



Allied Irish Banks, p.l.c.

Half-Yearly  
Financial Report 2012

For the Half-Year ended 30 June 2012



## Allied Irish Banks, p.l.c.

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**This Half-Yearly Financial Report and a detailed presentation can be viewed on our internet site at [www.aibgroup.com/investorrelations](http://www.aibgroup.com/investorrelations)**

### **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 effects of the challenging economic environment, both domestically and internationally, the impact of the Irish Government’s relationship with AIB through both its ordinary and preference share investments, the impact of the Irish Government’s austerity measures arising from the EU/IMF financial support package, constraints on liquidity and the challenging liquidity environment for the Group created by market reaction to factors affecting Ireland and the Irish economy, the impact of further downgrades to the Irish sovereign ratings and other country ratings, or the Group’s credit ratings, the uncertainty of further extensions of the ELG Scheme, systemic risks in the markets the Group operates in, the ability to access capital to meet targeted and minimum capital requirements for the Group, customer and counterparty credit quality, the National Pensions Reserve Fund Commission investments, the National Asset Management Agency programme and the ELG Scheme, conditions that may be imposed by the European Commission following consideration of the Group’s restructuring plan, market risk, including non-trading interest rates, operational and reputational risks, the success of the Group’s deleveraging plan, the effects of continued volatility in credit markets, the effects of changes in valuation of credit market exposures, changes in fiscal or other policies adopted by various governments and regulatory authorities, the effects of changes in taxation or accounting standards and practices, acquisitions and disposals, the risks relating to the Group’s deferred tax assets, future exchange and interest rates and the success of the Group in managing these events. 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 announcement 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

- The reported loss of € 1.2 billion compares to a profit of € 2.2 billion in the first half of 2011. The first half of 2011 included the profit on discontinued operations of € 1.6 billion and gain on liquidity management exercises of € 3.3 billion.
- Underlying loss of € 1.1 billion, a € 1.9 billion improvement on the comparative period, primarily due to a lower provision charge.
- Credit provision charge of € 0.9 billion was € 2.1 billion lower than 2011.
- Loan to deposit ratio of 125%, down from 138% at 31 December 2011.
- Customer accounts have increased € 2.9 billion since 31 December 2011 with all segments seeing growth.
- Loans and receivables to customers have decreased € 4.0 billion since 31 December 2011 which reflected ongoing deleveraging measures, loan amortisation and continued weak demand for credit. Loans of € 1.8 billion deleveraged in 2012 bringing total amount deleveraged to € 14.5 billion which represents over 70% of the three year non-core deleveraging target by December 2013.
- Core Tier 1 capital 17.3% compared to 17.9% at 31 December 2011.

<b>Key financial information</b>		<b>30 June 2012</b>	31 December 2011
<b>Capital</b>			
Risk weighted assets	€ bn	<b>81</b>	84
Core tier 1 ratio	%	<b>17.3</b>	17.9
Total capital ratio	%	<b>19.9</b>	20.5
<b>Funding</b>			
Loan to deposit ratio <sup>(1)</sup>	%	<b>125</b>	138
Wholesale funding as % of total funding	%	<b>36</b>	41

<b>Summary profit statement</b>		<b>Half-year June 2012</b>	Half-year June 2011
Loss before exceptionals - continuing operations	€ m	<b>(1,090)</b>	(3,031)
(Loss)/profit before tax - continuing operations	€ m	<b>(1,331)</b>	260
(Loss)/profit after tax - continuing operations	€ m	<b>(1,216)</b>	611
Profit after tax - discontinued operations	€ m	-	1,628
(Loss)/profit for the period	€ m	<b>(1,216)</b>	2,239

<sup>(1)</sup>Including loans classified as held for sale.

# 1. Strategy

## Strategy

AIB is continuing its focus of returning the bank to sustainable profitability by 2014 and playing a central role in the recovery of the Irish economy. As part of these goals, AIB has recently announced a revised strategy with the following key elements:

### **A renewed commitment to customers:**

AIB is re-organising itself more efficiently so staff can spend more time with customers and a new streamlined operating structure will help to meet this goal. AIB is committed to developing a deeper understanding of the distinct needs of specific customer segments across its business and its product range. AIB's distribution capability will be enhanced to ensure the bank is meeting the requirements of customers, who range from retail clients to large corporate customers. Supporting customers will be at the heart of everything at AIB and the bank will provide the full spectrum of banking products and services tailored to individual and corporate needs.

AIB is also fully committed to supporting customers in financial difficulty and the creation of the Financial Solutions Group means the bank now has a unit dedicated to this important area. For SME customers in financial difficulty, the approach is to restructure loans, restore customer stability and establish a path back to viability. For mortgage customers in financial difficulty, the strategy is to work to ensure that homeowners can remain in their home, where possible. As part of the bank's Mortgage Arrears Resolution Strategy ("MARS"), AIB will provide new advanced forbearance options for customers. The emphasis is on early, open engagement as it is mutually beneficial for the bank and customers to manage issues in a constructive way.

### **A return to sustainable profit by 2014:**

A renewed focus on income growth coupled with cost management measures will help AIB to achieve the goal of sustainable profitability by 2014. As part of the cost reduction agenda, AIB has announced the implementation of an Early Retirement and Voluntary Severance Scheme which will reduce the number of staff at AIB by at least 2,500 by 2014. The bank has also announced proposed changes to staff pay and benefits including pay cuts at senior levels and all employees who are members of a defined benefit pension scheme will be moved to a defined contribution pension model. AIB will also continue to focus on reducing costs across the bank and will explore out-sourcing opportunities where they make strategic and financial sense.

In addition to cost reductions, the bank is taking necessary decisions to drive income growth including focus on funding costs and adjusting the pricing of lending products to be more in line with cost of funding. The bank is focused on maintaining market share in all its key target markets – mortgages, SME and corporates and will focus more closely on how and in what sectors we use our capital.

### **A new customer-focused operating structure:**

AIB's 'One Bank' strategy brings with it a revised and simpler organisational structure, another step in the bank's evolution towards being a fully customer-focused bank. AIB will in future operate around three points of focus – the domestic core bank, the UK comprising the businesses in Great Britain ("GB") and Northern Ireland ("FTB"), and the newly created Financial Solutions Group.

The domestic core bank will now be organised around customers and distribution on one hand and products on the other which will ensure that the bank's activities are aligned with the product management and development capabilities. These areas will be interdependent and there will be an end-to-end process from product development to customer delivery. This will allow frontline staff more time to focus on customers and will help to underpin a return to profitability.

### **Strong and inclusive leadership:**

AIB is building a strong and diverse Leadership team, comprising individuals who bring a wealth of experience and knowledge, which will be invaluable in the bank's return to viability. This team will be supported by a Leadership Council comprised of individuals from all areas of the bank. The Leadership Council will be instrumental in delivering key strategic initiatives and managing risk collaboratively and is the first step in establishing a flatter, more agile structure for AIB.

### **A fresh emphasis on technology and innovation:**

In future, customers will have even more choice in the range of ways they can bank with AIB and AIB will use technology to better meet the evolving needs of customers. Whether online, on the phone or in a branch, AIB's systems will deliver seamless high quality integrated services to customers. AIB has begun this process already and customers will see greater flexibility in the near future in the range of products available to them online and over the phone.

# 1. Strategy

## **A redefined distribution network:**

AIB is repositioning its physical network as part of a wider integration of branch and direct channels. This will help to deliver seamless banking to our customers in a more cost efficient way. AIB's branches remain a central part of our overall distribution strategy and will continue to be the main channel for customers to purchase products and services. However, AIB and An Post have now agreed to work together to extend the current banking services available at 1,100 post offices nationwide in Ireland and to include enhanced banking services at 90 selected post offices. This initiative with An Post will support AIB in making changes to the current branch footprint, including a reduction in the number of branches and sub-offices over time. EBS will continue to operate as a separate brand with its own distribution network, however, work will continue to streamline operations to remove duplication with AIB's systems. The customer proposition at FTB is also being aligned with the integrated channels approach and a number of branch closures will occur in the network as part of this process. Amalgamations and closures have already been announced at AIB GB as part of the strategy for this business. AIB GB will focus on SMEs, owner managed businesses, and professional firms with a significant emphasis on facilitating trade in both directions between Ireland and Britain.

## **Continued development of key stakeholder relationships:**

A relationship framework is now in place with the Minister for Finance which allows the bank to move the business forward and to manage the bank commercially. AIB is also in ongoing dialogue with the Department of Finance, the Central Bank of Ireland and the EU/IMF/ECB Troika as it seeks to rebuild the reputation of the bank and return it to profitability.

## 2. Operating and financial review

<b>Summary income statement</b>	<b>Half-year June 2012 € m</b>	<b>Half-year June 2011 € m</b>
Net interest income	568	604
Other income	203	247
<b>Total operating income</b>	<b>771</b>	<b>851</b>
Personnel expenses	519	476
General and administrative expenses	314	296
Depreciation <sup>(1)</sup> , impairment and amortisation <sup>(2)</sup>	54	60
<b>Total operating expenses</b>	<b>887</b>	<b>832</b>
Operating (loss)/profit before provisions	(116)	19
Provisions for impairment of loans and receivables	890	2,961
Writeback of provisions for liabilities and commitments	(1)	(11)
Provisions for impairment of financial investments available for sale	84	99
<b>Total provisions</b>	<b>973</b>	<b>3,049</b>
Operating loss	(1,089)	(3,030)
Associated undertakings	1	(2)
(Loss)/profit on disposal of businesses	(2)	1
Loss from continuing operations before exceptionals	(1,090)	(3,031)
Termination benefits <sup>(3)</sup>	(211)	-
Profit/(loss) on transfer of financial instruments to NAMA	112	(20)
Writeback of contingent provisions for NAMA loans <sup>(4)</sup>	-	162
Loss on disposal of loans	(141)	(141)
Gain on redemption of subordinated debt and other capital instruments	-	3,273
Interest rate hedge volatility	(1)	17
(Loss)/profit before taxation from continuing operations	(1,331)	260
Income tax credit from continuing operations	(115)	(351)
(Loss)/profit after taxation from continuing operations	(1,216)	611
Profit after taxation from discontinued operations	-	1,628
<b>(Loss)/profit for the period</b>	<b>(1,216)</b>	<b>2,239</b>
	<b>Half-year June 2012 %</b>	<b>Half-year June 2011 %</b>
Cost income ratio <sup>(5)</sup>	<b>115.0</b>	<b>97.8</b>

<sup>(1)</sup>Depreciation of property, plant and equipment.

<sup>(2)</sup>Impairment and amortisation of intangible assets.

<sup>(3)</sup>In May 2012, AIB announced a voluntary severance programme which includes an early retirement scheme. At 30 June 2012, a provision of € 204 million has been made in respect of termination benefits arising from the voluntary severance programme. This amount comprises € 124 million in respect of past service costs relating to the early retirement scheme and € 80 million relating to the voluntary severance scheme. In addition, a provision of € 7 million has been made in respect of termination benefits principally in the Isle of Man/Channel Islands.

<sup>(4)</sup>Loans classified as held for sale to NAMA at 31 December 2010.

<sup>(5)</sup>Cost income ratio excludes termination benefits, losses on transfer of financial instruments to NAMA, loss on disposal of loans as part of deleveraging measures, gains on the redemption/remeasurement of subordinated liabilities and other capital instruments and interest rate hedge volatility.

## 2. Operating and financial review

### Overview of results

The Group recorded a loss from continuing operations before exceptionals of € 1.1 billion in the half-year to June 2012 compared to a loss of € 3.0 billion in the half-year to June 2011.

The performance reflected a reduction in the credit provision charge, although provisions still remained at a high level. Provisions for impairments of loans and receivables reduced from € 3.0 billion in the half-year to June 2011 to € 0.9 billion in the half-year to June 2012, a level which reflected the continued weak economic environment.

An operating loss before provisions of € 116 million excluding exceptional items was recorded in the half-year to June 2012 compared to a profit of € 19 million in the half-year to June 2011. Net interest income reduced € 36 million or 6% over the comparative period in 2011 but excluding EBS, which contributed € 68 million, net interest income in the half year to June 2012 reduced by € 104 million or 17%. This was primarily due to increased funding costs through the customer deposit base. This impact was partly offset by the benefit of holding higher levels of capital following the recapitalisation of AIB in 2011, by reductions in Eligible Liabilities Guarantee (“ELG”) and by increases in performing loan margins.

Other income before exceptionals was lower in the half-year to June 2012 primarily due to lower fee and commission income as a result of the sales of AIB Investment Managers (“AIBIM”) and AIB International Financial Services (“AIBIFS”) and lower trading and other income which was impacted by negative fair value movements on credit derivative contracts and loan breakage costs.

Total operating expenses before termination benefit expenses increased by € 55 million compared to the half-year to June 2011. When EBS is excluded from 2012, costs increased by € 12 million over the comparative period, representing a 1% increase.

The loss before taxation from continuing activities after exceptional items amounted to € 1.3 billion as compared to € 0.3 billion profit for the comparative period in 2011. Exceptional items in 2011 included gains on redemption of subordinated debt and other capital instruments of € 3.3 billion. Exceptionals in 2012 included termination benefit expenses of € 211 million predominantly in respect of the estimated cost of the Group’s voluntary severance and early retirement schemes which were announced in May 2012 and are expected to be concluded by March 2014. Other exceptional items are detailed in the commentary on other income on page 9 of this report.

AIB’s core tier 1 capital ratio at 17.3% was in excess of minimum target levels as set out in the Central Bank of Ireland’s Financial Measures Programme 2011.

Substantial progress was made on improving the Group’s funding position with the Loan to Deposit ratio (including loans held for sale) falling from 138% at year end to 125% at 30 June 2012. All segments recorded higher customer deposits contributing to a total increase of € 2.9 billion over the six month period.

## 2. Operating and financial review

### Income statement commentary

	<b>Half-year June 2012 € m</b>	Half-year June 2011 € m	<i>% change 2012 v 2011</i>
<b>Net interest income</b>			
Net interest income	<b>568</b>	604	-6
<b>Average interest earning assets</b>			
Average interest earning assets	<b>126,483</b>	127,097	0
<b>Net interest margin</b>			
Net interest margin	<b>0.90</b>	0.96	-6
Net interest margin excluding eligible liabilities guarantee (“ELG”)	<b>1.24</b>	1.36	-12

Net interest income was € 568 million in the half-year to June 2012 compared with € 604 million in 2011, a decrease of € 36 million or 6%.

Excluding EBS, net interest income reduced by € 104 million or 17% to € 500 million. This figure included an ELG charge of € 190 million as compared to € 256 million for the comparative period. The reduction in the ELG charge is due to lower levels of wholesale funding in 2012 and NTMA deposits of € 11 billion which impacted the ELG charge until July 2011, when AIB was recapitalised. Excluding ELG and EBS, net interest income reduced by € 170 million or 20%.

The underlying reduction in net interest income mainly reflected margin compression arising from higher funding costs through interest bearing customer accounts, which saw the average gross cost increase from 180bps to 271bps, notwithstanding appreciably lower wholesale market rates. The impact of higher non-performing loans was offset by increases in loan margins. These factors were partially offset by the impact of the recapitalisation during 2011 and lower wholesale funding costs in 2012. In the first half of 2011, wholesale funding costs were negatively impacted by costs related to Emergency Liquidity Assistance (“ELA”) and higher debt funding costs which preceded the Liability Management Exercise (“LME”) and recapitalisation in 2011.

Excluding the cost of the ELG scheme, the net interest margin for the half-year to June 2012 was 1.24% compared with 1.36% in the half-year to June 2011. The estimated<sup>(1)</sup> factors contributing to the decline in the margin of 12 basis points were: -21bps due to an increase in the cost of customer deposits, +1bp due to higher loan margin income and +8bps net impact relating to Treasury including capital and wholesale funding.

<sup>(1)</sup> Management estimate.



## 2. Operating and financial review

### Other income

Other income	Half-year June 2012 € m	Half-year June 2011 € m	% change
Dividend income	-	2	-
Banking fees and commissions	185	213	-13
Investment banking and asset management fees	11	33	-67
Fee and commission income	196	246	-20
Less: Fee and commission expense	(13)	(14)	7
Trading (loss)/income <sup>(1)</sup>	(32)	23	-239
Other operating income/(loss)	52	(10)	620
Other income before exceptionals	203	247	-18
Profit/(loss) on transfer of financial instruments to NAMA	112	(20)	660
Loss on disposal of loans	(141)	(141)	-
Gain on redemption of subordinated debt and other capital instruments	-	3,273	-
Interest rate hedge volatility	(1)	17	-106
Other income	173	3,376	-95

Other income before exceptional items was € 203 million in the half-year to June 2012 (of which EBS contributed € 3 million), compared with € 247 million in the half-year to June 2011. This represents a decrease of € 47 million or 19% when EBS is excluded.

Banking fees and commissions decreased by € 28 million of which € 13 million is related to lower credit fees, which reflected low demand for credit during the period. While current account fees were stable, other fees including those related to life assurance, ATM fees and various branch fees all reduced.

Investment banking and asset management fees were down 67% in the half-year to June 2012 primarily due to the disposal of AIBIM (May 2012) and AIBIFS (November 2011).

Trading loss was € 32 million in the half-year to June 2012 compared to income of € 23 million in the half-year to June 2011. The reduction of € 55 million in trading income was partly due to the termination of hedging derivatives related to the LME in 2011 which resulted in a € 42 million gain in the comparative period. Additionally, there were higher losses on credit derivative contracts in 2012 over the comparative period in 2011.

Other operating income in the half-year to June 2012 was € 52 million compared with a loss of € 10 million in the half-year to June 2011. In the half-year to June 2012 there was a net € 33 million profit from the disposal of securities. The comparative period in 2011 included a € 17 million loss from the disposal of debt securities and € 6 million profit from the disposal of equity shares.

Exceptional items include income of € 112 million in relation to valuation adjustments on previous transfers of financial assets to NAMA and the return of assets from NAMA in 2012. In addition, there was € 141 million loss on disposal of loans of which € 139 million related to the ongoing deleveraging programme in Non-Core. In the half-year to June 2011 there was € 20 million loss on transfer of financial instruments to NAMA, € 141 million loss on disposal of loans and a € 3,273 million gain on redemption of subordinated debt and other capital instruments.

<sup>(1)</sup>Trading (loss)/income includes foreign exchange contracts, debt securities and interest rate contracts, credit derivative contracts, equity securities and index contracts.

## 2. Operating and financial review

### Operating expenses

Operating expenses	Half-year June 2012 € m	Half-year June 2011 € m	% change
Personnel expenses	519	476	9
General and administrative expenses	314	296	6
Depreciation, impairment and amortisation	54	60	-10
Total operating expenses excluding termination benefits	887	832	7
Termination benefits	211	-	-
Total operating expenses	1,098	832	32

Total operating expenses excluding termination benefits were € 887 million in the half-year to June 2012, an increase of € 55 million or 7% compared to € 832 million in the half-year to June 2011. Excluding EBS expenses of € 43 million, operating expenses increased by € 12 million. The cost increase of € 12 million in the half-year to June 2012 included € 15 million of restructuring costs relating to the winding down of the Offshore business which is due to be completed by end 2013 and to the head office and branch rationalisation of the GB business.

Personnel expenses in the half-year to June 2012 were € 519 million, an increase of € 43 million or 9% compared with € 476 million in the half-year to June 2011. Excluding EBS personnel expenses of € 19 million in 2012, personnel expenses were € 24 million higher than the comparative period. This reflected higher pension costs and an increase in the number of fixed term contract staff, particularly in credit management areas.

General and administrative expenses of € 314 million in the half-year to June 2012 were € 18 million or 6% higher than the comparative period in 2011. Excluding EBS expenses amounting to € 20 million in 2012, general and administrative expenses were down 1% when compared to the half-year to June 2011. The half-year to June 2012 included restructuring costs relating to the Offshore and GB businesses, but these costs are more than offset by lower professional fees, consultancy costs and other operating costs compared to the half-year to June 2011. Professional fees and consultancy costs in both periods were associated with restructuring and transformation, deleveraging and credit management. Additionally, professional fees in 2011 were incurred on capital raising initiatives.

Depreciation, impairment and amortisation expense of € 54 million in the half-year to June 2012 was € 6 million or 10% lower when compared to € 60 million in the half-year to June 2011. When the EBS expense of € 4 million is excluded, the reduction is 18%.

### Asset quality

See Risk Management section commencing on page 23. Commentary on the provision charge is on page 51.

### Associated undertakings

Income from associated undertakings in the half-year to June 2012 was € 1 million compared with a loss of € 2 million in the half-year to June 2011.

## 2. Operating and financial review

### Income tax

The taxation credit for the half-year to June 2012 was €115 million (including a € 107 million credit relating to deferred taxation), compared with a taxation credit of € 351 million in the half-year to June 2011 (including a credit of € 356 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. With specific exceptions consistent with the year ended 31 December 2011, deferred tax credit continues to be recognised in full for the value of tax losses arising in Group companies, as it is expected that the tax losses will be utilised in full against future profits.

### Discontinued operations

There were no discontinued operations in the half-year to June 2012. The results for the half-year to June 2011 included the consolidated results of BZWBK for the quarter to 31 March 2011 and the profit on sale of BZWBK completed on 1 April 2011.

	Half-year June 2012 € m	Half-year June 2011 € m
<b>Profit from discontinued operations</b>		
BZWBK	-	99
BACB	-	-
Profit before taxation	-	99
Income tax expense	-	17
Profit after taxation	-	82
Profit on disposal of business	-	1,546
<b>Profit for the period from discontinued operations</b>	<b>-</b>	<b>1,628</b>

## 2. Operating and financial review

### Balance sheet commentary

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. Loan balances in the following tables include these balances in order to reflect the full movement in customer loans.

	30 June 2012 € bn	31 December 2011 € bn	% change
<b>Gross loans</b>			
Personal & Business Banking	28.8	29.2	-1
EBS	13.3	13.6	-2
Corporate, Institutional & Commercial Banking	24.0	24.7	-3
AIB UK	9.5	9.5	-
Group	-	-	-
Total Core	75.6	77.0	-2
Non-Core	17.8	20.5	-13
Total gross customer loans	93.4	97.5	-4
Other gross loans held for sale (Non-Core)	2.0	1.2	67
Total	95.4	98.7	-3

Gross customer loans were down 3% or € 3.3 billion since 31 December 2011. This reduction reflected ongoing deleveraging measures, loan amortisation and continued weak demand for credit in the half-year to June 2012. Excluding currency factors AIB UK gross loans decreased by 3%.

	30 June 2012 € bn	31 December 2011 € bn	% change
<b>Net loans</b>			
Personal & Business Banking	26.4	27.0	-2
EBS	12.8	13.1	-2
Corporate, Institutional & Commercial Banking	18.7	19.6	-5
AIB UK	9.0	9.0	-
Group	-	-	-
Total Core	66.9	68.7	-3
Non-Core	11.1	13.8	-20
Total net customer loans	78.0	82.5	-5
Other net loans held for sale (Non-Core)	1.7	1.2	42
Total	79.7	83.7	-5

Net loans decreased by € 4.0 billion or 5% to € 79.7 billion at 30 June 2012. The overall reduction reflected the aforementioned ongoing deleveraging measures, loan amortisation, weaker credit demand and increased loan loss provisions. Excluding currency factors AIB UK net loans decreased by 3%.

### Deleveraging

Excluding loans now presented as core, the bank achieved net loan reduction of € 1.8 billion in the six months to June 2012 in relation to its deleveraging objectives. This brings the total amount deleveraged by the bank to € 14.5 billion which represents over 70% of the three year non-core deleveraging target of € 20.5 billion by December 2013.

## 2. Operating and financial review

	30 June 2012 € bn	31 December 2011 € bn	% change
<b>Customer accounts</b>			
Personal & Business Banking	28.2	28.2	-
EBS	9.3	8.5	9
Corporate, Institutional & Commercial Banking	14.4	13.8	4
AIB UK	11.6	10.2	14
Group	0.1	-	-
Total Core	63.6	60.7	5
Non-Core	-	-	-
Total	63.6	60.7	5

Total customer accounts increased by almost 5% or € 2.9 billion to € 63.6 billion since December 2011. While markets remain challenging, confidence levels improved enabling the bank to grow its deposit base appreciably since December 2011. Deposits in the Isle of Man and Channel Islands reduced by € 0.6 billion in the six months to June 2012, following a decision to withdraw from those locations by end 2013. This part of the business is reported under Personal & Business Banking. Excluding currency factors AIB UK customer accounts increased by 9%.

### Capital

The Group's core tier 1 ratio decreased from 17.9% at 31 December 2011 to 17.3% at 30 June 2012. The total capital ratio decreased from 20.5% to 19.9% for the same period. The following table summarises the Group's capital position.

	30 June 2012 € m	31 December 2011 € m
<b>Risk weighted assets</b>		
Credit	74,357	77,863
Market	526	560
Operational	5,952	5,856
Total	80,835	84,279

	30 June 2012 € m	31 December 2011 € m
<b>Capital</b>		
Core tier 1	13,994	15,065
Total capital	16,062	17,302

	30 June 2012 %	31 December 2011 %
<b>Capital ratios</b>		
Core tier 1	17.3	17.9
Total capital	19.9	20.5

Risk weighted assets reduced by € 3.4 billion in the period. The reduction is mainly due to the effects of deleveraging and increased provisions, which are offset to a degree by deterioration in credit quality, particularly in the mortgage portfolio.

Core tier 1 capital has reduced by € 1.1 billion in the period. This is due to an attributable loss for the period of € 1.2 billion, partially offset by an increase in other eligible reserves.

The net impact of these movements together with the decrease in risk weighted assets is a reduction in the core tier 1 capital ratio from 17.9% at 31 December 2011 to 17.3% at 30 June 2012.

Total capital reduced by € 1.2 billion during the period due to the movements in core tier 1 described above, in addition to a € 0.2 billion reduction in tier 2 capital due mainly to a regulatory restriction on the amount of subordinated debt which may be included in tier 2 capital for an instrument that is within five years to maturity. This restriction applies to the € 1.6 billion contingent capital instrument.

The total capital ratio decreased from 20.5% as at 31 December 2011 to 19.9% as at 30 June 2012 which reflected the reduction in risk weighted assets and the reduction in total capital.

## 2. Operating and financial review

### Funding

Sources of funds - total AIB Group basis incl. discontinued operations	30 June 2012		31 December 2011	
	€ bn	%	€ bn	%
Customer accounts	64	52	61	47
Deposits by central banks and banks - secured	30	25	36	28
- unsecured	1	1	1	1
Asset covered securities ("ACS")	4	3	4	3
Securitisation	1	1	1	1
Senior debt	7	6	11	8
Capital <sup>(1)</sup>	15	12	15	12
Total source of funds	122	100	129	100
Other <sup>(2)</sup>	8		8	
Total liabilities and shareholders funds	130		137	

Customer deposits contributed 52% of the total funding requirement at 30 June 2012, up from 47% at 31 December 2011, largely due to an increase in deposit volumes of almost € 3 billion over the period. Strong growth was experienced across all business areas during this period, as sentiment towards Ireland and Irish banks improved. In addition, Allied Irish Bank (GB) and First Trust Bank in Northern Ireland will withdraw from the Eligible Liabilities Guarantee scheme on 17 August 2012. This is consistent with the bank's wish to ultimately operate without the Guarantee.

Secured funding has decreased by € 6 billion due to asset deleveraging and the sale of securities held in AIB's available for sale ("AFS") portfolio. At 30 June 2012, AIB availed of € 25 billion Central Bank secured funding down from € 31 billion at 31 December 2011. AIB extended its debt maturity by increasing its participation in the 3 year Long Term Refinancing Operation ("LTRO") from € 3 billion at December 2011 to € 11 billion by 30 June 2012. Reducing the bank's reliance on ECB funding will continue to be a key objective of management. Senior debt as a percentage of funding sources decreased by 2% in 2012 to 6% at 30 June 2012 reflecting the maturity of € 3 billion in Medium Term Notes. Asset covered securities ("ACS") as a percentage of funding sources has remained flat at 3% as at 30 June 2012. The bank has an objective to increase the available liquidity collateral from balance sheet assets. In the half-year to 30 June 2012, AIB issued a £ 0.3 billion Residential Mortgage Backed Securitisation ("RMBS") collateralised by UK assets.

The Group's loan deposit ratio decreased from 138% at 31 December 2011 to 125% at 30 June 2012 (including loans and receivables held for sale). The Group is managing to interim targets agreed with the Central Bank of Ireland for the Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") pending their formal introduction as regulatory standards in 2015 and 2018 respectively.

Wholesale funding markets continued to be challenging in 2012. This is a symptom of the difficult fiscal position which gave rise to the EU/ECB/IMF financial support package, the Europe-wide uncertainty in the first half of 2012 and the Group's credit rating. AIB's restructuring plan targets reductions in the bank's wholesale funding dependency, while maintaining its deposit franchise. The performance of the economy and the retention and gathering of stable customer accounts in a challenging and competitive market environment will be the key factors influencing the bank's capacity for asset growth. Coupled with the action to deleverage non-core assets, this is paramount to increasing the pool of available liquid assets and to the Group's overall funding/liquidity strategy.

<sup>(1)</sup> Includes total shareholders' equity, subordinated liabilities and other capital instruments.

<sup>(2)</sup> Non-funding liabilities including derivative financial instruments, other liabilities, retirement benefits and accruals and other deferred income.

## 2. Operating and financial review

The following table presents summary balance sheet categories in line with the primary statements (on page 68 of this report).

	<b>30 June 2012</b>	31 December 2011
<b>Summary items from the balance sheet</b>	<b>€ bn</b>	€ bn
Total assets	<b>130</b>	137
Net loans and receivables to customers	<b>78</b>	83
NAMA senior bonds	<b>18</b>	20
Disposal groups and non-current assets held for sale	<b>2</b>	1
Customer accounts	<b>64</b>	61
Wholesale funding	<b>44</b>	53
Loan deposit ratio	<b>123%</b>	136%
Loan deposit ratio (including held for sale loans)	<b>125%</b>	138%

## 2. Operating and financial review

### Segment reporting

In this section, the Group's operations are reported under the Core banking segments outlined in note 1 on page 74 and Group (which includes wholesale treasury activities). Non-Core comprises of assets which AIB is committed to deleveraging together with related costs and is reported as a distinct portfolio. The segments outlined in note 1 on page 74 reflect the internal financial reporting structure, which is used by management to assess performance and allocate resources. This segment structure was announced in mid 2011 and consequently the first half of 2011 is presented under the revised structure.

The segments' performance statements include all income and direct costs relating to each segment but exclude overheads, which are held centrally in the 'Group' segment. Funding and liquidity charges are based on actual wholesale funding costs incurred and a segment's net funding requirements. Net interest income also includes ELG charges directly attaching to customer deposits and required funding within a segment. Income on capital is allocated to segments based on each segment's capital requirement. Surplus capital is held in the Group segment. Costs are allocated based on the estimated actual cost incurred in providing the service.

A summarised view of the Group's segmental performance for the half years to June 2012 and June 2011 is set out in note 1 to the financial statements.

### Personal & Business Banking (PBB) recorded a loss before exceptionals of € 250 million in the half-year to June 2012.

**Personal & Business Banking** comprises banking operations for the personal segment and small enterprises within the Republic of Ireland. This segment also includes the Bank's operations in the Channel Islands and the Isle of Man. PBB serves the personal and small business customers of AIB and commands a strong presence in all key market sectors. PBB conducts its business through a broad distribution platform and maintains a comprehensive suite of retail and business products and services.

<b>Personal &amp; Business Banking income statement</b>	<b>Half-year June 2012 € m</b>	Half year June 2011 € m	<i>% change</i>
Net interest income before ELG	296	351	-16
ELG	(49)	(51)	4
Net interest income	247	300	-18
Other income	126	134	-6
Total operating income	373	434	-14
Personnel expenses	213	220	-3
General and administrative expenses	113	110	3
Depreciation/amortisation	28	31	-10
Total operating expenses	354	361	-2
Operating profit before provisions	19	73	-74
Provisions for impairment of loans and receivables	274	294	-7
Amounts written off financial investments available for sale	-	-	-
Total provisions	274	294	-7
Operating loss	(255)	(221)	-15
Associated undertakings	5	(3)	267
Loss before exceptionals	(250)	(224)	-12
Termination benefits	(6)	-	-
Loss before taxation	(256)	(224)	-14

The trading conditions for the 6 months ended 30 June 2012 remained challenging for PBB. The current economic environment together with lower disposable income has resulted in subdued demand for lending and other financial services products. Unemployment remains elevated and residential property prices do not appear to have fully stabilised.

For the six months ended 30 June 2012, PBB recorded a loss before exceptionals of € 250 million with provisions for impairment of loans and receivables of € 274 million. This compares to a loss before exceptionals of € 224 million in 2011 with provisions for loans and receivables of € 294 million.

Operating profit before provisions was € 19 million. This was down 74% when compared to 2011, with total operating income of € 373 million down 14% and total operating expenses of € 354 million, a decrease of 2%.



## 2. Operating and financial review

Net customer loans reduced by 2% to € 26.4 billion for the half-year to June 2012. This decrease reflected increased loan impairment provisions, loan repayments and subdued demand for new lending, particularly for consumer credit products. Household incomes remained under pressure and the prospect of further austerity budgets contributed to weak sentiment. In these circumstances, consumer focus remained on debt reduction rather than expansion.

Total customer accounts remain broadly unchanged at € 28 billion as at 30 June 2012 when compared with 31 December 2011 (an increase of € 0.6 billion when Offshore operations are excluded). Over the period, new initiatives which were introduced to retain and acquire customer deposits, had a positive impact on deposit volumes.

Net interest income of € 247 million for the half-year to 30 June 2012 was 18% lower than 2011. Net interest margin was adversely impacted by the cost of funding, as intense deposit competition in the Irish market continued in 2012. This was partly offset by some recovery in non mortgage lending margin during the period. A reduction in earning assets also contributed to a decline in net interest income.

Other income of € 126 million for the half-year to 30 June 2012 was 6% lower than 2011 reflecting lower level of customer transaction activity.

Operating expenses for the half-year to June 2012 of € 354 million were 2% lower than 2011. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, PBB costs increased by 11% compared to the half-year to June 2011. Costs related to increases in the numbers of personnel in credit management/compliance roles and transformation costs associated with the organisation restructure and implementing new regulatory requirements were the main drivers of the cost increase.

The provision charge for impairment of loans and receivables for the half-year to June 2012 was € 274 million and represents an annualised charge of c. 2% of average gross loans. Impaired loans as at 30 June 2012 were € 0.8 billion higher at € 3.5 billion when compared to 31 December 2011, driven principally by an increase in home mortgage impaired loans (Private Dwelling House increased by € 0.5 billion, Buy to Let increased by € 0.3 billion). Arrears in the Irish residential mortgage book have continued to increase reflecting the difficult economic environment in Ireland and elevated levels of unemployment.

## 2. Operating and financial review

**EBS recorded a loss of € 24 million in the half-year to June 2012.**

*EBS which was acquired by AIB Group on 1 July 2011 comprises banking operations for the personal segment within the Republic of Ireland. The segment view is shown on a consistent basis to other segments which differs from the legal entity basis. EBS wholesale treasury operations are reported as part of the Group segment and assets identified as non-core are reported as part of Non-Core.*

<b>EBS income statement</b>	<b>Half-year June 2012 € m</b>
Net interest income before ELG	60
ELG	(30)
Net interest income	30
Other income	5
Total operating income	35
Personnel expenses	16
General and administrative expenses	18
Depreciation/amortisation	4
Total operating expenses	38
Operating loss before provisions	(3)
Provisions for impairment of loans and receivables	21
Amounts written off financial investments available for sale	-
Total provisions	21
Operating loss	(24)
Associated undertakings	-
Loss before taxation	(24)

The EBS core segment reported a loss before taxation of € 24 million for the first six months of 2012. This includes provisions for impairment of loans and receivables of € 21 million.

Net interest income for the period was € 30 million. The cost of retail and corporate deposits remained high during the period due to continued intense competition.

Total operating expenses in the period were € 38 million. The integration of EBS into AIB is progressing well and costs savings are being achieved in line with expectations.

The impairment charge for loans and receivables of € 21 million represents 0.32% of average loans and brings total provisions at 30 June 2012 to € 496 million or 3.7% of outstanding balances compared to € 461 million or 3.4% of outstanding balances at 31 December 2011. The continuing difficult economic conditions in the Republic of Ireland, the impact of high unemployment, austerity measures and a stressed property market are all leading to increased default levels although the rate of increase has declined.

EBS continues to support the residential mortgage market in Ireland through mortgages advanced to first time buyers and home movers. However, demand for new mortgages in the half-year to June 2012 was low.

EBS continues to have a strong franchise in the retail deposit market and at 30 June 2012 had total customer accounts of € 9.3 billion an increase of € 0.8 billion or 9% since 31 December 2011.

## 2. Operating and financial review

**Corporate, Institutional & Commercial Banking recorded a loss of € 360 million in the half-year to June 2012.**

**Corporate, Institutional & Commercial Banking (CICB)** comprises banking operations for mid-sized corporate and commercial enterprises. It also includes a Corporate Finance business and a Treasury customer services area which delivers treasury services to customers of the Group.

<b>Corporate, Institutional &amp; Commercial Banking income statement</b>	<b>Half-year June 2012 € m</b>	Half-year June 2011 € m	<i>% change</i>
Net interest income before ELG	<b>64</b>	140	-54
ELG	<b>(96)</b>	(92)	-4
Net interest income	<b>(32)</b>	48	-167
Other income	<b>42</b>	45	-7
Total operating income	<b>10</b>	93	-89
Personnel expenses	<b>83</b>	80	4
General and administrative expenses	<b>37</b>	45	-18
Depreciation/amortisation	<b>6</b>	5	20
Total operating expenses	<b>126</b>	130	-3
Operating loss before provisions	<b>(116)</b>	(37)	-214
Provisions for impairment of loans and receivables	<b>245</b>	866	-72
Provisions for impairment of financial investments available for sale	<b>(1)</b>	5	-120
Total provisions	<b>244</b>	871	-72
Loss before taxation	<b>(360)</b>	(908)	60

CICB loss before taxation was € 360 million in the half-year to June 2012 compared to a loss of € 908 million in 2011. Operating loss before provisions of € 116 million in 2012 compared to an operating loss of € 37 million in 2011, with total operating income of € 10 million down by € 83 million and total operating expenses of € 126 million down € 4 million.

Negative net interest income of € 32 million was € 80 million lower than the same period in 2011. This reduction was due to a combination of lower performing loan portfolios and higher deposit funding costs.

The lower wholesale interest rate environment negatively impacted the cost of customer deposits.

Gross loans reduced € 0.7 billion compared to 31 December 2011 and net loans reduced by € 0.9 billion due to provision charges.

Other income of € 42 million was 7% lower than June 2011 reflecting lower fee and foreign exchange income.

Operating expenses for the half-year to June 2012 of € 126 million were 3% lower than the half-year to June 2011. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, CICB costs increased 2% compared to the half-year to June 2011. Personnel expenses were 4% higher due to increased staff numbers which were mainly required to support more intensive credit management activity.

While the reduction in the provision charge is significant, the level of the charge remains elevated due to the difficult domestic economic environment and by a deterioration in sentiment towards the eurozone.

## 2. Operating and financial review

**AIB UK recorded a loss of £ 64 million in the half-year to June 2012.**

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

<b>AIB UK income statement</b>	<b>Half-year June 2012 £ m</b>	Half-year June 2011 £ m	% change
Net interest income before ELG	58	92	-37
ELG	(19)	(25)	24
Net interest income	39	67	-42
Other income	27	32	-16
<b>Total operating income</b>	<b>66</b>	99	-33
Personnel expenses	43	50	-14
General and administrative expenses	39	31	26
Depreciation/amortisation	2	4	-50
<b>Total operating expenses</b>	<b>84</b>	85	-1
Operating (loss)/profit before provisions	(18)	14	-229
Provisions for impairment of loans and receivables	47	38	24
Provisions for impairment of financial investments available for sale	-	-	-
<b>Total provisions</b>	<b>47</b>	38	24
Operating loss	(65)	(24)	-171
Associated undertakings	1	1	-
<b>Loss before taxation</b>	<b>(64)</b>	(23)	-178
Loss before taxation	€ m (79)	(28)	-182

AIB UK reported a loss before taxation of £ 64 million, with an operating loss before provisions of £ 18 million. The loss before taxation was an increase of £ 41 million on June 2011, reflecting the reduction in loan volumes, increased competition for customer deposits and higher bad debt provisions.

The reduction in operating profit before provisions of £ 32 million was primarily driven by a reduction in net interest income. This reflects reduction in income from lower advances volumes mainly as a result of asset transfers to Non-Core in the half-year to June 2011 along with contraction of the underlying loan book, combined with continued margin compression for customer deposits. This reduction in income has been slightly offset by lower costs in relation to both ELG charges and funding charges. Lending margins continued to improve slightly during the year, while net customer loans fell significantly since June 2011, mainly due to loan repayments, an increase in non-performing loans in the second half of 2011 and lower customer demand due to the current economic downturn. Customer deposits have increased by 9% since December 2011, with increases occurring in both the branch network and through the Savings Direct channel<sup>(1)</sup>. However, as competition for customer deposits remains strong, the deposit margin has deteriorated compared to the half-year to June 2011. As a result of the decreases in advances and increases in the deposit book, the loan deposit ratio has significantly improved to 78% as at the June 2012.

Other income fell by 16%, as a result of the reduction in fee income due to lower business transactions than the previous period. Operating expenses for the half-year to June 2012 of £ 84 million were 1% lower than the half-year to June 2011. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, AIB UK costs increased 1% compared to the half-year to June 2011 with lower personnel expenses as a result of reduced staff numbers offset by higher general and administrative expenses mainly due to restructuring costs for head office and branch amalgamations and closures in 2012.

Loan impairment charges for the half-year to June increased by 24% to £ 47 million, compared to the first half of 2011 but are appreciably lower than the impairment charge in the second half of 2011. The level of charge reflects the protracted economic downturn in the UK.

<sup>(1)</sup>The Savings Direct channel was established following the transfer of deposits from Anglo Irish Bank in the half-year to June 2011.

## 2. Operating and financial review

**Group recorded a loss before exceptionals of € 72 million in the half-year to June 2012.**

*Group includes wholesale treasury activities, unallocated costs of central services and income on capital not allocated to segments.*

<b>Group income statement</b>	<b>Half-year June 2012 € m</b>	Half-year June 2011 € m
Net interest income before ELG	219	158
ELG	(10)	(53)
Net interest income	209	105
Other income	21	14
Total operating income	230	119
Personnel expenses	113	85
General and administrative expenses	92	74
Depreciation/amortisation	13	18
Total operating expenses	218	177
Operating profit/(loss) before provisions	12	(58)
Provisions for impairment of loans and receivables	-	-
Provisions for impairment of financial investments available for sale	84	93
Total provisions	84	93
Operating loss	(72)	(151)
Profit on disposal of business	-	1
Loss before exceptionals	(72)	(150)
Termination benefits	(204)	-
Gain on redemption of subordinated debt and other capital instruments	-	3,273
Interest rate hedge volatility	(1)	17
(Loss)/profit before taxation	(277)	3,140

Group reported a loss before exceptionals for the half-year to June 2012 of € 72 million compared to € 150 million for the half-year to June 2011.

The trends in net interest income and other income in Group were impacted by the reclassification of income between headings in relation to interest rate hedging. Consequentially, it is more meaningful to analyse the trend in total operating income. Total operating income increased from € 119 million in 2011 to € 230 million in 2012. The increase included higher income from Wholesale Treasury, higher income earned on increased capital balances as a result of the capital injection in July 2011 and net profit of € 33 million from the disposal of securities. 2011 included ELG costs on the NTMA deposit of € 11 billion, which preceded the capitalisation measures taken in July.

Total operating expenses increased from € 177 million in 2011 to € 218 million in the half-year to June 2012. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, Group costs reduced from € 232 million in 2011 to € 218 million in the half-year to June 2012 mainly due to lower professional and consultancy costs partly offset by higher pension costs. 2011 included professional and consultancy costs in relation to capital raising.

Provisions for impairment of financial investments reduced from € 93 million in the half-year to June 2011 to € 84 million in 2012. The charge in 2011 related to bonds held in other financial institutions whilst the charge of € 84 million in 2012 related to an impairment of the NAMA subordinated bonds reflecting the continuing uncertainties in the Irish property market.

## 2. Operating and financial review

**Non-Core recorded a loss before exceptionals of € 307 million in the half-year to June 2012.**

*Non-Core comprises those assets which AIB is committed to deleveraging and impact of the transfer of loans to NAMA, together with related costs.*

<b>Non-Core income statement</b>	<b>Half-year June 2012 € m</b>	Half-year June 2011 € m
Net interest income before ELG	74	105
ELG	(7)	(31)
Net interest income	67	74
Other income	(26)	7
Total operating income	41	81
Personnel expenses	42	33
General and administrative expenses	6	31
Depreciation/amortisation	-	1
Total operating expenses	48	65
Operating (loss)/profit before provisions	(7)	16
Provisions for impairment of loans and receivables	293	1,757
Provisions for liabilities and commitments	(1)	(11)
Provisions for impairment of financial investments available for sale	1	1
Total provisions	293	1,747
Operating loss	(300)	(1,731)
Associated undertakings	(5)	-
Loss before disposal of business	(305)	(1,731)
Loss on disposal of business	(2)	-
Loss before exceptionals	(307)	(1,731)
Termination benefits	(1)	-
NAMA transfer related profit/(losses)	112	(20)
Writeback of contingent provisions for NAMA loans	-	162
Loss on disposal of loans	(139)	(131)
Loss before taxation	(335)	(1,720)

Non-Core loss before exceptionals amounted to € 307 million for the half-year to June 2012, a decrease of 82% on the comparative loss of € 1,731 million for the same period last year. Net interest income declined by 9%, principally due to reductions in non-core loan volumes arising from ongoing deleveraging, partially offset by reduced wholesale funding and lower ELG costs. Lower fee income following the sale of non-core businesses and mark-to-market write downs on credit derivatives contributed to the fall in other income.

Operating expenses for the half-year to 30 June 2012 of € 48 million were 26% lower than 2011. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, Non-Core costs decreased 23% compared to the half-year to 30 June 2011. This was driven by lower legal and due diligence costs associated with loans transferred to NAMA and lower operating costs following the sale of non-core portfolios and businesses.

Impairment provisions for loans and receivables decreased by 83% on the comparative period as credit provisioning across the non-core book eased significantly in the first half of this year. Losses incurred on associated undertakings reflect an impairment charge in respect of a non-core held for sale investment.

Excluding loans now presented as core, AIB has achieved net loan reductions of € 1.8 billion in the six months to June 2012. This brings total net loan reductions to € 14.5 billion since inception of the deleveraging programme and represents over 70% of the three year deleveraging target of € 20.5 billion to be achieved by the end of 2013. Losses incurred to date represent an overall cumulative discount of 4% on disposals and amortisation and which were significantly less than the average discount set out in the PCAR process.

# Risk management

## 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 2011 which is available on the Group's website: [www.aibgroup.com](http://www.aibgroup.com) sets out on pages 62 to 68 the principal risks and uncertainties impacting the Group under macro-economic and geopolitical risk; macro-prudential, regulatory and legal risks to our business model; and risks related to our business operations, governance and internal control systems. Details of the Group's exposures to the following specific risks are outlined on pages 72 to 199 of the Annual Financial Report 2011: -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 69 to 71 of the Annual Financial Report 2011. Enhancements to the risk framework in the half-year to 30 June 2012 include:

- the appointment of a Group Chief Risk Officer ("CRO");
- the appointment of a Head of Governance and Assurance reporting to the CRO;
- the appointment of a Group Head of Internal Audit;
- the establishment of both a Group Operational Risk Committee and Group Regulatory Compliance Committee as sub-committees of the Executive Risk Committee. Both Committees are chaired by the CRO;
- the embedding of the revised Group risk appetite and reporting of risk profile against risk appetite throughout the organisation; and
- the implementation and embedding of a revised risk framework and policy architecture.

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 on pages 77 to 82 for credit risk and pages 173 to 181 for the other risk types.

Updates are provided on the current status of credit risks including asset quality and impairment as set out below. For a review of funding refer to page 14.

## 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:

- Loans and receivables to customers by industry sector;
- Impaired loans and receivables to customers by industry sector;
- Provisions for impairment on loans and receivables to customers by industry sector;
- Profile of loans and receivables to customers by market segment;
- Profile of Republic of Ireland residential mortgages including forbearance/arrears profile past due but not impaired;
- Profile of other personal lending by market segment;
- Profile of property and construction by market segment;
- Profile of SME/other commercial lending by market segment;
- Profile of corporate lending;
- Impaired loans and associated provisions;
- Credit profile of loans and receivables to customers for mortgages/non-mortgages;
- Profile of gross loans and receivables to customers which are neither past due nor impaired;
- Aged analysis of contractually past due but not impaired gross loans and receivables to customers by core/non-core classification/repossessions;
- Aged analysis of contractually past due but not impaired gross loans and receivables to customers by industry sector;
- Provisions for impairment on loans and receivables to customers - income statement;
- Provisions for impairment on financial instruments - income statement;
- Internal credit ratings of loans and receivables to customers by asset class;
- External credit ratings of financial instruments;
- Leveraged debt by geographic location and industry sector;
- Large exposures;
- Financial investments available for sale;
- Profile of financial investments available for sale; and
- Exposures to selected eurozone countries.

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

## Loans and receivables to customers

The following tables set out loans and receivables to customers, impaired loans and the provisions held as at 30 June 2012 and 31 December 2011 by industry sector:

Loans and receivables to customers by industry sector*	30 June 2012		31 December 2011	
	€ m	% of total	€ m	% of total
Agriculture	1,838	1.9	1,868	1.9
Energy	563	0.6	896	0.9
Manufacturing	1,830	1.9	2,071	2.1
Property and construction	23,567	24.7	24,490	24.8
Distribution	8,233	8.6	8,549	8.7
Transport	1,298	1.4	1,329	1.3
Financial	1,219	1.3	1,368	1.4
Other services	6,713	7.0	7,025	7.1
Personal				
Residential mortgages	44,560	46.7	45,226	45.8
Other	5,015	5.3	5,321	5.4
Lease financing	529	0.6	544	0.6
Gross loans and receivables	95,365	100.0	98,687	100.0
Unearned income	(121)		(125)	
Deferred costs	95		103	
Provisions for impairment	(15,593)		(14,941)	
	<b>79,746</b>		<b>83,724</b>	
Of which classified in the statement of financial position as:				
Loans and receivables to customers	77,982		82,540	
Disposal groups and non-current assets held for sale	1,764		1,184	
	<b>79,746</b>		<b>83,724</b>	

Impaired loans and receivables to customers by industry sector*	30 June 2012	31 December 2011
	€ m	€ m
Agriculture	321	310
Energy	36	38
Manufacturing	485	436
Property and construction	12,421	11,899
Distribution	3,220	3,058
Transport	137	127
Financial	177	191
Other services	974	951
Personal		
Residential mortgages	7,490	6,343
Other	1,404	1,335
Lease financing	142	145
	<b>26,807</b>	<b>24,833</b>
Of which classified in the statement of financial position as:		
Loans and receivables to customers	25,819	24,803
Disposal groups and non-current assets held for sale	988	30
	<b>26,807</b>	<b>24,833</b>

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



## Loans and receivables to customers *(continued)*

Provisions for impairment on loans and receivables to customers by industry sector*	30 June	31 December
	2012	2011
	€ m	€ m
Agriculture	208	199
Energy	28	28
Manufacturing	282	251
Property and construction	6,935	6,469
Distribution	1,757	1,698
Transport	94	90
Financial	140	142
Other services	566	567
Personal		
Residential mortgages	2,246	1,788
Other	980	904
Lease financing	129	121
Specific provisions	13,365	12,257
IBNR provisions	2,228	2,684
Total provisions	<b>15,593</b>	<b>14,941</b>
Of which classified in the statement of financial position as:		
Loans and receivables to customers	15,321	14,932
Disposal groups and non-current assets held for sale	272	9
	<b>15,593</b>	<b>14,941</b>

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

# Risk management

## Loans and receivables to customers (continued)

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

Gross loans and receivables to customers*	Core					Non-Core						30 June 2012	
	PBB	CICB	AIB UK	EBS	Total Core	PBB	CICB	AIB UK	EBS	Group	Total Non-Core	Total	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Residential mortgages													
Owner occupier	18,436	30	2,682	13,288	34,436	-	176	110	-	4	290	34,726	
Buy-to-let	4,332	3,237	350	-	7,919	-	-	85	1,830	-	1,915	9,834	
	22,768	3,267	3,032	13,288	42,355	-	176	195	1,830	4	2,205	44,560	
Other personal	2,166	200	437	-	2,803	796	1,349	67	-	-	2,212	5,015	
Property and construction	801	9,141	2,675	-	12,617	630	6,354	3,100	866	-	10,950	23,567	
SME/Other commercial	3,081	7,462	3,379	-	13,922	13	19	1,811	-	-	1,843	15,765	
Corporate	-	3,950	-	-	3,950	-	2,508	-	-	-	2,508	6,458	
<b>Total</b>	<b>28,816</b>	<b>24,020</b>	<b>9,523</b>	<b>13,288</b>	<b>75,647</b>	<b>1,439</b>	<b>10,406</b>	<b>5,173</b>	<b>2,696</b>	<b>4</b>	<b>19,718</b>	<b>95,365</b>	
<b>Analysed as to asset quality</b>													
Satisfactory <sup>(1)</sup>	20,509	11,099	6,384	9,437	47,429	469	3,501	1,250	889	4	6,113	53,542	
Watch <sup>(2)</sup>	2,545	2,210	1,438	1,080	7,273	150	448	81	293	-	972	8,245	
Vulnerable <sup>(3)</sup>	2,223	1,471	1,010	393	5,097	241	510	760	163	-	1,674	6,771	
Impaired <sup>(4)</sup>	3,539	9,240	691	2,378	15,848	579	5,947	3,082	1,351	-	10,959	26,807	
Total criticised loans	8,307	12,921	3,139	3,851	28,218	970	6,905	3,923	1,807	-	13,605	41,823	
<b>Total loans percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
Criticised loans/total loans	29	54	33	29	37	67	66	76	67	0	69	44	
Impaired loans/total loans	12	38	7	18	21	40	57	60	50	0	56	28	
<b>Provisions - statement of financial position</b>													
Specific	1,859	4,500	307	430	7,096	446	3,992	1,467	364	-	6,269	13,365	
IBNR	600	704	209	66	1,579	115	216	185	133	-	649	2,228	
<b>Total provisions</b>	<b>2,459</b>	<b>5,204</b>	<b>516</b>	<b>496</b>	<b>8,675</b>	<b>561</b>	<b>4,208</b>	<b>1,652</b>	<b>497</b>	<b>-</b>	<b>6,918</b>	<b>15,593</b>	
<b>Provision cover percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
Specific provisions/impaired loans	53	49	45	18	45	77	67	48	27	-	57	50	
Total provisions/impaired loans	69	56	75	21	55	97	71	54	37	-	63	58	
Total provisions/loans	9	22	5	4	11	39	40	32	18	-	35	16	
<b>Impairment charge/average loans</b>	<b>1.89</b>	<b>2.01</b>	<b>1.22</b>	<b>0.32</b>	<b>1.57</b>	<b>6.49</b>	<b>1.77</b>	<b>4.90</b>	<b>0.93</b>	<b>-</b>	<b>2.84</b>	<b>1.84</b>	

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

# Risk management

## Loans and receivables to customers (continued)

Gross loans and receivables to customers*	Core					Non-Core					Total	
	PBB	CICB	AIB UK	EBS	Total Core	PBB	CICB	AIB UK	EBS	Group	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Residential mortgages												
Owner occupier	18,626	34	2,711	13,562	34,933	-	178	112	-	54	344	35,277
Buy-to-let	4,345	3,309	143	-	7,797	-	-	291	1,861	-	2,152	9,949
	22,971	3,343	2,854	13,562	42,730	-	178	403	1,861	54	2,496	45,226
Other personal	2,342	170	466	-	2,978	838	1,418	86	-	-	2,342	5,320
Property and construction	810	9,275	2,772	-	12,857	651	6,842	3,244	896	-	11,633	24,490
SME/Other commercial	3,129	7,721	3,350	-	14,200	15	20	2,052	-	-	2,087	16,287
Corporate	-	4,203	-	-	4,203	-	3,161	-	-	-	3,161	7,364
<b>Total</b>	<b>29,252</b>	<b>24,712</b>	<b>9,442</b>	<b>13,562</b>	<b>76,968</b>	<b>1,504</b>	<b>11,619</b>	<b>5,785</b>	<b>2,757</b>	<b>54</b>	<b>21,719</b>	<b>98,687</b>
<b>Analysed as to asset quality</b>												
Satisfactory <sup>(1)</sup>	21,539	12,490	6,669	9,929	50,627	564	4,725	1,777	978	42	8,086	58,713
Watch <sup>(2)</sup>	2,972	2,144	1,423	1,116	7,655	181	467	184	364	-	1,196	8,851
Vulnerable <sup>(3)</sup>	2,028	1,258	860	279	4,425	230	500	1,026	109	-	1,865	6,290
Impaired <sup>(4)</sup>	2,713	8,820	490	2,238	14,261	529	5,927	2,798	1,306	12	10,572	24,833
Total criticised loans	7,713	12,222	2,773	3,633	26,341	940	6,894	4,008	1,779	12	13,633	39,974
<b>Total loans percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Criticised loans as % of total loans	26	50	29	27	34	63	59	69	65	22	63	41
Impaired loans as % of total loans	9	36	5	17	19	35	51	48	47	22	49	25
<b>Provisions - statement of financial position</b>												
Specific	1,453	4,181	241	403	6,278	391	3,923	1,308	354	3	5,979	12,257
IBNR	786	874	203	58	1,921	131	268	224	134	6	763	2,684
<b>Total provisions</b>	<b>2,239</b>	<b>5,055</b>	<b>444</b>	<b>461</b>	<b>8,199</b>	<b>522</b>	<b>4,191</b>	<b>1,532</b>	<b>488</b>	<b>9</b>	<b>6,742</b>	<b>14,941</b>
<b>Provision cover percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Specific provisions/impaired loans	54	47	49	18	44	74	66	47	27	25	57	49
Total provisions/impaired loans	83	58	91	21	58	99	71	55	37	75	64	60
Total provisions/loans	8	21	5	3	11	35	36	27	18	17	31	15

31 December 2011

30 June 2011  
%

6.47

## Impairment charge/average loans

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

## Loans and receivables to customers (continued)

AIB Group's loans and receivables to customers comprise loans (including overdrafts) instalment credit and finance leases.

The Group has a Non-Core unit which actively manages the disposal of selected assets under the Group's deleveraging programme. While Non-Core is a distinct business segment, credit management activities, including the day to day interaction with borrowers is undertaken by the market segments. In the tables on pages 36 to 43, the Non-Core loans are analysed by the segments in which they are managed.

### Core portfolio € 75.7 billion:

At 30 June 2012, the Core portfolio amounted to € 75.7 billion and has reduced from € 77.0 billion at 31 December 2011.

Reductions which were evident across all sectors, are as a result of a lack of any material growth in demand for mortgages and other credit, particularly in our Irish businesses where the economic environment remains difficult.

€ 42.4 billion or 56% of the Core portfolio related to residential mortgages which comprised € 34.4 billion in owner-occupier mortgages and a further € 8.0 billion in buy-to-let mortgages.

Residential mortgages in Ireland continue to experience an increase in arrears as borrowers' repayment capacity is impacted by the current economic climate with high unemployment and continuing austerity measures.

Further detailed disclosures in relation to the total Republic of Ireland residential mortgage portfolio of € 41.1 billion, and forbearance activity and arrears for this portfolio are provided on pages 30 – 35.

Core property investment loans amounted to € 11.5 billion (31 December 2011: € 11.5 billion), 93% of which related to commercial investment loans. € 6.6 billion of the portfolio related to loans for the purchase of property in the Republic of Ireland, € 4.5 billion in the United Kingdom, € 0.2 billion in the United States of America and € 0.2 billion in other geographical areas. While the investment property market in Ireland remains weak, there is some evidence that prime rents and yields in all sectors are stabilising.

€ 6.8 billion of the Core property investment portfolio was criticised (31 December 2011: € 6.2 billion) of which € 4.2 billion was impaired. The Group had Core statement of financial position specific provisions of € 1.9 billion providing cover of 45% for impaired loans (31 December 2011: € 1.7 billion or 43%) and total provisions to total loans of 20% (31 December 2011: 20%). The income statement provision for the Core property investment portfolio for the period to 30 June 2012 was € 86 million or 1.50% of average loans and receivables.

Core land and development loans amounted to € 0.6 billion at 30 June 2012 down from € 0.8 billion at 31 December 2011 and the portfolio largely relates to loans for the purchase of property € 0.5 billion in the United Kingdom and € 0.1 billion in the Republic of Ireland. Criticised loans amounted to € 0.3 billion (31 December 2011: € 0.2 billion) of which € 0.1 billion was impaired (31 December 2011: € 0.1 billion). The Group had Core statement of financial position specific provisions of € 66 million providing cover of 50% for impaired loans (31 December 2011: € 47 million or 47%) and total provisions to total loans of 15% (31 December 2011: 8%). The income statement provision for the period to 30 June 2012 was € 4 million or 0.9% of average loans and receivables.

The remaining Core portfolio consisted of € 0.5 billion in property loans – € 0.4 in Contractors and € 0.1 billion in Housing associations, € 2.8 billion in other personal loans, € 13.9 billion to SME/other commercial borrowers and € 4.0 billion to corporate borrowers. These portfolios are profiled in more detail on pages 36 – 45.

The Group held Core statement of financial position specific provisions of € 7.1 billion providing cover of 45% on impaired loans (31 December 2011: € 6.3 billion or 44%). Total Core provisions to total Core loans at 11% (31 December 2011: 11%).

The income statement provision charge for Core loans and receivables to customers was € 597 million or 1.57% (annualised) of average Core customer loans.

The Core provision charge comprised € 952 million in specific provisions and a write-back of € 355 million in incurred but not reported ("IBNR") provisions. The write-back of IBNR provisions related primarily to the residential mortgage € 107 million, property and construction € 120 million and SME/other commercial € 109 million sectors where provisions had been raised in previous periods up to 31 December 2011 based on management's view of incurred loss and which have now been reflected in the specific provision charge in the period to 30 June 2012.

### Non-Core portfolio € 19.7 billion:

The Non-Core portfolio amounted to € 19.7 billion (31 December 2011: € 21.7 billion) and comprised € 11.0 billion in property loans, € 2.2 billion in residential mortgages, largely buy-to-let mortgages in the EBS market segment, € 2.2 billion in other personal loans, € 1.8 billion in SME/other commercial and € 2.5 billion in corporate loans (31 December 2011: € 11.6 billion, € 2.5 billion, € 2.3 billion, € 2.1 billion and € 3.2 billion respectively). Non-Core loans and receivables to customers reduced by € 2 billion in the period to 30 June 2012 as a result of disposals, targeted non-refinancing of loans, redemptions, scheduled and early repayments.

The Non-Core property portfolio included € 4.5 billion in property investment loans of which € 2.2 billion related to loans for

# Risk management

## Loans and receivables to customers *(continued)*

the purchase of property in Ireland, € 1.8 billion in the United Kingdom, € 0.1 billion in the United States of America and € 0.4 billion in other geographical locations and € 6.0 billion in land and development, € 4.6 billion in Ireland and € 1.4 billion in the United Kingdom.

€ 13.6 billion of the portfolio was criticised of which € 11.0 billion was impaired (31 December 2011: € 13.6 billion and € 10.5 billion respectively).

The Group had Non-Core statement of financial position specific provisions of € 6.3 billion providing cover of 57% for impaired loans (31 December 2011: € 6.0 billion or 57%) and total provisions to total loans of 35% (31 December 2011: 31%).

The Non-Core income statement provision charge was € 293 million or 2.84% of average Non-Core customer loans (annualised) for the period to 30 June 2012 and comprised € 403 million in specific provisions and a writeback of € 110 million of IBNR provisions, with € 184 million or 63% of the overall charge relating to the property and construction portfolio.

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

Criticised loans include:

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

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

<sup>(4)</sup>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 assets (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 assets i.e. requiring a provision to be raised through the income statement.

# Risk management

## Loans and receivables to customers (continued)

### 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:

Statement of financial position	30 June 2012											
	PBB			CICB <sup>(1)</sup>			EBS <sup>(2)</sup>			Total		
	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	Owner- occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	18,436	4,332	22,768	30	3,237	3,267	13,228	1,830 <sup>(3)</sup>	15,058	31,694	9,399	41,093
In arrears (>30 days past due) <sup>(4)</sup>	1,847	974	2,821	20	1,834	1,854	2,722	869	3,591	4,589	3,677	8,266
In arrears (>90 days past due) <sup>(4)</sup>	1,662	879	2,541	19	1,778	1,797	2,412	832	3,244	4,093	3,489	7,582
Of which impaired	1,508	774	2,282	19	1,671	1,690	2,379	805	3,184	3,906	3,250	7,156
Statement of financial position specific provisions	500	303	803	5	655	660	430	222	652	935	1,180	2,115
Statement of financial position IBNR provisions	245	150	395	1	150	151	66	76	142	312	376	688
	%	%	%	%	%	%	%	%	%	%	%	%
Specific provisions as a % of impaired loans cover	33.1	39.2	35.2	27.0	39.2	39.1	18.1	27.5	20.5	23.9	36.3	29.6
<b>Income statement</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>
Income statement specific provisions	200	111	311	1	105	106	14	11	25	215	227	442
Income statement IBNR provisions	(82)	(50)	(132)	-	14	14	7	10	17	(75)	(26)	(101)
<b>Total</b>	<b>118</b>	<b>61</b>	<b>179</b>	<b>1</b>	<b>119</b>	<b>120</b>	<b>21</b>	<b>21</b>	<b>42</b>	<b>140</b>	<b>201</b>	<b>341</b>

<sup>(1)</sup>Excludes residential mortgage loan pools of € 176 million in CICB.

<sup>(2)</sup>Excludes deferred costs of € 60 million in EBS.

<sup>(3)</sup>All Non-Core.

<sup>(4)</sup>Includes all impaired loans whether past due or not.

# Risk management

## Loans and receivables to customers (continued)

### Republic of Ireland residential mortgages (continued)

Statement of financial position	PBB			CICB <sup>(1)</sup>			EBS <sup>(2)</sup>			31 December 2011 Total		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Total gross residential mortgages	18,626	4,345	22,971	34	3,309	3,343	13,492	1,861 <sup>(3)</sup>	15,353	32,152	9,515	41,667
In arrears (>30 days past due) <sup>(4)</sup>	1,471	734	2,205	22	1,657	1,679	2,459	805	3,264	3,952	3,196	7,148
In arrears (>90 days past due) <sup>(4)</sup>	1,212	616	1,828	22	1,580	1,602	2,238	785	3,023	3,472	2,981	6,453
Of which impaired	1,008	510	1,518	21	1,496	1,517	2,238	765	3,003	3,267	2,771	6,038
Statement of financial position specific provisions	305	189	494	5	555	560	403	213	616	713	957	1,670
Statement of financial position IBNR provisions	327	200	527	-	137	137	58	67	125	385	404	789
	%	%	%	%	%	%	%	%	%	%	%	%
Specific provisions as a % of impaired loans cover	30.2	37.1	32.6	25.8	37.1	37.0	18.0	27.8	20.5	21.8	34.6	27.7

### Income statement

	30 June 2011		
	Owner-occupier € m	Buy-to-let € m	Total € m
Income statement specific provisions	82	192	274
Income statement IBNR provisions	7	13	20
<b>Total</b>	<b>89</b>	<b>205</b>	<b>294</b>

<sup>(1)</sup>Excludes residential mortgage loan pools of € 178 million in CICB.

<sup>(2)</sup>Excludes deferred costs of € 70 million in EBS.

<sup>(3)</sup>All Non-Core.

<sup>(4)</sup>Includes all impaired loans whether past due or not.

## Loans and receivables to customers *(continued)*

### Republic of Ireland residential mortgages *(continued)*

Residential mortgages in the Republic of Ireland (managed in the PBB, CICB & EBS market segments) amounted to € 41.1 billion at 30 June 2012, and compares to € 41.7 billion at 31 December 2011. The split of the residential mortgage book was owner-occupier € 31.7 billion and buy-to-let € 9.4 billion and comprised 43% tracker rate, 43% variable rate and 14% fixed rate mortgages. The total income statement provision charge for the period to 30 June 2012 was € 341 million or 1.65% of average residential mortgages, comprising € 442 million specific charge and a writeback of IBNR of € 101 million. Statement of financial position provisions of € 2.8 billion were held at 30 June 2012, split € 2.1 billion specific and € 0.7 billion IBNR.

The portfolio in the Republic of Ireland continues to experience an increase in arrears as borrowers' repayment capacity continues to be impacted by the current economic climate. The level of loans greater than 90 days in arrears, including impaired loans, was 18.5% at 30 June 2012 compared to 15.5% at 31 December 2011. However, the pace of increase slowed in the period when compared to the second half of 2011.

The level of arrears greater than 90 days, including impaired loans in the owner-occupier book, increased from € 3,472 million or 10.8% at 31 December 2011 to € 4,093 million or 12.9% at 30 June 2012. Decreases in household income and growing unemployment continue to be the principal drivers of increased arrears in the owner-occupier book.

The level of arrears greater than 90 days, including impaired loans in the buy-to-let book, increased from € 2,981 million or 31.4% at 31 December 2011 to € 3,489 million or 37.2% at 30 June 2012 and continues to be impacted by increased financial pressure on borrowers and volatility in rental income. The quantum of negative equity in the residential mortgage book was € 6.8 billion at 30 June 2012, reflecting the continuing decrease in house prices in the period.

Total owner-occupier and buy-to-let impaired loans were € 7.2 billion at 30 June 2012 compared to € 6.0 billion at 31 December 2011, a reflection of the deterioration of the residential mortgage book in the period.

Statement of financial position specific provisions of € 2.1 billion provided cover of 30% (31 December 2011: € 1.7 billion or 28%), and represents an increase of € 0.4 billion in the period. AIB has used a 55% peak-to-trough house price decline as a base for assessing values of collateral, but where relevant has applied a discount to reflect a higher decline in value. IBNR statement of financial position provisions of € 688 million were held for the performing book, compared to € 789 million held at 31 December 2011 and reflects management's view of incurred loss in this book.

The total income statement provision charge for the period to 30 June 2012 was € 341 million, (including a charge for EBS for the period of € 42 million), comprising a specific charge of € 442 million and a writeback of IBNR of € 101 million. This compares to a total income statement charge of € 294 million for the same period in 2011 (excluding EBS, which was consolidated from 1 July 2011), comprising a specific charge of € 274 million and an IBNR charge of € 20 million.



# Risk management

## Loans and receivables to customers (continued)

### Credit profile of 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 78 of the Annual Financial Report 2011.

The following tables analyse by type of forbearance, the owner-occupier, buy-to-let and total residential mortgage books that were subject to forbearance measures in the Republic of Ireland at 30 June 2012 and 31 December 2011:

	30 June 2012					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears and/or impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
<b>Republic of Ireland</b>						
<b>residential owner-occupier mortgages</b>						
Interest only	13,200	2,396	4,284	857	8,916	1,539
Reduced payment (greater than interest only)	1,503	295	578	138	925	157
Payment moratorium	1,091	175	452	83	639	92
Arrears capitalisation	2,124	391	1,168	239	956	152
Term extension	5,623	585	629	59	4,994	526
Hybrid (term extension and interest only)	350	39	155	17	195	22
Other	3	1	1	-	2	1
<b>Total</b>	<b>23,894</b>	<b>3,882</b>	<b>7,267</b>	<b>1,393</b>	<b>16,627</b>	<b>2,489</b>

	31 December 2011					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears and/or impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
<b>Republic of Ireland</b>						
<b>residential owner-occupier mortgages</b>						
Interest only	13,442	2,520	3,351	665	10,091	1,855
Reduced payment (greater than interest only)	1,014	184	251	58	763	126
Payment moratorium	1,438	254	470	92	968	162
Arrears capitalisation	1,512	274	649	135	863	139
Term extension	4,964	524	447	41	4,517	483
Hybrid (term extension and interest only)	239	28	85	10	154	18
Other	2	1	-	-	2	1
<b>Total</b>	<b>22,611</b>	<b>3,785</b>	<b>5,253</b>	<b>1,001</b>	<b>17,358</b>	<b>2,784</b>

	30 June 2012					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears and/or impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
<b>Republic of Ireland</b>						
<b>residential buy-to-let mortgages</b>						
Interest only	7,139	1,787	3,215	969	3,924	818
Reduced payment (greater than interest only)	757	171	342	81	415	90
Payment moratorium	151	31	76	17	75	14
Arrears capitalisation	1,272	353	914	274	358	79
Term extension	952	137	99	18	853	119
Hybrid (term extension and interest only)	51	15	21	11	30	4
Other	-	-	-	-	-	-
<b>Total</b>	<b>10,322</b>	<b>2,494</b>	<b>4,667</b>	<b>1,370</b>	<b>5,655</b>	<b>1,124</b>

## Loans and receivables to customers (continued)

### Credit profile of residential mortgages (continued)

#### Forbearance (continued)

	31 December 2011					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears and/or impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
<b>Republic of Ireland</b>						
<b>residential buy-to-let mortgages</b>						
Interest only	7,366	1,856	2,547	810	4,819	1,046
Reduced payment (greater than interest only)	423	99	107	29	316	70
Payment moratorium	136	40	78	28	58	12
Arrears capitalisation	823	232	558	163	265	69
Term extension	872	132	89	15	783	117
Hybrid (term extension and interest only)	35	10	18	6	17	4
Other	-	-	-	-	-	-
<b>Total</b>	<b>9,655</b>	<b>2,369</b>	<b>3,397</b>	<b>1,051</b>	<b>6,258</b>	<b>1,318</b>

	30 June 2012					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears and/or impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
<b>Republic of Ireland</b>						
<b>total residential mortgages</b>						
Interest only	20,339	4,183	7,499	1,826	12,840	2,357
Reduced payment (greater than interest only)	2,260	466	920	219	1,340	247
Payment moratorium	1,242	206	528	100	714	106
Arrears capitalisation	3,396	744	2,082	513	1,314	231
Term extension	6,575	722	728	77	5,847	645
Hybrid (term extension and interest only)	401	54	176	28	225	26
Other	3	1	1	-	2	1
<b>Total</b>	<b>34,216</b>	<b>6,376</b>	<b>11,934</b>	<b>2,763</b>	<b>22,282</b>	<b>3,613</b>

	31 December 2011					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears and/or impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
<b>Republic of Ireland</b>						
<b>total residential mortgages</b>						
Interest only	20,808	4,376	5,898	1,475	14,910	2,901
Reduced payment (greater than interest only)	1,437	283	358	87	1,079	196
Payment moratorium	1,574	294	548	120	1,026	174
Arrears capitalisation	2,335	506	1,207	298	1,128	208
Term extension	5,836	656	536	56	5,300	600
Hybrid (term extension and interest only)	274	38	103	16	171	22
Other	2	1	-	-	2	1
<b>Total</b>	<b>32,266</b>	<b>6,154</b>	<b>8,650</b>	<b>2,052</b>	<b>23,616</b>	<b>4,102</b>

The Group has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with customers in difficulty or likely to be in difficulty. The types of short-term forbearance measures that were considered for mortgage customers during the first half of 2012 were interest only, part capital and interest, moratorium, capitalisation of arrears, term extension and a deferred interest scheme.

Of the total residential mortgage book in the Republic of Ireland of € 41.1 billion, 16% was subject to forbearance measures as at 30 June 2012, compared to 15% as at 31 December 2011. The majority (66%) of the loans that were subject to forbearance measures at 30 June 2012 were granted a period of interest only payments. € 2.8 billion (43%) of the loans under forbearance were greater than 90 days past due or impaired as at 30 June 2012, compared to € 2.1 billion (33%) as at 31 December 2011.

# Risk management

## Loans and receivables to customers (continued)

### Arrears profile of Republic of Ireland residential mortgages - past due but not impaired<sup>(1)</sup>

The following table provides an arrears profile for the Republic of Ireland residential mortgages that were past due but not impaired at 30 June 2012 and 31 December 2011:

	30 June 2012			31 December 2011		
	Owner- occupier € m	Buy-to-let € m	Total € m	Owner- occupier € m	Buy-to-let € m	Total € m
1 - 30 days	817	207	1,024	830	184	1,014
31 - 60 days	314	114	428	326	134	460
61 - 90 days	182	74	256	154	81	235
91 - 180 days	123	117	240	147	117	264
181 - 365 days	47	78	125	50	65	115
Over 365 days	17	44	61	8	28	36
<b>Total</b>	<b>1,500</b>	<b>634</b>	<b>2,134</b>	<b>1,515</b>	<b>609</b>	<b>2,124</b>
<b>Total gross residential mortgages</b>	<b>31,694</b>	<b>9,399</b>	<b>41,093</b>	<b>32,152</b>	<b>9,515</b>	<b>41,667</b>

€ 2.1 billion or 5% of the Republic of Ireland residential mortgage book was past due but not impaired at 30 June 2012, similar to the level at 31 December 2011. Of the loan book that was past due but not impaired, € 1.0 billion or 48% was 30 days or less past due but not impaired (31 December 2011: € 1.0 billion or 48%). The level of past due but not impaired loans reflects the impact on disposable incomes of the continuing economic downturn.

### Republic of Ireland residential mortgages - repossessions

The number (stock) of repossessions as at 30 June 2012 and 31 December 2011 is set out below:

	30 June 2012		31 December 2011	
	Number of repossessions	Balance outstanding € m	Number of repossessions	Balance outstanding € m
Owner-occupier	88	24	92	30
Buy-to-let	57	18	44	9
<b>Total</b>	<b>145</b>	<b>42</b>	<b>136</b>	<b>39</b>

The increase in the stock of repossessed properties in the six months to 30 June 2012 relates to 35 properties repossessed in the Republic of Ireland in the period offset by disposals. The majority of repossessions were by way of voluntary surrender or abandonment of the property.

### AIB UK residential mortgages

Residential mortgages in AIB UK remained static in the period to 30 June 2012 at € 3.2 billion (31 December 2011: € 3.2 billion) and comprised owner-occupier mortgages of € 2.8 billion and buy-to-let mortgages of € 0.4 billion.

The level of greater than 90 days arrears, including impaired loans, was 8.8% compared to 7.4% at 31 December 2011, driven primarily by an increase in the levels of all impaired loans in Northern Ireland. Statement of financial position specific provisions at € 84 million were up from € 67 million at 31 December 2011, with a slight increase in cover to 36% (31 December 2011: 35%). At 30 June 2012, IBNR statement of financial position provisions were € 98 million down from € 100 million at 31 December 2011, and reflect management's view of incurred loss in the performing book, particularly in relation to 'low-start' mortgages in Northern Ireland.

The total income statement provision charge for the period to 30 June 2012 was € 11 million, comprising a € 16 million specific charge and a writeback of IBNR of € 5 million. This compares to a total income statement charge of € 57 million (€ 24 million specific and € 33 million IBNR) for the period to 30 June 2011.

<sup>(1)</sup>Past due but not impaired are defined as follows: When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days' is a term used to describe the cumulative number of days a missed payment is overdue. This category can also include an element of loans where negotiation with the borrower on new terms and conditions has not concluded to full completion of documentation while the original loan facility remains outside its original terms for more than 90 days. 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.

# Risk management

## Loans and receivables to customers (continued)

### Other personal lending

The following tables show an analysis by market segment of other personal lending setting out credit quality and impairment provisions.

	Core				Non-Core				30 June 2012
	PBB	CICB	AIB UK	Total Core	PBB	CICB	AIB UK	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Satisfactory	1,620	92	306	2,018	333	367	2	702	2,720
Watch	97	13	36	146	87	163	6	256	402
Vulnerable	106	13	55	174	139	157	19	315	489
Impaired	343	82	40	465	237	662	40	939	1,404
Total criticised loans	546	108	131	785	463	982	65	1,510	2,295
<b>Total gross loans and receivables</b>	<b>2,166</b>	<b>200</b>	<b>437</b>	<b>2,803</b>	<b>796</b>	<b>1,349</b>	<b>67</b>	<b>2,212</b>	<b>5,015</b>
<b>Total loans percentage</b>	%	%	%	%	%	%	%	%	%
Criticised loans as % of total loans	25	54	30	28	58	73	97	68	46
Impaired loans as % of total loans	16	41	9	17	30	49	60	42	28
<b>Provisions - statement of financial position</b>									
Specific	308	61	31	400	184	373	23	580	980
IBNR	76	-	5	81	46	-	2	48	129
<b>Total provisions</b>	<b>384</b>	<b>61</b>	<b>36</b>	<b>481</b>	<b>230</b>	<b>373</b>	<b>25</b>	<b>628</b>	<b>1,109</b>
<b>Provision cover percentage</b>	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	90	75	76	86	78	56	58	62	70
Total provisions/impaired loans	112	75	88	103	97	56	63	67	79
Total provisions/loans	18	30	8	17	29	28	37	28	22
<b>Impairment charge/average loans</b>	<b>3.66</b>	<b>9.16</b>	<b>5.79</b>	<b>4.38</b>	<b>5.36</b>	<b>3.71</b>	<b>2.49</b>	<b>4.25</b>	<b>4.33</b>

# Risk management

## Loans and receivables to customers (continued)

### Other personal lending (continued)

	Core				Non-Core				31 December 2011
	PBB	CICB	AIB UK	Total Core	PBB	CICB	AIB UK	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Satisfactory	1,775	72	345	2,192	397	449	7	853	3,045
Watch	115	13	36	164	103	162	6	271	435
Vulnerable	110	14	47	171	130	175	30	335	506
Impaired	342	71	38	451	208	632	43	883	1,334
Total criticised loans	567	98	121	786	441	969	79	1,489	2,275
<b>Total gross loans and receivables</b>	<b>2,342</b>	<b>170</b>	<b>466</b>	<b>2,978</b>	<b>838</b>	<b>1,418</b>	<b>86</b>	<b>2,342</b>	<b>5,320</b>
<b>Total loans percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Criticised loans as % of total loans	24	58	26	26	53	68	92	64	43
Impaired loans as % of total loans	15	42	8	15	25	45	50	38	25
<b>Provisions - statement of financial position</b>									
Specific	289	52	28	369	153	360	21	534	903
IBNR	95	-	4	99	57	2	2	61	160
<b>Total provisions</b>	<b>384</b>	<b>52</b>	<b>32</b>	<b>468</b>	<b>210</b>	<b>362</b>	<b>23</b>	<b>595</b>	<b>1,063</b>
<b>Provision cover percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Specific provisions/impaired loans	84	73	76	82	73	57	49	60	68
Total provisions/impaired loans	112	73	86	104	101	57	54	67	80
Total provisions/loans	16	30	7	16	25	26	26	25	20

### Impairment charge/average loans

30 June 2011  
%  
7.36



# Risk management

## **Loans and receivables to customers (continued)**

### **Other personal lending (continued)**

The other personal lending portfolio has reduced by € 0.3 billion in the period to 30 June 2012 to € 5.0 billion from € 5.3 billion at 31 December 2011 and comprises € 4.0 billion in loans and overdrafts and € 1.0 billion in credit card facilities. The reduction reflects the lack of demand for personal credit, particularly in Ireland, where households continue to focus on reducing debt where possible.

€ 2.3 billion or 46% of the portfolio is criticised of which impaired loans amount to € 1.4 billion (31 December 2011: € 2.3 billion or 43% and € 1.3 billion).

The Group has statement of financial position specific provisions of € 1.0 billion providing cover on impaired loans of 70% (31 December 2011: € 0.9 billion or 68%) and a further € 0.1 billion in IBNR provisions representing 3.57% of performing loans (31 December 2011: € 0.2 billion or 4.01%).

The income statement provision charge for the period to 30 June 2012 was € 112 million or 4.33% (annualised) of average customer loans compared with € 216 million or 7.36% (annualised) at 30 June 2011.

# Risk management

## Loans and receivables to customers (continued)

### Property and construction

The following tables show an analysis by market segment of property and construction setting out credit quality and impairment provisions:

	Core					Non-Core					30 June 2012
	PBB	CICB	AIB UK	EBS	Total Core	PBB	CICB	AIB UK	EBS	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Investment											
Commercial investment	620	8,672	1,488	-	10,780	-	571	826	866	2,263	13,043
Residential investment	55	151	544	-	750	240	1,464	549	-	2,253	3,003
	675	8,823	2,032	-	11,530	240	2,035	1,375	866	4,516	16,046
Land and development											
Commercial development	-	125	41	-	166	131	1,178	136	-	1,445	1,611
Residential development	-	35	362	-	397	259	3,133	1,240	-	4,632	5,029
	-	160	403	-	563	390	4,311	1,376	-	6,077	6,640
Contractors	126	158	133	-	417	-	8	25	-	33	450
Housing associations	-	-	107	-	107	-	-	324	-	324	431
<b>Total gross loans and receivables</b>	<b>801</b>	<b>9,141</b>	<b>2,675</b>	<b>-</b>	<b>12,617</b>	<b>630</b>	<b>6,354</b>	<b>3,100</b>	<b>866</b>	<b>10,950</b>	<b>23,567</b>
<b>Analysed as to asset quality</b>											
Satisfactory	340	3,484	1,404	-	5,228	131	914	496	105	1,646	6,874
Watch	95	1,196	647	-	1,938	63	248	23	134	468	2,406
Vulnerable	111	480	363	-	954	102	309	420	81	912	1,866
Impaired	255	3,981	261	-	4,497	334	4,883	2,161	546	7,924	12,421
Criticised loans	461	5,657	1,271	-	7,389	499	5,440	2,604	761	9,304	16,693
<b>Total loans percentage</b>	%	%	%	%	%	%	%	%	%	%	%
Criticised loans as % of total loans	58	62	48	-	59	79	86	84	88	85	71
Impaired loans as % of total loans	32	44	10	-	36	53	77	70	63	72	53
<b>Provisions - statement of financial position</b>											
Specific	213	1,779	105	-	2,097	255	3,366	1,075	142	4,838	6,935
IBNR	36	380	51	-	467	69	170	133	57	429	896
<b>Total provisions</b>	<b>249</b>	<b>2,159</b>	<b>156</b>	<b>-</b>	<b>2,564</b>	<b>324</b>	<b>3,536</b>	<b>1,208</b>	<b>199</b>	<b>5,267</b>	<b>7,831</b>
<b>Provision cover percentage</b>	%	%	%	%	%	%	%	%	%	%	%
Specific provisions/impaird loans	83	45	40	-	47	76	69	50	26	61	56
Total provisions/impaird loans	98	54	60	-	57	97	72	56	36	66	63
Total provisions/loans	31	24	6	-	20	51	56	39	23	48	33
<b>Impairment charge/average loans</b>	<b>4.70</b>	<b>1.71</b>	<b>0.67</b>	<b>-</b>	<b>1.68</b>	<b>7.90</b>	<b>1.90</b>	<b>6.45</b>	<b>(1.90)</b>	<b>3.25</b>	<b>2.42</b>

# Risk management

Loans and receivables to customers (continued)

Property and construction (continued)

	Core					Non-Core					31 December 2011	
	PBB	CICB	AIB UK	EBS	Total Core	PBB	CICB	AIB UK	EBS	Total Non-Core	Total	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Investment												
Commercial investment	621	8,871	1,248	-	10,740	-	819	1,266	896	2,981	13,721	
Residential investment	60	153	533	-	746	247	1,563	565	-	2,375	3,121	
	681	9,024	1,781	-	11,486	247	2,382	1,831	896	5,356	16,842	
Land and development												
Commercial development	-	4	87	-	91	138	1,246	104	-	1,488	1,579	
Residential development	-	60	646	-	706	266	3,206	887	-	4,359	5,065	
	-	64	733	-	797	404	4,452	991	-	5,847	6,644	
Contractors	129	187	131	-	447	-	8	31	-	39	486	
Housing associations	-	-	127	-	127	-	-	391	-	391	518	
<b>Total gross loans and receivables</b>	<b>810</b>	<b>9,275</b>	<b>2,772</b>	<b>-</b>	<b>12,857</b>	<b>651</b>	<b>6,842</b>	<b>3,244</b>	<b>896</b>	<b>11,633</b>	<b>24,490</b>	
<b>Analysed as to asset quality</b>												
Satisfactory	389	4,083	1,674	-	6,146	162	1,414	636	127	2,339	8,485	
Watch	93	1,030	650	-	1,773	77	278	75	164	594	2,367	
Vulnerable	95	368	275	-	738	101	276	560	64	1,001	1,739	
Impaired	233	3,794	173	-	4,200	311	4,874	1,973	541	7,699	11,899	
Total criticised loans	421	5,192	1,098	-	6,711	489	5,428	2,608	769	9,294	16,005	
<b>Provision cover percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
Criticised loans as % of total loans	52	56	40	-	52	75	79	80	86	80	65	
Impaired loans as % of total loans	29	41	6	-	33	48	71	61	60	66	49	
<b>Provisions statement of financial position</b>												
Specific	189	1,593	84	-	1,866	230	3,290	942	141	4,603	6,469	
IBNR	36	493	53	-	582	72	222	155	68	517	1,099	
<b>Total provisions</b>	<b>225</b>	<b>2,086</b>	<b>137</b>	<b>-</b>	<b>2,448</b>	<b>302</b>	<b>3,512</b>	<b>1,097</b>	<b>209</b>	<b>5,120</b>	<b>7,568</b>	
<b>Provision cover percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
Specific provisions/impaird loans	81	42	49	-	44	74	67	48	26	60	54	
Total provisions/impaird loans	97	55	79	-	58	97	72	56	39	66	64	
Total provisions/loans	28	23	5	-	19	46	51	34	23	45	31	

Impairment charge/average loans

30 June 2011  
%

12.98



# Risk management

## **Loans and receivables to customers (continued)**

### **Property and construction (continued)**

At 30 June 2012, the property and construction portfolio amounted to € 23.6 billion.

The level of criticised loans in the Group's property and construction portfolio at € 16.7 billion has increased from € 16.0 billion at 31 December 2011 and reflects the continuing lack of economic activity in this sector and ability of borrowers to meet repayments.

Impaired loans amounted to € 12.4 billion or 53% of the portfolio (31 December 2011: € 11.9 billion or 49%).

The Group has € 6.9 billion of statement of financial position specific provisions providing cover on impaired loans of 56% (31 December 2011: € 6.5 billion or 54%). Total statement of financial position provisions of € 7.8 billion represented 33% of loans and receivables (31 December 2011: € 7.6 billion or 31%).

The income statement provision charge for the period to 30 June 2012 of € 290 million or 2.42% (annualised) of average customer loans compared with € 1,641 million or 12.98% (annualised) for the same period to June 2011. The reduced income statement provision charge was particularly influenced by a reduction in the land and development charge, down from € 1,173 million in June 2011 when provisions were raised in relation to the more vulnerable portfolios to € 168 million for the period to 30 June 2012.

### **Investment:**

Property investment loans amounted to € 16.0 billion at 30 June 2012 (31 December 2011: € 16.8 billion) of which € 13.0 billion related to commercial investment. The reduction was largely as a result of deleveraging in the portfolio. € 8.8 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, € 6.3 billion in the United Kingdom, € 0.3 billion in the United States of America and € 0.6 billion in other geographical locations.

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 64% of the investment property portfolio was criticised at 30 June 2012 compared with € 9.7 billion or 58% at 31 December 2011. Included in criticised loans were € 6.7 billion of loans which were impaired (31 December 2011: € 6.3 billion) on which the Group had € 2.9 billion in statement of financial position specific provisions, providing cover of 43% (31 December 2011: € 2.6 billion or 41%). Total provisions as a percentage of total loans was 22%, up from 21% at December 2011 for this sector.

The income statement provision charge for the period to 30 June 2012 was € 106 million or 1.30% (annualised) of average property investment customer loans compared with € 435 million or 5.13% (annualised) for the same period to June 2011.

### **Land and development**

At 30 June 2012, Group land and development loans amounted to € 6.6 billion (31 December 2011: € 6.6 billion). € 4.7 billion of this portfolio related to loans in the Republic of Ireland and € 1.9 billion in the United Kingdom.

There continues to be little demand for development land in Ireland, with construction activity at an all time low. 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.

€ 6.1 billion of the land and development portfolio was criticised at 30 June 2012 unchanged from 31 December 2011. Included in criticised loans were € 5.5 billion of loans which were impaired (31 December 2011: € 5.4 billion) on which the Group had € 3.9 billion in statement of financial position specific provisions providing cover of 71% (31 December 2011: 69%). Total provisions as a percentage of total loans was 61%, up from 58% at 31 December 2011 for this sector.

The income statement provision charge for the period to 30 June 2012 was € 168 million or 5.02% (annualised) of average land and development customer loans compared with € 1,173 million or 33.13% (annualised) for the same period to June 2011.

# Risk management

## Loans and receivables to customers (continued)

### SME/other commercial lending

The following tables show an analysis by market segment of SME/other commercial lending setting out credit quality and impairment provisions.

	Core				Non-Core				30 June 2012
	PBB	CICB	AIB UK	Total Core	PBB	CICB	AIB UK	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,084	632	46	1,762	-	-	12	12	1,774
Distribution									
Hotels	61	1,555	614	2,230	-	-	426	426	2,656
Licensed premises	217	719	52	988	-	-	156	156	1,144
Retail/Wholesale	437	1,856	212	2,505	-	-	79	79	2,584
Other distribution	65	68	30	163	-	-	8	8	171
	780	4,198	908	5,886	-	-	669	669	6,555
Other services	730	1,543	1,992	4,265	-	-	948	948	5,213
Other	487	1,089	433	2,009	13	19	182	214	2,223
<b>Total gross loans and receivables</b>	<b>3,081</b>	<b>7,462</b>	<b>3,379</b>	<b>13,922</b>	<b>13</b>	<b>19</b>	<b>1,811</b>	<b>1,843</b>	<b>15,765</b>
Satisfactory	1,614	3,010	2,332	6,956	5	8	751	764	7,720
Watch	394	697	494	1,585	-	-	35	35	1,620
Vulnerable	415	572	262	1,249	-	-	280	280	1,529
Impaired	658	3,183	291	4,132	8	11	745	764	4,896
Total criticised loans	1,467	4,452	1,047	6,966	8	11	1,060	1,079	8,045
<b>Total loans percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Criticised loans as % of total loans	48	60	31	50	61	61	59	59	51
Impaired loans as % of total loans	21	43	9	30	61	61	41	41	31
<b>Provisions - statement of financial position</b>									
Specific	534	1,813	140	2,487	7	11	317	335	2,822
IBNR	93	114	60	267	-	-	45	45	312
<b>Total provisions</b>	<b>627</b>	<b>1,927</b>	<b>200</b>	<b>2,754</b>	<b>7</b>	<b>11</b>	<b>362</b>	<b>380</b>	<b>3,134</b>
<b>Provision cover percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Specific provisions/impaird loans	81	57	48	60	93	94	43	44	58
Total provisions/impaird loans	95	61	68	67	93	94	49	50	64
Total provisions/loans	20	26	6	20	56	57	20	21	20
<b>Impairment charge/average loans</b>	<b>2.23</b>	<b>0.50</b>	<b>1.32</b>	<b>1.33</b>	<b>-</b>	<b>-</b>	<b>3.56</b>	<b>4.43</b>	<b>1.38</b>

# Risk management

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

	Core				Non-Core				Total
	PBB	CICB	AIB UK	Total Core	PBB	CICB	AIB UK	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
					31 December 2011				
Agriculture	1,044	666	43	1,753	-	-	13	13	1,766
Distribution									
Hotels	62	1,557	645	2,264	-	-	485	485	2,749
Licensed premises	223	740	47	1,010	-	-	112	112	1,122
Retail/Wholesale	504	2,018	211	2,733	-	-	82	82	2,815
Other distribution	-	-	36	36	-	-	19	19	55
	789	4,315	939	6,043	-	-	698	698	6,741
Other services	759	1,589	1,910	4,258	-	-	1,161	1,161	5,419
Other	537	1,151	458	2,146	15	20	180	215	2,361
<b>Total gross loans and receivables</b>	<b>3,129</b>	<b>7,721</b>	<b>3,350</b>	<b>14,200</b>	<b>15</b>	<b>20</b>	<b>2,052</b>	<b>2,087</b>	<b>16,287</b>
Satisfactory	1,677	3,375	2,392	7,444	4	5	919	928	8,372
Watch	452	752	478	1,682	1	2	79	82	1,764
Vulnerable	380	543	263	1,186	1	1	401	403	1,589
Impaired	620	3,051	217	3,888	9	12	653	674	4,562
Total criticised loans	1,452	4,346	958	6,756	11	15	1,133	1,159	7,915
<b>Total loans percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Criticised loans as % of total loans	46	56	29	48	73	75	55	56	49
Impaired loans as % of total loans	20	40	6	27	60	60	32	32	28
<b>Provisions - statement of financial position</b>									
Specific	481	1,759	109	2,349	8	10	298	316	2,665
IBNR	128	185	57	370	2	-	56	58	428
<b>Total provisions</b>	<b>609</b>	<b>1,944</b>	<b>166</b>	<b>2,719</b>	<b>10</b>	<b>10</b>	<b>354</b>	<b>374</b>	<b>3,093</b>
<b>Provision cover percentage</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Specific provisions/impaird loans	78	58	50	60	89	83	46	47	58
Total provisions/impaird loans	98	64	76	70	111	83	54	55	68
Total provisions/loans	19	25	5	19	67	50	17	18	19

30 June 2011  
%

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6.50

Impairment charge/average loans

## **Loans and receivables to customers (continued)**

### **SME/other commercial lending (continued)**

The SME/other commercial lending portfolio amounted to € 15.8 billion at 30 June 2012 and includes lending to the following main sub-sectors: hotels and licensed premises € 3.8 billion; retail/wholesale € 2.6 billion; other services € 5.2 billion; and agriculture € 1.8 billion (31 December 2011: € 3.9 billion, € 2.8 billion, € 5.4 billion and € 1.8 billion respectively).

Criticised loans at € 8.0 billion represent 51% of the portfolio (31 December 2011: € 7.9 billion or 49%) and this high level has been impacted by the depressed economic environment in Ireland and the United Kingdom, with high unemployment and continuing stress on trading entities. Within criticised loans, impaired loans were € 4.9 billion or 31% of loans and receivables (31 December 2011: € 4.6 billion or 28%). The Group had statement of financial position specific provisions of € 2.8 billion providing cover of 58% on impaired loans (31 December 2011: € 2.7 billion or 58%).

Statement of financial position total provisions of € 3.1 billion represented 20% cover on loans and receivables (31 December 2011: € 3.1 billion or 19%).

The income statement provision charge for the period to 30 June 2012 was € 110 million or 1.38% (annualised) of average customer loans compared with € 554 million or 6.50% (annualised) for the same period to 30 June 2011. The reduction in the provision charge was influenced by a lower level of new impaired loans at € 334 million in the period to June 2012 (30 June 2011: € 645 million) requiring specific provisions combined with a net write-back of € 116 million of income statement IBNR provisions in the period to 30 June 2012 (30 June 2011: provision charge of € 27 million) based on managements view of incurred loss in the non-impaired portfolio at the reporting date.

# Risk management

## Loans and receivables to customers (continued)

### Corporate lending

The following tables show an analysis of corporate lending, setting out credit quality and impairment provisions.

	30 June 2012			31 December 2011		
	Core € m	Non-Core € m	Total € m	Core € m	Non-Core € m	Total € m
Satisfactory	3,495	2,135	5,630	3,729	2,779	6,508
Watch	87	38	125	81	25	106
Vulnerable	63	44	107	7	48	55
Impaired	305	291	596	386	309	695
Total criticised loans	455	373	828	474	382	856
<b>Total gross loans and receivables</b>	<b>3,950</b>	<b>2,508</b>	<b>6,458</b>	<b>4,203</b>	<b>3,161</b>	<b>7,364</b>
<b>Total loans percentage</b>	%	%	%	%	%	%
Criticised as a % of total loans	12	15	13	11	12	12
Impaired as a % of total loans	8	12	9	9	10	9
<b>Provisions – statement of financial position</b>						
Specific	187	196	383	216	217	433
IBNR	59	47	106	59	44	103
<b>Total provisions</b>	<b>246</b>	<b>243</b>	<b>489</b>	<b>275</b>	<b>261</b>	<b>536</b>
<b>Provision cover percentage</b>	%	%	%	%	%	%
Specific provisions/impaired loans	61	67	64	56	70	62
Total provisions/impaired loans	81	83	82	71	84	77
Total provisions/loans	6	10	8	7	8	7

  

	30 June 2012			30 June 2011		
	Core %	Non-Core %	Total %	Core %	Non-Core %	Total %
<b>Impairment charge/average loans</b>	<b>0.86</b>	<b>0.59</b>	<b>0.75</b>			<b>2.53</b>

The corporate portfolio amounted to € 6.5 billion at 30 June 2012 compared with € 7.4 billion at 31 December 2011. The reduction largely reflects the planned deleveraging of the portfolio as part of the Group's recapitalisation plan, and repayments.

Criticised loans at € 0.8 billion represent 13% of the portfolio compared with € 0.9 billion or 12% at 31 December 2011. Within criticised loans, impaired loans amounted to € 0.6 billion (31 December 2011: € 0.7 billion) and the Group had statement of financial position specific provisions of € 0.4 billion providing cover of 64% on these loans (31 December 2011: € 0.4 billion or 62%).

Statement of financial position total provisions of € 0.5 billion represented 8% of loans and receivables (31 December 2011: € 0.5 billion or 7%).

The income statement provision charge for the period to 30 June 2012 was € 26 million or 0.75% (annualised) of average customer loans compared with € 147 million or 2.53% (annualised) for the same period to 30 June 2011.

## Loans and receivables to customers (continued)

The level of specific provisions and associated provision cover for individually significant and individually insignificant impaired loans at 30 June 2012 and 31 December 2011 are outlined in the following table.

Approximately 90% of loans and receivables to customers carry security - the main exceptions include:

- small personal facilities, including Credit Cards, where statistical scoring techniques are used in the approval process; and
- advances to large corporate customers where financial and business covenants protect the Group's position.

### Impaired loans for which provisions are held\*:

						30 June 2012	
	Gross loans and receivables	Impaired loans			Total impaired loans as a % of total loans	Specific impairment provisions	
		Individually assessed	Collectively assessed	Total		Total	Provisions as a % of impaired loans
	€ m	€ m	€ m	€ m	€ m		
<b>Retail</b>							
Residential mortgages	44,560	3,523	3,967	7,490	17	2,245	30
Other personal lending	5,015	850	554	1,404	28	980	70
Total retail	49,575	4,373	4,521	8,894	18	3,225	36
<b>Commercial</b>							
Property	23,567	11,951	470	12,421	53	6,935	56
SME/commercial	15,765	4,256	640	4,896	31	2,822	58
Total commercial	39,332	16,207	1,110	17,317	44	9,757	56
<b>Corporate</b>	6,458	596	-	596	9	383	64
<b>Total</b>	<b>95,365</b>	<b>21,176</b>	<b>5,631</b>	<b>26,807</b>	<b>28</b>	<b>13,365</b>	<b>50</b>
<b>Specific impairment provisions at 30 June 2012</b>		<b>10,984</b>	<b>2,381</b>	<b>13,365</b>			
		%	%	%			
<b>Specific provision cover percentage</b>		<b>52</b>	<b>42</b>	<b>50</b>			

						31 December 2011	
	Gross loans and receivables	Impaired loans			Total impaired loans as a % of total loans	Specific impairment provisions	
		Individually assessed	Collectively assessed	Total		Total	Provisions as a % of impaired loans
	€ m	€ m	€ m	€ m	€ m		
<b>Retail</b>							
Residential mortgages	45,226	2,859	3,484	6,343	14	1,787	28
Other personal lending	5,320	764	570	1,334	25	903	68
Total retail	50,546	3,623	4,054	7,677	15	2,690	35
<b>Commercial</b>							
Property	24,490	11,557	342	11,899	49	6,469	54
SME/commercial	16,287	4,060	502	4,562	28	2,665	58
Total commercial	40,777	15,617	844	16,461	40	9,134	55
<b>Corporate</b>	7,364	695	-	695	9	433	62
<b>Total</b>	<b>98,687</b>	<b>19,935</b>	<b>4,898</b>	<b>24,833</b>	<b>25</b>	<b>12,257</b>	<b>49</b>
<b>Specific impairment provisions at 31 December 2011</b>		<b>10,318</b>	<b>1,939</b>	<b>12,257</b>			
		%	%	%			
<b>Specific provision cover percentage</b>		<b>52</b>	<b>40</b>	<b>49</b>			

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

# Risk management

## Loans and receivables to customers (continued) Credit profile of loans and receivables portfolio

30 June 2012

	Total		Total		Total
	Mortgages € m	Other € m	Core € m	Non-Core € m	€ m
Neither past due nor impaired	34,787	28,755	55,883	7,659	63,542
Past due but not impaired	2,283	2,733	3,916	1,100	5,016
Impaired - provisions held	7,490	19,317	15,848	10,959	26,807
<b>Gross loans and receivables</b>	<b>44,560</b>	<b>50,805</b>	<b>75,647</b>	<b>19,718</b>	<b>95,365</b>
Provisions for impairment	(3,031)	(12,562)	(8,675)	(6,918)	(15,593)
	41,529	38,243	66,972	12,800	79,772
Unearned income					(121)
Deferred costs					95
<b>Net loans and receivables</b>					<b>79,746</b>

31 December 2011

	Total		Total		Total
	Mortgages € m	Other € m	Core € m	Non-Core € m	€ m
Neither past due nor impaired	36,614	32,442	58,943	10,113	69,056
Past due but not impaired	2,269	2,529	3,764	1,034	4,798
Impaired - provisions held	6,343	18,490	14,261	10,572	24,833
<b>Gross loans and receivables</b>	<b>45,226</b>	<b>53,461</b>	<b>76,968</b>	<b>21,719</b>	<b>98,687</b>
Provision for impairments	(2,683)	(12,258)	(8,199)	(6,742)	(14,941)
	42,543	41,203	68,769	14,977	83,746
Unearned income					(125)
Deferred costs					103
<b>Net loans and receivables</b>					<b>83,724</b>

For reporting purposes loans and receivables to customers are categorised into: (i) neither past due nor impaired; (ii) past due but not impaired; and (iii) impaired. Profiles of past due but not impaired loans are detailed on pages 48 and 49, and impaired loans are detailed on page 24.

## Loans and receivables to customers (continued)

### Gross loans and receivables to customers which are neither past due nor impaired

	<b>30 June 2012</b>	31 December 2011
	<b>Total € m</b>	Total € m
Strong	<b>11,438</b>	12,231
Satisfactory	<b>42,233</b>	46,644
Higher risk	<b>9,871</b>	10,181
<b>Total</b>	<b>63,542</b>	69,056

Loans and receivables to customers which are neither past due nor impaired amounted to € 63.5 billion or 67% of total loans and receivables to customers (€ 69.1 billion or 70% as at 31 December, 2011). Loans that are neither past due nor impaired are further classified into 'Strong, Satisfactory or Higher Risk' as detailed on page 53.

Further information on loans and receivables to customers which are neither past due nor impaired, by reporting masterscale, are detailed on page 54.

### Aged analysis of contractually past due but not impaired gross loans and receivables to customers by core/non-core classification

	30 June 2012			31 December 2011		
	Core € m	Non-Core € m	Total € m	Core € m	Non-Core € m	Total € m
1 - 30 days	<b>1,502</b>	<b>349</b>	<b>1,851</b>	1,602	370	1,972
31 - 60 days	<b>640</b>	<b>101</b>	<b>741</b>	759	135	894
61 - 90 days	<b>624</b>	<b>96</b>	<b>720</b>	418	69	487
91 - 180 days	<b>531</b>	<b>188</b>	<b>719</b>	555	163	718
181 - 365 days	<b>380</b>	<b>181</b>	<b>561</b>	303	166	469
> 365 days	<b>239</b>	<b>185</b>	<b>424</b>	127	131	258
<b>Total</b>	<b>3,916</b>	<b>1,100</b>	<b>5,016</b>	3,764	1,034	4,798

Loans past due but not impaired as at 30 June 2012 were € 5.0 billion or 5.3 % of total loans and receivables to customers (31 December 2011: € 4.8 billion or 4.9%).

Residential mortgage loans past due but not impaired at € 2.3 billion represent 46% of the total of past due but not impaired loans (31 December 2011: € 2.3 billion represent 47%) largely driven by increased unemployment and reduced earnings which negatively affected borrowers' ability to repay loans. Property and Construction loans past due but not impaired represent a further 27 % or € 1.4 billion (31 December 2011: 24% or € 1.1 billion) with Other Personal at 10% or € 0.5 billion (31 December 2011: 10% or € 0.5 billion). A detailed profile of loans that are past due but not impaired is provided on page 49.



# Risk management

## Loans and receivables to customers

### Aged analysis of contractually past due but not impaired gross loans and receivables to customers by industry sector\*

The tables below set out the aged analysis of contractually past due but not impaired loans and receivables to customers as at 30 June 2012 and 31 December 2011:

	30 June 2012				
	1-30 days € m	31-60 days € m	61-90 days € m	91+ days € m	Total € m
Agriculture	40	21	14	79	154
Energy	2	-	-	7	9
Manufacturing	23	8	6	18	55
Property and construction	315	107	287	647	1,356
Distribution	97	57	57	176	387
Transport	9	4	1	10	24
Financial	10	8	2	3	23
Other services	69	30	32	91	222
Personal					
- Residential mortgages	1,085	450	275	473	2,283
- Credit cards	41	14	9	7	71
- Other	160	42	37	193	432
	<b>1,851</b>	<b>741</b>	<b>720</b>	<b>1,704</b>	<b>5,016</b>
<b>As a percentage of total gross loans</b>	<b>1.9</b>	<b>0.8</b>	<b>0.8</b>	<b>1.8</b>	<b>5.3</b>

	31 December 2011				
	1-30 days € m	31-60 days € m	61-90 days € m	91+ days € m	Total € m
Agriculture	54	37	10	43	144
Energy	4	-	1	5	10
Manufacturing	24	16	2	13	55
Property and construction	391	163	115	468	1,137
Distribution	153	75	45	206	479
Transport	10	7	2	7	26
Financial	6	1	1	6	14
Other services	87	30	13	75	205
Persona					
- Residential mortgages	1,067	489	253	460	2,269
- Credit cards	50	16	11	9	86
- Other	126	60	34	153	373
	<b>1,972</b>	<b>894</b>	<b>487</b>	<b>1,445</b>	<b>4,798</b>
<b>As a percentage of total gross loans</b>	<b>2.0</b>	<b>0.9</b>	<b>0.5</b>	<b>1.5</b>	<b>4.9</b>

The figures reported are inclusive of overdrafts, bridging loans and cases with expired limits. Where a borrower is past due, the entire exposure is reported, rather than the amount of any arrears.

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

## Risk management

### Loans and receivables to customers (continued)

#### Provisions for impairment - income statement

The following tables analyse the income statement impairment provisions for loans and receivables to customers by market segment.

	30 June 2012									30 June 2011		
	Core			Non-Core			Total			Total		
	Mortgages	Other	Total	Mortgages	Other	Total	Mortgages	Other	Total	Mortgages	Other	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
PBB	179	95	274	-	48	48	179	143	322			
CICB	120	125	245	-	96	96	120	221	341			
AIB UK	13	44	57	(2)	139	137	11	183	194			
EBS	21	-	21	21	(9)	12	42	(9)	33			
<b>Total</b>	<b>333</b>	<b>264</b>	<b>597</b>	<b>19</b>	<b>274</b>	<b>293</b>	<b>352</b>	<b>538</b>	<b>890</b>	<b>349</b>	<b>2,558</b>	<b>2,907</b>

	30 June 2012									30 June 2011		
	Core			Non-Core			Total			Total		
	Mortgages	Other	Total	Mortgages	Other	Total	Mortgages	Other	Total	Mortgages	Other	Total
	bps	bps	bps	bps	bps	bps	bps	bps	bps	bps	bps	bps
PBB	157	307	189	-	649	649	157	372	211			
CICB	729	118	201	-	179	177	692	139	193			
AIB UK	91	136	122	(112)	533	490	68	312	259			
EBS	32	-	32	226	(190)	93	56	(190)	42			
<b>Total</b>	<b>158</b>	<b>156</b>	<b>157</b>	<b>156</b>	<b>300</b>	<b>284</b>	<b>158</b>	<b>207</b>	<b>184</b>	<b>233</b>	<b>856</b>	<b>647</b>

## Provisions for impairment on financial instruments - income statement

	30 June 2012			30 June 2011
	Core € m	Non-Core € m	Total € m	Total € m
Provisions for impairment on loans and receivables to customers	597	293	890	2,907
Provisions for impairment on loans and receivables held for sale to NAMA	-	-	-	54
Provisions for impairment on loans and receivables to banks	-	-	-	-
Total provisions for impairment on loans and receivables	597	293	890	2,961
Writeback charge of provisions for liabilities and commitments	(1)	-	(1)	(173)
Provisions for impairment on financial investments available for sale	84	-	84	99
<b>Total</b>	<b>680</b>	<b>293</b>	<b>973</b>	<b>2,887</b>

## Provisions for impairment on loans and receivables to customers - income statement

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 for the period to 30 June 2012 was € 890 million or 1.84% of average customer loans (annualised) compared with € 2,907 million or 6.47% for the same period in 2011 (excluding provisions for loans held for sale to NAMA) and was split € 597 million for Core loans and receivables and € 293 million for Non-Core.

While quality continues to deteriorate and 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 2011 when the full year income statement provision charge for non-NAMA loans and receivables to customers was € 7,774 million.

### Core Provisions

The Core provision charge of € 597 million comprised € 952 million of specific provisions and a write-back of € 355 million of IBNR provisions.

The write-back of IBNR provisions related to the residential mortgage € 107 million, property and construction € 120 million, other personal € 19 million and SME/other commercial € 109 million sectors where provisions had been raised in previous periods up to 31 December 2011, based on management's view of incurred loss and which have now been reflected in the specific provision charge in the period to 30 June 2012.

56% or € 333 million of the Core 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. The majority of the charge occurred in PBB (owner-occupier € 118 million and buy-to-let € 61 million) and CICB where the charge of € 120 million related to the buy-to-let sector.

A further € 107 million of the Core charge related to the property and construction sector, primarily in the CICB market segment where the charge was € 78 million and € 19 million in PBB, reflecting the impact the lack of activity in this sector, reduced asset prices and pressure on rental cashflows is posing for our borrowers. The property and construction charge in AIB UK was € 10 million.

The remainder of the Core provision charge was € 63 million for the other personal sector, € 17 million for corporate loans and € 77 million in the SME/other commercial sector.

### Non-Core Provisions

The Non-Core provision charge of € 293 million comprised € 403 million in specific provisions and a net write-back of € 110 million in IBNR provisions. The write-back related to the property and construction € 92 million, other personal € 12 million and SME/other commercial € 8 million sectors, reflecting the fact that IBNR provisions which had been raised in previous periods have now been reflected in specific provisions in the period to 30 June 2012. There was an IBNR provision charge of € 2 million for residential mortgages in the period to 30 June 2012.

The Non-Core provision charge was largely driven by loans and receivables in the property and construction sector, mainly in the land and development sub-sector in CICB € 79 million, PBB € 19 million and AIB UK € 67 million, with a further € 19 million provision charge relating to property investment loans predominantly in AIB UK.



# Risk management

## **Provisions for impairment on financial instruments - income statement (continued)**

### **Non-Core Provisions (continued)**

The other personal, SME/other commercial and corporate sectors accounted for € 49 million, € 53 million and € 7 million respectively of the Non-Core charge.

## **Provisions for impairment on financial investments available for sale - income statement**

An impairment provision charge of € 83 million (30 June 2011: Nil) has been made in respect of NAMA subordinated bonds and is included within 'Provisions for impairment on financial investment available for sale'.

# Risk management

## Loans and receivables to customers *(continued)*

### Credit ratings\*

#### Internal credit ratings

##### Ratings profiles

The Group uses various rating tools in managing its credit risk. Each rating tool has up to 11 rating/grading points, each point or grade in turn has its own ascribed Probability of Default (“PD”), which differentiates the risk associated with the borrowers under each grade. Rating tools are designed to ensure they are suitable for the type of borrowers being rated and hence can have different PD bands or scales. Hence, a rating tool being used to grade credit card borrowers will have a higher average PD than a tool being used to rate commercial borrowers and will have different PDs attached to individual grading points.

To facilitate the aggregation of these individual tools for reporting purposes, the Group uses a Reporting masterscale which has 13 points, each with its own PD. The PD range for the full masterscale is 0% to 100% (where 100% indicates a borrower who is in default). The reporting masterscale in itself is not a rating tool and is not used in decision making or in the ongoing management of loans. It facilitates mapping of the individual rating tools purely by PD.

The role of rating tools is outlined in the Risk Management section of the Annual Financial Report 2011 (see Risk Identification and Assessment and Risk Management and Mitigation) and highlights the role of rating tools in identifying and managing loans including those of lower quality. These lower quality loans are referred to as Criticised loans and while identifiable within their own rating models can be spread across different ranges in the reporting masterscale as they carry different PDs.

For reporting purposes Loans and Receivables to customers are categorised into: (i) Neither Past due nor impaired; (ii) Past Due but not impaired; and (iii) Impaired.

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

Past due but not impaired are defined as follows: When a borrower fails to make a contractually due payment, a loan is deemed to be past due. ‘Past due days’ is a term used to describe the cumulative number of days a missed payment is overdue. This category can also include an element of loans where negotiation with the borrower on new terms and conditions has not concluded to full completion of documentation while the original loan facility remains outside its original terms for more than 90 days. 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.

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

Loans that are Neither Past due nor impaired are further classified into “Strong, Satisfactory and Higher Risk”, and a description of each category is as follows:

**Grades 1 – 3 (Strong)** typically includes strong corporate and commercial lending combined with elements of the retail portfolios and residential mortgages.

**Grades 4 – 10 (Satisfactory)** typically includes new business written and existing satisfactorily performing exposures across all portfolios. The lower end of this category includes a portion of the Group’s criticised loans (i.e. loans requiring additional management attention over and above that normally required for the loan type) that are neither past due nor impaired.

**Grades 11 – 13 (Higher Risk)** contains the remainder of the Group’s criticised loans that are neither past due nor impaired, together with loans written at a high PD where there is a commensurate higher margin for the risk taken.

##### Loans and receivables to customers

Lending classifications:

**Corporate/commercial** includes loans to corporate and larger commercial enterprises processed through one of the Group’s corporate/commercial rating tools, where the exposure is typically greater than € 300,000.

**Residential mortgages** includes loans for the purchase of residential properties processed through the Group’s residential mortgage rating tools. In some circumstances, residential mortgage exposures can be processed through the Group’s Corporate and Commercial rating tools (e.g. where a borrower has more than five investment properties).

**Other** includes loans to SMEs and individuals. In some cases, behaviour scoring and credit scoring methodologies are used.

The tables for Internal credit ratings – total loans and receivables to customers are shown on the following pages.

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

## Loans and receivables to customers (continued)

### Credit ratings\* (continued)

#### Internal credit ratings by asset class of loans and receivables to customers

	30 June 2012			
<b>Masterscale grade</b>	Corporate/commercial € m	Residential mortgages € m	Other € m	Total € m
1 to 3	1,796	8,637	1,005	11,438
4 to 10	17,543	21,476	3,214	42,233
11 to 13	4,449	4,095	1,327	9,871
	<b>23,788</b>	<b>34,208</b>	<b>5,546</b>	<b>63,542</b>
Past due but not impaired	2,297	2,203	516	5,016 <sup>(1)</sup>
Impaired	18,650	6,716	1,441	26,807
<b>Total gross loans and receivables</b>	<b>44,735</b>	<b>43,127</b>	<b>7,503</b>	<b>95,365</b>
Unearned income				(121)
Deferred costs				95
Provisions				(15,593)
<b>Total</b>				<b>79,746</b>

	31 December 2011			
<b>Masterscale grade</b>	Corporate/commercial € m	Residential mortgages € m	Other € m	Total € m
1 to 3	2,037	9,153	1,041	12,231
4 to 10	21,071	22,554	3,019	46,644
11 to 13	4,575	4,245	1,361	10,181
	<b>27,683</b>	<b>35,952</b>	<b>5,421</b>	<b>69,056</b>
Past due but not impaired	2,120	2,193	485	4,798 <sup>(2)</sup>
Impaired	17,871	5,583	1,379	24,833
<b>Total gross loans and receivables</b>	<b>47,674</b>	<b>43,728</b>	<b>7,285</b>	<b>98,687</b>
Unearned income				(125)
Deferred costs				103
Provisions				(14,941)
<b>Total</b>				<b>83,724</b>

<sup>(1)</sup>Of this amount, € 49 million relates to masterscale grade 1 - 3; € 1,390 million relates to masterscale grade 4 - 10; and € 3,577 million relates to masterscale grade 11 - 13.

<sup>(2)</sup>Of this amount, € 66 million relates to masterscale grade 1 - 3; € 1,394 million relates to masterscale grade 4 - 10; and € 3,338 million relates to masterscale grade 11 - 13.

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

# Risk management

## Financial instruments

### Credit ratings\* (continued)

#### External credit ratings of financial instruments

The external ratings profiles 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) at 30 June 2012 and 31 December 2011 are as follows:

Group	30 June 2012				
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	1,706	24	3,508	635	5,873
A	2,238	12	186	301	2,737
BBB+/BBB/BBB-	4,043	37	23,817 <sup>(1)</sup>	83	27,980
Sub investment	95	104	39	35	273
Unrated	54	128	2	-	184
<b>Total</b>	<b>8,136</b>	<b>305</b>	<b>27,552</b>	<b>1,054</b>	<b>37,047</b>

Group	31 December 2011				
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	2,741	-	3,966	1,468	8,175
A	3,073	14	175	171	3,433
BBB+/BBB/BBB-	3,170	77	25,185 <sup>(1)</sup>	35	28,467
Sub investment	175	150	48	68	441
Unrated	96	160	-	1	257
<b>Total</b>	<b>9,255</b>	<b>401</b>	<b>29,374</b>	<b>1,743</b>	<b>40,773</b>

<sup>(1)</sup>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 2011: BBB+) i.e. the external rating of the Sovereign.

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

## Loans and receivables to customers *(continued)*

### 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. Specific impairment provisions of € 40 million (31 December 2011: € 70 million) are currently held against impaired exposures of € 81 million (31 December 2011: € 106 million) where there has been a permanent reduction in the value of the credit assets in question. 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.

### Total leveraged debt by geographic location\*

	30 June 2012		31 December 2011	
	Funded € m	Unfunded € m	Funded € m	Unfunded € m
United Kingdom	176	27	215	35
Rest of Europe	98	34	220	53
United States of America	538	76	777	131
Rest of the World	35	-	62	1
	<b>847</b>	<b>137</b>	1,274	220

### Funded leveraged debt by industry sector\*

	30 June 2012	31 December 2011
	€ m	€ m
Agriculture	-	6
Property and construction	7	7
Distribution	234	298
Energy	41	42
Financial	16	19
Manufacturing	245	474
Transport	46	63
Other services	258	365
	<b>847</b>	1,274

### 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 2012, the Group's top 50 exposures amounted to € 9.8 billion, and accounted for 10.3% (€ 10.5 billion and 10.6% at 31 December 2011) of the Group's on-balance sheet total gross loans and receivables to customers. No single customer exposure exceeds regulatory guidelines. In addition, the Group holds NAMA senior bonds amounting to € 18.4 billion (31 December 2011: € 19.9 billion).

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



# Risk management

## 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 2012 and 31 December 2011:

	30 June 2012 € m	31 December 2011 € m
<b>Debt securities</b>		
Irish Government securities	5,418	5,217
Euro government securities	1,739	1,860
Non Euro government securities	787	1,270
Supranational banks and government agencies	1,221	1,147
Collateralised mortgage obligations	44	509
Other asset backed securities	985	1,210
Euro bank securities	2,503	3,055
Non Euro bank securities	253	476
Euro corporate securities	88	110
Non Euro corporate securities	205	279
Other investments	12	12
<b>Total debt securities</b>	<b>13,255</b>	<b>15,145</b>
<b>Equity securities</b>		
Equity securities - NAMA subordinated bonds	47	132
Equity securities - other	93	112
<b>Total equity securities</b>	<b>140</b>	<b>244</b>
<b>Total financial investments available for sale</b>	<b>13,395</b>	<b>15,389</b>

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

## **Financial investments available for sale (continued)**

### **Debt securities**

Available for sale debt securities have reduced from € 15.1 billion at 31 December 2011 to € 13.3 billion at 30 June 2012 driven by net sales and maturities of € 3.5 billion in the period. Disposals reflect a reduction in credit appetite for assets domiciled in selected eurozone countries and also a decision to reduce other holdings which were considered sub-optimal from a liquidity perspective for the Group.

The portfolio is rated 96% investment grade (31 December 2011: 97%), with 26% AAA (31 December 2011: 35%); 12% AA (31 December 2011: 10%); 10% rated A (31 December 2011: 11%); and 48% rated BBB (31 December 2011: 41%).

The Irish Government securities portfolio increased from € 5.2 billion at 31 December 2011 to € 5.4 billion at 30 June 2012, principally due to an increase in the fair value (average price increasing from 87.02 at 31 December 2011 to 94.66 at 30 June 2012) and a reduction in the nominal position held by € 275 million.

In relation to securities from Portugal, Italy, Greece, and Spain, the combined carrying value has reduced by € 438 million from € 1,793 million to € 1,355 million. Of the € 1,355 million, Spanish covered bonds and Spanish residential mortgage backed securities account for € 465 million and € 573 million respectively with the Italian sovereign accounting for € 186 million.

Impairment charge in the period to 30 June 2012 amounted to € 1 million (30 June 2011: € 93 million).

### **Equity securities**

NAMA subordinated bonds, included in available for sale equity securities, are recorded at 30 June 2012 at a fair value of € 47 million (nominal holding of € 471 million) compared with 31 December 2011 fair value of € 132 million (nominal holding of € 478 million). The reduction in fair value results primarily from an impairment provision of € 83 million, following further updated disclosures by NAMA and the continuing uncertainties surrounding any recovery in the Irish property market in the medium term.

# Risk management

## Financial investments available for sale (continued)

### Credit risk\*

The tables below set out an analysis of the Group's financial investments available for sale portfolio:

#### Government securities and bank securities by geography of the issuer

	30 June 2012		31 December 2011	
	Government securities € m	Bank securities € m	Government securities € m	Bank securities € m
Republic of Ireland	5,418	893	5,217	656
United Kingdom	675	279	1,146	443
United States of America	-	36	-	35
Australia	-	20	-	56
Italy	186	-	175	-
Austria	178	20	179	88
Spain	-	465	30	575
France	689	158	699	323
Germany	279	348	277	578
Greece	-	-	16	-
Portugal	20	20	98	54
Netherlands	342	247	341	291
Sweden	32	114	-	149
Belgium	-	12	-	11
Denmark	60	14	-	88
Rest of the World	65	130	169	184
	<b>7,944</b>	<b>2,756</b>	<b>8,347</b>	<b>3,531</b>

#### Collateralised mortgage obligations by geography and industry sector of the issuer

	30 June 2012			31 December 2011		
	Governments € m	Other financial € m	Total € m	Government € m	Other financial € m	Total € m
United Kingdom	-	10	10	-	11	11
United States of America	22	-	22	489	-	489
Rest of the World	-	12	12	-	9	9
<b>Total</b>	<b>22</b>	<b>22</b>	<b>44</b>	<b>489</b>	<b>20</b>	<b>509</b>

#### Other asset backed securities by geography and industry sector of the issuer

	30 June 2012			31 December 2011		
	Banks € m	Other financial € m	Total € m	Banks € m	Other financial € m	Total € m
Republic of Ireland	-	31	31	-	34	34
United Kingdom	-	109	109	-	142	142
United States of America	-	99	99	-	96	96
Italy	-	-	-	-	89	89
Spain	12	561	573	13	623	636
Rest of World	-	173	173	-	213	213
<b>Total</b>	<b>12</b>	<b>973</b>	<b>985</b>	<b>13</b>	<b>1,197</b>	<b>1,210</b>

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

## Credit risk - Exposures to selected eurozone countries\*

The Group's principal area of operations is in the Republic of Ireland, accordingly, its most significant exposures arise there both in terms of lending and investments. However, the Group also has exposures to certain other eurozone countries which at 30 June 2012 or subsequently had a Standard & Poor's rating of A or less. These exposures are mainly in the Group's available for sale portfolio.

Set out in the tables below is an analysis of these selected eurozone exposures.

Basis of preparation:

- Exposures are shown at their balance sheet carrying value;
- Exposures are based on the country of operations of the counterparty;
- For banking groups and corporates, the country of operations is where materially most of the entity's assets are located and/or materially most of the profits are earned; and
- Exposures to sovereigns include governments, departments of governments, embassies, consulates and exposures on account of cash balances and deposits with central banks.

Debt securities	30 June 2012				
	Republic of Ireland € m	Greece € m	Italy € m	Portugal € m	Spain € m
Sovereign	5,418	-	186	20	-
Senior bank bonds	893	-	-	20	465
Other asset backed securities	31	-	-	85	573
Other investments including corporate securities	24	4	2	2	-
<b>Fair value</b>	<b>6,366</b>	<b>4</b>	<b>188</b>	<b>127</b>	<b>1,038</b>
<b>Impairment provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cumulative credit to available for sale securities reserves in respect of sovereign bonds before the impact of hedging	72	-	36	6	-

Debt securities	31 December 2011				
	Republic of Ireland <sup>(1)</sup> € m	Greece € m	Italy € m	Portugal € m	Spain € m
Sovereign	5,217	16	175	98	30
Senior bank bonds	656	-	-	54	538
Subordinated bank bonds	-( <sup>(2)</sup> )	-	-	-	37
Other asset backed securities	34	32	89	79	636
Other investments including corporate securities	-	4	5	-	-
<b>Fair value</b>	<b>5,907</b>	<b>52</b>	<b>269</b>	<b>231</b>	<b>1,241</b>
<b>Impairment provisions</b>	<b>-</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>8</b>
Cumulative charge to available for sale securities reserves in respect of sovereign bonds before the impact of hedging	(577)	-	(44)	(18)	-

At 30 June 2012, impairment provisions were Nil. At 31 December 2011, impairment provisions relate to sovereign bonds in the case of Greece and subordinated bank bonds in the case of Spain.

<sup>(1)</sup>In addition, the Group holds € 18,387 million (31 December 2011: € 19,856 million) in NAMA senior bonds to which the Group had attributed a Standard and Poors rating of BBB+ based on the rating of the Irish sovereign at 30 June 2012. These are classified as loans and receivables on the statement of financial position.

<sup>(2)</sup>Specific impairment charge during 2011 in respect of instruments sold or exchanged for equity.

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

# Risk management

## Credit risk - Exposures to selected eurozone countries\* (continued)

### Republic of Ireland

#### Debt Securities

The fair value of holdings of Irish debt securities amounted to € 6.4 billion at 30 June 2012 and consisted of sovereign debt € 5.4 billion; government guaranteed senior bank debt of € 660 million; covered bank bonds of € 233 million; residential mortgage backed securities of € 31 million and corporate debt of € 24 million. The fair value at 31 December 2011 amounting to € 5.9 billion comprised of sovereign debt € 5.2 billion; government guaranteed senior bank debt of € 0.5 billion; covered bank bonds of € 0.1 billion; and residential mortgage backed securities of € 44 million. The nominal amount of sovereign debt outstanding at 30 June 2012 was € 5.72 billion (31 December 2011: € 6.00 billion).

### Greece

The fair value of holdings of Greek debt securities at 30 June 2012 was € 4 million. (31 December 2011: € 52 million).

### Italy

The fair value of Italian debt securities at 30 June 2012 amounting to € 188 million (31 December 2011: € 269 million) included sovereign debt of € 186 million (31 December 2011: € 175 million); asset backed securities of Nil (31 December 2011: € 89 million); and corporate debt of € 2 million (31 December 2011: € 5 million).

### Portugal

The fair value of holdings of Portuguese debt securities at 30 June 2012 was € 127 million (31 December 2011: € 231 million). It comprised sovereign debt of € 20 million (31 December 2011: € 98 million); asset backed securities of € 85 million (31 December 2011: € 79 million); senior bank debt of € 20 million (31 December 2011: € 54 million); and corporate debt of € 2 million.

### Spain

The fair value of holdings of Spanish debt securities at 30 June 2012 was € 1,038 million (31 December 2011: € 1,241 million). This included asset backed securities of € 573 million (31 December 2011: € 636 million) and covered bonds of € 465 million (31 December 2011: € 538 million). The asset backed securities at 30 June 2012 were all residential mortgage backed securities which had been rated AAA at origination. The 30 June 2012 ratings profile was: AA 68%; A 20%; BBB 11%; and B 1%. The overall weighted average market bid price for the portfolio was 72.84 (31 December 2011: 71.45). The 30 June 2012 ratings profile of the Spanish covered bond holdings was: AA 36%; A 51%; and BBB 13% and the weighted average market bid price for the portfolio was 92.83 (2011: 94.03).

### Equity securities

In addition to the Group's holding in NAMA subordinated bonds as outlined on page 58, the Group also holds equity securities in Irish banks with a fair value of € 35 million.

### Loans and receivables

The Group's principal area of operations is the Republic of Ireland, accordingly, its most significant exposures arise there in terms of lending. A large element of the lending for segments PBB, CICB and EBS as set out on page 22 relates to customers in the Republic of Ireland.

At 30 June 2012, the carrying value of loans and receivables to customers and banks in Spain amounted to € 548 million (31 December 2011: € 580 million) net of impairment provisions of Nil (31 December 2011: € 3 million). Loans and receivables to both customers and banks in Greece, Italy and Portugal were not material.

\*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 2012 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 2011 ('the Annual Financial Report 2011') are available upon request from the Company Secretary or at [www.aibgroup.com/investorrelations](http://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 foreseeable future.

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 Directors have considered the commitment of support provided to AIB by the Irish Government through the programme for restructuring the Irish banking system with AIB designated as one of the two 'Pillar Banks'. 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 also considered the eurozone sovereign debt crisis in its assessment of the going concern basis.

## Background

The deterioration in the Irish economy culminated in the EU/IMF Programme of Financial Support for Ireland. This deterioration, which persisted throughout 2010, 2011 and into 2012 presents significant risks and challenges for the Group in the years ahead:

The funding position of the Group has been impacted by:

- The downgrading of the Group and sovereign credit ratings;
- The withdrawal of the Irish Government from the funding markets, (though the NTMA has recently returned to funding markets); and
- The EU/IMF Programme of Financial Support and the consequent withdrawal of funds from Irish banks.

The EU/IMF Programme provided for the restructuring and reorganisation of the Irish banks. The subsequent Financial Measures Programme published by the Central Bank in March 2011 set a PCAR requirement for AIB (including EBS Limited ("EBS")) to raise capital amounting to € 14.8 billion. This requirement was met by the end July 2011 through liability management exercises and Government capital injections (€ 5 billion by way of an equity placing; a capital contribution of € 6.1 billion; and € 1.6 billion by way of a Contingent Capital Notes issuance).

Since 2010 and through 2011 and 2012 to date, AIB has had limited access to wholesale funding and has been dependent on secured funding from the European Central Bank ("ECB") and has utilised non standard facilities from the Central Bank for a limited period. The Bank ceased using non-standard facilities in April 2011. Breaches of liquidity ratios up to July 2011 were remedied as new capital was injected by the Government. In addition, AIB's ECB repo funding, which had exceeded a regulatory limit of 25% since October 2010, is now within that limit at 30 June 2012.

Market volatility remained elevated and liquidity depressed during 2011 and 2012 driven by the deterioration in global credit markets as sovereign difficulties in the eurozone grew and the overall global macroeconomic environment remained uncertain. Credit spreads widened sharply, especially in the second half of 2011, for certain countries within the eurozone. During 2012, the sovereign bond yields of certain other eurozone countries rose to levels that prompted a series of policy responses from European governments and institutions including the EU and ECB. This negative sentiment impacted on access to wholesale funding for certain sovereigns and credit institutions across Europe.

At different stages since the beginning of 2011, European countries and leaders reaffirmed their commitment to the euro:

- On 21 July 2011, a statement by the Heads of State or Government of the euro area and EU institutions reaffirmed their commitment to the euro and to do whatever was needed to ensure the financial stability of the euro area as a whole and its Member States;
- The ECB decided to actively implement its Securities Markets Programme i.e. to intervene in the euro area public and private debt securities markets (to ensure depth and liquidity in those market segments which are dysfunctional);
- On 9 December 2011, the Heads of State or Government of the euro area and European Council agreed a package of measures to restore confidence in the financial markets which included:
  - a new fiscal compact and the strengthening of stabilisation tools for the euro area including a more effective European Financial Stability Facility ("EFSF");

# Condensed consolidated interim financial statements - Basis of preparation

- the bringing forward of the implementation of the European Stability Mechanism (“ESM”); and
- a solution for the unique challenges faced by Greece.
- On 21 February 2012, European leaders agreed a second bail-out package for Greece in order to secure Greece’s future in the euro area;
- Following a referendum in Ireland on 31 May 2012, the fiscal compact was ratified; and
- On 29 June 2012, the euro area Heads of State or Government announced that, following the establishment of a single European banking supervisory mechanism, involving the ECB, banks in the euro area could be recapitalised directly by the ESM. The announcement also stated that the eurogroup ‘will examine the situation of the Irish financial sector with the view of further improving the sustainability of the well performing adjustment programme’

These various measures, adopted since the beginning of 2011, are indicative of the commitment of all euro area Member States to save the euro and to support euro area members.

## Capital

Under the EU/IMF Programme and the subsequent Financial Measures Programme published by the Central Bank in March 2011, which detailed the outcome of its review of capital (PCAR) and funding (PLAR), AIB was set a minimum capital target of 10.5% core tier 1 in the base scenario, and a 6% core tier 1 in the stress scenario. The total PCAR requirement for AIB (including EBS) was € 14.8 billion (including a capital contingency buffer of € 1.6 billion). This requirement was met by the end July 2011 as outlined above. The Group’s core tier 1 ratio at 30 June 2012 is 17.3% (31 December 2011: 17.9%). The Group’s total capital ratio at 30 June 2012 is 19.9% (31 December 2011: 20.5%).

AIB passed the European Banking Authority (“EBA”) stress test in July 2011 and the EBA capital exercise in December 2011 (which incorporated a capital buffer for sovereign exposures) without any further capital being required. A further PCAR exercise is expected to take place in 2013.

The Directors have reviewed the capital and financial plans for the period of assessment and believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario. The Irish Government, as AIB’s primary 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 assessment.

## Liquidity and funding

Customer deposits at 52% remain the largest source of funding for the Group. Deposit volumes have increased by € 3 billion in the period, with growth experienced across all business areas as sentiment improved. AIB (GB) and First Trust Bank in Northern Ireland have now withdrawn from the ELG Scheme, effective from 17 August 2012 which is consistent with the Group intention to operate in due course without the Guarantee.

The Group remains significantly dependent on Central Bank/ECB support, with secured funding amounting to € 25 billion at 30 June 2012 down from € 31 billion at 31 December 2011. The Group has extended its debt maturity by increasing its participation in the 3 year Long Term Refinancing Operation (“LTRO”) from € 3 billion to € 11 billion by 30 June 2012.

AIB’s access to wholesale funding markets continued to be restricted in 2012. This is a result of the continued negative sentiment towards the IMF/ECB bail out in the first half of 2011, the Europe-wide uncertainty over the past 12 months and the Group’s credit rating. This increases the requirement for AIB to develop its deposit franchise and to deleverage its balance sheet in order to facilitate a reduction in its wholesale funding dependency.

Progress continues to be made on deleveraging, with over 70% of the three year non core deleveraging target of € 20.5 billion by December 2013 now achieved at 30 June 2012. The Group’s loan to deposit ratio decreased from 138% at 31 December 2011 to 125% at 30 June 2012. The Group is managing towards Liquidity Coverage Ratio (“LCR”) and Net Stable Funding Ratio (“NSFR”) targets pending their formal introduction as regulatory standards in 2015 and 2018 respectively.

While the Irish Sovereign’s credit rating was downgraded in 2011 and contagion has spread to the broader euro area, the Irish Sovereign has been able to distinguish itself from the other peripheral eurozone countries. In particular, the Irish Government has continued to meet the fiscal requirements and the recapitalisation of its banks as part of its EU/IMF Programme which has resulted in bond yields significantly tightening since July 2011.



## Condensed consolidated interim financial statements - Basis of preparation

Notwithstanding the 2012 improvements, it is expected that the Group will continue to be reliant on the monetary authorities for funding during the assessment period. However, AIB's access to Central Bank funding support as required is considered to be assured due to its position as one of the two 'Pillar Banks' and in particular by the announcements by the ECB and the Minister for Finance on 31 March 2011 to the effect that the required Central Bank funding would be made available. Furthermore, the ECB confirmed that the Eurosystem would continue to provide liquidity to banks in Ireland, including AIB.

The Group has had discussions with the Central Bank where it sought assurance of the continued availability of the required liquidity from the Eurosystem during the period of assessment for the going concern statement. The Directors are satisfied based on the clarity of confirmations received from the Central Bank and public announcements by ECB, EU and IMF, that in all reasonable circumstances, the required liquidity and funding from the Central Bank/ECB will be available to the Group during the period of assessment.

### **Conclusion**

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



# Condensed consolidated interim financial statements - Basis of preparation

## Accounting policies

The condensed consolidated interim financial statements (hereafter 'Interim financial statements') for the half-year ended 30 June 2012, which should be read in conjunction with the Annual Financial Report 2011, 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 227 to 253 in the Annual Financial Report 2011.

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 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 NAMA bonds valuation. 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 49 to 52 of the Annual Financial Report 2011.

Furthermore, the accounting policy for voluntary severance provisions as set out in the Annual Financial Report 2011 page 236 'Termination benefits' is also deemed critical for the purpose of these financial statements. Provisions have been recognised for the voluntary severance programme which includes both an early retirement scheme and a voluntary severance scheme announced in May 2012, based on managements' best estimate of the amount required to settle the additional costs arising in respect of departing staff based on currently known facts and expectations. However, the impacts of proposed changes arising from a Pay and Benefits review announced on 14 June 2012, have not been recognised in these financial statements as the changes had not occurred by 30 June 2012.

## Adoption of new accounting standards

The following amendments to standards have been adopted by the Group during the period ended 30 June 2012:

### Amendments to IFRS 7, Disclosures – Transfers of Financial Assets

The amendments which are effective for annual periods beginning on or after 1 July 2011, comprise additional disclosures on transfer transactions of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the transferor of the financial assets. These amendments impact the level of disclosures required for certain transferred assets.

## 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 2012 and the comparative amounts for the six months ended 30 June 2011 are unaudited but have been reviewed by the independent auditor, whose report is set out on page 121. The summary financial statements for the year ended 31 December 2011 as presented in the condensed consolidated interim financial statements, represent an abbreviated version of the Group's full accounts for that year, on which the independent auditor 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 2012

	Notes	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>Continuing operations</b>			
Interest and similar income	2	2,048	2,096
Interest expense and similar charges	3	1,480	1,492
<b>Net interest income</b>		<b>568</b>	604
Dividend income	4	-	2
Fee and commission income	5	196	246
Fee and commission expense	5	(13)	(14)
Net trading (loss)/income	6	(33)	40
Gain on redemption/remeasurement of subordinated liabilities and other capital instruments	7	-	3,273
Profit/(loss) on transfer of financial instruments to NAMA	8	112	(20)
Other operating loss	9	(89)	(151)
<b>Other income</b>		<b>173</b>	3,376
<b>Total operating income</b>		<b>741</b>	3,980
Administrative expenses	10	1,044	772
Impairment and amortisation of intangible assets		30	36
Depreciation of property, plant and equipment		24	24
<b>Total operating expenses</b>		<b>1,098</b>	832
<b>Operating (loss)/profit before provisions</b>		<b>(357)</b>	3,148
Provisions for impairment of loans and receivables	24	890	2,961
Writeback of provisions for liabilities and commitments		(1)	(173)
Provisions for impairment of financial investments available for sale	12	84	99
<b>Operating (loss)/profit</b>		<b>(1,330)</b>	261
Associated undertakings	27	1	(2)
(Loss)/profit on disposal of business	19	(2)	1
<b>(Loss)/profit before taxation from continuing operations</b>		<b>(1,331)</b>	260
Income tax credit from continuing operations	13	(115)	(351)
<b>(Loss)/profit after taxation from continuing operations</b>		<b>(1,216)</b>	611
<b>Discontinued operations</b>			
Profit after taxation from discontinued operations	14	-	1,628
<b>(Loss)/profit for the period</b>		<b>(1,216)</b>	2,239
Attributable to:			
Owners of the parent:			
(Loss)/profit from continuing operations		(1,216)	611
Profit from discontinued operations		-	1,608
(Loss)/profit for the period attributable to owners of the parent		(1,216)	2,219
Non-controlling interests:			
Profit from discontinued operations		-	20
		<b>(1,216)</b>	2,239
<b>Basic (loss)/earnings per share</b>			
Continuing operations	15(a)	(0.2c)	7.1c
Discontinued operations	15(a)	-	11.9c
		(0.2c)	19.0c
<b>Diluted (loss)/earnings per share</b>			
Continuing operations	15(b)	(0.2c)	7.1c
Discontinued operations	15(b)	-	11.9c
		(0.2c)	19.0c

# Condensed consolidated statement of comprehensive income

(unaudited) for the half year ended 30 June 2012

	Notes	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>(Loss)/profit for the period</b>		<b>(1,216)</b>	2,239
<b>Other comprehensive income</b>			
<b>Continuing operations</b>			
Net change in foreign currency translation reserves	38	33	(75)
Net change in cash flow hedges, net of tax	38	(78)	(131)
Net change in fair value of available for sale securities, net of tax	38	547	(216)
Net actuarial losses in retirement benefit schemes, net of tax	11	(483)	(5)
Share of other comprehensive income of associates, net of tax		-	4
<b>Other comprehensive income for the period, net of tax, from continuing operations</b>		<b>19</b>	(423)
<b>Discontinued operations</b>			
Net change in foreign currency translation reserves	38	-	(134)
Net change in cash flow hedges, net of tax	38	-	1
Net change in fair value of available for sale securities, net of tax	38	-	(74)
<b>Other comprehensive income for the period, net of tax, from discontinued operations</b>		<b>-</b>	(207)
<b>Total other comprehensive income for the period, net of tax</b>		<b>-</b>	(630)
<b>Total comprehensive income for the period</b>		<b>(1,197)</b>	1,609
<b>Attributable to:</b>			
Owners of the parent:			
Continuing operations		(1,197)	188
Discontinued operations		-	1,409
		(1,197)	1,597
Non-controlling interests:			
Discontinued operations		-	12
<b>Total comprehensive income for the period</b>		<b>(1,197)</b>	1,609

# Condensed consolidated statement of financial position *(unaudited)*

as at 30 June 2012

	Notes	30 June 2012 € m	31 December 2011 € m
<b>Assets</b>			
Cash and balances at central banks		4,286	2,934
Items in course of collection		308	202
Disposal groups and non-current assets held for sale	19	1,991	1,422
Trading portfolio financial assets	20	32	56
Derivative financial instruments	21	2,877	3,046
Loans and receivables to banks	22	5,375	5,718
Loans and receivables to customers	23	77,982	82,540
NAMA senior bonds	25	18,387	19,856
Financial investments available for sale	26	13,395	15,389
Interests in associated undertakings	27	50	50
Intangible assets and goodwill		169	176
Property, plant and equipment		356	360
Other assets		234	491
Current taxation		52	49
Deferred taxation	28	3,854	3,692
Prepayments and accrued income		511	670
<b>Total assets</b>		<b>129,859</b>	<b>136,651</b>
<b>Liabilities</b>			
Deposits by central banks and banks <sup>(1)</sup>	29	31,279	36,890
Customer accounts	30	63,564	60,674
Disposal groups held for sale	19	1	3
Derivative financial instruments	21	3,572	3,843
Debt securities in issue	31	12,392	15,654
Current taxation		-	1
Other liabilities		1,666	1,534
Accruals and deferred income		1,155	1,103
Retirement benefit liabilities	11	1,457	763
Provisions for liabilities and commitments	32	266	514
Subordinated liabilities and other capital instruments	33	1,242	1,209
<b>Total liabilities</b>		<b>116,594</b>	<b>122,188</b>
<b>Shareholders' equity</b>			
Share capital	34	5,206	5,170
Share premium	34	2,890	4,926
Reserves		5,169	4,367
Total shareholders' equity		13,265	14,463
<b>Total liabilities and shareholders' equity</b>		<b>129,859</b>	<b>136,651</b>

<sup>(1)</sup>Includes € 26,586 million of borrowings from central banks (December 2011: € 31,133 million).

# Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2012

	Notes	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>Reconciliation of (loss)/profit before taxation to net cash outflow from operating activities</b>			
(Loss)/profit for the period from continuing operations before taxation		(1,331)	260
Adjustments for:			
Gain on redemption of subordinated liabilities and other capital instruments	7	-	(3,273)
Loss/(profit) on disposal of business		2	(1)
Loss on disposal of loans and receivables		141	141
Dividends		(7)	(3)
Associated undertakings	27	(6)	2
Impairment of associated undertakings	27	5	-
Provisions for impairment of loans and receivables	24	890	2,961
(Profit)/loss on transfer of financial instruments held for sale to NAMA	8	(112)	20
Writeback of provisions for liabilities and commitments		(1)	(173)
Provisions for impairment of financial investments available for sale	12	84	99
Increase in other provisions		95	25
Depreciation, amortisation and impairment		54	60
Interest on subordinated liabilities and other capital instruments		111	75
(Profit)/loss on disposal of financial investments available for sale	9	(33)	11
Amortisation of premiums and discounts		(75)	(24)
Decrease in prepayments and accrued income		163	63
(Decrease)/increase in accruals and deferred income		(63)	59
		(83)	302
Net decrease in deposits by central banks and banks		(5,651)	(13,336)
Net increase in customer accounts		2,396	3,660
Net decrease in loans and receivables to customers		3,689	6,530 <sup>(1)</sup>
Net decrease in NAMA senior bonds		1,528	533
Net (increase)/decrease in loans and receivables to banks		(2,038)	296
Net decrease/(increase) in trading portfolio financial assets/liabilities		25	(20)
Net increase/(decrease) in derivative financial instruments		(526)	139
Net increase in items in course of collection		(102)	(10)
Net decrease in debt securities in issue		(3,320)	(1,151)
Net increase/(decrease) in notes in circulation		5	(55)
Net decrease/(increase) in other assets		261	(233)
Net decrease in other liabilities		(146)	(122)
Effect of exchange translation and other adjustments <sup>(2)</sup>		149	230
<b>Net cash outflow from operating assets and liabilities</b>		(3,730)	(3,539)
<b>Net cash outflow from operating activities before taxation</b>		(3,813)	(3,237)
Taxation paid		5	14
<b>Net cash outflow from operating activities</b>		(3,808)	(3,223)
<b>Investing activities</b> <i>(note a)</i>		2,672	5,628
<b>Financing activities</b> <i>(note b)</i>		-	(1,256)
<b>(Decrease)/increase in cash and cash equivalents</b>		(1,136)	1,149
Opening cash and cash equivalents		7,373	5,712
Effect of exchange translation adjustments		80	(139)
Closing cash and cash equivalents		6,317	6,722

# Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2012

	Notes	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>(a) Investing activities</b>			
Net cash paid on acquisition of Anglo business		-	(3,779)
Purchase of financial investments available for sale		(1,945)	(159)
Proceeds from sales and maturity of financial investments available for sale		4,646	6,460
Additions to property, plant and equipment		(20)	(7)
Disposal of property, plant and equipment		1	3
Disposal of investment in business and subsidiaries		6	3,118
Additions to intangible assets		(23)	(11)
Dividends received from associated undertakings		7	3
<b>Cash flows from investing activities</b>		<b>2,672</b>	<b>5,628</b>
<b>(b) Financing activities</b>			
Cost of redemption of subordinated liabilities and other capital instruments	7	-	(9)
Redemption of subordinated liabilities and other capital instruments		-	(1,024)
Interest paid on subordinated liabilities and other capital instruments		-	(223)
<b>Cash flows from financing activities</b>		<b>-</b>	<b>(1,256)</b>

<sup>(1)</sup>Includes financial assets held for sale to NAMA at 30 June 2011.

<sup>(2)</sup>Included within the effect of exchange translation and other adjustments are: pension contributions of € 42 million (June 2011: € 160 million).

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

for the half year ended 30 June 2012

	Attributable to equity holders of parent											Total
	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	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
<b>2012</b>												
At 1 January 2012	5,170	4,926	2,885	3,958	26	(1,003)	229	(822)	(467)	(462)	23	14,463
Loss for the period	-	-	-	-	-	-	-	(1,216)	-	-	-	(1,216)
Other comprehensive income <i>(note 38)</i>	-	-	-	-	-	547	(78)	(483)	33	-	-	19
Capital contributions <i>(note 36)</i>	-	-	(142)	-	-	-	-	142	-	-	-	-
Reduction of capital <i>(notes 34 and 36)</i>	-	(2,000)	-	(3,958)	-	-	-	5,958	-	-	-	-
Ordinary shares issued in lieu of dividend <i>(note 34)</i>	36	(36)	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	1	-	-	(1)	-
Other movements	-	-	-	-	(1)	-	-	-	-	-	-	(1)
<b>At 30 June 2012</b>	<b>5,206</b>	<b>2,890</b>	<b>2,743</b>	<b>-</b>	<b>25</b>	<b>(456)</b>	<b>151</b>	<b>3,580</b>	<b>(434)</b>	<b>(462)</b>	<b>22</b>	<b>13,265</b>

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

for the half year ended 30 June 2011

	Attributable to equity holders of parent												Non-controlling interests	Total
	Share capital	Share premium	Other equity interests	Capital reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total		
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m		
2011														
At 1 January 2011	3,965	5,089	239	253	24	(1,044)	437	(4,545)	(327)	(462)	30	3,659	690	4,349
Profit for the period	-	-	-	-	-	-	-	2,219	-	-	-	2,219	20	2,239
Other comprehensive income <i>(note 38)</i>	-	-	-	-	-	(287)	(130)	(1)	(204)	-	-	(622)	(8)	(630)
Capital contribution <i>(note 36)</i>	-	-	-	1,498	-	-	-	-	-	-	-	1,498	-	1,498
Ordinary shares issued in lieu of dividend <i>(note 34)</i>	155	(155)	-	-	-	-	-	-	-	-	-	-	-	-
Redemption of capital instruments <i>(notes 7 and 35)</i>	-	-	(239)	-	-	-	-	344	-	-	-	105	(189)	(84)
Share based payments	-	-	-	-	-	-	-	1	-	-	(1)	-	-	-
Extinguishment of non-controlling interests <i>(note 37)</i>	-	-	-	-	-	-	-	-	-	-	-	-	(513)	(513)
Other movements	-	-	-	-	1	-	-	1	-	-	-	2	-	2
At 30 June 2011	4,120	4,934	-	1,751	25	(1,331)	307	(1,981)	(531)	(462)	29	6,861	-	6,861



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

for the year ended 31 December 2011

	Attributable to equity holders of parent													Non-controlling interests	Total
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total		
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m		
2011															
At 1 January 2011	3,965	5,089	239	253	-	24	(1,044)	437	(4,545)	(327)	(462)	30	3,659	690	4,349
Loss for the year	-	-	-	-	-	-	-	-	(2,312)	-	-	-	(2,312)	20	(2,292)
Other comprehensive income	-	-	-	-	-	-	41	(208)	(460)	(140)	-	-	(767)	(8)	(775)
Capital contributions															
<i>(note 36)</i>	-	-	-	2,722	-	-	-	-	6,054	-	-	-	8,776	-	8,776
Ordinary shares issued in lieu of dividend <i>(note 34)</i>	163	(163)	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of ordinary shares <i>(note 34)</i>	5,000	-	-	-	-	-	-	-	-	-	-	-	5,000	-	5,000
Cancellation of deferred shares <i>(notes 34 and 36)</i>	(3,958)	-	-	-	3,958	-	-	-	-	-	-	-	-	-	-
Redemption of capital instruments <i>(notes 7 and 35)</i>	-	-	(239)	-	-	-	-	-	344	-	-	-	105	(189)	(84)
Share based payments	-	-	-	-	-	-	-	-	7	-	-	(7)	-	-	-
Extinguishment of non-controlling interests <i>(note 37)</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	(513)	(513)
Other movements	-	-	-	(90) <sup>(1)</sup>	-	2	-	-	90	-	-	-	2	-	2
At 31 December 2011	5,170	4,926	-	2,885	3,958	26	(1,003)	229	(822)	(467)	(462)	23	14,463	-	14,463

<sup>(1)</sup>See note 36

## 1 Segmental information

Following a review of the organisation structure in 2011, the current segment structure was announced and consequently the first half of 2011 has been re-presented under the new structure. Non-Core, which comprises assets which AIB is committed to deleveraging together with related costs, is reported as a distinct portfolio. The segments mentioned below 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 relating to each segment but exclude overheads which are held centrally in the Group segment. Funding and liquidity costs are based on actual wholesale funding costs incurred and a segment's net funding requirement. Wholesale funding costs include the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme charges relating to wholesale funds. Net interest income also includes ELG charges directly attaching to customer deposits within a segment. Income on capital is allocated to segments based on each segment's capital requirement. Surplus capital is held in the Group segment. The cost of services between segments and from central support functions to segments is based on the estimated actual cost incurred in providing the service.

**Personal & Business Banking ("PBB")** comprises banking operations for the personal segment and small enterprises within the Republic of Ireland. The PBB segment also includes the Group's operations in the Channel Islands and the Isle of Man.

**Corporate, Institutional and Commercial Banking ("CICB")** comprises banking operations for mid-sized corporate and commercial enterprises. It also includes a Corporate Finance business and a Treasury customer services area which delivers treasury services to customers of the Group.

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

**EBS** was acquired by AIB Group on 1 July 2011. The segment comprises banking operations for the personal segment within the Republic of Ireland. The segment view is shown on a consistent basis to other segments which differs from the legal entity basis whereby EBS wholesale treasury operations are reported as part of the Group segment and assets identified as non-core are reported as part of Non-Core.

**Group** includes wholesale treasury activities, unallocated costs of central services and income on capital not allocated to segments.

**Non-Core** comprises those assets which AIB is committed to deleveraging and losses on the transfer of loans to NAMA, together with related costs.

# Notes to the condensed consolidated interim financial statements

## 1 Segmental information (continued)

	Half-year 30 June 2012							
	PBB	CICB	AIB UK	EBS	Group	Total Core	Total Non- Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
<b>Operations by business segment</b>								
Net interest income	247	(32)	47	30	209	501	67	568
Other income/(loss) <sup>(1)</sup>	126	42	33	5	20	226	(53)	173
Total operating income	373	10	80	35	229	727	14	741
Personnel expenses	219	83	52	16	317	687	43	730
General and administrative expenses	113	37	48	18	92	308	6	314
Depreciation, impairment and amortisation	28	6	3	4	13	54	-	54
Total operating expenses	360	126	103	38	422	1,049	49	1,098
<b>Operating profit/(loss)</b>								
<b>before provisions</b>	13	(116)	(23)	(3)	(193)	(322)	(35)	(357)
Provisions for impairment of loans and receivables	274	245	57	21	-	597	293	890
Writeback of provisions for liabilities and commitments	-	-	-	-	-	-	(1)	(1)
Provisions for impairment of financial investments available for sale	-	(1)	-	-	84	83	1	84
Total provisions	274	244	57	21	84	680	293	973
<b>Operating loss</b>	(261)	(360)	(80)	(24)	(277)	(1,002)	(328)	(1,330)
Associated undertakings	5	-	1	-	-	6	(5)	1
Loss on disposal of business	-	-	-	-	-	-	(2)	(2)
<b>Loss before taxation - continuing activities</b>	(256)	(360)	(79)	(24)	(277)	(996)	(335)	(1,331)

# Notes to the condensed consolidated interim financial statements

## 1 Segmental information (continued)

Half-year  
30 June 2011

	PBB	CICB	AIB UK	Group	Total Core	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
<b>Operations by business segment</b>							
Net interest income	300	48	77	105	530	74	604
Other income/(loss) <sup>(1)</sup>	134	45	37	3,304	3,520	(144)	3,376
Total operating income/(loss)	434	93	114	3,409	4,050	(70)	3,980
Personnel expenses	220	80	58	85	443	33	476
General and administrative expenses	110	45	36	74	265	31	296
Depreciation, impairment and amortisation	31	5	5	18	59	1	60
Total operating expenses	361	130	99	177	767	65	832
<b>Operating profit/(loss) before provisions</b>	73	(37)	15	3,232	3,283	(135)	3,148
Provisions for impairment of loans and receivables	294	866	44	-	1,204	1,757	2,961
Writeback of provisions for liabilities and commitments	-	-	-	-	-	(173)	(173)
Provisions for impairment of financial investments available for sale	-	5	-	93	98	1	99
Total provisions	294	871	44	93	1,302	1,585	2,887
<b>Operating (loss)/profit</b>	(221)	(908)	(29)	3,139	1,981	(1,720)	261
Associated undertakings	(3)	-	1	-	(2)	-	(2)
Profit on disposal of business	-	-	-	1	1	-	1
<b>(Loss)/profit before taxation - continuing activities</b>	(224)	(908)	(28)	3,140	1,980	(1,720)	260

# Notes to the condensed consolidated interim financial statements

## 1 Segmental information (continued)

### Other amounts - statement of financial position

	30 June 2012							
	PBB	CICB	AIB UK	EBS	Group	Total Core	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Loans and receivables to customers	26,366	18,726	8,955	12,856	-	66,903	11,079	77,982
Loans and receivables held for sale	-	-	-	-	-	-	1,767	1,767
Interests in associated undertakings	24	-	12	-	-	36	14	50
Interests in associated undertakings held for sale	-	12	-	-	-	12	196	208
Total assets	29,145	18,981	14,032	12,932	41,589	116,679	13,180	129,859
Customer accounts	28,208	14,357	11,522	9,313	130	63,530	34	63,564
Total liabilities <sup>(2)</sup>	32,243	14,578	12,947	9,580	47,038	116,386	208	116,594
Capital expenditure	21	-	2	1	18	42	-	42

	31 December 2011							
	PBB	CICB	AIB UK	EBS	Group	Total Core	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Loans and receivables to customers	27,013	19,638	8,998	13,101	-	68,750	13,790	82,540
Loans and receivables held for sale	-	-	-	-	-	-	1,191	1,191
Interests in associated undertakings	24	-	12	-	-	36	14	50
Interests in associated undertakings held for sale	-	-	-	-	-	-	196	196
Total assets	31,198	19,769	13,398	13,682	43,458	121,505	15,146	136,651
Customer accounts	28,150	13,801	10,220	8,476	-	60,647	27	60,674
Total liabilities <sup>(2)</sup>	32,234	14,019	11,399	8,817	55,420	121,889	299	122,188
Capital expenditure	20	1	1	2	26	50	-	50

# Notes to the condensed consolidated interim financial statements

## 1 Segmental information (continued)

					Half-year 30 June 2012
	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	Total € m
<b>Geographic information - continuing operations<sup>(3)(4)</sup></b>					
Net interest income	487	79	2	-	568
Other income/(loss) <sup>(5)</sup>	18	233	(69)	(9)	173

					Half-year 30 June 2011
	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	Total € m
<b>Geographic information - continuing operations<sup>(3)</sup></b>					
Net interest income	475	115	13	1	604
Other income/(loss) <sup>(5)(6)</sup>	3,323	53	-	-	3,376

					30 June 2012
	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	Total € m
<b>Geographic information</b>					
Non-current assets <sup>(7)</sup>	484	40	1	-	525

					31 December 2011
	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the World € m	Total € m
<b>Geographic information</b>					
Non-current assets <sup>(7)</sup>	493	41	2	-	536

Revenue from external customers comprises (i) interest and similar income (note 2) which is included within 'Net interest income' above and (ii) all other items of income (notes 4 to 9) which are included within 'Other income/(loss)' above.

<sup>(1)</sup>Gain on redemption of subordinated liabilities and other capital instruments of Nil (30 June 2011: € 3,273 million) is recorded within the Group segment (note 7).

<sup>(2)</sup>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.

<sup>(3)</sup>The geographical distribution of net interest income and other income/(loss) is based primarily on the location of the office recording the transaction.

<sup>(4)</sup>For details of significant geographic concentrations, see the Risk management section.

<sup>(5)</sup>Loss on disposal of financial assets to NAMA is recorded within the Republic of Ireland and United Kingdom.

<sup>(6)</sup>Gain on redemption of subordinated liabilities and other capital instruments is recorded in Republic of Ireland.

<sup>(7)</sup>Non-current assets comprise intangible assets and goodwill, and property, plant and equipment.

# Notes to the condensed consolidated interim financial statements

	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>2 Interest and similar income</b>		
Interest on loans and receivables to customers	1,522	1,631
Interest on loans and receivables to banks	25	26
Interest on trading portfolio financial assets	1	1
Interest on NAMA senior bonds	206	142
Interest on financial investments available for sale	294	296
	<b>2,048</b>	<b>2,096</b>

Interest income includes a credit of € 94 million (30 June 2011: a credit of € 148 million) removed from equity in respect of cash flow hedges.

	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>3 Interest expense and similar charges</b>		
Interest on deposits by central banks and banks	169	322
Interest on customer accounts	926	806
Interest on debt securities in issue	274	289
Interest on subordinated liabilities and other capital instruments	111	75
	<b>1,480</b>	<b>1,492</b>

Interest expense includes a charge of € 60 million (30 June 2011: a charge of € 58 million) removed from equity in respect of cash flow hedges.

Included within interest expense is € 215 million (30 June 2011: € 256 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

## 4 Dividend income

Dividend income amounting to Nil (30 June 2011: € 2 million) relates to income from equity shares held as financial investments available for sale.

	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>5 Net fee and commission income</b>		
Retail banking customer fees	155	172
Credit related fees	17	30
Asset management and investment banking fees	11	33
Insurance commissions	13	11
<b>Fee and commission income</b>	<b>196</b>	<b>246</b>
<b>Fee and commission expense</b>	<b>(13)</b>	<b>(14)</b>
	<b>183</b>	<b>232</b>

	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>6 Net trading (loss)/income</b>		
Foreign exchange contracts	25	17
Debt securities and interest rate contracts	(22)	47
Credit derivative contracts	(37)	(26)
Equity securities and index contracts	1	2
	<b>(33)</b>	<b>40</b>

The total hedging ineffectiveness on cash flow hedges reflected in the income statement amounted to a charge of € 5 million (30 June 2011: a credit of € 1 million) and is included in net trading (loss)/income.

## 7 Gain on redemption/remeasurement of subordinated liabilities and other capital instruments

### 2012

There were no redemptions of subordinated liabilities or other capital instruments in 2012.

### 2011

The Group was involved in a number of initiatives to increase its core tier 1 capital from 2009 onwards. In this regard, in January and June 2011, the Group completed offers to purchase for cash certain capital instruments. In addition, the date for settlement of three further instruments was 22 July 2011. These offers to purchase for cash, accounted for under IAS 39, met the requirements to be treated as an extinguishment of the original instruments.

#### January

This transaction comprised a tender offer by AIB for cash for certain of its tier 2 capital instruments denominated in various currencies. These instruments were purchased at 30% of their face value. It resulted in a total gain of € 1,534 million (€ 1,534 million after taxation) all of which was recorded in the income statement.

#### June

On 14 April 2011, the High Court issued a Subordinated Liabilities Order under section 29 of the Credit Institutions (Stabilisation) Act 2010 (the "SLO"), with the consent of AIB. The SLO changed the terms of all outstanding instruments resulting in a gain for AIB.

On 13 May 2011, AIB launched a tender offer for cash for all its outstanding subordinated liabilities and other capital instruments. Under this offer, AIB agreed to purchase the instruments at 10% to 25% of their face value. Following completion of the offer and where a certain percentage (a quorum) of the holders agreed to accept the offer, AIB had an option to redeem or purchase all of the remaining outstanding instruments at an option price of 0.001% of the nominal amount, which it exercised.

In relation to instruments settled on or before 30 June 2011 a gain amounting to € 1,343 million (€ 1,312 million after taxation) was recognised in the income statement and a gain amounting to € 387 million (€ 344 million after taxation) was recognised directly in equity.

At 30 June 2011, balances remained outstanding on six instruments. Since the terms of these instruments changed arising from the SLO which was effective from 22 April 2011, the original liabilities were derecognised and new liabilities recognised, with their remeasurement based on fair value. A gain of € 396 million arising on derecognition of the original liabilities/initial recognition of the new liabilities was recognised in the income statement. Three of the remaining instruments were settled on 22 July 2011.

The subordinated liabilities and other capital instruments of the Group are set out in note 33. Both the RCI and the LPI were redeemed in full in the half year to 30 June 2011 as set out in notes 35 and 37 respectively.



# Notes to the condensed consolidated interim financial statements



## 7 Gain on redemption/remeasurement of subordinated liabilities and other capital instruments (continued)

The table below sets out the gain on redemption/remeasurement of subordinated liabilities and other capital instruments in the half-year to June 2011.

	Redemption € m	Remeasurement € m	Half-year 30 June 2011 Total € m
Carrying value of subordinated liabilities and other capital instruments at redemption/remeasurement	3,869	522	4,391
Carrying value of other equity interests and non-controlling interests at redemption	428	-	428
	4,297	522	4,819
Consideration paid on redemption of subordinated liabilities and other capital instruments	(983)	-	(983)
Consideration paid on redemption of other equity interests and non-controlling interests	(41)	-	(41)
Costs	(9)	-	(9)
Remeasurements of subordinated liabilities and other capital instruments	-	(126)	(126)
	(1,033)	(126)	(1,159)
Gain on redemption/remeasurement	3,264	396	3,660
Of which recognised in:			
Income statement			3,273
Equity			387 <sup>(1)</sup>
			3,660

<sup>(1)</sup>€ 344 million after taxation.

# Notes to the condensed consolidated interim financial statements

## 8 Profit/(loss) 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 32).

The following tables set out details of the profit/loss arising in 2012 and in 2011:

	Net carrying value € m	Fair value of consideration € m	Half-year 30 June 2012 Profit on transfer € m
Adjustment to previous transfers			
Financial instruments returned by NAMA	44	(21)	23
Other adjustments to transfers <sup>(1)</sup>			89
<b>Total</b>			<b>112</b>

	Net carrying value € m	Fair value of consideration € m	Half-year 30 June 2011 Loss on transfer € m
Transfers to NAMA in 2011	(771)	424	(347)
Utilisation of provision for liabilities and charges			347
Adjustment to previous transfers			
Financial instruments returned by NAMA	29	(21)	8
Other adjustments to transfers <sup>(2)</sup>			(71)
Writeback of provision for servicing liability			43
<b>Total</b>			<b>(20)</b>

<sup>(1)</sup>In the period to 30 June 2012, NAMA resolved certain outstanding issues in relation to transfers that had taken place in earlier periods resulting in a writeback of provisions amounting to € 89 million.

<sup>(2)</sup>In the period to 30 June 2011, NAMA resolved issues in relation to previous transfers resulting in a return by AIB of net consideration amounting to € 71 million.

# Notes to the condensed consolidated interim financial statements

	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>9 Other operating loss</b>		
Loss on disposal of loans and receivables to customers	(141)	(141)
Profit/(loss) on disposal of available for sale debt securities	30	(17)
Profit on disposal of available for sale equity securities	3	6
Miscellaneous operating income <sup>(1)</sup>	19	1
	<b>(89)</b>	<b>(151)</b>

<sup>(1)</sup>Includes a credit of € 10 million (June 2011: a charge of € 6 million) in respect of foreign exchange gains and losses.

	Half-year 30 June 2012 € m	Half-year 30 June 2011 € m
<b>10 Administrative expenses</b>		
Personnel expenses:		
Wages and salaries	399	376
Termination benefits <sup>(1)</sup>	211	-
Retirement benefits	55	37
Social security costs	43	39
Other personnel expenses	22	24
	<b>730</b>	<b>476</b>
General and administrative expenses <sup>(2)</sup>	<b>314</b>	<b>296</b>
	<b>1,044</b>	<b>772</b>

<sup>(1)</sup>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, a provision of € 204 million has been made in respect of termination benefits arising from the voluntary severance programme. This amount comprises € 124 million in respect of past service costs relating to the early retirement scheme and € 80 million relating to the voluntary severance scheme (notes 11 and 32). In addition, a provision of € 7 million has been made in respect of termination benefits, principally, in the Isle of Man/Channel Islands.

<sup>(2)</sup>Includes external costs relating to the transfer of financial instruments to NAMA that amounted to € 2 million (June 2011: € 11 million).

## 11 Retirement benefits

The Group's accounting policy for retirement benefit obligations and the demographic and financial assumptions are set out on page 235 and in note 12 respectively to the consolidated financial statements of the Annual Financial Report 2011.

The Group's pension deficit as at 30 June 2012 was € 1,457 million (31 December 2011: € 763 million). The net recognised deficit comprised retirement benefit liabilities of € 5,466 million (31 December 2011: € 4,562 million) and assets of € 4,009 million (31 December 2011: € 3,799 million).

Arising from the specific terms of the voluntary severance programme which includes an early retirement scheme announced on 21 May 2012 (note 32), AIB has provided € 124 million (31 December 2011: Nil) in respect of past service costs for those employees expected to opt for early retirement. This provision, which is included within pension scheme liabilities, represents the best estimate of the amount required to meet the additional past service costs of the early retirement scheme, based on currently known facts and expectations. In addition, the curtailment gain/loss arising from the voluntary severance programme has been estimated to be Nil at 30 June 2012, based on known facts and expectations at this date.

The Group announced a Pay and Benefits review on 14 June 2012. The impacts of the proposed changes in this review have not been recognised as these changes had not occurred by 30 June 2012 and were still subject to discussions with relevant parties. The main proposed changes include the closing of defined benefit schemes to future accrual and certain salary reductions.

### (a) Change in pension scheme assumptions

The following table summarises the main financial assumptions used in the preparation of these financial statements in respect of the Irish and UK schemes:

<b>Financial assumptions</b>	<b>Half-year 30 June 2012 %</b>	<b>Year-end 31 December 2011 %</b>	<b>Half-year 30 June 2011 %</b>
<b>Irish scheme</b>			
Rate of increase in salaries	<b>3.30</b>	3.20	3.30
Rate of increase of pensions in payment	<b>1.75</b>	2.00	2.00
Discount rate	<b>4.20</b>	5.10	5.80
Inflation assumptions	<b>1.75</b>	2.00	2.00
<b>UK scheme<sup>(1)</sup></b>			
Rate of increase in salaries	<b>3.60</b>	3.60	4.10
Rate of increase of pensions in payment	<b>2.90</b>	3.00	3.40
Discount rate	<b>4.70</b>	4.70	5.30
Inflation assumptions (RPI)	<b>2.90</b>	3.00	3.40

<sup>(1)</sup>The mortality assumptions have been updated for the UK scheme with life expectancy increasing by 1.4 to 1.6 years.

<b>Movement in defined benefit obligation</b>	<b>30 June 2012 € m</b>	<b>31 December 2011 € m</b>
Defined benefit obligation at 1 January	<b>4,562</b>	3,939
Acquisition during the year	-	126
Current service cost	<b>40</b>	70
Past service cost	<b>124</b>	3
Interest cost	<b>113</b>	217
Contributions by employees	<b>10</b>	18
Actuarial losses	<b>640</b>	301
Benefits paid	<b>(62)</b>	(119)
Curtailment	-	(26)
Translation adjustment on non-euro schemes	<b>39</b>	33
<b>Defined benefit obligation at end of period</b>	<b>5,466</b>	4,562

# Notes to the condensed consolidated interim financial statements

## 11 Retirement benefits (continued)

	30 June 2012 € m	31 December 2011 € m
<b>Movement in the scheme assets</b>		
Fair value of scheme assets at 1 January	3,799	3,539
Acquisition during the year	-	109
Expected return	108	235
Actuarial gain/(losses)	73	(233)
Contributions by employer	42	216
Contributions by employees	10	18
Benefits paid	(62)	(119)
Translation adjustment on non-euro schemes	39	34
<b>Fair value of scheme assets at end of period</b>	<b>4,009</b>	<b>3,799</b>

### (b) Actuarial gains and losses recognised in the condensed consolidated statement of comprehensive income

The following table sets out the components of the actuarial gains and losses for half-years ended 30 June 2012 and 2011:

	Half-year June 2012 € m	Half-year 30 June 2011 € m
Actual return less expected return on pension scheme assets	73	(109)
Experience gains and losses on scheme liabilities	(45)	11
Changes in demographic and financial assumptions	(595)	87
Actuarial loss recognised	(567)	(11)
Deferred tax	84	6
	<b>(483)</b>	<b>(5)</b>

# Notes to the condensed consolidated interim financial statements

	<b>Half-year 30 June 2012 € m</b>	Half-year 30 June 2011 € m
<b>12 Provisions for impairment of financial investments available for sale</b>		
Debt securities	1	93
Equity securities	83	6
	<b>84</b>	<b>99</b>
	<b>Half-year 30 June 2012 € m</b>	Half-year 30 June 2011 € m
<b>13 Income tax credit</b>		
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)	11
	(3)	11
	(3)	11
Foreign tax		
Current tax on income for the period	(13)	(4)
Adjustments in respect of prior periods	8	(2)
	(5)	(6)
	(8)	5
Deferred taxation		
Origination and reversal of temporary differences	(108)	(357)
Adjustments in respect of prior periods	1	1
	(107)	(356)
<b>Total income tax credit</b>	<b>(115)</b>	<b>(351)</b>
<b>Effective income tax rate</b>	<b>8.6%</b>	<b>(135.0%)</b>

# Notes to the condensed consolidated interim financial statements

## 14 Discontinued operations

AIB completed the sales of BZWBK on 1 April 2011 and BACB on 17 June 2011. The sale of BZWBK had been announced on 10 September 2010, subject to regulatory approval.

There were no discontinued operations in the half year to 30 June 2012.

### (A) Disposal of BZWBK

On 1 April 2011, AIB completed the sale of its entire shareholding of 51,413,790 BZWBK shares representing 70.36% of its share capital and its 50% shareholding in BZWBK Asset Management. The proceeds of the sale amounted to € 3.1 billion giving rise to a profit on disposal of € 1.5 billion which was recorded in the income statement as set out below.

BZWBK was treated as a discontinued business, the results of which are set out below to the disposal date 1 April 2011.

	To date of disposal 1 April 2011 € m
<b>Profit from discontinued operations</b>	
Net interest income	126
Net fee and commission income	86
Net trading income	9
Other operating income	5
<b>Other income</b>	100
<b>Total operating income</b>	226
<b>Total operating expenses</b>	103
<b>Operating profit before provisions</b>	123
Provisions for impairment of loans and receivables and other financial instruments	24
<b>Operating profit</b>	99
<b>Profit before taxation from discontinued operations</b>	99
Income tax expense from discontinued operations	17
<b>Profit after taxation from discontinued operations</b>	82
Profit on disposal <sup>(1)</sup>	1,546
<b>Profit for the period after taxation from discontinued operations</b>	<u>1,628</u>

€ 1,608 million of the profit from discontinued operations of € 1,628 million was attributable to the owners of the parent.

	1 April 2011 € m
<b>Profit on disposal of BZWBK</b>	
Gross proceeds from sale	3,112
Less: costs of disposal	(13)
Net proceeds	3,099
Carrying value at date of disposal	1,722
	1,377
Reclassification of currency translation reserves to the income statement	106
Reclassification of available for sale and cash flow hedging reserves to the income statement (net of deferred tax)	63
<b>Profit on disposal<sup>(1)</sup></b>	<u>1,546</u>

<sup>(1)</sup>No tax charge arises on this disposal.

	Half-year 30 June 2011 € m
<b>Effect of disposal on cash flows of the Group</b>	
Consideration received satisfied in cash	3,112
less: costs of disposal	(13)
Cash and cash equivalents disposed of ( <i>note 42</i> )	(673)
<b>Net cash inflow</b>	<u>2,426</u>

### (B) Disposal of BACB

In the period to the date of disposal on 17 June 2011, the profit amounted to Nil. The gain on disposal amounted to € 0.1 million.

# Notes to the condensed consolidated interim financial statements

## 15 Earnings per share

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

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

	<b>Half-year 30 June 2012 € m</b>	Half-year 30 June 2011 € m
<b>(a) Basic</b>		
(Loss)/profit attributable to equity holders of the parent from continuing operations	<b>(1,216)</b>	611
Gain on redemption of RCI and LPI recognised in equity (note 7)	-	344
<b>(Loss)/profit attributable to ordinary/CNV shareholders from continuing operations</b>	<b>(1,216)</b>	955
<b>Profit attributable to ordinary/CNV shareholders from discontinued operations</b>	<b>-</b>	1,608
	<i>Number of shares (millions)</i>	
Weighted average number of ordinary shares in issue during the period <sup>(1)</sup>	<b>514,447.3</b>	6,753.8
Weighted average number of CNV shares in issue during the period	-	5,621.7
Contingently issuable shares <sup>(2)</sup>	-	1,088.2
<b>Weighted average number of shares</b>	<b>514,447.3</b>	13,463.7
<b>(Loss)/earnings per share from continuing operations - basic</b>	<b>EUR (0.2c)</b>	EUR 7.1c
<b>Earnings per share from discontinued operations - basic</b>	<b>-</b>	EUR 11.9c
<b>(b) Diluted</b>		
(Loss)/profit attributable to ordinary/CNV shareholders of the parent from continuing operations (note 15(a))	<b>(1,216)</b>	955
Dilutive effect of CCNs' interest charge <sup>(3)</sup>	-	-
Profit attributable to ordinary/CNV shareholders of the parent from discontinued operations	-	1,608
<b>(Loss)/profit attributable to ordinary/CNV shareholders from continuing operations</b>	<b>(1,216)</b>	955
<b>Profit attributable to ordinary/CNV shareholders from discontinued operations</b>	<b>-</b>	1,608
	<i>Number of shares (millions)</i>	
Weighted average number of ordinary shares in issue during the period <sup>(1)</sup>	<b>514,447.3</b>	6,753.8
Weighted average number of CNV shares in issue during the period	-	5,621.7
Contingently issuable shares <sup>(2)</sup>	-	1,088.2
Dilutive effect of CCNs <sup>(3)</sup>	-	-
<b>Potential weighted average number of shares</b>	<b>514,447.3</b>	13,463.7
<b>(Loss)/earnings per share from continuing operations - diluted</b>	<b>EUR(0.2c)</b>	EUR 7.1c
<b>Earnings per share from discontinued operations - diluted</b>	<b>-</b>	EUR 11.9c

<sup>(1)</sup>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 34).

<sup>(2)</sup>Contingently issuable shares are treated as outstanding from 14 December 2010, as the ‘dividend stopper’ which came into effect on 14 December 2009 remained in place (see Annual Financial Report 2011, note 56 (h)). The shares relate to the number of shares (on a time apportioned basis) that would issue to the National Pension Reserve Fund Commission (“NPRFC”), if the annual coupon on the € 3.5 billion Preference Shares was not paid in cash. Accordingly, contingently issuable shares have been treated as outstanding from 13 May 2010 in respect of the dividend payment which was due on 13 May 2011 resulting in 1,088.2 million shares being included in the June 2011 calculation. The SLO which came into effect on 14 April 2011 superseded the ‘dividend stopper’, with distributions now being payable by AIB in its sole discretion.

<sup>(3)</sup>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.



# Notes to the condensed consolidated interim financial statements

## 16 Transfer of business from Anglo Irish Bank Corporation

On 24 February 2011, AIB announced that it had agreed, pursuant to a transfer order issued by the High Court (under the Credit Institutions (Stabilisation) Act 2010), the transfer of deposits and NAMA senior bonds from Anglo Irish Bank Corporation ('Anglo') to AIB. AIB also announced the transfer to AIB by way of a share sale of Anglo Irish Bank Corporation (International) PLC in the Isle of Man ('Anglo IOM'), which included customer deposits. In total, € 6.9 billion in deposits and € 11.9 billion in NAMA senior bonds (nominal value € 12.2 billion) transferred. In addition, a further € 1.6 billion in deposits were held in Anglo IOM. A net capital contribution of € 1.5 billion was generated on the date of the transaction (note 23, page 297 in the Annual Financial Report 2011).

This transaction between AIB and Anglo, both of which are under the common control of the Irish Government, was a transfer of a business (as defined by IFRS 3). In line with the Group accounting policy for transfer of a business under common control, this acquisition was accounted for at carrying value.

## 17 Acquisition of EBS Limited ("EBS")

On 26 May 2011, AIB entered into an agreement with EBS, the Minister for Finance and the NTMA to acquire 100% of the share capital of EBS for a nominal consideration of €1. The acquisition completed on 1 July 2011 and EBS was consolidated into the AIB Group financial statements with effect from that date (note 24, pages 298 and 299 in the Annual Financial Report 2011).

Both AIB and EBS are under the common control of the Irish Government, therefore, the acquisition was accounted for as a common control transaction under the carrying value basis in accordance with AIB Group accounting policy. The result of the transaction was recognised in equity as arising from a transaction with shareholders. Net assets acquired by AIB amounted to € 777 million resulting in a capital contribution of € 777 million being recognised in AIB Group financial statements.

## 18 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 29.

In addition, as outlined in note 55 and note 73 on pages 356 and 411 respectively of the Annual Financial Report 2011, the Group enters into securitisation transactions in order to support certain business objectives.

## Securitisation activity during 2012

On 9 May 2012, the Group announced that it had securitised certain of its residential mortgage portfolio held in the AIB UK market segment. These mortgages were transferred to a securitisation vehicle, Tenterden Funding plc ('Tenterden'). In order to fund the acquired mortgages, Tenterden issued class A notes to external investors and class B notes to an AIB subsidiary. However, in accordance with the derecognition requirements of IAS 39, the transferred mortgages have not been derecognised and continue to be reported in the Group's accounts. Tenterden is consolidated into the Group's accounts with the class B notes being eliminated on consolidation. The liability in respect of cash received by Tenterden from the external investors is included within 'Debt securities in issue' (note 31) on the statement of financial position.

The following table shows the financial assets (loans and receivables) transferred but not derecognised, their current carrying value, and the liability due to external investors:

	30 June 2012		
	Carrying amount of assets originally transferred € m	Carrying amount of assets currently recognised € m	Carrying amount of associated liabilities currently recognised € m
Loans and receivables to customers	533	526	382

# Notes to the condensed consolidated interim financial statements

## 19 Disposal groups and non-current assets held for sale

Arising from the results of the PCAR/PLAR in March 2011, AIB is required to dispose of non-core assets. Accordingly, certain of these assets are classified as held for sale at 30 June 2012. These assets do not constitute a major line of business or a geographical area of operations.

At 30 June 2012, disposal groups and non-current assets held for sale comprise non-current assets and non-current liabilities. These mainly include loans and receivables, but also included within this caption is the Group's investment in Aviva Life Holdings Ireland Limited ("ALH"). The original Shareholder Agreement between AIB and Aviva contained put options which have now been exercised. The negative fair value of these options amounts to € 8 million and is included in 'Other liabilities'.

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 2012		31 December 2011	
	Assets € m	Liabilities € m	Assets € m	Liabilities € m
Loans and receivables <sup>(1)</sup> :				
Customers	1,764	-	1,184	-
Banks	3	-	7	-
	1,767	-	1,191	-
Associated undertakings <sup>(2)</sup>	208	-	196	-
Other:				
Repossessed assets	2	-	4	-
Unquoted equities	14	-	22	-
AIB Investment Managers <sup>(3)</sup>	-	-	4	-
Other	-	1 <sup>(4)</sup>	5	3 <sup>(4)</sup>
	16	1	35	3
<b>Total disposal groups and non-current assets held for sale</b>	<b>1,991</b>	<b>1</b>	<b>1,422</b>	<b>3</b>

<sup>(1)</sup>Loans and receivables held for sale are net of provisions of € 272 million at 30 June 2012 (31 December 2011: € 9 million) (note 24).

<sup>(2)</sup>Associated undertakings include LaGuardia Hotel € 12 million and ALH € 196 million (31 December 2011: € 196 million).

The fair value of the investment in ALH, € 196 million at 30 June 2012 (31 December 2011: € 196 million), has been determined by a market related valuation of the Group's share of the MCEV of ALH. Cash flows are projected using best estimates of demographic and economic variables; for example policyholders' lapses are projected based on analysis of current behaviour.

<sup>(3)</sup>AIB Investment Managers was disposed of in the half-year to 30 June 2012 at a loss of € 2 million.

<sup>(4)</sup>Liabilities of € 1 million (31 December 2011: € 3 million) include deposits from banks of € 1 million (31 December 2011: deposits from banks of € 1 million and accrued fees of € 2 million).

Further details of loans and receivables held for sale are set out in the Risk management section of this Half-Yearly Financial Report 2012.

# Notes to the condensed consolidated interim financial statements

## 20 Trading portfolio financial assets

	30 June 2012 € m	31 December 2011 € m
Debt securities:		
Government securities	-	24
Bank eurobonds	5	6
Other debt securities	25	24
	<b>30</b>	54
Equity securities	2	2
	<b>32</b>	56

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 2012 was €1,121 million (31 December 2011 €1,410 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 2012 would have included unrealised fair value gains on reclassified trading portfolio financial assets of €56 million (30 June 2011: gains of €33 million).

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

	30 June 2012 € m	30 June 2011 € m
Interest on financial investments available for sale	8	31
Provision for impairment of financial investments available for sale	-	19

## 21 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 2012 and 31 December 2011:

	30 June 2012			31 December 2011		
	Notional amount € m	Fair values		Notional amount € m	Fair values	
		Assets € m	Liabilities € m		Assets € m	Liabilities € m
Interest rate contracts	116,461	2,740	(3,313)	127,945	2,910	(3,541)
Exchange rate contracts	7,857	47	(36)	7,439	44	(97)
Equity contracts	3,916	90	(92)	3,962	92	(95)
Credit derivatives	162	-	(131)	216	-	(110)
Total	<b>128,396</b>	<b>2,877</b>	<b>(3,572)</b>	139,562	3,046	(3,843)

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 2011.

# Notes to the condensed consolidated interim financial statements

<b>22 Loans and receivables to banks</b>	<b>30 June</b> € m	31 December € m
Funds placed with central banks	<b>1,833</b>	1,011
Funds placed with other banks	<b>3,546</b>	4,711
Provisions for impairment ( <i>note 24</i> )	<b>(4)</b>	(4)
	<b>5,375</b>	5,718
Amounts include:		
Reverse repurchase agreements	<b>342</b>	59

Loans and receivables to banks includes cash collateral of € 1,452 million (31 December 2011: € 1,890 million) placed with derivative counterparties in relation to net derivative positions (note 21).

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 € 330 million (31 December 2011: € 55 million). The collateral received consisted of government securities of € 320 million (31 December 2011: € 55 million) and bank securities of € 10 million. The fair value of collateral sold or repledged amounted to Nil (31 December 2011: Nil).

These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

<b>23 Loans and receivables to customers</b>	<b>30 June</b> <b>2012</b> € m	31 December 2011 € m
Loans and receivables to customers	<b>91,416</b>	95,373
Amounts receivable under finance leases and hire purchase contracts	<b>1,143</b>	1,208
Unquoted debt securities	<b>744</b>	891
Provisions for impairment ( <i>note 24</i> )	<b>(15,321)</b>	(14,932)
	<b>77,982</b>	82,540

The unwind of the discount on the carrying value of impaired loans amounting to € 145 million (30 June 2011: € 102 million) is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

In 2009, certain financial investments available for sale amounting to € 13 million were reclassified to the 'loans and receivables to customers' category. The fair value of reclassified assets at 30 June 2012 was Nil (31 December 2011: € 1 million). As of reclassification date, the effective interest rates on reclassified available for sale financial assets were in the range 4.79% - 6.44%; the expected gross recoverable cash flows were € 18 million; and the fair value loss recognised in equity was € 8 million. If the reclassification had not been made, the Group's statement of comprehensive income for the period ended 30 June 2012 would have included fair value gains of Nil (30 June 2011: gains of € 3 million).

The amounts above exclude loans and receivables held within the caption 'Disposal groups and non-current assets held for sale' (note 19).

# Notes to the condensed consolidated interim financial statements

## 24 Provisions for impairment of loans and receivables

The following tables show provisions for impairment of loans and receivables (both to banks and customers) on a total Group basis and include (i) continuing operations; and (ii) 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 relate to classifications used in the Group's ratings tools and are set out on pages 53 and 54 of the Risk management section of this report.

Provisions	30 June 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	79	8	5	92
Transfers	20	-	-	20
Charge against income statement	395	353	142	890
Amounts written off	(284)	(16)	(56)	(356)
Recoveries of amounts written off in previous years	1	-	1	2
Provisions on loans and receivables returned by NAMA	4	-	-	4
At end of period	<b>11,477</b>	<b>2,993</b>	<b>1,127</b>	<b>15,597</b>
Total provisions are split between specific and IBNR as follows:				
Specific	10,190	2,207	972	13,369
IBNR	1,287	786	155	2,228
	<b>11,477</b>	<b>2,993</b>	<b>1,127</b>	<b>15,597</b>
Amounts include:				
Loans and receivables to banks (note 22)				4
Loans and receivables to customers (note 23)				15,321
Loans and receivables of disposal groups and non-current assets held for sale (note 19)				272
				<b>15,597</b>

Transfers include provisions on other assets reclassified from disposal groups and non-current assets held for sale and transfers from provisions for liabilities and commitments.

# Notes to the condensed consolidated interim financial statements

## 24 Provisions for impairment of loans and receivables (continued)

Provisions	31 December 2011			
	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
At 1 January	6,283	665	1,028	7,976
Exchange translation adjustments	66	8	-	74
Acquisition of subsidiaries under common control	302	436	-	738
Transferred on disposal of subsidiary	(133)	(11)	(216)	(360)
Charge against income statement:				
Continuing operations	5,966	1,582	313	7,861
Discontinued operations	9	-	15	24
	5,975	1,582	328	7,885
Amounts written off	(665)	(32)	(105)	(802)
Recoveries of amounts written off in previous years	2	-	2	4
Provisions on loans and receivables transferred to NAMA	(568)	-	(2)	(570)
At end of period	11,262	2,648	1,035	14,945
Total provisions are split as follows:				
Specific	9,648	1,754	859	12,261
IBNR	1,614	894	176	2,684
	11,262	2,648	1,035	14,945
Amounts include:				
Loans and receivables to banks (note 22)				4
Loans and receivables to customers (note 23)				14,932
Loans and receivables of disposal groups and non-current assets held for sale (note 19)				9
				14,945

# Notes to the condensed consolidated interim financial statements

## 25 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 2012 € m	31 December 2011 € m
At 1 January	19,856	7,869
Purchased from Anglo Irish Bank Corporation ( <i>note 16</i> )	-	11,854
Acquisition of subsidiary – EBS ( <i>note 17</i> )	-	301
Additions	-	803
Net returns	(136)	(148)
Amortisation of discount	59	68
Maturities	(1,392)	(891)
At end of period	<b>18,387</b>	19,856

## 26 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 2012 and 31 December 2011:

	30 June 2012 € m	31 December 2011 € m
<b>Debt securities</b>		
Irish Government securities	5,418	5,217
Euro government securities	1,739	1,860
Non Euro government securities	787	1,270
Supranational banks and government agencies	1,221	1,147
Collateralised mortgage obligations	44	509
Other asset backed securities	985	1,210
Euro bank securities	2,503	3,055
Non Euro bank securities	253	476
Euro corporate securities	88	110
Non Euro corporate securities	205	279
Other investments	12	12
<b>Total debt securities</b>	<b>13,255</b>	15,145
<b>Equity securities</b>		
Equity securities – NAMA subordinated bonds	47	132
Equity securities – other	93	112
<b>Total equity securities</b>	<b>140</b>	244
<b>Total financial investments available for sale</b>	<b>13,395</b>	15,389

# Notes to the condensed consolidated interim financial statements

## 27 Interests in associated undertakings

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

	Half year 30 June 2012 € m	Half year 30 June 2011 € m
<b>Income statement</b>		
Share of results of associated undertakings	6	(2)
Impairment of associated undertakings	(5)	-
	<b>1</b>	<b>(2)</b>
	30 June 2012 € m	31 December 2011 € m
<b>Share of net assets including goodwill</b>		
At 1 January	246	301
Exchange translation adjustments	1	1
Additions <sup>(1)</sup>	17	-
Disposal of associate held by subsidiary ( <i>note 14</i> )	-	(18)
Income for the period	6	(1)
Dividends received from associates	(7)	(5)
Impairment of associated undertakings	(5)	(36)
Other movements	-	4
At end of period	<b>258</b>	<b>246</b>
Analysed as to:		
Aviva Life Holdings Ireland Limited	196	196
Other <sup>(2)</sup>	62	50
	<b>258</b>	<b>246</b>
Disclosed in the statement of financial position within		
Interests in associated undertakings	50	50
Disposal groups and non-current assets held for sale ( <i>note 19</i> )	208	196
	<b>258</b>	<b>246</b>
Of which listed on a recognised stock exchange	-	-

<sup>(1)</sup>Additions relate to transfers from financial investments available for sale arising from debt/equity restructuring.

<sup>(2)</sup>Includes the Group's investments at 30 June 2012 in Aviva Health Insurance Ireland Limited, AIB Merchant Services and LaGuardia Hotel (30 June 2011: Aviva Health Insurance Ireland Limited and AIB Merchant Services).



# Notes to the condensed consolidated interim financial statements

## 28 Deferred taxation

	30 June 2012 € m	31 December 2011 € m
<b>Analysis of movements in deferred taxation</b>		
At 1 January	<b>(3,692)</b>	(2,384)
Acquisition of subsidiary - EBS ( <i>note 17</i> )	-	(148)
Exchange translation and other adjustments	<b>(25)</b>	(23)
Deferred tax through other comprehensive income	<b>(30)</b>	11
Income statement ( <i>note 13</i> )	<b>(107)</b>	(1,148)
At end of period	<b><u>(3,854)</u></b>	<u>(3,692)</u>

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 2012, capitalised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 3,854 million (31 December 2011: € 3,692 million). The most significant tax losses arise in the Republic of Ireland tax jurisdiction.

Net deferred tax assets of € 3,854 million (31 December 2011: € 3,692 million) are expected to be recovered after more than 12 months.

In assessing the future profitability of the Group, the Board has considered a range of positive and negative evidence for this purpose.

Taking account of all relevant factors, the Group believes that it is more likely than not that it will return to profitability by 2014 and will achieve profits producing a sustainable market-range return on equity in the long term. In the absence of any expiry date for tax losses in Ireland or the UK, the Group therefore believes that it is probable that there will be future taxable profits, in the relevant Group companies, against which to use the tax losses (subject to the specific exceptions detailed in note 39 of the Annual Financial Report 2011).

# Notes to the condensed consolidated interim financial statements

	<b>30 June 2012</b>	31 December 2011
	<b>€ m</b>	€ m
<b>29 Deposits by central banks and banks</b>		
Central banks		
Securities sold under agreements to repurchase	<b>25,443</b>	30,831
Other borrowings	<b>1,143</b>	302
	<b>26,586</b>	31,133
Banks		
Securities sold under agreements to repurchase	<b>4,165</b>	5,048
Other borrowings	<b>528</b>	709
	<b>4,693</b>	5,757
	<b>31,279</b>	36,890
Amounts include:		
Due to associated undertakings	-	-

Securities sold under agreements to repurchase, all of which mature within six months, (with the exception of € 10.65 billion funded through the ECB three year Long Term Refinancing Operation (“LTRO”)) are secured by Irish Government bonds, NAMA senior bonds, and other marketable securities. The Group has securitised certain of its mortgage and loan portfolios as outlined in note 73 of the Annual Financial Report 2011 in relation to AIB Mortgage Bank and EBS 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, the Group has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 30 June 2012 (31 December 2011: Nil).

Deposits by central banks and banks includes cash collateral of € 229 million (31 December 2011: € 576 million) received from derivative counterparties in relation to net derivative positions (note 21).

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

	<b>30 June 2012</b>			31 December 2011		
	<b>Central banks € m</b>	<b>Banks € m</b>	<b>Total € m</b>	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	<b>29,757</b>	<b>4,904</b>	<b>34,661</b>	36,944	5,678	42,622
Of which:						
Government securities <sup>(1)</sup>	<b>15,837</b>	<b>2,990</b>	<b>18,827</b>	17,868	3,082	20,950
Other securities	<b>13,920</b>	<b>1,914</b>	<b>15,834</b>	19,076	2,596	21,672

<sup>(1)</sup>Includes NAMA senior bonds.

# Notes to the condensed consolidated interim financial statements

	<b>30 June 2012</b>	31 December 2011
	<b>€ m</b>	€ m
<b>30 Customer accounts</b>		
Current accounts	<b>15,662</b>	15,530
Demand deposits	<b>9,693</b>	9,828
Time deposits	<b>38,209</b>	35,316
	<b>63,564</b>	60,674

	<b>30 June 2012</b>	31 December 2011
	<b>€ m</b>	€ m
<b>31 Debt securities in issue</b>		
Bonds and medium term notes:		
European medium term note programme	<b>7,306</b>	10,740
Bonds and other medium term notes	<b>5,001</b>	4,643
	<b>12,307</b>	15,383
Other debt securities in issue:		
Commercial certificates of deposit	<b>85</b>	271
	<b>12,392</b>	15,654

## 32 Provisions for liabilities and commitments

On 8 March 2012, AIB announced a voluntary severance programme which includes both an early retirement scheme and a voluntary severance scheme. The objective of the programme is to reduce the Group's cost base. It is expected that staff numbers will reduce by approximately 2,500 following full implementation which is expected to complete by December 2013 with the first departures already scheduled.

On 21 May 2012, AIB announced the specific terms of both the voluntary severance and early retirement schemes. In scope staff (i.e. those eligible for the first phase of departures) meeting the eligibility criteria for inclusion in the schemes were required to apply to AIB in June, if they wished to be considered.

At 30 June 2012, a provision of € 80 million has been made in respect of the voluntary severance scheme since AIB is demonstrably committed to the programme. This provision represents the best estimate of the amount required to settle the additional costs arising in respect of staff departing under the voluntary severance scheme, based on currently known facts and expectations. In addition, a provision of € 124 million (31 December 2011: Nil) has been made under the early retirement scheme (note 11).

These provisions, totalling € 204 million, have been included in termination benefits under administrative expenses (note 10) in the income statement.

An amount of € 7 million has also been provided in respect of termination benefits payable on the winding down of AIB's interests, principally, in the Isle of Man/Channel Islands.

As set out in note 11, the Group announced a Pay and Benefits review on 14 June 2012. The impacts of the proposed changes in this review have not been recognised as these changes had not occurred by 30 June 2012 and were still subject to discussions with relevant parties. The main proposed changes include the closing of defined benefit schemes to future accrual and certain salary reductions.

## Notes to the condensed consolidated interim financial statements

### 32 Provisions for liabilities and commitments

	30 June 2012							
	Liabilities and charges € m	NAMA <sup>(1)</sup> constructive obligation € m	NAMA provisions € m	Onerous contracts € m	Legal claims € m	Other <sup>(2)</sup> provisions € m	Voluntary severance schemes € m	Total € m
At 1 January	24	-	407	13	10	60	-	514
Transfers out	(6)	-	-	-	-	-	-	(6)
Exchange translation adjustment	-	-	2	-	-	1	-	3
Amounts charged to income statement	-	-	7 <sup>(3)</sup>	8	3	1	87	106
Amounts released to income statement	(1)	-	(96) <sup>(4)</sup>	-	(2)	(2)	-	(101)
Provisions utilised	(5)	-	(236)	(1)	(1)	(7)	-	(250)
At end of period	12	-	84	20	10	53	87	266

  

	31 December 2011						
	Liabilities and charges € m	NAMA <sup>(1)</sup> constructive obligation € m	NAMA provisions € m	Onerous contracts € m	Legal claims € m	Other <sup>(2)</sup> provisions € m	Total € m
At 1 January	17	1,026	-	7	5	86	1,141
Acquisition of subsidiary <sup>(4)</sup>	-	-	-	2	1	11	14
Exchange translation adjustment	-	(6)	4	1	-	1	-
Amounts charged to income statement	17 <sup>(5)</sup>	-	403	5	6	52	483
Amounts released to income statement	-	(433) <sup>(5)</sup>	-	(2)	(1)	(54)	(490)
Provisions utilised	(10)	(587)	-	-	(1)	(36)	(634)
At end of period	24	-	407 <sup>(3)</sup>	13	10	60	514

<sup>(1)</sup>At 31 December 2010, the transfer of certain loans to NAMA was deemed unavoidable, accordingly a charge to profit or loss of € 1,029 million, (statement of financial position provision € 1,026 million) being a constructive obligation was made for the expected discount, determined to be 60 percent on a gross carrying value of loans amounting to € 2,248 million which were expected to transfer to NAMA in early 2011. As transfers took place in 2011, € 587 million of this provision was part utilised as an offset to the loss arising on the transfers. The remaining amount, € 433 million was released to the income statement. The non-utilisation of the provision arose as the amount of the loans designated as transferring to NAMA in 2011 did not ultimately transfer. Accordingly, at 31 December 2011, the provision amounted to Nil as no further loans were classified as transferring to NAMA at this date.

<sup>(2)</sup>Includes provisions for repayment to customers, restructuring and reorganisation costs.

<sup>(3)</sup>NAMA provisions represent amounts due to NAMA in respect of adjustments to transfers which have not been settled at 31 December 2011.

At 30 June 2012, a net amount of € 89 million was released to the Income Statement (note 8). This followed the resolution with NAMA of certain outstanding issues relating to transfers that had taken place in earlier periods.

<sup>(4)</sup>Relates to the acquisition of EBS (note 24 of the Annual Financial Report 2011).

<sup>(5)</sup>Included in (writeback)/charge of provisions for liabilities and commitments in Income Statement.

# Notes to the condensed consolidated interim financial statements

	30 June 2012 € m	31 December 2011 € m
<b>33 Subordinated liabilities and other capital instruments</b>		
<b>Allied Irish Banks, p.l.c.</b>		
€ 1.6bn Contingent Capital Tier 2 Notes due 2016 <sup>(1)</sup>		
Proceeds of issue	1,600	1,600
Fair value adjustment on initial recognition	(447)	(447)
Amortisation to end of period	55	24
	<b>1,208</b>	<b>1,177</b>
<b>Dated loan capital</b>		
€ 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	25
Stg£ 500m Callable Fixed/Floating Rate Notes due March 2025 (maturity extended to 2035 as a result of the SLO)	-	-
	<b>34</b>	<b>32</b>
	<b>1,242</b>	<b>1,209</b>

<sup>(1)</sup>See note 45 on page 339 of the Annual Financial Report 2011.

Following on the liability management exercises in 2011 and the 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.

# Notes to the condensed consolidated interim financial statements

## 34 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 2012 and 31 December 2011:

	<b>30 June 2012</b>	31 December 2011
	<b>€ m</b>	€ m
<b>Issued share capital</b>		
At 1 January	<b>5,170</b>	3,965
Ordinary shares in lieu of dividend on 2009 Preference Shares	<b>36</b>	163
CNV shares converted to ordinary shares	-	(3,357)
Ordinary shares issued on conversion of CNV shares	-	3,357
Ordinary shares of € 0.32 each renominialised	-	(4,085)
Ordinary shares of € 0.01 each arising on renominialisation	-	127
Deferred shares of € 0.01 each arising on renominialisation	-	3,958
Cancellation of deferred shares	-	(3,958)
Ordinary shares issued to the NPRFC	-	5,000
At end of period	<b>5,206</b>	5,170
Of which:		
Ordinary shares	<b>5,171</b>	5,135
2009 Preference shares	<b>35</b>	35
	<b>5,206</b>	5,170

	<b>30 June 2012</b>	31 December 2011
	<b>€ m</b>	€ m
<b>Share premium</b>		
At 1 January	<b>4,926</b>	5,089
Transfer to ordinary share capital in respect of ordinary shares issued in lieu of dividend on 2009 Preference Shares	<b>(36)</b>	(163)
Reduction and transfer to revenue reserves	<b>(2,000)</b>	-
At end of period	<b>2,890</b>	4,926

### 2012

On 1 May 2012, the Irish High Court confirmed an application by AIB for a reduction of the share premium account by € 2,000 million in addition to a reduction of € 3,958 million of its capital redemption reserves (note 36). This resulted in a transfer from these reserve accounts to revenue reserves.

On 14 May 2012, 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 3,623,969,972 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 € 36 million, equal to the nominal value of the shares issued, was transferred from share premium to ordinary share capital.

### 2011

- (i) On 31 March 2011, following completion of the Central Bank of Ireland's Prudential Capital Assessment Review and the Prudential Liquidity Assessment Review, the Central Bank of Ireland announced the requirement for the Company to raise equity capital of € 9.1 billion in addition to the requirement of approximately € 4.2 billion deferred from February 2011, bringing the total capital which AIB would be required to raise to € 13.3 billion.
- (ii) On 1 April 2011, the company completed the sale of its stake in Bank Zachodni WBK S.A., following which on 7 April 2011, the National Pensions Reserve Fund Commission ("NPRFC") issued a Conversion Order to convert all of its CNV Shares (total shares 10,489,899,564 (€ 3,357 million)) into ordinary shares. The conversion was completed on 8 April 2011.
- (iii) On 13 May 2011, 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 484,902,878 new ordinary shares by way of a bonus issue to the NPRFC in part settlement of the dividend. In accordance with the Company's Articles of Association, an amount of

# Notes to the condensed consolidated interim financial statements

## 34 Share capital (*continued*)

€ 155 million, equal to the nominal value of the shares issued, was transferred from share premium to ordinary share capital. The remainder of the bonus shares due to the NPRFC of 762,370,687 were issued to the NPRFC following the required approvals by the shareholders at the Extraordinary General Meeting (“EGM”) on the 26 July 2011. This issue included an additional 38,118,535 shares being prescribed by the Company’s Articles of Association as a result of the 2011 annual cash dividend not being satisfied in full on the due date. This issue of shares resulted in € 8 million (the nominal value of the shares issued was € 0.01 each per share) being transferred from share premium to ordinary share capital.

(iv) On 26 July 2011, following the passing of shareholder resolutions at the EGM:

- the ordinary shares of the Company were renominialised, each ordinary share of € 0.32 was subdivided into one ordinary share of € 0.01 each carrying the same rights and obligations as an existing ordinary share and thirty one deferred shares of € 0.01. The deferred shares created on the renominialisation had no voting or dividend rights and had no economic value;
- the Company acquired all of the deferred shares for nil consideration and immediately cancelled them in accordance with its Articles of Association adopted at the EGM which resulted in € 3,958 million transferring from share capital to a capital redemption reserve fund; and
- all of the authorised but unissued preference shares denominated in Euro, sterling, US dollars and yen (other than the 2009 Preference Shares), were cancelled.

(v) On 27 July 2011, the Company issued 500 billion ordinary shares of € 0.01 each to the NPRFC at a subscription price of € 0.01 per share (€ 5 billion in total) as part of the capital raising transaction agreed with the Irish Government.

# Notes to the condensed consolidated interim financial statements

	30 June 2012 € m	31 December 2011 € m
<b>35 Other equity interests</b>		
<b>Reserve capital instruments (“RCI”)</b>		
At 1 January	-	239
Redemption of RCI (note 7)	-	(239)
At end of period	-	-

## 36 Reserves

	30 June 2012 € m			31 December 2011 € m		
	Capital contribution reserves € m	Other capital reserves € m	Total € m	Capital contribution reserves € m	Other capital reserves € m	Total € m
<b>(a) Capital reserves</b>						
At 1 January	2,632	253	2,885	-	253	253
Capital contributions						
Anglo business transfer (note 16)	-	-	-	1,498	-	1,498
EBS acquisition (note 17)	-	-	-	777	-	777
CCNs issuance (note 33)	-	-	-	447	-	447
	-	-	-	2,722	-	2,722
Transfer to revenue reserves:						
Anglo business transfer	(111)	-	(111)	(66)	-	(66)
CCNs issuance (note 33)	(31)	-	(31)	(24)	-	(24)
	(142)	-	(142)	(90)	-	(90)
At end of period	2,490	253	2,743	2,632	253	2,885

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 29 in the Annual Financial Report 2011. 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 renominialised 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 34).

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.

### (c) Contributions from the Minister for Finance and the NPRFC

On 28 July 2011, the Minister for Finance (‘the Minister’) and the NPRFC agreed to contribute € 2,283 million and € 3,771 million respectively (total € 6,054 million) as capital contributions to AIB for Nil consideration. These capital contributions constitute core tier 1 capital for regulatory purposes and are included within ‘Revenue reserves’. Neither the Minister nor the NPRFC has an entitlement to seek repayment of these capital contributions.



# Notes to the condensed consolidated interim financial statements



	30 June 2012 € m	31 December 2011 € m
<b>37 Non-controlling interests in subsidiaries</b>		
<b>Equity interests in subsidiaries</b>		
At 1 January	-	501
Movement during the period	-	12
Extinguishment of equity interests <sup>(1)</sup>	-	(513)
	-	-
<b>Non-cumulative Perpetual Preferred Securities ("LPI")</b>		
At 1 January	-	189
Redemption of Non-cumulative Perpetual Preferred Securities <sup>(2)</sup>	-	(189)
	-	-
At end of period	-	-

<sup>(1)</sup>On 1 April 2011, AIB disposed of its 70.36% shareholding in BZWBK (note 14).

<sup>(2)</sup>On 22 June 2011, AIB purchased for cash all outstanding securities (note 7).

# Notes to the condensed consolidated interim financial statements

## 38 Analysis of selected other comprehensive income

	Half-Year 30 June 2012			Half-year 30 June 2011		
	Gross € m	Tax € m	Net € m	Gross € m	Tax € m	Net € m
<b>Continuing operations</b>						
<b>Foreign currency translation reserves</b>						
Change in foreign currency translation reserves	33	-	33	(75)	-	(75)
<b>Total</b>	<b>33</b>	<b>-</b>	<b>33</b>	<b>(75)</b>	<b>-</b>	<b>(75)</b>
<b>Cash flow hedging reserves</b>						
Fair value (gains) transferred to income statement	(29)	4	(25)	(90)	12	(78)
Fair value (losses) taken to equity	(60)	7	(53)	(61)	8	(53)
<b>Total</b>	<b>(89)</b>	<b>11</b>	<b>(78)</b>	<b>(151)</b>	<b>20</b>	<b>(131)</b>
<b>Available for sale securities reserves</b>						
Fair value losses transferred to income statement	47	6	53	166	(19)	147
Fair value gains/(losses) taken to equity	565	(71)	494	(425)	62	(363)
<b>Total</b>	<b>612</b>	<b>(65)</b>	<b>547</b>	<b>(259)</b>	<b>43</b>	<b>(216)</b>

	Half-Year 30 June 2012			Half-year 30 June 2011		
	Gross € m	Tax € m	Net € m	Gross € m	Tax € m	Net € m
<b>Discontinued operations</b>						
<b>Foreign currency translation reserves</b>						
Transferred to income statement on disposal of foreign operation	-	-	-	(106)	-	(106)
Change in foreign currency translation reserves	-	-	-	(28)	-	(28)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(134)</b>	<b>-</b>	<b>(134)</b>
<b>Cash flow hedging reserves</b>						
Fair value losses transferred to income statement	-	-	-	4	(1)	3
Fair value (losses)/gains taken to equity	-	-	-	(3)	1	(2)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Available for sale securities reserves</b>						
Fair value (gains)/losses transferred to income statement	-	-	-	(82)	16	(66)
Fair value (losses)/gains taken to equity	-	-	-	(17)	9	(8)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(99)</b>	<b>25</b>	<b>(74)</b>

There were no discontinued operations in 2012.

# Notes to the condensed consolidated interim financial statements

## 38 Analysis of selected other comprehensive income (continued)

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

30 June 2012

	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves		Foreign currency translation reserves	Total
			Net actuarial gains/(losses) in retirement benefit schemes	Other revenue reserves		
			€ m	€ m		
Parent and subsidiaries	547	(78)	(483)	(1,216)	33	(1,197)
Associated undertakings	-	-	-	-	-	-
<b>Attributable to equity holders of the parent</b>	<b>547</b>	<b>(78)</b>	<b>(483)</b>	<b>(1,216)</b>	<b>33</b>	<b>(1,197)</b>

31 December 2011

	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves		Foreign currency translation reserves	Total
			Net actuarial gains/(losses) in retirement benefit schemes	Other revenue reserves		
			€ m	€ m		
Parent and subsidiaries	38	(208)	(464)	(2,292)	(145)	(3,071)
Associated undertakings	-	-	4	-	-	4
<b>Total</b>	<b>38</b>	<b>(208)</b>	<b>(460)</b>	<b>(2,292)</b>	<b>(145)</b>	<b>(3,067)</b>
<b>Non-controlling interests</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>(5)</b>	<b>12</b>
<b>Attributable to equity holders of the parent</b>	<b>41</b>	<b>(208)</b>	<b>(460)</b>	<b>(2,312)</b>	<b>(140)</b>	<b>(3,079)</b>

# Notes to the condensed consolidated interim financial statements

## 39 Fair value hierarchy

The term 'financial instrument' includes both financial assets and financial liabilities. The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The Group's policy for the determination of fair value of financial instruments is set out in accounting policy number 16 on pages 240 to 241 of the Annual Financial Report 2011.

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 tables set out the carrying value of financial instruments measured at fair value across the three levels of the fair value hierarchy as at 30 June 2012 and as at 31 December 2011:

	30 June 2012			
	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
<b>Financial assets</b>				
Disposal groups and non-current assets held for sale	-	-	14	14
Trading portfolio financial assets	26	6	-	32
Derivative financial instruments	1	2,876	-	2,877
Financial investments available for sale – debt securities	12,029	1,214	12	13,255
– equity securities	53	1	86	140
	<b>12,109</b>	<b>4,097</b>	<b>112</b>	<b>16,318</b>

### Financial liabilities

Derivative financial instruments <sup>(1)</sup>	(1)	(3,440)	(139)	(3,580)
	<b>(1)</b>	<b>(3,440)</b>	<b>(139)</b>	<b>(3,580)</b>

	31 December 2011			
	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
<b>Financial assets</b>				
Disposal groups and non-current assets held for sale	-	-	22	22
Trading portfolio financial assets	50	6	-	56
Derivative financial instruments	-	3,046	-	3,046
Financial investments available for sale – debt securities	13,720	1,413	12	15,145
– equity securities	54	10	180	244
	<b>13,824</b>	<b>4,475</b>	<b>214</b>	<b>18,513</b>

### Financial liabilities

Derivative financial instruments <sup>(1)</sup>	-	(3,734)	(117)	(3,851)
	<b>-</b>	<b>(3,734)</b>	<b>(117)</b>	<b>(3,851)</b>

## Significant transfers between Level 1 and Level 2

Group	30 June 2012			31 December 2011		
	Financial assets			Financial assets		
	Trading portfolio € m	Debt securities € m	Total € m	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 1 from Level 2	-	-	-	-	61	61
Transfer into Level 2 from Level 1	-	-	-	-	178	178

<sup>(1)</sup>Level 3 fair value includes € 8 million (31 December 2011: € 8 million) which is reported within 'Other liabilities' on the statement of financial position in relation to the net fair value of put options regarding the disposal of ALH (note 19).

At 31 December 2011, transfers into Level 1 from Level 2 occurred due to increased availability of reliable quoted market prices which were not previously available.

# Notes to the condensed consolidated interim financial statements

## 39 Fair value hierarchy (continued)

### Reconciliation of balances in Level 3 of the fair value hierarchy

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

30 June 2012

Group	Financial assets			Total	Financial liabilities	
	Disposal groups and non-current assets held for sale € m	AFS			Derivatives € m	Total € m
		Debt securities € m	Equity securities € m			
At 1 January	22	12	180	214	(117)	(117)
Transfers out of Level 3	-	-	(17)	(17)	-	-
Total gains or (losses) in:						
- Profit or loss	-	-	(83)	(83)	(39)	(39)
- Other comprehensive income	(8)	-	7	(1)	-	-
Net NAMA subordinated bonds additions	-	-	(3)	(3)	-	-
Additions	-	-	-	-	-	-
Purchases	-	-	3	3	-	-
Sales	-	-	(1)	(1)	-	-
Settlements	-	-	-	-	17	17
<b>At end of period</b>	<b>14</b>	<b>12</b>	<b>86</b>	<b>112</b>	<b>(139)</b>	<b>(139)</b>

31 December 2011

Group	Financial assets			Total	Financial liabilities	
	Disposal groups and non-current assets held for sale € m	AFS			Derivatives € m	Total € m
		Debt securities € m	Equity securities € m			
At 1 January	-	12	263	275	(122)	(122)
Acquisition of subsidiaries	-	-	6	6	-	-
Reclassified to disposal groups and non-current assets held for sale	22	-	(22)	-	-	-
Transfers out of Level 3	-	-	-	-	4	4
Total gains or (losses) in:						
- Profit or loss	-	-	(105)	(105)	(79)	(79)
- Other comprehensive income	-	-	43	43	(3)	(3)
Net NAMA subordinated bonds additions	-	-	12	12	-	-
Additions	-	-	19	19	-	-
Purchases	-	-	6	6	-	-
Sales	-	-	(42)	(42)	-	-
Settlements	-	-	-	-	83	83
<b>At end of period</b>	<b>22</b>	<b>12</b>	<b>180</b>	<b>214</b>	<b>(117)</b>	<b>(117)</b>

At 30 June 2012, transfers out of Level 3 relate to available for sale equity securities which have been transferred to 'Interests in associate undertakings'. At 31 December 2011, transfers out of Level 3 occurred because of increased observability in the market prices of these instruments.

# Notes to the condensed consolidated interim financial statements

## 40 Memorandum items: contingent liabilities and commitments, and contingent assets

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

	Contract amount	
	30 June 2012 € m	31 December 2011 € m
<b>Contingent liabilities - credit related<sup>(1)</sup></b>		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	1,134	1,414
Other contingent liabilities	578	595
	<b>1,712</b>	<b>2,009</b>
<b>Commitments<sup>(2)</sup></b>		
Documentary credits and short-term trade-related transactions	25	29
Undrawn note issuance and revolving underwriting facilities	-	-
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year <sup>(3)</sup>	7,065	7,240
1 year and over <sup>(4)</sup>	1,997	2,593
	<b>9,087</b>	<b>9,862</b>
	<b>10,799</b>	<b>11,871</b>

### Contingent liability/contingent asset - NAMA

- (a) Transfers of financial assets to NAMA is practically 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 AIB.
- (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.

<sup>(1)</sup>Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds.

<sup>(2)</sup>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.

<sup>(3)</sup>An original maturity of up to and including 1 year or which may be cancelled at any time without notice.

<sup>(4)</sup>An original maturity of more than 1 year.

# Notes to the condensed consolidated interim financial statements

## 41 Capital expenditure

	30 June 2012 € m	31 December 2011 € m
<b>Capital expenditure</b>		
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	38	11
Capital expenditure authorised but not yet contracted for	73	40

## 42 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:

	30 June 2012 € m	30 June 2011 € m
Cash and balances at central banks	4,286	3,269
Loans and receivables to banks	2,031	3,453
	<b>6,317</b>	<b>6,722</b>

### Discontinued operations

The following cash flows relate to discontinued operations:

	Period to 1 April 2011 € m
<b>Profit after taxation</b>	1,628
Income tax	17
<b>Profit before taxation</b>	1,645
Net movement in non cash items from operating activities	(1,573)
Net cash outflow from operating assets and liabilities	(87)
Taxation paid	(34)
<b>Net cash flows from operating activities</b>	(49)
Net cash flows from investing activities	(38)
Decrease in cash and cash equivalents	(87)
Cash and cash equivalents at beginning of period	767
Cash and cash equivalents disposed of ( <i>note 14</i> )	(673)
Effect of exchange rates on cash and cash equivalents	(7)
<b>Cash and cash equivalents at date of disposal</b>	<b>-</b>

These cash flows all relate to BZWBK which was disposed of on 1 April 2011 (*note 14*).

# Notes to the condensed consolidated interim financial statements

## 43 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-year ended 30 June 2012 and year ended 31 December 2011. 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 2012			Year ended 31 December 2011		
	Average balance € m	Interest € m	Average rate %	Average balance € m	Interest € m	Average rate %
<b>Assets</b>						
<b>Trading portfolio financial assets</b>						
Domestic offices	26	-	2.8	28	1	2.5
Foreign offices	24	1	4.2	24	1	4.4
<b>Loans and receivables to banks</b>						
Domestic offices	2,215	11	1.0	2,712	33	1.2
Foreign offices	6,669	14	0.4	5,123	36	0.7
<b>Loans and receivables to customers<sup>(1)</sup></b>						
Domestic offices	67,471	1,118	3.3	68,015	2,380	3.5
Foreign offices	16,338	289	3.5	20,555	697	3.4
<b>NAMA senior bonds</b>						
Domestic offices	19,579	206	2.1	17,980	348	1.9
<b>Financial investments available for sale</b>						
Domestic offices	13,494	282	4.2	14,804	508	3.4
Foreign offices	667	12	3.7	1,797	84	4.7
<b>Average interest earning assets</b>						
Domestic offices	102,785	1,617	3.2	103,539	3,270	3.2
Foreign offices	23,698	316	2.7	27,499	818	3.0
<b>Net interest on swaps</b>						
		47			137	
<b>Total average interest earning assets</b>						
	126,483	1,980	3.2	131,038	4,225	3.2
<b>Non-interest earning assets</b>						
	8,015			6,723		
<b>Total average assets</b>						
	134,498	1,980	3.0	137,761	4,225	3.1
Percentage of assets applicable to						
foreign activities			19.0			21.2

<sup>(1)</sup>Includes loans and receivables held for sale to NAMA at 31 December 2011.



# Notes to the condensed consolidated interim financial statements

## 43 Average statement of financial position and interest rates (continued)

	Half-year ended 30 June 2012			Year ended 31 December 2011		
	Average balance € m	Interest € m	Average rate %	Average balance € m	Interest € m	Average rate %
<b>Liabilities and shareholders' equity</b>						
<b>Due to central banks and banks</b>						
Domestic offices	34,027	168	1.0	42,121	593	1.4
Foreign offices	597	1	0.4	870	7	0.8
<b>Due to customers</b>						
Domestic offices	38,816	736	3.8	40,421	1,296	3.2
Foreign offices	11,907	122	2.1	11,173	200	1.8
<b>Other debt issued</b>						
Domestic offices	12,895	269	4.2	15,342	597	3.9
Foreign offices	191	5	5.1	296	14	4.8
<b>Subordinated liabilities</b>						
Domestic offices	1,223	111	18.2	1,810	172	9.5
Foreign offices	-	-	-	295	(4)	(1.4)
<b>Average interest earning liabilities</b>						
Domestic offices	86,961	1,284	3.0	99,694	2,658	2.7
Foreign offices	12,695	128	2.0	12,634	217	1.7
<b>Total average interest earning liabilities</b>						
	99,656	1,412	2.9	112,328	2,875	2.6
Non-interest earning liabilities						
	20,557			15,248		
<b>Total average liabilities</b>						
	120,213	1,412	2.4	127,576	2,875	2.3
Shareholders' equity						
	14,283			10,185		
<b>Total average liabilities and shareholders' equity</b>						
	134,496	1,412	2.1	137,761	2,875	2.1
Percentage of liabilities applicable to foreign operations						
			13.2			12.6

## 44 Related party transactions

Other than as mentioned below, there have been no related party transactions or changes therein since 31 December 2011 that have materially affected the Group's financial position or performance in the half-year to 30 June 2012.

### Transactions with key management personnel

As at 30 June 2012, 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 € 2.93 million; 10 persons (31 December 2011: € 3.94 million; 14 persons).

The aggregate of loans and overdrafts/credit cards outstanding to connected persons of directors in office at 30 June 2012, as defined in section 26 of the Companies Act 1990, amounted to € 1.05 million; 17 persons (31 December 2011: € 1.15 million; 17 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 AIB, 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 AIB 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 56 of the Annual Financial Report 2011. As detailed, this relationship encompasses a number of dimensions, namely:

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

Since 31 December 2011, there have been no significant changes to the various aspects of this relationship. The Irish Government, through the NPRFC, continues to hold 99.8% of the ordinary shares of AIB, albeit that the number of shares held has increased by 3.624 billion ordinary shares of € 0.01 each, through the non-payment of the dividend of € 280 million on the preference share capital (note 34). The NPRFC now holds 516.2 billion ordinary shares (31 December 2011: 512.6 billion shares).

# Notes to the condensed consolidated interim financial statements

## 44 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<sup>(1)</sup> at 30 June 2012 and 31 December 2011, together with the highest balances held at any point during the period:

	Note	30 June 2012		31 December 2011	
		Balance € m	Highest <sup>(2)</sup> balance held € m	Balance € m	Highest <sup>(2)</sup> balance held € m
<b>Assets</b>					
Cash and balances at central banks	a	137	3,542	228	2,618
Derivative financial instruments		106	112	104	106
Loans and receivables to banks	b	1,263	2,113	423	2,137
Loans and receivables to customers	c	7	10	11	19
NAMA senior bonds	d	18,387	19,860	19,856	19,975
Financial investments available for sale	e	5,465	5,853	5,349	6,151
<b>Total assets</b>		<b>25,365</b>		<b>25,971</b>	

	Note	30 June 2012		31 December 2011	
		Balance € m	Highest <sup>(2)</sup> balance held € m	Balance € m	Highest <sup>(2)</sup> balance held € m
<b>Liabilities</b>					
Deposits by central banks and banks	f	26,586	34,930	31,133	47,916
Customer accounts	g	218	400	176	11,846
Derivative financial instruments		54	54	15	31
Subordinated liabilities and other capital instruments	h	1,208	1,208	1,177	1,177
<b>Total liabilities</b>		<b>28,066</b>		<b>32,501</b>	

<sup>(1)</sup>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.

<sup>(2)</sup>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 represents the minimum reserve requirements which AIB is required to hold with the Central Bank of Ireland. 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 was required to maintain a Primary Liquidity balance of € 61 million at 30 June 2012 (31 December 2011: € 142 million).
- b The balances on loans and receivables to banks include statutory balances with the Central Bank of Ireland as well as overnight funds placed.
- c This balance relates to funds placed with the NTMA in the normal course of business cash management.
- d 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 23, 24 and 33 of the Annual Financial Report 2011.
- e Financial investments available for sale comprise € 5,418 million (31 December 2011: € 5,217 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 30 June 2012 of € 47 million (31 December 2011: € 132 million). At 30 June 2012, an impairment charge of € 83 million (30 June 2011: Nil) was made to the Income Statement on the NAMA subordinated bonds.
- f This relates to funding received from the Central Bank of Ireland, the total of which amounts to € 25,443 million (31 December 2011: € 30,831 million). In addition, a deposit relating to Icarom and other funds accepted from the Central Bank are included.
- g The highest balance held during 2011 relates to three NTMA deposits which matured in July 2011.
- h On 27 July 2011, AIB issued € 1.6 billion in contingent capital notes at par to the Minister for Finance, the fair value of which at initial recognition was € 1,153 million (note 33).

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

## 44 Related party transactions (continued)

### Transactions with the Irish Government and Irish Government related entities (continued)

#### Local government

During the period to 30 June 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

During the period to 30 June 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.

#### 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:

- Irish Bank Resolution Corporation;
- permanent tsb plc; and
- Irish Life Group.

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

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

At 30 June 2012, the following balances were outstanding in total to these financial institutions:

	30 June 2012 € m	31 December 2011 € m
<b>Assets</b>		
Derivative financial instruments	82	140
Loans and receivables to banks <sup>(1)</sup>	124	122
Financial investments available for sale <sup>(2)(3)</sup>	804	648
<b>Liabilities</b>		
Deposits by central banks and banks	84	108
Derivative financial instruments	45	92

<sup>(1)</sup>The highest balance in loans and receivables to banks amounted to € 607 million in respect of funds placed during the year (31 December 2011: € 1,855 million).

<sup>(2)</sup>AIB incurred an impairment loss of Nil (31 December 2011: € 132 million) due to liability management exercises by Irish banks, where either cash or equity was received in exchange for debt.

<sup>(3)</sup>Includes equity securities issued by those institutions in lieu of debt of € 35 million (31 December 2011: € 36 million).

Allied Irish Banks, p.l.c. has given a guarantee to AIB International Savings Limited (formerly Anglo IOM) to reimburse certain credit losses which may arise. At 30 June 2012, the maximum amount guaranteed was € 76 million (31 December 2011: € 73 million). In turn, Allied Irish Banks, p.l.c. expects to be reimbursed, for any payment under such guarantee, from Irish Bank Resolution Corporation ("IBRC") subject to the terms of/and the indemnities provided under the Transfer Support agreement between AIB and IBRC dated 23 February 2011. AIB has served notice of claim under the Transfer Support agreement for approximately € 72 million.

# Notes to the condensed consolidated interim financial statements



	Half-year 30 June 2012 %	Half-year 30 June 2011 %
<b>45 Other financial information</b>		
<b>Operating ratios</b>		
Operating expenses/operating income <sup>(1)(2)(3)</sup>	142.1	114.4
Other income/operating income <sup>(1)(2)(3)</sup>	9.7	16.9
Net interest margin <sup>(4)</sup> :		
Group	0.90	0.96
Domestic	0.75	0.55
Foreign	1.57	2.35

	Half-year 30 June 2012 € m	Year ended 31 December 2011 € m
<b>Average interest earning assets - continuing operations</b>		
Group	126,483	131,038
Domestic	102,785	103,539
Foreign	23,698	27,499

	Half-year 30 June 2012	Half-year 30 June 2011
<b>Rates of exchange</b>		
€/US\$		
Closing	1.2590	1.4453
Average	1.2967	1.4038
€/Stg£		
Closing	0.8068	0.9026
Average	0.8226	0.8685
€/PLN		
Closing	4.2488	3.9903
Average	4.2453	3.9523

<sup>(1)</sup>At 30 June 2012, profit on transfer of financial instruments to NAMA and provision in respect of termination benefits arising from the voluntary severance programme have been excluded.

<sup>(2)</sup>At 30 June 2011, gains on redemption of subordinated liabilities (note 7) and the loss on disposal of financial instruments held for sale to NAMA (note 8) are excluded.

<sup>(3)</sup>Relate to continuing operations at 30 June 2011.

<sup>(4)</sup>Net interest margin represents net interest income as a percentage of average interest earning assets.



# Notes to the condensed consolidated interim financial statements

## **46 Legal proceedings**

AIB Group is not, nor has 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 significant effect on the results or the financial position of AIB Group.

## **47 Non-adjusting events after the reporting period**

### **Branch closure plan**

On 27 July 2012, AIB announced plans to close/amalgamate certain sub-offices and branches across the island of Ireland of which 67 locations were impacted in the Republic of Ireland and five in Northern Ireland.

### **Pension Scheme Contribution**

AIB entered into a Contribution Deed on 31 July 2012 with the Trustee of the AIB Defined Benefit Scheme whereby it agreed to make contributions to the scheme in order to enable the Trustee to satisfy the funding requirements of the Pension Scheme in 2012.

The first contribution, amounting to € 0.4 billion has now been completed. This was settled by loans and receivables transferred to the pension fund with a carrying value of € 0.7 billion resulting in a loss on disposal of € 0.3 billion. The discount levels of the transfer were in line with the levels assumed as part of AIB's PCAR exercise in 2011.

The assets transferred were scheduled for deleveraging in the Group's Non-Core portfolio, and were held in the statement of financial position at 30 June 2012 as 'disposal groups and non-current assets held for sale'.

## **48 Approval of Half-Yearly Financial Report**

The Half-Yearly Financial Report was approved by the Board of Directors on x August 2012.

## **49 Copies of the Half-Yearly Financial Report 2012 and Annual Financial Report 2011**

The Half-Yearly Financial Report 2012 and the Annual Financial Report 2011 are available on AIB Group's internet site at: [www.aibgroup.com/investorrelations](http://www.aibgroup.com/investorrelations)

# Capital adequacy information *(unaudited)*

	30 June 2012 € m	31 December 2011 € m
<b>Capital adequacy information</b>		
<b>Tier 1</b>		
Paid up share capital and related share premium	8,096	10,096
Eligible reserves	6,230	5,313
Regulatory adjustments	(274)	(263)
<b>Core tier 1 capital (before supervisory deductions)</b>	<b>14,052</b>	<b>15,146</b>
Supervisory deductions from tier 1		
Unconsolidated financial investments	(5)	(2)
Securitisations	(53)	(79)
<b>Core tier 1 capital<sup>(1)</sup></b>	<b>13,994</b>	<b>15,065</b>
<b>Tier 2</b>		
Eligible reserves	124	125
Credit provisions	762	795
Subordinated term loan capital	1,314	1,472
Supervisory deductions from tier 2 capital	(58)	(81)
<b>Total tier 2 capital</b>	<b>2,142</b>	<b>2,311</b>
<b>Gross capital</b>	<b>16,136</b>	<b>17,376</b>
Supervisory deductions	(74)	(74)
<b>Total capital</b>	<b>16,062</b>	<b>17,302</b>
<b>Risk weighted assets (unaudited)</b>		
Credit risk	74,357	77,863
Market risk	526	560
Operational risk	5,952	5,856
<b>Total risk weighted assets</b>	<b>80,835</b>	<b>84,279</b>
<b>Capital ratios (unaudited)</b>		
Core tier 1	17.3%	17.9%
Total	19.9%	20.5%

<sup>(1)</sup>From 31 December 2011, under the Central Bank's Financial Measures Programme ("FMP"), AIB is required to report its core tier 1 capital with 50:50 supervisory deductions now being applied to the core tier 1 capital calculation. These deductions were previously deducted from tier 1 capital. This methodology is consistent with that used to calculate capital shortfalls for participating institutions in the Prudential Capital Assessment Review ("PCAR") 2011.



# Responsibility statement

for the half-year ended 30 June 2012

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 notes 1- 49, has been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting, being the International Accounting Standard applicable to the interim financial reporting, issued by the IASB and adopted unchanged pursuant to the procedure provided for under Article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

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

- (a) the important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements;
- (b) the principal risks and uncertainties for the remaining six months of the financial year;
- (c) related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and
- (d) any changes in the related parties' transactions described in the last annual report, that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

**On behalf of the Board**

**David Hodgkinson**

Chairman

**David Duffy**

Chief Executive Officer



## 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 2012 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity and the related explanatory notes. We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of 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 review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

## Directors' responsibilities

The Half-Yearly Financial Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half-Yearly Financial Report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland, and the Rules of the Enterprise Securities Market.

As disclosed in the Basis of preparation, the annual financial statements of the Group are prepared in accordance with IFRSs as issued by the IASB and IFRS as adopted by the EU. The condensed set of financial statements included in this Half-Yearly Financial Report has been prepared in accordance with IAS 34 - *Interim Financial Reporting*, as issued by the IASB and as adopted by the EU.

## 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 UK. A review of interim financial information consists of making enquiries, 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 2012 is not prepared, in all material respects, in accordance with IAS 34 as issued by the IASB and as adopted by the EU, 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.

N. Marshall

For and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm

1-2 Harbourmaster Place

International Financial Services Centre

Dublin 1

Ireland

30 August 2012

