised solely of sovereign debt securities (31 December 2013: € 0.2 billion).

*Forms an integral part of the condensed consolidated interim financial statements

Credit risk – Financial investments available for sale portfolio* *(continued)*

The following tables analyse the available for sale portfolio by geography:

	30 June 2014			31 December 2013		
Government securities*	**Irish Government € m**	**Euro governments € m**	**Non Euro governments € m**	Irish Government € m	Euro governments € m	Non Euro governments € m
Republic of Ireland	**9,445**	**–**	**–**	10,328	–	–
Italy	**–**	**816**	**–**	–	228	–
France	**–**	**761**	**–**	–	753	–
Spain	**–**	**588**	**–**	–	–	–
Netherlands	**–**	**558**	**–**	–	505	–
Germany	**–**	**225**	**–**	–	271	–
Austria	**–**	**126**	**–**	–	155	–
Portugal	**–**	**–**	**–**	–	6	–
United Kingdom	**–**	**–**	**362**	–	–	519
Rest of World	**–**	**26**	**19**	–	50	89
	9,445	**3,100**	**381**	10,328	1,968	608

Asset backed securities*	**30 June 2014 Total € m**	31 December 2013 Total € m
Republic of Ireland	**–**	–
United Kingdom	**–**	69
United States of America	**13**	74
Spain	**2**	322
Rest of World	**–**	70
	15	535

	30 June 2014		31 December 2013	
Bank securities*	**Euro € m**	**Non Euro € m**	Euro € m	Non Euro € m
Republic of Ireland	**124**	**–**	484	–
France	**802**	**–**	741	–
Netherlands	**652**	**–**	486	–
United Kingdom	**437**	**–**	486	–
Australia	**296**	**–**	221	–
Sweden	**288**	**–**	192	34
Canada	**274**	**–**	84	–
Finland	**262**	**–**	142	–
Norway	**212**	**–**	193	–
Belgium	**95**	**–**	53	–
Germany	**90**	**–**	77	–
Denmark	**62**	**–**	75	–
Spain	**–**	**–**	437	–
Portugal	**–**	**–**	–	–
Rest of World	**–**	**–**	–	–
	3,594	**–**	3,671	34

The cumulative credit to available for sale securities reserves relating to bank securities is € 71 million (31 December 2013: credit of € 52 million) which is gross of hedging and taxation.

*Forms an integral part of the condensed consolidated interim financial statements

External credit ratings of financial assets*

The external credit ratings[(1)] profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity securities) and financial investments available for sale (excluding equity shares) is as follows:

					30 June 2014
	Bank € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**4,076**	**–**	**5,338**	**13**	**9,427**
A	**1,221**	**–**	**–**	**–**	**1,221**
BBB+/BBB/BBB-	**215**	**15**	**22,665[(2)]**	**–**	**22,895**
Sub investment	**–**	**–**	**–**	**2**	**2**
Unrated	**53**	**–**	**–**	**–**	**53**
Total	**5,565**	**15**	**28,003[(3)]**	**15**	**33,598**

					31 December 2013
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	3,408	–	5,417	304	9,129
A	1,564	–	–	133	1,697
BBB+/BBB/BBB-	718	14	26,171[(2)]	85	26,988
Sub investment	–	–	6	14	20
Unrated	63	1	–	–	64
Total	5,753	15	31,594[(3)]	536	37,898

[(1)]The above credit ratings are sourced from Fitch, Moody's and Standard & Poor's. Where there is a difference in the external credit ratings, the weaker of the strongest two ratings is applied e.g. at 30 June 2014, Irish Sovereign debt is rated BBB+ by Fitch and Moody's and is rated A- by Standard & Poors, and is therefore allocated a BBB+ rating for the purpose of the above table.

[(2)]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of BBB+(31 December 2013: BBB+) i.e. the external rating of the Sovereign.

[(3)]Includes supranational banks and government agencies.

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Liquidity risk

At 30 June 2014, the Group held € 39 billion (31 December 2013: € 42 billion) in qualifying liquid assets/contingent funding (excluding liquid assets in AIB Group (UK) p.l.c. that are subject to transfer restrictions) of which approximately € 22 billion (31 December 2013: € 28 billion) was used in repurchase or secured loan agreements. The available Group liquidity pool comprises the balance and is held to cover contractual and stress outflows. At 30 June 2014, the Group liquidity pool was € 17 billion (31 December 2013: € 14 billion). During the first 6 months of 2014, the month-end liquidity pool ranged from € 14 billion to € 17 billion and the month-end average balance was € 15 billion. This compares to an average of € 13 billion for the full year of 2013.

Composition of the Group liquidity pool

				30 June 2014
			Liquidity pool of which Basel III LCR eligible	
	Liquidity pool € bn	**Liquidity pool available (ECB eligible) € bn**	**Level 1 € bn**	**Level 2 € bn**
Cash and deposits with central banks	**0.8**	**–**	**2.8**	**–**
Total government bonds	**1.6**	**1.6**	**1.6**	**–**
Other including NAMA senior bonds	**14.8**	**14.8**	**8.9**	**–**
Total	**17.2**	**16.4**	**13.3**	**–**

				31 December 2013
			Liquidity pool of which Basel III LCR eligible	
	Liquidity pool € bn	Liquidity pool available (ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	0.3	–	2.0	–
Total government bonds	3.4	3.4	3.5	–
Other:				
Agencies and agency mortgage-backed securities	0.3	0.3	–	0.1
Other including NAMA senior bonds	9.7	9.7	4.1	–
Total other	10.0	10.0	4.1	0.1
Total	13.7	13.4	9.6	0.1

Level 1 – High Quality Liquidity Assets (“HQLA”) include amongst others domestic currency (euro) denominated bonds issued or guaranteed by EEA sovereigns, other very highly rated sovereign bonds and unencumbered cash at central banks.

Level 2 – HQLA include highly rated sovereign bonds, certain very highly rated covered bonds and certain other strongly rated securities.

The HQLA admissibility rules are not yet finalised, however, 30 June 2014 is based on May 2014 Central Bank of Ireland guidelines (CBI LCR guidelines).

Management of the Group liquidity pool

AIB manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the independent Risk functions. These pool assets primarily comprise government guaranteed bonds. AIB improved its liquidity buffer during the first six months of 2014 by € 4 billion.

Liquidity risk

Liquidity regulation

AIB Group is required to comply with the liquidity requirements of the Central Bank of Ireland ('the Central Bank)'and also with the requirements of local regulation overseas.

The Group also monitors its current and forecast liquidity position against anticipated Basel 3 liquidity metrics – the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

The minimum LCR requirement is to be introduced in 2015 at 60%, rising to 100% by January 2018. The minimum NSFR requirement is expected to be introduced in January 2018 at 100%. Based on the current Central Bank LCR guidelines, as at 30 June 2014, AIB had an estimated LCR of c. 109%. At 30 June 2014, the Group had an estimated NSFR of c. 98%. The Group has adopted a prudent approach to the LCR calculation in the observation period[1] pending legislation by the European Commission and is on a clear path of compliance with the requirements of both the LCR and NSFR.

In the six months to 30 June 2014, the Group commenced regulatory reporting in line with CRD IV requirements.

[1]The period from 31 March 2014 to the date of application in 2015 of the 60% minimum LCR will be used by the Central Bank as an observation period during which time the Central Bank will monitor reporting institutions convergence towards the minimum standard.

Funding structure

The Group's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to rebuild a strong wholesale funding franchise with appropriate access to term markets to support core lending activities. The Strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

	30June 2014		31 December 2013	
Sources of funds	**€ bn**	**%**	€ bn	%
Customer accounts	**67.0**	**64**	65.7	60
Deposits by central banks and banks – secured	**16.0**	**15**	22.6	21
– unsecured	**0.5**	**–**	0.5	–
Certificates of deposit and commercial paper	**0.1**	**–**	0.1	–
Covered bonds	**3.8**	**4**	3.3	3
Securitisations	**0.9**	**1**	1.0	1
Senior debt	**4.5**	**4**	4.3	4
Capital	**12.7**	**12**	11.8	11
Total source of funds	**105.5**	**100**	109.3	100
Other	**5.1**		8.4	
	110.6		117.7	

While the Group continues to participate in Central Bank/ECB operations, 2014 saw a reduction of € 9.0 billion in ECB funding. Central Bank/ECB funding amounted to € 3.7 billion at 30 June 2014, down from € 12.7 billion at 31 December 2013. Central Bank drawings no longer include funding from the ECB's 3 year Long-Term Refinancing Operations ("LTROs") (31 December 2013: €11 billion).

In the first half of 2014, the Group raised secured funding through a € 500 million covered bond issuance and an unsecured € 500 million medium term note. These were issued at spreads of 95 bps and 180 bps respectively over market rates, an improvement compared to 180 bps and 235 bps on issuances in the second half of 2013.

The strong deposit growth and lower customer loan balances contributed to an improved Group loan to deposit ratio which decreased from 100% at 31 December 2013 to 96% at 30 June 2014.

Liquidity Risk

Composition of wholesale funding

At 30 June 2014, total wholesale funding outstanding was € 27 billion (31 December 2013: € 33 billion). € 19 billion of wholesale funding matures in less than one year (31 December 2013: € 12 billion) and € 8 billion has a residual maturity of over one year (31 December 2013: € 21 billion). Outstanding wholesale funding comprised € 17 billion of secured funding (31 December 2013: € 27 billion) and € 10 billion of unsecured funding (31 December 2013: € 6 billion).

							30 June 2014
	Not more than 1 month € bn	**Over 1 month but not more than 3 months € bn**	**Over 3 months but not more than 6 months € bn**	**Over 6 months but not more than 1 year € bn**	**Total less than 1 year € bn**	**Total over 1 year € bn**	**Total € bn**
Deposits from banks	**9.6**	**5.7**	**0.6**	**–**	**15.9**	**0.6**	**16.5**
Certificate of deposits and commercial paper	**0.1**	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Senior unsecured debt	**–**	**–**	**0.8**	**2.6**	**3.4**	**1.1**	**4.5**
Covered bonds/ABS	**–**	**–**	**–**	**0.1**	**0.1**	**4.6**	**4.7**
Subordinated liabilities	**–**	**–**	**–**	**–**	**–**	**1.4**	**1.4**
Total 30 June 2014	**9.7**	**5.7**	**1.4**	**2.7**	**19.5**	**7.7**	**27.2**
Of which:							
Secured	**5.4**	**5.7**	**0.6**	**0.1**	**11.8**	**5.3**	**17.1**
Unsecured	**4.3**	**–**	**0.8**	**2.6**	**7.7**	**2.4**	**10.1**
	9.7	**5.7**	**1.4**	**2.7**	**19.5**	**7.7**	**27.2**

							31 December 2013
	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Total over 1 year € bn	Total € bn
Deposits from banks	7.9	3.2	–	0.1	11.2	11.9	23.1
Certificate of deposits and commercial paper	0.1	–	–	–	0.1	–	0.1
Senior unsecured debt	–	–	–	0.8	0.8	3.5	4.3
Covered bonds/ABS	–	–	–	–	–	4.3	4.3
Subordinated liabilities	–	–	–	–	–	1.4	1.4
Total 31 December 2013	8.0	3.2	–	0.9	12.1	21.1	33.2
Of which:							
Secured	7.4	3.2	–	0.1	10.7	16.2	26.9
Unsecured	0.6	–	–	0.8	1.4	4.9	6.3
	8.0	3.2	–	0.9	12.1	21.1	33.2

Condensed consolidated interim financial statements – Basis of preparation

Reporting entity

Allied Irish Banks, p.l.c. ('the parent company') is a company domiciled in Ireland. The condensed consolidated interim financial statements for the six months ended 30 June 2014 comprise the parent company and its subsidiary undertakings, collectively referred to as the 'Group', and the Group's interest in associated undertakings.

The consolidated financial statements of the Group for the year ended 31 December 2013 ('the Annual Financial Report 2013') are available upon request from the Company Secretary or at www.aibgroup.com/investorrelations.

Going concern

The financial statements for the half-year ended 30 June 2014 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these interim financial statements.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2014 to 2016 approved by the Board in December 2013, the restructuring plan approved by the European Commission in May 2014 which covers the period from 2014 to 2017, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government. The Directors have also considered the risk factors which could materially affect the Group's future business performance and profitability. These risks are materially unchanged to those outlined on pages 61 to 66 of the Annual Financial Report 2013.

Furthermore, the Directors have considered the outlook for the Irish economy, taking into account such factors as the successful exit by the Irish Government from the three-year bailout programme in December 2013 without a back-up credit line, the forecast expansion of the economy and the continuing forecast fall in unemployment rates in 2014 and beyond.

The Directors have also considered the outlook for the eurozone and UK economies. In the eurozone, the economy emerged from an 18-month long recession in the second quarter of 2012. It has subsequently continued to expand, albeit the pace of growth remains modest. In terms of the sovereign and banking debt crises, the easing of the crises and improvement of conditions in eurozone financial markets have continued into the first half of 2014. In addition, the UK economy in which the Group has significant interests has recorded strong economic growth in recent quarters.

The Directors have reviewed the capital and financial plans and forecasts for the period of assessment and believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario.

In relation to liquidity and funding, the Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances, the required liquidity and funding from the Central Bank of Ireland/ECB will be available to the Group during the period of assessment.

Conclusion

On the basis of the above, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

Accounting policies

The condensed consolidated interim financial statements for the half-year ended 30 June 2014 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. These statements should be read in conjunction with the Annual Financial Report 2013, which was prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union ("EU"). The condensed consolidated interim financial statements comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, and the condensed consolidated statement of changes in equity together with the related notes. These notes include certain risk related disclosures which are contained in the Risk management section of the Half-Yearly Financial Report. The relevant information in the Risk management section is identified as forming an integral part of the condensed consolidated interim financial statements.

Condensed consolidated interim financial statements – Basis of preparation

There have been no significant changes to the accounting policies described on pages 210 to 235 in the Annual Financial Report 2013 apart from those set out below.

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; and retirement benefit obligations. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

Critical accounting policies adopted by the Group are set out on pages 50 to 53 of the Annual Financial Report 2013.

Adoption of new accounting standards

The following standards/amendments to standards have been adopted by the Group, effective from 1 January 2014:

Amendments to IAS 32 *Financial Instruments: Presentation* on Offsetting Financial Assets and Financial Liabilities
These amendments are effective from 1 January 2014. The amendments clarify that the right of set-off must be currently available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The adoption of these amendments did not have a significant impact on the presentation of the financial position of the Group.

Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosures of Interests in Other Entities* and IAS 27 *Separate Financial Statements on Investment Entities*
These amendments, which are effective from 1 January 2014, provide an exception for investment entities to consolidate particular subsidiaries. These subsidiaries should be measured at fair value through profit and loss. The amendments also set out the disclosure requirements for investment entities. The adoption of these amendments has not had an impact on Group reporting.

Amendments to IAS 36 *Impairment of Assets on Recoverable Amount Disclosures for Non-Financial Assets*
These amendments, which are effective from 1 January 2014, clarify that the scope of the disclosures about the recoverable amount of impaired assets is limited to those that are based on fair value less costs of disposal. The amendments require an entity to disclose:

- the level of the fair value hierarchy within which the fair value of the asset is categorised;
- a description of the valuation technique(s) used to measure the fair value less costs of disposal, where the fair value measurement is categorised within Level 2 or Level 3 of the fair value hierarchy;
- the key assumptions which management has based its determination of fair value less costs of disposal, where the fair value measurement is categorised within Level 2 or Level 3 of the fair value hierarchy; and
- the discount rates used to determine current and previous impairments where the recoverable amount of impaired assets, based on fair value less costs of disposal, was measured using a present value technique.

The adoption of these amendments impacts the disclosures required for the recoverable amount of the Group's impaired assets that are based on fair value less costs of disposal.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement on Novation of Derivatives and Continuation of Hedge Accounting*
These amendments, which are effective from 1 January 2014, provide an exception to the requirement to discontinue hedge accounting where a hedging derivative is novated, provided certain criteria are met.
The amendment applies to novations:

- which arise due to laws or regulations, or the introduction of laws or regulations;
- where the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- that did not result in changes to the terms of the original derivative except the changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception.
The adoption of these amendments did not have a significant impact on the financial position of the Group.

Condensed consolidated interim financial statements – Basis of preparation

Changes to accounting policies

Arising from the adoption of the IFRSs set out above, the accounting policy for 'Derivatives and hedge accounting' has been enhanced to reflect the Group's accounting policy on novation as follows:

Novation

The Group does not discontinue hedge accounting where a hedging derivative is novated. Novation is a legal process whereby the contract between the original trading counterparties is discharged and two new, legally binding contracts are created – one between each of the original trading counterparties and the central counterparty. The following criteria must be met to continue hedge accounting:

- the novation arises due to laws or regulations, or the introduction of laws or regulations;
- the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- the novation will not result in changes to the terms of the original derivative except the changes directly attributable to the change in counterparty to achieve clearing.

Statement of compliance

The condensed consolidated interim financial statements comply with International Accounting Standard 34 *Interim Financial Reporting*, as issued by the IASB and as adopted by the EU.

Both the interim figures for the six months ended 30 June 2014 and the comparative amounts for the six months ended 30 June 2013 are unaudited but have been reviewed by the independent auditor, whose report is set out on page 130. The summary financial statements for the year ended 31 December 2013 as presented in the condensed consolidated interim financial statements, represent an abbreviated version of the Group's full accounts for that year, on which the independent auditor, Deloitte & Touche, issued an unqualified audit report and which are not annexed to these interim financial statements, have been filed in the Companies Registration Office. The financial information presented herein does not amount to statutory financial statements.

Condensed consolidated income statement *(unaudited)*

for the half-year ended 30 June 2014

	Notes	**Half-year 30 June 2014 € m**	Half-year 30 June 2013 € m
Continuing operations			
Interest and similar income	2	**1,546**	1,708
Interest expense and similar charges	3	**(739)**	(1,113)
Net interest income		**807**	595
Dividend income	4	**25**	–
Fee and commission income	5	**214**	199
Fee and commission expense	5	**(19)**	(16)
Net trading income	6	**8**	72
Profit/(loss) on disposal/transfer of loans and receivables	7	**50**	(211)
Other operating income	8	**168**	76
Other income		**446**	120
Total operating income		**1,253**	715
Administrative expenses	9	**(693)**	(765)
Impairment and amortisation of intangible assets		**(24)**	(30)
Impairment and depreciation of property, plant and equipment		**(18)**	(24)
Total operating expenses		**(735)**	(819)
Operating profit/(loss) before provisions		**518**	(104)
Provisions for impairment on loans and receivables	20	**(92)**	(744)
Provisions for liabilities and commitments		**–**	(3)
Writeback of impairment provisions on financial investments available for sale	11	**–**	9
Operating profit/(loss)		**426**	(842)
Associated undertakings	23	**9**	3
Profit on disposal of property		**2**	–
Profit on disposal of businesses		**–**	1
Profit/(loss) before taxation from continuing operations		**437**	(838)
Income tax (charge)/credit from continuing operations	12	**(60)**	80
Profit/(loss) after taxation from continuing operations		**377**	(758)
Discontinued operations			
Profit after taxation from discontinued operations	13	**34**	–
Profit/(loss) for the period		**411**	(758)
Attributable to:			
Owners of the parent:			
Profit/(loss) from continuing operations		**377**	(758)
Profit from discontinued operations		**34**	–
		411	(758)
Basic earnings/(loss) per share			
Continuing operations	14(a)	**0.1c**	(0.1c)
Discontinued operations	14(a)	**–**	–
		0.1c	(0.1c)
Diluted earnings/(loss) per share			
Continuing operations	14(b)	**0.1c**	(0.1c)
Discontinued operations	14(b)	**–**	–
		0.1c	(0.1c)

Condensed consolidated statement of comprehensive income

(unaudited) for the half year ended 30 June 2014

	Notes	**Half-year 30 June 2014 € m**	Half-year 30 June 2013 € m
Profit/(loss) for the period		**411**	(758)
Other comprehensive income – continuing operations			
Items that will not be reclassified to profit or loss:			
Net change in property revaluation reserves		**–**	–
Net actuarial losses in retirement benefit schemes, net of tax	12	**(487)**	(197)
Total items that will not be reclassified to profit or loss		**(487)**	(197)
Items that are or may be reclassified subsequently to profit or loss:			
Net change in foreign currency translation reserves	12	**14**	(18)
Net change in cash flow hedges, net of tax	12	**193**	11
Net change in fair value of available for sale securities, net of tax	12	**604**	205
Total items that may be reclassified subsequently to profit or loss		**811**	198
Other comprehensive income for the period, net of tax from continuing operations		**324**	1
Total comprehensive income for the period		**735**	(757)
Attributable to:			
Owners of the parent:			
Continuing operations		**701**	(757)
Discontinued operations		**34**	–
		735	(757)

Condensed consolidated statement of financial position *(unaudited)*

as at 30 June 2014

	Notes	**30 June 2014 € m**	31 December 2013 € m
Assets			
Cash and balances at central banks		**4,957**	4,132
Items in course of collection		**264**	164
Disposal groups and non-current assets held for sale	15	**6**	2,782
Trading portfolio financial assets	16	**1**	2
Derivative financial instruments	17	**1,731**	1,629
Loans and receivables to banks	18	**1,971**	2,048
Loans and receivables to customers	19	**64,630**	65,713
NAMA senior bonds	21	**11,806**	15,598
Financial investments available for sale	22	**20,164**	20,368
Interests in associated undertakings	23	**59**	58
Intangible assets		**169**	176
Property, plant and equipment		**298**	301
Other assets		**193**	242
Current taxation		**11**	1
Deferred taxation	24	**3,714**	3,828
Prepayments and accrued income		**511**	609
Retirement benefit assets	10	**86**	83
Total assets		**110,571**	117,734
Liabilities			
Deposits by central banks and banks	25	**16,489**	23,121
Customer accounts	26	**67,019**	65,667
Disposal groups held for sale	15	**–**	3,593
Derivative financial instruments	17	**2,112**	1,960
Debt securities in issue	27	**9,217**	8,759
Current taxation		**2**	48
Other liabilities		**1,382**	1,321
Accruals and deferred income		**780**	943
Retirement benefit liabilities	10	**692**	177
Provisions for liabilities and commitments	28	**248**	299
Subordinated liabilities and other capital instruments	29	**1,401**	1,352
Total liabilities		**99,342**	107,240
Shareholders' equity			
Share capital	30	**1,344**	5,248
Share premium	30	**2,826**	2,848
Reserves		**7,059**	2,398
Total shareholders' equity		**11,229**	10,494
Total liabilities and shareholders' equity		**110,571**	117,734

Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2014

	Notes	**Half-year 30 June 2014 € m**	Half-year 30 June 2013 € m
Reconciliation of profit/(loss) before taxation to net cash (outflow)/inflow from operating activities			
Profit/(loss) for the period from continuing operations before taxation		**437**	(838)
Adjustments for:			
Net gains on buy back of debt securities in issue	8	**(3)**	–
Profit on disposal of businesses		**–**	(1)
Profit on disposal of property, plant and equipment		**(2)**	–
(Gain)/loss on disposal/transfer of loans and receivables	7	**(50)**	211
Dividends received from associated undertakings	23	**(5)**	(3)
Associated undertakings income	23	**(7)**	(8)
Impairment of associated undertakings	23	**1**	5
Profit on disposal of associated undertaking	23	**(3)**	–
Provisions for impairment on loans and receivables	20	**92**	744
Provisions for liabilities and commitments		**–**	3
Writeback of impairment on financial investments available for sale	11	**–**	(9)
Change in other provisions		**13**	2
Retirement benefits – defined benefit expense	9	**4**	53
Termination benefits		**1**	13
Contributions to defined benefit pension schemes		**(46)**	(130)
Depreciation, amortisation and impairment		**42**	54
Interest on subordinated liabilities and other capital instruments	3	**128**	120
Profit on disposal of financial investments available for sale	8	**(149)**	(24)
Loss on termination of fair value hedging swaps	8	**40**	–
Remeasurement of NAMA senior bonds	21	**(22)**	(62)
Amortisation of premiums and discounts		**–**	(45)
Change in prepayments and accrued income		**100**	39
Change in accruals and deferred income		**(246)**	(225)
Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities		**325**	(101)
Change in deposits by central banks and banks		**(6,648)**	(2,218)
Change in customer accounts[1]		**(90)**	2,958
Change in loans and receivables to customers[2]		**1,601**	2,835
Change in NAMA senior bonds		**3,834**	1,046
Change in loans and receivables to banks		**(576)**	557
Change in trading portfolio financial assets		**1**	6
Change in derivative financial instruments		**(80)**	228
Change in items in course of collection		**(97)**	(69)
Change in debt securities in issue		**462**	(2,831)
Change in notes in circulation		**(3)**	(50)
Change in other assets		**52**	(46)
Change in other liabilities		**(75)**	65
Effect of exchange translation and other adjustments		**(165)**	211
Net cash (outflow)/inflow from operating assets and liabilities		**(1,784)**	2,692
Net cash (outflow)/inflow from operating activities before taxation		**(1,459)**	2,591
Taxation (paid)/refund		**(24)**	4
Net cash (outflow)/inflow from operating activities		**(1,483)**	2,595
Investing activities *(note a)*		**1,500**	(2,715)
Financing activities *(note b)*		**–**	–
Change in cash and cash equivalents		**17**	(120)
Opening cash and cash equivalents		**5,730**	5,926
Effect of exchange translation adjustments		**137**	(166)
Closing cash and cash equivalents	37	**5,884**	5,640

Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2014

(a) Investing activities	Notes	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Net cash outflow on acquisition of business combination		–	(325)[3]
Purchase of financial investments available for sale		**(4,226)**	(4,503)
Proceeds from sales and maturity of financial investments available for sale		**5,411**	1,939
Additions to property, plant and equipment		**(17)**	(8)
Disposal of property, plant and equipment		**5**	3
Additions to intangible assets		**(17)**	(24)
Proceeds of disposal of investment in associated undertaking		**3**	10
Proceeds of disposal of investment in businesses and subsidiaries		**336**[4]	190[5]
Dividends received from associated undertakings		**5**	3
Cash inflows/(outflows) from investing activities		**1,500**	(2,715)
(b) Financing activities			
Interest paid on subordinated liabilities and other capital instruments		–	–
Cash flows from financing activities		–	–

(1)Includes deposits placed by the NTMA € 7,178 million (June 2013:€ 5,846 million).

(2)Also includes loans and receivables to customers within disposal groups and non-current assets held for sale.

(3)Acquisition of Ark Life Assurance Company Limited.

(4)Disposal of Ark Life (note 13).

(5)Disposal of Aviva Life Holdings Ireland Limited.

Condensed consolidated statement of changes in equity *(unaudited)*

for the half year ended 30 June 2014

	Attributable to equity holders of parent											
	Share capital	Share premium	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	€ m	€ m	€ m		€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2014	**5,248**	**2,848**	**2,597**	**–**	**18**	**641**	**35**	**(2)**	**(442)**	**(462)**	**13**	**10,494**
Total comprehensive income for the period												
Profit for the period	–	–	–	–	–	–	–	411	–	–	–	411
Other comprehensive income *(note 12)*	–	–	–	–	–	604	193	(487)	14	–	–	324
Total comprehensive income for the period	–	–	–	–	–	604	193	(76)	14	–	–	735
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Capital contributions *(note 31)*	–	–	(331)	–	–	–	–	331	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 30)*	22	(22)	–	–	–	–	–	–	–	–	–	–
Cancellation of deferred shares *(notes 30 and 31)*	(3,926)	–	–	3,926	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	–	8	–	–	(8)	–
Other movements	–	–	(75)	–	–	–	–	75	–	–	–	–
Total contributions by and distributions to owners of the Group	(3,904)	(22)	(406)	3,926	–	–	–	414	–	–	(8)	–
At 30 June 2014	**1,344**	**2,826**	**2,191**	**3,926**	**18**	**1,245**	**228**	**336**	**(428)**	**(462)**	**5**	**11,229**

Condensed consolidated statement of changes in equity *(unaudited)*

for the half year ended 30 June 2013

	Attributable to equity holders of parent										
	Share capital	Share premium	Capital reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2013 as reported	5,206	2,890	2,638	24	292	67	996	(433)	(462)	23	11,241
Change in accounting policy	–	–	–	–	–	–	114	–	–	–	114
As restated	5,206	2,890	2,638	24	292	67	1,110	(433)	(462)	23	11,355
Total comprehensive income for the period											
Loss for the period	–	–	–	–	–	–	(758)	–	–	–	(758)
Other comprehensive income *(note 12)*	–	–	–	–	205	11	(197)	(18)	–	–	1
Total comprehensive income for the period	–	–	–	–	205	11	(955)	(18)	–	–	(757)
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions	–	–	(116)	–	–	–	116	–	–	–	–
Ordinary shares issued in lieu of dividend	42	(42)	–	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	–	–	–	–	–
Other movements	–	–	–	(5)	–	–	5	–	–	–	–
Total contributions by and distributions to owners of the Group	42	(42)	(116)	(5)	–	–	121	–	–	–	–
At 30 June 2013	5,248	2,848	2,522	19	497	78	276	(451)	(462)	23	10,598

Condensed consolidated statement of changes in equity *(unaudited)*

for the year ended 31 December 2013

	Attributable to equity holders of parent										
	Share capital € m	Share premium € m	Capital reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Treasury shares € m	Share based payments reserves € m	Total € m
At 1 January 2013 as reported	5,206	2,890	2,638	24	292	67	996	(433)	(462)	23	11,241
Change in accounting policy	–	–	–	–	–	–	114	–	–	–	114
As restated	5,206	2,890	2,638	24	292	67	1,110	(433)	(462)	23	11,355
Total comprehensive income for the year											
Loss for the year	–	–	–	–	–	–	(1,597)	–	–	–	(1,597)
Other comprehensive income	–	–	–	(1)	513	(18)	251	(9)	–	–	736
Total comprehensive income for the year	–	–	–	(1)	513	(18)	(1,346)	(9)	–	–	(861)
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions *(note 31)*	–	–	(219)	–	–	–	219	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 30)*	42	(42)	–	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	10	–	–	(10)	–
Other movements	–	–	178	(5)	(164)	(14)	5	–	–	–	–
Total contributions by and distributions to owners of the Group	42	(42)	(41)	(5)	(164)	(14)	234	–	–	(10)	–
At 31 December 2013	5,248	2,848	2,597	18	641	35	(2)	(442)	(462)	13	10,494

Notes to the condensed consolidated interim financial statements
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1 Segmental information

Following a review of the organisation's structure, a new operating structure was implemented in 2013 and the Group's operations are now reported under the following segments:

- Domestic Core Bank ("DCB");
- AIB UK;
- Financial Solutions Group ("FSG"); and
- Group.

These segments reflect the internal reporting structure which is used by management to assess performance and allocate resources. A comprehensive description of each segment is available on pages 11 to 14 of the Annual Financial Report 2013 within the business overview section.

Upon completion of the deleveraging target in the second half of 2013, certain assets transferred between segments with effect from 1 July 2013. These are set out on page 19.

1 Segmental information *(continued)*

					Half-year 30 June 2014
	DCB € m	AIB UK € m	FSG € m	Group € m	Total € m
Operations by business segment					
Net interest income	585	127	93	2	807
Other income	381	43	9	6	439
Total operating income	966	170	102	8	1,246
Personnel expenses	(202)	(50)	(52)	(85)	(389)
General and administrative expenses	(121)	(34)	(13)	(87)	(255)
Depreciation, impairment and amortisation	(21)	(2)	(3)	(16)	(42)
Total operating expenses	(344)	(86)	(68)	(188)	(686)
Operating profit/(loss) before provisions	622	84	34	(180)	560
(Provisions)/writeback of provisions for impairment on loans and receivables	(130)	(66)	104	–	(92)
Operating profit/(loss)	492	18	138	(180)	468
Associated undertakings	5	4	–	–	9
Profit on disposal of property	2	–	–	–	2
Profit/(loss) from continuing operations before exceptional items	499	22	138	(180)	479
Profit on transfer of financial instruments to NAMA					7
Termination benefits					(7)
Restructuring and restitution expenses					(42)
Total exceptional items					(42)
Profit before taxation from continuing operations					437

1 Segmental information *(continued)*

					Half-year 30 June 2013
	DCB € m	AIB UK € m	FSG € m	Group € m	Total € m
Operations by business segment					
Net interest income	402	70	116	7	595
Other income	267	31	20	6	324[1]
Total operating income	669	101	136	13	919
Personnel expenses	(220)	(51)	(71)	(106)	(448)
General and administrative expenses	(118)	(27)	(15)	(95)	(255)
Depreciation, impairment and amortisation	(25)	(3)	(3)	(20)	(51)
Total operating expenses	(363)	(81)	(89)	(221)	(754)
Operating profit/(loss) before provisions	306	20	47	(208)	165
Provisions for impairment on loans and receivables	(202)	(16)	(526)	–	(744)
(Provisions)/writeback of provisions for liabilities and commitments	–	–	(4)	1	(3)
Writeback/(provisions) for impairment on financial investments available for sale	9	–	(1)	1	9
Total provisions	(193)	(16)	(531)	2	(738)
Operating profit/(loss)	113	4	(484)	(206)	(573)
Associated undertakings	4	1	(2)	–	3
Profit on disposal of business	–	–	–	1	1
Profit/(loss) from continuing operations before exceptional items	117	5	(486)	(205)	(569)
Loss on disposal of loans					(187)
Loss on transfer of financial instruments to NAMA					(24)
Termination benefits					(40)
Restructuring and restitution expenses					(28)
Gain on disposal of ALH					10
Total exceptional items					(269)
Loss before taxation from continuing operations					(838)

[1]Interest rate hedge volatility which had been reported within the caption 'exceptional items' is now reported in 'Profit/loss before exceptional items'. Accordingly, comparatives from 2013 have been represented. This amounted to € 3 million in 2013 and is included within 'Other income'.

1 Segmental information *(continued)*

Other amounts - statement of financial position

	30 June 2014				
	DCB € m	**AIB UK € m**	**FSG € m**	**Group € m**	**Total € m**
Loans and receivables to customers	**44,110**	**10,939**	**9,581**	**–**	**64,630**
Interests in associated undertakings	**44**	**15**	**–**	**–**	**59**
Total assets	**85,042**	**15,943**	**9,586**	**–**	**110,571**
Customer accounts	**54,589**	**11,267**	**1,163**	**–**	**67,019**
Total liabilities[2]	**85,707**	**12,472**	**1,163**	**–**	**99,342**
Capital expenditure	**34**	**–**	**–**	**–**	**34**

	31 December 2013				
	DCB € m	AIB UK € m	FSG € m	Group € m	Total € m
Loans and receivables to customers	44,251	11,225	10,237	–	65,713
Loans and receivables held for sale	–	–	28	–	28
Interests in associated undertakings	44	14	–	–	58
Total assets	89,080	15,636	13,018[1]	–	117,734
Customer accounts	53,605	10,918	1,144	–	65,667
Total liabilities[2]	90,083	12,420	4,737[1]	–	107,240
Capital expenditure	89	3	2	–	94

[1]Includes total disposal groups and non-current assets and liabilities held for sale (note 15).

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

1 Segmental information *(continued)*

Geographic information - continuing operations[1][2]	**Republic of Ireland € m**	**United Kingdom € m**	**North America € m**	**Rest of the World € m**	**Half-year 30 June 2014 Total € m**
Gross external revenue	**1,029**	**220**	**4**	**–**	**1,253**
Inter-geographical segment revenue	**96**	**(92)**	**(4)**	**–**	**–**
Total revenue[3]	**1,125**	**128**	**–**	**–**	**1,253**

Geographic information - continuing operations[1][2]	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	Half-year 30 June 2013 Total € m
Gross external revenue	713	(3)	5	–	715
Inter-geographical segment revenue	(34)	40	(6)	–	–
Total revenue[3]	679	37	(1)	–	715

Geographic information	**Republic of Ireland € m**	**United Kingdom € m**	**North America € m**	**Rest of the World € m**	**30 June 2014 Total € m**
Non-current assets[4]	**444**	**22**	**1**	**–**	**467**

Geographic information	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	31 December 2013 Total € m
Non-current assets[4]	454	22	1	–	477

Revenue from external customers comprises interest and similar income (note 2), interest expense and similar charges (note 3) and all other items of income (notes 4 to 8).

[1]The geographical distribution of total revenue is based primarily on the location of the office recording the transaction.

[2]For details of significant geographic concentrations, see the Risk management section.

[3]Gain/(loss) on disposal of financial assets to NAMA is recorded within the Republic of Ireland and United Kingdom.

[4]Non-current assets comprise intangible assets, and property, plant and equipment.

2 Interest and similar income

	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Interest on loans and receivables to customers	**1,187**	1,302
Interest on loans and receivables to banks	**12**	10
Interest on NAMA senior bonds	**47**	79
Interest on financial investments available for sale	**300**	317
	1,546	1,708

Interest income includes a credit of € 64 million (30 June 2013: a credit of € 93 million) removed from other comprehensive income in respect of cash flow hedges.

Interest income recognised on impaired loans amounts to € 173 million (30 June 2013: € 184 million).

3 Interest expense and similar charges

	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Interest on deposits by central banks and banks	**31**	77
Interest on customer accounts	**407**	737
Interest on debt securities in issue	**173**	179
Interest on subordinated liabilities and other capital instruments	**128**	120
	739	1,113

Interest expense includes a charge of € 45 million (30 June 2013: a charge of € 80 million) removed from other comprehensive income in respect of cash flow hedges.

Included within interest expense is € 32 million (30 June 2013: € 123 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

4 Dividend income

Dividend income received on NAMA subordinated bonds amounted to € 25 million at 30 June 2014 (30 June 2013: Nil).

5 Net fee and commission income

	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Retail banking customer fees	**181**	163
Credit related fees	**14**	16
Asset management and investment banking fees	**3**	3
Insurance commissions	**16**	17
Fee and commission income	**214**	199
Fee and commission expense[(1)]	**(19)**	(16)
	195	183

[(1)]Fee and commission expense includes ATM expenses of € 2 million (30 June 2013: € 3 million) and credit card commissions of € 13 million (30 June 2013: € 9 million).

6 Net trading income	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Foreign exchange contracts	23	17
Interest rate contracts and debt securities	(15)	43
Equity securities and index contracts	–	12[1]
	8	72

[1]Includes a gain of € 10 million arising on disposal of ALH (note 13).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement amounted to Nil (30 June 2013: Nil).

7 Gain/(loss) on disposal/transfer of loans and receivables

The following table sets out details of the gain/(loss) on disposal/transfer of loans and receivables:

	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Gain/(loss) on disposal of loans and receivables to customers	43	(187)
Gain/(loss) on transfer of loans and receivables to NAMA[1]	7	(24)
Total	50	(211)

[1]In February 2010, AIB was designated a participating institution under the NAMA Act and following the enactment of legislation in November 2009, financial instruments transferred to NAMA during 2010 and 2011. Whilst these transfers were practically complete at 31 December 2011, a provision was made in respect of adjustments to transfers which had not settled at that date (note 28). Subsequently, NAMA resolved certain issues in relation to loans and receivables which had transferred in 2010 and 2011 which resulted in the gain/(loss) set out above.

8 Other operating income	**Half-year 30 June 2014 € m**	Half-year 30 June 2013 € m
Profit on disposal of available for sale debt securities	**133**	14
Profit on disposal of available for sale equity securities	**16**	10
Effect of re-estimating the timing of cash flows on NAMA senior bonds *(note 21)*	**22**	62
Net gains on buy back of debt securities in issue	**3**	–
Miscellaneous operating loss[1]	**(6)**	(10)
	168	76

[1]Includes: (a) € 40 million realised loss on termination of fair value hedging swaps (30 June 2013: loss € 8 million) where the hedged item was disposed of and reported in profit on disposal of available for sale debt securities; (b) income of € 27 million on settlement of claim (30 June 2013: Nil); and (c) foreign exchange gains of € 5 million (30 June 2013: loss € 5 million).

9 Administrative expenses	**Half-year 30 June 2014 € m**	Half-year 30 June 2013 € m
Personnel expenses:		
Wages and salaries	**298**	338
Termination benefits[1]	**7**	40
Retirement benefits[2]	**51**	63
Social security costs	**33**	37
Other personnel expenses	**7**	10
Total personnel expenses	**396**	488
General and administrative expenses	**297**	277
	693	765

[1]At 30 June 2014, a charge of € 7 million (30 June 2013: a charge of € 40 million) has been made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in the Group. This amount comprises Nil (30 June 2013: € 21 million) in respect of past service costs relating to the early retirement scheme and € 7 million (30 June 2013: € 27 million) relating to the voluntary severance scheme and Nil (30 June 2013: a credit of € 8 million) in respect of a pension curtailment gain for voluntary severance employees.

[2]Comprises a defined benefit expense charge of € 4 million (30 June 2013: € 53 million), a defined contribution expense charge of € 43 million (30 June 2013: € 7 million) and a long term disability payments expense charge of € 4 million (30 June 2013: € 3 million).

10 Retirement benefits

The Group's accounting policy for retirement benefit obligations is set out on pages 216 and 217 of the Annual Financial Report 2013. The demographic assumptions for retirement benefit obligations are set out in note 12 to the consolidated financial statements of the Annual Financial Report 2013.

All defined benefit schemes operated by the Group closed to future accrual with effect from 31 December 2013 and employees who were members of a defined benefit pension scheme (including hybrid arrangements) transferred to a defined contribution scheme. At 31 December 2013, this led to a reduction of € 231 million in the defined benefit obligation and a credit to the income statement as a curtailment. This change had no impact on benefits accrued up to the date of the transfer.

The Group's net pension deficit as at 30 June 2014 was € 606 million (31 December 2013: € 94 million), comprising retirement benefit liabilities of € 692 million (31 December 2013: € 177 million) and retirement benefit assets of € 86 million (31 December 2013: € 83 million).

During the year ended 31 December 2013, the Group recognised a past service cost in the income statement and an increase in the benefit obligation of € 23 million for the Group's early retirement scheme. Furthermore, a curtailment gain of € 29 million was recognised in the income statement in relation to employees who left under the voluntary severance scheme and who were members of a Group defined benefit pension scheme.

Financial assumptions

The following table summarises the main financial assumptions adopted in the preparation of these financial statements in respect of the main schemes:

Financial assumptions	**Half-year 30 June 2014 %**	Year-end 31 December 2013 %	Half-year 30 June 2013 %
Irish scheme			
Rate of increase in salaries[1]	**–**	–	3.15
Rate of increase of pensions in payment	**1.70**[2]	1.70	1.70
Discount rate	**3.10**	3.90	3.60
Inflation assumptions	**2.00**	2.00	2.00
UK scheme			
Rate of increase in salaries[1]	**–**	–	3.30
Rate of increase of pensions in payment	**3.30**	3.30	3.30
Discount rate	**4.40**	4.70	4.75
Inflation assumptions (RPI)	**3.30**	3.30	3.30

[1] The rate of increase in salaries is not applicable in 2014 or at year end 31 December 2013, due to the closure of defined benefit schemes to future accrual. For the half year to 30 June 2013, the rate of increase in salaries included the impact of salary scale improvements.

[2] Nil for the next 3.5 years and 2% per annum thereafter.

10 Retirement benefits *(continued)*

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets for the half-year ended 30 June 2014 and year ended 31 December 2013:

			30 June 2014			31 December 2013
	Defined benefit obligation € m	**Fair value of scheme assets € m**	**Net defined benefit liability (asset) € m**	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit liability (asset) € m
At 1 January	**5,336**	**(5,242)**	**94**	5,536	(4,774)	762
Included in profit or loss						
Current service cost	**–**	**–**	**–**	78	–	78
Past service cost:						
– Termination benefits	**–**	**–**	**–**	23	–	23
– Other	**3**	**–**	**3**	2	–	2
Interest cost (income)	**108**	**(107)**	**1**	221	(195)	26
Curtailment						
– Termination	**–**	**–**	**–**	(29)	–	(29)
– Other	**–**	**–**	**–**	(240)	–	(240)
Administration costs	**–**	**–**	**–**	–	3	3
	111	**(107)**	**4**	55	(192)	(137)
Included in other comprehensive income						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from:						
Experience adjustments	**–**	**–**	**–**	8	–	8
Changes in demographic assumptions	**–**	**–**	**–**	(130)	–	(130)
Changes in financial assumptions	**739**	**–**	**739**	101	–	101
Return on scheme assets excluding interest income[(1)]	**–**	**(182)**	**(182)**	–	(271)	(271)
Translation adjustment on non-euro schemes	**46**	**(49)**	**(3)**	(27)	23	(4)
	785	**(231)**	**554**	(48)	(248)	(296)
Other						
Contributions by employer	**–**	**(46)**	**(46)**	–	(234)	(234)
Contributions by employees	**–**	**–**	**–**	16	(16)	–
Benefits paid	**(88)**	**88**	**–**	(223)	222	(1)
	(88)	**42**	**(46)**	(207)	(28)	(235)
At end of period	**6,144**	**(5,538)**	**606**	5,336	(5,242)	94

Recognised on the statement of financial position as:		
Retirement benefit assets		
– UK scheme	**70**	69
– Other schemes	**16**	14
Total retirement benefit assets	**86**	83
Retirement benefit liabilities		
– Irish scheme	**618**	129
– EBS schemes	**63**	37
– Other schemes	**11**	11
Total retirement benefit liabilities	**692**	177
Net pension deficit	**606**	94

(1)Includes payment of pension levy.

11 Writeback of impairment provisions on financial investments available for sale

	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Debt securities	**–**	16
Equity securities	**–**	(7)
	–	9

12 Taxation

	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Allied Irish Banks, p.l.c. and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the period	**(1)**	–
Adjustments in respect of prior periods	**–**	–
	(1)	–
	(1)	–
Foreign tax		
Current tax on income for the period	**–**	–
Adjustments in respect of prior periods	**33**	(1)
	33	(1)
	32	(1)
Deferred taxation		
Origination and reversal of temporary differences	**(62)**	66
Adjustments in respect of prior periods	**(30)**	15
	(92)	81
Total tax (charge)/credit for the period	**(60)**	80
Effective tax rate	**13.7%**	9.5%

Analysis of selected other comprehensive income

	Half-Year 30 June 2014			Half-year 30 June 2013		
Continuing operations	**Gross € m**	**Tax € m**	**Net € m**	Gross € m	Tax € m	Net € m
Retirement benefit schemes						
Actuarial losses in retirement benefit schemes	**(557)**	**70**	**(487)**	(226)	29	(197)
Total	**(557)**	**70**	**(487)**	(226)	29	(197)
Foreign currency translation reserves						
Change in foreign currency translation reserves	**14**	**–**	**14**	(18)	–	(18)
Total	**14**	**–**	**14**	(18)	–	(18)
Cash flow hedging reserves						
Fair value (gains) transferred to income statement	**(19)**	**2**	**(17)**	(13)	1	(12)
Fair value gains taken to other comprehensive income	**240**	**(30)**	**210**	27	(4)	23
Total	**221**	**(28)**	**193**	14	(3)	11
Available for sale securities reserves						
Fair value (gains) transferred to income statement	**(149)**	**20**	**(129)**	(32)	5	(27)
Fair value gains taken to other comprehensive income	**843**	**(110)**	**733**	265	(33)	232
Total	**694**	**(90)**	**604**	233	(28)	205

13 Discontinued operations

Disposal of Ark Life in 2014 and disposal of Aviva Life Holdings Ireland Limited and acquisition of Ark Life Assurance Company Limited in 2013

2014

In May 2014, AIB disposed of its investment in Ark Life Assurance Company Limited ('Ark Life') resulting in a gain on disposal of € 34 million (tax Nil).

2013

Following the exercise of put options in January 2012, AIB's investment in Aviva Life Holdings Ireland Limited ("ALH") was held for sale within 'Disposal groups and non-current assets held for sale' at 31 December 2012. This was designated as an equity investment at fair value through profit or loss. The sale was completed on 8 March 2013, resulting in a gain on disposal of € 10 million and a tax charge of nil. This gain was reported in 'Net trading income/(loss)' (note 6).

AIB then acquired a 100% interest in Ark Life for a consideration of € 325 million. The put option which required AIB to acquire Ark Life had a negative valuation of € 23 million at the date of acquisition.

The investment in Ark Life was initially measured at a fair value less costs to sell of € 302 million being a market related valuation of Ark Life, primarily taking account of Ark Life's market consistent embedded value ("MCEV") of € 447 million. The fair value of the liabilities acquired amounted to € 3.8 billion, while the fair value of the assets acquired amounted to € 4.1 billion. Acquisition related costs for Ark Life amounted to € 3 million and were included in 'Administrative expenses' (note 9).

Since Ark Life was acquired exclusively with a view to its subsequent disposal, it was classified on acquisition date as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The investment was accounted for in accordance with the accounting policy set out on page 227 of the Annual Financial Report 2013. As set out in the accounting policy, the disposal group was reported at the lower of its carrying amount and fair value less costs to sell at each reporting date. The fair value was equal to or greater than the carrying value at 30 June 2013. However, no income was recorded in the period in accordance with the accounting policy for a subsidiary acquired exclusively for resale.

14 Earnings per share

The calculation of basic earnings per unit of ordinary shares is based on the profit/(loss) attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding treasury shares and own shares held.

The diluted earnings per share is based on the profit/(loss) attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding treasury shares and own shares held, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	**Half-year 30 June 2014 € m**	Half-year 30 June 2013 € m
Profit/(loss) attributable to ordinary shareholders of the parent from continuing operations	**377**	(758)
Profit attributable to ordinary shareholders from discontinued operations	**34**	–
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period[1]	**521,849.1**	518,237.5
Earnings/(loss) per share from continuing operations – basic	**EUR 0.1c**	EUR (0.1c)
Earnings per share from discontinued operations – basic	**–**	–

(b) Diluted	**Half-year 30 June 2014 € m**	Half-year 30 June 2013 € m
Profit/(loss) attributable to ordinary shareholders of the parent from continuing operations *(note 14 (a))*	**377**	(758)
Profit attributable to ordinary shareholders of the parent from discontinued operations	**34**	–
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period[1]	**521,849.1**	518,237.5
Dilutive effect of options outstanding[2]	**–**	–
Dilutive effect of CCNs[3]	**–**	–
Potential weighted average number of shares	**521,849.1**	518,237.5
Earnings/(loss) per share from continuing operations - diluted	**EUR 0.1c**	EUR (0.1c)
Earnings per share from discontinued operations - diluted	**–**	**–**

(1)The bonus shares issued on the 2009 Preference Shares have been included in the weighted average number of shares in issue prospectively from the date of issue (note 30).

(2)The calculation of diluted earnings per share excludes the potential ordinary shares which would arise from the exercise of outstanding options as these are anti-dilutive.

(3)The calculation of diluted earnings per share excludes the potential ordinary shares which would arise from conversion of the CCNs as these are anti-dilutive.

15 Disposal groups and non-current assets held for sale

Disposal groups and non-current assets/liabilities are shown as single line items in the statement of financial position with no re-presentation of comparatives. An analysis of the components of these single line items is set out below:

	30 June 2014		31 December 2013	
	Assets € m	**Liabilities € m**	Assets € m	Liabilities € m
Loans and receivables:				
Customers	–	–	28[(1)]	–
Other:				
Equity investment at fair value through profit or loss	–	–	–	–
Other	6	–	7	–
	6	–	7	–
Discontinued operations:				
Ark Life[(2)]	–	–	2,747[(3)]	3,593
Total disposal groups and non-current assets and liabilities held for sale	**6**	**–**	2,782	3,593

[(1)]Net of provisions of Nil.

[(2)]Ark Life which had been classified as held for sale as a discontinued operation at 31 December 2013, was disposed of in May 2014 (note 13).

[(3)]Intercompany balances at 31 December 2013 of € 1,148 million between AIB and Ark Life which were eliminated on consolidation include deposits of € 1,011 million.

Further details of loans and receivables held for sale are set out in the Risk management section of this Half-Yearly Financial Report 2014.

16 Trading portfolio financial assets

	30 June 2014 € m	31 December 2013 € m
Debt securities	–	1
Equity securities	1	1
	1	2

During 2008, trading portfolio financial assets reclassified to financial investments available for sale in accordance with the amended IAS 39 *Financial Instruments: Recognition and Measurement* amounted to € 6,104 million. The fair value of reclassified assets at 30 June 2014 was € 42 million (31 December 2013: € 467 million).

As of the reclassification date, effective interest rates on reclassified trading portfolio financial assets ranged from 4% to 10% with expected gross recoverable cash flows of € 7,105 million. If the reclassification had not been made, the Group's income statement for the half year ended 30 June 2014 would have included unrealised fair value loss on reclassified trading portfolio financial assets of € 14 million (30 June 2013: gains of € 30 million).

After reclassification, the reclassified assets contributed the following amounts to the income statement:

	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Interest on financial investments available for sale	1	10
Provision for impairment on financial investments available for sale	–	2

17 Derivative financial instruments

The following table presents the notional principal amount and fair values of interest rate, exchange rate and equity derivative contracts for 30 June 2014 and 31 December 2013:

	30 June 2014			31 December 2013		
	Notional amount	Fair values		Notional amount	Fair values	
	€ m	Assets € m	Liabilities € m	€ m	Assets € m	Liabilities € m
Interest rate contracts	91,082	1,539	(1,915)	104,072	1,443	(1,847)
Exchange rate contracts	4,193	27	(29)	4,314	35	(34)
Equity contracts	3,427	165	(168)	2,390	151	(79)
Total	98,702	1,731	(2,112)	110,776	1,629	(1,960)

Interest rate and exchange rate contracts are entered into for both trading and hedging purposes. Equity contracts are entered into for trading purposes only.

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in the Risk Management section of the Annual Financial Report 2013.

18 Loans and receivables to banks

	30 June 2014 € m	31 December 2013 € m
Funds placed with central banks	**621**	656
Funds placed with other banks	**1,350**	1,399
Provisions for impairment *(note 20)*	**–**	(7)
	1,971	2,048
Amounts include:		
Reverse repurchase agreements	**170**	16

Loans and receivables to banks include cash collateral of € 731 million (31 December 2013: € 798 million) placed with derivative counterparties in relation to net derivative positions and with repurchase agreement counterparties (note 32).

Under reverse repurchase agreements, the Group has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted exclusively of non-government securities (bank bonds) with a fair value of € 168 million (31 December 2013: € 16 million). The fair value of collateral sold or repledged amounted to € 168 million (31 December 2013: € 16 million). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

19 Loans and receivables to customers

	30 June 2014 € m	31 December 2013 € m
Loans and receivables to customers	**78,881**	81,680
Amounts receivable under finance leases and hire purchase contracts	**979**	965
Unquoted debt securities	**146**	151
Provisions for impairment *(note 20)*	**(15,376)**	(17,083)
	64,630	65,713
Amounts include:		
Reverse repurchase agreements	**51**	–

The unwind of the discount on impaired loans amounting to € 173 million (30 June 2013: € 184 million) is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

The amounts above exclude loans and receivables held within the caption 'Disposal groups and non-current assets held for sale' (note 15).

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of € 50 million (31 December 2013: Nil) that it is permitted to sell or repledge in the absence of default by the owner of the collateral.

20 Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables (both to banks and customers) and also includes provisions on loans and receivables within disposal groups and non-current assets held for sale. The classification of loans and receivables below aligns to the asset classes disclosed in the 'Risk management' section of the Annual Financial Report 2013.

						30 June 2014
	Residential mortgages € m	**Other personal € m**	**Property and construction € m**	**SME/Other commercial € m**	**Corporate € m**	**Total € m**
At 1 January 2014	**3,952**	**1,147**	**8,438**	**3,246**	**307**	**17,090**
Exchange translation adjustments	**7**	**4**	**61**	**8**	**–**	**80**
Charge against income statement – Customers	**(23)**	**48**	**28**	**25**	**21**	**99**
Credit to income statement – Banks	**–**	**–**	**–**	**(7)**	**–**	**(7)**
Amounts written off	**(174)**	**(93)**	**(1,275)**	**(274)**	**(72)**	**(1,888)**
Recoveries of amounts written off in previous years	**–**	**–**	**–**	**2**	**–**	**2**
At 30 June 2014	**3,762**	**1,106**	**7,252**	**3,000**	**256**	**15,376**
Total provisions are split as follows:						
Specific	**3,222**	**1,058**	**6,948**	**2,878**	**185**	**14,291**
IBNR	**540**	**48**	**304**	**122**	**71**	**1,085**
	3,762	**1,106**	**7,252**	**3,000**	**256**	**15,376**
Amounts include:						
Loans and receivables to customers *(note 19)*						**15,376**

						31 December 2013
	Residential mortgages € m	Other personal € m	Property and construction € m	SME/Other commercial € m	Corporate € m	Total € m
At 1 January 2013	3,206	1,139	8,104	3,500	583	16,532
Exchange translation adjustments	–	(4)	(44)	(23)	(5)	(76)
Other[1]	20	–	(34)	–	–	(14)
Charge against income statement	813	125	724	224	30	1,916
Amounts written off	(87)	(114)	(296)	(456)	(181)	(1,134)
Disposals	–	–	(16)	–	(120)	(136)
Recoveries of amounts written off in previous years	–	1	–	1	–	2
At 31 December 2013	3,952	1,147	8,438	3,246	307	17,090
Total provisions are split as follows:						
Specific	3,333	1,092	8,114	3,138	228	15,905
IBNR	619	55	324	108	79	1,185
	3,952	1,147	8,438	3,246	307	17,090
Amounts include:						
Loans and receivables to banks *(note 18)*						7
Loans and receivables to customers *(note 19)*						17,083
						17,090

[1]Includes transfers to/from provisions for liabilities and commitments.

21 NAMA senior bonds

During 2010 and 2011, AIB received NAMA senior bonds and NAMA subordinated bonds as consideration for loans and receivables transferred to NAMA.

The senior bonds carry a guarantee of the Irish Government with interest payable semi-annually each March and September at a rate of six month Euribor. The bonds were issued from 1 March 2010 and all bonds issued on or after 1 March in any year will mature on or prior to 1 March in the following year. NAMA may, with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

The following table provides a movement analysis of the NAMA senior bonds:

	30 June 2014 € m	31 December 2013 € m
At 1 January	**15,598**	17,387
Amortisation of discount	**20**	65
Repayments	**(3,834)**	(1,916)
Effect of re-estimating the timing of cash flows	**22**	62
At end of period	**11,806**	15,598

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments which it updated during 2013. Having considered NAMA's current performance against achieving its strategic objectives, AIB has reviewed its expected pattern of repayments on the NAMA senior bonds and has recognised a gain of € 22 million reflecting a revised pattern of repayment including those received in the period. The adjustment to the carrying amount has resulted in the recognition of a gain of € 22 million (31 December 2013: € 62 million) as set out in note 8 'Other operating income'.

22 Financial investments available for sale

The following table sets out the carrying value, being the fair value, of the financial investments available for sale portfolio at 30 June 2014 and 31 December 2013:

	30 June 2014 € m	31 December 2013 € m
Debt securities		
Irish Government securities	**9,445**	10,328
Euro government securities	**3,100**	1,968
Non Euro government securities	**381**	608
Supranational banks and government agencies	**3,271**	3,092
Other asset backed securities	**15**	535
Euro bank securities	**3,594**	3,671
Non Euro bank securities	**–**	34
Non Euro corporate securities	**3**	3
Other investments	**12**	12
Total debt securities	**19,821**	20,251
Equity securities		
Equity securities – NAMA subordinated bonds	**304**	73
Equity securities – other	**39**	44
Total equity securities	**343**	117
Total financial investments available for sale	**20,164**	20,368

23 Interests in associated undertakings

Included in the Group income statement is the contribution from investments in associated undertakings as follows:

Income statement	**Half year 30 June 2014 € m**	Half year 30 June 2013 € m
Share of results of associated undertakings[(1)]	**7**	8
Impairment of associated undertakings	**(1)**	(5)
Gain on disposal of investment in associated undertakings	**3**	–
	9	3

Share of net assets including goodwill	**30 June 2014 € m**	31 December 2013 € m
At 1 January	**58**	64
Exchange translation adjustments	**–**	(1)
Additions	**–**	–
Disposals	**–**	(10)
Income for the period – Continuing operations	**7**	16
Dividends received from associates	**(5)**	(3)
Impairment on associated undertakings – Continuing operations	**(1)**	(8)
At end of period[(2)]	**59**	58
Disclosed in the statement of financial position within:		
Interests in associated undertakings	**59**	58
Of which listed on a recognised stock exchange	**–**	–

[(1)]Includes AIB Merchant Services € 6 million profit (30 June 2013: € 4 million profit); and Aviva Health Insurance Ireland Limited € 1 million profit (30 June 2013: € 4 million profit).

[(2)]Includes the Group's investments in AIB Merchant Services and Aviva Health Insurance Ireland Limited (31 December 2013: AIB Merchant Services; Aviva Health Insurance Ireland Limited).

Details of the principal associates of the Group are set out in note 30 to the consolidated financial statements of the Annual Financial Report 2013.

24 Deferred taxation

Analysis of movements in deferred taxation	30 June 2014 € m	31 December 2013 € m
At 1 January	**3,828**	3,845
Exchange translation and other adjustments	**26**	(15)
Deferred tax through other comprehensive income	**(48)**	(106)
Income statement – Continuing operations *(note 12)*	**(92)**	104
At end of period	**3,714**	3,828
Analysed as to:		
Deferred tax assets	**3,967**	3,989
Deferred tax liabilities	**(253)**	(161)
	3,714	3,828

At 30 June 2014, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 3,714 million (31 December 2013: € 3,828 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits. In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario based on the financial planning outturn 2014–2016. Assuming a sustainable market return on equity (8.5%) over the long term for future profitability levels in Ireland and a GDP growth in Ireland of 2.5%, based on this scenario, it will take in excess of 20 years for the deferred tax asset (€ 3.3 billion) to be utilised. Furthermore, under this scenario, it is expected that 48% of the deferred tax asset will be utilised in 15 years with 78% utilised in 20 years.

Temporary differences recognised in other comprehensive income consist of deferred tax on available for sale securities, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provision for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

For AIB's principal UK subsidiary, the Group has concluded that the recognition of deferred tax assets be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its profits arising as being more likely than not.

For certain other subsidiaries and branches, the Group has concluded that it is more likely than not that there will be insufficient profits to support full recognition of deferred tax assets.

As a result, the Group has not recognised deferred tax assets in respect of Irish tax on unused tax losses of € 249 million (31 December 2013: € 269 million) and overseas tax (UK and USA) on unused tax losses of € 1,874 million (31 December 2013: € 1,675 million), and foreign tax credits, for Irish tax purposes, of € 5 million (31 December 2013: € 5 million). Of these tax losses totalling € 2,123 million for which no deferred tax is recognised, € 63 million expires in 2031, € 44 million in 2032, € 24 million in 2033 and € 1 million in 2034.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates for which deferred tax liabilities have not been recognised amounted to Nil (31 December 2013: Nil).

The net deferred tax asset on items recognised directly in other comprehensive income amounted to € 134 million (31 December 2013: € 86 million).

Additional information on the basis of recognition of deferred tax assets on unused tax losses is included in 'Critical accounting policies and estimates' on pages 50 to 53 of the Annual Financial Report 2013. Information on the regulatory capital treatment of deferred tax assets is included in the Capital information on pages 24 to 26.

25 Deposits by central banks and banks

	30 June 2014 € m	31 December 2013 € m
Central banks		
Securities sold under agreements to repurchase[1]	**3,700**	12,725
Other borrowings	**–**	–
	3,700	12,725
Banks		
Securities sold under agreements to repurchase	**11,555**	9,136
Other borrowings	**1,234**	1,260
	12,789	10,396
	16,489	23,121
Amounts include:		
Due to associated undertakings	**–**	–

Securities sold under agreements to repurchase, mature within six months and are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets. The Group has securitised certain of its mortgage and loan portfolios as outlined in note 49 to the consolidated financial statements of the Annual Financial Report 2013. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

The Group has securitised credit card receivables with a carrying value of € 647 million (31 December 2013: € 675 million) as described in note 49 to the consolidated financial statements of the Annual Financial Report 2013. Funding received from external investors and included in the table above has been secured on these and future credit card receivables.

In addition, Allied Irish Banks, p.l.c. has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 30 June 2014 (31 December 2013: Nil).

Deposits by central banks and banks include cash collateral of € 321 million (31 December 2013: € 200 million) received from derivative counterparties in relation to net derivative positions and also from repurchase agreement counterparties.

Financial assets pledged with central banks and banks are detailed in the following table:

	30 June 2014			31 December 2013		
	Central banks € m	**Banks € m**	**Total € m**	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	**8,167**	**12,344**	**20,511**[2]	14,662	9,938	24,600
Of which:						
Government securities[3]	**6,372**	**8,853**	**15,225**	12,048	6,441	18,489
Other securities	**1,795**	**3,491**	**5,286**	2,614	3,497	6,111

(1)Includes borrowing under Long Term Refinancing Operation (“LTRO”) Nil (31 December 2013: € 11.25 billion).

(2)In addition to existing agreements to repurchase, AIB has pledged financial assets to central banks to support the operation of payment systems and provide access to future funding facilities.

(3)Includes NAMA senior bonds.

26 Customer accounts

	30 June 2014 € m	31 December 2013 € m
Current accounts	**20,461**	18,274
Demand deposits	**9,448**	9,372
Time deposits[1]	**31,237**	32,238
Securities sold under agreements to repurchase[2]	**5,873**	5,783
	67,019	65,667

[1]Following the acquisition of Ark Life in March 2013, deposits amounting to € 1,011 million placed by Ark Life with AIB were eliminated on consolidation at 31 December 2013. Since Ark Life is no longer consolidated following its disposal in May 2014, deposits placed by Ark Life are now included in customer accounts since the date of disposal.

[2]The Group pledged government available for sale securities with a fair value of € 6,159 million (31 December 2013: € 5,814 million) and non-government available for sale securities with a fair value of € 50 million (31 December 2013: € 284 million) as collateral for these facilities (see note 45 of the Annual Financial Report 2013 for further information).

27 Debt securities in issue

	30 June 2014 € m	31 December 2013 € m
Bonds and medium term notes:		
European medium term note programme ("EMTN")	**4,456**	4,346
Bonds and other medium term notes	**4,691**	4,334
	9,147	8,680
Other debt securities in issue:		
Commercial paper	**70**	79
Commercial certificates of deposit	**–**	–
	70	79
	9,217	8,759

Debt securities issued during the period amounted to € 2,158 million (31 December 2013: € 3,510 million) of which € 500 million relates to a covered bond issuance (31 December 2013: € 1,000 million), a € 500 million EMTN bond issuance (31 December 2013: € 500 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities which matured amounted to € 1,700 million (31 December 2013: € 5,421 million).

28 Provisions for liabilities and commitments

							30 June 2014
	Liabilities and charges €m	**NAMA[1] provisions €m**	**Onerous[2] contracts €m**	**Legal claims €m**	**Other[3] provisions €m**	**Voluntary severance scheme €m**	**Total €m**
At 1 January	**72**	**35**	**36**	**14**	**139**	**3**	**299**
Exchange translation adjustments	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Amounts charged to income statement	**–**	**1[1]**	**1**	**1**	**22**	**1**	**26**
Amounts released to income statement	**–**	**(8)[1]**	**(2)**	**(1)**	**(9)**	**–**	**(20)**
Provisions utilised	**(6)**	**–**	**(4)**	**(1)**	**(47)**	**(3)**	**(61)**
Unwinding of discounts	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June 2014	**66**	**28**	**31**	**13**	**109**	**1**	**248**

							31 December 2013
	Liabilities and charges €m	NAMA[1] provisions €m	Onerous[2] contracts €m	Legal claims €m	Other[3] provisions €m	Voluntary severance scheme €m	Total €m
At 1 January	21	31	27	9	156	6	250
Transfers in	34	–	–	4	1	–	39
Transfers out	–	–	(2)	–	(4)	–	(6)
Exchange translation adjustments	–	–	–	–	(4)	–	(4)
Amounts charged to income statement	28[4]	18[1]	20	4	89	3	162
Amounts released to income statement	(11)[4]	(14)[1]	(1)	(2)	(29)	–	(57)
Provisions utilised	–	–	(8)	(1)	(70)	(6)	(85)
At 31 December 2013	72	35	36	14	139	3	299

[1]NAMA income statement charge/(credit) relates to ongoing settlements with NAMA in relation to loans previously transferred to NAMA.

[2]Provisions for the unavoidable costs expected to arise from branch closures.

[3]Includes € 7 million (31 December 2013: € 6 million) provisions for refunds to customers in respect of payment protection insurance in both Ireland and the UK, provisions of € 64 million (31 December 2013: € 96 million) in respect of interest rate hedge products in the UK and provisions for restructuring and reorganisation costs.

[4]Included in charge/(writeback) of provisions for liabilities and commitments in income statement.

29 Subordinated liabilities and other capital instruments

	30 June 2014 € m	31 December 2013 € m
Allied Irish Banks, p.l.c.		
€ 1.6bn Contingent Capital Tier 2 Notes due 2016 ("CCNs")[1]		
Proceeds of issue	**1,600**	1,600
Fair value adjustment on initial recognition	**(447)**	(447)
Amortisation to date	**210**	163
	1,363	1,316
Dated loan capital – European Medium Term Note Programme[1]:		
€ 500m Callable Step-up Floating Rate Notes due October 2017 (maturity extended to 2035 as a result of the SLO)	**8**	8
Stg£ 368m 12.5% Subordinated Notes due June 2019 (maturity extended to 2035 as a result of the SLO)	**30**	28
Stg£ 500m Callable Fixed/Floating Rate Notes due March 2025 (maturity extended to 2035 as a result of the SLO)	**–**	–
	38	36
	1,401	1,352

[1]See note 40 on page 296 of the Annual Financial Report 2013.

30 Share capital

The following tables show the movements within the relevant captions of shareholders' equity in the statement of financial position as at 30 June 2014 and 31 December 2013:

Issued share capital	30 June 2014 € m	31 December 2013 € m
At 1 January		
Ordinary shares	**5,213**	5,171
Preference shares	**35**	35
	5,248	5,206
Ordinary shares issued in lieu of dividend during period	**22**	42
	5,270	5,248
Ordinary shares of € 0.01 each renominalised	**(5,235)**	–
Ordinary shares of € 0.0025 each arising on renominalisation	**1,309**	–
Deferred shares of € 0.0075 each arising on renominalisation	**3,926**	–
Cancellation of deferred shares	**(3,926)**	–
At end of period	**1,344**	5,248
Of which:		
Ordinary shares	**1,309**	5,213
2009 Preference shares	**35**	35
	1,344	5,248

Share premium	30 June 2014 € m	31 December 2013 € m
At 1 January	**2,848**	2,890
Transfer to ordinary share capital in respect of ordinary shares issued in lieu of dividend on 2009 Preference Shares	**(22)**	(42)
At end of period	**2,826**	2,848[1]

[1]See note 41 on page 298 of the Annual Financial Report 2013.

On 13 May 2014, arising from the non-payment of dividend amounting to € 280 million on the 2009 Preference Shares, the National Pensions Reserve Fund Commission ("NPRFC") became entitled to bonus shares in lieu and the Company issued 2,177,293,934 ordinary shares of € 0.01 each by way of a bonus issue to the NPRFC. This number of shares is equal to the aggregate cash amount of the annual dividend of € 280 million on the NPRFC's holding of € 3.5 billion 2009 Non Cumulative Preference Shares, divided by the average price per share in the 30 trading days prior to 13 May 2014. In accordance with the Company's Articles of Association, an amount of € 22 million, equal to the nominal value of shares issued, was transferred from share premium to ordinary share capital. Following this transaction, the NPRFC holds 522,558,712,910 ordinary shares in AIB (99.8% of the ordinary share capital (31 December 2013: 99.8%)).

Following shareholder resolutions passed at the EGM held on 19 June 2014:
- the authorised share capital of the Company was reduced from € 11,092,752,297 to € 7,055,000,000;
- the ordinary shares of the Company were renominalised, each ordinary share of € 0.01 was subdivided into one ordinary share of € 0.0025 each carrying the same rights and obligations as an existing ordinary share and one deferred share of € 0.0075. The deferred shares created on the renominalisation had no voting or dividend rights and had no economic value; and
- the Company acquired all of the deferred shares for nil consideration and immediately cancelled them in accordance with its Articles of Association adopted at the EGM which resulted in € 3,926 million transferring from share capital to a capital redemption reserve fund.

31 Capital reserves and capital redemption reserves

Capital reserves	30 June 2014 € m Capital contribution reserves € m	Other capital reserves € m	Total € m	31 December 2013 € m Capital contribution reserves € m	Other capital reserves € m	Total € m
At 1 January	**2,344**	**253**	**2,597**	2,385	253	2,638
Transfer to revenue reserves:						
Anglo business transfer	**(284)**	**–**	**(284)**	(140)	–	(140)
CCNs issuance	**(47)**	**–**	**(47)**	(79)	–	(79)
Disposal of Ark Life[(1)]	**–**	**(75)**	**(75)**	–	–	–
	(331)	**(75)**	**(406)**	(219)	–	(219)
Other movement	**–**	**–**	**–**	178[(2)]	–	178
At end of period	**2,013**	**178**	**2,191**	2,344	253	2,597

[(1)]Arising from the disposal of Ark Life in May 2014, an amount of € 75 million, previously accounted for as capital reserves, has now been transferred to revenue reserves.

[(2)]The capital contribution recognised at a Group level with regard to the EBS acquisition on 1 July 2011 amounted to € 777 million. This reflected, in part, negative available for sale securities reserves and cash flow hedge reserves of € 178 million at the date of acquisition. Given that the underlying portfolio has since largely matured or has been sold at fair value to Allied Irish Banks p.l.c., a transfer of € 178 million, being the original negative reserves, has taken place at Group level from capital contribution reserves to available for sale securities reserves/cash flow hedging reserves.

The capital contribution reserves which arose from the acquisition of EBS and Anglo deposit business and the issue of the CCNs were non-distributable on initial recognition but may become distributable as outlined in accounting policy number 28 in the Annual Financial Report 2013. The transfers to revenue reserves relate to the capital contributions being deemed distributable.

Capital redemption reserves

On 20 June 2014, the ordinary shares of Allied Irish Banks, p.l.c. were renominalised which resulted in the creation of ordinary shares of € 0.0025 each, totalling € 1,309 million and deferred shares of € 0.0075 each, totalling € 3,926 million. The deferred shares were acquired by AIB for Nil consideration and immediately cancelled which resulted in € 3,926 million transferring from share capital to capital redemption reserves (note 30) and note 42 for further details.

Capital redemption reserves	**30 June 2014 € m**	31 December 2013 € m
At 1 January	–	–
Transfer from share capital *(note 30)*	**3,926**	–
At end of period	**3,926**	–

32 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in AIB Group's statement of financial position; or
– are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

For further details on the above, please see note 45 of the Annual Financial Report 2013.

							30 June 2014
					Related amounts not offset in the statement of financial position		
Financial assets	Note	**Gross amounts of recognised financial assets € m**	**Gross amounts of recognised financial liabilities offset in the statement of financial position € m**	**Net amounts of financial assets presented in the statement of financial position € m**	**Financial instruments € m**	**Financial collateral (including cash collateral) received € m**	**Net amount € m**
Derivative financial instruments	17	**1,275**	**–**	**1,275**	**(1,076)**	**(251)**	**(52)**
Loans and receivables to banks –							
Reverse repurchase agreements	18	**170**	**–**	**170**	**(168)**	**–**	**2**
Loans and receivables to customers –							
Reverse repurchase agreements	19	**51**	**–**	**51**	**(51)**	**–**	**–**
Total		**1,496**	**–**	**1,496**	**(1,295)**	**(251)**	**(50)**

							30 June 2014
					Related amounts not offset in the statement of financial position		
Financial liabilities	Note	**Gross amounts of recognised financial liabilities € m**	**Gross amounts of recognised financial assets offset in the statement of financial position € m**	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Financial instruments € m**	**Financial collateral (including cash collateral) received € m**	**Net amount € m**
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	25	**15,255**	**–**	**15,255**	**(15,904)**	**87**	**(562)**
Customer accounts –							
Securities sold under agreements to repurchase	26	**5,873**	**–**	**5,873**	**(6,213)**	**3**	**(337)**
Derivative financial instruments	17	**1,895**	**–**	**1,895**	**(1,076)**	**(789)**	**30**
Total		**23,023**	**–**	**23,023**	**(23,193)**	**(699)**	**(869)**

32 Offsetting financial assets and financial liabilities *(continued)*

The following tables show financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2013:

		31 December 2013					
					Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	17	1,177	–	1,177	(957)	(188)	32
Loans and receivables to banks –							
Reverse repurchase agreements	18	16	–	16	(16)	–	–
Total		1,193	–	1,193	(973)	(188)	32

		31 December 2013					
					Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	25	21,861	–	21,861	(22,782)	8	(913)
Customer accounts –							
Securities sold under agreements to repurchase	26	5,783	–	5,783	(6,098)	(1)	(316)
Derivative financial instruments	17	1,819	–	1,819	(957)	(820)	42
Total		29,463	–	29,463	(29,837)	(813)	(1,187)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following basis:

– derivative assets and liabilities – fair value;
– loans and receivables to banks – amortised cost;
– loans and receivables to customers – amortised cost;
– deposits by central banks and banks – amortised cost; and
– customer accounts – amortised cost

The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

32 Offsetting financial assets and financial liabilities *(continued)*

The following tables reconcile the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out in the previous pages, to the line items presented in the statement of financial position at 30 June 2014 and 31 December 2013:

				30 June 2014
Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	**1,275**	Derivative financial instruments	**1,731**	**456**
Loans and receivables to banks –				
Reverse repurchase agreements	**170**	Loans and receivables to banks	**1,971**	**1,801**
Loans and receivables to customers –				
Reverse repurchase agreements	**51**	Loans and receivables to customers	**64,630**	**64,579**

				30 June 2014
Financial liabilities	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**Financial liabilities not in scope of offsetting disclosures € m**
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	**15,255**	Deposits by central banks and banks	**16,489**	**1,234**
Customer accounts –				
Securities sold under agreements to repurchase	**5,873**	Customer accounts	**67,019**	**61,146**
Derivative financial instruments	**1,895**	Derivative financial instruments	**2,112**	**217**

				31 December 2013
Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,177	Derivative financial instruments	1,629	452
Loans and receivables to banks –				
Reverse repurchase agreements	16	Loans and receivables to banks	2,048	2,032

				31 December 2013
Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	21,861	Deposits by central banks and banks	23,121	1,260
Customer accounts –				
Securities sold under agreements to repurchase	5,783	Customer accounts	65,667	59,884
Derivative financial instruments	1,819	Derivative financial instruments	1,960	141

33 Derecognition of financial assets

AIB enters into repurchase agreements and securities lending transactions in the normal course of business that do not result in the derecognition of the financial assets concerned. Details of these transactions are set out in note 25.

In addition, as outlined in note 47 (page 308) and note 49 (pages 311 to 314) in the Annual Financial Report 2013, the Group enters into securitisation transactions in order to support certain business objectives.

There was no new securitisation activity in the half-year to 30 June 2014.

34 Memorandum items: contingent liabilities and commitments, and contingent assets

The following table gives the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	30 June 2014 € m	31 December 2013 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**820**	796
Other contingent liabilities	**545**	557
	1,365	1,353
Commitments[2]		
Documentary credits and short-term trade-related transactions	**13**	17
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**6,568**	6,552
1 year and over[4]	**1,980**	1,667
	8,561	8,236
	9,926	9,589

[1]Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds.

[2]A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

[3]An original maturity of up to and including 1 year or which may be cancelled at any time without notice.

[4]An original maturity of more than 1 year.

The credit ratings of contingent liabilities and commitments as at 30 June 2014 and 31 December 2013 are set out in the following table. Details of the Group's rating profiles are set out in the 'Risk management' section of this report.

	30 June 2014 € m	31 December 2013 € m
Good upper	**2,513**	2,491
Good lower	**4,855**	3,937
Watch	**564**	381
Vulnerable	**297**	255
Impaired	**229**	669
Unrated	**1,468**	1,856
Total	**9,926**	9,589

Contingent liability/contingent asset - NAMA

(a) Transfers of financial assets to NAMA are complete. However, NAMA continues to finalise certain value to transfer adjustments and the final consideration payable on tranches which have already transferred. Accordingly, AIB has maintained a provision for the amount of the expected outflow in respect of various adjustments. If the actual amounts provided prove to be lower or higher than the provision, an inflow or outflow of economic benefits may result to the Group.

(b) The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group.

(c) On dissolution or restructuring of NAMA, the Minister may require that a report and accounts be prepared. If NAMA shows that an aggregate loss has been incurred since its establishment which is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets acquired from that institution in relation to the total book value of assets acquired from all participating institutions.

35 Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 16 on pages 221 to 222 of the Annual Financial Report 2013.

Readers of these financial statements are advised to use caution when using the data in the following table to evaluate the Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 30 June 2014.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

The methods used for the calculation of fair value are set out in note 50 to the financial statements in the Annual Financial Report 2013 with the exception of the application of a funding valuation adjustment ("FVA") for the first time in these financial statements. The application of the FVA in the valuation of uncollateralised derivative contracts, introduces the use of a funding curve for the discounting of cash flows. The impact in the June 2014 financial statements is a negative charge of €15 million. Further detail is disclosed on page 119.

The following table sets out the carrying amount and fair value of financial instruments:

	30 June 2014		31 December 2013	
	Carrying amount € m	**Fair value € m**	Carrying amount € m	Fair value € m
Financial assets				
Cash and balances at central banks	**4,957**	**4,957**	4,132	4,132
Items in course of collection	**264**	**264**	164	164
Disposal groups and non-current assets held for sale				
net of liabilities	**6**	**6**	28	28
Trading portfolio financial assets	**1**	**1**	2	2
Derivative financial instruments	**1,731**	**1,731**	1,629	1,629
Loans and receivables to banks	**1,971**	**1,971**	2,048	2,048
Loans and receivables to customers				
Mortgages[(1)]	**36,516**	**32,030**	37,144	31,976
Non-mortgages	**28,114**	**27,408**	28,569	28,114
	64,630	**59,438**	65,713	60,090
NAMA senior bonds	**11,806**	**11,948**	15,598	15,767
Financial investments available for sale	**20,164**	**20,164**	20,368	20,368
Other financial assets	**464**	**464**	559	559
Financial liabilities				
Deposits by central banks and banks	**16,489**	**16,489**	23,121	23,121
Customer accounts	**67,019**	**67,487**	65,667	66,307
Derivative financial instruments	**2,112**	**2,112**	1,960	1,960
Debt securities in issue	**9,217**	**9,680**	8,759	8,993
Subordinated liabilities and other capital instruments	**1,401**	**1,859**	1,352	1,775
Other financial liabilities	**551**	**551**	528	528

(1)Includes residential and commercial mortgages.

35 Fair value of financial instruments *(continued)*

Fair value hierarchy

The following table sets out the carrying value of financial instruments measured at fair value across the three levels of the fair value hierarchy as at 30 June 2014:

				30 June 2014
	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
Financial assets				
Trading portfolio financial assets				
Debt securities	–	–	–	–
Equity securities	–	1	–	1
	–	1	–	1
Derivative financial instruments				
Interest rate derivatives	–	1,060	479	1,539
Exchange rate derivatives	–	21	6	27
Equity derivatives	–	165	–	165
	–	1,246	485	1,731
Financial investments available for sale				
Government securities	12,698	228	–	12,926
Supranational banks and government agencies	3,271	–	–	3,271
Asset backed securities	15	–	–	15
Bank securities	3,594	–	–	3,594
Corporate securities	–	3	–	3
Other investments	–	–	12	12
Equity securities	8	3	332	343
	19,586	234	344	20,164
	19,586	1,481	829	21,896
Financial liabilities				
Derivative financial instruments				
Interest rate derivatives	–	1,706	209	1,915
Exchange rate derivatives	–	25	4	29
Equity derivatives	–	168	–	168
Credit derivatives	–	–	–	–
	–	1,899	213	2,112
	–	1,899	213	2,112

35 Fair value of financial instruments *(continued)*

Fair value hierarchy

The following table sets out the carrying value of financial instruments measured at fair value across the three levels of the fair value hierarchy as at 31 December 2013:

	31 December 2013			
	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
Financial assets				
Trading portfolio financial assets				
Debt securities	1	–	–	1
Equity securities	–	1	–	1
	1	1	–	2
Derivative financial instruments				
Interest rate derivatives	–	1,024	419	1,443
Exchange rate derivatives	–	35	–	35
Equity derivatives	–	151	–	151
	–	1,210	419	1,629
Financial investments available for sale				
Government securities	12,690	214	–	12,904
Supranational banks and government agencies	3,092	–	–	3,092
Asset backed securities	535	–	–	535
Bank securities	3,705	–	–	3,705
Corporate securities	–	3	–	3
Other investments	–	–	12	12
Equity securities	12	1	104	117
	20,034	218	116	20,368
	20,035	1,429	535	21,999
Financial liabilities				
Derivative financial instruments				
Interest rate derivatives	–	1,722	125	1,847
Exchange rate derivatives	–	34	–	34
Equity derivatives	–	79	–	79
Credit derivatives	–	–	–	–
		1,835	125	1,960
	–	1,835	125	1,960

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

	30 June 2014			31 December 2013		
	Financial assets			Financial assets		
Group	**Trading portfolio € m**	**Debt securities € m**	**Total € m**	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 1 from Level 2	–	–	–	–	13	13
Transfer into Level 2 from Level 1	–	–	–	–	3	3

Transfers into Level 1 from Level 2 occurred due to increased availability of reliable quoted market prices which were not previously available.

35 Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at 30 June 2014 and 31 December 2013:

							30 June 2014
	Financial assets					Financial liabilities	
	Disposal groups and non-current assets held for sale	Derivatives	Available for sale		Total	Derivatives	Total
			Debt securities	Equity securities			
Group	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
At 1 January 2014	–	419	12	104	535	125	125
Transfers into Level 3[1]	–	46	–	–	46	71	71
Total gains or (losses) in:							
Profit or loss							
– Net trading profit/(loss)	–	20	–	–	20	1	1
Other comprehensive income							
– Net change in fair value of financial investments available for sale	–	–	–	235	235	–	–
– Net change in fair value of cash flow hedges	–	–	–	–	–	16	16
	–	–	–	235	235	16	16
Purchases	–	–	–	2	2	–	–
Sales	–	–	–	(9)	(9)	–	–
At 30 June 2014	**–**	**485**	**12**	**332**	**829**	**213**	**213**

							31 December 2013
	Financial assets					Financial liabilities	
	Disposal groups and non-current assets held for sale	Derivatives	Available for sale		Total	Derivatives	Total
			Debt securities	Equity securities			
Group	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2013	196	–	12	84	292	20	20
Transfers into Level 3[1]	–	630	–	–	630	161	161
Total gains or (losses) in:							
Profit or loss							
– Net trading loss	(6)	(211)	–	–	(217)	(36)	(36)
– Provisions for impairment on financial investments available for sale	–	–	–	(9)	(9)	–	–
– Other operating loss	–	–	–	–	–	–	–
	(6)	(211)	–	(9)	(226)	(36)	(36)
Other comprehensive income							
– Net change in fair value of financial investments available for sale	–	–	–	27	27	–	–
Purchases	–	–	–	6	6	–	–
Sales	(190)	–	–	(4)	(194)	(20)	(20)
At 31 December 2013	–	419	12	104	535	125	125

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Transfers into Level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these instruments.

35 Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

Total gains or losses included in profit or loss attributable to the change in unrealised gains or losses relating to assets and liabilities held at 30 June 2014 and 31 December 2013:

	30 June 2014 € m	31 December 2013 € m
Net trading income/(loss)	**26**	(34)
Provisions for impairment on financial investments available for sale	**–**	(9)
Total	**26**	(43)

Notes to the condensed consolidated interim financial statements

35 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used at the year ended 30 June 2014 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Type of financial instrument	Fair value at 30 June 2014	Valuation technique	Significant unobservable inputs	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Uncollateralised customer derivatives	Assets: € 485 million Liabilities: € 213 million	Counterparty credit valuation adjustment ("CVA"); Total CVA negative € 42 million	**1.** Loss given default ("LGD") **2.** Customer probability of default ("PD") **3.** Combination LGD and PD change	**1**. 47.1% to 82.5% (Base 57.3%) **2**. 0.98% - 1.61% (Base 1.32% 1 yr PD) **3.** As above with greater impact due to combination of PD and LGD changes	**1.** Negative € 19 million to positive € 8 million **2.** Negative € 9 million to positive € 11 million **3.** Negative € 31 million to positive € 16 million
Uncollateralised customer derivatives	Assets: € 485 million Liabilities: €213 million	Debit valuation adjustment ("DVA"); Total DVA positive € 7 million	Own credit i.e. PD	The PD is shifted from 0.34% to 0.29% in the unfavourable scenario. In the favourable scenario, the capping of DVA at CVA level is removed	**1.** Negative € 0.7 million to positive € 1 million
Uncollateralised customer derivatives	Assets € 485 million Liabilities € 213 million	Funding valuation adjustment ("FVA") Total FVA negative € 15 million	Funding curve used to discount derivative cashflows	Funding curve used is currently a weighted average CDS basket of AIB's top 10 inter-bank counterparts. The favourable scenario uses the highest credit rating interbank counterpart CDS curve. The unfavourable scenario uses AIB's CDS curve.	Negative € 21 million to positive € 3 million
NAMA subordinated bonds	Asset: € 304 million	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment.	The estimates range from NAMA paying an annual coupon and a partial repayment at maturity to paying an annual coupon and a full repayment at maturity. The fair value is estimated assuming no coupon payments but with a full repayment at maturity. Discounting of future cash flows is at rates ranging from 10% in the negative scenario to 5.26% in the positive scenario.	Negative € 52 million 53.5c price - full coupon, 51% repayment, 10% discount yield. Positive € 167 million 100c price - full coupon, full repayment, 5.26% discount yield

35 Fair value of financial instruments *(continued)*

Significant unobservable inputs

Counterparty credit valuation adjustment ("CVA") and debit valuation adjustment ("DVA") are applied to all uncollateralised over the counter derivatives. CVA and DVA are calculated as: (Option replacement cost x PD x LGD). PDs are derived from market based credit default swap ("CDS") information. As most counterparts do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS by industry sector and credit grade. For DVA, a basket of CDS comprising of AIB's top 10 interdealer banks is used to derive own PD. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security where applicable. For unsecured counterparts, a LGD of 60% is applied. The DVA is capped at the CVA level for all derivatives i.e. where DVA (always a positive adjustment) is higher than CVA (always a negative adjustment), the net adjustment made is zero. This is due to an internal management view that a net positive adjustment is unlikely to be achieved in an external transaction to exit the derivative position. In the favourable scenario, the cap is removed creating a more positive DVA.

Within the range of estimates and fair value sensitivity measurements, an adverse and a favourable scenario have been selected for PDs and LGDs for CVA. The adverse scenario for customer PDs is a single rating downgrade. The favourable scenario for customer PDs is a single rating upgrade. Customer LGDs are shifted according to estimates of improvement/degradation in value of security compared with potential derivatives market values. Within the combination of LGD and PD, both are shifted together. An AA rated financial CDS curve is used to derive own PD in the adverse DVA scenario. The favourable scenario for DVA is the removal of the cap at CVA level. As it is common market practice to apply 60% as LGD for financial institutions in CDS calculations, no range is applied to LGD for DVA.

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuations is not greater than € 1 million in any individual case or collectively, the detail is not disclosed here.

35 Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Group believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions, including the impact of changing credit spread assumptions for debt securities:

				30 June 2014
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	**43**	**(36)**	**–**	**–**
Financial investments available for sale – equity securities	**–**	**–**	**167**	**(52)**
Total	**43**	**(36)**	**167**	**(52)**
Classes of financial liabilities				
Derivative financial instruments	**13**	**(34)**	**–**	**–**
Total	**13**	**(34)**	**–**	**–**

				31 December 2013
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	23	(39)	–	–
Financial investments available for sale – equity securities	–	(48)	111	–
Total	23	(87)	111	–
Classes of financial liabilities				
Derivative financial instruments	17	(9)	–	–
Total	17	(9)	–	–

Day 1 gain or loss:

No difference existed between the fair value at initial recognition of financial instruments and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

36 Capital expenditure

	30 June 2014 € m	31 December 2013 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**42**	25
Capital expenditure authorised but not yet contracted for	**42**	26

37 Statement of cash flows

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	Half-year 30 June 2014 € m	Half-year 30 June 2013 € m
Cash and balances at central banks	**4,957**	3,670
Loans and receivables to banks	**927**	1,970
	5,884	5,640

38 Average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the half-years ended 30 June 2014 and 30 June 2013. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

	Half-year ended 30 June 2014			Half-year ended 30 June 2013		
Assets	**Average balance € m**	**Interest € m**	**Average rate %**	Average balance € m	Interest € m	Average rate %
Trading portfolio financial assets						
Domestic offices	**–**	**–**	**–**	–	–	–
Foreign offices	**–**	**–**	**–**	20	–	2.7
Loans and receivables to banks						
Domestic offices	**1,005**	**1**	**0.2**	1,098	2	0.4
Foreign offices	**4,772**	**11**	**0.5**	4,852	8	0.3
Loans and receivables to customers						
Domestic offices	**55,148**	**921**	**3.4**	59,234	963	3.3
Foreign offices	**11,096**	**187**	**3.4**	12,746	202	3.2
NAMA senior bonds						
Domestic offices	**14,168**	**47**	**0.7**	17,261	79	0.9
Financial investments available for sale						
Domestic offices	**19,505**	**300**	**3.1**	17,374	311	3.6
Foreign offices	**12**	**–**	**0.3**	259	6	4.5
Average interest earning assets						
Domestic offices	**89,826**	**1,269**	**2.9**	94,967	1,355	2.9
Foreign offices	**15,880**	**198**	**2.5**	17,877	216	2.4
Net interest on swaps		**33**			35	
Total average interest earning assets	**105,706**	**1,500**	**2.9**	112,844	1,606	2.9
Non-interest earning assets	**9,029**			9,499		
Total average assets	**114,735**	**1,500**	**2.6**	122,343	1,606	2.7
Percentage of assets applicable to foreign activities			**15.3**			16.0

38 Average balance sheet and interest rates *(continued)*

	Half-year ended 30 June 2014			Half-year ended 30 June 2013		
Liabilities and shareholders' equity	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %
Due to central banks and banks						
Domestic offices	**20,979**	**31**	**0.3**	27,330	77	0.6
Foreign offices	**240**	**–**	**0.2**	275	–	0.1
Due to customers						
Domestic offices	**40,448**	**321**	**1.6**	42,089	561	2.7
Foreign offices	**9,038**	**40**	**0.9**	9,382	74	1.6
Other debt issued						
Domestic offices	**8,918**	**169**	**3.8**	8,601	173	4.1
Foreign offices	**227**	**4**	**3.3**	292	6	3.8
Subordinated liabilities						
Domestic offices	**1,376**	**128**	**18.7**	1,291	120	18.8
Average interest earning liabilities						
Domestic offices	**71,721**	**649**	**1.8**	79,311	931	2.4
Foreign offices	**9,505**	**44**	**0.9**	9,949	80	1.6
Total average interest earning liabilities	**81,226**	**693**	**1.7**	89,260	1,011	2.3
Non-interest earning liabilities	**22,423**			21,940		
Total average liabilities	**103,649**	**693**	**1.4**	111,200	1,011	1.8
Shareholders' equity	**11,086**			11,143		
Total average liabilities and shareholders' equity	**114,735**	**693**	**1.2**	122,343	1,011	1.7
Percentage of liabilities applicable to foreign operations			**12.5**			12.0

39 Related party transactions

Other than as mentioned below, there have been no related party transactions or changes therein since 31 December 2013 that have materially affected the Group's financial position or performance in the half-year to 30 June 2014.

Transactions with key management personnel

As at 30 June 2014, the aggregate of loans, overdrafts/credit cards outstanding to key management personnel (executive and non-executive directors and senior executive officers who were in office during the half year) amounted to € 3.33 million; 10 persons (31 December 2013: € 3.0 million; 13 persons).

The aggregate of loans, overdrafts/credit cards outstanding to connected persons of directors in office as at 30 June 2014, as defined in section 26 of the Companies Act 1990, amounted to € 2.72 million; 26 persons (31 December 2013: € 0.9 million; 18 persons).

Loans to key management personnel and connected persons of directors, are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with the Group, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to executive directors and senior executive officers are also made, in the ordinary course of business, on terms available to other employees in the Group generally, in accordance with established policy, within limits set on a case by case basis.

During the period, no impairment charges or provisions have been recognised in respect of any loans or facilities and all interest that has fallen due has been paid.

Relationship with the Irish Government

AIB's relationship with the Irish Government is set out in note 54(g) of the Annual Financial Report 2013. As detailed, this relationship encompasses a number of dimensions, namely:

- Capital investments;
- Guarantee schemes;
- NAMA;
- Funding support;
- PCAR/PLAR;
- Credit Institutions (Stabilisation) Act 2010;
  - (i) Direction Order;
  - (ii) Transfer Order;
  - (iii) Subordinated Liabilities Order;
- Central Bank and Credit Institutions (Resolution) Act 2011 and
- Relationship framework which was signed in March 2012.

Since 31 December 2013, there have been no significant changes to the various aspects of this relationship. The Irish Government, through the NPRFC, holds 99.8% of the ordinary shares of AIB, with the number of shares held increasing by 2.2 billion ordinary shares of € 0.01 each, through the non-payment of the dividend of € 280 million on the 2009 Preference Shares (note 30). The NPRFC now holds 522.6 billion ordinary shares (31 December 2013: 520.4 billion).

39 Related party transactions *(continued)*

Transactions with the Irish Government and Irish Government related entities

The following table outlines the balances held with Irish Government entities[1] at 30 June 2014 and 31 December 2013, together with the highest balances held at any point during the period:

		30 June 2014		31 December 2013	
	Note	**Balance €m**	**Highest[2] balance held €m**	Balance €m	Highest[2] balance held €m
Assets					
Cash and balances at central banks	a	**987**	**2,276**	258	2,143
Derivative financial instruments		**4**	**9**	10	111
Loans and receivables to banks	b	**111**	**114**	115	116
Loans and receivables to customers		**60**	**62**	29	31
NAMA senior bonds	c	**11,806**	**15,605**	15,598	17,406
Financial investments available for sale	d	**9,749**	**10,715**	10,401	10,660
Total assets		**22,717**		26,411	

		30 June 2014		31 December 2013	
		Balance €m	**Highest[2] balance held €m**	Balance €m	Highest[2] balance held €m
Liabilities					
Deposits by central banks and banks	e	**3,700**	**13,480**	12,725	23,230
Customer accounts	f	**7,233**	**7,255**	6,818	6,884
Derivative financial instruments		**66**	**66**	34	34
Subordinated liabilities and other capital instruments	g	**1,363**	**1,363**	1,316	1,316
Total liabilities		**12,362**		20,893	

[1]Includes all departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Banks ("POSB") and the National Treasury Management Agency ("NTMA") are included.

[2]The highest balance during the period, together with the outstanding balance at the end of each period, is considered the most meaningful way of representing the amount of transactions that have occurred between AIB and the Irish Government.

a Cash and balances at central banks represent the minimum reserve requirements which AIB is required to hold with the Central Bank of Ireland ('the Central Bank'). Balances on this account can fluctuate significantly due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. The Group is required to maintain a monthly average Primary Liquidity balance which at 30 June 2014 was € 515 million (31 December 2013: € 515 million).

b The balances on loans and receivables to banks include statutory balances with the Central Bank as well as overnight funds placed.

c NAMA senior bonds were received as consideration for loans transferred to NAMA and as part of the Anglo and EBS transactions.

d Financial investments available for sale comprise € 9,445 million (2013: € 10,328 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 30 June 2014 of € 304 million (31 December 2013: € 73 million).

e This relates to funding received from the Central Bank (note 25).

f Includes € 5,565 million (2013: € 5,117 million) received from an Irish Government body under a repurchase agreement (note 26). The Group has pledged Irish Government securities with a fair value of € 5,898 million (2013: € 5,405 million) for this borrowing.

g On 27 July 2011, AIB issued € 1.6 billion of contingent capital notes at par to the Minister for Finance, the fair value of these notes at initial recognition was € 1,153 million (note 29).

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

39 Related party transactions *(continued)*

Local government[1]

During 2014 and 2013, AIB entered into banking transactions in the normal course of business with local government bodies. These transactions include the granting of loans and the acceptance of deposits, and clearing transactions.

Commercial semi-state bodies[2]

During 2014 and 2013, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions.

[1]This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.

[2]Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

Financial institutions under Irish Government control/significant influence

Certain financial institutions are related parties to AIB by virtue of the Government either controlling or having a significant influence over these institutions. The following institutions are controlled by the Irish Government:

– Permanent tsb plc

The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013 remains a related party for the purpose of this disclosure.

In addition, the Irish Government is deemed to have significant influence over Bank of Ireland.

Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms. The transactions constitute the short-term placing and acceptance of deposits, derivative transactions, investment in available for sale debt securities and repurchase agreements.

The following balances were outstanding in total to these financial institutions:

	30 June 2014 € m	31 December 2013 € m
Assets		
Derivative financial instruments	**30**	48
Loans and receivables to banks[1]	**–**	–
Financial investments available for sale	**124**	413
Liabilities		
Deposits by central banks and banks[2]	**149**	172
Derivative financial instruments	**15**	23
Customer deposits[3]	**18**	39

[1]The highest balance in loans and receivables to banks amounted to € 108 million in respect of funds placed during the period (2013: € 77 million).

[2]The highest balance in deposits by central banks and banks amounted to € 311 million in respect of funds received during the period (2013: € 872 million).

[3]The highest balance in customer deposits amounted to € 48 million in respect of funds received during the period (2013: € 331 million).

In connection with the acquisition by AIB Group of certain assets and liabilities of the former Anglo Irish Bank Corporation Limited (now Irish Bank Resolution Corporation Limited (in Special Liquidation)) “IBRC”, IBRC had indemnified AIB Group for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB Group had made a number of claims on IBRC pursuant to the indemnity prior to IBRC’s Special Liquidation on 7 February 2013.

AIB Group has since served notice of claim and set-off on the Joint Special Liquidators of IBRC in relation to the amounts claimed pursuant to the indemnity and certain other amounts that were owing to AIB by IBRC as at the date of the Special Liquidation (c. € 81.3 million in aggregate). Given AIB’s aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

40 Financial and other information

	Half-year 30 June 2014 %	Half-year 30 June 2013 %
Operating ratios		
Operating expenses/operating income	**58.7**	114.5
Other income/operating income	**35.6**	16.8
Net interest margin[(1)]:		
Group	**1.54**	1.06
Domestic	**1.47**	0.98
Foreign	**1.92**	1.52

Average interest earning assets	**Half-year 30 June 2014 € m**	Half-year 30 June 2013 € m
Group	**105,706**	112,844
Domestic	**89,826**	94,967
Foreign	**15,880**	17,877

Rates of exchange	**Half-year 30 June 2014**	Year ended 31 December 2013	Half-year 30 June 2013
€/US$			
Closing	**1.3658**	1.3791	1.3080
Average	**1.3706**	1.3282	1.3133
€/Stg£			
Closing	**0.8015**	0.8337	0.8572
Average	**0.8213**	0.8494	0.8510

[(1)]Net interest margin represents net interest income as a percentage of average interest earning assets.

41 Legal proceedings

AIB Group, in the course of its business, is frequently involved in litigation cases. However, it is not, nor has it been involved in, nor are there, so far as the Company is aware, pending or threatened by or against AIB Group any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous six months, a material effect on the financial position or profitability of AIB Group.

42 Non-adjusting events after the reporting period

A resolution to reorganise the share capital of Allied Irish Banks, p.l.c., subject to High Court approval, was passed at the EGM held on 19 June 2014. The resolution will allow for the creation of distributable reserves totalling € 5,000 million by:

– transferring € 3,926 million which arose from the sub-division of the existing ordinary shares to revenue reserves; and
– transferring € 1,074 million from share premium to revenue reserves.

An application was made to the High Court in July 2014 in relation to the above resolution and is currently being considered by the High Court.

43 Approval of Half-Yearly Financial Report

The Half-Yearly Financial Report was approved by the Board of Directors on 29 July 2014.

Responsibility statement

for the half-year ended 30 June 2014

We, being the persons responsible within Allied Irish Banks, p.l.c., each confirm that to the best of his knowledge:

(1) the condensed set of financial statements comprising the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity, and related explanatory notes, have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, being the International Accounting Standard applicable to the interim financial reporting, issued by the IASB and adopted unchanged pursuant to the procedure provided for under Article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

(2) the interim management report includes a fair review of:

(a) the important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements;

(b) the principal risks and uncertainties for the remaining six months of the financial year;

(c) related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and

(d) any changes in the related parties' transactions described in the last annual report, that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

On behalf of the Board

David Hodgkinson
Chairman

David Duffy
Chief Executive Officer

Independent review report of Deloitte & Touche to Allied Irish Banks, p.l.c.

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board, the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Enterprise Securities Market Rules for Companies. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Enterprise Securities Market Rules for Companies.

As disclosed in the Basis of preparation, the annual financial statements of the Group are prepared in accordance with IFRSs as issued by the IASB and IFRSs as adopted by the European Union. The condensed set of financial statements included in the half-yearly financial report has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in Ireland and the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Enterprise Securities Market Rules for Companies.

Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Hardwicke House
Hatch Street
Dublin 2
29 July 2014