Backing our customers

Half-Yearly Financial Report
For the six months ended 30 June 2018

AIB Group plc




AIB

AIB is a financial services group operating predominantly in the Republic of Ireland. We provide a comprehensive range of services to retail, business and corporate customers, and hold market-leading positions in key segments in the Republic of Ireland.

AIB also operates in Great Britain, as Allied Irish Bank (GB), and in Northern Ireland, under the trading name of First Trust Bank.

Our Purpose, as a financial institution, is to back our customers to achieve their dreams and ambitions.

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This Half-Yearly Financial Report contains forward-looking statements with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. See page 167.

FINANCIAL HIGHLIGHTS

A strong performance in the first half of 2018

Net interest margin 2.53%	**H1 2018**	**2.53%**	Stable net interest margin (NIM) with lower cost of funds and stable underlying customer loan yields. NIM (underlying)[1] was 2.50%.
	H1 2017	2.54%	
Cost income ratio[2] 51%	**H1 2018**	**51%**	Continued focus on cost management driving a cost income ratio (CIR) of 51%. CIR excluding income on restructured loans is 53%.
	H1 2017	45%	
Profit before tax €0.76bn	**H1 2018**	**€0.76bn**	Profit before tax is in line with H1 2017. Continued momentum in underlying business performance and meeting expectations.
	H1 2017	€0.76bn	
New lending €5.0bn	**H1 2018**	**€5.0bn**	New lending increased by 15% with growth in mortgages and a strong performance in our Wholesale, Institutional & Corporate Banking (WIB) business.
	H1 2017	€4.3bn	
Net loans €59.9bn	**30 Jun 2018**	**€59.9bn**	Growth in net loan book of €0.5bn, excluding disposal of loan portfolios, as a result of higher new lending. Performing loans (gross) increased €2.2bn.
	31 Dec 2017	€60.0bn	
Non-performing exposures[3] €7.5bn	**30 Jun 2018**	**€7.5bn**	Continued progress in reducing non-performing exposures (NPEs) with a 27% reduction from €10.2bn to €7.5bn. On track to achieve normalised levels of c. 5% by end of 2019.
	31 Dec 2017	€10.2bn	
CET1 fully loaded 17.6%	**30 Jun 2018**	**17.6%**	Robust capital position with CET1 of 17.6%. Strong capital generation with profits contributing 130bps.
	31 Dec 2017	17.5%	

1. NIM (underlying) 2.50% in the half-year to June 2018 excludes additional interest on loans when upgraded from Stage 3 without incurring financial loss. On 1 January 2018, IFRS 9 *Financial Instruments* replaced IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS 9, financial assets are allocated to stages. Stage 3 includes loans that are defaulted or are otherwise considered to be credit impaired. For further information see the Risk management section on pages 33 to 86.
2. Before bank levies, regulatory fees and exceptional items, cost income ratio (CIR) including these items was 59% in H1 2018 (H1 2017: 53%). H1 2017 was enhanced by higher levels of income recognised on restructured loans. For exceptional items see pages 15 and 25.
3. Non-performing exposures (NPEs) refers to non-performing loans and excludes €235 million of off-balance sheet commitments. For further information see pages 25 and 42.

CHIEF EXECUTIVE'S REVIEW

Continuing to deliver against financial commitments

Having produced a very good set of financial numbers and achieved solid progress on our four strategic pillars, our performance in the first six months of 2018 confirms AIB is a customer-focused, sustainable and well-capitalised business.

"We are strongly positioned to support our customers and the growth agenda in the economies in which we operate"

Overview

The financial results for the first half of the year were very good and towards the upper end of expectations. They confirm that AIB is a customer-focused, sustainable and well-capitalised business that continues to deliver against the financial commitments made during last year's IPO process. We are strongly positioned to support our customers, the growth agenda in the economies in which we operate and respond to the economic and regulatory changes that are prevailing.

The Irish economy is performing well and we are maintaining robust positions in our core markets. We continue to make good progress on our four strategic pillars which determine our areas of focus and drive our investment decisions. These are Customer First, Simple & Efficient, Risk & Capital and Talent & Culture and some of the progress made against them in the first half of 2018 is set out in a later section of this report. These pillars ensure that we are focused and working hard on becoming a bank that is all about efficiently and effectively anticipating and meeting our customers' financial needs over the course of their lives and delivering against that in a way that appropriately rewards our investors.

Our Purpose, as a financial institution, is to back our customers to achieve their dreams and ambitions. In the first half of 2018 we brought our Purpose to life throughout the bank by giving our people the opportunity to really connect with it and understand how, in their daily roles, they contribute to our Purpose. We will continue to embed our Purpose as we progress throughout the rest of the year and beyond. This will allow us to serve our customers brilliantly while delivering long-term value for our shareholders.

In the year to date, we successfully completed our first two AIB Group plc senior unsecured bond issuances, totalling €1 billion, on our path to meeting our MREL target. These were the first senior issuances from an Irish holding company for MREL purposes. The initial issuance in March of €500m for a five-year term garnered significant interest from the market, leading to a well oversubscribed book at the time of pricing. In June, we issued a second bond, for a longer seven-year term, albeit in a more volatile market, pricing and demand was somewhat weaker than our earlier issuance. We are very pleased to have these two issuances successfully concluded.

These issuances, the improving NPE profile and our overall performance have been recognised by the external rating agencies. In March, Fitch assigned AIB Group plc a rating of BBB- with a positive outlook. In July, Moody's upgraded AIB Group plc by two notches to Baa3 and Allied Irish Banks, p.l.c. also by two notches to A3. Significantly the AIB Group plc rating is now Investment Grade, which is very beneficial for the credit spread of MREL issuance. In addition they have retained their outlook as positive. S&P reaffirmed their ratings with a positive outlook in July highlighting that they may improve their view of Irish banking industry risk over the two-year outlook horizon.

In the first half of the year we were honoured to be the recipient of some significant awards: 'Best Bank in Ireland' by Euromoney, for the third year in a row; and the IPO won two Global Capital, Equity Capital Markets Awards, 'Privatisation of the Year' and the 'UK and Ireland Deal of the Year.' At the Finance Dublin awards we received nine 'Deal of the Year' awards, including overall 'Deal of the Year' for the IPO in the Equity Capital Markets category. Awards don't determine success but they do show our continued progress as an organisation.

Financial Performance

Against the backdrop of an improving domestic economy, we delivered another strong financial performance in the first half of this year. We achieved a profit before tax of €762 million. This comprises €776 million operating profit excluding exceptional items compared to €823 million in the half-year to June 2017. We continue to maintain a stable net interest margin (NIM) at 2.53%. Combined with the strengthening and simplification of our capital we are very well positioned, with a robust fully loaded CET1 ratio of 17.6% (transitional 21.2%) at 30 June 2018.

In the first six months of the year we delivered continued strong new lending, approving c. €7.7 billion across the Group, with actual customer drawdowns at c. €5 billion, up from c. €4.3 billion in the same period of 2017. Across our core segments, new personal lending was in line with the same period last year while our lending into business and corporate sectors was up nearly 30% on the same period last year. Our mortgage drawdowns increased by 11% year-on-year, despite the backdrop of an increasingly competitive market and a constrained supply of new housing.

We continue to pursue a strategy of working with our customers to achieve positive outcomes for their financial difficulties on a case-by-case basis. Using a suite of different options, we have achieved c. 90,000 customer solutions including c. 40,000 private dwelling houses and we continue to maintain an average run rate of c. 1,000 solutions per month. In H1, non-performing loans with a gross value of €1.1 billion and characterised by deep arrears were sold, resulting in a gain on disposal of €140 million. Our non-performing exposures balance fell by €2.7 billion (27%) since year end December 2017 to €7.5 billion. Since 2013, we have reduced the overall non-performing exposures balance by c. €25.7 billion. We are making steady progress as we continue to move these loan balances to more normalised European peer levels which is something we are targeting for delivery before the end of 2019.

Total costs for the half year, excluding exceptionals, at €711 million are broadly in line with the same period in 2017. Our cost income ratio was 51%, positioning us well to achieve our medium-term target of sustainably below 50% by end 2019.

Culture and Our People

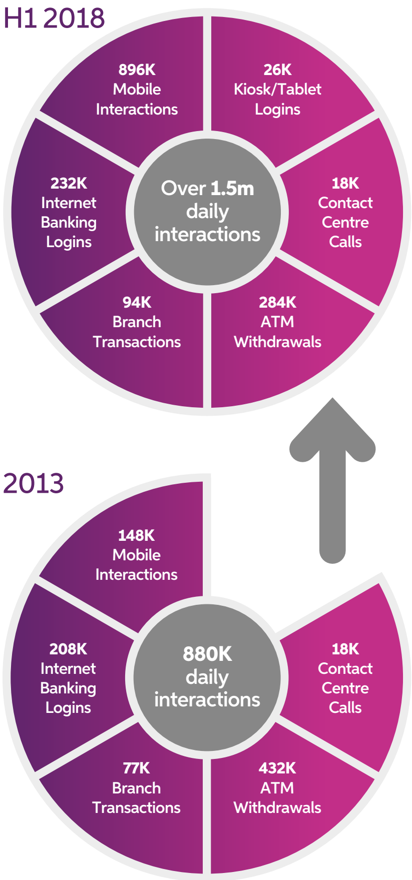
Culture has been identified as being at the centre of many of the issues the banking industry faced in the recent past. We are on a journey of cultural change at AIB and while we have made good progress, we know we still have more to do.

During the period, the Central Bank of Ireland in conjunction with the Dutch National Bank completed an assessment of the culture within AIB. We found this review to be very helpful as it identified many of the positive steps we have taken to embed the customer at the heart of what we do, while also providing very useful challenge about the areas we need to keep focusing on as we continue to evolve our culture.

The success of AIB is built on the efforts and commitment of the people that work here. I was pleased to again see further progress on employee engagement, through our interim iConnect employee survey which took place in April this year. 86% of employees completed the survey, a 2% increase on last year, and the results saw an increase in scores across all of the questions, confirming continued positive momentum.

We are proud of our commitment to support our people and the local communities in which they operate. We launched two new initiatives earlier this year. The first was Appreciate, our bank-wide employee recognition programme, and the second was AIB Together, our Community Investment Volunteering programme.

Daily user interactions



Source: Company information.

Through Appreciate, our employees have the opportunity to recognise their peers for living our Purpose and Values in their daily behaviours and actions. Building a culture of recognition, where appreciating colleagues is second nature, can drive higher levels of performance, focus on really embedding our Purpose and support our delivery to customers.

AIB Together gives all employees the opportunity to volunteer two of their working days per year to a good cause. The programme also supports youth and social entrepreneurship. We are delighted to work alongside our community partners, FoodCloud and Soar. FoodCloud is a multi-award winning social enterprise that enables the redistribution of surplus food from the food industry to the charity sector. Soar is an organisation that believes there is a greatness within all young people and it is committed to creating environments where that potential can be released.

I would like to thank all my colleagues for their ongoing commitment, dedication and enthusiasm as we continue to focus on positioning the business to respond to our customers' needs and in so doing, evolving and improving AIB.

Legacy Customer Challenges

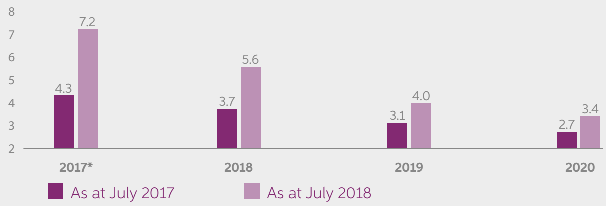
Plenty of challenges still exist, some new and some, like the Tracker Mortgage Examination programme, continue to be work in progress. We are entering the final stages of this examination with payments issued to the vast majority of impacted customers with the remainder being completed by the end of September. Ultimately the Central Bank is the arbiter in deciding when the matter is complete and we will remain ready and open to address any other cases should they emerge.

We know that issues can and do continue to emerge from the past and when they do we are committed to dealing with them in a transparent and fair way for our customers.

A Sustainable Bank

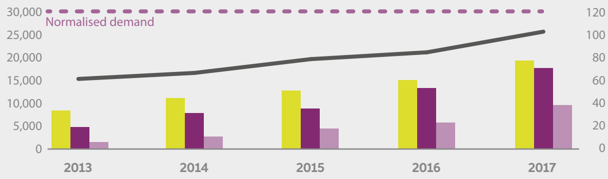
We recently published our second Sustainability Report and planning is underway for our second Sustainability Conference which will take place later in the year. As a bank, we recognise our role in the economy and society. As is evident from our Purpose statement, it starts with a clear focus on delivering for our customers and ripples from there. Our aim is to create long-term shared value in our business, the economy and the communities where we work. By doing this well we can continue to build our social license to operate. That means evolving and embedding a sustainable approach into every level of our business, ensuring it's hard-wired into the decisions we make and the actions we take. We also know it means recognising that we won't always get it right. We want to have an open culture that accepts when we make mistakes and aims to properly fix them.

Irish economic growth improving; Brexit risk remains
(%)



Source: CSO, Department of Finance.

Irish housing activity
# of Completions, Commencement & Registrations ('000s)



Source: CSO, Department of Housing, AIB ERU, National House price index Jan 05=100

* GDP forecasts used , however note that GDP can be distorted due to the impact of multi-national sector in Ireland. Modified Final Domestic Demand in 2017 was 3.2%.

Our stakeholders care about our sustainability agenda. They want to know more about our business, specifically the impact we have and the value we create. So when we spoke to in excess of 1,300 stakeholders earlier this year, we wanted to know what sustainability issues our stakeholders believe are important for us to respond to, in addition to what they expect from us.

This input has helped us to focus on both the role we can play in addressing the social, environmental and economic issues facing our stakeholders, and also guide us to how we can continue to grow their trust in us, through responsible banking practices and operations. Doing this well positions us as a long-term, socially responsible business with a sustainable model for our investors.

As part of our IPO process last year, we noted that a topic which concerned the Board and potential investors was limitations on the bank's ability to attract and retain senior management in the absence of a long-term remuneration policy. The ability to maximise the value of the company for all shareholders, including the taxpayer, is in part dependent on our ability to compete with the remuneration and retention practices of other employers. At our AGM in April 2018, the Board put forward a proposal on long-term remuneration. The Minister for Finance voted against the proposal but helpfully also announced his intention to establish a review on banking remuneration practices. This is consistent with the Board's objectives. All shareholders had the opportunity to have their say on the Remuneration Policy at the AGM and of the remaining 23.91% of shareholders who voted, 99.77% voted for the Remuneration Policy. This reflects institutional shareholders' and proxy advisors' recognition of the need for a fit-for-purpose remuneration policy in the interests of all those invested in the company. While the remuneration review has not commenced, we look forward to its conclusion in due course.

Outlook and Priorities

The Irish economy is expected to continue performing strongly in the medium term against a backdrop of growth in the global economy, a continuing low interest rate environment, more expansionary fiscal policy, on-going recovery in house building activity and improving household incomes. The Purchasing Managers Indices (PMIs) for the manufacturing, services and construction sectors of the economy, which are viewed as good leading indicators of activity, remain at high levels and consumer confidence was at its highest level since 2001 in the opening months of the year. While there are evident risks to the economic outlook from inter alia, Brexit, a changing global tax environment and increasing trade protectionism, the Irish economy is expected to continue performing strongly throughout 2018 and 2019.

House building activity continues to recover, with both commencements and completions rising further in the first half of the year. The level of mortgage lending remains low overall but is growing. The amount of total mortgage debt outstanding in Ireland is still in decline, despite the pick-up in lending in recent years. Continued good growth in mortgage lending and also in lending to the construction sector supports our growth. Rising housing supply is also required to dampen high house price inflation and high rent levels, which are emerging as risks to the competitiveness of the Irish economy.

We must continue to evolve the organisation to ensure that we are getting better at both understanding and meeting the expectations of our key stakeholders. We are working hard on developing better organisational alignment of our resources to deliver for these stakeholders. For our customers, our number one stakeholder, this means greater focus on our Homes, our SME and our Consumer Banking customers. We have more to do on this in the second half of the year as we continue to evolve our business model to ensure the right resources are focused on the things that matter most and I look forward to communicating more about this in due course.

Overall it has been a positive first half and we are on track in achieving our objectives. I would like to thank our Chairman, my fellow Board and Leadership Team members, and my many other colleagues across the Group for the ongoing support that I receive in fulfilling my role as CEO. We will continue to face challenges but we are well positioned to deliver for our customers, our shareholders and our other stakeholders.

Bernard Byrne
Chief Executive Officer
26 July 2018

How we run our business and measure our progress

There are four strategic pillars that determine AIB's key areas of focus and drive our investment: Customer First, Simple & Efficient, Risk & Capital and Talent & Culture. These pillars, and the progress made against them in the first half of 2018, are set out below.

Customer First

What this means in AIB

We put our customers at the heart of our organisation, continually adapting our product and service offerings to meet their needs. We aim to provide a digitally-enabled, omni-channel banking experience that allows customers to interact with the bank how and when they want.

Highlights

- Maintaining our dual brand, multi-proposition approach to mortgages; AIB continues to offer the lowest variable rates in the Irish mortgage market while EBS reduced 1-to-5 year fixed mortgage rates to 3%.
- Committed to providing a fund to the SBCI 2018 Brexit Loan Guarantee Scheme, providing flexible and affordable capital financing to SMEs that may be impacted by Brexit.
- Increased new lending to support housing supply and residential developments, including social housing.
- Launch of 'My Mortgage' web app and 'Express' Mortgage journey.

Measure	Description	Outcomes H1 2018	Financial and non-financial targets[1]
Relationship Net Promoter Score (NPS)	A measure of our customers' overall AIB relationship experience	Personal +18 SME +21	50+
Transaction Net Promoter Score (NPS)[2]	Measured after customer transactions for key touch points	Homes +46 SME +47	50+

Simple & Efficient

What this means in AIB

We are at the forefront of digitally enabled banking, with ongoing investment in technology and innovation. Our products and services are simple and easily accessible, supported by a resilient and agile technology platform.

Highlights

- 96% of customer transactions are automated, with active digital customers at the end of H1 up 9.6% year-on-year to 1.31m and mobile transaction volumes up 39%.
- AIB UK was the first bank in the world to certify conformance to the Open Banking Security Profile, a global standard for securing API communications for financial services.
- Launched a New-to-Bank customer on-boarding capability, enabling customers to conveniently open a personal account via the AIB Mobile App.

Measure	Description	Outcomes H1 2018	Financial and non-financial targets[1]
Channel trends	% number of our active customers transacting digitally	55.5%	56%+
Cost income ratio (CIR)[3]	**Financial benchmark of efficiency**	**51%[4]**	**< 50%** **Robust and efficient operating model**

1. All targets are long-term, with the exception of medium-term financial targets communicated to the market on 9 March 2017.
2. Current management focus on Home and SME journeys
3. Medium-term financial targets communicated to the market on 9 March 2017.
4. Before bank levies, regulatory fees and exceptional items, cost income ratio (CIR) including these items was 59% in H1 2018 (H1 2017: 53%). H1 2017 was enhanced by higher levels of income recognised on restructured loans. For exceptional items see pages 15 and 25.
5. Based on survey conducted in H2 annually.

Risk & Capital

What this means in AIB

We are increasing the value of the business while maintaining a strong risk management framework, improved asset quality and robust capital levels. We offer value to our customers while consistently delivering a strong financial performance that paves the way for future development and addresses legacy challenges.

Highlights

- Continued strong momentum in the reduction of non-performing exposures, with a 27% reduction from €10.2bn to €7.5bn.
- Successfully completed our first two issuances, totalling €1bn, on our path to meeting our MREL target.
- Successful rollout of IFRS 9 along with the launch of an information course available to all employees.
- Strong RAROC performance across all major portfolios, driven by stable margins and credit quality.

Measure	Description	Outcomes H1 2018	Financial and non-financial targets[1]
Return on tangible equity (ROTE)[3]	**A measure of how well the bank deploys capital to generate earnings growth**	**15.2%**	**10%+** **Target returns**
CET1 ratio (fully loaded)[3]	**A measure of our ability to withstand financial stress and remain solvent**	**17.6%**	**13%** **Strong capital base**
Non-performing exposures	Measures the credit quality of our loan stock	€7.5bn	In line with European banking norms
Net interest margin (NIM)[3]	**A measure of the difference between the interest income generated and the amount of interest paid out relative to (interest-earning) assets**	**2.53%**	**2.40%+** **Strong and stable NIM**

Talent & Culture

What this means in AIB

We ensure that we have the right talent, skills and capabilities within the organisation to support accountable, collaborative and trusted ways of working. We promote a culture of diversity and inclusion, where people can be at their best.

Highlights

- Commenced embedding our Purpose across the organisation, enabling every employee to connect with our Purpose in their daily roles.
- Launched AIB Together, our community investment programme offering two volunteering days per annum for every employee, and Appreciate, our new peer-to-peer employee recognition programme.
- Launched two new talent development programmes: 'Leading with Purpose' and 'Emerging Leaders'.

Measure	Description	Outcomes H1 2018	Financial and non-financial targets[1]
Diversity	Women as % of management	38.6%	40%
Engagement	Employee engagement relative to Gallup client population	62nd percentile	Top quartile[5]

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Business review

Business review - 1. Operating and financial review

Basis of presentation

This operating and financial review is prepared using IFRS and non-IFRS measures to analyse the Group's performance. Non-IFRS measures include management and regulatory performance measures which are considered Alternative Performance Measures ("APMs"). APMs arise where the basis of calculation is derived from non-IFRS measures. A description of the Group's APMs and their calculation is set out on page 25.

The management performance measures are consistent with performance measures presented to the Board and Leadership Team. They include the presentation of bank levies and regulatory fees and exceptional items separately on the income statement as management believe that, due to their size and nature, they distort the comparability of performance from period to period. The management performance information should be considered in conjunction with IFRS information as set out in the condensed consolidated interim financial statements on pages 94 to 164 . A reconciliation between IFRS and management performance summary income statement is set out on page 26.

On 1 January 2018, the Group implemented the requirements of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time. For further information see note 1 'Basis of preparation' and note 2 'Transition to IFRS 9' in the condensed consolidated interim financial statements.

Basis of calculation

Percentages presented throughout this review are calculated on the absolute numbers and therefore may differ from the percentages based on the rounded numbers. 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.

Management performance - summary income statement	**Half-year June 2018 € m**	Half-year June 2017 € m	*% change*
Net interest income	**1,061**	1,077	*-1*
Business income	**256**	287	*-11*
Other items	**66**	165	*-60*
Other income	**322**	452	*-29*
Total operating income	**1,383**	1,529	*-10*
Personnel expenses	**(364)**	(360)	*1*
General and administrative expenses	**(278)**	(279)	-
Depreciation, impairment and amortisation	**(69)**	(54)	*28*
Total operating expenses	**(711)**	(693)	*3*
Operating profit before bank levies, regulatory fees, impairment and provisions	**672**	836	*-20*
Bank levies and regulatory fees	**(31)**	(45)	*-31*
Net credit impairment writeback/ (losses)	**130**	19	-
Writeback of provisions for liabilities and commitments	**-**	4	-
Operating profit	**771**	814	*-5*
Associated undertakings	**4**	10	*-60*
Profit / (loss) on disposal	**1**	(1)	-
Profit from continuing operations before exceptional items	**776**	823	*-6*
Gain on disposal of loan portfolios	**140**	7	-
Customer redress	**(32)**	-	-
Restitution and restructuring costs	**(47)**	(3)	-
Termination benefits	**(9)**	(24)	-
Property strategy costs	**(44)**	-	-
IFRS 9 costs	**(22)**	-	-
IPO and capital related costs	**-**	(42)	-
Total exceptional items	**(14)**	(62)	-
Profit before taxation from continuing operations	**762**	761	-
Income tax charge from continuing operations	**(112)**	(109)	*3*
Profit for the period	**650**	652	-

Net interest income

Net interest income	Net interest margin
€1,061m	**2.53%**

Net interest income	Half-year June 2018 € m	Half-year June 2017 € m	% change
Interest income[1]	1,172	1,232	-5
Interest expense[1]	(111)	(155)	-28
Net interest income	1,061	1,077	-1
Average interest earning assets	84,610	85,522	-1
	%	%	change
NIM	2.53	2.54	-0.01
NIM (underlying)[2]	2.50	2.47	0.03

Net interest income

€1,061m

Net interest income was broadly stable compared to the half-year to June 2017. Average loan volumes were stable with the continued restructuring and deleveraging of non-performing loans offset by the positive impact of new lending. The reduction in interest income was driven by lower income on investment securities and lower levels of additional interest on loans when upgraded from Stage 3/ impaired[2] without incurring financial loss. This was partly offset by a reduction in interest expense.

Interest income

Interest income of € 1,172 million in the half-year to June 2018 decreased by € 60 million compared to the half-year to June 2017 due to a reduction in investment securities volumes and yields, lower yield on loans and advances to customers following mortgage rate reductions in H2 2017, lower levels of additional interest on loans when upgraded from Stage 3/ impaired[2] and continued restructuring and deleveraging of non-performing loans.

Average interest earning assets of € 84.6 billion in the half-year to June 2018 decreased from € 85.5 billion in the half-year to June 2017. There was a reduction in investment securities of € 2.4 billion and a reduction in NAMA senior bonds of € 0.8 billion, partly offset by an increase in loans and advances to banks of € 2.4 billion.

Average asset yield of 279 bps in the half-year to June 2018 was 11 bps lower than the half-year to June 2017. This reflected a change in the portfolio mix with an increase in loans and advances to banks and a reduction in investment securities. It also reflected lower yields on investment securities and loans and advances to customers. Yields on loans and advances to customers reduced to 349 bps from 357 bps. This was driven by mortgage rate reductions in H2 2017 and lower levels of additional interest on loans when upgraded from Stage 3/ impaired[2], partly offset by the reducing tracker mortgage book (average volume € 1.3 billion lower than half-year to June 2017).

Interest expense

Interest expense of € 111 million in the half-year to June 2018 decreased by € 44 million compared to the half-year to June 2017, driven by lower volumes and rates. The cost of funds of 49 bps in the half-year to June 2018 reduced from 62 bps in the half-year to June 2017 driven by a reduction in rates on customer accounts as higher interest bearing deposits matured.

Interest expense includes € 15 million interest received in respect of funds borrowed through the ECB TLTRO scheme following Central Bank of Ireland confirmation that AIB had fully met its targets under the scheme. This resulted in a payment to AIB of 40 bps on funds borrowed since June 16.

Net interest margin

2.53%

NIM 2.53% in the half-year to June 2018 was broadly in line with the half-year to June 2017.

Material NIM movements included:

- Reduction in rates on loans and advances to customers, c. -6 bps impact, primarily due to lower levels of additional interest on loans when upgraded from Stage 3/ impaired[2] and reductions in mortgage rates in H2 2017.
- Increase in volume of loans and advances to banks, c. -7 bps impact.
- Reduction in rates on customer accounts, c. +10 bps.
- Redemption of NAMA senior bonds, c. +2 bps.

[1]Negative interest income on assets amounting to € 5 million in the half-year to June 2018 (half-year to June 2017: € 1 million) is offset against interest income. Negative interest expense on liabilities amounting to € 18 million in the half-year to June 2018 (half-year to June 2017: € 8 million) is offset against interest expense.
[2]NIM (underlying) 2.50% in the half-year to June 2018 excludes additional interest on loans when upgraded from Stage 3 without incurring financial loss. On 1 January 2018, IFRS 9 *Financial Instruments* replaced IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS 9, financial assets are allocated to Stages: Stage 3 includes loans that are defaulted or are otherwise considered to be credit impaired. For further information see pages 33 to 86. NIM (underlying) 2.47% in the half-year to June 2017, which was reported under IAS 39, excludes additional interest on cured loans when upgraded from impaired without incurring financial loss.

Net interest income *(continued)*

Average balance sheet

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

	Half-year 30 June 2018			Half-year 30 June 2017		
Assets	Average balance €m	Interest[1] €m	Average rate %	Average balance €m	Interest[1] €m	Average rate %
Loans and advances to customers	60,728	1,050	3.49	60,815	1,078	3.57
NAMA senior bonds	-	-	-	845	2	0.49
Investment securities	15,238	113	1.50	17,624	146	1.67
Loans and advances to banks	8,644	9	0.19	6,238	6	0.17
Average interest earning assets	84,610	1,172	2.79	85,522	1,232	2.90
Non-interest earning assets	7,181			7,401		
Total average assets	91,791	1,172		92,923	1,232	
Liabilities & equity						
Deposits by banks	3,987	(4)	(0.20)	5,981	(4)	(0.15)
Customer accounts	35,966	81	0.45	37,104	128	0.69
Subordinated liabilities	794	16	3.99	792	16	3.97
Other debt issued	4,863	18	0.75	6,623	15	0.46
Trading portfolio financial liabilities less assets	5	-	-	2	-	-
Average interest earning liabilities	45,615	111	0.49	50,502	155	0.62
Non-interest earning liabilities	32,739			29,217		
Equity	13,437			13,204		
Total average liabilities & equity	91,791	111		92,923	155	
Net interest income		1,061	2.53		1,077	2.54

[1]Negative interest income on assets amounting to € 5 million in the half-year to June 2018 (half-year to June 2017: € 1 million) is offset against interest income. Negative interest expense on liabilities amounting to € 18 million in the half-year to June 2018 (half-year to June 2017: € 8 million) is offset against interest expense.

Other income

Other income[1]

€322m

Business income

€256m

Other items

€66m

Other income	Half-year June 2018 € m	Half-year June 2017 € m	% change
Net fee and commission income[2]	217	224	-3
Dividend income	24	27	-11
Net trading income[2][3]	15	32	-53
Miscellaneous business income	-	4	-
Business income	256	287	-11
Net profit on disposal of investment securities	16	16	-
Net gain on equity investments measured at FVTPL[4]	31	-	-
Economic hedges (equity investments)[3]	(16)	-	-
Net gain on loans and advances to customers measured at FVTPL[4]	40	-	-
Realisation / re-estimation of cash flows on restructured loans	-	146	-
Settlements and other (losses)/ gains	(5)	3	-
Other items	66	165	-60
Other income[1]	322	452	-29

Other income[1]

€322m

Other income decreased by € 130 million compared to the half-year to June 2017. Net fee and commission income remained relatively stable with a decrease in other items of € 99 million.

Business income

€256m

Net fee and commission income[2]

Net fee and commission income	Half-year June 2018 € m	Half-year June 2017 € m	% change
Customer accounts[2]	103	103	-
Card income	36	35	3
Lending related fees	20	26	-23
Customer related foreign exchange[2]	35	35	-
Other fees and commissions	23	25	-8
Net fee and commission income[2]	217	224	-3

Net fee and commission income of € 217 million in the half-year to June 2018 remained relatively stable with a decrease of € 7 million compared to the half-year to June 2017. Lending related fees reduced by € 6 million with a reduction in other fees and commissions of € 2 million.

Dividend income

Dividend income was € 24 million in the half-year to June 2018, € 27 million in the half-year to June 2017. € 22 million was received on NAMA subordinated bonds in the half-year to June 2018 compared to € 25 million received in the half-year to June 2017.

Net trading income[2][3]

Net trading income decreased by € 17 million compared to the half-year to June 2017 mainly due to a reduction of € 12 million in the valuations on long term customer derivative positions and a reduction of € 6 million on foreign exchange contracts.

Other items

€66m

Other items were € 66 million in the half-year to June 2018, € 165 million in the half-year to June 2017.

Other items in the half-year to June 2018 included:
- Net profit of € 16 million on the disposal of investment securities.
- Net gain on equity investments measured at FVTPL of € 31 million. The equity investments are hedged by total return swaps. The net gain including the impact of the swaps was € 15 million .
- Net loss on economic hedges with regard to equity investments of € 16 million related to total return swaps used to hedge equity investments measured at FVTPL.
- Net gain on loans and advances to customers measured at FVTPL of € 40 million. This represents income recognised on restructured loans. This continues to reduce as non-performing loans move towards more normalised levels.
- Settlements and other losses of € 5 million.

Other items in the half-year to June 2017 included:
- Net profit of € 16 million on the disposal of investment securities
- Realisation / re-estimation of cash flows on restructured loans which resulted in income recognised of € 146 million. This included € 116 million of gains recognised on a small number of complex legacy property cases.
- Settlements and other gains of € 3 million.

(1) Other income before exceptional items.
(2) Customer related foreign exchange income of € 29 million was reported at 30 June 2017 in 'Net trading income'. Customer related foreign exchange branch commissions of € 6 million was reported at 30 June 2017 in 'Customer accounts'. Both are now reported in 'Customer related foreign exchange' in 'Net fee and commission income' in both periods. See note 7 'Net fee and commission income' and note 8 'Net trading income' in the condensed consolidated interim financial statements.
(3) Economic hedges with regard to equity investments are reported in 'Net trading income' in the condensed consolidated interim financial statements. See note 8 'Net trading income'.
(4) On 1 January 2018, the Group implemented the requirements of IFRS 9 *Financial Instruments*. Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income ("FVOCI") are measured at fair value through profit or loss ("FVTPL"). Gains or losses on such assets are recognised in the condensed consolidated income statement.

Total operating expenses

Total operating expenses[1]

€711m

Cost income ratio[1]

51%

Operating expenses	Half-year June 2018 € m	Half-year June 2017 € m	% change
Personnel expenses	**364**	360	*1*
General and administrative expenses	**278**	279	*-*
Depreciation, impairment and amortisation	**69**	54	*28*
Total operating expenses[1]	**711**	693	*3*
Staff numbers at period end[2]	**9,759**	10,189	*-4*
Average staff numbers[2]	**9,697**	10,286	*-6*

Average staff numbers 9,697 decreased by 589 from the half-year to June 2017 mainly due to rationalisation in operational services and the implementation of a new operating model in the AIB UK distribution network.

General and administrative expenses

General and administrative expenses decreased € 1 million compared to the half-year to June 2017, with decreases in investment spend and third party resourcing partly offset by increased technology costs.

Depreciation, impairment and amortisation

The charge increased by € 15 million compared to the half-year to June 2017 as assets created under the investment programme were commissioned to operational use.

Total operating expenses[1]

€711m

Total operating expenses increased by € 18 million compared to the half-year to June 2017.

The increase in costs was driven by increased depreciation, impairment and amortisation of € 15 million and higher personnel expenses of € 4 million partly offset by lower general and administrative expenses of € 1 million.

Personnel expenses

Personnel expenses increased by € 4 million compared to the half-year to June 2017. The increase was due to a past service cost with regard to pension in payment increases and the impact of salary inflation, partly offset by a reduction due to lower average staff numbers.

Cost income ratio[1]

51%

Costs of € 711 million and income of € 1,383 million resulted in a cost income ratio of 51% in the half-year to June 2018 compared to 45% in the half-year to June 2017.

The cost income ratio of 51% is enhanced by a net gain on loans and advances to customers measured at FVTPL of € 40 million and additional interest on loans when upgraded from Stage 3 of € 12 million. Excluding these items the cost income ratio was 53% in the half-year to June 2018.

[1] Before bank levies, regulatory fees and exceptional items. Cost income ratio including bank levies, regulatory fees and exceptional items was 59% in the half-year to June 2018 compared to 53% in the half-year to June 2017.
[2] Staff numbers are on a full time equivalent ("FTE") basis.

Bank levies and regulatory fees

€31m

Bank levies and regulatory fees	Half-year June 2018 € m	Half-year June 2017 € m
Irish bank levy	-	-
Deposit Guarantee Scheme	(12)	(24)
Single Resolution Fund/BRRD	(18)	(20)
Other	(1)	(1)
Bank levies and regulatory fees	(31)	(45)

Deposit Guarantee Scheme ("DGS") € 12 million in the half-year to June 2018 included writebacks of € 14 million in relation to amounts previously expensed under the legacy scheme.
The Irish bank levy for financial institutions is payable in October each year.

Net credit impairment writeback/ (losses)

€130m

There was a net credit impairment writeback of € 130 million in the half-year to June 2018. This included € 139 million writeback on loans and advances to customers, € 1 million writeback on loans and advances to banks and a € 10 million charge on off-balance sheet commitments. Of the € 139 million writeback on loans and advances to customers, € 29 million related to recoveries of amounts written off in prior years and € 110 million primarily related to movements in individually assessed cases where there was a re-measurement of the loss allowance requirement. This was mainly due to increased security values and improved business cash flows due to the stronger economic environment.
For the half-year to June 2017, which was reported under IAS 39, there was a net provision writeback of € 19 million.

See the Risk management section on page 44 for more information.

Income tax charge

€112m

The effective tax rate was 14.7% in the half-year to June 2018 compared with 14.3% in the half-year to June 2017.

Total exceptional items

€14m

Total exceptional items net charge of € 14 million in the half-year to June 2018 compared to € 62 million in the half-year to June 2017.

Total exceptional items	Half-year June 2018 € m	Half-year June 2017 € m
Gain on disposal of loan portfolios	140	7
Customer redress	(32)	-
Restitution and restructuring costs	(47)	(3)
Termination benefits	(9)	(24)
Property strategy costs	(44)	-
IFRS 9 costs	(22)	-
IPO and capital related costs	-	(42)
Total exceptional items	(14)	(62)

Given the size and nature of these items, the associated gain or cost was viewed as exceptional by management. For further detail on exceptional items see page 25.
Gain on disposal of loan portfolios. A number of loan portfolios were disposed of in the half-year to June 2018 which resulted in a gain recognised of € 140 million (including € 21 million of a net gain on other financial assets measured at FVTPL) compared to € 7 million in the half-year to June 2017.
Customer redress. Further provision required for customer redress and compensation in relation to the examination of tracker mortgage and other redress.
Restitution and restructuring costs include other costs associated with the payment of customer redress, customer write-offs, other restitution and transformation.
Termination benefits of € 9 million mainly due to rationalisation in in the RCB and AIB UK distribution network and support services.
Property strategy costs As the Group implements its property footprint strategy certain office space will become surplus. Onerous contracts provisions have been raised for lease commitments and other related costs totalling € 44 million.
IFRS 9 costs. Implementation of IFRS 9 was a significant undertaking. These costs, amounting to € 22 million, represent the one off exceptional costs relating to the implementation of IFRS 9 within the Bank. Other costs associated with IFRS 9 which are not exceptional are for the build of the intangible modelling asset and these amount to € 6 million.
IPO and capital related costs include commissions and transaction advisory fees and expenses associated with the IPO and the implementation of the new Group holding company.

Return on tangible equity

15.2%

ROTE increased to 15.2% in the half-year to June 2018 from 14.4% in the half-year to June 2017 mainly due to lower average risk weighted assets.

Assets

Net loans to customers

€59.9bn

New lending

€5.0bn

Assets	30 Jun 2018 € bn	1 Jan 2018[1] € bn	31 Dec 2017 € bn
Gross loans to customers	**62.8**	63.3	63.3
Loss allowance	**(2.9)**	(3.6)	(3.3)
Net loans to customers	**59.9**	59.7	60.0
Investment securities	**15.8**	16.3	16.3
Loans and advances to banks	**9.9**	7.7	7.7
Other assets	**6.9**	6.1	6.1
Total assets	**92.5**	89.8	90.1

Net loans to customers

€59.9bn

Net loans of € 59.9 billion increased by € 0.2 billion compared to € 59.7 billion at 1 January 2018. New lending of € 5.0 billion exceeded redemptions of € 4.5 billion which included € 0.8 billion redemptions on non-performing loans.

New lending

€5.0bn

New term lending of € 5.0 billion in the half-year to June 2018, € 0.7 billion higher (+15%) than the half-year to June 2017 due to an increased demand for credit:

- RCB new lending of € 2.3 billion up 2%, including mortgage lending up 11% with other lending down 6%. The increase in mortgage lending is driven by a growing Irish mortgage market.
- WIB new lending of € 1.9 billion up 50% driven primarily by real estate finance and syndicated lending.
- AIB UK new lending of € 0.8 billion down 6% (down 4% excluding the impact of currency movements), primarily driven by AIB GB.

Transaction lending

In addition to new term lending of € 5.0 billion there was an increase in demand for transactional based products with new transaction lending of € 0.5 billion in the half-year to June 2018. New transaction lending is defined as balances drawn down for the first time on transactional based products.

Non-performing loans

€7.5bn

Non-performing loans reduced by € 2.1 billion compared to 1 January 2018. The reduction reflects loan portfolio sales of € 1.1 billion and continued case by case restructuring activity of € 1.0 billion.

Loss allowance

€2.9bn

Non-performing loan cover

32%

There was a loss allowance on loans and advances to customers of € 2.9 billion at 30 June 2018. Under IAS 39, total impairment provisions were € 3.3 billion at 31 December 2017. Upon implementation of IFRS 9 at 1 January 2018, a loss allowance of € 3.6 billion was required resulting in an adjustment of € 0.3 billion to the closing impairment provision at 31 December 2017.

The loss allowance of € 2.9 billion at 30 June 2018 reduced by € 0.7 billion from 1 January 2018 primarily reflecting loan portfolio sales and continued restructuring activity.

The loss allowance cover rate on non-performing loans was 32% at 30 June 2018.

Summary of movement in loans to customers

The table below sets out the movement in loans to customers from 31 December 2017 to 30 June 2018.

Loans to customers	Performing loans € bn	Non-performing loans € bn	Loans to customers € bn
Gross loans (closing balance 31 December 2017)	**53.1**	**10.2**	**63.3**
Harmonisation of default definition at 1 January 2018[2]	**0.6**	**(0.6)**	**-**
Gross loans (opening balance 1 January 2018)	**53.7**	**9.6**	**63.3**
New lending volumes	**5.0**	**-**	**5.0**
Redemptions of existing loans[3]	**(3.7)**	**(0.8)**	**(4.5)**
Disposals	**-**	**(1.1)**	**(1.1)**
Restructures and write-offs	**-**	**(0.1)**	**(0.1)**
Net movement from non-performing	**0.2**	**(0.2)**	**-**
Foreign exchange movements	**0.1**	**-**	**0.1**
Other movements	**-**	**0.1**	**0.1**
Gross loans (closing balance 30 June 2018)	**55.3**	**7.5**	**62.8**
Loss allowance	**(0.5)**	**(2.4)**	**(2.9)**
Net loans (closing balance 30 June 2018)	**54.8**	**5.1**	**59.9**

[1]The 'Statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 and IFRS 15 which apply with effect from 1 January 2018. For further information see note 1 'Basis of preparation' and note 2 'Transition to IFRS 9' of the condensed consolidated interim financial statements.
[2]The non-performing exposures stock was revised from € 10.2 billion at 31 December 2017 to € 9.6 billion at 1 January 2018 reflecting the implementation and harmonisation of a new definition of default policy which aligns to accounting standards and EBA guidelines. For further information see page 42.
[3]New transaction lending is netted against redemptions given the revolving nature of these products.

Assets *(continued)*

The tables[1] below summarise the credit profile of the loan portfolio by asset class and include a range of credit metrics that the Group uses in managing the portfolio. Further information on the risk profile of the Group and non-performing loans is available in the Risk management section on pages 33 to 86.

Loan portfolio profile 30 June 2018	**Residential mortgages € bn**	**Other personal € bn**	**Property and construction € bn**	**Non-property business € bn**	**Total € bn**
Gross loans to customers	**33.1**	**3.1**	**8.1**	**18.5**	**62.8**
Of which: Stage 3	**3.9**	**0.4**	**1.4**	**1.2**	**6.9**
Total loss allowance	**1.3**	**0.3**	**0.6**	**0.7**	**2.9**
Non-performing loans	**4.2**	**0.4**	**1.7**	**1.2**	**7.5**
Total loss allowance non-performing loans	**1.2**	**0.2**	**0.5**	**0.5**	**2.4**
Loss allowance cover non-performing loans (%)	**28%**	**49%**	**32%**	**39%**	**32%**
31 December 2017	€ bn	€ bn	€ bn	€ bn	€ bn
Loans and receivables to customers	33.7	3.1	8.8	17.7	63.3
Of which: Impaired	3.3	0.4	1.8	0.8	6.3
Balance sheet provisions (specific + IBNR)	1.4	0.2	1.1	0.6	3.3
Specific provisions / Impaired loans (%)	34%	56%	51%	54%	43%
Total provisions / Total loans (%)	4%	8%	12%	3%	5%

Non-performing loans 30 June 2018	**Residential mortgages € bn**	**Other personal € bn**	**Property and construction € bn**	**Non-property business € bn**	**Total € bn**
Collateral disposals	**0.2**	**0.1**	**0.5**	**0.1**	**0.9**
Unlikely to pay (including > 90 days past due)	**3.5**	**0.3**	**1.1**	**1.0**	**5.9**
Non-performing loans probation	**0.5**	**0.0**	**0.1**	**0.1**	**0.7**
Total non-performing loans	**4.2**	**0.4**	**1.7**	**1.2**	**7.5**
Total non-performing loans / Total loans (%)	**13%**	**14%**	**21%**	**7%**	**12%**
31 December 2017	€ bn	€ bn	€ bn	€ bn	€ bn
Impaired	3.3	0.4	1.8	0.8	6.3
Greater than 90 days past due but not impaired	0.2	0.1	0.1	0.2	0.6
Non-impaired (unlikely to pay)	0.5	0.0	0.3	0.1	0.9
Non-default	0.8	0.1	0.7	0.8	2.4
Total non-performing loans	4.8	0.6	2.9	1.9	10.2
Total non-performing loans / Total loans (%)	14%	18%	33%	11%	16%

[1]Percentages and certain amounts in the tables above have been rounded. Sourced from page 35 and 42 of the Risk management section and rounded to billions.

Assets *(continued)*

Investment securities

Investment securities of € 15.8 billion held for liquidity and investment purposes have decreased by € 0.5 billion compared to 31 December 2017.

Further detail in respect of investment securities is available in note 23 to the condensed consolidated interim financial statements.

Loans and advances to banks

Loans and advances to banks of € 9.9 billion were € 2.2 billion higher than 31 December 2017. This included balances with Central Banks of € 8.4 billion, € 2.0 billion higher than 31 December 2017. The increased placings were driven by higher levels of funding, in particular increased levels of customer accounts and the issuance of a Euro Medium Term Note partly offset by a reduction in monetary authority funding.

Other assets

Other assets of € 6.9 billion comprised:

- Deferred taxation of € 2.7 billion, in line with 31 December 2017.
- Derivative financial instruments of € 0.9 billion, € 0.3 billion lower than 31 December 2017.
- Remaining assets of € 3.3 billion, € 1.1 billion higher than 31 December 2017, includes € 0.9 billion proceeds awaiting settlement from the disposal of a loan portfolio and from debt securities issued (issuance of a Euro Medium Term Note).

Liabilities & equity

Customer accounts	Equity
€67.1bn	€13.6bn

Liabilities & equity	30 Jun 2018 € bn	1 Jan 2018[(1)] € bn	31 Dec 2017 € bn
Customer accounts	**67.1**	64.6	64.6
Monetary authority funding	**1.0**	1.9	1.9
Other market funding	**1.7**	1.7	1.7
Debt securities in issue	**5.6**	4.6	4.6
Other liabilities	**3.5**	3.7	3.7
Total liabilities	**78.9**	76.5	76.5
Equity	**13.6**	13.3	13.6
Total liabilities & equity	**92.5**	89.8	90.1
	%	%	%
Loan to deposit ratio	**89**	92	93

Customer accounts

€67.1bn

Customer accounts, increased by € 2.5 billion compared to 31 December 2017, with increased current accounts of € 2.3 billion. The increase reflected a c. € 1 billion inflow as a result of a competitor exiting the market and continued strong economic activity.

The loan to deposit ratio decreased to 89% at 30 June 2018 compared to 93% at 31 December 2017 driven by increased levels of customer accounts.

Monetary authority funding

Monetary authority funding of € 1.0 billion decreased from € 1.9 billion at 31 December 2017 following repayment in June 2018 of € 0.95 billion TLTRO funds.

Other market funding

Other market funding € 1.7 billion was in line with 31 December 2017.

Debt securities in issue

Debt securities of € 5.6 billion increased by € 1.0 billion from € 4.6 billion at 31 December 2017 following the issuance of Euro Medium Term Notes (March 2018 € 0.5 billion and June 2018 € 0.5 billion).

Other liabilities

Other liabilities of € 3.5 billion comprised:

- Subordinated liabilities of € 0.8 billion, unchanged from 31 December 2017.
- Derivative financial instruments of € 1.0 billion, € 0.2 billion lower than 31 December 2017.
- Remaining liabilities of € 1.7 billion, in line with 31 December 2017.

Equity

€13.6bn

Equity € 13.6 billion increased by € 0.3 billion compared to € 13.3 billion at 1 January 2018.

The table below sets out the movements to 30 June 2018.

Equity	€ bn
Closing balance (31 December 2017)	**13.6**
Impact of adopting IFRS 9 and IFRS 15 at 1 January 2018	**(0.3)**
Restated balance (1 January 2018)	**13.3**
Profit for the period	**0.7**
Other comprehensive income:	
Cash flow hedging reserves/other	**0.1**
Investment securities reserves	**(0.2)**
Dividends / distributions paid	**(0.3)**
Closing balance (30 June 2018)	**13.6**

(1)The 'Statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 and IFRS 15 which apply with effect from 1 January 2018. For further information see note 1 'Basis of preparation' and note 2 'Transition to IFRS 9' of the condensed consolidated interim financial statements.

Business review - 1. Operating and financial review

Segment reporting

Segment overview
The Group is managed through the following business segments: Retail & Commercial Banking ("RCB")*, Wholesale, Institutional & Corporate Banking ("WIB")*, AIB UK* and Group.

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 the Group segment. Funding and liquidity charges are based on each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirement.

*Within the above segments, the Group has migrated the management of the vast majority of its non-performing loans to the Financial Solutions Group ("FSG"), a standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG's well resourced operational capacity, workout expertise and skillset. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty. The Group is moving into the mature stage of managing customers in difficulty and non-performing loan portfolios.

Retail & Commercial Banking ("RCB")

RCB contribution statement	Half-year June 2018 € m	Half-year June 2017 € m	% change
Net interest income	692	709	-2
Business income	161	164	-
Other items	41	146	-
Other income	202	310	-35
Total operating income	894	1,019	-12
Total operating expenses	(377)	(373)	1
Operating contribution before bank levies, regulatory fees, impairment and provisions	517	646	-20
Net credit impairment writeback/ (losses)	152	33	-
Writeback of provisions for liabilities and commitments	-	6	-
Operating contribution	669	685	-2
Associated undertakings	-	8	-
Loss on disposal	-	(1)	-
Contribution before exceptional items	669	692	-3

RCB balance sheet metrics	30 Jun 2018 € bn	30 Jun 2017 € bn	% change
Mortgages	1.2	1.1	11
Personal	0.4	0.4	-3
Business	0.7	0.7	-8
New lending	2.3	2.2	2
	30 Jun 2018 € bn	**1 Jan 2018[(1)] € bn**	**31 Dec 2017 € bn**
Mortgages	31.6	32.2	32.2
Personal	3.0	3.0	3.0
Business	7.6	8.5	8.5
Legacy distressed loans[(2)]	0.5	0.7	0.7
Gross loans	42.7	44.4	44.4
Loss allowance	(2.6)	(3.2)	(3.0)
Net loans	40.1	41.2	41.4
Current accounts	24.5	22.6	22.6
Deposits	24.6	24.0	24.0
Customer accounts	49.1	46.6	46.6

Net interest income

€692m Net interest income has decreased by € 17 million reflecting lower loan volumes due to continued restructuring and deleveraging, reductions in mortgage rates and lower levels of additional interest on loans when upgraded from Stage 3/ impaired (€ 10 million in the half-year to June 2018, € 25 million in the half-year to June 2017). These were partly offset by lower cost of deposits and positive impact of new lending.

Other income

€202m Business income decreased by € 3 million driven by a reduction in lending related fees and wealth management income. Net fee and commission income remained stable. Other items of € 41 million primarily related to a net gain on other financial assets measured at FVTPL. In the half-year to June 2017 other items included € 146 million realisation / re-estimation of cash flows on loans previously restructured.

Total operating expenses

€377m Total operating expenses increased by € 4 million driven by an increase in depreciation as assets created under the investment programme were commissioned to operational use, partly offset by a reduction in staff and distribution network costs.

Net credit impairment writeback/ (losses)

€152m There was a net credit impairment writeback of € 152 million in the half-year to June 2018. This was driven by recoveries and repayments, increased security values and improved cash flows due to the stronger economic environment. For the half-year to June 2017, which was reported under IAS 39, there was a net provision writeback of € 33 million.

New lending

€2.3bn New lending € 2.3 billion up 2%, driven by growth in mortgage lending as activity in the mortgage market increases.

In addition to new term lending of € 2.3 billion, there was new transaction lending of € 0.1 billion in the half-year to June 2018.

Net loans

€40.1bn Net loans decreased by € 1.1 billion compared to 1 January 2018 driven by the disposal of loan portfolios of € 0.6 billion, and continued restructuring activity in the non-performing loan book of € 0.7 billion. Performing loans increased by € 0.2 billion as new lending exceeded redemptions in the period.

Loss allowance

€2.6bn There was a loss allowance on loans and advances to customers of € 2.6 billion at 30 June 2018. Under IAS 39, total impairment provisions were € 3.0 billion at 31 December 2017. Upon implementation of IFRS 9 at 1 January 2018, a loss allowance of € 3.2 billion was required resulting in an adjustment of € 0.2 billion to the closing impairment provision at 31 December 2017.
The loss allowance of € 2.6 billion at 30 June 2018 reduced by € 0.6 billion from 1 January 2018 primarily reflecting loan portfolio sales and continued restructuring activity.

Customer accounts

€49.1bn Customer accounts increased by € 2.5 billion compared to 31 December 2017 with increased current accounts of € 1.9 billion. The increase reflected a c. € 1 billion inflow as a result of a competitor exiting the market and continued strong economic activity.

(1) The 'Statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 which applies with effect from 1 January 2018. For further information see note 1 'Basis of preparation' and note 2 'Transition to IFRS 9' of the condensed consolidated interim financial statements.
(2) Larger legacy distressed loans that have been subject to restructuring arrangement which are managed through the loan restructuring unit in RCB.

Business review - 1. Operating and financial review

Wholesale, Institutional & Corporate Banking ("WIB")

WIB contribution statement	Half-year June 2018 € m	Half-year June 2017 € m	% change
Net interest income	**147**	130	*13*
Other income	**27**	19	42
Total operating income	**174**	149	*17*
Total operating expenses	**(48)**	(44)	*9*
Operating contribution before bank levies, regulatory fees, impairment and provisions	**126**	105	*20*
Net credit impairment writeback/ (losses)	**(6)**	7	-
Provisions for liabilities and commitments	**-**	(2)	-
Operating contribution	**120**	110	*9*
Associated undertakings	**3**	-	-
Contribution before exceptional items	**123**	110	*12*

WIB balance sheet metrics	30 Jun 2018 € bn	30 Jun 2017 € bn	% change
New lending	**1.9**	1.3	*50*

	30 Jun 2018 € bn	1 Jan 2018[(1)] € bn	31 Dec 2017 € bn
Gross loans	**11.5**	10.3	10.3
Loss allowance	**(0.1)**	(0.0)	(0.0)
Net loans	**11.4**	10.3	10.3
Current accounts	**4.1**	3.7	3.7
Deposits	**1.8**	2.0	2.0
Customer accounts	**5.9**	5.7	5.7

Net interest income

€147m Net interest income increased by € 17 million compared to the half-year to June 2017. The increase was driven by strong growth in loan balances, particularly in syndicated lending and real estate finance.

Other income

€27m Other income increased by € 8 million compared to the half-year to June 2017. The increase was driven by a net gain on equity investments measured at FVTPL in the half-year to June 2018.

Total operating expenses

€48m Total operating expenses increased by € 4 million compared to the half-year to June 2017. The increase was primarily driven by investment in personnel to support growth in the business.

Net credit impairment writeback/ (losses)

(€6m) There was a net credit impairment loss of € 6 million in the half-year to June 2018. This was driven by additional expected credit losses arising from the growth in the loan portfolio since 31 December 2017.
For the half-year to June 2017, which was reported under IAS 39, there was a net provision writeback of € 7 million.

New lending

€1.9bn New lending increased by € 0.6 billion compared to the half-year to June 2017. The growth was primarily driven by syndicated lending where markets remained active in both Europe and the US and in real estate finance, which benefited from a small number of large transactions in the Irish market. New corporate lending was broadly consistent with the half-year to June 2017.

In addition to new term lending of € 1.9 billion there was new transaction lending of € 0.2 billion in the half-year to June 2018 mainly due to demand from corporate customers.

Net loans

€11.4bn Net loans of € 11.4 billion at 30 June 2018 increased by € 1.1 billion (up 11%) compared to € 10.3 billion at 1 January 2018, with strong growth in new lending.

Customer accounts

€5.9bn Current accounts of € 4.1 billion were € 0.4 billion higher than 31 December 2017. Consistent with trends evident in 2017, current accounts increased while deposits reduced by € 0.2 billion, primarily term deposits.

[(1)]The 'Statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 which applies with effect from 1 January 2018. For further information see note 1 'Basis of preparation' and note 2 'Transition to IFRS 9' of the condensed consolidated interim financial statements.

AIB UK

AIB UK contribution statement	Half-year June 2018 £ m	Half-year June 2017 £ m	% change
Net interest income	110	102	8
Other income	19	33	-42
Total operating income	129	135	-4
Total operating expenses	(53)	(57)	-7
Operating contribution before bank levies, regulatory fees, impairment and provisions	76	78	-3
Bank levies and regulatory fees	-	(1)	-
Net credit impairment writeback/ (losses)	(15)	(18)	17
Operating contribution	61	59	3
Associated undertakings	1	1	-
Profit on disposal	1	-	-
Contribution before exceptional items	63	60	5
Contribution before exceptional items €m	72	70	3

AIB UK balance sheet metrics	30 Jun 2018 £ bn	30 Jun 2017 £ bn	% change
AIB GB	0.5	0.6	-12
FTB	0.2	0.2	25
New lending	0.7	0.8	-4
	30 Jun 2018 £ bn	**1 Jan 2018[1] £ bn**	**31 Dec 2017 £ bn**
AIB GB	5.2	5.2	5.2
FTB	2.3	2.4	2.4
Gross loans	7.5	7.6	7.6
Loss allowance	(0.2)	(0.3)	(0.3)
Net loans	7.3	7.3	7.3
Current accounts	5.6	5.6	5.6
Deposits	3.3	3.4	3.4
Customer accounts	8.9	9.0	9.0

Net interest income

£110m Net interest income increased by £ 8 million compared to the half-year to June 2017 due to margin expansion following UK base rate increase in November 2017.

Other income

£19m Other income decreased by £ 14 million compared to the half-year to June 2017. Net fees and commissions income decreased by £ 3 million driven by lower lending related fees. Other income in the half-year to June 2018 included £ 4 million loss on disposal of loans compared to nil in the half-year to June 2017. Net profit on disposal of investment securities was nil in the half-year to June 2018 compared to £ 6 million in the half-year to June 2017.

Total operating expenses

£53m Total operating expenses decreased by £ 4 million compared to the half-year to June 2017 driven by lower staff numbers, following the implementation of a new operating model during the second half of 2017.

Net credit impairment writeback/ (losses)

(£15m) There was a net credit impairment loss of £ 15 million in the half-year to June 2018. For the half-year to June 2017, which was reported under IAS 39, there was a net provision charge of £ 18 million.

New lending

£0.7bn New lending of £ 0.7 billion in the half-year to June 2018, decreased £ 0.1 billion compared to the half-year to June 2017 mainly driven by corporate lending in AIB GB. FTB showed positive momentum in the period.

In addition to new term lending of £ 0.7 billion there was new transaction lending of £ 0.1 billion in the half-year to June 2018.

Net loans

£7.3bn Net loans of £ 7.3 billion were in line with 1 January 2018. Performing loans increased by £ 0.1 billion and non-performing loans have decreased by £ 0.1 billion compared to 1 January 2018. The key sectors driving the reduction in non-performing loans are property and personal.

Customer accounts

£8.9bn Customer accounts of £ 8.9 billion at 30 June 2018 decreased by £ 0.1 billion compared to 31 December 2017.

[1]The 'Statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 which applies with effect from 1 January 2018. For further information see note 1 'Basis of preparation' and note 2 'Transition to IFRS 9' of the condensed consolidated interim financial statements.

Business review - 1. Operating and financial review

Group

Group contribution statement	Half-year June 2018 € m	Half-year June 2017 € m	% change
Net interest income	**97**	120	-19
Other income	**71**	84	-15
Total operating income	**168**	204	-18
Total operating expenses	**(226)**	(209)	8
Operating contribution before bank levies, regulatory fees, impairment and provisions	**(58)**	(5)	-
Bank levies and regulatory fees	**(31)**	(44)	-30
Net credit impairment writeback/ (losses)	**1**	-	-
Contribution before exceptional items	**(88)**	(49)	80

Group balance sheet metrics	30 Jun 2018 € bn	1 Jan 2018[(1)] € bn	31 Dec 2017 € bn
Gross loans	**0.1**	0.1	0.1
Investment securities	**15.8**	16.3	16.3
Customer accounts	**2.0**	2.2	2.2

Net interest income

€97m Net interest income decreased by € 23 million compared to the half-year to June 2017 mainly due to lower income from the investment securities portfolio as balances reduced. This was partly offset by lower funding costs.

Other income

€71m Other income decreased by € 13 million compared to the half-year to June 2017 mainly due to a reduction of € 12 million in the valuations of long-term customer derivative positions. There was a reduction of € 6 million on foreign exchange contracts compared to the half-year to June 2017. The acceleration of the timing of cash flows on NAMA senior bonds was nil in the half-year to June 2018 compared to a gain of € 4 million in the half-year to June 2017. Net profit on disposal of investment securities was € 16 million in the half-year to June 2018 compared to € 9 million in the half-year to June 2017.

Total operating expenses

€226m Total operating expenses increased by € 17 million compared to the half-year to June 2017 reflecting a past service cost with regard to pension in payment increases, the impact of salary inflation and an increase in investment spend.

Bank levies and regulatory fees

€31m Bank levies and regulatory fees of € 31 million in the half-year to June 2018 included the Deposit Guarantee Scheme ("DGS") € 12 million (included writebacks of € 14 million) and the Single Resolution Fund € 18 million.

Investment securities

€15.8bn Investment securities of € 15.8 billion held for liquidity and investment purposes have decreased by € 0.5 billion compared to 31 December 2017.

Customer accounts

€2.0bn Customer accounts have reduced by € 0.2 billion compared to € 2.2 billion at 31 December 2017 mainly due to maturity of higher yielding term deposits and a reduction in repos.

[(1)]The 'Statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 which applies with effect from 1 January 2018. For further details see note 1 'Basis of preparation' and note 2 'Transition to IFRS 9' of the condensed consolidated interim financial statements.

Alternative performance measures

The following is a list, together with a description, of APMs used in analysing the Group's performance, provided in accordance with the European Securities and Markets Authority ("ESMA") guidelines.

Average asset yield	Interest and similar income divided by average interest-earning assets.
Average cost of funds	Interest expense and similar charges divided by average interest-earning liabilities.
Average interest-earning assets	Average interest-earning assets includes loans and advances to customers, NAMA senior bonds, investments securities and loans and advances to banks. Averages are based on daily balances for all categories with the exception of loans and advances to banks, which are based on a combination of daily / monthly balances.
Average interest-earning liabilities	Average interest-earning liabilities includes deposits by banks, customer accounts, subordinated liabilities and other interest earning liabilities. Averages are based on daily balances for customer accounts while other categories are based on a combination of daily / monthly balances.
CET1 Fully loaded	Total common equity tier 1 capital on a fully loaded basis divided by total risk weighted assets on a fully loaded basis.
CET1 Transitional	Total common equity tier 1 capital on a transitional basis divided by total risk weighted assets on a transitional basis.
Cost income ratio	Total operating expenses excluding exceptional items, bank levies and regulatory fees divided by total operating income excluding exceptional items.
Non-performing loan cover	Loss allowance on non-performing loans as a percentage of non-performing loans.
Exceptional items	These are items that management believe due to their size and nature distort the comparability of performance from period to period; - *Gain on disposal of loan portfolios* in reducing the Group's level of non-performing loans. This includes gain on disposals and net gain on other financial assets measured at FVTPL. - *Customer redress.* Customer redress and compensation in relation to the examination of tracker mortgage and other redress. - *Restitution and restructuring costs* includes other costs associated with the payment of customer redress, customer write-offs, other restitution and transformation. - *Termination benefits.* The cost associated with the reduction in employees arising from the voluntary severance programme. - *Property strategy costs.* The Group is implementing a significant property strategy. This includes a new Headquarters and a Technology Centre together with certain office space becoming surplus. Costs directly associated with this strategy (e.g. onerous contracts) are deemed exceptional. - *IFRS 9 costs.* Implementation of IFRS 9 was a significant undertaking. Costs associated with the build of the intangible modelling asset have been capitalised. The revenue costs of implementation of IFRS 9 are one off costs and given their nature are deemed exceptional. - *IPO and capital related costs* are mainly in connection with the IPO and the implementation of a new AIB Group holding company.
Leverage ratio	The ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure.
Liquidity coverage ratio	The ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario.
Loan to deposit ratio	Loans and advances to customers divided by customer accounts.
Net interest margin	Net interest income divided by average interest-earning assets.
Net interest margin (underlying)	Net interest margin (underlying) in the half-year to June 2018 excludes additional interest on loans when upgraded from Stage 3 without incurring financial loss. NIM (underlying) in the half-year to June 2017 excludes additional interest on cured loans when upgraded from impaired without incurring financial loss. These additional measures have been disclosed given the impact of the additional income on assessing the actual performance.
Net stable funding ratio	The ratio of available stable funding to required stable funding over a 1 year time horizon.
Non-performing exposures	Non-performing exposures include a) loans and advances to customers and b) off-balance sheet commitments such as loan commitments and financial guarantee contracts Non-performing exposures are defined by the European Banking Authority to include material exposures which are more than 90 days past due (regardless of whether they are credit impaired) and / or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due.
Return on tangible equity	Profit after tax from continuing operations plus movement in carrying value of deferred tax assets in respect of prior losses, less coupons on other equity instruments, divided by targeted (13 per cent.) CET1 capital on a fully loaded basis plus deferred tax assets recognised for unutilised tax losses in equity. In assessing capital efficiency, ROTE reflects performance given capital requirements and the nature and quantum of deferred tax assets recognised for unutilised tax losses in equity.

Reconciliation between IFRS and management performance

The tables set out below are a reconciliation of each impacted line item from the most directly reconcilable IFRS line item in condensed consolidated interim financial statements.

IFRS - summary income statement	Half-year June 2018 € m	Half-year June 2017 € m
Net interest income	**1,061**	1,077
Other income	**462**	459
Total operating income	**1,523**	1,536
Total operating expenses	**(896)**	(807)
Operating profit before impairment losses and provisions	**627**	729
Net credit impairment writeback/ (losses)	**130**	19
Writeback of provisions for liabilities and commitments	**-**	4
Operating profit	**757**	752
Associated undertakings	**4**	10
Profit / (loss) on disposal	**1**	(1)
Profit before taxation from continuing operations	**762**	761
Income tax charge from continuing operations	**(112)**	(109)
Profit for the period	**650**	652

Adjustments - between IFRS and management performance		
Total exceptional items	***14***	*62*
Total bank levies and regulatory fees	***31***	*45*
Other income	***(140)***	*(7)*
of which exceptional items		
Gain on disposal of loan portfolios	***(140)***	*(7)*
Operating expenses	***185***	*114*
of which exceptional items		
Customer redress	***32***	*-*
Restitution and restructuring costs	***47***	*3*
Termination benefits	***9***	*24*
Property strategy costs	***44***	*-*
IFRS 9	***22***	*-*
IPO and capital related costs	***-***	*42*
	154	*69*
of which bank levies and regulatory fees	***31***	*45*

Management performance - summary income statement		
Net interest income	**1,061**	1,077
Other income	**322**	452
Total operating income	**1,383**	1,529
Total operating expenses	**(711)**	(693)
Operating profit before bank levies, regulatory fees, impairment and provisions	**672**	836
Bank levies and regulatory fees	**(31)**	(45)
Net credit impairment writeback/ (losses)	**130**	19
Writeback of provisions for liabilities and commitments	**-**	4
Operating profit	**771**	814
Associated undertakings	**4**	10
Profit / (loss) on disposal	**1**	(1)
Profit from continuing operations before exceptional items	**776**	823
Total exceptional items	**(14)**	(62)
Profit before taxation from continuing operations	**762**	761
Income tax charge from continuing operations	**(112)**	(109)
Profit for the period	**650**	652

Business review - 2. Capital

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. Detail on the management of capital and capital adequacy risk can be found in the Risk Management section of the Group's Annual Financial Report 2017.

Regulatory capital and capital ratios[1]

	CRD IV transitional basis		CRD IV fully loaded basis	
	30 June 2018 € m	31 December 2017 € m	30 June 2018 € m	31 December 2017 € m
Equity	**13,566**	13,612	**13,566**	13,612
Less: Additional Tier 1 Securities	**(494)**	(494)	**(494)**	(494)
Foreseeable charges[2]/proposed ordinary dividend[3]	**(163)**	(326)	**(163)**	(326)
Regulatory adjustments:				
Intangible assets	**(605)**	(569)	**(605)**	(569)
Cash flow hedging reserves	**(262)**	(257)	**(262)**	(257)
IFRS 9 CET 1 transitional addback	**293**	–	**–**	–
Investment securities reserves	**–**	(196)	**–**	–
Pension	**(197)**	(150)	**(197)**	(139)
Deferred tax	**(1,082)**	(829)	**(2,705)**	(2,764)
Expected loss deduction	**–**	–	**–**	–
Other	**(20)**	(23)	**(20)**	(18)
	(1,873)	(2,024)	**(3,789)**	(3,747)
Total common equity tier 1 capital	**11,036**	10,768	**9,120**	9,045
Additional tier 1 capital				
Additional Tier 1 Securities	**–**	–	**–**	–
Instruments issued by subsidiaries that are given recognition in additional tier 1 capital	**227**	260	**308**	291
Expected loss deduction	**–**	–	**–**	–
Total additional tier 1 capital	**227**	260	**308**	291
Total tier 1 capital	**11,263**	11,028	**9,428**	9,336
Tier 2 capital				
Instruments issued by subsidiaries that are given recognition in tier 2 capital	**404**	442	**516**	492
Expected loss addback/credit provisions	**58**	199	**58**	28
IFRS 9 tier 2 transitional adjustment	**(58)**	–	**–**	–
Other	**–**	3	**–**	–
Total tier 2 capital	**404**	644	**574**	520
Total capital	**11,667**	11,672	**10,002**	9,856
Risk weighted assets				
Credit risk	**46,422**	46,319	**46,278**	46,414
Market risk	**431**	360	**431**	360
Operational risk	**4,624**	4,248	**4,624**	4,248
Credit valuation adjustment	**538**	796	**538**	796
Other	**–**	5	**–**	5
Total risk weighted assets	**52,015**	51,728	**51,871**	51,823
	%	%	**%**	%
Common equity tier 1 ratio	**21.2**	20.8	**17.6**	17.5
Tier 1 ratio	**21.7**	21.3	**18.2**	18.0
Total capital ratio	**22.4**	22.6	**19.3**	19.0

[1]The capital ratios reflect the 30 June 2018 interim profit for the Group. An application for the inclusion of the 2018 interim profit in regulatory capital is being made under Article 26(2) of the Capital Requirements Regulation to the competent authority, namely, the European Central Bank.

[2]Consistent with Decision (EU) 2015/656 of the ECB on the conditions under which credit institutions are permitted to include interim or year-end profits in common equity Tier 1 capital in accordance with Article 26(2) of the Capital Requirements Regulation, the foreseeable charge deduction is 50% of last year's dividend pay-out in the absence of a formal dividend decision.

[3]The proposed ordinary dividend was € 326 million in respect of 2017. Equity at 30 June 2018 was reduced by this dividend payment in May 2018.

Business review - 2. Capital

Capital requirements

On 5 July 2018, the Central Bank of Ireland ("CBI") announced the Irish countercyclical capital buffer (CCyB) will increase from 0% to 1.0% on 5 July 2019. In June 2018, the UK CCyB increased to 0.5% and will increase to 1% from November 2018. The Group's minimum capital requirements increase in proportion to its level of Irish and UK exposures. The current UK CCyB requirement of 0.5% equates to a 0.1% capital requirement for the Group. Based on the 30 June 2018 position the 1% Irish CCyB requirement in July 2019 equates to c.0.7% and the 1% UK CCyB requirement in November 2018 equates to c. 0.2%. Other jurisdictional CCyB in place have a negligible impact on Group capital requirements.

The Group is required to maintain a CET 1 ratio of 9.625%. This includes a Pillar 1 requirement of 4.5%, a Pillar 2 requirement ("P2R") of 3.15%, a capital conservation buffer ("CCB") of 1.875% and 0.1% in respect of the UK CCyB. The minimum requirement for the total capital ratio is 13.125%. This requirement excludes Pillar 2 guidance ("P2G") which is not publicly disclosed. The transitional CET1 and total capital ratios at 30 June 2018 are 21.2% and 22.4% respectively. Based on these ratios, the Group has a very significant buffer over maximum distributable amount ("MDA") trigger levels.

The Group has been designated as an Other Systemically Important Institution ("O-SII"). A 0.5% O-SII buffer will be added to the minimum requirement from 1 July 2019, rising to 1.5% on 1 July 2021.

IFRS 9 – 1 January 2018

The impact of implementing IFRS 9, includes effects on revenue reserves, RWAs and regulatory deductions. The Group applies the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds as per Regulation (EU) 2017/2395 of the European Parliament and of the Council. After applying these arrangements, the transitional CET1 ratio remained at 20.8% on 1 January 2018, with the fully loaded CET1 ratio reducing by 0.5% from 17.5% to 17.0%.

Capital ratios at 30 June 2018

Transitional ratio

The transitional CET1 ratio increased to 21.2% at 30 June 2018. The increase in the CET1 ratio was broadly driven by profit retained, a reduction in regulatory adjustments partially offset by a foreseeable charge of € 163 million and an increase in risk weighted assets ("RWAs").

Equity, net of the foreseeable charge/proposed dividend, at 31 December 2017 of € 13,286 million increased by € 280 million to € 13,566 million at 30 June 2018. This consisted of profit for the period of € 650 million offset by the impact of implementing IFRS 9 and negative other comprehensive income. Negative other comprehensive income was primarily driven by a reduction in investment debt securities reserves of € 147 million during the period.

Regulatory adjustments reduced by €151 million. The application of transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds contributed € 293 million to the reduction. The transitional arrangements with regard to the deduction for unrealised gains on AFS debt and equity securities expired in 2018. This was partially offset by the deduction of the deferred tax asset relating to unutilised tax losses which increased by € 253 million with the phase-in rate increasing from 30% to 40% in 2018.

The transitional tier 1 capital ratio increased to 21.7% at 30 June 2018 from 21.3% at 31 December 2017. The transitional total capital ratio decreased to 22.4% at 30 June 2018 from 22.6% at 31 December 2017. The movements were driven by the CET1 capital movements outlined above combined with a RWA increase. The reduction in the expected loss addback reduced the Tier 2 capital contribution to total capital.

Under CRD IV, a portion of the capital reserves attributable to the Additional Tier 1 Securities and tier 2 capital instruments issued by Allied Irish Banks, p.l.c., which exceed the minimum own funds requirement, is not recognised for AIB Group plc consolidated regulatory capital purposes. The impact on the consolidated regulatory capital will reduce if the outstanding Additional Tier 1 Securities and tier 2 capital instruments issued by Allied Irish Banks, p.l.c. are redeemed.

The amount of Additional Tier 1 Securities recognised is € 227 million and the amount of tier 2 capital instruments recognised is € 404 million at 30 June 2018.

The restriction (in respect of minority interests) calculation may require adjustment pending the final communication of the EBA's position on the matter.

Risk weighted assets

RWAs increased by € 0.3 billion during the half-year to 30 June 2018. Credit risk and Market RWAs each increased by € 0.1 billion, while operational risk RWAs increased by € 0.4 billion (reflecting the increased levels of income in the annual calculation). These increases were partially offset by a decrease in credit valuation adjustment RWAs of € 0.3 billion. New drawdowns drove an increase of € 3.6 billion in credit risk RWAs while asset sales, redemptions and other balance sheet movements drove a decrease of € 3.2 billion. Positive grade migration in IRB portfolios reduced credit RWAs by € 0.3 billion.

Fully loaded ratio

The fully loaded CET1 ratio increased to 17.6% at 30 June 2018 from 17.5% at 31 December 2017. The Group continues to generate capital with profitability contributing 1.3% offset by a foreseeable charge of 0.3%. The impact of implementing IFRS 9, including the impact on RWA and regulatory deductions reduced the fully loaded ratio by 0.5%. Finally, the reduction in the investment debt securities reserves reduced CET1 by 0.3% with combined other adjustments reducing CET1 by 0.1%.

CET1 capital increased by € 75 million to € 9,120 million at 30 June 2018. This was primarily driven by an increase in equity as outlined above, a decrease in the deduction for the deferred tax asset of € 59 million offset by a foreseeable charge of € 163 million.

The amount of Additional Tier 1 Securities recognised is € 308 million and the amount of tier 2 capital instruments recognised is € 516 million at 30 June 2018.

The restriction (in respect of minority interests) calculation may require adjustment pending the final communication of the EBA's position on the matter.

The fully loaded tier 1 capital ratio increased to 18.2% at 30 June 2018 from 18.0% at 31 December 2017.

The fully loaded total capital ratio increased to 19.3% at 30 June 2018 from 19.0% at 31 December 2017. The increase in the ratio was driven by the CET1 movements outlined above.

Leverage ratio

The leverage ratio is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on the full implementation of CRD IV, the leverage ratio, under the Delegated Act implemented in January 2015, was 10.1% at 30 June 2018 (10.3% at 31 December 2017).

Minimum Requirement for Own Funds and Eligible Liabilities ("MREL")

Following the Single Resolution Board ("SRB") communication that the preferred strategy for the Group is a single point of entry bail-in strategy, AIB Group plc was established in 2017. In May 2018, the CBI communicated a MREL target of 28.04% of RWA that must be held at AIB Group plc level by 1 January 2021.

In the first half of the year, AIB Group plc successfully completed its first two senior unsecured bond issuances on the path to meeting the MREL target. These were the first senior issuances from an Irish holding company for MREL purposes. The first issuance of € 500 million for a 5 year term in March garnered significant interest from the market, leading to a four times oversubscribed book at the time of pricing. The second issuance of € 500 million in June was for a longer 7 year term, albeit pricing was weaker due to more challenging external market conditions.

Business review - 2. Capital

Ratings

AIB Group plc

Moody's initially assigned AIB Group plc a rating of Ba2 with a positive outlook in March 2018. In July 2018, they upgraded AIB Group plc by two notches to Baa3 (Investment Grade), remaining on Positive outlook. This is a positive result and the upgrade is underpinned by the significant improvement in asset quality in 2017 and 2018.

Fitch initially assigned AIB Group plc a rating of BBB- (Investment grade) with a positive outlook in March 2018.

S&P initially assigned BB+ with a positive outlook in March 2018 and re-affirmed in July 2018. S&P highlighted that the positive outlook on AIB reflects that they may improve their view of Irish banking industry risk over the two-year outlook horizon.

		26 July 2018	
Long-term ratings	**Moody's**	**S&P**	**Fitch**
Long-term	Baa3	BB+	BBB-
Outlook	Positive	Positive	Positive
Investment grade	✓		✓

Allied Irish Banks, p.l.c.

Moody's upgraded its rating on Allied Irish Banks, p.l.c. by two notches to A3, and maintained positive outlook. This upgrade is driven by the significant improvement in asset quality in 2017 and 2018.

S&P upgraded its rating on Allied Irish Banks, p.l.c. to BBB with positive outlook. They highlighted they have raised the ratings of the main operating bank of AIB, to reflect their view of the proactive progress that the Group is making to build up its minimum requirement for own funds and eligible liabilities ("MREL"), which they reflect in the Group's additional loss-absorbing capacity.

		26 July 2018	
Long-term ratings	**Moody's**	**S&P**	**Fitch**
Long-term	A3	BBB	BBB-
Outlook	Positive	Positive	Positive
Investment grade	✓	✓	✓

		31 December 2017	
Long-term ratings	Moody's	S&P	Fitch
Long-term	Baa2	BBB-	BBB-
Outlook	Stable	Positive	Positive
Investment grade	✓	✓	✓

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 cash flow volatility, reduce capital, threaten the Group's business reputation or viability, and/or breach its regulatory or legal obligations.

The Group is exposed to a number of material risks which have been identified through the Material Risk Assessment process carried out by the Group. The Group has implemented comprehensive risk management strategies in seeking to manage these risks. 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 58 to 68 of the Annual Financial Report 2017, are unchanged for the remaining six months of the year.

The Group's risk governance and organisation framework is set out on pages 69 to 71 of the Annual Financial Report 2017. There have been no material changes to AIB 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 2017 (credit risk – pages 73 to 91, credit profile – pages 92 to 150 and other risk types – pages 151 to 178).

Details of AIB Group's exposure to specific risks are outlined on pages 73 to 178 of the Annual Financial Report 2017.

Updates have been provided in this Report on the current status of the following specific risks:
- Capital – pages 27 to 30;
- Credit risks including asset quality and impairment – pages 33 to 86; and
- Funding and liquidity risk – pages 87 to 92.

IFRS 9

On 1 January 2018, *IFRS 9 Financial Instruments* replaced IAS 39 *Financial Instruments: Recognition and Measuremen*t. IFRS 9 includes a revised classification and measurement model and a forward looking expected credit loss ("ECL") impairment methodology.

A Group-wide programme, led jointly by Risk and Finance, commenced work during 2015 to oversee delivery of the requirements for implementation of IFRS 9. The varying aspects of IFRS 9 are operational with effect from 1 January 2018, i.e. the date of initial application.

The Group is not restating prior periods as allowed in IFRS 9, paragraph 7.2.15. However, as required by this paragraph, if prior periods are not restated, any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 are recognised in opening retained earnings (or in other comprehensive income, as applicable) at 1 January 2018.

The business model assessment test required by IFRS 9 was performed as at the date of initial application. This classification applies retrospectively. The Group assessed whether the financial assets met the conditions for recognising a change in the classification/ measurement basis at that date.

Impairment losses are now measured at the date of initial application under the 'expected credit loss model' set out in IFRS 9.

Change in measurement of loans and advances to customers.

A financial asset is classified as measured at amortised cost if it:
- Meets the SPPI criterion, i.e. the contractual terms give rise to cash flows that are solely payments of principal and interest; and
- Is held within a business model, the objective of which, is to hold financial assets in order to collect contractual cash flows.

Under IFRS 9, all loans and advances to customers are measured at amortised cost on transition apart from a small portfolio which had been measured at amortised cost under IAS 39. This relates to property and construction loans which were reclassified to fair value through profit or loss ("FVTPL") under IFRS 9 having failed the SPPI test. These relate to a small number of bespoke deals that involve non-standard loan contracts as part of a debt solution or fundamental restructure.

Under IFRS 9, loans and advances to customers are classified into one of three stages:
- Stage 1 includes newly originated loans and loans that have not had a significant increase in credit risk since initial recognition
- Stage 2 includes loans that have had a significant increase in credit risk since initial recognition but do not have objective evidence of being credit impaired
- Stage 3 includes loans that are defaulted or are otherwise considered to be credit impaired. This category includes impaired loans under IAS 39 as well as an additional cohort of loans that now meet the wider definition of default in accordance with accounting standards and EBA guidelines.

There is an additional category of purchased or originated credit impaired ("POCI") which includes loans where there was evidence of credit impairment at the time of their initial recognition. The Group may originate a credit impaired financial asset following a substantial modification of a distressed financial asset that resulted in the derecognition of the original financial asset.

Expected credit losses ("ECLs")

The amount of ECLs recognised as a loss allowance depends on the extent of credit deterioration since initial recognition. There are two measurement bases:
- 12-month ECLs (Stage 1), which applies to all financial assets as long as there is no significant deterioration in credit quality since initial recognition; and
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

As part of the implementation of the IFRS 9 ECL calculation for the opening statement of financial position, a number of adjustments were made to the ECLs calculated through the standard process. There were two key drivers for these adjustments:
- Adjustments to reflect known temporary issues with the deployment of the ECL calculation; and
- Adjustments to reflect management overlays due to known limitations in the modelling outputs

Further information:
IFRS 9 accounting policies – Note 1 to the condensed consolidated interim financial statements
Transition to IFRS 9 – Note 2 to the condensed consolidated interim financial statements
IFRS 9 methodologies and judgements – pages 79 to 86.

Internal credit ratings*

In conjunction with the implementation of IFRS 9, the Group has designed and implemented a credit grading Masterscale that gives the Group the ability to categorise and contrast credit risk across different portfolios in a consistent manner. The new Masterscale consolidates complex credit information into a single attribute, aligning the output from Risk Models with the Group's new Definition of Default (DoD) policy. Credit grades are driven by model appropriated PDs in order to provide the Group with a mechanism of ranking and comparing the credit risk associated with a range of customers.

The Masterscale categorises loans into a broad range of grades which can be summarised into the following categories: Strong/Satisfactory grades, criticised grades and non-performing loans.

Strong/satisfactory

Accounts are considered strong/satisfactory if they have no current or recent credit distress and the probability of default is less than 6% and they are not in arrears and there are no indications they are unlikely to pay.

Strong (with PD less than 0.99%): Strong credit with no weakness evident.
Satisfactory (with PD greater than 0.99% and less than 6.95%): Satisfactory credit with no weakness evident.

Criticised

Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following;

Criticised Watch: The credit is exhibiting weakness and is deteriorating in terms of credit quality and may need additional management attention;

Criticised Recovery: Includes forborne cases that are classified as performing having transitioned from default, but still requires additional management attention to monitor for re-default and continuing improvement in terms of credit quality.

Non-performing

Accounts that are considered as defaulted or non-performing include:

Loans are identified as defaulted or non-performing by using a number of characteristics. The key criteria resulting in a classification of non-performing are;

- Where the Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount.
- The credit obligor is 90 days or more past due on any material credit obligation (date count starts where any amount of principal, interest or fee has not been paid by a credit obligor at the date it was due).
- Loans that have, as a result of financial distress (as defined within the Group's definition of default policy), received a concession from the Group on terms or conditions, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification.

Non-performing loans are analysed in more detail on page 42, and are further broken down as follows:

Collateral disposals – Post restructure cases requiring asset disposal as part of the restructure agreement. These loans will remain as Non-performing until the asset is sold and the loan cleared.

Unlikely to pay - Where AIB considers a credit obligor to be unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or the number of days past due.

Greater than 90 days past due – Credit obligor that are past due by 90 days or more on any material obligation.

Non-performing loans probation - Loans that have, as a result of financial distress, received a concession from the bank on terms or conditions, and that are currently operating in line with the post restructure arrangements, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification.

The new Masterscale categories outlined above are materially different to the grade categories the Group used in previous years and are therefore not directly comparable. Definitions of grade categories used previously up to and including 31 December 2017 are set out on page 130 of the Annual Financial Report 2017.

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

Credit risk – Overview

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

The following table summarises the credit profile of the loan portfolio by asset class. Comparative data for 31 December 2017 has been prepared under IAS 39.

					30 June 2018
Asset quality	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Loans at amortised cost	**33,074**	**3,075**	**7,972**	**18,497**	**62,618**
Loans at FVTPL	**–**	**–**	**142**	**–**	**142**
Total gross loans to customers	**33,074**	**3,075**	**8,114**	**18,497**	**62,760**
Of which Stage 3	**3,914**	**397**	**1,426**	**1,170**	**6,907**
Total loss allowance – half-year to June 2018	**(25)**	**(8)**	**(78)**	**1**	**(110)**
Bad debts recovered	**(2)**	**(5)**	**(14)**	**(8)**	**(29)**
Total impairment (credit) – half-year to June 2018	**(27)**	**(13)**	**(92)**	**(7)**	**(139)**
Statement of financial position total loss allowance	**1,285**	**272**	**630**	**709**	**2,896**
Non-performing loans	**4,160**	**417**	**1,685**	**1,227**	**7,489**
Loss allowance on non-performing loans – Statement of financial position	**1,179**	**198**	**546**	**481**	**2,404**
Loss allowance cover on non-performing loans	**28%**	**47%**	**33%**	**39%**	**32%**

					31 December 2017
Loan portfolio profile	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Gross loans to customers	33,720	3,122	8,820	17,676	63,338
Of which impaired	3,293	362	1,803	872	6,330
Specific impairment (credit) – half-year to June 2017	(50)	2	(48)	22	(74)
Total impairment (credit) – half-year to June 2017	(66)	8	(19)	58	(19)
Specific impairment (credit)/charge – full year 2017	(110)	(11)	(74)	24	(171)
Total impairment (credit) – full year 2017	(101)	(2)	(50)	40	(113)
Statement of financial position provisions (specific and IBNR)	1,418	246	1,064	617	3,345
Specific provisions/impaired loans	38%	58%	50%	51%	44%
Total provisions/total loans	6%	9%	15%	5%	7%
Non-performing loans	4,816	554	2,949	1,875	10,194
Statement of financial position provisions (specific)	1,135	203	914	470	2,722
Loss allowance cover on non-performing loans	24%	37%	31%	25%	27%

Gross loans and advances to customers reduced by 1% or € 0.6 billion to € 62.8 billion in the six months to 30 June 2018. Of the total loans to customers portfolio of € 62.8 billion, € 62.6 billion are measured at amortised cost with the remaining € 0.2 billion being classified at fair value through profit or loss ("FVTPL"). While there was an increase in the level of new lending to € 5.0 billion in the six months to 30 June 2018, this was offset by loan redemptions of € 3.9 billion, disposals of € 1.1 billion, restructures, write-offs and other movements of € 0.6 billion.

Risk management

Credit risk – Overview

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 where most sectors continue to experience buoyant trading conditions due to the favourable economic environment. The Group has material concentrations in residential mortgages (53% of gross loans) and property and construction (13% of gross loans). Furthermore, the non-property business lending book is 29% of gross loans and is spread across a number of sub-sectors. The remaining 5% is in the personal book.

– New lending increased by 14% to € 5.0 billion in the six months to 30 June 2018 (30 June 2017: € 4.3 billion) and is spread across most sectors and includes € 1.2 billion mortgage and € 1.1 billion non-mortgage in RCB, € 1.9 billion in WIB and € 0.8 billion in AIB UK.

– Continued progress in working to reduce the level of non-performing loans resulted in the quantum of defaulted loans reducing by € 2.1 billion in the six months to 30 June 2018 (a decrease of 22%). The reduction was impacted by redemptions and repayments from customers of € 0.9 billion, as well as a € 0.2 billion reduction due to restructuring activity and write-offs (including non-contracted write-offs) and by sales of portfolios of distressed loans that were credit impaired of € 1.0 billion. There was also a reduction of € 0.6 billion due to the implementation of a new definition of default policy.

– As at 30 June 2018, 80% of the total loans to customers' portfolio is considered as either strong or satisfactory. The strong/ satisfactory portfolio is typically where new business is written, and which would also be impacted by cases upgrading out of criticised due to improved performance.

– There was a total net credit impairment writeback of € 130 million in the six months to 30 June 2018. This comprised a net credit impairment writeback of € 139 million on loans and advances to customers, a € 10 million loss allowance for off-balance sheet loan commitments and financial guarantee contracts and a € 1 million writeback on loans and advances to banks. For the 6 months to 30 June 2017, which was under IAS 39, there was a provision net writeback of € 19 million.

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.

The reduction in non-performing loans in recent years was largely achieved through case by case restructuring and working with customers to rightsize sustainable debt based on customer affordability alongside strategic deleveraging initiative where appropriate.

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.

Non-performing loans have continued to reduce and in the six months to 30 June 2018 decreased by € 2.1 billion (22%).

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 loss allowance) 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 non-performing. 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 2018, write-offs totalled € 144 million (12 months to 31 December 2017: € 716 million).

Credit risk – Overview

Income statement – credit impairment

Of the € 139 million net credit impairment writeback on loans and advances to customers, € 110 million relates to the net remeasurement of the loss allowance and € 29 million relates to recoveries of amounts written off in previous years. The € 110 million writeback directly relates to movements in individually assessed cases resulting from the remeasurement of the ECL allowance. The writebacks arose from the increased security values, improved business cash flows, the stronger economic environment, cases curing from impairment without loss, and the execution of additional security at drawdown of restructures. The writebacks were predominately evident across the commercial real estate and the non-property business asset classes.

Residential mortgages

At 30 June 2018, residential mortgages accounted for 53% of gross loans and advances to customers (€ 33.1 billion), with the majority of the loans mainly located in the Republic of Ireland 96% (see page 52) and the remainder in the United Kingdom (see page 57). The portfolio consists of 89% owner-occupier and 11% buy-to-let loans. Total loans in arrears by value decreased by 2% in the six months to 30 June 2018, a decrease of 1% in the owner-occupier portfolio and a decrease of 11% in the buy-to-let portfolio in the period. These decreases in the level of arrears can be mainly attributed to restructuring activity and favourable economic conditions but with the buy-to-let portfolio decrease also being impacted by the disposal of c. € 0.2 billion of buy-to-let mortgages as part of the sale of a portfolio of distressed loans.

Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 52 to 56 and the United Kingdom mortgage portfolio on page 57.

Other personal lending

At 30 June 2018, the other personal portfolio amounted to € 3.1 billion (5% of gross loans and advances to customers). 93% of loans relate to RCB, with 6% in AIB UK and the remainder of loans of 1% in WIB. The portfolio comprises € 2.3 billion in loans and overdrafts and € 0.8 billion in credit card facilities. The demand for personal loans remains strong and is due to both the improved economic environment and the expanded service offering, including increased online approval through internet and mobile credit application activity.

Further detailed disclosures in relation to the other personal portfolio are provided on pages 58 to 59.

Property and construction

At 30 June 2018, the property and construction portfolio amounted to € 8.1 billion (13% of gross loans and advances to customers). 42% of loans relate to WIB, 29% in RCB and the remaining 29% in AIB UK. The portfolio is comprised of 76% investment loans (€ 6.1 billion), 17% land and development loans (€ 1.4 billion) and 7% other property and construction loans (€ 0.6 billion).

Overall, the portfolio reduced by € 0.8 billion or 10% in the six months to 30 June 2018. The reduction is due primarily to the continuing impact of restructuring, write-offs, amortisations and repayments resulting from asset disposals by customers which were offset by new business written of c. € 0.9 billion.

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

Non-property business

At 30 June 2018, the non-property business portfolio amounted to € 18.5 billion (29% of gross loans and advances to customers). 43% of loans relate to WIB, 31% to RCB, 25% to AIB UK and the remainder of 1% to Group. The portfolio is concentrated in sub-sectors which are reliant on the respective domestic economies. It also includes corporate and syndicated and international lending exposures, some of which are dependent on international markets. Key sub-sectors include agriculture (10% of the portfolio), hotels (11% of the portfolio), licensed premises (4% of the portfolio), retail/wholesale (13% of the portfolio) and other services (30% of the portfolio). As at 30 June 2018, 86% of this portfolio is in a strong or satisfactory grade.

Further detailed disclosures in relation to the non-property business portfolio are provided on pages 62 to 63.

Credit risk – Overview

Loss allowance – statement of financial position

Under IAS 39, the Group had total impairment provisions of € 3,345 million at 31 December 2017 of which € 2,722 million were specific provisions and € 623 million were IBNR. Upon implementation of IFRS 9 at 1 January 2018 and the introduction of the ECL model, the Group required an ECL allowance on loans and advances to customers of € 3,616 million resulting in an adjustment of € 271 million to the closing stock of provisions at 31 December 2017.

The total ECL cover rate has decreased from 5.7% at 1 January 2018 to 4.6% at 30 June 2018, and was primarily impacted by the release of ECLs as a result of increased security value and improved business cash flows and by the sale of a portfolio of distressed loans which had a higher provision cover.

By stages, the ECL cover rates as a percentage of gross loans are as follows: Stage 1 – 0.42%; Stage 2 – 3.9%; and Stage 3 – 33.9%. The cover rate of 33.9% on Stage 3 is lower than the specific provision cover held for impaired loans under IAS 39 (43%).

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Credit risk – Credit profile of the loan portfolio

The 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.

A summarised profile of loans and advances to customers is set out below. Comparative data for 31 December 2017 has been prepared under IAS 39. Details of the impact of adopting IFRS 9 at 1 January 2018 are set out in note 2 to the condensed consolidated interim financial statements.

						30 June 2018
Amortised cost	**PD %**	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**
Strong	0% – 0.98%	35,915	1,743	–	12	37,670
Satisfactory	0.99% – 6.94%	9,846	2,411	–	3	12,260
Total strong/satisfactory		45,761	4,154	–	15	49,930
Criticised watch	6.95% – 99.90%	972	2,807	–	2	3,781
Criticised recovery	6.96% – 99.90%	230	1,237	–	–	1,467
Total criticised		1,202	4,044	–	2	5,248
Non-performing	100%	309	–	6,907	224	7,440
Gross carrying amount loans and advances to customers		47,272	8,198	6,907	241	62,618
Loss allowance		(200)	(320)	(2,347)	(29)	(2,896)
Carrying amount of loans and advances to customers measured at amortised cost		47,072	7,878	4,560	212	59,722

FVTPL		**Total € m**
Strong	0% – 0.98%	74
Satisfactory	0.99% – 6.94%	15
Total strong/satisfactory		89
Criticised watch	6.95% – 99.90%	4
Criticised recovery	6.96% – 99.90%	–
Total criticised		4
Non-performing	100%	49
Carrying amount of loans and advances to customers measured at FVTPL		142
Total carrying amount of loans and advances to customers		59,864
Of which		
Non-performing		7,489

A detailed analysis of loans and advances to customers at amortised cost by asset class and internal credit ratings profile is set out below. Loans and advances to customers measured at FVTPL comprise: property and construction of € 142 million.

Risk management

Credit risk – Credit profile of the loan portfolio

The table below analyses loans and advances to customers at amortised cost by asset class and internal credit ratings profile. Comparative data for 31 December 2017 has been prepared under IAS 39.

						30 June 2018
Amortised cost	**PD %**	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**
Residential mortgages						
Strong	0% – 0.98%	21,548	986	–	12	22,546
Satisfactory	0.99% – 6.94%	1,852	1,480	–	3	3,335
Total strong/satisfactory		23,400	2,466	–	15	25,881
Criticised watch	6.95% – 99.90%	148	1,810	–	2	1,960
Criticised recovery	6.96% – 99.90%	152	921	–	–	1,073
Total criticised		300	2,731	–	2	3,033
Non-performing	100%	24	–	3,914	222	4,160
Gross carrying amount		23,724	5,197	3,914	239	33,074
Loss allowance		(13)	(96)	(1,147)	(29)	(1,285)
Carrying amount		23,711	5,101	2,767	210	31,789
Other personal						
Strong	0% – 0.98%	1,146	30	–	–	1,176
Satisfactory	0.99% – 6.94%	1,100	119	–	–	1,219
Total strong/satisfactory		2,246	149	–	–	2,395
Criticised watch	6.95% – 99.90%	73	165	–	–	238
Criticised recovery	6.96% – 99.90%	4	21	–	–	25
Total criticised		77	186	–	–	263
Non-performing	100%	20	–	397	–	417
Gross carrying amount		2,343	335	397	–	3,075
Loss allowance		(31)	(46)	(195)	–	(272)
Carrying amount		2,312	289	202	–	2,803
Property and construction						
Strong	0% – 0.98%	3,785	156	–	–	3,941
Satisfactory	0.99% – 6.94%	1,444	334	–	–	1,778
Total strong/satisfactory		5,229	490	–	–	5,719
Criticised watch	6.95% – 99.90%	224	270	–	–	494
Criticised recovery	6.96% – 99.90%	4	119	–	–	123
Total criticised		228	389	–	–	617
Non-performing	100%	208	–	1,426	2	1,636
Gross carrying amount		5,665	879	1,426	2	7,972
Loss allowance		(57)	(45)	(528)	–	(630)
Carrying amount		5,608	834	898	2	7,342
Non-property business						
Strong	0% – 0.98%	9,436	571	–	–	10,007
Satisfactory	0.99% – 6.94%	5,450	478	–	–	5,928
Total strong/satisfactory		14,886	1,049	–	–	15,935
Criticised watch	6.95% – 99.90%	527	562	–	–	1,089
Criticised recovery	6.96% – 99.90%	70	176	–	–	246
Total criticised		597	738	–	–	1,335
Non-performing	100%	57	–	1,170	–	1,227
Gross carrying amount		15,540	1,787	1,170	–	18,497
Loss allowance		(99)	(133)	(477)	–	(709)
Carrying amount		15,441	1,654	693	–	17,788
Total carrying amount of loans and advances to customers measured at amortised cost		47,072	7,878	4,560	212	59,722

Credit risk – Credit profile of the loan portfolio

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
					31 December 2017
Neither past due nor impaired					
Good upper	17,564	227	205	1,861	19,857
Good lower	8,657	2,135	5,123	13,012	28,927
Watch	1,033	69	187	384	1,673
Vulnerable	2,304	173	1,227	1,264	4,968
Total	29,558	2,604	6,742	16,521	55,425
Past due but not impaired					
Good upper	3	3	–	1	7
Good lower	27	47	41	81	196
Watch	291	23	19	29	362
Vulnerable	548	83	215	172	1,018
Total	869	156	275	283	1,583
Total impaired	3,293	362	1,803	872	6,330
Total gross loans and advances	33,720	3,122	8,820	17,676	63,338
Specific provisions	(1,135)	(203)	(914)	(470)	(2,722)
IBNR provisions	(283)	(43)	(150)	(147)	(623)
Total provisions for impairment	(1,418)	(246)	(1,064)	(617)	(3,345)
Gross loans and advances less provisions	32,302	2,876	7,756	17,059	59,993

As at 30 June 2018, 80% of total loans and advances to customers are in a strong/satisfactory grade. 8% are in a criticised grade with the remaining 12% being classified as non-performing.

Credit risk – Credit profile of the loan portfolio

Non-performing exposures ("NPE") to customers

The internal credit ratings profile of loans and advances to customers on the table above sets out the basis on which the Group manages its credit portfolio. In addition, the Group's off-balance sheet commitments are set out in Note 38 to the condensed consolidated interim financial statements.

Further analysis of non-performing loans and advances to customers by asset class is set out below. Comparative data for 31 December 2017 has been prepared under IAS 39.

Non-performing loans

					30 June 2018
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At amortised cost					
Collateral disposals	**243**	**65**	**473**	**127**	**908**
Unlikely to pay (including > 90 days past due)	**3,490**	**318**	**1,036**	**956**	**5,800**
Non-performing loans probation	**427**	**34**	**127**	**144**	**732**
Total gross carrying amount at amortised cost	**4,160**	**417**	**1,636**	**1,227**	**7,440**
At FVTPL					
Collateral disposals	**–**	**–**	**10**	**–**	**10**
Unlikely to pay (including > 90 days past due)	**–**	**–**	**31**	**–**	**31**
Non-performing loans probation	**–**	**–**	**8**	**–**	**8**
Total carrying amount at FVTPL	**–**	**–**	**49**	**–**	**49**
Total non-performing loans and advances to customers	**4,160**	**417**	**1,685**	**1,227**	**7,489**
Non-performing loans as % of total loans and advances to customers	**13%**	**14%**	**21%**	**7%**	**12%**

					31 December 2017
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-performing loans					
Impaired	3,293	362	1,803	872	6,330
Greater than 90 days past due but not impaired	246	47	141	122	556
Neither past due nor impaired and/or less than 90 days past due	1,277	145	1,005	881	3,308
Total non-performing loans	4,816	554	2,949	1,875	10,194
Non-performing loans as % of total gross loans	14%	18%	33%	11%	16%
	€ m	€ m	€ m	€ m	€ m
At 1 January 2018 (revised)	4,585	518	2,849	1,660	9,612

The non-performing exposures ("NPE") stock was revised from € 10,194 million at 31 December 2017 to € 9,612 million at 1 January 2018 reflecting the implementation and harmonisation of a new definition of default policy which aligns to accounting standards and EBA guidelines. The revision was primarily due to a decrease of € 1.2 billion as a result of the implementation of a 1 year probation rule for transferring from NPE to performing and by the reclassification of a portfolio of loans that had been held as NPE for longer than the required probation period. This decrease was offset by an increase of € 0.6 billion resulting from the implementation of a wider rule set for the identification of default. This rule set includes: the impact of contagion; number of forbearance events; determination of financial distress; and a materiality threshold for days past due.

Total non-performing off-balance sheet commitments

Total non-performing off-balance sheet commitments amounted to € 235 million (31 December 2017: € 322 million).

See page 34 for definition of the non-performing loan classifications above.

Credit risk – Credit profile of the loan portfolio

The following table analyses loans and advances to customers by segment showing asset quality and loss allowance. Comparative data for 31 December 2017 has been prepared under IAS 39.

Loans and advances to customers*

	30 June 2018					31 December 2017				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
Measured at amortised cost	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Residential mortgages:										
Owner-occupier	28,200	5	1,328	–	29,533	28,332	5	1,327	–	29,664
Buy-to-let	3,402	22	117	–	3,541	3,840	23	193	–	4,056
	31,602	27	1,445	–	33,074	32,172	28	1,520	–	33,720
Other personal	2,863	30	170	12	3,075	2,888	43	186	5	3,122
Property and construction	2,345	3,348	2,279	–	7,972	3,448	3,048	2,324	–	8,820
Non-property business	5,798	8,002	4,593	104	18,497	5,927	7,203	4,493	53	17,676
Total measured at amortised cost	42,608	11,407	8,487	116	62,618	44,435	10,322	8,523	58	63,338
Analysed by ECL staging										
Stage 1	29,900	11,089	6,168	115	47,272					
Stage 2	6,170	178	1,850	–	8,198					
Stage 3	6,297	140	469	1	6,907					
POCI	241	–	–	–	241					
Analysed as to asset quality										
Satisfactory						31,570	9,938	7,421	58	48,987
Watch						1,691	12	332	–	2,035
Vulnerable						5,277	364	345	–	5,986
Impaired						5,897	8	425	–	6,330
Total criticised loans						12,865	384	1,102	–	14,351
Loss allowance – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Stage 1	152	25	23	–	200					
Stage 2	254	14	52	–	320					
Stage 3	2,122	24	201	–	2,347					
POCI	29	–	–	–	29					
Specific provisions						2,488	2	232	–	2,722
IBNR provisions						525	45	53	–	623
Total loss allowance	2,557	63	276	–	2,896	3,013	47	285	–	3,345
Loss allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	–	–	–	–	–					
Stage 2	4	7	3	–	4					
Stage 3	34	18	43	–	34					
POCI	12	–	–	–	12					
Specific provisions/impaired loans						42	25	55	–	43
Total provisions/impaired loans						51	588	67	–	53
Total provisions/total loans						7	–	3	–	5

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

Credit risk – Credit profile of the loan portfolio

Income statement – loans and advances to customers excluding off-balance sheet*

The following table analyses the income statement net credit impairment (writeback)/losses on loans and advances to customers by segment. Comparative data for 30 June 2017 has been prepared under IAS 39.

					Half-year 30 June 2018					Half-year 30 June 2017
Income statement – credit impairment (writeback)/ losses	**RCB**	**WIB**	**AIB UK**	**Group**	**Total**	RCB	WIB	AIB	Group	total
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net remeasurement of loss allowance	**(128)**	**6**	**12**	**–**	**(110)**					
Recoveries of amounts written off in previous years	**(28)**	**–**	**(1)**	**–**	**(29)**					
Specific						(84)	(11)	21	–	(74)
IBNR						51	4	–	–	55
Net credit impairment (writeback)/losses	**(156)**	**6**	**11**	**–**	**(139)**	(33)	(7)	21	–	(19)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment (writeback)/ losses on average loans	**(0.71)**	**0.11**	**0.26**	**–**	**(0.44)**	(0.14)	(0.18)	0.46	–	(0.06)

Loans and advances to customers*

					30 June 2018
	RCB	**WIB**	**AIB UK**	**Group**	**Total**
Measured at FVTPL	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Property and construction	**50**	**92**	**–**	**–**	**142**
Total measured at FVTPL	**50**	**92**	**–**	**–**	**142**
Total measured at amortised cost	**42,608**	**11,407**	**8,487**	**116**	**62,618**
Total loans and advances to customers	**42,658**	**11,499**	**8,487**	**116**	**62,760**

A segmental analysis on the adoption of IFRS 9 at 1 January 2018 is set out in note 2 to the condensed consolidated interim financial statements.

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

Credit risk – Credit profile of the loan portfolio

The following table sets out the concentration of credit by industry sector for loans and advances to customers together with loan commitments and financial guarantees issued showing the ECL profile. Comparative data for 31 December 2017 has been prepared under IAS 39.

Loans and advances to customers measured at amortised cost*

	30 June 2018							
	Gross carrying amount			Analysed by ECL profile				
Concentration by sector	Loans and advances to customers € m	Loan commitments and financial guarantees issued € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Agriculture	1,821	565	2,386	1,955	220	211	–	2,386
Energy	905	502	1,407	1,266	95	46	–	1,407
Manufacturing	2,575	1,182	3,757	3,524	156	77	–	3,757
Property and construction	7,972	1,262	9,234	6,785	928	1,519	2	9,234
Distribution	5,503	1,206	6,709	5,440	702	567	–	6,709
Transport	1,579	357	1,936	1,802	106	28	–	1,936
Financial	575	264	839	721	105	13	–	839
Other services	5,539	3,075	8,614	7,643	651	320	–	8,614
Personal:								
Residential mortgages	33,074	298	33,372	23,990	5,208	3,935	239	33,372
Other	3,075	3,203	6,278	5,407	452	419	–	6,278
Total	62,618	11,914	74,532	58,533	8,623	7,135	241	74,532

The following table sets out the loss allowance by industry sector on loans and advances to customers together with loan commitments and financial guarantee contracts analysed by the ECL profile. Comparative data for 31 December 2017 has been prepared under IAS 39.

	30 June 2018							
	Loss allowance			Analysed by ECL profile				
Concentration by sector	Loans and advances to customers € m	Loan commitments and financial guarantees issued € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Agriculture	93	2	95	14	24	57	–	95
Energy	23	1	24	3	6	15	–	24
Manufacturing	56	2	58	8	11	39	–	58
Property and construction	630	33	663	59	48	556	–	663
Distribution	323	9	332	49	52	231	–	332
Transport	19	1	20	6	5	9	–	20
Financial	11	1	12	–	4	8	–	12
Other services	184	8	192	31	38	123	–	192
Personal:								
Residential mortgages	1,285	–	1,285	12	96	1,148	29	1,285
Other	272	6	278	35	48	195	–	278
Total	2,896	63	2,959	217	332	2,381	29	2,959

Loans and advances to customers measured at FVTPL*

	30 June 2018		
Concentration by sector	Loans and advances to customers € m	Loan commitments and financial guarantees issued € m	Total € m
Property and construction	142	–	142
Total at FVTPL	142	–	142

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

Credit risk – Credit profile of the loan portfolio

The following table, prepared under IAS 39, sets out loans and advances to customers by industry sector*:

	31 December 2017			
	Total loans and advances to customers € m	%	Of which: impaired € m	Specific provisions for impairment € m
Agriculture	1,818	2.9	101	32
Energy	717	1.1	36	12
Manufacturing	2,390	3.8	60	49
Property and construction	8,820	13.9	1,803	914
Distribution	5,547	8.7	417	211
Transport	1,352	2.1	14	8
Financial	478	0.8	14	11
Other services	5,374	8.5	230	147
Personal:				
Residential mortgages	33,720	53.3	3,293	1,135
Other	3,122	4.9	362	203
Total	63,338	100.0	6,330	2,722

Analysed as to:	
Neither past due nor impaired	55,425
Past due but not impaired	1,583
Impaired – provisions held	6,330
	63,338
Provisions for impairment:	
Specific	(2,722)
IBNR	(623)
	(3,345)
Total statement of financial position	59,993

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

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Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due loans and advances to customers

At amortised cost

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	30 June 2018* Total € m
Agriculture	27	6	6	9	15	89	152
Energy	1	–	–	3	1	14	19
Manufacturing	10	2	1	3	7	22	45
Property and construction	83	14	21	49	73	682	922
Distribution	55	16	8	13	15	240	347
Transport	5	2	–	2	2	10	21
Financial	2	–	–	–	–	3	5
Other services	30	10	4	12	19	126	201
Personal:							
Residential mortgages	556	167	116	197	226	1,985	3,247
Credit cards	19	5	3	5	16	–	48
Other	51	13	12	23	35	192	326
Total gross carrying amount	839	235	171	316	409	3,363	5,333
Asset quality							
Stage 1	177	–	–	–	–	–	177
Stage 2	380	95	39	–	–	–	514
Stage 3	265	134	129	310	403	3,339	4,580
POCI	17	6	3	6	6	24	62
	839	235	171	316	409	3,363	5,333
Segment							
RCB	775	219	153	297	379	3,122	4,945
WIB	8	2	–	–	3	–	13
AIB UK	56	14	18	19	27	240	374
Group	–	–	–	–	–	1	1
	839	235	171	316	409	3,363	5,333
As a percentage of total gross loans	% 1.34	% 0.37	% 0.27	% 0.51	% 0.65	% 5.37	% 8.52

At FVTPL

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	30 June 2018* Total € m
Property and construction	–	–	–	–	1	2	3
Total at FVTPL	–	–	–	–	1	2	3

	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	31 December 2017 Total € m
Total gross loans	925	292	191	324	480	4,524	6,736
As a percentage of total gross loans	% 1.46	% 0.46	% 0.30	% 0.51	% 0.76	% 7.14	% 10.64

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

At 30 June 2018, total loans past due reduced by € 1.4 billion to € 5.3 billion or 8.5% of total loans and advances to customers (31 December 2017: € 6.7 billion or 10.6%).

Residential mortgage loans which were past due at 30 June 2018, amounted to € 3.2 billion. This represents 61% of total loans which were past due (31 December 2017: € 3.6 billion or 53%). 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 favourable economic environment.

Property and construction loans which were past due represent 17% or € 0.9 billion of total loans which were past due (31 December 2017: 27% or € 1.8 billion), with non-property business at 15% or € 0.8 billion (31 December 2017: 13% or € 0.9 billion) and other personal at 7% or € 0.4 billion (31 December 2017: 7% or € 0.4 billion).

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

Credit risk – Credit profile of the loan portfolio

Movements on impairment allowances*

The following table sets out the movements on the loss allowance on loans and advances to customers. Comparative data for 31 December 2017 has been prepared under IAS 39.

	Residential mortgages	Other personal	Property and construction	Non-property business	Total
30 June 2018					
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
At 31 December 2017 (IAS 39)	**1,418**	**246**	**1,064**	**617**	**3,345**
Impact of adopting IFRS 9 at 1 January 2018[1]	**(27)**	**83**	**42**	**173**	**271**
At 1 January 2018 (IFRS 9)	**1,391**	**329**	**1,106**	**790**	**3,616**
Exchange translation adjustments	**–**	**–**	**–**	**1**	**1**
Transfer	**–**	**–**	**–**	**14**	**14**
Net remeasurement of loss allowance – customers[1]	**(25)**	**(8)**	**(78)**	**1**	**(110)**
Changes in loss allowance due to write-offs	**(23)**	**(22)**	**(35)**	**(64)**	**(144)**
Changes in loss allowance due to derecognition	**(58)**	**(27)**	**(363)**	**(33)**	**(481)**
At 30 June 2018	**1,285**	**272**	**630**	**709**	**2,896**

[1]Further details of the impact of adopting IFRS 9 at 1 January 2018 are set out in note 2 to the condensed consolidated interim financial statements.

	Residential mortgages	Other personal	Property and construction	Non-property business	Total
31 December 2017					
	€ m	€ m	€ m	€ m	€ m
At 1 January	2,002	290	1,449	848	4,589
Exchange translation adjustments	(9)	(1)	(12)	(4)	(26)
(Credit)/charge to income statement – customers[1]	(101)	(2)	(50)	40	(113)
Amounts written off	(286)	(30)	(190)	(210)	(716)
Disposals	(190)	(11)	(134)	(69)	(404)
Recoveries of amounts written off in previous years	2	–	1	12	15
At 31 December 2017	1,418	246	1,064	617	3,345
Total provisions are split as follows:					
Specific	1,135	203	914	470	2,722
IBNR	283	43	150	147	623
	1,418	246	1,064	617	3,345

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

Credit risk – Credit profile of the loan portfolio

Income statement*

The following table analyses the income statement net credit impairment (writeback)/losses for the half-year to 30 June 2018. Comparative data for 30 June 2017 has been prepared under IAS 39.

Credit impairment (writeback)/losses on financial instruments	RCB € m	WIB € m	AIB UK € m	Group € m	Half-year 30 June 2018 Total € m
Net remeasurement of loss allowance:					
Loans and advances to banks	–	–	–	(1)	(1)
Loans and advances to customers	(128)	6	12	–	(110)
Loan commitments	4	–	5	–	9
Financial guarantee contracts	–	–	1	–	1
Investment securities at FVOCI	–	–	–	–	–
Credit impairment (writeback)/losses	(124)	6	18	(1)	(101)
Recoveries of amounts written off in previous years	(28)	–	(1)	–	(29)
Net credit impairment (writeback)/losses	(152)	6	17	(1)	(130)
Of which:					
Loans and advances to banks	–	–	–	(1)	(1)
Loans and advances to customers	(156)	6	11	–	(139)
Loan commitments and financial guarantee contracts	4	–	6		10

	RCB € m	WIB € m	AIB UK € m	Group € m	Half-year 30 June 2017 Total € m
Specific provisions – Individually significant	(93)	(11)	24	–	(80)
– Individually insignificant	9	–	(3)	–	6
IBNR	51	4	–	–	55
Total provisions for impairment (credit)/charge on loans and advances to customers	(33)	(7)	21	–	(19)
Writeback of provisions for liabilities and commitments					(4)
Total					(23)

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

Risk management

Credit risk – Credit profile of the loan portfolio

There was a total net credit impairment writeback of € 130 million in the six months to 30 June 2018. This comprised a net credit impairment writeback of € 139 million on loans and advances to customers, a € -10 million loss allowance for off-balance sheet loan commitments and financial guarantee contracts and a € 1 million writeback on loans and advances to banks. For the six months to 30 June 2017, which was under IAS 39, there was a provision net writeback of € 19 million together with a € 4 million writeback of provisions for liabilities and commitments.

Of the € 139 million net credit impairment writeback on loans and advances to customers, € 110 million relates to the net remeasurement of the loss allowance and € 29 million relates to recoveries of amounts written off in previous years. The € 110 million writeback directly relates to movements in individually assessed cases resulting from the remeasurement of the ECL allowance. The writebacks arose from the increased security values, improved business cash flows, the stronger economic environment, upgrading from Stage 3 without loss, and the execution of additional security at drawdown of restructures. The writebacks were predominately evident across the commercial real estate and the non-property business asset classes.

There was a net credit impairment writeback of € 156 million attributable to RCB which is Included in the net credit impairment writeback total of € 139 million noted above. The writeback was primarily due to the aforementioned positive impact of changes in cash flow assumptions and recoveries of amounts written off in previous years. This was offset by € 11 million and € 6 million net credit impairment losses in AIB UK and WIB respectively.

Credit risk – Credit profile of the loan portfolio

Loans and advances to customers – Residential mortgages

Residential mortgages amounted to € 33.1 billion at 30 June 2018, with the majority (96%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 33.7 billion at 31 December 2017, of which 95% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 29.5 billion and buy-to-let € 3.6 billion (31 December 2017: owner-occupier € 29.7 billion and buy-to-let € 4.0 billion).

Statement of financial position loss allowance of € 1.3 billion were held at 30 June 2018 (31 December 2017: € 1.4 billion under IAS 39 which when remeasured under IFRS 9 on 1 January 2018 remained at € 1.4 billion).

The net credit impairment writeback of € 27 million to the income statement in the six months to 30 June 2018 resulted from the net remeasurement of the loss allowance amounting to € 25 million and € 2 million relating to recoveries of amounts written off in previous years (30 June 2017: € 66 million IAS 39 provision credit comprising € 50 million specific writeback and a € 16 million IBNR release).

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

Risk management

Credit risk – Credit profile of the loan portfolio

Loans and advances to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio showing the loss allowance. Comparative data for 31 December 2017 has been prepared under IAS 39.

Residential mortgages at amortised cost

	30 June 2018*			31 December 2017*		
Gross loans and advances to customers	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross carrying amount	**28,205**	**3,424**	**31,629**	28,337	3,863	32,200
Analysed as to ECL staging						
Stage 1	**21,016**	**1,665**	**22,681**			
Stage 2	**4,145**	**799**	**4,944**			
Stage 3	**2,818**	**947**	**3,765**			
POCI	**226**	**13**	**239**			
Analysed by arrears/impaired						
In arrears (>30 days past due)				2,556	1,005	3,561(1)
In arrears (>90 days past due)				2,423	982	3,405(1)
Of which impaired				2,277	888	3,165
Loss allowance - statement of financial position	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Stage 1	**7**	**5**	**12**			
Stage 2	**70**	**24**	**94**			
Stage 3	**874**	**244**	**1,118**			
POCI	**19**	**10**	**29**			
Specific provisions				793	309	1,102
IBNR provisions				188	90	278
Total loss allowance	**970**	**283**	**1,253**	981	399	1,380
Residential mortgages at amortised cost	**27,235**	**3,141**	**30,376**	27,356	3,464	30,820
Loss allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**–**	**0.3**	**0.1**			
Stage 2	**1.7**	**3.0**	**1.9**			
Stage 3	**31.0**	**25.8**	**29.7**			
POCI	**8.2**	**76.9**	**12.2**			
Specific provisions/impaired loans				34.8	34.8	34.8

	Half-year* 30 June 2018			Half-year* 30 June 2017		
Income statement credit impairment (writeback)/losses	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Net remeasurement of loss allowance	**(14)**	**(9)**	**(23)**			
Recoveries of amounts written off in previous years	**(1)**	**(1)**	**(2)**			
Specific provisions				4	(54)	(50)
IBNR provisions				(13)	(4)	(17)
Net credit impairment (writeback)/ losses	**(15)**	**(10)**	**(25)**	(9)	(58)	(67)
Net credit impairment (writeback)/ losses on average loans	**%**	**%**	**%**	%	%	%
	(0.11)	**(0.54)**	**(0.16)**	(0.06)	(2.54)	(0.40)

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

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

Credit risk – Credit profile of the loan portfolio

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

Residential mortgages in the Republic of Ireland amounted to € 31.6 billion at 30 June 2018 compared to € 32.2 billion at 31 December 2017. The decrease in the portfolio was primarily due to loan repayments and disposals, offset by new lending in the six months to 30 June 2018. Total drawdowns in the six months to 30 June 2018 were € 1.2 billion, of which 97% related to owner occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 73%. New lending in the six months to 30 June 2018 increased by 17% on the comparable period in 2017 driven by the favourable macro-economic conditions.

The split of the residential mortgage portfolio is 89% owner-occupier and 11% buy-to-let and comprises 32% tracker rate, 56% variable rate and 12% fixed rate mortgages.

Non-performing loans decreased from € 4.4 billion at 31 December 2017 to € 4.0 billion at 30 June 2018, impacted by the sale of a portfolio of distressed mortgages (€ 0.2 billion) in the period and also partly due to restructuring, write-offs, repayments and redemptions.

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 2% during the six months to 30 June 2018, a decrease of 1% in the owner-occupier portfolio and a decrease of 11% in the buy-to-let portfolio. The decreases in the buy-to-let arrears were driven by the sale of a distressed portfolio. Excluding the impact of the sale, the underlying decreases were 1%, 1% and 6% respectively.

The number of loans in arrears (based on number of accounts) greater than 90 days was 6.1% at 30 June 2018 and remains below the industry average of 7.9%[1]. For the owner-occupier portfolio, loans in arrears greater than 90 days at 5.1% were below the industry average of 6.7%. For the buy-to-let portfolio, loans in arrears greater than 90 days at 14.3% were below the industry average of 15.2%.

Forbearance

Residential mortgages subject to forbearance measures decreased by € 0.3 billion from 31 December 2017 to € 4.4 billion at 30 June 2018, compared to an decrease of € 1.2 billion in the 12 months to 31 December 2017. A key feature of the forbearance portfolio is the level 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 and support customers in remaining in their family home.

Details of forbearance measures are set out on pages 66 to 78.

Income statement

The net credit impairment writeback of € 25 million in the first half of 2018 compared to a € 50 million specific provision writeback in the same period in 2017 under IAS 39. The loss allowance provision cover level at 30 June 2018 for the total mortgage portfolio is 4%. For the Stage 3 element of the mortgage portfolio, € 1.1 billion of ECLs are held providing Stage 3 cover of 30%.

(1)Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 31 March 2018, based on numbers of accounts.

Risk management

Credit risk – Credit profile of the loan portfolio

Credit quality profile of Republic of Ireland residential mortgages

The following table profiles the Republic of Ireland residential mortgage portfolio at 30 June 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

					30 June 2018*
	At amortised cost				
Republic of Ireland owner-occupier	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Not past due	20,962	3,824	788	174	25,748
1 - 30 days	54	257	144	17	472
31 - 60 days	–	49	86	5	140
61 - 90 days	–	15	66	3	84
91 - 180 days	–	–	146	6	152
181 - 365 days	–	–	146	6	152
Over 365 days	–	–	1,442	15	1,457
Total	21,016	4,145	2,818	226	28,205
Republic of Ireland buy-to-let	€ m	€ m	€ m	€ m	€ m
Not past due	1,657	767	316	6	2,746
1 - 30 days	8	26	37	–	71
31 - 60 days	–	4	15	–	19
61 - 90 days	–	2	22	–	24
91 - 180 days	–	–	36	–	36
181 - 365 days	–	–	54	–	54
Over 365 days	–	–	467	7	474
Total	1,665	799	947	13	3,424
Republic of Ireland – Total	€ m	€ m	€ m	€ m	€ m
Not past due	22,619	4,591	1,104	180	28,494
1 - 30 days	62	283	181	17	543
31 - 60 days	–	53	101	5	159
61 - 90 days	–	17	88	3	108
91 - 180 days	–	–	182	6	188
181 - 365 days	–	–	200	6	206
Over 365 days	–	–	1,909	22	1,931
Total gross carrying amount of residential mortgages	22,681	4,944	3,765	239	31,629

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

Credit risk – Credit profile of the loan portfolio

Credit quality profile of Republic of Ireland residential mortgages *(continued)*

The following table profiles the Republic of Ireland residential mortgages at 31 December 2017:

									31 December 2017*
	Non-impaired			Impaired			Total		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	25,394	2,802	28,196	398	153	551	25,792	2,955	28,747
1 - 30 days	387	56	443	100	26	126	487	82	569
31 - 60 days	91	15	106	51	20	71	142	35	177
61 - 90 days	42	8	50	44	13	57	86	21	107
91 - 180 days	28	16	44	107	30	137	135	46	181
181 - 365 days	30	21	51	137	50	187	167	71	238
Over 365 days	88	57	145	1,440	596	2,036	1,528	653	2,181
Total	26,060	2,975	29,035	2,277	888	3,165	28,337	3,863	32,200

*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 2018*		31 December 2017*	
	Stock	**Balance outstanding € m**	Stock	Balance outstanding € m
Owner-occupier	**593**	**143**	602	145
Buy-to-let	**47**	**10**	53	11
Total	**640**	**153**	655	156

[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 decreased by 15 properties in the six months to 30 June 2018. This decrease relates to the disposal of 32 properties (2017: 203 properties) which were offset by the addition of 21 properties (2017: 112 properties) all of which were voluntary surrenders or abandonments. In addition, a further 4 properties were removed from the stock in the period to 30 June 2018 as part of the sale of a portfolio of distressed assets.

The disposal of 32 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 3 million at 30 June 2018 (before loss allowances) and compares to 2017 when 203 residential properties were disposed of resulting in a total loss of € 23 million. Losses on the sale of such properties are recognised in the income statement as part of the net credit impairment losses.

*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 UK mortgage portfolio is predominantly based in Northern Ireland (74% of total) with the remainder located in Great Britain. The portfolio decreased in sterling terms by c.6% on the financial year end December 2017. However, due to the impact of currency movements, the portfolio decreased by c.5% in euro terms.

The following table analyses the UK residential mortgage portfolio showing the loss allowance. Comparative data for 31 December 2017 has been prepared under IAS 39.

Residential mortgages at amortised cost

			30 June 2018*			31 December 2017*
Gross loans and advances to customers	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross carrying amount	**1,328**	**117**	**1,445**	1,327	193	1,520
Analysed as to ECL staging						
Stage 1	**960**	**83**	**1,043**			
Stage 2	**229**	**24**	**253**			
Stage 3	**139**	**10**	**149**			
Analysed by arrears/impaired						
In arrears (>30 days past due)				129	19	148[(1)]
In arrears (>90 days past due)				115	19	134[(1)]
Of which impaired				109	19	128
Loss allowance - statement of financial position	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Stage 1	**1**	**–**	**1**			
Stage 2	**2**	**–**	**2**			
Stage 3	**26**	**3**	**29**			
Specific provisions				29	4	33
IBNR provisions				5	–	5
Total loss allowance	**29**	**3**	**32**	34	4	38
Residential mortgages at amortised cost	**1,299**	**114**	**1,413**	1,293	189	1,482
Loss allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**–**	**–**	**–**			
Stage 2	**0.9**	**–**	**0.9**			
Stage 3	**19.1**	**33.2**	**20.1**			
Specific provisions/impaired loans				27.2	19.4	26.1
			Half-year* 30 June 2018			Half-year* 30 June 2017
Income statement credit impairment (writeback)/losses	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Net remeasurement of loss allowance	**(1)**	**(1)**	**(2)**			
Recoveries of amounts written off in previous years	**–**	**–**	**–**			
Specific provisions				1	(1)	–
IBNR provisions				1	–	1
Net credit impairment (writeback)/losses	**(1)**	**(1)**	**(2)**	2	(1)	1
Net credit impairment (writeback)/ losses on average loans	**% (0.15)**	**% (1.66)**	**% (0.27)**	% 0.27	% (0.91)	% 0.02

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

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

Credit risk – Credit profile of the loan portfolio

Loans and advances to customers – Other personal

The following table analyses other personal lending by segment showing asset quality and the loss allowance. Comparative data for 31 December 2017 has been prepared under IAS 39:

	30 June 2018*					31 December 2017*				
Gross loans and advances to customers	**RCB € m**	**WIB € m**	**AIB UK € m**	**Group € m**	**Total € m**	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Total gross carrying amount	**2,863**	**30**	**170**	**12**	**3,075**	2,888	43	186	5	3,122
Analysed as to ECL staging										
Stage 1	**2,194**	**29**	**108**	**12**	**2,343**					
Stage 2	**285**	**–**	**50**	**–**	**335**					
Stage 3	**384**	**1**	**12**	**–**	**397**					
Analysed as to asset quality										
Satisfactory						2,203	42	162	5	2,412
Watch						87	–	5	–	92
Vulnerable						249	1	6	–	256
Impaired						349	–	13	–	362
Total criticised loans						685	1	24	–	710
Loss allowance – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Stage 1	**30**	**–**	**1**	**–**	**31**					
Stage 2	**44**	**–**	**2**	**–**	**46**					
Stage 3	**187**	**–**	**8**	**–**	**195**					
Specific provisions						190	–	13	–	203
IBNR provisions						40	–	3	–	43
Total loss allowance	**261**	**–**	**11**	**–**	**272**	230	–	16	–	246
Loss allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	**1**	**–**	**1**	**–**	**1**					
Stage 2	**15**	**–**	**3**	**–**	**14**					
Stage 3	**49**	**–**	**67**	**–**	**49**					
Specific provisions/impaired loans						54	–	100	–	56
Total provisions/impaired loans						66	–	123	–	68
Total provisions/total loans						8	–	9	–	8

	Half-year 30 June 2018*					Half-year 30 June 2017*				
Income statement – credit impairment (writeback)/losses	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net remeasurement of loss allowance	**(9)**	**–**	**1**	**–**	**(8)**					
Recoveries of amounts written off in previous years	**(5)**	**–**	**–**	**–**	**(5)**					
Specific						3	–	(1)	–	2
IBNR						6	–	–	–	6
Net credit impairment (writeback)/ losses	**(14)**	**–**	**1**	**–**	**(13)**	9	–	(1)	–	8
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment (writeback)/ losses on average loans	**(1.00)**	**–**	**1.08**	**–**	**(0.88)**	0.66	–	(0.81)	–	0.52

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

Credit risk – Credit profile of the loan portfolio

Loans and advances to customers – Other personal

The other personal lending portfolio of € 3.1 billion comprises € 2.3 billion in loans and overdrafts and € 0.8 billion in credit card facilities (31 December 2017: € 3.1 billion, € 2.2 billion and € 0.9 billion respectively).

The demand for personal loans remains strong which is due to the favourable economic environment and the Group's service offering, especially increased online approval through internet and mobile credit application activity.

The portfolio experienced a € 0.1 billion reduction in less than satisfactory loans in the six months to 30 June 2018. At 30 June 2018, € 0.7 billion or 22% of the portfolio was less than satisfactory of which defaulted loans amounted to € 0.4 billion (31 December 2017: € 0.7 billion or 23%).

At 30 June 2018, the loss allowance cover was 9% with Stage 3 cover of 49%. The net credit impairment writeback to the income statement of € 13 million compares to a charge of € 8 million under IAS 39 for the same period in 2017.

Credit risk – Credit profile of the loan portfolio

Loans and advances to customers – Property and construction

The following table analyses property and construction lending by segment at amortised cost showing asset quality and the loss allowance. Comparative data for 31 December 2017 has been prepared under IAS 39.
*

	30 June 2018*				31 December 2017*			
Gross loans and advances to customers	**RCB € m**	**WIB € m**	**AIB UK € m**	**Total € m**	RCB € m	WIB € m	AIB UK € m	Total € m
Investment:								
Commercial investment	1,402	2,564	859	4,825	2,002	2,375	881	5,258
Residential investment	401	111	675	1,187	571	124	249	944
	1,803	2,675	1,534	6,012	2,573	2,499	1,130	6,202
Land and development:								
Commercial development	174	91	60	325	275	216	427	918
Residential development	264	505	275	1,044	485	253	223	961
	438	596	335	1,369	760	469	650	1,879
Contractors	104	77	152	333	115	80	287	482
Housing associations	–	–	258	258	–	–	257	257
Total	2,345	3,348	2,279	7,972	3,448	3,048	2,324	8,820
Analysed as to ECL staging								
Stage 1	903	3,200	1,562	5,665				
Stage 2	325	40	514	879				
Stage 3	1,115	108	203	1,426				
POCI	2	–	–	2				
Analysed as to asset quality								
Satisfactory					679	2,758	1,932	5,369
Watch					142	–	64	206
Vulnerable					1,052	290	100	1,442
Impaired					1,575	–	228	1,803
Total criticised loans					2,769	290	392	3,451
Loss allowance – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Stage 1	35	17	5	57				
Stage 2	32	4	9	45				
Stage 3	404	6	118	528				
POCI	–	–	–	–				
Specific provisions					761	–	153	914
IBNR provisions					104	26	20	150
Total loss allowance	471	27	132	630	865	26	173	1,064
Loss allowance cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Stage 1	4	1	–	1				
Stage 2	10	10	2	5				
Stage 3	36	5	58	37				
POCI	6	–	–	6				
Specific provisions/impaired loans					48	–	67	51
Total provisions/impaired loans					55	–	76	59
Total provisions/total loans					25	1	7	12

	Half-year 30 June 2018*				Half-year 30 June 2017*			
Income statement – credit impairment (writeback)/losses	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Net remeasurement of loss allowance	(68)	2	(12)	(78)				
Recoveries of amounts written off in previous years	(14)	–	–	(14)				
Specific					(37)	(1)	(10)	(48)
IBNR					27	5	(3)	29
Net credit impairment (writeback)/ losses	(82)	2	(12)	(92)	(10)	4	(13)	(19)
	%	**%**	**%**	**%**	%	%	%	%
Net credit impairment (writeback)/ losses on average loans	(5.43)	0.12	(1.10)	(2.16)	(0.52)	0.27	(0.98)	(0.43)

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

Credit risk – Credit profile of the loan portfolio

Loans and advances to customers – Property and construction

In addition to the loans at amortised cost of € 7,972 million in the table on the previous page, there is also € 142 million of loans measured at FVTPL, giving a total property portfolio of € 8,114 million.

The property and construction sector amounted to 13% of total loans and advances. The portfolio comprised of 76% investment loans (€ 6.1 billion), 17% land and development loans (€ 1.4 billion) and 7% other property and construction loans (€ 0.6 billion). AIB UK accounts for 29% of the total property and construction portfolio.

Overall, the portfolio reduced by € 0.7 billion or 8% during the six months to 30 June 2018. This reduction was due principally to the continuing impact of restructuring, and to write-offs, amortisations and repayments, resulting from asset disposals by customers, and by the sale of a portfolio of distressed assets. These reductions were off set by new lending of € 0.9 billion, of which € 0.6 billion is in WIB and is typically to provide senior secured funding within acceptable risk parameters. As at 30 June 2018, 72% of the portfolio was in a strong/satisfactory grade.

The net credit impairment writeback of € 78 million on the remeasurement of the loss allowance arose from increased security values and improved business cash flows due to the improved economic environment, mainly on certain high value cases. In addition, recoveries of amounts written off in previous years amounted to € 14 million giving a total net credit impairment writeback of € 92 million.

Investment

Investment property loans amounted to € 6.1 billion at 30 June 2018 (31 December 2017: € 6.2 billion) of which € 4.9 billion related to commercial investment. € 4.2 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, € 1.6 billion in the United Kingdom and € 0.3 billion in the Rest of the World.

The total ECL allowance in the statement of financial position as a percentage of total loans is 6%. The income statement net credit impairment writeback for the six months to 30 June 2018 was € 70 million on the investment property element of the property and construction portfolio.

Land and development

At 30 June 2018, land and development loans amounted to € 1.4 billion (31 December 2017: € 1.9 billion) of which € 0.5 billion related to loans in RCB, € 0.6 billion in WIB and € 0.3 billion in AIB UK.

The income statement net credit impairment writeback for the six months to 30 June 2018 was € 23 million.

Credit risk – Credit profile of the loan portfolio

Loans and advances to customers – Non-property business

The following table analyses non-property business lending by segment showing asset quality and the loss allowance. Comparative data for 31 December 2017 has been prepared under IAS 39.

	30 June 2018*					31 December 2017*				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
Gross loans and advances to customers	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,610	126	85	–	1,821	1,568	168	82	–	1,818
Distribution:										
Hotels	449	1,005	535	–	1,989	496	915	527	–	1,938
Licensed premises	379	151	127	–	657	401	156	123	–	680
Retail/wholesale	1,080	917	390	–	2,387	1,071	974	505	–	2,550
Other distribution	130	172	168	–	470	133	135	111	–	379
	2,038	2,245	1,220	–	5,503	2,101	2,180	1,266	–	5,547
Other services	1,276	2,321	1,932	11	5,540	1,380	2,111	1,882	1	5,374
Other	874	3,310	1,356	93	5,633	878	2,744	1,263	52	4,937
Total	5,798	8,002	4,593	104	18,497	5,927	7,203	4,493	53	17,676
Analysed as to ECL staging										
Stage 1	4,138	7,843	3,456	103	15,540					
Stage 2	620	133	1,034	–	1,787					
Stage 3	1,040	26	103	1	1,170					
Analysed as to asset quality										
Satisfactory						3,658	7,118	4,126	53	14,955
Watch						209	12	192	–	413
Vulnerable						1,252	65	119	–	1,436
Impaired						808	8	56	–	872
Total criticised loans						2,269	85	367	–	2,721
Loss allowance – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Stage 1	74	8	17	–	99					
Stage 2	85	9	39	–	133					
Stage 3	413	19	45	–	477					
Specific provisions						435	2	33	–	470
IBNR provisions						103	19	25	–	147
Total loss allowance	572	36	101	–	709	538	21	58	–	617
Loss allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	2	–	–	–	1					
Stage 2	14	6	4	–	7					
Stage 3	40	73	44	–	41					
Specific provisions/impaired loans						54	25	59	–	54
Total provisions/impaired loans						67	263	104	–	71
Total provisions/total loans						9	–	1	–	3

	Half-year 30 June 2018*					Half-year 30 June 2017*				
Income statement – credit impairment (writeback)/losses	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of loss allowance	(28)	4	25	–	1					
Recoveries of amounts written off in previous years	(7)	–	(1)	–	(8)					
Specific						–	(10)	32	–	22
IBNR						35	(1)	2	–	36
Net credit impairment (writeback)/ losses	(35)	4	24	–	(7)	35	(11)	34	–	58
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/ losses on average loans	(1.19)	0.12	1.04	–	(0.07)	1.15	(0.34)	1.43	–	0.67

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Credit risk – Credit profile of the loan portfolio

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

The non-property business portfolio comprises of Small and Medium Enterprises ("SME") which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers which are impacted by global economies. The portfolio increased by 5% (€ 0.8 billion) in the six months to 30 June 2018 due to continued demand for credit across all segments resulting in new lending of € 2.4 billion in the six months to 30 June 2018 (six months to 30 June 2017: € 2.3 billion). However, this was offset by amortisation, restructuring activity the sale of a portfolio of distressed assets. The portfolio amounted to 29% of total loans and advances at 30 June 2018. The majority of the portfolio exposure is to Irish borrowers with the UK and USA being the other main geographic concentrations.

Satisfactory loans and advances increased in the six months to 30 June 2018, continuing the positive trend experienced in 2017, with new drawdowns exceeding amortisation and repayment coupled with upward grade migration through improved performance. The level of less than satisfactory loans (including defaulted loans) reduced from € 2.9 billion at 31 December 2017 to € 2.6 billion at 30 June 2018, mainly due to a reduction of € 0.4 billion in defaulted loans as a result of restructuring activity.

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

- The agriculture sub-sector (10% of the portfolio) is experiencing significant on-farm challenges due to the difficult weather conditions in the six months to 30 June 2018, which will result in increasing costs across almost all farms. The Group is proactively encouraging farmers to take action to quantify the impact and determine cash flow requirements;
- The hotels sub-sector comprises 11% of the portfolio. This sector continued to perform well in the six months to 30 June 2018, helped by a stronger local economy. There has been a net growth in tourist numbers despite a decline in visitors from the UK Valuations for hotels have continued to increase, with a number of foreign investors and fund managers competing for a limited number of available properties. There has been a marginal net increase in supply during the six months to 30 June 2018, with more significant supply of available rooms expected during 2018 and 2019 in Dublin, Cork and Galway in order to meet the current high levels of demand;
- The licensed premises sub-sector comprises 4% of the portfolio. This sector continues to perform strongly in areas of high footfall, however, the challenge remains for licensed premises in more rural locations or in small towns where there is a lot of competition;
- The retail/wholesale sub-sector (13% of the portfolio) was broadly stable in the Republic of Ireland during the six months to 30 June 2018, with some challenges ahead due to Brexit uncertainty and a growing adoption of online shopping. In the UK, a number of high profile retailers have been impacted by a drop in consumer confidence and disposable income. These headwinds, and similarly from the US, must be considered when reviewing the sector within the Republic of Ireland, albeit current economic performance is strong and consumer confidence is high;
- The other services sub-sector comprises 30% 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 has continued to perform well in the six months to 30 June 2018; and
- The category titled 'Other' totalling € 5.6 billion (30% of the portfolio) includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

Strong economic growth in the Republic of Ireland has continued during the first half of 2018. Notwithstanding this continued strong economic performance, there are still challenges. In particular, there is heightened economic uncertainty around Brexit and the medium-term outlook for the UK economy continues to be uncertain.

WIB includes € 3.9 billion (31 December 2017: € 3.2 billion) in syndicated and international lending exposures. The Group has specialised lending teams which are involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. At 30 June 2018, 99% of the syndicated and international lending portfolio is in a satisfactory grade. 66% of the customers in this portfolio are domiciled in the USA, 5% in the UK, and 29% in the Rest of the World (31 December 2017: 66% in the USA, 6% in the UK and 28% in the Rest of the World (primarily Europe) respectively). The largest industry sub-sectors within the portfolio include healthcare, business services, telecoms, financial services and media.

The income statement net credit impairment writeback of € 7 million in the six months to 30 June 2018 compared to a total provision charge of € 58 million in the same period in 2017 under IAS 39.

The portfolio held € 0.7 billion of ECL allowances which provides total loss allowance cover of 3.8%. For the Stage 3 portfolio, the loss allowance cover is 41%.

Credit risk
Investment securities

The following table analyses the carrying value of investment securities by major classifications. These are held on the statement of financial position as investment securities at FVOCI and FVTPL (2017: available for sale).

	30 June 2018*			31 December 2017*
Debt securities	**Measured at FVOCI € m**	**Measured at FVTPL € m**	**Total € m**	Fair value € m
Irish Government securities	**6,416**	**–**	**6,416**	7,021
Euro government securities	**1,930**	**–**	**1,930**	2,406
Non Euro government securities	**159**	**–**	**159**	161
Supranational banks and government agencies	**1,190**	**–**	**1,190**	1,368
Collateralised mortgage obligations	**282**	**–**	**282**	278
Other asset backed securities	**43**	**–**	**43**	16
Euro bank securities	**4,295**	**–**	**4,295**	4,336
Non Euro bank securities	**654**	**–**	**654**	–
Euro corporate securities	**88**	**–**	**88**	56
Non Euro corporate securities	**33**	**–**	**33**	–
Total debt securities	**15,090**	**–**	**15,090**	15,642
Equity securities	**462**(1)	**243**	**705**	679
Total investment securities	**15,552**	**243**	**15,795**	16,321

(1)NAMA subordinated bonds with a fair value of € 462 million (31 December 2017: € 466 million) are measured at FVOCI. Unrealised gains amount to € 418 million (31 December 2017: € 423 million) which are held in investment securities reserves net of tax. Any realised gains will not recycle to profit or loss under IFRS 9.

Further details of the impact of adopting IFRS 9 at 1 January 2018 are set out in note 2 to the condensed consolidated interim financial statements.

The following tables analyse the debt securities portfolio by geography:

	30 June 2018*			31 December 2017*		
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	**6,416**	**–**	**–**	7,021	–	–
Italy	**–**	**499**	**–**	–	907	–
France	**–**	**120**	**–**	–	122	–
Spain	**–**	**1,064**	**–**	–	1,075	–
Netherlands	**–**	**141**	**–**	–	195	–
Germany	**–**	**55**	**–**	–	56	–
Belgium	**–**	**23**	**–**	–	23	–
Austria	**–**	**28**	**–**	–	28	–
United Kingdom	**–**	**–**	**61**	–	–	62
Czech Republic	**–**	**–**	**11**	–	–	12
Poland	**–**	**–**	**44**	–	–	44
Saudi Arabia	**–**	**–**	**43**	–	–	43
	6,416	**1,930**	**159**	7,021	2,406	161

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Credit risk
Credit ratings
External credit ratings of financial assets*

The following table sets out the credit quality of financial assets based on external credit ratings. These include loans and advances to banks, investment debt securities, trading portfolio financial assets and loans and advances to customers (where an external rating is available). Comparative data for 31 December 2017 has been prepared under IAS 39.

								30 June 2018
	At amortised cost	At FVTPL	At FVOCI					Total
	Bank € m	Sovereign € m	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	€ m
AAA/AA	**1,032**	**–**	**3,967**	**–**	**1,618**	**325**	**5,910**	**6,942**
A/A-	**352**	**6**	**704**	**28**	**6,514**	**–**	**7,246**	**7,604**
BBB+/BBB/BBB-	**54**	**6**	**278**	**64**	**1,563**	**–**	**1,905**	**1,965**
Sub investment	**–**	**–**	**–**	**29**	**–**	**–**	**29**	**29**
Unrated	**101**	**–**	**–**	**–**	**–**	**–**	**–**	**101**
Total	**1,539**	**12**	**4,949**	**121**	**9,695**	**325**	**15,090**	**16,641**
Of which: Stage 1	**1,539**	**N/A**	**4,949**	**121**	**9,695**	**325**	**15,090**	**16,629**

					31 December 2017
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	4,430	–	1,867	295	6,592
A/A-	961	3	7,139	–	8,103
BBB+/BBB/BBB-	164	36	1,982	–	2,182
Sub investment	–	17	–	–	17
Unrated	94	–	–	–	94
Total	5,649	56	10,988[1]	295	16,988

[1]Includes supranational banks and government agencies.

Large exposures

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

At 30 June 2018, the Group's top 50 exposures amounted to € 4.2 billion, and accounted for 6.8% (31 December 2017: € 4.3 billion and 6.7%) of the Group's on-balance sheet total gross loans and advances to customers. In addition, these customers have undrawn facilities amounting to € 175 million (31 December 2017: € 146 million). No single customer exposure exceeded regulatory limits.

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

Risk management

Additional credit risk information – Forbearance

The Group's forbearance initiatives are detailed on pages 82 to 84 in the 'Risk management' section of the Annual Financial Report 2017.

The following table sets out the risk profile of forborne loans and advances to customers at amortised cost. Comparative data for 31 December 2017 has been prepared under IAS 39.

	30 June 2018				
	Forborne loans and advances to customers at amortised cost				
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Strong/satisfactory:					
Stage 1	34	7	9	13	63
Stage 2	43	12	7	6	68
Stage 3	–	–	–	–	–
POCI	–	–	–	–	–
Total	77	19	16	19	131
Criticised:					
Stage 1	158	5	5	79	247
Stage 2	1,081	51	138	258	1,528
Stage 3	–	–	–	1	1
POCI	–	–	–	–	–
Total	1,239	56	143	338	1,776
Non-performing:					
Stage 1	24	20	113	41	198
Stage 2	–	–	–	–	–
Stage 3	2,943	212	768	568	4,491
POCI	223	–	2	–	225
Total	3,190	232	883	609	4,914
Total gross carrying amount of forborne loans and advances to customers at amortised cost	4,506[1]	307	1,042	966	6,821
Loss allowance	(865)	(101)	(249)	(244)	(1,459)
Total carrying amount of forborne loans and advances to customers at amortised cost	3,641	206	793	722	5,362

[1]Republic of Ireland: € 4,441 million and United Kingdom: € 65 million.

The Republic of Ireland residential mortgage forbearance portfolio is profiled in more detail on pages 66 to 73 and further detail on the non-mortgage forbearance portfolio is included on pages 74 to 78.

	31 December 2017				
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Forborne loans and advances to customers					
Neither past due nor impaired:					
Good upper	526	1	1	1	529
Good lower	577	333	33	119	1,062
Watch	229	12	50	36	327
Vulnerable	1,156	98	686	695	2,635
Total	2,488	444	770	851	4,553
Past due but not impaired	485	56	136	103	780
Impaired	1,765	144	454	327	2,690
Total	2,250	200	590	430	3,470
Total forborne loans and advances to customers	4,738[1]	644	1,360	1,281	8,023

[1]Republic of Ireland: € 4,692 million and United Kingdom: € 46 million.

Additional credit risk information – Forbearance

Republic of Ireland residential mortgages

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 2018		31 December 2017	
Republic of Ireland owner-occupier	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**25,067**	**3,549**	29,865	4,274
Implementation of definition of default policy	**1,515**	**241**	–	–
Additions	**854**	**109**	2,973	438
Expired arrangements	**(2,959)**	**(417)**	(6,691)	(899)
Payments	**–**	**(108)**	–	(209)
Interest	**–**	**40**	–	95
Closed accounts[1]	**(403)**	**(36)**	(1,000)	(91)
Disposals	**–**	**–**	–	–
Advanced forbearance arrangements - valuation adjustments	**–**	**(1)**	–	(8)
Write-offs[2]	**–**	**(6)**	(87)	(53)
Transfer between owner-occupier and buy-to-let	**(85)**	**(6)**	7	2
At end of period	**23,989**	**3,365**	25,067	3,549

	30 June 2018		31 December 2017	
Republic of Ireland buy-to-let	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**7,244**	**1,143**	9,509	1,657
Implementation of definition of default policy	**1,980**	**311**	–	–
Additions	**102**	**11**	415	54
Expired arrangements	**(829)**	**(121)**	(530)	(91)
Payments	**–**	**(70)**	–	(130)
Interest	**–**	**11**	–	28
Closed accounts[1]	**(410)**	**(41)**	(1,544)	(219)
Disposals	**(885)**	**(172)**	(521)	(102)
Advanced forbearance arrangements - valuation adjustments	**–**	**(1)**	–	(7)
Write-offs[2]	**–**	**(1)**	(78)	(45)
Transfer between owner-occupier and buy-to-let	**85**	**6**	(7)	(2)
At end of period	**7,287**	**1,076**	7,244	1,143

	30 June 2018		31 December 2017	
Republic of Ireland – Total	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**32,311**	**4,692**	39,374	5,931
Implementation of definition of default policy	**3,495**	**552**	–	–
Additions	**956**	**120**	3,388	492
Expired arrangements	**(3,788)**	**(538)**	(7,221)	(990)
Payments	**–**	**(178)**	–	(339)
Interest	**–**	**51**	–	123
Closed accounts[1]	**(813)**	**(77)**	(2,544)	(310)
Disposals	**(885)**	**(172)**	(521)	(102)
Advanced forbearance arrangements - valuation adjustments	**–**	**(2)**	–	(15)
Write-offs[2]	**–**	**(7)**	(165)	(98)
At end of period	**31,276**	**4,441**	32,311	4,692

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

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

In line with the implementation of the new definition of default policy, the Group enhanced the modification and forbearance data which added € 0.6 billion of loans into the stock of forbearance as at 1 January 2018.

Additional credit risk information – Forbearance

Republic of Ireland residential mortgages *(continued)*

The Group has 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.

In the 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.

Notwithstanding the addition of € 0.6 billion of loans to the mortgage forbearance stock in the six months to 30 June 2018, due to enhancements to data in line with the implementation of the new definition of default policy, the stock of loans subject to forbearance measures decreased by € 0.3 billion from 31 December 2017 to € 4.4 billion at 30 June 2018. This decrease was driven by lower numbers of customers seeking new forbearance solutions which is reflective of improving customer ability to meet their mortgage terms.

Under the definition of forbearance, which complies with the definition of forbearance prescribed by the EBA, loans subject to forbearance measures remain in forbearance stock for a period of two years from the date forbearance is granted regardless of the forbearance type. Therefore, cases that receive a short-term forbearance measure, such as interest only and return to a full principal and interest repayment schedule at the end of the interest only period, will remain in the stock of forbearance for at least two years.

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. Comparative data for 31 December 2017 has been prepared under IAS 39.

	30 June 2018						
		At amortised cost					
		Total	Stage 1	Stage 2	Stage 3	POCI	Loss allowance
	Number	Balance	Balance	Balance	Balance	Balance	Balance
Owner-occupier		€ m	€ m	€ m	€ m	€ m	€ m
Interest only	6,046	955	30	156	767	2	253
Reduced payment	1,288	232	2	52	178	–	57
Payment moratorium	1,020	132	10	42	80	–	25
Fundamental restructure	–	–	–	–	–	–	–
Restructure	227	14	–	2	12	–	6
Arrears capitalisation	9,508	1,305	93	478	697	37	204
Term extension	1,001	103	8	48	45	2	12
Split mortgages	1,469	224	28	100	96	–	35
Voluntary sale for loss	455	15	–	–	4	11	13
Low fixed interest rate	1,240	185	–	–	41	144	13
Positive equity solutions	1,483	154	–	–	154	–	10
Other	252	46	3	2	27	14	5
Total forbearance	23,989	3,365	174	880	2,101	210	633
Buy-to-let							
Interest only	2,387	401	10	62	329	–	82
Reduced payment	557	107	1	30	76	–	19
Payment moratorium	288	42	–	6	36	–	13
Fundamental restructure	581	76	19	–	57	–	16
Restructure	688	36	2	2	32	–	20
Arrears capitalisation	1,815	301	4	104	193	–	46
Term extension	347	53	3	25	23	2	9
Split mortgages	86	13	2	4	7	–	2
Voluntary sale for loss	311	10	–	–	–	10	9
Low fixed interest rate	8	1	–	–	–	1	–
Positive equity solutions	24	2	–	–	2	–	–
Other	195	34	–	–	34	–	9
Total forbearance	7,287	1,076	41	233	789	13	225
Total							
Interest only	8,433	1,356	40	218	1,096	2	335
Reduced payment	1,845	339	3	82	254	–	76
Payment moratorium	1,308	174	10	48	116	–	38
Fundamental restructure	581	76	19	–	57	–	16
Restructure	915	50	2	4	44	–	26
Arrears capitalisation	11,323	1,606	97	582	890	37	250
Term extension	1,348	156	11	73	68	4	21
Split mortgages	1,555	237	30	104	103	–	37
Voluntary sale for loss	766	25	–	–	4	21	22
Low fixed interest rate	1,248	186	–	–	41	145	13
Positive equity solutions	1,507	156	–	–	156	–	10
Other	447	80	3	2	61	14	14
Total forbearance	31,276	4,441	215	1,113	2,890	223	858
Of which: Performing	9,305	1,305	191	1,113	–	1	35
Non-performing	21,971	3,136	24	–	2,890	222	823

Additional credit risk information – Forbearance

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

						31 December 2017
	Total		Loans neither > 90 days in arrears nor impaired		Loans > 90 days in arrears and/or impaired	
Owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	5,008	756	2,537	359	2,471	397
Reduced payment	973	191	399	74	574	117
Payment moratorium	1,984	325	1,713	292	271	33
Restructure	258	22	71	9	187	13
Arrears capitalisation	10,744	1,477	6,784	918	3,960	559
Term extension	1,284	135	1,005	108	279	27
Split mortgages	1,848	287	1,360	213	488	74
Voluntary sale for loss	380	13	183	4	197	9
Low fixed interest rate	1,036	159	855	130	181	29
Positive equity solutions	1,318	143	1,220	133	98	10
Other	234	41	177	31	57	10
Total forbearance	25,067	3,549	16,304	2,271	8,763	1,278
Buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,641	306	725	131	916	175
Reduced payment	500	103	248	52	252	51
Payment moratorium	269	41	98	16	171	25
Fundamental restructure	837	113	412	57	425	56
Restructure	725	50	86	10	639	40
Arrears capitalisation	2,108	378	1,013	176	1,095	202
Term extension	446	72	353	50	93	22
Split mortgages	118	20	48	7	70	13
Voluntary sale for loss	293	13	183	4	110	9
Low fixed interest rate	8	1	8	1	–	–
Positive equity solutions	20	2	18	2	2	–
Other	279	44	90	15	189	29
Total forbearance	7,244	1,143	3,282	521	3,962	622
Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	6,649	1,062	3,262	490	3,387	572
Reduced payment	1,473	294	647	126	826	168
Payment moratorium	2,253	366	1,811	308	442	58
Fundamental restructure	837	113	412	57	425	56
Restructure	983	72	157	19	826	53
Arrears capitalisation	12,852	1,855	7,797	1,094	5,055	761
Term extension	1,730	207	1,358	158	372	49
Split mortgages	1,966	307	1,408	220	558	87
Voluntary sale for loss	673	26	366	8	307	18
Low fixed interest rate	1,044	160	863	131	181	29
Positive equity solutions	1,338	145	1,238	135	100	10
Other[1]	513	85	267	46	246	39
Total forbearance	32,311	4,692	19,586	2,792	12,725	1,900

[1]Included in 'Other' are: € 35 million relating to forbearance solutions whereby it has been agreed that the customers will dispose of the relevant assets but this has not yet completed; € 25 million relating to negative equity trade downs; and € 4 million relating to affordable mortgage solutions whereby customers agree to pay an amount that is affordable.

Additional credit risk information – Forbearance

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

A key feature of the forbearance portfolio is the level 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 at € 0.6 billion accounted for 14% of the total forbearance portfolio at 30 June 2018 (31 December 2017: € 0.7 billion, 14%). Following restructure, loans are reported as defaulted for a probationary period of at least 12 months.

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 five years, and therefore, represent in some cases forbearance solutions which were agreed up to five years ago. They include loans where a subsequent interest only or other temporary arrangement had expired at 30 June 2018, 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 2018, accounting for 36% by value of the total forbearance portfolio (31 December 2017: 40%). While actually decreasing year on year, a high proportion of the arrears capitalisation portfolio (32% by value) is defaulted at 30 June 2018. 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 default, as described above.

Risk management

Additional credit risk information – Forbearance

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures - days past due analysis.

The following table sets out gross residential mortgages subject to forbearance measures analysed by credit profile and by the number of days past due status. Comparative data for 31 December 2017 has been prepared under IAS 39.

	30 June 2018*				
	At amortised cost				
Republic of Ireland owner-occupier	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Not past due	172	796	725	158	1,851
1 - 30 days	2	74	132	17	225
31 - 60 days	–	7	78	5	90
61 - 90 days	–	3	59	3	65
91 - 180 days	–	–	114	6	120
181 - 365 days	–	–	121	6	127
Over 365 days	–	–	872	15	887
Total	174	880	2,101	210	3,365
Republic of Ireland buy-to-let	€ m	€ m	€ m	€ m	€ m
Not past due	39	224	278	6	547
1 - 30 days	2	8	33	–	43
31 - 60 days	–	1	13	–	14
61 - 90 days	–	–	19	–	19
91 - 180 days	–	–	31	–	31
181 - 365 days	–	–	46	–	46
Over 365 days	–	–	369	7	376
Total	41	233	789	13	1,076
Republic of Ireland – Total	€ m	€ m	€ m	€ m	€ m
Not past due	211	1,020	1,003	164	2,398
1 - 30 days	4	82	165	17	268
31 - 60 days	–	8	91	5	104
61 - 90 days	–	3	78	3	84
91 - 180 days	–	–	145	6	151
181 - 365 days	–	–	167	6	173
Over 365 days	–	–	1,241	22	1,263
Total	215	1,113	2,890	223	4,441

	31 December 2017								
	Non-impaired			Impaired			Total		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	1,998	476	2,474	335	117	452	2,333	593	2,926
1 – 30 days	190	33	223	88	21	109	278	54	332
31 – 60 days	55	7	62	41	17	58	96	24	120
61 – 90 days	28	5	33	37	8	45	65	13	78
91 – 180 days	22	11	33	84	24	108	106	35	141
181 – 365 days	21	17	38	108	39	147	129	56	185
Over 365 days	61	32	93	481	336	817	542	368	910
Total loans subject to forbearance	2,375	581	2,956	1,174	562	1,736	3,549	1,143	4,692

Additional credit risk information – Forbearance

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures

Within the forborne portfolio of € 4.4 billion at 30 June 2018, € 2.4 billion is currently performing in accordance with agreed terms for forbearance sustainable solutions and the continued compliance to these terms over the probationary period will result in an upgrade out of default and forbearance. The remaining € 2.0 billion includes loans that have been the subject of a temporary or short term forbearance solution but will remain classified as forborne 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 default and probation.

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 residential mortgages which are analysed on page 69:

				30 June 2018
Republic of Ireland	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
At 1 January	641	1,311	1,236	3,188
Implementation of definition of default policy	(211)	66	(22)	(167)
Additions	26	83	51	160
Fundamental restructures – valuation adjustments	(3)	(20)	(11)	(34)
Write-offs	(5)	(12)	(19)	(36)
Expired arrangements	(103)	(80)	(229)	(412)
Closed accounts	(11)	(54)	(34)	(99)
Movements in the stock of forbearance loans	(31)	(301)	(53)	(385)
At 30 June	303	993	919	2,215

				30 June 2018
United Kingdom	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
At 1 January	3	49	45	97
Implementation of definition of default policy	6	5	11	22
Additions	1	6	9	16
Expired arrangements	(5)	(3)	(5)	(13)
Closed accounts	–	(3)	(10)	(13)
Exchange translation adjustments	–	–	–	–
Movements in the stock of forbearance loans	(1)	(5)	(3)	(9)
At 30 June	4	49	47	100

				30 June 2018
Total	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
At 1 January	644	1,360	1,281	3,285
Implementation of definition of default policy	(205)	71	(11)	(145)
Additions	27	89	60	176
Fundamental restructures – valuation adjustments	(3)	(20)	(11)	(34)
Write-offs	(5)	(12)	(19)	(36)
Expired arrangements	(108)	(83)	(234)	(425)
Closed accounts	(11)	(57)	(44)	(112)
Exchange translation adjustments	–	–	–	–
Movements in the stock of forbearance loans	(32)	(306)	(56)	(394)
At 30 June	307	1,042	966	2,315

In line with the implementation of the new definition of default policy, the Group enhanced the modification and forbearance data which resulted in € 0.1 billion of loans being removed from the stock of forbearance as at 1 January 2018.

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 residential mortgages which are analysed on page 70:

	31 December 2017			
Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	608	1,862	1,527	3,997
Additions	188	157	130	475
Fundamental restructures - valuation adjustments	(4)	(36)	(22)	(62)
Write-offs	–	–	(3)	(3)
Expired arrangements	(81)	(21)	(136)	(238)
Closed accounts	(48)	(553)	(175)	(776)
Movements in the stock of forbearance loans	(22)	(98)	(85)	(205)
At 31 December	641	1,311	1,236	3,188

	31 December 2017			
United Kingdom	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	7	84	56	147
Additions	1	9	19	29
Expired arrangements	–	(2)	(1)	(3)
Closed accounts	(1)	(12)	(7)	(20)
Movements in the stock of forbearance loans	(3)	(8)	(3)	(14)
Disposals	(1)	(19)	(17)	(37)
Exchange translation adjustments	–	(3)	(2)	(5)
At 31 December	3	49	45	97

	31 December 2017			
Total	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	615	1,946	1,583	4,144
Additions	189	166	149	504
Fundamental restructures - valuation adjustments	(4)	(36)	(22)	(62)
Write-offs	–	–	(3)	(3)
Expired arrangements	(81)	(23)	(137)	(241)
Closed accounts	(49)	(565)	(182)	(796)
Movements in the stock of forbearance loans	(25)	(106)	(88)	(219)
Disposals	(1)	(19)	(17)	(37)
Exchange translation adjustments	–	(3)	(2)	(5)
At 31 December	644	1,360	1,281	3,285

Additional credit risk information – Forbearance

Non-mortgage *(continued)*

The following table sets out an analysis of non-mortgage forbearance solutions. Comparative data for December 2017 has been prepared under IAS 39.

	30 June 2018					
		At amortised cost				
	Total	Stage 1	Stage 2	Stage 3	POCI	Loss allowance
	Balance	Balance	Balance	Balance	Balance	Balance
	€ m	€ m	€ m	€ m	€ m	€ m
Other personal						
Interest only	46	–	6	40	–	20
Reduced payment	15	–	1	14	–	8
Payment moratorium	19	1	8	10	–	6
Arrears capitalisation	13	–	3	10	–	3
Term extension	34	2	12	20	–	9
Fundamental restructure	49	24	3	22	–	12
Restructure	101	5	30	66	–	34
Asset disposals	30	–	–	30	–	9
Other	–	–	–	–	–	–
Total	307	32	63	212	–	101
Property and construction						
Interest only	154	1	17	136	–	50
Reduced payment	52	1	5	46	–	10
Payment moratorium	8	–	1	7	–	3
Arrears capitalisation	27	1	6	20	–	13
Term extension	165	7	37	121	–	40
Fundamental restructure	352	112	–	240	–	63
Restructure	221	4	76	141	–	54
Asset disposals	50	1	1	48	–	12
Other	13	–	2	9	2	4
Total	1,042	127	145	768	2	249
Non-property business						
Interest only	129	2	26	101	–	42
Reduced payment	50	1	8	41	–	19
Payment moratorium	13	–	3	10	–	8
Arrears capitalisation	15	–	2	13	–	7
Term extension	106	4	67	35	–	18
Fundamental restructure	287	103	52	132	–	50
Restructure	329	23	105	201	–	88
Asset disposals	32	–	–	32	–	11
Other	5	–	1	4	–	1
Total	966	133	264	569	–	244
Total non-mortgage forbearance	2,315	292	472	1,549	2	594
Of which: Performing	591	118	472	1	–	57
Non-performing	1,724	174	–	1,548	2	537

The Group has 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. Further information on non-mortgage forbearance is included on pages 146 to150 of the Annual Financial Report 2017.

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

Additional credit risk information – Forbearance

Non-mortgage *(continued)*

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

	31 December 2017					
	Total € m	Loans neither > 90 days in arrears nor impaired € m	Loans > 90 days in arrears but not impaired € m	Impaired loans € m	Specific provisions on impaired loans € m	Specific provision cover %
Other personal						
Interest only	37	18	8	11	7	69.6
Reduced payment	20	9	3	8	5	63.1
Payment moratorium	161	157	–	4	3	65.0
Arrears capitalisation	15	5	1	9	2	23.2
Term extension	171	158	4	9	6	70.8
Fundamental restructure	44	26	1	17	7	42.1
Restructure	151	89	7	55	28	50.7
Asset disposals	42	7	5	30	7	24.9
Other	3	2	–	1	1	67.7
Total	644	471	29	144	66	46.4
Property and construction						
Interest only	120	43	15	62	35	54.4
Reduced payment	69	43	9	17	7	43.4
Payment moratorium	9	4	3	2	1	51.1
Arrears capitalisation	35	13	1	21	10	45.7
Term extension	120	68	4	48	31	65.4
Fundamental restructure	582	424	18	140	42	30.3
Restructure	296	168	12	116	53	45.6
Asset disposals	92	55	6	31	13	43.8
Other	37	19	1	17	8	44.4
Total	1,360	837	69	454	200	43.9
Non-property business						
Interest only	122	86	7	29	18	61.0
Reduced payment	54	23	5	26	16	63.5
Payment moratorium	23	12	1	10	2	20.4
Arrears capitalisation	21	4	1	16	9	55.1
Term extension	135	113	4	18	11	61.3
Fundamental restructure	455	377	5	73	25	34.3
Restructure	408	244	30	134	72	53.9
Asset disposals	32	19	2	11	6	56.0
Other	31	20	1	10	4	37.8
Total	1,281	898	56	327	163	49.9
Total non-mortgage forbearance	3,285	2,206	154	925	429	46.4

At 30 June 2018, non-mortgage loans subject to forbearance amounted to € 2.3 billion, of which € 1.7 billion are non-performing with ECL cover of 31%. The majority of these forborne loans are in property and construction (€ 1.0 billion) and non-property business (€ 1.0 billion). Within non-mortgage forbearance categories, 'Fundamental restructure' (€ 0.7 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 advances and recognised on day 1 at fair value but will remain classified as non-performing.

Additional credit risk information – Forbearance

Non-mortgage *(continued)*

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.

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 in 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, the Group keeps under review the likelihood of any additional cash flows arising on the secondary facilities. There remains significant uncertainty over the crystallisation of such additional cash flows through asset sales in excess of those initially estimated that would be applied to secondary facilities over an extended period. In the case of other restructured lending, additional cash flows materialising either through trading conditions or other sources of income are equally uncertain.

Additional cash flows received have resulted in income of € 40 million being the net gain on other financial assets measured at FVTPL in the half-year to 30 June 2018 (30 June 2017: € 81 million) due to continued strong levels of asset sales.

At 30 June 2018, the carrying value of the main facilities in fundamental restructures, including buy-to-let mortgages, amounted to € 0.8 billion (31 December 2017: € 1.2 billion).

Main facilities that rely principally on the realisation of collateral (property assets held as security) are as follows:
- Buy-to-let of € 76 million, which has associated contractual secondary facilities of € 172 million (31 December 2017: € 111 million and € 144 million respectively).
- Property and construction of € 352 million, which has associated contractual secondary facilities of € 1,681 million (31 December 2017: € 466 million and € 1,676 million respectively) which are further analysed as:
  - Commercial real estate primary facilities of € 285 million, which have associated contractual secondary facilities of € 845 million (31 December 2017: € 374 million and € 873 million respectively).
  - Land and development primary facilities of € 67 million, which have associated contractual secondary facilities of € 836 million (31 December 2017: € 92 million and € 803 million respectively).

Non-property business lending and other personal lending where fundamental restructures have been granted amount to € 336 million which have associated secondary facilities of € 688 million (31 December 2017: € 478 million and € 724 million respectively).

The ‘Restructure’ category (€ 0.7 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 who 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 2018, the stock of non-mortgage forbearance loans reduced by € 970 million, with new forborne borrowers (€ 504 million) being offset by reductions due to expired and closed forbearance arrangements and repayments.

IFRS 9 methodologies and judgements*

The Group has set out the methodologies used and judgements exercised in determining its expected credit loss ("ECL") for both transition to IFRS 9 at 1 January 2018 and for the half-year to 30 June 2018. These methodologies and judgements are summarised below.

The new impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model. ECLs are defined in IFRS 9 as the weighted average of credit losses across multiple macroeconomic scenarios, the probability of each scenario occurring used as the weights and are an estimate of credit losses over the life of a financial instrument and when measuring ECLs, an entity needs to take into account:

- The probability-weighted outcome;
- The time value of money so that ECLs are discounted to the reporting date; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The ECL model applies to financial instruments measured at amortised cost or at fair value through other comprehensive income. In addition, the ECL model applies to lease receivables, loan commitments (at the point where the Group goes on risk) and financial guarantee contracts that are not measured at fair value through profit or loss.

A key principle of the ECL model is to reflect any deterioration or improvement in the credit quality of financial instruments occurring (i.e. change in the risk of a default). The ECL amount recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition together with the usual credit risk parameters.

Under IFRS 9, there are two measurement bases:

1. 12-month ECL (Stage 1), which applies to all financial instruments from initial recognition as long as there has been no significant deterioration in credit quality;
2. Lifetime ECL (Stages 2 and 3), which applies when a significant increase in credit risk has been identified on an individual or collective basis.

The standard defines credit loss as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original EIR or an approximation thereof.

This measurement of expected credit loss is estimated through one of the following approaches:

i. Standard approach: This approach is used for the majority of exposures where each ECL input parameter (Probability of Default - PD, Loss Given Default - LGD, Exposure at Default - EAD, and Prepayments - PP) is developed in line with standard modelling methodology which is set out in the IFRS 9 ECL Model Framework and has been approved by the Model Methodology Committee;
ii. Simplified approach: This approach consists of applying portfolio level ECL averages, drawn from similar portfolios, where it is not possible to estimate individual parameters. As granular PDs are not available for these portfolios, a non-standard approach to staging is required with more reliance on the qualitative criteria (along with the 30 days past due back-stop).
iii. Discounted cash-flows ("DCFs"): These are used as an input to the ECL calculation for Stage 3 credit impaired obligors where:
   - Gross credit exposure is ≥ € 1 million (Republic of Ireland) or ≥ £ 500,000 (UK); or
   - A borrower was previously impaired under the IAS 39 Individually Significant ("IS") model at transition regardless of current exposure i.e. an existing DCF was in place on 1 January 2018.

It is Group policy that the base case DCF represents the best estimate of loss, taking account of forward looking information, economic conditions and case specific attributes as they are prepared under the DCF Completion Guidelines and the relevant Group Credit Approval and Review Authorities.

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

IFRS 9 methodologies and judgements* *(continued)*

Modelling

The IFRS 9 ECL calculation uses the standard set of credit risk models to measure expectations of credit loss.

Design principles

AIB has complied with the IFRS 9 requirements for ECL estimation:

– The ECL must be an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
– Underlying models must be 'point-in-time' – recognising current economic conditions;
– Models used in the calculation of ECL must incorporate reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions;
– A lifetime ECL is calculated for financial assets in Stages 2 and 3;
– The ECL must reflect the time value of money.

Standard approach

Probability of default

Probability of default ("PD") is the likelihood that an account or borrower defaults over an observation period, given that they are not currently in default. The PD modelling approach uses a combination of rating grades obtained from credit risk models along with key factors such as the age of an account and macro-economic factors to obtain the relevant 12 month (Stage 1) and Lifetime (Stage 2) PD.

Loss given default

Loss given default ("LGD") is a current assessment of the amount that will not be recovered in the event of default, taking account of future conditions. It can be thought of as the difference between the amount owed to the Group (i.e. the exposure) and the net present value of future cash flows less any costs expected to be incurred in the recovery process. If an account returns to performing from default (absent any loss making concession) or if the discounted post-default recoveries are equal to or greater than the exposure, the realised loss is zero.

The LGD modelling approach depends on whether the facility has underlying security and, if so, the nature of that security. The following sets out the approaches to the portfolios:

Retail portfolios

For unsecured loans, a cashflow curve, which estimates the cumulative cash received following default until the loan is written off or returns to performing, is used to estimate the future recovery amount. This is discounted at the effective interest rate and compared to the current outstanding balance. Any shortfall between the recovery amount and the outstanding balance is the expected credit loss.

For secured loans, the value of underlying collateral is estimated at the forecasted time of disposal in order to calculate the future recovery amount. Estimated costs of disposal are taken into account in this calculation.

Non-retail portfolios

For unsecured loans, characteristics such as borrower sector and nature of collateral linked to affiliated accounts under the same customer group are used to determine future losses.

For secured loans, the value of the underlying collateral is estimated at the reporting date. This is used to estimate the expected credit loss.

EAD

Exposure at default is defined as the exposure amount that will be owed by a customer at the time of default. This will comprise changes in the exposure amount between the reporting date and the date that the customer defaults. This may be due to repayments, interest and fees charged and additional drawdowns by the customer.

Unlike IAS 39, which was based on an incurred loss model, IFRS 9 requires that provisions are held on the full EAD amount.

Prepayments

For term loans, prepayment occurs where a customer fully prepays an account prior to the end of its contractual term. For revolving credit products, 'prepayment' is defined as the cessation of use and withdrawal of the facility provided that the account was not in default prior to closure.

Prepayment is used in the lifetime ECL calculation for Stage 2 loans to account for the proportion of the facilities / customers that prepay each year.

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

IFRS 9 methodologies and judgements* *(continued)*

Simplified approach

The simplified approach is applied as above. This applies to approximately 5% of total balances.

Discounted cash flow models

Discounted cash-flows ("DCFs") are used as an input to the ECL calculation for Stage 3 credit impaired obligors where:

– Gross credit exposure is ≥ € 1 million (Republic of Ireland) or ≥ £ 500,000 (UK); or
– A borrower was previously impaired under the IAS 39 Individually Significant ("IS") model at transition regardless of current exposure i.e. an existing DCF was in place on 1 January 2018.

The Group incorporates forward looking information in the assessment of individual borrowers through the credit assessment process. Case managers exercise lender judgment to determine what forward looking information is reasonable and supportable in the context of the specific case being assessed. Case managers refer to the Group's base case macroeconomic factors and justify any deviations, if required. The DCF assessment produces a base case ECL. This is then adjusted to incorporate the impact of multiple scenarios on the base ECL, by using a proportional uplift obtained from Stage 2 sensitivities in the same portfolio.

The size of the adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management judgement. The methodology to incorporate the adjustment should consider the degree of over-collateralisation (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this.

Effective Interest rate

Under IFRS 9, the ECL must incorporate the time value of money discounted to the reporting date using the effective interest rate ("EIR") determined at initial recognition or an approximation thereof.

– AIB uses an approximation approach based on the account level interest rate when calculating ECL which is applied to both drawn and undrawn commitments.
– This approach is subject to an annual assessment that all proxies remain appropriate and do not result in a material misstatement of the ECL.
– AIB has tested the appropriateness of using current interest rates as an approximation for the discount rates required for measuring ECLs under IFRS 9. This testing determined that using the current interest rates as the discount rates is an appropriate approximation.

Staging

IFRS 9 requires that financial assets be allocated to stages depending on the extent to which they have deteriorated, or otherwise, since origination. Financial assets that have no objective evidence of significant deterioration are allocated to Stage 1. Financial assets that have objective evidence of significant deterioration are allocated to Stage 2, or to Stage 3 if the deterioration is sufficient that they are considered to be credit-impaired.

Credit risk at origination

To enable the calculation of ECL, credit risk at initial recognition of a financial asset is required which allows for a comparison between current credit risk expectation and the expectation of credit risk at the time of origination. This is derived using Lifetime PD models that are in place at the origination date of the account. For accounts that originated prior to 1 January 2018, a neutral view of the macroeconomic outlook at the time is used, i.e. where macroeconomic variables are used in the Lifetime PD models, long-run averages are used instead of historical forecasts.

The Group uses the actual PD/credit grade assigned at origination as the basis for the credit risk at origination lifetime curve where a model or scorecard was fully rolled out for obligations originated prior to 1 January 2018.

The Group uses a proxy PD/credit grade (depending on the portfolio) for facilities which originated prior to a model or scorecard being in place. The proxies are portfolio specific, based on information available at origination, and depend on when a model or scorecard was fully rolled out. This proxy is applied to approximately 40% of accounts. As assets within these portfolios mature, reliance on proxies will reduce.

For undrawn credit facilities, the Group uses the date of origination as the date when it becomes party to the irrevocably contractual arrangements or irrevocable commitment. For overdrafts which have both drawn and undrawn components, the date of origination is the same for both.

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

IFRS 9 methodologies and judgements* *(continued)*

Movement between stages

Under IFRS 9, financial assets are allocated to stages dependent on credit quality relative to when the assets were originated. The Group holds an ECL provision against an asset depending on a number of factors, one of which is its stage allocation.

Stage 1 characteristics
- Obligations are classified Stage 1 at origination, unless purchased or originated credit impaired (POCI), with a 12 month ECL being recognised and remain in Stage 1 unless there has been a significant increase in credit risk.
- Obligations originated credit impaired will be classified as POCIs with a lifetime ECL for the duration of the obligation.

Stage 2 characteristics
- Obligations where there has been a 'significant increase in credit risk' since initial recognition but do not have objective evidence of credit impairment are classified as Stage 2. For these assets, lifetime ECLs are recognised.

Significant increase in credit risk
The Group assesses at each reporting date whether a significant increase in credit risk ("SICR") has occurred on its financial assets since their initial recognition. This assessment is performed on individual assets rather than at a collective portfolio level. If the increase is considered significant, the obligation will be allocated to Stage 2 and a lifetime expected credit loss will apply to the obligation. If the change is not considered significant, a 12 month expected credit loss will continue to apply and the obligation will remain in Stage 1.

- 'Significant increase in credit risk' may be due to credit deterioration of the individual asset or due to macroeconomic factors. The Group's SICR assessment is determined based on:

  - Quantitative measure: This measure reflects an arithmetic assessment of the change in credit risk arising from changes in the probability of default. The Group compares each obligation's annualised average probability weighted residual lifetime PD ("LTPD") at origination to its annualised average probability weighted residual LTPD at that reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, the Group moves the financial asset into Stage 2. Increases in LTPD may be due to credit deterioration of the individual asset or due to macroeconomic factors. The Group has determined that an account has met the quantitative measure if the average residual LTPD at the reporting date is more than double the average residual LTPD at origination. This is subject to the difference between the LTPDs being at least 50bps.

  - Qualitative measure: This measure reflects the assessment of the change in credit risk based on the Group's credit management of and the individual characteristics of the financial asset. This is not model driven and seeks to capture any change in credit quality that may not be already captured by the quantitative criteria. The qualitative assessment reflects pro-active credit management and includes direct client contact, monitoring of client accounts on an individual or portfolio level, knowledge of client behaviour, and cognisance of industry and economic trends.

    The Group has set its qualitative criteria as:
    - A pre-arrears flag applied by the Group to a mortgage account may represent a potential future requirement for forbearance;
    - An increase in credit risk as a result of the downgrading/override of the borrower's/facility's credit grade to a 'watch', 'distressed' or 'criticised' or lower credit grade, reflecting the increased management and reporting required;
    - Forbearance has been provided and the account is in a probationary period where it has been modified but not derecognised.

- Backstop indicators: These backstops are the rebuttable assumptions within IFRS 9 that credit obligations greater than 30 days past due represent a significant increase in credit risk and those that are 90 days past due represent credit impaired obligations. The Group is adopting these backstops.

The principal drivers of movements from Stage 1 to Stage 2 are as follows:
- The probability of default increases (see quantitative criteria above);
- The loan has moved to a 'watch' 'distressed' or 'criticised' credit grade;
- Forbearance has been granted;
- The Group/borrower has identified issues which suggest that there has been a significant increase in credit risk and the Group has adjusted the borrower's credit grade based on this information;
- The borrower's account is 30 days past due.

If the definition of significant increase in credit risk is no longer met, the loan returns from Stage 2 to Stage 1. However, forborne loans have a minimum probation period of 12 months before returning to Stage 1.

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

IFRS 9 methodologies and judgements* *(continued)*

Stage 3 characteristics

Defaulted obligations (with the exception of derecognised forborne assets) are classified as credit impaired and allocated to Stage 3. The Group identifies defaults by using a number of characteristics, which may occur sequentially or simultaneously. The two key criteria resulting in a classification of default are:

– Where the Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount.
– The credit obligor is 90 days or more past due on any material credit obligation (count starts where any amount of principal, interest or fee has not been paid by a credit obligor at the date it was due).

The trigger for default is based on a calculation of the sum of all past due amounts related to the credit obligation for a retail credit obligor or related to the credit obligations for a non-retail credit obligor.

The Group's definition of financial distress, forbearance, non-performing exposures and unlikeliness to pay are included in the Group's Definition of Default policy.

Forbearance solutions

Forbearance solutions are provided to borrowers in financial distress and may result in either:

– A change of the previous terms and conditions of a loan contract; or
– A total or partial refinancing of a loan contract.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified, the Group recalculates its gross carrying amount. The modification gain or loss is recognised as 'Other operating income' in the income statement.

A modification to a credit obligation which is in financial distress is an indication of unlikely to pay and will result in the obligation being allocated to Stage 3.

In certain circumstances, forbearance solutions may result in derecognition of the existing financial asset and the subsequent origination of a modified asset. (see derecognition policy on pages 106 to 108). Under IFRS 9, a new financial asset can only be originated in either Stage 1 or as a purchased or originated credit-impaired asset ("POCI").

Forbearance arrangements initially allocated to Stage 1 following derecognition and re-origination are as follows: fundamental restructures; negative equity trade-down with non-tracker rate (on disposal of property); split loans (non-retail only); and bridge to disposal loans. The new loan is assigned an appropriate grade and PD and follows the normal staging process.

Forbearance arrangements initially designated as POCIs following derecognition and re-origination are as follows: low fixed interest rate loans (certain exceptions); negative equity trade-down with tracker rate (on disposal of property); and voluntary sale for loss (on disposal of the property). The new loan is assigned a lifetime probability of default for its contractual life.

Generally, the drivers into Stage 3 must no longer exist before a loan is returned to Stage 2. In particular, a self-resolved loan must complete a 3 month probation period before returning to Stage 2. Likewise, any forborne loans classified as Stage 3 must have completed a minimum 12 month probation period before returning to Stage 2. During the probation period the customer must have met the terms of forbearance contract without going into significant arrears during the period. Additionally, the payments must be material in the context of the overall loan balance and other loans associated with the customer must also not be in arrears of more than 90 days.

Determining the period over which to measure ECL

Both the origination date and the expected maturity of a facility must be determined for ECL purposes. The origination date is used to measure credit risk at origination.

The expected maturity is used for assets in Stage 2, where the ECL must be estimated over the remaining life of the facility. The expected maturity approach is:

– Term loans: the contractual maturity date, with exposure and survival probability adjusted to reflect behaviour i.e. amortisation and pre-payment;
– Revolving loan commitments: the period may extend beyond the contractual period over which the Group is exposed to credit risk, e.g. overdrafts and credit cards. The Group's approach for these is as follows:
  – use a modelled behavioural life estimate for these obligations for ECL calculation purposes;
  – where a contractual period for the revolving product does not exist, i.e. the obligation is "evergreen", the Group is using 15 years as the expected life.

In rare cases, maturity dates may be missing from an account. In such cases, proxies are used based on portfolio level lending policies.

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

IFRS 9 methodologies and judgements* *(continued)*

Macroeconomic scenarios

IFRS 9 requires that ECLs should be measured in a way that reflects an unbiased and probability-weighted amount, which is determined by evaluating a range of possible outcomes. The ECL should include information about past events, current conditions and forecasts of future economic conditions.

Macroeconomic drivers of loss

The macro-economic scenarios used by the Group for IFRS 9 purposes is subject to the Group's existing governance process covering the development and approval of macro-economic scenarios for planning and stress testing i.e. through Stress Test Working Group and Asset and Liability Committee.

The Group's approach is to use its base, downside and upside macro-scenarios from the financial planning and stress testing processes for IFRS 9 purposes. The use of current planning scenarios ensures that the scenarios used for IFRS 9 are consistent with the Group's expectations of potential outcomes at a point in time. Non-linear effects are captured through the inclusion of a downside case (currently a particularly harsh version of a "hard Brexit" which includes a relatively severe impact for the key UK/Republic of Ireland ("ROI") economies).

The AIB Economic Research Unit provide a base forecast over 5 years for planning/IFRS 9. This is benchmarked against the outlook available from official sources (e.g. Department of Finance, ESRI, IMF). Upside and downside scenarios are provided representing upside/downside sensitivities versus base. These are based on internal projections extending for 5 years. Longer-term projections are sourced from a reputable external provider with the internal base/upside and downside scenarios converging on a linear basis to external forecasts from years 5 to 8. External long-term forecasts represent long-term base line forecasts for the parameter/economy in question.
The selection of macroeconomic parameters required and their use in models is determined as part of the Model Development and Governance function for IFRS 9 models. The following macroeconomic variables are used in the IFRS 9 models:
– GDP (ROI and UK);
– Commercial property prices (ROI and UK);
– House prices (ROI, UK and NI);
– Unemployment rates (ROI, UK and NI);
– Employment (ROI);
– Equity prices (ROI and USA);
– US High–Yield Corporate Bonds.

Multiple scenarios and weightings

Three scenarios are used to reflect a representative sample of possible outcomes (i.e. base, downside and upside scenarios). Three separate ECL calculations are run individually, conditional on each scenario. These scenario-level ECLs are then multiplied by the scenario probability weights to produce a scenario-weighted ECL.

The weights for the scenarios are derived based on the expert judgement informed by a quantitative analysis. The quantitative analysis incorporates two approaches: a statistical analysis informed by historic patterns in the economic data (ARIMA/MonteCarlo approach) and a more forward-looking Fan Chart Measure. The weights that have been applied are:

Scenario	Weighting
Base	60%
Downside	20%
Upside	20%

Post–model adjustments

As part of the implementation of the IFRS 9 ECL calculation for the opening balance sheet, a number of adjustments were made to the ECLs calculated through the standard process. There were two key drivers for these adjustments:
– Adjustments to reflect known temporary issues with the deployment of the ECL calculation; and
– Adjustments to reflect management overlays due to known limitations in the modelling outputs.

Adjustments relating to management overlays on the ECL calculation

A management overlay has been made to reflect the potential impact on ECLs for non-performing loans due to the Group's strategy which was not captured through the modelling process.

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

IFRS 9 methodologies and judgements* *(continued)*

Adjustments relating to management overlays on the ECL calculation

The result of the modelled ECL outcome for the mortgage portfolio has been adjusted to reflect the potential of an alternative strategy for a cohort of legacy PDH mortgages which are in long term arrears. The IFRS 9 ECL calculation for mortgages assumes a 12 year period to disposal from the point of default. The adjustment applied is based on a 90% probability of this cohort of mortgages being worked out through an alternative strategy rather than being workout over the longer term (to which a 10% probability has been assigned).

All overlays are reviewed on a quarterly basis as part of the ECL governance process.

Policy elections and simplifications made

Low credit risk exemption

As allowed by IFRS 9, the Group utilises the practical expedient for the stage allocation of particular financial instruments which are deemed ‘low credit risk’. This practical expedient permits the Group to assume, without more detailed analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have ‘low credit risk’ at the reporting date. The Group allocates such assets to Stage 1.

Under IFRS 9 the credit risk on a financial instrument is considered low if:

– the financial instrument has a low risk of default;
– the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
– adverse changes in economic business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

This low credit risk exemption is applied to particular assets within the investment debt securities portfolio and for loans and advances to banks. Specifically, assets which have an internal grade equivalent to an external investment grade (BBB-) or higher. Investment grade is mapped internally as:

– Sovereign borrowers: An internal grade of 3 or higher
– Financial borrowers: An internal grade of 3.3 or higher
– Corporate borrowers and asset backed securities: An internal grade of 3.5 or higher.

If an asset does not meet the above criteria for the low credit risk exemption, further assessment is required to determine stage allocation. If such assets are on a watch list, they are categorised as Stage 2, otherwise, they are allocated to Stage 1.

Short-term cash

The Group policy does not calculate an ECL for short-term cash at central banks and other banks which have a low risk of default (‘PD’) with a very low risk profile. The calculation of the ECL at each reporting date would be immaterial given these exposures’ short term nature and their daily management.

Lease receivables and trade receivables

For lease receivables, the Group has elected to use its standard methodology for both stage allocation and the ECL calculation and has elected to use an expedient (simplified approach) for trade receivables.

ECL governance

As part of the reporting process, Group management employs its expert judgement on the adequacy of ECL. The judgements are supported by detailed information on the portfolios of credit risk exposures, and by the outputs of quantitative analytical models, coupled with internal and external data provided on both short term and long-term economic outlook. Business segments and Group management are required to ensure that there are levels of prudential cover for all of its credit portfolios and must take account of both accounting and regulatory compliance when assessing the expected levels of loss.

Assessment of the credit quality of each business segment is initially informed by the output of the quantitative analytical models but may be subject to management adjustments. This ECL output is then scrutinised and approved at individual business unit level prior to onward submission to the Group Credit Committee (GCC).

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

IFRS 9 methodologies and judgements* *(continued)*

The key governance points in the ECL approval process are:

– Model Risk Committee;
– Assets and Liabilities Committee;
– Business level ECL committees;
– Provision Group Credit Committee; and
– Executive Risk Committee / Leadership Team / Board Audit Committee.

On a quarterly basis, GCC reviews and challenges ECL levels prior to recommendation to the Executive Risk Committee /Leadership Team and Board Audit Committee. The GCC is chaired by the Group Chief Credit Officer and comprises senior management from Business, Risk and Finance.

In addition, the business segments, Risk Analytics, Enterprise Risk Management and Finance provide supporting documentation which specify, in particular, details of the appropriateness of the ECL and any management adjustments that are required.

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

Funding and liquidity risk

Liquidity

Liquidity risk is the risk that the Group will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, wholesale, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost.

At 30 June 2018, the Group held € 28 billion (31 December 2017: € 27 billion) in qualifying liquid assets ("QLA")[(1)]/contingent funding of which € 7 billion (31 December 2017: € 8 billion) was not available due to repurchase, secured loans and other restrictions. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. At 30 June 2018, the Group liquidity pool was € 21 billion (31 December 2017: € 19 billion). During the six months to 30 June 2018, the liquidity pool ranged from € 18 billion to € 22 billion and the average balance was € 20 billion.

[(1)]A qualifying liquid asset ("QLA") is an asset that can be readily converted into cash, either with the market or with the monetary authorities, and where there is no legal, operational or prudential impediments to their use as liquid assets.

Composition of the Group liquidity pool

The following table shows the composition of the Group's liquidity pool:

			30 June 2018	
		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	**3.4**	**–**	**5.6**[(2)]	**–**
Total government bonds	**8.2**	**8.0**	**8.2**	**–**
Other:				
Covered bonds	**3.2**	**2.9**	**2.4**	**0.8**
Other	**5.7**	**5.1**	**0.3**	**0.1**
	8.9	**8.0**	**2.7**	**0.9**
Total	**20.5**	**16.0**	**16.5**	**0.9**

			31 December 2017	
		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	1.5	–	3.7[(2)]	–
Total government bonds	9.6	9.2	9.4	0.1
Other:				
Covered bonds	3.3	3.0	2.5	0.8
Other	4.6	4.4	0.3	0.2
	7.9	7.4	2.8	1.0
Total	19.0	16.6	15.9	1.1

[(2)]For Liquidity Coverage Ratio ("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 (cash held with the Bank of England) can qualify up to the amount of 30 days 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 2018	**19.4**	**0.6**	**0.5**	**–**	**20.5**
Liquidity pool at 31 December 2017	18.3	0.1	0.6	–	19.0

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.

Risk management

Funding and liquidity risk

Management of the Group liquidity pool*

The Group 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 of government guaranteed bonds. The Group's liquidity buffer increased in the six months to 30 June 2018 by € 1.5 billion which was predominantly due to an increase in customer accounts and senior unsecured debt.

Other contingent liquidity*

The Group has access to other unencumbered assets providing a source of contingent liquidity which are not in the Group's liquidity pool. However, 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 risks and its management, see pages 152 to 164 of the Annual Financial Report 2017.

Liquidity regulation

The Group is required to comply with the liquidity requirements of the Single Supervisory Mechanism ("SSM")/CBI and also with the requirements of local regulators in jurisdictions in which it operates. In addition, the Group is required to carry out liquidity stress testing capturing firm specific, systemic risk events and a combination of both. The Group adheres to these requirements.

The Group monitors and reports its current and forecast position against CRD IV related liquidity metrics – the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

The Group had an LCR of 135% as at 30 June 2018 (31 December 2017: 132%). The Group has fully complied with the regulatory requirement to maintain a minimum LCR above 100%.

A minimum NSFR requirement of 100% was scheduled to be introduced from 1 January 2018 and the Group is awaiting further developments in this regard. At 30 June 2018, the Group had an estimated NSFR of 122% (31 December 2017: 123%).

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

Funding and liquidity risk

Liquidity risk

The LCR table below has been produced in line with the 2014 Basel Committee on Banking Supervision ("BCBS") LCR disclosure. All figures included in the table are averages of 12 month end LCRs from July 2017 to June 2018.

	30 June 2018		31 December 2017	
	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		17,418		16,923
Cash outflows				
Retail deposits and deposits from small business customers, of which:				
Stable deposits	21,930	1,139	21,099	1,065
Less stable deposits	14,245	2,031	13,257	1,892
Unsecured wholesale funding, of which:				
Operational deposits (all counterparties) and deposits in networks of co-operative banks	–	–	–	–
Non-operational deposits (all counterparties)	20,914	9,231	20,115	8,938
Unsecured debt	22	22	224	224
Secured wholesale funding	–	29	–	66
Additional requirements, of which:				
Outflows related to derivative exposures and other collateral requirements	334	334	362	362
Credit and liquidity facilities	10,021	800	9,927	827
Other contractual funding obligations	361	247	445	328
Other contingent funding obligations	1,221	80	1,329	89
Total cash outflows		13,913		13,791
Cash inflows				
Secured lending (reverse repos)	51	–	98	13
Inflows from fully performing exposures	825	495	758	443
Other cash inflows	949	235	940	206
Total cash inflows	1,825	730	1,796	662
		€ m		€ m
Total HQLA		17,418		16,923
Total net cash outflows		13,183		13,129
		%		%
Liquidity coverage ratio (average)[1]		132		129

The month-end LCR ranged from 124% to 137% with the average being 132% in the twelve months to 30 June 2018 (31 December 2017: 129%). The average HQLA for the twelve months ended 30 June 2018 was € 17,418 million of which government securities constituted 50% (31 December 2017: 59%). Average cash outflows were € 13,913 million of which non-operational deposits constituted 66% (31 December 2017: 65%). The outflows related to undrawn commitments as a percentage of total cash outflows remained constant at 6%. Average cash inflows were € 730 million of which fully performing exposures constituted 68% (31 December 2017: 67%).

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

Funding and 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 further enhance and strengthen the 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 2018 € bn	30 June 2018 %	31 December 2017 € bn	31 December 2017 %
Customer accounts	**67.1**	**75**	64.6	74
Deposits by central banks and banks – secured	**1.9**	**2**	2.8	3
– unsecured	**0.8**	**1**	0.8	1
Asset covered securities ("ACS")	**3.6**	**4**	3.6	4
Senior debt	**2.0**	**2**	1.0	1
Capital	**14.4**	**16**	14.4	17
Total source of funds	**89.8**	**100**	87.2	100
Other	**2.7**		2.9	
	92.5		90.1	

Customer accounts represent the largest source of funding for the Group with the core retail franchises and accompanying deposit base in both the Republic of Ireland and the UK providing a stable and reasonably predictable source of funds. Customer accounts have increased by € 2.5 billion in the six months to 30 June 2018. This was mainly due to a € 2.6 billion increase in Euro deposits. There was an underlying decline in both GBP and USD deposits of € 0.1 billion which was marginally offset by GBP foreign exchange movements. The Group's loan to deposit ratio at 30 June 2018 was 89% (31 December 2017: 93%).

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

The Group participates in central bank operations, the funding from which reduced by € 0.7 billion to € 1.2 billion in the six months to 30 June 2018 (31 December 2017: € 1.9 billion). This was reflective of the Group's decision to partially early redeem € 1.0 billion TLTRO II drawings offset by the utilisation of UK assets to avail of € 0.3 billion secured funding from the Bank of England Term Funding Scheme.

Senior debt funding increased by € 1 billion in the six months to 30 June 2018 following the issuance by AIB Group plc of two Senior Unsecured Notes of € 500 million each with maturities of five years and seven years respectively.

Asset covered securities remained static at € 3.6 billion in the six months to 30 June 2018.

Composition of wholesale funding

At 30 June 2018, total wholesale funding outstanding was € 9 billion (31 December 2017: € 9 billion). € 3 billion of wholesale funding matures in less than one year (31 December 2017: € 2 billion) including € 1.0 billion of TLTRO II drawings. € 6 billion of wholesale funding has a residual maturity of over one year (31 December 2017: € 7 billion).

Outstanding wholesale funding comprised € 6 billion of secured funding (31 December 2017: € 7 billion) and € 3 billion of unsecured funding (31 December 2017: € 2 billion).

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

Funding and liquidity risk
Composition of wholesale funding* *(continued)*

									30 June 2018
	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	0.8	1.5	–	0.1	2.4	–	0.3	–	2.7
Senior unsecured debt	–	–	–	0.5	0.5	0.5	0.5	0.5	2.0
ACS/ABS	–	0.5	–	–	0.5	1.3	1.8	–	3.6
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	0.8	0.8
Total 30 June 2018	0.8	2.0	–	0.6	3.4	1.8	2.6	1.3	9.1
Of which:									
Secured	0.6	1.5	–	–	2.1	1.3	2.1	–	5.5
Unsecured	0.2	0.5	–	0.6	1.3	0.5	0.5	1.3	3.6
	0.8	2.0	–	0.6	3.4	1.8	2.6	1.3	9.1

									31 December 2017
	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	1.0	0.5	0.2	–	1.7	1.9	–	–	3.6
Senior debt	–	–	–	–	–	1.0	–	–	1.0
ACS/ABS	–	–	–	0.5	0.5	0.8	1.3	1.0	3.6
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	0.8	0.8
Total 31 December 2017	1.0	0.5	0.2	0.5	2.2	3.7	1.3	1.8	9.0
Of which:									
Secured	0.7	0.5	0.2	0.5	1.9	2.7	1.3	1.0	6.9
Unsecured	0.3	–	–	–	0.3	1.0	–	0.8	2.1
	1.0	0.5	0.2	0.5	2.2	3.7	1.3	1.8	9.0

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

Funding and liquidity risk
Encumbrance
An asset is defined as encumbered if it has been pledged as collateral, 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 2014 European Banking Authority ("EBA") Guidelines complemented by EBA clarifications on the disclosure of encumbered and unencumbered assets.

The Group includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue residential mortgage asset covered securities. 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 Allied Irish Banks, p.l.c. and other Group entities (e.g. EBS d.a.c. and AIB Group (UK) p.l.c.) is an element of the Group's liquidity management processes.

The Group had an encumbrance ratio of 14% at 30 June 2018 which has remained flat over the 6 months to 30 June 2018 (31 December 2017: 14%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. However, 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.

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 2018

	Notes	Half-year 30 June 2018 € m	Half-year 30 June 2017* € m
Continuing operations			
Interest income	4	**1,195**	1,241
Interest expense	5	**(134)**	(164)
Net interest income		**1,061**	1,077
Dividend income	6	**24**	27
Fee and commission income	7	**243**	220
Fee and commission expense	7	**(26)**	(25)
Net trading income	8	**1**	61
Net gain on other financial assets measured at FVTPL	9	**92**	–
Net gain on derecognition of financial assets measured at amortised cost	10	**112**	6
Other operating income	11	**16**	170
Other income		**462**	459
Total operating income		**1,523**	1,536
Administrative expenses	12	**(827)**	(752)
Impairment and amortisation of intangible assets		**(50)**	(34)
Impairment and depreciation of property, plant and equipment		**(19)**	(21)
Total operating expenses		**(896)**	(807)
Operating profit before impairment losses and provisions		**627**	729
Net credit impairment writeback/(losses)	13	**130**	19
Writeback of provisions for liabilities and commitments	33	**–**	4
Operating profit		**757**	752
Associated undertakings and joint venture	24	**4**	10
Profit/(loss) on disposal of property		**1**	(1)
Profit before taxation from continuing operations		**762**	761
Income tax charge from continuing operations	14	**(112)**	(109)
Profit for the period after taxation from continuing operations attributable to owners of the parent		**650**	652
Basic earnings per share			
Continuing operations	15(a)	**23.3c**	23.3c
Diluted earnings per share			
Continuing operations	15(b)	**23.3c**	23.3c

*As reported in the Half-Yearly Financial Report 2017 condensed consolidated financial statements of Allied Irish Banks, p.l.c.

Condensed consolidated statement of comprehensive income *(unaudited)*

for the half-year ended 30 June 2018

	Notes	Half-year 30 June 2018 € m	Half-year 30 June 2017* € m
Profit for the period		**650**	652
Other comprehensive income – continuing operations			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gains/(losses) in retirement benefit schemes, net of tax	14	**50**	(15)
Net change in fair value of equity investments at FVOCI, net of tax		**(4)**	–
Total items that will not be reclassified subsequently to profit or loss		**46**	(15)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Net change in foreign currency translation reserves	14	**1**	(39)
Net change in cash flow hedges, net of tax	14	**5**	(171)
Net change in fair value of available for sale securities, net of tax		**–**	(98)
Net change in fair value of investment debt securities at FVOCI, net of tax	14	**(147)**	–
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(141)**	(308)
Other comprehensive income for the period, net of tax from continuing operations		**(95)**	(323)
Total comprehensive income for the period from continuing operations attributable to owners of the parent		**555**	329

*As reported in the Half-Yearly Financial Report 2017 condensed consolidated financial statements of Allied Irish Banks, p.l.c.

Overview

Business Review

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Financial Statements

Condensed consolidated statement of financial position *(unaudited)*

as at 30 June 2018

	Notes	30 June 2018 € m	1 January 2018[1] € m	31 December 2017 € m
Assets				
Cash and balances at central banks		**8,354**	6,364	6,364
Items in course of collection		**173**	103	103
Disposal groups and non-current assets held for sale	17	**7**	8	8
Trading portfolio financial assets	18	**12**	33	33
Derivative financial instruments	19	**892**	1,156	1,156
Loans and advances to banks	20	**1,539**	1,312	1,313
Loans and advances to customers	21	**59,864**	59,722	59,993
Investment securities	23	**15,795**	16,321	16,321
Interests in associated undertakings	24	**72**	80	80
Intangible assets		**605**	569	569
Property, plant and equipment		**318**	321	321
Other assets	25	**1,493**	430	418
Current taxation		**5**	5	5
Deferred tax assets	26	**2,703**	2,787	2,736
Prepayments and accrued income		**362**	459	459
Retirement benefit assets	27	**259**	183	183
Total assets		**92,453**	89,853	90,062
Liabilities				
Deposits by central banks and banks	28	**2,675**	3,640	3,640
Customer accounts	29	**67,147**	64,572	64,572
Trading portfolio financial liabilities	30	**12**	30	30
Derivative financial instruments	19	**1,007**	1,170	1,170
Debt securities in issue	31	**5,590**	4,590	4,590
Current taxation		**69**	68	68
Deferred tax liabilities	26	**119**	109	97
Retirement benefit liabilities	27	**45**	87	87
Other liabilities	32	**862**	824	824
Accruals and deferred income		**277**	348	348
Provisions for liabilities and commitments	33	**290**	267	231
Subordinated liabilities and other capital instruments	34	**794**	793	793
Total liabilities		**78,887**	76,498	76,450
Equity				
Share capital	35	**1,697**	1,697	1,697
Reserves		**11,375**	11,164	11,421
Total shareholders' equity		**13,072**	12,861	13,118
Other equity interests	36	**494**	494	494
Total equity		**13,566**	13,355	13,612
Total liabilities and equity		**92,453**	89,853	90,062

[1]The 'Statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 and IFRS 15 which apply with effect from 1 January 2018. See 'Basis of preparation' in note 1.

Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2018

	Notes	Half-year 30 June 2018 € m	Half-year 30 June 2017* € m
Cash flows from operating activities			
Profit before taxation for the period from continuing operations		**762**	761
Adjustments for:			
Non-cash and other items	41	**(47)**	(271)
Change in operating assets	41	**(431)**	2,104
Change in operating liabilities	41	**1,936**	(4,279)
Taxation paid		**(13)**	(25)
Net cash inflow/(outflow) from operating activities		**2,207**	(1,710)
Cash flows from investing activities			
Purchase of investment securities/financial investments available for sale		**(1,202)**	(835)
Proceeds from sales and maturity of investment securities/financial investments available for sale		**1,557**	1,786
Additions to property, plant and equipment		**(16)**	(5)
Disposal of property, plant and equipment		**2**	1
Additions to intangible assets		**(86)**	(86)
Investments in associated undertakings and joint venture		**–**	(81)
Proceeds of disposal of investments in associated undertaking		**2**	–
Dividends received from associated undertakings	24	**10**	7
Net cash inflow from investing activities		**267**	787
Cash flows from financing activities			
Dividends paid on ordinary shares	16	**(326)**	(250)
Distribution paid on other equity interests	16	**(18)**	(18)
Net cash outflow from financing activities		**(344)**	(268)
Change in cash and cash equivalents		**2,130**	(1,191)
Opening cash and cash equivalents		**7,058**	7,164
Effect of exchange translation adjustments		**15**	(134)
Closing cash and cash equivalents	41	**9,203**	5,839

*As reported in the Half-Yearly Financial Report 2017 condensed consolidated financial statements of Allied Irish Banks, p.l.c.

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

for the half-year ended 30 June 2018

	Attributable to equity holders of parent											
	Share capital € m	Other equity interests € m	Capital reserves € m	Merger reserves € m	Capital redemp– tion reserves € m	Reval– uation reserves € m	Available for sale securities reserves € m	Invest– ment securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Total € m
At 31 December 2017	1,697	494	1,133	(3,622)	14	14	981	–	257	13,249	(605)	13,612
Impact of adopting IFRS 9 at 1 January 2018 (note 2)	–	–	–	–	–	–	(981)	965	–	(251)	–	(267)
Impact of adopting IFRS 15 at 1 January 2018 (note 1)	–	–	–	–	–	–	–	–	–	10	–	10
Restated balance at 1 January 2018	1,697	494	1,133	(3,622)	14	14	–	965	257	13,008	(605)	13,355
Total comprehensive income for the period												
Profit for the period	–	–	–	–	–	–	–	–	–	650	–	650
Other comprehensive income *(note 14)*	–	–	–	–	–	–	–	(151)	5	50	1	(95)
Total comprehensive income for the period	–	–	–	–	–	–	–	(151)	5	700	1	555
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Dividends paid on ordinary shares *(note 16)*	–	–	–	–	–	–	–	–	–	(326)	–	(326)
Distributions on other equity interests *(note 16)*	–	–	–	–	–	–	–	–	–	(18)	–	(18)
Total contributions by and distributions to owners of the Group	–	–	–	–	–	–	–	–	–	(344)	–	(344)
At 30 June 2018	1,697	494	1,133	(3,622)	14	14	–	814	262	13,364	(604)	13,566

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

*for the half-year ended 30 June 2017**

	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	Total € m
At 1 January 2017	1,696	1,386	494	1,199	14	15	1,113	460	7,323	(552)	13,148
Total comprehensive income for the period											
Profit for the period	–	–	–	–	–	–	–	–	652	–	652
Other comprehensive income *(note 14)*	–	–	–	–	–	–	(98)	(171)	(15)	(39)	(323)
Total comprehensive income for the period	–	–	–	–	–	–	(98)	(171)	637	(39)	329
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group:											
Capital contributions	–	–	–	(66)	–	–	–	–	66	–	–
Dividends paid on ordinary shares *(note 16)*	–	–	–	–	–	–	–	–	(250)	–	(250)
Distribution on other equity interests *(note 16)*	–	–	–	–	–	–	–	–	(18)	–	(18)
Total contributions by and distributions to owners of the Group	–	–	–	(66)	–	–	–	–	(202)	–	(268)
At 30 June 2017	1,696	1,386	494	1,133	14	15	1,015	289	7,758	(591)	13,209

*As reported in the condensed consolidated financial statements of Allied Irish Banks, p.l.c. Half-Yearly Financial Report 2017

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

for the financial year ended 31 December 2017

	Attributable to equity holders of parent											
	Share capital € m	Share premium € m	Other equity interests € m	Capital reserves € m	Merger reserve € 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	Total € m
At 1 January 2017*	1,696	1,386	494	1,199	–	14	15	1,113	460	7,323	(552)	13,148
Total comprehensive income for year												
Profit for the year	–	–	–	–	–	–	–	–	–	1,114	–	1,114
Other comprehensive income	–	–	–	–	–	–	–	(132)	(203)	24	(53)	(364)
Total comprehensive income for year	–	–	–	–	–	–	–	(132)	(203)	1,138	(53)	750
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group:												
Capital contributions *(note 37)*	–	–	–	(66)	–	–	–	–	–	66	–	–
Dividends paid on ordinary shares	–	–	–	–	–	–	–	–	–	(250)	–	(250)
Distribution on other equity interests	–	–	–	–	–	–	–	–	–	(37)	–	(37)
Other movements	–	–	–	–	–	–	(1)	–	–	1	–	–
Impact of corporate restructuring												
Cancellation of share capital and share premium	(1,696)	(1,386)	–	–	–	–	–	–	–	–	–	(3,082)
Issue of share capital by AIB Group plc	6,705	–	–	–	–	–	–	–	–	–	–	6,705
Capital reduction	(5,008)	–	–	–	–	–	–	–	–	5,008	–	–
Merger reserve	–	–	–	–	(3,622)	–	–	–	–	–	–	(3,622)
At 31 December 2017	1,697	–	494	1,133	(3,622)	14	14	981	257	13,249	(605)	13,612

*As reported in the 2016 consolidated financial statements of Allied Irish Banks, p.l.c.

Notes to the condensed consolidated interim financial statements

1 Basis of preparation, accounting policies and estimates

Reporting entity

AIB Group plc ('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. AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

The condensed consolidated interim financial statements for the six months ended 30 June 2018 comprise the parent company and its subsidiary undertakings, collectively referred to as 'AIB Group', and the Group's interests in associated undertakings.

AIB Group plc was incorporated on 8 December 2016. At 30 June 2017, the Company had no subsidiaries and was not the parent company of the Group. On 8 December 2017, Allied Irish Banks, p.l.c. was acquired by AIB Group plc under a Scheme of Arrangement which had been approved by the shareholders and as a result, Allied Irish Banks, p.l.c. is now a 100% subsidiary of AIB Group plc. Comparative amounts in the condensed consolidated income statement, statement of cash flows and statement of changes in equity for the six months to 30 June 2017 reflect the combined results of both entities, even though the transaction did not occur until December 2017. Given that AIB Group plc had no amounts to report at 30 June 2017, the comparative numbers disclosed are, therefore, the 30 June 2017 condensed consolidated income statement, condensed consolidated statement of cash flows and condensed consolidated statement of changes in equity of Allied Irish Banks, p.l.c. which was the parent company of the Group at that date.

Further details on the Scheme of Arrangement are disclosed in note 3 'Corporate restructuring' in the Annual Financial Report 2017.

The consolidated financial statements of the Group for the year ended 31 December 2017 ('the Annual Financial Report 2017') are available upon request from the Company Secretary or at www.aibgroup.com.

Going concern

The financial statements for the six months ended 30 June 2018 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.

Accounting policies

The condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These statements should be read in conjunction with the Annual Financial Report 2017, which was prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "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.

First time adoption new accounting standards

On 1 January 2018, the Group implemented the requirements of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time.

The accounting policies described on pages 246 to 269 in the Annual Financial Report 2017 have remained unchanged apart from the following which are replaced by the new requirements of IFRS 9 and IFRS 15:
- Fee and commission income - Accounting policy (h);
- Financial assets - Accounting policy (m);
- Impairment of financial assets - Accounting policy (t).

Since the Group is continuing to apply IAS 39 hedge accounting requirements as allowed by IFRS 9, there has been no change to the 'derivatives and hedge accounting policy' – Accounting policy (s).

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

The new accounting policies arising from the adoption of IFRS 9 and IFRS 15 that the Group applied in the preparation of the interim financial statements and which it expects to apply for the year ended 31 December 2018 are set out below. Comparative data for 2017 was prepared under IAS 18 *Revenue* and IAS 39 *Financial Instruments: Recognition and Measurement*.

Initial adoption of IFRS 9 *Financial Instruments*

The effective date for IFRS 9 *Financial Instruments* was 1 January 2018 and was adopted by the Group on that date. The Group is not restating prior periods as allowed in IFRS 9, paragraph 7.2.15. However, as required by this paragraph, if prior periods are not restated, any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 are recognised in opening retained earnings (or in other comprehensive income, as applicable). Comparative data in these financial statements has been prepared under IAS 39.

IFRS 9 *Financial Instruments* replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a revised classification and measurement model for financial assets, a forward looking expected credit loss ("ECL") impairment methodology and modifies the approach to hedge accounting.

The business model assessment test required by IFRS 9 was performed as at the date of initial application. This classification applies retrospectively. The Group assessed whether the financial assets met the conditions for recognising a change in the classification/ measurement basis at that date.

Impairment losses were measured at the date of initial application under the 'expected credit loss model' set out in IFRS 9.

The Group applied IFRS 9 as issued in 2014 at 1 January 2018 and early adopted the amendments to IFRS 9 on the same date.

The impact net of tax on transition to IFRS 9 was € 267 million representing a reduction in revenue reserves and other comprehensive income, principally due to the impairment requirements.

Further details on the impact of adopting IFRS 9 are set out in note 2 to these financial statements.

IFRS 9 accounting policies

The more significant accounting policies for the Group under IFRS 9 are:
a) Recognition and initial measurement;
b) Classification and subsequent measurement;
c) Interest income and expense recognition;
d) Derecognition; and
e) Impairment of financial assets
A summary of these policies is set out below.

a) Recognition and initial measurement

The Group initially recognises financial instruments on the trade date, being the date on which the Group commits to purchase or sell the assets or liabilities. Loan assets are recognised when cash is advanced to borrowers. Financial liabilities are recognised on the date on which they are issued.

Financial assets measured at amortised cost or at fair value through other comprehensive income ("FVOCI") are recognised initially at fair value adjusted for direct and incremental transaction costs. Financial assets measured at fair value through profit or loss ("FVTPL") are recognised initially at fair value and transaction costs are taken directly to the income statement.

Financial liabilities are measured initially at fair value. The fair value of the financial liability is normally the transaction price, i.e. the fair value of the consideration received net of transaction costs. Where financial liabilities are classified as trading they are also initially recognised at fair value with the related transaction costs taken directly to the income statement.

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

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

b) Classification and subsequent measurement

On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.
The classification and subsequent measurement of financial assets depend on:

– The Group's business model for managing the asset; and
– The cash flow characteristics of the asset (for assets in a ‘hold-to-collect’ or ‘hold-to-collect-and-sell’ business model).

Based on these factors, the Group classifies its financial assets into one of the following categories:

Amortised cost
Assets that have not been designated as at FVTPL, and are held within a ‘hold-to-collect’ business model whose objective is to hold assets to collect contractual cash flows; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. The carrying amount of these assets is calculated using the effective interest method and is adjusted on each measurement date by the expected credit loss allowance for each asset, with movements recognised in profit or loss.

Fair value through other comprehensive income (“FVOCI”)
Assets that have not been designated as at FVTPL, and are held within a ‘hold-to-collect-and-sell’ business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”). Movements in the carrying amount of these assets are taken through other comprehensive income (“OCI”), except for the recognition of credit impairment gains or losses, interest revenue or foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Fair value through profit or loss (“FVTPL”)
Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. Gains or losses on such assets are recognised in profit or loss on an on-going basis.

In addition, the Group may irrevocably designate a financial asset as at FVTPL that otherwise meets the requirements to be measured at amortised cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Embedded derivatives
Certain hybrid contracts may contain both a derivative and a non-derivative component, an ‘embedded derivative’. Under IFRS 9, there is no bifurcation of embedded derivatives from the host financial asset. As a result, financial assets with embedded derivatives will generally fail the SPPI test unless the embedded derivative does not substantially modify the cash flows that would otherwise be required by the contract. Those failing the SPPI test will be classified and measured at FVTPL.

Business model assessment
The Group makes an assessment of the objective of the business model at a portfolio level, as this reflects how portfolios of assets are managed to achieve a particular objective, rather than management's intentions for individual assets.
The assessment considers the following:

– The strategy for the portfolio as communicated by management;
– How the performance of the portfolio is evaluated and reported to senior management;
– The risks that impact the performance of the business model, and how those risks are managed;
– How managers of the business are compensated (i.e. based on fair value of assets managed or on the contractual cash flows collected); and
– The frequency, value and timing of sales in prior periods, reasons for those sales, and expectations of future sales activity.

Financial assets that are held for trading or managed within a business model that is evaluated on a fair value basis are measured at FVTPL because the business objective is neither hold-to-collect contractual cash flows nor hold-to-collect-and-sell contractual cash flows.

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

Characteristics of the contractual cash flows

An assessment ('SPPI test') is performed on all financial assets at origination that are held within a 'hold-to-collect' or 'hold-to-collect-and-sell' business model to determine whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding, and for other basic lending risks and costs (i.e. liquidity, administrative costs), and profit margin.

The SPPI test requires an assessment of the contractual terms and conditions to determine whether a financial asset contains any terms that could modify the timing or amount of contractual cash flows of the asset, to the extent that they could not be described as solely payments of principal and interest. In making this assessment, the Group considers:

– Features that modify the time value of money element of interest (e.g. tenor of the interest rate does not correspond with the frequency within which it resets);
– Terms providing for prepayment and extension;
– Leverage features;
– Contingent events that could change the amount and timing of cash flows;
– Terms that limit the Group's claim to cash flows from specified assets; and
– Contractually linked instruments.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Reclassifications

Reclassifications of financial assets to alternative asset categories, (e.g. from amortised cost to FVOCI), should be very infrequent, and will only occur if the Group decides to make a fundamental change in its business model for managing a specific portfolio of financial assets.

Investments in equity instruments

Equity instruments are classified and measured at FVTPL with gains and losses reflected in profit or loss.

On initial recognition, the Group may elect to irrevocably designate at FVOCI, an equity instrument that is not held for trading. This election is made on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss on derecognition of the equity instrument.

Dividend income

Dividends on equity investments measured at FVTPL are recognised in the income statement when the entity's right to receive payment is established. Dividends on equity investments measured at FVOCI are recognised in the income statement provided that they represent a return on capital.

Financial liabilities

The Group categorises financial liabilities as at amortised cost or as at fair value through profit or loss.

Where the Group classifies and subsequently measures its financial liabilities at amortised cost, any difference between the fair value at initial recognition net of transaction costs and the redemption value is recognised in the income statement using the effective interest method.

Where financial liabilities are classified as FVTPL, gains and losses arising from subsequent changes in fair value are recognised directly in the income statement within net trading income.

Parent Company financial statements: Investment in subsidiary and associated undertakings

The Company accounts for investments in subsidiary and associated undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, the Company accounts for it at the lower of its carrying value and fair value less costs to sell.

Dividends from a subsidiary or an associated undertaking are recognised in the income statement when the Company's right to receive the dividend is established.

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

c) Interest income and expense recognition

Interest income and expense is recognised in the income statement using the effective interest method.

Effective interest rate

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or
– the amortised cost of the financial liability.

The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding expected credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest rate calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.

Calculation of interest income and interest expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

For financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, the calculation of interest income reverts to the gross basis.

However, for financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income and expense presented in the consolidated income statement include:

– Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
– Interest on investment debt securities measured at FVOCI calculated on an effective interest basis;
– Interest on financial assets measured at FVTPL;
– Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
– Interest income and funding costs of trading portfolio financial assets.

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

d) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Relevant costs incurred with the disposal of a financial asset are deducted in computing the gain or loss on disposal.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. However, the amount held in investment securities reserves is transferred to revenue reserves on derecognition. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate or is less than adequate for performing the servicing.

The write-off of a financial asset constitutes a derecognition event. Where a financial asset is partially written off, and the portion written off comprises specifically identified cash flows, this will constitute a derecognition event for that part written off.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

e) Impairment of financial assets

The Group recognises loss allowances for expected credit losses at each balance sheet date for the following financial instruments that are not measured at FVTPL:
- Financial assets at amortised cost;
- Financial assets at FVOCI (except for equity instruments);
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

Investments in equity instruments are recognised at fair value, accordingly, expected credit losses are not recognised separately for equity instruments.

ECLs are the weighted average of credit losses with the respective risks of a default occurring as the weights. These are an estimate of credit losses over the life of a financial instrument. When measuring ECLs, the Group takes into account:
- probability-weighted outcomes;
- the time value of money so that ECLs are discounted to the reporting date; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of ECLs recognised as a loss allowance depends on the extent of credit deterioration since initial recognition. There are two measurement bases:
- 12-month ECLs (Stage 1), which applies to all items as long as there is no significant deterioration in credit quality since initial recognition; and
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

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

The 12 month ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

In the case of Stage 2, credit risk on the financial instrument has increased significantly since initial recognition but the instrument is not considered credit impaired. For a financial instrument in Stage 3, credit risk has increased significantly since initial recognition and the instrument is considered credit impaired.

Financial assets are allocated to stages dependent on credit quality relative to when the asset was originated.

A financial asset can only originate in either Stage 1 or as purchased or originated credit impaired ("POCI"). The ECL held against an asset depends on a number of factors, one of which is its stage allocation. Assets allocated to Stage 2 and Stage 3 have lifetime ECLs. Collateral and other credit enhancements are not considered as part of stage allocation. Collateral is reflected in the Group's loss given default models ('LGD').

Purchased or originated credit impaired

Purchased or originated credit impaired ("POCI") financial assets are those that are credit-impaired on initial recognition. The Group may originate a credit-impaired financial asset following a substantial modification of a distressed financial asset that resulted in derecognition of the original financial asset.

POCIs are assets originated credit impaired where the difference between the discounted contractual cash flows and the fair value at origination is greater than or equal to 5%. The Group uses an appropriate discount rate for measuring ECL in the case of POCIs which is the credit-adjusted EIR. This rate is used to discount the expected cash flows of such assets to fair value on initial recognition.

POCIs remain outside of the normal stage allocation process for the lifetime of the obligation. The ECL for POCIs is always measured at an amount equal to lifetime expected credit losses. The amount recognised as a loss allowance for these assets is the cumulative changes in lifetime expected credit losses since the initial recognition of the assets rather than the total amount of lifetime expected credit losses.

At each reporting date, the Group recognises the amount of the change in lifetime expected credit losses as a credit impairment gain or loss in profit or loss. Favourable changes in lifetime expected credit losses are recognised as a credit impairment gain, even if the favourable changes exceed the amount previously recognised in profit or loss as a credit impairment loss.

Modification

From time to time, the Group will modify the original terms of a customer's loan either as part of the on-going relationship or arising from changes in the customer's circumstances such as when that customer is unable to make the agreed original contractual repayments.
A modification refers to either:

- A change to the previous terms and conditions of a debt contract; or
- A total or partial refinancing of a debt contract.

Modifications may occur for both customers in distress and for those not in distress. Any financial asset that undergoes a change or renegotiation of cash flows and is not derecognised is a modified financial asset.

When modification does not result in derecognition, the modified assets are treated as the same continuous lending agreement but requires a modification gain or loss to be taken to profit or loss immediately. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

The stage allocation for modified assets which are not derecognised is by reference to the credit risk at initial recognition of the original, unmodified contractual terms i.e. the date of initial recognition is not reset.

Where renegotiation of the terms of a financial asset leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

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

Derecognition occurs if a modification or restructure is substantial on a qualitative or quantitative basis. Accordingly, certain forborne assets are derecognised. The modified/restructured asset (derecognised forborne asset ('DFA')) is considered a 'new financial instrument' and the date that the new asset is recognised is the date of initial recognition from this point forward. DFAs are allocated to Stage 1 on origination and follow the normal staging process, thereafter.

If there is evidence of credit impairment at the time of initial recognition of a DFA, and the fair value at recognition is at a discount to the contractual amount of the obligation, the asset is deemed to be a POCI. POCIs are not allocated to stages but are assigned a lifetime PD and ECL for the duration of the obligation's life. Where the modification/restructure of a non-forborne credit obligation results in derecognition, the new loan is originated in Stage 1 and follows the normal staging process thereafter.

Collateralised financial assets – Repossessions

The ECL calculation for a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

For loans which are credit impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. The Group will then offer this repossessed collateral for sale. However, if the Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if the Group believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of that asset and not as a credit impairment of the original loan.

Financial assets at FVOCI

ECL allowances for financial assets measured at FVOCI do not reduce the carrying amount in the statement of financial position because the carrying amount of these assets is fair value. However, an amount equal to the ECL allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income ('OCI') as an accumulated credit impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets (together with other accumulated gains and losses in OCI).

Write-offs and debt forgiveness

The Group reduces the gross carrying amount of a financial asset either partially or fully when there is no reasonable expectation of recovery.

Where there is no formal debt forgiveness agreed with the customer, the Group may write off a loan either partially or fully when there is no reasonable expectation of recovery. This is considered a non-contracted write-off. In this case, the borrower remains fully liable for the credit obligation and is not advised of the write-off.

Debt forgiveness arises where there is a formal contract agreed with the customer for the write-off of a loan.

Initial adoption of IFRS 15 *Revenue from Contracts with Customers*

The effective date for IFRS 15 *Revenue from Contracts with Customers* was 1 January 2018 and was adopted by the Group on that date by recognising the cumulative effect of initially adopting the standard as an adjustment to the opening balance of retained earnings.

IFRS 15 replaces all existing revenue recognition requirements in IFRS and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other accounting standards.

The standard outlines the principles entities must apply to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for fulfilling its performance obligations to a customer.

IFRS 15 had the following impact on the date of initial adoption:

Increase in "Other assets"	€ 12 million
Decrease in "Deferred taxation"	€ 2 million
Increase in "Revenue reserves"	€ 10 million

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

IFRS 15 accounting policy

Fee and commission income

The measurement and timing of recognition of fee and commission income is based on the core principles of IFRS 15 *Revenue from Contracts with Customers.*

The principles in IFRS 15 are applied using the following 5 step model:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when or as the Group satisfies its performance obligations.

Fee and commission income is recognised when the performance obligation in the contract has been performed, 'point in time' recognition, or 'over time' recognition if the performance obligation is performed over a period of time unless the income has been included in the effective interest rate calculation.

The Group includes in the transaction price, some or all of an amount of, variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The majority of the Group's fee and commission income arises from retail banking activities. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees relating to investment funds are recognised over time in line with the performance obligation. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees together with related direct costs, for loan facilities where drawdown is probable, are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment on a straight line basis. Other credit related fees are recognised over time in line with the performance obligation except arrangement fees where it is likely that the facility will be drawn down, and which are included in the effective interest rate calculation.

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 expected credit losses on 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.

Critical accounting judgements and estimates adopted by AIB Group are set out on pages 275 to 278 of the Annual Financial Report 2017. The following is an update on this disclosure:

On 1 January 2018, the Group implemented the three stage expected credit loss ("ECL") impairment model under IFRS 9 . The net credit impairment writeback/losses as reported in the income statement depend on whether credit risk has increased significantly since the initial recognition of financial assets. ECL is calculated for all individual facilities as a function of PD, EAD and LGD and incorporates forward – looking information. Further information on the IFRS 9 methodologies and judgements is detailed on pages 79 to 86.

Prospective accounting changes

Information on prospective accounting changes is set out on pages 269 to 274 of the Annual Financial Report 2017. In relation to these changes, the principal focus is on the IFRS 16 *Leases* project which is effective for accounting periods beginning 1 January 2019.

The new standard brings most leases on- balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 will impact the Group as it is the lessee of a number of properties which are classified under IAS 17 as operating leases. The project team is currently assessing its implications, continuing to validate lease accounting solutions for its leases and developing processes that ensure that the Group is ready to implement IFRS 16 as a 'business as usual' standard.

The Group has estimated that assets and liabilities in the statement of financial position will increase by approximately € 0.5 billion to € 0.6 billion. However, given the Group's new property strategy, this impact may change. Whilst overall IFRS 16 will be neutral on the income statement over the life of a lease, its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years.

Statement of compliance

The condensed consolidated interim financial statements comply with IAS 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 2018 are unaudited but have been reviewed by the independent auditor, Deloitte Ireland LLP, whose report is set out on page 166. The financial information presented herein does not amount to statutory financial statements. The Half-Yearly Financial Report is a requirement of the Transparency (Directive 2004/109/EC) Regulations 2007.

The summary financial statements for the financial year ended 31 December 2017 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 Ireland LLP, 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 2017 have been filed in the Companies Registration Office.

2 Transition to IFRS 9

(a) Summary

On 1 January 2018, the Group implemented the requirements of IFRS 9 *Financial Instruments*, a new accounting standard, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. In addition, the Group early adopted a narrow scope amendment to IFRS 9 titled *'Prepayment features with Negative Compensation'* which was endorsed by the European Union in March 2018.

As permitted by IFRS 9, the Group did not restate prior periods on initial application, accordingly, any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 are recognised in opening retained earnings (or in other comprehensive income, as applicable) at 1 January 2018.

The information set out in this note provides details relevant to understanding the impact of IFRS 9 on the Group's financial position at 1 January 2018 and has been prepared in accordance with the requirements for initial application of IFRS 9 as set out in IFRS 7 *Financial Instruments: Disclosures.* The disclosures supplement those provided in the Annual Financial Report 2017 and precede those required in the Annual Financial Report 2018. These transition disclosures provide a point-in-time bridge between IAS 39 *Financial Instruments: Recognition and Measurement,* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRS 9 *Financial Instruments* results and should be read in conjunction with the IFRS 9 related accounting policies set out on pages 102 to 108 and the credit impairment methodologies and judgements set out on pages 79 to 86.

IFRS 9 impacts the accounting for financial instruments in the following areas:

Classification and measurement – the classification of financial assets under IFRS 9 determines how they are accounted for and how they are measured on an on-going basis. This did not result in any significant changes for the Group at initial recognition.

Impairment – IFRS 9 introduces an expected credit loss model that requires recognition of expected credit losses on all financial assets measured at amortised cost or at FVOCI. This resulted in an overall increase in loss allowances of € 312 million for the Group.

Hedge accounting – IFRS 9 introduces an approach that aligns hedge accounting more closely with risk management. This had no impact for the Group as it is exercising a policy choice, as permitted by IFRS 9, to continue hedge accounting under IAS 39. However, the Group will implement the revised hedge accounting disclosures required by the amendments to IFRS 7.

The opening statement of financial position at 1 January 2018 under IFRS 9 is set out on page 115. This shows a decrease in net assets of € 267 million with a corresponding decrease in shareholders' equity driven by credit impairment provisions on loans and advances amounting to € 272 million and credit impairment provisions for liabilities and commitments amounting to € 36 million, net of related deferred tax amounting to € 41 million.

In particular, the following table reconciles impairment provisions (specific and IBNR) under IAS 39 and provisions for loan commitments and financial guarantee contracts under IAS 37 at 31 December 2017 to the opening loss allowance determined in accordance with IFRS 9 at 1 January 2018.

	31 December 2017			1 January 2018
	Impairment allowance under IAS 39 or provision under IAS 37	Reclassification impact	Additional IFRS 9 loss allowance	Loss allowance under IFRS 9
Impairment allowance	€ m	€ m	€ m	€ m
Loans and advances to customers at amortised cost	3,345	–	271	3,616
Loans and advances to banks at amortised cost	–	–	1	1
Available for sale investments, financial investments at FVOCI[1]	–	–	4	4
Undrawn commitments and financial guarantee contracts	32	–	36	68
Total	3,377	–	312	3,689

[1]Impairment allowance does not impact overall reserves as this is a transfer between investment securities reserves and revenue reserves

2 Transition to IFRS 9 *(continued)*

(a) Summary

The following table presents a reconciliation of gross loans and advances to customers at amortised cost together with impairment provisions under IAS 39 to gross loans and advances to customers at amortised cost together with loss allowances, analysed by staging under IFRS 9.

	At 31 December 2017 IAS 39	IFRS 9 transition adjustments		At 1 January 2018
		Reclassified	Remeasured	Total
	€ m	€ m	€ m	€ m
Gross loans and advances to customers	63,338	(156)[1]	–	63,182
Impairment provisions/loss allowance	(3,345)	–	(271)	(3,616)
Carrying amount	59,993	(156)	(271)	59,566

	At 1 January 2018 IFRS 9				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€ m	€ m	€ m	€ m	€ m
Gross loans and advances to customers	46,021	7,912	9,011	238	63,182
Impairment provisions/loss allowance	(156)	(303)	(3,136)	(21)	(3,616)
Carrying amount	45,865	7,609	5,875	217	59,566
	%	%	%	%	%
Loss allowance coverage rate	0.34	3.83	34.8	8.82	5.72

[1]Reclassified to FVTPL (see page 120).

2 Transition to IFRS 9 *(continued)*

(b) Principal impacts of IFRS 9

This section details the principal impacts of IFRS 9 in relation to classification and measurement, impairment and hedge accounting.

(i) Classification and measurement

The classification of financial assets under IFRS 9 determines how they are accounted for, and, in particular, how they are measured on an on-going basis.

- Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The classification and measurement categories are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL");
- A financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI");
- If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
- Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the loss allowance;
- There is no separation of an embedded derivative where the instrument is a financial asset;
- Investment in equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss, however, dividends from such investments will continue to be recognised in profit or loss;
- The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Classification and measurement of financial assets did not result in any significant changes for the Group. In general:

- loans and advances to banks and customers that were classified as 'loans and receivables' under IAS 39 are measured at amortised cost under IFRS 9;
- debt securities classified as available for sale under IAS 39 are measured at FVOCI; and
- equity investments will continue to be measured at fair value, however, for one equity instrument held for strategic purposes (NAMA subordinated bonds with a fair value of € 466 million), the Group has elected to present changes in fair value in other comprehensive income with no recycling to profit or loss. All other equity investments held at 1 January 2018 are now measured under IFRS 9 at FVTPL. Under IAS 39, all equity investments, apart from a small number held in the trading book, were classified as available for sale with fair value movements reported in 'other comprehensive income'.

The business model assessment which was carried out did not result in any change to the current measurement basis at the Group level.

In relation to SPPI testing which was carried out on the financial instruments portfolio, a small number of loans and advances to customers failed the SPPI test. Accordingly, such instruments are measured at FVTPL in accordance with IFRS 9. Fair value movements on these instruments will be shown in profit or loss. There was no impact on the carrying value on transition to this new measurement basis.

The Group has not currently opted to designate any financial assets at FVTPL as permitted by IFRS 9 when certain conditions are met. The Group's classification of financial liabilities is unchanged. The Group measures financial liabilities at amortised cost subsequent to initial recognition. Given that the Group does not fair value its own debt, there is no impact as a result of changes required under IFRS 9.

The Group has set up governance structures for the on-going validation of its business models and for ensuring that financial instruments failing the SPPI test are correctly identified at initial recognition.

2 Transition to IFRS 9 *(continued)*

(b) Principal impacts of IFRS 9

(ii) Impairment

IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses on all financial assets measured at amortised cost or at FVOCI. Expected credit losses on certain loan commitments and on financial guarantee contracts together with lease receivables are also covered by this new impairment model. Under IAS 39, impairment losses were compiled on an 'incurred loss' basis where there was objective evidence of impairment. In particular, IFRS 9:

- Requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, an allowance for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, an allowance for lifetime expected losses is required;
- The assessment of whether credit risk has increased significantly since origination is performed for each reporting period by considering the change in risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in expected credit losses;
- The assessment of credit risk, and the estimation of expected credit losses, are required to be unbiased and probability-weighted. They should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of expected credit losses should take into account the time value of money. As a result, the recognition and measurement of impairment is now more forward-looking unlike IAS 39 and the resulting credit impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of credit loss allowances, since all financial assets will be assessed for at least 12 month expected credit losses and the population of financial assets to which lifetime expected credit losses apply is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

The impact of IFRS 9 on credit loss allowances is set out below. The credit impairment methodologies and judgements applied are set out in the 'Risk management' section of this report on pages 79 to 86.

(iii) Hedge accounting

IFRS 9 introduces an approach that aligns hedge accounting more closely with risk management. It makes some fundamental changes to the requirements under IAS 39 by removing or amending some of the key prohibitions and rules. However, many of these changes are more relevant to non-financial corporations.

The general hedge accounting requirements of IFRS 9 aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting until macro hedge accounting is addressed by the IASB as part of a separate project.

AIB Group is exercising this policy choice and will continue to account under IAS 39. However, it will implement the revised hedge accounting disclosures required by the amendments to IFRS 7.

2 Transition to IFRS 9 *(continued)*

(c) Financial statement impacts at 1 January 2018

This section sets out: the opening statement of financial position; the impact of classification and measurement on the Group's financial assets; an impairment reconciliation; and revenue reserves and other components of equity reconciliations at 1 January 2018.

(i) Opening statement of financial position

The following table reconciles the statement of financial position under IAS 39 at 31 December 2017 to that under IFRS 9 at 1 January 2018.

		Impact of IFRS 9			
	31 December 2017 (IAS 39) € m	Classification[(1)] and measurement € m	Loss allowance € m	Tax € m	1 January 2018 (IFRS 9) € m
Assets					
Cash and balances at central banks	6,364	–	–	–	6,364
Items in the course of collection	103	–	–	–	103
Disposal groups and non-current assets held for sale	8	–	–	–	8
Trading portfolio financial assets	33	–	–	–	33
Derivative financial instruments	1,156	–	–	–	1,156
Loans and advances to banks	1,313	–	(1)	–	1,312
Loans and advances to customers	59,993	–	(271)	–	59,722
Investment securities	16,321	–	–	–	16,321
Interests in associated undertakings	80	–	–	–	80
Intangible assets	569	–	–	–	569
Property, plant and equipment	321	–	–	–	321
Other assets	418	–	–	–	418
Current taxation	5	–	–	–	5
Deferred tax assets	2,736	–	–	53	2,789
Prepayments and accrued income	459	–	–	–	459
Retirement benefit assets	183	–	–	–	183
Total assets	90,062	–	(272)	53	89,843
Liabilities					
Deposits by central banks and banks	3,640	–	–	–	3,640
Customer accounts	64,572	–	–	–	64,572
Trading portfolio financial liabilities	30	–	–	–	30
Derivative financial instruments	1,170	–	–	–	1,170
Debt securities in issue	4,590	–	–	–	4,590
Current taxation	68	–	–	–	68
Deferred tax liabilities	97	–	–	12	109
Retirement benefit liabilities	87	–	–	–	87
Other liabilities	824	–	–	–	824
Accruals and deferred income	348	–	–	–	348
Provisions for liabilities and commitments	231	–	36	–	267
Subordinated liabilities and other capital instruments	793	–	–	–	793
Total liabilities	76,450	–	36	12	76,498
Equity					
Share capital	1,697	–	–	–	1,697
Reserves	11,421	–	(308)	41	11,154
Total shareholders' equity	13,118	–	(308)	41	12,851
Other equity interests	494	–	–	–	494
Total equity	13,612	–	(308)	41	13,345
Total liabilities and equity	90,062	–	(272)	53	89,843

[(1)]For classifications within captions, see page 116.

2 Transition to IFRS 9 *(continued)*

(c) Financial statement impacts at 1 January 2018

(ii) Financial assets - Classification and measurement

The following table summarises the impact of classification and measurement on the Group's financial assets at 1 January 2018.

				2018
Financial assets	Original measurement category determined in accordance with IAS 39 at 31 December 2017	New measurement category determined in accordance with IFRS 9 at 1 January 2018	Carrying amount determined in accordance with IAS 39 at 31 December 2017 € m	Carrying amount determined in accordance with IFRS 9 at 1 January 2018 € m
Cash and balances at central banks	Loans and receivables	Amortised cost	6,364	6,364
Items in course of collection	Loans and receivables	Amortised cost	103	103
Trading portfolio financial assets	FVTPL	FVTPL (mandatory)	33	33
Derivative financial instruments	Fair value	FVTPL (mandatory)	738	738
	Fair value	FVOCI	418	418
Loans and advances to banks	Loans and receivables	Amortised cost	1,313	1,312
Loans and advances to customers	Loans and receivables	Amortised cost	59,993	59,566
	Loans and receivables	FVTPL (mandatory)	–	156
Investment securities – debt	Available for sale	FVOCI	15,642	15,642
Investment securities – equity	Available for sale	FVOCI	679	466
	Available for sale	FVTPL (mandatory)	–	213
Other financial assets	Amortised cost	Amortised cost	736	736
Total financial assets			86,019	85,747

There were no changes in the classification of financial liabilities.

2 Transition to IFRS 9 *(continued)*

(c) Financial statement impacts at 1 January 2018

(iii) Impairment reconciliation

The following table reconciles the closing impairment provision (recognised in accordance with IAS 39) and any provision for loan commitments and financial guarantee contracts (recognised in accordance with IAS 37) as at 31 December 2017 to the opening ECL allowances (in accordance with IFRS 9) as at 1 January 2018:

Financial assets at amortised cost	Impairment provision at 31 December 2017 (IAS 39) € m	Reclassification € m	Remeasurement € m	ECL 1 January 2018 (IFRS 9) € m
Cash and balances at central banks	–	–	–	–
Items in the course of collection	–	–	–	–
Loans and advances to banks	–	–	1	1
Loans and advances to customers	3,345	–	271	3,616
	3,345	–	272	3,617

Provisions for liabilities and commitments	Impairment provision at 31 December 2017 (IAS 37) € m	Reclassification € m	Remeasurement € m	ECL 1 January 2018 (IFRS 9) € m
Loan commitments and financial guarantees issued	32	–	36	68

Recognised in statement of financial position as:	At 31 December 2017 € m	Reclassification € m	Remeasurement € m	At 1 January 2018 € m
Impairment provision/ECL allowance - IAS 39/IFRS 9	3,345	–	272	3,617
Provision for liabilities and commitments - IAS 37/IFRS 9	32	–	36	68
	3,377	–	308	3,685

For financial assets at FVOCI, the expected credit loss provision does not impact overall reserves, however, it results in a transfer between investments securities reserves and revenue reserves on transition.

At FVOCI	Impairment provision at 31 December 2017 (IAS 39) € m	ECL 1 January 2018 (IFRS 9) € m
Investment securities at FVOCI	–	4

2 Transition to IFRS 9 *(continued)*

(c) Financial statement impacts at 1 January 2018

(iv) Revenue reserves and other components of equity reconciliations

The following table sets out the impact of applying IFRS 9 on opening revenue reserves and other components of equity as at 1 January 2018:

	Gross €m	Taxation €m	Net €m
Available for sale securities reserves			
Closing balance at 31 December 2017 (IAS 39)	1,126	(145)	981
Reclassification to revenue reserves	(24)	4	(20)
Reclassification to investment securities reserves	(1,102)	141	(961)
Opening balance at 1 January 2018 (IFRS 9)	–	–	–

Investment securities reserves	Gross €m	Taxation €m	Net €m
Closing balance at 31 December 2017	–	–	–
Reclassification from available for sale reserves (IAS 39) – debt at FVOCI	679	(88)	591
Reclassification from available for sale (IAS 39) – equity at FVOCI	423	(53)	370
	1,102	(141)	961
Recognition of expected credit losses investment securities – debt at FVOCI	4	–	4
Opening balance at 1 January 2018 (IFRS 9)	1,106	(141)	965

Revenue reserves	Gross €m	Taxation €m	Net €m
Closing balance at 31 December 2017 (IAS 39)			13,249
Reclassification from available for sale reserves (IAS 39) – equities at FVTPL	24	(4)	20
Recognition of expected credit losses for loans and advances to customers at amortised cost	(271)	37	(234)
Recognition of expected credit losses for loans and advances to banks at amortised cost	(1)	–	(1)
Recognition of expected credit losses for loan commitments	(16)	2	(14)
Recognition of expected credit losses for financial guarantee contracts	(20)	2	(18)
Recognition of expected credit losses for investment securities – debt at FVOCI	(4)	–	(4)
	(288)	37	(251)
Opening balance at 1 January 2018 (IFRS 9)			12,998
IFRS 9 transition adjustment to total reserves at 1 January 2018	(308)	41	(267)

2 Transition to IFRS 9 *(continued)*

(d) Analysis of financial instruments by staging

This section provides detailed analysis of: exposures within the scope of the ECL framework by balance sheet caption and staging; loans and advances to customers by asset class and staging; off-balance sheet commitments by staging; loans and advances to customers by segment and staging; and forbearance by staging.

(i) Exposures within the scope of the ECL framework by balance sheet caption and staging

The following table analyses exposures within the scope of IFRS 9 including off-balance sheet commitments and guarantees. Exposures are shown gross of ECL.

Items outside the scope of the ECL framework such as cash and items in the course of collection are excluded from this table as it is the Group policy not to calculate an ECL for such items as they have a low risk of default with a very low risk profile. In addition, equity investments have been excluded as they are outside the scope of the ECL framework.

					1 January 2018
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Loans and advances to banks	1,313	–	–	–	1,313
Loans and advances to customers	46,021	7,912	9,011	238	63,182
Investment securities - debt	15,642	–	–	–	15,642
Other assets	–	–	–	–	–
Total assets	62,976	7,912	9,011	238	80,137
Undrawn commitments and financial guarantee contracts	10,353	326	432	–	11,111
Total exposure	73,329	8,238	9,443	238	91,248

For additional analysis of loans and advances to customers and of off-balance sheet commitments, see 2(d)(ii) to 2(d)(v) below.

2 Transition to IFRS 9 *(continued)*

(d) Analysis of financial instruments by staging

(ii) Loans and advances to customers by asset class

The following table reconciles the carrying amount for loans and advances to customers in accordance with IAS 39 as at 31 December 2017 to the carrying amount in accordance with IFRS 9 as at 1 January 2018. Loans and advances to customers measured at amortised cost have been analysed as to ECL staging:

Measured at amortised cost

Gross carrying amount

		Impact of adopting IFRS 9			1 January 2018 Analysed as to:					31 December 2017 Of which impaired under IAS 39		
Gross carrying amount by asset class	At 31 December 2017 IAS 39 € m	Reclassifi–cations € m	Remeasure–ment	At 1 January 2018 – IFRS 9 € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Individually assessed € m	Collectively assessed € m	Total € m
Residential mortgages	33,720	–	–	33,720	23,857	5,175	4,453	235	33,720	978	2,315	3,293
Other personal	3,122	–	–	3,122	2,296	358	468	–	3,122	228	134	362
Property and construction	8,820	(156)	–	8,664	5,375	782	2,505	2	8,664	1,685	118	1,803
Non property business	17,676	–	–	17,676	14,493	1,597	1,585	1	17,676	683	189	872
Total	63,338	(156)	–	63,182	46,021	7,912	9,011	238	63,182	3,574	2,756	6,330

Loss allowance

		Impact of adopting IFRS 9 on loss allowance			1 January 2018 Analysed as to:					31 December 2017 Impairment provisions under IAS 39		
Loss allowance by asset class	At 31 December 2017 – Specific and IBNR provisions – IAS 39 € m	Reclassifi–cations € m	Remeasure–ment € m	At 1 January 2018 – IFRS 9 € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Specific provisions € m	IBNR provisions € m	Total € m
Residential mortgages	(1,418)	–	27	(1,391)	(12)	(95)	(1,263)	(21)	(1,391)	(1,135)	(283)	(1,418)
Other personal	(246)	–	(83)	(329)	(26)	(50)	(253)	–	(329)	(203)	(43)	(246)
Property and construction	(1,064)	–	(42)	(1,106)	(43)	(43)	(1,020)	–	(1,106)	(914)	(150)	(1,064)
Non property business	(617)	–	(173)	(790)	(75)	(115)	(600)	–	(790)	(470)	(147)	(617)
Total	(3,345)	–	(271)	(3,616)	(156)	(303)	(3,136)	(21)	(3,616)	(2,722)	(623)	(3,345)
Measured at amortised cost carrying amount	59,993	(156)	(271)	59,566	45,865	7,609	5,875	217	59,566			
Measured at FVTPL carrying amount												
Property and construction	–	156	–	156								
Total carrying amount	59,993	–	(271)	59,722								

2 Transition to IFRS 9 *(continued)*

(d) Analysis of financial instruments by staging

(iii) Off-balance sheet commitments

The following table analyses the nominal amount of off-balance sheet commitments and the opening loss allowance at 1 January 2018:

	Off-balance sheet commitments			Analysed as to:			
	At 31 December 2017 € m	Impact of adopting IFRS 9 € m	At 1 January 2018 € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m
Nominal amount	11,111	–	11,111	10,353	326	432	–

	Loss allowance			Analysed as to:			
	At 31 December 2017 € m	Impact of adopting IFRS 9 € m	At 1 January 2018 € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m
Loss allowance	(32)	(36)	(68)	(11)	(10)	(47)	–

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2 Transition to IFRS 9 *(continued)*

(d) Analysis of financial instruments by staging

(iv) Loans and advances to customers by segment

The following table reconciles gross loans and advances to customers and impairment provisions recognised in accordance with IAS 39 as at 31 December 2017 to gross loans and advances to customers and the expected credit loss allowance recognised in accordance with IFRS 9 as at 1 January 2018, by segment and by measurement category:

	At amortised cost					At FVTPL					
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	Total € m
Gross carrying amount at 31 December 2017	44,435	10,322	8,523	58	63,338	–	–	–	–	–	63,338
Impact of adopting IFRS 9											
Reclassification	(63)	(93)	–	–	(156)	63	93	–	–	156	–
Remeasurement	–	–	–	–	–	–	–	–	–	–	–
At 1 January 2018 gross carrying amount/fair value	44,372	10,229	8,523	58	63,182	63	93	–	–	156	63,338

Analysed by staging	€ m	€ m	€ m	€ m	€ m
Stage 1	29,784	9,933	6,247	57	46,021
Stage 2	6,068	156	1,688	–	7,912
Stage 3	8,282	140	588	1	9,011
POCI	238	–	–	–	238
	44,372	10,229	8,523	58	63,182

Impairment provisions under IAS 39/expected credit loss allowance under IFRS 9

	At amortised cost					At FVTPL					
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 31 December 2017											
Specific provisions	(2,488)	(2)	(232)	–	(2,722)						(2,722)
IBNR provisions	(525)	(45)	(53)	–	(623)						(623)
Total impairment provisions under IAS 39	(3,013)	(47)	(285)	–	(3,345)						(3,345)
Impact of adopting IFRS 9											
Reclassification	–	–	–	–	–	–	–	–	–	–	–
Remeasurement	(245)	2	(27)	(1)	(271)	–	–	–	–	–	(271)
At 1 January 2018 Expected credit loss allowance under IFRS 9	(3,258)	(45)	(312)	(1)	(3,616)	–	–	–	–	–	(3,616)

Analysed by staging	€ m	€ m	€ m	€ m	€ m
Stage 1	(105)	(23)	(27)	(1)	(156)
Stage 2	(260)	(11)	(32)	–	(303)
Stage 3	(2,872)	(11)	(253)	–	(3,136)
POCI	(21)	–	–	–	(21)
	(3,258)	(45)	(312)	(1)	(3,616)

	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	Total € m
Net carrying amount at 1 January 2018	41,114	10,184	8,211	57	59,566	63	93	–	–	156	59,722

2 Transition to IFRS 9 *(continued)*
(d) Analysis of financial instruments by staging
(v) Forbearance

The following table sets out the gross carrying amount of loans and advances to customers at amortised cost and the related IAS 39 provision for impairment at 31 December 2017, and the impact of adopting IFRS 9 at 1 January 2018, analysed between forborne and non-forborne loans:

	Gross loans			Loss allowance			
	At 31 December 2017	Impact of adopting IFRS 9 reclassification	At 1 January 2018	At 31 December 2017	Impact of adopting IFRS 9 Reclassification	Impact of adopting IFRS 9 Remeasurement	At 1 January 2018
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Forborne	8,023	(72)	7,951	(1,283)	–	(182)	(1,465)
Non-forborne	55,315	(84)	55,231	(2,062)	–	(89)	(2,151)
Total	**63,338**	**(156)**	**63,182**	**(3,345)**	**–**	**(271)**	**(3,616)**

The following analyses the loans and advances to customers portfolio at 1 January 2018 by stage and between forborne and non-forborne loans:

	1 January 2018								
	Gross loans			Loss allowance			Net carrying amount		
	Forborne	Non-forborne	Total	Forborne	Non-forborne	Total	Forborne	Non-forborne	Total
At amortised cost	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Stage 1	1,611	44,410	46,021	(39)	(117)	(156)	1,572	44,293	45,865
Stage 2	1,688	6,224	7,912	(80)	(223)	(303)	1,608	6,001	7,609
Stage 3	4,466	4,545	9,011	(1,328)	(1,808)	(3,136)	3,138	2,737	5,875
POCI	186	52	238	(18)	(3)	(21)	168	49	217
Total	**7,951**	**55,231**	**63,182**	**(1,465)**	**(2,151)**	**(3,616)**	**6,486**	**53,080**	**59,566**

The following analyses the loans and advances to customers portfolio at FVTPL at 1 January 2018 between forborne and non-forborne loans:

				Net carrying amount		
	At 31 December 2017	Impact of adopting IFRS 9 reclassification	At 1 January 2018	Forborne	Non-forborne	Total
At FVTPL	€ m	€ m	€ m	€ m	€ m	€ m
Carrying amount	–	156	156	72	84	156
Total loans and advances to customers				**6,558**	**53,164**	**59,722**

Notes to the condensed consolidated interim financial statements

3 Segmental information

Segment overview

The Group is managed through the following business segments: Retail & Commercial Banking ("RCB"), Wholesale, Institutional & Corporate Banking ("WIB"), AIB UK and Group. Further details on the segment allocations and the business segments are disclosed in note 4 'Segmental information' in the Annual Financial Report 2017.

								Half-year 30 June 2018
	RCB	WIB	AIB UK	Group	Total	Bank levies and regulatory fees[1]	Exceptional items[2]	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment								
Net interest income	692	147	125	97	1,061	–	–	1,061
Net fee and commission income	160	17	26	14	217	–	–	217
Other	42	10	(4)	57	105	–	140	245
Other income	202	27	22	71	322	–	140[3]	462
Total operating income	894	174	147	168	1,383	–	140	1,523
Personnel expenses	(203)	(31)	(35)	(95)	(364)	–	(14)[4][5]	(378)
General and administrative expenses	(130)	(16)	(23)	(109)	(278)	(31)	(140)[5]-[8]	(449)
Depreciation, impairment and amortisation	(44)	(1)	(2)	(22)	(69)	–	–	(69)
Total operating expenses	(377)	(48)	(60)	(226)	(711)	(31)	(154)	(896)
Operating profit/(loss) before provisions	517	126	87	(58)	672	(31)	(14)	627
Bank levies and regulatory fees	–	–	–	(31)	(31)	31	–	–
Net credit impairment writeback/ (losses)	152	(6)	(17)	1	130	–	–	130
Provisions for liabilities and commitments	–	–	–	–	–	–	–	–
Total impairment losses and provisions	152	(6)	(17)	1	130	–	–	130
Operating profit/(loss)	669	120	70	(88)	771	–	(14)	757
Associated undertakings	–	3	1	–	4	–	–	4
Profit on disposal of property	–	–	1	–	1	–	–	1
Profit/(loss) before taxation from continuing operations	669	123	72	(88)	776	–	(14)	762

[1]In the consolidated 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 15.

[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 disposal of financial instruments;

[4]Termination benefits;

[5]Restitution and restructuring expenses;

[6]Property strategy costs;

[7]Customer redress; and

[8]IFRS 9 costs. For further information on these items see page 15.

3 Segmental information

	RCB	WIB	AIB UK	Group	Total	Bank levies and regulatory fees[(1)]	Exceptional items[(2)]	Total
								Half-year 30 June 2017
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment								
Net interest income	709	130	118	120	1,077	–	–	1,077
Other income	310	19	39	84	452	–	7[(3)]	459
Total operating income	1,019	149	157	204	1,529	–	7	1,536
Personnel expenses	(209)	(28)	(41)	(82)	(360)	–	(28)[(4)(5)]	(388)
General and administrative expenses	(128)	(16)	(24)	(111)	(279)	(45)	(40)[(5)(6)]	(364)
Depreciation, impairment and amortisation	(36)	–	(2)	(16)	(54)	–	(1)[(5)]	(55)
Total operating expenses	(373)	(44)	(67)	(209)	(693)	(45)	(69)	(807)
Operating profit/(loss) before provisions	646	105	90	(5)	836	(45)	(62)	729
Bank levies and regulatory fees	–	–	(1)	(44)	(45)	45	–	–
Writeback/(provisions) for impairment on loans and advances	33	7	(21)	–	19	–	–	19
Writeback/(provisions) for liabilities and commitments	6	(2)	–	–	4	–	–	4
Total writeback/(provisions)	39	5	(21)	–	23	–	–	23
Operating profit/(loss)	685	110	68	(49)	814	–	(62)	752
Associated undertakings and joint venture	8	–	2	–	10	–	–	10
Loss on disposal of property	(1)	–	–	–	(1)	–	–	(1)
Profit/(loss) before taxation from continuing operations	692	110	70	(49)	823	–	(62)	761

[(1)]In the consolidated 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 15.

[(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 disposal of financial instruments;

[(4)]Termination benefits;

[(5)]Restitution and restructuring expenses; and

[(6)]IPO and capital related expenses.

3 Segmental information *(continued)*

Other amounts – statement of financial position

					30 June 2018
	RCB	**WIB**	**AIB UK**	**Group**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Loans and advances to customers:					
– measured at amortised cost	**40,051**	**11,344**	**8,211**	**116**	**59,722**
– measured at FVTPL	**49**	**93**	**–**	**–**	**142**
Total loans and advances to customers	**40,100**	**11,437**	**8,211**	**116**	**59,864**
Customer accounts	**49,109**	**5,925**	**10,101**	**2,012**	**67,147**

					1 January 2018
	RCB	WIB	AIB UK	Group	Total
	€ m	€ m	€ m	€ m	€ m
Loans and advances to customers					
– measured at amortised cost	41,114	10,184	8,211	57	59,566
– measured at FVTPL	63	93	–	–	156
Total loans and advances to customers	41,177	10,277	8,211	57	59,722
Customer accounts	46,552	5,654	10,182	2,184	64,572

					31 December 2017
	RCB	WIB	AIB UK	Group	Total
	€ m	€ m	€ m	€ m	€ m
Loans and advances to customers	41,422	10,275	8,238	58	59,993
Customer accounts	46,552	5,654	10,182	2,184	64,572

				Half-year 30 June 2018
Geographic information – continuing operations[(1)(2)]	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Gross external revenue	**1,370**	**150**	**3**	**1,523**
Inter-geographical segment revenue	**(7)**	**3**	**4**	**–**
Total revenue	**1,363**	**153**	**7**	**1,523**

				Half-year 30 June 2017
Geographic information – continuing operations[(1)(2)]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	1,356	175	5	1,536
Inter-geographical segment revenue	3	1	(4)	–
Total revenue	1,359	176	1	1,536

Revenue from external customers comprises interest income (note 4) and interest expense (note 5), and all other items of income (notes 6 to 11).

3 Segmental information *(continued)*

Other amounts – statement of financial position

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				30 June 2018
Non-current assets(3)	875	47	1	923

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				31 December 2017
Non-current assets(3)	844	45	1	890

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

(2)For details of significant geographic concentrations, see the Risk management section.

(3)Non-current assets comprise intangible assets and property, plant and equipment.

4 Interest income

	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Interest on loans and advances to customers at amortised cost	1,046	1,078
Interest on loans and advances to banks at amortised cost	14	7
Interest on NAMA senior bonds at amortised cost	–	2
Interest on investment securities at FVOCI/financial investments available for sale	113	81
Interest on financial investments held to maturity	–	65
	1,173	1,233
Negative interest on financial liabilities at amortised cost	18	8
Interest income using the effective interest method	1,191	1,241
Interest on loans and advances to customers at FVTPL	4	–
Other interest income	4	–
Total interest income	1,195	1,241

Interest income includes a credit of € 84 million (30 June 2017: a credit of € 97 million) transferred from other comprehensive income in respect of cash flow hedges and is included within ‘Interest on loans and advances to customers’.

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as offset against interest expense.

Interest income recognised on impaired loans amounted to € 54 million at 30 June 2017.

Notes to the condensed consolidated interim financial statements

5 Interest expense	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Interest on deposits by central banks and banks	14	4
Interest on customer accounts	81	128
Interest on debt securities in issue	18	15
Interest on subordinated liabilities and other capital instruments	16	16
	129	163
Negative interest on financial assets	5	1
Interest expense using the effective interest method	134	164

Interest expense includes a charge of € 30 million (30 June 2017: a charge of € 38 million) transferred from other comprehensive income in respect of cash flow hedges and is included within 'Interest on customer accounts'.

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

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as offset against interest income.

6 Dividend income

Dividend income on equity investments designated as measured at FVOCI amounts to € 23 million (2017: € 27 million on available for sale equity investments under IAS 39). € 23 million of this dividend income was received on NAMA subordinated bonds (2017: € 25 million).

Dividend income on equity investments measured at FVTPL amounts to € 1 million (2017: Nil).

7 Net fee and commission income	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Retail banking customer fees	177	185
Foreign exchange fees[1]	35	–
Credit related fees	19	21
Insurance commissions	12	14
Fee and commission income	243	220
Fee and commission expense[2]	(26)	(25)
	217	195

[1]Customer related foreign exchange income amounting to € 29 million was reported in the half-year to 30 June 2017 in 'Net trading income' (note 8). This income is now reported in 'Net fee and commission income'. In addition, customer related foreign exchange branch commissions amounting to € 6 million which were reported as retail banking customer fees for the half-year to 30 June 2017, are now reported in this caption.

[2]Fee and commission expense includes ATM expenses of € 3 million (30 June 2017: € 2 million); and credit card commissions of € 17 million (30 June 2017: € 17 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest income (note 4) or interest expense (note 5).

8 Net trading income

	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Foreign exchange contracts[1]	(7)	28
Interest rate contracts and debt securities[2]	20	34
Credit derivative contracts	1	(1)
Equity investments, index contracts and warrants	(13)[3]	–
	1	61

[1]In the half-year to 30 June 2017, customer related foreign exchange fees amounting to € 29 million were reported as 'Net trading income'. This income is now reported in 'Net fee and commission income' (note 7).

[2]Includes a gain of € 6 million (30 June 2017: a gain of € 18 million) in relation to XVA adjustments. (For further information on XVA, see page 343 of the Annual Financial Report 2017).

[3]Includes loss amounting to € 14 million on a total return swap, which is hedging equities measured at FVTPL.

The total hedging ineffectiveness on cash flow hedges reflected in the condensed consolidated income statement amounted to Nil (30 June 2017: Nil).

9 Net gain on other financial assets measured at FVTPL

	Half-year 30 June 2018 Total € m
Loans and advances to customers[1]	61
Investment securities – equity[2]	31
Total	**92**

[1]Excludes interest income *(note 4)*.

[2]Includes unrealised gain of € 19 million on equities hedged by a trading total return swap.

10 Net gain on derecognition of financial assets measured at amortised cost

	Half-year 30 June 2018			
	Carrying value at derecognition € m	Gain on derecognition € m	Loss on derecognition € m	Net gain on derecognition € m
Loans and advances to customers	613	197[1]	(85)[1]	112

[1]Gain and loss on derecognition have been computed at a customer connection level.

The net gain on derecognition arose from the disposal of loans and advances to customers.

	Half-year 30 June 2017 € m
Profit on disposal of loans and advances to customers	6

Notes to the condensed consolidated interim financial statements

11 Other operating income

	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Gain on disposal of investment securities - debt	**24**	17
Loss on termination of hedging swaps[1]	**(8)**	(8)
Profit on disposal of available for sale equity investments	**–**	7
Acceleration/re-estimation of the timing of cash flows on NAMA senior bonds	**–**	4
Realisation/re-estimation of cash flows on restructured loans	**–**[2]	146
Miscellaneous operating income	**–**	4[3]
	16	170

[1]The majority of the loss on termination of hedging swaps relates to the disposal of investment securities – debt.

[2]Under IFRS 9, gains/losses arising are included in 'Net gain on other financial assets measured at FVTPL' in note 9.

[3]Includes a foreign exchange gain of € 1 million.

12 Administrative expenses

	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Personnel expenses:		
Wages and salaries	**281**	287
Termination benefits[1]	**9**	24
Retirement benefits[2]	**48**	40
Social security costs	**32**	31
Other personnel expenses[3]	**8**	6
Total personnel expenses	**378**	388
General and administrative expenses:		
Bank levies and regulatory fees	**31**	45
Other general and administrative expenses	**418**	319
Total general and administrative expenses	**449**	364
	827	752

[1]For the half-year to 30 June 2018, a charge of € 9 million (30 June 2017: a charge of € 24 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 € 7 million in relation to defined benefit expense (30 June 2017: a credit of € 1 million), a defined contribution charge of € 37 million (30 June 2017: a charge of € 37 million) and a long-term disability payments charge of € 4 million (30 June 2017: a charge of € 4 million). For details of retirement benefits, see note 27.

[3]Other personnel expenses include staff training, recruitment and various other staff costs.

Total personnel expenses are shown net of € 11 million costs (30 June 2017: € 14 million) which were capitalised as part of the cost of intangible assets.

13 Net credit impairment writeback/(losses)

The following table analyses the income statement net credit impairment writeback/(losses) on financial instruments for the half-year to 30 June 2018.

Credit impairment writeback/(losses) on financial instruments	Measured at amortised cost € m	Measured at FVOCI € m	Half-year 30 June 2018 Total € m
Net remeasurement of loss allowance			
Loans and advances to banks	1	–	1
Loans and advances to customers	110	–	110
Loan commitments	(9)	–	(9)
Financial guarantee contracts	(1)	–	(1)
Investment securities – debt	–	–	–
Credit impairment writeback/(losses)	101	–	101
Recoveries of amounts written off in previous years	29	–	29
Net credit impairment writeback/(losses)	130	–	130

	Half-year 30 June 2017 € m
Writeback of provisions for impairment on loans and advances	19

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14 Taxation

	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
AIB Group plc and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the period	(5)	(13)
Adjustments in respect of prior periods	–	–
	(5)	(13)
Foreign tax		
Current tax on income for the period	(9)	(9)
Adjustments in respect of prior periods	–	–
	(9)	(9)
	(14)	(22)
Deferred taxation		
Origination and reversal of temporary differences	(12)	(4)
Adjustments in respect of prior periods	(2)	(7)
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(84)	(76)
	(98)	(87)
Total tax charge for the period	(112)	(109)
Effective tax rate	14.7%	14.3%

14 Taxation *(continued)*

Analysis of selected other comprehensive income

	Half-year 30 June 2018			Half-year 30 June 2017		
Continuing operations	**Gross €m**	**Tax €m**	**Net €m**	Gross €m	Tax €m	Net €m
Property revaluation reserves						
Net change in property revaluation reserves	–	–	–	–	–	–
Total	–	–	–	–	–	–
Retirement benefit schemes						
Actuarial gains/(losses) in retirement benefit schemes	65	(15)	50	(23)	8	(15)
Total	65	(15)	50	(23)	8	(15)
Foreign currency translation reserves						
Change in foreign currency translation reserves	1	–	1	(39)	–	(39)
Total	1	–	1	(39)	–	(39)
Cash flow hedging reserves (IAS 39)						
Fair value (gains) transferred to income statement	–	–	–	(59)	7	(52)
Fair value (losses) taken to other comprehensive income	–	–	–	(135)	16	(119)
Total	–	–	–	(194)	23	(171)
Cash flow hedging reserves (IFRS 9)						
Hedging gains or losses recognised in other comprehensive income	60	(8)	52	–	–	–
Amounts reclassified from cash flow hedge reserves into profit or loss as a reclassification adjustment:						
– *amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur*	–	–	–	–	–	–
– *amounts that have been transferred because the hedged item has affected profit or loss*	(54)	7	(47)	–	–	–
Total	6	(1)	5	–	–	–
Available for sale securities reserves (IAS 39)						
Fair value (gains) transferred to income statement	–	–	–	(24)	4	(20)
Fair value (losses) taken to other comprehensive income	–	–	–	(85)	7	(78)
Total	–	–	–	(109)	11	(98)
Investment debt securities at FVOCI reserves (IFRS 9)						
Fair value (losses) taken to other comprehensive income	(144)	18	(126)	–	–	–
Fair value (gains) transferred to income statement	(24)	3	(21)	–	–	–
Total	(168)	21	(147)	–	–	–
Investment equity securities measured at FVOCI reserves (IFRS 9)						
Fair value (losses) taken to other comprehensive income	(4)	–	(4)	–	–	–
Total	(4)	–	(4)	–	–	–

15 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 own shares held.

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 own shares held, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Profit attributable to equity holders of the parent from continuing operations	650	652
Distribution on other equity interests	(18)	(18)
Profit attributable to ordinary shareholders of the parent from continuing operations	632	634
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	2,714.4	2,714.4
Earnings per share from continuing operations – basic	23.3c	EUR 23.3c

(b) Diluted	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Profit attributable to ordinary shareholders of the parent from continuing operations (note 15 (a))	632	634
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	2,714.4	2,714.4
Potential weighted average number of shares	2,714.4	2,714.4
Earnings per share from continuing operations – diluted	EUR 23.3c	EUR 23.3c

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

Warrants

Following the Initial Public Offering ("IPO") and the Group's admission on 27 June 2017 to the main markets for listed securities on the Euronext Dublin (previously known as the Irish Stock Exchange) and the London Stock Exchange, the Group issued warrants on 4 July 2017 to the Minister for Finance to subscribe for 271,166,685 ordinary shares of Allied Irish Banks, p.l.c.

This warrant agreement was replaced by a new warrant instrument (the "AIB Group plc Warrant Instrument") pursuant to which the Minister for Finance was issued warrants to subscribe for AIB Group plc shares on the same terms and conditions as the Allied Irish Banks, p.l.c. warrants. The new warrant agreement with AIB Group plc became effective on 8 December 2017, i.e. upon the Scheme of Arrangement becoming effective (see note 3 to the consolidated financial statements in the Annual Financial Report 2017 for further detail). Allied Irish Banks, p.l.c. warrants were cancelled on this date.

The warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027 (see note 41 to the consolidated financial statements in the Annual Financial Report 2017 for further detail). These warrants were not included in calculating the diluted earnings per share as they were antidilutive.

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16 Distributions on equity shares and other equity interests

	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Ordinary shares – dividends paid	326	250
Other equity interests – distribution	18	18

Final dividends are not accounted for until they have been approved at the Annual General Meeting of shareholders or in the case of the interim dividend, when they become irrevocable having already been approved for payment by the Board of Directors. The interim dividend may be cancelled at any time prior to the actual payment.

On 25 April 2018, a final dividend of € 0.12 per ordinary share, amounting in total to € 326 million (2017: € 250 million), was approved at the Annual General Meeting of AIB Group plc and subsequently paid on 4 May 2018.

A distribution amounting to € 18 million was paid on the Additional Tier 1 Securities (30 June 2017: € 18 million).

17 Disposal groups and non-current assets held for sale

	30 June 2018 € m	31 December 2017 € m
Property and non-financial assets held for sale[(1)]	7	8
Total disposal groups and non-current assets held for sale	7	8

[(1)]Includes property surplus to requirements and repossessed assets.

18 Trading portfolio financial assets

	30 June 2018 € m	31 December 2017 € m
Investment debt securities	12	32
Equity investments	–	1
	12	33

19 Derivative financial instruments

The following table presents the 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 2018 € m	31 December 2017 € m
Interest rate contracts[1]		
Notional principal amount	57,353	53,465
Positive fair value	814	1,094
Negative fair value	(951)	(1,092)
Exchange rate contracts[1]		
Notional principal amount	5,322	4,882
Positive fair value	63	29
Negative fair value	(33)	(34)
Equity contracts[1]		
Notional principal amount	510	715
Positive fair value	15	33
Negative fair value	(17)	(35)
Credit derivatives[1]		
Notional principal amount	280	130
Negative fair value	(6)	(9)
Total notional principal amount	63,465	59,192
Total positive fair value[2]	892	1,156
Total negative fair value	(1,007)	(1,170)

[1]Interest rate, exchange rate, equity and credit derivative contracts are entered into for both hedging and trading purposes.

[2]At 30 June 2018, 43% of fair value relates to exposures to banks (31 December 2017: 55%).

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 2017. There have been no significant changes to the Group’s derivative activity as set out in note 22 to the consolidated financial statements in the Annual Financial Report 2017.

20 Loans and advances to banks	30 June 2018 € m	1 January 2018[1] € m	31 December 2017 € m
At amortised cost			
Funds placed with central banks	**561**	536	536
Funds placed with other banks	**978**	777	777
Loss allowance	**–**	(1)	–
	978	776	777
Total loans and advances to banks	**1,539**	1,312	1,313
Amounts include:			
Reverse repurchase agreements	**50**	3	3

[1]For details of the impact of adopting IFRS 9 at 1 January 2018, see note 2.

Loans and advances to banks include cash collateral of € 599 million (31 December 2017: € 527 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties.

Under reverse repurchase agreements, the Group has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted of government securities with a fair value of € 50 million (31 December 2017: non-government securities (bank bonds) € 3 million). The fair value of collateral sold or repledged amounted to Nil. These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

21 Loans and advances to customers	30 June 2018 € m	1 January 2018[1] € m	31 December 2017 € m
Amortised cost			
Loans and advances to customers	**61,180**	61,876	62,032
Reverse repurchase agreements	**–**	19	19
Amounts receivable under finance leases and hire purchase contracts	**1,438**	1,287	1,287
	62,618	63,182	63,338
Loss allowance	**(2,896)**	(3,616)	(3,345)
	59,722	59,566	59,993
Mandatorily at fair value through profit and loss			
Loans and advances to customers	**142**	156	–
Total loans and advances to customers	**59,864**	59,722	59,993
Of which repayable on demand or at short notice	**7,242**	8,126	8,126
Amounts include:			
Due from associated undertakings	**13**	5	5

[1]For details of the impact of adopting IFRS 9 at 1 January 2018, see note 2.

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of Nil (31 December 2017: € 19 million) that it is permitted to sell or repledge in the absence of default by the owner of the collateral. In addition, loans and advances to customers include cash collateral amounting to € 105 million (31 December 2017: Nil) placed with derivative counterparties.

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

Notes to the condensed consolidated interim financial statements

22 Loss allowance on financial assets

The following table shows the movements on the impairment loss allowance on financial assets. Comparative data for 31 December 2017 has been prepared under IAS 39. Further information is disclosed in the 'Risk management' section of this report.

	IFRS 9 30 June 2018 € m	IFRS 9 1 January 2018[1] € m	IAS 39 31 December 2017 € m
At beginning of period	**3,617**	3,345	4,589
Transition to IFRS 9	**–**	272	–
Exchange translation adjustments	**1**	–	(26)
Transfer in	**14**	–	–
Net remeasurement of loss allowance – banks	**(1)**	–	–
Net remeasurement of loss allowance – customers	**(110)**	–	(113)
Changes in loss allowance due to write-offs	**(144)**	–	(716)
Changes in loss allowance due to derecognition	**(481)**	–	(404)
Recoveries of amounts written off in previous years	**–**	–	15
At end of period	**2,896**	3,617	3,345
Amounts include loss allowance on:			
Loans and advances to banks measured at amortised cost	**–**	1	–
Loans and advances to customers measured at amortised cost	**2,896**	3,616	3,345
	2,896	3,617	3,345

[1]For details of the impact of adopting IFRS 9 at 1 January 2018, see note 2.

23 Investment securities

The following table sets out the carrying value of investment securities by type and by measurement category at 30 June 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	30 June 2018 € m	1 January 2018[1] € m	31 December 2017 € m
Debt securities measured at FVOCI	**15,090**	15,642	15,642
Equity investments measured at FVOCI *(designated under IFRS 9)*	**462**	466	679
Equity investments measured at FVTPL	**243**	213	–
Total investment securities	**15,795**	16,321	16,321

[1]For details of the impact of adopting IFRS 9 at 1 January 2018, see note 2.

Credit impairment losses recognised in the income statement at 30 June 2018 amounted to Nil (31 December 2017: Nil). On transition to IFRS 9 on 1 January 2018, the loss allowance on debt securities at FVOCI amounted to € 4 million which had no impact either on the carrying value of the debt securities or on reserves as this was a transfer between investment securities reserves and revenue reserves (note 2).

Debt securities at FVOCI	30 June 2018 € m	31 December 2017 € m
Irish Government securities	**6,416**	7,021
Euro government securities	**1,930**	2,406
Non Euro government securities	**159**	161
Supranational banks and government agencies	**1,190**	1,368
Collateralised mortgage obligations	**282**	278
Other asset backed securities	**43**	16
Euro bank securities	**4,295**	4,336
Non Euro bank securities	**654**	–
Euro corporate securities	**88**	56
Non Euro corporate securities	**33**	–
Total debt securities at FVOCI (2017: available for sale)	**15,090**	15,642

23 Investment securities *(continued)*

Equity investments designated at FVOCI	30 June 2018 € m
On adoption of IFRS 9 at 1 January 2018	466
Reduction in unrealised gains during the period	(4)
At 30 June 2018	**462**

On the adoption of IFRS 9 at 1 January 2018, the Group designated its investment in NAMA subordinated bonds as measured at FVOCI since this investment is held for strategic purposes. Previously, this investment was classified as available for sale and measured at fair value through other comprehensive income. Dividends received during the period amounted to € 23 million.

Equity investments mandatorily measured at FVTPL	30 June 2018 € m
On adoption of IFRS 9 at 1 January 2018	213
At 30 June 2018	**243**

On the adoption of IFRS 9 at 1 January 2018, all equity investments apart from the NAMA subordinated bonds above were classified and measured at FVTPL. Previously, these investments were classified as available for sale and measured at fair value through other comprehensive income.

Equity investments (IAS 39)	31 December 2017 € m
Equity investments – NAMA subordinated bonds	466
Equity investments – Visa Inc. Series B Preferred Stock	92
Equity investments – other	121
Total equity investments available for sale	679

24 Interests in associated undertakings

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

Income statement	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Share of results of associated undertakings and joint venture	4	10
	4[1]	10[1]

Share of net assets including goodwill	30 June 2018 € m	31 December 2017 € m
At 1 January	80	65
Income for the period	4	19
Dividends received from associated undertakings/income from joint venture[2]	(10)	(9)
Investments in associated undertakings/joint venture	–	81[3]
Disposal of joint venture[4]	(2)	(76)
At end of period[5]	72	80
Disclosed in the statement of financial position within Interests in associated undertakings	72	80
Of which listed on a recognised stock exchange	–	–

[1]Includes AIB Merchant Services € 4 million (30 June 2017: € 10 million).

[2]Includes dividends/distribution received from AIB Merchant Services € 10 million (31 December 2017: AIB Merchant Services € 7 million and Greencoat Renewables plc € 2 million).

[3]In 2017, this includes an investment amounting to € 76 million in Greencoat Renewables plc and a capital contribution of € 5 million to Zolter Services d.a.c., the holding company of First Merchant Processing (Ireland) d.a.c., trading as AIB Merchant Services.

[4]The Group realised its investment amounting to € 2 million in Aviva Undershaft Five Limited which was liquidated (In 2017 the Group disposed of its interest in Greencoat Renewables plc for € 76 million).

[5]This comprises the Group's investment in AIB Merchant Services at 30 June 2018 (2017: AIB Merchant Services and Aviva Undershaft Five Limited).

25 Other assets

	30 June 2018 € m	1 January 2018 € m	31 December 2017 € m
Settlement due on bond issuance[1]	500	–	–
Proceeds due on disposal of loan portfolio[2]	660	166	166
Other	333	264[3]	252
Total	1,493	430	418

[1]For further information, see note 31.

[2]For further information, see note 10.

[3]Transition to IFRS 15: Impact € 12 million (see page 108 for further information).

26 Deferred taxation

Analysis of movements in deferred taxation	30 June 2018 € m	1 January 2018[1] € m	31 December 2017 € m
At 1 January	**2,678**	2,639	2,747
Transition to IFRS 9	**–**	41	–
Transition to IFRS 15	**–**	(2)	–
Exchange translation and other adjustments	**–**	–	(2)
Deferred tax through other comprehensive income	**4**	–	46
Income statement – Continuing operations *(note 14)*	**(98)**	–	(152)
At end of period	**2,584**	2,678	2,639
Analysed as to:			
Deferred tax assets	**2,907**	2,997	2,946
Deferred tax liabilities	**(323)**	(319)	(307)
	2,584	2,678	2,639
Represented on the statement of financial position:			
Deferred tax assets	**2,703**	2,787	2,736
Deferred tax liabilities	**(119)**	(109)	(97)
	2,584	2,678	2,639

[1]For details of the impact of adopting IFRS 9 at 1 January 2018, see note 2.

At 30 June 2018, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,584 million (31 December 2017: € 2,639 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on financial assets at FVOCI, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of loss allowances for expected credit losses on financial instruments, amortised income, assets leased to customers, and assets used in the course of the business.

Net deferred tax assets at 30 June 2018 of € 2,483 million (31 December 2017: € 2,535 million) are expected to be recovered after more than 12 months.

For the Group'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.

The Group has not recognised deferred tax assets in respect of: Irish tax on unused tax losses at 30 June 2018 of € 122 million (31 December 2017: € 122 million); overseas tax (UK and USA) on unused tax losses of € 3,094 million (31 December 2017: € 3,090 million); and foreign tax credits for Irish tax purposes of € 3 million (31 December 2017: € 3 million). Of these tax losses totalling € 3,216 million for which no deferred tax is recognised: € 25 million expires in 2032; € 38 million in 2033; € 25 million in 2034; and € 5 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 2017: Nil).

Deferred tax recognised directly in equity amounted to Nil (31 December 2017: 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 276 to 277 of the Annual Financial Report 2017.

Notes to the condensed consolidated interim financial statements

27 Retirement benefits

The Group's accounting policy for retirement benefit obligations is set out on pages 253 and 254 in the Annual Financial Report 2017. All defined benefit schemes operated by the Group were closed to future accrual with effect from 31 December 2013 and employees who were members of a defined benefit scheme (including hybrid arrangements) transferred to a defined contribution ("DC") scheme.

Defined contribution schemes

The total cost in respect of defined contribution schemes for the half-year ended 30 June 2018 was € 37 million (30 June 2017: € 37 million).

Defined benefit schemes

The Group's net pension surplus as at 30 June 2018 was € 214 million (31 December 2017: € 96 million), comprising retirement benefit assets of € 259 million (31 December 2017: €183 million) and retirement benefit liabilities of € 45 million (31 December 2017: € 87 million).

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of these financial statements in respect of the main schemes for the half-year ended 30 June 2018 and the year ended 31 December 2017. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	**30 June 2018 %**	31 December 2017 %
Irish scheme		
Rate of increase of pensions in payment[1]	**0.00**	0.00
Discount rate	**2.13**	2.07
Inflation assumptions[2]	**1.40**	1.35
UK scheme		
Rate of increase of pensions in payment	**3.00**	3.10
Discount rate	**2.90**	2.50
Inflation assumptions (RPI)	**3.00**	3.10

[1]Having taken actuarial and external legal advice, the Board has determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. Accordingly, the long term rate of increase of pensions in payment is Nil.

[2]The inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date.

The demographic assumptions for retirement benefit obligations are set out in note 33 to the consolidated financial statements in the Annual Financial Report 2017.

Increase in pensions in payment 2018

As disclosed in the Annual Financial Report 2017, the Group agreed in 2018 to provide a level of funding for increases in pensions in payment for 2018. The Trustees of certain Irish schemes awarded an increase in the range of 0.35% to 0.50% in respect of pensions eligible for discretionary pension increases. This resulted in a past service cost of € 10 million in the period.

Contributions

Payments in the half-year ended 30 June 2018 amounted to € 61 million (30 June 2017: € 54 million) of which € 49 million related to the Irish scheme (30 June 2017: € 40 million), comprising the final payment of € 40 million as required by regulation as part of the Scheme's Minimum Funding Standard regulatory funding plan, and € 9 million related to the funding of the increase in pensions in payment described above.

Valuations

Independent actuarial valuations for the AIB Group Irish Pension Scheme ('Irish scheme') and the AIB Group UK Pension Scheme ('UK scheme') 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 the Projected Unit Credit Method. 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.

27 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 2018				31 December 2017
	Defined benefit obligation	**Fair value of scheme assets**	**Asset ceiling/ minimum funding[1]**	**Net defined benefit (liability) assets**	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liability) assets
	€ m	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
At 1 January	**(5,694)**	**6,328**	**(538)**	**96**	(6,153)	6,413	(252)	8
Included in profit or loss								
Past service cost	**(10)**	**–**		**(10)**	–	–		–
Interest (cost) income	**(60)**	**68**	**(5)**	**3**	(122)	129	(5)	2
Administration costs	**–**	**–**		**–**	–	(1)		(1)
	(70)	**68**	**(5)**	**(7)**	(122)	128	(5)	1
Included in other comprehensive income								
Remeasurements gain/(loss):								
Actuarial gain/(loss) arising from:								
Experience adjustments	**66**	**–**		**66**	(36)	–		(36)
Changes in demographic assumptions	**–**	**–**		**–**	41	–		41
Changes in financial assumptions	**132**	**–**		**132**	137	–		137
Return on scheme assets excluding interest income	**–**	**11**		**11**	–	164		164
Asset ceiling/minimum funding adjustments	**–**	**–**	**(144)**	**(144)**			(281)	(281)
				65[2]				25[2]
Translation adjustment on non-euro schemes	**(3)**	**2**		**(1)**	52	(54)		(2)
	195	**13**	**(144)**	**64**	194	110	(281)	23
Other								
Contributions by employer	**–**	**61**		**61**	–	64		64
Benefits paid	**133**	**(133)**		**–**	387	(387)		–
	133	**(72)**		**61**	387	(323)		64
At end of period	**(5,436)**	**6,337**	**(687)**	**214**	(5,694)	6,328	(538)	96

	30 June 2018 € m	31 December 2017 € m
Recognised on the statement of financial position as:		
Retirement benefit assets		
UK scheme	**250**	174
Other schemes	**9**	9
Total retirement benefit assets	**259**	183
Retirement benefit liabilities		
Irish scheme	**–**	(40)
EBS scheme	**(23)**	(26)
Other schemes	**(22)**	(21)
Total retirement benefit liabilities	**(45)**	(87)
Net pension surplus	**214**	96

[1]In recognising the net surplus or deficit on a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement and any ceiling on the amount that the sponsor has a right to recover from a scheme.

[2]After tax € 50 million (31 December 2017: € 24 million) see page 133.

28 Deposits by central banks and banks

	30 June 2018 € m	31 December 2017 € m
Central banks		
Eurosystem refinancing operations[1]	950	1,900
Other borrowings – secured	282	–
– unsecured	472	500
	1,704	2,400
Banks		
Securities sold under agreements to repurchase	660	901
Other borrowings – unsecured	311	339
	971	1,240
	2,675	3,640
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 mature within six months and are secured by Irish Government 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.

Deposits by central banks and banks include cash collateral at 30 June 2018 of € 136 million (31 December 2017: € 166 million) received from derivative counterparties in relation to net derivative positions and also from repurchase agreement counterparties.

Financial assets pledged

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 2018			31 December 2017		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	2,923	745	3,668	3,462	954	4,416
Of which:						
Government securities	–	383	383	–	696	696
Other securities[1]	2,923	362	3,285	3,462	258	3,720

[1]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.

29 Customer accounts

	30 June 2018 € m	31 December 2017 € m
Current accounts	**35,517**	33,179
Demand deposits	**15,230**	14,007
Time deposits	**16,355**	17,305
Securities sold under agreements to repurchase[1]	**45**	81
	67,147	64,572
Of which:		
Non-interest bearing current accounts	**31,251**	28,977
Interest bearing deposits, current accounts and short-term borrowings	**35,896**	35,595
	67,147	64,572
Amounts include:		
Due to associated undertakings	**173**	191

[1]At 30 June 2018, the Group had pledged government investment securities with a fair value of € 35 million (31 December 2017: € 71 million) and non-government investment securities with a fair value of € 14 million (31 December 2017: € 12 million) as collateral for these facilities (see note 45 to the consolidated financial statements in the Annual Financial Report 2017 for further information).

Customer accounts include cash collateral of € 75 million (31 December 2017: € 34 million) received from derivative counterparties in relation to net derivative positions (see note 45 to the consolidated financial statements in the Annual Financial Report 2017 for further information).

At 30 June 2018, the Group's five largest customer deposits amounted to 1% (31 December 2017: 1%) of total customer accounts.

30 Trading portfolio financial liabilities

	30 June 2018 € m	31 December 2017 € m
Debt securities:		
Government securities	**12**	30
	12	30

31 Debt securities in issue

	30 June 2018 € m	31 December 2017 € m
AIB Group plc		
Euro Medium Term Note Programme	**1,000**	–
Other issuances		
Bonds and medium-term notes:		
Euro Medium Term Note programmes	**1,000**	1,000
Bonds and other medium-term notes	**3,590**	3,590
	4,590	4,590
	5,590	4,590

Analysis of movements	30 June 2018 € m	31 December 2017 € m
At 1 January	**4,590**	6,880
Issued during the period	**1,000**	412
Matured	**–**	(2,686)
Amortisation of discounts net of premiums	**–**	–
Exchange translation adjustments	**–**	(16)
At end of period	**5,590**	4,590

On 22 March 2018, AIB Group plc issued € 500 million Senior Unsecured 1.50% Notes maturing on 29 March 2023. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 29 March each year.

On 26 June 2018, AIB Group plc entered a trade to issue € 500 million Senior Unsecured 2.25% Notes (settled on 3 July 2018) with a maturity date of 3 July 2025. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 3 July each year.

In 2018, the Group did not issue debt securities under the short-term commercial paper programme (31 December 2017: € 412 million was issued which matured during 2017).

32 Other liabilities

	30 June 2018 € m	31 December 2017 € m
Notes in circulation	**317**	333
Items in transit	**62**	109
Creditors	**16**	19
Fair value of hedged liability positions	**48**	43
Other[(1)]	**419**	320
	862	824

[(1)]Includes drafts € 147 million (31 December 2017: € 141 million) and purchase of debt securities awaiting settlement € 45 million (31 December 2017: Nil).

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33 Provisions for liabilities and commitments

	30 June 2018						
	Liabilities and charges	**Onerous contracts**	**Legal claims**	**Other provisions**	**ECLs on loan commit-ments**	**ECLs on financial guarantee contracts**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
At 31 December 2017	**31**	**59**	**37**	**104**	**–**	**–**	**231**
Impact of adopting IFRS 9 at 1 January 2018:							
Reclassification[1]	**(31)**	**–**	**–**	**(1)**	**–**	**32**	**–**
Remeasurement[1]	**–**	**–**	**–**	**–**	**16**	**20**	**36**
Restated balance at 1 January 2018	**–**	**59**	**37**	**103**	**16**	**52**	**267**
Transfers in	**–**	**–**	**–**	**–**	**–**	**(14)**	**(14)**
Charged to income statement	**–**	**78**[3]	**4**[3]	**62**[3]	**18**[4]	**9**[4]	**171**
Released to income statement	**–**	**(52)**[3]	**(2)**[3]	**(2)**[3]	**(9)**[4]	**(10)**[4][5]	**(75)**
Provisions utilised	**–**	**(1)**	**(1)**	**(57)**	**–**	**–**	**(59)**
At 30 June 2018	**–**	**84**	**38**	**106**	**25**	**37**	**290**[6]

	31 December 2017				
	Liabilities and charges	Onerous contracts	Legal claims	Other provisions	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	47	12	32	155	246
Transfers in	–	–	4	(4)	–
Exchange translation adjustments	(3)	–	–	(1)	(4)
Charged to income statement	2[2]	52[3]	7[3]	60[3]	121
Released to income statement	(10)[2]	(1)[3]	(4)[3]	(19)[3]	(34)
Provisions utilised	(5)	(4)	(2)	(87)	(98)
At 31 December 2017	31	59	37	104	231[6]

(1)For details of the impact of adopting IFRS 9 at 1 January 2018, note 2.

(2)Included in writeback of provisions for liabilities and commitments in income statement at 31 December 2017.

(3)Included in 'Other general and administrative expenses' in note 12 'Administrative expenses'.

(4)Included in 'Net credit impairment writeback/(losses)', note 13.

(5)€ 2 million included in 'Net gain on derecognition of financial assets measured at amortised cost', note 10.

(6)Excluding the ECLs on loan commitments and financial guarantee contracts, the total provisions for liabilities and commitments expected to be settled within one year amount to € 145 million (31 December 2017: € 150 million).

(a) Other provisions

Includes the provisions for customer redress and related matters, other restitution provisions, and miscellaneous provisions.

Tracker Mortgage Examination

Provisions of € 135 million had been raised relating to the expected outflow for customer redress and compensation in respect of tracker mortgages where rates given to customers were either not in accordance with original contract terms or where the transparency of terms did not conform to that which a customer could reasonably expect (Tracker Mortgage Examination). Up to 30 June 2018 € 131 million of this provision was utilised as customers were redressed and compensated.

The Group has determined in 2018 that a further € 25 million provision is required bringing the amount of provisions for customer redress and compensation at 30 June 2018 to € 29 million to cover payments to additional customers (c. 460 accounts) identified as impacted in 2018 as well as the remaining customers that had yet to receive redress and compensation by 30 June 2018. Payments to these customers is expected to complete by 30 September 2018. The final redress and compensation is subject to independent third party assurance and is also subject to assessment and challenge by the Central Bank, notwithstanding the advanced stage of the examination process in the Group.

The Group also created provisions of € 95 million with regard to 'Other costs, of which € 85 million has been utilised to date. A further € 4 million has also been provided at 30 June 2018, bringing the provision for 'Other costs' to € 14 million as of this date. Further disclosures in relation to the wider impact of the Tracker Mortgage Examination are contained in Note 38: Memorandum items: contingent liabilities and commitments, and contingent assets in the section 'Legal Proceedings'.

33 Provisions for liabilities and commitments *(continued)*

(b) Onerous contracts

Arising from the Group's property strategy, the Group will exit certain office space. In this regard, the Group made an onerous lease provision amounting to € 52 million in 2017. Further office space was identified to exit following a Board decision in 2018. The required provision has increased to € 78 million as it represents the unavoidable costs which are expected to arise when exiting the office space identified under the strategy.

(c) IFRS 9

At 1 January 2018, the Group adopted IFRS 9. This resulted in the provision for ECLs on loan commitments amounting to € 16 million and ECLs on financial guarantee contracts amounting to € 20 million. In addition, a provision amounting to € 32 million previously held was reclassified to ECLs on financial guarantees.

34 Subordinated liabilities and other capital instruments

	30 June 2018 € m	31 December 2017 € m
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**	9
£ 368m 12.5% Subordinated Notes due June 2019		
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	**34**	33
£ 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
	794	793
	794	793

Maturity of dated loan capital	**30 June 2018 € m**	31 December 2017 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**794**	793

For further details of subordinated liabilities and other capital instruments, see note 40 to the consolidated financial statements in the Annual Financial Report 2017.

35 Share capital

	30 June 2018		31 December 2017	
	Number of shares m	€ m	Number of shares m	€ m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each	**4,000.0**	**2,500**	4,000.0	2,500
Issued				
Ordinary share capital				
Ordinary shares of € 0.625 each	**2,714.4**	**1,697**	2,714.4	1,697

For further information refer to note 41 to the consolidated financial statements in the Annual Financial Report 2017.

Movements in share capital

There were no movements in the share capital for the half-year to 30 June 2018. For details of movements in share capital for the year to 31 December 2017, refer to note 41 to the consolidated financial statements in the Annual Financial Report 2017.

Structure of the Company's share capital

The following table shows the structure of the Company's share capital:

	30 June 2018		31 December 2017	
	Authorised share capital %	Issued share capital %	Authorised share capital %	Issued share capital %
Class of share				
Ordinary share capital	**100**	**100**	100	100

Capital resources

The following table shows the Group's capital resources:

	30 June 2018 € m	31 December 2017 € m
Equity	**13,566**	13,612
Dated capital notes *(note 34)*	**794**	793
Total capital resources	**14,360**	14,405

Notes to the condensed consolidated interim financial statements

36 Other equity interests

	30 June 2018 € m	31 December 2017 € m
At beginning and end of period	494	494

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

On 3 December 2015, as part of its capital reorganisation, Allied Irish Banks, p.l.c. 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 the Group's capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

For details of these securities, see note 43 to the consolidated financial statements in the Annual Financial Report 2017.

37 Capital reserves, merger reserve and capital redemption reserves

	30 June 2018			31 December 2017		
Capital reserves	Capital contribution reserves € m	Other capital reserves € m	Total € m	Capital contribution reserves € m	Other capital reserves € m	Total € m
At 1 January	955	178	1,133	1,021	178	1,199
Transfer to revenue reserves:						
Anglo business transfer	–	–	–	(66)	–	(66)
At end of period	955[1]	178	1,133	955[1]	178	1,133

[1]Relates to the acquisition of EBS d.a.c.

Merger reserve	30 June 2018 € m	31 December 2017 € m
At beginning and end of period	(3,622)	(3,622)

Capital redemption reserves	30 June 2018 € m	31 December 2017 € m
At beginning and end of period	14	14

For further detail on these reserves, see note 44 to the consolidated financial statements in the Annual Financial Report 2017.

38 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 2018 € m	31 December 2017 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**693**	612
Other contingent liabilities	**158**	268
	851	880
Commitments[2]		
Documentary credits and short-term trade-related transactions	**92**	63
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**8,044**	7,543
1 year and over[4]	**2,927**	2,625
	11,063	10,231
	11,914	11,111

[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 are set out in the following table. The Group revised its internal credit rating methodology with the implementation of IFRS 9, accordingly, the ratings profile at 30 June 2018 have been prepared on this basis. Comparative data for 31 December 2017 has been prepared on the basis of the methodology in place at that time. Details of the Group's rating profiles are set out in the 'Risk management' section of this report.

	30 June 2018 € m
Strong	**7,686**
Satisfactory	**3,577**
Criticised watch	**407**
Criticised recovery	**10**
Default	**234**
Total	**11,914**

	31 December 2017 € m
Good upper	4,228
Good lower	6,389
Watch	90
Vulnerable	250
Impaired	154
Total	11,111

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

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 Group is aware, (other than set out in the following paragraphs), pending or threatened by or against the 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 the Group.

In March 2018, AIB and EBS were advised by the CBI of the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. The investigations relate to alleged breaches of the relevant consumer protection legislation, principally regarding inadequate controls or instances where AIB or EBS acted with a lack of transparency, unfairly or without due skill and care. AIB and EBS are co-operating with the CBI in this regard.

In addition, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Further cases may be served in the future in relation to tracker mortgages.

Based on the facts currently known and the current stages that the investigations and litigation are at, it is not practicable at this time to predict the final outcome of these investigations and litigation, nor the timing and possible impact, including any monetary penalties, on the Group.

Contingent liability/contingent asset - NAMA

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. Further details of these indemnities are set out in page 339 to the consolidated financial statements in the Annual Financial Report 2017.

39 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 48 to the consolidated financial statements in the Annual Financial Report 2017.

In addition, the Group 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 48 to the consolidated financial statements in the Annual Financial Report 2017.

There was no new securitisation activity in the half-year to 30 June 2018.

40 Fair value of financial instruments

					30 June 2018
	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					
Debt securities	12	12	–	–	12
Equity investments	–	–	–	–	–
Derivative financial instruments					
Interest rate derivatives	814	–	436	378	814
Exchange rate derivatives	63	–	63	–	63
Equity derivatives	15	–	15	–	15
Investment debt securities at FVOCI					
Government securities	8,505	8,505	–	–	8,505
Supranational banks and government agencies	1,190	1,190	–	–	1,190
Asset backed securities	325	282	43	–	325
Bank securities	4,949	4,949	–	–	4,949
Corporate securities	121	121	–	–	121
Equity investments at FVOCI	462	–	–	462	462
Equity investments at FVTPL	243	24	–	219	243
Loans and advances to customers at FVTPL	142	–	–	142	142
	16,841	15,083	557	1,201	16,841
Financial assets not measured at fair value					
Cash and balances at central banks	8,354	569[1]	7,785	–	8,354
Items in the course of collection	173	–	–	173	173
Loans and advances to banks	1,539	–	562	977	1,539
Loans and advances to customers					
Mortgages[2]	31,857	–	–	30,757	30,757
Non-mortgages	27,865	–	–	27,944	27,944
Total loans and advances to customers	59,722	–	–	58,701	58,701
Other financial assets	1,727	–	–	1,727	1,727
	71,515	569	8,347	61,578	70,494
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	12	12	–	–	12
Derivative financial instruments					
Interest rate derivatives	951	–	841	110	951
Exchange rate derivatives	33	–	33	–	33
Equity derivatives	17	–	17	–	17
Credit derivatives	6	–	6	–	6
	1,019	12	897	110	1,019
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	783	–	472	311	783
Secured borrowings	1,892	–	1,224	660	1,884
Customer accounts					
Current accounts	35,517	–	–	35,517	35,517
Demand deposits	15,230	–	–	15,230	15,230
Time deposits	16,355	–	–	16,391	16,391
Securities sold under agreements to repurchase	45	–	–	45	45
Debt securities in issue					
Bonds and medium term notes	5,590	5,612	105	–	5,717
Subordinated liabilities and other capital instruments	794	786	66	–	852
Other financial liabilities	1,028	–	–	1,028	1,028
	77,234	6,398	1,867	69,182	77,447

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

Notes to the condensed consolidated interim financial statements

40 Fair value of financial instruments *(continued)*

31 December 2017

	Carrying amount	Fair value			
		Fair value hierarchy			
	€m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value					
Trading portfolio financial assets					
Debt securities	33	32	1	–	33
Derivative financial instruments					
Interest rate derivatives	1,094	–	667	427	1,094
Exchange rate derivatives	29	–	29	–	29
Equity derivatives	33	–	33	–	33
Financial investments available for sale					
Government securities	9,588	9,588	–	–	9,588
Supranational banks and government agencies	1,368	1,368	–	–	1,368
Asset backed securities	294	278	16	–	294
Bank securities	4,336	4,336	–	–	4,336
Corporate securities	56	56	–	–	56
Equity investments	679	16	1	662	679
	17,510	15,674	747	1,089	17,510
Financial assets not measured at fair value					
Cash and balances at central banks	6,364	633[1]	5,731	–	6,364
Items in the course of collection	103	–	–	103	103
Loans and advances to banks	1,313	–	536	777	1,313
Loans and advances to customers					
Mortgages[2]	32,424	–	–	30,865	30,865
Non-mortgages	27,569	–	–	27,318	27,318
Total loans and advances to customers	59,993	–	–	58,183	58,183
Other financial assets	736	–	–	736	736
	68,509	633	6,267	59,799	66,699
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	30	30	–	–	30
Derivative financial instruments					
Interest rate derivatives	1,092	–	973	119	1,092
Exchange rate derivatives	34	–	34	–	34
Equity derivatives	35	–	35	–	35
Credit derivatives	9	–	9	–	9
	1,200	30	1,051	119	1,200
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	839	–	500	339	839
Secured borrowings	2,801	–	1,905	901	2,806
Customer accounts					
Current accounts	33,179	–	–	33,179	33,179
Demand deposits	14,007	–	–	14,007	14,007
Time deposits	17,305	–	–	17,348	17,348
Securities sold under agreements to repurchase	81	–	–	81	81
Debt securities in issue					
Bonds and medium term notes	4,590	4,653	108	–	4,761
Subordinated liabilities and other capital instruments	793	819	78	–	897
Other financial liabilities	1,061	–	–	1,061	1,061
	74,656	5,472	2,591	66,916	74,979

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

40 Fair value of financial instruments *(continued)*

Details of the methodologies used for calculating fair value and the definition of terms are set out in note 50 to the consolidated financial statements in the Annual Financial Report 2017. However, there is no further adjustment for credit risk in deriving its fair value of loans and advances to customers since expected credit losses are now provided for in the financial statements under IFRS 9.

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

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

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. Comparative data for 31 December 2017 has been prepared under IAS 39.

								30 June 2018
	Financial assets						Financial liabilities	
	Derivatives	Investment securities		Loans and advances at FVTPL	Equities at FVTPL	Total	Derivatives	Total
		Debt	Equities at FVOCI					
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 31 December 2017	427	–	662	–	–	1,089	119	119
IFRS 9 transition adjustments	–	–	(196)	156	196	156	–	–
Transfers into/out of level 3[1]	–	–	–	–	–	–	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	(49)	–	–	–	–	(49)	(9)	(9)
Net change in FVTPL	–	–	–	61	31	92	–	–
	(49)	–	–	61	31	43	(9)	(9)
Other comprehensive income:								
Net change in fair value of investment securities	–	–	(4)	–	–	(4)	–	–
Purchases/additions	–	–	–	32	10	42	–	–
Sales/disposals	–	–	–	(53)	(18)	(71)	–	–
Settlements	–	–	–	–	–	–	–	–
Cash received:								
Principal	–	–	–	(54)	–	(54)	–	–
At 30 June 2018	378	–	462	142	219	1,201	110	110

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

40 Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

	31 December 2017				
	Financial assets			Financial liabilities	
	Derivatives	Available for sale equity investments	Total	Derivatives	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January 2017	509	604	1,113	161	161
Transfers into Level 3[1]	2	–	2	–	–
Transfers out of level 3[1]	(7)	–	(7)	–	–
Total gains or (losses) in:					
Profit or loss					
Net trading income	(74)	–	(74)	(30)	(30)
Other operating income	–	48	48	–	–
	(74)	48	(26)	(30)	(30)
Other comprehensive income:					
Net change in fair value of financial investments available for sale	–	5	5	–	–
Net change in fair value of cash flow hedges	(3)	–	(3)	(9)	(9)
	(3)	5	2	(9)	(9)
Purchases/additions	–	56	56	–	–
Sales/disposals	–	(51)	(51)	–	–
Settlements	–	–	–	(3)	(3)
At 31 December 2017	427	662	1,089	119	119

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

Net transfers out of Level 3 are a function of the observability of inputs into instrument valuations.

Transfers into Level 3 arose as the measurement of fair value for a particular agreement relied mainly on unobservable data.

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 2018 and 31 December 2017:

	30 June 2018	31 December 2017
	€ m	€ m
Net trading income – (loss)/gains	**(15)**	46
Gains on equity investments at FVTPL	**31**	–
Total	**16**	46

40 Fair value of financial instruments *(continued)*

Significant unobservable inputs

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

		Fair Value				Range of estimates	
Financial instrument		**30 June 2018 € m**	31 December 2017 € m	**Valuation technique**	**Significant unobservable input**	**30 June 2018**	31 December 2017
Uncollateralised customer derivatives	Asset	**378**	427	CVA	LGD	**41% – 65% (Base 53%)**	41% – 65% (Base 53%)
	Liability	**110**	119		PD	**0.6% – 1.4% (Base 0.9% 1 year PD)**	0.6% – 1.3% (Base 0.9% 1 year PD)
				FVA	Funding spreads	**(0.4%) to 0.3%**	(0.3%) to 0.3%
NAMA subordinated bonds	Asset	**462**	466	Discounted cash flows	Discount rate	**2.0% – 6.0% (Base 2.7%)**	2.79% – 6.0% (Base 3.98%)
Visa Inc. Series B Preferred Stock	Asset	**110**	92	Quoted market price (to which a discount has been applied)	Final conversion rate	**25% – 75%**	0% –90%
Loans and advances to customers measured at FVTPL	Asset	**142**	–	Discounted cash flows*	Discount on market value	**(1%) – 5%**	–
				Collateral values	Collateral changes	**(15%) – 10%**	–

*Expected cash flows discounted at market rates, taking into consideration the fair value of collateral where relevant.

Uncollateralised customer derivatives

The fair value measurement sensitivity to unobservable inputs at 30 June 2018 ranges from (i) negative € 34 million to positive € 19 million for CVA (31 December 2017: negative € 39 million to positive € 23 million) and (ii) negative € 6 million to positive € 7 million for FVA (31 December 2017: negative € 7 million to positive € 6 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.

NAMA subordinated bonds

The fair value measurement sensitivity to unobservable discount rates ranges from negative € 24 million to positive € 5 million at 30 June 2018 (31 December 2017: negative € 18 million to positive € 12 million).

Loans and advances to customers measured at FVTPL

The fair value measurement sensitivity to unobservable collateral values and interest rates ranges from negative € 11 million to positive € 11 million at 30 June 2018.

Fair value is applied in respect of secondary facilities arising on restructured loans subject to forbearance measures, on the likelihood that additional cash flows, in excess of their primary facilitates, will be received from customers. Given the significant uncertainty with regard to such cash flows, the Group does not attribute a fair value unless it is reasonably certain that this value will be realised.

40 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 2018			
	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	**26**	**(39)**	**–**	**–**
Investment securities – equity	**70**[1]	**(90)**[1]	**5**	**(24)**
Loans and advances measured at FVTPL	**11**	**(11)**	**–**	**–**
Total	**107**	**(140)**	**5**	**(24)**
Classes of financial liabilities				
Derivative financial instruments	**–**	**(2)**	**–**	**–**
Total	**–**	**(2)**	**–**	**–**

[1]Relates to the largest equity investment, the carrying value of which was € 110 million at 30 June 2018. Sensitivity information has not been provided for other equities as the portfolio comprises several investments, none of which is individually material.

	31 December 2017			
	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	28	(44)	–	–
Financial investments available for sale – equity securities	–	(59)	54	(49)
Total	28	(103)	54	(49)
Classes of financial liabilities				
Derivative financial instruments	1	(2)	–	–
Total	1	(2)	–	–

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.

41 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
(Profit)/loss on disposal of property	(1)	1
Net gain arising from the derecognition of financial assets measured at amortised cost	(112)	(6)
Dividends received from equity investments	(24)	(27)
Dividends received from associated undertakings	(10)	(7)
Associated undertakings and joint venture	(4)	(10)
Net credit impairment writeback/(losses)	(130)	(19)
Net provisions for liabilities and commitments	–	(4)
Change in other provisions	88	(2)
Retirement benefits - defined benefit expense	7	–
Depreciation, amortisation and impairment	69	55
Interest on subordinated liabilities and other capital instruments	16	16
Gain on disposal of investment securities	(24)	(24)
Loss on termination of hedging swaps	8	8
Remeasurement of NAMA senior bonds	–	(4)
Amortisation of premiums and discounts	36	47
Fair value gain on re-estimation of cash flows on restructured loans	–	(65)
Net gain on other financial assets measured at FVTPL – equities	(31)	–
Change in prepayments and accrued income	97	(6)
Change in accruals and deferred income	(87)	(93)
Effect of exchange translation and other adjustments[1]	92	(104)
Total non-cash items	**(10)**	(244)
Contributions to defined benefit pension schemes	(61)	(54)
Dividends received from equity investments	24	27
Total other items	**(37)**	(27)
Non-cash and other items for the period	**(47)**	(271)

[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.

41 Statement of cash flows *(continued)*

Change in operating assets[1]	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Change in items in course of collection	(70)	(63)
Change in trading portfolio financial assets	21	(12)
Change in derivative financial instruments	84	184
Change in loans and advances to banks	(70)	89
Change in loans and advances to customers	(494)	435
Change in NAMA senior bonds	–	1,445
Change in other assets	98	26
	(431)	2,104

Change in operating liabilities[1]	Half-year 30 June 2018 € m	Half-year 30 June 2017 € m
Change in deposits by central banks and banks	(987)	(2,737)
Change in customer accounts	2,514	664
Change in trading portfolio financial liabilities	(18)	28
Change in debt securities in issue	500	(2,146)
Change in notes in circulation	(16)	(24)
Change in other liabilities	(57)	(64)
	1,936	(4,279)

[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.

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 2018 € m	Half-year 30 June 2017 € m
Cash and balances at central banks	8,354	5,262
Loans and advances to banks	849	577
	9,203	5,839

The Group is required by law to maintain reserve balances with the Bank of England. At 30 June 2018, these amounted to € 562 million (30 June 2017: € 517 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.

42 Related party transactions

Other than as outlined below, there have been no related party transactions or changes therein since 31 December 2017 that have materially affected AIB Group's financial position or performance in the six months ended 30 June 2018.

Transactions with Key Management Personnel

Key Management Personnel as defined in IAS 24 *Related Party Disclosures*, comprise Executive and Non-Executive Directors and Senior Executive Officers.

As at 30 June 2018, the aggregate of loans and overdrafts/credit cards outstanding to Key Management Personnel and their close family members amounted to € 4.53 million (31 December 2017: € 4.69 million).

Loans to Key Management Personnel and their close family members 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.

During the period, no credit impairment losses 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 52(e) to the consolidated financial statements in the Annual Financial Report 2017. As detailed, this relationship encompasses a number of dimensions, namely:

- Capital investments;
- Guarantee schemes;
- NAMA;
- Funding support;
- Relationship framework; and
- AIB Restructuring Plan

There were no significant changes to the various aspects of the relationship in the half-year to 30 June 2018.

42 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.

	Note	30 June 2018 Balance € m	30 June 2018 Highest[2] balance held € m	31 December 2017 Balance € m	31 December 2017 Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	**2,971**	**5,360**	1,162	3,452
Trading portfolio financial assets		**6**	**68**	19	63
Derivative financial instruments		**–**	**–**	–	10
Loans and advances to banks	b	**–**	**–**	–	32
Loans and advances to customers		**7**	**7**	7	9
Investment securities	c	**6,878**	**7,506**	7,487	8,936
Total assets		**9,862**		8,675	

	Note	30 June 2018 Balance € m	30 June 2018 Highest[2] balance held € m	31 December 2017 Balance € m	31 December 2017 Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks	d	**950**	**1,900**	1,900	2,346
Customer accounts	e	**572**	**1,002**	499	1,172
Trading portfolio financial liabilities		**12**	**66**	19	48
Derivative financial instruments		**11**	**11**	–	14
Total liabilities		**1,545**		2,418	

[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 end of each period/year 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 2018 was € 579 million (31 December 2017: € 549 million).

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

c Investment securities at FVOCI at 30 June 2018 comprise € 6,416 million in Irish Government securities held in the normal course of business and NAMA subordinated bonds of € 462 million. At 31 December 2017, these related to financial investments available for sale and comprised € 7,021 million in Irish Government securities held in the normal course of business and NAMA subordinated bonds of € 466 million.

d Relates to funding received from the ECB through the Central Bank of Ireland (note 28).

e Includes € 340 million (31 December 2017: € 360 million) borrowed from the Strategic Banking Corporation of Ireland ("SBCI"), the ordinary share capital of which is owned by the Minister of Finance. In addition, the Group has lent € 283 million to customers of which € 41 million is guaranteed up to 80% by the SBCI.

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

42 Related party transactions *(continued)*

Relationship with the Irish Government

Local government[(1)]

During 2018 and 2017, 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 2018 and 2017, 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.

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

	30 June 2018 € m	31 December 2017 € m
Assets		
Derivative financial instruments	**7**	1
Loans and advances to banks[(1)]	**1**	2
Investment securities	**341**	423
Liabilities		
Deposits by central banks and banks[(2)]	**2**	1
Derivative financial instruments	**–**	1
Customer deposits[(3)]	**–**	–

(1)The highest balance in loans and advances to banks amounted to € 2 million in respect of funds placed during the period (31 December 2017: € 17 million).

(2)The highest balance in deposits by central banks and banks amounted to € 30 million in respect of funds received during the period (31 December 2017: € 302 million).

(3)There were no customer deposits held with these financial institutions during the period (31 December 2017: Nil).

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.

43 Financial and other information	Half-year 30 June 2018 %	Half-year 30 June 2017 %
Operating ratios		
Operating expenses/operating income	**58.8**	52.5
Other income/operating income	**30.3**	29.9

Rates of exchange	Half-year 30 June 2018	Half-year 30 June 2017	Year 31 December 2017
€ /$*			
Closing	**1.1658**	1.1412	1.1993
Average	**1.2100**	1.0836	1.1299
€ /£*			
Closing	**0.8861**	0.8793	0.8872
Average	**0.8795**	0.8605	0.8767

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

44 Dividends

On 4 May 2018, following approval by the shareholders at the Annual General Meeting held on 25 April 2018, AIB Group plc paid a final dividend of € 0.12 per ordinary share amounting in total to € 326 million. The financial statements for the half-year ended 30 June 2018 reflect this in shareholders' equity as an appropriation of distributable reserves.

On 9 May 2017, Allied Irish Banks, p.l.c. as parent company of the Group at that time, paid a final dividend to its shareholders of € 0.0921 per ordinary share amounting in total to € 250 million.

45 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 30 June 2018.

46 Approval of Half-Yearly Financial Report

The Half-Yearly Financial Report was approved by the Board of Directors on 26 July 2018.

Directors’ Responsibility Statement

for the half-year ended 30 June 2018

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 and the Transparency Rules of the Central Bank of Ireland.

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 28 and 29 of the Annual Financial Report 2017, 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 2018 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 AIB Group plc

We have been engaged by AIB Group plc ("the Group") to review interim financial information included in the Half-Yearly Financial Report for the six months ended 30 June 2018 which comprises the condensed consolidated statement of financial position as at 30 June 2018, and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes 1 to 46 for the six month period then ended. 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 consolidated set of financial statements.

This report is made solely to the Group in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board ("ISRE 2410"). Our work has been undertaken so that we might state to the Group 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 Group, for our review work, for this review report, or for the conclusions we have formed.

Directors' responsibilities

The Half-Yearly Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with International Accounting Standard 34, ''Interim Financial Reporting,'' as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007, and the Transparency Rules of the Central Bank of Ireland.

As disclosed in note 1 'Statement of compliance', the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The interim financial information included in this Half-Yearly Financial Report has been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting,'' as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007, and the Transparency Rules of the Central Bank of Ireland.

Our responsibility

Our responsibility is to express to the Group 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 ISRE 2410. 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 (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 consolidated set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, ''Interim Financial Reporting,'' as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007, and the Transparency Rules of the Central Bank of Ireland.

John McCarroll
For and on behalf of Deloitte Ireland LLP
Chartered Accountants
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

26 July 2018

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 58 to 68 in the 2017 Annual Financial Report. 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 58 to 68 of the 2017 Annual Financial Report is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement.

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