Allied Irish Banks, p.l.c.

Half-Yearly Financial Report 2013

For the Half-Year ended 30 June 2013

Allied Irish Banks, p.l.c.

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Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1934, with respect to the financial condition, results of operations and business of the Group and certain of the plans and objectives of the Group. In particular, among other statements in this Half-Yearly Financial Report, with regard to management objectives, trends in results of operations, margins, risk management, competition and the impact of changes in International Financial Reporting Standards are forward-looking in nature. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as ‘aim’, ‘anticipate’, ‘target’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘may’, ‘could’, ‘will’, ‘seek’, ‘continue’, ‘should’, ‘assume’, or other words of similar meaning. Examples of forward-looking statements include among others, statements regarding the Group’s future financial position, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to the Group’s access to funding and liquidity which is adversely affected by the financial instability within the Eurozone, contagion risks disrupting the financial markets, and the potential for one or more countries exiting the euro, constraints on liquidity and market reaction to factors affecting Ireland and the Irish economy, the Group’s markets, particularly for retail deposits, at risk from more intense competition, the Group’s business being adversely affected by a further deterioration in economic and market conditions, general economic conditions being very challenging for our mortgage and other lending customers and increase the risk of payment default, including the risks associated with large scale forbearance strategies, the depressed Irish property prices may give rise to increased losses experienced by the Group, the Group faces market risks, including non-trading interest rate risk, the Group is subject to rigorous and demanding Government supervision and oversight, the Group may be subject to the risk of having insufficient capital to meet increased regulatory requirements, the Group’s business activities must comply with increasing levels of regulation, the Group’s participation in the NAMA Programme gives rise to certain residual financial risks, the Group may be adversely affected by further austerity and budget measures introduced by the Irish Government, the value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time, or may ultimately not turn out to be accurate, the Group’s deferred tax assets depend substantially on the generation of future profits over an extended number of years, adverse changes to tax legislation, regulatory requirements or accounting standards could impact capital ratios, the Group is subject to inherent credit risks in respect of customers, the Group faces heightened operational and reputational risks, the restructuring of the Group entails risk, the Group’s risk management strategies and techniques may be unsuccessful, risk of litigation arising from the Group’s activities. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. AIB cautions that the foregoing list of important factors is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Half-Yearly Financial Report may not occur. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.

Headlines

- Operating profit before provisions and exceptional items of € 162 million compared to a loss of € 110 million in the first half of 2012. Operating profit increased € 375 million compared to the second half of 2012.
- Total operating income before exceptional items[1] increased € 145 million (19%) to € 916 million with net interest income up € 27 million (5%) and other income € 118 million (58%) higher than the first half of 2012. Total operating income increased € 263 million (40%) compared to the second half of 2012.
- Total operating expenses before exceptional items of € 754 million were € 127 million (14%) lower than the first half of 2012 as a result of the exits under the early retirement/voluntary severance schemes, lower occupancy costs and external provider fees. Total operating expenses were € 112 million (13%) lower compared to the second half of 2012.
- Total provisions of € 738 million were € 235 million lower than the first half of 2012 and € 818 million lower compared to the second half of 2012.
- The reported loss of € 758 million, which includes exceptional items of € 266 million, compares to a loss of € 1,054 million* in the first half of 2012, which includes exceptional items of € 57 million.
- Loan to deposit ratio[2] of 106%, down from 115% at 31 December 2012.
- Net loans and receivables to customers have decreased € 4.5 billion since 31 December 2012 which reflects ongoing deleveraging measures, loan amortisation and muted demand for credit.
- Customer accounts have increased € 1.2 billion since 31 December 2012.
- Core tier 1 capital of 15.1% is unchanged from the 15.1% at 31 December 2012.

[1]Exceptional items are detailed on page 7.
[2]Includes Repos of € 4.8 billion.

Key financial information		**30 June 2013**	31 December 2012
Capital			
Risk weighted assets	€ bn	65	71
Core tier 1 ratio	%	15.1	15.1
Total capital ratio	%	17.4	17.6
Pro forma Common Equity Tier 1 (CET1)[3]	%	9.5	9.7
Funding			
Loan to deposit ratio	%	106	115
Wholesale funding as % of total funding	%	31	34

Summary profit statement		**Half-year June 2013**	Restated* Half-year June 2012
Operating profit/(loss) before provisions and exceptional items	€ m	162	(110)
Loss before tax - continuing operations	€ m	(838)	(1,141)
Loss after tax - continuing operations	€ m	(758)	(1,054)

[3]Includes the 2009 Preference Shares (which will continue to be considered "CET1" until 31 December 2017).

*Restated due to change in accounting policy for employee benefits – page 52.

Chief Executive's review

We are mid-way through a three year plan which targets a return to sustainable profitability and have met our key strategic objectives to date. Having completed the majority of the major restructuring elements of the plan in 2012, we have now focused on delivering the business agenda. Despite the ongoing challenges facing the economy and the banking sector, AIB's financial results for the first half of 2013 demonstrate that our strategy for stabilisation and recovery is gaining traction. We are seeing steady improvement in our operating performance and have returned to pre-provision operating profit excluding exceptional items.

This progress has resulted from the implementation of our strategic initiatives, outlined in 2012. Central to these initiatives are the restructuring of the bank's balance sheet, a cost-cutting programme, changes to our processes, cultural transformation and a focus on becoming a more digitally enabled bank in support of our customers.

Our Net Interest Margin ("NIM") continued its positive trajectory in H1 2013. It increased to 1.28%, excluding Eligible Liabilities Guarantee (ELG) costs, from 1.20% in H2 2012. Excluding the effect of ELG and the NAMA senior bonds the NIM was 1.42% in H1 2013.

Product repricing and lower guarantee costs have contributed to a 19% increase in overall income despite lower gross loan volumes as customer demand for credit remains muted.

AIB's continued focus on cost-reduction has resulted in a 14% decrease in our overall operating expenses year on year excluding exceptional items. Employee numbers have reduced by c. 2,300 from 15,064 at June 2012 to 12,718 at June 2013, and this, coupled with changes to pay and benefits, has resulted in a reduction in staff costs of 16% from H1 2012. Other costs have decreased by 12% following a number of strategic actions including branch closures and amalgamations.

Total provisions were € 738 million in the first six months of 2013, a 53% reduction on H2 2012 and 24% lower than H1 2012. Total criticised loans decreased marginally in the first half of 2013 as a result of loan deleveraging as the market continues to show signs of stabilisation.

Non-core deleveraging is now largely complete with 99.4% of the Central Bank of Ireland's year end 2013 € 20.5 billion target achieved. Customer account balances, including repos, continued to increase which, in tandem with a reduction in loan balances, has reduced our loan to deposit ratio to 106%* from 115% at year end 2012. We have also reduced our reliance on monetary authorities by 20%, or € 4 billion, to € 18 billion. Our capital position remains robust and comfortably above the minimum regulatory requirement of 10.5% with a Core Tier 1 ratio of 15.1% at 30 June 2013.

Supporting Customers and the Irish Economy

We are actively supporting economic recovery in Ireland through the provision of products and services to our business and personal customers. AIB has approved over € 3 billion in mortgage, SME, personal and corporate lending in the first half of the year.

In the first six months of the year and as part of our broader strategy to promote growth in SME sectors, we announced our participation in a € 200 million loan fund for SMEs, undertaken in partnership with the European Investment Bank. We also launched a € 50 million support package for the agriculture sector in recognition of the weather related difficulties being experienced in that sector earlier in the year. In partnership with key industries, AIB is undertaking a series of ten "Outlook Research Reports" across the SME sector and has so far launched three of these, covering the retail, hotel and the dairy sector. These extensive research reports are focused on key sectors of the Irish economy and the findings represent the views of c. 2,000 SMEs across a broad spectrum of the economy.

There are some positive trends emerging in SME loan demand with signs that overall activity levels are strengthening. We approved applications from c. 16,300 SMEs in the first half of the year and lending approvals are up 11% year on year for new facilities. Having approved € 4.8 billion in SME lending last year, we are again positioned to meet or exceed the Government 2013 target of € 4.0 billion in relation to business lending.

We are seeing signs of improvement in the housing market in Ireland including the stabilisation of prices and increased demand in certain urban areas. AIB's market share of mortgage lending approvals was an estimated 46% in the first half of the year. Since the beginning of 2012, AIB has approved over € 2.0 billion in mortgage lending in the Irish market.

*Includes Repos of € 4.8 billion.

Chief Executive's review

The corporate banking market in Ireland was active in the first half of 2013 and AIB consolidated its leading position in the market through lending to new and existing customers across a wide range of sectors including energy, shipping, transport and film finance.

With 90% of AIB banking transactions now taking place away from the branch counter, we continued to invest in our technology banking programme. We launched a number of digital initiatives including self-service banking kiosks and enhanced our banking offering with the continued deployment of Intelligent Deposit Devices ("IDDs") which are now in place at many branches nationwide. Our first dedicated digital banking store "The Lab" (Learn about banking), opened in Dundrum Town Centre, Dublin, allowing customers to maximise the use of existing and emerging technologies in banking services. The Lab will be used to unveil the next phase of AIB's digital banking innovations throughout 2013 and beyond. We also launched our "Branch of the Future" at Capel Street, Dublin, which highlights how self-service can complement and enhance the more traditional role of the branch.

Customers in Financial Difficulty

We have dedicated significant resources to working with our customers in financial difficulty in order to implement sustainable solutions. We have exceeded the Q2 2013 mortgage arrears resolution targets of sustainable offers to mortgage customers in arrears.

We will continue to engage with and offer sustainable solutions for our SME and mortgage customers and we expect to see further progress in the second half of 2013.

Our results in the first half of 2013 are encouraging. We have prioritised our focus on lending to customers across a broad range of sectors providing both debt and equity alternatives. We have also seen positive signs of growth in the SME, corporate and housing sectors. We are well capitalised and have the resources available to support the further growth of the Irish economy.

David Duffy
Chief Executive Officer

31 July 2013

Operating and financial review

Summary income statement	Half-year June 2013 € m	Restated* Half-year June 2012 € m	% change
Net interest income	**595**	568	*5*
Other income	**321**	203	*58*
Total operating income	**916**	771	*19*
Personnel expenses	**(448)**	(532)	*-16*
General and administrative expenses	**(255)**	(296)	*-14*
Depreciation(1), impairment and amortisation(2)	**(51)**	(53)	*-4*
Total operating expenses	**(754)**	(881)	*-14*
Operating profit/(loss) before provisions	**162**	(110)	-
Provisions for impairment on loans and receivables	**(744)**	(890)	*-16*
(Provisions)/writeback of provisions for liabilities and commitments	**(3)**	1	-
Writeback/(provisions) for impairment on financial investments available for sale	**9**	(84)	-
Total provisions	**(738)**	(973)	*-24*
Operating loss	**(576)**	(1,083)	*47*
Associated undertakings	**3**	1	*200*
Profit/(loss) on disposal of business	**1**	(2)	-
Loss from continuing operations before exceptional items	**(572)**	(1,084)	*47*
Loss on disposal of loans	**(187)**	(141)	-
(Loss)/profit on transfer of financial instruments to NAMA	**(24)**	112	-
Interest rate hedge volatility	**3**	(1)	-
Gain arising on disposal of Aviva Life Holdings (ALH)	**10**	-	-
Termination benefits	**(40)**	(7)	-
Restructuring and restitution expenses	**(28)**	(20)	-
Total exceptional items	**(266)**	(57)	-
Loss before taxation from continuing operations	**(838)**	(1,141)	*27*
Income tax credit from continuing operations	**80**	87	*-8*
Loss after taxation from continuing operations	**(758)**	(1,054)	*28*
Profit after taxation from discontinued operations	**-**	-	-
Loss for the period	**(758)**	(1,054)	*28*

	Half-year June 2013 %	Restated* Half-year June 2012 %
Cost income ratio(3)	**82.3**	114.3

(1)Depreciation of property, plant and equipment.

(2)Impairment and amortisation of intangible assets.

(3)Excluding exceptional items

*Restated due to change in accounting policy for employee benefits – page 52.

Operating and financial review

Overview of results

Operating profit before provisions and exceptional items of € 162 million for the half-year to June 2013 compared to a loss of € 110 million in the half-year to June 2012. The Group recorded a loss before taxation from continuing operations of € 838 million in the half-year to June 2013 compared to a loss of € 1,141 million in the half-year to June 2012. The performance reflected higher levels of income, lower costs and a reduction in provisions.

Net interest income increased by € 27 million (5%) compared to the half-year to June 2012, reflecting the lower cost of deposits and other liabilities, higher asset pricing and a lower ELG charge as a result of the cessation of the ELG scheme partly offset by lower average interest earning assets. Other income was € 118m (58%) higher due to higher banking fee and commission income and increased trading and other income including a gain resulting from re-estimating the timing of cash flows on NAMA senior bonds and investment asset realisations.

Total operating expenses were € 127 million (14%) lower compared to the half-year to June 2012. This reduction in costs mainly related to the impact of staff exits in the latter part of 2012 and throughout 2013 as part of the voluntary severance/early retirement schemes, lower occupancy costs and lower external provider fees.

Provisions for impairment on loans and receivables reduced by € 146 million to € 744 million in the half-year to June 2013, and continued to reflect a weak economic environment.

At 30 June 2013, the Group remains well capitalised with a core tier 1 capital ratio of 15.1%, comfortably above the 10.5% minimum target level as prescribed by the Central Bank of Ireland.

Exceptional items

The Group's performance is presented to exclude those items that the Group believes obscure the underlying performance trends in the business.

– Loss on disposal of loans: There was € 187 million loss on disposal of loans mainly related to the ongoing deleveraging programme in the non-core portfolio compared with € 141 million loss in the half-year to June 2012.
– (Loss)/profit on transfer of financial instruments to NAMA: € 24 million of a loss compared to a profit of € 112 million in the half-year to June 2012. This is due to valuation adjustments on previous transfers of financial assets to NAMA (see note 7 to the financial statements for further detail).
– Interest rate hedge volatility of € 3 million positive compared with € 1 million negative in the half-year to June 2012.
– Gain arising on disposal of Aviva Life Holdings ("ALH") of € 10 million. See note 13 to the financial statements for further detail.
– Termination benefits: The half-year to June 2012 was restated to reflect the impact of IAS 19 *Employee benefits*. This resulted in a change in the timing of the recognition of the early retirement/voluntary severance costs. € 204 million that was originally included in the half-year to June 2012 is now excluded and € 40 million has been included in the half-year to June 2013. This timing change does not impact the overall cost assumptions of the early retirement/voluntary severance schemes. A provision of € 7 million was made in respect of termination benefits at 30 June 2012 following the announced closure of AIB's operations in the Isle of Man and Channel Islands. See note 10 to the financial statements for further detail.
– Restructuring and restitution expenses of € 28 million compared with € 20 million in the half-year to June 2012. These include restructuring costs associated with a range of management actions including the closure of AIB's operations in the Isle of Man and Channel Islands, expenses relating to the acquisition of AIB's interest in Ark Life and restitution expenses.

Income statement commentary

Net interest income	Half-year June 2013 € m	Half-year June 2012 € m	% change 2013 v 2012
Net interest income	**595**	568	*5*

Average interest earning assets	Half-year June 2013 € m	Half-year June 2012 € m	% change 2013 v 2012
Average interest earning assets	**112,844**	126,483	*-11*

Net interest margin	Half-year June 2013 %	Half-year June 2012 %	Basis point change
Group net interest margin	**1.06**	0.90	*16*
Group net interest margin excluding eligible liabilities guarantee ("ELG")	**1.28**	1.24	*4*

Net interest income was € 595 million in the half-year to June 2013 compared with € 568 million in the half-year to June 2012, an increase of € 27 million or 5%.

Excluding the cost of the ELG scheme, the net interest margin in the half-year to June 2013 was 128 basis points ("bps") compared with 124bps in the half-year to June 2012 and 120bps in the half-year to December 2012. The factors contributing to the increase in the margin of 4bps since June 2012 were a contraction in yields on interest earning assets of 27bps and a decrease of 31bps on the cost of funding those assets.

The ELG charge was € 123 million in the half-year to June 2013 compared with € 215 million in the half-year to June 2012. The reduction in the ELG charge is due to the withdrawal of AIB UK from the ELG scheme in August 2012 and the cessation of the ELG scheme for new liabilities in March 2013. Excluding ELG, net interest income reduced by € 65 million or 8%.

The underlying reduction in net interest income mainly reflected lower average interest earning assets partly offset by lower funding costs through interest bearing customer accounts, which saw the average gross cost decrease from 270bps to 214bps. Deposit pricing actions along with the impact of loan repricing have resulted in an improvement in the net interest margin.

Average interest earning assets at 30 June 2013 decreased by € 13.6 billion to € 113 billion compared with € 126 billion at 30 June 2012. Group net interest margin was 106bps at 30 June 2013 compared with 90bps at 30 June 2012.

Excluding the impact of the Group's low yielding NAMA senior bonds, the net interest margin was 142bps in the half-year to June 2013 compared to 127bps in the half-year to June 2012.

Other income

Other income	**Half-year June 2013 € m**	Half-year June 2012 € m	*% change*
Banking fees and commissions	***196***	*185*	*6*
Investment banking and asset management fees	***3***	*11*	*-73*
Fee and commission income	**199**	196	*2*
Less: Fee and commission expense	**(16)**	(13)	*23*
Trading income[1]	**62**	(32)	-
Other operating income	**76**	52	*46*
Other income before exceptional items	**321**	203	*58*

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

Other income before exceptional items was € 321 million in the half-year to June 2013 compared with € 203 million in the half-year to June 2012, an increase of € 118 million or 58%.

Banking fee and commission income increased by 6% as current account fees, fees related to life assurance, ATM fees and various other branch fees increased. Investment banking and asset management fees were lower primarily due to the disposal of AIBIM (May 2012).

Trading income in the half-year to June 2013 of € 62 million was € 94 million higher than the half-year to June 2012. The movement of € 94 million was mainly due to the cost of closing out credit derivative contracts in 2012 (€ 37 million) which was not repeated in 2013 and market movements € 28 million. Also included are smaller changes due to the early cessation of swaps as a result of deleveraging activity in 2012 and reduced volatility attaching to the trading portfolio.

Other operating income in the half-year to June 2013 was € 76 million compared with € 52 million in the half-year to June 2012. In 2013 there was a gain of € 62 million resulting from re-estimating the timing of cash flows on NAMA senior bonds and € 24 million profit from the disposal of available for sale debt and equity securities. In 2012 there was a net € 33 million profit from the disposal of available for sale debt and equity securities.

Total operating expenses

Operating expenses	**Half-year June 2013 € m**	Restated* Half-year June 2012 € m	*% change*
Personnel expenses	**448**	532	*-16*
General and administrative expenses	**255**	296	*-14*
Depreciation[1], impairment and amortisation[2]	**51**	53	*-4*
Total operating expenses before exceptional items	**754**	881	*-14*

[1]Depreciation of property, plant and equipment.

[2]Impairment and amortisation of intangible assets.

*Restated due to change in accounting policy for employee benefits – page 52.

Total operating expenses before exceptional items were € 754 million in the half-year to June 2013 compared with € 881 million in the half-year to June 2012, a reduction of € 127 million or 14%.

Personnel expenses in the half-year to June 2013 were € 448 million, a reduction of € 84 million or 16% compared with € 532 million in the half-year to June 2012. The lower costs reflected the impact of the implementation of the early retirement/voluntary severance exits that occurred in the latter part of 2012 and throughout 2013.

General and administrative expenses of € 255 million in the half-year to June 2013 were € 41 million or 14% lower than the comparative period in 2012 and reflect lower occupancy costs and lower external provider fees compared to the half-year to June 2012. External provider fees in both periods were associated with business outsourcing, transformation and credit management.

Depreciation, impairment and amortisation expense of € 51 million in the half-year to June 2013 was € 2 million or 4% lower when compared to € 53 million in the half-year to June 2012.

Asset quality

See Risk Management section commencing on page 19. Commentary on AIB's asset quality commences on page 23 with commentary on provision charge on pages 44 to 45.

Associated undertakings

Income from associated undertakings in the half-year to 30 June 2013 was € 3 million compared with income of € 1 million in the half-year to 30 June 2012.

Income tax

The taxation credit for the half-year to June 2013 was € 80 million (including a € 81 million credit relating to deferred taxation), compared with a taxation credit of € 87 million in the half-year to June 2012 (including a credit of € 79 million relating to deferred taxation). The credit is influenced by the geographic mix of profits and losses, which are taxed at the rates applicable in the jurisdictions where the Group operates. Subject to exceptions referenced in note 25 to the financial statements, deferred tax asset continues to be recognised in full for the value of tax losses arising in Group companies, as it is probable that the tax losses will be utilised in full against future taxable profits.

Balance sheet commentary

The commentary on the balance sheet is on a continuing operations basis unless otherwise stated.

Gross loans[1]	30 June 2013 € bn	31 December 2012 € bn	% change
Domestic Core Bank	**47.3**	48.1	*-2*
AIB UK	**8.1**	8.9	*-9*
Financial Solutions Group ("FSG")[2]	**29.7**	32.0	*-7*
Group[3]	**0.1**	0.3	*-67*
Total gross customer loans	**85.2**	89.3	*-5*
Other gross loans held for sale (FSG)	**0.1**	0.6	*-83*
Total gross loans	**85.3**	89.9	*-5*

[1]The balance sheet identifies loans classified as held for sale as part of deleveraging measures (included in 'Disposal groups and non-current assets held for sale') separately from other customer loans.

[2]Includes UK non core gross loans of € 0.4 billion at 30 June 2013 which are reported under AIB UK in the risk management section.

[3]These loans relate to the Isle of Man and Channel Islands which are reported under Domestic Core Bank in the risk management section.

Total gross loans were down € 4.6 billion or 5% since 31 December 2012. This reduction reflected loan amortisation, deleveraging measures and continued weak demand for credit from certain sectors in the half-year to June 2013. Financial Solutions Group loans reduced by € 2.8 billion or 9% and includes deleveraging commitments as part of the Financial Measures Programme in 2011. Excluding currency factors, AIB UK gross loans decreased by 5%.

Net loans[1]	30 June 2013 € bn	31 December 2012 € bn	% change
Domestic Core Bank	**45.1**	46.0	*-2*
AIB UK	**7.6**	8.3	*-8*
Financial Solutions Group	**15.9**	18.4	*-14*
Group	**0.1**	0.2	*-50*
Total net customer loans	**68.7**	72.9	*-6*
Other net loans held for sale (FSG)	**0.1**	0.4	*-75*
Total net loans	**68.8**	73.3	*-6*

[1]The balance sheet identifies loans classified as held for sale as part of deleveraging measures (included in 'Disposal groups and non-current assets held for sale') separately from other customer loans.

Total net loans decreased by € 4.5 billion or 6%, reflecting the movement of gross loans as set out above and the movement in balance sheet provisions in the half-year to June 2013. Excluding currency factors, AIB UK net loans decreased by 4%.

Non core deleveraging

As part of the Group's commitments to the Financial Measures Programme in 2011, AIB committed to deleveraging € 20.5 billion of net loans by 31 December 2013. As at 30 June 2013 AIB has completed € 20.4 billion (99.4%) of this target.

Customer accounts	30 June 2013 € bn	31 December 2012 € bn	% change
Domestic Core Bank	**53.7**	51.2	*5*
AIB UK	**9.9**	10.9	*-9*
Financial Solutions Group	**1.2**	1.3	*-8*
Group	**-**	0.2	-
Total customer accounts	**64.8**	63.6	*2*

Customer accounts of € 64.8 billion were up € 1.2 billion (2%) since 31 December 2012. Customer accounts includes Repos of € 4.8 billion and excludes € 1.2 billion of deposits placed by Ark Life following the Ark Life acquisition during 2013. When the impact of these are excluded, customer accounts reduced € 2.4 billion (4%) since 31 December 2012. The reduction in the half-year to June 2013 reflected the managed reduction in rates paid to customers and generally reflects a return to more normalised market behaviour. Excluding currency factors, AIB UK customer accounts decreased by 4%.

Capital

See Capital Adequacy note on page 109.

Funding

Sources of funds	30 June 2013 € bn	30 June 2013 %	31 December 2012 € bn	31 December 2012 %
Customer accounts	**65**	**58**	64	55
Deposits by central banks and banks - secured	**25**	**23**	28	24
- unsecured	**1**	**1**	1	1
Asset covered securities ("ACS")	**3**	**3**	3	3
Securitisation	**1**	**1**	1	1
Senior debt	**4**	**3**	6	5
Capital[(1)]	**12**	**11**	13	11
Total source of funds	**111**	**100**	116	100
Other[(2)]	**10**		7	
	121		123	

[(1)]Includes total shareholders' equity, subordinated liabilities and other capital instruments.

[(2)]Non-funding liabilities including derivative financial instruments, other liabilities, retirement benefits, accruals and other deferred income, and liabilities of discontinued operations (Ark Life).

Customer accounts contributed 58% of the total funding requirement at 30 June 2013, up from 55% at 31 December 2012. This represents a € 1.2 billion increase in customer accounts in the half-year to June 2013. On an underlying basis deposits are down € 2.4 billion, as € 1.2 billion of deposits placed by Ark Life are now eliminated from customer accounts following the Ark Life acquisition during 2013 which was more than offset by an increase in Repos of € 4.8 billion. The underlying decrease in customer deposits arose from managed reductions in deposit pricing, which had a positive effect on the Bank's net interest margin. The withdrawal of the ELG did not have a material impact on the deposit balances.

The first half of 2013 saw continued improvement in sentiment towards Ireland, with AIB issuing a € 500 million covered bond in January 2013 and increased bilateral repo activity. Notwithstanding this improvement in sentiment, access to the wholesale funding markets has not normalised. At 30 June 2013, the Group held € 42 billion in qualifying liquid assets/contingent funding (excluding liquidity in AIB Group (UK) plc which was unavailable for use at Group level) of which approximately € 30 billion was used in repurchase agreements.

The Group continues to explore and develop contingent collateral and funding facilities to support its funding requirements. Deposits by central banks and banks decreased by € 3 billion in the half-year to June 2013. At 30 June 2013 AIB availed of Central Bank funding of € 18 billion, down from € 22 billion in 2012. The reduction in Central Bank drawings in the half-year to June 2013 was due to asset deleveraging, loan amortisation and continued weak demand for credit, the redemption of NAMA senior bonds and increased customer accounts, partly offset by maturing secured and unsecured bonds (ACS and medium term notes ("MTN") respectively). Reducing the reliance on Central Bank funding will continue to be a key objective of the Group. The deposit growth and lower loan balances, including deleveraging actions, contributed to an improved Group loan to deposit ratio.

The Group's loan to deposit ratio including loans and receivables held for sale decreased from 115% at 31 December 2012 to 106% at 30 June 2013. Senior debt funding of € 4 billion at 30 June 2013 decreased from € 6 billion at 31 December 2012 due to bond maturities.

Segment reporting

A new operating structure was implemented in 2013 and the Group's operations are now reported under the following segments: Domestic Core Bank ("DCB"), AIB UK, Financial Solutions Group ("FSG") and Group. Consequently, the restated half-year to June 2012 has been presented in the new operating structure.

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 actual wholesale funding costs incurred and segments' net funding requirements. Income on capital is allocated to segments based on each segment's capital requirement. The cost of services between segments and from central support functions is based on the estimated actual cost incurred in providing the service.

A summarised view of the Group's segmental performance is available in note 1 to the financial statements.

Domestic Core Bank ("DCB") *services the personal, business and corporate customers of AIB in addition to wealth management services. "Personal, Business and Corporate" banking commands a strong presence in all key sectors including SMEs, mortgages, personal and corporate banking. All owner occupier mortgages in the Republic of Ireland are reported in DCB. This segment also includes treasury related activity.*

DCB income statement	**Half-year June 2013 € m**	Restated* Half year June 2012 € m	*% change*
Net interest income before ELG	**513**	611	*-16*
ELG	**(111)**	(152)	*-27*
Net interest income	**402**	459	*-12*
Other income	**265**	168	*58*
Total operating income	**667**	627	*6*
Personnel expenses	**(220)**	(256)	*-14*
General and administrative expenses	**(118)**	(121)	*-2*
Depreciation, impairment and amortisation	**(25)**	(26)	*-4*
Total operating expenses	**(363)**	(403)	*-10*
Operating profit before provisions	**304**	224	*36*
Provisions for impairment on loans and receivables	**(202)**	(114)	*77*
Writeback/(provisions) for impairment on financial investments available for sale	**9**	(84)	*-*
Total provisions	**(193)**	(198)	*-3*
Operating profit	**111**	26	*327*
Associated undertakings	**4**	5	*-20*
Profit before exceptional items	**115**	31	*271*

DCB balance sheet metrics	**30 June 2013 € bn**	31 December 2012 € bn	*% change*
Gross loans	**47.3**	48.1	*-2*
Net loans	**45.1**	46.0	*-2*
Customer accounts	**53.7**	51.2	*5*

DCB operating profit before provisions of € 304 million was € 80 million (36%) higher than the half-year to June 2012 with income € 40 million (6%) higher and costs € 40 million (10%) lower. After provisions of € 193 million, profit before exceptional items was € 115 million, compared to a profit of € 31 million for the half-year to June 2012.

*Restated due to change in accounting policy for employee benefits – page 52.

Net interest income of € 402 million was € 57 million (12%) lower than the half-year to June 2012 due to lower loan volumes; as repayments exceeded new lending, higher levels of customer deposits and lower income on NAMA bonds, and the impact of lower interest rates and yields on treasury operations. These negative impacts were partly offset by reductions in the ELG charge following cessation of the ELG scheme for new liabilities on 28 March 2013 and lower funding costs. Other income improved € 97 million (58%) to € 265 million with higher current account fees, improved treasury income and the positive impact from re-estimating the timing of cash flows on NAMA senior bonds.

Total operating expenses reduced € 40 million (10%) to € 363 million as reduced staff numbers resulted in lower salary and associated costs compared with the half-year to June 2012.

Provisions for impairment on loans and receivables of € 202 million were € 88 million higher than the half-year to June 2012.

Gross loans reduced € 0.8 billion (2%) since 31 December 2012 as repayments exceeded new lending. Customer accounts increased € 2.5 billion (5%) since 31 December 2012 (including Repos of € 4.8 billion). Excluding Repos and Ark Life deposit elimination, customer accounts were € 1.1 billion (2%) lower than 31 December 2012 notwithstanding the managed reduction in rates paid to customers during the period.

***AIB UK** comprises retail and commercial banking operations in Britain operating under the trading name Allied Irish Bank (GB) ("AIB GB") and in Northern Ireland operating under the trading name First Trust Bank ("FTB").*

AIB UK income statement		**Half-year June 2013 £ m**	Restated* Half year June 2012 £ m	*% change*
Net interest income before ELG		**63**	58	*9*
ELG		**(3)**	(19)	*-84*
Net interest income		**60**	39	*54*
Other income		**27**	27	*-*
Total operating income		**87**	66	*32*
Personnel expenses		**(43)**	(43)	*-*
General and administrative expenses		**(23)**	(39)	*-41*
Depreciation, impairment and amortisation		**(3)**	(2)	*50*
Total operating expenses		**(69)**	(84)	*-18*
Operating profit/(loss) before provisions		**18**	(18)	*-*
Provisions for impairment on loans and receivables		**(14)**	(47)	*-70*
Provisions for impairment on financial investments available for sale		**-**	-	*-*
Total provisions		**(14)**	(47)	*-70*
Operating profit/(loss)		**4**	(65)	*-*
Associated undertakings		**1**	1	*-*
Profit/(loss) before exceptional items		**5**	(64)	*-*
Profit/(loss) before exceptional items	€ m	**5**	(79)	*-*

AIB UK balance sheet metrics	**30 June 2013 £ bn**	31 December 2012 £ bn	*% change*
Gross loans	**6.9**	7.3	*-5*
Net loans	**6.5**	6.8	*-4*
Customer accounts	**8.5**	8.9	*-4*

AIB UK operating profit before provisions of £ 18 million was £ 36 million higher than the half-year to June 2012 with income £ 21 million (32%) higher and costs £ 15 million (18%) lower. Profit before exceptional items was £ 5 million, an improvement of £ 69 million on the half-year to June 2012 loss of £ 64 million.

Net interest income of £ 60 million was £ 21 million (54%) higher than the half-year to June 2012 mainly due to reductions in the ELG charge following AIB UK's withdrawal from the ELG scheme in August 2012 and lower funding costs. This positive impact was partly offset by lower loan volumes. Other income of £ 27 million in the half-year to June 2013 was in line with the half-year to June 2012.

Total operating expenses reduced £ 15 million (18%) to £ 69 million mainly due to lower occupancy costs and lower external provider fees compared with the half-year to June 2012. Reduced staff numbers resulted in lower salary and associated costs but were offset by higher retirement benefit expenses.

Provisions for impairment on loans and receivables of £ 14 million were £ 33 million lower than the half-year to June 2012.

Gross loans to customers reduced £ 0.4 billion (5%) since 31 December 2012 as repayments exceeded new lending. Customer accounts reduced £ 0.4 billion (4%) since 31 December 2012.

*Restated due to change in accounting policy for employee benefits – page 52.

Financial Solutions Group ("FSG") *segment is dedicated to supporting business and personal customers in financial difficulties including the implementation of the Mortgage Arrears Resolution Strategy, Third Party Servicing of NAMA loans, managing and deleveraging loans classified as non-core. Performing loans connected to customers in financial difficulty are also reported in this segment.*

FSG income statement	Half-year June 2013 € m	Restated* Half year June 2012 € m	% change
Net interest income before ELG	**124**	102	*22*
ELG	**(8)**	(31)	*-74*
Net interest income	**116**	71	*63*
Other income	**20**	(8)	*-*
Total operating income	**136**	63	*116*
Personnel expenses	**(71)**	(88)	*-19*
General and administrative expenses	**(15)**	(24)	*-38*
Depreciation, impairment and amortisation	**(3)**	(3)	*-*
Total operating expenses	**(89)**	(115)	*-23*
Operating profit/(loss) before provisions	**47**	(52)	*-*
Provisions for impairment on loans and receivables	**(526)**	(719)	*-27*
(Provisions)/writeback of provisions for liabilities and commitments	**(4)**	1	*-*
Provisions for impairment on financial investments available for sale	**(1)**	-	*-*
Total provisions	**(531)**	(718)	*-26*
Operating loss	**(484)**	(770)	*37*
Associated undertakings	**(2)**	(5)	*60*
Loss before disposal of business	**(486)**	(775)	*37*
Loss on disposal of business	**-**	(2)	*-*
Loss before exceptional items	**(486)**	(777)	*37*

FSG balance sheet metrics	30 June 2013 € bn	31 December 2012 € bn	% change
Gross loans	**29.7**	32.0	*-7*
Gross loans held for sale	**0.1**	0.6	*-83*
Net loans	**15.9**	18.4	*-14*
Net loans held for sale	**0.1**	0.4	*-75*
Customer accounts	**1.2**	1.3	*-8*

FSG operating profit before provisions of € 47 million was € 99 million higher than the half-year to June 2012 with income € 73 million (116%) higher and costs € 26 million (23%) lower. Loss before exceptional items was € 486 million, an improvement of € 291 million (37%) on the half-year to June 2012 loss of € 777 million.

Net interest income of € 116 million was € 45 million (63%) higher than the half-year to June 2012 due to reductions in the ELG charge following cessation of the ELG scheme for new liabilities on 28 March 2013 and lower funding costs partly offset by lower loan volumes. Other income improved € 28 million to € 20 million. 2012 included higher loan breakage and associated costs relating to deleveraging.

Total operating expenses reduced € 26 million (23%) to € 89 million with lower salary and associated costs and lower external provider fees compared with the half-year to June 2012.

Provisions for impairment on loans and receivables of € 526 million were € 193 million lower than the half-year to June 2012.

Gross loans reduced € 2.3 billion (7%) since 31 December 2012 mainly due to non-core deleveraging and loan amortisation during the period.

*Restated due to change in accounting policy for employee benefits – page 52.

Operating and financial review

Group *includes AIB's operations in the Isle of Man/Channel Islands and central services costs.*

Group income statement	Half-year June 2013 € m	Restated* Half year June 2012 € m
Net interest income before ELG	**7**	-
ELG	**-**	(9)
Net interest income	**7**	(9)
Other income	**5**	10
Total operating income	**12**	1
Personnel expenses	**(106)**	(136)
General and administrative expenses	**(95)**	(103)
Depreciation, impairment and amortisation	**(20)**	(21)
Total operating expenses	**(221)**	(260)
Operating loss before provisions	**(209)**	(259)
Provisions for impairment on loans and receivables	**-**	-
Writeback of provisions for liabilities and commitments	**1**	-
Writeback of provisions for impairment on financial investments available for sale	**1**	-
Total provisions	**2**	-
Operating loss	**(207)**	(259)
Profit on disposal of business	**1**	-
Loss before exceptional items	**(206)**	(259)

Group balance sheet metrics	30 June 2013 € bn	31 December 2012 € bn
Gross loans	**0.1**	0.3
Net loans	**0.1**	0.2
Customer accounts	**-**	0.2

Group operating loss before provisions of € 209 million was € 50 million lower than the half-year to June 2012 with income € 11 million higher and costs € 39 million lower. Loss before exceptional items was € 206 million, a decrease of € 53 million on the half-year to June 2012 loss of € 259 million.

Total operating income increased to € 12 million in the half-year to June 2013 reflecting a reduction in the ELG charge following cessation of the ELG scheme for new liabilities and the impact of winding-down AIB's offshore operations.

Total operating expenses reduced € 39 million to € 221 million as reduced staff numbers resulted in lower salary and associated costs and lower external provider fees compared with the half-year to June 2012.

Customer accounts in AIB's operations in the Isle of Man and Channel Islands were € 0.2 billion at 31 December 2012 and reduced to nil at 30 June 2013 as a result of the imminent closure of those operations.

*Restated due to change in accounting policy for employee benefits – page 52.

Update on risk management and governance*

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

The Group's Annual Financial Report 2012 which is available on the Group's website: www.aibgroup.com sets out on pages 58 to 64 the principal risks and uncertainties impacting the Group under macro-economic and geopolitical risk; macro-prudential, regulatory and legal risks to the business model; and risks related to the Group's business operations, governance and internal control systems. Details of the Group's exposures to the following specific risks are outlined on pages 68 to 155 of the Annual Financial Report 2012: credit risk, liquidity risk, market risk, non-trading interest rate risk, structural foreign exchange risk, operational risk, regulatory compliance risk and pension risk. Further updates in relation to credit risk including asset quality and impairment are set out below:

The Group's risk governance and risk management framework is set out on pages 65 to 67 of the Annual Financial Report 2012 and there has been no significant change since the date of this report.

The Group has processes and controls in place for (a) identification and assessment; (b) management and mitigation; and (c) monitoring and reporting of the above risks. These are set out in the Risk management section of the Annual Financial Report 2012 on pages 69 to 78 for credit risk and pages 147 to 155 for the other risk types.

Updates are provided on the current status of credit risks including asset quality and impairment on pages 20 to 50 of this report. For a review of funding refer to page 13 of the Operating and financial review section of this report.

Management have considered the principal risks and uncertainties for the second half of 2013 and have concluded that there has been no substantial change to the risks and uncertainties as outlined in the Group's Annual Financial Report 2012 and these risks remain current for the remaining six months of 2013.

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

Credit risk – Credit profile of the loan portfolio

Credit risk information

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

Credit risk – Credit profile of the loan portfolio

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

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

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

	30 June 2013				31 December 2012+			
Loans and receivables to customers*	**Loans and receivables to customers € m**	**Disposal groups and non-current assets held for sale € m**	**Total € m**	**Total %**	Loans and receivables to customers € m	Disposal groups and non-current assets held for sale € m	Total € m	Total %
Agriculture	**1,853**	**–**	**1,853**	**2.2**	1,809	–	1,809	2.0
Energy	**285**	**28**	**313**	**0.4**	385	88	473	0.5
Manufacturing	**1,615**	**–**	**1,615**	**1.9**	1,678	–	1,678	1.9
Property and construction	**20,747**	**–**	**20,747**	**24.3**	22,294	–	22,294	24.8
Distribution	**7,148**	**–**	**7,148**	**8.4**	7,861	–	7,861	8.7
Transport	**1,011**	**52**	**1,063**	**1.2**	858	373	1,231	1.4
Financial	**740**	**–**	**740**	**0.9**	787	–	787	0.9
Other services	**5,957**	**14**	**5,971**	**7.0**	6,505	14	6,519	7.3
Personal:								
Residential mortgages	**41,519**	**–**	**41,519**	**48.6**	42,521	–	42,521	47.3
Other	**4,374**	**–**	**4,374**	**5.1**	4,699	–	4,699	5.2
Gross loans and receivables	**85,249**	**94**	**85,343**	**100.0**	89,397	475	89,872	100.0
Unearned income	**(90)**	**–**	**(90)**		(108)	–	(108)	
Deferred costs	**83**	**–**	**83**		89	–	89	
Provisions for impairment	**(16,499)**	**–**	**(16,499)**		(16,406)	(122)	(16,528)	
Total statement of financial position	**68,743**	**94**	**68,837**		72,972	353	73,325	
Gross loans and receivables analysed as to:								
Neither past due nor impaired	**52,309**	**94**	**52,403**		56,179	238	56,417	
Past due but not impaired	**3,709**	**–**	**3,709**		4,039	–	4,039	
Impaired - provisions held	**29,231**	**–**	**29,231**		29,179	237	29,416	
	85,249	**94**	**85,343**		89,397	475	89,872	

+The industry sector heading 'lease financing' is no longer reported by the Group. Accordingly, for December 2012 in the above table showing a sector analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

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

Credit risk – Credit profile of the loan portfolio

Impaired loans and receivables to customers*	30 June 2013 Loans and receivables to customers € m	30 June 2013 Disposal groups and non-current assets held for sale € m	30 June 2013 Total € m	31 December 2012+ Loans and receivables to customers € m	31 December 2012+ Disposal groups and non-current assets held for sale € m	31 December 2012+ Total € m
Agriculture	**343**	**–**	**343**	341	–	341
Energy	**72**	**–**	**72**	44	–	44
Manufacturing	**500**	**–**	**500**	487	–	487
Property and construction	**13,491**	**–**	**13,491**	13,830	–	13,830
Distribution	**3,266**	**–**	**3,266**	3,472	–	3,472
Transport	**143**	**–**	**143**	139	237	376
Financial	**233**	**–**	**233**	245	–	245
Other services	**1,005**	**–**	**1,005**	1,059	–	1,059
Personal:						
Residential mortgages	**8,751**	**–**	**8,751**	8,130	–	8,130
Other	**1,427**	**–**	**1,427**	1,432	–	1,432
Total	**29,231**	**–**	**29,231**	29,179	237	29,416

Provisions for impairment on loans and receivables to customers*	30 June 2013 Loans and receivables to customers € m	30 June 2013 Disposal groups and non-current assets held for sale € m	30 June 2013 Total € m	31 December 2012+ Loans and receivables to customers € m	31 December 2012+ Disposal groups and non-current assets held for sale € m	31 December 2012+ Total € m
Agriculture	**247**	**–**	**247**	240	–	240
Energy	**43**	**–**	**43**	36	–	36
Manufacturing	**321**	**–**	**321**	313	–	313
Property and construction	**7,824**	**–**	**7,824**	7,707	–	7,707
Distribution	**1,986**	**–**	**1,986**	2,042	–	2,042
Transport	**104**	**–**	**104**	111	122	233
Financial	**165**	**–**	**165**	168	–	168
Other services	**669**	**–**	**669**	683	–	683
Personal:						
Residential mortgages	**3,072**	**–**	**3,072**	2,699	–	2,699
Other	**1,091**	**–**	**1,091**	1,064	–	1,064
Specific	**15,522**	**–**	**15,522**	15,063	122	15,185
IBNR	**977**	**–**	**977**	1,343	–	1,343
Total	**16,499**	**–**	**16,499**	16,406	122	16,528

+The industry sector heading 'lease financing' is no longer reported by the Group. Accordingly, for December 2012 in the above table showing a sector analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

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

Credit risk – Credit profile of the loan portfolio

The following tables analyse loans and receivables to customers by market segment showing asset quality and impairment provisions:

	30 June 2013				31 December 2012+			
Gross loans and receivables to customers*	**DCB € m**	**AIB UK € m**	**FSG € m**	**Total € m**	DCB € m	AIB UK € m	FSG € m	Total € m
Residential mortgages:								
Owner-occupier	**31,091**	**2,321**	**–**	**33,412**	31,584	2,482	101	34,167
Buy-to-let	**3,309**	**373**	**4,425**	**8,107**	3,331	324	4,699	8,354
	34,400	**2,694**	**4,425**	**41,519**	34,915	2,806	4,800	42,521
Other personal	**2,307**	**364**	**1,703**	**4,374**	2,323	396	1,980	4,699
Property and construction	**2,747**	**2,442**	**15,558**	**20,747**	3,013	2,477	16,804	22,294
SME/other commercial	**4,665**	**3,045**	**6,459**	**14,169**	4,835	3,198	7,070	15,103
Corporate	**3,397**	**–**	**1,137**	**4,534**	3,373	–	1,882	5,255
Total	**47,516**	**8,545**	**29,282**	**85,343**	48,459	8,877	32,536	89,872
Analysed as to asset quality								
Satisfactory(1)	**34,375**	**5,355**	**3,141**	**42,871**	36,871	5,780	4,550	47,201
Watch(2)	**5,078**	**1,150**	**1,034**	**7,262**	4,546	1,282	1,192	7,020
Vulnerable(3)	**2,371**	**1,017**	**2,591**	**5,979**	1,903	976	3,356	6,235
Impaired(4)	**5,692**	**1,023**	**22,516**	**29,231**	5,139	839	23,438	29,416
Total criticised loans	**13,141**	**3,190**	**26,141**	**42,472**	11,588	3,097	27,986	42,671
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**28**	**37**	**89**	**50**	24	35	86	47
Impaired loans/total loans	**12**	**12**	**77**	**34**	11	9	72	33
Impairment provisions – statement of financial position*								
Specific	**1,763**	**479**	**13,280**	**15,522**	1,564	385	13,236	15,185
IBNR	**494**	**128**	**355**	**977**	624	151	568	1,343
Total impairment provisions	**2,257**	**607**	**13,635**	**16,499**	2,188	536	13,804	16,528
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**31**	**47**	**59**	**53**	30	46	56	52
Total provisions/impaired loans	**40**	**59**	**61**	**56**	43	64	59	56
Total provisions/total loans	**5**	**7**	**47**	**19**	5	6	42	18

	30 June 2013				30 June 2012
	%	**%**	**%**	**%**	%
Income statement – impairment charge/average loans	**0.83**	**0.35**	**3.40**	**1.69**	1.84

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

Criticised loans include:

(2)Watch: credit exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cashflow.

(3)Vulnerable: credit where repayment is in jeopardy from normal cashflow and may be dependent on other sources.

(4)Impaired: a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact such that the present value of future cashflows is less than the gross carrying value of the financial asset or group of financial assets i.e. requiring a provision to be raised through the income statement.

+The industry sector heading 'lease financing' is no longer reported by the Group. Accordingly, for December 2012 in the above table showing a sector analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

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

Credit risk – Credit profile of the loan portfolio

At 30 June 2013, gross loans and receivables to customers amounted to € 85.3 billion down from € 89.9 billion at 31 December 2012. Loans and receivables to customers comprise loans (including overdrafts), instalment credit and finance leases. Reductions, which were evident across all sectors, are as a result of the demand for credit from customers being exceeded by repayments of debt and asset sales.

The ongoing economic environment, particularly in Ireland where the majority of the Group's loans and advances to customers are concentrated, continued to impact credit quality with borrowers experiencing difficulty in meeting their debt repayments.

A range of initiatives have been put in place including enhanced collections and recoveries processes, early intervention in vulnerable cases, restructuring, intensive review cycles, modified and tighter lending criteria for specific sectors and revised Risk Appetite Statement and Framework.

€ 41.5 billion or 49% of the portfolio related to residential mortgages which comprised € 33.4 billion in owner-occupier mortgages and a further € 8.1 billion in buy-to-let mortgages. Further detailed disclosures in relation to the total Republic of Ireland residential mortgage portfolio, forbearance activity and arrears for this portfolio are provided on pages 26 – 32.

At 30 June 2013, non-mortgage criticised loans amounted to € 27.1 billion (31 December 2012: €28.6 billion) of which € 20.5 billion were impaired with specific provisions of € 12.4 billion providing cover of 61% (31 December 2012: impaired loans € 21.3 billion, specific provisions € 12.5 billion, cover of 59%). Total Statement of financial position provisions to total loans were 19% up from 18% at 31 December 2012.

Property and Construction loans amounted to € 20.7 billion and comprised property investment loans of € 13.6 billion, land and development loans of € 6.3 billion and other property and construction loans of € 0.8 billion (31 December 2012: € 14.9 billion, € 6.5 billion and € 0.9 billion respectively).

€ 8.9 billion of the property investment portfolio of € 13.6 billion is related to loans for the purchase of property in the Republic of Ireland, € 4.2 billion in the United Kingdom, and € 0.5 billion in other geographical areas. While the investment property market in Ireland remains challenging, there is some evidence that prime rents and yields in all sectors are stabilising, however secondary yields continue to show weakness.

€ 10.3 billion or 76% of the property investment portfolio was criticised (31 December 2012: € 10.6 billion or 71%) of which € 7.8 billion was impaired. The Group had statement of financial position specific provisions of € 3.5 billion providing cover of 45% for impaired loans (31 December 2012: € 3.4 billion or 42%) and total provisions to total loans of 28% (31 December 2012: 25%). The income statement provision for the property investment portfolio for the period to 30 June 2013 was € 140 million or 2.04% (annualised) of average property investment customer loans compared with € 106 million or 1.3% (annualised) for the same period to 30 June 2012.

Land and development loans amounted to € 6.3 billion at 30 June 2013 down from € 6.5 billion at 31 December 2012. The portfolio largely relates to loans for the purchase of property of € 1.8 billion in the United Kingdom and € 4.5 billion in the Republic of Ireland. Criticised loans amounted to € 5.9 billion (31 December 2012: € 6.2 billion) of which € 5.4 billion was impaired (31 December 2012: € 5.6 billion). The Group had statement of financial position specific provisions of € 4.1 billion providing cover of 77% for impaired loans (31 December 2012: € 4.1 million or 74%) and total provisions to total loans of 66% (31 December 2012: 65%). The income statement provision for the period to 30 June 2013 was € 120 million or 3.50% (annualised) of average land and development customer loans compared with € 168 million or 5.02% (annualised) for the same period to 30 June 2012.

Gross loans and receivables to customers for the remaining portfolios consisted € 4.4 billion in other personal loans, € 14.2 billion to SME/other commercial borrowers and € 4.5 billion to corporate borrowers. These portfolios are profiled in more detail on pages 34 and 37 to 39.

The income statement provision charge for loans and receivables were € 741 million or 1.69% (annualised) of average customer loans compared with € 890 million or 1.84% (annualised) for the period to 30 June 2012. The provision comprised € 1,095 million in specific provisions and a release of IBNR provisions of € 354 million (30 June 2012: € 1,355 million in specific provisions and a release of IBNR provisions of € 465 million).

Credit risk – Credit profile of the loan portfolio

The portfolios most impacted by the movement in IBNR provisions of € 354 million were the Mortgage portfolio with the release of € 191 million and € 111 million for the property and construction portfolio both of which largely resulted from specific provisions being taken during the period. IBNR provisions were also reduced by € 26 million, € 11 million, and € 15 million in the SME/other commercial, other personal and corporate portfolios, respectively. This compares to a movement in IBNR provisions of € 1,322 million at 31 December 2012. Improvements in internal processes also contributed to the reduction in IBNR for the period to June 2013.

The financial position IBNR provisions amounted to € 977 million which represented 1.74 % of non-impaired loans (31 December 2012: 2.22%). The outcomes of internal credit reviews of certain higher risk portfolios helped to inform management's view of the incurred loss remaining in the performing book and the appropriate level of IBNR provisions required.

Risk management

Credit risk – Credit profile of the loan portfolio

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

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

									30 June 2013
	DCB			**FSG**			**Total**		
Statement of financial position	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**
Total gross residential mortgages	**31,091**	**3,309**	**34,400**	**–**	**4,425**	**4,425**	**31,091**	**7,734**	**38,825**
In arrears (>30 days past due)(1)	**5,674**	**309**	**5,983**	**–**	**3,519**	**3,519**	**5,674**	**3,828**	**9,502**
In arrears (>90 days past due)(1)	**5,095**	**261**	**5,356**	**–**	**3,445**	**3,445**	**5,095**	**3,706**	**8,801**
Of which impaired	**4,892**	**219**	**5,111**	**–**	**3,348**	**3,348**	**4,892**	**3,567**	**8,459**
Statement of financial position specific provisions	**1,409**	**85**	**1,494**	**–**	**1,455**	**1,455**	**1,409**	**1,540**	**2,949**
Statement of financial position IBNR provisions	**221**	**13**	**234**	**–**	**47**	**47**	**221**	**60**	**281**
Provision cover percentage	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Specific provisions/impaired loans	**28.8**	**38.9**	**29.2**	**–**	**43.5**	**43.5**	**28.8**	**43.2**	**34.9**

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

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

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

Risk management

Credit risk – Credit profile of the loan portfolio

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

									31 December 2012
	DCB			FSG			Total		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Total gross residential mortgages	31,584	3,331	34,915	–	4,616	4,616	31,584	7,947	39,531
In arrears (>30 days past due)(1)	5,224	144	5,368	–	3,438	3,438	5,224	3,582	8,806
In arrears (>90 days past due)(1)	4,702	121	4,823	–	3,342	3,342	4,702	3,463	8,165
Of which impaired	4,523	92	4,615	–	3,241	3,241	4,523	3,333	7,856
Statement of financial position specific provisions	1,224	30	1,254	–	1,335	1,335	1,224	1,365	2,589
Statement of financial position IBNR provisions	322	43	365	–	69	69	322	112	434
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	27.1	32.6	27.2	–	41.2	41.2	27.1	41.0	33.0

			30 June 2012
	Owner-occupier	Buy-to-let	Total
Income statement	€ m	€ m	€ m
Income statement specific provisions	215	227	442
Income statement IBNR provisions	(75)	(26)	(101)
Total impairment provisions	140	201	341

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

Residential mortgages in the Republic of Ireland (managed in the DCB and FSG segments) amounted to € 38.8 billion at 30 June 2013 compared to € 39.5 billion at 31 December 2012, the decrease relating to loan repayments in the period which exceeded the demand for credit. The split of the residential mortgage book was owner-occupier € 31.1 billion and buy-to-let € 7.7 billion (31 December 2012: owner-occupier € 31.6 billion and buy-to-let € 7.9 billion) and comprised 42% tracker rate, 48% variable rate and 10% fixed rate mortgages. The total income statement provision charge for the period was € 0.2 billion or 1.21% of average residential mortgages, comprising a € 0.4 billion specific charge and a release of IBNR of € 0.2 billion. Statement of financial position provisions of € 3.2 billion were held at 30 June 2013, split € 2.9 billion specific provisions and € 0.3 billion IBNR provisions. 57% of the total residential mortgage book was in negative equity caused by the decrease in house prices in the last number of years and resulting in a quantum of negative equity of € 6.0 billion at 30 June 2013.

Total owner-occupier and buy-to-let impaired loans increased from € 7.9 billion at 31 December 2012 to € 8.5 billion at 30 June 2013. However, the rate of new impairments has decreased in comparison to both the first and second halves of 2012.

The level of loans greater than 90 days in arrears and/or impaired in the Republic of Ireland was 22.7% at 30 June 2013 compared to 20.7% at 31 December 2012, with the amount of repayments overdue on such loans at € 879 million (31 December 2012: € 798 million). The increase in the arrears rate quoted above is against the back-drop of a decreasing loan book. Residential mortgages are assessed for impairment when they are past due, typically for more than ninety days, or if the borrower exhibits an inability to meet their obligations to the Group based on objective evidence of loss events (‘impairment triggers’), such as a request for a forbearance measure. The portfolio continues to experience an increase in arrears as borrowers’ repayment capacity continues to be impacted by the current economic climate and high levels of personal debt.

The level of loans greater than 90 days in arrears and/or impaired in the owner-occupier book increased from € 4,702 million or 14.9% at 31 December 2012 to € 5,095 million or 16.4% at 30 June 2013. Decreases in household income and the high level of unemployment continue to be principal drivers of increased arrears and impaired loans in the owner-occupier book.

The level of loans greater than 90 days in arrears and/or impaired in the buy-to-let book increased from € 3,463 million or 43.6% at 31 December 2012 to € 3,706 million or 47.9% at 30 June 2013, as the buy-to-let book continues to be impacted by increased financial pressure on borrowers.

Loans in arrears greater than 90 days past due remain below industry average at 15.6% at 30 June 2013 compared to 18.9% for the industry[(1)]. This is a continuation of the trend observed over the last number years, with comparative levels at 13.8% at 31 December 2012 (industry average 18.2%) and 12.7% at 30 June 2012 (industry average 16.2%). For the owner-occupier book, the comparative levels were 12.1% at 30 June 2013 (31 December 2012: 10.8%; 30 June 2012: 9.8%), whilst for the buy-to-let book, the comparative levels were 29.8% at 30 June 2013 (31 December 2012: 25.3%; 30 June 2012: 22.5%).

Statement of financial position specific provisions of € 2.9 billion were held at 30 June 2013 and provided cover of 35% (31 December 2012: € 2.6 billion providing cover of 33%), and represents an increase of € 0.3 billion in the period. AIB has used a 55% peak-to-trough house price decline as a base for assessing collateral values, but, where relevant, has applied a discount to reflect a higher decline in value. IBNR statement of financial position provisions of € 281 million were held for the performing book compared to € 434 million held at 31 December 2012 and reflects management’s view of incurred loss in this book. This view was informed by the levels of specific provisions taken in the period, as evidenced by the residential mortgages impaired in the period, and management’s view of the loss rate. Whilst most of the IBNR provisions are held against the owner occupier book, higher IBNR provisions (as a proportion of the performing book) are held against the buy-to-let portfolio which is regarded by the Group as being subject to additional risk.

The total income statement provision charge for the period was € 237 million, comprising a specific charge of € 390 million and a release of IBNR of € 153 million. This compares to a total income statement charge of € 341 million for the same period in 2012, comprising a specific charge of € 442 million and a release of IBNR charge of € 101 million. Information on the provisioning policies and methodologies employed in the identification of loans for assessment as impaired is set out in accounting policy number 15 ‘Impairment of financial assets’ in the 2012 Annual Financial Report.

[(1)]Source: Central Bank of Ireland (CBI) Residential Mortgage Arrears and Repossessions Statistics. The most recent statistics published by the CBI are as at 31 March 2013.

Credit risk – Credit profile of the loan portfolio

Residential mortgages which were past due but not impaired

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

		30 June 2013			31 December 2012	
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**861**	**107**	**968**	845	137	982
31 - 60 days	**382**	**74**	**456**	334	77	411
61 - 90 days	**197**	**48**	**245**	188	42	230
91 - 180 days	**139**	**73**	**212**	120	65	185
181 - 365 days	**46**	**39**	**85**	42	38	80
Over 365 days	**18**	**27**	**45**	17	27	44
Total past due but not impaired	**1,643**	**368**	**2,011**	1,546	386	1,932
Total gross residential mortgages	**31,091**	**7,734**	**38,825**	31,584	7,947	39,531

€ 2.0 billion or 5% of the Republic of Ireland residential mortgage portfolio was past due but not impaired at 30 June 2013 (31 December 2012: € 1.9 billion or 5%), of which € 1.0 billion or 48% was 30 days or less past due but not impaired (31 December 2012: € 1.0 billion or 51%). Loans past due more than 90 days but not impaired amounted to € 0.3 billion or 17% of the past due but not impaired portfolio (31 December 2012: € 0.3 billion or 16%).

Residential mortgages which were impaired

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

		30 June 2013			31 December 2012	
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	**770**	**956**	**1,726**	782	1,025	1,807
1 - 30 days	**204**	**167**	**371**	193	170	363
31 - 60 days	**183**	**169**	**352**	158	153	311
61 - 90 days	**167**	**112**	**279**	145	102	247
91 - 180 days	**598**	**356**	**954**	558	292	850
181 - 365 days	**841**	**451**	**1,292**	815	447	1,262
Over 365 days	**2,129**	**1,356**	**3,485**	1,872	1,144	3,016
Total impaired	**4,892**	**3,567**	**8,459**	4,523	3,333	7,856
Total gross residential mortgages	**31,091**	**7,734**	**38,825**	31,584	7,947	39,531

Residential mortgages are assessed for impairment if they are past due, typically, for more than ninety days or if the borrower exhibits an inability to meet its obligations to the Group based on objective evidence of loss events (“impairment triggers”). Loans are deemed impaired where the carrying value of the asset is shown to be in excess of the present value of future cashflows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

Of the Republic of Ireland residential mortgage portfolio that was impaired at 30 June 2013, € 1.7 billion or 20% was not past due (31 December 2012: € 1.8 billion or 23%), of which € 0.9 billion (31 December 2012: € 1.1 billion) was subject to forbearance measures at 30 June 2013 and were deemed to be impaired as part of their assessment for a forbearance solution. A further € 1.0 billion or 12% of the impaired portfolio was less than 90 days past due at 30 June 2013 (31 December 2012: € 0.9 billion or 12%), of which € 0.6 billion (31 December 2012: € 0.5 billion) was subject to forbearance measures at 30 June 2013.

Credit risk – Credit profile of the loan portfolio

Republic of Ireland residential mortgages – Forbearance

The Group has a number of forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments. These are described on page 74 of the Annual Financial Report 2012.

The Group has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty, which builds on and formalises the Group's mortgage arrears resolution process, under which short-term mortgage forbearance solutions have been provided to customers in financial difficulty for the last number of years. MARS also includes longer-term forbearance solutions which were devised in 2012. The core objectives of MARS, which seeks to maximise recoveries and minimise losses arising from the non-repayment of debt, are to ensure that forbearance solutions are sustainable in the long term and that they comply with the spirit and letter of regulatory requirements. Further details on MARS are set out on page 74 of the Annual Financial Report 2012.

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

						30 June 2013
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland owner-occupier		€ m		€ m		€ m
Interest only	**6,757**	**1,160**	**2,317**	**477**	**4,440**	**683**
Reduced payment (greater than interest only)	**2,097**	**437**	**1,058**	**261**	**1,039**	**176**
Payment moratorium	**461**	**71**	**189**	**32**	**272**	**39**
Arrears capitalisation	**5,453**	**908**	**3,489**	**625**	**1,964**	**283**
Term extension	**6,112**	**642**	**876**	**90**	**5,236**	**552**
Other	**43**	**8**	**25**	**4**	**18**	**4**
Total forbearance	**20,923**	**3,226**	**7,954**	**1,489**	**12,969**	**1,737**

						30 June 2013
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland buy-to-let		€ m		€ m		€ m
Interest only	**4,430**	**1,175**	**2,865**	**849**	**1,565**	**326**
Reduced payment (greater than interest only)	**1,290**	**284**	**794**	**179**	**496**	**105**
Payment moratorium	**120**	**23**	**75**	**17**	**45**	**6**
Arrears capitalisation	**2,306**	**621**	**1,938**	**548**	**368**	**73**
Term extension	**783**	**107**	**123**	**21**	**660**	**86**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Total forbearance	**8,929**	**2,210**	**5,795**	**1,614**	**3,134**	**596**

						30 June 2013
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland – Total		€ m		€ m		€ m
Interest only	**11,187**	**2,335**	**5,182**	**1,326**	**6,005**	**1,009**
Reduced payment (greater than interest only)	**3,387**	**721**	**1,852**	**440**	**1,535**	**281**
Payment moratorium	**581**	**94**	**264**	**49**	**317**	**45**
Arrears capitalisation	**7,759**	**1,529**	**5,427**	**1,173**	**2,332**	**356**
Term extension	**6,895**	**749**	**999**	**111**	**5,896**	**638**
Other	**43**	**8**	**25**	**4**	**18**	**4**
Total forbearance	**29,852**	**5,436**	**13,749**	**3,103**	**16,103**	**2,333**

Credit risk – Credit profile of the loan portfolio
Republic of Ireland residential mortgages – Forbearance *(continued)*

						31 December 2012
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland owner-occupier		€ m		€ m		€ m
Interest only	10,669	1,857	4,368	866	6,301	991
Reduced payment (greater than interest only)	1,852	387	877	229	975	158
Payment moratorium	838	127	350	58	488	69
Arrears capitalisation	3,139	571	2,071	408	1,068	163
Term extension	5,735	598	686	63	5,049	535
Other	15	4	8	2	7	2
Total forbearance	22,248	3,544	8,360	1,626	13,888	1,918

						31 December 2012
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland buy-to-let		€ m		€ m		€ m
Interest only	5,371	1,396	3,176	939	2,195	457
Reduced payment (greater than interest only)	957	224	518	129	439	95
Payment moratorium	79	19	47	12	32	7
Arrears capitalisation	1,800	488	1,484	427	316	61
Term extension	718	106	91	17	627	89
Other	–	–	–	–	–	–
Total forbearance	8,925	2,233	5,316	1,524	3,609	709

						31 December 2012
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland – Total		€ m		€ m		€ m
Interest only	16,040	3,253	7,544	1,805	8,496	1,448
Reduced payment (greater than interest only)	2,809	611	1,395	358	1,414	253
Payment moratorium	917	146	397	70	520	76
Arrears capitalisation	4,939	1,059	3,555	835	1,384	224
Term extension	6,453	704	777	80	5,676	624
Other	15	4	8	2	7	2
Total forbearance	31,173	5,777	13,676	3,150	17,497	2,627

Of the total residential mortgage portfolio in the Republic of Ireland of € 38.8 billion (31 December 2012: € 39.5 billion), € 5.4 billion (14%) was subject to forbearance measures at 30 June 2013, compared to € 5.8 billion (15%) at 31 December 2012. The majority (43%) of the loans that were subject to forbearance measures at 30 June 2013 were granted a period of interest only payments (31 December 2012: 56%). € 3.1 billion (57%) of the loans under forbearance were greater than 90 days past due or impaired at 30 June 2013, compared to € 3.2 billion (55%) at 31 December 2012. The decrease in the residential mortgage portfolio subject to forbearance in comparison to that at 31 December 2012 is reflective of the Group's strategy to ensure the forbearance solutions agreed with customers are sustainable in the long term. The immediate impact of this strategy has been a reduction in short-term solutions which will be replaced with more sustainable solutions over time.

Credit risk – Credit profile of the loan portfolio

Republic of Ireland residential mortgages – Forbearance *(continued)*

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

	30 June 2013			31 December 2012		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**178**	**31**	**209**	176	36	212
31 - 60 days	**95**	**20**	**115**	96	20	116
61 - 90 days	**53**	**12**	**65**	58	15	73
91 - 180 days	**46**	**20**	**66**	53	25	78
181 - 365 days	**27**	**12**	**39**	23	12	35
Over 365 days	**12**	**12**	**24**	9	13	22
Total	**411**	**107**	**518**	415	121	536

€ 0.5 billion or 10% of the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures at 30 June 2013 was past due but not impaired (31 December 2012: € 0.5 billion or 9%). Of the portion of the portfolio that was past due but not impaired, € 0.2 billion or 40% was 30 days or less past due but not impaired (31 December 2012: € 0.2 billion or 40%). € 0.1 billion or 25% of the portfolio was more than 90 days past due (31 December 2012: € 0.1 billion or 25%).

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

	30 June 2013			31 December 2012		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	**396**	**550**	**946**	475	575	1,050
1 - 30 days	**124**	**96**	**220**	117	97	214
31 - 60 days	**101**	**97**	**198**	88	90	178
61 - 90 days	**71**	**61**	**132**	61	57	118
91 - 180 days	**191**	**162**	**353**	209	154	363
181 - 365 days	**211**	**223**	**434**	249	217	466
Over 365 days	**310**	**381**	**691**	342	284	626
Total impaired	**1,404**	**1,570**	**2,974**	1,541	1,474	3,015

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

Of the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and impaired at 30 June 2013, € 0.9 billion or 32% was not past due (31 December 2012: € 1.1 billion or 35%). A further € 0.6 billion or 18% of the impaired portfolio was less than 90 days past due at 30 June 2013 (31 December 2012: € 0.5 billion or 17%).

Republic of Ireland residential mortgages – Repossessions[1]

The number (stock) of repossessions as at 30 June 2013 and 31 December 2012 is set out below:

	30 June 2013		31 December 2012	
	Stock of repossessions	**Balance outstanding € m**	Stock of repossessions	Balance outstanding € m
Owner-occupier	**87**	**25**	80	23
Buy-to-let	**54**	**14**	53	15
Total	**141**	**39**	133	38

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

The increase in the total stock of repossessed properties in the six months to 30 June 2013 relates to 52 properties repossessed in the Republic of Ireland, partly offset by 44 properties disposed of in the period. The majority of repossessions were by way of voluntary surrender or abandonment of the property.

Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages

The following table analyses the United Kingdom residential mortgage portfolio showing credit quality and impairment provisions:

	30 June 2013			31 December 2012		
Statement of financial position	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	**2,321**	**373**	**2,694**	2,583	407	2,990
In arrears (>30 days past due)[1]	**314**	**66**	**380**	319	65	384
In arrears (>90 days past due)[1]	**282**	**56**	**338**	270	56	326
Of which impaired	**238**	**54**	**292**	230	44	274
Statement of financial position specific provisions	**95**	**28**	**123**	88	22	110
Statement of financial position IBNR provisions	**30**	**2**	**32**	61	12	73
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**39.8**	**51.6**	**42.0**	38.3	50.0	40.1

	30 June 2013			30 June 2012		
Income statement	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Income statement specific provisions	**14**	**9**	**23**	13	3	16
Income statement IBNR provisions	**(29)**	**(9)**	**(38)**	(4)	(1)	(5)
Total impairment provisions	**(15)**	**–**	**(15)**	9	2	11

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

Residential mortgages in the UK were € 2.7 billion at 30 June 2013 and comprised owner-occupier mortgages of € 2.3 billion and buy-to-let mortgages of € 0.4 billion (31 December 2012: € 3.0 billion comprising owner-occupier mortgages of € 2.6 billion and buy-to-let mortgages of € 0.4 billion).

The level of loans greater than 90 days in arrears and/or impaired increased to 12.6% at 30 June 2013 from 10.9% at 31 December 2012, reflecting the continued impact of the current economic climate on borrowers' repayment capacity, which is particularly evident in Northern Ireland. Statement of financial position specific provisions of € 123 million were held at 30 June 2013 and provided cover of 42% (31 December 2012: € 110 million providing cover of 40%). IBNR statement of financial position provisions of € 32 million were held at 30 June 2013, down from € 73 million at 31 December 2012, and primarily reflects an update on particular portfolio loss rates used in the calculation of the IBNR statement of financial position provision undertaken in the period and the reduction in the size of the performing book.

The total income statement provision in the half-year was a net release of provisions of € 15 million, comprising a specific provision charge of € 23 million offset by a release of IBNR of € 38 million, reflecting the reversal of IBNR provisions as outlined above. This compares to a total income statement charge of € 11 million at 30 June 2012, comprising a specific charge of € 16 million and an IBNR release of € 5 million.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Other personal lending

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

	30 June 2013				31 December 2012+			
	DCB € m	AIB UK € m	FSG € m	Total € m	DCB € m	AIB UK € m	FSG € m	Total € m
Satisfactory	1,963	237	57	2,257	2,082	284	140	2,506
Watch	195	34	54	283	191	36	96	323
Vulnerable	95	46	266	407	34	38	366	438
Impaired	54	47	1,326	1,427	16	38	1,378	1,432
Total criticised loans	344	127	1,646	2,117	241	112	1,840	2,193
Total gross loans and receivables	2,307	364	1,703	4,374	2,323	396	1,980	4,699
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	15	35	97	48	10	28	93	47
Impaired loans/total loans	2	13	78	33	1	10	70	30
Impairment provisions - statement of financial position								
Specific	40	34	1,017	1,091	16	27	1,021	1,064
IBNR	24	6	34	64	22	11	42	75
Total impairment provisions	64	40	1,051	1,155	38	38	1,063	1,139
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	75	73	77	76	100	71	74	74
Total provisions/impaired loans	118	86	79	81	238	100	77	80
Total provisions/total loans	3	11	62	26	2	10	54	24

	30 June 2013				30 June 2012
	%	%	%	%	%
Income statement – impairment charge/average loans	1.50	(2.45)	7.96	3.75	4.33

The other personal lending portfolio at € 4.4 billion has reduced by € 0.3 billion in the period and comprises € 3.5 billion in loans and overdrafts and € 0.9 billion in credit card facilities.

There is evidence of a stabilisation in unemployment and house prices, however, the reduction in the overall other personal lending book still reflects the continued lack of demand for personal credit, as households focus on reducing debt, where possible. € 2.1 billion or 48% of the portfolio is criticised of which impaired loans amount to € 1.4 billion (31 December 2012: € 2.2 billion or 47% and € 1.4 billion).

The Group has statement of financial position specific provisions of € 1.1 billion providing cover on impaired loans of 76% (31 December 2012: € 1.1 billion or 74%) and a further € 0.06 billion in IBNR provisions representing 2.17% of performing loans (31 December 2012: € 0.08 billion or 2.30%).

The income statement provision charge for the period to 30 June 2013 was € 85 million or 3.75% of average customer loans compared with € 112 million or 4.33% in the year to 30 June 2012. While the provision charge has reduced since 2012, borrowers in this sector continue to be impacted by high unemployment levels and reduced incomes as a result of austerity measures.

+The industry sector heading 'lease financing' is no longer reported by the Group. Accordingly, for December 2012 in the above table showing a sector analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction

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

	30 June 2013				31 December 2012+			
	DCB € m	**AIB UK € m**	**FSG € m**	**Total € m**	DCB € m	AIB UK € m	FSG € m	Total € m
Investment								
Commercial investment	**2,103**	**1,128**	**7,614**	**10,845**	2,320	1,290	8,449	12,059
Residential investment	**323**	**420**	**1,968**	**2,711**	349	490	2,045	2,884
	2,426	**1,548**	**9,582**	**13,556**	2,669	1,780	10,494	14,943
Land and development								
Commercial development	**146**	**79**	**1,257**	**1,482**	152	45	1,282	1,479
Residential development	**94**	**567**	**4,185**	**4,846**	113	422	4,461	4,996
	240	**646**	**5,442**	**6,328**	265	467	5,743	6,475
Contractors	**81**	**122**	**234**	**437**	79	135	242	456
Housing associations	**–**	**126**	**300**	**426**	–	95	325	420
Total gross loans and receivables	**2,747**	**2,442**	**15,558**	**20,747**	3,013	2,477	16,804	22,294
Analysed as to asset quality								
Satisfactory	**1,897**	**1,128**	**1,230**	**4,255**	2,148	1,220	1,803	5,171
Watch	**456**	**499**	**548**	**1,503**	467	529	642	1,638
Vulnerable	**150**	**411**	**937**	**1,498**	93	400	1,162	1,655
Impaired	**244**	**404**	**12,843**	**13,491**	305	328	13,197	13,830
Total criticised loans	**850**	**1,314**	**14,328**	**16,492**	865	1,257	15,001	17,123
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**31**	**54**	**92**	**79**	29	51	89	77
Impaired loans/total loans	**9**	**17**	**83**	**65**	10	13	79	62
Impairment provisions – statement of financial position								
Specific	**89**	**191**	**7,544**	**7,824**	144	141	7,422	7,707
IBNR	**87**	**51**	**168**	**306**	80	45	298	423
Total impairment provisions	**176**	**242**	**7,712**	**8,130**	224	186	7,720	8,130
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**36**	**47**	**59**	**58**	47	43	56	56
Total provisions/impaired loans	**72**	**60**	**60**	**60**	73	57	58	59
Total provisions/total loans	**6**	**10**	**50**	**39**	8	8	46	36

	30 June 2013				30 June 2012
	%	**%**	**%**	**%**	%
Income statement – impairment charge/average loans	**3.44**	**1.47**	**2.54**	**2.53**	2.42

At 30 June 2013, the property and construction portfolio amounted to € 20.7 billion.

This sector continues to be very challenging, particularly in Ireland. Latest information available on the commercial segment indicates that there is continued pressure on cash flows and property values, particularly for commercial property in secondary markets however, there are indications of a stabilisation reported by some sectors in prime rents and yields. There are also indications that prices are beginning to stabilise and rents are recovering in the residential housing markets. In the UK, there have also been signs of improvement in prime markets, such as London and the South East.

+The industry sector heading 'lease financing' is no longer reported by the Group. Accordingly, for December 2012 in the above table showing a sector analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

Credit risk – Credit profile of the loan portfolio

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

The level of criticised loans in the Group's property and construction portfolio at € 16.5 billion has decreased from € 17.1 billion at 31 December 2012. Whilst the reduction in the portfolio reflects sale of assets and repayments, the sector continues to be challenging due to a continuing lack of economic activity and the ability of borrowers to meet repayments. Impaired loans amounted to € 13.5 billion or 65% of the portfolio (31 December 2012: € 13.8 billion or 62%).

The Group has € 7.8 billion of statement of financial position specific provisions providing cover on impaired loans of 58% (31 December 2012: € 7.7 billion or 56%). Total statement of financial position provisions of € 8.1 billion represented 39% of loans and receivables (31 December 2012: € 8.1 billion or 36%).

The income statement provision charge for the period to 30 June 2013 of € 272 million or 2.53% (annualised) of average customer loans compared with € 290 million or 2.42% (annualised) for the same period to June 2012. The reduced income statement provision charge was particularly influenced by a reduction in the land and development charge, down from € 168 million in June 2012 when provisions were raised in relation to the more vulnerable portfolios to € 120 million for the period to 30 June 2013.

Investment

Property investment loans amounted to € 13.6 billion at 30 June 2013 (31 December 2012: € 14.9 billion) of which € 10.8 billion related to commercial investment. The reduction was largely as a result of continued deleveraging in the portfolio. € 8.9 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, € 4.2 billion in the United Kingdom, € 0.2 billion in the United States of America and € 0.3 billion in other geographical locations.

This sector continues to be challenging, particularly in Ireland. There is some evidence that yields for prime properties across sub-sectors have stabilised in recent months albeit demand for investment property remains weak. Pressure remains on rental cash flows due to rental voids and renegotiated lease terms. A combination of these factors continues to underpin the high level of criticised loans in this portfolio.

€ 10.3 billion or 76% of the investment property portfolio was criticised at 30 June 2013 compared with € 10.6 billion or 71% at 31 December 2012. Included in criticised loans were € 7.8 billion of loans which were impaired (31 December 2012: € 8.0 billion) on which the Group had € 3.5 billion in statement of financial position specific provisions, providing cover of 45% (31 December 2012: € 3.4 billion or 42%). Total provisions as a percentage of total loans was 28%, up from 25% at December 2012 for this sector.

The income statement provision charge for the period to 30 June 2013 was € 140 million or 2.04% (annualised) of average property investment customer loans compared with € 106 million or 1.3% (annualised) for the same period to June 2012.

Land and development

At 30 June 2013, Group land and development loans amounted to € 6.3 billion (31 December 2012: € 6.5 billion). € 4.5 billion of this portfolio related to loans in the Republic of Ireland and € 1.8 billion in the United Kingdom.

There continues to be little demand for development land in Ireland. Development land values have reverted to agricultural values in some locations where the possibility of development in the medium term is remote. These factors underpin the high levels of criticised loans, particularly impaired loans and their associated high levels of provisions, in this portfolio.

€ 5.9 billion of the land and development portfolio was criticised at 30 June 2013 (31 December 2012: € 6.2 billion). Included in criticised loans were € 5.4 billion of loans which were impaired (31 December 2012: € 5.6 billion) on which the Group had € 4.1 billion in statement of financial position specific provisions providing cover of 77% (31 December 2012: 74%). Total provisions as a percentage of total loans was 66%, up from 65% at 31 December 2012 for this sector.

The income statement provision charge for the period to 30 June 2013 was € 120 million or 3.50% (annualised) of average land and development customer loans compared with € 168 million or 5.02% (annualised) for the same period to June 2012.

There was also an income statement provision charge of € 12 million for contractors in relation to other property and construction exposures.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – SME/other commercial lending

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

	30 June 2013				31 December 2012+			
	DCB € m	**AIB UK € m**	**FSG € m**	**Total € m**	DCB € m	AIB UK € m	FSG € m	Total € m
Agriculture	**1,157**	**45**	**576**	**1,778**	1,112	43	595	1,750
Distribution:								
Hotels	**291**	**659**	**1,350**	**2,300**	320	647	1,657	2,624
Licensed premises	**243**	**59**	**779**	**1,081**	248	46	830	1,124
Retail/Wholesale	**974**	**191**	**1,293**	**2,458**	1,026	201	1,277	2,504
Other distribution	**–**	**9**	**6**	**15**	86	9	120	215
	1,508	**918**	**3,428**	**5,854**	1,680	903	3,884	6,467
Other services	**1,297**	**1,680**	**1,689**	**4,666**	1,368	1,845	1,865	5,078
Other	**703**	**402**	**766**	**1,871**	675	407	726	1,808
Total gross loans and receivables	**4,665**	**3,045**	**6,459**	**14,169**	4,835	3,198	7,070	15,103
Analysed as to asset quality								
Satisfactory	**3,574**	**2,093**	**878**	**6,545**	3,894	2,189	876	6,959
Watch	**806**	**440**	**164**	**1,410**	815	472	187	1,474
Vulnerable	**193**	**232**	**847**	**1,272**	84	203	1,162	1,449
Impaired	**92**	**280**	**4,570**	**4,942**	42	334	4,845	5,221
Total criticised loans	**1,091**	**952**	**5,581**	**7,624**	941	1,009	6,194	8,144
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**23**	**31**	**86**	**54**	19	32	88	54
Impaired loans/total loans	**2**	**9**	**71**	**35**	1	10	69	35
Impairment provisions – statement of financial position								
Specific	**44**	**130**	**3,006**	**3,180**	38	164	3,028	3,230
IBNR	**80**	**38**	**93**	**211**	72	28	140	240
Total impairment provisions	**124**	**168**	**3,099**	**3,391**	110	192	3,168	3,470
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**48**	**47**	**66**	**64**	90	49	62	62
Total provisions/impaired loans	**135**	**60**	**68**	**69**	262	57	65	66
Total provisions/total loans	**3**	**6**	**48**	**24**	2	6	45	23

	30 June 2013				30 June 2012
	%	**%**	**%**	**%**	%
Income statement – impairment charge/average loans	**1.03**	**1.06**	**3.01**	**1.96**	1.38

+The industry sector heading 'lease financing' is no longer reported by the Group. Accordingly, for December 2012 in the above table showing a sector analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

Credit risk – Credit profile of the loan portfolio

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

The SME/other commercial lending portfolio amounted to € 14.2 billion at 30 June 2013 and includes lending to the following main sub-sectors: hotels and licensed premises € 3.4 billion; retail/wholesale € 2.5 billion; other services € 4.7 billion; agriculture € 1.8 billion and other € 1.9 billion (31 December 2012: € 3.7 billion, € 2.5 billion, € 5.1 billion, € 1.8 billion and € 2.0 billion respectively).

Challenging economic conditions and the level of indebtedness in the sector has resulted in many SMEs experiencing difficulty in managing the finances of their businesses. SMEs in Ireland, which make up 69% of the exposures in this sector are heavily dependant on the domestic economy which remained challenged in the first half of 2013. Consequently, AIB is engaged in the refinance and restructuring of existing facilities in order to sustain these businesses.

The level of criticised loans at € 7.6 billion representing 54% of the portfolio (31 December 2012: € 8.2 billion or 54%) is indicative of the continuing stress on trading entities. Within criticised loans, impaired loans amounted to € 4.9 billion or 35% of the sector (31 December 2012: € 5.2 billion or 35%). The Group had statement of financial position specific provisions of € 3.2 billion providing cover of 64% on impaired loans (31 December 2012: € 3.2 billion or 62%).

Statement of financial position total provisions of € 3.4 billion represented 24% cover of total loans for the sector (31 December 2012: € 3.5 billion or 23%).

The income statement provision charge for the year to 30 June 2013 was € 144 million or 1.96% of average customer loans compared with € 110 million or 1.38% to 30 June 2012. This increase was driven by a mix of new provisions and increased provisions on existing impaired loans.

At 31 December 2012, the Group had IBNR provisions of € 240 million, informed by a number of factors including: the level of arrears; and the levels of stress in the portfolios. Specific provisions were raised during 2013 which together with the reduction in the non impaired portfolio of € 0.7 billion, resulted in a reduction of € 29 million in the required level of IBNR provisions to € 211 million.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Corporate lending

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

	30 June 2013			31 December 2012+		
	DCB € m	**FSG € m**	**Total € m**	DCB € m	FSG € m	Total € m
Satisfactory	**3,056**	**598**	**3,654**	2,977	1,185	4,162
Watch	**124**	**75**	**199**	106	35	141
Vulnerable	**25**	**36**	**61**	129	20	149
Impaired	**192**	**428**	**620**	161	642	803
Total criticised loans	**341**	**539**	**880**	396	697	1,093
Total gross loans and receivables	**3,397**	**1,137**	**4,534**	3,373	1,882	5,255
Total loans percentage	**%**	**%**	**%**	%	%	%
Criticised loans/total loans	**10**	**47**	**19**	12	37	21
Impaired loans/total loans	**6**	**38**	**14**	5	34	15
Impairment provisions – statement of financial position						
Specific	**96**	**259**	**355**	112	373	485
IBNR	**70**	**13**	**83**	85	13	98
Total impairment provisions	**166**	**272**	**438**	197	386	583
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**50**	**60**	**57**	70	58	60
Total provisions/impaired loans	**87**	**63**	**71**	122	60	73
Total provisions/total loans	**5**	**24**	**10**	6	21	11

	30 June 2013			30 June 2012
	%	**%**	**%**	%
Income statement – impairment charge/average loans	**(0.12)**	**2.89**	**0.74**	0.75

The corporate portfolio amounted to € 4.5 billion at 30 June 2013 compared with € 5.3 billion at 31 December 2012. The reduction largely reflects the continued deleveraging of the portfolio along with scheduled repayments.

Criticised loans at € 0.9 billion represent 19% of the portfolio compared with € 1.1 billion or 21% at 31 December 2012. Within criticised loans, impaired loans amounted to € 0.6 billion (31 December 2012: € 0.8 billion) and the Group had statement of financial position specific provisions of € 0.4 billion providing cover of 57% on these loans (31 December 2012: € 0.5 billion or 60%).

Statement of financial position total provisions of € 0.4 billion represented 10% of loans and receivables (31 December 2012: € 0.6 billion or 11%).

The income statement provision charge for the period to 30 June 2013 was € 18 million or 0.74% of average customer loans (30 June 2012: € 26 million or 0.75%).

+The industry sector heading 'lease financing' is no longer reported by the Group. Accordingly, for December 2012 in the above table showing a sector analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

Credit risk – Credit profile of the loan portfolio

Impaired loans for which specific provisions are held*

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

							30 June 2013
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables € m	Individually assessed € m	Collectively assessed € m	Total € m	% of total loans	Total € m	% of impaired loans
Retail							
Residential mortgages	**41,519**	**4,156**	**4,595**	**8,751**	**21**	**3,072**	**35**
Other personal lending	**4,374**	**844**	**583**	**1,427**	**33**	**1,091**	**76**
Total retail	**45,893**	**5,000**	**5,178**	**10,178**	**22**	**4,163**	**41**
Commercial							
Property	**20,747**	**12,982**	**509**	**13,491**	**65**	**7,824**	**58**
SME/commercial	**14,169**	**4,231**	**711**	**4,942**	**35**	**3,180**	**64**
Total commercial	**34,916**	**17,213**	**1,220**	**18,433**	**53**	**11,004**	**60**
Corporate	**4,534**	**620**	**–**	**620**	**14**	**355**	**57**
Total	**85,343**	**22,833**	**6,398**	**29,231**	**34**	**15,522**	**53**
Specific impairment provisions at 30 June 2013		**12,620**	**2,902**	**15,522**			
		%	**%**	**%**			
Specific provision cover percentage		**55**	**45**	**53**			

							31 December 2012+
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables € m	Individually assessed € m	Collectively assessed € m	Total € m	% of total loans	Total € m	% of impaired loans
Retail							
Residential mortgages	42,521	3,888	4,242	8,130	19	2,699	33
Other personal lending	4,699	863	569	1,432	30	1,064	74
Total retail	47,220	4,751	4,811	9,562	20	3,763	39
Commercial							
Property and construction	22,294	13,306	524	13,830	62	7,707	56
SME/commercial	15,103	4,559	662	5,221	34	3,230	62
Total commercial	37,397	17,865	1,186	19,051	51	10,937	57
Corporate	5,255	803	–	803	16	485	60
Total	89,872	23,419	5,997	29,416	33	15,185	52
Specific impairment provisions at 31 December 2012		12,515	2,670	15,185			
		%	%	%			
Specific provision cover percentage		53	45	52			

+The industry sector heading 'lease financing' is no longer reported by the Group. Accordingly, for December 2012 in the above table showing a sector analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

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

Credit risk – Credit profile of the loan portfolio

Credit profile of loans and receivables to customers

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

						30 June 2013
	Mortgages	**Other personal**	**Property and construction**	**SME/other commercial**	**Corporate**	**Total**
Asset quality*	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Neither past due nor impaired	**30,653**	**2,674**	**6,573**	**8,610**	**3,893**	**52,403**
Past due but not impaired	**2,115**	**273**	**683**	**617**	**21**	**3,709**
Impaired – provisions held	**8,751**	**1,427**	**13,491**	**4,942**	**620**	**29,231**
Gross loans and receivables	**41,519**	**4,374**	**20,747**	**14,169**	**4,534**	**85,343**
Provisions for impairment	**(3,385)**	**(1,155)**	**(8,130)**	**(3,391)**	**(438)**	**(16,499)**
	38,134	**3,219**	**12,617**	**10,778**	**4,096**	**68,844**
Unearned income						**(90)**
Deferred costs						**83**
Net loans and receivables						**68,837**

						31 December 2012+
	Mortgages	Other personal	Property and construction	SME/other commercial	Corporate	Total
Asset quality*	€ m	€ m	€ m	€ m	€ m	€ m
Neither past due nor impaired	32,318	2,902	7,571	9,194	4,432	56,417
Past due but not impaired	2,073	365	893	688	20	4,039
Impaired – provisions held	8,130	1,432	13,830	5,221	803	29,416
Gross loans and receivables	42,521	4,699	22,294	15,103	5,255	89,872
Provisions for impairment	(3,206)	(1,139)	(8,130)	(3,470)	(583)	(16,528)
	39,315	3,560	14,164	11,633	4,672	73,344
Unearned income						(108)
Deferred costs						89
Net loans and receivables						73,325

Loans are assessed for impairment if they are past due, typically, for more than ninety days or if the borrower exhibits an inability to meet its obligations to the Group based on objective evidence of loss events ('impairment triggers'). Loans are deemed impaired where the carrying value of the asset is shown to be in excess of the present value of future cashflows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

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

The 'Neither past due nor impaired' element of the portfolio as at 30 June 2013 amounted to € 52.4 billion, down from € 56.4 billion as at 31 December 2012. The reduction reflects amortisations exceeding credit demand, sale of loans and the continued migration into the 'Impaired' portfolio and the 'Past due but not impaired' portfolio in the period. As at 30 June 2013, 81% of loans that are 'Neither past due nor impaired' are in a Satisfactory grade with the remaining 19% being in Watch or Vulnerable grades. This compares to 83% Satisfactory as at 31 December 2012 and 17% Watch or Vulnerable.

+The industry sector heading 'lease financing' is no longer reported by the Group. Accordingly, for December 2012 in the above table showing a sector analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

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

Credit risk – Credit profile of the loan portfolio

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

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

							30 June 2013
Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
Agriculture	44	10	11	21	14	33	133
Energy	2	1	1	–	–	1	5
Manufacturing	11	7	1	5	3	16	43
Property and construction	147	50	52	104	149	181	683
Distribution	82	35	24	56	45	39	281
Transport	6	5	–	1	14	3	29
Financial	2	2	6	1	1	–	12
Other services	52	18	10	17	17	21	135
Personal							
Residential mortgages	997	474	263	232	96	53	2,115
Credit cards	35	11	7	5	1	–	59
Other	54	32	19	27	34	48	214
	1,432	645	394	469	374	395	3,709
Analysed by market segment							
DCB	1,136	493	262	219	151	118	2,379
AIB UK	92	40	38	60	45	13	288
FSG	204	112	94	190	178	264	1,042
	1,432	645	394	469	374	395	3,709
	%	%	%	%	%	%	%
As a percentage of total gross loans	1.68	0.76	0.46	0.55	0.44	0.45	4.34

							31 December 2012
Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
Agriculture	55	9	16	13	16	30	139
Energy	6	–	–	1	–	1	8
Manufacturing	19	4	2	4	7	5	41
Property and construction	210	101	66	174	187	155	893
Distribution	80	34	28	46	45	42	275
Transport	7	5	1	15	1	3	32
Financial	4	2	8	6	2	1	23
Other services	70	25	17	21	33	24	190
Personal							
Residential mortgages	1,013	451	248	208	91	62	2,073
Credit cards	39	11	9	5	1	–	65
Other	75	32	40	48	47	58	300
	1,578	674	435	541	430	381	4,039
Analysed by market segment							
DCB	1,171	409	255	212	162	80	2,289
AIB UK	85	64	32	72	21	19	293
FSG	322	201	148	257	247	282	1,457
	1,578	674	435	541	430	381	4,039
	%	%	%	%	%	%	%
As a percentage of total gross loans	1.8	0.7	0.5	0.6	0.5	0.4	4.5

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

Credit risk – Credit profile of the loan portfolio

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

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

Loans past due but not impaired were € 3.7 billion or 4.3% of total loans and receivables to customers (31 December 2012: € 4 billion or 4.5%).

Residential mortgage loans past due but not impaired at € 2.1 billion represent 57% of total past due but not impaired loans (31 December 2012: € 2.1 billion represent 51%) largely driven by decreases in household income and high levels of unemployment.

Property and construction loans past due but not impaired represent a further € 0.7 billion or 18% (31 December 2012: € 0.9 billion or 22%) with other personal at € 0.3 billion or 7% (31 December 2012: € 0.4 billion or 9%).

Credit risk – Credit profile of the loan portfolio

Provisions – income statement

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

	30 June 2013			30 June 2012		
	Mortgages € m	**Other € m**	**Total € m**	Mortgages € m	Other € m	Total € m
DCB	**111**	**87**	**198**			
AIB UK	**(15)**	**30**	**15**			
FSG	**126**	**402**	**528**			
Total	**222**	**519**	**741**	352	538	890

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

	30 June 2013			30 June 2012		
	Mortgages bps	**Other bps**	**Total bps**	Mortgages bps	Other bps	Total bps
DCB	**64**	**132**	**83**			
AIB UK	**(103)**	**100**	**35**			
FSG	**533**	**305**	**340**			
Total	**105**	**228**	**169**	158	207	184

Credit risk – Credit profile of the loan portfolio

Provisions for impairment on financial assets – income statement

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

Impairment charge	**30 June 2013 € m**	30 June 2012 € m
Individually significant loans and receivables	**773**	846
Individually insignificant loans and receivables	**322**	509
IBNR	**(354)**	(465)
Total provisions for impairment on loans and receivables to customers	**741**	890
Provisions for impairment on loans and receivables to banks	**3**	–
Provisions charge/(writeback of provisions) for liabilities and commitments	**3**	(1)
(Writeback)/provisions for impairment on financial investments available for sale	**(9)**	84
Total	**738**	973

The credit quality profile of the Group’s loans and receivables to customers continues to be influenced by on-going difficulties particularly in the Irish economy, continuing high unemployment, and lack of liquidity in the property sector. These factors have all impacted the level of impaired loans and associated provisions.

The income statement provision charge for loans and receivables to customers for the period to 30 June 2013 was € 741 million or 1.69% of average customer loans (annualised) compared with € 890 million or 1.84% for the same period in 2012.

While the environment in Ireland remains uncertain for borrowers, the reduced income statement provision charge reflects the extent to which impaired loans had already been recognised and provisions, particularly for more vulnerable portfolios such as land and development, had been raised in 2012.

The provision charge of € 741 million comprised € 1,095 million of specific provisions and a release of € 354 million of IBNR provisions which primarily related to where IBNR provisions had been raised in previous periods up to December 2012, based on management’s view of incurred loss and which now have been reflected in the specific provision charge in the period to 30 June 2013.

30% or € 222 million of the provision charge related to residential mortgages where the portfolio has experienced an increase in impaired loans as borrowers’ repayment capacity is impacted by the difficult economic environments in Ireland and the United Kingdom.

A further € 272 million or 37% of the charge related to the property and construction sector, reflecting the lack of activity in this sector, reduced asset prices and pressure on rental cashflows. The property and construction charge in AIB UK was € 59 million.

The remainder of the provision charge was € 144 million in the SME/other commercial sector, € 85 million for the other personal sector and € 18 million for corporate loans.

Credit risk – Credit profile of the loan portfolio

External credit ratings of financial assets*

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

					30 June 2013
	Bank € m	**Corporate € m**	**Sovereign[(1)] € m**	**Other € m**	**Total € m**
AAA/AA	**2,852**	**1**	**4,733**	**471**	**8,057**
A	**1,764**	**12**	**30**	**234**	**2,040**
BBB+/BBB/BBB-	**794**	**40**	**26,313[(2)]**	**110**	**27,257**
Sub investment	**–**	**53**	**6**	**89**	**148**
Unrated	**59**	**96**	**–**	**–**	**155**
Total	**5,469**	**202**	**31,082**	**904**	**37,657**

					31 December 2012
	Bank € m	Corporate € m	Sovereign[(1)] € m	Other € m	Total € m
AAA/AA	2,452	3	3,881	583	6,919
A	2,347	15	221	223	2,806
BBB+/BBB/BBB-	1,167	60	24,995[(2)]	79	26,301
Sub investment	103	99	26	79	307
Unrated	76	115	–	–	191
Total	6,145	292	29,123	964	36,524

(1)Includes supranational banks and government agencies.

(2)Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of BBB+ (31 December 2012: BBB+) i.e. the external rating of the Sovereign.

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

Credit risk – Credit profile of the loan portfolio

Leveraged debt by geographic location and industry sector

Leveraged lending (including the financing of management buy-outs, buy-ins and private equity buy-outs) is conducted primarily through specialist lending teams. The leveraged loan book is held as part of the loans and receivables to customers portfolio. Specific impairment provisions of € 17 million (31 December 2012: € 34 million) are currently held against impaired exposures of € 40 million (31 December 2012: € 72 million). These impaired exposures are not included in the analysis below. The unfunded element below includes off-balance sheet facilities and the undrawn element of facility commitments.

The portfolio continues to reduce, in large part due to AIB's deleveraging plans.

	30 June 2013		31 December 2012	
Leveraged debt by geographic location*	**Funded € m**	**Unfunded € m**	Funded € m	Unfunded € m
United Kingdom	**66**	**2**	84	24
Rest of Europe	**21**	**5**	39	4
United States of America	**296**	**44**	325	50
Rest of the World	**–**	**–**	31	–
	383	**51**	479	78

Funded leveraged debt by industry sector*	**30 June 2013 € m**	31 December 2012 € m
Agriculture	**–**	–
Property and construction	**–**	–
Distribution	**30**	91
Energy	**–**	29
Financial	**11**	5
Manufacturing	**101**	158
Transport	**103**	14
Other services	**138**	182
	383	479

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

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

At 30 June 2013, the Group's top 50 exposures amounted to € 8.2 billion, and accounted for 9.6% (€ 9.3 billion and 10.4% at 31 December 2012) of the Group's on-balance sheet total gross loans and receivables to customers. No single customer exposure exceeded regulatory guidelines. In addition, the Group holds NAMA senior bonds amounting to € 16.4 billion (31 December 2012: € 17.4 billion).

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

Credit risk – Financial investments available for sale portfolio*

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

	30 June 2013 € m	31 December 2012 € m
Debt securities		
Irish Government securities	**9,632**	7,588
Euro government securities	**1,939**	1,754
Non Euro government securities	**609**	712
Supranational banks and government agencies	**2,569**	1,682
Collateralised mortgage obligations	**15**	22
Other asset backed securities	**874**	920
Euro bank securities	**2,988**	3,070
Non Euro bank securities	**36**	161
Euro corporate securities	**49**	87
Non Euro corporate securities	**141**	193
Other investments	**12**	12
Total debt securities	**18,864**	16,201
Equity securities		
Equity securities – NAMA subordinated bonds	**47**	47
Equity securities – other	**47**	96
Total equity securities	**94**	143
Total financial investments available for sale	**18,958**	16,344

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

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

Debt securities

Available for sale ("AFS") debt securities have increased from a fair value of € 16.2 billion at 31 Dec 2012 to € 18.9 billion at 30 June 2013. Purchases of € 4.5 billion and an increase in fair value of € 0.2 billion were offset by sales and maturities of € 2 billion.

The overall portfolio remains materially investment grade, with 29% rated AAA (2012: 26%); 9.5 % rated AA (2012: 11%); 4% rated A (2012: 7%) and 54% rated BBB (unchanged).

The AFS portfolio consists principally of government and supranational banks and government agency securities (78%).

The Irish Government securities position, at 51% of the total portfolio, increased from € 7.6 billion at 31 December 2012 to € 9.6 billion at 30 June 2013. Net new purchases of € 1.8 billion were undertaken in the period for the purpose of hedging longer term returns on the capital of the Group. In addition, fair value gains of € 0.2 billion arose during the period.

The fair value of bank securities amounted to € 3.0 billion at 30 June 2013 (31 December 2012: € 3.2 billion) and included € 2.3 billion of covered bonds (31 December 2012: € 1.7 billion); € 0.4 billion of government guaranteed senior bank debt (31 December 2012: € 0.8 billion); € 0.4 billion of senior unsecured bank debt (31 December 2012: € 0.6 billion); and € 6 million of subordinated bank debt (31 December 2012: € 0.1 billion).

Following the reduction in certain portfolios on which impairment provisions had previously been raised, there was an impairment provision write back of € 16 million.

Equity securities

NAMA subordinated bonds are included within available for sale equity securities. The fair value of these bonds at 30 June 2013 was € 47 million against a nominal value of € 471 million, (unchanged from 31 December 2012).

Other equity securities with a fair value of € 54 million were disposed of during the period resulting in a profit of € 10 million.

Exposures to certain Eurozone countries

Republic of Ireland (total exposure € 10.2 billion)

The fair value of Irish debt securities in the available for sale category amounted to€ 10.2 billion at 30 Jun 2013 (31 December 2012: € 8.6 billion) and consisted of sovereign debt € 9.6 billion (31 December 2012: € 7.6 billion); government guaranteed senior bank debt of € 0.4 billion (31 December 2012: € 0.7 billion); covered bonds of € 0.2 billion (31 December 2012: € 0.2 billion) and residential mortgage backed securities of € 22 million (31 December 2012: € 37 million).

In addition to Irish Government securities outlined above, NAMA senior debt amounting to € 16.7 billion nominal (31 December 2012: € 17.4 billion), which is guaranteed by the Irish Government, is included within loans and receivables to customers (note 20).

Italy

The fair value of Italian debt securities at 30 June 2013 was € 220 million (31 December 2012: € 223 million) and included sovereign debt of € 218 million (2012: € 221 million); and corporate debt of € 2 million (31 December 2012: € 2 million).

Portugal

The fair value of Portuguese debt securities at 30 June 2013 was € 96 million (31 December 2012: € 131 million). It comprised sovereign debt of € 6 million (31 December 2012: € 25 million); asset backed securities of € 87 million (31 December 2012: € 83 million); senior bank debt Nil (31 December 2012: € 20 million); and corporate debt of € 3 million (31 December 2012: € 3 million).

Spain

The fair value of Spanish debt securities at 30 June 2013 was € 959 million (31 December 2012: € 986 million) and included asset backed securities of € 528 million (31 December 2012: € 545 million) and covered bonds of € 431 million (31 December 2012: € 441 million).

The Spanish asset backed securities at 30 June 2013 were all residential mortgage backed securities which had been rated AAA at origination. The 30 June 2013 ratings profile was: A: 28%; AA: 54%; BBB: 15%; BB: 1%; and B: 2%. The overall weighted average market bid price for the portfolio was 80.63 (31 December 2012: 78.19).

In addition, Spanish debt of € 0.12 billion (31 December 2012: € 0.5 billion) is included within loans and receivables to customers (note 20).

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

Credit risk – Analysis of financial investments available for sale portfolio*

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

Government securities*	30 June 2013 Irish Government € m	30 June 2013 Euro governments € m	30 June 2013 Non Euro governments € m	31 December 2012 Irish Government € m	31 December 2012 Euro governments € m	31 December 2012 Non Euro governments € m
Republic of Ireland	**9,632**	**–**	**–**	7,588	–	–
United Kingdom	**–**	**–**	**519**	–	–	621
Italy	**–**	**218**	**–**	–	221	–
Austria	**–**	**117**	**–**	–	160	–
France	**–**	**784**	**–**	–	683	–
Germany	**–**	**275**	**–**	–	281	–
Portugal	**–**	**6**	**–**	–	25	–
Netherlands	**–**	**513**	**–**	–	358	–
Rest of World	**–**	**26**	**90**	–	26	91
	9,632	**1,939**	**609**	7,588	1,754	712

Asset backed securities*	30 June 2013 Total € m	31 December 2012 Total € m
Republic of Ireland	**22**	37
United Kingdom	**74**	95
United States of America	**87**	84
Spain	**528**	545
Portugal	**87**	83
Rest of World	**91**	98
	889	942

Bank securities by geography and currency*	30 June 2013 Euro € m	30 June 2013 Non Euro € m	31 December 2012 Euro € m	31 December 2012 Non Euro € m
Republic of Ireland	**555**	**–**	903	35
United Kingdom	**506**	**1**	425	10
United States of America	**25**	**–**	35	–
Australia	**63**	**–**	–	–
Austria	**15**	**–**	21	–
France	**526**	**–**	464	–
Germany	**53**	**–**	75	6
Portugal	**–**	**–**	20	–
Netherlands	**338**	**–**	344	–
Spain	**431**	**–**	441	–
Sweden	**125**	**35**	24	110
Belgium	**52**	**–**	52	–
Denmark	**75**	**–**	35	–
Rest of World	**224**	**–**	231	–
	2,988	**36**	3,070	161

The cumulative credit to available for sale securities reserves relating to bank securities is € 143 million (31 December 2012: credit of € 163 million) which is gross of hedging and taxation.

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

Condensed consolidated interim financial statements – Basis of preparation

Reporting entity

Allied Irish Banks, p.l.c. ('the parent company') is a company domiciled in Ireland. The condensed consolidated interim financial statements for the six months ended 30 June 2013 comprise the parent company and its subsidiary undertakings, collectively referred to as the 'Group', and the Group's interest in associated undertakings.

The consolidated financial statements of the Group for the year ended 31 December 2012 ('the Annual Financial Report 2012') are available upon request from the Company Secretary or at www.aibgroup.com/investorrelations.

Going concern

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

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans, cash flow and funding forecasts, capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Irish Government, as AIB's principal shareholder, has confirmed its recognition of AIB as a Pillar Bank, given its key role in supporting the Irish economy. In support of this role it has ensured that AIB has been sufficiently capitalised to meet the capital targets set by the Central Bank of Ireland through its 2011 PCAR and PLAR assessment. Furthermore, the Directors have considered the outlook for the Irish economy, taking into account such factors as progress on improving the fiscal situation and the support provided by the EU/IMF to Ireland. The Directors' view on the Irish economy has been reinforced by the Troika in their tenth review in May 2013 of progress on EU/IMF Programme targets, who acknowledged that Ireland is on track for achieving various benchmarks. The Directors have also considered the eurozone sovereign debt crisis and the developments taken at an EU level in response to the crisis.

The Directors have reviewed the capital and financial plans for the period of assessment, and although AIB consumes capital over the life of the plan they believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario.

In relation to liquidity and funding, the Directors are satisfied based on AIB's position as one of the two 'Pillar Banks' that in all reasonable circumstances, the required liquidity and funding from the Central Bank/ECB would be available to the Group during the period of assessment. The Directors, therefore, consider that the liquidity and funding position of AIB is assured during the period of assessment.

Conclusion

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

Accounting policies

The condensed consolidated interim financial statements (hereafter 'Interim financial statements') for the half-year ended 30 June 2013, which should be read in conjunction with the Annual Financial Report 2012, were prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union ("EU"). The condensed consolidated interim financial statements comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, and the condensed consolidated statement of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the Risk management section of the Half-Yearly Financial Report. The relevant information in the Risk management section is identified as forming an integral part of the condensed consolidated interim financial statements.

There have been no significant changes to the accounting policies described on pages 194 to 217 in the Annual Financial Report 2012 apart from those set out below.

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since managements' judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. Revisions to accounting estimates are recognised in the period in which the

Condensed consolidated interim financial statements – Basis of preparation

estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; determination of the fair value of certain financial assets and financial liabilities; financial asset and financial liability classification; retirement benefits and restructuring liabilities; voluntary severance provisions; the recoverability of deferred tax assets; and the carrying value of NAMA bonds. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

Critical accounting policies adopted by the Group are set out on pages 45 to 48 of the Annual Financial Report 2012.

Adoption of new accounting standards

The following standards/amendments to standards have been adopted by the Group, effective from 1 January 2013:

Amendments to IAS 1 *Presentation of Items in Other Comprehensive Income*

These amendments are effective from 1 July 2012. The amendments require companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. The adoption of these amendments has resulted in a change in the presentation of other comprehensive income.

IAS 19 *Employee Benefits*

This revised standard is effective from 1 January 2013. The amendments result in significant changes to accounting for defined benefit pension plans. The revised standard eliminates the option to defer recognition of gains and losses (this option had not been adopted by AIB in the past). Actuarial gains and losses are now required to be recognised in other comprehensive income and are excluded permanently from profit or loss. The expected returns on plan assets will no longer be recognised in profit or loss. The expected return and the interest cost are replaced by recording net interest in profit or loss. Net interest is calculated using the discount rate used to measure the pension obligation. Unvested past service costs can no longer be deferred and recognised over the future vesting period. Instead, all past service costs will be recognised at the earlier of when the amendment/curtailment occurs and when the entity recognises related restructuring or termination costs. The adoption of this standard has increased the retirement benefit charge for the period by c. € 10 million and required the restatement of the 2012 comparative amounts.

This restatement impacts:

- the condensed consolidated income statement for the six month period ended 30 June 2012:
  - increase of € 14 million in retirement benefit charge;
  - decrease of € 204 million in termination benefit charge; and
  - decrease of € 28 million in income tax credit

- the loss per share for the six month period ended 30 June 2012:
  - decrease of 0.03 cent per share in the basic loss per share; and
  - decrease of 0.03 cent per share in the diluted loss per share

- the comprehensive income for the six month period ended 30 June 2012:
  - decrease of € 162 million in consolidated loss; and
  - increase of € 174 million in total comprehensive income

- the consolidated statement of financial position as at 31 December 2012:
  - decrease of € 27 million in retirement benefit liabilities;
  - decrease of € 15 million in deferred taxation; and
  - increase of € 114 million in revenue reserves

- the consolidated statement of changes in equity as at 30 June 2012:
  - increase of € 174 million in revenue reserves

- the consolidated statement of changes in equity as at 31 December 2012:
  - increase of € 114 million in revenue reserves.

Condensed consolidated interim financial statements – Basis of preparation

IFRS 10 *Consolidated Financial Statements*
This standard which is effective from 1 January 2013 replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. It introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 10 builds on the existing principles by identifying the concept of control as the determining factor in which an entity should be included within the consolidated financial statements of the parent company. The adoption of this standard did not have a significant impact on the financial position or performance of the Group.

IFRS 11 *Joint Arrangements*
This standard is effective from 1 January 2013. IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures*, by focusing on the rights and obligations of the arrangement, rather than its legal form. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. The adoption of this standard did not have any impact on the financial position or performance of the Group.

IFRS 12 *Disclosure of Interests in Other Entities*
This standard which is effective from 1 January 2013 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*; it also replaces the disclosure requirements in IAS 28 *Investments in Associates and Joint Ventures*. The required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. This basic principle is further supported by more detailed disclosure objectives and requirements. This new standard impacts the disclosures required for the Group's subsidiaries and associates as well as unconsolidated structured entities.

IAS 27 *Separate Financial Statements* (revised 2011)
The revised standard is effective from 1 January 2013. The requirements relating to separate financial statements are unchanged and are included in the revised IAS 27. The other sections of IAS 27 are replaced by IFRS 10 *Consolidated Financial Statements*. IAS 27 is renamed 'Separate Financial Statements' and is now a standard dealing solely with separate financial statements. The existing guidance and disclosure requirements for separate financial statements are unchanged. The adoption of this standard has not had an impact on Group reporting.

IAS 28 *Investments in Associates and Joint Ventures* (revised 2011)
This standard which is effect from 1 January 2013 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 (revised 2011) does not include any disclosure requirements; these are now included in IFRS 12 *Disclosure of Interests in Other Entities*. The adoption of this standard did not have any impact on the financial position or performance of the Group.

IFRS 13 *Fair Value Measurement*
This standard which is effective from 1 January 2013 establishes a single source of guidance for fair value measurements under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The standard requires entities to disclose information about the valuation techniques and inputs used to measure fair value, as well as information about the uncertainty inherent in fair value measurements. This information is required for both financial and non-financial assets and liabilities. The adoption of this standard has resulted in additional disclosures.

IFRS 7 *Financial Instruments: Disclosures on Offsetting Financial Assets and Financial Liabilities*
These amendments to IFRS 7 are effective from 1 January 2013. The amendments introduce new disclosure requirements for offsetting financial instruments that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP. The amendments require more extensive disclosures at the year end which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements, irrespective of whether they are offset. The adoption of this standard has resulted in additional disclosures.

Other amendments, resulting from improvements to IFRSs which the Group adopted in 2013, did not have any impact on the accounting policies, financial position or performance of the Group.

Changes to accounting policies
Arising from the adoption of the IFRSs set out above, the following are the revised accounting policies applicable from 1 January 2013:

Condensed consolidated interim financial statements – Basis of preparation

Basis of consolidation

Subsidiary undertakings

A subsidiary undertaking is an investee controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated in the Group's financial statements from the date on which control commences until the date that control ceases.

The Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

Loss of control

If the Group loses control of a subsidiary, the Group:

(i) derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;
(ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any attributable amounts in other comprehensive income);
(iii) recognises the fair value of any consideration received and any distribution of shares of the subsidiary;
(iv) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and
(v) recognises any resulting difference of the above items as a gain or loss in the income statement.

The Group subsequently accounts for any investment retained in the former subsidiary in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or when appropriate, IAS 28 *Investments in Associates and Joint Ventures*.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

Business combinations

The Group accounts for the acquisition of businesses using the acquisition method except for those businesses under common control. Under the acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of:

– the acquisition date fair value of assets transferred by the Group;
– liabilities incurred by the Group to the former owners of the acquiree; and
– the equity interests issued by the Group in exchange for control of the acquiree.

Acquisition related costs are recognised in the income statement as incurred.

Goodwill is measured as the excess of the sum of:

– the fair value of the consideration transferred;
– the amount of any non-controlling interests in the acquiree; and
– the fair value of the acquirer's previously held equity interest in the acquiree, if any; less
– the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from the financial statements, as they are not assets of the Group.

Non-controlling interests

For each business combination, the Group recognises any non-controlling interest in the acquiree either:

– at fair value; or
– at their proportionate share of the acquiree's identifiable net assets.

For changes in the Group's interest in a subsidiary that do not result in a loss of control, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The difference between the change in value of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Condensed consolidated interim financial statements – Basis of preparation

Common control transactions
The Group accounts for the acquisition of businesses or investments in subsidiary undertakings between members of the Group at carrying value at the date of the transaction unless prohibited by company law or IFRS. This policy also applies to the acquisition of businesses by the Group of other entities under the common control of the Irish Government. Where the carrying value of the acquired net assets exceeds the fair value of the consideration paid, the excess is accounted for as a capital contribution (accounting policy number 28 Shareholders' equity - capital contributions in the Annual Financial Report 2012). On impairment of the subsidiary in the parent company's separate financial statements, an amount equal to the impairment charge net of tax in the income statement is transferred from capital contribution reserves to revenue reserves. The entire capital contribution is transferred to revenue reserves on final sale of the subsidiary.

For acquisitions under common control, comparative data is not restated. The consolidation of the acquired entity is effective from the acquisition date with intercompany balances eliminated at a Group level on this date.

Associated undertakings
An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it is clearly demonstratable that this is not the case.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in other comprehensive income of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment. When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

Where the Group continues to hold more than 20% of the voting power in an investment but ceases to have significant influence, the investment is no longer accounted for as an associate. On the loss of significant influence, the Group measures the investment at fair value and recognises any difference between the carrying value and fair value in profit or loss and accounts for the investment in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group's share of the results of associated undertakings after tax reflects the Group's proportionate interest in the associated undertaking and is based on financial statements made up to a date not earlier than three months before the period end reporting date, adjusted to conform with the accounting polices of the Group.

Since goodwill that forms part of the carrying amount of the investment in an associate is not recognised separately, it is therefore not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Transactions eliminated on consolidation
Intra-group balances and any unrealised income and expenses, arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains and losses on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

Consistent accounting policies are applied throughout the Group for the purposes of consolidation.

Employee benefits
Retirement benefit obligations
The Group provides employees with post retirement benefits mainly in the form of pensions.

The Group provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. In addition, the Group contributes, according to local law in the various countries in which it operates, to governmental and other schemes which have the characteristics of defined contribution schemes. The majority of the defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. Actuarial gains and losses are recognised immediately in other comprehensive income.

Changes with regard to benefits payable to retirees which represent a constructive obligation under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are accounted for as a negative past service cost. These are recognised in the income statement.

The cost of providing defined benefit pension schemes to employees, comprising the service cost and net interest on the net defined benefit liability (asset), calculated by applying the discount rate to the net defined benefit liability (asset), is charged to the income statement within personnel expenses. Remeasurements of the net defined benefit liability (asset), comprising actuarial gains and losses and the return on scheme assets are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability (asset) will not be reclassified to profit or loss in a subsequent period.

The Group recognises the effect of an amendment to a defined benefit scheme when the plan amendment occurs, which is when the Group introduces or withdraws a defined benefit scheme, or changes the benefits payable under existing defined benefit schemes. A curtailment is recognised when a significant reduction in the number of employees covered by a defined benefit scheme occurs. Gains or losses on plan amendments and curtailments are recognised in the income statement as a past service cost.

The costs of managing the defined benefit scheme assets are deducted from the return on scheme assets. All costs of running the defined benefit schemes are recognised in profit or loss when they are incurred.

The cost of the Group's defined contribution schemes is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the year-end reporting date are included as a liability. The Group has no further obligation under these schemes once these contributions have been paid.

Short-term employee benefits
Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that the Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised staff loans is charged within personnel expenses.

Termination benefits
Termination benefits are recognised as an expense at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which includes the payment of termination benefits.

For termination benefits payable as a result of an employee's decision to accept an offer of voluntary redundancy, which is not within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group recognises the expense at the earlier of when the employee accepts the offer and when a restriction on the Group's ability to withdraw the offer takes effect.

Determination of fair value of financial instruments
The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets

Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and offer prices for liability positions.

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an ‘over the counter' basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks (‘contributors') publish bid and offer levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Group's valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques

In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates. In addition, the Group considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

The valuation methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

- The likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. In addition, future cash flows may also be sensitive to the occurrence of future events, including changes in market rates; and
- Selecting an appropriate discount rate for the instrument, based on the interest rate yield curves including the determination of an appropriate spread for the instrument over the risk-free rate. The spread is adjusted to take into account the specific credit risk profile of the exposure.

All adjustments in the calculation of the present value of future cash flows are based on factors market participants would take into account in pricing the financial instrument.

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant. All unobservable inputs used in valuation techniques reflect the assumptions market participants would use when fair valuing the financial instrument.

The Group tests the outputs of the valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures.

Condensed consolidated interim financial statements – Basis of preparation

Transfers between levels of the fair value hierarchy
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

Non-current assets held for sale and discontinued operations
Accounting policy number 23 in the Annual Financial Report 2012 sets out the Group's accounting policy for 'Non-current assets held for sale and discontinued operations'.

However, in relation to the policy with regard to the acquisition of a subsidiary acquired exclusively with a view to its resale, the detailed policy set out below has been applied for the first time as follows:

A subsidiary that is acquired and held exclusively for disposal and meets the definition of an asset held for sale is not excluded from consolidation. However, it is measured and accounted for under IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, initially at fair value less costs to sell. It is consolidated but the results of the subsidiary are treated as a discontinued operation.

AIB acquired its investment in Ark Life in March 2013 with a view to its resale. In accordance with IFRS 5 implementation guidance, example 13, AIB has adopted this approach in accounting for its investment in Ark Life at the acquisition date and at subsequent balance sheet dates. This requires the entity being disposed of to be valued at the lower of its carrying value and its fair value less costs to sell at each reporting date. Individual assets and liabilities of the entity acquired with a view to resale are not fair valued. For presentation purposes in the statement of financial position, the entity's identifiable liabilities are measured at fair value and this amount is added to the fair value less costs to sell figure to ascertain the value of the assets to be disclosed. Separate analysis of individual assets and liabilities is not required in the notes to the financial statements.

Inter-company assets and liabilities are eliminated against the carrying amount of the disposal group where applicable. Inter-company interest income/expense of the continuing group is recorded in the consolidated income statement. Hedge accounting for deposits accepted by AIB from Ark Life was discontinued with effect from the acquisition date of Ark Life.

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

Both the interim figures for the six months ended 30 June 2013 and the comparative amounts for the six months ended 30 June 2012 are unaudited but have been reviewed by the independent auditor, whose report is set out on page 112. The summary financial statements for the year ended 31 December 2012 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 previous independent auditor, KPMG, issued an unqualified audit report and which are not annexed to these interim financial statements, have been filed in the Companies Registration Office. The financial information presented herein does not amount to statutory financial statements.

Condensed consolidated income statement *(unaudited)*

for the half-year ended 30 June 2013

	Notes	**Half-year 30 June 2013 € m**	Restated* Half-year 30 June 2012 € m
Continuing operations			
Interest and similar income	2	**1,708**	2,048
Interest expense and similar charges	3	**(1,113)**	(1,480)
Net interest income		**595**	568
Dividend income	4	**–**	–
Fee and commission income	5	**199**	196
Fee and commission expense	5	**(16)**	(13)
Net trading income/(loss)	6	**72**	(33)
(Loss)/profit on transfer of financial instruments to NAMA	7	**(24)**	112
Other operating loss	8	**(111)**	(89)
Other income		**120**	173
Total operating income		**715**	741
Administrative expenses	9	**(765)**	(854)
Impairment and amortisation of intangible assets		**(30)**	(30)
Depreciation of property, plant and equipment		**(24)**	(24)
Total operating expenses		**(819)**	(908)
Operating loss before provisions		**(104)**	(167)
Provisions for impairment on loans and receivables	21	**(744)**	(890)
(Provisions)/writeback of provisions for liabilities and commitments		**(3)**	1
Writeback/(provisions) for impairment on financial investments available for sale	11	**9**	(84)
Operating loss		**(842)**	(1,140)
Associated undertakings	24	**3**	1
Profit/(loss) on disposal of business		**1**	(2)
Loss before taxation from continuing operations		**(838)**	(1,141)
Income tax credit from continuing operations	12	**80**	87
Loss after taxation from continuing operations		**(758)**	(1,054)
Discontinued operations			
Profit after taxation from discontinued operations		**–**	–
Loss for the period		**(758)**	(1,054)
Attributable to:			
Owners of the parent:			
Loss from continuing operations		**(758)**	(1,054)
Profit from discontinued operations		**–**	–
		(758)	(1,054)
Basic loss per share			
Continuing operations	14(a)	**(0.1c)**	(0.2c)
Discontinued operations	14(a)	**–**	–
		(0.1c)	(0.2c)
Diluted loss per share			
Continuing operations	14(b)	**(0.1c)**	(0.2c)
Discontinued operations	14(b)	**–**	–
		(0.1c)	(0.2c)

*Restated due to change in accounting policy for employee benefits – page 52

Condensed consolidated statement of comprehensive income

(unaudited) for the half year ended 30 June 2013

	Notes	**Half-year 30 June 2013 € m**	Restated* Half-year 30 June 2012 € m
Loss for the period		**(758)**	(1,054)
Other comprehensive income – Continuing operations			
Items that will not be reclassified to profit or loss:			
Net actuarial losses in retirement benefit schemes	10	**(197)**	(471)
Total items that will not be reclassified to profit or loss		**(197)**	(471)
Items that are or may be reclassified subsequently to profit or loss:			
Net change in foreign currency translation reserves	33	**(18)**	33
Net change in cash flow hedges, net of tax	33	**11**	(78)
Net change in fair value of available for sale securities, net of tax	33	**205**	547
Total items that are or may be reclassified subsequently to profit or loss		**198**	502
Other comprehensive income for the period, net of tax from continuing operations		**1**	31
Total comprehensive income for the period		**(757)**	(1,023)
Attributable to:			
Owners of the parent:			
Continuing operations		**(757)**	(1,023)
Discontinued operations		**–**	–
		(757)	(1,023)

*Restated due to change in accounting policy for employee benefits – page 52

Condensed consolidated statement of financial position *(unaudited)*

as at 30 June 2013

	Notes	**30 June 2013 € m**	Restated* 31 December 2012 € m
Assets			
Cash and balances at central banks		**3,670**	4,047
Items in course of collection		**256**	192
Disposal groups and non-current assets held for sale	16	**2,932**	562
Trading portfolio financial assets	17	**17**	24
Derivative financial instruments	18	**2,006**	2,835
Loans and receivables to banks	19	**2,333**	2,914
Loans and receivables to customers	20	**68,743**	72,972
NAMA senior bonds	22	**16,445**	17,387
Financial investments available for sale	23	**18,958**	16,344
Interests in associated undertakings	24	**53**	52
Intangible assets		**180**	187
Property, plant and equipment		**304**	333
Other assets		**282**	239
Current taxation		**8**	9
Deferred taxation	25	**3,897**	3,845
Prepayments and accrued income		**518**	559
Total assets		**120,602**	122,501
Liabilities			
Deposits by central banks and banks[(1)]	26	**26,117**	28,442
Customer accounts	27	**64,825**	63,610
Disposal groups held for sale	16	**3,835**	–
Derivative financial instruments	18	**2,259**	3,256
Debt securities in issue	28	**7,823**	10,666
Current taxation		**6**	2
Other liabilities		**1,569**	1,627
Accruals and deferred income		**1,084**	1,260
Retirement benefit liabilities	10	**923**	762
Provisions for liabilities and commitments	29	**252**	250
Subordinated liabilities and other capital instruments	30	**1,311**	1,271
Total liabilities		**110,004**	111,146
Shareholders' equity			
Share capital	31	**5,248**	5,206
Share premium	31	**2,848**	2,890
Reserves		**2,502**	3,259
Total shareholders' equity		**10,598**	11,355
Total liabilities and shareholders' equity		**120,602**	122,501

[(1)]Includes € 17,710 million of borrowings from central banks (31 December 2012: € 22,220 million).

*Restated due to change in accounting policy for employee benefits – page 52

Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2013

	Notes	**Half-year 30 June 2013 € m**	Restated* Half-year 30 June 2012 € m
Reconciliation of (loss)/profit before taxation to net cash outflow from operating activities			
Loss for the period from continuing operations before taxation		**(838)**	(1,141)
Adjustments for:			
(Loss)/profit on disposal of business		**(1)**	2
Loss on disposal of financial assets	8	**187**	141
Dividend income	24	**(3)**	(7)
Associated undertakings	24	**(8)**	(6)
Impairment of associated undertakings	24	**5**	5
Provisions for impairment on loans and receivables	21	**744**	890
Loss/(profit) on transfer on financial instruments held for sale to NAMA	7	**24**	(112)
Provisions/(writeback of provisions) for liabilities and commitments		**3**	(1)
(Writeback)/provisions for impairment on financial investments available for sale	11	**(9)**	84
Change in other provisions		**2**	15
Depreciation, amortisation and impairment		**54**	54
Interest on subordinated liabilities and other capital instruments		**120**	111
Profit on disposal of financial investments available for sale	8	**(24)**	(33)
Amortisation of premiums and discounts		**(45)**	(75)
Change in prepayments and accrued income		**39**	163
Change in accruals and deferred income		**(225)**	(63)
Remeasurement of NAMA senior bonds	22	**(62)**	–
		(37)	27
Change in deposits by central banks and banks		**(2,218)**	(5,651)
Change in customer accounts[(1)]		**2,958**	2,396
Change in loans and receivables to customers[(2)]		**2,835**	3,689
Change in NAMA senior bonds		**1,046**	1,528
Change in loans and receivables to banks		**557**	(2,038)
Change in trading portfolio financial assets/liabilities		**6**	25
Change in derivative financial instruments		**228**	(526)
Change in items in course of collection		**(69)**	(102)
Change in debt securities in issue		**(2,831)**	(3,320)
Change in notes in circulation		**(50)**	5
Change in other assets		**(46)**	261
Change in other liabilities		**65**	(146)
Effect of exchange translation and other adjustments[(3)]		**147**	39
Net cash inflow/(outflow) from operating assets and liabilities		**2,628**	(3,840)
Net cash inflow/(outflow) from operating activities before taxation		**2,591**	(3,813)
Taxation paid		**4**	5
Net cash inflow/(outflow) from operating activities		**2,595**	(3,808)
Investing activities *(note a)*		**(2,715)**	2,672
Financing activities *(note b)*		**–**	–
Change in cash and cash equivalents		**(120)**	(1,136)
Opening cash and cash equivalents		**5,926**	7,373
Effect of exchange translation adjustments		**(166)**	80
Closing cash and cash equivalents		**5,640**	6,317

*Restated due to change in accounting policy for employee benefits – page 52

Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2013

(a) Investing activities	Notes	Half-year 30 June 2013 € m	Restated* Half-year 30 June 2012 € m
Net cash outflow on acquisition of business combination		**(325)**	–
Proceeds of disposal of investment in businesses and subsidiaries		**190**	6
Proceeds of disposal of investment in associated undertaking		**10**	–
Purchase of financial investments available for sale		**(4,503)**	(1,945)
Proceeds from sales and maturity of financial investments available for sale		**1,939**	4,646
Additions to property, plant and equipment		**(8)**	(20)
Disposal of property, plant and equipment		**3**	1
Additions to intangible assets		**(24)**	(23)
Dividends received from associated undertakings		**3**	7
Cash flows from investing activities		**(2,715)**	2,672
(b) Financing activities			
Interest paid on subordinated liabilities and other capital instruments		**–**	–
Cash flows from financing activities		**–**	–

(1)Includes deposits placed by an Irish Government body € 5,846 million (June 2012: withdrawal € 2 million).

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

(3)Included within the effect of exchange translation and other adjustments are amounts in respect of pension contributions of € 130 million (June 2012: € 42 million). In addition, included within this caption is a charge of € 21 million (June 2012: Nil) in respect of past service costs relating to the early retirement scheme; a credit of € 8 million (June 2012: Nil) in respect of a curtailment gain for voluntary severance employees; and a credit of € 53 million in respect of (June 2012: € 59 million) defined benefits, all of which are non-cash movements.

*Restated due to change in accounting policy for employee benefits – page 52

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

for the half year ended 30 June 2013

	Attributable to equity holders of parent											
	Share capital	**Share premium**	**Capital reserves**	**Capital redemption reserves**	**Revaluation reserves**	**Available for sale securities reserves**	**Cash flow hedging reserves**	**Revenue reserves**	**Foreign currency translation reserves**	**Treasury shares**	**Share based payments reserves**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
At 1 January 2013 as reported	5,206	2,890	2,638	–	24	292	67	996	(433)	(462)	23	11,241
Change in accounting policy	–	–	–	–	–	–	–	114	–	–	–	114
As restated	5,206	2,890	2,638	–	24	292	67	1,110	(433)	(462)	23	11,355
Total comprehensive income for the period												
Loss for the period	–	–	–	–	–	–	–	(758)	–	–	–	(758)
Other comprehensive income *(note 33)*	–	–	–	–	–	205	11	(197)	(18)	–	–	1
Total comprehensive income for the year	–	–	–	–	–	205	11	(955)	(18)	–	–	(757)
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Capital contributions *(note 32)*	–	–	(116)	–	–	–	–	116	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 31)*	42	(42)	–	–	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	–	–	–	–	–	–
Total contributions by and distributions to owners	42	(42)	(116)	–	–	–	–	116	–	–	–	–
Other movements	–	–	–	–	(5)	–	–	5	–	–	–	–
At 30 June 2013	5,248	2,848	2,522	–	19	497	78	276	(451)	(462)	23	10,598

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

for the half year ended 30 June 2012

	Attributable to equity holders of parent											Restated*
	Share capital	Share premium	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2012	5,170	4,926	2,885	3,958	26	(1,003)	229	(822)	(467)	(462)	23	14,463
Total comprehensive income for the period												
Loss for the period	–	–	–	–	–	–	–	(1,054)	–	–	–	(1,054)
Other comprehensive income* *(note 33)*	–	–	–	–	–	547	(78)	(471)	33	–	–	31
Total comprehensive income for the year	–	–	–	–	–	547	(78)	(1,525)	33	–	–	(1,023)
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Capital contributions *(note 32)*	–	–	(142)	–	–	–	–	142	–	–	–	–
Reduction of capital *(notes 31 and 32)*	–	(2,000)	–	(3,958)	–	–	–	5,958	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 31)*	36	(36)	–	–	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	–	1	–	–	(1)	–
Total contributions by and distributions to owners	36	(2,036)	(142)	(3,958)	–	–	–	6,101	–	–	(1)	–
Other movements	–	–	–	–	(1)	–	–	–	–	–	–	(1)
At 30 June 2012 - restated	5,206	2,890	2,743	–	25	(456)	151	3,754	(434)	(462)	22	13,439

*Restated due to change in accounting policy for employee benefits – page 52

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

for the year ended 31 December 2012

	Attributable to equity holders of parent											Restated*
	Share capital	Share premium	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2012	5,170	4,926	2,885	3,958	26	(1,003)	229	(822)	(467)	(462)	23	14,463
Total comprehensive income for the year												
Loss for the year	–	–	–	–	–	–	–	(3,557)	–	–	–	(3,557)
Other comprehensive income* *(note 33)*	–	–	–	–	(2)	1,295	(162)	(716)	34	–	–	449
Total comprehensive income for the year	–	–	–	–	(2)	1,295	(162)	(4,273)	34	–	–	(3,108)
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Capital contributions *(note 32)*	–	–	(247)	–	–	–	–	247	–	–	–	–
Reduction of capital *(notes 31 and 32)*	–	(2,000)	–	(3,958)	–	–	–	5,958	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 31)*	36	(36)	–	–	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	–	–	–	–	–	–
Total contributions by and distributions to owners	36	(2,036)	(247)	(3,958)	–	–	–	6,205	–	–	–	–
At 31 December 2012 - restated	5,206	2,890	2,638	–	24	292	67	1,110	(433)	(462)	23	11,355

*Restated due to change in accounting policy for employee benefits – page 52

1 Segmental information

A new operating structure was implemented in 2013 and the Group's operations are now reported under the following segments: Domestic Core Bank ("DCB"), AIB UK, Financial Solutions Group ("FSG") and Group. Consequently, the restated half-year to 30 June 2012 has been presented under the new operating structure. These segments reflect the internal financial reporting structure which is used by management to assess performance and allocate resources.

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 actual wholesale funding costs incurred and segment's net funding requirements. Income on capital is allocated to segments based on each segment's capital requirement. The cost of services between segments and from central support functions is based on the estimated actual cost incurred in providing the service.

DCB services the personal, business and corporate customers of AIB in addition to wealth management services. "Personal, Business and Corporate" banking commands a strong presence in all key sectors including SMEs, mortgages, personal and corporate banking. All owner occupier mortgages in the Republic of Ireland are reported in DCB. This segment also includes treasury related activity.

AIB UK comprises retail and commercial banking operations in Britain operating under the trading name Allied Irish Bank (GB) ("AIB GB") and in Northern Ireland operating under the trading name First Trust Bank ("FTB").

FSG segment is dedicated to supporting business and personal customers in financial difficulties including the implementation of the Mortgage Arrears Resolution Strategy, Third Party Servicing of NAMA loans, managing and deleveraging loans classified as non-core. Performing loans connected to customers in financial difficulty are also reported in this segment.

Group includes AIB's operations in the Isle of Man/Channel Islands and central services costs.

1 Segmental information *(continued)*

					Half-year 30 June 2013
	DCB € m	**AIB UK € m**	**FSG € m**	**Group € m**	**Total € m**
Operations by business segment					
Net interest income	**402**	**70**	**116**	**7**	**595**
Other income	**265**	**31**	**20**	**5**	**321**
Total operating income	**667**	**101**	**136**	**12**	**916**
Personnel expenses	**(220)**	**(51)**	**(71)**	**(106)**	**(448)**
General and administrative expenses	**(118)**	**(27)**	**(15)**	**(95)**	**(255)**
Depreciation, impairment and amortisation	**(25)**	**(3)**	**(3)**	**(20)**	**(51)**
Total operating expenses	**(363)**	**(81)**	**(89)**	**(221)**	**(754)**
Operating profit/(loss) before provisions	**304**	**20**	**47**	**(209)**	**162**
Provisions for impairment on loans and receivables	**(202)**	**(16)**	**(526)**	**–**	**(744)**
(Provisions)/writeback of provisions for liabilities and commitments	**–**	**–**	**(4)**	**1**	**(3)**
Writeback/(provisions) for impairment on financial investments available for sale	**9**	**–**	**(1)**	**1**	**9**
Total provisions	**(193)**	**(16)**	**(531)**	**2**	**(738)**
Operating profit/(loss)	**111**	**4**	**(484)**	**(207)**	**(576)**
Associated undertakings	**4**	**1**	**(2)**	**–**	**3**
Loss on disposal of business	**–**	**–**	**–**	**1**	**1**
Profit/(loss) from continuing operations before exceptional items	**115**	**5**	**(486)**	**(206)**	**(572)**
Loss on disposal of loans					**(187)**
Loss on transfer of financial instruments to NAMA					**(24)**
Termination benefits					**(40)**
Restructuring and restitution expenses					**(28)**
Interest rate hedge volatility					**3**
Gain on disposal of ALH					**10**
Total exceptional items					**(266)**
Loss before taxation from continuing operations					**(838)**

1 Segmental information *(continued)*

	Restated* Half-year 30 June 2012				
	DCB € m	AIB UK € m	FSG € m	Group € m	Total € m
Operations by business segment					
Net interest income	459	47	71	(9)	568
Other income/(loss)	168	33	(8)	10	203
Total operating income	627	80	63	1	771
Personnel expenses	(256)	(52)	(88)	(136)	(532)
General and administrative expenses	(121)	(48)	(24)	(103)	(296)
Depreciation, impairment and amortisation	(26)	(3)	(3)	(21)	(53)
Total operating expenses	(403)	(103)	(115)	(260)	(881)
Operating profit/(loss) before provisions	224	(23)	(52)	(259)	(110)
Provisions for impairment on loans and receivables	(114)	(57)	(719)	–	(890)
Writeback of provisions for liabilities and commitments	–	–	1	–	1
Provisions for impairment on financial investments available for sale	(84)	–	–	–	(84)
Total provisions	(198)	(57)	(718)	–	(973)
Operating profit/(loss)	26	(80)	(770)	(259)	(1,083)
Associated undertakings	5	1	(5)	–	1
Loss on disposal of business	–	–	(2)	–	(2)
Profit/(loss) from continuing operations before exceptional items	31	(79)	(777)	(259)	(1,084)
Loss on disposal of loans					(141)
Profit on transfer of financial instruments to NAMA					112
Termination benefits					(7)
Restructuring and restitution expenses					(20)
Interest rate hedge volatility					(1)
Total exceptional items					(57)
Loss before taxation from continuing operations					(1,141)

*Restated due to change in accounting policy for employee benefits – page 52

1 Segmental information *(continued)*

Other amounts - statement of financial position

					30 June 2013
	DCB € m	**AIB UK € m**	**FSG € m**	**Group € m**	**Total € m**
Loans and receivables to customers	**45,058**	**7,663**	**15,894**	**128**	**68,743**
Loans and receivables held for sale	**–**	**–**	**94**	**–**	**94**
Interests in associated undertakings	**41**	**12**	**–**	**–**	**53**
Interests in associated undertaking held for sale	**–**	**–**	**–**	**–**	**–**
Total assets	**89,401**	**12,248**	**18,825**	**128**	**120,602**
Customer accounts	**53,642**	**9,944**	**1,210**	**29**	**64,825**
Total liabilities[(1)]	**93,775**	**11,155**	**5,045**	**29**	**110,004**
Capital expenditure	**31**	**1**	**–**	**–**	**32**

					Restated* 31 December 2012
	DCB € m	AIB UK € m	FSG € m	Group € m	Total € m
Loans and receivables to customers	46,021	8,341	18,407	203	72,972
Loans and receivables held for sale	–	–	353	–	353
Interests in associated undertakings	40	12	–	–	52
Interests in associated undertakings held for sale	–	–	12	–	12
Total assets	90,363	13,174	18,761	203	122,501
Customer accounts	51,188	10,864	1,289	269	63,610
Total liabilities[(1)]	97,331	12,257	1,289	269	111,146
Capital expenditure	97	4	7	–	108

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

1 Segmental information *(continued)*

Geographic information - continuing operations[1][2]	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	Half-year 30 June 2013 Total € m
Net interest income	**487**	**105**	**3**	**–**	**595**
Other income/(loss)[3]	**192**	**(68)**	**(4)**	**–**	**120**

Geographic information - continuing operations[1]	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	Half-year 30 June 2012 Total € m
Net interest income	487	79	2	–	568
Other income/(loss)[3]	18	233	(69)	(9)	173

Geographic information	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	30 June 2013 Total € m
Non-current assets[4]	**457**	**26**	**1**	**–**	**484**

Geographic information	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	31 December 2012 Total € m
Non-current assets[4]	489	30	1	–	520

Revenue from external customers comprises interest and similar income (note 2) which is included within ‘Net interest income’ above and all other items of income (notes 4 to 8) which are included within ‘Other income/(loss)’ above.

[1]The geographical distribution of net interest income and other income/(loss) 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]Loss on disposal of financial assets to NAMA is recorded within the Republic of Ireland and United Kingdom.

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

2 Interest and similar income	Half-year 30 June 2013 € m	Half-year 30 June 2012 € m
Interest on loans and receivables to customers	**1,302**	1,522
Interest on loans and receivables to banks	**10**	25
Interest on trading portfolio financial assets	**–**	1
Interest on NAMA senior bonds	**79**	206
Interest on financial investments available for sale	**317**	294
	1,708	2,048

Interest income includes a credit of € 93 million (30 June 2012: a credit of € 94 million) removed from other comprehensive income in respect of cash flow hedges.

Interest income recognised on impaired loans amounts to € 184 million (30 June 2012: € 145 million).

3 Interest expense and similar charges	Half-year 30 June 2013 € m	Half-year 30 June 2012 € m
Interest on deposits by central banks and banks	**77**	169
Interest on customer accounts	**737**	926
Interest on debt securities in issue	**179**	274
Interest on subordinated liabilities and other capital instruments	**120**	111
	1,113	1,480

Interest expense includes a charge of € 80 million (30 June 2012: a charge of € 60 million) removed from other comprehensive income in respect of cash flow hedges.

Included within interest expense is € 123 million (30 June 2012: € 215 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

4 Dividend income

No dividend income was received from equity shares held as financial investments available for sale at 30 June 2013 (30 June 2012: Nil).

5 Net fee and commission income	Half-year 30 June 2013 € m	Half-year 30 June 2012 € m
Retail banking customer fees	**163**	155
Credit related fees	**16**	17
Asset management and investment banking fees	**3**	11
Insurance commissions	**17**	13
Fee and commission income	**199**	196
Fee and commission expense	**(16)**	(13)
	183	183

6 Net trading income/(loss)	Half-year 30 June 2013 € m	Half-year 30 June 2012 € m
Foreign exchange contracts	**17**	25
Debt securities and interest rate contracts	**43**	(22)
Credit derivative contracts	**–**	(37)
Equity securities and index contracts	**12**[(1)]	1
	72	(33)

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

The total hedging ineffectiveness on cash flow hedges reflected in the income statement amounted to a charge of Nil (30 June 2012: a charge of € 5 million) and is included in net trading loss.

7 (Loss)/profit on transfer of financial instruments to NAMA

In February 2010, AIB was designated a participating institution under the NAMA Act and following the enactment of legislation in November 2009, financial instruments transferred to NAMA during 2010 and 2011. Whilst these transfers were practically complete at 31 December 2011, a provision was made in respect of adjustments to transfers which had not settled at that date (note 29).

Subsequently, NAMA resolved certain issues in relation to loans and receivables which had transferred during 2010 and 2011. This resulted in a charge of € 24 million (30 June 2012: a credit of € 112 million (financial instruments returned by NAMA of €23 million and a writeback of provisions of €89 million)).

8 Other operating loss	**Half-year 30 June 2013 € m**	Half-year 30 June 2012 € m
Loss on disposal of loans and receivables to customers	**(187)**	(141)
Profit on disposal of available for sale debt securities	**14**	30
Profit on disposal of available for sale equity securities	**10**	3
Effect of re-estimating the timing of cash flows on NAMA senior bonds	**62**	–
Miscellaneous operating (loss)/income[1]	**(10)**	19
	(111)	(89)

[1]Includes a charge of € 5 million (June 2012: a credit of € 10 million) in respect of foreign exchange gains and losses.

9 Administrative expenses	**Half-year 30 June 2013 € m**	Restated* Half-year 30 June 2012 € m
Personnel expenses:		
Wages and salaries	**338**	399
Termination benefits[1]	**40**	7
Retirement benefits	**63**	69
Social security costs	**37**	43
Other personnel expenses	**10**	22
	488	540
General and administrative expenses[2]	**277**	314
	765	854

[1]On 21 May 2012, AIB announced the specific terms of a voluntary severance programme which includes both an early retirement scheme and a voluntary severance scheme. At 30 June 2012, under IAS 19 (revised) no provision was required for the costs as no employees had accepted the offer of voluntary severance at that date. Following the announced closure of AIB's operations in the Isle of Man/Channel Islands, a provision of € 7 million was made in respect of termination benefits at 30 June 2012.

In the six months to 30 June 2013, the expense relates to employees who have accepted the offer of voluntary severance during 2013.

[2]Includes external costs relating to the transfer of financial instruments to NAMA that amounted to Nil (June 2012: € 2 million).

*Restated due to change in accounting policy for employee benefits – page 52

10 Retirement benefits

On 16 June 2011, the IASB published an amended IAS 19 *Employee Benefits.* The changes are effective from 1 January 2013. The application of this amended standard is retrospective.

The main changes are as follows:

- Replacement of interest cost and expected return on assets with a net interest cost on the net defined benefit liability (asset);
- Changes as regards the recognition of curtailments, past service costs and termination costs;
- Recognition of all administration expenses, with the exception of costs associated with management of scheme assets, in profit or loss;
- Disaggregation of defined benefit costs into various components; and
- Introduction of enhanced full year disclosures about defined benefit plans.

The Group's revised accounting policy for retirement benefit obligations is set out on pages 55 and 56. The demographic and financial assumptions for retirement benefit obligations are set out in note 12 to the consolidated financial statements of the Annual Financial Report 2012.

The Group's pension deficit as at 30 June 2013 was € 923 million (31 December 2012: € 762 million*). The net recognised deficit comprised retirement benefit liabilities of € 5,910 million (31 December 2012: € 5,536 million*) and assets of € 4,987 million (31 December 2012: € 4,774 million).

Voluntary Severance Programme

On 21 May 2012, the Group announced the specific terms of a voluntary severance programme which included an early retirement scheme. During the half-year ended 30 June 2013, 104 employees left AIB under the Group's early retirement scheme. The Group has recognised a past service cost in the income statement and an increase in the benefit obligation of € 21 million (31 December 2012: € 140 million*) for the Group's early retirement scheme. The amount recognised relates to employees who have accepted the offer of early retirement during 2013. During the half-year ended 30 June 2013, a curtailment gain of € 8 million (31 December 2012: € 14 million*) was recognised in the income statement in relation to employees who left under the voluntary severance scheme and who were members of Group defined benefit pension schemes.

*Restated due to change in accounting policy for employee benefits – page 52

Pay and Benefits Review

The Group announced a Pay and Benefits review on 14 June 2012. The main proposed change was the closure of all defined benefit pension schemes to future accrual and the transfer of all employees who were members of a defined benefit pension scheme (including hybrid arrangements) to a defined contribution pension scheme. Since negotiations between AIB and the staff union, the Irish Bank Officials' Association ("IBOA") failed to reach agreement on this issue the matter was referred to the Labour Relations Commission ("LRC") for review and recommendation. Final agreement could not be reached on certain issues and these were referred to the Labour Court for investigation and recommendation. On 8 July 2013, the Labour Court and the LRC issued their recommendations on pay and benefits to AIB and the IBOA. The recommendations confirmed the proposal to close all defined benefit pension schemes to future accrual from 31 December 2013 and the transfer of all employees to a defined contribution scheme from 1 January 2014 (note 42). This change will have no impact on the benefits accrued up to the date of transfer. The impact of this proposed closure of the defined benefit schemes to future accrual has not been recognised as this change had not occurred by 30 June 2013.

Financial assumptions

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

Financial assumptions	**Half-year 30 June 2013 %**	Year-end 31 December 2012 %	Half-year 30 June 2012 %
Irish scheme			
Rate of increase in salaries	**3.15**	3.00	3.30
Rate of increase of pensions in payment	**1.70**	1.60	1.75
Discount rate	**3.60**	4.00	4.20
Inflation assumptions	**2.00**	2.00	1.75
UK scheme			
Rate of increase in salaries	**3.30**	2.90	3.60
Rate of increase of pensions in payment	**3.30**	2.90	2.90
Discount rate	**4.75**	4.50	4.70
Inflation assumptions (RPI)	**3.30**	2.90	2.90

10 Retirement benefits *(continued)*

Movement in defined benefit obligation and scheme assets

Movement in defined benefit obligation	30 June 2013 € m	Restated* 31 December 2012 € m
Defined benefit obligation at 1 January	**5,536**	4,562
Current service cost	**41**	78
Past service cost		
– Termination benefits	**21**	140
– Other	**–**	(218)
Interest cost on defined benefit obligations	**110**	223
Administration costs	**1**	2
Contributions by employees	**8**	20
Actuarial losses	**373**	1,009
Benefits paid	**(116)**	(280)
Curtailment		
– Termination	**(8)**	(14)
– Other	**–**	(8)
Translation adjustment on non-euro schemes	**(56)**	22
Defined benefit obligation at end of period	**5,910**	5,536

Movement in the scheme assets	30 June 2013 € m	Restated* 31 December 2012 € m
Fair value of scheme assets at 1 January	**4,774**	3,799
Interest income on scheme assets	**98**	200
Return on scheme assets(1)	**147**	179
Contributions by employer	**130**	830(2)
Contributions by employees	**8**	20
Benefits paid	**(116)**	(279)
Translation adjustment on non-euro schemes	**(54)**	25
Fair value of scheme assets at end of period	**4,987**	4,774

(1)Excludes interest income on scheme assets

(2)Includes the transfer to the Irish scheme of interests in an SPV owning loans and receivables previously transferred at fair value from the Group.

Defined benefit pension schemes

An analysis of the pension deficit for the half-year ended 30 June 2013 and year ended 31 December 2012 is set out in the following table:

	30 June 2013 € m	Restated* 31 December 2012 € m
Funded defined benefit obligation	**5,898**	5,525
Scheme assets	**4,987**	4,774
Deficit within funded schemes	**911**	751
Unfunded defined benefit obligation	**12**	11
Deficit within schemes	**923**	762

*Restated due to change in accounting policy for employee benefits – page 52

10 Retirement benefits *(continued)*

Remeasurements of the net defined benefit liability recognised in the statement of comprehensive income

The following table sets out the components of the actuarial gains and losses for half-years ended 30 June 2013 and 2012:

	Half-year June 2013 € m	Restated* Half-year 30 June 2012 € m
Return on scheme assets excluding interest income	**147**	87
Experience gains and losses on scheme liabilities	**–**	(45)
Changes in demographic and financial assumptions	**(373)**	(595)
Actuarial loss recognised	**(226)**	(553)
Deferred tax	**29**	82
Recognised in the consolidated statement of comprehensive income	**(197)**	(471)

11 Writeback/(provisions) for impairment on financial investments available for sale

	Half-year 30 June 2013 € m	Half-year 30 June 2012 € m
Debt securities	**16**	(1)
Equity securities	**(7)**	(83)
	9	(84)

12 Taxation

	Half-year 30 June 2013 € m	Restated* Half-year 30 June 2012 € m
Allied Irish Banks, p.l.c. and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the period	**–**	(1)
Adjustments in respect of prior periods	**–**	(2)
	–	(3)
	–	(3)
Foreign tax		
Current tax on income for the period	**–**	(13)
Adjustments in respect of prior periods	**1**	8
	1	(5)
	1	(8)
Deferred taxation		
Origination and reversal of temporary differences	**(66)**	(80)
Adjustments in respect of prior periods	**(15)**	1
	(81)	(79)
Total tax credit for the period	**(80)**	(87)
Effective tax rate	**9.5%**	7.6%

*Restated due to change in accounting policy for employee benefits – page 52

13 Discontinued operations

Disposal of Aviva Life Holdings Ireland Limited and acquisition of Ark Life Assurance Company Limited

Following the exercise of put options in January 2012, AIB's investment in Aviva Life Holdings Ireland Limited ("ALH") was held for sale within 'Disposal groups and non-current assets held for sale' at 31 December 2012. This was designated as an equity investment at fair value through profit or loss (notes 25, 34, 35 and 69 to the financial statements in the Annual Financial Report 2012). The sale was completed on 8 March 2013, resulting in a gain on disposal of € 10 million and a tax charge of nil. This gain is reported in 'Net trading income/(loss)' (note 6).

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

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

Since Ark Life was acquired exclusively with a view to its subsequent disposal, it was classified on acquisition date as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Management's plans to dispose of Ark Life are advanced and a sale is expected to complete within 12 months of being classified as held for sale. The investment is accounted for in accordance with the accounting policy set out on page 58. As set out in the accounting policy, the disposal group is reported at the lower of its carrying amount and fair value less costs to sell at each reporting date. The fair value is equal to or greater than the carrying value at 30 June 2013. However, no income has been recorded in the period in accordance with the accounting policy for a subsidiary acquired exclusively for resale.

14 Earnings per share

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

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

(a) Basic	**Half-year 30 June 2013 € m**	Restated* Half-year 30 June 2012 € m
Loss attributable to ordinary shareholders of the parent from continuing operations	**(758)**	(1,054)
Profit attributable to ordinary shareholders from discontinued operations	**–**	–
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period[1]	**518,237.5**	514,447.3
Loss per share from continuing operations – basic	**EUR (0.1c)**	EUR (0.2c)
Earnings per share from discontinued operations – basic	**–**	–

(b) Diluted	**Half-year 30 June 2013 € m**	Restated* Half-year 30 June 2012 € m
Loss attributable to ordinary shareholders of the parent from continuing operations *(note 14(a))*	**(758)**	(1,054)
Profit attributable to ordinary shareholders of the parent from discontinued operations	**–**	–
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period[1]	**518,237.5**	514,447.3
Dilutive effect of options outstanding[2]	**–**	–
Dilutive effect of CCNs[3]	**–**	–
Potential weighted average number of shares	**518,237.5**	514,447.3
Loss per share from continuing operations - diluted	**EUR (0.1c)**	EUR (0.2c)
Earnings per share from discontinued operations - diluted	–	–

(1)The bonus shares issued on the 2009 Preference Shares have been included in the weighted average number of shares in issue prospectively from the date of issue (note 31).

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

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

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15 Derecognition of financial assets

AIB enters into repurchase agreements and securities lending transactions in the normal course of business that do not result in the derecognition of the financial assets concerned. Details of these transactions are set out in note 26.

In addition, as outlined in notes 54 and 55 on pages 295 to 298 in the Annual Financial Report 2012, the Group enters into securitisation transactions in order to support certain business objectives.

There was no new securitisation activity in the half-year to 30 June 2013.

16 Disposal groups and non-current assets held for sale

Arising from the results of the PCAR/PLAR in March 2011, AIB was required to dispose of non-core assets. Accordingly, certain of these assets are classified as held for sale at 30 June 2013. These assets do not constitute a major line of business or a geographical area of operations.

At 30 June 2013, disposal groups and non-current assets held for sale comprise non-current assets and non-current liabilities. These include loans and receivables, and the Group's subsidiary, Ark Life Assurance Company Limited ('Ark Life') which is held as a subsidiary acquired exclusively for resale. Details of Ark Life are set out in note 13.

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

	30 June 2013		31 December 2012	
	Assets € m	**Liabilities € m**	Assets € m	Liabilities € m
Loans and receivables[1]:				
Customers	**94**	**–**	353	–
Associated undertakings[2][3] (note 24)	**–**	**–**	12	–
Other:				
Equity investment at fair value through profit or loss[3]	**–**	**–**	196	–
Other	**9**	**–**	1	–
	9	**–**	197	–
Discontinued operations:				
Ark Life	**2,829**[4]	**3,835**	–	–
Total disposal groups and non-current assets and liabilities held for sale	**2,932**	**3,835**	562	–

[1]Loans and receivables held for sale are net of provisions of Nil (31 December 2012: € 122 million) (note 21).

[2]Associated undertakings include LaGuardia Hotel € 12 million at 31 December 2012.

[3]On 1 July 2012, AIB designated its investment in ALH as an equity investment at fair value through profit or loss.The sale of this investment completed on 8 March 2013 (note 13).

[4]Intercompany balances of € 1,308 million between AIB and Ark Life (which includes deposits of € 1,161 million) have been eliminated on consolidation .

Further details of loans and receivables held for sale are set out in the Risk management section of this Half-Yearly Financial Report 2013.

17 Trading portfolio financial assets	**30 June 2013 € m**	31 December 2012 € m
Debt securities	**15**	22
Equity securities	**2**	2
	17	24

During 2008, trading portfolio financial assets reclassified to financial investments available for sale in accordance with the amended IAS 39 *Financial Instruments: Recognition and Measurement* amounted to € 6,104 million. The fair value of reclassified assets at 30 June 2013 was € 832 million (31 December 2012: € 1,025 million).

As of the reclassification date, effective interest rates on reclassified trading portfolio financial assets ranged from 4% to 10% with expected gross recoverable cash flows of € 7,105 million. If the reclassification had not been made, the Group's income statement for the half year ended 30 June 2013 would have included unrealised fair value gains on reclassified trading portfolio financial assets of € 30 million (30 June 2012: gains of € 56 million).

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

	30 June 2013 € m	30 June 2012 € m
Interest on financial investments available for sale	**10**	8
Provision for impairment on financial investments available for sale	**2**	–

18 Derivative financial instruments

The following table presents the notional principal amount and fair values of interest rate, exchange rate, equity and credit derivative contracts for 30 June 2013 and 31 December 2012:

	30 June 2013			31 December 2012		
	Notional amount	**Fair values**		Notional amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Interest rate contracts	**96,131**	**1,849**	**(2,179)**	104,431	2,643	(3,090)
Exchange rate contracts	**6,247**	**37**	**(30)**	7,485	71	(21)
Equity contracts	**2,590**	**120**	**(49)**	3,848	121	(124)
Credit derivatives	**45**	**–**	**(1)**	114	–	(21)
Total	**105,013**	**2,006**	**(2,259)**	115,878	2,835	(3,256)

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

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in the Risk Management section of the Annual Financial Report 2012.

19 Loans and receivables to banks	30 June 2013 € m	31 December 2012 € m
Funds placed with central banks	**624**	692
Funds placed with other banks	**1,716**	2,226
Provisions for impairment *(note 21)*	**(7)**	(4)
	2,333	2,914
Amounts include:		
Reverse repurchase agreements	**11**	61

Loans and receivables to banks include cash collateral of € 974 million (31 December 2012: € 1,208 million) placed with derivative counterparties in relation to net derivative positions and with repo counterparties (note 18).

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 fair value of collateral received amounted to € 11 million (31 December 2012: € 61 million). The collateral received consisted of government securities of € 11 million (31 December 2012: € 61 million). The fair value of collateral sold or repledged amounted to Nil (31 December 2012: Nil). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

20 Loans and receivables to customers	30 June 2013 € m	31 December 2012 € m
Loans and receivables to customers	**84,138**	88,123
Amounts receivable under finance leases and hire purchase contracts	**900**	1,017
Unquoted debt securities	**204**	238
Provisions for impairment *(note 21)*	**(16,499)**	(16,406)
	68,743	72,972

The unwind of the discount on the carrying value of impaired loans amounting to € 184 million (30 June 2012: € 145 million) is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

The amounts above exclude loans and receivables held within the caption 'Disposal groups and non-current assets held for sale' (note 16).

21 Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables (both to banks and customers) and also includes loans and receivables within disposal groups and non-currents assets held for sale. The classification of loans and receivables into corporate/ commercial, residential mortgages, and other relates to classifications used in the Group's ratings tools and are set out on page 122 of the Annual Financial Report 2012.

				30 June 2013
	Corporate/ Commercial € m	**Residential mortgages € m**	**Other € m**	**Total € m**
At 1 January	**12,166**	**3,206**	**1,160**	**16,532**
Exchange translation adjustments	**(121)**	**(9)**	**(9)**	**(139)**
Transfers[1]	**(34)**	**4**	**–**	**(30)**
Charge against income statement	**433**	**222**	**89**	**744**
Amounts written off	**(373)**	**(38)**	**(64)**	**(475)**
Disposals	**(127)**	**–**	**–**	**(127)**
Recoveries of amounts written off in previous years	**1**	**–**	**–**	**1**
At 30 June 2013	**11,945**	**3,385**	**1,176**	**16,506**
Total provisions are split as follows:				
Specific	**11,360**	**3,072**	**1,097**	**15,529**
IBNR	**585**	**313**	**79**	**977**
	11,945	**3,385**	**1,176**	**16,506**
Amounts include:				
Loans and receivables to banks *(note 19)*				**7**
Loans and receivables to customers *(note 20)*				**16,499**
Loans and receivables of disposal groups and non-current assets held for sale *(note 16)*				**–**
				16,506

				31 December 2012
	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
At 1 January	11,262	2,648	1,035	14,945
Exchange translation adjustments	39	5	3	47
Transfers[1]	20	14	–	34
Charge against income statement	1,455	749	230	2,434
Amounts written off	(509)	(55)	(109)	(673)
Disposals	(108)	(155)	–	(263)
Recoveries of amounts written off in previous years	3	–	1	4
Provisions on loans and receivables returned by NAMA	4	–	–	4
At 31 December 2012	12,166	3,206	1,160	16,532
Total provisions are split as follows:				
Specific	11,408	2,699	1,082	15,189
IBNR	758	507	78	1,343
	12,166	3,206	1,160	16,532
Amounts include:				
Loans and receivables to banks *(note 19)*				4
Loans and receivables to customers *(note 20)*				16,406
Loans and receivables of disposal groups and non-current assets held for sale *(note 16)*				122
				16,532

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

22 NAMA senior bonds

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

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

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

	30 June 2013 € m	31 December 2012 € m
At 1 January	**17,387**	19,856
Net returns	**–**	(136)
Amortisation of discount	**42**	105
Repayments	**(1,046)**	(2,438)
Effect of re-estimating the timing of cash flows	**62**	–
At end of period	**16,445**	17,387

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. Arising from the subsequent pattern of repayments, AIB has reviewed its initial assumptions and revised its expectations. Based on the revised estimated timing of cash flows, AIB has adjusted the carrying amount of the bonds by discounting the revised timing of expected cash flows at the original effective interest rate. The adjustment to the carrying amount has resulted in the recognition of a gain of € 62 million in note 8 'Other operating loss'.

23 Financial investments available for sale

The following table sets out the carrying value, being the fair value, of the financial investments available for sale portfolio at 30 June 2013 and 31 December 2012:

	30 June 2013 € m	31 December 2012 € m
Debt securities		
Irish Government securities	**9,632**	7,588
Euro government securities	**1,939**	1,754
Non Euro government securities	**609**	712
Supranational banks and government agencies	**2,569**	1,682
Collateralised mortgage obligations	**15**	22
Other asset backed securities	**874**	920
Euro bank securities	**2,988**	3,070
Non Euro bank securities	**36**	161
Euro corporate securities	**49**	87
Non Euro corporate securities	**141**	193
Other investments	**12**	12
Total debt securities	**18,864**	16,201
Equity securities		
Equity securities – NAMA subordinated bonds	**47**	47
Equity securities – other	**47**	96
Total equity securities	**94**	143
Total financial investments available for sale	**18,958**	16,344

24 Interests in associated undertakings

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

Income statement	**Half year 30 June 2013 € m**	Half year 30 June 2012 € m
Share of results of associated undertakings[1]	**8**	6
Impairment of associated undertakings	**(5)**	(5)
	3	1

Share of net assets including goodwill	**30 June 2013 € m**	31 December 2012 € m
At 1 January	**64**	246
Exchange translation adjustments	**(1)**	–
Additions	**–**	18[2]
Disposals	**(10)**[3]	–
Designation of associate as an equity investment at fair value through profit or loss[4]	**–**	(196)
Income for the year:		
Continuing operations	**8**	15
Dividends received from associates	**(3)**	(14)
Impairment on associated undertakings	**(5)**	(5)
At end of period[5]	**53**	**64**
Disclosed in the statement of financial position within:		
Interests in associated undertakings	**53**	52
Disposal groups and non-current assets held for sale *(note 16)*	**–**	12
	53	64
Of which listed on a recognised stock exchange	**–**	–

[1]Includes AIB Merchant Services € 4 million profit (30 June 2012: € 6 million); and Aviva Health Insurance Ireland Limited € 4 million profit (30 June 2012: Nil).

[2]Additions (LaGuardia Hotel) relate to transfers from financial investments available for sale arising from debt/equity restructuring.

[3]LaGuardia Hotel was disposed of during 2013 with Nil profit on disposal.

[4]Aviva Life Holdings Ireland Limited was designated as an equity investment at fair value through profit or loss with effect from 1 July 2012. No profit or loss arose on designation as it had been held at fair value (note 16).

[5]Includes the Group's investments in AIB Merchant Services and Aviva Health Insurance Ireland Limited (31 December 2012: Aviva Health Insurance Ireland Limited, AIB Merchant Services and LaGuardia Hotel).

25 Deferred taxation

Analysis of movements in deferred taxation	**30 June 2013 € m**	Restated* 31 December 2012 € m
At 1 January	**3,845**	3,692
Exchange translation and other adjustments	**(27)**	18
Deferred tax through other comprehensive income	**(2)**	(37)
Income statement		
Continuing operations *(note 12)*	**81**	172
At end of period	**3,897**	3,845

*Restated due to change in accounting policy for employee benefits – page 52

Deferred tax assets relating to unutilised tax losses and deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or other temporary differences. At 30 June 2013, capitalised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 3,897 million (31 December 2012: € 3,845 million). The most significant tax losses arise in the Republic of Ireland tax jurisdiction. Net deferred tax assets of € 3,897 million (31 December 2012: € 3,845 million) are expected to be recovered after more than 12 months.

Under 'Critical accounting policies and estimates' on pages 46 and 47 of the Annual Financial Report 2012, the range of positive and negative evidence supporting recognition of the deferred tax asset is set out and this evidence continues to apply at 30 June 2013.

The Group's strategy and its medium term financial plan targets a return to profitability during 2014 and growth in profitability thereafter.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, the Group further believes that it is more likely than not that there will be future profits in the medium term and beyond, in the relevant Irish Group companies against which to use the tax losses. Assuming a sustainable market return on equity over the long term for future profitability levels in Ireland, it will take an extended time period, in excess of 20 years, to absorb such tax losses.

Notwithstanding the absence of any expiry date for tax losses in the UK, AIB has determined that recognition of the UK deferred tax asset in its UK subsidiary be restricted to the amount projected to be realised within fifteen years. This is the timescale within which the Group believes that it can assess the likelihood of these profits arising as being more likely than not. As a result of these considerations, € 254 million of deferred tax assets have not been recognised in the financial statements at 30 June 2013.

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

The amount of recognised deferred tax assets arising from unused tax losses amounts to € 3,957 million of which € 3,380 million relates to Irish tax losses and € 577 million relates to United Kingdom tax losses.

IAS 12 *Income taxes* does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. AIB Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

The Group has carried out sensitivity analysis on the level of sustainable market return on equity and on other factors to consider the recovery period of Irish deferred tax assets. The analysis shows that the time period to absorb such tax losses (currently in excess of 20 years) would extend further or contract by approximately 3-4 years for a 1% movement in the return on equity. The Group's analysis of the results of scenarios examined would not alter the basis of recognition or the current carrying value.

In compiling the sensitivity analysis, factors were considered on an individual basis and did not take into account their possible interrelatedness. However, a more complex analysis using such a methodology could result in the estimated time period for utilisation of the deferred tax asset either extending or contracting.

In 2012, the UK Government announced its intention to further reduce the UK corporation tax rate to 21% effective from April 2014. In addition, in the March 2013 UK budget, the Government announced a further reduction in the UK corporation tax rate to 20% effective from April 2015. The effect of the reductions from 23% will be to further reduce the deferred tax asset in future periods. Based on the 30 June 2013 net deferred tax asset of € 509 million, a 1% reduction in the corporation tax rate would have the effect of reducing the deferred tax balance by € 22 million. If the full effect of the proposed reductions in the corporation tax rate was applied to the net deferred tax asset of € 509 million as at 30 June 2013, the impact would be to reduce the net deferred tax asset by € 66 million.

26 Deposits by central banks and banks	30 June 2013 € m	31 December 2012 € m
Central banks		
Securities sold under agreements to repurchase	**17,710**	22,220
Other borrowings	**–**	–
	17,710	22,220
Banks		
Securities sold under agreements to repurchase	**7,729**	5,636
Other borrowings	**678**	586
	8,407	6,222
	26,117	28,442
Amounts include:		
Due to associated undertakings	**–**	–

Securities sold under agreements to repurchase, all of which mature within six months, (with the exception of € 11.25 billion (31 December 2012: € 11.25 billion) funded through the ECB three year Long Term Refinancing Operation ("LTRO")) are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets. The Group has securitised certain of its mortgage and loan portfolios as outlined in notes 54 and 55 of the Annual Financial Report 2012 in relation to AIB Mortgage Bank and EBS Mortgage Finance Limited. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

In addition, Allied Irish Banks, p.l.c. has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 30 June 2013 (31 December 2012: € 90 million).

A subsidiary of Allied Irish Banks, p.l.c. has also granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 30 June 2013 (31 December 2012: Nil).

Deposits by central banks and banks include cash collateral of € 211 million (31 December 2012: € 321 million) received from derivative counterparties in relation to net derivative positions (note 18) and also from repurchase agreement counterparties.

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

		30 June 2013			31 December 2012	
	Central banks € m	**Banks € m**	**Total € m**	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	**20,197**	**8,476**	**28,673**	25,720	6,295	32,015
Of which:						
Government securities[(1)]	**12,251**	**5,745**	**17,996**	14,887	4,152	19,039
Other securities	**7,946**	**2,731**	**10,677**	10,833	2,143	12,976

[(1)]Includes NAMA senior bonds.

27 Customer accounts[1]	30 June 2013 € m	31 December 2012 € m
Current accounts	**16,506**	16,366
Demand deposits	**9,088**	9,460
Time deposits	**34,409**	37,690[2]
Securities sold under agreements to repurchase[3]	**4,822**	94
	64,825	63,610

[1]Customer accounts include cash collateral of € 16 million received from derivative counterparties in relation to net derivative positions at 30 June 2013.

[2]Includes deposits from Ark Life amounting to € 1,257 million at 31 December 2012. Deposits amounting to € 1,161 million placed by Ark Life with AIB have been eliminated on consolidation at 30 June 2013 (note 13).

[3]The Group pledged government available for sale securities with a fair value of € 4,580 million (31 December 2012: Nil) and non-government available for sale securities with a fair value of € 412 million (31 December 2012: € 105 million) as collateral for these facilities (see page 105 for further information).

28 Debt securities in issue	30 June 2013 € m	31 December 2012 € m
Bonds and medium term notes:		
European medium term note programme	**3,851**	6,268
Bonds and other medium term notes	**3,894**	4,363
	7,745	10,631
Other debt securities in issue:		
Commercial paper	**75**	–
Commercial certificates of deposit	**3**	35
	78	35
	7,823	10,666

Debt securities issued during the period amounted to € 1,271 million (31 December 2012: € 851 million) of which € 500 million relates to a covered bond issuance with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured amounted to € 4,100 million (31 December 2012: € 5,871 million).

Notes to the condensed consolidated interim financial statements

29 Provisions for liabilities and commitments

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other[3] provisions € m	Voluntary severance scheme € m	30 June 2013 Total € m
At 1 January	**21**	**31**	**27**	**9**	**156**	**6**	**250**
Transfers in	**34[4]**	**–**	**–**	**–**	**1**	**–**	**35**
Transfers out	**–**	**–**	**(2)**	**–**	**–**	**–**	**(2)**
Exchange translation adjustments	**–**	**–**	**(1)**	**–**	**(6)**	**–**	**(7)**
Amounts charged to income statement	**3[5]**	**11**	**2**	**1**	**10**	**–**	**27**
Amounts released to income statement	**–**	**–**	**(1)**	**–**	**(12)**	**2**	**(11)**
Provisions utilised	**–**	**–**	**(4)**	**(1)**	**(32)**	**(3)**	**(40)**
At 30 June 2013	**58**	**42**	**21**	**9**	**117**	**5**	**252**

	Liabilities and charges € m	NAMA provisions € m	Onerous contracts € m	Legal claims € m	Other provisions € m	Voluntary severance scheme* € m	Restated* 31 December 2012 Total € m
At 1 January	24	407	13	10	60	–	514
Transfers out	(8)	–	–	–	–	–	(8)
Exchange translation adjustments	–	2	–	–	1	–	3
Amounts charged to income statement	10	19	16	4	121	45	215
Amounts released to income statement	(1)	(155)	(1)	(4)	(7)	–	(168)
Provisions utilised	(4)	(242)	(1)	(1)	(19)	(39)	(306)
At 31 December 2012	21	31	27	9	156	6	250

[1]NAMA provisions represent amounts due to NAMA in respect of adjustments to transfers which had not been settled at 31 December 2012. At 30 June 2013, none of this provision was released to the income statement (31 December 2012: € 155 million), however, € 11 million was charged to the income statement in respect of Section 93 claims i.e. new claims under the NAMA Act.

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

[3]Includes provisions for refunds to customers in respect of payment protection insurance in both Ireland and the UK which totalled € 41 million (31 December 2012: € 52 million); interest rate hedge products in the UK which totalled € 47 million (31 December 2012: € 49 million); and restructuring and reorganisation costs.

[4]Transfer from 'Provisions for impairment on loans and receivables' (note 21).

[5]Included in '(Provisions)/writeback of provisions for liabilities and commitments' in the income statement.

*Restated due to change in accounting policy for employee benefits – page 52

30 Subordinated liabilities and other capital instruments	30 June 2013 € m	31 December 2012 € m
Allied Irish Banks, p.l.c.		
€ 1.6bn Contingent Capital Tier 2 Notes due 2016 ("CCNs")[1]		
Proceeds of issue	**1,600**	1,600
Fair value adjustment on initial recognition	**(447)**	(447)
Amortisation to date	**124**	84
	1,277	1,237
Dated loan capital – European Medium Term Note Programme:		
€ 500m Callable Step-up Floating Rate Notes due October 2017 (maturity extended to 2035 as a result of the SLO)	**7**	7
Stg£ 368m 12.5% Subordinated Notes due June 2019 (maturity extended to 2035 as a result of the SLO)	**27**	27
Stg£ 500m Callable Fixed/Floating Rate Notes due March 2025 (maturity extended to 2035 as a result of the SLO)	**–**	–
	34	34
	1,311	1,271

[1]See note 44 on page 284 of the Annual Financial Report 2012.

Following the liability management exercises in 2011 and the subordinated liability order ("SLO") in April 2011, residual balances remained outstanding on the dated loan capital instruments above. The SLO, which was effective from 22 April 2011, changed the terms of all outstanding instruments. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, with coupons to be payable at the option of AIB.

31 Share capital

The following tables show the movements within the relevant captions of shareholders' equity in the statement of financial position as at 30 June 2013 and 31 December 2012:

Issued share capital	**30 June 2013 € m**	31 December 2012 € m
At 1 January	**5,206**	5,170
Ordinary shares issued in lieu of dividend on 2009 Preference Shares	**42**	36
At end of period	**5,248**	5,206
Of which:		
Ordinary shares	**5,213**	5,171
2009 Preference shares	**35**	35
	5,248	5,206

Share premium	**30 June 2013 € m**	31 December 2012 € m
At 1 January	**2,890**	4,926
Transfer to ordinary share capital in respect of ordinary shares issued in lieu of dividend on 2009 Preference Shares	**(42)**	(36)
Reduction and transfer to revenue reserves	**–**	(2,000)
At end of period	**2,848**	2,890[1]

[1]See note 45 on page 288 of the Annual Financial Report 2012.

On 13 May 2013, arising from the non-payment of dividend amounting to € 280 million on the 2009 Preference Shares, the NPRFC became entitled to bonus shares in lieu and the Company issued 4,144,055,254 new ordinary shares of € 0.01 each by way of a bonus issue to the NPRFC in settlement of the dividend. In accordance with the Company's Articles of Association, an amount of € 42 million, equal to the nominal value of the shares issued, was transferred from share premium to ordinary share capital. Following this transaction, the NPRFC holds 520,381,418,976 ordinary shares in AIB (99.8% of the ordinary share capital (31 December 2012: 99.8%)).

32 Capital reserves

(a) Capital reserves	30 June 2013 € m Capital contribution reserves € m	Other capital reserves € m	Total € m	31 December 2012 € m Capital contribution reserves € m	Other capital reserves € m	Total € m
At 1 January	**2,385**	**253**	**2,638**	2,632	253	2,885
Transfer to revenue reserves:						
Anglo business transfer	**(76)**	**–**	**(76)**	(187)	–	(187)
CCNs issuance *(note 30)*	**(40)**	**–**	**(40)**	(60)	–	(60)
	(116)	**–**	**(116)**	(247)	–	(247)
At end of period	**2,269**	**253**	**2,522**	2,385	253	2,638

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of the CCNs were non-distributable on initial recognition but may become distributable as outlined in accounting policy number 28 in the Annual Financial Report 2012. The transfers to revenue reserves relate to the capital contributions being deemed distributable.

(b) Capital redemption reserves

On 26 July 2011, the ordinary shares of Allied Irish Banks, p.l.c. were renominalised which resulted in the creation of ordinary shares of € 0.01 each, totalling € 127 million and deferred shares of € 0.01 each, totalling € 3,958 million. The deferred shares were acquired by AIB for Nil consideration and immediately cancelled which resulted in € 3,958 million transferring from share capital to capital redemption reserves (note 50 of the Annual Financial Report 2012).

On 1 May 2012, the Irish High Court confirmed an application by AIB for a reduction of its capital redemption reserve fund, accordingly, € 3,958 million was transferred to revenue reserves from this account.

33 Analysis of selected other comprehensive income

	Half-Year 30 June 2013 Gross € m	Tax € m	Net € m	Half-year 30 June 2012 Gross € m	Tax € m	Net € m
Foreign currency translation reserves						
Change in foreign currency translation reserves	**(18)**	**–**	**(18)**	33	–	33
Total	**(18)**	**–**	**(18)**	33	–	33
Cash flow hedging reserves						
Fair value (gains) transferred to income statement	**(13)**	**1**	**(12)**	(29)	4	(25)
Fair value gains/(losses) taken to other comprehensive income	**27**	**(4)**	**23**	(60)	7	(53)
Total	**14**	**(3)**	**11**	(89)	11	(78)
Available for sale securities reserves						
Fair value (gains)/losses transferred to income statement	**(32)**	**5**	**(27)**	47	6	53
Fair value gains taken to other comprehensive income	**265**	**(33)**	**232**	565	(71)	494
Total	**233**	**(28)**	**205**	612	(65)	547

33 Analysis of selected other comprehensive income *(continued)*

Analysis of total comprehensive income included within statement of changes in equity

							30 June 2013
				Revenue reserves			
	Revaluation reserves	**Available for sale securities reserves**	**Cash flow hedging reserves**	**Net actuarial losses in retirement benefit schemes**	**Other revenue reserves**	**Foreign currency translation reserves**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Parent and subsidiaries	**–**	**205**	**11**	**(197)**	**(758)**	**(18)**	**(757)**
Attributable to equity holders of the parent	**–**	**205**	**11**	**(197)**	**(758)**	**(18)**	**(757)**

							Restated* 30 June 2012
				Revenue reserves			
	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Net actuarial losses in retirement benefit schemes	Other revenue reserves	Foreign currency translation reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Parent and subsidiaries as reported	–	547	(78)	(483)	(1,216)	33	(1,197)
Change in accounting policy	–	–	–	12	162	–	174
Attributable to equity holders of the parent as restated	–	547	(78)	(471)	(1,054)	33	(1,023)

							Restated* 31 December 2012
				Revenue reserves			
	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Net actuarial losses in retirement benefit schemes	Other revenue reserves	Foreign currency translation reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Parent and subsidiaries as reported	(2)	1,295	(162)	(740)	(3,647)	34	(3,222)
Change in accounting policy	–	–	–	24	90	–	114
Attributable to equity holders of the parent as restated	(2)	1,295	(162)	(716)	(3,557)	34	(3,108)

*Restated due to change in accounting policy for employee benefits – page 52

34 Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group's accounting policy for the determination of fair value of financial instruments is set out on pages 56 and 57.

Readers of these financial statements are advised to use caution when using the data in the following table to evaluate the Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 30 June 2013.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. During the year, AIB has continued to observe adverse changes in the credit quality of its borrowers, with increasing delinquencies and defaults across a range of sectors. The volatility in financial markets and the illiquidity that is evident in these markets has reduced the demand for many financial instruments and this creates a difficulty in estimating the fair value for loans to customers. AIB has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

		30 June 2013		31 December 2012	
	Notes	**Carrying amount € m**	**Fair value € m**	Carrying amount € m	Fair value € m
Financial assets					
Cash and balances at central banks	a	**3,670**	**3,670**	4,047	4,047
Items in course of collection	a	**256**	**256**	192	192
Disposal groups and non-current assets held for sale net of liabilities	b	**396**	**378**	549	435
Trading portfolio financial assets	c	**17**	**17**	24	24
Derivative financial instruments	d	**2,006**	**2,006**	2,835	2,835
Loans and receivables to banks	e	**2,333**	**2,333**	2,914	2,914
Loans and receivables to customers	f	**68,743**	**61,775**	72,972	64,138
NAMA senior bonds	g	**16,445**	**16,350**	17,387	17,446
Financial investments available for sale	h	**18,958**	**18,958**	16,344	16,344
Financial liabilities					
Deposits by central banks and banks	i	**26,117**	**26,117**	28,442	28,442
Customer accounts	i	**64,825**	**65,475**	63,610	64,435
Derivative financial instruments	d	**2,259**	**2,259**	3,256	3,256
Debt securities in issue	j	**7,823**	**7,897**	10,666	11,019
Subordinated liabilities and other capital instruments	j	**1,311**	**1,672**	1,271	1,650
Fair value hedged liability positions	k	**380**	**–**	565	–

(a) The fair value of these financial instruments is considered equal to the carrying value. These instruments are either carried at market value or have minimal credit losses.

(b) The fair value of loans and receivables held for sale has been estimated based on expected sale proceeds. Available for sale equity securities and equity securities designated as at fair value through profit or loss have been included at their carrying value. This caption also includes the Group's investment in Ark Life which is classified as a discontinued operation within disposal groups and non-current assets held for sale. The carrying value of the disposal group in this table is shown net of liabilities. Since a sale process is proceeding, the fair value has been determined based on expectations as to the ultimate disposal proceeds. The fair value of certain other assets within disposal groups and non-current assets held for sale has not been included, as these are not financial assets.

34 Fair value of financial instruments *(continued)*

(c) The fair value of trading debt securities, together with quoted equity shares are based on quoted prices or bid/offer quotations sourced from external securities dealers, where these are available on an active market. Where securities and equities are traded on an exchange, the fair value is based on prices from the exchange. The fair value of unquoted equity shares and debt securities not quoted in an active market is calculated using valuation techniques, as described in the accounting policy as set out on pages 56 and 57.

(d) Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over the counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives valuation model, the fair value is estimated using inputs which provide the Group's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated. Counterparty credit is an input into the valuation of uncollateralised customer derivatives. Own credit is considered in the valuation of derivative liabilities, but due to market experience, no adjustment to valuation is made in relation to this.

(e) The fair value of loans and receivables to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

(f) The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows, applying market rates where practicable and the expected cash flows from deleveraging activity.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. The fair value of variable mortgage products including tracker mortgages is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in the portfolio. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. For the overall loan portfolio, an adjustment is made for credit risk which at 30 June 2013 took account of the Group's expectation of credit losses over the life of the loans.

(g) The fair value of the NAMA senior bonds has been estimated using a valuation technique since there in no active market for these bonds. The valuation technique required an increased use of management judgement which included, but was not limited to, evaluating available market information, determining the amount and timing of cash flows generated by the instruments, identifying a risk free discount rate and applying an appropriate credit spread.

(h) The fair value of available for sale debt securities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability.

(i) The fair value of current accounts and deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

(j) The estimated fair value of subordinated liabilities and other capital instruments, and debt securities in issue, is based on quoted prices where available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

(k) The fair value of the hedged asset and liability positions are included in the fair value of the relevant assets and liabilities being hedged.

34 Fair value of financial instruments *(continued)*

Fair value hierarchy

The fair values of financial instruments are measured according to the following fair value hierarchy:

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

Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.

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

The following table sets out the carrying value of financial instruments measured at fair value across the three levels of the fair value hierarchy as at 30 June 2013 and as at 31 December 2012:

				30 June 2013
	Level 1 € m	**Level 2 € m**	**Level 3 € m**	**Total € m**
Recurring fair value measurements				
Financial assets				
Trading portfolio financial assets	**16**	**1**	**–**	**17**
Derivative financial instruments	**–**	**1,413**	**593**	**2,006**
Financial investments available for sale – debt securities	**18,765**	**87**	**12**	**18,864**
– equity securities	**17**	**2**	**75**	**94**
	18,798	**1,503**	**680**	**20,981**
Financial liabilities				
Derivative financial instruments	**–**	**2,137**	**122**	**2,259**
	–	**2,137**	**122**	**2,259**
Non recurring fair value measurements				
Financial assets				
Disposal groups and non-current assets held for sale[(1)]	**–**	**–**	**302**	**302**
	–	**–**	**302**	**302**

				31 December 2012
	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
Recurring fair value measurements				
Financial assets				
Disposal groups and non-current assets held for sale	–	–	196	196
Trading portfolio financial assets	23	1	–	24
Derivative financial instruments	–	2,835	–	2,835
Financial investments available for sale – debt securities	16,128	61	12	16,201
– equity securities	58	1	84	143
	16,209	2,898	292	19,399
Financial liabilities				
Derivative financial instruments	–	3,236	20	3,256
	–	3,236	20	3,256
Non recurring fair value measurements				
Financial assets				
Disposal groups and non-current assets held for sale	–	–	196	196
	–	–	196	196

[(1)]The carrying value of the disposal group is shown net of liabilities for the purpose of this table.

34 Fair value of financial instruments *(continued)*

Transfers between Level 1 and Level 2

	30 June 2013			31 December 2012		
	Financial assets			Financial assets		
Group	**Trading portfolio € m**	**Debt securities € m**	**Total € m**	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 1 from Level 2	**–**	**17**	**17**	–	908	908
Transfer into Level 2 from Level 1	**–**	**–**	**–**	–	–	–

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

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

						30 June 2013	
	Financial assets					**Financial liabilities**	
	Disposal groups and non-current assets held for sale	**Derivatives**	**AFS**		**Total**	**Derivatives**	**Total**
Group	**€ m**	**€ m**	**Debt securities € m**	**Equity securities € m**	**€ m**	**€ m**	**€ m**
At 1 January 2013	**196**	**–**	**12**	**84**	**292**	**20**	**20**
Transfers into Level 3[1]	**–**	**593**	**–**	**–**	**593**	**122**	**122**
Total gains or (losses) in:							
- Profit or loss	**–**	**–**	**–**	**(7)**	**(7)**	**–**	**–**
- Other comprehensive income	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**–**
Purchases	**302**	**–**	**–**	**3**	**305**	**–**	**–**
Sales	**(196)**	**–**	**–**	**(4)**	**(200)**	**(20)**	**(20)**
At 30 June 2013	**302**	**593**	**12**	**75**	**982**	**122**	**122**

Total gains or losses included in profit or loss in the above table are recognised as:

	30 June 2013 € m
Provisions for impairment on financial investments available for sale	**(7)**
Total	**(7)**

Total gains or losses included in other comprehensive income in the above table are recognised as:

	30 June 2013 € m
Net change in fair value of financial investments available for sale	**(1)**
Total	**(1)**

Total gains or losses included in profit or loss attributable to the change in unrealised gains or losses relating to assets and liabilities held at the end of the period:

	30 June 2013 € m
Provisions for impairment on financial investments available for sale	**(7)**
Total	**(7)**

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

34 Fair value of financial instruments *(continued)*

	Financial assets					Financial liabilities	
31 December 2012	Disposal groups and non-current assets held for sale € m	Derivatives € m	AFS Debt securities € m	AFS Equity securities € m	Total € m	Derivatives € m	Total € m
At 1 January 2012	22	–	12	180	214	109	109
Designated to fair value through profit or loss	196	–	–	–	196	–	–
Transfers out of level 3[1]	–	–	–	(18)	(18)	–	–
Total gains or losses in:							
Profit or loss	(2)	–	–	(86)	(88)	39	39
Other comprehensive income	(7)	–	–	5	(2)	–	–
Net NAMA subordinated bonds	–	–	–	(3)	(3)	–	–
Purchases	–	–	–	8	8	–	–
Sales	(13)	–	–	(2)	(15)	–	–
Settlements	–	–	–	–	–	(128)	(128)
At 31 December 2012	196	–	12	84	292	20	20

Transfers out of Level 3 occurred because of increased observability in the market prices of these instruments.

Total gains or losses included in profit or loss in the above table are recognised as:

	31 December 2012 € m
Net trading loss	(39)
Provisions for impairment on financial investments available for sale	(86)
Other operating loss	(2)
Total	(127)

Total gains or losses included in other comprehensive income in the above table are recognised as:

	31 December 2012 € m
Net change in fair value of financial investments available for sale	(2)
Total	(2)

Total gains or losses included in profit or loss attributable to the change in unrealised gains or losses relating to assets and liabilities held at the end of the period:

	31 December 2012 € m
Net trading loss	(6)
Provisions for impairment on financial investments available for sale	(85)
Total	(91)

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

34 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used at the half-year ended 30 June 2013 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of financial instrument	Fair values at 30 June 2013	Valuation technique	Significant unobservable inputs	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Uncollateralised customer derivatives*	Assets: € 593 million Liabilities: € 122 million	Counterparty valuation adjustment (“CVA”); replacement cost via options structures x probability of default (“PD”) x loss given default (“LGD”)	**1.** Loss given default (LGD) **2.** Customer probability of default (PD)	**1**. LGD 30% to 60% (currently 55%) **2**. Internally modelled historical PDs (current weighted average 1.13%) to market implied PDs (estimated worst case 5.17%)	**1.** Negative € 8 million to positive € 6 million variance to current valuation. **2.** Negative € 52 million variance to current valuations.
NAMA subordinated bonds	Asset: € 47 million	Discounted cash flow	NAMA profitability generating the cash flows for repayment.	The estimates range from NAMA being able to repay the subordinated bonds in full (but with application of 15% discount yield) to no repayment of subordinated bonds.	Negative € 47 million to positive € 135 million variance to the current fair value (reflecting price estimates of 0% and 38.7% compared to the current fair value of 10% of nominal).

*The valuation of uncollateralised customer derivatives requires the application of a counterparty valuation adjustment ("CVA"). This is a methodology which is continuing to evolve and AIB recognises there has been growing use of market based indicators for the calculation of the probability of default for customers which is a major component of the valuation process. AIB currently uses a historical probability of default based on internal models as its customer base is not covered by market indicators. However, if adjusted market Credit Default Swap index prices were to be used as a proxy, as advocated by larger Banks in the derivatives markets, a change in estimates as indicated is possible. The greater uncertainty in valuations due to the evolution in market valuation processes has led to the re-categorisation of the uncollateralised customer derivatives valuation from Level 2 as at 31 December 2012 to Level 3 as at 30 June 2013.

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

34 Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

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

	30 June 2013			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivatives	6	(52)	–	–
Financial investments available for sale – debt securities	–	–	–	–
– equity securities	–	(47)	135	–
Total	6	(99)	135	–
Classes of financial liabilities				
Derivative financial instruments	–	–	–	–
Total	–	–	–	–

	31 December 2012			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Financial investments available for sale – debt securities	–	–	–	–
– equity securities	–	(47)	146	–
Total	–	(47)	146	–
Classes of financial liabilities				
Derivative financial instruments	3	(3)	–	–
Total	3	(3)	–	–

In relation to the investment in Aviva Life Holdings Ireland Limited ("ALH") which is designated as an equity investment at fair value through profit or loss (and categorised as held for sale) this transaction was completed in March 2013 (note 16).

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.

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

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

	Contract amount	
	30 June 2013 € m	31 December 2012 € m
Contingent liabilities – credit related[1]		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**890**	980
Other contingent liabilities	**549**	581
	1,439	1,561
Commitments[2]		
Documentary credits and short-term trade-related transactions	**16**	27
Undrawn note issuance and revolving underwriting facilities	**–**	–
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**6,580**	6,977
1 year and over[4]	**1,787**	1,970
	8,383	8,974
	9,822	10,535

Contingent liability/contingent asset - NAMA

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

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

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

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

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

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

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

36 Capital expenditure

	30 June 2013 € m	31 December 2012 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**30**	7
Capital expenditure authorised but not yet contracted for	**58**	29

37 Statement of cash flows

Analysis of cash and cash equivalents

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

	30 June 2013 € m	30 June 2012 € m
Cash and balances at central banks	**3,670**	4,286
Loans and receivables to banks	**1,970**	2,031
	5,640	6,317

38 Average statement of financial position and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the half-years ended 30 June 2013 and 30 June 2012. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

	Half-year ended 30 June 2013			Half-year ended 30 June 2012		
Assets	**Average balance € m**	**Interest € m**	**Average rate %**	Average balance € m	Interest € m	Average rate %
Trading portfolio financial assets						
Domestic offices	**–**	**–**	**–**	26	–	2.8
Foreign offices	**20**	**–**	**2.7**	24	1	4.2
Loans and receivables to banks						
Domestic offices	**1,098**	**2**	**0.4**	2,215	11	1.0
Foreign offices	**4,852**	**8**	**0.3**	6,669	14	0.4
Loans and receivables to customers						
Domestic offices	**59,234**	**963**	**3.3**	67,471	1,118	3.3
Foreign offices	**12,746**	**202**	**3.2**	16,338	289	3.5
NAMA senior bonds						
Domestic offices	**17,261**	**79**	**0.9**	19,579	206	2.1
Financial investments available for sale						
Domestic offices	**17,374**	**311**	**3.6**	13,494	282	4.2
Foreign offices	**259**	**6**	**4.5**	667	12	3.7
Average interest earning assets						
Domestic offices	**94,967**	**1,355**	**2.9**	102,785	1,617	3.2
Foreign offices	**17,877**	**216**	**2.4**	23,698	316	2.7
Net interest on swaps		**35**			47	
Total average interest earning assets	**112,844**	**1,606**	**2.9**	126,483	1,980	3.2
Non-interest earning assets	**9,499**			8,015		
Total average assets	**122,343**	**1,606**	**2.7**	134,498	1,980	3.0
Percentage of assets applicable to foreign activities			**16.0**			19.0

38 Average statement of financial position and interest rates *(continued)*

	Half-year ended 30 June 2013			Half-year ended 30 June 2012		
Liabilities and shareholders' equity	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %
Due to central banks and banks						
Domestic offices	**27,330**	**77**	**0.6**	34,027	168	1.0
Foreign offices	**275**	**–**	**0.1**	597	1	0.4
Due to customers						
Domestic offices	**42,089**	**561**	**2.7**	38,816	736	3.8
Foreign offices	**9,382**	**74**	**1.6**	11,907	122	2.1
Other debt issued						
Domestic offices	**8,601**	**173**	**4.1**	12,895	269	4.2
Foreign offices	**292**	**6**	**3.8**	191	5	5.1
Subordinated liabilities						
Domestic offices	**1,291**	**120**	**18.8**	1,223	111	18.2
Average interest earning liabilities						
Domestic offices	**79,311**	**931**	**2.4**	86,961	1,284	3.0
Foreign offices	**9,949**	**80**	**1.6**	12,695	128	2.0
Total average interest earning liabilities	**89,260**	**1,011**	**2.3**	99,656	1,412	2.9
Non-interest earning liabilities	**21,940**			20,557		
Total average liabilities	**111,200**	**1,011**	**1.8**	120,213	1,412	2.4
Shareholders' equity	**11,143**			14,283		
Total average liabilities and shareholders' equity	**122,343**	**1,011**	**1.7**	134,496	1,412	2.1
Percentage of liabilities applicable to foreign operations			**12.0**			13.2

39 Related party transactions

Other than as mentioned below, there have been no related party transactions or changes therein since 31 December 2012 that have materially affected the Group's financial position or performance in the half-year to 30 June 2013.

Transactions with key management personnel

As at 30 June 2013, the aggregate of loans, overdrafts/credit cards outstanding to key management personnel (executive and non-executive directors and senior executive officers who were in office during the half year) amounted to € 2.30 million; 10 persons (31 December 2012: € 3.05 million; 15 persons).

The aggregate of loans, overdrafts/credit cards outstanding to connected persons of directors in office as at 30 June 2013, as defined in section 26 of the Companies Act 1990, amounted to € 0.89 million; 17 persons (31 December 2012: € 0.85 million; 18 persons).

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

No impairment charge or provisions have been recognised in respect of any loans or facilities and all interest that has fallen due has been paid.

Relationship with the Irish Government

AIB's relationship with the Irish Government is set out in note 63(g) of the Annual Financial Report 2012. As detailed, this relationship encompasses a number of dimensions, namely:

a) Capital investments;
b) Guarantee schemes;
c) NAMA;
d) Funding support;
e) PCAR/PLAR;
f) Credit Institutions (Stabilisation) Act 2010;
   (i) Direction Order;
   (ii) Transfer Order;
   (iii) Subordinated Liabilities Order;
g) Central Bank and Credit Institutions (Resolution) Act 2011 and
h) Relationship framework.

Since 31 December 2012, there have been no significant changes to the various aspects of this relationship. The Irish Government, through the NPRFC, holds 99.8% of the ordinary shares of AIB, with the number of shares held increasing by 4.1 billion ordinary shares of € 0.01 each, through the non-payment of the dividend of € 280 million on the 2009 Preference Shares (note 31). The NPRFC now holds 520.4 billion ordinary shares (31 December 2012: 516.2 billion).

On 28 March 2013, the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ("ELG Scheme") ended for all new liabilities. After this date, no new liabilities are guaranteed under the ELG Scheme.

39 Related party transactions *(continued)*

Transactions with the Irish Government and Irish Government related entities

The following table outlines the balances held with Irish Government entities(1) at 30 June 2013 and 31 December 2012, together with the highest balances held at any point during the period:

		30 June 2013		31 December 2012	
		Balance	**Highest(2) balance held**	Balance	Highest(2) balance held
	Note	**€ m**	**€ m**	€ m	€ m
Assets					
Cash and balances at central banks	a	**303**	**1,639**	118	4,250
Derivative financial instruments		**94**	**111**	107	112
Loans and receivables to banks	b	**104**	**107**	107	5,019
Loans and receivables to customers		**4**	**6**	4	4
NAMA senior bonds	c	**16,445**	**17,406**	17,387	19,860
Financial investments available for sale	d	**9,679**	**9,696**	7,635	7,697
Total assets		**26,629**		25,358	

		30 June 2013		31 December 2012	
		Balance	**Highest(2) balance held**	Balance	Highest(2) balance held
		€ m	**€ m**	€ m	€ m
Liabilities					
Deposits by central banks and banks	e	**17,710**	**23,230**	22,220	37,836
Customer accounts	f	**6,005**	**8,242**	1,220	1,493
Derivative financial instruments		**14**	**27**	53	80
Subordinated liabilities and other capital instruments	g	**1,277**	**1,277**	1,237	1,237
Total liabilities		**25,006**		24,730	

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

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

a Cash and balances at central banks represent the minimum reserve requirements which AIB is required to hold with the Central Bank of Ireland ('the Central Bank'). Balances on this account can fluctuate significantly due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. The Group is required to maintain a monthly average Primary Liquidity balance which at 30 June 2013 was € 472 million (31 December 2012: € 552 million).

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

c NAMA senior bonds were received as consideration for loans transferred to NAMA and as part of the Anglo and EBS transactions. These are detailed in notes 22, 23 and 32 of the Annual Financial Report 2012.

d Financial investments available for sale comprise € 9,632 million (2012: € 7,588 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 30 June 2013 of € 47 million (31 December 2012: € 47 million).

e This relates to funding received from the Central Bank (note 26).

f Includes € 4,232 million received from an Irish Government body under a repurchase agreement (note 27). The Group has pledged Irish Government securities with a fair value of € 4,376 million for this borrowing.

g On 27 July 2011, AIB issued € 1.6 billion of contingent capital notes at par to the Minister for Finance, the fair value of these notes at initial recognition was € 1,153 million (note 30).

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

39 Related party transactions *(continued)*

Local government[1]

During 2013 and 2012, 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 2013 and 2012, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions.

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

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

Financial institutions under Irish Government control/significant influence

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

- Permanent tsb plc; and
- Irish Life Group

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 2013 € m	31 December 2012 € m
Assets		
Derivative financial instruments	**55**	78
Loans and receivables to banks[1]	**–**	80
Financial investments available for sale[2]	**422**	845
Liabilities		
Deposits by central banks and banks[3]	**55**	58
Derivative financial instruments	**44**	47
Customer deposits[4]	**241**	114

(1)The highest balance in loans and receivables to banks amounted to € 16 million in respect of funds placed during the period (2012: € 616 million).

(2)Includes equity securities issued in lieu of debt of Nil (2012: € 37 million). These shares were disposed of during the period with a profit on disposal of € 8 million.

(3)The highest balance in deposits by central banks and banks amounted to € 886 million in respect of funds received during the period (2012: € 842 million).

(4)The highest balance in customer deposits amounted to € 309 million in respect of funds received during the period (2012: € 121 million).

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

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

40 Other financial information	Half-year 30 June 2013 %	Restated* Half-year 30 June 2012 %
Operating ratios		
Operating expenses/operating income	**114.5**	122.5
Other income/operating income	**16.8**	23.3
Net interest margin[(1)]:		
Group	**1.06**	0.90
Domestic	**0.98**	0.75
Foreign	**1.52**	1.57

Average interest earning assets	Half-year 30 June 2013 € m	Half-year 30 June 2012 € m
Group	**112,844**	126,483
Domestic	**94,967**	102,785
Foreign	**17,877**	23,698

Rates of exchange	Half-year 30 June 2013	Year ended 31 December 2012	Half-year 30 June 2012
€/US$			
Closing	**1.3080**	1.3194	1.2590
Average	**1.3133**	1.2850	1.2967
€/Stg£			
Closing	**0.8572**	0.8161	0.8068
Average	**0.8510**	0.8110	0.8226

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

*Restated due to change in accounting policy for employee benefits – page 52

41 Legal proceedings

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

42 Non-adjusting events after the reporting period

Pay and benefits review

Discussions had been ongoing for the past number of months between AIB and the staff union, the IBOA, regarding proposals to alter the terms and conditions of employment of staff as part of a restructuring programme. Since the negotiations were protracted, the matter was referred to the Labour Relations Commission ("LRC") for review and recommendation. Final agreement could not be reached on certain issues and these were referred to the Labour Court for investigation and recommendation. On 8 July 2013, the Labour Court and the LRC issued their recommendations as a proposed compromise solution.These recommendations are summarised as follows:

- Close the defined benefit pension schemes across the Group to future accrual from 31 December 2013;
- Introduce a new defined contribution scheme for all staff from 1 January 2014
  - Employer to make a standard contribution of 10% with an additional employer contribution of up to 8% depending on employee level of contribution and age;
- Salary increments and fixed merit increases to be ended. Future pay to be based on the Group's performance, market movements and individual performance;
- Working week to be extended; and
- A once-off payment of 4% to be made to all IBOA members below manager level in the Republic of Ireland in consideration of all recommended changes.

AIB has since accepted the recommendations of both the Labour Court and the LRC. These recommendations are currently being considered by the IBOA.

43 Approval of Half-Yearly Financial Report

The Half-Yearly Financial Report was approved by the Board of Directors on 31 July 2013.

44 Copies of the Half-Yearly Financial Report 2013 and Annual Financial Report 2012

The Half-Yearly Financial Report 2013 and the Annual Financial Report 2012 are available on AIB Group's internet site at: www.aibgroup.com/investorrelations

Capital adequacy information

	30 June 2013 € m	31 December 2012 € m
Core tier 1		
Paid up share capital and related share premium	**8,096**	8,096
Eligible reserves	**2,315**	3,022
Regulatory adjustments	**(324)**	(312)
Supervisory deductions:		
Unconsolidated financial investments	**(159)**	(6)
Securitisations	**(53)**	(45)
Core tier 1 capital	**9,875**	10,755
Tier 2		
Eligible reserves	**120**	125
Credit provisions	**632**	682
Subordinated term loan capital	**993**	1,154
Supervisory deductions from tier 2 capital	**(212)**	(51)
Total tier 2 capital	**1,533**	1,910
Gross capital	**11,408**	12,665
Supervisory deductions	**–**	(74)
Total capital	**11,408**	12,591
Risk weighted assets (unaudited)		
Credit risk	**61,916**	66,335
Market risk	**331**	616
Operational risk	**3,174**	4,466
Total risk weighted assets	**65,421**	71,417
Capital ratios (unaudited)		
Core tier 1	**15.1%**	15.1%
Total	**17.4%**	17.6%

Risk weighted assets (“RWAs”) reduced by € 6.0 billion in the six months to 30 June 2013. The credit RWAs reduction of € 4.4 billion is primarily a result of deleveraging, amortisations, increased provisions and foreign exchange movements, which were offset, to a degree, by deterioration in credit quality, particularly in the mortgage portfolio.

The RWAs attached to operational risk reduced by € 1.3 billion in the six months to 30 June 2013 reflecting the reduced levels of income in the annual calculation, arising, in the main, from disposals and the impact of the economic decline in the last three years. Core tier 1 capital has reduced by € 0.9 billion in the period; this is primarily due to the attributable loss for the period. The impact of this movement together with the decrease in RWAs gives an unchanged core tier 1 capital ratio of 15.1% at both 30 June 2013 and 31 December 2012. The core tier 1 ratio is in excess of the 10.5% target core tier 1 requirement as announced under the Financial Measures Programme in March 2011.

Total capital reduced by € 1.2 billion in the six months to 30 June 2013, due to the € 0.9 billion movements in core tier 1 capital described above and a € 0.3 billion reduction in tier 2 capital. The reduction in tier 2 capital results from the continued amortisation of the contingent capital instrument that is within five years to maturity. The contingent capital instrument is due to mature in July 2016. The impact of this movement together with the decrease in RWAs is a reduction in the total capital ratio from 17.6% at 31 December 2012 to 17.4% at 30 June 2013.

Capital Requirements Directive (“CRD”)

The various capital requirements directives (“CRD”) and their implications for AIB Group are set out on page 43 of the AIB Annual Financial Report 2012. A new Directive (CRD IV) has been proposed by the European Commission to implement Basel 3 recommendations in Europe. These recommendations were developed in response to the recent banking crisis and aim to strengthen the capital adequacy of banks by increasing:

– the quality of eligible capital that banks can include in their capital base for capital adequacy purposes; and
– the quantity of capital held by setting significantly higher minimum capital ratios and identifying capital buffers that can be imposed by national supervisors according to their assessment of risk exposure.

CRD IV was due to be in place from 1 January 2013, however, as the underlying regulations and directive have recently been finalised on 27 June 2013, the implementation of CRD IV has been delayed until 1 January 2014 and fully effective from 1 January 2018, (with the exception of deferred tax deduction which will not be fully implemented until 2024).

Based on our current interpretation of the CRD IV regulations, the Group’s pro forma Common Equity Tier 1 (“CET 1”) ratio, including the 2009 Preference Shares (which will continue to be considered as CET 1 until 31 December 2017), is estimated at 9.5% as at 30 June 2013.

The Group issued its most recent pillar 3 disclosures in June 2013.

Responsibility statement

for the half-year ended 30 June 2013

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

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

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

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

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

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

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

On behalf of the Board

David Hodgkinson	**David Duffy**
Chairman	Chief Executive Officer

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

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes 1 to 44. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by the directors. The directors are responsible for the preparation of the half-yearly financial report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Rules of the Enterprise Securities Market.

As disclosed in the basis of preparation, the annual financial statements of the company are prepared in accordance with IFRSs as issued by the IASB and IFRSs as adopted by the European Union. The condensed set of financial statements included in the half-yearly financial report has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in Ireland and the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Rules of the Enterprise Securities Market.

Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Dublin
31 July 2013