Half-Yearly Financial Report

For the six months ended 30 June 2016

2016

Allied Irish Banks, p.l.c.

Contents

Forward Looking Statements

This document contains certain forward-looking statements 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, capital structure, Government shareholding in the Group, 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 set out in the ‘Principal risks and uncertainties’ on pages 50 to 59 of the Annual Financial Report 2015 and on page 34 ‘Update on risk management and governance’ of the Half-Yearly Financial Report 2016. 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 list of important factors on pages 50 to 59 of the Annual Financial Report 2015 and on page 34 of the Half-Yearly Financial Report 2016 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.

Half-Year 2016 Financial Highlights

Operating performance[1]

Profit before tax
€ 1,017m € 1,235m

Sustainable underlying profit before tax in the half-year to June 2016 enhanced by net credit writebacks of € 211 million and exceptional items of € 264 million.

Net interest margin ("NIM")[2]
2.08% 1.92%

Continued positive NIM expansion from lower funding costs and reduction in low yielding assets. This supported two variable mortgage rate reductions in the previous 12 months and a further reduction due to take effect on 1 July 2016.

Total income[3]
€ 1,240m € 1,349m

Increase in net interest income of € 5 million due to net lower funding costs. Stable net fees and commissions with other income negatively impacted by mark to market on customer derivative positions partly offset by once off other items including gain from AFS sales and cashflows on previously restructured loans.

Pre-provision operating profit[3]
€ 563m € 703m

Strong lending and further net margin improvement resulted in an overall solid performance. Positive growth from AIB Ireland in line with the improvement in the Irish domestic economy, offset by a reduction in AIB UK and Group & International.

Operating expenses[3]
€ 677m € 646m

Operating expenses are in line with expectations, up 5% due to planned business initiatives, increase in regulatory compliance and agreed salary increases partly offset by lower headcount.

Net credit provision writeback
€ 211m € 540m

The Group continues to make good progress on case by case restructuring of customers in difficulty, with low levels of new to impaired. Primary restructuring period is concluding with higher number of residual complex cases at lower value.

Balance sheet / capital[1]

CET 1 transitional capital ratio
16.5% 15.9%

CET 1 fully loaded capital ratio
13.3% 13.0%

Capital accretive though positive effect of profits generated in the period partly offset by increase in the pension deficit.

New lending[4]
€ 3.9bn € 3.8bn

New lending of € 3.9 billion is up € 0.1 billion (+2%) compared to H1 2015. New lending from AIB Ireland of € 2.4 billion up 8%, AIB UK of € 1.0 billion down 17% and Group & International of € 0.5 billion up 28% compared to H1 2015. Approvals of € 6.1 billion in H1 2016.

Customer accounts
€ 61.6bn € 63.4bn

Customer accounts reduced by € 1.8 billion (-3%) since 31 December 2015, € 1.5 billion due to the impact of currency movements and € 0.3 billion due to a reduction in deposits partly offset by growth in current accounts with positive effect on the cost profile mix. Loan to deposit ratio of 99% as at 30 June 2016.

Impaired loans
€ 11.3bn € 13.1bn

14% reduction on impaired loans reflecting further progress in the implementation of sustainable restructure solutions for customers and low levels of new to impaired loans. Impaired loans are 17% of total gross loans compared to 19% at the end of 2015.

Provision coverage ratio
47% 47%

Coverage ratio, specific provisions as a percentage of impaired loans, remains at robust levels with coverage of new to impaired loans in the half-year to June 2016 loans at 33%.

Liquidity coverage ratio ("LCR")[5]
122% 116%

The LCR reflects the overall quality of the funding profile with high quality liquid assets and a strong retail deposit base that meets regulatory requirements.

Customer experience

Net Promoter Score ("NPS")[6]
38 16

Transactional NPS has increased by 22 points, to 38 at quarter 2 2016, since quarter 4 2014 reflecting the continued enhancement of the customer experience.

Online personal loan applications
76%

76% of personal loan applications now through digital channels for the 6 months to June 2016.

Mortgage lending market share
34%

Ireland's largest provider of new mortgage lending drawdowns in the first five months to May 2016, continued to be Number 1 market share in Ireland with 34%.

(1) Half-year to June 2016 is compared to half-year to June 2015 for operating performance and 30 June 2016 is compared to 31 December 2015 for balance sheet / capital (except New lending which is half-year to June 2016 compared to half-year to June 2015).

(2) Net interest margin excluding eligible liabilities guarantee ("ELG") charge.

(3) Before bank levies, regulatory fees and exceptional items. Exceptional items are detailed on page 16.

(4) New lending for the half-year to June 2015 has been restated by € 140 million to exclude revolving credit.

(5) Liquidity coverage ratio calculated under the Delegated Act.

(6) The Net Promoter Score or NPS is a measurement program that tracks customers' loyalty and advocacy and ranges from -100 to 100.

"These results confirm what has been achieved – AIB is now a customer focused, sustainable and well capitalised business that is in a growth phase, strongly positioned to support our customers, the growth agenda in the economies in which we operate and respond to the significant economic and regulatory changes that are prevailing.

I am confident that we have a focused and robust strategy, a clear plan in place and that we are committed to delivering for all of our stakeholders."

Chief Executive's Review

Bernard Byrne
Chief Executive Officer

Introduction

A little over a year into my role as CEO, I am delighted to present this strong set of results for AIB which demonstrate that the stability of the underlying business is well established. These results confirm what has been achieved – AIB is now a customer focused, sustainable and well capitalised business that is in a growth phase, strongly positioned to support our customers, the growth agenda in the economies in which we operate and respond to the significant economic and regulatory changes that are prevailing. We can do this while generating good returns on capital and being fair to our customers in the rates we charge.

This week, on the maturity of our Contingent Capital Notes, we are making a further capital repayment of € 1.6 billion, together with a dividend payment of € 160 million, to the State. In December 2015, we made a capital repayment of € 1.7 billion. In total, AIB has now paid c. € 6.5 billion in capital, fees, dividends, coupons and levies to the State. This week's payment is also the final step in the normalisation of our capital structure, which is positive.

We have more to do. I am confident that we have a focused and robust strategy, a clear plan in place and that we are committed to delivering for all of our stakeholders. I am also cognisant that there are items outside of our control which can impact materially on our business.

Our financial performance

We delivered a strong financial performance in the first half of 2016. We achieved a profit before tax in excess of € 1 billion, comprising € 0.56 billion of pre provision underlying profitability, €0.27 billion due to a one off disposal and € 0.21 billion of net additional credits, arising in the main, from provision writebacks as we continue to resolve the legacy impaired loan portfolios. In the first half of 2015, we reported a profit of € 1.2 billion, € 0.2 billion more than in the current period. The main differences relate to higher credit provision releases in 2015, positive one-off AFS and derivative impacts within the other income line in 2015 and the impact of the Visa Europe disposal in 2016.

This strong profitability combined with the normalisation of our capital structure gives us a robust fully loaded CET1 ratio of 13.3% (transitional 16.5%). We have a capital base that is solid and comfortably above regulatory requirements. Our Net Interest Margin (NIM) is 2.08%, an increase of 16 bps on the same period last year. Operating income, at € 1.24 billion and costs at € 677 million are both trending as expected. Whilst costs are up slightly (5%) year on year, this was anticipated and reflects the absorption of increased staff costs and the impact of our ongoing investment in strategic projects. In 2015, costs overall had reduced by € 450 million (40%) since 2012.

In the year to date, we experienced continued strong new lending, approving € 6.1 billion in new lending during the first half of 2016 across the Group, with actual customer drawdowns at € 3.9 billion. Encouragingly, across our core segments, other personal lending was up 28% and business and corporate lending up 12% on the same period last year. Our mortgage drawdowns are up 2%, despite the backdrop of a very challenging and increasingly competitive market, with a number of variables, including constrained housing supply, continuing as an area of concern.

Adopting a fair and equitable approach to customers in difficulty is fundamental to maintaining sustainable long term relationships. Our impaired loan balances of € 11.3 billion reduced by € 1.8 billion in the first half of this year and by € 18 billion since year end 2013. The impaired loan balances are € 5.9 billion net of specific provision cover of 47%. The resolution of these difficult cases continues as we work hard to achieve satisfactory outcomes for our customers and the bank. A slowdown in restructuring momentum, in value terms, was expected and this turning point has materialised over the first six months of the year. We are now dealing with those cases which are of lower monetary value, more complex, more personal and protracted in nature. We will continue to reduce the level of impaired loans, albeit at a reducing rate.

In summary, we have a business that is well capitalised, continuing to grow its core profitability within agreed risk appetite parameters, while managing its costs efficiently, investing in its future and successfully addressing significant legacy issues. All of this is being achieved by putting the customer at the heart of what we do and meeting all financial and regulatory requirements. We are in no way finished but we are on the right path to deliver a bank that everyone can believe in.

Our customers

The banking landscape continues to change as customers' needs and banking habits evolve. We are a customer focused, digitally enabled bank firmly focused on delivering on the needs of our customers and in so doing, simplifying our business. With this in mind, we are evolving the culture and operating model of the bank to ensure we understand, meet and deliver on our customers' needs, at a time and in a way that works for them.

We want to be a business that earns the trust, respect and loyalty of our customers and we continue to rebuild our business and organise ourselves with this objective at the centre of our plans. Through regular and rigorous review of customer feedback, we are identifying where and how to invest to make customers' interactions simpler, more intuitive and more personalised. Technology is transforming the way banks and customers engage and now, more than ever, customers connect with us through smartphones, laptops and other mobile devices. We see this as an opportunity and we are continuing to invest heavily in technology, successfully executing our long term investment program which is delivering resilience, agility and a simple and efficient operating model focused on improving customer experience.

We don't always get it right and we know we can, at times, disappoint our customers with our delivery but we are committed to investing in our business with the aim of continually improving. The good news is that we are making real progress and we are delivering better and more convenient services to our customers all the time. Our Transactional Net Promoter Score(1) (NPS) increased by 22 points, to +38, since quarter 4 2014. Our Relationship NPS, for our personal and SME customers have both increased in the last six months, with personal increasing by 6 points to +17 and SME increasing by 8 points to +13.

We were excited to enhance our operating model in the first half of this year, bringing a real focus to our local markets. We now have 19 defined markets in the Republic of Ireland within which we operate and a clear local lead for each of these markets. In 2015, we expanded our branch network, opening new branches in Dublin and Cork, and this month, we complemented our branch network by opening an innovative in-store outlet, partnering with Supervalu. This new banking offering, another first in the Irish market, offers customers the convenience of doing their grocery shopping and banking at one location. We have also continued our branch refurbishments and introduced extended opening hours in many locations.

[(1)]The Net Promoter Score or NPS is a measurement program that tracks customers' loyalty and advocacy and ranges from -100 to +100.

Personal customers

It's not just about better service or better understanding of customer needs, it's also about being fair and more transparent. As we have reduced our funding and operating costs we have sought to pass these benefits on to our customers. In the first half of 2016, we continued to demonstrate our commitment to keeping mortgage rates under review as we announced further reductions in our Standard Variable Rates (SVRs) for AIB and Haven mortgage customers. This has resulted in an overall cut of 1% in SVRs for those customers in an 18 month period. We are the only bank in the Irish market who has sought to share these benefits with its customers. In addition, and to make it easier for non-AIB customers to switch to AIB, we have introduced a proposition whereby mortgage holders can avail of up to € 2,000 towards the cost of fees incurred when switching mortgage provider.

Our research tells us that customers want choice and that different propositions appeal to diverse cohorts of customers and it is this that is driving our pursuit of a multi brand mortgage strategy. For our EBS customers, we introduced our 'anytime anywhere' mortgage proposition in 2015 and earlier this year we launched a 2% back in cash offer. We did this because our research has found that some customers have a strong appetite for cash offers, and those who have, can now avail of this type of offer through our EBS brand.

In the first half of this year, we also implemented a reduction in our personal loan pricing, including a reduction of 4% APR on personal loans up to €10,000. In making these changes we have again demonstrated our commitment to putting our customers first. We took on board customer feedback, positioning our offering to be more competitive, with clear and more easily understood price points.

Business and corporate customers

We continue to support our business customers by providing a large range of business products and our sector specialist approach. In addition, our 48 hour decision for SME loans less than € 30,000 and extended opening hours coupled with our partnering with the Strategic Banking Corporation of Ireland (SBCI), launching a total of € 400 million in funds to SMEs at a market leading rate of 4.5% are all benefitting customers. This represents a 2% reduction on the standard business loan rate, the cost of the reduction being shared between AIB and the SBCI. Our Corporate Banking team provides tailored solutions and sector expertise to premium customers. A strong performance in the first half of 2016, with increased lending of 20% year on year, is reflective of increased business activity in an improving Irish economy. We remain the No.1 bank for Foreign Direct Investment (FDI) in Ireland.

AIB UK

The recent decision by the UK to vote in favour of exiting the EU has created instability and impacted the confidence of international markets. At times like this, which bring uncertainty, households, businesses and investors often defer decisions until they have further clarity. This is the immediate impact we must all deal with. In the coming years, the UK and the EU will redefine the rules governing the movement of goods, services, people and capital. In tandem, a potentially broad range of regulations might change. The practical implications for Ireland, the UK and AIB, are, as of yet, not fully known. In terms of our business, we are prepared for this period of flux and we are confident that we are well positioned to deal with those matters that may arise. Most importantly, we are supporting our customers whose businesses may be affected and we continue to monitor events in the UK and the international markets as they unfold from the perspective of our customers.

Our UK business is a separately regulated subsidiary and we are well positioned to deal with an exit, by the UK, from the single market, should that occur. From an operating model perspective, we continue to provide specialist industry and sectoral expertise to business banking, including Owner Managed Businesses (OMBs) and the corporate sector as we enhance our understanding of our customers' businesses and operating environments and continue to develop services to meet their needs. In First Trust Bank (FTB), we service our customers through our focused challenger bank strategy, lending to niche SME sectors, providing sectoral expertise and offering a full banking service, in branch, online and through mobile to our customers.

Legacy customer challenges

We are cognisant that legacy issues still have the potential to affect our reputation and we remain very active in competently managing any issues that arise.

In December 2015, the Central Bank of Ireland (CBI) launched an industry wide tracker mortgage examination. We had already mobilised a project to address this legacy issue. We combined the two reviews into a single program, to ensure the program delivers a fair outcome for our customers, which is our priority. We have completed a significant amount of work to date and continue to work through this process as set out in the CBI framework.

Our review has found, that in some instances, we were not sufficiently clear with customers or we failed to honour contractual commitments. On behalf of the bank, I apologise to customers for these failures which should not have happened and which we now intend to put right. We will shortly commence engagement with individual customers affected by this review. The overall process, as defined under the CBI framework, which includes a full independent third party review, will take some time to conclude. We have maintained the provisions recognised in respect of this matter in the 2015 year end accounts.

Our market position

When it comes to Personal, Business and Corporate markets in Ireland, in all key respects we are the No. 1 bank. This is because we have more customers and more balance sheet commitment in Ireland than any other provider in the marketplace.

Our market leading digital offerings enable our customers to bank with us how and when they wish. We have over 1 million active digital customers, with 578,000 customers active on mobile banking, up 8% in the last six months. 76% of our personal loans are now applied for online, up 15% on Q4 2015. This has helped us to gain market share in this important segment, with an increase of 6% from 15% to 21% in the last six months. We are also maintaining our leading market shares in the mortgage and business markets.

Our people

We are a services business and our most important asset is our people. Our staff determine every day how our customers feel about AIB. It is important that I acknowledge and thank our staff for their ongoing hard work and commitment as we continue to change AIB. We are proud to serve our customers and are demonstrating this daily. I am delighted that our employee engagement scores continue to show that we are making real progress keeping everyone in AIB committed to working better together.

Our shareholders

The capital reorganisation and share consolidation in December 2015 resulted in the normalisation of our capital structure. I am very pleased that this week, on the maturity of our Contingent Capital Notes, AIB is in a position to make a further significant capital repayment of € 1.6 billion. Positioning the bank to allow the repayment, in full, of the funds invested by the State in AIB continues to be a priority for the bank. Maintaining appropriately strong capital ratios is also a priority and we have achieved this while still delivering a strong financial performance and returning material amounts of capital to the State.

Outlook and priorities

Ireland's economic growth continues to provide a positive environment for the bank to operate in. The strength of our franchise provides opportunities to grow profitability as the economy develops. However, there are a number of macro uncertainties which we face. The aftermath and implications of a UK exit from the EU has fuelled economic uncertainty. The first six months of the year have also seen unstable international market conditions. There is no doubt that these two items combined are delivering global economic uncertainty and increasing volatility. On the domestic front, the housing situation, the subdued, yet very competitive, mortgage market and the prevailing low interest rate environment present challenges.

The return of AIB to private ownership is something that we believe will benefit both the business itself and will aid us in continuing to repay the State. There has been much discussion on the topic of an Initial Public Offering (IPO) and the timing of this is a matter for the Government. We continue to actively engage with the market and potential investors and are ready to execute this transaction when requested, by Government, to do so.

The impact of the evolving regulatory framework on the operating model of banks is continuing. In general, it does and will continue to increase the cost of operating, the cost of lending and the levels of capital required.

Our ambition is to be at the heart of our customers' financial lives by always being useful, always informing and always providing an exceptional customer experience. We will deliver a bank with compelling, sustainable capital returns and a considered, transparent and controlled risk profile. To help us achieve this we have worked hard to enhance our strategy and prioritise the key areas of focus where we will differentiate ourselves. It's all about the customer, keeping things simple, managing risk well and having great people working in the bank. These areas of focus are determining the initiatives we commit to.

It has been a positive first half. Our business has performed well and I am proud of what we continue to deliver and the progress we are making. Together, we are confident that we can deliver a better bank. A bank that our colleagues, customers and stakeholders can truly believe in.

Bernard Byrne
Chief Executive Officer

27 July 2016

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Business review

Business review - 1. 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 and the Board. Profit from continuing operations before exceptional items excludes exceptional items that management believe obscure the underlying performance trends in the business. Exceptional items are presented separately and a list of the items classified as exceptional is included below. Percentages presented throughout this report are calculated on the absolute figures and therefore may differ from the percentages based on the rounded numbers. Throughout the operating and financial review half-year to June 2016 is compared to half-year to June 2015 for the income statement and 30 June 2016 is compared to 31 December 2015 for balance sheet and capital.

Summary income statement[(1)(2)]	**Half-year June 2016 € m**	Half-year June 2015 € m	*% change*
Net interest income	**945**	940	*1*
Business income	**223**	310	*-28*
Other items	**72**	99	*-27*
Other income	**295**	409	*-28*
Total operating income	**1,240**	1,349	*-8*
Personnel expenses	**(359)**	(356)	*1*
General and administrative expenses	**(273)**	(251)	*9*
Depreciation, impairment and amortisation	**(45)**	(39)	*15*
Total operating expenses	**(677)**	(646)	*5*
Operating profit before bank levies, regulatory fees and provisions	**563**	703	*-20*
Bank levies and regulatory fees	**(48)**	(2)	-
Writeback of provisions for impairment on loans and receivables	**211**	540	*-61*
Writeback of provisions for liabilities and commitments	**1**	3	*-67*
Writeback of provisions for impairment on financial investments available for sale	**2**	-	-
Total writeback of provisions	**214**	543	*-61*
Operating profit	**729**	1,244	*-41*
Associated undertakings	**23**	13	*77*
Profit on disposal of property	**-**	4	-
Profit on disposal of business	**1**	-	-
Profit from continuing operations before exceptional items	**753**	1,261	*-40*
Restitution and restructuring expenses	**(20)**	(12)	-
Gain on transfer of financial instruments	**16**	7	-
Profit on disposal of Visa Europe	**272**	-	-
Termination benefits	**(3)**	(13)	-
Other exceptional items	**(1)**	(8)	-
Total exceptional items	**264**	(26)	-
Profit before taxation from continuing operations	**1,017**	1,235	*-18*
Income tax charge from continuing operations	**(194)**	(395)	*-51*
Profit for the period	**823**	840	*-2*

Operating contribution before bank levies, regulatory fees and provisions by segment	**€ m**	€ m	*% change*
AIB Ireland	**525**	517	*2*
AIB UK	**65**	116	*-44*
Group & International	**(27)**	70	-
Operating profit before bank levies, regulatory fees and provisions	**563**	703	*-20*

[(1)] Financial Services Compensation Scheme ("FSCS") fees of € 2 million in the half-year to June 2015 have been represented as bank levies and regulatory fees. These fees were previously presented within general and administrative expenses for the Half-Yearly Financial Report 2015.

[(2)] The impact of currency movements is calculated by comparing the results for the current reporting period to results for the comparative period retranslated at exchange rates for the current reporting period. This impact is set out in the following pages.

Overview of results

	H1 2016 Performance	Outlook
Net interest income €945m (€940m)	NIM improved by 16 bps with lower funding costs, increased average earning customer loans, continued reduction in impaired loans and low yielding NAMA bonds. Net interest income remained stable.	Positive trajectory for NIM with further improvement from balance sheet efficiency expected with the redemption of contingent capital notes due in July 2016 and continued reduction in low yielding NAMA bonds.
Other income €295m (€409m)	Net fees and commission income was stable, excluding FX impact and reduction in card interchange rates (underlying card spend up 10%). Net trading income has reduced by € 67 million mainly due to the impact of market volatility and rate movement on long term customer derivative positions. Other items of € 72 million benefited mainly from gain on sales of AFS investments and the effect of realisation/re-estimation of cashflow of loans previously restructured	Net fees and commissions income is expected to remain stable in H2 2016 with net trading income dependent future market volatility and interest rate movements, and other items dependent on once off activity.
Operating expenses €677m (€646m)	Operating expenses are in line with expectations. Staff costs flat while incorporating salary increases. Other factors impacting costs are outsourcing for future resilience, continued investment in loan restructuring operations and increase in regulatory compliance. Ongoing strategic investment programme of € 408 million invested to date (76% capital) continues to deliver on greater efficiency, simplified process and a transformed customer journey[(1)].	Through the investment programme of € 870 million from 2015 - 2017, the Group will continue to pursue active efficiency management by further focusing on transforming the customer experience, simplifying internal processes and improving efficiency.
Bank levies and regulatory fees €48m (€2m)	Bank levies and regulatory fees in H1 2016 of € 48 million relating to the Deposit Guarantee Scheme ("DGS") of € 28 million, the Single Resolution Fund ("SRF") of € 18 million and Financial Services Compensation Scheme ("FSCS") of € 2 million.	Bank levies and regulatory fees expected to be higher by c. € 40 million in full year 2016 compared to full year 2015 of € 72 million.
Writeback of provisions for impairment on loans and receivables €211m (€540m)	The Group continues to make good progress on case by case restructuring of customers in difficulty combined with low levels of new to impaired as economic conditions improve. This has resulted in a net credit writeback of € 211 million in the half-year to June 2016.	It is expected that the level of provision writebacks will be lower in full year 2016 than in the full year 2015 as the primary restructuring period is concluding, with higher number of complex cases at lower value.
Profit from continuing operations before exceptional items €753m (€1,261m)	The Group performed strongly in H1 2016, with a profit of € 753 million for H1 2016, benefitting from net writebacks of € 211 million (€ 540 million net writeback in the half-year ending June 2015), this included a new to impaired charge of € 103 million. Underlying operating profit is in line with expectations.	Positive outlook as the Group demonstrates strong capital base with stable balance sheet and sustainable profitability.
Total exceptional items €264m ((€26m))	Total exceptional items in H1 2016 were € 264 million compared to a net charge of € 26 million in H1 2015. The increase was mainly due to a profit on the disposal of the equity interest in Visa Europe of € 272 million in H1 2016. For further detail on exceptional items see page 16.	

[(1)]Income statement impact of this investment spend is reflected in operating expenses and in exceptional items for certain strategic elements.

Business review - 1. Operating and financial review

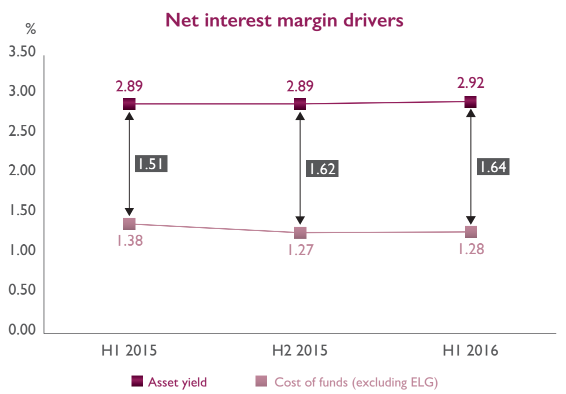
Net interest income

Net interest income	Net interest margin excluding ELG
€945m €940m	**2.08%** 1.92%

Net interest income	**Half-year June 2016 € m**	Half-year June 2015 € m	% *change*
Net interest income	**945**	940	*1*
Average interest earning assets	**92,130**	100,637	*-8*
	%		% change
NIM excluding ELG	**2.08**	1.92	0.16
NIM	**2.06**	1.88	0.18

Net interest income
€945m €940m

Net interest income increased by € 5 million (+1%) compared to the half-year to June 2015. This included the impact of currency movements which reduced net interest income by € 8 million over the same period.



The reduction in the average cost of funds combined with the increase in average asset yields resulted in widening the spread to 164 bps in the half-year to June 2016 from 151 bps in the half-year to June 2015.

Reduction in interest income on assets

€1,341m €1,442m

Impact of asset yields

The half-year to June 2016 average asset yield of 292 bps was 3 bps higher than the half-year to June 2015. Although individual interest yields decreased over the same period, the mix of assets changed to a higher percentage in customer loans with the reduction of lower yielding NAMA senior bonds. Yields on loans and receivables to customers reduced by 13 bps mainly due to two variable mortgage rate reductions in the second half of 2015 and the lower interest rate environment. Yields on financial investments available for sale reduced through the mix of sales, maturities and purchases and, similar to the fall in NAMA senior bonds yields, tied to market interest rates which reduced in the period.

Lower average interest earning assets

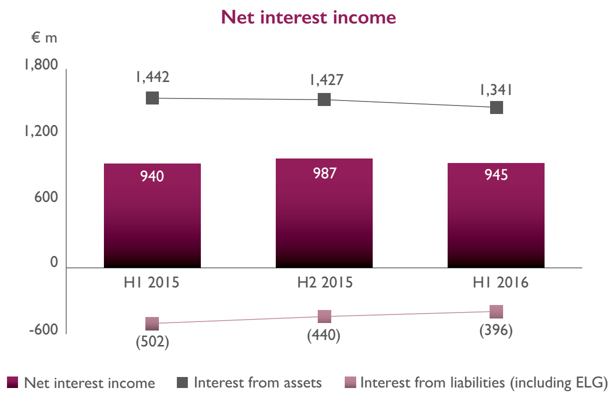
Average interest earning assets of € 92 billion in the half-year to June 2016 reduced from € 101 billion in the half-year to June 2015 due to the impact of redemptions of NAMA senior bonds of € 4.2 billion, lower loans and receivables to customers of € 2.4 billion (+€ 2.3 billion increase in earning loans offset by -€ 4.0 reduction in impaired loans and -€ 0.7 billion from the impact of currency movements), lower other interest earning assets of € 1.0 billion due to a reduction in repos, and lower financial investments of € 1.0 billion, as planned, to reduce overall AFS holdings in line with lower liquidity requirements.

Significant reductions in funding costs.

€387m €485m The reduction in cost of funds was driven by a lower funding requirement from lower assets and lower average yields. The half-year to June 2016 average yield of 128 bps reduced from 138 bps in the half-year to June 2015 as a result of continued downward deposit pricing actions, the change in funding mix with a reduction in high interest bearing corporate and treasury deposits partly offset by an increase in non interest bearing retail current accounts. The European Central Bank ("ECB") moved the main refinancing operations rate to nil and short term Euribor rates moved further into negative territory during the half-year to June 2016 positively impacting on funding costs.

Reduction in ELG charge

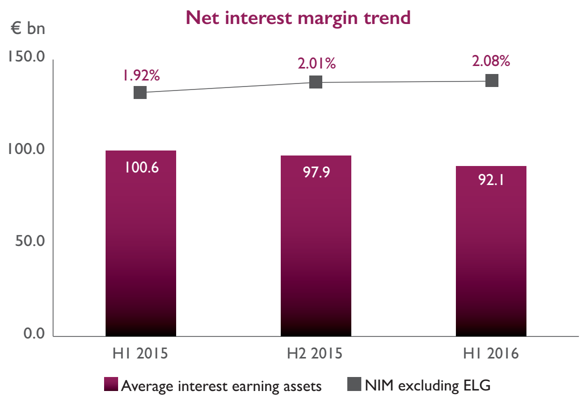
€9m €17m The ELG charge reduced by € 8 million compared to the half-year to June 2015. As existing liabilities that are covered by the scheme mature, the ELG charge will continue to reduce. The total liabilities guaranteed under the ELG scheme at 30 June 2016 amounted to € 1.3 billion (€ 2.1 billion at 30 June 2015).



Net interest margin

Net interest margin excluding ELG
2.08% 1.92%

The net interest margin excluding ELG increased by 16 bps compared to the half-year to June 2015. The factors contributing to the increase were the change in asset mix, as average earning loans increased with continued reduction in impaired loans and low yielding NAMA bonds (+3 bps), and a decrease in the cost of funding those assets (+13 bps).



There are a number of structural factors impacting NIM:

Contingent Capital Notes:
- High cost of funds on contingent capital notes due to be redeemed in July 2016.
- H1 2016 impact on NIM 30 bps.

NAMA senior bonds:
- Low yielding assets continue to be redeemed. Expected to be fully redeemed by the end of 2018.
- H1 2016 impact on NIM 9 bps.

The table below provides a summary of the Group's average balance sheet, volumes and yields.

Average balance sheet[1][2]

	Half-year ended 30 June 2016			Half-year ended 30 June 2015		
Assets	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %
Loans and receivables to customers	**62,767**	**1,039**	**3.32**	65,129	1,115	3.45
NAMA senior bonds	**4,529**	**7**	**0.32**	8,683	20	0.46
Financial investments available for sale	**15,168**	**158**	**2.09**	19,625	258	2.65
Financial investments held to maturity	**3,451**	**65**	**3.79**	-	-	-
Other interest earning assets	**6,215**	**12**	**0.37**	7,200	11	0.32
Net interest on swaps		**60**			38	
Average interest earning assets	**92,130**	**1,341**	**2.92**	100,637	1,442	2.89
Non interest earning assets	**8,023**			7,632		
Total assets	**100,153**	**1,341**		108,269	1,442	
Liabilities & equity						
Deposits by banks	**10,951**	**(6)**	**(0.10)**	16,944	5	0.06
Customer accounts	**39,686**	**140**	**0.70**	44,808	236	1.06
Subordinated liabilities	**2,348**	**162**	**13.85**	1,480	136	18.54
Other debt issued	**7,684**	**91**	**2.36**	7,466	108	2.93
Average interest earning liabilities	**60,669**	**387**	**1.28**	70,698	485	1.38
Non interest earning liabilities	**27,114**			25,726		
Equity	**12,370**			11,845		
Total liabilities & equity	**100,153**	**387**		108,269	485	
Net interest income excluding ELG		**954**	**2.08**		957	1.92
Eligible liabilities guarantee ("ELG")[1]		**(9)**	**(0.02)**		(17)	(0.04)
Net interest income including ELG		**945**	**2.06**		940	1.88

[1] The Average Balance Sheet (note 42 to the condensed consolidated interim financial statements) includes the cost of ELG in interest within liabilities and equity. Other interest earning assets is split into Trading portfolio financial assets and Loans and receivables to banks.

[2] In the above table, negative interest income on assets of nil is offset against interest income. Negative interest expense on liabilities of € 10 million is offset against interest expense.

Business review - 1. Operating and financial review

Other income

Other income		
	€295m €409m	
Business income €223m €310m		Other items €72m €99m

Other income	Half-year June 2016 € m	Half-year June 2015 € m	% change
Net fee and commission income	193	207	-7
Dividend income	25	25	-
Net trading income	-	67	-
Foreign exchange gains	1	8	-88
Miscellaneous business income	4	3	33
Business income	223	310	-28
Net profit on disposal of AFS securities	22	51	-57
Effect of acceleration of the timing of cash flows on NAMA senior bonds	10	4	150
Settlements and other gains	40	44	-9
Other items	72	99	-27
Other income	295	409	-28

Other income €295m €409m Other income reduced by € 114 million (-28%) compared to the half-year to June 2015. This included the impact of currency movements which reduced other income by € 3 million over the same period.

Business income €223m €310m Business income reduced by € 87 million (-28%) compared to the half-year to June 2015 mainly due to reductions in net trading income of € 67 million while underlying net fee and commission income remained broadly stable.

Net fee and commission income

€193m €207m Net fee and commission income of € 193 million in the half-year to June 2016 was stable excluding the impact of currency movements and reduced card income in 2016 from the impact of the changes in EU fee regulation on interchange rates. This was somewhat offset as card spend increased by 10% in the same period.

Dividend income

€25m €25m Dividend income of € 25 million was received on NAMA subordinated bonds in both periods.

Net trading income

Net trading income	Half-year June 2016 € m	Half-year June 2015 € m	% change
Foreign exchange contracts	22	23	-4
Derivative contracts and debt securities	(20)	44	-
Equity securities and index contracts	(2)	-	-
Net trading income	-	67	-

€0m €67m The reduction in net trading income was mainly due to the mark to market valuation on the Group's long term customer derivative positions. The half-year to June 2016 included a charge of € 28 million due to the negative valuation as term interest rates reduced following the UK decision to exit the European Union. This compared to a positive movement in the half-year to June 2015 when the sterling interest rates increased in the comparable period.

Other items €72m €99m Other items of € 72 million in the half-year to June 2016 compared to € 99 million in the half-year to June 2015.

Net profit on disposal of AFS securities

€22m €51m Net profit of € 22 million from the disposal of available for sale debt and equity securities due to sales in the half-year to June 2016, as planned, to reduce overall AFS holdings in line with lower liquidity requirements.

Effect of acceleration of the timing of cash flows on NAMA senior bonds

€10m €4m A gain of € 10 million was recognised on NAMA senior bonds reflecting accelerated repayments following redemptions of € 2.4 billion in the half-year to June 2016.

Settlements and other gains

Settlements and other gains	Half-year June 2016 € m	Half-year June 2015 € m
Effect of realisation/re-estimation of cash flows on loans and receivables previously restructured[(1)]	43	17
Fair value gain on equity warrants	1	8
Net gain on buyback of debt securities in issue	1	7
(Loss)/profit on disposal of loans	(5)	12
Settlements and other gains	40	44

€40m €44m

The realisation/re-estimation of cash flows on loans and receivables previously restructured of € 43 million in the half-year to June 2016 due to a number of high value recoveries in the period.

The loss on disposal of loans of € 5 million mainly related to the completion of loan disposals in the UK compared to a profit on disposal of corporate loans of € 12 million in the prior period.

[(1)]For further detail please see pages 79 to 80.

Total operating expenses[1]

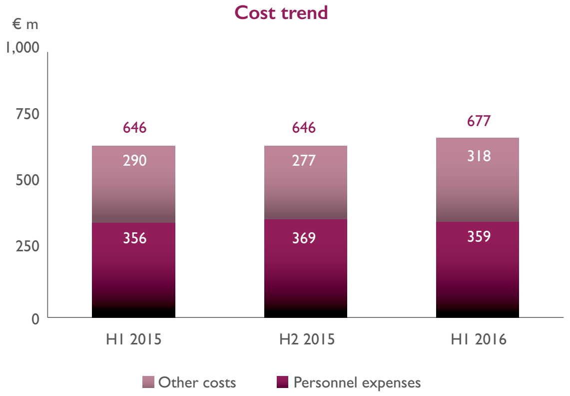
Total operating expenses
€677m €646m

Cost income ratio[1]
55% 48%

Operating expenses	Half-year June 2016 € m	Half-year June 2015 € m	% change
Personnel expenses	**359**	356	*1*
General and administrative expenses	**273**	251	*9*
Depreciation, impairment and amortisation	**45**	39	*15*
Total operating expenses before exceptional items	**677**	646	*5*
Staff numbers at period end (FTE)[2]	**10,095**	10,599	*-5*
Average staff numbers (FTE)[2]	**10,116**	10,830	*-7*

Total operating expenses
€677m €646m

Total operating expenses increased by € 31 million (+5%) compared to the half-year to June 2015. This included the impact of currency movements which reduced total operating expenses by € 5 million over the same period.



Personnel expenses

€359m €356m Personnel expenses increased by € 3 million (+1%) compared to the half-year to June 2015. Staff costs are broadly flat and incorporate salary increases based on the recommendation of the Labour Relations Commission. Other factors impacting costs are continued investment in loan restructuring operations and increased impact of regulatory compliance. This is partly offset by reduced staff numbers.

Average staff numbers of 10,116 reduced by 714 (-7%) mainly due to the severance scheme in 2015 and 2016 and continued selective outsourcing. Costs related to this outsourcing activity are reflected in general and administrative expenses.

General and administrative expenses

€273m €251m The cost of € 273 million increased by € 22 million (+9%) compared to the half-year to June 2015 mainly due to increased costs relating to selective outsourcing and investment in strategic initiatives for growth and efficiency. Outsourcing partnerships increases reliability, resilience and quality from IT infrastructures and other enterprise services. This strategic resourcing model has enabled the Group to focus and invest in its core banking activities.

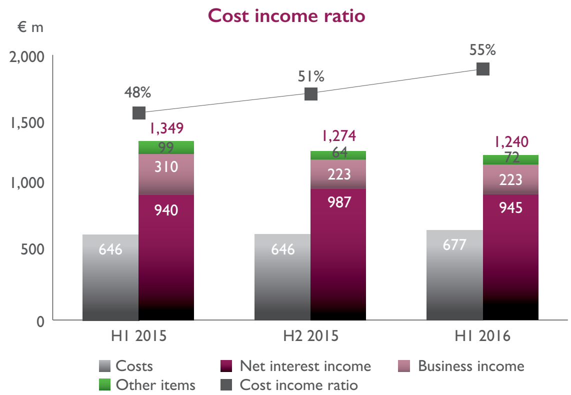
Depreciation, impairment and amortisation

€45m €39m The charge increased by € 6 million (+15%) compared to the half-year to June 2015 due to capital investments now in use in the business.

Cost income ratio[1]
55% 48%

Costs of € 677 million and income € 1,240 million resulted in a ratio[1] of 55% in the half-year to June 2016 compared to 48% in the half-year to June 2015. 48% in half-year to Jun 2015 was flattered by elevated other income due to market volatility on derivatives and gains from once off activity in other items. The elevated income attributed +5% in the half-year to June 2016, with the remaining +2% from the increase in costs.

The cost income ratio of 55% is in line with the Group's expectation, it is on track to achieve a sustainable cost income ratio of less than 50% in the medium term.



Strategic investment programme

The Group continues to invest in customer, digital innovation, information technology and related programmes. € 313 million was invested in 2015, with a further € 95 million invested in the half-year to June 2016. This amounted to € 408 million[3] (76% capital) which is part of the overall investment programme of € 870 million.

The investment programme is primarily focused on transforming the customer experience, simplifying internal processes and improving efficiency.

Benefits arising from the investment to date have been captured in improved Net Promoter Scores, enhanced offerings and services through technology and increased customer engagements and business through internet channels.

[1]Before bank levies, regulatory fees and exceptional items.
[2]Staff numbers quoted in the commentary above are on a full time equivalent ("FTE") basis.
[3]Income statement impact of this investment spend is reflected in operating expenses and in exceptional items for certain strategic elements.

Business review - 1. Operating and financial review

Net credit provision writeback

€211m €540m The overall net credit provision writeback of € 211 million in the half-year to June 2016 compared to an overall net credit provision writeback of € 540 million in the half-year to June 2015.

Specific net writeback

Income statement specific provisions of net writeback of € 111 million included:

- € 103 million from new impairments, representing a charge of 30 bps, a decrease from € 163 million, which represents a charge of 43 bps, in the half-year to June 2015 due to slowing pace of migration in improving economic environment.
- € 214 million writeback of provisions (net of top-ups) which amounted to 1.6% of the opening impaired loan balance. Key drivers of the writeback include:
  - increased security values
  - improved cashflows due to the stronger economic environment,
  - cases cured from impairment, and
  - execution of additional security at fulfilment.

The reduction in net writebacks is also due to the primary restructuring period concluding. The impairment provisions remain dependent on significant levels of future collateral realisations.

IBNR net writeback

The overall net credit provision IBNR writeback of € 100 million in the half-year to June 2016 compared to an overall net credit provision IBNR writeback of € 197 million in the half-year to June 2015. The release primarily reflects the improved performing portfolio and associated probability of default as a result of the improved economic environment and lower levels of new impairments.

See the Risk management section on page 47 for more detail.

Bank levies and regulatory fees

€48m €2m

Bank levies and regulatory fees	Half-year June 2016 € m	Half-year June 2015 € m
Irish bank levy	-	-
Deposit Guarantee Scheme	(28)	-
Single Resolution Fund	(18)	-
Financial Services Compensation Scheme	(2)	(2)
Bank levies and regulatory fees	(48)	(2)

Irish bank levy is payable in October 2016 as in 2015.
Deposit Guarantee Scheme ("DGS") was newly established in 2016.
Single Resolution Fund ("SRF") contribution of € 18 million in the half-year to June 2016. A contribution of € 8 million under the Bank Recovery and Resolution Directive was paid in the second half of 2015. This was transferred to the SRF.
Financial Services Compensation Scheme charge of € 2 million in both periods for AIB UK.

Associated undertakings

€23m €13m Income from associated undertakings increased by € 10 million compared to the half-year to June 2015, mainly due to a reversal of an impairment in AIB's share in associate Aviva Health Group Ireland Limited of € 8 million and higher profits in AIB Merchant Services of € 3 million, partly offset by lower profits in Aviva Health Group Ireland Limited of € 1 million.

Income tax

€194m €395m The total income tax charge for the half-year to June 2016 was € 194 million compared with a charge of € 395 million in the half-year to June 2015. The effective rate was 19% compared with 32% (or 12.4% excluding the impact of a once off UK deferred tax expense of € 242 million in the half-year to June 2015, which arose from a change in UK legislation). The effective tax rate is influenced by the geographic mix of profits which are taxed at different rates and most of which arise in Ireland. The increase in the effective tax rate from 12.4% to 19% is mainly due to tax provided on equity transaction profits. Deferred Tax Assets ("DTA") 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, subject to specific exceptions e.g. AIB Group (UK) p.l.c. These exceptions are set out in note 25 to the condensed consolidated interim financial statements.

Total exceptional items

€264m (€26m) Total exceptional items of € 264 million income in the half-year to June 2016 compared to a net charge of € 26 million in the half-year to June 2015.

Total exceptional items	Half-year June 2016 € m	Half-year June 2015 € m
Restitution and restructuring expenses	(20)	(12)
Gain on transfer of financial instruments	16	7
Profit on disposal of Visa Europe	272	-
Termination benefits	(3)	(13)
Other exceptional items	(1)	(8)
Total exceptional items	264	(26)

Restitution and restructuring expenses include costs associated with restitution, transformation, reorganisation and certain provisions for liabilities.

Gain on transfer of financial instruments: valuation adjustments on previous transfers of financial assets to NAMA.

Profit on disposal of Visa Europe resulted from the acquisition of Visa Europe by Visa Inc.

Termination benefits: the cost of the voluntary severance programme.

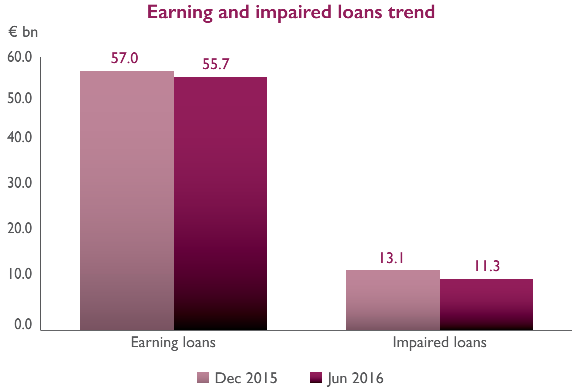
Other exceptional items: Capital reorganisation costs and other related items.

Assets

Earning loans €55.7bn €57.0bn | **Impaired loans** €11.3bn €13.1bn | **New lending** €3.9bn €3.8bn | **NAMA senior bonds** €3.2bn €5.6bn

Assets	30 June 2016 € bn	31 Dec 2015 € bn	% change
Gross loans to customers	**67.0**	70.1	*-4*
Provisions	**(5.9)**	(6.9)	*-14*
Net loans to customers	**61.1**	63.2	*-3*
Financial investments available for sale	**14.9**	16.5	*-9*
Financial investments held to maturity	**3.4**	3.5	*-2*
NAMA senior bonds	**3.2**	5.6	*-43*
Other assets	**14.8**	14.3	*3*
Total assets	**97.4**	103.1	*-6*

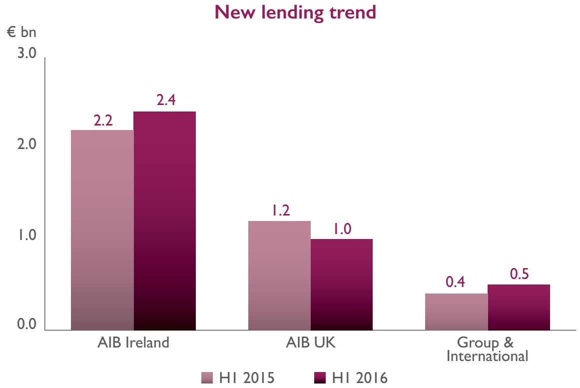
Earning and impaired loans trend



Earning loans €55.7bn €57.0bn

Earning loans, excluding the reduction of € 1.3 billion due to the impact of currency movements, were broadly stable at € 55.7 billion. This includes new lending of € 3.9 billion which was 2% higher than the half-year to June 2015, € 0.7 billion of loans upgraded to earning in the period offset by redemptions of € 4.2 billion and new to impaired of € 0.3 billion. Redemptions of € 4.2 billion amounted to 7% of the opening earning balance sheet, broadly the same rate of redemptions to the half-year June 2015.

New lending trend



New lending €3.9bn €3.8bn

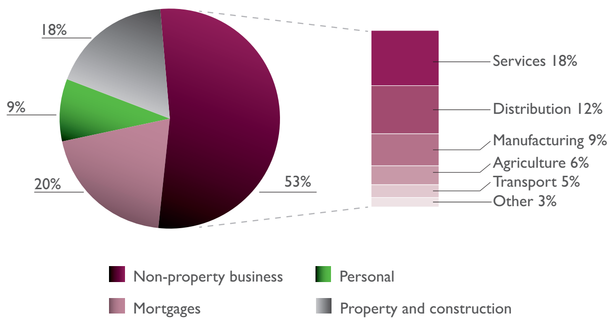
New lending of € 3.9 billion in the half-year to June 2016 was up € 0.1 billion (+2%) compared to the half-year to June 2015.

New lending in AIB Ireland was up 8% at € 2.4 billion, 2% up in mortgage lending, notwithstanding a challenged mortgage market, and up 11% in other lending.

AIB UK was down 17% at € 1.0 billion (down 8% excluding the impact of currency movements). Uncertainty surrounding the outcome of the UK decision to exit the European Union has had a negative impact on the level of business activity in the market in the half-year to June 2016.

Group & International was up 28% at € 0.5 billion compared to the half-year to June 2015 includes leverage lending in the US and Europe.

New lending H1 2016 by sector



The chart above represents the split of new lending by sector for the half-year to June 2016.

Impaired loans €11.3bn €13.1bn

Impaired loans, excluding the reduction of € 0.2 billion due to the impact of currency movements, have reduced by € 1.6 billion to € 11.3 billion since 31 December 2015. This reduction reflects the continued implementation of sustainable restructure solutions for customers and improved economic conditions. New to impaired loans for the half-year to June 2016 was € 0.3 billion compared to € 0.4 billion new to impaired for the half-year to June 2015.

Restructuring

Restructuring loans of customers in difficulty continues to be a key focus for the Group. Treatment strategies, as described on pages 73 to 75 of the Annual Financial Report 2015, have been developed for customers who are experiencing financial difficulties. The approach is one of structured engagement with customers to assess their long term levels of sustainable debt. Impaired loans reduced in the half-year to June 2016, primarily due to restructures and write-offs totalling € 1.3 billion.

Assets *(continued)*

There are c. € 0.8 billion of impaired mortgages that are in forbearance which are currently performing in accordance with agreed forbearance sustainable solutions and continued compliance to terms over a period of 12 months will result in an upgrade out of impairment.

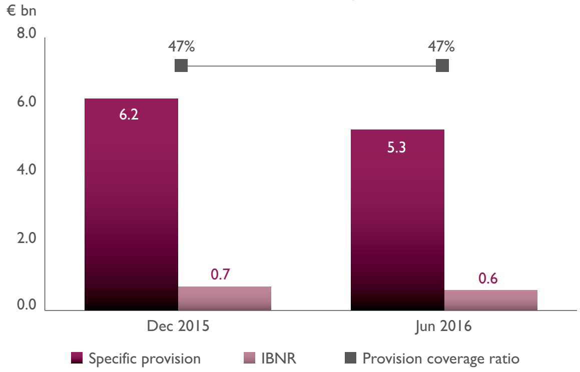
While there is a continued focus on the restructuring of loans of customers in difficulty the primary restructuring period is concluding, with higher number of residual complex cases at lower levels.

Provisions
€5.9bn €6.9bn

Balance sheet provisions have reduced by € 1.0 billion mainly due to the utilisation of provisions as part of sustainable restructure solutions for customers.

Specific impairment provisions as a percentage of impaired loans at 47% remains static from 31 December 2015 to 30 June 2016. It also includes 33% cover for new to impaired loans of € 0.3 billion in the half-year to June 2016. IBNR provisions of € 0.6 billion were held at 30 June 2016 compared to € 0.7 billion at 31 December 2015. The level of IBNR continues to reflect a conservative estimate of unidentified incurred loss within the portfolio.

Provisions & coverage ratio



The table below sets out the asset quality by sector for a range of credit metrics. Further detail of the risk profile of the Group is available in the Risk management section on pages 35 to 64.

Loan book sectoral profile 30 June 2016	Residential mortgages € bn	Other personal € bn	Property and construction € bn	Non-property business € bn	Total € bn
Loans and receivables to customers[1]	**35.7**	**3.3**	**10.5**	**17.5**	**67.0**
Of which: Impaired	**5.3**	**0.7**	**3.5**	**1.8**	**11.3**
Balance sheet provisions (specific + IBNR)	**2.2**	**0.5**	**2.1**	**1.2**	**5.9**
Specific provisions / Impaired loans (%)	**37%**	**64%**	**56%**	**55%**	**47%**
Total provisions / Total loans (%)	**6%**	**14%**	**20%**	**7%**	**9%**
6 months to 30 June 2016	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	**1**	**(32)**	**(71)**	**(9)**	**(111)**
Total impairment (credit)/charge	**(63)**	**(36)**	**(111)**	**(1)**	**(211)**
31 December 2015	**€ bn**	**€ bn**	**€ bn**	**€ bn**	**€ bn**
Loans and receivables to customers[1]	36.8	3.5	11.5	18.3	70.1
Of which: Impaired	6.0	0.7	4.3	2.1	13.1
Balance sheet provisions (specific + IBNR)	2.3	0.5	2.7	1.3	6.9
Specific provisions / Impaired loans (%)	34%	70%	57%	55%	47%
Total provisions / Total loans (%)	6%	15%	23%	7%	10%
6 months to 30 June 2015	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	(173)	(2)	(94)	(74)	(343)
Total impairment (credit)/charge	(323)	(8)	(99)	(110)	(540)

[1]The table above has been extracted from the Credit Risk tables in the Risk management section. Loans and receivables to customers include unearned income and deferred costs.

Assets *(continued)*

Net loans to customers

€61.1bn €63.2bn Net loans of € 61.1 billion, excluding the impact of currency movements, reduced by € 0.8 billion (-1%), and reflect the gross loan movements and the impact of the movement in provisions as set out previously.

Summary of movement in Loans to customers

The table below sets out the movement in loans to customers from 1 January 2016 to 30 June 2016.

Loans to customers	Earning loans € bn	Impaired loans € bn	Gross loans € bn	Specific provisions € bn	IBNR provisions € bn	Net loans € bn
Opening balance (1 January 2016)	57.0	13.1	70.1	(6.2)	(0.7)	63.2
New lending volumes	3.9	-	3.9	-	-	3.9
New impaired loans	(0.3)	0.3	-	(0.2)	-	(0.2)
Restructures, write-offs and disposals	0.7	(1.3)	(0.6)	0.7	-	0.1
Redemptions of existing loans	(4.2)	(0.5)	(4.7)	-	-	(4.7)
Foreign exchange movements	(1.3)	(0.2)	(1.5)	0.2	-	(1.3)
Other movements	(0.1)	(0.1)	(0.2)	0.2	0.1	0.1
Closing balance (30 June 2016)	55.7	11.3	67.0	(5.3)	(0.6)	61.1

Financial investments Available for Sale ("AFS")

€14.9bn €16.5bn AFS assets which are held for liquidity and investment purposes have reduced by € 1.6 billion during the six month period due to sales of € 2.8 billion which included the disposal of the equity interest in Visa Europe partly offset by purchases of € 1.2 billion. This is as planned, to reduce overall AFS holdings in line with lower liquidity requirements.

Further detail in respect of AFS is available in note 22 to the condensed consolidated interim financial statements.

Financial investments Held to Maturity ("HTM")

€3.4bn €3.5bn AFS assets of € 3.5 billion were reclassified to financial investments held to maturity during 2015 following a review of strategy in relation to securities holdings and a commitment to long term (to maturity) investment in selected Irish Government Bonds. There have been no further additions to the held to maturity category during the first half of 2016.

NAMA senior bonds

€3.2bn €5.6bn NAMA senior bonds have reduced by € 2.4 billion (-43%) since 31 December 2015 following redemptions in the period. Redemptions of low yielding NAMA senior bonds have improved the Group's overall net interest margin. NAMA senior bonds are expected to be fully redeemed by the end of 2018.

Other assets

€14.8bn €14.3bn Other assets of € 14.8 billion comprised:

- cash and loans to banks of € 7.6 billion were € 0.3 billion higher than December 2015. June 2016 includes cash and balances with Central Banks at € 5.3 billion and loans & receivables to banks (secured) at € 2.3 billion.
- deferred taxation of € 3.0 billion was broadly in line with December 2015.
- derivative financial instruments of € 2.4 billion, € 0.7 billion higher than December 2015. The net increase is primarily attributable to the impact of the reduction in market interest rates on the Group's hedging derivatives.
- the remaining assets of € 1.8 billion down 25% from € 2.4 billion at December 2015 mainly due to the disposal of a UK loan portfolio awaiting settlement at the end of 2015.

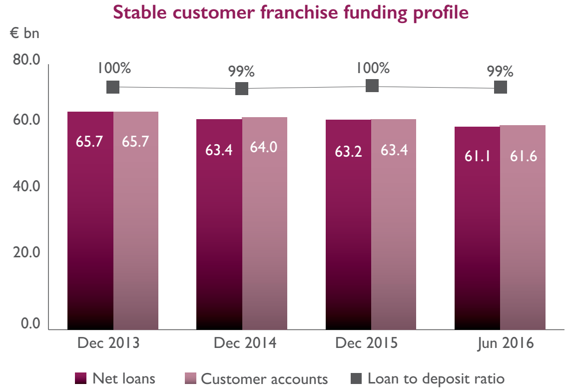
Business review - 1. Operating and financial review

Liabilities & equity

Customer accounts	Equity
€61.6bn €63.4bn	**€12.3bn** €12.1bn

Liabilities & equity	30 June 2016 € bn	31 Dec 2015 € bn	% change
Customer accounts	**61.6**	63.4	*-3*
Monetary authority funding	**2.5**	2.9	*-14*
Other market funding	**5.6**	11.0	*-49*
Debt securities in issue	**7.9**	7.0	*13*
Other liabilities	**7.5**	6.7	*12*
Total liabilities	**85.1**	91.0	*-7*
Equity	**12.3**	12.1	*2*
Total liabilities & equity	**97.4**	103.1	*-6*
	%	%	*change*
Loan to deposit ratio	**99**	100	*-1*

Customer accounts
€61.6bn €63.4bn Customer accounts reduced by € 1.8 billion (-3%) to € 61.6 billion. Excluding the reduction of € 1.5 billion due to the impact of currency movements, customer accounts reduced by € 0.3 billion (-1%). The mix profile continued to change in the half-year to June 2016 with a reduction of € 0.8 billion in corporate and treasury deposits (including repos) and a reduction of € 1.2 billion in retail term deposits being offset with an increase of € 1.7 billion in retail demand and current accounts. The loan to deposit ratio remained strong at 99% at 30 June 2016.



Monetary authority funding
€2.5bn €2.9bn Monetary authority funding of € 2.5 billion at 30 June 2016 reduced by € 0.4 billion (-14%) since 31 December 2015 as the overall funding requirement reduced. In 2016 the existing € 1.9 billion Targeted Long Term Refinancing Operation ("TLTRO") was replaced with the recently announced TLTRO II facility, extending the term of the funding out to 4 years with an option to redeem after 2 years.

Other market funding
€5.6bn €11.0bn Other market funding reduced by € 5.4 billion (-49%) in the half-year to June 2016 due to a € 5.9 billion reduction in repos partly offset by a € 0.4 billion increase in unsecured bank deposits. This was principally due to NAMA senior bond repayments and a reduction in other sovereign bonds and customer loans respectively.

Debt securities in issue
€7.9bn €7.0bn Debt securities in issue increased by € 0.9 billion (+13%) during the half-year to June 2016 due mainly to a € 1.0 billion Asset Covered Securities ("ACS") issuance in January 2016.

Other liabilities
€7.5bn €6.7bn Other liabilities of € 7.5 billion comprised:

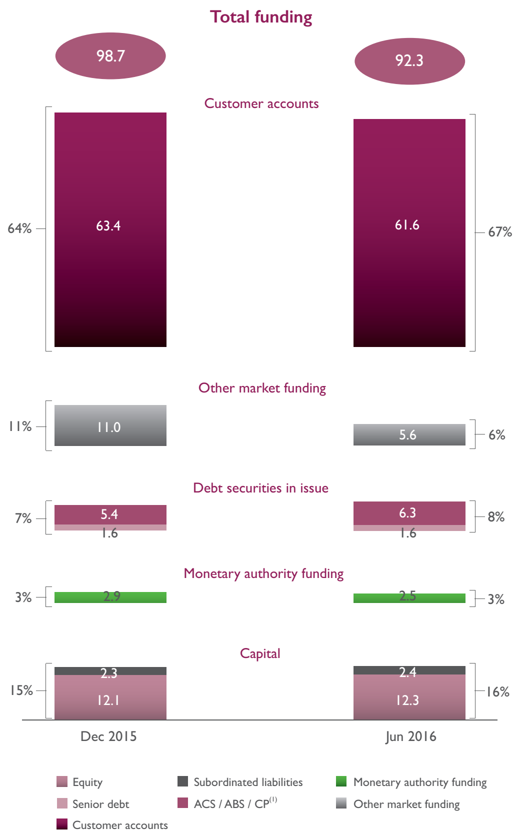
- Subordinated liabilities
  €2.4bn €2.3bn Subordinated liabilities of € 2.4 billion up 3% from € 2.3 billion in 2015. Subordinated liabilities include contingent capital notes maturing in July 2016 with a carrying value of € 1.6 billion (nominal value of € 1.6 billion).
- Derivative financial instruments
  €2.0bn €1.8bn Derivative financial instruments of € 2.0 billion up by 9% from € 1.8 billion in 2015.
- Retirement benefit liabilities
  €0.9bn €0.4bn Retirement benefit liabilities of € 0.9 billion compared to € 0.4 billion in December 2015 mainly due to changes in actuarial assumptions of the Irish defined benefit scheme and positive return on scheme assets.
- Remaining liabilities
  €2.2bn €2.3bn Remaining liabilities of € 2.2 billion were 2% lower compared to December 2015.

Equity
€12.3bn €12.1bn Equity of € 12.3 billion at 30 June 2016 increased by € 0.2 billion from € 12.1 billion at 31 December 2015. The table below sets out the movements in the year.

Equity	€ bn
Opening balance (1 January 2016)	**12.1**
Profit for the period	**0.8**
Other comprehensive income:	
Net pension reserve deficit	**(0.5)**
Other	**(0.1)**
Closing balance (30 June 2016)	**12.3**

Liabilities & equity *(continued)*

Funding



The Group's total funding was € 92.3 billion at 30 June 2016. Customer accounts of € 61.6 billion at 30 June 2016 represented 67% of the total funding. The average cost of customer accounts was 70 bps in the half-year to June 2016.

Other market funding of € 5.6 billion at 30 June 2016 represented 6% of the total funding. The reduction in other market funding since 31 December 2015 of € 5.4 billion was mainly due to a reduction in repos.

Debt securities in issue of € 7.9 billion at 30 June 2016 represented 8% of the total funding. This included an Asset Covered Securities ("ACS") issuance of € 1.0 billion in January 2016.

Monetary authority funding of € 2.5 billion and capital of € 14.7 billion at 30 June 2016 represented 3% and 16% of the total funding respectively.

Qualifying liquid assets

At 30 June 2016, the Group held € 31 billion (31 December 2015: € 34 billion) in qualifying liquid assets/contingent funding, including € 4 billion in liquid assets only available for use in AIB Group (UK) p.l.c and approximately € 8 billion was not available due to repurchase, secured loan and other agreements. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 30 June 2016, the Group liquidity pool was € 19 billion (31 December 2015: € 16 billion). For further detail on funding see pages 81 to 86.

[1]Asset covered securities ("ACS"), asset backed securities ("ABS") and commercial paper ("CP").

Business review - 1. Operating and financial review

Segment overview

The Group reorganised its business in 2015 to enable a customer focused, profitable and low risk enterprise which is well positioned to support the economic recovery in Ireland while seeking to generate sustainable shareholder returns. This change focuses on the needs of its customers, so as to combine customer groups with similar needs into franchises able to deliver co-ordinated services. In the Half-Yearly Financial Report 2016, the Group reports the following key segments: AIB Ireland, AIB UK, and Group & International. The half-year to 30 June 2015 has been presented, for the first time, under this new operating structure.

Segment allocations

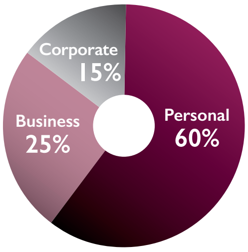
The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in Group & International. Funding and liquidity charges are based on each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirement.

In 2016, the funding and liquidity allocation methodology has been refined further to more accurately reflect each segment's funding profile. The half-year segment performance to June 2015 has been presented on this revised allocation methodology. Applying the methodology to the segment performance as reported in the Annual Financial Report 2015, results in a decrease in income of € 85 million to AIB Ireland, a decrease in income to AIB UK of € 12 million offset by an increase in income to Group & International of € 97 million.

AIB Ireland

Financial metrics		% of Group[1]
Total operating income	€914m	74%
Net loans	€49.4bn	81%
New lending	€2.4bn	61%
Total operating expenses	€389m	58%

% of segment income

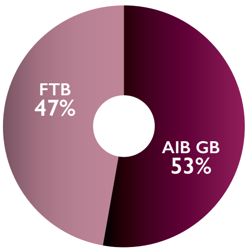


Net loans by sector	
Personal	5%
Mortgages	64%
Property & construction	12%
Non-property business	19%

AIB UK

Financial metrics		% of Group[1]
Total operating income	£111m	11%
Net loans	£7.6bn	15%
New lending	£0.8bn	27%
Total operating expenses	£60m	11%

% of segment income

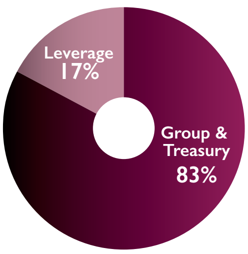


Net loans by sector	
Personal	3%
Mortgages	20%
Property & construction	25%
Non-property business	52%

Group & International

Financial metrics		% of Group[1]
Total operating income	€184m	15%
Net loans	€2.5bn	4%
New lending	€0.5bn	12%
Total operating expenses	€211m	31%

% of segment income



Net loans by sector	
Personal	-
Mortgages	-
Property & construction	1%
Non-property business	99%

[1]Percentages calculated using the euro equivalent balances for each financial metric.

Business review - 1. Operating and financial review

AIB Ireland

AIB Ireland comprises Personal, Business and Corporate Banking. It is the leading franchise bank across key segments and products in the domestic market and is well positioned for growth.

Personal offers a comprehensive suite of personal lending, mortgages, savings, deposit, credit card, insurance and financial planning products via the branch network, online, mobile and direct channels. Our multi-brand approach via AIB, EBS and Haven offers choice to mortgage customers and allows us to tailor products to meet their needs.

Business is committed to actively supporting entrepreneurs, early start-ups and established SMEs via a sector-led approach, flexible digital and self-service channels, and timely credit decisions.

Corporate (including property) develops strong relationships with corporate customers by providing sectoral expertise, tailored financial solutions and a premium customer service.

AIB Ireland at a glance

2.3m
Ireland's leading financial services group with over 2.3 million customers.

38
Transactional NPS has increased by 22 points, to 38 at quarter 2 2016, since quarter 4 2014 reflecting the continued enhancement of the customer experience.

1.0m
Ireland's largest internet bank with over 1.0 million active users.

578,000
Ireland's largest mobile bank with more than 578,000 active customers using the app an average of 25 times per month in the half-year to June 2016.

297
Ireland's leading distribution network through 297 locations and a further c. 1,100 locations through the strong An Post network.

34%
Ireland's largest provider of new mortgage lending drawdowns in the first five months to May 2016, with a market share of 34%.

€525m
Operating contribution before levies, regulatory fees and provisions of € 525 million in H1 2016 (up 2% compared to H1 2015).

€389m
Operating expenses of € 389 million in H1 2016 up 3% compared to H1 2015. Costs remain under control and in line with expectation.

€2.4bn
New lending of € 2.4 billion in H1 2016 (up 8% compared to H1 2015). Mortgages € 0.8 billion (up 2%), Other Personal € 0.3 billion (up 28%), Business € 0.6 billion (up 8%) and Corporate € 0.7 billion (up 7%).

€205m
Total net provision writeback of € 205 million in H1 2016, reduced compared to € 543 million in H1 2015, as the primary restructuring period is concluding.

Financial performance

AIB Ireland contribution statement	Half-year June 2016 € m	Half-year June 2015 € m	% *change*
Net interest income	685	665	*3*
Other income	229	231	*-1*
Total operating income	914	896	*2*
Total operating expenses	(389)	(379)	*3*
Operating contribution before bank levies, regulatory fees and provisions	525	517	*2*
Total net writeback of provisions	205	543	*-62*
Operating contribution	730	1,060	*-31*
Associated undertakings	21	11	*91*
Contribution before disposal of property	751	1,071	*-30*
Profit on disposal of property	-	4	*-*
Contribution before exceptional items	751	1,075	*-30*

AIB Ireland contribution statement	€ m	€ m	% *change*
Personal	334	345	*-3*
Business	88	87	*1*
Corporate	103	85	*21*
Operating contribution before bank levies, regulatory fees and provisions	525	517	*2*

Net interest income

€685m €665m Net interest income increased by € 20 million (+3%) compared to the half-year to June 2015 due to continued reductions in cost of funds partly offset by lower income following two variable mortgage rate reductions and the impact of lower market interest rates on other lending yields.

Other income

€229m €231m Other income reduced by € 2 million (-1%) compared to the half-year to June 2015. Business income of € 186 million reduced by € 17 million (-8%). Net fee and commission income remains broadly stable excluding the impact of the reduction in the card interchange rate. Other business income was lower due to a reduction in foreign exchange contract activity. Other items of € 43 million were € 15 million (+54%) higher mainly due to higher gains on the realisation/ re-estimation of cash flows on loans and receivables previously restructured.

Total operating expenses

€389m €379m Total operating expenses increased by € 10 million (+3%) compared to the half-year to June 2015 reflecting the impact of higher average salary costs partly offset by reduced staff numbers. This is also impacted by continued investment in loan restructuring operations, increased impact of regulatory compliance and investment in business initiatives, including depreciation on assets now live.

Total net writeback of provisions

€205m €543m AIB Ireland continues to make good progress on case by case restructuring of customers in difficulty. Primary restructuring period is concluding with higher number of residual complex cases at lower value.

AIB Ireland *(continued)*

AIB Ireland balance sheet metrics	30 June 2016 € bn	31 Dec 2015 € bn	% change
Personal	**36.5**	37.4	*-2*
Business	**10.1**	10.3	*-2*
Corporate	**7.8**	8.1	*-4*
Gross loans	**54.4**	55.8	*-2*
Personal	**34.0**	34.5	*-1*
Business	**8.0**	7.9	*1*
Corporate	**7.4**	7.7	*-3*
Net loans	**49.4**	50.1	*-1*
Personal	**28.3**	27.8	*2*
Business	**13.1**	12.4	*5*
Corporate	**8.9**	10.0	*-11*
Customer accounts	**50.3**	50.2	*1*
	%		% change
Personal	**120**	124	-4
Business	**61**	64	-3
Corporate	**83**	77	6
Loan to deposit ratio	**98**	100	-2

Gross loans

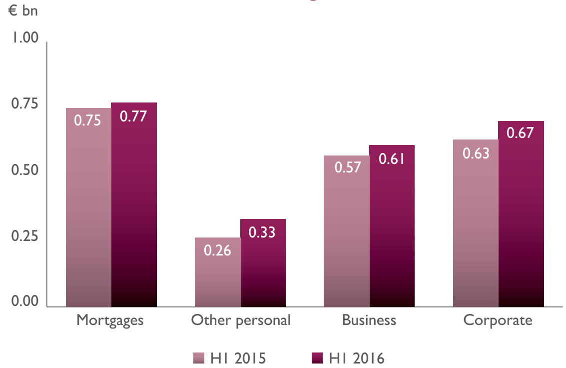
€54.4bn €55.8bn Gross loans in AIB Ireland of € 54.4 billion reduced by € 1.4 billion (-2%) since 31 December 2015 as new lending of € 2.4 billion was offset by decrease due to redemptions/other of € 3.3 billion and the impact of loan restructuring of € 0.5 billion.

Gross loans movement

Earning loans

€44.5bn €44.4bn Earning loans of € 44.5 billion were broadly in line with 31 December 2015 as new lending and loans upgraded to earning were offset by repayments in each customer segment. Earning loans represents 82% of gross loans at 30 June 2016, up from 80% as at 31 December 2015 as the quality of the book improves.

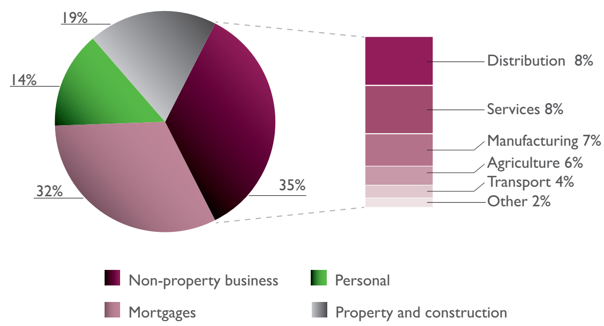
New lending trend



New lending

€2.4bn €2.2bn New lending was up € 0.2 billion (+8%) compared to the half-year to June 2015. Mortgage lending of € 0.8 billion was up 2%, with a market share of 34%, notwithstanding a challenged mortgage market. Other lending was also up 11% as demand for credit remains strong.

New lending H1 2016 by sector



The chart above represents the split of new lending by sector for the half-year to June 2016. Business and corporate lending are split between property and construction and non-property business.

Impaired loans

€9.9bn €11.4bn Impaired loans have reduced from € 11.4 billion to € 9.9 billion at 30 June 2016 as AIB Ireland has made further progress in restructuring customers in financial difficulty, notwithstanding new to impaired loans of € 0.3 billion in the same period. There is a specific provision coverage ratio of 46% on the impaired loans of € 9.9 billion as at 30 June 2016.

Customer accounts

€50.3bn €50.2bn Customer accounts increased by € 0.1 billion (+1%) since 31 December 2015 with growth in Personal and Business current accounts increased by € 1.2 billion partly offset by a reduction in Corporate term deposits.

Business review - 1. Operating and financial review

AIB UK

AIB UK comprises of two long established and distinct businesses offering full banking services operating as Allied Irish Bank (GB) ("AIB GB") in Great Britain and First Trust Bank ("FTB") in Northern Ireland.

AIB GB serves the needs of Corporate and SMEs, including owner managed businesses, through its dedicated relationship management teams and through the provision of digital and self-service channels serves its smaller business and retail customers.

FTB is a well-established and trusted full service retail, business and corporate bank.

AIB UK at a glance

340,000
AIB UK services over 340,000 customers in Northern Ireland and Great Britain.

51
A distribution network of 51 locations throughout Northern Ireland (30 branches and 5 business offices) and Great Britain (16 business centres).

80,000
Over 80,000 active internet banking users.

47,000
More than 47,000 active customers using the mobile banking app in the half-year to June 2016.

£51m
Operating contribution before levies, regulatory fees and provisions of £ 51 million in H1 2016 (down 41% compared to H1 2015).

£60m
Operating expenses of £ 60 million in H1 2016 (up 11% compared to H1 2015).

£0.8bn
New lending of £ 0.8 billion in H1 2016 (down 8% compared to H1 2015). AIB GB £ 0.7 billion down 8% and FTB £ 0.1 billion down 7%.

£14m
Total net provision writeback of £ 14 million in H1 2016, increased as a result of restructuring activity.

Financial performance

AIB UK contribution statement	Half-year June 2016 £ m	Half-year June 2015 £ m	% change
Net interest income	**90**	104	*-13*
Other income	**21**	36	*-42*
Total operating income	**111**	140	*-21*
Total operating expenses	**(60)**	(54)	*11*
Operating contribution before bank levies, regulatory fees and provisions	**51**	86	*-41*
Bank levies and regulatory fees	**(2)**	(2)	-
Total net writeback of provisions	**14**	3	*367*
Operating contribution	**63**	87	*-28*
Associated undertakings	**2**	1	*100*
Contribution before disposal of business	**65**	88	*-26*
Profit on disposal of business	**1**	-	-
Contribution before exceptional items	**66**	88	*-25*
Contribution before exceptional items €m	**84**	120	*-30*

AIB UK contribution statement	£ m	£ m	% change
AIB GB	**29**	63	*-54*
First Trust Bank	**22**	23	*-4*
Operating contribution before bank levies, regulatory fees and provisions	**51**	86	*-41*

Net interest income

£90m £104m Net interest income decreased by £ 14 million (-13%) compared to the half-year to June 2015 due to lower income following a variable mortgage rate reduction and the disposal of a portfolio of loans of € 0.5 billion in the second half of 2015 partly offset by reduced funding costs.

Other income

£21m £36m Fees and commissions were broadly flat compared to the half-year to June 2015. Other business income was £ 9 million lower compared in the half-year to June 2015 due to the negative mark to market valuation on customer derivative positions from reduction in long term sterling interest rates. Other items in the half-year to June 2016 included a loss of £ 3 million relating to the final settlement of UK loan disposals at the end of 2015.

Total operating expenses

£60m £54m Total operating expenses were £ 6 million (+11%) higher than the half-year to June 2015, due to higher staff costs and the impact of currency movements on euro cost allocations. The half-year to June 2015 included the release of a non-credit provision no longer required.

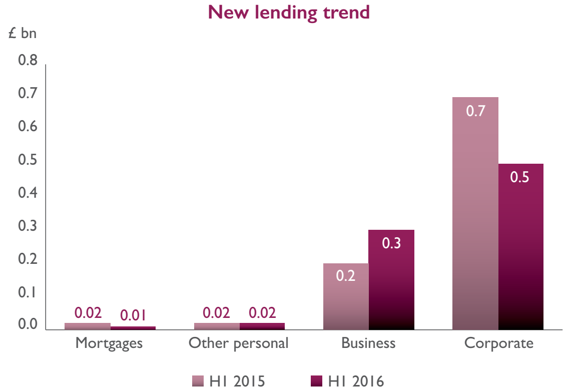
Total net writeback of provisions

£14m £3m Total net writeback of provisions of £ 14 million in the half-year to June 2016 compared to £ 3 million for the half-year to June 2015 increased as a result of restructuring activity and lower levels of new to impaired loans.

AIB UK *(continued)*

AIB UK balance sheet metrics	30 June 2016 £ bn	31 Dec 2015 £ bn	% *change*
AIB GB	**5.3**	5.3	*1*
FTB	**3.0**	3.1	*-3*
Gross loans	**8.3**	8.4	*-1*
AIB GB	**5.2**	5.1	*2*
FTB	**2.4**	2.5	*-1*
Net loans	**7.6**	7.6	*1*
AIB GB	**4.8**	4.8	*1*
FTB	**3.9**	3.8	*4*
Customer accounts	**8.7**	8.6	*2*
	%		% change
AIB GB	**108**	106	2
FTB	**62**	66	-4
Loan to deposit ratio	**87**	88	-1

New lending trend



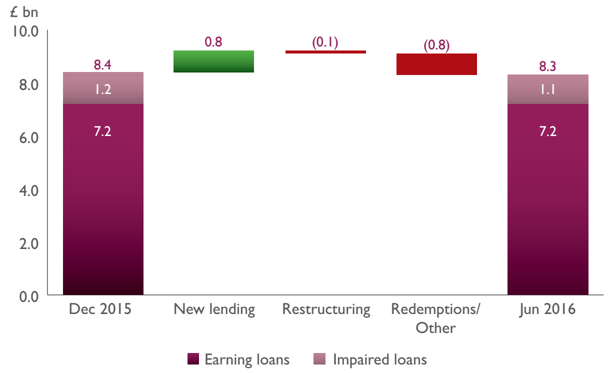
New lending

£0.8bn £0.9bn New lending of £ 0.8 billion in the half-year to June 2016, AIB GB at £ 0.7 billion and FTB at £ 0.1 billion, was £ 0.1 billion lower than the half-year to June 2015 mainly in corporate lending.

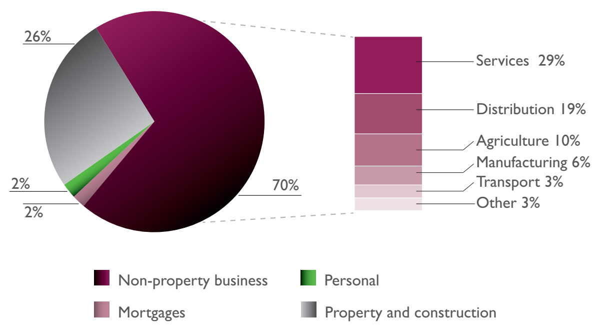
Gross loans

£8.3bn £8.4bn Gross loans in AIB UK of £ 8.3 billion reduced by £ 0.1 billion (-1%) since 31 December 2015 as new lending of £ 0.8 billion was offset by a decrease due to redemptions/other of £ 0.8 billion and the impact of loan restructuring of £ 0.1 billion.

Gross loans movement



New lending H1 2016 by sector



Business and corporate lending are split between property and construction and non-property business in the chart above. Non-property business lending contributed to 70% of all new lending in AIB UK in the half-year to June 2016.

Earning loans

£7.2bn £7.2bn Earning loans of £ 7.2 billion were in line with 31 December 2015 as new lending was offset by repayments. Earning loans represents 87% of gross loans at 30 June 2016, up from 85% as at 31 December 2015 as the quality of the book improves.

Impaired loans

£1.1bn £1.2bn Impaired loans of £ 1.1 billion at 30 June 2016 have reduced from £ 1.2 billion at 31 December 2015 due to repayments and write-offs in the period.

Customer accounts

£8.7bn £8.6bn Customer accounts were £ 8.7 billion at 30 June 2016 and increased by £ 0.1 billion since 31 December 2015 with an increase in current accounts partly offset by a reduction in deposits.

Business review - 1. Operating and financial review

Group & International

Group & International includes leverage lending outside Ireland and the UK. It also includes wholesale treasury activities, central control and support functions (business and customer services, risk, audit, finance, general counsel, human resources and corporate affairs). Certain overheads related to these activities are managed and reported in the Group & International segment.

Financial performance

Group & International contribution statement	Half-year June 2016 € m	Half-year June 2015 € m	% change
Net interest income	144	133	8
Other income	40	129	-69
Total operating income	184	262	-30
Total operating expenses	(211)	(192)	10
Operating contribution before bank levies, regulatory fees and provisions	(27)	70	-
Bank levies and regulatory fees	(46)	-	-
Total provisions	(9)	(4)	125
Contribution before exceptional items	(82)	66	-

Net interest income

€144m €133m Net interest income increased by € 11 million (+8%) compared to the half-year to June 2015 due to lower funding costs and strong growth in the leverage portfolio due to higher new business lending volumes. These positive impacts were partly offset by lower income on NAMA senior bonds due to ongoing repayments of the portfolio and lower income from the securities portfolio due to the sale and maturity of legacy high yielding assets.

Other income

€40m €129m The decrease in other income was due to a reduction in business income of € 55 million and other items of € 34 million. Business income reduced mainly due to the mark to market valuation on the Group's sterling customer derivative positions. The half-year to June 2016 included a charge due to the negative valuation as term sterling interest rates reduced following the UK decision to exit the European Union. This compared to a positive movement in the half-year to June 2015 when the sterling interest rates increased in the comparable period.

Other items	Half-year June 2016 € m	Half-year June 2015 € m
Net profit on disposal of AFS securities	21	46
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	10	4
Settlements and other gains	1	16
Other items	32	66

Other items are set out in the table above.

Total operating expenses

€211m €192m Total operating expenses increased by € 19 million (+10%) compared to the half-year to June 2015 reflecting the impact of higher average salary costs, costs relating to outsourcing initiatives partly offset by reduced staff numbers. This is also impacted by strategic investment in business initiatives which are ongoing, including depreciation on assets now live. Outsourcing partnerships increases reliability, resilience and quality from IT infrastructures and other enterprise services. This strategic resourcing model has enabled the Group to focus and invest in its core banking activities.

Bank levies and regulatory fees

€46m €0m Bank levies and regulatory fees of € 46 million for the half-year to June 2016 related to € 28 million for the Deposit Guarantee Scheme and € 18 million for the Single Resolution Fund.

Group & International balance sheet metrics	30 June 2016 € bn	31 Dec 2015 € bn	% change
Gross loans	2.5	2.8	-12
Net loans	2.5	2.8	-12
Financial investments available for sale	14.9	16.5	-9
Financial investments held to maturity	3.4	3.5	-2
NAMA senior bonds	3.2	5.6	-43
Customer accounts	0.7	1.5	-51

Gross loans

€2.5bn €2.8bn Gross loans of € 2.5 billion reduced by € 0.3 billion (-12%) since 31 December 2015 due to repayments in short term treasury loans. New lending of € 0.5 billion was up 28% compared to the half-year to June 2015.

Financial investments available for sale

€14.9bn €16.5bn AFS assets which are held for liquidity and investment purposes, were € 14.9 billion at 30 June 2016 and have decreased from € 16.5 billion during 2016 mainly due to sales of € 2.8 billion partly offset by purchases of € 1.2 billion, as planned, to reduce overall AFS holdings in line with lower liquidity requirements.

NAMA senior bonds

€3.2bn €5.6bn NAMA senior bonds reduced by € 2.4 billion in the period due to redemptions. NAMA senior bonds are expected to be fully redeemed by the end of 2018.

Customer accounts

€0.7bn €1.5bn Customer accounts of € 0.7 billion reduced by € 0.8 billion (-51%) since 31 December 2015 of which € 0.4 billion related to a reduction in repos and € 0.4 billion in treasury deposits.

Business review - 2. Capital management

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development. Further detail on this can be found in the Group's Annual Financial Report for the financial year ended 31 December 2015.

Regulatory capital and capital ratios

	CRD IV transitional basis		CRD IV fully loaded basis	
	30 June 2016 € m	31 December 2015 € m	**30 June 2016 € m**	31 December 2015 € m
Equity	**12,345**	12,148	**12,345**	12,148
Less: Additional Tier 1 capital	**(494)**	(494)	**(494)**	(494)
Shareholders' equity	**11,851**	11,654	**11,851**	11,654
Regulatory adjustments:				
Goodwill and intangibles	**(316)**	(292)	**(316)**	(292)
Cash flow hedging reserves	**(676)**	(354)	**(676)**	(354)
Reversal of fair value of contingent capital instrument	**(4)**	(46)	**–**	–
Available for sale securities reserves	**(965)**	(1,250)	**–**	–
Pension	**80**	(91)	**(164)**	(153)
Deferred tax	**(629)**	(317)	**(3,145)**	(3,171)
Other	**(16)**	(19)	**(10)**	(9)
	(2,526)	(2,369)	**(4,311)**	(3,979)
Total common equity tier 1 capital	**9,325**	9,285	**7,540**	7,675
Additional Tier 1 capital	**494**	494	**494**	494
Total tier 1 capital	**9,819**	9,779	**8,034**	8,169
Tier 2 capital				
Subordinated debt	**810**	973	**810**	973
Credit provisions	**224**	287	**40**	20
Other	**6**	9	**–**	–
Total tier 2 capital	**1,040**	1,269	**850**	993
Total capital	**10,859**	11,048	**8,884**	9,162
Risk weighted assets				
Credit risk	**50,574**	53,596	**50,734**	54,105
Market risk	**631**	457	**631**	457
Operational risk	**3,874**	3,139	**3,874**	3,139
Credit valuation adjustment	**1,444**	1,352	**1,444**	1,352
Other	**5**	5	**5**	5
Total risk weighted assets	**56,528**	58,549	**56,688**	59,058
	%	%	**%**	%
Common equity tier 1 ratio	**16.5**	15.9	**13.3**	13.0
Tier 1 ratio	**17.4**	16.7	**14.2**	13.8
Total capital ratio	**19.2**	18.9	**15.7**	15.5

The capital position as at 30 June 2016 outlined above, does not include any deduction for future dividends on ordinary shares.

Business review - 2. Capital management

Capital ratios at 30 June 2016

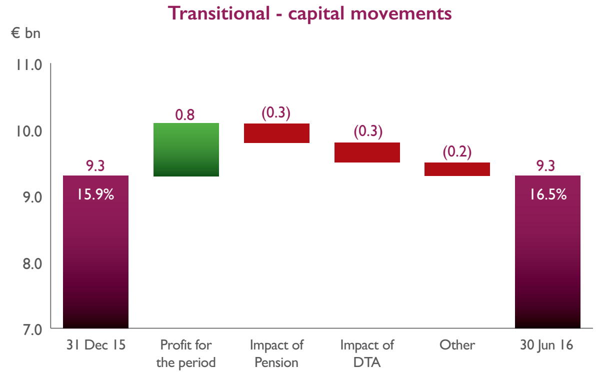
Transitional ratio

The Common Equity Tier 1 ("CET1") transitional ratio increased to 16.5% at 30 June 2016 from 15.9% at 31 December 2015. The increase in the CET1 ratio was driven by profit retained and a reduction in risk weighted assets ("RWAs").

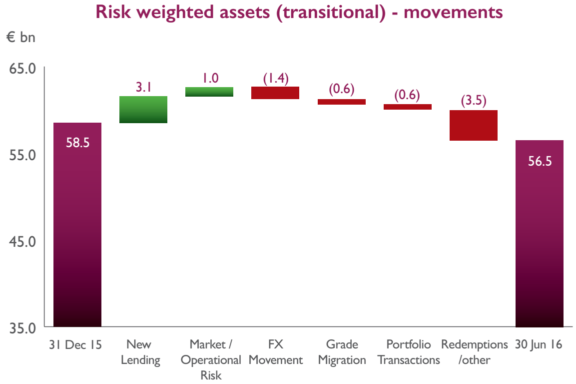
CET1 capital increased by € 40 million to € 9,325 million at 30 June 2016. Profit for the period of € 823 million, negative other comprehensive income of € 608 million and a distribution paid on the Additional Tier 1 instrument combine to give an increase in shareholders' equity of € 197 million.

Negative other comprehensive income was driven by the net actuarial loss of € 505 million in retirement benefit schemes for the period primarily as a result of a decrease in the discount rate applied in the valuation of pension liabilities. Revaluation of foreign exchange reserves in the Group, held primarily as a structural hedge for the capital ratio, resulted in a net reduction in the foreign currency translation reserves of € 131 million.

Regulatory adjustments increased by € 157 million. The phasing in deduction of the deferred tax asset relating to unutilised tax losses increased by 10% to 20% in 2016, leading to an additional reduction in CET1 capital of € 312 million. The net actuarial loss in retirement benefit schemes above was offset by an increase in the regulatory adjustments for pension of € 171 million.



RWAs reduced by € 2.0 billion during the first half of 2016. Credit risk RWAs reduced by € 3.0 billion, offset by increases in operational risk RWAs of € 0.7 billion (reflecting the increased levels of income in the annual calculation) and market risk and credit valuation adjustment RWAs of € 0.3 billion (reflecting an increased level of exposure). The reduction in credit risk RWAs was primarily driven by foreign exchange movements of € 1.4 billion. Positive grade migration in portfolios where AIB uses its own credit models to measure RWAs drove a decrease of € 0.6 billion with asset sales, redemptions and other balance sheet reductions driving a decrease of € 4.1 billion. These were partially offset by new drawdowns which accounted for an increase in RWAs of € 3.1 billion.



The CET1 transitional ratio, at 16.5%, is significantly in excess of the Single Supervisory Mechanism's minimum CET1 regulatory requirement.

The transitional tier 1 capital ratio increased to 17.4% at 30 June 2016 from 16.7% at 31 December 2015. The increase in the ratio is driven by the CET1 and RWAs movements outlined above.

There was a decrease in transitional tier 2 capital of € 229 million which was driven by the continuing reduction in the tier 2 qualifying amount of the contingent capital instrument and the reduction in adjustments for credit provisions.

The transitional total capital ratio increased from 18.9% at 31 December 2015 to 19.2% at 30 June 2016.

The capital figures reflect the 2016 interim profit for the Group. The application for the inclusion of the interim 2016 profit in the regulatory capital reporting process is being sought under Article 26(2) of the Capital Requirements Regulation.

Capital ratios at 30 June 2016

Fully loaded ratio

The fully loaded CET1 ratio increased to 13.3% at 30 June 2016 from 13.0% at 31 December 2015. The increase in the CET1 ratio was driven by a reduction in RWAs as outlined above.

CET 1 capital decreased by € 135 million to € 7,540 million at 30 June 2016. This is driven by:

– profit for the period of € 823 million;
– the reduction in the available for sale securities reserves of € 293 million (€ 195 million relating to the realisation of the unrealised gain at 31 December 2015 in Visa Europe);
– the net actuarial loss in retirement benefit schemes for the period of € 505 million; and
– revaluation of foreign exchange reserves in the Group, held primarily as a structural hedge for the capital ratio, resulted in a net reduction in the foreign currency translation reserves of € 131 million.

The fully loaded CET1 ratio of 13.3% compares to 16.5% on a transitional basis at 30 June 2016. This reflects a difference of € 1,785 million in the amounts qualifying as CET1. The main drivers of this difference are:

– the full deduction of the deferred tax asset (''DTA'') for unutilised tax losses of € 3,145 million under the fully loaded basis. Under transitional rules, the phasing in deduction of the DTA increased to 20% per annum in 2016 amounting to € 629 million;
– the AFS reserves of € 1,179 million, comprising unrealised gains in sovereign debt securities and equity securities are included in the fully loaded position, while € 214 million is included on a transitional basis at 30 June 2016; and
– the fully loaded CET1 position takes full account of the pension deficit within revenue reserves whereas under transitional rules the impact of this deficit has been restricted. The difference in treatment amounted to € 244 million at 30 June 2016.

The difference of € 160 million in June 2016 between transitional and fully loaded RWAs relates to the phasing of the unrealised gains/losses on the AFS portfolio.

There was a decrease in fully loaded tier 2 capital of € 143 million which was driven by the continuing reduction in the tier 2 qualifying amount of the contingent capital instrument.

The fully loaded total capital ratio increased to 15.7% at 30 June 2016 from 15.5% at 31 December 2015.

Leverage ratio

The leverage ratio is defined as tier 1 capital divided by a leverage ratio exposure. Based on full implementation of CRD IV, the leverage ratio, under the Delegated Act implemented in January 2015, was 8.3% at 30 June 2016 (7.9% at 31 December 2015).

The following table analyses the calculation of the leverage ratio (as per the Delegated Act) on a transitional and fully loaded basis:

Summary reconciliation of accounting assets and leverage ratio exposures

	30 June 2016		31 December 2015	
	Transitional € m	**Fully loaded € m**	Transitional € m	Fully loaded € m
Total assets per consolidated statement of financial position	**97,387**	**97,387**	103,122	103,122
Regulatory adjustments for:				
Derivative financial instruments	**753**	**753**	759	759
Securities financing transactions	**288**	**288**	672	672
Off-balance sheet items	**2,961**	**2,961**	2,902	2,902
Other	**(2,601)**	**(4,146)**	(1,976)	(3,588)
Total leverage ratio exposure	**98,788**	**97,243**	105,479	103,867
Tier 1 capital at end of period	**9,819**	**8,034**	9,779	8,169
Leverage ratio	**9.9%**	**8.3%**	9.3%	7.9%

Business review - 2. Capital management

Developments in the period

AIB avails of the derogation not to include unrealised gains and losses on exposures to central governments classified in the 'Available for sale' ("AFS") category in its transitional CET1 capital. Under Regulation (EU) 2016/445, the derogation will be removed and all unrealised gains and losses in this category will be recognised at the applicable percentages, being 60% in 2016, 80% in 2017 and 100% in 2018. The regulation is effective on 1 October 2016. Applying the applicable percentage of 60% at 30 June 2016, the transitional ratio would increase by 90 bps.

AIB continuously monitors advancements in regulatory frameworks by assessing potential capital impacts and ensuring that the Group maintains a robust capital position

Ratings

There were no changes to AIB's long term credit ratings in the first 6 months of 2016.

			30 June 2016			31 December 2015
AIB long-term ratings	**Moody's**	**S&P**	**Fitch**	Moody's	S&P	Fitch
Long-term	**Ba1**	**BB+**	**BB+**	Ba1	BB+	BB+
Outlook	**Positive**	**Positive**	**Positive**	Positive	Positive	Positive

Risk management

Risk management

Update on risk management and governance

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 Group is exposed to a number of material risks and in order to minimise these risks the Group has implemented comprehensive risk management strategies. Although the Group invests substantial time and effort in its risk management strategies and techniques, there is a risk that these may fail to adequately mitigate the risks in some circumstances, particularly if confronted with risks that were not identified or anticipated.

The principal risks and uncertainties to the Group set out on pages 50 to 59 of the Annual Financial Report 2015 for the remaining six months of the year are unchanged with the following exception:

The Risk factor included on page 51 of the Annual Financial Report 2015 discusses how the 'departure of one or more member countries from the common currency or a decision by the UK to leave the European Union could disrupt the markets and adversely affect the Group's business and financial performance.' On 23 June 2016, the UK held a referendum on continued UK membership of the EU. The result of the referendum was a majority in favour of leaving the EU and the UK Government has committed to pursuing this course of action, though the process has not at this stage formally commenced.

The nature, timing and impact of a UK exit from the EU on the UK economy and trade is unknown and may have negative consequences for the Group both in terms of its UK and Irish operations and on the UK and Irish economies. While no immediate material credit impact is envisaged, medium term adverse impacts cannot be discounted.The impact on financial and operational risk is expected to be low with falling inflation and bond yields having the largest impact.

The Group is closely monitoring activities and responding appropriately to the UK exit from the EU.

The Group's risk governance and organisation framework is set out on pages 60 to 62 of the Annual Financial Report 2015. There are no material changes to the Group's risk governance framework.

The Group has adopted an Enterprise Risk Management approach to (a) the identification and assessment; (b) the management and mitigation; and (c) the monitoring and reporting of its risks. Processes and controls supporting this approach are set out in the Risk Management section of the Annual Financial Report 2015 (credit risk – pages 63 to 82, credit profile – pages 83 to 140 and for other risk types – pages 141 to 164).

Details of the Group's exposures to specific risks are outlined on pages 83 to 164 of the Annual Financial Report 2015.

Updates have been provided in this Report on the current status of the following specific risks:
- Capital – pages 29 to 32;
- Credit risks including asset quality and impairment – pages 35 to 80; and
- Liquidity and funding – pages 81 to 86.

Overview of credit risk

The Group is predominantly Republic of Ireland and United Kingdom focused, with material concentrations in residential mortgages, property and construction and Small Medium Enterprises ("SMEs").

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

					30 June 2016
Loan portfolio profile	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Gross loans to customers	**35,742**	**3,319**	**10,475**	**17,550**	**67,086**
Of which impaired	**5,263**	**639**	**3,530**	**1,833**	**11,265**
Specific impairment charge/(credit) (half year to June 2016)	**1**	**(32)**	**(71)**	**(9)**	**(111)**
Total impairment credit (half year to June 2016)	**(63)**	**(36)**	**(111)**	**(1)**	**(211)**
Statement of financial position provisions (specific and IBNR)	**2,162**	**454**	**2,097**	**1,191**	**5,904**
	%	**%**	**%**	**%**	**%**
Specific provisions/impaired loans	**37**	**64**	**56**	**55**	**47**
Total provisions/total loans	**6**	**14**	**20**	**7**	**9**

					31 December 2015
Loan portfolio profile	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Gross loans to customers	36,818	3,512	11,532	18,301	70,163
Of which impaired	5,966	698	4,308	2,113	13,085
Specific impairment credit (half year to June 2015)	(173)	(2)	(94)	(74)	(343)
Total impairment credit (half year to June 2015)	(323)	(8)	(99)	(110)	(540)
Specific impairment credit (full year 2015)	(204)	(5)	(216)	(83)	(508)
Total impairment credit (full year 2015)	(478)	(8)	(214)	(225)	(925)
Statement of financial position provisions (specific and IBNR)	2,322	535	2,649	1,326	6,832
	%	%	%	%	%
Specific provisions/impaired loans	34	70	57	55	47
Total provisions/total loans	6	15	23	7	10

Gross loans and receivables to customers reduced by 4.4% or € 3.1 billion to € 67.1 billion in the six months to 30 June 2016. The reduction was driven by the impact of currency movements (€ 1.5 billion), loan redemptions (€ 4.7 billion) offset by new lending (€ 3.9 billion) and the write-off of loans and associated provisions as part of the restructuring activity (€ 0.6 billion).

The following summarises the key points affecting the credit profile of the loan portfolio:
- The Group is predominantly Republic of Ireland and United Kingdom focused with most sectors continuing to experience improved trading conditions due to the improving economic environment. The Group has material concentrations in residential mortgages (53% of gross loans) and property and construction (16% of gross loans). Furthermore, the non-property business lending book is 26% of gross loans and is spread across a number of sub-sectors. The remaining 5% is in the personal book.
- New lending of € 3.9 billion in the six months to 30 June 2016 (30 June 2015: € 3.8 billion) is spread across most sectors and included € 0.8 billion mortgage and € 1.6 billion non-mortgage in AIB Ireland,€ 1.0 billion in AIB UK and € 0.5 billion in Group & International.
- Continued progress in working to reduce the level of impaired loans resulted in the quantum of impaired loans reducing by € 1.8 billion in the six months to 30 June 2016 (a decrease of 14%). The reduction is impacted by redemptions and repayments from customers of € 0.5 billion, as well as a € 1.3 billion reduction due to restructuring activity and write-offs (including non-contracted write-offs).
- The overall credit quality profile has continued to show improvement and criticised loans (including impaired) have reduced from 35% of total loans at 31 December 2015 to 33% as at 30 June 2016. The improvement in the non-criticised portfolio is driven by the level of new lending in the six months to 30 June 2016 and the upgrading of cases out of criticised due to improving performance.
- A net writeback of impairment provisions of € 211 million in the six months to 30 June 2016 compared to a net writeback of € 540 million in the same period in 2015. The key drivers of the net writebacks continue to be fewer new loans moving to impairment and writebacks of provisions due to restructuring activity.

Risk management

Overview of credit risk

Restructuring

Restructuring the loans of customers in difficulty continues to be a key focus for the Group. Customer treatment strategies have been developed for customers who are experiencing financial difficulties. The approach is one of structured engagement with co-operating customers to assess their long term levels of sustainable debt.

For mortgage customers in difficulty the core objective is 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.

A non-retail customer in difficulty typically has exposures across a number of asset classes, including owner-occupier and buy-to-let mortgages, SME debt and property exposures. The aim is to apply the treatment strategies at a customer level to deliver a holistic solution which prioritises mortgages and viable SME debt. Each case requires an in-depth review of cash flows and security, updated for current valuations and business performance. This process may result in writebacks or top-ups of provisions across asset classes or for the customer as a whole. Write-offs may also be a feature of this process.

Impaired loans have continued to reduce and in the six months to 30 June 2016 decreased by € 1.8 billion (14%). The rate of reduction has slowed somewhat from the elevated levels in 2015 as the primary restructuring period is now concluding. The restructuring engagement with customers resulted in c.€ 1.0 billion being restructured out of impairment in the six months to 30 June 2016, with a further € 0.3 billion of loans written off (including non-contracted write-offs).

When the prospects of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery, the loan (and any related specific provision) will be written off. Where the loan is secured, the write-off will take account of receipt of the net realisable value of the security held. Partial write-offs, including non-contracted write-offs, may also occur when it is considered that there is no prospect for the recovery of the provisioned amount, for example when a loan enters a legal process. The reduced loan balance remains on the balance sheet as impaired. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the revised agreement and subsequent satisfactory performance. In the six months to 30 June 2016, write-offs totalled € 614 million (12 months to 31 December 2015: € 4,593 million).

Provision writebacks

There was a total provision net writeback of € 211 million in the six months to 30 June 2016 compared to a provision net writeback of € 540 million to 30 June 2015.

Specific provision writebacks (net of top-ups) during the year were € 214 million (equivalent to c. 1.6% of opening impaired loans) and was split into mortgages € 38 million, other personal € 47 million, property and construction € 87 million and non-property business lending € 42 million.

The writebacks were partially offset by specific provisions amounting to € 103 million on newly impaired loans (€ 163 million in the six months to 30 June 2015). New impairment provisions have continued to reduce reflecting the continuing improved economic conditions.

The key drivers of these writebacks include:
- increased security values and improved business cash flows due to the stronger economic environment;
- cases cured from impairment without loss; and
- execution of additional security at fulfilment (drawdown) of restructures.

The repayment of impaired loans remains dependent on significant levels of future collateral realisations in the near to medium term.

The IBNR provisions released during the first six months of 2016 amounted to € 100 million (30 June 2015: € 197 million). The release primarily reflects the improved performing portfolio and associated probability of default as a result of the improved economic environment and lower levels of new impairments.

Residential mortgages

At 30 June 2016, residential mortgages accounted for 53% of gross loans and receivables to customers (€ 35.7 billion), with the loans mainly located in the Republic of Ireland (94%) (see page 49) and the remainder in the United Kingdom (see page 54). The portfolio consists of 85% owner-occupier loans and 15% buy-to-let.

Overview of credit risk

Residential mortgages *(continued)*

Total loans in arrears by value decreased by 11% in the six months to 30 June 2016, a decrease of 10% in the owner-occupier portfolio and a decrease of 11% in the buy-to-let portfolio in the period. These decreases in arrears can be mainly attributed to restructuring activity and continued improving economic conditions. The reduction was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due).

Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 49 to 53 and the United Kingdom mortgage portfolio on pages 54 to 56.

Other personal lending

At 30 June 2016, the other personal portfolio amounted to € 3.3 billion (5% of gross loans and receivables to customers). 91% of loans relate to AIB Ireland with the remainder of loans relating to AIB UK. The portfolio comprises € 2.5 billion in loans and overdrafts and € 0.8 billion in credit card facilities. The increase in demand for personal loans observed during 2015 continues into 2016, and is due to both the improved economic environment and the expanded product offering, including online approval through internet, mobile and telephone banking applications.

Further detailed disclosures in relation to the other personal portfolio are provided on page 57.

Property and construction

At 30 June 2016, the property and construction portfolio amounted to € 10.5 billion (16% of gross loans and receivables to customers). 72% of loans relate to AIB Ireland and 28% to AIB UK. The portfolio is comprised of 75% investment loans (€ 7.8 billion), 19% land and development loans (€ 2 billion) and 6% other property and construction loans (€ 0.7 billion).

Overall, the portfolio reduced by € 1 billion or 9% in the first six months of 2016, of which € 0.4 billion is due to the impact of currency movements. The remainder of the reduction is due primarily to the continuing impact of restructuring and to write-offs, amortisations and repayments resulting from asset disposals by customers and which was offset by new business written of c. € 0.7 billion. Activity in the sector has been underpinned by improved economic performance and increased investment spending which has had a positive impact on the residential and commercial land and development market.

Further detailed disclosures in relation to the property and construction portfolio are provided on pages 58 and 59.

Non-property business

At 30 June 2016, the non-property business portfolio amounted to € 17.6 billion (26% of gross loans and receivables to customers). 57% of loans relate to AIB Ireland, 28% to AIB UK and with the remainder of 15% to Group & International. The portfolio is concentrated in sub-sectors which are reliant on the respective domestic economies. It also includes corporate and leverage exposures, some of which are dependent on international markets. Key sub-sectors include agriculture (10% of the portfolio), hotels (13% of the portfolio), licensed premises (4% of the portfolio), retail/wholesale (14% of the portfolio) and other services (33% of the portfolio). The level of criticised loans reduced by 7% or € 0.3 billion in the six months to 30 June 2016, mainly due to a reduction of € 0.3 billion in impaired loans.

Further detailed disclosures in relation to the non-property business portfolio are provided on pages 60 and 61.

Impairment provisions

Specific impairment provisions overall as a percentage of impaired loans are unchanged at 47%. However, within individually assessed loans, cover reduced from 51% at 31 December 2015 to 49% at 30 June 2016 driven by restructures, writebacks, and write-offs of loans (partially or fully) with higher provision cover and which had the impact of reducing overall cover for the remaining portfolio. Provision write-offs are generated through both restructuring agreements with customers and also where further recovery is considered unlikely. The impairment provisions remain dependent on significant levels of future collateral realisation.

IBNR provisions of € 0.6 billion were held at 30 June 2016 compared to € 0.7 billion at 31 December 2015, a reduction of € 0.1 billion. The level of IBNR reflects a conservative estimate of unidentified incurred loss within the portfolio.

Risk management

Credit risk – Credit profile of the loan portfolio

AIB Group's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. An 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 following table shows loans and receivables to customers by industry sector:

				30 June 2016
	Total loans and receivables to customers*		Of which: impaired	Specific provisions for impairment
	€ m	%	€ m	€ m
Agriculture	1,824	2.7	161	73
Energy	446	0.7	36	15
Manufacturing	2,110	3.2	130	84
Property and construction	10,475	15.6	3,530	1,965
Distribution	5,538	8.3	905	471
Transport	1,307	1.9	51	46
Financial	609	0.9	125	63
Other services	5,716	8.5	425	261
Personal:				
Residential mortgages	35,742	53.3	5,263	1,950
Other	3,319	4.9	639	409
Total	**67,086**	**100.0**	**11,265**	**5,337**

Analysed as to:	
Neither past due nor impaired	53,922
Past due but not impaired	1,899
Impaired – provisions held	11,265
	67,086
Unearned income	(135)
Deferred costs	45
Provisions for impairment:	
Specific	(5,337)
IBNR	(567)
	(5,904)
Total statement of financial position	**61,092**

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

Credit risk – Credit profile of the loan portfolio

	31 December 2015			
	Total loans and receivables to customers*		Of which: impaired	Specific provisions for impairment
	€ m	%	€ m	€ m
Agriculture	1,795	2.6	171	76
Energy	339	0.5	38	15
Manufacturing	2,107	3.0	162	102
Property and construction	11,532	16.4	4,308	2,475
Distribution	5,831	8.3	1,071	551
Transport	1,239	1.8	60	57
Financial	1,102	1.6	147	60
Other services	5,888	8.4	464	291
Personal:				
Residential mortgages	36,818	52.5	5,966	2,045
Other	3,512	4.9	698	486
Total	70,163	100.0	13,085	6,158
Analysed as to:				
Neither past due nor impaired	55,060			
Past due but not impaired	2,018			
Impaired – provisions held	13,085			
	70,163			
Unearned income	(139)			
Deferred costs	48			
Provisions for impairment:				
Specific	(6,158)			
IBNR	(674)			
	(6,832)			
Total statement of financial position	63,240			

*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 asset quality and impairment provisions:

	30 June 2016				31 December 2015			
Gross loans and receivables to customers*	**AIB Ireland €m**	**AIB UK €m**	**Group & International €m**	**Total €m**	AIB Ireland €m	AIB UK €m	Group & International €m	Total €m
Residential mortgages:								
Owner-occupier	**28,547**	**1,715**	**–**	**30,262**	28,880	2,048	–	30,928
Buy-to-let	**5,218**	**262**	**–**	**5,480**	5,576	314	–	5,890
	33,765	**1,977**	**–**	**35,742**	34,456	2,362	–	36,818
Other personal	**3,026**	**293**	**–**	**3,319**	3,156	356	–	3,512
Property and construction	**7,559**	**2,884**	**32**	**10,475**	8,055	3,443	34	11,532
Non-property business	**10,076**	**4,944**	**2,530**	**17,550**	10,223	5,292	2,786	18,301
Total	**54,426**	**10,098**	**2,562**	**67,086**	55,890	11,453	2,820	70,163
Analysed as to asset quality[1]								
Satisfactory	**34,957**	**7,480**	**2,516**	**44,953**	34,461	8,132	2,757	45,350
Watch	**2,864**	**811**	**–**	**3,675**	3,277	986	17	4,280
Vulnerable	**6,678**	**510**	**5**	**7,193**	6,781	667	–	7,448
Impaired	**9,927**	**1,297**	**41**	**11,265**	11,371	1,668	46	13,085
Total criticised loans	**19,469**	**2,618**	**46**	**22,133**	21,429	3,321	63	24,813
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**36**	**26**	**2**	**33**	38	29	2	35
Impaired loans/total loans	**18**	**13**	**2**	**17**	20	15	2	19
Impairment provisions – statement of financial position	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m
Specific	**4,536**	**781**	**20**	**5,337**	5,109	1,027	22	6,158
IBNR	**492**	**64**	**11**	**567**	596	71	7	674
Total impairment provisions	**5,028**	**845**	**31**	**5,904**	5,705	1,098	29	6,832
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**46**	**60**	**49**	**47**	45	62	48	47
Total provisions/impaired loans	**51**	**65**	**76**	**52**	50	66	63	52
Total provisions/total loans	**9**	**8**	**1**	**9**	10	10	1	10

	Half-year 30 June 2016				Half-year 30 June 2015			
Income statement – impairment (credit)/charge	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m
Specific	**(100)**	**(18)**	**7**	**(111)**	(347)	1	3	(343)
IBNR	**(104)**	**–**	**4**	**(100)**	(193)	(5)	1	(197)
Total impairment (credit)/charge	**(204)**	**(18)**	**11**	**(211)**	(540)	(4)	4	(540)
	%	**%**	**%**	**%**	%	%	%	%
Impairment (credit)/charge/ average loans	**(0.74)**	**(0.32)**	**0.89**	**(0.62)**	(1.79)	(0.07)	0.38	(1.44)

[1]Satisfactory: credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. For a definition of the criticised categories, see page 62.

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

Credit risk – Credit profile of the loan portfolio

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

					30 June 2016
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
Asset quality*	€ m	€ m	€ m	€ m	€ m
Neither past due nor impaired	29,476	2,497	6,576	15,373	53,922
Past due but not impaired	1,003	183	369	344	1,899
Impaired – provisions held	5,263	639	3,530	1,833	11,265
Gross loans and receivables	35,742	3,319	10,475	17,550	67,086
Specific provisions	(1,950)	(409)	(1,965)	(1,013)	(5,337)
IBNR provisions	(212)	(45)	(132)	(178)	(567)
Total provisions for impairment	(2,162)	(454)	(2,097)	(1,191)	(5,904)
Gross loans and receivables less provisions	33,580	2,865	8,378	16,359	61,182
Unearned income					(135)
Deferred costs					45
Net loans and receivables					61,092

					31 December 2015
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
Asset quality*	€ m	€ m	€ m	€ m	€ m
Neither past due nor impaired	29,796	2,665	6,819	15,780	55,060
Past due but not impaired	1,056	149	405	408	2,018
Impaired – provisions held	5,966	698	4,308	2,113	13,085
Gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Specific provisions	(2,045)	(486)	(2,475)	(1,152)	(6,158)
IBNR provisions	(277)	(49)	(174)	(174)	(674)
Total provisions for impairment	(2,322)	(535)	(2,649)	(1,326)	(6,832)
Gross loans and receivables less provisions	34,496	2,977	8,883	16,975	63,331
Unearned income					(139)
Deferred costs					48
Net loans and receivables					63,240

Gross loans and receivables to customers reduced by 4.4% or € 3.1 billion to € 67.1 billion in the six months to 30 June 2016. The reduction was driven by the impact of currency movements (€ 1.5 billion), loan redemptions offset by new lending (€ 0.8 billion) and the write-off of loans and associated provisions as part of the restructuring activity (€ 0.6 billion). Of the overall reduction of € 3.1 billion, € 2.7 billion of the reduction was in the criticised element of the portfolio.

*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*

							30 June 2016
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	**31**	**7**	**3**	**9**	**13**	**32**	**95**
Energy	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Manufacturing	**5**	**1**	**–**	**1**	**1**	**2**	**10**
Property and construction	**96**	**39**	**30**	**64**	**39**	**101**	**369**
Distribution	**46**	**13**	**6**	**15**	**18**	**29**	**127**
Transport	**4**	**–**	**–**	**1**	**–**	**3**	**8**
Financial	**4**	**–**	**–**	**–**	**–**	**1**	**5**
Other services	**34**	**12**	**13**	**14**	**10**	**15**	**98**
Personal:							
Residential mortgages	**521**	**149**	**68**	**72**	**63**	**130**	**1,003**
Credit cards	**20**	**5**	**3**	**–**	**-**	**–**	**28**
Other	**56**	**15**	**9**	**36**	**16**	**23**	**155**
	818	**241**	**132**	**212**	**160**	**336**	**1,899**
Segment							
AIB Ireland	**752**	**216**	**120**	**186**	**144**	**333**	**1,751**
AIB UK	**66**	**25**	**12**	**26**	**16**	**3**	**148**
Group & International	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	818	**241**	**132**	**212**	**160**	**336**	**1,899**
As a percentage of	**%**	**%**	**%**	**%**	**%**	**%**	**%**
total gross loans	**1.22**	**0.36**	**0.20**	**0.32**	**0.24**	**0.50**	**2.83**

							31 December 2015
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	55	21	2	8	5	39	130
Energy	1	–	–	–	–	2	3
Manufacturing	29	2	–	1	1	2	35
Property and construction	127	54	15	54	45	110	405
Distribution	63	14	10	13	6	31	137
Transport	4	–	–	–	–	2	6
Financial	3	1	1	1	1	1	8
Other services	30	20	7	11	8	13	89
Personal							
Residential mortgages	536	151	86	73	65	145	1,056
Credit cards	30	5	3	2	1	–	41
Other	40	19	6	12	7	24	108
	918	287	130	175	139	369	2,018
Segment							
AIB Ireland	808	249	112	142	130	358	1,799
AIB UK	110	38	18	33	9	11	219
Group & International	–	–	–	–	–	–	–
	918	287	130	175	139	369	2,018
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.31	0.41	0.18	0.25	0.20	0.53	2.88

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

*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)*

At 30 June 2016, loans past due but not impaired reduced by € 0.1 billion to € 1.9 billion or 2.8% of total loans and receivables to customers (31 December 2015: € 2.0 billion or 2.9%).

Residential mortgage loans which were past due but not impaired at 30 June 2016, amounted to € 1.0 billion. This represents 53% of total loans which were past due but not impaired (31 December 2015: € 1.1 billion or 52%). The level of residential mortgage loans in early arrears (less than 30 days) continues to decrease which is due to active management of early arrears cases and the improving economic environment. Property and construction loans which were past due but not impaired represent a further 19% or € 0.4 billion of total loans which were past due but not impaired (31 December 2015: 20% or € 0.4 billion), with other personal at 10% or € 0.2 billion (31 December 2015: 7% or € 0.1 billion).

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Risk management

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 2016
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables € m	Individually assessed € m	Collectively assessed € m	Total € m	% of total gross loans	Total € m	% of impaired loans
Retail							
Residential mortgages	35,742	1,727	3,536	5,263	15	1,950	37
Other personal	3,319	291	348	639	19	409	64
Total retail	39,061	2,018	3,884	5,902	15	2,359	40
Commercial							
Property and construction	10,475	3,217	313	3,530	34	1,965	56
Non-property business	17,550	1,371	462	1,833	10	1,013	55
Total commercial	28,025	4,588	775	5,363	19	2,978	56
Total	67,086	6,606	4,659	11,265	17	5,337	47
Specific impairment provisions at 30 June 2016		3,223	2,114	5,337			
		%	%	%			
Specific provision cover percentage		49	45	47			

							31 December 2015
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables € m	Individually assessed € m	Collectively assessed € m	Total € m	% of total gross loans	Total € m	% of impaired loans
Retail							
Residential mortgages	36,818	1,914	4,052	5,966	16	2,045	34
Other personal lending	3,512	358	340	698	20	486	70
Total retail	40,330	2,272	4,392	6,664	17	2,531	38
Commercial							
Property and construction	11,532	3,950	358	4,308	37	2,475	57
Non-property business	18,301	1,632	481	2,113	12	1,152	55
Total commercial	29,833	5,582	839	6,421	22	3,627	56
Total	70,163	7,854	5,231	13,085	19	6,158	47
Specific impairment provisions at 31 December 2015		3,975	2,183	6,158			
		%	%	%			
Specific provision cover percentage		51	42	47			

Specific impairment provisions as a percentage of impaired loans are unchanged at 47%. However, within individually assessed loans, cover reduced from 51% at 31 December 2015 to 49% at 30 June 2016 driven by restructures, writebacks, and write-offs of loans (partially or fully) with higher provision cover and which had the impact of reducing overall cover for the remaining portfolio. Provision write-offs are generated through both restructuring agreements with customers and also where further recovery is considered unlikely.

For collectively assessed loans, cover increased from 42% at 31 December 2015 to 45% at 30 June 2016 driven by net top-ups on loans in the mortgage model reflecting the composition of the portfolio.

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

Credit risk – Credit profile of the loan portfolio

Movements on impairment provisions*

The following table sets out the movements on the Group impairment provisions by asset class:

					30 June 2016
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	2,322	535	2,649	1,326	6,832
Exchange translation adjustments	(14)	(7)	(74)	(14)	(109)
Credit to income statement – customers	(63)	(36)	(111)	(1)	(211)
Amounts written off	(83)	(38)	(370)	(123)	(614)
Recoveries of amounts written off in previous years	–	–	3	3	6
At 30 June 2016	2,162	454	2,097	1,191	5,904
Total provisions are split as follows:					
Specific	1,950	409	1,965	1,013	5,337
IBNR	212	45	132	178	567
	2,162	454	2,097	1,191	5,904
Amounts include:					
Loans and receivables to customers *(note 19 to the condensed consolidated financial statements)*					5,904
					5,904

					31 December 2015
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	3,427	768	5,652	2,559	12,406
Exchange translation adjustments	16	2	102	11	131
Credit to income statement – customers	(478)	(8)	(214)	(225)	(925)
Amounts written off	(643)	(226)	(2,738)	(986)	(4,593)
Disposals	–	(1)	(159)	(35)	(195)
Recoveries of amounts written off in previous financial years	–	–	6	2	8
At 31 December 2015	2,322	535	2,649	1,326	6,832
Total provisions are split as follows:					
Specific	2,045	486	2,475	1,152	6,158
IBNR	277	49	174	174	674
	2,322	535	2,649	1,326	6,832
Amounts include:					
Loans and receivables to customers *(note 19 to the condensed consolidated financial statements)*					6,832
					6,832

*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 provision (credit)/charge split between individually significant, individually insignificant and IBNR for loans and receivables:

				Half-year 30 June 2016*
	AIB Ireland € m	**AIB UK € m**	**Group & International € m**	**Total € m**
Specific provisions – Individually significant loans and receivables	**(157)**	**(21)**	**7**	**(171)**
– Individually insignificant loans and receivables	**57**	**3**	**–**	**60**
IBNR	**(104)**	**–**	**4**	**(100)**
Total provisions for impairment (credit)/charge on loans and receivables to customers	**(204)**	**(18)**	**11**	**(211)**
Writeback of provisions for liabilities and commitments				**(1)**
Writeback of provisions for impairment on financial investments available for sale				**(2)**
Total				**(214)**

				Half-year 30 June 2015*
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Specific provisions – Individually significant loans and receivables	(332)	(1)	3	(330)
– Individually insignificant loans and receivables	(15)	2	–	(13)
IBNR	(193)	(5)	1	(197)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(540)	(4)	4	(540)
Writeback of provisions for liabilities and commitments				(16)
Total				(556)

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

Credit risk – Credit profile of the loan portfolio

Provisions – income statement *(continued)*

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

	Half-year 30 June 2016*			Half-year 30 June 2015*		
	Residential mortgages € m	Other € m	Total € m	Residential mortgages € m	Other € m	Total € m
AIB Ireland	**(66)**	**(138)**	**(204)**	(322)	(218)	(540)
AIB UK	**3**	**(21)**	**(18)**	(1)	(3)	(4)
Group & International	**–**	**11**	**11**	–	4	4
Total	**(63)**	**(148)**	**(211)**	(323)	(217)	(540)

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

	Half-year 30 June 2016*			Half-year 30 June 2015*		
	Residential mortgages bps	Other bps	Total bps	Residential mortgages bps	Other bps	Total bps
AIB Ireland	**(39)**	**(132)**	**(74)**	(180)	(178)	(179)
AIB UK	**32**	**(48)**	**(32)**	(10)	(6)	(7)
Group & International	**–**	**89**	**89**	–	38	38
Total	**(35)**	**(91)**	**(62)**	(166)	(118)	(144)

Impairment provisions have reduced from a net writeback of € 540 million in the six months to 30 June 2015, to a net writeback of € 211 million for the first six months of 2016. The net writeback comprised of € 111 million in specific provision net writebacks and a release of IBNR provisions of € 100 million (30 June 2015: € 343 million net writeback in specific provisions and release of IBNR provisions of € 197 million).

The specific provision net writeback of € 111 million can be split into € 103 million new impairment provisions (€163 million for the six months to 30 June 2015) and a € 214 million writeback (net of top-ups) (€ 506 million for the 6 months to 30 June 2015). New impairment provisions have continued to reduce reflecting the continuing improving economic conditions. The quantum of the net writebacks has reduced and is due to the slowdown in the pace of restructuring.

In AIB Ireland, the six months to June 2016 income statement provision writeback of € 204 million comprises a specific provision writeback of € 100 million and an IBNR release of € 104 million. This compares to an income statement specific provision writeback of € 347 million and an IBNR release of € 193 million for the six months to June 2015.

In AIB UK, the six months to June 2016 income statement provision writeback of € 18 million and there was no change to the IBNR in the period. This compares to a specific provision charge of € 1 million and an IBNR release of € 5 million in the six months to June 2015.

The impairment provision charge in Group & International of € 11 million compares to a provision charge of € 4 million in the six months to June 2015.

The IBNR provisions released in the first half of 2016 of € 100 million (30 June 2015: € 197 million) primarily reflect the improved performing portfolio and associated probability of default as a result of the improved economic environment and lower levels of new impairments.

*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 – Residential mortgages

Residential mortgages amounted to € 35.7 billion at 30 June 2016, with the majority (94%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 36.8 billion at 31 December 2015, of which 94% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 30.3 billion and buy-to-let € 5.4 billion (31 December 2015: owner-occupier € 30.9 billion and buy-to-let € 5.9 billion).

Statement of financial position provisions of € 2.2 billion were held at 30 June 2016, split € 2.0 billion specific and € 0.2 billion IBNR (31 December 2015: € 2.3 billion split, € 2.0 billion specific and € 0.3 billion IBNR).

There was an impairment provision credit of € 63 million to the income statement for the six months to 30 June 2016 comprising a € 1 million specific charge and a € 64 million IBNR release (30 June 2015: € 323 million provision credit comprising € 173 million specific writeback and a € 150 million IBNR release).

This section provides the information listed below in relation to residential mortgages.

Republic of Ireland residential mortgages – pages 49 to 53

- Credit profile
- Credit quality profile of Republic of Ireland residential mortgages
- Republic of Ireland residential mortgages that were past due but not impaired
- Collateral value of Republic of Ireland residential mortgages that were past due but not impaired
- Republic of Ireland residential mortgages that were impaired
- Republic of Ireland residential mortgages – properties in possession

United Kingdom residential mortgages – pages 54 to 56

- Credit profile
- Credit quality profile of United Kingdom residential mortgages
- United Kingdom residential mortgages that were past due but not impaired
- Collateral value of United Kingdom residential mortgages that were past due but not impaired
- United Kingdom residential mortgages that were impaired
- United Kingdom residential mortgages – properties in possession
- United Kingdom residential mortgages – repossessions disposed of

Residual debt, which is now unsecured following the disposal of property on which the residential mortgage was secured, is included in the residential mortgage portfolio and as such, is included in the tables within this section.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio showing impairment provisions:

			30 June 2016*			31 December 2015*
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m
Total gross residential mortgages	28,547	5,218	33,765	28,880	5,576	34,456
In arrears (>30 days past due)[1]	3,589	1,913	5,502	4,032	2,154	6,186
In arrears (>90 days past due)[1]	3,441	1,864	5,305	3,876	2,098	5,974
Of which impaired	3,292	1,760	5,052	3,713	1,998	5,711
Statement of financial position specific provisions	1,121	733	1,854	1,159	771	1,930
Statement of financial position IBNR provisions	124	77	201	188	76	264
Provision cover percentage	%	%	%	%	%	%
Specific provisions/impaired loans	34.1	41.6	36.7	31.2	38.6	33.8

			Half-year 30 June 2016			Half-year 30 June 2015
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m
Income statement specific provisions	(6)	3	(3)	(97)	(78)	(175)
Income statement IBNR provisions	(64)	1	(63)	(123)	(24)	(147)
Total impairment (credit)	(70)	4	(66)	(220)	(102)	(322)

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

Residential mortgages in the Republic of Ireland amounted to € 33.8 billion at 30 June 2016 compared to € 34.5 billion at 31 December 2015. The decrease in the portfolio was driven by a reduction in the criticised grades due to restructuring, loan repayments from customer asset sales, and write-offs. Total drawdowns in 2016 were € 0.8 billion, of which 97% related to owner-occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 69%.

The split of the residential mortgage portfolio is 85% owner-occupier and 15% buy-to-let and comprised 36% tracker rate, 53% variable rate and 11% fixed rate mortgages. The proportion of the total residential mortgage portfolio in negative equity decreased from 24% at 31 December 2015 to 21% at 30 June 2016 reflecting the increase in residential property prices in Ireland during 2016 and loan amortisation, whilst the quantum of negative equity in the portfolio reduced from € 1.5 billion to € 1.3 billion.

Residential mortgage arrears

Total loans in arrears by value decreased by 10% in the six months to 30 June 2016, a decrease of 10% in the owner-occupier portfolio and a decrease of 11% in the buy-to-let portfolio in the period. By number of customers, these decreases were 8%, 9% and 6% respectively. These decreases in arrears can be mainly attributed to restructuring activity and continued improving economic conditions. The reduction was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due). The amount of loans which were new into arrears for the first time in the first six months of 2016 fell by 41% compared to the same period in 2015.

Total loans in arrears greater than 90 days at 7.7% as at 30 June 2016 decreased from 8.2% at 31 December 2015 and remain below the industry average of 9.3%[1]. For the owner-occupier portfolio, loans in arrears greater than 90 days at 5.8% were below the industry average of 8.0%. For the buy-to-let portfolio, loans in arrears greater than 90 days at 19.4% exceeded the industry average of 16.5%.

[1]Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 31 March 2016, based on numbers of accounts.

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

Credit risk – Credit profile of the loan portfolio

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

Forbearance

The Group's strategy is to deliver sustainable long-term solutions to customers and support customers remaining in their family home. The stock of loans subject to forbearance measures decreased by € 0.2 billion from 31 December 2015 to € 5.3 billion at 30 June 2016 driven by lower numbers of customers seeking new forbearance solutions (i.e. new requests, renewals or extensions) and is reflective of improving customer ability to meet their mortgage terms. Due to the significant levels of restructuring activity completed in 2014 and 2015, the pace of growth into advanced forbearance solutions slowed in the six months to 30 June 2016.

Within the forborne impaired portfolio of € 1.9 billion at 30 June 2016, c. € 0.8 billion is currently performing in accordance with agreed terms for forbearance sustainable solutions and the continued compliance to these terms over a period of 12 months will result in an upgrade out of impairment. The remaining € 1.1 billion includes loans that have been the subject of a temporary or short term forbearance solution but will remain classified as impaired and in arrears until a sustainable solution has been put in place. Following this, they will be required to maintain at least 12 months satisfactory performance before being considered for upgrade out of impairment.

AIB has successfully met all its Central Bank MART targets in relation to managing Mortgages in Arrears for the six months to 30 June 2016.

Details of forbearance measures are set out on pages 68 to 80.

Impairment provisions

Impaired loans decreased from € 5.7 billion at 31 December 2015 to € 5.1 billion at 30 June 2016, mainly due to restructuring, write-offs and repayments through customer asset sales.

There was a specific provision writeback of € 3 million in the six months to June 2016 compared to a € 175 million writeback in the same period in 2015. This can be split into a charge for new impairments of € 39 million and a writeback of provisions (net of top-ups) of € 42 million. The writeback was mainly due to the impact of restructuring, loans curing from impairment, and changes in a number of assumptions in the mortgage model. The specific provision cover level increased from 34% at 31 December 2015 to 37% at 30 June 2016. The increase was primarily due to parameter changes in the individually insignificant mortgage model, and which are due to the changing dynamics of cases in the model, and in particular disposal cases.

An IBNR release in the six months to June 2016 of € 63 million compares to a release of € 147 million in same period in 2015 mainly due to changes in the mortgage model parameters and a reduction in probability of default for the portfolio in line with positive observed new to impaired trends.

Specific provisions of € 0.6 billion were held against the forborne impaired portfolio of € 1.9 billion providing cover of 31%. In relation to the non-impaired forborne portfolio of € 3.5 billion, IBNR impairment provisions of € 0.1 billion were held at 30 June 2016.

Credit risk – Credit profile of the loan portfolio

Credit quality profile of Republic of Ireland residential mortgages

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

	30 June 2016*			31 December 2015*		
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	24,527	3,230	27,757	24,423	3,336	27,759
Past due but not impaired	728	228	956	744	242	986
Impaired - provisions held	3,292	1,760	5,052	3,713	1,998	5,711
Gross residential mortgages	28,547	5,218	33,765	28,880	5,576	34,456
Provisions for impairment	(1,245)	(810)	(2,055)	(1,347)	(847)	(2,194)
	27,302	4,408	31,710	27,533	4,729	32,262

The percentage of the portfolio which is neither past due nor impaired increased at 30 June 2016 to 82% from 81% at 31 December 2015.

Republic of Ireland residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically, for more than 90 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 carrying value of the asset is shown to be in excess of the present value of future cash flows, 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 page 76 of the Annual Financial Report 2015.

The following table profiles the Republic of Ireland residential mortgages that were past due but not impaired:

	30 June 2016*			31 December 2015*		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	431	75	506	425	86	511
31 - 60 days	104	33	137	103	35	138
61 - 90 days	44	16	60	53	21	74
91 - 180 days	40	28	68	42	22	64
181 - 365 days	31	26	57	37	24	61
Over 365 days	78	50	128	84	54	138
Total past due but not impaired	728	228	956	744	242	986
Total gross residential mortgages	28,547	5,218	33,765	28,880	5,576	34,456

Loans past due but not impaired at 30 June 2016 decreased by 3% when compared to 31 December 2015, driven by the improved economic environment and continued focus on the management of early arrears.

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

Credit risk – Credit profile of the loan portfolio

Collateral value of Republic of Ireland residential mortgages that were past due but not impaired

The following table profiles the collateral value of Republic of Ireland residential mortgages that were past due but not impaired:

	30 June 2016*			31 December 2015*		
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Republic of Ireland	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
1 - 30 days	**416**	**71**	**487**	409	82	491
31 - 60 days	**100**	**31**	**131**	99	29	128
61 - 90 days	**42**	**14**	**56**	50	19	69
91 - 180 days	**39**	**28**	**67**	40	21	61
181 - 365 days	**30**	**25**	**55**	37	22	59
Over 365 days	**77**	**46**	**123**	83	49	132
Total	**704**	**215**	**919**	718	222	940

The collateral value for the past due but not impaired portfolio was 96% of the outstanding loan balances at 30 June 2016, an increase from 95% at 31 December 2015.

Republic of Ireland residential mortgages that were impaired

The following table profiles the Republic of Ireland residential mortgages that were impaired:

	30 June 2016*			31 December 2015*		
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Republic of Ireland	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Not past due	**813**	**376**	**1,189**	966	453	1,419
1 - 30 days	**168**	**35**	**203**	189	50	239
31 - 60 days	**71**	**38**	**109**	87	37	124
61 - 90 days	**54**	**19**	**73**	65	28	93
91 - 180 days	**148**	**67**	**215**	163	80	243
181 - 365 days	**183**	**105**	**288**	234	137	371
Over 365 days	**1,855**	**1,120**	**2,975**	2,009	1,213	3,222
Total impaired	**3,292**	**1,760**	**5,052**	3,713	1,998	5,711
Total gross residential mortgages	**28,547**	**5,218**	**33,765**	28,880	5,576	34,456

Impaired loans decreased by € 0.6 billion in the six months to 30 June 2016 due to restructuring, cures and write-offs of provisions. In addition, the rate of new impairment continues to slow significantly compared to 2015 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 30 June 2016, € 1.2 billion or 24% was not past due (31 December 2015: € 1.4 billion or 25%), of which € 0.8 billion (31 December 2015: € 1.0 billion) was subject to forbearance measures at 30 June 2016.

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

Credit risk – Credit profile of the loan portfolio

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

The Group seeks to avoid repossession through working with customers, but where agreement cannot be reached, it proceeds to repossession of the property or the appointment of a 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.

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

	30 June 2016*		31 December 2015*	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	571	144	623	156
Buy-to-let	90	20	91	21
Total	**661**	**164**	714	177

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

The stock of residential properties in possession has decreased in the six months to 30 June 2016 and relates to the disposal of 151 properties (31 December 2015: 439 properties) and which was offset by the addition of 124 properties (31 December 2015: 523 properties). In addition, a further 26 properties that were classified as voluntary surrenders at 31 December 2015 have been removed from the reported stock.

The disposal of 151 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 22 million at 30 June 2016 (before specific impairment provisions) and compares to the full year 2015 when 439 residential properties were disposed of resulting in a total loss of € 73 million. Losses on the sale of such properties are recognised in the income statement as part of the specific provision charge.

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

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 2016*			31 December 2015*		
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	**1,715**	**262**	**1,977**	2,048	314	2,362
In arrears (>30 days past due)(1)	**204**	**39**	**243**	253	47	300
In arrears (>90 days past due)(1)	**186**	**37**	**223**	230	45	275
Of which impaired	**175**	**36**	**211**	212	43	255
Statement of financial position specific provisions	**75**	**21**	**96**	90	25	115
Statement of financial position IBNR provisions	**10**	**1**	**11**	12	1	13
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**42.6**	**58.3**	**45.3**	42.4	57.8	45.0

			Half-year 30 June 2016*			Half-year 30 June 2015*
Income statement charge/credit)	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Income statement specific provisions	**3**	**1**	**4**	2	–	2
Income statement IBNR provisions	**–**	**(1)**	**(1)**	(3)	–	(3)
Total impairment charge/(credit)	**3**	**–**	**3**	(1)	–	(1)

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

The UK mortgage portfolio is predominantly based in Northern Ireland (73% of total) with the remainder located in Great Britain. The UK mortgage portfolio has decreased in sterling terms by c.6% on the financial year end December 2015. However, due to the change in the euro/sterling exchange rate, the portfolio has decreased by c.16% in euro terms.

The UK economy grew by 2.2% in 2015, a rate that was predicted to extend into 2016. However, given the outcome of the recent EU Referendum, growth forecasts are now likely to change as the impact on the overall economy remains uncertain. Nevertheless, the UK has benefitted from some positive economic factors in recent months: rising wages and employment levels, low inflation and generally improving house prices. These have had a positive impact on mortgage arrears with total loans in arrears of greater than 90 days improving to 11.3% (31 December 2015: 11.6%).

Statement of financial position specific provisions of € 96 million were held at 30 June 2016 and provided cover of 45% for impaired loans (31 December 2015: € 115 million providing cover of 45%).

Statement of financial position IBNR provisions of € 11 million were held at 30 June 2016, down from €13 million at 31 December 2015, and this change is primarily due to the exchange rate movement in the period.

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

Credit risk – Credit profile of the loan portfolio

Credit quality profile of United Kingdom residential mortgages

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

United Kingdom	30 June 2016*			31 December 2015*		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	1,498	221	1,719	1,772	265	2,037
Past due but not impaired	42	5	47	64	6	70
Impaired - provisions held	175	36	211	212	43	255
Gross residential mortgages	1,715	262	1,977	2,048	314	2,362
Provisions for impairment	(85)	(22)	(107)	(102)	(26)	(128)
	1,630	240	1,870	1,946	288	2,234

United Kingdom residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically for more than 90 days, or if the borrower exhibits an inability to meet their obligations to the Group based on objective evidence of loss events ('impairment triggers') such as a request for forbearance. Loans are deemed impaired where the expected future cash flows 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.

The following table profiles UK residential mortgages that were past due but not impaired:

United Kingdom	30 June 2016*			31 December 2015*		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	13	2	15	23	2	25
31 - 60 days	11	1	12	12	1	13
61 - 90 days	7	1	8	11	1	12
91 - 180 days	3	1	4	7	2	9
181 - 365 days	6	–	6	4	–	4
Over 365 days	2	–	2	7	–	7
Total	42	5	47	64	6	70

Collateral value of United Kingdom residential mortgages that were past due but not impaired

The following table profiles the collateral value of UK residential mortgages that were past due but not impaired:

United Kingdom	30 June 2016*			31 December 2015*		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	13	1	14	23	2	25
31 - 60 days	10	1	11	11	1	12
61 - 90 days	7	1	8	11	1	12
91 - 180 days	3	1	4	7	1	8
181 - 365 days	6	–	6	4	–	4
Over 365 days	1	–	1	6	–	6
Total	40	4	44	62	5	67

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

Credit risk – Credit profile of the loan portfolio
United Kingdom residential mortgages that were impaired
The following table profiles the UK residential mortgages that were impaired:

United Kingdom	30 June 2016* Owner-occupier € m	Buy-to-let € m	Total € m	31 December 2015* Owner-occupier € m	Buy-to-let € m	Total € m
Not in arrears	21	2	23	17	3	20
1 - 30 days	7	1	8	3	1	4
31 - 60 days	1	–	1	5	1	6
61 - 90 days	4	1	5	4	1	5
91 - 180 days	12	2	14	15	2	17
181 - 365 days	14	4	18	31	12	43
Over 365 days	116	26	142	137	23	160
Total impaired	175	36	211	212	43	255
Total gross residential mortgages	1,715	262	1,977	2,048	314	2,362

10.7% of residential mortgages were impaired at 30 June 2016, compared with 10.8% at 31 December 2015.

United Kingdom residential mortgages – properties in possession[(1)]
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 2016* Stock	Balance outstanding € m	31 December 2015* Stock	Balance outstanding € m
Owner-occupier	33	8	46	14
Buy-to-let	13	2	19	3
Total	46	10	65	17

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

The stock of residential properties continued to decrease in the half-year to 30 June 2016, from 65 at December 2015 to 46 properties.

United Kingdom residential mortgages – repossessions disposed of
The disposal of 31 residential properties in possession resulted in a loss on disposal of € 3 million before specific impairment provisions (31 December 2015: disposal of 119 properties resulting in a loss on disposal of € 15 million). Losses on the sale of properties in possession are recognised in the income statement as part of the specific provision charge.

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Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Other personal

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

	30 June 2016*				31 December 2015*			
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Analysed as to asset quality								
Satisfactory	1,991	210	–	2,201	2,051	247	–	2,298
Watch	118	15	–	133	137	23	–	160
Vulnerable	329	17	–	346	336	20	–	356
Impaired	588	51	–	639	632	66	–	698
Total criticised loans	1,035	83	–	1,118	1,105	109	–	1,214
Total gross loans and receivables	3,026	293	–	3,319	3,156	356	–	3,512
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	34	28	–	34	35	31	–	35
Impaired loans/total loans	19	17	–	19	20	19	–	20
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	367	42	–	409	437	49	–	486
IBNR	41	4	–	45	44	5	–	49
Total impairment provisions	408	46	–	454	481	54	–	535
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	62	82	–	64	69	74	–	70
Total provisions/impaired loans	69	90	–	71	76	82	–	77
Total provisions/total loans	13	16	–	14	15	15	–	15

	Half-year 30 June 2016*				Half-year 30 June 2015*			
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(31)	(1)	–	(32)	(3)	1	–	(2)
IBNR	(2)	(2)	–	(4)	(6)	–	–	(6)
Total impairment (credit)/charge	(33)	(3)	–	(36)	(9)	1	–	(8)
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(2.11)	(1.74)	–	(2.08)	(0.58)	0.77	–	(0.42)

The other personal lending portfolio at € 3.3 billion reduced by € 0.2 billion during the first half of the year and comprises € 2.5 billion in loans and overdrafts and € 0.8 billion in credit card facilities.

In the six months to 30 June 2016, the level of loans and receivables reduced across all credit quality categories in both AIB Ireland and AIB UK. While there has been increased customer demand for credit, this has been offset by the paydown of debt and the resolution of criticised debt. An increase in demand for personal loans observed during 2015 and continuing into 2016, is due to both the improved economic environment and the expanded product offering, including on-line approval through internet, mobile and telephone banking applications.

The portfolio experienced a € 0.1 billion reduction in criticised loans in the six months to 30 June 2016. At 30 June 2016, € 1.1 billion or 34% of the portfolio was criticised of which impaired loans amounted to € 0.6 billion (31 December 2015: € 1.2 billion or 35% and € 0.7 billion).

The specific provision cover decreased slightly from 70% to 64%. The income statement provision writeback of € 36 million compares to an € 8 million writeback for the same period in 2015 and is due to a lower level of new impairments and writebacks due to restructuring.

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

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction

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

	30 June 2016*				31 December 2015*			
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Investment:								
Commercial investment	4,989	1,666	1	6,656	5,154	1,453	–	6,607
Residential investment	909	262	–	1,171	1,002	456	–	1,458
	5,898	1,928	1	7,827	6,156	1,909	–	8,065
Land and development:								
Commercial development	474	21	–	495	583	69	–	652
Residential development	1,008	483	–	1,491	1,142	758	–	1,900
	1,482	504	–	1,986	1,725	827	–	2,552
Contractors	179	198	31	408	174	227	34	435
Housing associations	–	254	–	254	–	480	–	480
Total gross loans and receivables	7,559	2,884	32	10,475	8,055	3,443	34	11,532
Analysed as to asset quality								
Satisfactory	2,690	1,555	32	4,277	2,435	1,683	34	4,152
Watch	450	352	–	802	486	487	–	973
Vulnerable	1,674	192	–	1,866	1,839	260	–	2,099
Impaired	2,745	785	–	3,530	3,295	1,013	–	4,308
Total criticised loans	4,869	1,329	–	6,198	5,620	1,760	–	7,380
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	64	46	–	59	70	51	–	64
Impaired loans/total loans	36	27	–	34	41	29	–	37
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	1,445	520	–	1,965	1,790	685	–	2,475
IBNR	114	18	–	132	151	23	–	174
Total impairment provisions	1,559	538	–	2,097	1,941	708	–	2,649
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	53	66	–	56	54	68	–	57
Total provisions/impaired loans	57	69	–	59	59	70	–	61
Total provisions/total loans	21	19	–	20	24	21	–	23

	Half-year 30 June 2016*				Half-year 30 June 2015*			
Income statement (credit)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(65)	(6)	–	(71)	(88)	(6)	–	(94)
IBNR	(38)	(2)	–	(40)	–	(5)	–	(5)
Total impairment (credit)	(103)	(8)	–	(111)	(88)	(11)	–	(99)
	%	%	%	%	%	%	%	%
Impairment (credit)/average loans	(2.70)	(0.50)	–	(2.03)	(1.68)	(0.53)	–	(1.32)

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

Credit risk – Credit profile of the loan portfolio

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

The property and construction sector amounted to 16% of total loans and receivables. The portfolio is comprised of 75% investment loans (€ 7.8 billion), 19% land and development loans (€ 2 billion) and 6% other property and construction loans (€ 0.7 billion). AIB UK accounts for 28% of the total property and construction portfolio.

Overall, the portfolio reduced by € 1 billion or 9% in the first six months of 2016, of which € 0.4 billion is due to the impact of currency movements. The remainder of the reduction is due primarily to the continuing impact of restructuring and to write-offs, amortisations and repayments resulting from asset disposals by customers and which was offset by new business written of c. € 0.7 billion. Specific provisions attached to this sector have reduced by € 0.5 billion during the first 6 months of 2016.

There was a writeback of specific provisions net of top-ups of € 87 million (c. 2.0% of opening impaired loans) mainly due to the improved economic environment and the restructuring process. This was partially off-set by provisions for new impairments which amounted to € 16 million.

Investment

Investment property loans amounted to € 7.8 billion at 30 June 2016 (31 December 2015: € 8.1 billion) of which € 6.7 billion related to commercial investment. The reduction was largely as a result of loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs of provisions. € 5.9 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland and € 1.9 billion in the United Kingdom.

2016 has seen strong investor interest in Irish commercial property and the retail sector is now the most sought after asset class with an increase evident in the volume of investment sales.

€ 4.4 billion or 57% of the investment property portfolio was criticised at 30 June 2016 compared with € 4.9 billion or 71% at 31 December 2015. Included in criticised loans was € 2.1 billion loans which were impaired (31 December 2015: € 2.4 billion) and on which the Group had € 1.0 billion in statement of financial position specific provisions, providing cover of 47% (31 December 2015: € 1.2 billion and 49%). Total impairment provisions as a percentage of total loans is 14%, down from 16% at 31 December 2015. The impairment writeback to the income statement was € 85 million on the investment property element of the property and construction portfolio compared to a writeback of € 84 million for the same period to 30 June 2015.

Land and development

At 30 June 2016, land and development loans amounted to € 2 billion (31 December 2015: € 2.6 billion). € 1.5 billion of this portfolio related to loans in AIB Ireland and € 0.5 billion in AIB UK.

€ 1.6 billion of the land and development portfolio was criticised at 30 June 2016 (31 December 2015: € 2.2 billion), including € 1.3 billion of loans which were impaired (31 December 2015: € 1.8 billion) and on which the Group had € 0.9 billion in statement of financial position specific provisions, providing cover of 68% (31 December 2015: 68%). The impairment writeback of € 29 million to the income statement compares to a writeback of € 15 million for the same period to 30 June 2015.

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

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Non-property business

The following table analyses non-property business by segment showing asset quality and impairment provisions:

	30 June 2016*				31 December 2015*			
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Agriculture	1,707	102	15	1,824	1,681	104	10	1,795
Distribution:								
Hotels	1,414	763	37	2,214	1,458	855	43	2,356
Licensed premises	586	85	–	671	594	101	63	758
Retail/wholesale	1,873	362	203	2,438	1,959	436	–	2,395
Other distribution	145	2	68	215	144	9	169	322
	4,018	1,212	308	5,538	4,155	1,401	275	5,831
Other services	2,378	2,410	927	5,715	2,492	2,569	827	5,888
Other	1,973	1,220	1,280	4,473	1,895	1,218	1,674	4,787
Total gross loans and receivables	10,076	4,944	2,530	17,550	10,223	5,292	2,786	18,301
Analysed as to asset quality								
Satisfactory	6,663	4,224	2,484	13,371	6,576	4,510	2,723	13,809
Watch	495	356	–	851	567	299	17	883
Vulnerable	1,376	114	5	1,495	1,347	149	–	1,496
Impaired	1,542	250	41	1,833	1,733	334	46	2,113
Total criticised loans	3,413	720	46	4,179	3,647	782	63	4,492
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	34	15	2	24	36	15	2	25
Impaired loans/total loans	15	5	2	10	17	6	2	12
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	870	123	20	1,013	952	178	22	1,152
IBNR	136	31	11	178	137	30	7	174
Total impairment provisions	1,006	154	31	1,191	1,089	208	29	1,326
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	56	49	49	55	55	53	48	55
Total provisions/impaired loans	65	62	76	65	63	62	63	63
Total provisions/total loans	10	3	1	7	11	4	1	7

	Half-year 30 June 2016*				Half-year 30 June 2015*			
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(1)	(15)	7	(9)	(81)	4	3	(74)
IBNR	(1)	5	4	8	(40)	3	1	(36)
Total impairment (credit)/charge	(2)	(10)	11	(1)	(121)	7	4	(110)
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(0.06)	(0.38)	0.90	(0.01)	(2.24)	0.29	0.39	(1.23)

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

Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Non-property business *(continued)*

The non-property business portfolio mainly comprises of SMEs which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers who are more reliant on global economies. There has been a 4% reduction in the portfolio as amortisation/repayments and the impact of currency movements outweighed the impact of new drawdowns. The portfolio amounted to 26% of total loans and receivables as at 30 June 2016, with 57% of the portfolio in AIB Ireland, 28% in AIB UK with the remaining 14% in Group & International.

Satisfactory loans and receivables increased from 75% of the total portfolio at 31 December 2015 to 76% in the six months to 30 June 2016, continuing the positive trend experienced in 2015. The level of criticised loans reduced from € 4.5 billion at 31 December 2015 to € 4.2 billion at 30 June 2016, mainly due to a reduction of € 0.3 billion in impaired loans. In AIB Ireland, the satisfactory portfolio increased from 64% of the total to 66% mainly driven by upward grade migration through improved performance.

The following are the key themes within the main sub-sectors of the non-property business portfolio:

- The agriculture sub-sector comprises 10% of the portfolio. This sector is generally impacted by commodity pricing of both revenues and input costs, and 2016 is proving to be a difficult year across dairy, beef, tillage and pigs. However, following good performance in recent years the portfolio is positioned to withstand economic pressure effectively.
- The hotels sub-sector comprises 13% of the portfolio. The improvement observed since 2014 due to a stronger local economy and increased number of tourists has continued into 2016. Valuations for hotels have continued to increase, with a number of foreign investors and fund managers competing for available properties.
- The licensed premises sub-sector comprises 4% of the portfolio. There continues to be some weakness in this market in particular outside the main cities. However, some locations such as Dublin, central Cork and Galway are showing improved performances based on the improving economic outlook.
- The retail/wholesale sub-sector (14% of the portfolio) has continued to improve in 2016 due to the stronger economic environment resulting in improved consumer confidence, nevertheless, there is still stress in this sub-sector, particularly in rural areas.
- The other services sub-sector comprises 33% of the portfolio which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery. This sub-sector continues to show improved performance.

In the table on the preceding page there is a category of 'Other' totalling € 4.5 billion. This category includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

In the six months to 30 June 2016, there has been continued strong economic growth in the Republic of Ireland. Notwithstanding this improved economic performance and a positive outlook, there are still challenges in the domestic market, with many trading entities experiencing difficulties, particularly, outside urban areas. The Group continues to strongly engage in restructuring existing facilities in order to sustain viable businesses.

The Group & International business segment includes € 2.3 billion (31 December 2015: € 2.2 billion) in international leveraged lending exposures. The Group has specialised leveraged lending teams which are involved in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes.

79% of the customers in this portfolio are domiciled in the USA, 5% in the UK, 3% each in Germany and the Netherlands and 10% in the Rest of the World (31 December 2015: 85% domiciled in the USA, 3% in Canada, 4% UK and 8% in the Rest of the World respectively). The largest sub-sectors within the portfolio include business services, healthcare, pharmaceuticals, media, telecoms, and manufacturing. At 30 June 2016, 99% of the leverage portfolio is in a satisfactory grade with just 1% being rated as 'Criticised'.

The income statement provision writeback in the six months to 30 June 2016 was € 1 million compared to a writeback of € 110 million in 2015. Specific provisions on new impairments amounted to € 33 million, and were off-set by a writeback of € 42 million (net of top-ups). This writeback amounted to c. 2% of opening impaired loans and was driven by the improved economic environment and the restructuring assessment process, albeit with a slower pace of restructuring than 2015.

The specific provision cover remained static at 55%.

Credit risk – credit profile of the loan portfolio

Large exposures

The 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 2016, the Group's top 50 exposures amounted to € 4.7 billion, and accounted for 7% (31 December 2015: € 4.8 billion and 6.9%) of the Group's on-balance sheet total gross loans and receivables to customers. In addition, these customers have undrawn facilities amounting to € 212 million (31 December 2015: € 266 million). No single customer exposure exceeded regulatory thresholds. In addition, the Group holds NAMA senior bonds amounting to € 3.2 billion (31 December 2015: € 5.6 billion).

Credit ratings*

Internal credit ratings

The Group uses various rating tools in managing its credit risk. The role of rating tools in identifying and managing loans including those of lower credit quality is highlighted in further detail on pages 63 to 67 of the Annual Financial Report 2015. These lower credit quality loans are referred to as 'Criticised loans' and include Watch, Vulnerable and Impaired.

For reporting purposes loans and receivables to customers are categorised into:

– Neither past due nor impaired;
– Past due but not impaired; and
– 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.

The credit rating of an exposure is one of the key factors to determine if a case should be assessed for impairment. As part of this assessment the present value of future cash-flows, including the value of the collateral held, and the likely time taken to realise any security is estimated. A provision is raised for the difference between this present value and the carrying value of the loan. Specific provisions therefore arise when the recovery of a loan or group of loans is in doubt on an assessment that all the estimated future cash flows either from the loan itself or from the associated collateral, will not be sufficient to repay the loan.

When a shortfall arises, the case is classified as impaired and a provision is recognised in the income statement. If no shortfall is evident, then the case remains as either 'Watch' or 'Vulnerable' or 'Past due but not impaired'.

Loans that are neither past due nor impaired are further classified into 'Good upper, Good lower, Watch and Vulnerable', which are defined 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.

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Credit risk – credit profile of the loan portfolio

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 set out below:

30 June 2016	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	**15,349**	**192**	**153**	**1,139**	**16,833**
Good lower	**9,674**	**1,954**	**4,074**	**12,165**	**27,867**
Watch	**1,599**	**115**	**761**	**812**	**3,287**
Vulnerable	**2,854**	**236**	**1,588**	**1,257**	**5,935**
Total	**29,476**	**2,497**	**6,576**	**15,373**	**53,922**
Past due but not impaired					
Good upper	**5**	**2**	**–**	**1**	**8**
Good lower	**76**	**53**	**50**	**66**	**245**
Watch	**290**	**18**	**41**	**39**	**388**
Vulnerable	**632**	**110**	**278**	**238**	**1,258**
Total	**1,003**	**183**	**369**	**344**	**1,899**
Total impaired	**5,263**	**639**	**3,530**	**1,833**	**11,265**
Total gross loans and receivables	**35,742**	**3,319**	**10,475**	**17,550**	**67,086**
Unearned income					**(135)**
Deferred costs					**45**
Impairment provisions					**(5,904)**
Total					**61,092**

31 December 2015	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	14,894	203	122	1,167	16,386
Good lower	10,106	2,048	3,980	12,507	28,641
Watch	1,972	131	912	836	3,851
Vulnerable	2,824	282	1,806	1,270	6,182
Total	29,796	2,664	6,820	15,780	55,060
Past due but not impaired					
Good upper	5	2	–	2	9
Good lower	86	45	50	133	314
Watch	292	29	61	47	429
Vulnerable	673	74	293	226	1,266
Total	1,056	150	404	408	2,018
Total impaired	5,966	698	4,308	2,113	13,085
Total gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Unearned income					(139)
Deferred costs					48
Impairment provisions					(6,832)
Total					63,240

Gross loans and receivables to customers reduced by 4.4% or € 3.1 billion to € 67.1 billion in the six months to 30 June 2016. The reduction was driven by the impact of currency movements (€ 1.5 billion), loan redemptions offset by new lending (€ 0.8 billion) and the write off of loans and associated provisions as part of the restructuring activity (€ 0.6 billion). The above table shows these reductions by asset class and by grade. Good upper and good lower grades show a decrease of € 0.4 billion in the period while 'Criticised' (comprising of Watch Vulnerable and Impaired) shows a decrease of € 2.7 billion.

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

Credit risk

Credit ratings* *(continued)*

External credit ratings of financial assets

The external credit ratings profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity securities), financial investments available for sale (excluding equity shares) and financial investments held to maturity is set out below:

					30 June 2016
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	**5,041**	**–**	**2,504**	**426**	**7,971**
A+/A/A-	**1,798**	**2**	**11,495**[(1)]	**–**	**13,295**
BBB+/BBB/BBB-	**170**	**–**	**1,830**	**–**	**2,000**
Sub investment	**11**	**22**	**–**	**–**	**33**
Unrated	**3**	**–**	**–**	**–**	**3**
Total	**7,023**	**24**	**15,829**[(2)]	**426**	**23,302**

					31 December 2015
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	4,963	–	2,758	328	8,049
A/A-	1,258	–	14,716[(1)]	–	15,974
BBB+/BBB/BBB-	166	–	2,317	1	2,484
Sub investment	549	86	–	–	635
Unrated	3	1	–	–	4
Total	6,939	87	19,791[(2)]	329	27,146

[(1)]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of A at 30 June 2016 i.e. the external rating of the Sovereign (31 December 2015: A-).

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

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Credit risk – Financial investments available for sale

The following table analyses the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses:

Debt securities	30 June 2016* Fair value € m	31 December 2015* Fair value € m
Irish Government securities	**4,726**	5,406
Euro government securities	**2,520**	3,033
Non Euro government securities	**206**	245
Supranational banks and government agencies	**1,766**	2,008
Collateralised mortgage obligations	**426**	328
Other asset backed securities	**–**	1
Euro bank securities	**4,734**	4,600
Euro corporate securities	**4**	30
Non Euro corporate securities	**20**	57
Total debt securities	**14,402**	15,708
Equity securities[1]	**546**	781
Total financial investments available for sale	**14,948**	16,489

[1]Includes NAMA subordinated bonds with a fair value of € 424 million (31 December 2015: € 432 million) of which unrealised gains amount to € 376 million (31 December 2015: € 385 million).

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

	30 June 2016*			31 December 2015*		
Government securities	**Irish Government € m**	**Euro government € m**	**Non Euro government € m**	Irish Government € m	Euro government € m	Non Euro government € m
Republic of Ireland	**4,726**	**–**	**–**	5,406	–	–
Italy	**–**	**878**	**–**	–	1,164	–
France	**–**	**273**	**–**	–	275	–
Spain	**–**	**953**	**–**	–	1,153	–
Netherlands	**–**	**259**	**–**	–	260	–
Germany	**–**	**95**	**–**	–	96	–
Austria	**–**	**30**	**–**	–	30	–
United Kingdom	**–**	**–**	**80**	–	–	89
Slovakia	**–**	**32**	**–**	–	55	–
Czech Republic	**–**	**–**	**36**	–	–	36
Poland	**–**	**–**	**90**	–	–	120
	4,726	**2,520**	**206**	5,406	3,033	245

Asset backed securities	30 June 2016* Total € m	31 December 2015* Total € m
United States of America	**426**	328
Spain	**–**	1
	426	329

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Credit risk – Financial investments available for sale

Bank securities	30 June 2016* Euro € m	Non Euro € m	31 December 2015* Euro € m	Non Euro € m
Republic of Ireland	**461**	**–**	483	–
France	**620**	**–**	777	–
Netherlands	**719**	**–**	496	–
United Kingdom	**505**	**–**	446	–
Australia	**308**	**–**	347	–
Sweden	**433**	**–**	376	–
Canada	**685**	**–**	667	–
Finland	**235**	**–**	244	–
Norway	**302**	**–**	318	–
Belgium	**309**	**–**	282	–
Germany	**31**	**–**	49	–
Denmark	**57**	**–**	76	–
New Zealand	**26**	**–**	16	–
Switzerland	**18**	**–**	23	–
Luxembourg	**25**	**–**	–	–
	4,734	**–**	4,600	–

Debt securities
Debt securities available for sale ("AFS") have decreased from a fair value of € 15.7 billion at 31 December 2015 to € 14.4 billion at 30 June 2016. Sales, maturities and redemptions of € 2.6 billion (nominal € 2.3 billion) were offset by purchases of € 1.2 billion (nominal € 1.2 billion).

Within the AFS portfolio, Irish Government securities were reduced (sold or matured and not replaced) by € 0.7 billion and euro government securities were reduced by € 0.5 billion as these holdings had moved to record low yields against a backdrop of ECB quantitative easing. This is in line with plans to reduce overall AFS holdings in line with lower liquidity requirements. There was a small increase in holdings in US asset backed securities (€ 0.2 billion) which traded at higher yields.

The underlying increase in fair value of the overall portfolio was due to a tightening of Irish, Spanish and Italian sovereign spreads.

The external ratings profile remained relatively static with total investment grade ratings remaining at 99%. The breakdown by rating was AAA: 33% (2015: 29%); AA: 19% (2015: 17%); A: 35% (2015: 38%); BBB: 12% (2015: 15%); and sub investment grade 1% (2015: 1%).

Republic of Ireland securities
The fair value of Irish debt securities in the AFS category amounted to € 5.2 billion at 30 June 2016 (31 December 2015: € 5.9 billion) and consisted of sovereign debt € 4.7 billion (31 December 2015: € 5.4 billion), senior unsecured bonds of € 0.2 billion (31 December 2015: € 0.2 billion) and covered bonds of € 0.3 billion (31 December 2015: € 0.3 billion).

United Kingdom securities
The fair value of United Kingdom securities in the AFS category amounted to € 0.6 billion at 30 June 2016 (31 December 2015: € 0.6 billion) and consisted of sovereign debt € 0.1 billion (31 December 2015: € 0.1 billion), senior unsecured bonds of € 0.1 billion (31 December 2015: € 0.1 billion) and covered bonds of € 0.4 billion (31 December 2015: € 0.4 billion).

Euro government securities
The fair value of government securities denominated in euros (excluding those issued by the Irish Government) decreased by € 0.5 billion to € 2.5 billion (31 December 2015: € 3.0 billion). This decrease was largely due to net sales and maturities and included reductions in Italian Government securities of € 0.3 billion and Spanish Government securities of € 0.2 billion.

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Credit risk – Financial investments available for sale

Bank securities

At 30 June 2016, the fair value of bank securities of € 4.7 billion (31 December 2015: € 4.6 billion) included € 3.2 billion in covered bonds (31 December 2015: € 3.2 billion), € 1.3 billion in senior unsecured bank debt (31 December 2015: € 1.2 billion) and € 0.2 billion in government guaranteed senior bank debt (31 December 2015: € 0.2 billion). The bank debt was diversified across banks in 15 countries with the largest exposures being to Dutch banks (€ 0.7 billion) and Canadian banks (€ 0.7 billion).

Asset backed securities

Asset backed securities increased to € 0.4 billion (31 December 2015: € 0.3 billion). This was due to new purchases of AAA rated US collateralised mortgage obligations.

Equity securities

Equity securities held as AFS decreased by € 235 million with the decrease being primarily attributable to the disposal of AIB's holding in Visa Europe which was held at a fair value of € 294 million at 31 December 2015. Preferred stock in Visa Inc., received as part consideration, with a fair value of € 63 million is included in equity securities at 30 June 2016.

The fair value of the NAMA subordinated bonds decreased to € 424 million at 30 June 2016 (31 December 2015: € 432 million) i.e. from 91.81% to 89.94% of nominal. A dividend amounting to € 25 million was received on these bonds during the period (30 June 2015: € 25 million).

In addition to Irish Government securities outlined above, the Group holds NAMA senior debt amounting to € 3.2 billion (31 December 2015: € 5.6 billion), which is guaranteed by the Irish Government. However, this is classified as loans and receivables to customers and accounted for at amortised cost.

Credit risk – Financial investments held to maturity

In December 2015, following a Board decision to reduce the AFS portfolio, € 3.5 billion (€ 2.9 billion nominal) in Irish Government securities were transferred to a new held to maturity book. The transfer covered a range of issues with maturities ranging from 2018 to 2030. There are no immediate plans to increase this portfolio.

Additional credit risk information – Forbearance*

The Group's forbearance initiatives are detailed on pages 73 to 75 in the 'Risk management' section of the Annual Financial Report 2015.

The following table sets out the risk profile of loans and receivables to customers (before impairment provisions) analysed as to non-forborne and forborne:

					30 June 2016
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	14,704	191	153	1,138	16,186
Good lower	8,972	1,706	3,980	11,992	26,650
Watch	1,233	90	676	710	2,709
Vulnerable	1,545	97	408	503	2,553
Total	26,454	2,084	5,217	14,343	48,098
Past due but not impaired	550	122	200	214	1,086
Impaired	3,373	442	2,973	1,274	8,062
Total	30,377	2,648	8,390	15,831	57,246
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	645	1	–	1	647
Good lower	702	248	94	173	1,217
Watch	366	25	85	102	578
Vulnerable	1,309	139	1,180	754	3,382
Total	3,022	413	1,359	1,030	5,824
Past due but not impaired	453	61	169	130	813
Impaired	1,890	197	557	559	3,203
Total	5,365[(1)]	671	2,085	1,719	9,840
Total gross loans and receivables to customers	35,742	3,319	10,475	17,550	67,086
	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.5	6.7	3.1	3.6	3.1

(1)Republic of Ireland: € 5,317 million and United Kingdom: € 48 million.

The Republic of Ireland residential mortgage forbearance portfolio is profiled in more detail on pages 69 to 74 and further detail on the non-mortgage forbearance portfolio is included on pages 75 to 80.

Interest income is recognised, based on the original effective interest rate, on forborne loans in accordance with Accounting policy (f) 'Interest income and expense recognition' in note 1 to the consolidated financial statements in the Annual Financial Report 2015 and is included in 'Interest and similar income' in the Income Statement of this report. Interest income on non-impaired forborne loans is based on the gross loan balance, whereas the net carrying amount after specific provisions is used for impaired forborne loans.

Interest income on impaired loans amounted to € 78 million in the period to 30 June 2016. At 30 June 2016, the net carrying amount of impaired loans amounted to € 5,928 million (31 December 2015: € 6,927 million) which included forborne impaired mortgages of € 1,315 million (31 December 2015: € 1,600 million) and forborne impaired non-mortgages of € 578 million (31 December 2015: € 623 million).

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

Additional credit risk information – Forbearance*

The following table sets out the risk profile of loans and receivables to customers (before impairment provisions) analysed as to non-forborne and forborne:

					31 December 2015
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	14,326	203	122	1,166	15,817
Good lower	9,483	1,849	3,892	12,334	27,558
Watch	1,571	105	813	733	3,222
Vulnerable	1,588	134	482	501	2,705
Total	26,968	2,291	5,309	14,734	49,302
Past due but not impaired	581	95	245	300	1,221
Impaired	3,737	476	3,668	1,500	9,381
Total	31,286	2,862	9,222	16,534	59,904
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	568	–	–	1	569
Good lower	623	199	88	173	1,083
Watch	401	26	99	103	629
Vulnerable	1,236	148	1,324	769	3,477
Total	2,828	373	1,511	1,046	5,758
Past due but not impaired	475	55	159	108	797
Impaired	2,229	222	640	613	3,704
Total	5,532[1]	650	2,310	1,767	10,259
Total gross loans and receivables to customers	36,818	3,512	11,532	18,301	70,163
	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.5	6.4	3.1	3.7	3.1

[1]Republic of Ireland: € 5,481 million and United Kingdom: € 51 million.

Republic of Ireland 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 together with available forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments are set out on page 74 of the Annual Financial Report 2015.

In the following forbearance tables, temporary forbearance solutions (e.g. interest only, reduced payment) are included in the forbearance stock for as long as they are active, but are removed from the forbearance stock when the temporary agreement with the customer expires.

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Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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 2016		31 December 2015	
Republic of Ireland owner-occupier	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**29,514**	**3,995**	27,714	3,830
Additions	**2,580**	**372**	6,778	952
Expired arrangements	**(2,170)**	**(301)**	(4,095)	(578)
Payments	**–**	**(114)**	–	(199)
Interest	**–**	**51**	–	102
Closed accounts[(1)]	**(470)**	**(30)**	(824)	(58)
Advanced forbearance arrangements - valuation adjustments	**–**	**(5)**	–	(17)
Write-offs[(2)]	**(9)**	**(4)**	(34)	(37)
Transfer between owner-occupier and buy-to-let	**(6)**	**–**	(25)	–
At end of period	**29,439**	**3,964**	29,514	3,995

	30 June 2016		31 December 2015	
Republic of Ireland buy-to-let	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**7,826**	**1,486**	7,936	1,740
Additions	**496**	**82**	1,868	289
Expired arrangements	**(665)**	**(117)**	(1,198)	(240)
Payments	**–**	**(66)**	–	(123)
Interest	**–**	**17**	–	43
Closed accounts[(1)]	**(325)**	**(34)**	(640)	(82)
Advanced forbearance arrangements - valuation adjustments	**–**	**(1)**	–	(2)
Write-offs[(2)]	**(20)**	**(14)**	(165)	(139)
Transfer between owner-occupier and buy-to-let	**6**	**–**	25	–
At end of period	**7,318**	**1,353**	7,826	1,486

	30 June 2016		31 December 2015	
Republic of Ireland – Total	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**37,340**	**5,481**	35,650	5,570
Additions	**3,076**	**454**	8,646	1,241
Expired arrangements	**(2,835)**	**(418)**	(5,293)	(818)
Payments	**–**	**(180)**	–	(322)
Interest	**–**	**68**	–	145
Closed accounts[(1)]	**(795)**	**(64)**	(1,464)	(140)
Advanced forbearance arrangements - valuation adjustments	**–**	**(6)**	–	(19)
Write-offs[(2)]	**(29)**	**(18)**	(199)	(176)
At end of period	**36,757**	**5,317**	37,340	5,481

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

[(2)]Includes contracted and non-contracted write-offs.

The stock of loans subject to forbearance measures decreased by € 0.2 billion from 31 December 2015 to € 5.3 billion at 30 June 2016 driven by lower numbers of customers seeking new forbearance solutions (i.e. new requests, renewals or extensions) and is reflective of improving customer ability to meet their mortgage terms. Due to the significant levels of restructuring activity completed in 2014 and 2015, the pace of growth in advanced forbearance solutions slowed in the six months to 30 June 2016.

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

Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

The following table further analyses 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 2016					
	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	1,762	290	719	130	1,043	160
Reduced payment (greater than interest only)	590	130	360	87	230	43
Payment moratorium	368	58	107	16	261	42
Arrears capitalisation	16,094	2,165	6,225	898	9,869	1,267
Term extension	4,345	456	406	42	3,939	414
Split mortgages	2,996	465	890	132	2,106	333
Voluntary sale for loss	480	24	233	16	247	8
Low fixed interest rate	1,415	223	163	29	1,252	194
Positive equity solution	1,374	150	95	10	1,279	140
Other[(1)]	15	3	–	–	15	3
Total forbearance	**29,439**	**3,964**	**9,198**	**1,360**	**20,241**	**2,604**

	30 June 2016					
	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	1,072	235	409	98	663	137
Reduced payment (greater than interest only)	564	140	283	64	281	76
Payment moratorium	185	27	130	19	55	8
Fundamental restructure	1,161	176	179	29	982	147
Arrears capitalisation	3,072	605	1,819	363	1,253	242
Term extension	905	135	125	32	780	103
Split mortgages	35	5	14	2	21	3
Voluntary sale for loss	290	25	109	20	181	5
Low fixed interest rate	9	2	1	–	8	2
Positive equity solution	25	3	3	–	22	3
Total forbearance	**7,318**	**1,353**	**3,072**	**627**	**4,246**	**726**

	30 June 2016					
	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	2,834	525	1,128	228	1,706	297
Reduced payment (greater than interest only)	1,154	270	643	151	511	119
Payment moratorium	553	85	237	35	316	50
Fundamental restructure	1,161	176	179	29	982	147
Arrears capitalisation	19,166	2,770	8,044	1,261	11,122	1,509
Term extension	5,250	591	531	74	4,719	517
Split mortgages	3,031	470	904	134	2,127	336
Voluntary sale for loss	770	49	342	36	428	13
Low fixed interest rate	1,424	225	164	29	1,260	196
Positive equity solution	1,399	153	98	10	1,301	143
Other[(1)]	15	3	–	–	15	3
Total forbearance	**36,757**	**5,317**	**12,270**	**1,987**	**24,487**	**3,330**

[(1)]Includes 15 negative equity trade downs (€ 3 million).

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Risk management

Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance *(continued)*

						31 December 2015
	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	2,017	338	909	165	1,108	173
Reduced payment (greater than interest only)	754	157	454	107	300	50
Payment moratorium	426	61	133	18	293	43
Arrears capitalisation	15,664	2,122	7,184	1,032	8,480	1,090
Term extension	4,850	510	444	49	4,406	461
Split mortgages	2,872	450	1,169	177	1,703	273
Voluntary sale for loss	453	24	244	17	209	7
Low fixed interest rate	1,241	195	108	20	1,133	175
Positive equity solutions	1,221	134	96	11	1,125	123
Other[(1)]	16	4	–	–	16	4
Total forbearance	29,514	3,995	10,741	1,596	18,773	2,399

						31 December 2015
	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	1,321	291	539	127	782	164
Reduced payment (greater than interest only)	646	158	327	74	319	84
Payment moratorium	256	34	181	26	75	8
Fundamental restructure	1,184	185	99	16	1,085	169
Arrears capitalisation	3,190	657	2,095	443	1,095	214
Term extension	931	128	138	24	793	104
Split mortgages	30	5	14	2	16	3
Voluntary sale for loss	240	24	104	20	136	4
Low fixed interest rate	9	2	1	–	8	2
Positive equity solutions	19	2	3	–	16	2
Total forbearance	7,826	1,486	3,501	732	4,325	754

						31 December 2015*
	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	3,338	629	1,448	292	1,890	337
Reduced payment (greater than interest only)	1,400	315	781	181	619	134
Payment moratorium	682	95	314	44	368	51
Fundamental restructure	1,184	185	99	16	1,085	169
Arrears capitalisation	18,854	2,779	9,279	1,475	9,575	1,304
Term extension	5,781	638	582	73	5,199	565
Split mortgages	2,902	455	1,183	179	1,719	276
Voluntary sale for loss	693	48	348	37	345	11
Low fixed interest rate	1,250	197	109	20	1,141	177
Positive equity solutions	1,240	136	99	11	1,141	125
Other[(1)]	16	4	–	–	16	4
Total forbearance	37,340	5,481	14,242	2,328	23,098	3,153

[(1)]Includes 15 negative equity trade downs (€ 4 million).

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Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance *(continued)*

A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers. Advanced forbearance solutions of € 900 million accounted for 17% of the total forbearance portfolio as at 30 June 2016, compared to 15% (€ 840 million) as at 31 December 2015. Following restructure, loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

Other permanent standard forbearance solutions are term extensions and arrears capitalisation (which often includes a term extension). Permanent forbearance solutions are reported within the stock of forbearance for 5 years, and therefore, represent in some cases forbearance solutions which were agreed up to 5 years ago. They include loans where a subsequent interest only or other temporary arrangement had expired at 30 June 2016, but where an arrears capitalisation or term extension was awarded previously.

Arrears capitalisation continues to be the largest category of forbearance solutions at 30 June 2016, accounting for 52% by value of the total forbearance portfolio (31 December 2015: 51% of the total forbearance portfolio). A high proportion of the arrears capitalisation portfolio (46% by value) is impaired or 90 days in arrears at 30 June 2016, reduced from 53% at 31 December 2015. This reflects the historic nature of the forbearance event for part of the portfolio and the requirement that loans complete a probationary period of at least 12 months before being upgraded from impairment, as described above.

The Group’s processes for assessing customers and agreeing sustainable forbearance solutions have significantly improved over the last 2 years with the development of a suite of advanced forbearance products. This is reflected in the performance of the forbearance portfolio where the proportion of the portfolio being 90 days in arrears and/or impaired reduced to 37% at 30 June 2016 from 42% at 31 December 2015.

At 30 June 2016, there were c.€ 0.8 billion of individually insignificant impaired mortgages which had been restructured but which will remain impaired until they have performed satisfactorily for 12 months.

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 2016			31 December 2015		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 – 30 days	**201**	**34**	**235**	199	49	248
31 – 60 days	**51**	**21**	**72**	52	22	74
61 – 90 days	**21**	**8**	**29**	25	11	36
91 – 180 days	**22**	**15**	**37**	17	10	27
181– 365 days	**13**	**13**	**26**	19	9	28
Over 365 days	**35**	**17**	**52**	40	18	58
Total past due but not impaired	**343**	**108**	**451**	352	119	471

Loans subject to forbearance and past due but not impaired decreased by € 20 million in the half-year to 30 June 2016 with loans in arrears greater than 90 days increasing marginally by € 2 million. The proportion of the portfolio past due but not impaired decreased slightly to 8.5% at 30 June 2016 compared with 8.6% at 31 December 2015.

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Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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 2016			31 December 2015		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	588	194	782	736	229	965
1 – 30 days	132	20	152	146	29	175
31 – 60 days	55	14	69	62	17	79
61 – 90 days	38	8	46	41	14	55
91 – 180 days	89	30	119	96	31	127
181 – 365 days	92	42	134	97	57	154
Over 365 days	296	274	570	342	318	660
Total impaired	1,290	582	1,872	1,520	695	2,215

Impaired loans subject to forbearance reduced by € 0.3 billion in the half-year to 30 June 2016. Statement of financial position specific provisions of € 0.6 billion were held against the forborne impaired portfolio at 30 June 2016 (31 December 2015: € 0.6 billion), providing cover of 30.7% (31 December 2015: 28.4%), while the income statement specific provision writeback was € 26 million for the period (31 December 2015: € 120 million).

Within the impaired portfolio of € 1.9 billion at 30 June 2016, c.€ 0.8 billion is currently performing in accordance with agreed terms for forbearance sustainable solutions and continued compliance with these terms over a period of 12 months will result in an upgrade out of impairment. The remaining € 1.1 billion includes loans that have been the subject of a temporary or short term forbearance solution but will remain classified as impaired and in arrears until a sustainable solution has been put in place. Following this, they will be required to maintain a satisfactory performance for at least 12 months before being considered for upgrade out of impairment.

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Additional credit risk information – Forbearance*

Non-mortgage

The following table analyses the movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom, excluding Republic of Ireland residential mortgages which are analysed on page 70:

				30 June 2016
Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	646	2,182	1,679	4,507
Additions	85	145	135	365
Fundamental restructures - valuation adjustments	(9)	(37)	(39)	(85)
Write-offs	(8)	(38)	(8)	(54)
Expired arrangements	(15)	(57)	(81)	(153)
Closed accounts	(15)	(38)	(33)	(86)
Other movements	(18)	(182)	2	(198)
At end of period	666	1,975	1,655	4,296

				30 June 2016
United Kingdom	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	4	128	88	220
Additions	1	20	12	33
Write-offs	–	–	–	–
Expired arrangements	–	(20)	(25)	(45)
Closed accounts	–	–	–	–
Exchange translation adjustments	–	(14)	(9)	(23)
Other movements	–	(4)	(2)	(6)
At end of period	5	110	64	179

				30 June 2016
Total	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	650	2,310	1,767	4,727
Additions	86	165	147	398
Fundamental restructures - valuation adjustments	(9)	(37)	(39)	(85)
Write-offs	(8)	(38)	(8)	(54)
Expired arrangements	(15)	(77)	(106)	(198)
Closed accounts	(15)	(38)	(33)	(86)
Exchange translation adjustments	–	(14)	(9)	(23)
Other movements	(18)	(186)	–	(204)
At end of period	671	2,085	1,719	4,475

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Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The following table analyses the movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom, excluding Republic of Ireland residential mortgages which are analysed on page 70:

				31 December 2015
Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	693	1,976	1,514	4,183
Additions	230	1,026	757	2,013
Fundamental restructures - valuation adjustments	(10)	(38)	(18)	(66)
Write-offs	(20)	(167)	(29)	(216)
Expired arrangements	(151)	(129)	(270)	(550)
Closed accounts	(72)	(430)	(226)	(728)
Other movements	(24)	(56)	(49)	(129)
At 31 December	646	2,182	1,679	4,507

				31 December 2015
United Kingdom	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	15	374	162	551
Additions	1	31	25	57
Write-offs	–	(10)	(8)	(18)
Expired arrangements	(1)	(161)	(83)	(245)
Closed accounts	–	(11)	–	(11)
Asset disposals	(11)	(107)	(16)	(134)
Exchange translation adjustments	1	26	11	38
Other movements	(1)	(14)	(3)	(18)
At 31 December	4	128	88	220

				31 December 2015
Total	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	708	2,350	1,676	4,734
Additions	231	1,057	782	2,070
Fundamental restructures - valuation adjustments	(10)	(38)	(18)	(66)
Write-offs	(20)	(177)	(37)	(234)
Expired arrangements	(152)	(290)	(353)	(795)
Closed accounts	(72)	(441)	(226)	(739)
Asset disposals	(11)	(107)	(16)	(134)
Exchange translation adjustments	1	26	11	38
Other movements	(25)	(70)	(52)	(147)
At 31 December	650	2,310	1,767	4,727

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Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The following table sets out an analysis of non-mortgage forbearance solutions:

						30 June 2016
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	65	29	7	29	19	64
Reduced payment						
(greater than interest only)	12	9	1	2	2	63
Payment moratorium	76	74	–	2	1	71
Arrears capitalisation	20	5	1	14	6	41
Term extension	143	133	1	9	6	70
Fundamental restructure	53	45	6	2	1	39
Restructure	293	143	13	137	101	73
Other	9	6	1	2	2	66
Total	671	444	30	197	138	69
Property and construction						
Interest only	177	64	10	103	54	52
Reduced payment						
(greater than interest only)	58	44	1	13	5	39
Payment moratorium	6	4	–	2	1	72
Arrears capitalisation	43	15	–	28	13	45
Term extension	198	147	1	50	18	36
Fundamental restructure	911	823	29	59	26	43
Restructure	599	318	23	258	157	61
Other	93	37	12	44	29	66
Total	2,085	1,452	76	557	303	54
Non-property business						
Interest only	200	96	6	98	55	56
Reduced payment						
(greater than interest only)	41	22	2	17	10	59
Payment moratorium	13	11	–	2	1	50
Arrears capitalisation	42	14	1	27	14	52
Term extension	194	87	4	103	28	27
Fundamental restructure	532	513	11	8	3	38
Restructure	609	306	36	267	168	63
Other	88	50	1	37	15	42
Total	1,719	1,099	61	559	294	53
Total non-mortgage forbearance	4,475	2,995	167	1,313	735	56

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Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The following table sets out an analysis of non-mortgage forbearance solutions:

						31 December 2015
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	71	36	3	32	20	63
Reduced payment						
(greater than interest only)	14	10	1	3	2	62
Payment moratorium	51	49	–	2	2	74
Arrears capitalisation	23	3	1	19	8	42
Term extension	123	114	1	8	6	69
Fundamental restructure	49	47	1	1	1	59
Restructure	304	146	7	151	113	75
Other	15	8	1	6	4	71
Total	650	413	15	222	156	70
Property and construction						
Interest only	203	88	6	109	59	54
Reduced payment						
(greater than interest only)	38	20	4	14	5	39
Payment moratorium	5	2	–	3	2	74
Arrears capitalisation	43	13	1	29	15	53
Term extension	207	160	1	46	14	30
Fundamental restructure	1,089	1,032	28	29	17	58
Restructure	556	250	17	289	176	61
Other	169	34	14	121	85	70
Total	2,310	1,599	71	640	373	58
Non-property business lending						
Interest only	188	73	8	107	58	54
Reduced payment						
(greater than interest only)	37	22	2	13	8	59
Payment moratorium	14	12	–	2	1	33
Arrears capitalisation	64	10	1	53	37	70
Term extension	154	104	1	49	17	34
Fundamental restructure	498	490	4	4	1	27
Restructure	617	314	28	275	166	60
Other	195	84	1	110	35	32
Total	1,767	1,109	45	613	323	52
Total non-mortgage forbearance	4,727	3,121	131	1,475	852	58

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Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The Group has developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties and who require a restructure. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. The approach is based on assessing the affordability level of the customer, and then applying asset based treatment strategies to determine the long term levels of sustainable and unsustainable debt.

Non-retail customers in difficulty typically have exposures across a number of asset classes including SME debt, associated property exposures and residential mortgages.

As at 30 June 2016, non-mortgage loans reported as being subject to forbearance amounted to € 4.5 billion, of which € 1.3 billion is impaired with specific provision cover of 56%. The majority of these forborne loans are in property and construction (€ 2.1 billion) and non-property business (€ 1.7 billion). Within non-mortgage forbearance categories, 'Fundamental restructure' (€ 1.5 billion in total) includes long term solutions where customers have been through a full review, have proven sustainable cash flows/repayment capacity (through business cash flow and/or asset sales) and their debt has been restructured. Loans to borrowers that are fundamentally restructured typically result in the original loans together with any related impairment provision being derecognised and new facilities being classified as loans and receivables and recognised on day 1 at fair value ('main' and 'secondary') and being graded as 'vulnerable'.

At the time the fundamental restructure is agreed, the size of the main facility reflects the estimated sustainable cash flows from the customer such that the main facility will be repaid in full. Since no further cash flows are expected on the secondary facilities, the fair value of secondary facilities at inception is considered immaterial. During the six months to 30 June 2016, approximately € 0.1 billion of main facilities were recognised following the derecognition of c. € 0.3 billion of impaired loans with related impairment provisions of c. € 0.2 billion.

While the new facilities are subject to legal agreements, the repayment conditions attaching to each facility are different and usually customer specific. Depending on the co-operation of the customer and the repayment of the main facilities, additional cash flows over the initial cash flow estimation may subsequently arise. This could occur where the disposal of collateral is at higher values than originally expected, stronger trading performance or new sources of income. There are incentives from a customer perspective to meet the repayment terms of the main facility as doing so would result in some cases where the secondary facilities would be contractually written off.

As part of its ongoing monitoring of fundamental restructure loans, AIB keeps under review the likelihood of any additional cash flows arising on the secondary facilities. There remains significant uncertainties involved in the crystallisation of future additional cash flows (in excess of the initial estimation) through asset sales over an extended period against a backdrop of a relatively illiquid property market (in the case of property-related lending) that would be applied to secondary facilities. In the case of other lending, additional cash flows materialising either through trading conditions or other sources of income are equally uncertain. In this regard, income of € 43 million was recognised in the six months to 30 June 2016 (full year 2015: € 43 million) and reported as 'Other income' following receipt of additional payments/updated cash flows.

At 30 June 2016, the carrying value of the main facilities in fundamental restructures, including buy-to-let mortgages, amounted to € 1.7 billion.

Main facilities that rely principally on the realisation of collateral (property assets held as security) are as follows:

- Buy-to-let € 176 million which have associated contractual secondary facilities of € 214 million.
- Property and construction € 911 million which have associated contractual secondary facilities of € 2,086 million. These are further analysed as:
  - Commercial real estate primary facilities of € 792 million which have associated contractual secondary facilities of € 1,242 million.
  - Land and development primary facilities of € 119 million which have associated contractual secondary facilities of € 844 million.
- Non-property business lending and other personal lending where fundamental restructures have been granted amount to € 585 million which have associated secondary facilities of € 780 million.

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Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The ‘Restructure’ category (€ 1.5 billion) includes some longer term/permanent solutions where the existing customer debt was deemed to be sustainable post restructuring. The solutions offered include interest only with asset disposal or bullet/fixed payment, debt consolidation, amongst others. This category also includes cases which were restructured prior to the current treatment strategies being developed. Some of these cases may yet qualify for a ‘Fundamental restructure’ following a full review of sustainable repayment capacity.

The remaining forbearance categories include borrowers who have received a term extension and borrowers that have been afforded temporary forbearance measures which, depending on performance may in time move out of forbearance or qualify for a more permanent forbearance solution.

During the six months to 30 June 2016, the stock of non-mortgage forbearance loans reduced by € 252 million with new forborne borrowers (€ 398 million) being more than offset by reductions due to expired and closed forbearance arrangements and repayments.

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Liquidity risk

At 30 June 2016, the Group held € 31 billion (31 December 2015: € 34 billion) in qualifying liquid assets/contingent funding (including € 4 billion in liquid assets only available for use within AIB Group (UK) p.l.c.) of which approximately € 8 billion was not available due to repurchase, secured loan and other agreements. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 30 June 2016, the Group liquidity pool was € 19 billion (31 December 2015: € 16 billion). During the first six months of 2016 the month-end liquidity pool ranged from € 16 billion to € 20 billion and the average balance was € 18 billion. In advance of the UK referendum on continued EU membership, the Group increased its short term liquidity surplus particularly in sterling. This resulted in both a higher Group liquidity pool and Liquidity Coverage Ratio ("LCR") as at 30 June 2016.

Composition of the Group liquidity pool

The following tables show the composition of the Group's liquidity pool at 30 June 2016 and 31 December 2015:

	30 June 2016*			
		Liquidity pool available	High Quality Liquid Assets (HQLA)	
	Liquidity pool € bn	(ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	**1.0**	**–**	**3.5**[(1)]	**–**
Total government bonds	**9.4**	**9.4**	**9.4**	**–**
Other:				
Covered bonds	**2.0**	**2.0**	**1.7**	**0.3**
Other including NAMA senior bonds	**6.3**	**6.1**	**2.9**	**–**
Total other	**8.3**	**8.1**	**4.6**	**0.3**
Total	**18.7**	**17.5**	**17.5**	**0.3**

	31 December 2015*			
		Liquidity pool available	High Quality Liquid Assets (HQLA)	
	Liquidity pool € bn	(ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	0.6	–	3.2[(1)]	–
Total government bonds	6.2	6.1	6.2	–
Other:				
Covered bonds	1.2	1.1	1.2	–
Other including NAMA senior bonds	8.0	7.7	4.3	–
Total other	9.2	8.8	5.5	–
Total	16.0	14.9	14.9	–

[(1)]For LCR purposes, assets outside the Liquidity function's control can qualify as High Quality Liquid Assets ("HQLA") in so far as they match outflows in the same jurisdiction. For the Group, this means that UK HQLA can qualify up to the amount of the 30 day UK outflows under LCR but are not included in the Group's calculation of available QLA stocks.

Liquidity pool by currency

	EUR € bn	GBP € bn	USD € bn	Other € bn	Total € bn
Liquidity pool at 30 June 2016	**17.7**	**0.9**	**0.1**	**–**	**18.7**
Liquidity pool at 31 December 2015	15.9	–	0.1	–	16.0

Level 1 - HQLA include amongst others, domestic currency (euro) denominated bonds issued or guaranteed by European Economic Area ("EEA") sovereigns, very highly rated covered bonds, other very highly rated sovereign bonds and unencumbered cash at Central Banks.

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

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Liquidity risk

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 function. These pool assets primarily comprise government guaranteed bonds. AIB's liquidity buffer increased in the first six months of 2016 by € 2.7 billion which was predominantly due to a decrease in the funding requirement following a reduction in customer loans.

Other contingent liquidity*

AIB has access to other unencumbered assets providing a source of contingent liquidity which are not in the Group's liquidity pool. However, as a contingency, these assets may be monetised in a stress scenario to generate liquidity through use as collateral for secured funding or outright sale.

For further details of liquidity risk and its management see pages 141-154 of the Annual Financial Report 2015.

Liquidity regulation

AIB Group is required to comply with the liquidity requirements of the SSM/CBI and also with the requirements of local regulators in jurisdictions in which it operates.

The Group also monitors and reports its current and forecast position against Basel III and CRD IV related liquidity metrics – the 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.

Under the Delegated Act (implementing 'Commission Delegated Regulation (EU) No 2015/61') LCR, which came into effect on 1 October 2015, AIB Group had an LCR of 122% (31 December 2015: 116%). The minimum LCR requirement was 70%, rising to 100% by 1 January 2018. AIB Group have fully complied with the requirement.

The minimum NSFR requirement is scheduled to be introduced in January 2018 at 100%. At 30 June 2016, the Group had an estimated NSFR of 115% (31 December 2015: 111%).

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Liquidity risk

The LCR table below has been produced in line with the Group's interpretation of the 2014 Basel Committee on Banking Supervision ("BCBS") Guidelines. Included in the table are averages of the 6 month ends from January to June 2016 under Delegated Act rules and of the 12 month ends from January to December 2015 under CRR regulatory LCR rules. The Delegated Act interpretation is more favourable (i.e. 'higher' LCR) to the extent of c. 3%.

	Half-year to 30 June 2016		Year to 31 December 2015	
	Total unweighted value (average) € m	**Total weighted value (average) € m**	Total unweighted value (average) € m	Total weighted value (average) € m
High Quality Liquid Assets ("HQLA")				
Total HQLA		**16,466**		15,322
Cash outflows				
Retail deposits and deposits from small business customers, of which:				
Stable deposits	**20,679**	**1,034**	19,865	993
Less stable deposits	**13,647**	**1,730**	10,869	1,711
Unsecured wholesale funding of which:				
Operational deposits (all counterparties) and deposits in networks of co-operative banks	**–**	**–**	–	–
Non-operational deposits (all counterparties)	**16,023**	**7,943**	15,885	8,131
Unsecured debt	**406**	**406**	404	404
Secured wholesale funding		**144**		438
Additional requirements, of which:				
Outflows related to derivative exposures and other collateral requirements	**407**	**407**	452	452
Outflows related to loss of funding on debt products	**128**	**394**	71	71
Credit and liquidity facilities	**9,852**	**879**	9,564	969
Other contractual funding obligations	**–**	**–**	–	–
Other contingent funding obligations	**1,479**	**1,479**	1,326	1,326
Total cash outflows		**14,416**		14,495
Cash inflows				
Secured lending (reverse repos)	**73**	**1**	756	42
Inflows from fully performing exposures	**1,835**	**777**	1,999	788
Other cash inflows	**213**	**213**	252	252
Total cash inflows	**2,121**	**991**	3,007	1,082
		€ m		€ m
Total HQLA		**16,466**		15,322
Total net cash outflows		**13,425**		13,413
		%		%
Liquidity coverage ratio (average)		**123**[(1)]		114[(1)]

The month-end LCR ranged from 118% to 129% in the first six months of 2016 being 122% as at 30 June 2016. The average HQLA for the six months ended 30 June 2016 were € 16,466 million of which government securities constituted about 72%. The outflows related to derivative exposures (net of cash inflows) and undrawn commitments constituted about 0.1% and 6% respectively of average cash outflows of € 14,416 million. Average inflows from assets were € 991 million.

[(1)]LCR = Total HQLA/total net cash outflows.

Liquidity risk

Funding structure*

The Group's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to continue building 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.

Sources of funds	30 June 2016 € bn	30 June 2016 %	31 December 2015 € bn	31 December 2015 %
Customer accounts	**61.6**	**67**	63.4	64
Deposits by central banks and banks – secured	**7.1**	**8**	13.4	14
– unsecured	**0.9**	**1**	0.5	–
Certificates of deposit and commercial paper	**0.1**	**–**	0.1	–
Asset covered securities ("ACS")	**5.8**	**6**	4.7	5
Asset backed securities ("ABS")	**0.5**	**–**	0.6	–
Senior debt	**1.6**	**2**	1.6	2
Capital	**14.7**	**16**	14.4	15
Total source of funds	**92.3**	**100**	98.7	100
Other	**5.1**		4.4	
	97.4		103.1	

Customer deposits represent the largest source of funding for the Group, and the core retail franchises and accompanying deposit base in both the Republic of Ireland and the UK provide a stable and reasonably predictable source of funds. Customer accounts decreased by € 1.8 billion in the six months to 30 June 2016, which was mainly due to sterling foreign exchange rate movements and a reduction in customer repos. The Group's loan to deposit ratio at 30 June 2016 was 99% (31 December 2015: 100%).

The Group maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

Secured bank deposits reduced by € 6.3 billion in the half-year to June 2016 (€ 5.9 billion and € 0.4 billion reduction in bilateral repo and ECB repo respectively). This was principally due to the decrease in the funding requirement following NAMA senior bond repayments and a reduction in other sovereign bonds and customer loans respectively. The Group participates in CBI/ECB operations, the funding from which amounted to € 2.5 billion at 30 June 2016 (31 December 2015: € 2.9 billion). Included in the € 2.5 billion is € 1.9 billion of Targeted Long Term Refinancing Operations ("TLTRO") which locks in low cost term funding and benefits the Group's NSFR.

Wholesale funding markets have continued to show positive sentiment towards both AIB and Ireland in 2016. In the 6 months to 30 June 2016, AIB raised secured funding through a € 1 billion covered bond with a 7 year tenor which was issued at a spread over mid-swaps of 54 bps. This represented a price increase of 27 bps compared to the historic low levels experienced in 2015 with a similar tenor. As at 30 June 2016, senior debt funding remained flat at € 1.6 billion.

It is the Group's intention to engage with the markets in a measured and consistent manner extending the duration of funding transactions. A regulatory decision on future Minimum Requirement for own funds and Eligible Liabilities ("MREL") is expected in the second half of 2016 and this will inform the wholesale issuance strategy.

The performance of the economy will drive credit demand and the retention and gathering of stable customer accounts in a challenging and increasingly competitive market environment, together with continued access to unsecured wholesale term markets, will be the key factors influencing the Group's capacity for asset growth and the future shape of the Group. This is paramount to the Group's overall funding/liquidity strategy.

Composition of wholesale funding*

At 30 June 2016, total wholesale funding outstanding was € 18 billion (31 December 2015: € 23 billion). € 10 billion of wholesale funding matures in less than one year (31 December 2015: € 16 billion including € 1.9 billion of TLTRO drawings). € 8 billion of wholesale funding had a residual maturity of over one year including € 1.9 billion of TLTRO II drawings (31 December 2015: € 7 billion).

Outstanding wholesale funding comprised € 13 billion of secured funding (31 December 2015: € 19 billion) and € 5 billion of unsecured funding (31 December 2015: € 4 billion).

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

Liquidity risk
Composition of wholesale funding* *(continued)*

									30 June 2016
	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	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	Total € bn
Deposits by central banks and banks	3.8	1.8	0.2	0.2	6.0	0.1	1.9	–	8.0
Certificate of deposits and commercial paper	–	0.1	–	–	0.1	–	–	–	0.1
Senior debt	–	0.1	0.5	–	0.6	0.5	0.5	–	1.6
ACS/ABS	0.5	–	–	1.8	2.3	0.5	1.3	2.2	6.3
Subordinated liabilities and other capital instruments	1.6	–	–	–	1.6	–	–	0.8	2.4
Total 30 June 2016	5.9	2.0	0.7	2.0	10.6	1.1	3.7	3.0	18.4
Of which:									
Secured	3.4	1.8	0.2	2.0	7.4	0.6	3.2	2.2	13.4
Unsecured	2.5	0.2	0.5	–	3.2	0.5	0.5	0.8	5.0
	5.9	2.0	0.7	2.0	10.6	1.1	3.7	3.0	18.4

									31 December 2015
	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	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	Total € bn
Deposits by central banks and banks	5.9	5.7	0.2	1.9	13.7	0.2	–	–	13.9
Certificate of deposits and commercial paper	–	0.1	–	–	0.1	–	–	–	0.1
Senior debt	–	–	–	0.6	0.6	–	1.0	–	1.6
ACS/ABS	–	–	–	0.5	0.5	2.3	0.8	1.7	5.3
Subordinated liabilities and other capital instruments	–	–	–	1.5	1.5	–	–	0.8	2.3
Total 31 December 2015	5.9	5.8	0.2	4.5	16.4	2.5	1.8	2.5	23.2
Of which:									
Secured	5.4	5.7	0.2	2.4	13.7	2.5	0.8	1.7	18.7
Unsecured	0.5	0.1	–	2.1	2.7	–	1.0	0.8	4.5
	5.9	5.8	0.2	4.5	16.4	2.5	1.8	2.5	23.2

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

Liquidity risk

Encumbrance*

An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or to be sold. The asset encumbrance disclosure has been produced in line with the Group's interpretation of the 2014 European Banking Authority ("EBA") Guidelines complemented by EBA clarifications on the disclosure of encumbered and unencumbered assets.

The Group has seen and would expect to continue to see a downward trend in encumbrance as the Group's funding requirement is reduced through NAMA bond redemptions. The Group includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue residential mortgage asset backed covered securities ("ACS"). In addition, the Group uses a number of securitisation vehicles for funding purposes. As well as direct market issuance, the mortgage banks and the securitisation vehicles repo bonds centrally for liquidity management purposes. Bonds held centrally contribute to the Group's liquidity buffer and do not add to the Group's encumbrance level unless used in a repurchase agreement or pledged externally. Secured funding between the parent company and other Group entities (e.g. EBS Limited, and AIB Group (UK) p.l.c.) is an element of the Group's liquidity management processes.

The Group had an encumbrance ratio of 22% at 30 June 2016 (31 December 2015: 26%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility.

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

Condensed consolidated interim financial statements *(unaudited)*

Notes to the condensed consolidated interim financial statements

Condensed consolidated income statement *(unaudited)*

for the half-year ended 30 June 2016

	Notes	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Continuing operations			
Interest and similar income	3	**1,323**	1,415
Interest expense and similar charges	3	**(378)**	(475)
Net interest income	3	**945**	940
Dividend income	4	**25**	25
Fee and commission income	5	**211**	230
Fee and commission expense	5	**(18)**	(23)
Net trading income	6	**1**	75
Profit on disposal/transfer of loans and receivables	7	**11**	19
Other operating income	8	**353**	90
Other income		**583**	416
Total operating income		**1,528**	1,356
Administrative expenses	9	**(704)**	(655)
Impairment and amortisation of intangible assets		**(26)**	(21)
Impairment and depreciation of property, plant and equipment		**(19)**	(18)
Total operating expenses		**(749)**	(694)
Operating profit before provisions		**779**	662
Writeback of provisions for impairment on loans and receivables	20	**211**	540
Writeback of provisions for liabilities and commitments	31	**1**	16
Writeback of provisions for impairment on financial investments available for sale	11	**2**	–
Operating profit		**993**	1,218
Associated undertakings	24	**23**	13
Profit on disposal of property		**–**	4
Profit on disposal of business		**1**	–
Profit before taxation from continuing operations		**1,017**	1,235
Income tax charge from continuing operations	12	**(194)**	(395)
Profit for the period after taxation from continuing operations attributable to owners of the parent		**823**	840
Basic earnings per share			
Continuing operations	13(a)	**29.6c**	26.7c
Diluted earnings per share			
Continuing operations	13(b)	**28.0c**	25.1c

Condensed consolidated statement of comprehensive income *(unaudited)*

for the half-year ended 30 June 2016

	Notes	**Half-year 30 June 2016 € m**	Half-year 30 June 2015 € m
Profit for the period		**823**	840
Other comprehensive income – continuing operations			
Items that will not be reclassified subsequently to profit or loss:			
Net change in property revaluation reserves		**(1)**	(1)
Net actuarial (losses)/gains in retirement benefit schemes, net of tax	12	**(505)**	449
Total items that will not be reclassified subsequently to profit or loss		**(506)**	448
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Net change in foreign currency translation reserves	12	**(131)**	34
Net change in cash flow hedges, net of tax	12	**322**	(152)
Net change in fair value of available for sale securities, net of tax	12	**(293)**	(139)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(102)**	(257)
Other comprehensive income for the period, net of tax from continuing operations		**(608)**	191
Total comprehensive income for the period from continuing operations attributable to owners of the parent		**215**	1,031

Business review

Risk management

Financial statements

Condensed consolidated statement of financial position *(unaudited)*

as at 30 June 2016

	Notes	**30 June 2016 € m**	31 December 2015 € m
Assets			
Cash and balances at central banks	39	**5,277**	4,950
Items in course of collection		**171**	153
Disposal groups and non-current assets held for sale	15	**9**	8
Trading portfolio financial assets	16	**1**	1
Derivative financial instruments	17	**2,371**	1,698
Loans and receivables to banks	18	**2,289**	2,339
Loans and receivables to customers	19	**61,092**	63,240
NAMA senior bonds	21	**3,191**	5,616
Financial investments available for sale	22	**14,948**	16,489
Financial investments held to maturity	23	**3,420**	3,483
Interests in associated undertakings	24	**81**	70
Intangible assets		**313**	289
Property, plant and equipment		**330**	344
Other assets		**234**	785
Current taxation		**4**	35
Deferred tax assets	25	**2,981**	2,897
Prepayments and accrued income		**458**	503
Retirement benefit assets	10	**217**	222
Total assets		**97,387**	103,122
Liabilities			
Deposits by central banks and banks	26	**8,048**	13,863
Customer accounts	27	**61,633**	63,383
Trading portfolio financial liabilities	28	**–**	86
Derivative financial instruments	17	**1,942**	1,781
Debt securities in issue	29	**7,937**	7,001
Current taxation		**115**	31
Deferred tax liabilities	25	**76**	–
Other liabilities	30	**1,092**	1,108
Accruals and deferred income		**561**	653
Retirement benefit liabilities	10	**897**	368
Provisions for liabilities and commitments	31	**360**	382
Subordinated liabilities and other capital instruments	32	**2,381**	2,318
Total liabilities		**85,042**	90,974
Equity			
Share capital	33	**1,696**	1,696
Share premium	33	**1,386**	1,386
Reserves		**8,769**	8,572
Total shareholders' equity		**11,851**	11,654
Other equity interests	34	**494**	494
Total equity		**12,345**	12,148
Total liabilities and equity		**97,387**	103,122

Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2016

	Notes	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Cash flows from operating activities			
Profit before taxation for the period from continuing operations		**1,017**	1,235
Adjustments for:			
– Non-cash and other items	39	**(350)**	(820)
– Change in operating assets	39	**4,717**	1,816
– Change in operating liabilities	39	**(5,296)**	(2,180)
– Taxation refund/(paid)		**14**	(1)
Net cash inflow from operating activities		**102**	50
Cash flows from investing activities			
Purchase of financial investments available for sale		**(1,224)**	(2,654)
Proceeds from sales and maturity of financial investments available for sale		**2,787**	2,773
Additions to property, plant and equipment		**(7)**	(10)
Disposal of property, plant and equipment		**–**	4
Additions to intangible assets		**(50)**	(39)
Dividends received from associated undertakings	24	**12**	9
Net cash inflow from investing activities		**1,518**	83
Cash flows from financing activities			
Interest paid on subordinated liabilities and other capital instruments		**–**	–
Distribution paid on other equity interests	14	**(18)**	–
Dividend paid on 2009 Preference Shares	14	**–**	(280)
Net cash outflow from financing activities		**(18)**	(280)
Change in cash and cash equivalents		**1,602**	(147)
Opening cash and cash equivalents		**5,672**	6,384
Effect of exchange translation adjustments		**(501)**	424
Closing cash and cash equivalents	39	**6,773**	6,661

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

for the half-year ended 30 June 2016

	Attributable to equity holders of parent										
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2016	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	12,148
Total comprehensive income for the period											
Profit for the period	–	–	–	–	–	–	–	–	823	–	823
Other comprehensive income *(note 12)*	–	–	–	–	–	(1)	(293)	322	(505)	(131)	(608)
Total comprehensive income for the period	–	–	–	–	–	(1)	(293)	322	318	(131)	215
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions	–	–	–	(246)	–	–	–	–	246	–	–
Distribution on other equity interests *(note 14)*	–	–	–	–	–	–	–	–	(18)	–	(18)
Total contributions by and distributions to owners of the Group	–	–	–	(246)	–	–	–	–	228	–	(18)
At 30 June 2016	1,696	1,386	494	1,314	14	15	1,179	676	6,086	(515)	12,345

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

for the half-year ended 30 June 2015

	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 2015	1,344	1,752	1,958	17	1,369	383	5,621	(415)	(462)	5	11,572
Total comprehensive income for the period											
Profit for the period	–	–	–	–	–	–	840	–	–	–	840
Other comprehensive income *(note 12)*	–	–	–	(1)	(139)	(152)	449	34	–	–	191
Total comprehensive income for the period	–	–	–	(1)	(139)	(152)	1,289	34	–	–	1,031
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions	–	–	(198)	–	–	–	198	–	–	–	–
Dividend on 2009 Preference shares *(note 14)*	–	–	–	–	–	–	(280)	–	–	–	(280)
Share based payments	–	–	–	–	–	–	5	–	–	(5)	–
Total contributions by and distributions to owners of the Group	–	–	(198)	–	–	–	(77)	–	–	(5)	(280)
At 30 June 2015	1,344	1,752	1,760	16	1,230	231	6,833	(381)	(462)	–	12,323

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

for the financial year ended 31 December 2015

	Attributable to equity holders of parent												
	Share capital € m	Share premium € m	Other equity interests € m	Capital reserves € m	Capital redemption 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 2015	1,344	1,752	–	1,958	–	17	1,369	383	5,621	(415)	(462)	5	11,572
Total comprehensive income for the year													
Profit for the year	–	–	–	–	–	–	–	–	1,380	–	–	–	1,380
Other comprehensive income	–	–	–	–	–	–	103	(29)	743	31	–	–	848
Total comprehensive income for the year	–	–	–	–	–	–	103	(29)	2,123	31	–	–	2,228
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group													
Capital contributions	–	–	–	(398)	–	–	–	–	398	–	–	–	–
Dividend on 2009 Preference Shares *(note 14)*	–	–	–	–	–	–	–	–	(280)	–	–	–	(280)
Share based payments	–	–	–	–	–	–	–	–	5	–	–	(5)	–
Cancellation of treasury shares	–	–	–	–	–	–	–	–	(462)	–	462	–	–
Issue of Additional Tier 1 Securities	–	–	494	–	–	–	–	–	–	–	–	–	494
Other movements	–	–	–	–	–	(1)	–	–	1	–	–	–	–
Capital reorganisation													
2009 Preference Shares – conversion	(21)	–	–	–	–	–	–	–	–	–	–	–	(21)
2009 Preference Shares – redemption	(14)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,700)
	(35)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,721)
Ordinary shares issued on conversion of 2009 Preference Shares	21	–	–	–	–	–	–	–	–	–	–	–	21
Bonus ordinary shares issued on conversion of 2009 Preference Shares	366	(366)	–	–	–	–	–	–	–	–	–	–	–
Dividend paid on 2009 Preference Shares to date of conversion/redemption	–	–	–	–	–	–	–	–	(166)	–	–	–	(166)
Total contributions by and distributions to owners of the Group	352	(366)	494	(398)	14	(1)	–	–	(2,204)	–	462	(5)	(1,652)
At 31 December 2015	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	–	–	12,148

Notes to the condensed consolidated interim financial statements

1 Basis of preparation, accounting policies and estimates

Reporting entity
Allied Irish Banks, p.l.c. ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The condensed consolidated interim financial statements for the six months ended 30 June 2016 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 2015 ('the Annual Financial Report 2015') are available upon request from the Company Secretary or at www.aibgroup.com.

Going concern
The financial statements for the half-year ended 30 June 2016 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 half-yearly 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 2016 to 2018 approved by the Board in December 2015, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors have also considered the outlook for the eurozone and UK economies, and the factors and uncertainties impacting their performance including the outcome of the UK referendum on continued EU membership which resulted in a vote to depart from the EU.

In addition, the Directors have considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 50 to 59 of the Annual Financial Report 2015 and updated as appropriate in the 'Risk management' section on page 34 of this report.

The Directors believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario. The Group's regulatory capital resources are detailed on pages 29 to 32.

The Group liquidity and funding profile is outlined on pages 81 to 86. In relation to liquidity and funding, the Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would 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 2016 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and are required to meet the obligations under the Transparency (Directive 2004/109/EC) Regulations 2007 and the Enterprise Securities Market Rules for Companies. These statements should be read in conjunction with the Annual Financial Report 2015, 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.

There have been no significant changes to the accounting policies described on pages 214 to 238 in the Annual Financial Report 2015.

Notes to the condensed consolidated interim financial statements

1 Basis of preparation, accounting policies and estimates *(continued)*

Critical accounting judgements and estimates

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; retirement benefit obligations and provisions for liabilities and commitments. 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 judgements and estimates adopted by the Group are set out on pages 244 to 248 of the Annual Financial Report 2015.

In addition, during the preparation of the financial statements, the Directors considered the impact of the UK vote to depart from the EU as a high degree of uncertainty now exists with regard to the impact of the vote in the future. Quoted market prices and exchange rates at the reporting date reflect the market volatility caused by this decision. However, the Group believes that specific overlays on judgements, estimates and assumptions are not required in the financial statements as at 30 June 2016 as there is not sufficient objective evidence to substantiate any such overlays at this initial stage.

Adoption of new accounting standards

During the half-year to 30 June 2016, the Group adopted amendments to standards and interpretations which had an insignificant impact on these financial statements.

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.

The interim figures for the six months ended 30 June 2016 are unaudited but have been reviewed by the independent auditor, whose report is set out on page 138 (the comparative amounts for the six months ended 30 June 2015 were audited). The summary financial statements for the financial year ended 31 December 2015 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, issued an unqualified audit report and which are not annexed to these interim financial statements. The financial statements for the financial year ended 31 December 2015 have been filed in the Companies Registration Office. The financial information presented herein does not amount to statutory financial statements.

2 Segmental information

The Group reorganised its business in 2015 to enable a customer focused, profitable and low risk enterprise which is well positioned to support the economic recovery in Ireland while seeking to generate sustainable shareholder returns. The half-year to 30 June 2015 has been presented, for the first time, under this new operating structure.

The segments set out below reflect the internal reporting structure which is used by management to assess performance and allocate resources and are as follows:

– **AIB Ireland;**
– **AIB UK; and**
– **Group & International.**

AIB Ireland

AIB Ireland comprises Personal, Business and Corporate Banking. It is the leading franchise bank across key segments and products in the domestic market and is well positioned for growth.

Personal offers a comprehensive suite of personal lending, mortgages, savings, deposit, credit card, insurance and financial planning products via the branch network, online, mobile and direct channels. Our multi-brand approach via AIB, EBS and Haven offers choice to mortgage customers and allows us to tailor products to meet their needs.

Business is committed to actively supporting entrepreneurs, early start-ups and established SMEs via a sector-led approach, flexible digital and self-service channels, and timely credit decisions.

Corporate (including property) develops strong relationships with corporate customers by providing sectoral expertise, tailored financial solutions and a premium customer service.

AIB UK

AIB UK comprises of two long established and distinct businesses offering full banking services operating as Allied Irish Bank (GB) ("AIB GB") in Great Britain and First Trust Bank ("FTB") in Northern Ireland.

AIB GB serves the needs of Corporate and SMEs, including owner managed businesses, through its dedicated relationship management teams and through the provision of digital and self-service channels serves its smaller business and retail customers.

FTB is a well-established and trusted full service retail, business and corporate bank.

Group & International

Group & International includes leverage lending outside Ireland and the UK. It also includes wholesale treasury activities, central control and support functions (business and customer services, risk, audit, finance, general counsel, human resources and corporate affairs). Certain overheads related to these activities are managed and reported in the Group & International segment.

Segment allocations

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 Group & International. 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. In 2016, the funding and liquidity allocation methodology has been refined further to more accurately reflect each segment's funding cost. The half year segment performance to June 2015 has been presented on this revised allocation methodology. Applying the methodology to the segment performance as reported in Annual Financial Report 2015, results in a decrease in income of € 85 million to AIB Ireland, a decrease in income to AIB UK of € 12 million offset by an increase in income to Group & International of € 97 million.

Income attributable to capital is allocated to segments based on each segment's capital requirement.

Notes to the condensed consolidated interim financial statements

2 Segmental information *(continued)*

	AIB Ireland	AIB UK	Group & International	Total	Bank levies and regulatory fees[1]	Exceptional items[2]	Total
							Half-year 30 June 2016
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment							
Net interest income	685	116	144	945	–	–	945
Other income	229	26	40	295	–	288[3]	583
Total operating income	914	142	184	1,240	–	288	1,528
Personnel expenses	(209)	(47)	(103)	(359)	–	(3)[4]	(362)
General and administrative expenses	(150)	(29)	(94)	(273)	(48)	(21)[5][6]	(342)
Depreciation, impairment and amortisation	(30)	(1)	(14)	(45)	–	–	(45)
Total operating expenses	(389)	(77)	(211)	(677)	(48)	(24)	(749)
Operating profit/(loss) before provisions	525	65	(27)	563	(48)	264	779
Bank levies and regulatory fees	–	(2)	(46)	(48)	48	–	–
Writeback/(provisions) for impairment on loans and receivables	204	18	(11)	211	–	–	211
Writeback of provisions for liabilities and commitments	1	–	–	1	–	–	1
Writeback of provisions for impairment on financial investments available for sale	–	–	2	2	–	–	2
Total writeback/(provisions)	205	18	(9)	214	–	–	214
Operating profit/(loss)	730	81	(82)	729	–	264	993
Associated undertakings	21	2	–	23	–	–	23
Profit on disposal of business	–	1	–	1	–	–	1
Profit/(loss) before taxation from continuing operations	751	84	(82)	753	–	264	1,017

[1]In the condensed consolidated interim financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial Review' - see page 10.

[2]Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

[3]Gain on transfer of financial instruments and profit on disposal of Visa Europe;

[4]Termination benefits;

[5]Restitution and restructuring expenses; and

[6]Other exceptional items.

For further information on these items see page 16.

2 Segmental information *(continued)*

	AIB Ireland	AIB UK	Group & International	Total	Bank levies and regulatory fees[1]	Exceptional items[2]	Total
							Half-year 30 June 2015
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment							
Net interest income	665	142	133	940	–	–	940
Other income	231	49	129	409	–	7[3]	416
Total operating income	896	191	262	1,349	–	7	1,356
Personnel expenses	(230)	(45)	(81)	(356)	–	(13)[4]	(369)
General and administrative expenses	(127)	(28)	(96)	(251)	(2)	(33)[5][6]	(286)
Depreciation, impairment and amortisation	(22)	(2)	(15)	(39)	–	–	(39)
Total operating expenses	(379)	(75)	(192)	(646)	(2)	(46)	(694)
Operating profit/(loss) before provisions	517	116	70	703	(2)	(39)	662
Bank levies and regulatory fees	–	(2)	–	(2)	2	–	–
Writeback/(provisions) for impairment on loans and receivables	540	4	(4)	540	–	–	540
Writeback of provisions for liabilities and commitments	3	–	–	3	–	13[5][6]	16
Total writeback/(provisions)	543	4	(4)	543	–	13	556
Operating profit/(loss)	1,060	118	66	1,244	–	(26)	1,218
Associated undertakings	11	2	–	13	–	–	13
Profit on disposal of property	4	–	–	4	–	–	4
Profit/(loss) before taxation from continuing operations	1,075	120	66	1,261	–	(26)	1,235

[1]In the condensed consolidated interim financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial Review' - see page 10.

[2]Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

[3]Gain on transfer of financial instruments;

[4]Termination benefits;

[5]Restitution and restructuring expenses; and

[6]Other exceptional items.

For further information on these items see page 16.

2 Segmental information *(continued)*

Other amounts – statement of financial position

	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
				30 June 2016
Loans and receivables to customers	**49,381**	**9,241**	**2,470**	**61,092**
Customer accounts	**50,336**	**10,584**	**713**	**61,633**

	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
				31 December 2015
Loans and receivables to customers	50,077	10,343	2,820	63,240
Customer accounts	50,250	11,665	1,468	63,383

Geographic information - continuing operations[1]	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
				Half-year 30 June 2016
Gross external revenue	**1,175**	**344**	**9**	**1,528**
Inter-geographical segment revenue	**203**	**(195)**	**(8)**	**–**
Total revenue	**1,378**	**149**	**1**	**1,528**

Geographic information - continuing operations[1]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				Half-year 30 June 2015
Gross external revenue	1,157	194	5	1,356
Inter-geographical segment revenue	11	(11)	–	–
Total revenue	1,168	183	5	1,356

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

Geographic information	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
				30 June 2016
Non-current assets[2]	**619**	**24**	**–**	**643**

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				31 December 2015
Non-current assets[2]	608	24	1	633

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

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

3 Net interest income

	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Interest on loans and receivables to customers	**1,133**	1,184[1]
Interest on loans and receivables to banks	**12**	11
Interest on NAMA senior bonds	**7**	20
Interest on financial investments available for sale	**96**	200[1]
Interest on financial investments held to maturity	**65**	–
	1,313	1,415
Negative interest on liabilities	**10**	–
Interest and similar income	**1,323**	1,415
Interest on deposits by central banks and banks	**4**	5
Interest on customer accounts	**183**	284[1]
Interest on debt securities in issue	**29**	50[1]
Interest on subordinated liabilities and other capital instruments	**162**	136
	378	475
Negative interest on assets	**–**	–
Interest expense and similar charges	**378**	475
Net interest income	**945**	940

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense, rather than as offset against interest income. Likewise, negative interest on financial liabilities has been presented as interest income. Comparative amounts have not been adjusted due to immateriality.

Interest income reported above, calculated using the effective interest method, relates to financial assets not carried at fair value through profit or loss.

Interest expense reported above, calculated using the effective interest method, relates to financial liabilities not carried at fair value through profit or loss.

Interest income recognised on impaired loans amounts to € 78 million (30 June 2015: € 144 million).

Included within interest expense is a charge of € 9 million (30 June 2015: a charge € 17 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

Cash flow hedges

Interest income includes a credit of € 94 million (30 June 2015: a credit of € 69 million) transferred from other comprehensive income in respect of cash flow hedges.

Interest expense includes a charge of € 38 million (30 June 2015: a charge of € 44 million) removed from other comprehensive income in respect of cash flow hedges.

Fair value hedges

Interest received/paid on fair value hedges is now included within interest income/expense on the underlying hedged items as follows:

- financial investments available for sale – charge of € 62 million (30 June 2015: a charge of € 58 million);
- customer accounts – a credit of € 4 million (30 June 2015: a credit of 11 million); and
- debt securities in issue – a credit of € 62 million (30 June 2015: a credit of € 61 million).

[1]In 2015, the net interest received on fair value hedges amounting to € 14 million was reported in 'Interest and similar income' as part of loans and receivables to customers. To better reflect the nature of the transactions, this has now been reallocated to interest income/expense on the underlying hedged items as set out above.

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4 Dividend income

Dividend income relates to income from equity shares held as financial investments available for sale and amounts to € 25 million (30 June 2015: € 25 million). All of the dividend income relates to NAMA subordinated bonds (30 June 2015: € 25 million).

5 Net fee and commission income	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Retail banking customer fees	179	191
Credit related fees	18	20
Insurance commissions	14	19
Fee and commission income	211	230
Fee and commission expense[1]	(18)	(23)
	193	207

[1]Fee and commission expense includes ATM expenses of € 3 million (30 June 2015: € 3 million) and credit card commissions of € 10 million (30 June 2015: € 15 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income or interest expense and similar charges (note 3).

6 Net trading income	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Foreign exchange contracts	22	23
Interest rate contracts and debt securities[1]	(27)	44
Credit derivative contracts	5	–
Equity securities, index contracts and warrants[2]	1	8
	1	75

[1]Includes a loss of €28 million (30 June 2015: a gain of € 24 million) in relation to XVA adjustments.

[2]Includes € 1 million fair value gain on equity warrants (30 June 2015: gain € 8 million).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement amounted to Nil (30 June 2015: Nil).

7 Profit on disposal/transfer of loans and receivables

The following table sets out details of the profit on disposal/transfer of loans and receivables:

	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
(Loss)/profit on disposal of loans and receivables to customers	(5)	12
Gain on transfer of loans and receivables to NAMA	16	7
Total	11	19

NAMA finalised certain issues in relation to loans and receivables which had transferred in 2010 and 2011. This resulted in a net release of provisions in the current period as set out above.

8 Other operating income	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Profit on disposal of available for sale debt securities	**50**	66
Loss on termination of hedging swaps[(1)]	**(29)**	(19)
Profit on disposal of available for sale equity securities[(2)]	**273**	4
Acceleration/re-estimation of the timing of cash flows on NAMA senior bonds *(note 21)*	**10**	4
Net gains on buy back of debt securities in issue	**1**	7
Realisation/re-estimation of cash flows on restructured loans	**43**	17
Miscellaneous operating income[(3)]	**5**	11
	353	90

[(1)]The majority of the loss on termination relates to the disposal of available for sale debt securities.

[(2)]€ 272 million relates to the disposal of the equity interest in Visa Europe. The profit comprises of € 207 million for the cash and deferred cash component and € 65 million being the fair value of preferred stock in Visa Inc.

[(3)]Miscellaneous operating income includes:

- Foreign exchange gains € 1 million (30 June 2015: € 8 million).

9 Administrative expenses	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Personnel expenses:		
Wages and salaries	**281**	283
Termination benefits[(1)]	**3**	13
Retirement benefits[(2)]	**39**	54
Social security costs	**30**	26
Other personnel expenses	**9**	(7)
Total personnel expenses	**362**	369
General and administrative expenses:		
Bank levies and regulatory fees	**48**	2
Other general and administrative expenses	**294**	284
Total general and administrative expenses	**342**	286
	704	655

[(1)]At 30 June 2016, a charge of € 3 million (30 June 2015: € 13 million) was made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in the Group.

[(2)]Comprises a charge of Nil relating to defined benefit expense (30 June 2015: charge of € 11 million), a defined contribution expense charge of € 36 million (30 June 2015: € 40 million) and a long term disability payments expense charge of € 3 million (30 June 2015: € 3 million). For details of retirement benefits, see note 10.

Personnel expenses of € 9 million (30 June 2015: € 8 million) were capitalised as part of the cost of intangible assets.

10 Retirement benefits

The Group's accounting policy for retirement benefit obligations is set out on page 221 of the Annual Financial Report 2015.
The demographic assumptions for retirement benefit obligations are set out in note 13 to the consolidated financial statements of the Annual Financial Report 2015.

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 ("DC") scheme. The total cost in respect of the Irish DC scheme, the EBS DC scheme and the UK DC scheme for the half-year to 30 June 2016 is € 36 million (30 June 2015: € 40 million).

The Group's net pension deficit as at 30 June 2016 was € 680 million (31 December 2015: € 146 million), comprising retirement benefit liabilities of € 897 million (31 December 2015: € 368 million) and retirement benefit assets of € 217 million (31 December 2015: € 222 million).

Valuation

Independent actuarial valuations for the main Irish and UK schemes are carried out on a triennial basis by the Schemes' actuary, Mercer. The last such valuations of the Irish and UK schemes were carried out as at 30 June 2015 and 31 December 2014 respectively using Projected Unit Methods. The next actuarial valuations of the Irish and UK schemes as at 30 June 2018 and 31 December 2017, will be completed by 31 March 2019 and 31 December 2018 respectively.

Contributions

The total contributions to all the defined benefit pension schemes operated by the Group in 2016 are estimated to be € 62 million.
The final £ 4.8 million quarterly payment of the 2016 annual payment relating to the UK scheme is due 1 January 2017. Payments in the half-year to 30 June 2016 amounted to € 48 million, of which € 40 million related to the Irish scheme as required by regulation, as part of the Scheme's Minimum Funding Standard regulatory funding plan.

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of these financial statements in respect of the main schemes. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	**30 June 2016 %**	31 December 2015 %
Irish scheme		
Rate of increase of pensions in payment	**1.21**[(1)]	1.45
Discount rate	**1.80**	2.70
Inflation assumptions	**1.25**	1.50
UK scheme		
Rate of increase of pensions in payment	**2.70**	3.00
Discount rate	**3.00**	3.90
Inflation assumptions (RPI)	**2.70**	3.00

[(1)]Nil for the next 1.5 years and 1.25% 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:

	30 June 2016			31 December 2015		
	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	**(6,343)**	**6,197**	**(146)**	(7,071)	6,007	(1,064)
Included in profit or loss						
Past service cost	**–**	**–**	**–**	(1)	–	(1)
Interest (cost) income	**(91)**	**91**	**–**	(177)	158	(19)
Administration costs	**–**	**–**	**–**	–	(1)	(1)
	(91)	**91**	**–**	(178)	157	(21)
Included in other comprehensive income						
Remeasurements (loss)/gain						
Actuarial (loss)/gain arising from:						
Experience adjustments	**–**	**–**	**–**	(60)	–	(60)
Changes in demographic assumptions	**–**	**–**	**–**	(10)	–	(10)
Changes in financial assumptions	**(955)**	**–**	**(955)**	863	–	863
Return on scheme assets excluding interest income[1]	**–**	**399**	**399**	–	53	53
Translation adjustment on non-euro schemes	**158**	**(184)**	**(26)**	(87)	95	8
	(797)	**215**	**(582)**	706	148	854
Other						
Contributions by employer	**–**	**48**	**48**	–	84	84
Benefits paid	**114**	**(114)**	**–**	200	(199)	1
	114	**(66)**	**48**	200	(115)	85
At end of period	**(7,117)**	**6,437**	**(680)**	(6,343)	6,197	(146)

	30 June 2016	31 December 2015
Recognised on the statement of financial position as:		
Retirement benefit assets		
– UK scheme	**199**	203
– Other schemes	**18**	19
Total retirement benefit assets	**217**	222
Retirement benefit liabilities		
– Irish scheme	**(794)**	(293)
– EBS scheme	**(83)**	(55)
– Other schemes	**(20)**	(20)
Total retirement benefit liabilities	**(897)**	(368)
Net pension deficit	**(680)**	(146)

[1]Includes payment of pension levy.

11 Writeback of provisions for impairment on financial investments available for sale

	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Debt securities	**2**	–
	2	–

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12 Taxation

	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Allied Irish Banks, p.l.c. and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the period	(89)	(1)
Adjustments in respect of prior periods	–	–
	(89)	(1)
Foreign tax		
Current tax on income for the period	(13)	(3)
Adjustments in respect of prior periods	–	4
	(13)	1
	(102)	–
Deferred taxation		
Origination and reversal of temporary differences	(15)	1
Adjustments in respect of prior periods	1	(4)
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(78)	(150)
Impact of change in tax legislation on deferred tax asset[1]	–	(242)
	(92)	(395)
Total tax charge for the period	**(194)**	(395)
Effective tax rate	**19%**	32%

[1]See note 25 - 'Deferred taxation'.

Analysis of selected other comprehensive income

	Half-Year 30 June 2016			Half-year 30 June 2015		
	Gross € m	Tax € m	Net € m	Gross € m	Tax € m	Net € m
Property revaluation reserves						
Net change in property revaluation reserves	–	(1)	(1)	–	–	–
Total	–	(1)	(1)	–	–	–
Retirement benefit schemes						
Actuarial (losses)/gains in retirement benefit schemes	(556)	51	(505)	508	(59)	449
Total	(556)	51	(505)	508	(59)	449
Foreign currency translation reserves						
Change in foreign currency translation reserves	(131)	–	(131)	34	–	34
Total	(131)	–	(131)	34	–	34
Cash flow hedging reserves						
Fair value (gains) transferred to income statement	(56)	7	(49)	(25)	3	(22)
Fair value gains/(losses) taken to other comprehensive income	423	(52)	371	(146)	16	(130)
Total	367	(45)	322	(171)	19	(152)
Available for sale securities reserves						
Fair value (gains) transferred to income statement	(323)	95	(228)	(70)	9	(61)
Fair value (losses) taken to other comprehensive income	(80)	15	(65)	(81)	3	(78)
Total	(403)	110	(293)	(151)	12	(139)

13 Earnings per share

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

The calculation of the weighted average number of ordinary shares in issue for the half-year ended 30 June 2015 has been adjusted for the share consolidation which occurred on 21 December 2015. All ordinary shares of nominal value € 0.0025 each were consolidated into one 'new ordinary share' with a nominal value € 0.625 for every 250 shares held (see note 42 to the consolidated financial statements in the Annual Financial Report 2015). In addition, in calculating the diluted earnings per share, the number of ordinary shares that would be issuable on conversion of the contingent capital notes ("CCNs") has, likewise, been adjusted resulting in 640 million shares being included in the calculation below.

On 17 December 2015, AIB issued 155,147 million ordinary shares of € 0.0025 each nominal value to the NTMA (for the ISIF) on conversion of 2,140 million 2009 Preference Shares (see note 42 to the consolidated financial statements in the Annual Financial Report 2015).

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

(a) Basic	**Half-year 30 June 2016 € m**	Half-year 30 June 2015 € m
Profit attributable to equity holders of the parent from continuing operations	**823**	840
Distribution on other equity interests	**(18)**	–
Dividend on the 2009 Preference Shares	**–**	(280)
Profit attributable to ordinary shareholders of the parent from continuing operations	**805**	560
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	**2,714.4**	2,093.7
Earnings per share from continuing operations – basic	**EUR 29.6c**	EUR 26.7c

(b) Diluted	**Half-year 30 June 2016 € m**	Half-year 30 June 2015 € m
Profit attributable to ordinary shareholders of the parent from continuing operations *(note 13 (a))*	**805**	560
Dilutive effect of CCN's interest charge	**135**	125
Adjusted profit attriibutable to ordinary shareholders from continuing operations	**940**	685
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	**2,714.4**	2,093.7
Dilutive effect of CCNs	**640.0**	640.0
Potential weighted average number of shares	**3,354.4**	2,733.7
Earnings per share from continuing operations - diluted	**EUR 28.0c**	EUR 25.1c

In July 2011, AIB issued € 1.6 billion in CCNs. These notes are mandatorily redeemable and will convert to AIB ordinary shares, by dividing the capital amount of € 1.6 billion by the conversion price of € 2.50 resulting in 640 million new ordinary shares (note 41 to the consolidated financial statements in the Annual Financial Report 2015), if the Core Tier 1 capital ratio falls below 8.25%. These incremental shares have been included in calculating the diluted per share amounts in both the half-year to 30 June 2016 and 30 June 2015 because they were dilutive.

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

14 Distributions on equity shares and other equity interests

	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Other equity interests – distribution paid 3 June 2016	**18**	–
2009 Preference shares[1] – dividend paid 13 May 2015	**–**	280
	18	280

[1]A dividend amounting to € 166 million was paid on 17 December 2015 on the conversion/redemption of the 2009 Preference shares.

No dividends were paid on the ordinary shares in the half-year to 30 June 2016 or in 2015 .

15 Disposal groups and non-current assets held for sale

	30 June 2016 € m	31 December 2015 € m
Total disposal groups and non-current assets held for sale	**9**	8

Disposal groups and non-current assets held for sale comprise property surplus to requirements and repossessed assets.

16 Trading portfolio financial assets

	30 June 2016 € m	31 December 2015 € m
Equity shares	**1**	1
	1	1

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 2016 was € 37 million (31 December 2015: € 39 million; 2014: € 42 million; 2013: € 467 million; 2012: € 1,025 million; 2011: € 1,410 million; 2010: € 2,538 million; 2009: € 4,104 million; 2008: € 5,674 million).

As at the reclassification date, effective variable 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 2016 would have included unrealised fair value losses on reclassified trading portfolio financial assets of € 1 million (30 June 2015: losses € 2 million).

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

	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Interest on financial investments available for sale	**1**	1
Writeback of provisions for impairment on financial investments available for sale	**2**	–

17 Derivative financial instruments

The following table presents the total notional principal amount of interest rate, exchange rate, equity and credit derivative contracts together with the positive and negative fair values attaching to those contracts:

	30 June 2016 € m	31 December 2015 € m
Interest rate contracts[1]		
Notional principal amount	**66,404**	70,300
Positive fair value	**2,175**	1,540
Negative fair value	**(1,776)**	(1,622)
Exchange rate contracts[1]		
Notional principal amount	**6,348**	6,805
Positive fair value	**150**	67
Negative fair value	**(119)**	(64)
Equity contracts[1]		
Notional principal amount	**1,576**	2,398
Positive fair value	**45**	91
Negative fair value	**(44)**	(89)
Credit derivatives[1]		
Notional principal amount	**355**	340
Positive fair value	**1**	–
Negative fair value	**(3)**	(6)
Total notional principal amount	**74,683**	79,843
Total positive fair value[2]	**2,371**	1,698
Total negative fair value	**(1,942)**	(1,781)

[1]Interest rate, exchange rate and credit derivative contracts are entered into for both hedging and trading purposes. Equity contracts are entered into for trading purposes only. Interest rate contracts include € 3,432 million of notional principal amount (31 December 2015: € 154 million) in respect of contracts with central clearing counterparties.

[2]At 30 June 2016, 70% of fair value relates to exposures to banks (31 December 2015: 69%).

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 2015.

18 Loans and receivables to banks	30 June 2016 € m	31 December 2015 € m
Funds placed with central banks	**1,507**	779
Funds placed with other banks	**782**	1,560
	2,289	2,339
Amounts include:		
Reverse repurchase agreements	**20**	648

Loans and receivables to banks include cash collateral of € 420 million (31 December 2015: € 475 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties.

Under reverse repurchase agreements, the Group accepted collateral that it was 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 € 20 million (31 December 2015: € 737 million). The fair value of collateral sold or repledged amounted to Nil (31 December 2015: € 43 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 2016 € m	31 December 2015 € m
Loans and receivables to customers	**65,718**	68,578
Reverse repurchase agreements	**–**	226
Amounts receivable under finance leases and hire purchase contracts	**1,204**	1,049
Unquoted debt securities	**74**	219
Provisions for impairment *(note 20)*	**(5,904)**	(6,832)
	61,092	63,240
Of which repayable on demand or at short notice	**13,214**	15,270

Interest income recognised on impaired loans amounted to € 78 million (31 December 2015: € 244 million) and is included in the carrying amount of loans and receivables to customers. This has been credited to interest income.

Loans and receivables to customers include cash collateral amounting to € 26 million (31 December 2015: € 73 million) placed with derivative counterparties. At 31 December 2015, under reverse repurchase agreements, the Group accepted collateral with a fair value of € 222 million that it was permitted to sell or repledge in the absence of default by the owner of the collateral.

For details of credit quality of loans and receivables to customers, including forbearance, refer to the ‘Risk management’ section of this report.

20 Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables both to banks and customers. Further information on provisions for impairment is disclosed in the 'Risk management' section of this report.

	30 June 2016 € m	31 December 2015 € m
At 1 January	**6,832**	12,406
Exchange translation adjustments	**(109)**	131
Credit to income statement – customers	**(211)**	(925)
Amounts written off	**(614)**	(4,593)
Disposals	**–**	(195)
Recoveries of amounts written off in previous years	**6**	8
At end of period	**5,904**	6,832
Total provisions are split as follows:		
Specific	**5,337**	6,158
IBNR	**567**	674
	5,904	6,832
Amounts include:		
Loans and receivables to customers *(note 19)*	**5,904**	6,832
	5,904	6,832

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, subject to a 0% floor. The bonds were issued on 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 2016 € m	31 December 2015 € m
At 1 January	**5,616**	9,423
Amortisation of discount	**7**	21
Repayments	**(2,442)**	(3,834)
Acceleration/re-estimation of the timing of cash flows	**10**	6
At end of period	**3,191**	5,616

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. The assumptions underpinning the repayments and their timing are subject to continuing review. Accordingly, in the half-year to 30 June 2016, a gain of € 10 million has been recognised following the acceleration of repayments by NAMA (31 December 2015: a gain of € 6 million). These gains were accounted for as adjustments to the carrying value of the bonds and were reflected in 'Other operating income'.

The estimated fair value of the bonds at 30 June 2016 is € 3,193 million (31 December 2015: € 5,626 million). The nominal value of the bonds is € 3,201 million (31 December 2015: € 5,643 million). Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of A (31 December 2015: A–) i.e. the external rating of the Sovereign.

At 30 June 2016, € 251 million (31 December 2015: € 1,257 million) of NAMA senior bonds have been pledged to central banks and banks (note 26).

22 Financial investments available for sale

The following table sets out the carrying value (fair value) of financial investments available for sale:

	30 June 2016 € m	31 December 2015 € m
Debt securities		
Irish Government securities	**4,726**	5,406
Euro government securities	**2,520**	3,033
Non Euro government securities	**206**	245
Supranational banks and government agencies	**1,766**	2,008
Collateralised mortgage obligations	**426**	328
Other asset backed securities	**–**	1
Euro bank securities	**4,734**	4,600
Euro corporate securities	**4**	30
Non Euro corporate securities	**20**	57
Total debt securities	**14,402**	15,708
Equity securities		
Equity securities – NAMA subordinated bonds	**424**	432
Equity securities – other	**122**	349
Total equity securities	**546**	781
Total financial investments available for sale	**14,948**	16,489

Net unrealised gains on debt securities amounted to € 971 million (31 December 2015: € 879 million) and net unrealised gains on equity securites amounted to € 390 million (31 December 2015: € 694 million).

23 Financial investments held to maturity

	30 June 2016 € m	31 December 2015 € m
Government bonds	**3,420**	3,483
Total financial investments held to maturity	**3,420**	3,483

Analysis of movements in financial investments held to maturity	30 June 2016 € m	31 December 2015 € m
At 1 January	**3,483**	–
IAS 39 reclassifications in 2015	**–**	3,487
Amortisation of premium	**(63)**	(4)
At end of period	**3,420**	3,483

24 Interests in associated undertakings

Included in the income statement is the contribution net of tax from investments in associated undertakings as follows:

Income statement	**Half-year 30 June 2016 € m**	Half-year 30 June 2015 € m
Share of results of associated undertakings[1]	**15**	13
Reversal of impairment of associated undertakings[1]	**8**	–
	23	13

Share of net assets including goodwill	**30 June 2016 € m**	31 December 2015 € m
At 1 January	**70**	69
Income for the period	**15**	25
Dividends received from associates	**(12)**	(24)
Reversal of impairment of associated undertakings[1]	**8**	–
At end of period	**81**	70
Disclosed in the statement of financial position within:		
Interests in associated undertakings	**81**	70
Of which listed on a recognised stock exchange	**–**	–

[1]Includes AIB Merchant Services € 14 million profit (30 June 2015: € 11 million profit) and Aviva Health Group Ireland Limited € 9 million profit which includes an impairment reversal of € 8 million (30 June 2015: € 2 million profit).

25 Deferred taxation

Analysis of movements in deferred taxation	**30 June 2016 € m**	31 December 2015 € m
At 1 January	**2,897**	3,576
Exchange translation and other adjustments	**(15)**	20
Deferred tax through other comprehensive income	**115**	(186)
Income statement – Continuing operations *(note 12)*	**(92)**	(513)
At end of period	**2,905**	2,897
Analysed as to:		
Deferred tax assets	**3,273**	3,276
Deferred tax liabilities	**(368)**	(379)
	2,905	2,897
Represented on the statement of financial position:		
Deferred tax assets	**2,981**	2,897
Deferred tax liabilities	**(76)**	–
	2,905	2,897

At 30 June 2016, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,905 million (31 December 2015: € 2,897 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

25 Deferred taxation *(continued)*

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.

Net deferred tax assets of € 2,747 million (31 December 2015: € 2,722 million) are expected to be recovered after more than 12 months.

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.

Legislation was enacted in the UK on 1 April 2015 whereby only fifty per cent of a bank's annual trading profits can be sheltered by unused tax losses arising before that date, accordingly, the Group's UK deferred tax asset was reduced by € 242 million (£ 178 million) in 2015 .

Under UK legislation enacted in November 2015, the UK corporation tax rate will be reduced to 19% from April 2017 and will be further reduced to 18% from April 2020. In addition, an 8% corporation tax surcharge will be applied to banking profits from January 2016, subject to an annual exemption for the first £ 25 million of profits. Taxable profits for the purpose of the surcharge cannot be reduced by pre-2016 tax losses. These changes have been reflected in the carrying value of deferred tax assets and liabilities at 30 June 2016 and 31 December 2015.

Following changes announced in the UK Budget in March 2016, the amount of a bank's UK trading profits that can be sheltered by unused tax losses arising before 1 April 2015 is proposed to be reduced from 50% to 25%. This is proposed to be effective from 1 April 2016. In addition, the UK corporation tax rate will be reduced from 18% to 17% from 2020 onwards. The Finance Bill giving effect to these proposals had not been enacted or substantively enacted at 30 June 2016, therefore, these changes have not been reflected in the Half-Yearly financial statements at 30 June 2016. If the Finance Bill had been substantively enacted at 30 June 2016, it would have resulted in a reduction of the Group's UK deferred tax asset by c. £ 83 million (€ 100 million).

The Group has not recognised deferred tax assets in respect of Irish tax on unused tax losses of € 282 million (31 December 2015: € 305 million) and overseas tax (UK and USA) on unused tax losses of € 3,108 million (31 December 2015: € 3,475 million), and foreign tax credits for Irish tax purposes of € 3 million (31 December 2015: € 3 million). Of these tax losses totalling € 3,390 million for which no deferred tax is recognised, € 33 million expire in 2032, € 40 million in 2033, € 28 million in 2034 and € 6 million in 2035.

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 2015: Nil).

Deferred tax recognised directly in equity amounted to Nil (31 December 2015: Nil).

Additional information on the basis of recognition of deferred tax assets on unused tax losses is included in Note 2 'Critical accounting judgements and estimates' on pages 244 to 248 of the Annual Financial Report 2015.

26 Deposits by central banks and banks

	30 June 2016 € m	31 December 2015 € m
Central banks		
Eurosystem refinancing operations[1]	2,500	2,900
Other borrowings	–	50
	2,500	2,950
Banks		
Securities sold under agreements to repurchase	4,297	10,153
Other borrowings – secured	350	350
– unsecured	901	410
	5,548	10,913
	8,048	13,863
Amounts include:		
Due to associated undertakings	–	–

[1]Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities.

Securities sold under agreements to repurchase and Eurosystem refinancing operations, with the exception of € 1.9 billion funded through the ECB Targeted Long Term Refinancing Operation ("TLTRO") are secured by NAMA senior bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements. Repurchase agreements with the ECB are completed under a Master Repurchase Agreement.

In addition, the Group has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 30 June 2016 (31 December 2015: Nil).

Deposits by central banks and banks include cash collateral at 30 June 2016 of € 476 million (31 December 2015: € 182 million) received from derivative counterparties in relation to net derivative positions and also from repurchase agreement counterparties.

Financial assets pledged

(a) Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	30 June 2016			31 December 2015		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	4,749	4,669	9,418	5,357	10,829	16,186
Of which:						
Government securities[1]	20	2,911	2,931	20	8,364	8,384
Other securities[2]	4,729	1,758	6,487	5,337	2,465	7,802

[1]Includes NAMA senior bonds.

[2]The Group has securitised certain of its mortgage and loan portfolios held in AIB Mortgage Bank and EBS and has also issued covered bonds. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

(b) The Group has securitised credit card receivables with a carrying value at 30 June 2016 of € 277 million (31 December 2015: € 292 million). Funding received from external investors is included above as 'other borrowings - secured' and has been secured on these and future credit card receivables.

27 Customer accounts	30 June 2016 € m	31 December 2015 € m
Current accounts	27,022	25,955
Demand deposits	12,107	11,698
Time deposits	22,014	24,825
Securities sold under agreements to repurchase[1]	490	905
	61,633	63,383
Of which:		
Non-interest bearing current accounts	22,981	21,907
Interest bearing deposits, current accounts and short-term borrowings	38,652	41,476
	61,633	63,383
Amounts include:		
Due to associated undertakings	35	54

(1At 30 June 2016, the Group had pledged government available for sale securities with a fair value of € 167 million (31 December 2015: € 627 million) and non-government available for sale securities with a fair value of € 336 million (31 December 2015: € 302 million) as collateral for these facilities and providing access to future funding facilities (see note 47 to the consolidated financial statements in the Annual Financial Report 2015 for further information).

At 30 June 2016, the Group's five largest customer deposits amounted to 3% (31 December 2015: 5%) of total customer accounts.

28 Trading portfolio financial liabilities	30 June 2016 € m	31 December 2015 € m
Debt securities:		
Government securities	–	86
	–	86

29 Debt securities in issue

	30 June 2016 € m	31 December 2015 € m
Bonds and medium term notes:		
European medium term note programmes	1,555	1,555
Bonds and other medium term notes	6,283	5,346
	7,838	6,901
Other debt securities in issue:		
Commercial paper	99	100
	7,937	7,001

Debt securities issued during the period amounted to € 1,148 million (31 December 2015: € 3,522 million) of which: € 1,000 million relates to a covered bond issuance (31 December 2015: € 1,500 million); Nil relating to an EMTN bond issuance (31 December 2015: € 500 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 199 million (31 December 2015: € 4,397 million) of which € 9 million (31 December 2015: € 129 million) relates to securities repurchased as part of a debt buyback programme.

30 Other liabilities

	30 June 2016 € m	31 December 2015 € m
Notes in circulation	365	425
Items in transit	143	163
Creditors	15	10
Fair value of hedged liability positions	258	203
Other	311	307
	1,092	1,108

31 Provisions for liabilities and commitments

30 June 2016

	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	**49**	**39**	**13**	**32**	**249**	**–**	**382**
Transfers in	**–**	**(13)**	**–**	**–**	**–**	**–**	**(13)**
Exchange translation adjustments	**(1)**	**–**	**–**	**–**	**(5)**	**–**	**(6)**
Charged to income statement	**–**	**15[1]**	**–**	**4**	**52**	**–**	**71**
Released to income statement	**(1)[4]**	**(31)[1]**	**(2)**	**(2)**	**(10)**	**–**	**(46)**
Provisions utilised	**–**	**(8)**	**(2)**	**(1)**	**(17)**	**–**	**(28)**
At 30 June 2016	**47**	**2**	**9**	**33**	**269**	**–**	**360[5]**

31 December 2015

	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	60	33	51	32	81	1	258
Transfer in	–	14	–	–	–	–	14
Exchange translation adjustments	–	–	3	–	4	–	7
Charged to income statement	11	7[1]	–	4	201	4	227
Released to income statement	(22)	(12)[1]	(11)	(3)	(9)	–	(57)
Provisions utilised	–	(3)	(30)	(1)	(28)	(5)	(67)
At 31 December 2015	49	39	13	32	249	–	382[5]

Provisions for customer redress and related matters (included in 'Other provisions')

In December 2015, the Central Bank of Ireland ('CBI'), requested the Irish banking industry, including AIB, to conduct a broad examination of tracker mortgage related issues, comprising of a review of mortgage loan books (including both PDH and Buy-to- Let properties and loans that have been redeemed and/or sold), to assess compliance with both contractual and regulatory requirements. In situations where customer detriment is identified from this examination, AIB is required to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'.

At 31 December 2015, the Group had provided € 105 million where either the interest rates are not in accordance with the relevant contractual documentation or where the Group will offer revised terms on mortgage accounts. This mainly relates to the refund of interest (difference in interest charged to customers compared to the interest that would have been charged when the tracker rate is applied). The provision also includes amounts for compensating customers, such as reimbursement for the time value of money and other compensation amounts.

Furthermore, the Group had recognised a provision of € 85 million for: (a) the accounting impact of a constructive obligation under IAS 37 for fair value remeasurement losses that will be recognised in areas where the Group will offer revised terms on mortgage accounts; (b) tax liabilities arising from redress or other compensation which the Group may be required to discharge on behalf of impacted customers; and (c) other costs associated with the examination.

The Group's project in this regard is on-going to identify all mortgage loans where customer detriment may have occurred and to determine appropriate redress and compensation in such cases. In the period to 30 June 2016, costs incurred of €11 million (direct costs of the project and redress for certain customers) have been charged against the provisions created in 2015.

Given that the grounds on which the provisions have been estimated could prejudice the position of the Group, further information as required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed.

(1) NAMA income statement charge/(credit) relates to ongoing valuation adjustments in relation to loans previously transferred to NAMA.

(2) Provisions for the unavoidable costs expected to arise from the closure of properties which are surplus to requirements.

(3) Includes € 225 million (31 December 2015: € 232 million) provisions for customer restitution. These relate to redress provisions under the CBI "Principles for Redress" (see above), payment protection insurance in both Ireland and the UK, interest rate hedge products in the UK, credit card insurance, and other miscellaneous provisions.

(4) Included in writeback of provisions for liabilities and commitments in income statement.

(5) The total provisions for liabilities and commitments expected to be settled within one year amount to € 247 million (31 December 2015: € 290 million).

32 Subordinated liabilities and other capital instruments

	30 June 2016 € m	31 December 2015 € m
Allied Irish Banks, p.l.c.		
€ 1.6bn Contingent Capital Tier 2 Notes due 2016		
Proceeds of issue	1,600	1,600
Fair value adjustment on initial recognition	(447)	(447)
Amortisation to date	436	371
	1,589	1,524
Dated loan capital – European Medium Term Note Programme:		
€ 750 million Subordinated Tier 2 Notes due 2025, Callable 2020	750	750
€ 500m Callable Step-up Floating Rate Notes due October 2017		
– nominal value € 25.5 million (maturity extended to 2035 as a result of the SLO)	9	8
£ 368m 12.5% Subordinated Notes due June 2019		
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	32	35
£ 500m Callable Fixed/Floating Rate Notes due March 2025		
– nominal value £ 1 million (maturity extended to 2035 as a result of the SLO)	1	1
	792	794
	2,381	2,318

Maturity of dated loan capital	30 June 2016 € m	31 December 2015 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	792	794

The € 1.6bn Contingent Capital Tier 2 Notes are due for repayment on 28 July 2016.

For details of subordinated liabilities and other capital instruments refer to note 41 to the consolidated financial statements in the Annual Financial Report 2015.

33 Share capital

The following tables show the movements in share capital in the statement of financial position for the period:

Issued share capital	30 June 2016 € m	31 December 2015 € m
At 1 January:		
Ordinary shares	**1,696**	1,309
Preference shares	–	35
	1,696	1,344
2009 Preference Shares subdivision into € 0.0025 each nominal for conversion to ordinary shares	–	(21)
2009 Preference Shares redemption for cash	–	(14)
	–	(35)
Ordinary shares issued on conversion of 2009 Preference Shares	–	21
Bonus ordinary shares issued on conversion of 2009 Preference Shares	–	366
Consolidation of ordinary shares of nominal value € 0.0025 each into ordinary shares of nominal value € 0.625 each	–	1,696
Cancellation of ordinary shares of nominal value € 0.0025 each	–	(1,696)
At end of period	**1,696**	1,696
Of which:		
Ordinary shares	**1,696**	1,696
2009 Preference Shares	–	–
	1,696	1,696

Share premium	30 June 2016 € m	31 December 2015 € m
At 1 January	**1,386**	1,752
Bonus ordinary shares issued on conversion of 2009 Preference Shares	–	(366)
At end of period	**1,386**	1,386

For details of the capital reorganisation carried out during 2015, refer to note 42 to the consolidated financial statements in the Annual Financial Report 2015.

34 Other equity interests

	30 June 2016 € m	31 December 2015 € m
At 1 January	**494**	–
Additional tier 1 securities issued	–	500
Transaction costs[(1)]	–	(6)
At end of period	**494**	494

[(1)]Taxation Nil.

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

In December 2015, AIB issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities (‘AT1s’). The securities, which are accounted for as equity in the statement of financial position, are included in AIB’s capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

For details of these securities, refer to note 44 to the consolidated financial statements in the Annual Financial Report 2015.

35 Capital reserves and capital redemption reserves

Capital reserves	30 June 2016 Capital contribution reserves € m	30 June 2016 Other capital reserves € m	30 June 2016 Total € m	31 December 2015 Capital contribution reserves € m	31 December 2015 Other capital reserves € m	31 December 2015 Total € m
At 1 January	**1,382**	**178**	**1,560**	1,780	178	1,958
Transfer to revenue reserves:						
Anglo business transfer	**(181)**	**–**	**(181)**	(285)	–	(285)
CCNs issuance *(note 32)*	**(65)**	**–**	**(65)**	(113)	–	(113)
	(246)	**–**	**(246)**	(398)	–	(398)
At end of period	**1,136**	**178**	**1,314**	1,382	178	1,560

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of the CCNs were non-distributable on initial recognition but may become distributable as outlined in accounting policy (ab) in note 1 to the consolidated financial statements in the Annual Financial Report 2015. The transfers to revenue reserves relate to the capital contributions being deemed distributable.

Capital redemption reserves	30 June 2016 € m	31 December 2015 € m
At 1 January	**14**	–
Transfer from 2009 Preference Share capital	**–**	14
At end of period	**14**	14

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

The following tables give the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	30 June 2016 € m	31 December 2015 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**676**	735
Other contingent liabilities	**550**	640
	1,226	1,375
Commitments[2]		
Documentary credits and short-term trade-related transactions	**50**	39
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**7,378**	7,206
1 year and over[4]	**2,780**	2,502
	10,208	9,747
	11,434	11,122

[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]With an original maturity of more than 1 year.

The credit ratings of contingent liabilities and commitments as at 30 June 2016 and 31 December 2015 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 2016 € m	31 December 2015 € m
Good upper	**4,015**	3,166
Good lower	**5,240**	5,425
Watch	**209**	258
Vulnerable	**110**	164
Impaired	**287**	366
Unrated	**1,573**	1,743
Total	**11,434**	11,122

Legal proceedings

AIB Group in the course of its business is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as the Company is aware (other than that set out in the following paragraph) 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 twelve months, a material effect on the financial position, profitability or cash flows of AIB Group.

During the period, the Group has been made aware by a third party with which it has a business relationship that the Group may be subject to a claim by that party for the sharing of a portion of the other operating income recognised by the Group. The Group does not believe that it has an obligation in respect of any such claim and no liability has been recorded in this regard as at 30 June 2016. For the avoidance of doubt, the Group will robustly defend any such claim brought against it by way of court proceedings or otherwise. No further information is being given as to do so could prejudice the position of the Group.

36 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

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, the Group 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 (note 31).

(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.

37 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity ("SPE") forms the basis for their treatment in the Group's financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements.* The primary form of SPE utilised by the Group are securitisations and employee compensation trusts. Further details of SPEs are set out in note 50 to the consolidated financial statements in the Annual Financial Report 2015.

In addition, 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 50 to the consolidated financial statements in the Annual Financial Report 2015.

There was no new securitisation activity in the half-year to 30 June 2016.

38 Fair value of financial instruments

	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
30 June 2016	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Trading portfolio financial assets:					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	2,175	–	1,626	549	2,175
Exchange rate derivatives	150	–	150	–	150
Equity derivatives	45	–	25	20	45
Credit derivatives	1	–	1	–	1
Financial investments available for sale					
Government securities	7,452	7,287	165	–	7,452
Supranational banks and government agencies	1,766	1,766	–	–	1,766
Asset backed securities	426	426	–	–	426
Bank securities	4,734	4,734	–	–	4,734
Corporate securities	24	22	–	2	24
Equity securities	546	–	1	545	546
	17,320	14,235	1,969	1,116	17,320
Financial assets not measured at fair value					
Cash and balances at central banks	5,277	405[1]	4,872	–	5,277
Items in the course of collection	171	–	–	171	171
Loans and receivables to banks	2,289	–	1,507	782	2,289
Loans and receivables to customers:					
Mortgages[2]	33,726	–	–	32,064	32,064
Non-mortgages	27,366	–	–	26,954	26,954
Total loans and receivables to customers	61,092	–	–	59,018	59,018
NAMA senior bonds	3,191	–	–	3,193	3,193
Financial investments held to maturity	3,420	3,486	–	–	3,486
Other financial assets	431	–	–	431	431
	75,871	3,891	6,379	63,595	73,865
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	1,776	–	1,575	201	1,776
Exchange rate derivatives	119	–	119	–	119
Equity derivatives	44	–	26	18	44
Credit derivatives	3	–	3	–	3
	1,942	–	1,723	219	1,942
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	901	–	–	901	901
Secured borrowings	7,147	–	2,512	4,647	7,159
Customer accounts					
Current accounts	27,022	–	–	27,022	27,022
Demand deposits	12,107	–	–	12,107	12,107
Time deposits	22,014	–	–	22,210	22,210
Securities sold under agreements to repurchase	490	–	–	490	490
Debt securities in issue					
Bonds and medium term notes	7,838	7,521	601	–	8,122
Other debt securities in issue	99	–	99	–	99
Subordinated liabilities and other capital instruments	2,381	707	1,727	–	2,434
Other financial liabilities	435	–	–	435	435
	80,434	8,228	4,939	67,812	80,979

[1]Comprises cash on hand. [2]Includes residential and commercial mortgages.

38 Fair value of financial instruments *(continued)*

					31 December 2015
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,540	–	1,069	471	1,540
Exchange rate derivatives	67	–	67	–	67
Equity derivatives	91	–	50	41	91
Financial investments available for sale					
Government securities	8,684	8,533	151	–	8,684
Supranational banks and government agencies	2,008	2,008	–	–	2,008
Asset backed securities	329	328	1	–	329
Bank securities	4,600	4,600	–	–	4,600
Corporate securities	87	76	–	11	87
Equity securities	781	–	1	780	781
	18,188	15,545	1,340	1,303	18,188
Financial assets not measured at fair value					
Cash and balances at central banks	4,950	535[1]	4,415	–	4,950
Items in the course of collection	153	–	–	153	153
Loans and receivables to banks	2,339	–	779	1,560	2,339
Loans and receivables to customers:					
Mortgages[2]	34,667	–	–	32,181	32,181
Non-mortgages	28,573	–	–	28,192	28,192
Total loans and receivables to customers	63,240	–	–	60,373	60,373
NAMA senior bonds	5,616	–	–	5,626	5,626
Financial investments held to maturity	3,483	3,479	–	–	3,479
Other financial assets	938	–	–	938	938
	80,719	4,014	5,194	68,650	77,858
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	86	86	–	–	86
Derivative financial instruments					
Interest rate derivatives	1,622	–	1,369	253	1,622
Exchange rate derivatives	64	–	64	–	64
Equity derivatives	89	–	51	38	89
Credit derivatives	6	–	6	–	6
	1,867	86	1,490	291	1,867
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	460	–	–	460	460
Secured borrowings	13,403	–	2,903	10,503	13,406
Customer accounts					
Current accounts	25,955	–	–	25,955	25,955
Demand deposits	11,698	–	–	11,698	11,698
Time deposits	24,825	–	–	25,067	25,067
Securities sold under agreements to repurchase	905	–	–	905	905
Debt securities in issue					
Bonds and medium term notes	6,901	6,479	670	–	7,149
Other debt securities in issue	100	–	100	–	100
Subordinated liabilities and other capital instruments	2,318	758	1,778	–	2,536
Other financial liabilities	456	–	–	456	456
	87,021	7,237	5,451	75,044	87,732

[1]Comprises cash on hand. [2]Includes residential and commercial mortgages.

38 Fair value of financial instruments *(continued)*

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

The following table shows significant transfers between Level 1 and Level 2 of the fair value hierarchy for the half-year ended 30 June 2016 and the year ended 31 December 2015:

	30 June 2016			31 December 2015		
	Financial assets			Financial assets		
	Trading portfolio € m	Debt securities € m	Total € m	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 2 from Level 1	–	–	–	–	–	–

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy for the half-year ended 30 June 2016 and the year ended 31 December 2015:

	30 June 2016					
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2016	512	11	780	1,303	291	291
Transfers out of Level 3[1]	(1)	–	–	(1)	–	–
Total gains or (losses) in:						
Profit or loss						
– Net trading income	57	–	–	57	(25)	(25)
– Other operating income	–	–	273	273	–	–
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	–	(302)	(302)	–	–
– Net change in fair value of cash flow hedges	1	–	–	1	(1)	(1)
	1	–	(302)	(301)	(1)	(1)
Purchases	–	–	70	70	–	–
Sales/disposals	–	(7)	(276)	(283)	–	–
Settlements	–	(2)	–	(2)	(46)	(46)
At 30 June 2016	569	2	545	1,116	219	219

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

Transfers out of level 3 arose as a result of the ability to measure financial instruments using observable data for their fair value measurement either directly or indirectly.

38 Fair value of financial instruments *(continued)*
Reconciliation of balances in Level 3 of the fair value hierarchy

	31 December 2015					
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2015	642	3	411	1,056	300	300
Transfers out of Level 3[1]	(8)	–	–	(8)	–	–
Total gains or (losses) in:						
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	(2)	363	361	–	–
– Net change in fair value of cash flow hedges	–	–	–	–	20	20
	–	(2)	363	361	20	20
Purchases	–	10	13	23	–	–
Sales	–	–	(7)	(7)	–	–
Settlements[2]	(122)	–	–	(122)	(29)	(29)
At 31 December 2015	512	11	780	1,303	291	291

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

[2]Includes gains and losses recognised in 'Net trading income' (note 6). In addition, for unrealised gains or losses, see table below.

Transfers out of level 3 arose as a result of the ability to measure financial instruments using observable data for their fair value measurement either directly or indirectly.

The table below sets out the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 30 June 2016 and 31 December 2015:

	30 June 2016 € m	31 December 2015 € m
Net trading income	**126**	61

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38 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the half-year ended 30 June 2016 and the financial year ended 31 December 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair Value				Range of estimates	
Financial instrument		**30 June 2016 € m**	31 December 2015 € m	**Valuation technique**	**Significant unobservable input**	**30 June 2016**	31 December 2015
Uncollateralised customer derivatives	Asset	**569**	512	CVA	LGD	**53% – 81% (Base 54%)**	47% – 79% (Base 55%)
	Liability	**219**	291				
					PD	**0.8% – 1.3% (Base 1.0% 1 year PD)**	0.9% – 1.5% (Base 1.2% 1 year PD)
					Combination LGD and PD[1]	As above, with greater unfavourable impact due to combination of PD and LGD changes	As above, with greater unfavourable impact due to combination of PD and LGD changes
				FVA	Funding spreads	**(0.6%) – 0.5%**	(0.4%) – 0.5%

[1]The fair value measurement sensitivity to unobservable inputs at 30 June 2016 ranges from negative € 66 million to positive € 21 million (31 December 2015: from negative € 57 million to positive € 26 million).

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

Financial instrument		**30 June 2016 € m**	31 December 2015 € m	**Valuation technique**	**Significant unobservable input**	**30 June 2016**	31 December 2015
NAMA subordinated bonds	Asset	**424**	432	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 9% applicable to base asset price. The estimates range from (a) NAMA making full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2019).	Discount rate of 9% applicable to base asset price. The estimates range from: (a) NAMA making full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2019).

In June 2016, the Group received Series B Preferred Stock in Visa Inc. as part consideration for its holding of shares in Visa Europe. This preferred stock will be convertible into Class A Common Stock of Visa Inc. at some point in the future. The conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate. In addition, the stock, being denominated in US dollars, is subject to foreign exchange risk.

Financial instrument		**30 June 2016 € m**	31 December 2015 € m	**Valuation technique**	**Significant unobservable inputs**	**Range of estimates at 30 June 2016**
Visa Inc. Series B Preferred Stock	Asset	**63**	N/A	Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. (50%). This was converted to euro at the period end rate.	Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.	Estimates range from: (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 100% discount for conversion rate variability.

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38 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 in the valuation methodology:

	30 June 2016			
	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	72	(86)	–	–
Financial investments available for sale – equity securities	–	(63)	66	(41)
Total	72	(149)	66	(41)
Classes of financial liabilities				
Derivative financial instruments	35	(63)	–	–
Total	35	(63)	–	–

	31 December 2015			
	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	87	(71)	–	–
Financial investments available for sale – equity securities	–	–	26	(105)
Total	87	(71)	26	(105)
Classes of financial liabilities				
Derivative financial instruments	14	(63)	–	–
Total	14	(63)	–	–

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.

39 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Profit on disposal of business	(1)	–
Profit on disposal of property, plant and equipment	–	(4)
Profit on disposal/transfer of loans and receivables	(11)	(19)
Dividends received from equity securities	(25)	(25)
Dividends received from associated undertakings	(12)	(9)
Associated undertakings net income	(23)	(13)
Writeback of provisions for impairment on loans and receivables	(211)	(540)
Writeback of provisions for liabilities and commitments	(1)	(16)
Writeback of provisions for impairment on financial investments available for sale	(2)	–
Change in other provisions	42	–
Retirement benefits – defined benefit expense	–	11
Termination benefits	–	1
Depreciation, amortisation and impairment	45	39
Interest on subordinated liabilities and other capital instruments	162	136
Net gain on buy back of debt securities in issue	(1)	(7)
Profit on disposal of financial investments available for sale	(323)	(70)
Loss on termination of hedging swaps	29	19
Remeasurement of NAMA senior bonds	(10)	(4)
Amortisation of premiums and discounts	111	37
Fair value gain on realisation/re-estimation of cash flows on loans and receivables previously restructured	(13)	(1)
Change in prepayments and accrued income	41	41
Change in accruals and deferred income	(182)	(132)
Effect of exchange translation and other adjustments[1]	58	(245)
Total non-cash items	(327)	(801)
Contributions to defined benefit pension schemes	(48)	(44)
Dividends received from equity securities	25	25
Total other items	(23)	(19)
Non-cash and other items for the period	(350)	(820)

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

39 Statement of cash flows (continued)

Change in operating assets[1]	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Change in loans and receivables to customers	993	1,447
Change in NAMA senior bonds	2,442	1,917
Change in loans and receivables to banks	750	(1,007)
Change in trading portfolio financial assets	–	(349)
Change in derivative financial instruments	46	(112)
Change in items in course of collection	(28)	(69)
Change in other assets	514	(11)
	4,717	1,816

Change in operating liabilities[1]	Half-year 30 June 2016 € m	Half-year 30 June 2015 € m
Change in deposits by central banks and banks	(5,786)	(727)
Change in customer accounts[2]	(325)	(836)
Change in trading portfolio financial liabilities	(86)	366
Change in debt securities in issue	949	(1,056)
Change in notes in circulation	(60)	11
Change in other liabilities	12	62
	(5,296)	(2,180)

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

[2]Includes deposits placed by NTMA of € 238 million (June 2015: € 2,401 million).

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 2016 € m	Half-year 30 June 2015 € m
Cash and balances at central banks	5,277	5,231
Loans and receivables to banks	1,496	1,430
	6,773	6,661

The Group is required to maintain balances with the Central Bank of Ireland which at 30 June 2016 amounted to € 55 million (30 June 2015: € 120 million).

The Group is required by law to maintain reserve balances with the Bank of England. At 30 June 2016, these amounted to € 552 million (30 June 2015: € 550 million).

There are certain regulatory restrictions on the ability of subsidiaries to transfer funds to the parent company in the form of cash dividends, loans or advances. The impact of such restrictions is not expected to have a material effect on the Group's ability to meet its cash obligations.

40 Related party transactions

Other than as mentioned below, there have been no related party transactions or changes therein since 31 December 2015 that have materially affected the Group's financial position or performance in the half-year to 30 June 2016.

Transactions with Key Management Personnel

As at 30 June 2016, 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 € 4.6 million; 10 persons (31 December 2015: € 4.0 million; 15 persons).

The aggregate of loans, overdrafts/credit cards outstanding to connected persons of Directors in office as at 30 June 2016, as defined in Section 220 of the Companies Act 2014, amounted to € 1.2 million; 15 persons (31 December 2015: € 1.0 million; 20 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(f) to the consolidated financial statements in the Annual Financial Report 2015. As detailed, this relationship encompasses a number of dimensions, namely:

- Capital investments;
- Capital reorganisation;
- 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 2015, there have been no significant changes to the various aspects of this relationship. The Irish Government, through the ISIF, holds 2,710,821,147 ordinary shares with a nominal value of € 0.625 per share. This comprises 99.9.% of the total issued ordinary share capital.

40 Related party transactions *(continued)*

Relationship with the Irish Government

Balances held with the Irish Government and related entities

The following table outlines the balances held with Irish Government entities[(1)] together with the highest balances held at any point during the period.

		30 June 2016		31 December 2015	
		Balance	Highest[(2)] balance held	Balance	Highest[(2)] balance held
	Note	€ m	€ m	€ m	€ m
Assets					
Cash and balances at central banks	a	**94**	**2,162**	41	2,830
Trading portfolio financial assets		**–**	**–**	–	391
Derivative financial instruments		**3**	**7**	3	4
Loans and receivables to banks	b	**955**	**965**	121	121
Loans and receivables to customers		**34**	**82**	81	168
NAMA senior bonds	c	**3,191**	**5,619**	5,616	9,427
Financial investments available for sale	d	**5,150**	**5,853**	5,839	10,019
Financial investments held to maturity	e	**3,420**	**3,482**	3,483	3,487
Total assets		**12,847**		15,184	

		30 June 2016		31 December 2015	
		Balance	Highest[(2)] balance held	Balance	Highest[(2)] balance held
		€ m	€ m	€ m	€ m
Liabilities					
Deposits by central banks and banks	f	**2,500**	**2,950**	2,950	5,300
Customer accounts	g	**605**	**987**	688	3,856
Trading portfolio financial liabilities		**–**	**86**	86	551
Derivative financial instruments		**27**	**54**	69	142
Subordinated liabilities and other capital instruments	h	**1,589**	**1,589**	1,523	1,523
Total liabilities		**4,721**		5,316	

(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 Bank ("POSB") and the National Treasury Management Agency ("NTMA") are included.

(2)The highest balance during the period, together with the outstanding balance at the period end, 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 the central banks represent the minimum reserve requirements which AIB is required to hold with 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 2016 was € 512 million (31 December 2015: € 513 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 € 4,726 million (31 December 2015: € 5,406 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 30 June 2016 of € 424 million (31 December 2015: € 432 million) detailed above under 'NAMA'.

e These comprise Irish Government securities.

f This relates to funding received from the Central Bank (note 26).

g Includes € 200 million (31 December 2015: € 160 million) borrowed from the Strategic Banking Corporation of Ireland, the ordinary share capital of which is owned by the Minister for Finance.

h 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 (see note 41 to the consolidated financial statements in the Annual Financial Report 2015).

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

40 Related party transactions *(continued)*

Relationship with the Irish Government

Local government[1]

During 2016 and 2015, 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 2016 and 2015, 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 institution is 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.

At 30 June 2016 and 31 December 2015, the following balances were outstanding in total to these financial institutions:

	30 June 2016 € m	31 December 2015 € m
Assets		
Derivative financial instruments	**2**	10
Loans and receivables to banks[1]	**4**	494
Financial investments available for sale	**461**	483
Liabilities		
Deposits by central banks and banks[2]	**47**	29
Derivative financial instruments	**3**	7
Customer deposits[3]	**17**	17

[1] The highest balance in loans and receivables to banks amounted to € 500 million in respect of funds placed during the period (31 December 2015: € 616 million).

[2] The highest balance in deposits by central banks and banks amounted to € 303 million in respect of funds received during the period (31 December 2015: € 395 million).

[3] The highest balance in customer deposits amounted to € 17 million in respect of funds received during the period (31 December 2015: € 22 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). AIB Group is currently engaging with the Joint Special Liquidators in relation to the claim. Given AIB's aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

41 Financial and other information

	Half-year 30 June 2016 %	Half-year 30 June 2015 %
Operating ratios		
Operating expenses/operating income	**49.0**	51.2
Operating expenses/operating income before exceptional items, bank levies and regulatory fees	**54.6**	47.9
Other income/operating income	**38.2**	30.7
Other income/operating income before exceptional items	**23.8**	30.3
Net interest margin[(1)]	**2.06**	1.88
Performance measures		
Return on average total assets	**1.7**	1.6
Return on average ordinary shareholders' equity	**13.6**[(2)]	16.8[(3)]

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

[(2)]Profit attributable to ordinary shareholders after deduction of the half-yearly distribution on other equity interests as a percentage of average ordinary shareholders' equity which excludes other equity interests of € 494 million.

[(3)]Profit attributable to ordinary shareholders after deduction of the annual dividend on the 2009 Preference Shares as a percentage of average ordinary shareholders' equity which excludes the € 3.5 billion in 2009 Preference Shares.

Rates of exchange	Half-year 30 June 2016	Half-year 30 June 2015	Year 31 December 2015
€ /$*			
Closing	**1.1102**	1.1189	1.0887
Average	**1.1162**	1.1161	1.1097
€ /£*			
Closing	**0.8265**	0.7114	0.7340
Average	**0.7791**	0.7325	0.7260

*Throughout this report, Pound sterling is denoted by £ and US dollar by $.

42 Average balance sheets and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities. 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 2016			Half-year ended 30 June 2015		
Assets	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %
Trading portfolio financial assets less liabilities	–	–	–	72	–	–
Loans and receivables to banks	6,215	12	0.4	7,128	11	0.3
Loans and receivables to customers	62,767	1,039	3.3	65,129	1,115	3.5
NAMA senior bonds	4,529	7	0.3	8,683	20	0.5
Financial investments available for sale	15,168	158	2.1	19,625	258	2.7
Financial investments held to maturity	3,451	65	3.8	–	–	–
Average interest earning assets	92,130	1,281	2.8	100,637	1,404	2.8
Net interest on swaps		60			38	
Total average interest earning assets	92,130	1,341	2.9	100,637	1,442	2.9
Non-interest earning assets	8,023			7,632		
Total average assets	100,153	1,341	2.7	108,269	1,442	2.7
Liabilities and equity						
Due to central banks and banks	10,951	(6)	(0.1)	16,944	5	0.1
Due to customers	39,686	149	0.8	44,808	250	1.1
Other debt issued	7,684	91	2.4	7,466	111	3.0
Subordinated liabilities	2,348	162	13.9	1,480	136	18.5
Average interest earning liabilities	60,669	396	1.3	70,698	502	1.4
Non-interest earning liabilities	27,114			25,726		
Total average liabilities	87,783	396	0.9	96,424	502	1.0
Equity	12,370			11,845		
Total average liabilities and equity	100,153	396	0.8	108,269	502	0.9

In the above table, negative interest expense amounting to € 10 million is offset against interest expense. In the income statement, the Group presents interest resulting from a negative effective interest rate on financial assets as interest expense. Similarly, interest resulting from a negative effective interest rate on financial liabilities is presented as interest income.

43 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 30 June 2016.

44 Dividends

No dividend on ordinary shares will be paid in respect of the half-year ended 30 June 2016.

45 Approval of Half-Yearly Financial Report

The Half-Yearly Financial Report was approved by the Board of Directors on 27 July 2016.

Statement of Directors' responsibilities

for the half-year ended 30 June 2016

The Directors are responsible for preparing the Group Half-Yearly Financial Report in accordance with IAS 34 *Interim Financial Reporting* as issued by the IASB and adopted by the EU; 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.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, who are listed on pages 166 to 169 of the Annual Financial Report 2015, confirm, to the best of their knowledge and belief, that, the condensed set of financial statements have been prepared in accordance with IAS 34 and that they give a true and fair view of the state of the Group's affairs as at 30 June 2016 and of its profit for the period then ended.

The Half-Yearly Financial Report as required by the Transparency (Directive 2004/109/EC) Regulations 2007 includes:

- a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the financial statements;
- a description of the principal risks and uncertainties for the remaining six months of the financial year;
- a fair review of 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 the period; and
- 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.

For and on behalf of the Board

Richard Pym	**Bernard Byrne**
Chairman	Chief Executive Officer

Independent review report 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 2016, 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 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 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 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 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
Chartered Accountants and Statutory Audit Firm
Dublin

27 July 2016

Deloitte.