Half-Yearly Financial Report 2015

For the six months ended 30 June 2015

Allied Irish Banks, p.l.c.

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Important Information and Forward-Looking Statements

Important Information – Valuation

AIB has 523,438,445,437 (excluding 35,680,114 treasury shares) ordinary shares in issue, c. 99.8% of which are held by the Ireland Strategic Investment Fund ("ISIF"), mainly following the issue of 500 billion ordinary shares to the National Pension Reserve Fund Commission (the predecessor to the ISIF) at €0.01 per share in July 2011. Based on the number of ordinary shares currently in issue and the closing share price of 4 August 2015, AIB trades on a valuation multiple of c. 5x (excluding the 2009 Preference Shares) the net asset value ("NAV") of the Group as at 30 June 2015. The Group continues to note that the median for comparable European banks is c.1.6x NAV.

Forward-looking statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', ' expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in the 'Principal risks and uncertainties' on pages 30 to 38 in the 2015 Half-Yearly Financial Report. In addition to matters relating to the Group's business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 30 to 38 of the 2015 Half-Yearly Financial Report is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement.

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Half-Year 2015 Financial Summary

Operating performance

Profit before tax
€ 1,235m € 798m ▲

Increased profitability from higher income, lower costs and high levels of credit writebacks. Outturn of the half-year includes a net charge of € 26 million from exceptional items and income of € 99 million from other items.

Net interest margin(1)
1.92% 32bps ▲

Continuing positive momentum in NIM mainly driven by higher asset yields and materially lower funding costs.

Total income(2)
€ 1,349m € 103m ▲

Increase in net interest income of € 133 million (lower funding costs and ELG charge). Other income € 30 million lower (higher fee & commission income offset by reduction of profits on disposals of AFS securities).

Pre-provision operating profit(2)
€ 701m € 141m ▲

Positive contribution from business segments with € 579 million from Irish operations and € 122 million from the UK.

Operating expenses(2)
€ 648m 6% ▼

Cost reductions in line with expectation. € 38 million reduction with all major expense lines reducing, reflecting further improvement on prior year reductions.

Credit provision writeback
€ 540m € 632m ▼

Net writeback of € 540 million compared to a net charge of € 92 million, an improvement of € 632 million, reflecting the level of progress on debt restructuring, economic improvement along with a reduction in new impairments.

Balance sheet / capital

CET 1 transitional capital ratio(3)
17.4% 1.0% ▲

CET 1 fully loaded capital ratio(4)
14.1% 2.3% ▲

Capital position remains very strong with the positive effect of profits generated in the period. Provides a base for ongoing discussions with stakeholders on appropriate level and mix of capital.

New lending
€ 4.0bn 56% ▲

Strong growth in new lending with increases across all sectors. New lending from Republic of Ireland of € 2.7 billion up 50% and new lending from UK of € 1.3 billion, up 71% compared to the half-year to June 2014.

Customer deposits
€ 64.5bn € 0.5bn ▲

Customer deposits remain stable at € 64.5 billion with the average cost down from 139 bps to 106 bps.

Impaired loans
€ 18.0bn € 4.2bn ▼

19% reduction reflecting the implementation of sustainable restructure solutions for customers and improved economic conditions.

Provision coverage ratio(5)
48% 51% Dec 2014

Continued progress on restructuring impaired loans. Coverage rate remains at robust levels.

Liquidity coverage ratio
117% 116% Dec 2014

The LCR has remained stable and reflects the overall quality of the funding profile with high quality liquid assets and a strong retail deposit base.

(1)Net interest margin excluding eligible liabilities guarantee ("ELG") charge.
(2)Before exceptional items. Exceptional items are detailed on page 9.
(3)Common equity tier 1 ("CET 1").
(4)Including the 2009 Preference Shares.
(5)Specific provisions as a percentage of impaired loans.

Chief Executive's review

"In the first half of 2015 we continued to transform the Group and improve our underlying performance, alongside our significant net provision writebacks and other additional gains. We strengthened our balance sheet and reduced risk by further significant reductions in impaired loans. We remain focused on delivering a bank with market leading capital returns and a clear and transparent risk profile. Central to our strategy is the creation of real value for our customers and stakeholders and we continue to build our business model around customers which in turn supports the Irish economy."

Bernard Byrne

Chief Executive

Delivering our Strategic Objectives

Introduction

I am delighted and honoured to be taking up the role of CEO for AIB at this time. We have been on a difficult journey over the past number of years which has brought AIB from the brink to sustainable profitability and now growth. I would like to recognise the role and efforts of our previous CEO, David Duffy, for leading the organisation through the most recent part of that difficult period. As a result of the work since the recapitalisation by the State in 2009, 2010 and 2011, our operating performance has not only dramatically improved, it is close to the medium term targets we set for ourselves. The bank is seeing the benefits of the extensive restructuring, cost efficiencies, net interest margin (NIM) improvement and balance sheet de-risking that has been undertaken over that period. We now have the opportunity to accelerate our development as a truly customer focused bank.

A lot has been achieved. We are strongly positioned to support our customers and respond to the economic and regulatory changes that will occur. There is, however, a lot more to do. We will build on the changes already made to become the bank we want to be for the long term.

Our vision is to be a truly customer focused, digitally enabled bank that provides customers with a platform that meets all of their daily banking needs, and works for them to manage all their important financial decisions. We have a very clear customer focused strategy, which will enable us to achieve that vision. We are changing the bank which will support the delivery of additional income and enable further efficiencies and cost reductions, which will deliver superior results for our stakeholders. In turn we will also continue to reduce the substantial number of impaired loans that remain on the balance sheet.

In the first half of 2015, we were supportive of, and also benefited from a strong economic recovery in Ireland and the UK. As a result we are delivering benefits for customers and our shareholders and positioning AIB to generate the sustainable returns, and one off gains necessary to position the business to return to the State the capital it invested in AIB.

Focused on Supporting our Customers

Our No. 1 Brand Value is *'we put our customers first'*. Our ambition is to be at the heart of our customers' financial lives by always being useful, always informing ourselves about our customers' needs and always providing an exceptional customer experience. We have to rebuild our customers' trust in us. This is a huge challenge. We know that for customers to be able to fully trust us again and see that we are putting them first, we have to prove by 'doing', rather than just words. We will not achieve this easily or quickly but in achieving this, we believe we will create real value for our customers.

We are demonstrating our support for customers through our 'Backing Brave, Backing Doing, and Putting Down Roots' campaigns, which are focused on supporting our customers by meeting their needs. These campaigns are all based on real changes we have made to our business. We demonstrated our Brand Value committment to putting the customer first in May, when we further reduced the rate on our standard variable mortgages (SVR) for new and existing customers. This followed the reduction in SVRs and fixed rates already implemented in Q4 2014. We will continue to challenge ourselves to deliver customer benefits by efficiently managing the Group to keep costs low.

Our very competitive mortgage offers, coupled with the increased activity in the mortgage market, have resulted in AIB providing more mortgages to customers' year on year. Our market share of mortgage drawdowns in the Republic of Ireland grew by 6% in the first quarter of the year to 39%. Customer drawdowns were € 0.8 billion, which was 61% higher than this time last year. Notwithstanding the significant increase in activity, we believe that the macro-prudential measures introduced by the Central Bank of Ireland (CBI) are likely to have a material dampening effect on house prices and mortgage lending in 2015.

We have executed an extensive programme to highlight the range of personal lending products available at the bank. We have introduced a three-hour turnaround time for personal lending across multiple channels through which customers can apply for a personal loan. We have supported over 9,000 personal customers through our online channel alone since the launch of the campaign in September 2014. Overall, we have seen a 56% growth in personal lending drawdowns in the first six months of 2015 versus the same period last year.

Our support for our small business customers, who play a key role in economic recovery, has been underlined by the growth in lending, underpinned by our sector specialist strategy. We have seen growth in lending across all main sectors, in particular Agriculture, Wholesale/Retail Trade, Manufacturing and Tourism. There was strong new business growth in our lending to corporate customers driven by our sector specific relationship model. Lending approvals to our SME customers are up 48% year on year, and up 44% for our corporate customers in Ireland. We continue to maintain a leading position for relationships with Foreign Direct Investment companies into Ireland and in the UK our lending drawdowns are up 70% year on year.

We are continuing to invest in our omni-channel distribution capability across the branch network, online, mobile and direct channels to provide more convenient and accessible banking services for our customers. This programme is also focused on increased innovation and digitisation while simplifying processes. We believe this differentiated model will improve our service to customers and will enhance our capacity to achieve cost and income benefits in the future. We further developed our leading digital presence in the Republic of Ireland, reaching, in the first half of this year, our milestone of one million online channel users. We have 518,000 active mobile banking users, with 49% of personal loans completed online. These transactions are facilitated by our call centres which are open all day, every day to help our customers.

We remain focused on supporting our customers in financial difficulty, and are actively engaging with and implementing sustainable solutions for our personal and business customers. Our approach to restructuring is to ensure that we maintain good working relationships with those customers who engage with the bank as they recover. Reducing arrears, keeping people in their homes where possible, and protecting jobs and sustaining viable businesses are our key priorities when agreeing sustainable solutions.

Financial Performance

Sustainable Profitability

We delivered a strong financial performance in the first half of 2015. Achieving Profit Before Tax of € 1.2 billion is very positive. It reflects, almost in equal measure, one-off items and genuine nderlying profits. The increase in underlying profit was largely due to improving our NIM, additional gains in other income and ongoing focus on our cost base. In addition, our profit before tax has also been positively impacted by a net writeback of credit provisions of € 540 million, primarily driven by case by case restructuring of customers in difficulty in an improving economic environment.

NIM increased to 1.92% due to lower funding costs, driven predominantly by liability repricing. Overall asset yields were broadly stable, including the impact of the reduction in fixed and variable rate mortgages. As a result of an 8% increase in operating income, together with a 6% reduction in costs, we reported a pre-provision operating profit of €701 million in the six months to June 2015, 25% higher than the same period in 2014.

Overall asset quality continues to improve and our total impaired loans reduced by € 4.2 billion or 19% since December 2014 to €18 billion. We have now achieved an €11 billion reduction in the level of impairment since December 2013. The total number of accounts in arrears in the Irish residential mortgage portfolio fell in the period, declining by 13% year on year. The credit impairment charge for new impaired loans is trending towards more normalised levels, driven by a reduction in the flow of new to impaired loans, and case by case restructuring of our customers in financial difficulty. This restructuring, and the resulting solutions, are also positively impacted by the improving economic environment. We will continue to adopt an appropriately conservative approach in concluding these solutions, which is beneficial for both the customer and the bank.

The balance sheet and funding positions have continued to stabilise in the period. Performing loans, excluding foreign exchange impacts, grew marginally since December 2014. Customer accounts, including the impact of currency movements, increased to € 64.5 billion, with growth in current accounts reflective of the lower interest rate environment and economic improvements. The loan to deposit ratio of 99% at June 2015 is broadly unchanged from December 2014. We also successfully issued two funding transactions in the first half of 2015, an Asset Covered Security bond and a Senior Unsecured bond totalling € 1.25 billion.

Capital

Capital Position

Our capital position strengthened significantly in the first half of 2015 with a transitional Common Equity Tier 1 (CET1) ratio of 17.4% and our fully loaded CRD IV CET1 ratio, including the 2009 Preference Shares, was 14.1%. This ratio also reflects the positive impact of profits and the embedded value in our Available for Sale portfolio, offset by the negative impact of the pension deficit, which has reduced since December 2014. Excluding the 2009 Preference Shares, this ratio was 8.3%.

We are well positioned to continue to generate sustainable returns and to provide the State with the opportunity to recover the c. € 20.8 billion of capital we received from it. The €280 million cash payment of the dividend on the 2009 Preference Shares, paid in May, was significant in terms of validating our progress in this regard.

The increased levels of capital and underlying sustainable profitability enables us to progress discussions with the Department of Finance on determining our appropriate level and mix of capital, which will be subject to relevant regulatory and shareholder approvals. These discussions are focused on:

– Options in relation to the €3.5 billion 2009 Preference Shares, including the possible conversion into ordinary equity of a portion of the instruments and redemption of the balance.
– Scheduled redemption of € 1.6 billion of Contingent Capital Notes in July 2016.
– Regularising the capital structure to be fully compliant with Basel III/CRD IV capital requirements.
– A possible significant consolidation in the number of ordinary shares in issue given the bank currently has in excess of 523 billion ordinary shares outstanding.

Staff and Customers

For the last five years that I have been at this organisation I have seen first hand the hard work and commitment shown by my colleagues to play their part in, firstly, helping to rescue the bank and then returning it to sustainable profitability. Along this difficult journey our ability to focus properly on customer service has improved year on year. We still have many issues and many legacy challenges to address with our customers. As CEO I am confident that the dedication and commitment of our staff will deliver the successful implementation of the next phase of our strategy and allow us to put the past fully behind us. Our Employee Engagement scores continue to improve and we are embedding values and behaviours which support our customer centric culture. We are focused on developing talent across the bank, and continue to invest in our people with training and development programmes. I would like to take this opportunity to thank my colleagues for their continued commitment and I look forward to close collaboration and working together to achieve our business goals and ambitions.

Our customers are the reason we exist. I know that on occasion over the past number of years that may not have always seemed clear. It is clear to me. It is what I want my tenure as CEO to be about – putting the customers at the heart of what we do. We won't always get it right. We have challenges that we are still grappling with but it is what I, the Board and the staff want this bank to be about. We will report our progress to you every year.

Outlook

We have returned to sustainable profitability and are now well placed to benefit from the expected increase in economic activity in our main operating markets. We continue to face a number of challenges, including the requirement to reduce the size of our significant impaired loan portfolios, ensuring the bank's capital structure is appropriate in the context of evolving regulatory and market requirements, and the fact that loan growth levels remain low relative to long term historic norms. Additionally, global growth forecasts and a number of ongoing uncertainties in the Eurozone could impact overall economic activity.

While we are aware of the many risks that exist, we are well positioned from a capital and funding perspective to support our customers and the continued recovery in the Irish economy. We will continue to focus on reaching our medium term performance targets while also aiming to be the best bank for our customers – to further improve service, and to continue to rebuild customers' trust.

We recognise that we have a challenge in improving customer perception of the bank. Our key strategic objectives are simple, straightforward and supportive of our vision:

– Understand our customers' needs by listening to customer feedback.
– Continuously innovating to provide suitable products and services for our customers.
– Serve our customers through our innovative omni channel approach in a complete, consistent and connected manner.
– Relentlessly deliver these objectives through our simplification and digitisation agenda.

Some of our historical issues, our legacy products and the evolving conduct environment may mean we will face issues that seem to challenge our abilty to progress this vision in the years to come. However our direction over the next number of years will be driven by that vision, and our key strategic objectives. We will manage financial performance carefully to enable the process of returning material amounts of capital to the Irish State, while continuing to focus on our customers.

As I settle into the role of CEO, I am confident that the Board, management and staff at AIB are very well placed to deliver these objectives.

Bernard Byrne
Chief Executive Officer

6 August 2015

Business review

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Business review - 1. Operating and financial review

Summary income statement	Half-year June 2015 € m	Half-year June 2014 € m	% change
Net interest income	**940**	807	*16*
Business income	**310**	235	*32*
Other items	**99**	204	*-51*
Other income	**409**	439	*-7*
Total operating income	**1,349**	1,246	*8*
Personnel expenses	**(356)**	(389)	-8
General and administrative expenses	**(253)**	(255)	*-1*
Depreciation, impairment and amortisation	**(39)**	(42)	*-7*
Total operating expenses	**(648)**	(686)	*-6*
Operating profit before provisions	**701**	560	*25*
Writeback/(provisions) for impairment on loans and receivables	**540**	(92)	-
Writeback of provisions for liabilities and commitments	**3**	-	-
Total writeback/(provisions)	**543**	(92)	-
Operating profit	**1,244**	468	*166*
Associated undertakings	**13**	9	*44*
Profit on disposal of property	**4**	2	*100*
Profit from continuing operations before exceptional items	**1,261**	479	*163*
Gain on transfer of financial instruments	**7**	7	-
Termination benefits	**(13)**	(7)	-
Restructuring and restitution expenses	**(12)**	(42)	-
Other exceptional items	**(8)**	-	-
Total exceptional items	**(26)**	(42)	-
Profit before taxation from continuing operations	**1,235**	437	*183*
Income tax charge from continuing operations	**(395)**	(60)	*558*
Profit after taxation from continuing operations	**840**	377	*123*
Profit after taxation from discontinued operations[1]	**-**	34	-
Profit for the period	**840**	411	*104*

Operating contribution before provisions by segment	€ m	€ m	% change
Retail & Business Banking ("RBB")	**457**	362	*26*
Corporate & Institutional Banking ("CIB")	**292**	308	*-5*
AIB UK	**122**	73	*67*
Group	**(170)**	(183)	*7*
Operating profit before provisions	**701**	560	*25*

[1]Profit on the disposal of Ark Life Assurance Company Limited.

Business review - 1. Operating and financial review

Basis of presentation

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

Exceptional items

Total exceptional items	Half-year June 2015 € m	Half-year June 2014 € m
Gain on transfer of financial instruments	7	7
Termination benefits	(13)	(7)
Restructuring and restitution expenses	(12)	(42)
Other exceptional items	(8)	-
Total exceptional items	(26)	(42)

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

– Gain on transfer of financial instruments: Valuation adjustments on previous transfers of financial assets to NAMA amounted to a gain of € 7 million in the half-year to June 2015, (€ 7 million in the half-year to June 2014).
– Termination benefits: The cost of the voluntary severance programme was € 13 million in the half-year to June 2015 (€ 7 million in the half-year to June 2014).
– Restructuring and restitution expenses of € 12 million in the half-year to June 2015 (€ 42 million in the half-year to June 2014). These include costs associated with restitution, transformation, re-organisation and certain provisions for liabilities.
– Other exceptional items: Capital restructuring costs and other related items of € 8 million in the half-year to June 2015.

Overview of results

Profit before taxation from continuing operations (after exceptional items) amounted to € 1,235 million in the half-year to June 2015 compared to € 437 million in the half-year to June 2014. The Group has continued its positive momentum into 2015 and is delivering on its strategic objectives. This is reflected in higher levels of income, lower operating expenses and, in particular, a significant credit provision writeback in 2015. The net charge for exceptional items in the half-year to June 2015 was € 26 million compared to € 42 million in the half-year to June 2014.

Profit before taxation from continuing operations and before exceptional items was € 1,261 million in the half-year to June 2015 compared to € 479 million in the half-year to June 2014, with improvement across net interest income, operating expenses and provisions. While there was a reduction in other income in the period, business income performed strongly while other items reduced from € 204 million to € 99 million in the period.

Net interest income of € 940 million increased by € 133 million compared to the half-year to June 2014, reflecting a lower cost of deposits and other liabilities, a lower ELG charge (€ 15 million lower) and higher asset pricing partly offset by lower average interest earning assets.

Other income, now presented as 'business income' and 'other items', of € 409 million was € 30 million lower than the half-year to June 2014. Business income of € 310 million increased by € 75 million mainly due to higher banking fee and commission income and an improvement of € 48 million in the valuation adjustment on customer derivatives.

Other items	Half-year June 2015 € m	Half-year June 2014 € m
Net profit on disposal of AFS securities	51	109
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	4	22
Settlements and other gains	44	73
Other items	99	204

Other items of € 99 million were € 105 million lower than the half-year to June 2014. Details of these items are set out in the table above and for further detail see Other income on page 12.

Total operating expenses of € 648 million were € 38 million (6%) lower compared to the half-year to June 2014. This reduction in costs mainly related to the impact of staff exits as part of the severance scheme.

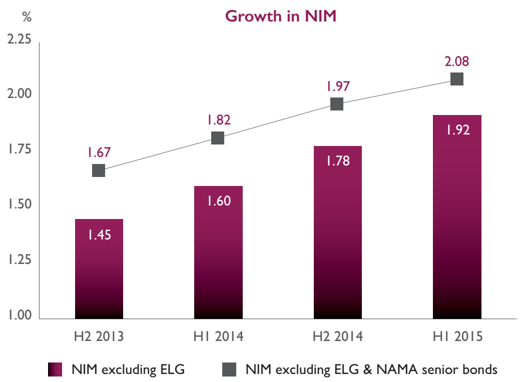
Provisions for impairment on loans and receivables reduced by € 632 million from a net provision charge of € 92 million in the half-year to June 2014 to an overall net provision writeback of € 540 million in the half-year to June 2015. The writeback comprised of € 343 million in specific provision writebacks and a release of IBNR provisions of € 197 million (30 June 2014: € 189 million charge in specific provisions and release of IBNR provisions of € 97 million). The writeback was mainly due to the restructuring process and was primarily driven by increases in asset values and improvements in trading performance / affordability reflecting the continuing improvement in the economic environment. See the Risk management section on page 72 for more detail on provisions.

Net interest income

- NIM[(1)] up 32 bps to 1.92% compared to the half-year to June 2014.
- Materially reduced funding costs and strong new lending partly offset by lower average net loans
- Excluding the impact of low yielding NAMA senior bonds, NIM was 2.08%.

	Half-year June 2015 €m	Half-year June 2014 €m	% change
Net interest income	**940**	807	*16*
Average interest earning assets	**100,637**	105,706	*-5*
	%		% change
NIM excluding ELG	**1.92**	1.60	0.32
NIM excluding ELG and NAMA senior bonds	**2.08**	1.82	0.26
NIM	**1.88**	1.54	0.34

The Group's net interest margin[(1)] of 1.92% increased by 32 basis points ("bps") compared to the half-year to June 2014. NIM increased by 14 bps compared with 1.78% in the second half of 2014. Excluding the impact of the Group's low yielding NAMA senior bonds, NIM increased to 2.08%, a 26 bps increase on the half-year to June 2014 and a 11 bps increase on the second half of 2014.



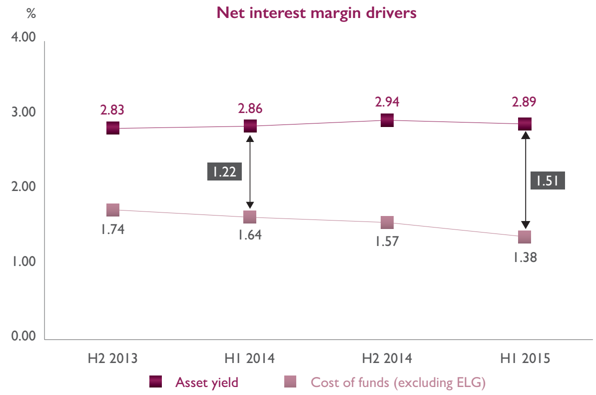
Net interest income of € 940 million increased by € 133 million (16%) in the half-year to June 2015 from € 807 million in the half-year to June 2014. The increase was mainly due to materially lower funding costs, strong new lending volumes at risk appropriate margins and a reduction in the cost of the ELG scheme of € 15 million partly offset by lower income from available for sale securities and NAMA senior bonds, and reducing loan balances.

The impact of currency movements in net interest income was € 20 million positive in the half-year to June 2015.

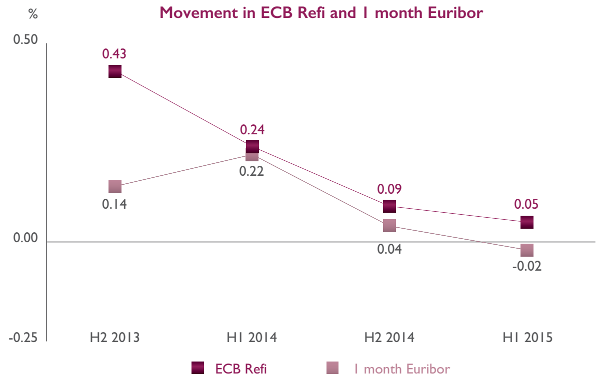
Asset yields increased marginally from 286 bps to 289 bps as yields on loans to customers increased by 8 bps partly offset by reductions on yields on financial investments available for sale of 45 bps and yields on NAMA senior bonds of 21 bps.

The cost of funds reduced from 164 bps to 138 bps. Continued deposit pricing actions managed down the cost of customer accounts without negatively impacting retail customer balances.

This factor combined with broadly stable asset yields resulted in the gap between asset yields and the cost of funds increasing from 122 bps in H1 2014 to 151 bps in H1 2015. These trends are set out in the following graph on a half-yearly basis.



The ECB maintained low official rates and short term Euribor rates moved slightly into negative territory during the first half of 2015 positively impacting on short term funding.



Eligible liabilities guarantee ("ELG")

The ELG charge was € 17 million in the half-year to June 2015 compared with € 32 million in the half-year to June 2014. As existing liabilities that are covered by the scheme mature, the ELG charge will continue to reduce. The total liabilities guaranteed under the ELG Scheme at 30 June 2015 amounted to € 2.1 billion (€ 5.5 billion at 30 June 2014).

[(1)]Excluding ELG

Business review - 1. Operating and financial review

Average balance sheet[1]

	Half-year ended 30 June 2015			Half-year ended 31 December 2014			Half-year ended 30 June 2014		
Assets	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %	Average balance €m	Interest €m	Average rate %
Loans and receivables to customers	**65,129**	**1,115**	**3.45**	64,552	1,129	3.47	66,244	1,108	3.37
NAMA senior bonds	**8,683**	**20**	**0.46**	10,996	33	0.60	14,168	47	0.67
Financial investments available for sale	**19,625**	**258**	**2.65**	19,372	267	2.73	19,517	300	3.10
Other interest earning assets	**7,200**	**11**	**0.32**	6,152	10	0.32	5,777	12	0.40
Net interest on swaps		**38**			58			33	
Average interest earning assets	**100,637**	**1,442**	**2.89**	101,072	1,497	2.94	105,706	1,500	2.86
Non interest earning assets	**7,632**			7,459			9,029		
Total assets	**108,269**	**1,442**		108,531	1,497		114,735	1,500	
Liabilities & shareholders' equity									
Deposits by banks	**16,944**	**5**	**0.06**	15,855	15	0.19	21,219	31	0.30
Customer accounts	**44,808**	**236**	**1.06**	48,411	295	1.21	49,486	342	1.39
Subordinated liabilities	**1,480**	**136**	**18.54**	1,426	128	17.81	1,376	128	18.69
Other debt issued	**7,466**	**108**	**2.93**	8,701	152	3.47	9,145	160	3.54
Average interest earning liabilities	**70,698**	**485**	**1.38**	74,393	590	1.57	81,226	661	1.64
Non interest earning liabilities	**25,726**			22,429			22,423		
Shareholders' equity	**11,845**			11,709			11,086		
Total liabilities & shareholders' equity	**108,269**	**485**		108,531	590		114,735	661	
Net interest income excluding ELG		**957**	**1.92**		907	1.78		839	1.60
Eligible liabilities guarantee ("ELG")[1]		**(17)**	**(0.04)**		(27)	(0.05)		(32)	(0.06)
Net interest income including ELG		**940**	**1.88**		880	1.73		807	1.54

The net interest margin[2] increased by 32 bps from 1.60% in the half-year to June 2014 to 1.92% in the half-year to June 2015. The factors contributing to the increase of 32 bps were an increase in yields on interest earning assets (3 bps) and a decrease in the cost of funding those assets (29 bps).

Average interest earning assets reduced from € 106 billion to € 101 billion due to reduction in NAMA senior bonds of € 5.5 billion and loans and receivables to customer of € 1.1 billion which were partly offset by an increase in other interest earning assets of € 1.4 billion.

Interest income from loans to customers was higher in the half-year to June 2015 as a result of positive loan pricing actions during 2014 and risk appropriate margins on strong new lending partly offset by lower loan balances as loan amortisation exceeded new lending.

NAMA senior bond interest income reduced by € 27 million as a result of reduced volumes following redemptions of € 4.4 billion between June 2014 and June 2015 and lower interest rates. Interest income from financial investments available for sale reduced by € 42 million as higher yielding securities were sold and replaced with lower yielding securities as part of ongoing management of the portfolio.

The cost of interest earning liabilities reduced from € 661 million in the half-year to June 2014 to € 485 million in the half-year to June 2015 due to a reduced funding requirement and higher volume of current accounts and lower volumes of deposits by banks. This along with the reduction in deposit pricing on customer accounts and lower wholesale market rates have resulted in materially lower funding costs.

Excluding the impact of the Group's low yielding NAMA senior bonds, the net interest margin[2] was 2.08% in the half-year to June 2015 compared to 1.82% in the half-year to June 2014.

[1] The Average Balance Sheet (note 54 to the financial statements) is presented differently and includes the cost of ELG in interest within liabilities and shareholders' equity.

[2] Excluding ELG

Business review - 1. Operating and financial review

Other income

- Business income up 32% to € 310 million:
  - net trading income benefited from rise in interest rate swap levels
  - 6% increase in net fee and commission
- Reductions in Other items as high levels of gains occurred in the half-year to June 2014.

Other income	**Half-year June 2015 € m**	Half-year June 2014 € m	% *change*
Net fee and commission income	**207**	195	*6*
Dividend income	**25**	25	*-*
Net trading income	**67**	8	*738*
Foreign exchange gains	**8**	5	*60*
Miscellaneous operating income	**3**	2	*50*
Business income	**310**	235	*32*
Other items	**99**	204	*-51*
Other income	**409**	439	*-7*

Other income, now presented as 'business income' and 'other items', was € 409 million in the half-year to June 2015 compared with € 439 million in the half-year to June 2014, a decrease of € 30 million (7%). Business income of € 310 million increased by € 75 million and other items of € 99 million reduced by € 105 million compared with the half-year to June 2014. Other items impact on the trended performance of the business.

The impact of currency movements in other income was € 8 million positive in the half-year to June 2015.

Net fee and commission income

Net fee and commission income of € 207 million was € 12 million (6%) higher than the half-year to June 2014 as current account fees and other retail banking customer fees increased along with credit related fees and insurance commissions.

Dividend income

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

Net trading income

Net trading income	**Half-year June 2015 € m**	Half-year June 2014 € m	% *change*
Foreign exchange contracts	**23**	23	*-*
Interest rate contracts and debt securities	**44**	(15)	*-*
Net trading income	**67**	8	*738*

Net trading income was € 67 million in the half-year to June 2015 compared to income of € 8 million in the half-year to June 2014.

Foreign exchange contracts of € 23 million were in line with the half-year to June 2014.

Income from interest rate contracts and debt securities was € 44 million in the half-year to June 2015 compared to € 15 million negative in the half-year to June 2014. The positive movement in the half-year to June 2015 was primarily due to a rise in medium to long term interest rate swap levels. This positive movement was partially offset by a loss of € 3.7 million in securities in which AIB commenced a trading portfolio in 2015. The negative movement in the half-year to June 2014 was primarily due to negative income of € 19 million relating to the introduction of a Funding Valuation Adjustment ("FVA") across customer derivative positions.

Other items

Other items	**Half-year June 2015 € m**	Half-year June 2014 € m
Net profit on disposal of AFS securities	**51**	109
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	**4**	22
Settlements and other gains	**44**	73
Other items	**99**	204

There was € 99 million of income classified as other items in the half-year to June 2015 compared to income of € 204 million in the half-year to June 2014. Income included a net profit of € 51 million from the disposal of available for sale debt and equity securities compared to a net profit of € 109 million in the half-year to June 2014.

A gain of € 4 million was recognised on NAMA senior bonds reflecting accelerated repayments in the half-year to June 2015 following redemptions of € 1.9 billion in 2015. A gain of € 22 million was recognised in the half-year to June 2014 that reflected a revised expected timing of repayments including those received in the period.

Settlements and other gains of € 44 million in the half-year to June 2015 included € 17 million fair value gain on realisations/re-estimation of cash flows on loans previously restructured, € 12 million profit on the disposal of corporate loans compared to € 43 million in the half-year to June 2014, a net gain of € 7 million on buyback of debt securities in issue compared to a net gain of € 3 million in the half-year to June 2014 and a fair value gain of € 8 million on equity warrants received as part of previous customer debt restructuring. The half-year to June 2014 also included € 27 million income on settlement of a claim.

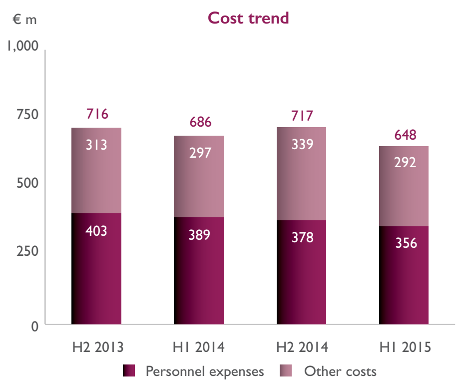
Total operating expenses[1]

- Costs of € 648 million down € 38 million (6%) compared to the half-year to June 2014.
- Average staff numbers down 531 (5%) compared to the half-year to June 2014.
- Costs are down 26% from 2012.

Operating expenses	**Half-year June 2015 € m**	Half-year June 2014 € m	% change
Personnel expenses	**356**	389	-8
General and administrative expenses	**253**	255	-1
Depreciation, impairment and amortisation	**39**	42	-7
Total operating expenses before exceptional items	**648**	686	-6
Staff numbers at period end (FTE)[2]	**10,599**	11,385	-7
Average staff numbers (FTE)[2]	**10,830**	11,361	-5

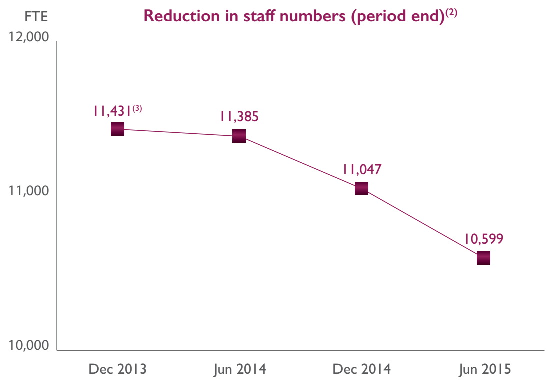
Total operating expenses of € 648 million were € 38 million (6%) lower compared to the half-year to June 2014. This reduction in costs mainly related to the impact of staff exits as part of the severance scheme. The impact of currency movements in operating expenses was € 12 million negative in the half-year to June 2015.

While costs continue to reduce in line with expectations, the Group continues to strategically invest in customer, resilience and change agendas.



Personnel expenses

Personnel expenses of € 356 million reduced by € 33 million (8%) with a reduction in costs reflecting lower staff numbers. Average staff numbers of 10,830 reduced by 531 (5%) mainly due to the severance scheme in 2014 and 2015 and continued selective outsourcing of some back office and support functions. Costs related to this outsourcing activity were reflected in general and administrative expenses.



General and administrative expenses

General and administrative expenses of € 253 million were broadly in line with the half-year to June 2014 with savings across most classifications as part of ongoing cost management and control partly offset by an increase in costs as a result of outsourcing initiatives and additional technology costs.

Depreciation, impairment and amortisation

The charge for depreciation, impairment and amortisation of € 39 million was € 3 million (7%) lower than the half-year to June 2014.

Cost income ratio

Costs of € 648 million and income of € 1,349 million, which exclude exceptional items and includes income from other items, resulted in a cost income ratio of 48% compared to 55% in the half-year to June 2014.

[1]Excluding exceptional items.
[2]Staff numbers quoted in the commentary above are on a full time equivalent ("FTE") basis.
[3]Excluding Ark Life staff numbers of 146. Ark Life was held for sale at 31 December 2013.

Business review - 1. Operating and financial review

Associated undertakings

Income from associated undertakings in the half-year to June 2015 was € 13 million compared with € 9 million in the half-year to June 2014. This increase is mainly due to higher profits from AIB's share in the joint venture with First Data International trading as AIB Merchant Services and a profit of € 2 million from AIB's share in associate Aviva Health Insurance Ireland Limited.

Income tax

The total taxation charge for the half-year to June 2015 was € 395 million compared with a charge of € 60 million in the half-year to June 2014. The increase was primarily due to an increase in pre-tax profits together with a once off UK deferred tax expense of € 242 million arising from legislation enacted in March 2015 which only allows fifty per cent of a bank's annual trading profits to be sheltered by unused tax losses arising before 1 April 2015. Subject to specific exceptions e.g. AIB Group (UK) p.l.c., deferred tax assets in respect of accumulated tax losses continue to be recognised in full on the basis that it is expected that tax losses will be utilised in full against future profit. These exceptions are set out in note 30 to the financial statements.

Discontinued operations

Profit on the disposal of Ark Life Assurance Company Limited of € 34 million, following completion of the sale on 8 May 2014 has been reported under discontinued operations in the half-year to June 2014. See note 15 to the financial statements.

Balance sheet commentary

- Net loans to customers stable at € 63.8 billion New lending of € 4.0 billion was 56% higher than in the half-year to June 2014.
- Reduction in NAMA senior bonds of € 1.9 billion (20%) to € 7.5 billion due to redemptions.
- Customer deposits at € 64.5 billion remained broadly stable.

Balance sheet	30 June 2015 € bn	31 Dec 2014 € bn	% change
Gross loans to customers	73.3	75.8	-3
Provisions	(9.5)	(12.4)	-23
Net loans to customers	63.8	63.4	1
Financial investments available for sale	19.8	20.2	-2
NAMA senior bonds	7.5	9.4	-20
Other assets	15.6	14.5	8
Total assets	106.7	107.5	-1
Customer accounts	64.5	64.0	1
Deposits by banks - ECB	3.3	3.4	-3
Other market funding	12.8	13.4	-4
Debt securities in issue	6.8	7.9	-14
Other liabilities	7.0	7.2	-3
Total liabilities	94.4	95.9	-2
Shareholders' equity	12.3	11.6	6
Total liabilities & shareholders' equity	106.7	107.5	-1
	%	%	change
Loan to deposit ratio	99	99	-

Loans to customers

Gross loans to customers

Gross loans at € 73.3 billion were down € 2.5 billion (3%) since 31 December 2014 or € 3.9 billion (5%) excluding the impact of currency movements. The reduction was due to restructuring activity of € 2.6 billion and loan redemptions of € 5.3 billion partly offset by new lending of € 4.0 billion.

Earning loans, excluding the impact of currency movements, have increased by € 0.5 billion (1%) to € 55.3 billion and include the benefit of € 1.5 billion of loans upgraded to earning in the period. This also includes new mortgage lending of € 0.8 billion up 61%, and other lending of € 1.9 billion up 46% from Republic of Ireland and new lending of € 1.3 billion from the UK, up 70%.

Impaired loans, excluding the impact of currency movements, have reduced by € 4.4 billion (20%) to € 18.0 billion since 31 December 2014 reflecting the implementation of sustainable restructure solutions for customers and improved economic conditions.

Provisions

Balance sheet provisions have decreased from € 12.4 billion to € 9.5 billion mainly due to the utilisation of provisions as part of structuring sustainable solutions for customers and write-offs. See the Risk management section on page 71 for more detail on the movement in provisions during the half-year to June 2015.

Net loans to customers

Net loans of € 63.8 billion increased by € 0.4 billion (1%), excluding the impact of currency movements net loans reduced by € 0.8 billion (1%), and reflect the gross loan movements as set out above along with the impact of movement in provisions. Net loans in RBB reduced from € 43.6 billion to € 43.3 billion (68% of total net loans). CIB net loans were broadly stable at € 9.5 billion and there was a reduction of 4% in AIB UK.

The table below sets out the movement in loans to customers from 1 January 2015 to 30 June 2015.

Loans to customers	Earning loans € bn	Impaired loans € bn	Gross loans € bn	Specific provisions € bn	IBNR provisions € bn	Net loans € bn
Opening balance (1 January 2015)	53.6	22.2	75.8	(11.3)	(1.1)	63.4
New lending volumes	4.0	-	4.0	-	-	4.0
New impaired loans	(0.4)	0.4	-	(0.2)	-	(0.2)
Restructures and write-offs[1]	1.5	(4.1)	(2.6)	3.0	-	0.4
Redemptions of existing loans	(4.4)	(0.9)	(5.3)	-	-	(5.3)
Foreign exchange movements	1.2	0.2	1.4	(0.2)	-	1.2
Other movements	(0.2)	0.2	-	0.1	0.2	0.3
Closing balance (30 June 2015)	55.3	18.0	73.3	(8.6)	(0.9)	63.8

[1]Includes non-contractual write-offs. See the Risk management section on page 57.

Financial investments available for sale (“AFS”)

AFS assets which are held for liquidity and investment purposes, decreased from € 20.2 billion to € 19.8 billion during the half-year to June 2015. Sales of € 2.5 billion, maturities of € 0.3 billion and a decrease in fair value of € 0.3 billion were offset by purchases of € 2.7 billion. The sale of securities generated net income of € 51 million (net of hedge termination costs). The decrease in fair value of € 0.3 billion was driven by widening of Irish, Italian and Spanish sovereign spreads and the impact of higher interest rates on fixed rate security holdings. AFS equity securities increased by € 46 million due to an increase in fair value of NAMA subordinated debt following the continued improvement in commercial property markets and the accelerated repayment of NAMA senior bonds. Further detail in respect of AFS is available on pages 103 to 105.

NAMA senior bonds

In the half-year to June 2015 € 1.9 billion of NAMA senior bonds were redeemed. Redemptions of low yielding NAMA senior bonds improved the Group’s overall net interest margin.

Other assets

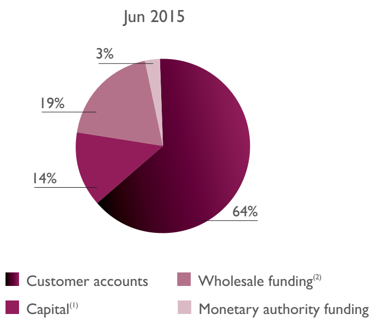
Other assets of € 15.6 billion comprised:

- cash and loans to banks of € 8.6 billion up 18% from € 7.3 billion.
- deferred taxation of € 3.2 billion, € 0.4 billion lower than December 2014 mainly due to the partial writedown of UK deferred tax assets.
- derivative financial instruments of € 1.7 billion, € 0.3 billion lower than December 2014.
- the remaining assets of € 2.1 billion up 32% from € 1.6 billion which includes € 350 million increase in trading debt securities relating to the introduction of a new fixed income securities trading desk in Treasury.

Funding

Customer accounts contributed 64% of the total funding requirement at 30 June 2015, up from 63% at 31 December 2014.

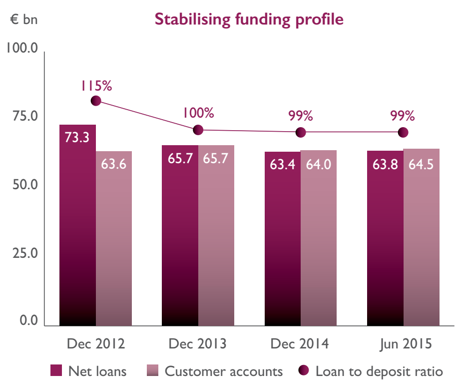
Source of funds



Stabilising funding mix broadly in line with 31 December 2014. At 30 June 2015 customer accounts were € 64.5 billion, with wholesale funding at € 19.6 billion, deposits by banks at € 3.3 billion and capital at € 13.8 billion.

Customer accounts

Customer accounts increased by € 0.5 billion (1%) to € 64.5 billion. Excluding the impact of currency movements, customer accounts reduced by € 0.8 billion (1%). The reduction included a decrease in repos of € 0.8 billion. Overall customer deposits remained broadly stable with strong growth in current accounts offset by a reduction in term deposits. The average cost of customer accounts dropped from 139 bps in the half-year to June 2014 to 106 bps in the half-year to June 2015.



Deposits by banks - ECB

There was a reduction of € 0.1 billion (3%) in monetary authority funding in the half-year to June 2015 as the overall funding requirement reduced.

Other market funding

Other market funding reduced by € 0.6 billion (4%) in the half-year to June 2015 driven by a € 0.5 billion reduction in bilateral repos principally due to NAMA senior bond repayments.

Debt securities in issue

Debt securities in issue reduced by € 1.1 billion during 2015 which reflected an overall lower funding requirement for the Group. The reduction was primarily due to the scheduled maturity of € 2.2 billion of unsecured debt partly offset by a 7 year AIB Mortgage Bank ACS issuance of € 750 million and a 5 year € 500 million senior unsecured debt issue in the half-year to June 2015. The two issuances have been part of a balanced and measured re-engagement in the wholesale markets.

Other liabilities

Other liabilities of € 7.0 billion comprised:

- subordinated liabilities mainly contingent capital notes maturing in 2016 with a carrying value of € 1.5 billion (nominal value of € 1.6 billion).
- derivative financial instruments of € 2.3 billion were in line with December 2014.
- retirement benefit liabilities € 0.6 billion compared to € 1.2 billion in December 2014 following changes in actuarial assumptions used to value the Irish scheme's liabilities.
- the remaining liabilities of € 2.6 billion up 18% from € 2.2 billion.

Shareholders' equity

Shareholders' equity increased by € 0.7 billion from € 11.6 billion in 2014 to € 12.3 billion in the half-year to June 2015. This increase was mainly due to profit for the half-year to June 2015 of € 0.8 billion partly offset by a negative movement in fair value on available for sale securities and cash flow hedges of € 0.3 billion and € 0.3 billion payment of a preference dividend in May 2015. The net pension deficit reserve has reduced from a deficit of € 0.9 billion at 31 December 2014 to a deficit of € 0.5 billion at 30 June 2015 mainly due to an increase in the discount rate used to calculate the Irish pension scheme's liabilities.

Qualifying liquid assets

At 30 June 2015, the Group held € 38 billion in qualifying liquid assets/contingent funding (including € 4 billion in liquid assets only available for use in AIB Group (UK) p.l.c) of which approximately € 17 billion was not available due to repurchase, secured loan and other agreements. As at 30 June 2015, the Group liquidity pool was € 17 billion (31 December 2014: € 17 billion). For further detail on funding see pages 124 to 126.

Capital

See Capital section on pages 25 to 28.

(1)Includes shareholders' equity and subordinated liabilities.
(2)Includes other market funding and debt securities in issue.

Asset quality[1]

- Improved demand for credit resulted in new lending of € 4.0 billion, up 56% in 2015.
- Significant restructuring progress, with impaired loans reduced by € 4.2 billion (19%).
- Credit provisions reduced from a charge of € 92 million in the half-year to June 2014, to an overall net writeback of € 540 million in the half-year to June 2015.

Asset quality income statement	**Half-year June 2015 € m**	Half-year June 2014 € m	% *change*
Credit writeback/(provisions)[2]	**540**	(92)	-
Other provisions	**3**	-	-
Total writeback/(provisions)	**543**	(92)	-
Provision charge %	**(1.44)**	0.24	
Provision charge % RBB	**(1.97)**	0.03	
Provision charge % CIB	**(0.50)**	0.46	
Provision charge % AIB UK	**(0.07)**	0.99	

Asset quality balance sheet	**30 June 2015 € bn**	31 Dec 2014 € bn	% *change*
Impaired loans	**18.0**	22.2	*-19*
Balance sheet provisions	**9.5**	12.4	*-24*
Amounts written off	**2.6**	4.7	*-45*
	%	%	
Specific provisions/Impaired loans	**48**	51	
Total provisions/Total loans	**13**	16	

Net credit provision writeback
The overall net credit provision writeback of € 540 million for the six month period to 30 June 2015 compared to a provision charge of € 92 million for the same period in 2014. Income statement specific provisions included € 163 million from new impairments and a € 506 million writeback of provisions (net of top-ups). This writeback amounted to c. 2% of the opening impaired loan balance. Key drivers of the writeback include:

- increased security values and improved business cash flows due to the stronger economic environment,
- cases cured from impairment, and
- additional security gained as part of the restructuring process.

70% of these writebacks are driven by individually assessed cases. The repayment of impaired loans remains dependent on significant levels of future collateral realisations in the near to medium term.

Loan portfolio - Credit quality
Gross loans and receivables to customers reduced by 3% or € 2.5 billion in the six months to 30 June 2015, with all the reduction coming from the criticised grades. The reduction is primarily due to the impact of restructuring activity, write-offs, and customer repayments from asset sales. The movement in loans to customers from 1 January 2015 to 30 June 2015 is set out on the table on page 15. The satisfactory portfolio grew by 4% in the six months to 30 June 2015, or 2% excluding the impact of currency movements. This is further evidence of stabilisation in the portfolio, following growth in the satisfactory portfolio of 2% for the year ended 31 December 2014. This growth is mainly attributable to increased demand for credit across most sectors. New business drawdowns were € 4.0 billion in the six months to 30 June 2015 and included € 0.8 billion mortgage and € 1.9 billion non-mortgage business from Republic of Ireland and € 1.3 billion from United Kingdom.

Restructuring
Restructuring the loans of customers in difficulty continues to be a key focus for the Group. Treatment strategies, as described on pages 51 to 53 have been developed for customers who are experiencing financial difficulties. The approach is one of structured engagement with co-operating customers to assess their long term levels of sustainable debt.

This restructuring engagement with customers resulted in c. € 1.5 billion of loans being upgraded from impairment during the first six months, including c. € 0.6 billion following a fundamental restructure. In addition, there is c. € 1.0 billion of individually insignificant impaired mortgages which have been restructured but which will remain impaired until they have performed satisfactorily for 12 months. Overall, the quantum of impaired loans reduced by € 4.2 billion in the period.

Residential mortgages
Total loans in arrears in the Republic of Ireland residential mortgage portfolio decreased by 13% during the six months to 30 June 2015, reflecting a decrease of 13% in both the owner-occupier and the buy-to-let portfolio in the period. The reduction in arrears can be mainly attributed to the restructuring of the portfolio, the focus on early arrears management and the improving economic conditions.

Other personal
The portfolio reduced by € 0.1 billion or 4% during the six month period to 30 June 2015, predominantly due to reduction in the impaired portfolio. There has been continued demand for personal lending products due to the stronger economic environment and improved customer offerings.

[1]The commentary on asset quality summarises the key messages and trends. More extensive disclosures are in the Risk management section from pages 42 to 102.

[2]Credit writeback/(provisions) consists of a writeback of € 540 million relating to loans and receivables to customers and nil relating to loans and receivables to banks in the half-year to June 2015 (€ 99 million charge and € 7 million writeback respectively in the half-year to June 2014).

Asset quality *(continued)*

Property and construction

The portfolio reduced by € 1.7 billion or 11% during the six month period, with all of the reduction coming from the criticised grades. Impaired loans reduced by € 2.1 billion, mainly due to restructuring, write-offs and customer repayments through asset sales. Year to date activity in the sector has been underpinned by improved economic performance and increased investment which has had a positive impact on the residential and commercial land and development market.

Non-property business

At 30 June 2015, the non-property business portfolio amounted to € 17.9 billion and was concentrated in sub-sectors which are reliant on the domestic economies. It also includes corporate exposures, which are more dependent on international markets. Key sub-sectors include agriculture (10% of the portfolio), hotels (14% of the portfolio), licensed premises (5% of the portfolio), retail/wholesale (15% of the portfolio) and other services (33% of the portfolio).

Impairment provisions

Specific impairment provisions as a percentage of impaired loans decreased from 51% at 31 December 2014 to 48% at 30 June 2015. This was mainly driven by restructures, writebacks and write-offs of loan balances with higher provision cover, which had the impact of reducing overall cover for the remaining portfolio. Write-offs are generated through both restructuring agreements with customers and also write-offs of provisions where additional recovery is considered unlikely.

IBNR provisions of € 0.9 billion were held at 30 June 2015 compared to € 1.1 billion at 31 December 2014. The reduction was mainly driven by a reduction in the probability of default in the portfolio reflecting the improved economic environment as well as changes in model parameters. The level of IBNR reflects a conservative estimate of unidentified incurred loss within the portfolio.

The table below sets out the asset quality by sector for a range of credit metrics. Further detail of the risk profile of the Group is available in the Risk management section on pages 59 to 102.

Loan book sectoral profile June 2015	Residential mortgages € bn	Other personal € bn	Property and construction € bn	Non-property business € bn	Total € bn
Loans and receivables to customers[1]	**37.9**	**3.7**	**13.8**	**17.9**	**73.3**
Of which: Impaired	**7.4**	**0.9**	**6.7**	**3.0**	**18.0**
Balance sheet provisions (specific + IBNR)	**2.8**	**0.6**	**4.2**	**1.9**	**9.5**
Specific provisions / Impaired loans (%)	**32%**	**69%**	**60%**	**54%**	**48%**
Total provisions / Total loans (%)	**7%**	**17%**	**30%**	**11%**	**13%**
6 months to June 2015	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	**(173)**	**(2)**	**(94)**	**(74)**	**(343)**
Total impairment (credit)/charge[2]	**(323)**	**(8)**	**(99)**	**(110)**	**(540)**
December 2014	**€ bn**	**€ bn**	**€ bn**	**€ bn**	**€ bn**
Loans and receivables to customers[1]	38.8	3.8	15.5	17.6	75.8
Of which: Impaired	8.5	1.0	8.8	3.8	22.2
Balance sheet provisions (specific + IBNR)	3.4	0.8	5.7	2.6	12.4
Specific provisions / Impaired loans (%)	34%	69%	62%	59%	51%
Total provisions / Total loans (%)	9%	20%	36%	15%	16%
6 months to June 2014	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	47	55	52	42	196
Total impairment (credit)/charge[2]	(23)	48	28	46	99

[1]The table above has been extracted from the Credit Risk notes in section 3.1 of the Risk management section.
[2]Impairment charge excludes provisions on loans to banks of nil in the half-year to June 2015 (€ 7 million credit in the half-year to June 2014).

Business review - 1. Operating and financial review

Segment reporting

AIB has reorganised its business in 2015 to enable a customer focused, profitable and low risk enterprise which is well positioned to support the economic recovery in Ireland while seeking to generate sustainable shareholder returns. This change focuses on the needs of its customers, so as to combine customer groups with similar needs into franchises able to deliver co-ordinated services. Previously the Group's loan restructuring activity was reported within the Financial Solutions Group ("FSG") segment and has now been integrated back into business as usual. Customers are included in respective segments regardless of the credit quality of the customer.

AIB reports the following key segments: Retail and Business Banking ("RBB"), Corporate and Institutional Banking ("CIB"), AIB UK, and Group. Reporting on this segment basis commenced in 2015.

Retail & Business Banking ("RBB") services Irish personal and business customers through AIB and EBS brands. With the largest banking distribution in Ireland including c.200 AIB branches, c. 70 EBS outlets and 10 business centres. This is combined with telephone and Internet banking and a partnership with An Post through which it offers services at over 1,000 post offices.

Corporate & Institutional Banking ("CIB") serves large business, corporate and institutional customers in multiple industry sectors through the provision of an integrated suite of product and services. In addition, CIB is responsible for management of the bank's market-facing treasury and investment activities.

AIB UK comprises retail and commercial banking operations in Great Britain operating under the trading name Allied Irish Bank (GB) ("AIB GB") and in Northern Ireland operating under the trading name First Trust Bank ("FTB"). AIB UK operates through 30 branches and 5 business centres in Northern Ireland and 16 business centres in mainland UK.

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

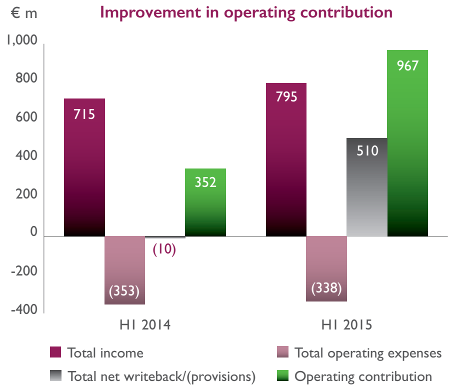
The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in the 'Group' segment. Funding and liquidity charges are based on each segment's funding requirements and the Group's funding cost profile,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

Income attributable to capital is allocated to segments based on each segment's capital requirement. The cost of services between segments is based on the estimated actual cost incurred in providing the service. A summarised view of the Group's segmental performance is available in note 1 to the consolidated financial statements.

Business review - 1. Operating and financial review

Retail & Business Banking ("RBB")

- Operating contribution of € 967 million compared to € 352 million in the half-year to June 2014.
- New lending of € 1.6 billion, up 55%, in the half-year to June 2015 compared to € 1.0 billion in the half-year to June 2014.
- Total overall net provisions writeback of € 510 million compared to a charge of € 10 million in the half-year to June 2014 due to debt restructuring and improving economic conditions.



RBB contribution statement	**Half-year June 2015 € m**	Half-year June 2014 € m	*% change*
Net interest income	**619**	568	*9*
Other income	**176**	147	*20*
Total operating income	**795**	715	*11*
Total operating expenses	**(338)**	(353)	*-4*
Operating contribution before provisions	**457**	362	*26*
Total writeback/(provisions)	**510**	(10)	*-*
Operating contribution	**967**	352	*175*
Associated undertakings	**11**	5	*120*
Contribution before disposal of property	**978**	357	*174*
Profit on disposal of property	**4**	2	*100*
Contribution before exceptional items	**982**	359	*174*

RBB balance sheet metrics	**30 June 2015 € bn**	31 Dec 2014 € bn	*% change*
Gross loans	**50.3**	53.4	*-6*
Net loans	**43.3**	43.6	*-1*
Customer accounts	**38.9**	37.7	*3*
	%		*% change*
Loan to deposit ratio	**111**	116	*-5*

Net interest income

Net interest income of € 619 million for the half-year to June 2015 was € 51 million (9%) higher than for the half-year to June 2014 due to continued reductions in the cost of customer deposits and lower wholesale funding costs. These positive impacts were partly offset by lower average loan volumes.

Other income

Other income improved € 29 million (20%) to € 176 million in the half-year to June 2015 due to higher retail banking fees including current account fees and insurance commission income. There was also a fair value gain on effect of realisation/re-estimation of cash flows on loans previously restructured of € 12 million in the half-year to June 2015.

Operating expenses

Total operating expenses of € 338 million for the half-year to June 2015 were € 15 million (4%) lower than the half-year to June 2014. Personnel expenses of € 203 million were € 9 million (4%) lower than the half-year to June 2014 as a result of lower staff numbers and associated costs. General and administrative expenses of € 115 million were € 3 million lower than the half-year to June 2014 due to cost savings across most classifications partly offset by higher outsourcing and technology costs. The charge for depreciation, impairment and amortisation of € 20 million was € 3 million lower than the half-year to June 2014.

Provisions

Total overall net writeback of € 510 million for the half-year to June 2015 compared to a charge of € 10 million for the half-year to June 2014. The writeback comprised of € 334 million in specific provision writebacks and a release of IBNR provisions of € 176 million (30 June 2014: € 101 million charge in specific provisions and release of IBNR provisions of € 91 million), and reflected the level of debt restructuring completed in the period, lower new to impaired loans and improving economic conditions. For further detail on provisions see the Risk management section on pages 72 to 74.

Balance sheet

Gross loans reduced by € 3.1 billion (6%) since 31 December 2014. Earning loans of € 36.0 billion increased by € 0.7 billion as new lending and loans upgraded to earning exceeded repayments. New lending of € 1.6 billion was up 55% compared to the half-year to June 2014. This included mortgage lending of € 0.8 billion, personal lending of € 0.3 billion and business lending of € 0.5 billion. RBB has made significant progress and momentum in restructuring customers in financial difficulty with impaired loans reducing to € 13.8 billion from € 17.5 billion. Net loans remained broadly stable at € 43.3 billion.

Customer accounts increased by € 1.2 billion (3%) since 31 December 2014 with strong growth in current accounts partly offset by a reduction in term deposits.

Business review - 1. Operating and financial review

Corporate & Institutional Banking ("CIB")

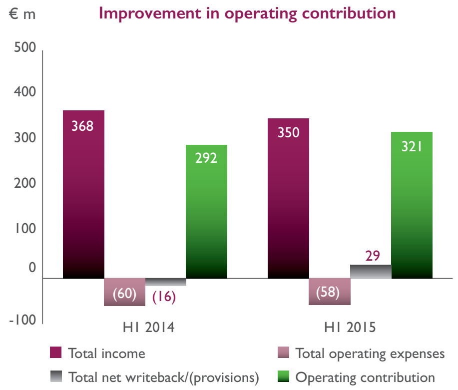
- Operating contribution of € 321 million compared to € 292 million in the half-year to June 2014.
- New lending of € 1.1 billion, up 44%, in the half-year to June 2015 compared to € 0.8 billion in the half-year to June 2014.
- Total overall net provisions writeback of € 29 million compared to a charge of € 16 million in the half-year to June 2014 due to debt restructuring and improving economic conditions.

CIB contribution statement	**Half-year June 2015 € m**	Half-year June 2014 € m	*% change*
Net interest income	**174**	125	*39*
Other income	**176**	243	*-28*
Total operating income	**350**	368	*-5*
Total operating expenses	**(58)**	(60)	*-3*
Operating contribution before provisions	**292**	308	*-5*
Total writeback/(provisions)	**29**	(16)	-
Operating contribution before exceptional items	**321**	292	*10*

CIB balance sheet metrics	**30 June 2015 € bn**	31 Dec 2014 € bn	*% change*
Gross loans	**10.2**	10.2	-
Net loans	**9.5**	9.4	*1*
Financial investments available for sale	**19.8**	20.2	*-2*
NAMA senior bonds	**7.5**	9.4	*-20*
Customer accounts	**13.1**	14.8	*-11*
	%		*% change*
Loan to deposit ratio	**73**	64	*9*

Net interest income
Net interest income of € 174 million for the half-year to June 2015 was € 49 million (39%) higher than the half-year to June 2014 due to continued reductions in the cost of customer deposits and lower wholesale funding costs. These positive impacts were partly offset by lower income on NAMA senior bonds and available for sale securities, and the impact of lower interest rates and yields on treasury operations.

Other income
Other income of € 176 million for the half-year to June 2015 was € 67 million (28%) lower than the half-year to June 2014. There was a positive increase of c. € 39 million in valuation adjustments mainly on sterling customer derivative positions. Changes in medium to long term sterling swap rates have increased the volatility. This positive increase was more than offset by a reduction in other items which impact the trended performance of the business.



Other items	**Half-year June 2015 € m**	Half-year June 2014 € m
Net profit on disposal of AFS securities	**49**	100
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	**4**	22
Settlements and other gains	**29**	69
Other items	**82**	191

Other items of € 82 million for the half-year to June 2015 were € 109 million (57%) lower than the half-year to June 2014. Details of these items are set out in the table above.

Operating expenses
Total operating expenses of € 58 million in the half-year to June 2015 were € 2 million (3%) lower than the half-year to June 2014 due to lower staff numbers and ongoing cost management.

Provisions
Total overall net writeback of € 29 million for the half-year to June 2015 compared to a charge of € 16 million for the half-year to June 2014 reflected the level of debt restructuring completed in the period and improving economic conditions. For further detail on provisions see the Risk management section on pages 72 to 74.

Balance sheet
Gross customer loans of € 10.2 billion were in line with 31 December 2014. Earning loans of € 8.7 billion increased by € 0.3 billion as new lending exceeded repayments. New lending of € 1.1 billion was up 44% compared to the half-year to June 2014. Impaired loans reduced to € 1.5 billion from € 1.8 billion due to debt restructuring and improving economic conditions. Net loans remained broadly stable at € 9.5 billion.

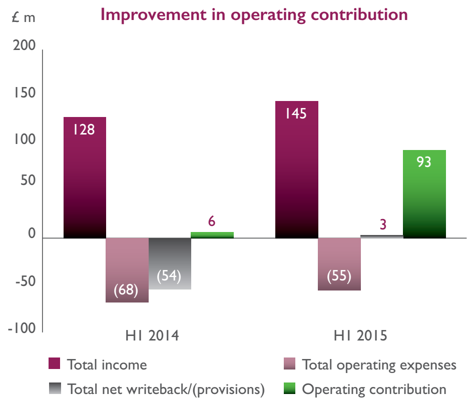
AFS assets which are held for liquidity and investment purposes, decreased from € 20.2 billion to € 19.8 billion during the half-year to June 2015. NAMA senior bonds reduced by € 1.9 billion in the period due to redemptions.

Customer accounts of € 13.1 billion reduced by € 1.7 billion (11%) since 31 December 2014. Excluding the reduction in repos of € 0.9 billion, customer accounts reduced by € 0.8 billion since 31 December 2014 mainly driven by reductions in treasury deposits.

Business review - 1. Operating and financial review

AIB UK

- Operating contribution of £ 93 million compared to £ 6 million in the half-year to June 2014.
- New lending of £ 0.9 billion in the half-year to June 2015 compared to £ 0.6 billion in the half-year to June 2014.
- Total overall net provision writeback of £ 3 million compared to a charge of £ 54 million in the half-year to June 2014 due to debt restructuring and improving economic conditions.



AIB UK contribution statement	Half-year June 2015 £ m	Half-year June 2014 £ m	% change
Net interest income	**109**	93	*17*
Other income	**36**	35	*3*
Total operating income	**145**	128	*13*
Total operating expenses	**(55)**	(68)	*-19*
Operating contribution before provisions	**90**	60	*50*
Total writeback/(provisions)	**3**	(54)	-
Operating contribution	**93**	6	-
Associated undertakings	**1**	3	*-67*
Contribution before exceptional items	**94**	9	-
Contribution before exceptional items €m	**128**	11	-

AIB UK balance sheet metrics	30 June 2015 £ bn	31 Dec 2014 £ bn	% change
Gross loans	**9.0**	9.5	*-5*
Net loans	**7.8**	8.1	*-4*
Customer accounts	**8.9**	9.0	*-1*
	%		% *change*
Loan to deposit ratio	**88**	90	*-2*

Net interest income
Net interest income of £ 109 million was £ 16 million (17%) higher than the half-year to June 2014 mainly due to lower funding costs and maintaining average gross margins on customer loans.

Other income
Other income of £ 36 million for the half-year to June 2015 was broadly in line with the half-year to June 2014. There was a positive increase of c. £ 6 million in valuation adjustments mainly on sterling customer derivative positions which was offset by lower net profits on the disposal of available for sale debt and equity securities. Fee and commission income was in line with the half-year to June 2014.

Total operating expenses
Total operating expenses of £ 55 million for the half-year to June 2015 were £ 13 million (19%) lower than the half-year to June 2014. Excluding the benefit from the impact of currency movements on euro cost allocations and the release of a non-credit provision no longer required, total operating expenses were £ 8 million (12%) lower than the half-year to June 2014 due to lower salary and associated costs along with lower general and administrative expenses due to lower accommodation costs.

Provisions
Total overall net writeback of £ 3 million in the half-year to June 2015 compared to a charge of £ 54 million in the half-year to June 2014. Continuing management action to dispose of impaired assets within the specific provisions held, low levels of new impairment and improving economic conditions have contributed a net writeback in the half-year to June 2015. For further detail on provisions see the Risk management section on pages 72 to 74.

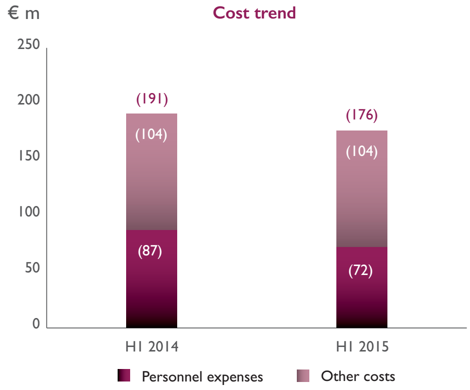
Balance sheet
Gross loans were £ 0.5 billion lower at £ 9.0 billion following loan amortisation during the period of £ 1.4 billion of which £ 0.6 billion was in criticised loans, partly offset by new lending of £ 0.9 billion. New lending of £ 0.9 billion in 2015 was £ 0.3 billion higher than the comparative period in 2014 with Northern Ireland and Great Britain businesses both up in the period. Customer accounts of £ 8.9 billion remained stable against pricing actions taken in the period. The loan to deposit ratio remained broadly stable at 88% at June 2015.

Business review - 1. Operating and financial review

Group

• Total operating expenses have reduced by € 15 million (8%).

Group contribution statement	Half-year June 2015 € m	Half-year June 2014 € m	% change
Total operating income	6	8	-25
Total operating expenses	(176)	(191)	-8
Contribution before exceptional items	(170)	(183)	-7



Operating expenses

Operating expenses in Group include unallocated overheads relating to operations & technology, risk, audit, finance, general counsel, human resources and corporate affairs & strategy. Total operating expenses reduced by € 15 million (8%) to € 176 million for the half-year to June 2015 primarily due to reductions in personnel expenses as a result of lower staff numbers.

Personnel expenses of € 72 million for the half-year to June 2015 were € 15 million (17%) lower than for the half-year to June 2014 due to lower salary and associated costs.

General and administrative expenses of € 88 million for the half-year to June 2015 were in line with the half-year to June 2014 with reductions across the majority of cost classifications as a result of ongoing cost management offset by an increase in costs as a result of outsourcing initiatives and additional technology costs.

Depreciation, impairment and amortisation of € 16 million for the half-year to June 2015 was in line the half-year to June 2014.

Business review - 3. Capital management

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development.

The Group does this through a semi-annual Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. This is AIB's main capital management tool and gives a clear picture of the Group's capital and material risks. The key stages in the ICAAP process are as follows:
- a Risk Appetite Statement is prepared consistent with the Group's business strategy. The risk appetite is set annually at the outset of the annual financial planning process and is monitored on a quarterly basis by measuring the current risk profile against the risk appetite;
- material risk assessment identifies all relevant (current and anticipated) risks and identifies those that require capital adequacy assessment;
- financial planning drives the levels of required capital to support growth plans and meet regulatory requirements. Base and stress capital plans are produced as part of the integrated financial planning process;
- stress testing is applied to capital plans and to all material risks in order to test the resilience of the Group and inform capital needs as they arise; and
- the final stage of the ICAAP is the production of base and stressed capital plans over a three year timeframe, comparing the capital requirements to available capital. This is fully integrated with the Group's financial planning and ensures that the Group has adequate capital resources in excess of minimum regulatory capital requirements and internal capital requirements.

Capital regulation

CRD IV, which consists of the Capital Requirements Regulation ("CRR") and the Capital Requirements Directive ("CRD"), came into force on 1 January 2014. It is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. CRD IV measures include:
- enhanced requirements for quality and quantity of capital. CRD IV also harmonises the deductions from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes. Some of the new provisions of CRD IV were introduced on a phased basis from 2014, these typically follow 20% in 2014, 40% in 2015 etc. until 2018. The main exception to this relates to the deduction for the deferred tax asset which will be deducted at 10% per annum commencing in 2015. AIB commenced reporting to its regulator under the transitional CRD IV rules during 2014. The transitional capital ratios presented on page 27 take account of these phasing arrangements. The fully loaded capital ratios represent the full implementation of CRD IV;
- a liquidity coverage ratio ("LCR") which will require banks to have sufficient high quality liquid assets to withstand a 30-day stressed funding scenario that is specified by supervisors. An additional measure is the net stable funding ratio ("NSFR") which is a longer term structural ratio designed to address liquidity mismatches. The NSFR provides incentives for banks to use stable funding;
- a leverage ratio which is designed to act as a non-risk sensitive back-stop measure to reduce the risk of build-up of excessive leverage in an individual bank and the financial system as a whole;
- a single set of harmonised prudential rules which banks throughout the EU must respect. The new rules remove a large number of national options and discretions that were previously available; and
- other measures including enhanced governance, sanctions, capital buffers, remuneration controls and improved transparency.

A new system of financial supervision, the Single Supervisory Mechanism (''SSM''), comprising the European Central Bank (''ECB'') and the national competent authorities of EU countries has been established. The SSM places the ECB as the central prudential supervisor of financial institutions in the eurozone, including AIB, and in those non-eurozone EU countries that choose to join the SSM. On 4 November 2014, the ECB commenced its supervisory role under the SSM. The aims of the SSM are to ensure the safety and soundness of the EU banking system and to increase financial integration and stability in the EU. Although the ECB has been conferred with the task of ensuring financial stability, some functions such as consumer protection, supervision of payment services and the combat of money laundering remain at national level.

The Bank Recovery and Resolution Directive ("BRRD") and the Single Resolution Mechanism ("SRM") marks another step by European authorities in improving the stability of the financial system, adding a common recovery and resolution framework to the already established SSM.

The BRRD is a single EU-wide rulebook designed to address bank and investment firm failure. It has been transposed into Irish law through the European Union (Bank and Recovery Resolution) Regulations, 2015 (S.I. No. 289 of 2015) which commenced on 15 July 2015. The BRRD requires firms to draw up recovery plans and resolution authorities to draw up resolution plans. Resolution authorities are provided with key new powers under BRRD to address failure.

Business review - 3. Capital management

Capital regulation *(continued)*

The overarching goal of the new bank recovery and resolution framework established by the BRRD/SRM package is to break the linkages between national banking systems and sovereigns. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the 'bail-in' of senior creditors where necessary. This specific 'bail-in' of certain senior creditors is not required to be brought into force until the beginning of 2016. Relevant capital metrics in this regard include:

– the Minimum Requirement Eligible Liabilities ("MREL") which is being introduced as part of the BRRD. It is designed to ensure that banks have sufficient loss-absorbing capacity through capital and liabilities eligible to be bailed in; and
– the Total Loss Absorption Capacity ("TLAC") which is a proposed minimum requirement for total capital. It is proposed to be imposed from 2019 on banks that are deemed by the Financial Stability Board ("FSB") to be globally systemically important banks ("G–SIBs") (currently a list of 30 banks not including AIB).

The Group's transitional Common Equity Tier 1 ("CET1") ratio was 17.4% at 30 June 2015, an increase of 100 bps in the period. The fully loaded CET1 ratio was 14.1% including the 2009 Preference Shares which continue to be considered as CET1 until 31 December 2017. Excluding the 2009 Preference Shares, the fully loaded CET1 reduces to 8.3%.

Capital structure

The increased levels of capital and underlying sustainable profitability enables AIB to progress discussions with the Department of Finance on determining the appropriate level and mix of capital, which will be subject to relevant regulatory and shareholder approvals. These discussions are focused on:

– Options in relation to the €3.5 billion 2009 Preference Shares, including the possible conversion into ordinary equity of a portion of the instruments and redemption of the balance.
– Scheduled redemption of € 1.6 billion of Contingent Capital Notes in July 2016.
– Regularising the capital structure to be fully compliant with Basel III/CRD IV capital requirements.
– A possible significant consolidation in the number of ordinary shares in issue given the bank currently has in excess of 523 billion ordinary shares outstanding.

Details of the Irish Government's capital investments in AIB are set out in note 50(e) to the financial statements 'Related party transactions - Summary of relationship with the Irish Government'.

Regulatory capital and capital ratios

	CRD IV transitional basis		CRD IV fully loaded basis[1]	
	30 June 2015 € m	31 December 2014 € m	**30 June 2015 € m**	31 December 2014 € m
Gross common equity tier 1 capital[2]	**12,323**	11,292	**12,323**	11,292
Regulatory adjustments				
– Goodwill and intangibles	**(193)**	(174)	**(193)**	(174)
– Cash flow hedge reserves	**(231)**	(383)	**(231)**	(383)
– Reversal of fair value of contingent capital instrument	**(80)**	(189)	**–**	–
– Available for sale securities	**(1,103)**	(1,369)	**–**	–
– Pension	**120**	557	**(72)**	(121)
– Deferred tax	**(331)**	–	**(3,314)**	(3,640)
– Other	**(16)**	(17)	**(7)**	–
	(1,834)	(1,575)	**(3,817)**	(4,318)
Total common equity tier 1 capital	**10,489**	9,717	**8,506**	6,974
Tier 2 capital				
Subordinated debt	**384**	538	**384**	538
Credit provisions	**418**	453	**137**	136
Other	**9**	17	**–**	–
Total tier 2 capital	**811**	1,008	**521**	674
Total capital	**11,300**	10,725	**9,027**	7,648
Risk weighted assets				
Credit risk	**54,916**	54,348	**54,916**	54,348
Market risk	**833**	471	**833**	471
Operational risk	**3,139**	2,822	**3,139**	2,822
Credit valuation adjustment	**1,502**	1,468	**1,502**	1,468
Other	**5**	5	**5**	5
Total risk weighted assets	**60,395**	59,114	**60,395**	59,114
Common equity tier 1 ratio	**17.4%**	16.4%	**14.1%**	11.8%
Total capital ratio	**18.7%**	18.1%	**14.9%**	12.9%

	CRD IV fully loaded basis	
Common equity tier 1 capital excluding the 2009 Preference Shares	**30 June 2015 € m**	31 December 2014 € m
Common equity tier 1 capital	**5,006**	3,474
Common equity tier 1 ratio	**8.3%**	5.9%

[1]Fully loaded ratios are calculated including the 2009 Preference Shares (which will continue to be considered common equity tier 1 until 31 December 2017).

[2]After deducting the dividend amounting to € 280 million on the 2009 Preference Shares at 31 December 2014 on a transitional and fully loaded basis.

Business review - 3. Capital management

Capital ratios at 30 June 2015

Transitional ratio

The CET1 transitional ratio increased to 17.4% at 30 June 2015 from 16.4% at 31 December 2014 driven by the impact of transitional provisions and movements in the six months to 30 June 2015. The implementation of 2015 transitional rules, primarily a deduction of a) 10% of deferred tax relating to unutilised tax losses, and b) a further 20% of the pension deficit partially offset by c) the inclusion of 40% of unrealised non-sovereign gains on the available for sale ("AFS") portfolio, led to a reduction in CET1 ratio by 0.5%. Movements in the six months to 30 June 2015 which resulted in CET1 increasing by 1.5% are driven primarily by retained profit of € 840 million and gains arising from changes in pension actuarial assumptions.

The increase in credit risk RWAs of € 568 million was primarily driven by foreign exchange (weak euro versus sterling) partially offset by the continued restructuring of the impaired loan portfolio. The RWAs attaching to operational risk increased by € 317 million, reflecting the higher levels of income in the annual calculation. Market risk RWAs increased by € 362 milion due to increased credit default swap positions and general interest rate risk.

The CET1 transitional ratio, at 17.4%, is significantly in excess of the minimum CET1 regulatory requirements. The total capital ratio increased from 18.1% at 31 December 2014 to 18.7% at 30 June 2015. This reflects the increase in CET1 capital described above, offset by a € 197 million reduction in tier 2 capital, primarily relating to the continuing reduction in the tier 2 qualifying amount of the contingent capital instrument that is due to mature in July 2016.

The capital figures reflect the audited half-year 2015 profit for the Group.

Fully loaded ratio

The fully loaded ratio increased to 14.1% at 30 June 2015 from 11.8% at 31 December 2014. This movement was primarily driven by the positive impact of year to date profits of € 840 million and a decrease in the pension deficit by € 525 million as a result of an increase in the discount rate applied in the valuation of pension liabilities. These were partially offset by net unrealised losses in the AFS portfolio during the period of € 140 million and higher levels of RWA.

The transitional CET1 ratio of 17.4% compares to 14.1% on a fully loaded basis at 30 June 2015. This reflects a reduction in CET1 of € 1,983 million. The main drivers of this reduction are:

– the full deduction of the deferred tax asset (''DTA'') for unutilised tax losses of € 3,314 million under fully loaded. Under transitional rules, the phasing in deduction of the DTA commenced in 2015 at 10% per annum amounting to € 331 million;
– the AFS reserves of € 1,230 million, driven by unrealised gains in sovereign debt securities and the revaluation of the Group's NAMA subordinated bonds, included in the fully loaded position, while € 127 million is included on a transitional basis at 30 June 2015. AIB avails of the derogation not to include unrealised gains or losses on exposures to central governments in own funds; and
– the fully loaded CET1 position takes full account of the pension deficit within revenue reserves whereas under transitional rules the impact of this deficit has been restricted. The difference in treatment amounted to € 192 million at 30 June 2015.

The total capital ratio for AIB on a fully loaded basis increased from 12.9% to 14.9%, reflecting the factors outlined above, partly offset by the continuing reduction in the tier 2 qualifying amount of the contingent capital instrument.

The fully loaded capital ratios include the 2009 Preference Shares which continue to be considered as CET1 until 31 December 2017. Excluding the 2009 Preference Shares, the reported fully loaded CET1 of 14.1% at 30 June 2015 would reduce to 8.3%.

Leverage ratio

CRD IV also introduces a leverage ratio which is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on full implementation of CRD IV, the leverage ratio, including the 2009 Preference Shares, was 7.9% at 30 June 2015 (6.4% at 31 December 2014). This primarily reflects an increase in tier 1 capital as outlined above and a reduction in asset balances. Excluding the 2009 Preference Shares, the reported leverage ratio of 7.9% at 30 June 2015 would reduce to 4.6%.

Minimum Requirement Eligible Liabilities ("MREL")

AIB's MREL ratio at 30 June 2015 was 12.6% (11.1% at 31 December 2014) on a fully loaded basis (14.5% under transitional rules). Based on current guidance, the calculation includes senior unsecured debt in eligible liabilities.

Total Loss Absorption Capacity ("TLAC")

Based on current guidance, AIB's TLAC ratio at 30 June 2015 was 14.9% (12.9% at 31 December 2014) on a fully loaded basis (18.7% under transitional rules).

Risk management

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[1]The credit risk disclosures in this section are aligned with the Central Bank of Ireland guidelines issued in December 2011 and May 2013 respectively.

Risk management – 1. Principal risks and uncertainties

Introduction

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

The principal risks and uncertainties facing the Group, particularly in the next six months and beyond, fall under the following broad categories:
- Macro-economic and geopolitical risk
- Regulatory and legal risks
- Risks relating to business operations, governance and internal control systems

This list of principal risks and uncertainties should not be considered as exhaustive and other factors, not yet identified, or not currently considered material, may adversely affect the Group.

Macro-economic and geopolitical risk

The Group’s business may be adversely affected by deterioration of the Irish economy, the economy of the United Kingdom or the global economy

Deterioration in the performance of the Irish economy or other relevant economies has the potential to adversely affect the Group’s overall financial condition and performance. Such deterioration could result in reductions in business activity, lower demand for the Group’s products and services, reduced availability of credit, increased funding costs and, decreased asset values.

While there are some signs of improvement and stabilisation in the Irish economy, any renewed stress on or deterioration of the economy could impact the return of normalised markets for commercial and residential property. As the Group remains heavily exposed to the Irish property market, a prolonged delay in the recovery of the Irish market could have a negative impact on levels of arrears, the Group’s collateral values and consequently, have a material impact on the Group’s future performance and results.

General economic conditions continue to be challenging for customers. A continued high level of unemployment together with any further reduction in borrowers’ disposable income has the potential to negatively impact customers’ ability to repay existing loans. This could result in additional write downs and impairment charges for the Group and negatively impact its capital and earnings position. Challenging economic conditions will also influence the demand for credit in the economy. A declining or continuing muted demand for credit has the potential to impact the Group’s financial position.

Deterioration in the economic and market conditions in which the Group operates could negatively impact on the Group's income, and may put additional pressure on the Group to more aggressively manage its cost base. This may have negative consequences for the Group to the extent that strategic investments are de-scoped or de-prioritised, and may serve to increase operational risk in the near-term. Market conditions are also impacted by the competitive environment in which the Group operates. The entry of bank and non-bank competitors into the Group's markets may put additional pressure on the Group's income streams and consequently have an adverse impact on its financial performance.

The Group's financial planning process evaluates the impact of economic and market conditions on the Group's capital, funding and profitability under both forecast and stress scenarios. Additionally, sensitivity analysis is used to evaluate the impact of individual risk drivers. Performance against the Group’s financial plan is monitored by management and the Board on a monthly basis.

Constraints on the Group’s access to funding may adversely affect liquidity risk management

Conditions could arise which would constrain funding or liquidity opportunities for the Group. Currently, the Group funds its activities primarily from customer deposits. However, a loss of confidence by depositors in the Group, the Irish banking industry or the Irish economy could lead to losses of funding or liquidity resources over a short period of time. Concerns around debt sustainability and sovereign downgrades in the eurozone could impact the Group’s deposit base and could impede access to wholesale funding markets, impacting the ability of the Group to issue debt securities to the market.

A stable customer deposit base and asset deleveraging has allowed the Group to materially reduce its funding from the European Central Bank (“ECB”). This, in turn, has allowed an increase in unencumbered high quality liquid assets. The Group has also identified certain management and mitigating actions which could be considered on the occurrence of a liquidity stress event. However, in the unlikely event that the Group exhausted these sources of liquidity it would be necessary to seek alternative sources of funding from the monetary authorities. Should the coupon on certain Group assets turn negative the assets may no longer be eligible as collateral with the ECB - the Group is actively managing this risk.

The Capital Requirements Regulation (No. 575/2013) ("CRR") and the Capital Requirements Directive (2013/36/EU) ("CRD" and together with the CRR, "CRD IV") require banks such as the Group to meet targets set for the new Basel III liquidity related ratios: the Net Stable Funding Ratio and Liquidity Coverage Ratio. Meeting the phased implementation deadlines of these requirements could impose additional costs on the Group while failure to demonstrate appropriate progress may lead to regulatory sanction.

The Group's liquidity management framework sets out the manner in which the Group's funding and liquidity risk profile is managed.

The Group faces non-trading interest rate risk and foreign exchange risk, as well as certain risks associated with its available for sale portfolio and trading book

The following market risks arise in the normal course of the Group's banking business; interest rate risk, credit spread risk (including Sovereign risk), basis risk and foreign exchange risk.

Changes in the shape and level of interest rate curves impact the economic value of the Group's underlying assets and liabilities. The level of the Group's earnings is exposed to basis risk i.e. an imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar repricing characteristics. The persistence of exceptionally low interest rates for an extended period could adversely impact the Group's earnings through the compression of net interest margin. Widening credit spreads could adversely impact the value of the Group's available for sale ("AFS") bond positions.

Trading book risks predominantly result from supporting client businesses with small residual discretionary positions remaining. Credit Value Adjustments ("CVA") and Funding Value Adjustments ("FVA") to derivative valuations arising from customer activity have potentially the largest trading book derived impact on earnings.

Changes in foreign exchange rates, particularly the euro-sterling rate, affect the value of assets and liabilities denominated in foreign currency and the reported earnings of the Group's non-Irish subsidiaries.

The Group manages this risk through a number of financial risk management frameworks. Risk positions are monitored on a regular basis at the Asset and Liability Committee ("ALCo").

Contagion risks could disrupt the markets and adversely affect the Group's financial condition

The risk of contagion in the markets in which the Group operates and dislocations caused by the interdependency of financial markets' participants and of members of currency and supranational economic associations is an on-going risk to the Group's financial condition. Any change in membership of such associations or reductions in the perceived creditworthiness of one or more significant borrower or financial institution, could lead to market-wide liquidity problems, losses and defaults, which could adversely affect the Group's results, financial condition and future prospects.

The Group's stress testing framework evaluates its risk profile under a range of scenarios, including systemic threats which are caused by or give rise to contagion risk. The most severe systemic risks, together with their associated risk mitigants (where available) are evaluated as part of the Group's Recovery Planning framework.

Regulatory and political actions by European governments in response to the European financial crisis may not be sufficient to prevent the crisis from spreading or to prevent departure of one or more member countries from the common currency, which could disrupt the markets and adversely affect the Group. A decision by the UK to leave the European Union could have an adverse effect on the Group's business and financial performance

Although the severity of the European-wide financial crisis has abated over the last several years, the emergence of significant anti-austerity sentiment in some member countries, especially in Greece, may contribute to renewed instability in the European sovereign debt markets and in the economy more generally. There can be no assurance that, actions taken by European policymakers will be sufficient to counteract any such instability. In particular, the ECB's quantitative easing program may not improve economic conditions quickly enough or at all in Greece and other economically contracting or stagnant eurozone countries in order to build a political consensus to maintain the course in the eurozone. In addition, the European Stability Mechanism, the special purpose vehicle created by the European Union to combat the sovereign debt crisis, may prove to be ineffective or inadequate in a crisis situation.

If one or more members of the eurozone defaults on their debt obligations or decides to leave the common currency, this would result in the reintroduction of one or more national currencies. Should a eurozone country conclude it must exit the common currency, the resulting need to reintroduce a national currency and restate existing contractual obligations could have unpredictable financial, legal, political and social consequences, leading not only to significant losses on the sovereign debt of that country but also on private debt in that country. Given the highly interconnected nature of the financial system within the eurozone, this could result in dislocation across the financial markets and the Group's ability to plan for such a contingency in a manner that would reduce its exposure may be limited. If the overall economic climate deteriorates as a result of one or more departures from the eurozone, the Group's business, financial condition, results of operations and prospects could be materially adversely affected.

Risk management – 1. Principal risks and uncertainties

The Prime Minister of the United Kingdom has committed to a referendum on United Kingdom membership in the European Union, after a period of renegotiation with the European Union. The timing of any such referendum remains unclear but is currently expected to take place in 2016 or 2017. It is not possible to predict the outcome of any such referendum or the impact of any exit by the United Kingdom from the European Union on the UK economy, the Irish economy and the Group's business in the United Kingdom and Ireland. It is possible, however, an exit by the United Kingdom from the European Union could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland. Furthermore, the confirmation of the timing of a referendum could give rise to uncertainty that itself could have an adverse impact on market conditions. The regulatory position of the Group's operations in the United Kingdom, with respect to which the Group has exercised its EU "passport" rights, may also become uncertain. Accordingly, if the United Kingdom were to exit the European Union, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group closely monitors activities and developments in the EU and eurozone. A cross-functional team (Business, Risk, Finance and Treasury) was established to monitor the recent developments in Greece.

Downgrades to the Irish sovereign's credit ratings or outlook could impair the Group's access to private sector funding and weaken its financial position

Ireland's credit rating has been upgraded in 2014 and 2015 by the rating agencies Moody's, S&P and Fitch. There can be no assurance, however, that the Irish sovereign's credit rating will not be downgraded in the future. Any such downgrade would be likely to impair the Group's access to private sector funding and weaken its financial position. Downgrades could also adversely impact the National Asset Management Agency ("NAMA") senior bonds and the Group's use of them as collateral for the purposes of accessing the liquidity provision operations offered by monetary authorities, as well as the Group's holdings of Irish Government securities as part of its available-for-sale ("AFS") portfolio.

The Group's stress testing framework evaluates its risk profile under a range of scenarios, including systemic threats which are caused by or give rise to contagion risk. The most severe systemic risks, together with their associated risk mitigants (where available) are evaluated as part of the Group's Recovery Planning framework.

Regulatory and legal risks

The Group is subject to increasing regulation and supervision following the introduction of the SSM and the new bank recovery and resolution framework, which may strain its resources. The Group is subject to European Commission supervision and oversight

A significant number of new regulations have been issued by the various regulatory authorities in the recent past. The eurozone's largest banks, including the Group, came under the direct supervision of, and are deemed to be authorised by the ECB since the introduction on 4 November 2014 of the Single Supervisory Mechanism ("SSM"). The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

A Single Resolution Mechanism ("SRM") is being introduced, including a single resolution board and a single fund for the resolution of banks. The requirements of the SRM are set out in the Banking Recovery and Resolution Directive ("BRRD") which came into effect in 2015 and the Group is making preparations for the Single Resolution Authority ("SRA") which comes into effect in 2016. The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the SSM. The single resolution fund will be financed by bank levies raised at national level.

The challenge of meeting this degree of regulatory change will place a strain on the Group's resources, particularly during a period of significant organisational transformation. The challenge of meeting tight implementation deadlines while balancing competing resource priorities and demands adds to the regulatory risk of the Group. These may also impact significantly on the Group's future product range, distribution channels, funding sources, capital requirements and consequently, reported results and financing requirements.

The potential impact of new regulatory requirements is regularly evaluated by the Group's management and cross-functional programmes are put in place to ensure that the Group is able to meet new regulatory requirements.

The Group faces risks associated with its compliance with a wide range of laws, accounting standards and regulations

The Group must comply with numerous laws, accounting standards and regulations and, consequently, it faces risks, including:

- Detailed and emerging prudential regulatory requirements in the form of CRR/CRD IV, BRRD, EBA and CBI requirements;
- New accounting standards, for example, IFRS 9 *Financial Instruments*, which will replace IAS 39 *Financial Instruments: Recognition and Measurement*, will change the

classification and measurement of certain financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 is mandatorily effective for periods beginning on or after 1 January 2018. It is not possible to estimate the precise financial effects of this new standard, although it is expected that IFRS 9 will have a significant impact for the Group, in line with the industry as a whole.

- Conduct risk exists and may occur when certain aspects of the Group's business may be determined by the relevant authorities or the courts not to have been conducted in accordance with applicable local or, potentially, overseas laws or regulations;
- Contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- The intellectual property of the Group (including trade marks) may not be adequately protected or enforceable, and the conduct of the Group's business may infringe the intellectual property of third parties;
- The Group may be liable for damages to third parties harmed by the conduct of its business; and
- Regulatory proceedings and private litigation may arise out of regulatory investigations, enforcement actions or otherwise (brought by individuals or groups of plaintiffs) in Ireland, the United Kingdom and other jurisdictions.

Regulatory actions pose a number of risks to the Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, the Group may be subject to other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions on the Group's business. The Group needs to be aware of and comply with new regulation as it emerges and existing regulation as it evolves. All of these issues could have a negative effect on the Group's reputation and the confidence of its customers in the Group as well as taking a significant amount of management time and resources away from the implementation of the Group's strategy.

The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Group believes that it has no liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the Group may, for similar reasons, reimburse counterparties for their losses even in situations where the Group does not believe that it is legally compelled to do so.

The Group adopts a systematic approach to the identification, assessment, transposition, control and monitoring of new or changing regulatory requirements. Once implemented, a compliance monitoring team tests the adequacy of, and adherence to, the control environment.

The Group is subject to possible intervention by the Irish Government

The Group is substantially owned by an agency of the Irish State and accordingly, subject to EU state aid rules, controlled by the Irish Government. Such ownership or control may affect the Group's operations, financial condition and future prospects.

In order to comply with contractual commitments imposed on the Group in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a Relationship Framework was agreed between the Irish Minister for Finance ('the Minister') and the Group in March 2012. This provides the framework under which the relationship between the Minister and the Group is governed. Under the Relationship Framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting the Group's day-to-day operations rest with the Board of the Group and its management team, but the appointment or removal of the chairman or chief executive officer of the Group are reserved for the Minister, and in respect of which the Board may only engage with the prior consent of the Minister.

Nevertheless, for so long as ownership of the Group remains within State control, there remains a risk of intervention by the Irish Government in relation to the operations and policies of the Group. Such interventions may have a negative impact on the operations of the Group. The Irish Government may sell or otherwise dispose of its ownership and other economic interests in the Group to any private or public entity, including any intergovernmental institution. Any such sale or disposal, and any conditions attaching to it, may materially affect the Group's operations, financial condition and future prospects.

In common with other residential mortgage lenders, the Group faces increased scrutiny and focus by the Irish Government, the Oireachtas and consumer protection regulators such as the Central Bank of Ireland and the Competition and Consumer Protection Commission, in relation to the interest rates it charges on loans, in particular its standard variable interest rate ("SVR") mortgage lending for private dwelling homes ("PDHs"), which include mortgages where the lender has the ability unilaterally to vary the rate, unlike a fixed rate or a rate which tracks changes to an ECB official rate.

On 7 May 2014, the European Commission approved the Group's Restructuring Plan. The European Commission concluded that the Restructuring Plan sets out the path to restoring long term viability. The Restructuring Plan commitments impose certain restrictions on the Group's ability to operate its business as it would otherwise have done so, which may have a negative impact on the Group's business, operations and competitive position. A failure to comply with the conditions and restrictions set out in the Restructuring Plan Term Sheet could lead to the need for further action by the European Commission, which in turn could lead to material and significant adverse outcomes for the Group.

Risk management – 1. Principal risks and uncertainties

Failure to comply with the conditions imposed by the European Commission in the State Aid Decision (including failing to implement the Restructuring Plan in full and/or implementing unapproved changes to the Restructuring Plan) may constitute a misuse of aid. If the European Commission doubts that the Group is complying with the terms of the State Aid Decision, it may reopen the State Aid Decision. A reopening of the State Aid Decision would, at a minimum, create uncertainty as to the Group's business, financial condition and results of operations. A negative decision would give the European Commission the power to order Ireland to recover from the Group the amount of the aid that has been received by the Group at the relevant time (together with interest). This could have a material adverse impact on the Group's business, financial condition, results of operations and prospects.

The Group actively engages and co-operates with all relevant external stakeholders including governmental authorities.

The Group may be adversely affected by the budgetary and taxation policies of the Irish Government. The Group may be impacted by the outcome of the Banking Inquiry.

The current and future budgetary and taxation policy of Ireland and other measures adopted by the Irish Government may have an adverse impact on borrowers' ability to repay their loans and, as a result, the Group's business. Furthermore, some measures may directly impact the financial performance of the Group through the imposition of measures such as the bank levy introduced in Budget 2014. This bank levy imposes an additional taxation liability on the Group and applies during 2014, 2015 and 2016. The annual levy paid by the Group in 2014 amounted to € 60 million.

The Terms of Reference proposed by the Joint Committee for the Inquiry into the Banking Crisis were agreed by Dáil Éireann and Seanad Éireann in November 2014. The purpose of the Inquiry is to inquire into the reasons why Ireland experienced a systemic banking crisis, including the political, economic, social, cultural, financial and behavioural factors and policies which impacted on or contributed to the crisis and the preventative reforms implemented in the wake of the crisis. The costs and potential implications for the Group of this inquiry are uncertain at this time.

The Group assesses this risk by undertaking sensitivity analysis in its financial planning process, and monitoring financial performance against the Group's financial plan on a monthly basis.

The Group's participation in the NAMA Programme gives rise to certain residual financial risks

As a participating institution under the NAMA Act, during 2010 and 2011, the Group transferred financial assets to NAMA with a net carrying value of € 15.5 billion for which it received as consideration NAMA senior bonds and NAMA subordinated bonds. NAMA senior bonds were also received as consideration as part of the 'Anglo' and 'EBS' transactions. Provisions of the NAMA Act provide for certain circumstances in which the Group could face additional liabilities in relation to assets transferred. In addition, credit exposure to NAMA arises from the senior and subordinated NAMA bonds.

The Group monitors this risk by periodically reviewing the carrying value of its NAMA senior and subordinated bonds, including external benchmarking.

Irish legislation and regulations in relation to mortgages may result in changes in customers' attitudes towards their debt obligations, delays in the Group's recoveries in its mortgage portfolio and increased impairments

Legislation and regulations introduced in 2013 may affect the Group's customers' attitudes towards their debt obligations, and hence their interactions with the Group in relation to their mortgages. In particular, on 1 July 2013, a revised Code of Conduct on Mortgage Arrears (the "CCMA") came into force. The CCMA requires mortgage lenders to develop a Mortgage Arrears Resolution Process ("MARP") with specific procedures when dealing with borrowers experiencing arrears and financial difficulties. It applies only to mortgages on primary residences and outlines timelines and conditions to be followed by lenders in relation to the arrears resolution process.

In addition, the Personal Insolvency Act 2012 (the "Personal Insolvency Act") came into force on 26 December 2012. The Personal Insolvency Act introduced a personal insolvency arrangement for the agreed settlement of secured debt up to an amount of € 3 million (subject to extension by agreement of all of the debtor's secured creditors) and for unsecured debt, with no limit. The Personal Insolvency Act also introduced an automatic discharge from bankruptcy, subject to certain conditions, after three years instead of 12 years, as had previously been the case. The inclusion of secured debt in the personal insolvency process was a material change in Ireland's personal insolvency regime. On 13 May 2015, the Irish Government announced its intention to amend the Personal Insolvency Act so as to give the courts power to review and, where appropriate, approve arrangements in respect of secured debt which have been rejected by a bank or other secured creditor.

The Group has been proactive in developing forbearance solutions for borrowers experiencing arrears and financial difficulties. In accordance with Central Bank of Ireland requirements, it has developed a Mortgage Arrears Resolution Strategy ("MARS"), which builds on and formalises the MARP it was required to introduce in order to comply with the CCMA. Nonetheless, there is a risk that legislation and regulations such as the Personal Insolvency Act and the CCMA will result in changes in customers' attitudes towards their debt obligations. Customers may be more likely to default even when they have sufficient resources to continue making payments on their mortgages. This could result in delays in the Group's recoveries in respect of its mortgage portfolio and increased impairments, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

The Group actively engages with all relevant industry and government stakeholders highlighting, as appropriate, the intended and unintended consequences of any proposed regulatory or legislative changes including its impacts on customers, the Group and the industry as a whole.

Risks relating to business operations, governance and internal control systems

The Group's management may not be able to successfully implement its strategic objectives, in particular with respect to its omni-channel distribution model and achieve its medium-term targets

The Group has identified several strategic objectives for its business. There can, however, be no assurance that the Group will be successful in implementing its strategy or that it will meet its medium-term targets. In particular, in relation to its omni-channel distribution model, which combines its physical branch network with online, mobile and direct channels, the Group is focused on increasing usage and integration of digital distribution channels and continuing to build on its mobile and online adoption rates. There can be no assurance that the Group will be successful in achieving such integration and increased usage or in anticipating evolving customer preferences for access to banking services. Furthermore, it may not be able to develop in a timely manner the technology necessary to accommodate these preferences, such as internet banking channels and new applications for mobile and tablet banking. The Group may also be required to invest more than it has currently budgeted in order to expand and improve its internet banking channels and it may not realise cost efficiencies resulting from increasing digitisation at the level or in the time frame that it expects.

If the Group is unsuccessful in implementing its strategic objectives or achieving its medium-term targets, or if it is required to spend more than it anticipated to achieve those objectives, its business, results of operations, financial condition and prospects could be materially adversely affected.

The Group conducts a strategic review and detailed financial planning on an annual basis. The Group reviews performance against objectives on a regular basis.

Fostering of a poor or inappropriate culture across the Group may adversely impact performance and impede achieving strategic goals

If the Group does not continuously develop and promote the appropriate culture in the Group then the Group may take actions or set strategy which are contrary to the culture and may result in the business, results of operations, financial condition and prospects being materially adversely affected.

A cultural change is needed in banking to restore trust, with greater evidence of genuinely customer-centric behaviour and enterprise-wide management of risks. The Group has developed and is embedding a series of Brand Values across the Group. With the tone being set from the top, these values aim to drive and influence the activities of businesses and staff, guiding our dealings with customers.

In addition, a Risk Culture Charter was approved in June 2015. It introduces the principles which underpin a robust risk culture and are a key support to further embedding the Brand Values across the Group.

Negative impacts on the Group's reputation may impact its financial performance.

Damage to the Group's reputation may adversely affect relationships with the Group's stakeholders including customers, staff and supervisors. Such damage may lead to impacts on the Group's capability to attract and retain customers, attract, motivate and retain staff and engage positively with supervisors. This may lead to impacts on the Group's ability to conduct its affairs and in turn on the financial performance of the Group.

The Group manages its reputational risk through its management of other material risk types. For any risk, the potential reputational impact is considered alongside the direct and indirect financial consequence. The Nominations and Corporate Governance Committee is responsible for overseeing the Group's management of reputational risk.

The Group's risk management systems and processes as well as guidelines and policies may prove inadequate for the risks faced by its business and any failure to properly assess or manage the risks which it faces could cause harm to the Group's business

The Group is exposed to a number of material risks. Although the Group invests substantially in its risk management strategies and techniques, there is a risk that these fail to fully mitigate the risks in some circumstances.

The Group mitigates this risk by regularly reviewing the design and operating effectiveness of its risk management policies and methodologies. These reviews are supplemented in some instances by external review and validation.

Risk models used by the Group may not provide an accurate estimate of risk exposure

The Group develops and uses models across a range of risks and activities including, but not limited to, capital management, credit grading, valuations, liquidity, pricing and stress testing. Where the Group uses risk measurement techniques based on historical observations, there is a risk that these under or overestimate exposure to the extent that future market conditions deviate from historic norms. As a result, the Group may experience material unexpected losses. The Group may incur losses as a result of inaccuracies in these models, the data used to build them or decisions made based on incomplete understanding of these models.

The Group mitigates this risk by having comprehensive policies in place in relation to models, appropriate segregation of duties between model build and validation, senior executive approval and oversight of models and on-going testing of the performance of models.

The Group is subject to inherent credit risks in respect of customers and counterparties, which could have a material adverse effect on its business, financial condition, results of operations and prospects

Risks arising from changes in credit quality and the recoverability of loans and other amounts due from customers and counterparties are inherent in a wide range of the Group's businesses. In addition to the credit exposures arising from loans to individuals, SMEs and corporates, the Group also has exposure to credit risk arising from loans to financial institutions, its trading portfolio, available for sale ("AFS") portfolio, derivatives and from off-balance sheet guarantees and commitments. The Group has been exposed to increased counterparty risk as a result of the risk of financial institution failures during the global economic crisis. The Group is also exposed to credit risks relating to sovereign issuers. Concerns in respect of Ireland and other sovereign issuers, including other European Union member states, have adversely affected and could continue to adversely affect the financial performance of the Group.

The Group has extensive credit policies, limits and controls in place.

The Group has a high level of criticised loans on its statement of financial position and there can be no assurance that it will continue to be successful in reducing the level of criticised loans. In addition the management of criticised loans gives rise to risks, including, vulnerability to challenge by customers and/or third parties, re default, changes in the regulatory regime and the diversion of management attention and resources from other areas of the Group's business

The Group has a high level of criticised loans, which are defined as loans requiring additional management attention over and above that normally required for the loan type. The Group has been proactive in managing its criticised loans, in particular through restructuring activities and the development of a Mortgage Arrears Resolution Strategy ("MARS"), which built on and formalised the Mortgage Arrears Resolution Process ("MARP") it was required to introduce in order to comply with the Central Bank's Code of Conduct on Mortgage Arrears (the "CCMA"). The Group has reduced the level of criticised loans, however, there can be no assurance that the Group will continue to be successful in reducing the level of its criticised loans. In particular, the restructuring activities that the Group undertakes may be vulnerable to challenge by the Group's customers.

The Group is also subject to the risk of re-default by customers even after a resolution has been achieved for a particular loan. Furthermore, the Group's ability to manage criticised loans may be adversely affected by changes in the regulatory regime or changes in government policy. For these reasons, the Group cannot predict the evolution of criticised loans on its statement of financial position. The monitoring of criticised loans can also be time consuming and typically requires case-by-case resolution, which may divert resources from other areas of the Group's business.

Furthermore, even after a particular loan has been restructured, extensive ongoing monitoring will continue to be required. If the Group is unsuccessful in reducing the level of criticised loans on its statement of financial position or if it is required to continue to devote significant resources beyond planned levels to the monitoring of criticised loans, its business, results of operations, financial condition and prospects could be materially adversely affected.

The Group has extensive credit policies, implementation guidelines and monitoring structures in place to manage criticised loans. The Group regularly reviews these credit policies as well as the performance of criticised loans against financial plans.

The Group faces elevated operational risks – including people, outsourcing, process and systems risks

Operational risk is defined as risks arising from inadequate or failed internal processes, people and systems, or from external events. The Group faces an elevated operational risk profile given the current economic environment and the ongoing significant organisational changes.

One of the Group's key operational risks is people risk. The Group's efforts to restore and sustain the stability of its business on a long-term basis depend, in part, on the availability of skilled management and the continued service of key members of staff. Under the terms of the recapitalisation of the Group by the Irish Government, the Group is required to comply with certain executive pay and compensation arrangements. As a result of these restrictions, the Group cannot guarantee that it will be able to attract, retain and remunerate highly skilled and qualified personnel in the highly competitive markets in Ireland and the UK. In addition, headcount reductions and the significant level of change in the Group have increased pressure on employees and these pressures could give rise to tension with trade unions. Failure by the Group to staff its day-to-day operations appropriately or failure to attract and appropriately develop, motivate and retain highly skilled and qualified personnel could have an adverse effect on the Group's results, financial condition and prospects.

The Group's business is dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services. Some of this activity has been outsourced to third party service providers. Any weakness in these systems or processes both in-house and outsourced could have an adverse effect on the Group's results and on its ability to deliver appropriate customer outcomes during the affected period. In addition, any breach in security of the Group's systems (for example from increasingly sophisticated cybercrime attacks), could disrupt its business, result in the disclosure of confidential information or create significant financial and/or legal exposure and the possibility of damage to the Group's reputation and/or brand.

The Group mitigates its operational risks by having detailed risk assessment and internal control requirements in relation to the management of its key people, process and systems risk, and through comprehensive and robust business continuity management arrangements. These are set out in the Group's Operational Risk Framework.

The Group may be subject to the risk of having insufficient capital to meet increased minimum regulatory requirements

The Group is subject to minimum capital requirements as set out in CRD IV and implemented under the SSM. As a result of these requirements banks in the EU have been, and will continue to be required to increase the quantity and the quality of their regulatory capital. Given this regulatory context, and the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the Group's capital planning period may be materially worse than expected and/or that losses on the Group's credit portfolio may be above forecast levels. Were such losses to be significantly greater than currently forecast, or capital requirements for other material risks to increase significantly, there is a risk that the Group's capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements.

In addition, capital levels may be negatively affected by volatility arising from the pension schemes and the available for sale portfolio values.

This risk is mitigated by evaluating the adequacy of the Group's capital under both forecast and stress conditions as part of the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP process includes the identification and evaluation of potential capital mitigants.

Downgrades to the Group's credit ratings or outlook could impair the Group's access to private sector funding, trigger additional collateral requirements and weaken its financial position

The Group's senior unsecured debt not covered by the Credit Institutions (Eligible Liabilities Guarantees) Scheme (the "ELG Scheme") is rated Ba2 by Moody's with a stable outlook and its debt and deposits not covered by the ELG Scheme are rated BB by S&P with a negative outlook and BBB with a negative outlook by S&P and Fitch, respectively. Moody's has rated the Group's long-term deposits Ba1 and has assigned Counterparty Risk Assessments (CR Assessment) of Baa3(cr)/P-3(cr) to the Group. Downgrades in the credit ratings of the Group could have an adverse impact on the volume and pricing of its wholesale funding and its financial position, restrict its access to the capital and funding markets, trigger material collateral requirements or associated obligations in other secured funding arrangements or derivative contracts, make ineligible or lower the liquidity value of pledged securities and weaken the Group's competitive position in certain markets.

Furthermore, the availability of deposits is often dependent on credit ratings and further downgrades of the Group's debt could lead to withdrawals of deposits, which could result in deterioration in the Group's funding and liquidity position.

Risk of litigation arising from the Group's activities

The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks. Disputes and legal proceedings in which the Group may be involved are subject to many uncertainties, and the outcomes of such disputes are often difficult to predict, particularly in the early stages of a case or investigation. Adverse regulatory action or adverse judgments in litigation could result in a monetary fine or penalty, adverse monetary judgment or settlement and/or restrictions or limitations on the Group's operations or result in a material adverse effect on the Group's reputation.

The Group has a centralised legal team under the Group General Counsel and relevant internal and external legal expertise is retained to mitigate associated risks as appropriate.

The Group faces the risk that the funding position of its defined benefit pension schemes will deteriorate, requiring it to make additional contributions

The Group maintains a number of defined benefit pension schemes for certain current and former employees. These defined benefit schemes were closed to future accruals from 31 December 2013. In relation to these schemes, the Group faces the risk that the funding position of the schemes will deteriorate to such an extent that it would be required to make additional contributions above what is already planned to cover its pension obligations. The Group has taken actions to plan its future funding requirements with the relevant authorities. Nonetheless, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk. Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may decrease due to market movements. Actuarial risk arises due to the risk that the estimated value of the pension scheme liabilities may increase due to changes in actuarial assumptions. Furthermore, IAS pension deficits are now a deduction from capital under CRD IV which came into force on 1 January 2014.

The Group identifies and monitors all pension risks subject to the Group's Pensions Risk Framework and Pension Risk policy. There are three main measurements of the Group defined benefit pension schemes, the Minimum Funding Standard (MFS), the IAS 19 (accounting standard), and the Actuarial Report to the Trustees. The Group's Pension department, in conjunction with independent advisors ensure that actuarial assumptions are on a prudent basis.

The Group's deferred tax assets depend substantially on the generation of future profits over an extended number of years and the Group's ability to utilise these deferred tax assets could be affected by changes in tax legislation

The Group's business performance may not reach the level assumed in the projections supporting the carrying value of the deferred tax assets. Lower than anticipated profitability within Ireland and the UK would lengthen the anticipated period over which the Group's Irish and UK tax losses would be used. The value of the deferred tax assets relating to unused tax losses constitutes substantially all of the deferred tax assets recognised in the Group's statement of financial position. A significant reduction in anticipated profit, or changes in tax legislation, regulatory requirements, accounting standards or relevant practices, could adversely affect the basis for recognition of the value of these losses, which would adversely affect the Group's results and financial condition, including capital and future prospects.

The new capital adequacy rules under the CRR, consistent with Basel III principles, require the Group inter alia, to deduct from its common equity capital, the value of most of the Group's deferred tax assets, including all deferred tax assets arising from unused tax losses. This deduction from common equity capital is to be phased in evenly over 10 years from 2014 at a rate of 10 per cent. per annum.

The Group monitors this risk by regularly reviewing the basis for recognition of its deferred tax assets.

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgments and estimates that may change over time, or may ultimately turn out to be inaccurate, and the value realised by the Group for these assets may be materially different from their current, or estimated, fair value

In accordance with International Financial Reporting Standards ("IFRS"), the Group recognises at fair value:
(i) derivative financial instruments;
(ii) financial instruments at fair value through profit or loss;
(iii) certain hedged financial assets and financial liabilities; and
(iv) financial assets classified as AFS.

The best evidence of fair value is quoted prices in an active market. Disruption to quoted prices increases reliance on valuation techniques which requires the use of judgment in the estimation of fair value. This judgment includes, but is not limited to, evaluating available market information, determining the cash flows for the instruments, identifying a risk free discount rate and applying an appropriate credit spread. Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgment to calculate fair value than those based on wholly observable credit spread. The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures.

Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different value, with a consequent impact on the Group's results, financial condition and future prospects.

The Group mitigates this risk by having comprehensive valuation and accounting policies and methodologies in place for the valuation of certain financial assets, and in undertaking control activities which provide assurance that these are being adhered to.

Risk management – 2. Framework

Introduction

The principal risks and uncertainties to which the Group is exposed are set out in the previous section. The governance and organisation framework through which the Group manages and seeks, where possible, to mitigate these risks, is described below.

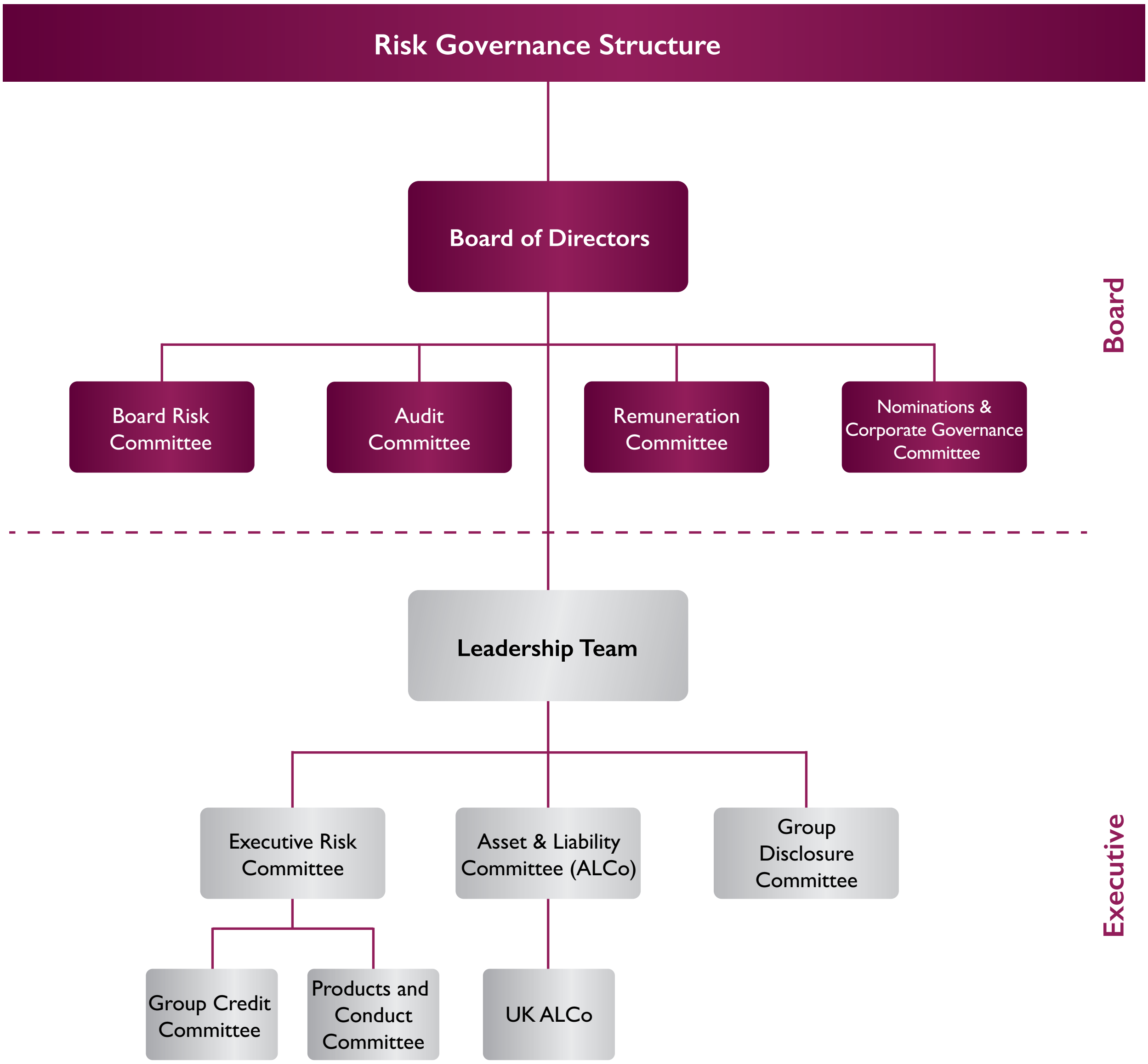
2.1 Risk management framework

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. To support this approach, a number of Board approved frameworks and policies are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed. The core aspects of the Group's risk management approach are described below.

2.2 Risk appetite

The Group's risk appetite is defined as the maximum amount of risk that the Group is willing to accept or tolerate in order to deliver on its strategic and business objectives. The Group Risk Appetite Statement ("RAS") is a blend of qualitative statements and quantitative limits and triggers linked to the Group's strategic objectives.

The Group RAS is reviewed and approved by the Board at least annually or more often if required, in alignment with the annual business and financial planning process. AIB authorised bank subsidiaries and business segments are required to document and align their own risk appetite statements with the Group statement.



Risk management – 2. Framework

While the Board reviews the Group RAS, the Leadership Team is accountable for ensuring that risks remain within appetite. The Group's risk profile is measured against its risk appetite and adherence to both the Group RAS and business segment risk appetite statements are reported on a monthly basis to the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC"). Should any breaches of Group RAS limits arise, these, together with associated management action plans, are escalated to the Board for review, and also reported to the Central Bank of Ireland ("CBI")/Single Supervisory Mechanism ("SSM"), in line with the provisions of its Corporate Governance Code.

2.3 Risk governance

2.3.1 Risk management organisation

The Board has ultimate responsibility for the governance of all risk taking activity in the Group. The Group has adopted a 'three lines of defence' framework in the delineation of accountabilities for risk governance. Under the three lines of defence model, primary responsibility for risk management lies with business line management. The Risk Management function, headed by the Group Chief Risk Officer ("CRO") provides the second line of defence, providing independent oversight and challenge to business line managers. The third line of defence is the Group Internal Audit function, under the Head of Group Internal Audit ("GIA"), which provides independent assurance to the Audit Committee of the Board on the effectiveness of the system of internal control.

2.3.2 Committees with risk management responsibilities

The Board has delegated a number of risk governance responsibilities to various committees and key officers. The diagram on the previous page summarises the current risk committee structure of the Group.

The role of the Board, the Audit Committee, and the BRC is set out in Governance and oversight - 4. Corporate Governance statement in the Annual Financial Report 2014. The Leadership Team comprises the senior executive managers of the Group who manage the strategic business risks of the Group. It establishes the business strategy and risk appetite within which the risk management function operates.

The role of the Executive Risk Committee ("ERC") is to foster risk governance within the Group, to ensure that risks within the Group are appropriately managed and controlled, and to evaluate the Group's risk appetite against the Group's strategy. It is a sub-committee of the Leadership Team chaired by the Chief Financial Officer ("CFO") and its membership includes the CEO, CRO, and Chief Operating Officer ("COO").

The ERC's principal duties and responsibilities include reviewing the effectiveness of the Group's risk frameworks and policies, monitoring and reviewing the Group's risk profile, risk trends, risk concentrations and policy exceptions, and monitoring adherence to approved risk appetite and other limits. The ERC acts as the parent body of two other risk and control committees, namely the Group Credit Committee ("GCC") and the Products and Conduct Committee ("PCC"). Principal responsibilities of the GCC include: the exercising of approval authority for exposure limits to customers of the Group; exercising approval authority for credit policies; considering quarterly provision levels, assurance reviews and credit review reports; the approval of credit inputs to credit decisioning models, as well as the review and approval of other credit related matters as they occur. The PCC approves the launch and ongoing performance of products and oversees the Group's conduct risk management. The PCC plays a key role in promoting and supporting a customer centric ethos and culture across the Group.

The role of the Asset and Liability Committee ("ALCo") is to act as the Group's strategic balance sheet management forum that combines a business-decisioning and risk governance mandate. It is a sub-committee of the Leadership Team, chaired by the Director of Finance and its membership includes the CFO, the CRO and the heads of significant business areas. ALCo is tasked with decision-making in respect of the Group's balance sheet structure, including capital, liquidity, funding, interest rate risk in the Banking Book ("IRRBB") from an economic value and net interest margin perspective, foreign exchange ("FX") hedging risks and other market risks. In ensuring sound capital and liquidity management and planning, ALCo reviews and approves models for the valuation of financial instruments, for the measurement of market and liquidity risk, for regulatory capital ('IRB models'), and for the calculation of expected and unexpected credit losses and stress testing. In addition, ALCo directs the shape of the balance sheet through funds transfer pricing, direction on product pricing and review and analysis of risk adjusted returns on capital.

The Group Disclosure Committee is responsible for reviewing compliance of Group financial information with legal and regulatory requirements prior to external publication, and for exercising oversight of the Accounting Policies Forum, which ensures that the accounting policies adopted by the Group conform to the highest standards in financial reporting.

2.4 Risk identification and assessment process

The Group uses a variety of approaches and methodologies to identify and assess its principal risks and uncertainties. A Material Risk Assessment ("MRA") is undertaken on at least an annual basis. The MRA identifies and assesses the most material risks facing the Group in terms of their likelihood and impact, and separately evaluates whether an explicit amount of capital is required to be held against them as part of the Group's Internal Capital Adequacy Assessment Process ("ICAAP"). Other assessments of risk are undertaken, as required, by business areas, focussing on the nature of the risk, the adequacy of the internal control environment and whether additional management action is required. Ad hoc risk assessments are also undertaken in response to specific internal or external events. A monthly CRO Report is presented to the ERC and BRC which sets out the risk profile of the Group and seeks to identify emerging threats.

2.5 Stress and scenario testing

The Group's risk identification and assessment framework described above is supported by a framework of stress testing, scenario and sensitivity analysis and reverse stress testing. The Group undertakes a regular programme of stress testing across all its material risks to ensure that risk assessment is dynamic and forward looking and considers not only existing risks but also potential and emerging threats.

A stress testing exercise was conducted during the period to 30 June 2015 to inform and support the Group's ICAAP process.

Reverse stress testing is undertaken as part of the Group's Recovery Planning i.e. the means by which the Group assesses the key threats to its viability and the available mitigants to address them.

2.6 Risk culture

The Group seeks to promote a strong risk culture throughout the organisation which encourages the prompt identification and escalation of issues and fosters an environment of continuous improvement and 'learning from mistakes'. Risk training is an important part of fostering a sound risk culture. A Risk Academy is in place which provides access to recommended training and education for risk professionals as well as supporting the on-going development of risk skills across the AIB organisation.

A Risk Culture Charter was approved by the BRC in June 2015. It introduces the principles which underpin a robust risk culture and a key support to embedding the Brand Values across the Group.

Risk management – 3. Individual risk types

3.1 Credit risk

Credit risk is the risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet a commitment that they had entered into. Credit exposure arises in relation to lending activities to customers and banks, including 'off-balance sheet' guarantees and commitments, the trading portfolio, financial investments available for sale, and derivatives.

Concentrations in particular portfolio sectors, such as property and construction can impact the overall level of credit risk.

Credit risk management objectives are to:
– Establish and maintain a control framework to ensure credit risk taking is based on sound credit management principles;
– Control and plan credit risk taking in line with external stakeholder expectations;
– Identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio; and
– Monitor credit risk and adherence to agreed controls.

AIB lends to personal and retail customers, commercial entities and government entities and banks. Credit risk arises on the drawn amount of loans and receivables, but also as a result of loan commitments, such as undrawn loans and overdrafts, and other credit related commitments, such as guarantees, performance bonds and letters of credit. These credit related commitments are subject to the same credit assessment and management as loans and receivables.

Credit risk organisation and structure

The Group's credit risk management systems operate through a hierarchy of lending authorities. All customer loan requests are subject to a credit assessment process.

The role of the Credit Risk function is to provide direction, oversight and challenge of credit risk-taking. The Group Risk Appetite Statement sets out the credit risk appetite and framework. Credit Risk appetite is set at Board level and is described, reported and monitored through a suite of metrics. These metrics are supported by more detailed appetite metrics at a segment level. These are also supported by a comprehensive suite of credit risk policies, concentration limits and product and country limits to manage concentration risk and exposures within the Group's approved risk appetite. The Group's risk appetite for credit risk is reviewed and approved annually.

AIB operates credit approval criteria which:
– Includes a clear indication of the Group's target market(s), in line with Group and Segment Risk Appetite Statements;
– Requires a thorough understanding and assessment of the borrower or counterparty, as well as the purpose and structure of credit, and the source of repayment; and
– Enforces compliance with minimum credit assessment and facility structuring standards.

Credit risk approval is undertaken by experienced credit risk professionals operating within a defined delegated authority framework.

The AIB Board is the ultimate credit approval authority and grants authority to various Credit Committees, and individuals to approve limits. Credit limits are approved in accordance with the Group's written policies and guidelines. All exposures above certain levels require approval by the Group Credit Committee ("GCC"). Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgement and experience. Depending on the borrower/connection, grade or weighted average facility grade and the level of exposure, limits are sanctioned by the relevant credit authority. Material lending proposals are referred to credit units for independent assessment/approval or formulation of a recommendation and subsequent adjudication by the applicable approval authority.

Measurement of credit risk

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which the Group is exposed. The use of internal credit rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital.

The primary model measures used are:
– Probability of default ("PD") – the likelihood that a borrower is unable to repay his obligations;
– Exposure at default ("EAD") – the exposure to a borrower who is unable to repay his obligations at the point of default;
– Loss given default ("LGD") – the loss associated with a defaulted loan or borrower; and
– Expected loss ("EL") – the loss that can be incurred as a result of lending to a borrower that may default. It is the average expected loss in value over a specified period.

3.1 Credit risk

Measurement of credit risk *(continued)*

To calculate PD, the Group assesses the credit quality of borrowers and other counterparties and assigns a credit grade or score to these. This grading is fundamental to credit sanctioning and approval, and to the on-going credit risk management of loan portfolios. It is a key factor in determining whether credit exposure limits are sanctioned for new borrowers, at which authority level they can be approved, and how any existing limits are managed for current borrowers.

The ratings methodology and criteria used in assigning borrowers to grades varies across the models used for the portfolios, but models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement.

For the purposes of calculating credit risk, each 'probability of default model' segments counterparties into a number of rating grades, each representing a defined range of default probabilities. Exposures migrate between rating grades if the assessment of the counterparty probability of default changes. These individual rating models continue to be refined and recalibrated based on experience. The calculation of internal ratings differs between portfolios. In the retail portfolio, which is characterised by a large number of customers with small individual exposures, risk assessment and decisioning is largely automated through the use of statistically-based scoring models. All counterparties are assessed using the appropriate model or scorecard prior to credit approval.

Mortgage applications are generally assessed centrally with particular reference to affordability, assisted by scoring models. However, for larger cases with connected exposures, some mortgage applications are assessed by the relevant credit authority. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of these portfolios.

In the non-retail portfolio, the grading systems utilise a combination of objective information, essentially financial data (e.g. borrowers' earnings before interest, tax, depreciation and amortisation ("EBITDA"); interest cover; and balance sheet gearing) and qualitative assessments of non-financial risk factors such as management quality and competitive position within the sector/industry. The combination of expert lender judgement and statistical methodologies varies according to the size and nature of the portfolio, together with the availability of relevant default experience applicable to the portfolio.

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. Special attention is paid to lower quality performing loans or 'criticised' loans. In AIB, criticised loans include 'watch', 'vulnerable' and 'impaired' loans which are defined as follows:

Watch: The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.

Vulnerable: Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources.

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 asset (a 'loss event') and that loss event/events has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

The Group's criticised loans are subject to more intense assessment and review because of the increased risk associated with them.

Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to on-going review in order to ensure that the Group is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

Use of PD, LGD, and EAD within regulatory capital and impairment provisioning

As at 30 June 2015, the Group used a combination of Standardised and Internal Ratings Based ("IRB") approaches for the calculation of regulatory capital. Under the Standardised approach, regulatory risk weightings are determined on a fixed percentage basis, depending on the portfolios, as specified in the relevant regulations. The Group has regulatory approval to use certain of its internal credit models in the calculation of its capital requirements. As at 30 June 2015, 42% (31 December 2014: 42%) of credit risk weighted assets were calculated using internal credit models. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and Advanced IRB for retail exposures.

The Group divides its internal rating systems into non-retail and retail approaches. Both approaches differentiate PD estimates into between 9 and 16 grades in addition to the category of default. In all cases, impaired exposures and exposures 90 days or more past due are considered to be in default.

3.1 Credit risk

Measurement of credit risk *(continued)*

Non-retail

For non-retail exposures, the Foundation IRB approach is used for sovereign, bank, corporate, commercial, 'not for profit' and project finance portfolios. The Foundation IRB approach is used where banks use their own estimate of PD and regulatory estimates of LGD and EAD. To calculate PD, the Group assesses the quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration.

Retail

For retail exposures, the Advanced IRB approach is adopted for Republic of Ireland residential mortgages (excluding EBS mortgages) where the Group uses its own estimates of PD, LGD and EAD. PDs and LGDs are calibrated on the basis of internal data, supplemented with benchmarking to external sources.

The Group has a formalised governance framework around the internal ratings process. Each rating model is subject to an annual validation process, undertaken by an independent validation team.

Control mechanisms for rating systems

The Group ALCo approves all material risk rating models, model development, model implementation and all associated polices. The Group mitigates model risk for IRB portfolios as follows:

– The Group has specific policies relating to model governance, development and calibration, validation and deployment; and
– All models are subject to in-depth analysis and review, at least annually, supplemented by model tracking on a quarterly basis. This is carried out by a dedicated unit and is independent of credit origination and management functions.

Credit risk principles and policy*

The Group implements and operates policies covering the identification, assessment, approval, monitoring, control and reporting of credit risk. The Credit Risk Framework sets out, at a high level, how the Group identifies, assesses, approves, monitors, reports and controls credit risk. It contains minimum standards that are applied across the Group to provide a common and consistent approach to the management of credit risk.

More detailed policies, standards and guidelines provide more explicit instructions for applying these minimum standards to specific products, business lines, market segments, processes and roles. These are reviewed at least annually. Policy exceptions must be approved and reported. Policy breaches are not permitted, however, in circumstances where a breach occurs, it must be reported to senior management and the Credit Risk function to assess any required remediation action. Credit Risk monitors credit performance trends, reviews and challenges exceptions to planned outcomes and tracks portfolio performance against agreed credit risk indicators. This allows the Group to take early and proactive mitigating actions for any potential areas of concern. The more significant credit policies are approved by the Board.

Credit concentration risk*

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to the Group's capital, total assets, earnings or overall risk level to threaten its ability to maintain its core objectives. Credit policy is aligned to the Group's risk appetite and restricts exposure to certain high risk countries and more vulnerable sectors. Exposures are monitored to prevent excess concentration of risk. The Board approved Large Exposures and Approval Authorities Policy sets the maximum limit by grade for exposures to individual counterparties or group of connected counterparties taking into account features such as security, default risk and term. Concentration risk to sectors and movements in such concentrations are monitored regularly to prevent excessive concentration of risk, guide risk appetite and limit setting, identify unwanted concentrations, and provide an early warning indicator for potential excesses. Such measures facilitate the measurement of concentrations by balance sheet size and risk profile relative to other portfolios within the Group and in turn facilitate appropriate management action and decision making.

Country risk*

Credit risk is also influenced by country risk, where country risk is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable/unwilling to fulfil or are precluded from fulfilling their obligations to the Group due to economic or political circumstances. These are managed in line with the Country Policy limits which define maximum credit risk appetite for those countries through direct sovereign bond exposure, interbank exposure as well as corporate and equity exposures. Exposures against limits are monitored on an on-going basis and reported in line with processes detailed in the Country Exposure Policy.

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement of credit risk *(continued)*

Credit risk on derivatives*

The credit risk on derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when AIB has a claim on the counterparty under the contract. AIB would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by AIB to meet customer needs, to reduce interest rate risk, currency risk, and in some cases credit risk and also for proprietary trading purposes. Risks associated with derivatives are managed from a credit, market and operational perspective. The total credit exposure consists partly of the current replacement cost and partly of the potential future exposure. The potential future exposure is an estimation, which reflects possible changes in market values during the remaining life of the individual contract. The Group uses a simulation tool to estimate possible changes in future market values and computes the credit exposure to a high level of statistical significance. Exposures against limits are monitored on an on-going basis.

Credit risk assurance and review*

The credit management process is underpinned by an independent system of review. Assessment of the effectiveness of risk management practices and adherence to risk controls is carried out by Credit Risk and Credit Review teams who facilitate a wide range of assurance and review work. This includes cyclical credit reviews, non-standard reviews, and bespoke assignments, including impairment adequacy reviews, as required. This provides executive and senior management with assurance and guidance on credit quality, effectiveness of credit risk controls as well as the robustness of impairment provisions.

Stress testing and scenario analysis*

The credit portfolio is subjected to stress testing and scenario analysis. Events are modelled at a Group wide level, at a segment and business unit level and by rating model and portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Maximum exposure to credit risk from on balance sheet and off balance sheet financial instruments is presented before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount, and for financial guarantees and similar contracts granted, it is the maximum amount the Group would have to pay if the guarantees were called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

The following table sets out the maximum exposure to credit risk that arises within the Group and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value:

	30 June 2015			31 December 2014		
Maximum exposure to credit risk*	**Amortised cost[1] € m**	**Fair value[2] € m**	**Total € m**	Amortised cost[1] € m	Fair value[2] € m	Total € m
Balances at central banks[3]	4,831	–	4,831	4,879	–	4,879
Items in course of collection	223	–	223	146	–	146
Trading portfolio financial assets[4]	–	349	349	–	–	–
Derivative financial instruments	–	1,706	1,706	–	2,038	2,038
Loans and receivables to banks	3,363	–	3,363	1,865	–	1,865
Loans and receivables to customers	63,778	–	63,778	63,362	–	63,362
NAMA senior bonds	7,522	–	7,522	9,423	–	9,423
Financial investments available for sale[5]	–	19,369	19,369	–	19,772	19,772
Included elsewhere:						
Trade receivables	76	–	76	73	–	73
Accrued interest	384	–	384	426	–	426
	80,177	21,424	101,601	80,174	21,810	101,984
Financial guarantees	1,136	–	1,136	1,246	–	1,246
Loan commitments and other credit related commitments	9,642	–	9,642	9,082	–	9,082
	10,778	–	10,778	10,328	–	10,328
Total	90,955	21,424	112,379	90,502	21,810	112,312

(1)All amortised cost items are 'loans and receivables' per IAS 39 definitions.

(2)All items measured at fair value except financial investments available for sale and cash flow hedging derivatives are classified as 'fair value through profit or loss'.

(3)Included within cash and balances at central banks of € 5,231 million (31 December 2014: € 5,393 million).

(4)Excluding equity shares of € 1 million (31 December 2014: € 1 million).

(5)Excluding equity shares of € 459 million (31 December 2014: € 413 million).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants*

The perceived strength of a borrower's repayment capacity is the primary factor in granting a loan, however, AIB uses various approaches to help mitigate risks relating to individual credits, including transaction structure, collateral and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and receivables to customers are described below under the section on Collateral. Credit policy and credit management standards are controlled and set centrally by the Credit Risk function.

Occasionally, credit derivatives are purchased to hedge credit risk. Current levels are minimal and their use is subject to the normal credit approval process.

The Group enters into netting agreements for derivatives with certain counterparties, to ensure that in the event of default, all amounts outstanding with those counterparties will be settled on a net basis. Derivative transactions with wholesale counterparties are typically collateralised under a Credit Support Annex in conjunction with the International Swaps and Derivatives Association ("ISDA") Master Agreement.

The Group also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit grade. Each bank is assessed for the appropriate exposure limit within the policy. Risk generating business units in each segment are required to have an approved bank or country limit prior to granting any credit facility, or approving any obligation or commitment which has the potential to create interbank or country exposure.

Collateral*

Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. Credit risk mitigation includes the requirement to obtain collateral as set out in the Group's policies and procedures. The Group maintains guidelines on the acceptability of specific classes of collateral.

The principal collateral types for loans and receivables are:
- Charges over business assets such as premises, inventory and accounts receivables;
- Mortgages over residential and commercial real estate; and
- Charges over financial instruments such as debt securities and equities.

The nature and level of collateral required depends on a number of factors such as the type of the facility, the term of the facility and the amount of exposure. Collateral held as security for financial assets other than loans and receivables is determined by the nature of the instrument. Debt securities and treasury products are generally unsecured, with the exception of asset backed securities, which are secured by a portfolio of financial assets.

Collateral is not usually held against loans and receivables to financial institutions, including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement. In accordance with the Group policy, collateral should always be valued by an appropriately qualified source at the time of lending.

Methodologies for valuing collateral*

As property loans represent a significant concentration within the Group's loans and receivables portfolio, some key principles have been applied in respect of property collateral held by the Group. For impaired property exposures, cash flows will generally emanate from the development and/or disposal of the assets which comprise the collateral held by the Group. The Group's preference is to work with the obligor to progress the realisation of the collateral although in some cases the Group will foreclose its security to protect its position. The Group typically holds various types of collateral as security for these loans, e.g. land, developments available for sale/rent and investment properties or a combination of these assets through cross collateralisation.

Where cash flows arising from the realisation of collateral held are included in impairment assessments, management typically rely on valuations or business appraisals from independent external professionals. However, in accordance with the Group's policy on Collateral Valuation, the Group uses a number of methods to assist in reaching appropriate valuations for collateral held. These include:
- Consultations with valuers;
- Use of professional valuations;
- Use of internally developed residual value methodologies;
- Application of local knowledge in respect of the property and its location; and
- Use of internal guidelines.

These are described in more detail on the following page.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Methodologies for valuing collateral* *(continued)*

Consultations with valuers take place in relation to general market conditions to help inform the Group's view on the particular property valuation. The valuers are external to the Group and are familiar with the location and asset for which the valuation is being requested.

Use of professional valuations represent circumstances where external firms are requested to provide formal written valuations in respect of the property. Up to date external professional valuations are sought in circumstances where it is believed that sufficient transactional evidence is available to support an expert objective view. Historic valuations are also used as benchmarks to compare against current market conditions and assess house price reductions from peak. Available market indices for relevant assets, e.g. residential and investment property are also used in valuation assessments.

The residual value methodology assesses the value in the land or property asset after meeting the incremental costs to complete the development. This approach looks at the cost of developing the asset to determine the residual value for the Group, including covering the costs to complete and additional funding costs. The key factors considered include: (i) the development potential given the location of the asset; (ii) its current or likely near term planning status; (iii) levels of current and likely future demand; (iv) the relevant costs associated with the completion of the project; and (v) expected market prices of completed units. If, following internal considerations which may include consultations with valuers, it is concluded that the optimal value for the Group will be obtained through the development/completion of the project; a residual value methodology is used. When, in the opinion of the Group, the land is not likely to be developed or it is non-commercial to do so, agricultural/green field values may be applied. Alternative use value (subject to planning permission) would also be considered.

Application of local market knowledge represent circumstances where the local bank management familiar with the property concerned and with local market conditions, and with knowledge of recent completed transactions provide indications of the likely realisable value and a potential timeline for realisation. Current yields and estimated likely yields are applied to current rentals in valuing investment property.

When assessing properties that are used for operational business or trading purposes, these are generally valued by applying a multiple to stabilised EBITDA, e.g. hotels and nursing homes. For licensed premises, these are valued by applying a multiple to stabilised net turnover (average over three years).

When assessing the value of residential properties, recent transactional analysis of comparable sales in the area combined with the Central Statistics Office ("CSO") Residential Property Price index in the Republic of Ireland are used.

Applying one or a combination of the above methodologies, in line with the Group's Valuation Policy, has resulted in a wide range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the asset. The frequency, and availability, of such up-to-date valuations remains a key factor within impairment provisions determination. Additionally, all relevant costs likely to be associated with the realisation of the collateral are taken into account in the cash flow forecasts. The spread of discounts is influenced by the type of collateral, e.g. land, developed land or investment property and also its location. The valuation arrived at is therefore, a function of the nature of the asset, e.g. un-serviced land in a rural area will most likely suffer a greater reduction in value if purchased at the height of a property boom than a fully let investment property with strong lessees. The discounts to original collateral value, having applied the valuation methodologies to reflect current market conditions, can be as high as 95% for land assets where values have been marked down to agricultural/green field site values.

When assessing the level of impairment provision required for property loans, apart from the value to be realised from the collateral, other cash flows, such as recourse to other assets or sponsor support, are also considered, where available. The other key driver is the time it takes to receive the funds from the realisation of collateral. While this depends on the type of collateral and the stage of its development, the period of time to realisation is typically one to seven years but sometimes this time period is exceeded. These estimates are periodically reassessed on a case by case basis.

In assessing the value of collateral for impaired mortgage loans in the Republic of Ireland, the Group has used a house price fall from peak of 50% (49% Dublin and 51% non-Dublin) as a base. This reflects a significant collateral value buffer against the current CSO index which at 31 May 2015 showed a 38% fall from peak.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Collateral for the non-mortgage portfolio*

For non-mortgage lending, collateral is taken where available, and will typically include a charge over the business assets such as stock and debtors. In some cases, a charge over property collateral or a personal guarantee supported by a lien over personal assets may also be taken. Collateral is reviewed on a regular basis in accordance with credit policy.

The value of collateral is assessed at origination of the loan or in the case of criticised loans, when testing for impairment. However, as the Group does not capture collateral values on its loan systems, it is not possible to quantify the fair value of collateral for non-impaired loans on an on-going basis at a portfolio level. It should be noted that when testing a loan for impairment, the present value of future cash flows, including the value of collateral held, and the likely time taken to realise any security is estimated. A provision is raised for the difference between this present value and the carrying value of the loan. Therefore, for non-mortgage impaired loans, the net exposure after provision would be indicative of the fair value.

Collateral for the residential mortgage portfolio*

For residential mortgages, the Group takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. The Group adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair value at 30 June 2015 is based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index (Republic of Ireland) and Nationwide House Price Index (United Kingdom) to these values to take account of price movements in the interim.

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Group in relation to financial assets detailed in the maximum exposure to credit risk table on page 46.

Loans and receivables to customers – residential mortgages*

The following table shows the fair value of collateral held for the Group's residential mortgage portfolio:

	30 June 2015				31 December 2014			
	Neither past due nor impaired € m	**Past due but not impaired € m**	**Impaired € m**	**Total € m**	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m
Fully collateralised[1]								
Loan-to-value ratio:								
Less than 50%	**6,241**	**234**	**532**	**7,007**	5,972	254	542	6,768
50% - 70%	**5,978**	**224**	**754**	**6,956**	5,837	236	824	6,897
71% - 80%	**3,610**	**123**	**507**	**4,240**	3,347	132	577	4,056
81% - 90%	**3,477**	**114**	**614**	**4,205**	3,381	129	690	4,200
91% - 100%	**2,878**	**112**	**670**	**3,660**	2,742	126	769	3,637
	22,184	**807**	**3,077**	**26,068**	21,279	877	3,402	25,558
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**5,993**	**278**	**3,212**	**9,483**	6,380	355	3,634	10,369
Total collateral value	**28,177**	**1,085**	**6,289**	**35,551**	27,659	1,232	7,036	35,927
Gross residential mortgages	**29,395**	**1,154**	**7,388**	**37,937**	29,014	1,323	8,509	38,846
Statement of financial position specific provisions			**(2,355)**	**(2,355)**			(2,877)	(2,877)
Statement of financial position IBNR provisions				**(401)**				(550)
Net residential mortgages			**5,033**	**35,181**			5,632	35,419

[1]The fair value of collateral held for residential mortgages which are fully collateralised has been capped at the carrying value of the loans outstanding at the end of each period.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Loans and receivables to customers - other

In addition to the credit risk mitigants outlined above, the Group holds reverse repurchase agreements amounting to € 29 million (31 December 2014: € 110 million) in its loans and receivables portfolio.

Derivatives*

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 30 June 2015 amounted to € 1,706 million (31 December 2014: € 2,038 million) and those with negative fair value are reported as liabilities which at 30 June 2015 amounted to € 2,300 million (31 December 2014: € 2,334 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 1,046 million at 30 June 2015 (31 December 2014: € 1,221 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. As at 30 June 2015, € 929 million (31 December 2014: € 843 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 170 million (31 December 2014: € 279 million) of CSAs are included within financial liabilities as collateral for derivative assets (note 42 to the consolidated financial statements). Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Loans and receivables to banks*

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. At 30 June 2015, repurchase agreements amounted to € 1,177 (31 December 2014: Nil).

NAMA senior bonds*

NAMA senior bonds, which at 30 June 2015 had a carrying value of € 7,522 million (31 December 2014: € 9,423 million), are guaranteed by the Irish Government as to principal and interest.

Financial investments available for sale*

At 30 June 2015, government guaranteed senior bank debt which amounted to € 207 million (31 December 2014: € 120 million) was held within the available for sale portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Credit risk monitoring*

To manage credit risk effectively, the Group has developed and implemented processes and information systems to monitor and report on individual credits and credit portfolios. It is the Group's practice to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio.

Credit risk, at a portfolio level is monitored and reported regularly to senior management and the Board Risk Committee. Credit managers pro-actively manage the Group's credit risk exposures at a transaction and relationship level. Monitoring is done through credit exposure and excess management, regular review of accounts, being up to date with any developments in customer business, obtaining updated financial information and monitoring of covenant compliance. This is reported on a quarterly basis to senior management and includes information and detailed commentary on loan book growth, quality of the loan book and loan impairment provisions including individual large impaired exposures.

Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in the Group's loan book. A report on any exceptions to credit policy is presented and reviewed on a monthly basis. The Group allocates significant resources to ensure on-going monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits is reported monthly.

As a matter of policy, all facilities granted to corporate and wholesale customers are subject to a review on, at least, an annual basis, even when they are performing satisfactorily. Annual review processes are supplemented by more frequent portfolio and case review processes in addition to arrears or excess management processes. Once an account has been placed on a watch list, or early warning list, the exposure is carefully monitored and where appropriate, exposure reductions are effected.

Criticised borrowers are tested for impairment at the time of annual review, or earlier, if there is a material adverse change or event in their credit risk profile. In addition, assessment for impairment is required for all cases where borrowers are 90 days past due as a result of payment arrears or on receipt of a forbearance request.

The Group operates a number of schemes to assist borrowers who are experiencing financial stress. The material elements of these schemes through which the Group has granted a concession, whether temporarily or permanently are set out below. The Group employs a dedicated approach to loan workout and to monitoring and proactively managing impaired loans. Specialised teams focus on managing the majority of criticised loans. Specialist recovery functions deal with customers in default, collection or insolvency. Their mandate is to maximise return on impaired debt and to support customers in difficulty. Whilst the basic principles for managing weaknesses in corporate, commercial and retail exposures are broadly similar, the solutions reflect the differing nature of the assets.

Forbearance*

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable currently to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract can be of a temporary (e.g. interest only) or permanent (e.g. term extension) nature.

The Group uses a range of initiatives to support customers. The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis and will assess these requests against their current and likely future financial circumstances and their willingness to resolve such difficulties, taking into account legal and regulatory obligations. Key principles include supporting viable Small Medium Enterprises ("SMEs"), and providing support to enable customers remain in the family home, whenever possible. The Group has implemented the standards for the Codes of Conduct in relation to customers in difficulty as set out by the Central Bank of Ireland ensuring these customers are dealt with in a professional and timely manner.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

Mortgage portfolio

The Group has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty. This builds on and formalises the Group's Mortgage Arrears Resolution Process ("MARP").

The strategy is built on three key factors:

i) Segmentation – identifying customers in difficulty;
ii) Sustainability – customer assessment; and
iii) Suitable Treatment – identifying solutions.

The core objectives are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes the following new longer-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty:

Positive equity sustainable solution – This solution involves a reduced payment to support customers who do not qualify for other forbearance solutions such as split loans due to positive equity;

Low fixed interest rate sustainable solution – This solution aims to support customers who have an income (and can afford a mortgage), but the income is not currently sufficient to cover full capital and interest repayments on their mortgage based on the current interest rate(s) and/or personal circumstances. Their current income is, however, sufficient to cover full capital and interest at a lower rate. It involves the customer being provided with a low fixed interest rate for an agreed period after which the customer will convert to a prevailing market rate for the remainder of the term of the mortgage on the basis that there is currently a reasonable expectation that the customer's income and/or circumstances will improve over the period of the reduced rate. The customer must pay full capital and interest throughout;

Split mortgages – A split mortgage will be considered where a customer can afford a mortgage but their income is not sufficient to fully support their current mortgage. The existing mortgage is split into two parts: Loan A being the sustainable element, which is repaid on the basis of principal and interest, and Loan B being the unsustainable element, which is deferred and becomes repayable at a later date. This solution may also include an element of debt write-off;

Negative equity trade down – This solution allows a customer to sell his/her house and subsequently purchase a new property and transfer the negative equity portion of the original property to a new loan secured on the new property. A negative equity trade down mortgage will be considered where a customer will reduce monthly loan repayments and overall indebtedness by trading down to a property more appropriate to his/her current financial and other circumstances; and

Voluntary sale for loss – A voluntary sale for loss solution will be considered where the loan is deemed to be unsustainable and the customer is agreeable to selling the property and putting an appropriate agreement in place to repay any residual debt. This solution may also include an element of debt-write off.

Credit policies are in place which outline the principles and processes underpinning the Group's approach to mortgage forbearance.

Non-mortgage portfolio

The Group has also developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. This approach is based on customer affordability and applying the following core principles:

– Customers must be treated objectively and consistently;
– Customer circumstances and debt obligations must be viewed holistically; and
– Solutions will be provided where customers are cooperative, and are willing but unable to pay.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

Non-mortgage portfolio *(continued)*

The restructuring process is one of structured engagement to assess the long term levels of sustainable and unsustainable debt. The process broadly moves from an initial customer disclosure stage, through to engagement and analysis, through to an initial proposal from the Group, followed by credit approval, documentation and drawdown. The commercial aspects of this process require that customer affordability is viewed holistically, to include all available sources of finance for debt repayment, including unencumbered assets.

The debt solutions provided allow the customer to enter into a performance based arrangement, typically over a five year period, which will be characterised by the disposal of non-core assets, contribution of unencumbered assets, and contribution toward residual debt from available cash flow. This process may result in debt write-off, where applicable.

A request for forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance treatment. This may result in the downgrading of the credit grade assigned and if a loss is deemed to be incurred, this will result in a specific impairment provision. Loans to which forbearance have been applied continue to be classified as forborne until the forbearance measures expire or until an appropriate probation period has passed.

Types of forbearance include temporary arrangements (such as placing the facility on interest only) and permanent sustainable solutions including fundamental restructures (which include an element of potential debt write down), part capital/interest basis for a period of time, extension of the facility term, split loans, and in some cases, a debt for equity swap or similar structure.

See accounting policy number 20 – Impairment of financial assets within the Accounting policies section of this report.

The effectiveness of the forbearance measures over the lifetime of the arrangements are subject to on-going management and review. A forbearance measure is deemed to be effective if the borrower meets the modified or original terms of the contract over a sustained period of time resulting in an improved outcome for the Group and the borrower.

Further details on forbearance are set out in 'Risk management – 3.2 Additional credit information – Forbearance'.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit risk management

Loan loss provisioning*

The Group's provisioning policy requires that impairment be recognised promptly and consistently across the different loan portfolios. A financial asset is considered to be impaired, and therefore, its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows that can be reliably estimated.

Impairment provisions are calculated on individual loans and receivables and on groups of loans assessed collectively. All exposures, individually or collectively, are regularly reviewed for objective evidence of impairment. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

The identification of loans for assessment as impaired is facilitated by the Group's credit rating systems. As described previously, changes in the variables which drive the borrower's credit rating may result in the borrower being downgraded. This in turn influences the management of individual loans with special attention being paid to lower quality or criticised loans, i.e. in the Watch, Vulnerable or Impaired categories. The credit rating of an exposure is one of the key factors used to determine if a case should be assessed for impairment.

It is Group's policy to provide for impairment promptly and consistently across the loan book. All business areas formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a quarterly basis. Loans are tested for impairment on receipt of a forbearance request and/or when accounts reach 90 days past due.

The following are triggers to prompt/guide Case Managers regarding the requirement to assess for impairment:

Mortgage portfolio triggers

- Deterioration in the debt service capacity.
- A material decrease in rents received on a buy-to-let property.

Commercial property triggers

- A material decrease in the property value.
- A material decrease in estimated future cash flows.
- The lack of an active market for the assets concerned.
- The absence of a market for refinancing options.

Small Medium Enterprises ("SME") portfolio triggers

- Trading losses or a material weakening in trade which leads to concerns over the ability of the business to meet scheduled debt service.
- Diversion of cash flows from earning assets to support non-earning assets.
- A material decrease in turnover or the loss of a major customer.
- A default or breach of contract.

In addition, the following factors are taken into consideration when assessing whether a loss event has occurred:

- Loss of a significant tenant/material reduction in rental income;
- Significant financial difficulty;
- Decrease in cash flow;
- Lack of objective evidence to prove the viability of the business;
- Material damage and loss to a firm's assets and/or production capacity;
- Loss of critical staff;
- Material increase in costs;
- Market/customer forced reduction in prices with no commensurate increase in volumes;
- Planned sale of property asset did not take place;
- Loss of employment;
- Disappearance of an active market for refinancing or sale of assets;
- Net worth; and
- Country risk.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Specific provisions

Specific impairment provisions arise when the recovery of a loan or group of loans is in doubt based on impairment triggers as outlined above and an assessment that all the expected future cash flows either from the loan itself or from the associated collateral will not be sufficient to repay the loan. The amount of the specific impairment provision is the difference between the present value of expected future cash flows for the impaired loan(s) discounted at the original effective interest rate and the carrying value of the loan(s).

When raising specific impairment provisions, AIB divides its impaired portfolio into two categories, namely 'Individually significant' and 'Individually insignificant'.

The individually significant threshold is €/£ 500,000 by customer connection (threshold is € 750,000 for EBS Limited). The calculation of an impairment charge for loans below the "significant" threshold is undertaken on a collective basis.

Individually significant loans and receivables

All loans that are considered individually significant are assessed on a case-by-case basis throughout the period for any objective evidence that a loan may be impaired. Assessment is based on ability to pay and collateral value. Collateral values are assessed based on the AIB Group Property Valuation Guidelines as described on pages 47 to 48. Individually significant provisions are calculated using discounted cash flows for each exposure. The cash flows are determined with reference to the individual characteristics of the borrower including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time period likely to be required to realise the collateral and receive the cash flows is taken into account in estimating the future cash flows and discounting these back to present value.

Individually insignificant loans and receivables

Provisioning is assessed on a collective basis to estimate losses for homogeneous groups of loans that are considered individually insignificant. This applies for customer connections less than £/€ 500,000 or € 750,000 for EBS Limited.

Individually insignificant – Mortgage portfolio (Republic of Ireland)

The individually insignificant mortgage provisioning methodology applies to both owner occupier and buy-to-let exposures.

Individually insignificant mortgage specific provisions are calculated using an individually insignificant and IBNR mortgage provisioning model. This methodology is based on the calculation of three possible resolution outcomes: cure; advanced forbearance with loss; and repossession (forced and voluntary), with different loss rates associated with each. The methodology is regularly reviewed and updated to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

The model parameters were refined during the period based on additional data sets.

Key model parameters at 30 June 2015 for owner occupier mortgages are as follows: cure (6%) and repossession/advanced forbearance (94%) (31 December 2014: cure 4% and repossession/advanced forbearance 96%).

The corresponding buy-to-let model parameters at 30 June 2015 are as follows: cure (3.5%) and repossession/advanced forbearance (96.5%) (31 December 2014: cure 0.5% and repossession/advanced forbearance 99.5%).

Cured loans are loans that were impaired/defaulted and have performed satisfactorily for 12 months.

The modelled loss is calculated on a case by case basis, by subtracting the net present value of the modelled recovery amount from the current loan balance. The model parameters are determined from observed data where possible. Where not directly observable, related measures are used to infer the parameter where possible; otherwise, it is based on expert judgement. The relevant model parameters include: percentage of forced disposals; costs and time to dispose (voluntary and forced); house price fall from peak; loss rate on advanced forbearance; and haircut on sale (voluntary and forced).

The model parameters are reviewed at a Group Credit Committee on a quarterly basis.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Individually insignificant – Non-mortgage portfolio (Republic of Ireland)

A non-mortgage individually insignificant and IBNR model was introduced and implemented for the year-end 31 December 2014. The model takes into consideration underlying security in determining the appropriate provision cover rate for impaired exposures. The specific provision for impaired cases is calculated using a LGD model, which differentiates loss based on loan size, product type and sector.

Individually insignificant – Mortgage and non-mortgage portfolio (United Kingdom)

Individually insignificant mortgage specific provisions are calculated based on a model which assumes that the outcome for all impaired loans is repossession. The individually insignificant non-mortgage specific provisions are calculated based on recovery rates observed over the past 4 years.

Incurred but not reported ("IBNR") provisions

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the Group, those loans are removed from the Group and assessed on an individual basis for impairment.

IBNR provisions can only be recognised for incurred losses i.e. losses that are present in the portfolio at the reporting date and are not permitted for losses that are expected to occur as a result of likely future events. IBNR provisions are determined by reference to loss experience in the portfolio and to the credit environment at the reporting date. The estimation of IBNR also takes into consideration re-default and execution risk for restructured loans.

Provisioning statistical models are used to determine the appropriate level of IBNR provisions for a portfolio/group of exposures with similar risk characteristics. A new non-mortgage model was introduced in the Republic of Ireland for year-end December 2014 as described above. The model estimates IBNR losses taking into consideration the following:

- historical loss experience (loss emergence rates based on historic grade migration experience or probability of default) in portfolios of similar credit risk characteristics (for example, by sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate provision against the individual loan (emergence period);
- loss given default rates based on historical loan loss experience, adjusted for current observable data;
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience; and
- an assessment of higher risk portfolios, e.g. non-impaired forborne mortgages and restructured loans.

Emergence period

The emergence period is key to determining the level of IBNR provisions. Emergence periods are determined by:

- assessing the time it takes following a loss event for an unidentified impaired loan to be recognised as an impaired loan requiring a provision; and
- taking into account current credit management practices, historic evidence of assets moving from 'good' to 'bad' and actual case studies.

Emergence periods are reflective of the characteristics of the particular portfolio and are estimated based on historic loan loss experience supported by back testing, and as appropriate, individual case sampling.

Emergence periods are reviewed on at least an annual basis. At 30 June 2015, there was no change made to the Republic of Ireland emergence period for the mortgage (12 months) and non-mortgage (8 months) portfolios. The emergence period for credit cards and corporate portfolios, also remained at 3 and 6 months respectively.

The average emergence period for UK mortgages is 8 months with the non-mortgage emergence period ranging from between 3 to 7 months.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Approval process

The Group operates an approval framework for impairment provisions which are approved, depending on amount, by various delegated authorities and referred to Area Credit Committee level, as required. These committees are chaired by a designated Credit Risk representative as outlined in the terms of reference for Credit Committees (approved by ERC), where the valuation/impairment is reviewed and challenged for appropriateness and adequacy. Impairments in excess of the segment authorities are approved by the Group Credit Committee and the Board (where applicable). Segment impairments and provisions are ultimately reviewed by the Group Credit Committee as part of the quarterly process.

The valuation assumptions and approaches used in determining the impairment provisions required are documented and the resulting impairment provisions are reviewed and challenged as part of the approval process by segment and Group senior management.

Write-offs

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

Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision amount. The writeback is recognised in the income statement.

Impact of changes to key assumptions and estimates on impairment provisions

Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment provisions on both individually and collectively assessed loans and receivables. A significant judgemental area is the calculation of individually insignificant and IBNR impairment provisions which are subject to estimation uncertainty.

The methods involve the use of historical information which is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors not being fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment provisions derived solely from historical loss experience.

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in light of differences between loss estimates and actual loss experience. For example, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes where available to ensure they remain appropriate.

However, the exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular, to changes in economic and credit conditions across a number of geographical areas.

Given the relative size of the Republic of Ireland mortgage portfolio, the key variables include house price fall from peak 50% (49% Dublin and 51% non-Dublin) which determines the collateral value supporting loans in the mortgage portfolio and cure rates (rates by which defaulted or delinquent accounts are assumed to return to performing status).

A 1% favourable change in the cure rate used for the Republic of Ireland collective mortgage provisions would result in a reduction in impairment provisions of 1.4% (blended rate of owner-occupier/buy-to-let) or c. € 19 million.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Impact of changes to key assumptions and estimates on impairment provisions *(continued)*

The value of collateral is estimated by applying changes in house price indices to the original assessed value of the property. A 1% change in the house price fall from peak assumption used for the Republic of Ireland collective mortgage provisions for 30 June 2015 is estimated to result in movements in provisions of c. € 27 million (€ 21 million specific provision and € 6 million IBNR).

An increase in the assumed repossession rate of 1% for the Republic of Ireland collective mortgage provisions would result in an increase in provisions of 0.4% (blended rate of owner-occupier/buy-to-let) or c. € 5 million.

For € 8.1 billion of the total impaired loans (€ 2 billion mortgages and € 6.1 billion non-mortgages) for which automated cash flows are available, changes in interest rates and cash flow timing would have the following impact:

– If interest rates increased by 1%, this would have an impact on the discounting effect, resulting in an increase in impairment provisions of c. € 66 million (c. € 26 million mortgages and c. € 40 million non-mortgages).
– If anticipated cash receipt timelines moved out by 1 year, the impact on impairment provisioning would be an increase of c. € 97 million (c. € 31 million mortgages and c. € 66 million non-mortgages).

An IBNR provision is made for impairments that have been incurred but have not been separately identifiable at the balance sheet date. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the Republic of Ireland mortgage portfolio, the emergence period is currently 12 months; a decrease of one month in the loss emergence period would result in a decrease of c. € 22 million in IBNR provisions.

In the Republic of Ireland non-mortgage portfolio, an increase of one month in the loss emergence period for IBNR provisions would result in an increase of c. € 28 million. For the United Kingdom, the impact would be an increase of c. £ 7 million.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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

The following tables show loans and receivables to customers by industry sector and geography[(1)]:

(i) Total loans and receivables to customers;

(ii) Impaired loans and receivables to customers; and

(iii) Provisions for impairment on loans and receivables to customers.

					30 June 2015
	Total		Analysed geographically[(1)]		
			Republic of Ireland	United Kingdom	Rest of the World
Loans and receivables to customers*	€ m	%	€ m	€ m	€ m
Agriculture	1,840	2.5	1,748	92	–
Energy	280	0.4	253	26	1
Manufacturing	1,963	2.7	1,388	535	40
Property and construction	13,799	18.8	9,418	4,381	–
Distribution	6,102	8.3	4,664	1,438	–
Transport	1,122	1.5	866	256	–
Financial	727	1.0	419	304	4
Other services	5,875	8.0	3,141	2,701	33
Personal:					
Residential mortgages	37,937	51.8	35,326	2,611	–
Other	3,690	5.0	3,277	413	–
Gross loans and receivables	73,335	100.0	60,500	12,757	78
Analysed as to:					
Neither past due nor impaired	53,235				
Past due but not impaired	2,125				
Impaired – provisions held	17,975				
	73,335				
Unearned income	(132)				
Deferred costs	54				
Provisions for impairment	(9,479)				
Total statement of financial position	63,778				

[(1)]Based on booking office.

The credit portfolio is diversified within each of its geographic markets by spread of locations, industry classification and individual customer. At 30 June 2015, residential mortgages in the Republic of Ireland (48%) and property and construction (13%) represent the largest concentrations within the portfolio. No other industry or loan category in any geographic market accounts for more than 10% of the Group's total loan portfolio.

Loans booked in the Republic of Ireland include c. € 1.7 billion US leveraged debt which is described on page 99 of this report.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

					31 December 2014
	Total		Analysed geographically[1]		
			Republic of Ireland	United Kingdom	Rest of the World
Loans and receivables to customers*	€ m	%	€ m	€ m	€ m
Agriculture	1,818	2.4	1,747	71	–
Energy	265	0.3	239	25	1
Manufacturing	1,733	2.3	1,271	462	–
Property and construction	15,537	20.5	11,220	4,317	–
Distribution	6,253	8.2	5,055	1,198	–
Transport	1,010	1.3	819	191	–
Financial	887	1.2	589	295	3
Other services	5,646	7.5	2,969	2,634	43
Personal:					
Residential mortgages	38,846	51.2	36,324	2,522	–
Other	3,837	5.1	3,429	408	–
Gross loans and receivables	75,832	100.0	63,662	12,123	47
Analysed as to:					
Neither past due nor impaired	51,146				
Past due but not impaired	2,524				
Impaired – provisions held	22,162				
	75,832				
Unearned income	(123)				
Deferred costs	59				
Provisions for impairment	(12,406)				
Total statement of financial position	63,362				

[1]Based on booking office.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

				30 June 2015
	Total	Analysed geographically[1]		
Impaired loans and receivables to customers*		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	**239**	**233**	**6**	**–**
Energy	**43**	**42**	**1**	**–**
Manufacturing	**201**	**147**	**54**	**–**
Property and construction	**6,713**	**4,913**	**1,800**	**–**
Distribution	**1,630**	**1,364**	**266**	**–**
Transport	**86**	**62**	**24**	**–**
Financial	**150**	**134**	**16**	**–**
Other services	**665**	**468**	**197**	**–**
Personal:				
Residential mortgages	**7,388**	**7,087**	**301**	**–**
Other	**860**	**789**	**71**	**–**
Total	**17,975**	**15,239**	**2,736**	**–**

				31 December 2014
	Total	Analysed geographically[1]		
Impaired loans and receivables to customers*		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	302	293	9	–
Energy	83	83	–	–
Manufacturing	233	179	54	–
Property and construction	8,836	6,951	1,885	–
Distribution	2,109	1,831	278	–
Transport	100	73	27	–
Financial	183	168	15	–
Other services	763	572	191	–
Personal:				
Residential mortgages	8,509	8,217	292	–
Other	1,044	974	70	–
Total	22,162	19,341	2,821	–

[1]Based on booking office.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

				30 June 2015
	Total	Analysed geographically[1]		
Provisions for impairment on loans and receivables to customers*	€ m	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	122	118	4	–
Energy	18	18	–	–
Manufacturing	125	92	33	–
Property and construction	3,995	2,858	1,137	–
Distribution	830	713	117	–
Transport	64	41	23	–
Financial	62	56	6	–
Other services	411	317	94	–
Personal:				
Residential mortgages	2,355	2,197	158	–
Other	595	541	54	–
Specific	8,577	6,951	1,626	–
IBNR	902			
Total	9,479			

				31 December 2014
	Total	Analysed geographically[1]		
Provisions for impairment on loans and receivables to customers*	€ m	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	185	178	7	–
Energy	40	40	–	–
Manufacturing	144	115	29	–
Property and construction	5,478	4,326	1,152	–
Distribution	1,217	1,072	145	–
Transport	69	44	25	–
Financial	96	90	6	–
Other services	493	391	102	–
Personal:				
Residential mortgages	2,877	2,724	153	–
Other	716	663	53	–
Specific	11,315	9,643	1,672	–
IBNR	1,091			
Total	12,406			

[1]Based on booking office.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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

	30 June 2015				31 December 2014			
Gross loans and receivables to customers*	**RBB € m**	**CIB € m**	**AIB UK € m**	**Total € m**	RBB € m	CIB € m	AIB UK € m	Total € m
Residential mortgages:								
Owner-occupier	29,177	38	2,260	31,475	29,580	51	2,177	31,808
Buy-to-let	6,003	108	351	6,462	6,575	118	345	7,038
	35,180	146	2,611	37,937	36,155	169	2,522	38,846
Other personal	2,990	287	413	3,690	3,141	289	407	3,837
Property and construction	5,812	3,586	4,401	13,799	7,348	3,794	4,395	15,537
Non-property business	6,368	6,209	5,332	17,909	6,771	5,957	4,884	17,612
Total	50,350	10,228	12,757	73,335	53,415	10,209	12,208	75,832
Analysed as to asset quality(1)								
Satisfactory	28,323	7,116	7,887	43,326	27,918	6,882	7,051	41,851
Watch	3,251	411	1,112	4,774	3,516	434	1,222	5,172
Vulnerable	5,097	1,157	1,006	7,260	4,519	1,079	1,049	6,647
Impaired	13,679	1,544	2,752	17,975	17,462	1,814	2,886	22,162
Total criticised loans	22,027	3,112	4,870	30,009	25,497	3,327	5,157	33,981
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	44	30	38	41	48	33	42	45
Impaired loans/total loans	27	15	22	25	33	18	24	29
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	6,336	596	1,645	8,577	8,903	694	1,718	11,315
IBNR	677	137	88	902	853	153	85	1,091
Total impairment provisions	7,013	733	1,733	9,479	9,756	847	1,803	12,406
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	46	39	60	48	51	38	60	51
Total provisions/impaired loans	51	47	63	53	56	47	62	56
Total provisions/total loans	14	7	14	13	18	8	15	16

	Half-year 30 June 2015				Half-year 30 June 2014 (Unaudited)			
Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(334)	(10)	1	(343)	101	28	67	196
IBNR	(176)	(16)	(5)	(197)	(91)	(5)	(1)	(97)
Total impairment (credit)/charge	(510)	(26)	(4)	(540)	10	23	66	99
	%	%	%	%	%	%	%	%
Impairment (credit)/charge/ average loans	(1.97)	(0.50)	(0.07)	(1.44)	0.03	0.46	0.99	0.24

(1)Satisfactory: credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. For a definition of the criticised categories, see page 43.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

The following summarises the key points affecting the credit profile of the loan portfolio:

- Gross loans and receivables to customers reduced by 3.3% or € 2.5 billion in the six months to 30 June 2015 with the reduction coming from the criticised grades.
- Improved demand for credit resulted in new lending of € 4 billion in the six months to 30 June 2015.
- Credit quality has improved, with a 12% decrease in criticised loans.
- Continued progress in working with customers to restructure facilities, resulting in the quantum of impaired loans reducing by € 4.2 billion in the period. The reduction reflects restructuring activity, write-offs (including non-contracted write-offs) and repayments due to customer asset sales.
- A net writeback of impairment provisions of € 540 million for the six months to 30 June 2015 compared to an impairment charge of € 99 million for the same period in 2014. The key drivers of the improvement were fewer new loans moving to impairment and writeback of provisions due to significant restructuring activity and the improved economic environment.

The Group is predominantly Republic of Ireland and United Kingdom focused with most sectors experiencing improved trading conditions due to a stronger economic environment. The Group has material concentrations in residential mortgages (52% of gross loans and receivables to customers) and property and construction (19% of gross loans and receivables to customers).

Gross loans and receivables to customers reduced by 3% or € 2.5 billion in the six months to 30 June 2015, with all the reduction coming from the criticised grades. The reduction is primarily due to the impact of restructuring activity, write-offs, and repayments from customer asset sales. The satisfactory portfolio grew by 4% in the six months to 30 June 2015 (2% on a constant currency basis). This growth is mainly attributable to increased demand for credit across most sectors and a reduction in impairment. New business drawdowns were € 4 billion in the six months to 30 June 2015 and included € 0.8 billion mortgage and € 1.9 billion non-mortgage in the Republic of Ireland and € 1.3 billion in the United Kingdom. New business booked in the Republic of Ireland includes international corporate exposures in CIB.

Restructuring

Restructuring the loans of customers in difficulty continues to be a key focus for the Group. Customer treatment strategies, as described on pages 51 to 53 have been developed for customers who are experiencing financial difficulties. The approach is one of structured engagement with co-operating customers to assess their long term levels of sustainable debt.

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

This restructuring engagement with customers resulted in c. €1.5 billion of loans being upgraded from impaired during the first six months, including c. € 0.6 billion following a fundamental restructure. In addition, there were c. € 1.0 billion of individually insignificant impaired mortgages which had been restructured but which will remain impaired until they have performed satisfactorily for 12 months.

Provision writebacks

There was a total provision net writeback of € 540 million for the six months to 30 June 2015 compared to a provision charge of € 99 million for the same period in 2014. Specific provision writebacks (net of top-ups) during the six months to June 2015 were € 506 million, split into mortgages € 230 million, other personal € 25 million, property and construction € 128 million and non-property business lending € 123 million (equivalent to c. 2% of opening impaired loans). These writebacks were partially offset by specific provisions amounting to € 163 million on newly impaired loans.

The key drivers of these writebacks include:

- increased security values and improved business cash flows due to the stronger economic environment;
- cases cured from impairment; and
- additional security gained as part of the restructuring process.

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

In addition, the IBNR released during the period amounted to € 197 million (30 June 2014: € 97 million).

Credit quality

Credit quality in the portfolio continues to improve. Criticised loans, including impaired, decreased by 12%, driven by restructuring activity, write-offs and lower downward grade migration. Within criticised loans, vulnerable loans increased by € 0.6 billion which was mainly due to restructuring of impaired loans in the six month period. Individually assessed loans are initially graded as vulnerable following restructure.

3.1 Credit risk – Credit profile of the loan portfolio

Residential mortgages

At 30 June 2015, residential mortgages accounted for 52% of gross loans and receivables to customers (€ 37.9 billion), with the loans mainly located in the Republic of Ireland (93%) and the remainder in the United Kingdom. The portfolio consists of 83% owner-occupier loans and 17% buy-to-let.

Total loans in arrears in the Republic of Ireland residential mortgage portfolio decreased by 13% during the six months to 30 June 2015, reflecting a decrease of 13% in both the owner-occupier and buy-to-let portfolios in the period. This decrease in arrears can be mainly attributed to the restructuring of the portfolio and the improving economic conditions.

Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 77 to 86 and the United Kingdom mortgage portfolio on pages 87 to 93.

Other personal

At 30 June 2015, the other personal lending portfolio amounted to € 3.7 billion (5% of gross loans and receivables to customers). 89% of loans relate to the Republic of Ireland with the remainder of loans relating to the United Kingdom. The portfolio comprises € 2.8 billion in loans and overdrafts and € 0.9 billion in credit card facilities. The portfolio reduced by € 0.1 billion or 4% during the six month period to 30 June 2015, predominantly due to a reduction in the impaired portfolio. There has been continued demand for personal lending products due to the improved economic environment and expanded customer offerings.

Further detailed disclosures in relation to the other personal lending portfolio are provided on page 94.

Property and construction

At 30 June 2015, the property and construction portfolio amounted to € 13.8 billion (19% of gross loans and receivables to customers). 68% of loans relate to the Republic of Ireland and 32% to the United Kingdom. The portfolio comprises of 70% investment loans (€ 9.6 billion), 24% land and development loans (€ 3.4 billion) and 6% other property and construction loans (€ 0.8 billion). The portfolio reduced by € 1.7 billion or 11% during the six month period, with all of the reduction coming from the criticised grades. Impaired loans reduced by € 2.1 billion, mainly due to restructuring, write-offs and customer repayment (following asset sales). Year to date activity in the sector has been underpinned by improved economic performance and increased investment spending which has had a positive impact on the residential and commercial land and development market.

Further detailed disclosures in relation to the property and construction portfolio are provided on pages 95 to 96.

Non-property business

At 30 June 2015, the non-property business portfolio amounted to € 17.9 billion (24% of gross loans and receivables to customers). 70% of loans relate to the Republic of Ireland, with almost 30% relating to the United Kingdom (a small portion of less than 1% relates to the rest of the world). The portfolio is concentrated in sub-sectors which are reliant on the respective domestic economies. It also includes corporate exposures some of which are dependent on international markets. Key sub-sectors include agriculture (10% of the portfolio), hotels (14% of the portfolio), licensed premises (5% of the portfolio), retail/wholesale (15% of the portfolio) and other services (33% of the portfolio).

Further detailed disclosures in relation to the non-property business portfolio are provided on pages 97 to 98.

Impairment provisions

Specific impairment provisions as a percentage of impaired loans decreased from 51% at 31 December 2014 to 48% at 30 June 2015. This was mainly driven by restructures, writebacks, and write-offs of loans (partially or fully) with higher provision cover, which had the impact of reducing overall cover for the remaining portfolio. Provision write-offs are generated through both restructuring agreements with customers and also where further recovery is considered unlikely. The impairment provisions remain dependent on significant levels of future collateral realisation.

IBNR provisions of € 0.9 billion were held at 30 June 2015 compared to € 1.1 billion at 31 December 2014, a reduction of € 0.2 billion. The level of IBNR reflects a conservative estimate of unidentified incurred loss within the portfolio.

The income statement provision writeback of € 540 million for the six month period to 30 June 2015 compared to a provision charge of € 99 million for the same period in 2014. Income statement specific provisions included € 163 million from new impairments and a € 506 million writeback of provisions (net of top-ups) as described above.

3.1 Credit risk – Credit profile of the loan portfolio

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

					30 June 2015
Asset quality*	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Neither past due nor impaired	29,395	2,683	6,651	14,506	53,235
Past due but not impaired	1,154	147	435	389	2,125
Impaired – provisions held	7,388	860	6,713	3,014	17,975
Gross loans and receivables	37,937	3,690	13,799	17,909	73,335
Specific provisions	(2,355)	(595)	(3,995)	(1,632)	(8,577)
IBNR provisions	(401)	(46)	(174)	(281)	(902)
Total provisions for impairment	(2,756)	(641)	(4,169)	(1,913)	(9,479)
Gross loans and receivables less provisions	35,181	3,049	9,630	15,996	63,856
Unearned income					(132)
Deferred costs					54
Net loans and receivables					63,778

					31 December 2014
Asset quality*	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired	29,014	2,590	6,226	13,316	51,146
Past due but not impaired	1,323	203	475	523	2,524
Impaired – provisions held	8,509	1,044	8,836	3,773	22,162
Gross loans and receivables	38,846	3,837	15,537	17,612	75,832
Specific provisions	(2,877)	(716)	(5,478)	(2,244)	(11,315)
IBNR provisions	(550)	(52)	(174)	(315)	(1,091)
Total provisions for impairment	(3,427)	(768)	(5,652)	(2,559)	(12,406)
Gross loans and receivables less provisions	35,419	3,069	9,885	15,053	63,426
Unearned income					(123)
Deferred costs					59
Net loans and receivables					63,362

Gross loans and receivables to customers reduced by 3.3% to € 73.3 billion in the six months to 30 June 2015. The reduction was due to restructuring, provision write-offs of € 2.6 billion and customer repayments following asset sales. The satisfactory portfolio grew by 4% in the period (including currency movement).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity

The following tables analyse gross loans and receivables to customers by contractual residual maturity and interest rate sensitivity. Overdrafts, which in the aggregate represent approximately 2% of the portfolio at 30 June 2015, are classified as repayable within one year. Approximately 8% of AIB Group's loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed within agreed policy parameters.

							30 June 2015
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Republic of Ireland	4,655	55,845	60,500	20,295	7,792	32,413	60,500
United Kingdom	988	11,769	12,757	4,037	3,523	5,197	12,757
Rest of the World	–	78	78	16	62	–	78
Total	**5,643**	**67,692**	**73,335**	**24,348**	**11,377**	**37,610**	**73,335**

							31 December 2014
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Republic of Ireland	4,038	59,624	63,662	24,612	6,773	32,277	63,662
United Kingdom	898	11,225	12,123	4,529	2,826	4,768	12,123
Rest of the World	–	47	47	22	25	–	47
Total	4,936	70,896	75,832	29,163	9,624	37,045	75,832

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

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

							30 June 2015
Industry sector	**1–30 days € m**	**31–60 days € m**	**61–90 days € m**	**91–180 days € m**	**181–365 days € m**	**> 365 days € m**	**Total € m**
Agriculture	26	6	5	10	17	41	105
Energy	1	–	2	1	–	2	6
Manufacturing	8	2	1	1	1	7	20
Property and construction	132	31	40	59	42	131	435
Distribution	72	8	12	10	22	27	151
Transport	3	1	–	1	–	3	8
Financial	10	–	1	1	1	–	13
Other services	38	9	3	11	7	18	86
Personal:							
Residential mortgages	532	189	106	89	104	134	1,154
Credit cards	21	6	4	2	1	–	34
Other	34	8	10	14	12	35	113
	877	260	184	199	207	398	2,125
Segment							
RBB	715	234	140	139	165	321	1,714
CIB	57	6	22	17	16	65	183
AIB UK	105	20	22	43	26	12	228
	877	260	184	199	207	398	2,125
	%	%	%	%	%	%	%
As a percentage of total gross loans	1.20	0.35	0.25	0.27	0.28	0.54	2.90

							31 December 2014
Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
Agriculture	50	10	3	9	15	40	127
Energy	–	–	–	–	–	3	3
Manufacturing	21	4	1	1	2	8	37
Property and construction	140	37	28	58	58	154	475
Distribution	69	18	7	28	35	31	188
Transport	6	1	–	–	–	3	10
Financial	12	1	–	2	–	–	15
Other services	69	26	3	10	11	24	143
Personal:							
Residential mortgages	552	259	151	116	127	118	1,323
Credit cards	30	7	4	3	1	–	45
Other	50	14	13	18	15	48	158
	999	377	210	245	264	429	2,524
Segment							
RBB	820	320	182	201	214	341	2,078
CIB	61	21	–	17	30	74	203
AIB UK	118	36	28	27	20	14	243
	999	377	210	245	264	429	2,524
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.32	0.50	0.28	0.32	0.35	0.57	3.33

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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

At 30 June 2015, loans past due but not impaired reduced by € 0.4 billion to € 2.1 billion or 2.9% of total loans and receivables to customers (31 December 2014: € 2.5 billion or 3.3%).

Residential mortgage loans which were past due but not impaired at 30 June 2015, amounted to € 1.2 billion. This represents 54% of total loans which were past due but not impaired (31 December 2014: € 1.3 billion or 52%). The level of residential mortgage loans in early arrears (less than 30 days) continues to decrease which is due to active management of early arrears cases and the improving economic environment. Property and construction loans which were past due but not impaired represent a further 20% or € 0.4 billion of total loans which were past due but not impaired (31 December 2014: 19% or € 0.5 billion), with other personal at 7% or € 0.1 billion (31 December 2014: 8% or € 0.2 billion).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Impaired loans for which provisions are held*

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

30 June 2015	Gross loans and receivables € m	Impaired loans: Individually assessed € m	Impaired loans: Collectively assessed € m	Impaired loans: Total € m	Impaired loans: % of total loans	Specific impairment provisions: Total € m	Specific impairment provisions: % of impaired loans
Retail							
Residential mortgages	37,937	2,876	4,512	7,388	19	2,355	32
Other personal	3,690	543	317	860	23	595	69
Total retail	41,627	3,419	4,829	8,248	20	2,950	36
Commercial							
Property and construction	13,799	6,430	283	6,713	49	3,995	60
Non-property business	17,909	2,604	410	3,014	17	1,632	54
Total commercial	31,708	9,034	693	9,727	31	5,627	58
Total	73,335	12,453	5,522	17,975	25	8,577	48
Specific impairment provisions at 30 June 2015		6,589	1,988	8,577			
		%	%	%			
Specific provision cover percentage		53	36	48			

31 December 2014	Gross loans and receivables € m	Impaired loans: Individually assessed € m	Impaired loans: Collectively assessed € m	Impaired loans: Total € m	Impaired loans: % of total loans	Specific impairment provisions: Total € m	Specific impairment provisions: % of impaired loans
Retail							
Residential mortgages	38,846	3,453	5,056	8,509	22	2,877	34
Other personal	3,837	691	353	1,044	27	716	69
Total retail	42,683	4,144	5,409	9,553	22	3,593	38
Commercial							
Property and construction	15,537	8,543	293	8,836	57	5,478	62
Non-property business	17,612	3,359	414	3,773	21	2,244	59
Total commercial	33,149	11,902	707	12,609	38	7,722	61
Total	75,832	16,046	6,116	22,162	29	11,315	51
Specific impairment provisions at 31 December 2014		9,185	2,130	11,315			
		%	%	%			
Specific provision cover percentage		57	35	51			

Specific provisions as a percentage of impaired loans decreased from 51% at 31 December 2014 to 48% at 30 June 2015. The reduction occurred in individually assessed loans, with cover reduced from 57% to 53%. This was mainly driven by restructures, writebacks and write-offs within portfolios with higher provision cover. Provision write-offs are generated through both restructuring agreements with customers and also where further recovery is considered unlikely (including non-contracted write-offs). The provision cover for the collectively assessed portfolio increased marginally from 35% to 36%, driven by a slightly higher proportion of non-mortgage loans within the collective models (smaller loans with lower security and higher provision cover).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Movements on impairment provisions*

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

					30 June 2015
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	3,427	768	5,652	2,559	12,406
Exchange translation adjustments	14	5	135	18	172
(Credit) to income statement – customers(1)	(323)	(8)	(99)	(110)	(540)
Amounts written off(2)	(362)	(124)	(1,521)	(555)	(2,562)
Recoveries of amounts written off in previous years(2)	–	–	2	1	3
At 30 June 2015	2,756	641	4,169	1,913	9,479
Total provisions are split as follows:					
Specific	2,355	595	3,995	1,632	8,577
IBNR	401	46	174	281	902
	2,756	641	4,169	1,913	9,479
Amounts include:					
Loans and receivables to customers *(note 24 to the consolidated financial statements)*					9,479
					9,479

					31 December 2014
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	3,952	1,147	8,460	3,531	17,090
Exchange translation adjustments	12	9	97	32	150
(Credit to)/charge against income statement – customers(1)	(76)	15	(244)	127	(178)
(Credit) to income statement – banks(3)	–	–	–	(7)	(7)
Amounts written off(2)	(461)	(403)	(2,664)	(1,127)	(4,655)
Recoveries of amounts written off in previous years(2)	–	–	3	3	6
At 31 December 2014	3,427	768	5,652	2,559	12,406
Total provisions are split as follows:					
Specific	2,877	716	5,478	2,244	11,315
IBNR	550	52	174	315	1,091
	3,427	768	5,652	2,559	12,406
Amounts include:					
Loans and receivables to customers *(note 24 to the consolidated financial statements)*					12,406
					12,406

(1)Geographic split: Republic of Ireland a credit of € 538 million (31 December 2014: a credit of € 205 million); United Kingdom a credit of € 2 million (31 December 2014: a charge of € 27 million) and Rest of the World Nil (31 December 2014: Nil).

(2)For geographical and sector split, see page 75.

(3)At 31 December 2014, Geographic split: Republic of Ireland a credit of € 7 million, United Kingdom Nil and Rest of the World Nil.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement

The following table analyses the income statement provision (credit)/charge split between individually significant, individually insignificant and IBNR for loans and receivables:

				Half-year 30 June 2015*
	RBB € m	**CIB € m**	**AIB UK € m**	**Total € m**
Specific provisions – Individually significant loans and receivables	**(315)**	**(14)**	**(1)**	**(330)**
– Individually insignificant loans and receivables	**(19)**	**4**	**2**	**(13)**
IBNR	**(176)**	**(16)**	**(5)**	**(197)**
Total provisions for impairment credit on loans and receivables to customers	**(510)**	**(26)**	**(4)**	**(540)**
Writeback of provisions for liabilities and commitments				**(16)**
Total				**(556)**

				Half-year 30 June 2014* (Unaudited)
	RBB € m	CIB € m	AIB UK € m	Total € m
Specific provisions – Individually significant loans and receivables	(129)	(37)	52	(114)
– Individually insignificant loans and receivables	230	65	15	310
IBNR	(91)	(5)	(1)	(97)
Total provisions for impairment charge on loans and receivables to customers	10	23	66	99
Writeback of provisions for impairment on loans and receivables to banks				(7)
Total				92

				*Year 31 December 2014**
	RBB € m	*CIB € m*	*AIB UK € m*	*Total € m*
Specific provisions – Individually significant loans and receivables	*(142)*	*(5)*	*97*	*(50)*
– Individually insignificant loans and receivables	*(56)*	*(1)*	*32*	*(25)*
IBNR	*(37)*	*(7)*	*(59)*	*(103)*
Total provisions for impairment (credit)/charge on loans and receivables to customers	*(235)*	*(13)*	*70*	*(178)*
Writeback of provisions for impairment on loans and receivables to banks				*(7)*
Writeback of provisions for liabilities and commitments				*(4)*
Provisions for impairment on financial investments available for sale				*1*
Total				*(188)*

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement *(continued)*

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

	Half-year 30 June 2015*			Half-year 30 June 2014* (Unaudited)		
	Residential mortgages € m	**Other € m**	**Total € m**	Residential mortgages € m	Other € m	Total € m
RBB	**(319)**	**(191)**	**(510)**	(29)	39	10
CIB	**(3)**	**(23)**	**(26)**	–	23	23
AIB UK	**(1)**	**(3)**	**(4)**	6	60	66
Total	**(323)**	**(217)**	**(540)**	(23)	122	99

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

	Half-year 30 June 2015*			Half-year 30 June 2014* (Unaudited)		
	Residential mortgages bps	**Other bps**	**Total bps**	Residential mortgages bps	Other bps	Total bps
RBB	**(179)**	**(235)**	**(197)**	(16)	38	3
CIB	**(440)**	**(44)**	**(50)**	–	46	46
AIB UK	**(10)**	**(6)**	**(7)**	45	111	99
Total	**(166)**	**(118)**	**(144)**	(12)	59	24

Loan impairment provisions reduced from a charge of € 99 million for the six months to 30 June 2014 to a net writeback of € 540 million for the first six months of 2015. The writeback comprised of € 343 million in specific provision writebacks and a release of IBNR provisions of € 197 million (30 June 2014: € 196 million charge in specific provisions and release of IBNR provisions of € 97 million).

The specific provision writeback of € 343 million can be split into € 163 million of new impairment provisions and a € 506 million writeback (net of top-ups). The writeback was mainly due to the restructuring process and was driven primarily by increases in asset values and improvements in trading performance / affordability reflecting the continuing improvement in the economic environment. New impairments were reduced compared to 2014.

The six months to 30 June 2015 provision writeback of € 510 million in RBB comprises a specific writeback of € 334 million and an IBNR release of € 176 million. This compares to a specific provision charge of € 101 million and an IBNR release of € 91 million for the same period in 2014. The provision writeback was primarily due to a lower level of new impairments, and the positive impact of debt restructuring activities as described above.

The six months to 30 June 2015 provision writeback of € 26 million in CIB comprises a specific writeback of € 10 million and an IBNR release of € 16 million. This compares to a specific provision charge of € 28 million and an IBNR release of € 5 million for the same period in 2014.

The provision writeback in the six months to 30 June 2015 of € 4 million in AIB UK comprises a specific charge of € 1 million and an IBNR release of € 5 million. This compares to a specific provision charge of € 67 million and an IBNR release of € 1 million for the same period last year.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement *(continued)*

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

				*Year 31 December 2014**
	RBB €m	*CIB €m*	*AIB UK €m*	*Total €m*
Specific provisions				
Residential mortgages - Republic of Ireland	*(22)*	*(10)*	*–*	*(32)*
Residential mortgages - United Kingdom	*–*	*–*	*28*	*28*
Other personal	*14*	*1*	*3*	*18*
Property and construction	*(116)*	*(6)*	*32*	*(90)*
Non-property business	*(74)*	*9*	*66*	*1*
	(198)	*(6)*	*129*	*(75)*
IBNR				
Residential mortgages - Republic of Ireland	*(63)*	*2*	*–*	*(61)*
Residential mortgages - United Kingdom	*–*	*–*	*(11)*	*(11)*
Other personal	*(3)*	*2*	*(2)*	*(3)*
Property and construction	*(107)*	*(8)*	*(39)*	*(154)*
Non-property business	*136*	*(3)*	*(7)*	*126*
	(37)	*(7)*	*(59)*	*(103)*
Total provisions for impairment (credit)/charge on loans and receivables to customers	*(235)*	*(13)*	*70*	*(178)*

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans written off and recoveries of previously written off loans

The following table analyses loans written off and recoveries of previously written off loans by geography and industry sector:

	Loans written off		Recoveries of loans previously written off	
	30 June 2015 € m	31 December 2014 € m	**30 June 2015 € m**	31 December 2014 € m
IRELAND				
Agriculture	**32.2**	56.2	**–**	–
Energy	**21.9**	14.3	**–**	–
Manufacturing	**21.4**	80.9	**–**	0.1
Property and construction	**1,407.5**	2,257.3	**1.4**	0.3
Distribution	**330.7**	530.3	**–**	0.1
Transport	**2.8**	58.9	**0.1**	–
Financial	**25.0**	53.9	**–**	0.1
Other services	**64.5**	191.4	**0.4**	0.6
Personal – Residential mortgages	**351.6**	447.4	**–**	–
– Other	**115.9**	385.0	**0.1**	0.1
	2,373.5	4,075.6	**2.0**	1.3
UNITED KINGDOM				
Agriculture	**3.7**	1.6	**–**	–
Manufacturing	**2.8**	8.3	**–**	–
Property and construction	**113.4**	407.1	**0.7**	3.1
Distribution	**37.5**	77.0	**0.4**	–
Transport	**0.1**	0.5	**–**	–
Financial	**0.1**	6.0	**–**	–
Other services	**11.9**	34.4	**–**	–
Personal – Residential mortgages	**10.4**	13.9	**–**	–
– Other	**8.4**	17.5	**–**	–
	188.3	566.3	**1.1**	3.1
REST OF THE WORLD				
Energy	**–**	1.6	**–**	1.2
Other services	**–**	11.4	**–**	–
	–	13.0	**–**	1.2
TOTAL	**2,561.8**	4,654.9	**3.1**	5.6

Loans written off in the six months to 30 June 2015, as a percentage of gross total loans and receivables at 1 January 2015, was 3.4%. This compares to the 5.6% written off in the 12 months to 31 December 2014.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Residential mortgages

Residential mortgages amounted to € 37.9 billion at 30 June 2015, with the majority (93%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 38.8 billion at 31 December 2014, of which 94% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 31.5 billion and buy-to-let € 6.4 billion (31 December 2014: owner-occupier € 31.8 billion and buy-to-let € 7.0 billion).

Statement of financial position provisions of € 2.8 billion were held at 30 June 2015, split € 2.4 billion specific and € 0.4 billion IBNR (31 December 2014: € 3.4 billion split € 2.9 billion specific and € 0.5 billion IBNR).

There was an impairment provision credit of € 323 million to the income statement in 2015 comprising a € 173 million specific writeback and a € 150 million IBNR release (30 June 2014: € 23 million provision credit comprising € 47 million specific charge and a € 70 million IBNR release).

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

Republic of Ireland residential mortgages – pages 77 to 86

- Credit profile
- Origination profile
- Loan-to-value profile:
    - Actual and weighted average indexed loan-to-value ratios of Republic of Ireland residential mortgages
    - Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were neither past due nor impaired
    - Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired
- Credit quality profile
- Republic of Ireland residential mortgages that were past due but not impaired
- Collateral value of Republic of Ireland residential mortgages that were past due but not impaired
- Republic of Ireland residential mortgages that were impaired
- Republic of Ireland properties in possession
- Repossessions disposed of

United Kingdom (“UK”) residential mortgages – pages 87 to 93

- Credit profile
- Origination profile
- Loan-to-value profile:
    - Actual and weighted average indexed loan-to-value ratios of UK residential mortgages
    - Loan-to-value ratios of UK residential mortgages *(index linked)* that were neither past due nor impaired
    - Loan-to-value ratios of UK residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired
- Credit quality profile
- UK residential mortgages that were past due but not impaired
- Collateral value of UK residential mortgages that were past due but not impaired
- UK residential mortgages that were impaired
- UK properties in possession

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

Risk management – 3. Individual risk types

3.1 Credit risk - Credit profile of the loan portfolio *(continued)*

Loans and receivables to customers – Republic of Ireland residential mortgages

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

									30 June 2015*
	RBB			CIB			Total		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Total gross residential mortgages	29,177	6,003	35,180	38	108	146	29,215	6,111	35,326
In arrears (>30 days past due)(1)	4,916	2,690	7,606	10	48	58	4,926	2,738	7,664
In arrears (>90 days past due)(1)	4,694	2,639	7,333	10	47	57	4,704	2,686	7,390
Of which impaired	4,512	2,523	7,035	7	45	52	4,519	2,568	7,087
Statement of financial position specific provisions	1,217	959	2,176	2	19	21	1,219	978	2,197
Statement of financial position IBNR provisions	296	85	381	1	3	4	297	88	385
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	27.0	38.0	30.9	24.0	43.2	40.5	27.0	38.1	31.0
									Half-year 30 June 2015
Income statement credit	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Income statement specific provisions	(96)	(77)	(173)	(1)	(1)	(2)	(97)	(78)	(175)
Income statement IBNR provisions	(123)	(23)	(146)	–	(1)	(1)	(123)	(24)	(147)
Total impairment credit	(219)	(100)	(319)	(1)	(2)	(3)	(220)	(102)	(322)

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

*Forms an integral part of the audited financial statements.

3.1 Credit risk - Credit profile of the loan portfolio *(continued)*

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

									31 December 2014*
	RBB			CIB			Total		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Total gross residential mortgages	29,580	6,575	36,155	51	118	169	29,631	6,693	36,324
In arrears (>30 days past due)[(1)]	5,497	3,352	8,849	22	56	78	5,519	3,408	8,927
In arrears (>90 days past due)[(1)]	5,193	3,281	8,474	22	56	78	5,215	3,337	8,552
Of which impaired	4,985	3,161	8,146	19	52	71	5,004	3,213	8,217
Statement of financial position specific provisions	1,385	1,308	2,693	9	22	31	1,394	1,330	2,724
Statement of financial position IBNR provisions	419	108	527	1	4	5	420	112	532
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	27.8	41.4	33.1	49.4	40.6	43.0	27.9	41.4	33.2
									Half-year 30 June 2014* (Unaudited)
Income statement charge/(credit)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Income statement specific provisions	32	4	36	1	–	1	33	4	37
Income statement IBNR provisions	(26)	(39)	(65)	(1)	–	(1)	(27)	(39)	(66)
Total impairment charge/(credit)	6	(35)	(29)	–	–	–	6	(35)	(29)

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

*Forms an integral part of the audited financial statements.

3.1 Credit risk – Credit profile of the loan portfolio

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

Residential mortgages in the Republic of Ireland amounted to € 35.3 billion at 30 June 2015 compared to € 36.3 billion at 31 December 2014. The decrease in the portfolio was observed mainly in the criticised grades due to restructuring, loan repayments from customer asset sales, and write-offs. Total drawdowns in the six months to 30 June 2015 were € 751 million, of which 97% related to owner-occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 74%.

The split of the residential mortgage portfolio is 83% owner-occupier and 17% buy-to-let and comprised 38% tracker rate, 52% variable rate and 10% fixed rate mortgages. The proportion of the total residential mortgage portfolio in negative equity decreased from 34% at 31 December 2014 to 32% at 30 June 2015 reflecting the increase in residential property prices in Ireland during 2015 and loan amortisation, whilst the quantum of negative equity in the portfolio reduced from € 2.7 billion to € 2.2 billion.

Residential mortgage arrears

Total loans in arrears decreased by 13% during the six months to 30 June 2015, reflecting a decrease of 13% in the owner-occupier portfolio and a decrease of 13% in the buy-to-let portfolio in the period. The amount of loans which were new into arrears for the first time in the period fell by 55% compared to the same period in 2014. These decreases in arrears can be mainly attributed to restructuring activity and improving economic conditions. The reduction was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due).

Total loans in arrears greater than 90 days at 9.9% as at 30 June 2015 decreased from 11.3% at 31 December 2014 and remain below the industry average of 11.4%[(1)]. For the owner-occupier portfolio, loans in arrears greater than 90 days at 7.8% were below the industry average of 9.8%. For the buy-to-let portfolio, loans in arrears greater than 90 days at 22.6% exceeded the industry average of 19.7%.

Forbearance

The Group has maintained a strong focus on restructuring the residential mortgage portfolio during the period. The Group has successfully met its Mortgage Arrears Resolution Targets ("MART"), with sustainable solutions offered to 100% of loans greater than 90 days past due (as defined by MART), with 64% deemed concluded at 30 June 2015, of which 91% were meeting the terms of their agreement.

Residential mortgages subject to forbearance measures decreased by € 0.1 billion from 31 December 2014 to € 5.5 billion at 30 June 2015, compared to an increase of € 0.6 billion in the 12 months to 31 December 2014. A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home. Details of forbearance measures are set out in Section 3.2 pages 106 to 113.

Impairment provisions

Impaired loans decreased from € 8.2 billion at 31 December 2014 to € 7.1 billion at 30 June 2015, mainly due to restructuring, write-offs and repayments through customer asset sales. The level of newly impaired loans declined by 65% in the first six months of 2015 compared to the same period in 2014.

There was a specific provision writeback of € 175 million in the first half of 2015 compared to a € 32 million writeback for full-year 2014. This can be split into a charge for new impairments of € 49 million and a writeback of provisions (net of top-ups) of € 224 million. The writeback was mainly due to the impact of restructuring, loans curing from impairment, and small changes in a number of assumptions in the mortgage model (possession and cure rates). The specific provision cover level reduced from 33% at 31 December 2014 to 31% at 30 June 2015. The reduction was mainly driven by individually assessed buy-to-let loans, updated for improved property valuations and the impact of restructuring.

An IBNR release in the first half of 2015 of € 147 million compares to a release of € 61 million for full year 2014 mainly due to changes in the mortgage model parameters and a reduction in probability of default for the portfolio.

Specific provisions of € 0.7 billion were held against the forborne impaired portfolio of € 2.9 billion providing cover of 25.8%. In relation to the non-impaired forborne portfolio of € 2.7 billion, of which € 0.6 billion is on an interest only arrangement, IBNR impairment provisions of € 0.1 billion were held at 30 June 2015.

[(1)]Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 31 March 2015, based on numbers of accounts.

3.1 Credit risk – Credit profile of the loan portfolio

Republic of Ireland residential mortgages by year of origination

The following table profiles the Republic of Ireland total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination:

	30 June 2015*				31 December 2014*			
	Total		Impaired		Total		Impaired	
Republic of Ireland	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	**5,317**	**133**	**815**	**29**	6,136	149	954	34
1997	**2,694**	**62**	**304**	**12**	2,826	70	350	14
1998	**3,278**	**103**	**419**	**20**	3,442	114	503	24
1999	**4,353**	**180**	**570**	**40**	4,597	198	658	46
2000	**5,655**	**285**	**731**	**55**	6,084	308	855	66
2001	**6,468**	**393**	**810**	**69**	6,713	423	919	80
2002	**10,188**	**781**	**1,373**	**144**	10,512	835	1,549	170
2003	**14,280**	**1,314**	**2,164**	**260**	14,784	1,402	2,469	315
2004	**19,394**	**2,204**	**3,213**	**483**	19,953	2,339	3,633	567
2005	**27,119**	**3,523**	**5,096**	**881**	28,121	3,725	5,739	1,035
2006	**35,140**	**5,517**	**7,784**	**1,593**	35,914	5,807	8,672	1,841
2007	**34,077**	**5,573**	**7,913**	**1,600**	34,734	5,871	8,701	1,852
2008	**32,419**	**5,349**	**6,232**	**1,265**	33,009	5,607	6,917	1,465
2009	**21,458**	**3,207**	**2,600**	**461**	21,940	3,335	2,835	519
2010	**14,988**	**2,202**	**881**	**147**	15,374	2,282	947	162
2011	**4,546**	**653**	**100**	**19**	4,652	682	109	20
2012	**6,619**	**1,005**	**26**	**5**	6,752	1,049	28	6
2013	**5,665**	**878**	**11**	**4**	5,742	906	7	1
2014	**7,724**	**1,225**	**4**	**–**	7,773	1,222	2	–
2015	**4,732**	**739**	**–**	**–**	–	–	–	–
Total	**266,114**	**35,326**	**41,046**	**7,087**	269,058	36,324	45,847	8,217

The majority (€ 20.0 billion or 57%) of the € 35.3 billion residential mortgage portfolio originated between 2005 and 2008, of which 27% (€ 5.3 billion) was impaired at 30 June 2015. This was driven by reduced household income and increased unemployment in the last number of years, and reflects the decrease in property prices since their peak in 2007. 15% of the residential mortgage portfolio was originated before 2005 of which 20% was impaired at 30 June 2015, while the remaining 28% of the portfolio was originated since 2009 or after, of which 6% was impaired at 30 June 2015.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Central Statistics Office ("CSO") Residential Property Price Index in the Republic of Ireland for May 2015. The CSO Residential Property Price Index for May 2015 reported that national residential property prices were 38% lower than their highest level in early 2007 and reported an annual increase in residential property prices of 14% to 31 May 2015 (increase of 0.8% in the first five months of 2015).

Actual and weighted average indexed loan-to-value ratios of Republic of Ireland residential mortgages

The following table profiles the Republic of Ireland residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios:

						30 June 2015*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**5,442**	**18.6**	**854**	**14.0**	**6,296**	**17.8**
50% to 70%	**5,527**	**18.9**	**937**	**15.4**	**6,464**	**18.3**
71% to 80%	**3,433**	**11.8**	**539**	**8.8**	**3,972**	**11.2**
81% to 90%	**3,417**	**11.7**	**558**	**9.1**	**3,975**	**11.3**
91% to 100%	**2,853**	**9.8**	**632**	**10.3**	**3,485**	**9.9**
101% to 120%	**4,067**	**13.9**	**1,026**	**16.8**	**5,093**	**14.4**
121% to 150%	**3,602**	**12.3**	**910**	**14.9**	**4,512**	**12.8**
Greater than 150%	**780**	**2.7**	**570**	**9.3**	**1,350**	**3.8**
Unsecured	**94**	**0.3**	**85**	**1.4**	**179**	**0.5**
Total	**29,215**	**100.0**	**6,111**	**100.0**	**35,326**	**100.0**
Weighted average indexed loan-to-value(1):						
Stock of residential mortgages at end of period		**82.0**		**96.0**		**84.4**
New residential mortgages issued during the period		**74.2**		**61.4**		**73.8**
Impaired residential mortgages		**106.4**		**114.4**		**109.3**

						31 December 2014*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	€ m	%	€ m	%	€ m	%
Less than 50%	5,307	17.9	802	12.0	6,109	16.8
50% to 70%	5,542	18.7	893	13.4	6,435	17.7
71% to 80%	3,256	11.0	545	8.1	3,801	10.5
81% to 90%	3,386	11.4	590	8.8	3,976	11.0
91% to 100%	2,794	9.4	683	10.2	3,477	9.6
101% to 120%	4,328	14.6	1,147	17.1	5,475	15.0
121% to 150%	3,998	13.5	1,164	17.4	5,162	14.2
Greater than 150%	947	3.2	780	11.7	1,727	4.8
Unsecured	73	0.3	89	1.3	162	0.4
Total	29,631	100.0	6,693	100.0	36,324	100.0
Weighted average indexed loan-to-value(1):						
Stock of residential mortgages at year end		83.6		101.4		87.1
New residential mortgages issued during year		70.5		55.2		70.0
Impaired residential mortgages		107.0		119.8		112.4

(1)Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

29% of the total owner-occupier and 41% of the total buy-to-let mortgages were in negative equity at 30 June 2015 (excluding unsecured) compared to 31% and 46% respectively at 31 December 2014. The weighted average indexed loan-to-value for the total residential mortgage portfolio was 84.4% at 30 June 2015 compared to 87.1% at 31 December 2014, with the reduction driven primarily by the amortisation of the portfolio and the increase in property prices up to 30 June 2015.

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Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio *(continued)*

Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the Republic of Ireland residential mortgages that were neither past due nor impaired by the indexed loan-to-value ratios:

						30 June 2015*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**4,922**	**20.6**	**652**	**19.8**	**5,574**	**20.5**
50% to 70%	**4,862**	**20.4**	**660**	**20.0**	**5,522**	**20.3**
71% to 80%	**3,023**	**12.7**	**345**	**10.5**	**3,368**	**12.4**
81% to 90%	**2,937**	**12.3**	**339**	**10.3**	**3,276**	**12.1**
91% to 100%	**2,361**	**9.9**	**368**	**11.2**	**2,729**	**10.0**
101% to 120%	**3,140**	**13.2**	**489**	**14.8**	**3,629**	**13.4**
121% to 150%	**2,438**	**10.2**	**301**	**9.1**	**2,739**	**10.1**
Greater than 150%	**166**	**0.7**	**137**	**4.1**	**303**	**1.1**
Unsecured	**10**	**–**	**6**	**0.2**	**16**	**0.1**
Total	**23,859**	**100.0**	**3,297**	**100.0**	**27,156**	**100.0**

						31 December 2014*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	€ m	%	€ m	%	€ m	%
Less than 50%	4,739	20.0	613	19.1	5,352	19.9
50% to 70%	4,799	20.3	615	19.2	5,414	20.2
71% to 80%	2,785	11.8	330	10.3	3,115	11.6
81% to 90%	2,851	12.0	333	10.4	3,184	11.8
91% to 100%	2,244	9.5	360	11.2	2,604	9.7
101% to 120%	3,290	13.9	490	15.3	3,780	14.1
121% to 150%	2,706	11.5	331	10.3	3,037	11.3
Greater than 150%	235	1.0	133	4.1	368	1.4
Unsecured	7	0.0	4	0.1	11	0.0
Total	23,656	100.0	3,209	100.0	26,865	100.0

The proportion of residential mortgages that was neither past due nor impaired and in negative equity at 30 June 2015 (excluding unsecured) decreased to 25% compared to 27% at 31 December 2014, reflecting residential property price increases during the period, coupled with amortisation of the loan portfolio.

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3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired

The following table profiles the Republic of Ireland residential mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios:

								30 June 2015*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**415**	**8.8**	**181**	**6.7**	**596**	**8.1**	**6,296**	**17.8**
50% to 70%	**545**	**11.6**	**254**	**9.5**	**799**	**10.8**	**6,464**	**18.3**
71% to 80%	**337**	**7.2**	**181**	**6.7**	**518**	**7.0**	**3,972**	**11.2**
81% to 90%	**412**	**8.7**	**206**	**7.7**	**618**	**8.4**	**3,975**	**11.3**
91% to 100%	**420**	**8.9**	**248**	**9.2**	**668**	**9.0**	**3,485**	**9.9**
101% to 120%	**822**	**17.5**	**517**	**19.3**	**1,339**	**18.1**	**5,093**	**14.4**
121% to 150%	**1,060**	**22.6**	**594**	**22.1**	**1,654**	**22.4**	**4,512**	**12.8**
Greater than 150%	**609**	**12.9**	**427**	**15.9**	**1,036**	**14.0**	**1,350**	**3.8**
Unsecured	**84**	**1.8**	**78**	**2.9**	**162**	**2.2**	**179**	**0.5**
Total	**4,704**	**100.0**	**2,686**	**100.0**	**7,390**	**100.0**	**35,326**	**100.0**

								31 December 2014*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
Republic of Ireland	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	451	8.6	169	5.1	620	7.2	6,109	16.8
50% to 70%	620	11.9	253	7.6	873	10.2	6,435	17.7
71% to 80%	396	7.6	201	6.0	597	7.0	3,801	10.5
81% to 90%	456	8.7	242	7.2	698	8.2	3,976	11.0
91% to 100%	467	9.0	304	9.1	771	9.0	3,477	9.6
101% to 120%	900	17.2	630	18.9	1,530	17.9	5,475	15.0
121% to 150%	1,161	22.3	815	24.5	1,976	23.1	5,162	14.2
Greater than 150%	699	13.4	638	19.1	1,337	15.6	1,727	4.8
Unsecured	65	1.3	85	2.5	150	1.8	162	0.4
Total	5,215	100.0	3,337	100.0	8,552	100.0	36,324	100.0

The proportion of residential mortgages (excluding unsecured) that was greater than 90 days past due and/or impaired and in negative equity at 30 June 2015 (55%) decreased compared to 31 December 2014 (57%). This reflects the increase in residential property prices during the period.

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3.1 Credit risk – Credit profile of the loan portfolio

Credit quality profile of Republic of Ireland residential mortgages

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

	30 June 2015*			31 December 2014*		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	**23,859**	**3,297**	**27,156**	23,656	3,209	26,865
Past due but not impaired	**837**	**246**	**1,083**	971	271	1,242
Impaired - provisions held	**4,519**	**2,568**	**7,087**	5,004	3,213	8,217
Gross residential mortgages	**29,215**	**6,111**	**35,326**	29,631	6,693	36,324
Provisions for impairment	**(1,516)**	**(1,066)**	**(2,582)**	(1,814)	(1,442)	(3,256)
	27,699	**5,045**	**32,744**	27,817	5,251	33,068

The percentage of the portfolio which is neither past due nor impaired increased at 30 June 2015 to 77% from 74% at 31 December 2014.

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

Residential mortgages are assessed for impairment if they are past due, typically, for more than 90 days or if the borrower exhibits an inability to meet their obligations to the Group based on objective evidence of loss events ('impairment triggers') such as a request for a forbearance measure. Loans are deemed impaired where the carrying value of the asset is shown to be in excess of the present value of future cash flows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

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

	30 June 2015*			31 December 2014*		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**430**	**76**	**506**	456	76	532
31 - 60 days	**149**	**31**	**180**	195	48	243
61 - 90 days	**73**	**21**	**94**	109	23	132
91 - 180 days	**51**	**29**	**80**	73	34	107
181 - 365 days	**56**	**38**	**94**	79	40	119
Over 365 days	**78**	**51**	**129**	59	50	109
Total past due but not impaired	**837**	**246**	**1,083**	971	271	1,242
Total gross residential mortgages	**29,215**	**6,111**	**35,326**	29,631	6,693	36,324

Loans past due but not impaired at 30 June 2015 decreased by 13% when compared to 31 December 2014, driven by the improved economic environment and continued increased focus on the management of early arrears.

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3.1 Credit risk – Credit profile of the loan portfolio

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

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

Republic of Ireland	30 June 2015* Owner-occupier € m	Buy-to-let € m	Total € m	31 December 2014* Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	407	70	477	428	71	499
31 - 60 days	140	29	169	181	44	225
61 - 90 days	69	20	89	101	21	122
91 - 180 days	49	27	76	71	30	101
181 - 365 days	55	35	90	76	37	113
Over 365 days	75	46	121	57	43	100
Total	795	227	1,022	914	246	1,160

The collateral value for the past due but not impaired portfolio was 94% of the outstanding loan balances at 30 June 2015, an increase from 93% at 31 December 2014.

Republic of Ireland residential mortgages that were impaired

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

Republic of Ireland	30 June 2015* Owner-occupier € m	Buy-to-let € m	Total € m	31 December 2014* Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	1,161	574	1,735	1,174	706	1,880
1 - 30 days	229	67	296	267	98	365
31 - 60 days	122	63	185	125	67	192
61 - 90 days	95	46	141	101	60	161
91 - 180 days	240	105	345	306	180	486
181 - 365 days	359	229	588	536	352	888
Over 365 days	2,313	1,484	3,797	2,495	1,750	4,245
Total impaired	4,519	2,568	7,087	5,004	3,213	8,217
Total gross residential mortgages	29,215	6,111	35,326	29,631	6,693	36,324

Impaired loans decreased by € 1.1 billion in the six months to 30 June 2015 due to restructuring, cures and write-offs of provisions. In addition, the rate of new impairment continues to slow significantly compared to 2014 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 30 June 2015, € 1.7 billion or 24% was not past due (31 December 2014: € 1.9 billion or 23%), of which € 1.2 billion (31 December 2014: € 1.2 billion) was subject to forbearance measures at 30 June 2015. The impaired portfolio includes c. € 1.0 billion of restructured mortgages which must remain impaired until they have performed satisfactorily for at least 12 months.

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3.1 Credit risk – Credit profile of the loan portfolio

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

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

The number (stock) of properties in possession at 30 June 2015 and 31 December 2014 is set out below:

	30 June 2015*		31 December 2014*	
	Stock	**Balance outstanding € m**	Stock	Balance outstanding € m
Owner-occupier	**672**	**173**	548	145
Buy-to-let	**101**	**23**	82	19
Total	**773**	**196**	630	164

The increase in the stock of residential properties in possession in the six months to 30 June 2015 relates to the addition of 262 properties (31 December 2014: 352 properties), partly offset by the disposal of 119 properties (31 December 2014: 100 properties). There continues to be an increase in stock from 2014 due to the continued focus on arrears management.

The following table analyses the disposals of properties in possession:

	30 June 2015*					
	Number of disposals	**Outstanding balance at repossession date € m**	**Gross sales proceeds on disposal € m**	**Costs to sell € m**	**Loss on sale[(2)] € m**	**Average loan-to-value at sale price %**
Owner-occupier	**96**	**27**	**11**	**1**	**17**	**250**
Buy-to-let	**23**	**6**	**2**	**–**	**4**	**279**
Total	**119**	**33**	**13**	**1**	**21**	**254**

	31 December 2014*					
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[(2)] € m	Average loan-to-value at sale price %
Owner-occupier	60	17	7	–	10	234
Buy-to-let	40	12	5	–	7	252
Total	100	29	12	–	17	241

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

[(2)]Before specific impairment provisions.

The disposal of 119 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 21 million at 30 June 2015 (before specific impairment provisions) and compares to the full year 2014 when 100 residential properties were disposed of resulting in a total loss of € 17 million. Losses on the sale of such properties are recognised in the income statement as part of the specific provision charge.

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3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom (“UK”) residential mortgages

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

	30 June 2015*			31 December 2014*		
Statement of financial position	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	2,260	351	2,611	2,177	345	2,522
In arrears (>30 days past due)[(1)]	288	58	346	293	60	353
In arrears (>90 days past due)[(1)]	270	55	325	262	56	318
Of which impaired	248	53	301	239	53	292
Statement of financial position specific provisions	125	33	158	119	34	153
Statement of financial position IBNR provisions	14	2	16	16	2	18
Provision cover percentage	%	%	%	%	%	%
Specific provisions/impaired loans	50.3	63.5	52.7	49.7	64.2	52.4

	Half-year 30 June 2015*			Half-year 30 June 2014* (Unaudited)		
Income statement charge/credit)	€ m	€ m	€ m	€ m	€ m	€ m
Income statement specific provisions	2	–	2	9	1	10
Income statement IBNR provisions	(3)	–	(3)	(5)	1	(4)
Total impairment charge/(credit)	(1)	–	(1)	4	2	6

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

The UK mortgage portfolio is predominantly based in Northern Ireland (74% of total) with the remainder located in Great Britain. The UK mortgage portfolio has decreased in sterling terms by c.5% on the year end December 2014. However, due to a c.9% change in the euro/sterling exchange rate, the portfolio has increased by 4% in euro terms.

A benign economic backdrop in Northern Ireland is helping to underpin a gentle improvement in the housing and mortgage market activity. With household income better than expected in recent months, strong earnings growth and an improving jobs market, there has been a positive impact on mortgage arrears in general. Total loans in arrears of greater than 90 days have remained relatively the same at 12.5% (12.6% as at 31 December 2014).

Statement of financial position specific provisions of € 158 million were held at 30 June 2015 and provided cover of 52.7% for impaired loans (31 December 2014: € 153 million providing cover of 52.4%).

Statement of financial position IBNR provisions of € 16 million were held at 30 June 2015, down from €18 million at 31 December 2014, reflecting an improvement in estimated incurred loss in the non-impaired portfolio.

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3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages by year of origination

The following table profiles the UK total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination:

	30 June 2015*				31 December 2014*			
	Total		Impaired		Total		Impaired	
United Kingdom	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	346	19	5	1	389	19	4	–
1997	78	3	–	–	85	4	–	–
1998	89	5	1	–	104	5	5	–
1999	215	13	2	–	229	13	2	–
2000	198	11	–	–	226	12	2	–
2001	4,003	133	171	9	4,210	133	176	9
2002	1,408	80	84	4	1,453	79	82	4
2003	1,880	139	154	12	1,964	138	164	16
2004	2,162	187	161	14	2,263	183	161	12
2005	2,905	300	291	34	3,025	291	305	31
2006	3,880	515	433	67	4,002	500	440	66
2007	3,416	635	494	121	3,531	608	499	112
2008	1,365	249	118	26	1,428	249	117	30
2009	666	83	31	7	702	82	34	6
2010	339	44	11	6	370	44	11	6
2011	170	18	5	–	178	18	3	–
2012	188	25	1	–	196	25	1	–
2013	313	46	1	–	326	44	1	–
2014	406	80	–	–	409	75	–	–
2015	113	26	–	–	–	–	–	–
Total	24,140	2,611	1,963	301	25,090	2,522	2,007	292

The majority (€ 1.7 billion or 65%) of the € 2.6 billion residential mortgage portfolio was originated between 2005 and 2008, of which 15% (€ 0.25 billion) was impaired at 30 June 2015, driven by reduced household income and reflecting the decrease in property prices since their peak in 2007. 23% of the portfolio was originated before 2005 of which 7% was impaired at 30 June 2015, while the remaining 12% of the portfolio was originated since 2009 of which 4% was impaired.

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3.1 Credit risk – Credit profile of the loan portfolio

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Nationwide House Price Index ("HPI") in the UK for Quarter 1 2015. The index for Quarter 1 2015 reported that house prices across the UK increased by 5.9% for the year to the end of Quarter 1 2015.

In Northern Ireland (which includes 74% of the UK residential mortgage portfolio), the Nationwide HPI for Quarter 1 2015 reported an increase of 5.7% for the year to the end of Quarter 1 2015.

Actual and weighted average indexed loan-to-value ratios of United Kingdom residential mortgages

The following table profiles the UK residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios:

						30 June 2015*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ m	%	€ m	%	€ m	%
Less than 50%	**626**	**27.7**	**85**	**24.2**	**711**	**27.2**
50% to 70%	**450**	**19.9**	**42**	**12.1**	**492**	**18.9**
71% to 80%	**247**	**10.9**	**21**	**6.1**	**268**	**10.3**
81% to 90%	**207**	**9.2**	**23**	**6.6**	**230**	**8.8**
91% to 100%	**146**	**6.5**	**29**	**8.2**	**175**	**6.7**
101% to 120%	**193**	**8.5**	**43**	**12.2**	**236**	**9.0**
121% to 150%	**195**	**8.6**	**72**	**20.5**	**267**	**10.2**
Greater than 150%	**153**	**6.8**	**17**	**4.8**	**170**	**6.5**
Unsecured	**43**	**1.9**	**19**	**5.3**	**62**	**2.4**
Total	**2,260**	**100**	**351**	**100**	**2,611**	**100**
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at end of period		**78.6**		**87.9**		**79.8**
New residential mortgages issued during the period		**64.7**		**54.5**		**64.5**
Impaired residential mortgages		**123.3**		**117.6**		**122.5**

						31 December 2014*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ m	%	€ m	%	€ m	%
Less than 50%	580	26.6	79	22.9	659	26.1
50% to 70%	423	19.5	39	11.4	462	18.4
71% to 80%	232	10.6	23	6.7	255	10.1
81% to 90%	202	9.3	22	6.3	224	8.9
91% to 100%	141	6.5	19	5.4	160	6.3
101% to 120%	184	8.4	49	14.1	233	9.2
121% to 150%	198	9.1	61	17.7	259	10.3
Greater than 150%	183	8.4	36	10.5	219	8.7
Unsecured	34	1.6	17	5.0	51	2.0
Total	2,177	100.0	345	100.0	2,522	100.0
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at year end		81.2		91.6		82.6
New residential mortgages issued during year		68.9		50.1		68.8
Impaired residential mortgages		129.9		129.6		129.9

[(1)]Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

24% of the total owner-occupier and 38% of the total buy-to-let mortgages were in negative equity at 30 June 2015 (excluding unsecured), compared to 26% and 42% respectively at 31 December 2014, driven primarily by the increase in property prices in 2015, coupled with amortisation of the loan portfolio. The weighted average indexed loan-to-value for the total residential mortgage portfolio was 79.8% at 30 June 2015 compared to 82.6% at 31 December 2014, reflecting the increase in residential property prices in the period.

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Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of United Kingdom residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the UK residential mortgages that were neither past due nor impaired by the indexed loan-to-value ratios:

						30 June 2015*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ m	%	€ m	%	€ m	%
Less than 50%	586	30.0	81	27.9	667	29.8
50% to 70%	418	21.5	38	13.2	456	20.4
71% to 80%	222	11.4	20	6.8	242	10.8
81% to 90%	181	9.3	20	7.0	201	9.0
91% to 100%	128	6.6	21	7.3	149	6.6
101% to 120%	168	8.6	38	13.2	206	9.2
121% to 150%	161	8.3	63	21.6	224	10.0
Greater than 150%	85	4.3	9	3.0	94	4.2
Total	1,949	100.0	290	100.0	2,239	100.0

						31 December 2014*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ m	%	€ m	%	€ m	%
Less than 50%	544	29.1	76	27.0	620	28.9
50% to 70%	388	20.8	35	12.2	423	19.7
71% to 80%	210	11.3	22	7.7	232	10.8
81% to 90%	178	9.5	19	6.8	197	9.1
91% to 100%	122	6.5	16	5.8	138	6.4
101% to 120%	160	8.6	39	13.7	199	9.2
121% to 150%	161	8.6	51	18.1	212	9.9
Greater than 150%	104	5.6	24	8.7	128	6.0
Total	1,867	100.0	282	100.0	2,149	100.0

Residential mortgages that were neither past due nor impaired and in negative equity at 30 June 2015 decreased in comparison to 31 December 2014, reflecting the increase in residential property prices in the period. 23% of residential mortgages that were neither past due nor impaired were in negative equity at 30 June 2015 compared to 25% at 31 December 2014.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of United Kingdom residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired

The following table profiles the UK residential mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios:

								30 June 2015*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
United Kingdom	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	28	10.3	2	4.2	30	9.2	711	27.2
50% to 70%	24	8.9	4	6.6	28	8.5	492	18.9
71% to 80%	18	6.7	1	2.6	19	6.0	268	10.3
81% to 90%	20	7.4	2	4.2	22	6.9	230	8.8
91% to 100%	16	6.1	7	13.5	23	7.4	175	6.7
101% to 120%	22	8.1	4	6.9	26	7.9	236	9.0
121% to 150%	32	11.7	9	15.5	41	12.4	267	10.2
Greater than 150%	67	24.9	7	12.6	74	22.8	170	6.5
Unsecured	43	15.9	19	33.9	62	18.9	62	2.4
Total	**270**	**100.0**	**55**	**100.0**	**325**	**100.0**	**2,611**	**100.0**

								31 December 2014*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
United Kingdom	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	24	9.4	2	3.2	26	8.3	659	26.1
50% to 70%	25	9.6	3	5.2	28	8.8	462	18.4
71% to 80%	18	6.9	2	2.6	20	6.2	255	10.1
81% to 90%	20	7.5	2	3.9	22	6.9	224	8.9
91% to 100%	16	6.1	2	3.3	18	5.6	160	6.3
101% to 120%	19	7.2	9	16.9	28	8.9	233	9.2
121% to 150%	34	12.9	9	15.5	43	13.3	259	10.3
Greater than 150%	72	27.5	10	18.3	82	25.9	219	8.7
Unsecured	34	12.9	17	31.1	51	16.1	51	2.0
Total	262	100.0	56	100.0	318	100.0	2,522	100.0

The proportion of residential mortgages that was greater than 90 days past due and/or impaired and in negative equity (excluding unsecured loans) at 30 June 2015, decreased in comparison to 31 December 2014, driven by a decrease in the amount of loans greater than 90 days past due and/or impaired coupled with an increase in property prices in the period.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Credit quality profile of United Kingdom residential mortgages

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

	30 June 2015*			31 December 2014*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	1,949	290	2,239	1,867	282	2,149
Past due but not impaired	63	8	71	71	10	81
Impaired - provisions held	248	53	301	239	53	292
Gross residential mortgages	2,260	351	2,611	2,177	345	2,522
Provisions for impairment	(139)	(35)	(174)	(135)	(36)	(171)
	2,121	316	2,437	2,042	309	2,351

United Kingdom residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically for more than 90 days, or if the borrower exhibits an inability to meet their obligations to the Group based on objective evidence of loss events ('impairment triggers') such as a request for forbearance. Loans are deemed impaired where the expected future cash flows either from the loan itself or from associated collateral will not be sufficient to repay the loan and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

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

	30 June 2015*			31 December 2014*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	23	3	26	17	3	20
31 - 60 days	8	1	9	13	3	16
61 - 90 days	10	2	12	18	1	19
91 - 180 days	8	1	9	8	1	9
181 - 365 days	9	1	10	7	1	8
Over 365 days	5	–	5	8	1	9
Total	63	8	71	71	10	81

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

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

	30 June 2015*			31 December 2014*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	22	3	25	15	2	17
31 - 60 days	8	1	9	11	2	13
61 - 90 days	10	2	12	16	1	17
91 - 180 days	7	1	8	8	1	9
181 - 365 days	5	–	5	7	1	8
Over 365 days	4	–	4	7	1	8
Total	56	7	63	64	8	72

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages that were impaired

The following table profiles the UK residential mortgages that were impaired:

United Kingdom	30 June 2015* Owner-occupier € m	Buy-to-let € m	Total € m	31 December 2014* Owner-occupier € m	Buy-to-let € m	Total € m
Not in arrears	18	3	21	13	3	16
1 - 30 days	5	2	7	3	–	3
31 - 60 days	4	1	5	6	2	8
61 - 90 days	5	–	5	8	1	9
91 - 180 days	23	4	27	19	3	22
181 - 365 days	39	13	52	34	13	47
Over 365 days	154	30	184	156	31	187
Total impaired	248	53	301	239	53	292
Total gross residential mortgages	2,260	351	2,611	2,177	345	2,522

The stock of impaired loans remained stable at 30 June 2015 in comparison to 31 December 2014.

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

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

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

	30 June 2015* Stock	Balance outstanding € m	31 December 2014* Stock	Balance outstanding € m
Owner-occupier	58	17	72	26
Buy-to-let	25	5	33	5
Total	83	22	105	31

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

The stock of accounts in possession continues to reduce as set out in the table above.

Losses on the sale of properties in possession are recognised in the income statement as part of the specific provision charge.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Other personal

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

	30 June 2015*				31 December 2014*			
	RBB € m	CIB € m	AIB UK € m	Total € m	RBB € m	CIB € m	AIB UK € m	Total € m
Analysed as to asset quality								
Satisfactory	1,782	186	259	2,227	1,749	223	253	2,225
Watch	133	57	35	225	152	24	46	222
Vulnerable	309	21	48	378	293	15	38	346
Impaired	766	23	71	860	947	27	70	1,044
Total criticised loans	1,208	101	154	1,463	1,392	66	154	1,612
Total gross loans and receivables	2,990	287	413	3,690	3,141	289	407	3,837
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	40	35	37	40	44	23	38	42
Impaired loans/total loans	26	8	17	23	30	9	17	27
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	531	10	54	595	650	13	53	716
IBNR	41	3	2	46	46	4	2	52
Total impairment provisions	572	13	56	641	696	17	55	768
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	69	43	76	69	69	48	76	69
Total provisions/impaired loans	75	57	79	75	73	63	79	74
Total provisions/total loans	19	5	14	17	22	6	14	20

	Half-year 30 June 2015*				Half-year 30 June 2014* (Unaudited)			
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(1)	(2)	1	(2)	52	1	2	55
IBNR	(5)	(1)	–	(6)	(7)	1	(1)	(7)
Total impairment (credit)/charge	(6)	(3)	1	(8)	45	2	1	48
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(0.41)	(2.28)	0.77	(0.42)	2.53	1.92	0.17	2.30

The other personal lending portfolio at € 3.7 billion reduced by € 0.1 billion during the first half of the year and comprises € 2.8 billion in loans and overdrafts and € 0.9 billion in credit card facilities.

In the six months to 30 June 2015, the level of loans and receivables reduced by 4% overall; an 18% reduction in the Impaired category and no change in the Satisfactory category. There was continued stabilisation of the satisfactory category during 2014 and 2015. An increase in demand for personal lending in the six months to 31 December 2014 has continued in the six months to 30 June 2015, due to both the improved economic environment and expanded customer offerings, including immediate decisions for the majority of internet and telephone banking applications.

During the six months to 30 June 2015, the portfolio experienced a € 0.1 billion reduction in criticised loans. At 30 June 2015, € 1.5 billion or 40% of the portfolio was criticised of which impaired loans amounted to € 0.9 billion (31 December 2014: € 1.6 billion or 42% and € 1.0 billion).

Specific provision cover on impaired loans of 69% at 30 June 2015 is unchanged from 31 December 2014.

In the income statement to 30 June 2015 there was a net writeback of € 8 million (30 June 2014: charge of € 48 million) due to a lower level of new impairments compared with 2014 and writebacks due to restructuring.

The other personal lending balances within CIB relate to connections of large corporates.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction

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

	30 June 2015*				31 December 2014*			
	RBB € m	CIB € m	AIB UK € m	Total € m	RBB € m	CIB € m	AIB UK € m	Total € m
Investment								
Commercial investment	2,826	2,938	1,916	7,680	3,277	3,134	2,012	8,423
Residential investment	923	284	697	1,904	1,138	297	798	2,233
	3,749	3,222	2,613	9,584	4,415	3,431	2,810	10,656
Land and development								
Commercial development	528	197	95	820	715	196	84	995
Residential development	1,400	129	1,018	2,547	2,057	128	902	3,087
	1,928	326	1,113	3,367	2,772	324	986	4,082
Contractors	135	38	181	354	161	39	154	354
Housing associations	–	–	494	494	–	–	445	445
Total gross loans and receivables	5,812	3,586	4,401	13,799	7,348	3,794	4,395	15,537
Analysed as to asset quality								
Satisfactory	641	1,535	1,526	3,702	576	1,662	1,357	3,595
Watch	319	201	622	1,142	330	158	681	1,169
Vulnerable	925	883	434	2,242	718	769	450	1,937
Impaired	3,927	967	1,819	6,713	5,724	1,205	1,907	8,836
Total criticised loans	5,171	2,051	2,875	10,097	6,772	2,132	3,038	11,942
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	89	57	65	73	92	56	69	77
Impaired loans/total loans	68	27	41	49	78	32	43	57
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	2,449	394	1,152	3,995	3,854	458	1,166	5,478
IBNR	87	43	44	174	71	58	45	174
Total impairment provisions	2,536	437	1,196	4,169	3,925	516	1,211	5,652
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	62	41	63	60	67	38	61	62
Total provisions/impaired loans	65	45	66	62	69	43	64	64
Total provisions/total loans	44	12	27	30	53	14	28	36

	Half-year 30 June 2015*				Half-year 30 June 2014* (Unaudited)			
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(74)	(14)	(6)	(94)	4	9	39	52
IBNR	15	(15)	(5)	(5)	(27)	(4)	7	(24)
Total impairment (credit)/charge	(59)	(29)	(11)	(99)	(23)	5	46	28
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(1.76)	(1.52)	(0.53)	(1.32)	(0.49)	0.23	1.79	0.29

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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

The property and construction sector amounted to 19% of total loans and receivables, or 15% of loans and receivables less impairment provisions. The portfolio is comprised of 70% investment loans (€ 9.6 billion), 24% land and development loans (€ 3.4 billion) and 6% other property and construction loans (€0.8 billion). AIB UK accounts for 32% of the total property and construction portfolio.

Overall, the portfolio reduced by €1.7 billion or 11% during the six months to 30 June 2015, with all of the reduction coming from the criticised grades. This reduction is due primarily to the continuing impact of restructuring activity as described on pages 52 to 53 and to write-offs, amortisations and repayments, resulting from asset disposals by customers within the criticised grades. Total write-offs for property and construction for the six months were €1.5 billion. The restructuring of impaired loans during the period resulted in an increase in vulnerable loans in the sector as most individually assessed restructured loans are initially graded as vulnerable.

The property market in the Republic of Ireland has continued to see resurgent demand as well as increased values. While 2014 marked a turning point in the Irish land and development market, the pace of activity moderated in 2015. Activity during the year to date has been underpinned by improved economic performance together with increased investment spending which both had a positive impact on the residential and commercial land and development market. This was most evident in the Greater Dublin Area. Accordingly, the rate of downward grade migration and new impairments continues to decrease in 2015.

There was a writeback of specific provisions net of top-ups of € 128 million (c. 1.5% of opening impaired loans) mainly due to the improved economic environment and the restructuring process described on page 64. This was partially off-set by provisions for new impairments which amounted to € 34 million. The higher provision cover for RBB is due to a higher proportion of land and development loans within the business as well as smaller investment property loans with higher cover rates.

Investment

Property investment loans amounted to € 9.6 billion at 30 June 2015 (31 December 2014: € 10.7 billion) of which € 7.7 billion related to commercial investment. The reduction was largely as a result of loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs of provisions. € 6.2 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, € 3.2 billion in the United Kingdom, and € 0.2 billion in other geographical locations.

The start of 2015 showed continuing activity across all sectors of the Irish commercial real estate market with activity ongoing both in terms of loan sales and direct asset sales. There has been continued demand for office accommodation in Dublin and the retail recovery in areas outside of Dublin has seen improving vacancy rates. Market research indicates that total returns in the Irish commercial property market in the first quarter of 2015 reached 4.3% while capital values increased by 2.8% in the period, demonstrating the continued strength of the sector.

€ 6.7 billion or 70% of the investment property portfolio was criticised at 30 June 2015 compared with € 7.8 billion or 73% at 31 December 2014. Included in criticised loans was € 3.9 billion loans which were impaired (31 December 2014: € 5.2 billion) and on which the Group had € 2.0 billion in statement of financial position specific provisions, providing cover of 51% (31 December 2014: € 2.7 billion and 53%). Total impairment provisions as a percentage of total loans is 22%, down from 27% at 31 December 2014. The impairment writeback to the income statement was € 84 million on the investment property element of the property and construction portfolio compared to a writeback of € 16 million for the same period to 30 June 2014.

Land and development

At 30 June 2015, land and development loans amounted to € 3.4 billion (31 December 2014: € 4.1 billion). € 2.3 billion of this portfolio related to loans in the Republic of Ireland and € 1.1 billion in the United Kingdom.

In early 2015, moderated activity in the development market was observed, with increased availability of development sites. However, the rise in supply was concentrated in Dublin and comprised relatively small sites. An analysis of the profile of sales reveals that activity was dominated by small infill residential sites and only a few larger commercial transactions. Furthermore, in terms of value, 41% of the sites sold across the regions were reported below € 500,000 in value.

€ 3.0 billion of the land and development portfolio was criticised at 30 June 2015 (31 December 2014: € 3.8 billion), including € 2.7 billion of loans which were impaired (31 December 2014: € 3.5 billion) and on which the Group had € 1.9 billion in statement of financial position specific provisions, providing cover of 71% (31 December 2014: 75%). The impairment writeback of € 15 million to the income statement compares to a charge of € 43 million for the same period to 30 June 2014.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Non-property business

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

	30 June 2015*				31 December 2014*			
	RBB € m	CIB € m	AIB UK € m	Total € m	RBB € m	CIB € m	AIB UK € m	Total € m
Agriculture	1,589	159	92	1,840	1,591	156	71	1,818
Distribution:								
Hotels	451	1,073	897	2,421	511	1,124	720	2,355
Licensed premises	510	188	115	813	623	194	146	963
Retail/wholesale	1,339	880	419	2,638	1,492	858	309	2,659
Other distribution	135	87	8	230	154	103	20	277
	2,435	2,228	1,439	6,102	2,780	2,279	1,195	6,254
Other services	1,549	1,615	2,711	5,875	1,622	1,416	2,608	5,646
Other	795	2,207	1,090	4,092	778	2,106	1,010	3,894
Total gross loans and receivables	6,368	6,209	5,332	17,909	6,771	5,957	4,884	17,612
Analysed as to asset quality								
Satisfactory	2,869	5,358	4,239	12,466	2,689	4,958	3,637	11,284
Watch	548	137	357	1,042	586	241	399	1,226
Vulnerable	1,000	212	175	1,387	851	247	231	1,329
Impaired	1,951	502	561	3,014	2,645	511	617	3,773
Total criticised loans	3,499	851	1,093	5,443	4,082	999	1,247	6,328
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	55	14	20	30	60	17	26	36
Impaired loans/total loans	31	8	11	17	39	9	13	21
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	1,180	171	281	1,632	1,706	192	346	2,244
IBNR	168	87	26	281	209	86	20	315
Total impairment provisions	1,348	258	307	1,913	1,915	278	366	2,559
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	60	34	50	54	64	38	56	59
Total provisions/impaired loans	69	51	55	63	72	54	59	68
Total provisions/total loans	21	4	6	11	28	5	7	15

	Half-year 30 June 2015*				Half-year 30 June 2014 (Unaudited)			
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(86)	8	4	(74)	9	17	16	42
IBNR	(40)	1	3	(36)	8	(1)	(3)	4
Total impairment (credit)/charge	(126)	9	7	(110)	17	16	13	46
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(3.84)	0.29	0.29	(1.23)	0.44	0.62	0.50	0.51

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

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

The non-property business portfolio amounted to 24% of total loans and receivables. Loans and receivables in this sector increased by € 0.3 billion from € 17.6 billion as at 31 December 2014 to € 17.9 billion as at 30 June 2015. There was increased activity across all sub-sectors in the portfolio due to increased credit demand, improved upward grade migration offset by continued restructuring activity, write-offs, amortisations and repayments. The geographical split by booking office is 70% in the Republic of Ireland with the remainder in the United Kingdom, apart from a small portion of less than 1% which relates to the Rest of the World. Included within the Republic of Ireland is € 1.7 billion in US leveraged debt.

Satisfactory loans and receivables increased in the six months to 30 June 2015, continuing the positive trend experienced in 2014. The RBB and CIB satisfactory portfolios combined increased by € 0.6 billion through a combination of new drawdowns exceeding amortisation and repayment coupled with upward grade migration through improved performance. The UK satisfactory portfolio also increased by € 0.6 billion in the six months to 30 June 2015, due to both the impact of sterling appreciation and growth. The level of criticised loans reduced from € 6.3 billion at 31 December 2014 to € 5.4 billion at 30 June 2015, mainly due to a reduction of € 0.8 billion in impaired loans.

The non-property business portfolio mainly comprises of Small Medium Enterprises (“SME”) which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers who are impacted by global economies.

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

– The agriculture sub-sector (10% of the portfolio) continued to perform well in the six months to 30 June 2015, with growth in demand for new credit due to ongoing expansion by farmers following the removal of EU milk quotas in April 2015.
– The hotels sub-sector comprises 14% of the portfolio. The improvement observed in 2014 due to a stronger local economy and increased numbers of tourists has continued in the period. Valuations for hotels improved, with a number of foreign investors and fund managers competing for available properties.
– The licensed premises sub-sector comprises 5% of the portfolio. The market is weak and continues to struggle. However, some locations such as Dublin, central Cork and Galway are showing improved performances based on the improving economic outlook.
– The retail/wholesale sub-sector (15% of the portfolio) has continued to improve in the six months to 30 June 2015 due to the stronger economic environment, nevertheless, there is still stress in the sub-sector, particularly in rural areas.
– The other services sub-sector comprises 33% of the portfolio which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery. This sub-sector performed well in the six months to 30 June 2015 with an increase in drawdowns.

Following global economic improvement, there is on-going evidence that the Republic of Ireland is moving into a period of sustainable economic growth. Notwithstanding the improving economic outlook, the domestic market remains challenging with many trading entities experiencing difficulties particularly outside urban areas. The Group continues to strongly engage in restructuring existing facilities in order to sustain viable businesses as described on page 64.

The income statement provision writeback for the six months to 30 June 2015 was € 110 million compared to a charge of € 46 million for the same period in 2014.

IBNR provisions reduced from € 315 million to € 281 million or from 2.3% to 1.9% of non-impaired loans and receivables, in line with improved impairment trends.

The specific provision cover decreased from 59% at 31 December 2014 to 54% at 30 June 2015 impacted by writebacks and write-offs of provisions for loans with higher provision cover.

Specific provisions on new impairments amounted to € 49 million, and were off-set by a writeback of € 123 million (net of top-ups). This writeback amounted to c. 3.2% of opening impaired loans and was driven by the improved economic environment and the restructuring assessment process described on page 64.

3.1 Credit risk – credit profile of the loan portfolio

Leveraged debt

The Group has a specialised leveraged lending team in North America which is involved in participating in the provision of finance to US corporations for mergers, acquisitions, buy-outs and general corporate purposes. The portfolio increased by 14.4% in 2015 (5.4% on a constant currency basis) as part of a strategic decision to grow this portfolio. Loans originated by this team are reported on the basis of the booking office i.e. Ireland € 1,713 million and Rest of the World € 50 million. Furthermore, these loans are reported under the operating segment of CIB, with the property loans below included under the 'Property and construction' asset class and all other loans reported under the 'Non-property business' asset class.

A sectoral analysis of the portfolio is as follows:

	Drawn balances	
	30 June 2015*	31 December 2014*
	€ m	€ m
Agriculture	**9**	9
Property and construction	**5**	5
Distribution	**232**	164
Energy	**44**	27
Financial	**90**	71
Manufacturing	**520**	443
Transport	**235**	207
Other services	**628**	615
	1,763	1,541

At 30 June 2015, 50% of the portfolio was graded BB or better, with no loans classified as impaired.

91% of the customers in this portfolio are domiciled in the USA, 7% in Canada and 2% in the Rest of the World (31 December 2014: 92% domiciled in the USA, 4% in Canada and 4% in the Rest of the World respectively).

The Group recently re-entered the European leveraged lending market, with total exposures of € 10 million included above.

Large exposures

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

At 30 June 2015, the Group's top 50 exposures amounted to € 5.0 billion, and accounted for 6.8% (31 December 2014: € 5.1 billion and 6.8%) of the Group's on-balance sheet total gross loans and receivables to customers. In addition, these customers have undrawn facilities amounting to € 189 million (31 December 2014: € 200 million). No single customer exposure exceeded regulatory requirements. In addition, the Group holds NAMA senior bonds amounting to € 7.5 billion (31 December 2014: € 9.4 billion).

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Credit ratings*

Internal credit ratings

The Group uses various rating tools in managing its credit risk. The role of rating tools in identifying and managing loans including those of lower credit quality is highlighted in further detail on pages 43 to 44. These lower credit quality loans are referred to as 'Criticised loans' and include Watch, Vulnerable and Impaired, and are defined on page 43.

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

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

Past due but not impaired are those loans where a contractually due payment has not been made. 'Past due days' is a term used to describe the cumulative number of days a missed payment is overdue. In the case of instalment type facilities, days past due arise once an approved limit has been exceeded. This category can also include an element of facilities where negotiation with the borrower on new terms and conditions has not yet concluded to fulfilment while the original loan facility remains outside its original terms. When a facility is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

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

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

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

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3.1 Credit risk – credit profile of the loan portfolio

Credit ratings* *(continued)*

Internal credit ratings of loans and receivables to customers

The internal credit ratings profile of loans and receivables to customers by asset class is set out below:

30 June 2015	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	**14,228**	**177**	**107**	**1,006**	**15,518**
Good lower	**10,613**	**2,014**	**3,524**	**11,380**	**27,531**
Watch	**2,048**	**197**	**1,068**	**987**	**4,300**
Vulnerable	**2,506**	**295**	**1,952**	**1,133**	**5,886**
Total	**29,395**	**2,683**	**6,651**	**14,506**	**53,235**
Past due but not impaired					
Good upper	**5**	**1**	**–**	**1**	**7**
Good lower	**85**	**35**	**71**	**79**	**270**
Watch	**317**	**28**	**74**	**55**	**474**
Vulnerable	**747**	**83**	**290**	**254**	**1,374**
Total	**1,154**	**147**	**435**	**389**	**2,125**
Total impaired	**7,388**	**860**	**6,713**	**3,014**	**17,975**
Total gross loans and receivables	**37,937**	**3,690**	**13,799**	**17,909**	**73,335**
Unearned income					**(132)**
Deferred costs					**54**
Impairment provisions					**(9,479)**
Total					**63,778**

31 December 2014	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	13,711	181	96	812	14,800
Good lower	10,956	1,989	3,433	10,332	26,710
Watch	2,207	192	1,115	1,146	4,660
Vulnerable	2,140	228	1,582	1,026	4,976
Total	29,014	2,590	6,226	13,316	51,146
Past due but not impaired					
Good upper	4	1	–	10	15
Good lower	76	54	66	130	326
Watch	348	30	54	80	512
Vulnerable	895	118	355	303	1,671
Total	1,323	203	475	523	2,524
Total impaired	8,509	1,044	8,836	3,773	22,162
Total gross loans and receivables	38,846	3,837	15,537	17,612	75,832
Unearned income					(123)
Deferred costs					59
Impairment provisions					(12,406)
Total					63,362

The table above shows an increase in "Good" grades in the period, primarily in non-property business, which is offset by a reduction in criticised grades (watch, vulnerable and impaired) as a result of on-going restructuring activities. The total reduction in loans in the period was € 2.5 billion representing an increase in "Good" loans of € 1.5 billion and a reduction in criticised of € 4.0 billion.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – credit profile of the loan portfolio

Credit ratings* *(continued)*

External credit ratings of financial assets

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

					30 June 2015
	Bank € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**4,615**	**–**	**3,339**	**233**	**8,187**
A/A-	**2,098**	**11**	**17,019**	**–**	**19,128**
BBB+/BBB/BBB-	**200**	**18**	**2,306**	**1**	**2,525**
Sub investment	**705**	**57**	**–**	**–**	**762**
Unrated	**–**	**1**	**–**	**–**	**1**
Total	**7,618**	**87**	**22,664[(1)]**	**234**	**30,603**

					31 December 2014
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	3,991	–	4,114	99	8,204
A/A-	1,615	–	18,619[(2)]	–	20,234
BBB+/BBB/BBB-	7	–	2,462	–	2,469
Sub investment	149	–	–	1	150
Unrated	–	3	–	–	3
Total	5,762	3	25,195[(1)]	100	31,060

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

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

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3.1 Credit risk – Financial investments available for sale

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

	30 June 2015*			31 December 2014*		
Debt securities	**Fair value € m**	**Unrealised gross gains € m**	**Unrealised gross losses € m**	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m
Irish Government securities	**9,097**	**1,168**	**(7)**	9,107	1,327	–
Euro government securities	**3,047**	**92**	**(18)**	3,631	170	–
Non Euro government securities	**233**	**7**	**(4)**	182	9	–
Supranational banks and government agencies	**2,483**	**95**	**(2)**	2,852	119	–
Collateralised mortgage obligations	**233**	**–**	**(1)**	99	–	(1)
Other asset backed securities	**1**	**–**	**–**	1	–	–
Euro bank securities	**4,236**	**84**	**(9)**	3,897	105	–
Euro corporate securities	**15**	**–**	**–**	–	–	–
Non Euro corporate securities	**24**	**2**	**(2)**	3	–	(1)
Total debt securities	**19,369**	**1,448**	**(43)**	19,772	1,730	(2)
Equity securities[(1)]	**459**	**382**	**(3)**	413	338	(3)
Total financial investments available for sale	**19,828**	**1,830**	**(46)**	20,185	2,068	(5)

[(1)]Includes NAMA subordinated bonds with a fair value of € 414 million (31 December 2014: € 374 million) of which unrealised gains amount to € 367 million (31 December 2014: € 327 million).

The following tables categorise AIB Group's available-for-sale debt securities by contractual residual maturity and weighted average yield:

	30 June 2015							
	Within 1 year		**After 1 but within 5 years**		**After 5 but within 10 years**		**After 10 years**	
	€ m	**Yield %**	**€ m**	**Yield %**	**€ m**	**Yield %**	**€ m**	**Yield %**
Irish Government securities	**834**	**7.9**	**5,647**	**4.1**	**2,106**	**3.1**	**510**	**1.3**
Euro government securities	**–**	**–**	**853**	**1.7**	**2,194**	**1.6**	**–**	**–**
Non Euro government securities	**–**	**–**	**139**	**2.1**	**94**	**0.7**	**–**	**–**
Supranational banks and government agencies	**–**	**–**	**1,738**	**1.0**	**718**	**1.4**	**27**	**2.0**
Collateralised mortgage obligations	**–**	**–**	**–**	**–**	**–**	**–**	**233**	**1.5**
Other asset backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**0.2**
Euro bank securities	**65**	**0.8**	**3,428**	**1.0**	**743**	**1.0**	**–**	**–**
Euro corporate securities	**–**	**–**	**15**	**4.1**	**–**	**–**	**–**	**–**
Non Euro corporate securities	**2**	**–**	**–**	**–**	**22**	**5.7**	**–**	**–**
Total	**901**	**7.4**	**11,820**	**2.6**	**5,877**	**2.0**	**771**	**1.4**

	31 December 2014							
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %
Irish Government securities	–	–	5,632	4.7	2,933	3.3	542	3.3
Euro government securities	230	2.0	1,167	1.5	2,234	1.7	–	–
Non Euro government securities	29	2.2	90	2.7	63	1.8	–	–
Supranational banks and government agencies	150	2.0	1,775	1.1	900	1.3	27	2.0
Collateralised mortgage obligations	–	–	–	–	–	–	99	1.5
Other asset backed securities	–	–	–	–	–	–	1	0.3
Euro bank securities	95	1.0	3,014	1.0	788	1.3	–	–
Non Euro corporate securities	3	–	–	–	–	–	–	–
Total	507	1.8	11,678	2.9	6,918	2.3	669	3.0

*Forms an integral part of the audited financial statements

3.1 Credit risk – Financial investments available for sale

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

Government securities	30 June 2015* Irish Government € m	30 June 2015* Euro government € m	30 June 2015* Non Euro government € m	31 December 2014* Irish Government € m	31 December 2014* Euro government € m	31 December 2014* Non Euro government € m
Republic of Ireland	9,097	–	–	9,107	–	–
Italy	–	1,129	–	–	1,253	–
France	–	277	–	–	468	–
Spain	–	1,101	–	–	1,209	–
Netherlands	–	262	–	–	294	–
Germany	–	98	–	–	225	–
Austria	–	101	–	–	102	–
United Kingdom	–	–	93	–	–	146
Finland	–	26	–	–	26	–
Slovakia	–	53	–	–	54	–
Czech Republic	–	–	35	–	–	12
Poland	–	–	105	–	–	24
	9,097	3,047	233	9,107	3,631	182

Asset backed securities	30 June 2015* Total € m	31 December 2014* Total € m
United States of America	233	99
Spain	1	1
	234	100

Bank securities	30 June 2015* Euro € m	30 June 2015* Non Euro € m	31 December 2014* Euro € m	31 December 2014* Non Euro € m
Republic of Ireland	385	–	266	–
France	879	–	818	–
Netherlands	591	–	561	–
United Kingdom	446	–	439	–
Australia	306	–	380	–
Sweden	281	–	263	–
Canada	407	–	378	–
Finland	240	–	234	–
Norway	260	–	253	–
Belgium	250	–	183	–
Germany	49	–	50	–
Denmark	76	–	72	–
Rest of the World	66	–	–	–
	4,236	–	3,897	–

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3.1 Credit risk – Financial investments available for sale

Debt securities

Debt securities available for sale ("AFS") have decreased from a fair value of € 19.8 billion at 31 December 2014 to € 19.4 billion at 30 June 2015. Sales and maturities of € 2.77 billion (nominal € 2.5 billion) were partially offset by purchases of € 2.65 billion (nominal € 2.4 billion) and decrease in fair value of € 0.3 billion.

Within the portfolio, there was a reduction in Supranational banks and government agencies (€ 0.4 billion) and European government securities (€ 0.6 billion) as these holdings had moved to record low yields against a backdrop of ECB quantitive easing. Re-investment in European bank securities (€ 0.3 billion) was deemed to offer better relative value returns.

The decrease in fair value was due to a widening of Irish, Italian and Spanish sovereign spreads and the impact of higher interest rates on fixed rate security holdings.

The external ratings profile remained relatively static with total investment grade ratings remaining at 99%. The breakdown by rating was AAA: 22% (2014: 25%), AA: 17% (2014: 16%), A: 49% (2014: 46%), BBB: 11% (2014: 12%) and sub investment grade 1% (2014: 1%).

Equity securities

Equity securities available for sale increased by € 46 million due principally to the increase in fair value of the NAMA subordinated debt holding. NAMA subordinated bonds are included within AFS equity securities. The fair value of these bonds at 30 June 2015 increased to € 414 million (31 December 2014: € 374 million) as the fair value price estimate was increased from 79.4% to 87.9% due to continued improvements in NAMA's financial position and forecasts.

Asset backed securities

Asset backed securities increased to € 0.2 billion (31 December 2014: € 0.1 billion). This was due to new purchases of AAA rated US collateralised mortgage obligations.

Bank securities

At 30 June 2015, the fair value of bank securities of € 4.2 billion (31 December 2014: € 3.9 billion) included € 2.9 billion of covered bonds (31 December 2014: € 2.9 billion), € 1.1 billion of senior unsecured bank debt (31 December 2014: € 0.9 billion) and € 0.2 billion of government guaranteed senior bank debt (31 December 2014: € 0.1 billion).

Republic of Ireland

The fair value of Irish debt securities in the AFS category amounted to € 9.5 billion at 30 June 2015 (31 December 2014: € 9.4 billion) and consisted of sovereign debt € 9.1 billion (31 December 2014: € 9.1 billion), senior unsecured bonds of € 0.15 billion (31 December 2014: € 0.14 billion) and covered bonds of € 0.24 billion (31 December 2014: € 0.13 billion). The NAMA subordinated debt holding is classified as an available for sale equity security and has a fair value of € 414 million (31 December 2014: € 374 million).

In addition to Irish Government securities outlined above, the Group holds NAMA senior debt amounting to € 7.56 billion nominal (31 December 2014: € 9.5 billion), which is guaranteed by the Irish Government and is classified as loans and receivables to customers.

Euro government securities

The fair value of Euro government securities decreased by € 0.6 billion to € 3.0 billion (31 December 2014: € 3.6 billion). This decrease was primarily due to a fall in fair value on French (€ 0.2 billion), German (€ 0.1 billion), Italian (€ 0.1 billion) and Spanish (€ 0.1 billion) government securities.

The Group had no exposure to Greek available for sale debt securities.

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Risk management – 3. Individual risk types

3.2 Additional credit risk information – Forbearance*

The Group's forbearance initiatives are detailed on pages 51 to 53 in the 'Risk management' section of this report.

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

					30 June 2015
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	13,747	176	107	1,005	15,035
Good lower	10,074	1,850	3,474	11,244	26,642
Watch	1,717	164	989	889	3,759
Vulnerable	1,589	152	648	562	2,951
Total	27,127	2,342	5,218	13,700	48,387
Past due but not impaired	720	102	292	263	1,377
Impaired	4,534	605	5,903	2,323	13,365
Total	32,381	3,049	11,413	16,286	63,129
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	481	1	–	1	483
Good lower	539	164	50	136	889
Watch	331	33	79	98	541
Vulnerable	917	143	1,304	571	2,935
Total	2,268	341	1,433	806	4,848
Past due but not impaired	434	45	143	126	748
Impaired	2,854	255	810	691	4,610
Total	5,556[(1)]	641	2,386	1,623	10,206
Total gross loans and receivables to customers	37,937	3,690	13,799	17,909	73,335
	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.6	6.1	3.1	3.8	3.1

[(1)]Republic of Ireland: € 5,483 million and United Kingdom: € 73 million.

The Republic of Ireland residential mortgage forbearance portfolio is profiled in more detail on pages 108 to 113 and further detail on the non-mortgage forbearance portfolio is included on pages 114 to 118.

Interest income is recognised, based on the original effective interest rate, on forborne loans in accordance with Accounting policy number 6 and is included in 'Interest and similar income' in the Income Statement. The application of the effective interest method has the effect of recognising income receivable evenly in proportion to the amount outstanding over the period to repayment. Interest income on non-impaired forborne loans is based on the gross loan balance, whereas the net carrying amount after specific provisions is used for impaired forborne loans.

Interest income on impaired loans amounted to € 144 million in the period to 30 June 2015. At 30 June 2015, the net carrying amount of impaired loans amounted to € 9,398 million (31 December 2014: € 10,847 million) which included forborne impaired mortgages of € 2,117 million (31 December 2014: € 2,421 million) and forborne impaired non-mortgages of € 818 million (31 December 2014: € 854 million).

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

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

					31 December 2014
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	13,285	180	96	811	14,372
Good lower	10,485	1,750	3,362	10,076	25,673
Watch	1,856	153	1,041	1,000	4,050
Vulnerable	1,520	117	446	585	2,668
Total	27,146	2,200	4,945	12,472	46,763
Past due but not impaired	867	141	354	391	1,753
Impaired	5,188	788	7,888	3,073	16,937
Total	33,201	3,129	13,187	15,936	65,453
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	426	1	–	1	428
Good lower	471	239	71	256	1,037
Watch	351	39	74	146	610
Vulnerable	620	111	1,136	441	2,308
Total	1,868	390	1,281	844	4,383
Past due but not impaired	456	62	121	132	771
Impaired	3,321	256	948	700	5,225
Total	5,645[(1)]	708	2,350	1,676	10,379
Total loans and receivables to customers	38,846	3,837	15,537	17,612	75,832
	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.8	6.5	3.1	3.9	3.3

(1)Republic of Ireland: € 5,570 million and United Kingdom: € 75 million.

Republic of Ireland residential mortgages

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

Further details on MARS together with available forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments are set out on page 52.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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

Republic of Ireland owner-occupier	30 June 2015 Number	30 June 2015 Balance € m	31 December 2014 Number	31 December 2014 Balance € m
At 1 January	**27,714**	**3,830**	19,848	2,952
Additions	**4,189**	**603**	12,561	1,693
Expired arrangements	**(3,015)**	**(442)**	(4,156)	(639)
Payments	**–**	**(116)**	–	(219)
Interest	**–**	**53**	–	77
Closed accounts[(1)]	**(439)**	**(29)**	(507)	(30)
Write-offs	**–**	**(6)**	–	(2)
Transfer from owner-occupier to buy-to-let	**(21)**	**(3)**	(32)	(2)
At end of period	**28,428**	**3,890**	27,714	3,830

Republic of Ireland buy-to-let	30 June 2015 Number	30 June 2015 Balance € m	31 December 2014 Number	31 December 2014 Balance € m
At 1 January	**7,936**	**1,740**	8,309	1,998
Additions	**1,130**	**183**	1,893	355
Expired arrangements	**(794)**	**(163)**	(2,155)	(480)
Payments	**–**	**(106)**	–	(125)
Interest	**–**	**24**	–	26
Closed accounts[(1)]	**(429)**	**(59)**	(143)	(26)
Write-offs	**–**	**(29)**	–	(10)
Transfer from owner-occupier to buy-to-let	**21**	**3**	32	2
At end of period	**7,864**	**1,593**	7,936	1,740

Republic of Ireland – Total	30 June 2015 Number	30 June 2015 Balance € m	31 December 2014 Number	31 December 2014 Balance € m
At 1 January	**35,650**	**5,570**	28,157	4,950
Additions	**5,319**	**786**	14,454	2,048
Expired arrangements	**(3,809)**	**(605)**	(6,311)	(1,119)
Payments	**–**	**(222)**	–	(344)
Interest	**–**	**77**	–	103
Closed accounts[(1)]	**(868)**	**(88)**	(650)	(56)
Write-offs	**–**	**(35)**	–	(12)
At end of period	**36,292**	**5,483**	35,650	5,570

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

The stock of loans subject to forbearance measures decreased by € 0.1 billion from 31 December 2014 to € 5.5 billion at 30 June 2015 driven by lower numbers of customers seeking new forbearance solutions (i.e. new requests, renewals or extensions). This reflects an improving customer ability to meet their mortgage terms. A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers and to support customers in remaining in their family home – the number of customers (4,913) on advanced forbearance solutions increased by 38% in the six months to 30 June 2015 with 'Interest Only' customers (3,936) reducing by c. 30% in the same period.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

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

						30 June 2015
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	2,457	403	1,215	213	1,242	190
Reduced payment (greater than interest only)	993	193	604	131	389	62
Payment moratorium	418	67	124	19	294	48
Arrears capitalisation	14,747	2,018	7,967	1,165	6,780	853
Term extension	5,148	549	483	59	4,665	490
Split mortgages	2,653	417	1,762	262	891	155
Voluntary sale for loss	400	25	226	18	174	7
Low fixed interest rate	836	134	571	89	265	45
Positive equity solution	758	80	365	34	393	46
Other	18	4	4	1	14	3
Total forbearance	28,428	3,890	13,321	1,991	15,107	1,899

						30 June 2015
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,479	337	686	167	793	170
Reduced payment (greater than interest only)	715	174	395	90	320	84
Payment moratorium	253	37	151	22	102	15
Fundamental restructure	808	126	126	20	682	106
Arrears capitalisation	3,427	763	2,626	613	801	150
Term extension	916	125	163	27	753	98
Split mortgages	31	5	15	2	16	3
Voluntary sale for loss	216	23	120	20	96	3
Low fixed interest rate	6	1	1	–	5	1
Positive equity solution	13	2	3	–	10	2
Total forbearance	7,864	1,593	4,286	961	3,578	632

						30 June 2015
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland – Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	3,936	740	1,901	380	2,035	360
Reduced payment (greater than interest only)	1,708	367	999	221	709	146
Payment moratorium	671	104	275	41	396	63
Fundamental restructure	808	126	126	20	682	106
Arrears capitalisation	18,174	2,781	10,593	1,778	7,581	1,003
Term extension	6,064	674	646	86	5,418	588
Split mortgages	2,684	422	1,777	264	907	158
Voluntary sale for loss	616	48	346	38	270	10
Low fixed interest rate	842	135	572	89	270	46
Positive equity solution	771	82	368	34	403	48
Other	18	4	4	1	14	3
Total forbearance	36,292	5,483	17,607	2,952	18,685	2,531

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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

						31 December 2014
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland owner-occupier		€ m		€ m		€ m
Interest only	3,609	566	1,804	294	1,805	272
Reduced payment (greater than interest only)	1,326	251	854	183	472	68
Payment moratorium	510	79	152	23	358	56
Arrears capitalisation	13,409	1,860	8,030	1,187	5,379	673
Term extension	5,518	592	624	75	4,894	517
Split mortgages	2,384	370	2,305	349	79	21
Voluntary sale for loss	342	26	220	20	122	6
Low fixed interest rate	375	59	260	40	115	19
Positive equity solution	223	22	112	11	111	11
Other	18	5	4	1	14	4
Total forbearance	27,714	3,830	14,365	2,183	13,349	1,647

						31 December 2014
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland buy-to-let		€ m		€ m		€ m
Interest only	2,017	468	1,119	289	898	179
Reduced payment (greater than interest only)	836	195	466	115	370	80
Payment moratorium	352	48	183	26	169	22
Arrears capitalisation	3,641	881	3,058	775	583	106
Term extension	860	118	190	32	670	86
Split mortgages	15	2	14	2	1	–
Voluntary sale for loss	208	27	162	25	46	2
Low fixed interest rate	2	–	1	–	1	–
Positive equity solution	5	1	3	–	2	1
Total forbearance	7,936	1,740	5,196	1,264	2,740	476

						31 December 2014
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland – Total		€ m		€ m		€ m
Interest only	5,626	1,034	2,923	583	2,703	451
Reduced payment (greater than interest only)	2,162	446	1,320	298	842	148
Payment moratorium	862	127	335	49	527	78
Arrears capitalisation	17,050	2,741	11,088	1,962	5,962	779
Term extension	6,378	710	814	107	5,564	603
Split mortgages	2,399	372	2,319	351	80	21
Voluntary sale for loss	550	53	382	45	168	8
Low fixed interest rate	377	59	261	40	116	19
Positive equity solution	228	23	115	11	113	12
Other	18	5	4	1	14	4
Total forbearance	35,650	5,570	19,561	3,447	16,089	2,123

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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

A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers. Advanced forbearance solutions at € 687 million accounted for 13% of the total forbearance portfolio as at 30 June 2015, compared to 9% (€ 507 million) as at 31 December 2014. Following restructure, loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

Other permanent standard forbearance solutions are term extensions and arrears capitalisation (which often includes a term extension). Permanent forbearance solutions are reported within the stock of forbearance for 5 years, and therefore, represent in some cases forbearance solutions which were agreed up to 5 years ago. They include loans where a subsequent interest only or other temporary arrangement had expired at 30 June 2015, but where an arrears capitalisation or term extension was awarded previously.

Arrears capitalisation continues to be the largest category of forbearance solution at 30 June 2015, accounting for 50% of the total forbearance portfolio (31 December 2014: 49% of the total forbearance portfolio). A high proportion of the arrears capitalisation portfolio (63%) is impaired or 90 days in arrears at 30 June 2015, reduced from 72% at 31 December 2014. This reflects the historic nature of the forbearance event for part of the portfolio and the requirement that loans complete a probationary period of at least 12 months before being upgraded from impairment, as described above.

The Group's processes for assessing customers and agreeing sustainable forbearance solutions have significantly improved over the last 2 years with the development of a suite of advanced forbearance products. This is reflected in the performance of the forbearance portfolio where the proportion of the portfolio being 90 days in arrears and/or impaired reduced to 54% at 30 June 2015 from 62% at 31 December 2014.

At 30 June 2015, there were c.€ 1.0 billion of individually insignificant impaired mortgages which had been restructured but which will remain impaired until they have performed satisfactorily for 12 months.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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

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

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

		30 June 2015			31 December 2014	
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 – 30 days	154	40	194	138	31	169
31 – 60 days	52	15	67	63	14	77
61 – 90 days	33	7	40	42	8	50
91 – 180 days	23	11	34	33	15	48
181 – 365 days	26	15	41	41	16	57
Over 365 days	38	17	55	33	18	51
Total past due but not impaired	326	105	431	350	102	452

Loans subject to forbearance and past due but not impaired decreased in the half-year to 30 June 2015 by € 21 million with later arrears (greater than 90 days in arrears) decreasing by € 26 million. The proportion of the portfolio past due but not impaired remained stable at 8% at 30 June 2015 compared with 31 December 2014.

Residential mortgages subject to forbearance measures – impaired

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

		30 June 2015			31 December 2014	
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	898	269	1,167	874	363	1,237
1 – 30 days	185	39	224	221	52	273
31 – 60 days	82	25	107	87	29	116
61 – 90 days	59	23	82	62	28	90
91 – 180 days	123	44	167	143	75	218
181 – 365 days	129	97	226	191	159	350
Over 365 days	428	421	849	498	509	1,007
Total impaired	1,904	918	2,822	2,076	1,215	3,291

Impaired loans subject to forbearance reduced by € 0.5 billion in the half-year to 30 June 2015. Statement of financial position specific provisions of € 0.7 billion were held against the forborne impaired portfolio at 30 June 2015, providing cover of 25.5%, while the income statement specific provision writeback was € 0.1 billion for the period.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by indexed loan-to-value ratios

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures by the indexed loan-to-value ratios:

	30 June 2015			31 December 2014		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	**588**	**154**	**742**	557	126	683
50% – 70%	**682**	**202**	**884**	648	164	812
71% – 80%	**392**	**122**	**514**	391	128	519
81% – 90%	**411**	**139**	**550**	397	151	548
91% – 100%	**396**	**147**	**543**	387	165	552
101% – 120%	**633**	**292**	**925**	632	330	962
121% – 150%	**630**	**309**	**939**	640	383	1,023
Greater than 150%	**131**	**205**	**336**	151	266	417
Unsecured	**27**	**23**	**50**	27	27	54
Total forbearance	**3,890**	**1,593**	**5,483**	3,830	1,740	5,570

Negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 30 June 2015 reduced to 36% of the owner-occupier and 51% of the buy-to-let mortgages compared to 37% and 56% respectively at 31 December 2014, due primarily to the continued increase in property prices in 2015 and loan repayments.

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3.2 Additional credit risk information – Forbearance*

Non-mortgage

The following table analyses the movements in the stock of loans subject to forbearance in the Republic of Ireland (RBB & CIB segments) and the United Kingdom, excluding residential mortgages which are analysed on page 108:

				30 June 2015
Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	693	1,976	1,514	4,183
Additions	118	446	391	955
Expired arrangements	(142)	(166)	(273)	(581)
Closed accounts	(35)	(145)	(112)	(292)
Other movements	(12)	(38)	(28)	(78)
At end of period	622	2,073	1,492	4,187

				30 June 2015
United Kingdom	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	15	374	162	551
Additions	4	54	26	84
Expired arrangements	(1)	(97)	(36)	(134)
Closed accounts	–	(29)	(27)	(56)
Other movements	1	11	6	18
At end of period	19	313	131	463

				30 June 2015
Total	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	708	2,350	1,676	4,734
Additions	122	500	417	1,039
Expired arrangements	(143)	(263)	(309)	(715)
Closed accounts	(35)	(174)	(139)	(348)
Other movements	(11)	(27)	(22)	(60)
At end of period	641	2,386	1,623	4,650

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3.2 Additional credit risk information – Forbearance*

Non-mortgage

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

						30 June 2015
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	74	31	8	35	21	59
Reduced payment (greater than interest only)	11	7	–	4	2	62
Payment moratorium	29	26	–	3	2	59
Arrears capitalisation	29	2	2	25	12	45
Term extension	129	119	2	8	4	59
Fundamental restructure	32	31	–	1	–	53
Restructure	326	139	11	176	119	68
Other	11	7	1	3	2	52
Total	641	362	24	255	162	64
Property and construction						
Interest only	353	73	18	262	156	60
Reduced payment (greater than interest only)	28	13	–	15	6	42
Payment moratorium	12	9	–	3	2	71
Arrears capitalisation	37	7	–	30	14	48
Term extension	253	214	3	36	16	44
Fundamental restructure	958	949	4	5	2	38
Restructure	625	209	19	397	218	55
Other	120	56	2	62	37	58
Total	2,386	1,530	46	810	451	56
Non-property business						
Interest only	207	69	10	128	56	44
Reduced payment (greater than interest only)	41	22	3	16	9	55
Payment moratorium	33	10	–	23	13	56
Arrears capitalisation	50	10	2	38	30	80
Term extension	167	119	4	44	16	37
Fundamental restructure	284	279	1	4	2	56
Restructure	702	307	32	363	188	52
Other	139	61	3	75	11	15
Total	1,623	877	55	691	325	47
Total non-mortgage forbearance	4,650	2,769	125	1,756	938	53

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3.2 Additional credit risk information – Forbearance*

Non-mortgage

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

	31 December 2014					
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	67	29	9	29	19	66
Reduced payment						
(greater than interest only)	7	5	–	2	2	100
Payment moratorium	4	3	–	1	1	100
Arrears capitalisation	36	2	3	31	17	55
Term extension	105	98	2	5	2	40
Fundamental restructure	17	16	–	1	–	–
Restructure	462	262	16	184	129	70
Other	10	5	2	3	2	67
Total	708	420	32	256	172	67
Property and construction						
Interest only	455	119	11	325	166	51
Reduced payment						
(greater than interest only)	29	10	1	18	8	44
Payment moratorium	18	18	–	–	–	–
Arrears capitalisation	60	6	8	46	26	57
Term extension	294	240	7	47	16	34
Fundamental restructure	722	710	3	9	–	–
Restructure	663	202	16	445	279	63
Other	109	50	1	58	31	53
Total	2,350	1,355	47	948	526	55
Non-property business						
Interest only	198	87	8	103	50	49
Reduced payment						
(greater than interest only)	39	9	4	26	13	50
Payment moratorium	22	7	–	15	9	60
Arrears capitalisation	54	10	2	42	23	55
Term extension	172	120	7	45	12	27
Fundamental restructure	197	186	4	7	3	43
Restructure	874	457	34	383	232	61
Other	120	38	3	79	10	13
Total	1,676	914	62	700	352	50
Total non-mortgage forbearance	4,734	2,689	141	1,904	1,050	55

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The Group has developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties and who require a restructure. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. The approach is based on assessing the affordability level of the customer, and then applying asset based treatment strategies to determine the long term levels of sustainable and unsustainable debt. Further information on non-mortgage forbearance is included on pages 52 to 53.

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

As at 30 June 2015, non-mortgage loans reported as being subject to forbearance amounted to € 4.6 billion, of which € 1.8 billion is impaired with specific provision cover of 53%. The majority of these forborne loans are in the property and construction (€ 2.4 billion) and non-property business (€ 1.6 billion) sectors.

Within non-mortgage forbearance categories, 'Fundamental restructure' (€ 1.3 billion in total) includes long term solutions where customers have been through a full review, have proven sustainable cash flows/repayment capacity (through business cash flow and/or asset sales) and their debt has been restructured. Loans to borrowers that are fundamentally restructured typically result in the original loans together with any related impairment provision being derecognised and new facilities being classified as loans and receivables and recognised on day 1 at fair value ("main" and "secondary") and being graded as "vulnerable".

At the time the fundamental restructure is agreed, the size of the main facility reflects the estimated sustainable cash flows from the customer such that the main facility will be repaid in full. Since no further cash flows are expected on the secondary facilities, the fair value of secondary facilities at inception is considered immaterial. During the six months to 30 June 2015, approximately € 0.5 billion of main facilitates were recognised following the derecognition of c. € 1.3 billion of impaired loans with related impairment provisions of c. € 0.8 billion.

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

As part of its ongoing monitoring of fundamental restructure loans, AIB keeps under review the likelihood of any additional cash flows arising on the secondary facilities. There remains significant uncertainties involved in the crystallisation of future additional cash flows (in excess of the initial estimation) through asset sales over an extended period against a backdrop of a relatively illiquid property market (in the case of property-related lending) that would be applied to secondary facilities. In the case of other lending, additional cash flows materialising either through trading conditions or other sources of income are equally uncertain. As a result, income is only recognised when received. In this regard, income of € 17 million was recognised in the period to 30 June 2015 (€ 24 million in the full year 2014) and reported as 'Other Income' following receipt of additional payments.

At 30 June 2015, the carrying value of the main facilities in fundamental restructures, amounted to € 1.4 billion, including € 126 million under mortgages.

Main facilities that rely principally on the realisation of collateral (property assets held as security) are as follows:
- Buy-to-let € 126 million which have associated contractual secondary facilities of € 167 million.
- Property and construction € 958 million which have associated contractual secondary facilities of €1,519 million.

This is further broken down into:
  - Commercial real estate primary facilities of € 831 million which have associated contractual secondary facilities of € 964 million.
  - Land and development primary facilities of € 127 million which have associated contractual secondary facilities of € 555 million.

Non-property business lending and other personal lending where fundamental restructures have been granted amount to € 316 million which have associated secondary facilities of € 473 million.

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The 'Restructure' category (€ 1.7 billion) includes some longer term/permanent solutions where the existing customer debt was deemed to be sustainable post restructuring. The solutions offered include interest only with asset disposal or bullet/fixed payment, debt consolidation, amongst others. This category also includes cases which were restructured prior to the current treatment strategies being developed. Some of these cases may yet qualify for a 'Fundamental restructure' following a full review of sustainable repayment capacity.

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

During the period there has been no material change in the stock of forborne non-mortgage loans with new forborne borrowers (€ 1 billion) being offset by reductions due to expired and closed forbearance arrangements and repayments.

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3.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

Risk identification and assessment

Liquidity risk is assessed by modelling cash flows of the Group over a series of maturity bands. Behavioural assumptions are applied to those assets and liabilities whose contractual repayment dates are not reflective of their inherent stability. Both contractual and behaviourally adjusted cash flows are compared against the Group's stock of unencumbered liquid assets to determine, by maturity bands, the adequacy of the Group's liquidity position. In addition, the Group monitors and manages the funding support provided by its deposit base to its loan portfolio through a series of measures including the CRD IV related liquidity ratios i.e. the Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") as required by the 2013 Capital Requirements Regulation ("CRR") and the Capital Requirements Directive ("CRD") and ultimately the LCR as required by the published European Commission Delegated Regulation ("the Delegated Act") to supplement the CRR and which is scheduled to come into force on 1 October 2015.

Risk management and mitigation

AIB has a comprehensive Funding and Liquidity Framework for managing the Group's liquidity risk. The Funding and Liquidity Framework is designed to comply with evolving regulatory standards and ensure that the Group maintains sufficient financial resources of appropriate quality for the Group's funding profile. The Funding and Liquidity Framework is delivered through a combination of policy formation, review and governance, analysis, stress testing and limit setting and monitoring.

In addition to the CRR liquidity requirements, the Group's liquidity management policy seeks to ensure AIB's compliance with the "Principles for the Sound Liquidity Risk Management and Supervision" as set out by the Basel Committee on Banking Supervision (September 2008) and the Central Bank of Ireland's ("CBI") "Requirements for the Management of Liquidity Risk" (June 2009) and in doing so ensures that it has sufficient liquidity to meet its current and forecasted requirements. AIB is required to comply with the liquidity requirements of the Single Supervisory Mechanism ("SSM")/CBI and also with the requirements of local overseas regulators which include regulatory restrictions on the transfer of liquidity within the Group. In addition, it operates a funding strategy designed to anticipate additional funding requirements based on projected balance sheet movements and to maintain a diversified funding base with an emphasis on high quality, stable customer deposit funding whilst maintaining an appropriate balance between short term and long term funding sources at an appropriate cost.

The liquidity and funding requirements of the Group are managed and controlled by the Treasury function. Euro and sterling are the most important currencies to the Group from a liquidity and funding perspective. The Group manages its liquidity in a number of ways:

– firstly, through the active management of its liability maturity profile, it aims to ensure a balanced spread of repayment obligations with a key focus on 0 – 8 day and 9 day – 1 month time periods. Monitoring ratios also apply to longer periods for long term funding stability;
– secondly, the Group aims to maintain a stock of high quality liquid assets to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalence and price sensitivity; and
– finally, net inflows and outflows are monitored on a daily basis.

Risk monitoring and reporting*

In common with other areas of risk management, the Group operates a "three lines of defence" model. Liquidity Risk management is undertaken in the Treasury function which reports to the Director of Corporate and Institutional Banking. Management in this area comprises the first line of defence. Reporting and monitoring is carried out by the Capital and Liquidity unit which reports to the Chief Financial Officer ("CFO"). Control and assurance is provided by Financial Risk reporting to the Chief Risk Officer ("CRO"). These areas comprise the second line. Group Internal Audit comprises the third line. The Group liquidity and funding position is reported regularly to Group Asset and Liability Committee ("ALCo"), the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC"). In addition, the Leadership Team and the Board are briefed on liquidity and funding on an on-going basis.

*Forms an integral part of the audited financial statements

3.3 Liquidity risk

At 30 June 2015, the Group held € 38 billion (31 December 2014: € 40 billion) in qualifying liquid assets/contingent funding (including € 4 billion in liquid assets only available for use within the UK) of which approximately € 17 billion was not available due to repurchase, secured loan and other agreements. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 30 June 2015, the Group liquidity pool was € 17 billion (31 December 2014: € 17 billion). During the first six months of 2015 the month-end liquidity pool ranged from € 15 billion to € 18 billion and the average balance was € 16 billion.

Composition of the Group liquidity pool

	30 June 2015*			
			Liquidity pool of which LCR eligible[1]	
	Liquidity pool[1] € bn	Liquidity pool available (ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	**0.3**	**–**	**2.8**	**–**
Total government bonds	**4.6**	**4.6**	**4.6**	**–**
Other				
Covered bonds	**0.4**	**0.4**	**0.4**	**–**
Agencies and agency mortgage-backed securities	**–**	**–**	**–**	**–**
Other including NAMA senior bonds	**11.3**	**11.3**	**7.2**	**–**
Total other	**11.7**	**11.7**	**7.6**	**–**
Total	**16.6**	**16.3**	**15.0**	**–**

	31 December 2014*			
			Liquidity pool of which Basel III LCR eligible	
	Liquidity pool[1] € bn	Liquidity pool available (ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	0.9	–	2.9	–
Total government bonds	4.5	4.5	4.5	–
Other				
Agencies and agency mortgage-backed securities	–	–	–	–
Other including NAMA senior bonds	11.4	11.3	7.5	–
Total other	11.4	11.3	7.5	–
Total	16.8	15.8	14.9	–

[1]Basis of calculation for LCR differs to the Group's basis.

Liquidity pool by currency

	EUR € bn	GBP € bn	USD € bn	Other € bn	Total € bn
Liquidity pool at 30 June 2015	**16.5**	**–**	**0.1**	**–**	**16.6**
Liquidity pool at 31 December 2014	16.7	–	0.1	–	16.8

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

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

The above definitions are based on the CRR. The Delegated Act comes into force in October 2015 and contains some changes in relation to qualifying liquid assets.

Management of the Group liquidity pool*

AIB manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the independent Risk functions. These pool assets primarily comprise government guaranteed bonds. AIB's liquidity buffer decreased in the first six months of 2015 by € 0.2 billion. The reduction was predominantly due to € 2.2 billion of unsecured debt maturing in the first quarter of 2015 that was largely offset by € 1.25 billion wholesale issuance and an increase of € 0.5 billion in retained mortgage bank bonds held centrally.

*Forms an integral part of the audited financial statements

3.3 Liquidity risk*

Other contingent liquidity*

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

Liquidity regulation

AIB Group is required to comply with the liquidity requirements of the SSM (CBI prior to November 2014) and also with the requirements of local regulators in jurisdictions in which it operates.

The Group also monitors and reports its current and forecast position against Basel III and CRD IV related liquidity metrics – the LCR and the NSFR. The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

The minimum LCR requirement is to be introduced in October 2015 at 60%, rising to 100% by January 2018. The minimum NSFR requirement is scheduled to be introduced in January 2018 at 100%. Based on the current regulatory LCR rules, as at 30 June 2015, AIB had an LCR of c.117% (31 December 2014: c.116%). At 30 June 2015, the Group had an estimated NSFR of c.111% (31 December 2014: c.112%). The Group has adopted a prudent approach to the LCR calculation in the observation period(1).

Based on revised Basel standards and their EU implementation through CRD IV and ultimately the Delegated Act, AIB is set to comply with these ratios.

(1)The period from 31 March 2014 to 1 October 2015, when the 60% minimum LCR is effective, will be used by the SSM/CBI as an observation period during which time the SSM/CBI will monitor reporting institutions' convergence towards the minimum standard.

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3.3 Liquidity risk

The LCR table below has been produced in line with the Group's interpretation of the 2014 Basel Committee on Banking Supervision ("BCBS") Guidelines. All figures included in the table are averages of the 6 month ends from January to June 2015.

		Half-year to 30 June 2015
	Total unweighted value (average) € m	Total weighted value (average) € m
High Quality Liquid Assets ("HQLA")		
Total HQLA		15,193
Cash outflows		
Retail deposits and deposits from small business customers, of which:		
Stable deposits	19,301	965
Less stable deposits	10,362	1,644
Unsecured wholsale funding of which:		
Operational deposits (all counterparties) and deposits in networks of cooperative banks	8,959	4,357
Non-operational deposits (all counterparties)	6,416	3,524
Unsecured debt	564	564
Secured wholesale funding		534
Additional requirements, of which:		
Outflows related to derivataive exposures and other collateral requirements	557	557
Outflows related to loss of funding on debt products	12	12
Credit and liquidity facilities	9,211	801
Other contractual funding obligations	–	–
Other contingent funding obligations	1,372	1,372
Total cash outflows		14,330
Cash inflows		
Secured lending (reverse repos)	1,230	43
Inflows from fully performing exposures	2,128	838
Other cash inflows	210	210
Total cash inflows	3,658	1,091
Total HQLA		15,193
Total net cash outflows		13,239
Liquidity coverage ratio		115%*

The month-end LCR ranged from 109% to 125% in the first six months of 2015 being 117% as at 30 June 2015. Key drivers of the changes in the period included new debt issuance in January and debt maturities in March.

*LCR = Total HQLA/total net cash outflows.

3.3 Liquidity risk

Liquidity risk stress testing

Stress testing is a key component of the liquidity risk management framework. The Group undertakes liquidity stress testing and has established the Liquidity Contingency Plan ("LCP") which is designed to ensure that the Group can manage its business in stressed liquidity conditions and emerge from a temporary liquidity crisis as a creditworthy institution. The LCP is determined with reference to net contractual and contingent outflows under a variety of stress scenarios and is used to size liquidity pool requirements.

Stress tests include both firm-specific and systemic risk events and a combination of both. Stressed assumptions are applied to the Group's liquidity buffer and liquidity risk drivers. These scenario events are reviewed in the context of the Group's LCP, which details corrective action options under various levels of stress events. European Banking Authority ("EBA") prescribed stress scenarios are also measured. A stress scenario for one month of stress is measured which assumes outflows consistent with a firm-specific stress for the first two weeks of the stress period, followed by relatively lower outflows consistent with a market-wide stress for the remainder of the stress period. Survival periods of various durations are measured as part of liquidity stress testing.

The purpose of these tests is to ensure the continued stability of the Group's liquidity position, within the Group's pre-defined liquidity risk tolerance levels. These results are reported to the ALCo, Leadership Team and Board, and to other committees. Once Board approved survival limits are breached, the LCP will be activated. The LCP can also be activated by management decision independently of the stress tests.

Under normal market conditions, the liquidity pool is managed to be at least 100% of anticipated net outflows under each of the stress scenarios.

3.3 Liquidity risk*

Regulatory liquidity stress tests comparison

The LCP stress scenarios, including the EBA prescribed stress scenarios and CRD IV LCR, are all broadly comparable short term stress scenarios in which the adequacy of defined liquidity resources are assessed against contractual and contingent stress outflows. The EBA stress scenarios and the Basel III/CRD IV related ratios provide an independent assessment of the Group's liquidity risk profile.

Stress test	EBA liquidity stress	LCR	NSFR
Time horizon	1 month to 1 year	30 days	1 year
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Stable funding resources to stable funding requirements

At 30 June 2015, the Group held liquid assets in excess of minimum required levels for internal stress measurement purposes and the CRD IV LCR requirement. Internal stress testing also considers stress periods of between 1 month and 1 year, breaches of which would trigger the LCP.

Compliance with regulatory stress tests

Liquidity pool as a percentage of anticipated net cash flows	30 June 2015 %	31 December 2014 %
Liquidity holding as a % of one month stress requirement	**206**	182
CRD IV LCR	**117**	116

Funding structure*

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

Sources of funds	30 June 2015 € bn	30 June 2015 %	31 December 2014 € bn	31 December 2014 %
Customer accounts	**64.5**	**64**	64.0	63
Deposits by central banks and banks – secured	**15.8**	**15**	16.4	16
– unsecured	**0.3**	**–**	0.4	–
Asset covered securities ("ACS")	**4.5**	**4**	3.8	4
Asset backed securities ("ABS")	**0.7**	**1**	0.8	1
Senior debt	**1.6**	**2**	3.3	3
Capital	**13.8**	**14**	13.0	13
Total source of funds	**101.2**	**100**	101.7	100
Other	**5.5**		5.8	
	106.7		107.5	

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3.3 Liquidity risk

Funding structure* *(continued)*

Customer accounts

The following table analyses average deposits by customers:

	Half-year to 30 June 2015 Total € m	Year to 31 December 2014 Total € m
Current accounts	22,539	19,710
Deposits:		
Demand	10,737	9,504
Time	29,022	31,032
Repurchase agreements	1,651	4,890
Total	63,949	65,136

Current accounts include both interest bearing and non-interest bearing cheque accounts raised through the Group's branch network in the Republic of Ireland, Northern Ireland and Great Britain.

Demand deposits attract interest rates which vary from time to time in line with movements in market rates and according to size criteria. Such accounts are not subject to withdrawal by cheque or similar instrument and have no fixed maturity dates.

Time deposits are generally larger, attract higher rates of interest than demand deposits and have predetermined maturity dates.

Customer accounts by currency

The following table analyses customer deposits by currency:

	30 June 2015 Total € m	31 December 2014 Total € m
Euro	49,490	50,245
US dollar	1,366	1,212
Sterling	13,510	12,458
Other currencies	105	103
Total	64,471	64,018

Customer deposits represent the largest source of funding for the Group, and the core retail franchises and accompanying deposit base in both the Republic of Ireland and the UK provide a stable and reasonably predictable source of funds. Customer accounts have increased by € 0.5 billion in the first six months of 2015, which was largely related to foreign exchange rate movements as the euro value of sterling deposits increased. The Group's loan to deposit ratio at 30 June 2015 was 99% (31 December 2014: 99%).

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

The Group participates in CBI/ECB operations, the funding from which amounted to € 3.3 billion at 30 June 2015 (31 December 2014: €3.4 billion). Included in the €3.3 billion is €1.9 billion of Targeted Longer-Term Refinancing Operations ("TLTRO") to lock in low cost term funding that benefits the Group's NSFR. CBI/ECB funding levels have returned to normalised operating levels compared to "Central Bank support" levels experienced prior to 2014.

Wholesale funding markets have shown positive sentiment towards both AIB and Ireland in the first half of the year, although market conditions tightened as a result of developments in Greece. In the first six months of 2015 AIB raised secured funding through a € 750 million covered bond issuance and unsecured funding through a € 500 million medium term note against a backdrop where c. € 2.2 billion of unsecured issued debt matured in the first quarter of 2015. These were issued at spreads over mid-swaps of 27 bps and 108 bps respectively, a price reduction of 60-70 bps compared to equivalent issuances in 2014. Notwithstanding this net reduction in term wholesale funding, CBI/ECB drawings remained largely flat. This was predominantly due to continued balance sheet deleveraging as a result of NAMA senior bond redemptions.

Senior debt funding of € 1.6 billion at 30 June 2015 decreased from € 3.3 billion at 31 December 2014. This was due to € 2.2 billion of senior debt maturities in the first quarter of 2015 which was offset by the € 0.5 billion issuance outlined above.

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3.3 Liquidity risk

Funding structure* *(continued)*

The Group continues to engage with the markets in a measured and consistent manner extending the duration of funding transactions.

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

Composition of wholesale funding*

At 30 June 2015, total wholesale funding outstanding was € 24 billion (31 December 2014: € 26 billion). € 14 billion of wholesale funding matures in less than one year (2014: € 17 billion). € 10 billion of wholesale funding had a residual maturity of over one year (31 December 2014: € 9 billion), including € 1.9 billion of TLTRO drawings (2014: € 1.9 billion).

Outstanding wholesale funding comprised € 21 billion of secured funding (31 December 2014: € 21 billion) and € 3 billion of unsecured funding (31 December 2014: € 5 billion).

							30 June 2015
	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Total over 1 year € bn	Total € bn
Deposits by central banks and banks	6.4	7.2	0.3	–	13.9	2.2	16.1
Senior debt	–	–	–	–	–	1.6	1.6
ACS/ABS	–	–	0.5	–	0.5	4.7	5.2
Subordinated liabilities and other capital instruments	–	–	–	–	–	1.5	1.5
Total 30 June 2015	6.4	7.2	0.8	–	14.4	10.0	24.4
Of which:							
Secured	6.1	7.1	0.8	–	14.0	6.9	20.9
Unsecured	0.3	0.1	–	–	0.4	3.1	3.5
	6.4	7.2	0.8	–	14.4	10.0	24.4

							31 December 2014
	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Total over 1 year € bn	Total € bn
Deposits by central banks and banks	9.9	4.6	–	–	14.5	2.3	16.8
Senior debt	–	2.2	–	–	2.2	1.1	3.3
ACS/ABS	–	–	–	0.6	0.6	4.0	4.6
Subordinated liabilities and other capital instruments	–	–	–	–	–	1.4	1.4
Total 31 December 2014	9.9	6.8	–	0.6	17.3	8.8	26.1
Of which:							
Secured	9.5	4.6	–	0.6	14.7	6.4	21.1
Unsecured	0.4	2.2	–	–	2.6	2.4	5.0
	9.9	6.8	–	0.6	17.3	8.8	26.1

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3.3 Liquidity risk

Currency composition of wholesale debt*

At 30 June 2015, 99% (31 December 2014: 99%) of wholesale funding was in euro. A negligible balance was held in other currencies, mainly GBP and USD. AIB manages cross-currency refinancing risk to foreign-exchange cash-flow limits.

Encumbrance*

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

The ability to encumber certain pools of assets is a key element of the Group's funding and liquidity strategy. In particular, encumbrance through the repo markets plays an important role in funding the Group's NAMA senior bonds and financial investments available for sale portfolios. The funding of customer loans is also supported through the issuance of covered bonds and securitisations. Other lesser sources of encumbrance include cash placed, mainly with banks, in respect of derivative liabilities, sterling notes and coins issued and loan collateral pledged in support of pension liabilities in AIB Group (UK) p.l.c..

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

The following tables analyse total assets by (1) encumbered assets and (2) unencumbered assets:

			30 June 2015	
			Unencumbered assets	
	Assets	**Encumbered assets**	**Readily available**	**Other**
	€ m	**€ m**	**€ m**	**€ m**
Loans and receivables to banks	**3,363**	**2,009**	**86**	**1,268**
Loans and receivables to customers	**63,778**	**12,617**	**11,207**	**39,954**
NAMA senior bonds	**7,522**	**250**	**7,272**	**–**
Financial investments available for sale:				
Debt securities	**19,369**	**13,714**	**5,655**	**–**
Equity securities	**459**	**–**	**–**	**459**
Other	**12,249**	**131**	**2,669**	**9,449**
Total	**106,740**	**28,721**	**26,889**	**51,130**

			31 December 2014	
			Unencumbered assets	
	Assets	Encumbered assets	Readily available	Other
	€ m	€ m	€ m	€ m
Loans and receivables to banks	1,865	1,727	138	–
Loans and receivables to customers	63,362	11,102	13,523	38,737
NAMA senior bonds	9,423	1,405	8,018	–
Financial investments available for sale:				
Debt securities	19,772	14,893	4,879	–
Equity securities	413	–	–	413
Other	12,620	175	2,650	9,795
Total	107,455	29,302	29,208	48,945

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3.3 Liquidity risk

Encumbrance* *(continued)*

The Group had an encumbrance ratio of 27% at 30 June 2015 (31 December 2014: 27%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility. At 30 June 2015 €11,207 million of residential loan mortgages included in 'Loans and receivables to customers' are unencumbered but are regarded by the Group as readily available as they are held in covered bond and securitisation structures (31 December 2014: € 13,523 million). The remaining loan assets in this category € 39,954 million, whilst unencumbered, are not regarded as being available in support of liquidity management at present (31 December 2014: € 38,737 million). Other assets such as deferred tax assets, derivative assets, property, plant and equipment are not regarded as encumberable.

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3.3 Liquidity risk

Encumbrance* *(continued)*

Asset encumbrance of loans and receivables to customers

Loans and receivables to customers are only classified as readily available if they are already in a form such that they can be used to raise funding without further management actions. This includes excess collateral already in secured funding vehicles and collateral pre-positioned at central banks and available for use in secured financing transactions. All other loans and receivables are conservatively classified as not readily available, however, a proportion would be suitable for use in secured funding structures, this portion increasing as economic conditions improve and as the Group restructures its stressed loan assets.

The following table analyses the asset encumbrance of loans and receivables to customers:

				30 June 2015
	Assets	Externally issued notes	Other secured funding	Retained notes
	€ bn	€ bn	€ bn	€ bn
Mortgages (residential mortgage backed securities)	22.4	5.2	3.7	4.3
Retail and SME (credit card issuance)	0.3	–	0.2	–
Other	1.1	–	–	–
Total	**23.8**	**5.2**	**3.9**	**4.3**

				31 December 2014
	Assets	Externally issued notes	Other secured funding	Retained notes
	€ bn	€ bn	€ bn	€ bn
Mortgages (residential mortgage backed securities)	23.3	4.5	3.1	4.3
Retail and SME (credit card issuance)	0.3	–	0.2	–
Other	1.0	–	–	–
Total	24.6	4.5	3.3	4.3

AIB issues asset backed securities (“ABS”), covered bonds and other similar secured instruments that are secured primarily over customer loans and receivables. Notes issued under these programmes are also used in repurchase agreements with market counterparties and in central bank facilities.

In addition to securities already in issue, at 30 June 2015, the Group had excess collateral within its asset backed funding programmes that could readily be used to issue additional bonds of € 2.3 billion (31 December 2014: € 3.8 billion).

Firm financing repurchase agreements

The following table analyses the firm financing repurchase agreements:

				30 June 2015				31 December 2014
	Less than 1 month	1 month to 3 months	Over 3 months	Total	Less than 1 month	1 month to 3 months	Over 3 months	Total
	€ bn	€ bn	€ bn	€ bn	€ bn	€ bn	€ bn	€ bn
Maturity profile	8	7	2	17	10	5	3	18

Credit ratings

The Group’s debt ratings as at 31 July 2015 for all debt/deposits not covered by the ELG scheme are as follows:

- S&P long-term "BB+" and short-term "B";
- Fitch long-term "BB" and short-term "B"; and
- Moody's long-term "Ba1" for deposits and "Ba2" for senior unsecured debt and short-term "Not Prime" for deposits and senior unsecured debt.

Bank and sovereign rating downgrades have the potential to adversely affect the Group’s liquidity position and this has been factored into the Group’s stress tests.

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3.3 Liquidity risk

Financial assets and financial liabilities by contractual residual maturity*

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
30 June 2015	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Trading portfolio financial assets[(1)(2)]	–	–	–	229	120	349
Derivative financial instruments[(3)]	–	58	107	681	860	1,706
Loans and receivables to banks[(4)]	2,129	1,233	1	–	–	3,363
Loans and receivables to customers[(4)]	20,638	626	3,084	11,377	37,610	73,335
NAMA senior bonds[(5)]	–	–	7,522	–	–	7,522
Financial investments available for sale[(2)]	2	–	899	11,820	6,648	19,369
Other financial assets	–	460	–	–	–	460
	22,769	2,377	11,613	24,107	45,238	106,104
Financial liabilities						
Deposits by central banks and banks	191	13,763	–	2,109	–	16,063
Customer accounts	35,314	15,729	9,883	3,494	51	64,471
Trading portfolio financial liabilities	–	–	78	187	104	369
Derivative financial instruments[(3)]	–	168	204	849	1,079	2,300
Debt securities in issue	–	93	500	4,462	1,761	6,816
Subordinated liabilities and other capital instruments	–	–	–	1,466	45	1,511
Other financial liabilities	603	–	–	–	–	603
	36,108	29,753	10,665	12,567	3,040	92,133

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
31 December 2014	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Derivative financial instruments[(3)]	–	23	75	820	1,120	2,038
Loans and receivables to banks[(4)]	1,828	37	–	–	–	1,865
Loans and receivables to customers[(4)]	25,078	873	3,212	9,624	37,045	75,832
NAMA senior bonds[(5)]	–	9,423	–	–	–	9,423
Financial investments available for sale[(2)]	3	226	278	11,678	7,587	19,772
Other financial assets	–	499	–	–	–	499
	26,909	11,081	3,565	22,122	45,752	109,429
Financial liabilities						
Deposits by central banks and banks	366	14,151	–	2,251	–	16,768
Customer accounts	31,678	16,779	10,895	4,665	1	64,018
Derivative financial instruments[(3)]	–	131	156	806	1,241	2,334
Debt securities in issue	–	2,241	548	3,972	1,100	7,861
Subordinated liabilities and other capital instruments	–	–	–	1,411	40	1,451
Other financial liabilities	443	3	–	–	–	446
	32,487	33,305	11,599	13,105	2,382	92,878

[(1)]Trading portfolio financial assets and liabilities are shown in the above table based on their contractual maturity. However, in the 'Undiscounted contractual maturity' table trading portfolio financial liabilities are shown in the 'on demand' bucket reflecting their nature.
[(2)]Excluding equity shares.
[(3)]Shown by maturity date of contract.
[(4)]Shown gross of provisions for impairment, unearned income and deferred costs.
[(5)]New notes will be issued at each maturity date, with the next maturity date being 1 March 2016. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

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3.3 Liquidity risk

Financial liabilities by undiscounted contractual maturity*

The balances in the table below include the undiscounted cash flows relating to principal and interest on financial liabilities and as such will not agree directly with the balances on the consolidated statement of financial position. All derivative financial instruments have been analysed based on their contractual maturity undiscounted cash flows.

In the daily management of liquidity risk, the Group adjusts the contractual outflows on customer deposits to reflect the inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, the Group holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity:

						30 June 2015
	Repayable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial liabilities						
Deposits by central banks and banks	**191**	**13,766**	**5**	**2,115**	**–**	**16,077**
Customer accounts	**35,325**	**15,840**	**10,040**	**3,720**	**52**	**64,977**
Trading portfolio financial liabilities[(1)]	**369**	**–**	**–**	**–**	**–**	**369**
Derivative financial instruments	**–**	**176**	**457**	**1,091**	**663**	**2,387**
Debt securities in issue	**–**	**126**	**665**	**4,769**	**1,794**	**7,354**
Subordinated liabilities and other capital instruments	**–**	**160**	**–**	**1,761**	**138**	**2,059**
Other financial liabilities	**603**	**–**	**–**	**–**	**–**	**603**
	36,488	**30,068**	**11,167**	**13,456**	**2,647**	**93,826**

						31 December 2014
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	366	14,156	7	2,260	–	16,789
Customer accounts	31,678	16,961	11,070	4,931	1	64,641
Derivative financial instruments	–	139	415	1,161	721	2,436
Debt securities in issue	–	2,342	726	4,328	1,136	8,532
Subordinated liabilities and other capital instruments	–	–	160	1,761	128	2,049
Other financial liabilities	443	3	–	–	–	446
	32,487	33,601	12,378	14,441	1,986	94,893

[(1)]Shown as 'on demand' reflecting their nature but by contractual maturity in the 'Financial assets and financial liabilities by contractual residual maturity' table.

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3.3 Liquidity risk

Financial liabilities by undiscounted contractual maturity* *(continued)*

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date the facilities can be called. The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Group expects that most guarantees it provides will expire unused.

The Group has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Group does not expect all facilities to be drawn, and some may lapse before drawdown.

						30 June 2015
	Payable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Contingent liabilities	**1,136**	**–**	**–**	**–**	**–**	**1,136**
Commitments	**9,642**	**–**	**–**	**–**	**–**	**9,642**
	10,778	**–**	**–**	**–**	**–**	**10,778**

						31 December 2014
	Payable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	1,246	–	–	–	–	1,246
Commitments	9,082	–	–	–	–	9,082
	10,328	–	–	–	–	10,328

*Forms an integral part of the audited financial statements

3.4 Market risk*

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Group. The Group is primarily exposed to market risk through the interest rate and credit spread factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors.

The Group assumes market risk as a result of its banking book and trading book activities.

Credit spread risk is the exposure of the Group's financial position to adverse movements in the credit spreads of bonds held in the trading or available for sale ("AFS") securities portfolio. Credit spreads are defined as the difference between bond yields and interest rate swap rates of equivalent maturity. The AFS bond portfolio is the principal source of credit spread risk.

Interest rate risk in the banking book ("IRRBB") is the current or prospective risk to both the earnings and capital of the Group as a result of adverse movements in interest rates being applied to positions held in the banking book. Changes in interest rates impact the underlying value of the Group's assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact the Group's net interest income (NII) through interest-sensitive income and expense effects.

The Group also assumes market risk through its trading book activities which relate to all positions in financial instruments (principally derivatives) that are held with trading intent or in order to hedge positions held with trading intent. Risks associated with valuation adjustments such as credit value adjustment ("CVA") and funding value adjustment ("FVA") are managed by the trading unit in the Group's treasury function.

The Group's treasury function is responsible for managing market risk that has been transferred to it by the customer facing businesses and the Group's Asset and Liability Management ("ALM") function. Treasury also has a mandate to trade on its own account in selected wholesale markets. The trading strategies employed by Treasury are desk and market specific with risk tolerances approved on an annual basis through the Group's Risk Appetite Statement.

Risk identification and assessment

Market risk is identified and assessed using portfolio sensitivities, Value at Risk ("VaR") and stress testing. Interest rate gaps and sensitivities to various risk factors are measured and reported on a daily basis. In terms of the industry standard VaR metric, the Group calculates a daily historical simulation VaR to a 95% confidence level, using a one day holding period and based on one year of historic data. The Group's VaR models are regularly back-tested to ensure robustness. VaR is augmented using stressed measures where various portfolios are revalued using a range of severe but plausible market rate scenarios under alternative measurement approaches and holding periods.

The Group Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and advises the Chief Financial Officer ("CFO") on the management of the Group's assets and liabilities (including the management of capital, funding and liquidity, and net interest margin) and on the management of market risks (including structural foreign exchange hedging). ALCo monitors the Group's IRRBB and approves relevant policies, limits, behavioural assumptions and the Market Risk Strategy and Appetite Statement.

The Group's Capital and Liquidity unit, reporting to the CFO, is responsible for identifying, measuring, monitoring and reporting the Group's aggregate market risk profile and managing the Group's financial instruments valuation processes, in addition to estimating the level of capital required to support market risks.

The Financial Risk function, reporting to the Chief Risk Officer ("CRO"), is responsible for exercising independent risk oversight and control over the Group's market risk. In particular, Financial Risk provides oversight on the integrity and effectiveness of the risk and control environment. It proposes and maintains the Market Risk Management Framework and Policies as the basis of the Group's control architecture for market risk activities, including the annual agreement of market risk limits (subject to the Board approved Risk Appetite Statement). The Financial Risk function is also responsible for the integrity of the market risk measurement methodologies.

*Forms an integral part of the audited financial statements

3.4 Market risk*

Risk management and mitigation

Market risk in the Group is transferred to and managed by Treasury, subject to Capital and Liquidity review and oversight by the Group ALCo. Treasury proactively manages the market risk on the Group's balance sheet, as well as providing risk management solutions to the core retail and corporate customers. Within Treasury, credit spread risk on the AFS portfolio, IRRBB and trading risk are managed by distinct front office teams.

Market risk is managed against a range of limits approved at ALCo, which incorporate forward-looking measures such as VaR limits and stress test limits and financial measures such as stop loss and embedded value limits. Treasury documents an annual Risk Strategy and Appetite statement as part of the annual financial planning cycle which ensures Treasury's market risk aligns with the Group's strategic business plan.

Market risk is managed subject to the Market Risk Management Framework and its associated policies. Credit risk issues inherent in the market risk portfolios are also subject to the credit risk framework that was described in the previous section.

Risk monitoring and reporting

Quantitative and qualitative information is used at all levels of the organisation, up to and including the Board, to identify, assess and respond to market risk. The actual format and frequency of risk reporting depends on the audience and purpose and ranges from transaction-level control and activity reporting to enterprise level risk profiles. For example, front office and risk functions receive the full range of daily control and activity, valuation, sensitivity and risk measurement reports, while ALCo receives a monthly market risk commentary and summary risk profile.

Market risk exposures are reported to the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC") on a monthly basis through the CRO Report.

*Forms an integral part of the audited financial statements

3.4 Market risk*

The following table sets out the allocation of financial assets and financial liabilities subject to market risk between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed:

30 June 2015

		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	5,231	–	5,231	Interest rate
Trading portfolio financial assets	350	350	–	Interest rate, credit spreads
Derivative financial instruments	1,706	987	719	Interest rate, foreign exchange, credit spreads
Loans and receivables to banks	3,363	–	3,363	Interest rate
Loans and receivables to customers	63,778	–	63,778	Interest rate
NAMA senior bonds	7,522	–	7,522	Interest rate
Financial investments available for sale	19,828	–	19,828	Interest rate, credit spreads
Liabilities subject to market risk				
Deposits by central banks and banks	16,063	–	16,063	Interest rate
Customer accounts	64,471	–	64,471	Interest rate
Trading portfolio financial liabilities	369	369	–	Interest rate, credit spreads
Derivative financial instruments	2,300	1,108	1,192	Interest rate, foreign exchange, credit spreads
Debt securities in issue	6,816	–	6,816	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	1,511	–	1,511	Interest rate, credit spreads

31 December 2014

		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	5,393	–	5,393	Interest rate
Trading portfolio financial assets	1	1	–	Interest rate, credit spreads
Derivative financial instruments	2,038	1,024	1,014	Interest rate, foreign exchange, credit spreads
Loans and receivables to banks	1,865	–	1,865	Interest rate
Loans and receivables to customers	63,362	–	63,362	Interest rate
NAMA senior bonds	9,423	–	9,423	Interest rate
Financial investments available for sale	20,185	–	20,185	Interest rate, credit spreads
Liabilities subject to market risk				
Deposits by central banks and banks	16,768	–	16,768	Interest rate
Customer accounts	64,018	–	64,018	Interest rate
Derivative financial instruments	2,334	1,150	1,184	Interest rate, foreign exchange, credit spreads
Debt securities in issue	7,861	–	7,861	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	1,451	–	1,451	Interest rate, credit spreads

For details of the interest rate risk gap position for non-trading portfolios refer to note 48 to the consolidated financial statements.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.4 Market risk*

Market risk profile

The table below shows the sensitivity of the Banking Book to a hypothetical immediate and sustained 100 basis point ("bp") movement in interest rates and the impact on net interest income over a twelve month period.

Sensitivity of projected net interest income to interest rate movements	30 June 2015 € m	31 December 2014 € m
+ 100 basis point parallel move in all interest rates	**87**	21
– 100 basis point parallel move in all interest rates	**(30)**	(25)

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously and in a parallel manner. Additionally, it is assumed that no management action is taken in response to the rate movements.

The following table summarises Treasury's VaR profile measured in terms of Value at Risk. For VaR measurement, AIB computes VaR using historical simulation to a 95% confidence level, with a 1-day holding period and a 1-year sample period. AIB recognises the limitations of this VaR model, in particular the one year history means that events that did not occur in the previous twelve months are not included in the set of events used to compute VaR. AIB supplements its VaR measures with stress tests which draw from a longer set of historical data and also with sensitivity and stop loss risk measures.

	VaR (trading book)		VaR (banking book)		Total VaR	
	30 June 2015 € m	31 December 2014 € m	30 June 2015 € m	31 December 2014 € m	30 June 2015 € m	31 December 2014 € m
Interest rate risk						
1 day holding period:						
Average	**0.3**	0.1	**2.3**	3.5	**2.3**	3.5
High	**0.5**	0.5	**3.5**	5.6	**3.6**	5.6
Low	**–**	–	**1.3**	1.2	**1.3**	1.2
At end of period	**0.4**	0.1	**3.1**	1.5	**3.3**	1.5

The following table sets out the VaR for foreign exchange rate and equity risk:

	Foreign exchange rate risk		Equity risk	
	VaR (trading book)		VaR (trading book)	
	30 June 2015 € m	31 December 2014 € m	30 June 2015 € m	31 December 2014 € m
1 day holding period:				
Average	**0.08**	0.04	**0.05**	0.05
High	**0.09**	0.10	**0.07**	0.11
Low	**0.06**	0.02	**0.03**	0.02
At end of period	**0.09**	0.03	**0.03**	0.02

The modest VaR position during 2015 is explained by the very low levels of open risk being run in Treasury across interest rate, foreign exchange and equity positions. In particular, the lower interest rate VaR in 2015 reflects a relatively restrained strategic interest rate risk-taking stance revealing a market view that re-investment should command a higher interest rate re-entry point.

*Forms an integral part of the audited financial statements

Business review
Risk management
Financial statements
General information

3.5 Operational risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad canvas of individual risk types which include information technology, business continuity, health and safety risks, and legal risk.

Operational risk operating model

AIB's operating model for operational risk is designed to ensure the framework outlined below is embedded and executed robustly across the Group. The key principles of the model are:

– A strong operational risk function, appropriately staffed and clearly independent of the first line of defence; and
– Technology in place to support assessment and mitigation of operational risks.

Risk identification and assessment

Risk and Control Self-Assessment ('self-assessment') is a core process in the identification and assessment of operational risk across the enterprise. The process serves to ensure that key operational risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. Self-assessment of risks is completed at business unit level and these are incorporated into the Operational Risk Self Assessment Risk template ("SART") for the business unit. SARTs are regularly reviewed and updated by business unit management. A materiality matrix is in place to enable the scaling of risks and plans must be developed to introduce mitigants for the more significant risks. Monitoring processes are in place at business and support level and a central Operational Risk Team undertakes risk based reviews to ensure the completeness and robustness of each business unit's self-assessment, and that appropriate attention is given to the more significant risks.

Risk management and mitigation

Each business area is primarily responsible for managing its own operational risks. An overarching Operational Risk Management ("ORM") framework is in place, designed to establish an effective and consistent approach to operational risk management across the enterprise. The ORM framework is also supported by a range of specific policies addressing issues such as information security and continuity and resilience.

An important element of the Group's operational risk management framework is the on-going monitoring through self-assessment of risks, control deficiencies and weaknesses, including the tracking of incidents and loss events. The role of Operational Risk is to review operational risk management activities across the Group including setting policy and promoting best practice disciplines, augmented by an independent assurance process.

The Group requires all business areas to undertake risk assessments and establish appropriate internal controls in order to ensure that all components, taken together, deliver the control objectives of key risk management processes. In addition, an insurance programme is in place, including a self insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; directors and officers liability) and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability and personal accident.

Risk monitoring and reporting

The primary objective of the operational risk management reporting and control process within the Group is to provide timely, pertinent operational risk information to the appropriate management level so as to enable appropriate corrective action to be taken and to resolve material incidents which have already occurred. A secondary objective is to provide a trend analysis on operational risk and incident data for the Group. The reporting of operational incidents and trend data, as required, at the Executive Risk and Board Risk Committees supports these two objectives. In addition, the Board, Group Audit Committee and the Executive Risk Committee receive summary information on significant operational incidents on a regular basis.

Business units are required to review and update their assessment of their operational risks on a regular basis. Operational risk teams undertake review and challenge assessments of the business unit risk assessments. In addition, quality assurance teams, which are independent of the business, undertake reviews of the operational controls in the retail branch networks as part of a combined regulatory/compliance/operational risk programme.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.6 Regulatory compliance risk*

Regulatory compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which the Group may suffer as a result of failure to comply with all applicable laws, regulations, rules, standards and codes of conduct applicable to its activities.

Regulatory Compliance is an enterprise-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising in each of the Group's operating markets. Regulatory Compliance work closely with management in assessing compliance risks and provide advice and guidance on addressing these risks. Risk-based monitoring of compliance by the business with regulatory obligations is undertaken.

Risk identification and assessment

The Regulatory Compliance function is specifically responsible for independently identifying and assessing current and forward looking 'conduct of business' compliance obligations, as well as Financial Crime regulation and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, employment law is assigned to Human Resources, taxation law to Group Taxation and prudential regulation to the Finance and Risk functions, with emerging prudential regulations being monitored by the Compliance Upstream unit. Regulatory Compliance undertakes a periodic detailed assessment of the key conduct of business compliance risks and associated mitigants. The Regulatory Compliance function operates a risk framework approach that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the SARTs for the relevant business unit.

Risk management and mitigation

The Board, operating through the Audit Committee, approves the Group's compliance policy and the mandate for the Regulatory Compliance function.

Management is responsible for ensuring that the Group complies with its regulatory responsibilities. The Leadership Team's responsibilities in respect of compliance include the establishment and maintenance of the framework for internal controls and the control environment in which compliance policy operates. They ensure that Regulatory Compliance is suitably independent from business activities and that it is adequately resourced.

The primary role of the Regulatory Compliance function is to provide direction and advice to enable management to discharge its responsibility for managing the Group's compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, the Group has insurance policies that cover a number of risk events which fall under the regulatory compliance umbrella.

Risk monitoring and reporting

Regulatory Compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by either dedicated compliance monitoring teams, or in collaboration with other control functions such as Group Internal Audit and/or Operational Risk.

Risk prioritised annual compliance monitoring plans are prepared based on the risk assessment process. Monitoring is undertaken both on a business unit and a process basis. The annual monitoring plan is reviewed regularly, and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed. The implementation of these action plans is monitored by Regulatory Compliance.

Regulatory Compliance report to the Group General Counsel and independently to the Board, through the Audit Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

*Forms an integral part of the audited financial statements

3.7 Structural foreign exchange risk*

Structural foreign exchange risk is the exposure of the Group's consolidated ratios to changes in exchange rates and results from net investment in subsidiaries, associates and branches, the functional currencies being currencies other than euro. The Group is exposed to foreign exchange risk as it translates foreign currencies into euro at each reporting period and the currency profile of the Group's capital may not necessarily match that of its assets and risk-weighted assets.

Exchange differences on structural exposures are recognised in 'other income' in the financial statements. The Group ALCo monitors structural foreign exchange risk and the foreign exchange sensitivity of consolidated capital ratios. This impact is measured in terms of basis points sensitivities using scenario analysis. The amount of structural foreign exchange risk is not material to the Group.

3.8 Pension risk*

Pension risk is the risk that the funding position of the Group's defined benefit schemes would deteriorate to such an extent that the Group would be required to make additional contributions above what is already planned to cover its pension obligations towards current and former employees. Furthermore, IAS pension deficits as reported are now a deduction from capital under CRD IV which came into force on 1 January 2014.

The Group maintains a number of defined benefit pension schemes for current and former employees, further details of which are included in note 11 to the consolidated financial statements. These defined benefit schemes were closed to future accrual from the 31 December 2013. Approval was received from the Pensions Authority in 2013 in relation to a funding plan up to January 2018 with regard to regulatory Minimum Funding Standard requirements of the AIB Group Irish Pension Scheme. In the United Kingdom, the Group has established an asset backed funding vehicle to provide the required regulatory funding to the UK Scheme.

While the Group has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk.

Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may reduce due to market movements.

Actuarial risk arises due to the risk that the estimated value of the pension scheme liabilities may increase due to changes in actuarial assumptions.

The ability of the pension schemes to meet the projected pension payments is managed by the Trustees through the dynamic diversification of the investment portfolios across geographies and asset classes.

As the schemes are closed to future accrual, each Trustee Board has commenced a process of de-risking their investment strategy to reduce market risk.

*Forms an integral part of the audited financial statements

Financial Statements

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Statement of Directors’ responsibilities

The following statement which should be read in conjunction with the statement of Auditors' responsibilities set out with their Audit Report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Group Half-Yearly Financial Report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Enterprise Securities Market Rules for Companies.

As permitted by IAS 34 *‘Interim Financial Reporting’*, the Directors have elected to prepare a complete set of financial statements, as described in IAS 1 *‘Presentation of Financial Statements’*, for the half year to 30 June 2015, in accordance with International Financial Reporting Standards (‘IFRSs’) as issued by the IASB, and as adopted by the EU.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as issued by the IASB and as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy and facilitate the preparation of financial statements that give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group’s website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors confirm, to the best of their knowledge and belief, that:

(i) the Group Half-Yearly Financial Statements:
  - have complied with the above requirements;
  - the financial statements, prepared in accordance with IFRSs as issued by the IASB and as adopted by the EU, give a true and fair view of the state of the Group's affairs as at 30 June 2015 and of its profit for the period then ended; and

(ii) the interim management report includes:
  - a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the financial statements;
  - a description of the principal risks and uncertainties for the remaining six months of the financial year;
  - a fair review of related parties’ transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during the period; and
  - any changes in the related parties’ transactions described in the last annual report, that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

For and on behalf of the Board

Richard Pym	**Bernard Byrne**
Chairman	Chief Executive Officer

6 August 2015

Independent Auditor’s Report

Independent Auditors’ Report on the Non-Statutory Financial Statements of Allied Irish Banks, p.l.c.

We have audited the non-statutory financial statements of Allied Irish Banks, p.l.c. (the “Company”) for the six months ended 30 June 2015 which comprise the Group Financial Statements: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The relevant financial reporting framework that has been applied in the preparation of the Group financial statements is the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Enterprise Securities Market Rules for Companies. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditors’ 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 and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors’ responsibilities, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view and for preparing the Group Half-Yearly Financial Report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Enterprise Securities Market Rules for Companies. Our responsibility is to audit and express an opinion on the financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Group Half-Yearly Financial Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group Financial Statements:

- give a true and fair view of the assets, liabilities and financial position of the Group as at 30 June 2015 and of the profit of the Group for the six months then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Enterprise Securities Market Rules for Companies.

Deloitte
Chartered Accountants and Statutory Audit Firm
Hardwicke House
Hatch Street
Dublin 2
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6 August 2015

Deloitte.

Accounting policies*

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*Forms an integral part of the audited financial statements.

Accounting policies

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

1 Reporting entity

Allied Irish Banks, p.l.c. ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The consolidated financial statements include the financial statements of Allied Irish Banks, p.l.c. and its subsidiary undertakings, collectively referred to as the 'Group', where appropriate, including certain special purpose entities and are prepared to the end of the financial period. The Group is and has been primarily involved in retail and corporate banking.

2 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRSs") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union ("EU") and applicable for the half-year ended 30 June 2015. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described.

The half-yearly financial statements are considered non-statutory financial statements for the purposes of the Companies Act 2014 and in compliance with section 340(4) of that Act we state that:

– the financial information for the half-year to 30 June 2015 has been prepared to meet our obligations to do so under the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Enterprise Securities Market Rules for Companies;
– the financial information for the half-year to 30 June 2015 does not constitute the statutory financial statements of the company;
– the statutory financial statements for the financial year ended 31 December 2014 have been annexed to the annual return and have been filed in the Companies Registration Office;
– the statutory auditors of the company have made a report under section 193 Companies Act 1990; and
– the matters referred to in the statutory auditors' report were unqualified, and did not include a reference to any matters to which the statutory auditors drew attention by way of emphasis without qualifying the report.

3 Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The financial statements which comply with IAS 34 *"Interim Financial Reporting"* comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, and the 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 Financial review and the Risk management sections of this Half-Yearly Financial Report. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

3 Basis of preparation *(continued)*

Use of judgements and estimates

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

A description of these judgements and estimates is set out in 'Critical accounting judgements and estimates' on pages 167 to 171.

Going concern

The financial statements for the half-year ended 30 June 2015 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these half-yearly financial statements.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2015 to 2017 approved by the Board in December 2014, the restructuring plan approved by the European Commission in May 2014, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors have also considered the outlook for the eurozone and UK economies, and the factors and uncertainties impacting their performance.

In addition, the Directors have considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 30 to 38.

The Directors believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario. The Group's regulatory capital resources are detailed on pages 25 to 28.

The Group funding and liquidity profile is outlined on pages 119 to 132. In relation to liquidity and funding, the Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would be available to the Group during the period of assessment.

Conclusion

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

Adoption of new accounting standards

During the half-year to 30 June 2015, the Group adopted amendments to standards and interpretations which had an insignificant impact on these half-yearly financial statements.

4 Basis of consolidation

Subsidiary undertakings

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

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

Loss of control

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

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

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

Structured entities

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

Business combinations

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

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

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

Goodwill is measured as the excess of the sum of:

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

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

Non-controlling interests

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

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

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

4 Basis of consolidation *(continued)*

Common control transactions

The Group accounts for the acquisition of businesses or investments in subsidiary undertakings between members of the Group at carrying value at the date of the transaction unless prohibited by company law or IFRS. This policy also applies to the acquisition of businesses by the Group of other entities under the common control of the Irish Government. Where the carrying value of the acquired net assets exceeds the fair value of the consideration paid, the excess is accounted for as a capital contribution (accounting policy number 26 Shareholders' equity - capital contributions).

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

Associated undertakings

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

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

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

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

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

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

Transactions eliminated on consolidation

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

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

5 Foreign currency translation
Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances
Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on equities classified as available for sale financial assets, together with exchange differences on a financial liability designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

Foreign operations
The results and financial position of all Group entities that have a functional currency different from the euro are translated into euro as follows:
- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions;
- foreign currency translation differences are recognised in other comprehensive income; and
- since 1 January 2004, the Group's date of transition to IFRS, all such exchange differences are included in the foreign currency translation reserve within shareholders' equity. When a foreign operation is disposed of in full, the relevant amount of the foreign currency translation reserve is transferred to the income statement. When a subsidiary is partly disposed of, the relevant proportion of foreign currency translation reserve is re-attributed to the non-controlling interest.

6 Interest income and expense recognition
Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

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

Interest income and expense presented in the consolidated income statement includes:
- Interest on financial assets and financial liabilities at amortised cost on an effective interest method;
- Interest on financial investments available for sale on an effective interest method;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income and funding costs of trading portfolio financial assets, excluding dividends on equity shares.

7 Dividend income
Dividend income is recognised when the right to receive dividend income is established. Usually this is the ex-dividend date for equity securities.

8 Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided, unless they have been included in the effective interest rate calculation. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

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

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

9 Net trading income

Net trading income comprises gains less losses relating to trading assets and trading liabilities and includes all realised and unrealised fair value changes.

10 Employee benefits

Retirement benefit obligations

The Group provides employees with post-retirement benefits mainly in the form of pensions.

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

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

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

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

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

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

10 Employee benefits *(continued)*

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

Short-term employee benefits

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

Termination benefits

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

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

11 Operating leases

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received and premiums paid at inception of the lease are recognised as an integral part of the total lease expense over the term of the lease.

12 Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences will be utilised. The deferred tax asset is reviewed at the end of each reporting period and the carrying amount will reflect the extent that sufficient taxable profits will be available to allow all of the asset to be recovered.

The tax effects of income tax losses available for carry forward are recognised as an asset to the extent that it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post-retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

13 Financial assets

The Group classifies its financial assets into the following categories: - financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available for sale equity securities are recognised in the income statement when the entity's right to receive payment is established.

13 Financial assets *(continued)*

Impairment losses and translation differences on the amortised cost of monetary items are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category can have two sub categories: - Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or if it is so designated at initial recognition by management, subject to certain criteria.

The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within net trading income.

Derivatives are also classified in this category unless they have been designated as hedges or qualify as financial guarantee contracts.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value adjusted for direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

Available for sale

Available for sale financial assets are non-derivative financial investments that are designated as available for sale and are not categorised into any of the other categories described above. Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are initially recognised at fair value adjusted for direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale or impairment when the cumulative gain or loss is transferred to the income statement as a recycling adjustment. Assets reclassified from the held for trading category are recognised at fair value.

14 Financial liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, with any difference between the proceeds net of transaction costs and the redemption value recognised in the income statement using the effective interest method.

Where financial liabilities are classified as trading they are also initially recognised at fair value with the related transaction costs taken directly to the income statement. Gains and losses arising from changes in fair value are recognised directly in the income statement within net trading income.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Any gain or loss on the extinguishment or remeasurement of a financial liability is recognised in profit or loss.

15 Leases

Lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

16 Determination of fair value of financial instruments

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

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

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

Quoted prices in active markets

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

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

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

16 Determination of fair value of financial instruments *(continued)*

Valuation techniques

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

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

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

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

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

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

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

Transfers between levels of the fair value hierarchy

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

17 Sale and repurchase agreements (including stock borrowing and lending)

Financial assets may be lent or sold subject to a commitment to repurchase them (‘repos’). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the statement of financial position. Similarly, when securities are purchased subject to a commitment to resell (‘reverse repos’), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

18 NAMA senior bonds

NAMA senior bonds were received as consideration for financial assets transferred to NAMA and also as part of the 'Anglo' and 'EBS' transactions. These bonds are designated as loans and receivables and are separately disclosed in the statement of financial position as 'NAMA senior bonds'.

The bases for measurement, interest recognition and impairment are the same as those for loans and receivables (see accounting policy numbers 6, 13 and 20).

At initial recognition, the bonds were measured at fair value. The bonds carry a guarantee of the Irish Government, however, they are not marketable instruments. The only secondary market activity in the instruments is their sale and repurchase ('repo') to the European Central Bank ("ECB") within the regular Eurosystem open market operations. The bonds are not traded in the market and there are no comparable bonds trading in the market.

The fair value on initial recognition was determined using a valuation technique. The absence of quoted prices in an active market required increased use of management judgement in the estimation of fair value. This judgement included but was not limited to: evaluating available market information; evaluating relevant features of the instruments which market participants would factor into an appropriate valuation technique; determining the cash flows generated by the instruments including cash flows from assumed repo transactions; identifying a risk free discount rate; and applying an appropriate credit spread.

On an on-going basis and in accordance with IAS 39, AG8, the Group reviews its assumptions as regards the amount and timing of expected cash flows based on experience to date and other relevant information. The revised cash flows are discounted at the bonds' original effective interest rate. Any difference between the revised discounted cash flows and the previous carrying value is recognised as 'other operating income' in the income statement.

19 Derivatives and hedge accounting

Derivatives, such as interest rate swaps, options, futures and forward rate agreements, currency swaps and options, and equity index options are used for trading purposes while interest rate swaps, currency swaps, cross currency interest rate swaps and credit derivatives are used for hedging purposes.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.
Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models, as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative, and reported at fair value with gains and losses being recognised in the income statement.

Hedging

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 *Financial Instruments: Recognition and*

19 Derivatives and hedge accounting *(continued)*

Measurement, the Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or
- hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction ('cash flow hedge'); or
- hedges of a net investment in a foreign operation.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Group discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b) the derivative expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For available for sale financial assets, the fair value adjustment for hedged items is recognised in the income statement using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is reclassed to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income from the period when the hedge was effective is reclassified to the income statement.

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

20 Impairment of financial assets

It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the reporting date.

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and on or before the reporting date ('a loss event'), and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Group would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    i adverse changes in the payment status of borrowers in the portfolio; and
    ii national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics under the collective incurred but not reported ("IBNR") assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Collective evaluation for impairment

For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

20 Impairment of financial assets *(continued)*

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Collateralised financial assets – Repossessions

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

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

Past due loans

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 numbers of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower:

- has breached an advised limit;
- has been advised of a limit lower than the then current outstandings; or
- has drawn credit without authorisation.

When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.

Financial investments available for sale

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that had previously been recognised in other comprehensive income is recognised in the income statement as a reclassification adjustment. Reversals of impairment of equity securities are not recognised in the income statement and increases in the fair value of equity securities after impairment are recognised in other comprehensive income.

In the case of debt securities classified as available for sale, impairment is assessed on the same criteria as for all other debt financial assets. Impairment is recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to the income statement. Any subsequent increase in the fair value of an available for sale debt security is included in other comprehensive income unless the increase in fair value can be objectively related to an event that occurred after the impairment was recognised in the income statement, in which case the impairment loss or part thereof is reversed.

Loans renegotiated and forbearance

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

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk sections 3.1 and 3.2. A request for a forbearance solution acts as a trigger for an impairment test.

All loans that are assessed for a forbearance solution are tested for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

20 Impairment of financial assets *(continued)*

Forbearance mortgage loans, classified as impaired, may be upgraded from impaired status, subject to a satisfactory assessment by the appropriate credit authority as to the borrower's continuing ability and willingness to repay and confirmation that the relevant security held by the Group continues to be enforceable. In this regard, the borrower is required to display a satisfactory performance following the restructuring of the loan in accordance with new agreed terms, comprising typically, a period of twelve months of consecutive payments of full principal and interest and, the upgrade would initially be to Watch/Vulnerable grades. In some individually assessed mortgage and non-mortgage cases, based on assessment by the relevant credit authority, the upgrade out of impaired to performing status may be earlier than twelve months, as the debt may have been reduced to a sustainable level. Where upgraded out of impaired, loans are included in the Group's collective assessment for IBNR provisions.

Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the income statement. Interest accrues on the new loan based on the current market rates in place at the time of the renegotiation.

Where a loan has been subject to an impairment provision and the renegotiation leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Non-forbearance renegotiation

Occasionally, the Group may temporarily amend the contractual repayments terms on a loan (e.g. payment moratorium) for a short period of time due to a temporary change in the life circumstances of the borrower. Because such events are not directly linked to repayment capacity, these amendments are not considered forbearance. The changes in expected cash flows are accounted for under IAS 39 paragraph AG8 i.e. the carrying amount of the loan is adjusted to reflect the revised estimated cash flows which are discounted at the original effective interest rate. Any adjustment to the carrying amount of the loan is reflected in the income statement.

However, where the terms on a renegotiated loan differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference arising between the derecognised loan and the new loan is recognised in the income statement.

Where a customer's request for a modification to the original loan agreement is deemed not to be a forbearance request (i.e. the customer is not in financial difficulty to the extent that they are unable to repay both the principal and interest), these loans are not disaggregated for monitoring/reporting or IBNR assessment purposes.

21 Property, plant and equipment

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets' economic lives.

The Group uses the following useful lives when calculating depreciation:

Freehold buildings and long-leasehold property	50 years
Short leasehold property	life of lease, up to 50 years
Costs of adaptation of freehold and leasehold property	
Branch properties	up to 10 years[(1)]
Office properties	up to 15 years[(1)]
Computers and similar equipment	3 – 7 years
Fixtures and fittings and other equipment	5 – 10 years

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement. It is Group policy not to revalue its property, plant and equipment.

[(1)]Subject to the maximum remaining life of the lease.

22 Intangible assets

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

23 Impairment of property, plant and equipment, goodwill and intangible assets

Annually, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill and intangible assets not yet available for use are subject to an annual impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed.

24 Non-current assets held for sale and discontinued operations

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the income statement (including comparatives) as a separate amount, comprising the total of the post-tax profit or loss of the discontinued operations for the period together with any post-tax gain or loss recognised on the measurement of relevant assets to fair value less costs to sell, or on disposal of the assets/disposal groups constituting discontinued operations. In presenting interest income and interest expense and various expenses relating to discontinued operations, account is taken of the continuance or otherwise of these income statement items post disposal of the discontinued operation. Corporate overhead, which was previously allocated to the business being disposed of, is considered to be part of continuing operations. In the statement of financial position, the assets and liabilities of discontinued operations are shown within the caption 'Disposal groups and non-current assets/(liabilities) held for sale' separate from other assets and liabilities. On reclassification as discontinued operations, there is no restatement in the statement of financial position of prior periods for assets and liabilities held for sale.

Disposal groups and non-current assets held for sale

A non-current asset or a disposal group comprising assets and liabilities is classified as held for sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group.

On initial classification as held for sale, generally, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement. However, financial assets within the scope of IAS 39 continue to be measured in accordance with that standard.

Impairment losses subsequent to classification of assets as held for sale are recognised in the income statement. Subsequent increases in fair value, less costs to sell of the assets that have been classified as held for sale are recognised in the income statement, to the

24 Non-current assets held for sale and discontinued operations *(continued)*

extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets classified as held for sale are not depreciated.

Gains and losses on remeasurement and impairment losses subsequent to classification as disposal groups and non-current assets held for sale are shown within continuing operations in the income statement, unless they qualify as discontinued operations.

Disposal groups and non-current assets held for sale which are not classified as discontinued operations are presented separately from other assets and liabilities on the statement of financial position. Prior periods are not reclassified.

Acquisition of a subsidiary acquired exclusively with a view to its resale

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

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

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

25 Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest, at the relevant discount rate, is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other income. The present value of provisions is included in other liabilities.

When a decision is made that a leasehold property will cease to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Group with little realistic alternative but to settle the obligation and the Group has created a valid expectation in other parties that it will discharge the obligation.

26 Shareholders' equity

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Group.

On extinguishment of equity instruments, gains or losses arising are recognised net of tax directly in the statement of changes in equity.

Share capital

Share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares, deferred shares and preference shares of the entity.

Share premium

When shares are issued at a premium whether for cash or otherwise, the excess of the amount received over the par value of the shares is transferred to share premium.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are charged, net of tax, to the share premium account.

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when it has been approved for payment by the Board of Directors. Dividends declared after the end of the reporting date are disclosed in note 56.

Dividends on preference shares accounted for as equity are recognised in equity when approved for payment by the Board of Directors.

Other capital reserves

Other capital reserves represent transfers from retained earnings in accordance with relevant legislation.

Revaluation reserves

Revaluation reserves represent the unrealised surplus, net of tax, which arose on revaluation of properties prior to the implementation of IFRS at 1 January 2004.

Capital redemption reserves

These reserves arose from the renominalisation of the ordinary shares of the Company where deferred shares were created and cancelled.

Available for sale securities reserves

Available for sale securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of available for sale financial investments at fair value.

Cash flow hedging reserves

Cash flow hedging reserves represent the net gains or losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss.

Capital contributions

Capital contributions represent the receipt of non-refundable considerations arising from transactions with the Irish Government (note 41). These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions arose during 2011 from (a) EBS transaction; (b) Anglo transaction; (c) issue of contingent capital notes; and (d) non-refundable receipts from the Irish Government and the NPRFC.

The capital contribution from the EBS transaction is treated as non-distributable as the related net assets received were largely non-cash in nature. In the case of the Anglo transaction, the excess of the assets over the liabilities comprised of NAMA senior bonds. On initial recognition, this excess was accounted for as a non-distributable capital contribution. However, according as NAMA repays these bonds, the proceeds received will be deemed to be distributable and the relevant amount will be transferred from the capital contribution account to revenue reserves.

26 Shareholders' equity *(continued)*

AIB issued contingent convertible capital notes to the Irish Government (note 37) where the proceeds of issue amounting to €1.6 billion exceeded the fair value of the instruments issued. This excess was accounted for as a capital contribution and will be treated as distributable according as the fair value adjustment on the notes amortises to the income statement.

The non-refundable receipts of € 6,054 million from the Irish Government and the NPRFC(1) are distributable. These are included in revenue reserves.

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings together with amounts transferred from share premium and capital redemption reserves following Irish High Court approval. It is shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

Foreign currency translation reserves

The foreign currency translation reserves represent the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, at the rate of exchange at the year-end reporting date net of the cumulative gain or loss on instruments designated as net investment hedges.

(1)Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

Treasury shares

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

Share based payments reserves

The share based payment expense charged to the income statement is credited to the share based payment reserve over the vesting period of the shares and options. Upon grant of shares and exercise and lapsing of options, the amount in respect of the award credited to the share based payment reserves is transferred to revenue reserves.

27 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with a maturity of less than three months from the date of acquisition.

28 Collateral and netting

The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

Collateral

The Group obtains collateral in respect of customer receivables where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities. The collateral is, in general, not recorded on the statement of financial position.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Group will pledge collateral in respect of its own liabilities or borrowings. Collateral pledged in the form of securities or loans and receivables continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and receivables to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

28 Collateral and netting *(continued)*

Netting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross on the statement of financial position.

29 Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees') and to other parties in connection with the performance of customers under obligations relating to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. In its normal course of business, Allied Irish Banks, p.l.c. (the parent company) issues financial guarantees to other Group entities. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the year-end reporting date. Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees.

30 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. The Group has identified reportable segments on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM") in order to allocate resources to the segment and assess its performance. Based on this identification, the reportable segments are the operating segments within the Group, the head of each being a member of the Leadership Team. The Leadership Team is the CODM and it relies primarily on the management accounts to assess performance of the reportable segments and when making resource allocation decisions.

Transactions between operating segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each operating segment. Revenue sharing agreements are used to allocate external customer revenues to an operating segment on a reasonable basis.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of profit before taxation is based primarily on the location of the office recording the transaction. In addition, geographic distribution of loans and related impairment is also based on the location of the office recording the transaction.

31 Prospective accounting changes

The following new standards and amendments to existing standards approved by the IASB in 2015 or in prior years, but not early adopted by the Group, will impact the Group's financial reporting in future periods. The Group is currently considering the impacts of these new standards and amendments. The new accounting standards and amendments which are more relevant to the Group are detailed below:

Pronouncement	Nature of change	IASB effective date
Amendments to IFRS 11 *Joint Arrangements:* Accounting for Acquisitions of Interests in Joint Operations	The amendments to IFRS 11 *Joint Arrangements* state that, where a joint operator acquires an interest in a joint operation that constitutes a business, it must apply all of the principles on business combinations accounting in IFRS 3 *Business Combinations*, and other IFRSs. The joint operator must disclose the information that is required in those IFRSs in relation to business combinations. These amendments are not expected to have a significant impact on AIB Group. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarification of Acceptable Methods of Depreciation and Amortisation	The amendment to IAS 16 *Property, Plant and Equipment* clarifies that the use of a revenue-based method to calculate depreciation of an asset is not appropriate. The amendment to IAS 38 *Intangible Assets* introduces a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. There are limited circumstances when this presumption can be overturned. These amendments will not impact AIB Group. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016
Amendments to IAS 27 *Separate Financial Statements*: Equity Method in Separate Financial Statements	The amendments to IAS 27 *Separate Financial Statements* allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments will impact on AIB Group consolidated financial statements. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments address an inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and those in IAS 28 *Investments in Associates and Joint Ventures* in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are not expected to have a significant impact on AIB Group. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016 but subject to amendment

31 Prospective accounting changes *(continued)*

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 1 *Presentation of Financial Statements:* Disclosure Initiative	These amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. These amendments are not expected to have a significant impact on AIB Group. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	The IASB's annual improvements project provides a process for making amendments to IFRSs that are considered non-urgent but necessary. The amendments clarify guidance and wording, or correct for relatively minor unintended consequences, conflicts or oversights in existing IFRSs. Annual Improvements to IFRSs 2012-2014 Cycle amends IFRSs in relation to four issues addressed during this cycle. None of the amendments are expected to have a significant impact on reported results or disclosures. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15, which was issued in May 2014, replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue* in addition to IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 specifies how and when an entity recognises revenue from a contract with a customer through the application of a single, principles based five-step model. The standard specifies new qualitative and quantitative disclosure requirements to enable users of financial statements understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The impacts of this standard are being considered by AIB Group. The standard is subject to EU endorsement.	Annual periods beginning on or after 1 January 2017 but subject to amendment

31 Prospective accounting changes *(continued)*

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments*	In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. This completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The main changes are as follows: **Classification and measurement** IFRS 9 introduces a single, principles-based classification approach that has two measurement categories: amortised cost and fair value. The basis of classification depends on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. **Impairment** IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model with this model being applied to all financial instruments. IFRS 9 requires an entity to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected credit losses on a timely basis. **Hedge accounting** IFRS 9 replaces the rules-based general hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* with a principles-based approach that more closely aligns the accounting treatment with risk management activities. However, an entity may continue to apply the hedge accounting requirements of IAS 39. The accounting for macro hedges is not included within IFRS 9 and continues to be accounted for in accordance with the requirements of IAS 39. **Own credit** IFRS 9 requires that changes in the fair value of an entity's own debt caused by changes in its own credit quality be recognised in other comprehensive income rather than in profit or loss, absent an accounting mismatch in profit or loss. The Group is currently assessing the impact that IFRS 9 will have on its financial statements. While the impact is expected to be significant, it is not practicable to provide a reasonable estimate of the effects at this time but expects to do so prior to the effective date. The standard is subject to EU endorsement.	Annual periods beginning on or after 1 January 2018

Critical accounting judgements and estimates

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

The accounting policies that are deemed critical to AIB's results and financial position, in terms of the materiality of the items to which the policy is applied and the estimates that have a significant impact on the financial statements are set out in this section. In addition, estimates with a significant risk of material adjustment in the next year are also discussed.

Going concern

The financial statements for the half-year ended 30 June 2015 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included: financial plans approved in December 2014 covering the period 2015 to 2017; the Restructuring Plan approved by the European Commission in May 2014; liquidity and funding forecasts, and capital resources projections. These have all been prepared under base and stress scenarios having considered the outlook for the Irish, the eurozone and UK economies. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government.

Loan impairment

AIB's accounting policy for impairment of financial assets is set out in accounting policy number 20. The provisions for impairment on loans and receivables at 30 June 2015 represent management's best estimate of the losses incurred in the loan portfolios at the reporting date.

The estimation of loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which AIB Group is exposed and other external factors such as legal and regulatory requirements.

Credit risk is identified, assessed and measured through the use of credit rating and scoring tools. The ratings influence the management of individual loans. Special attention is paid to lower quality rated loans and when appropriate, loans are transferred to specialist units to help avoid default, or where in default, to help minimise loss. The credit rating triggers the impairment assessment and if relevant the raising of specific provisions on individual loans where there is doubt about their recoverability.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by credit and risk management on a regular basis. All AIB segments assess and approve their provisions and provision adequacy on a quarterly basis. These provisions are in turn reviewed and approved by the AIB Group Credit Committee on a quarterly basis with ultimate Group levels being approved by the Audit Committee and the Board.

Key assumptions underpinning the Group's estimates of collective and IBNR provisioning are back tested with the benefit of experience and revisited for currency on a regular basis.

After a period of time, when it is concluded that there is no real prospect of recovery of loans/part of loans which have been subjected to a specific provision, the Group writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

Specific provisions

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan or overdraft account. The amount of the specific provision made in the financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. Specific provisions are created for cases that are individually significant (i.e. above certain thresholds), and also collectively for assets that are not individually significant.

Critical accounting judgements and estimates

Loan impairment *(continued)*

The amount of specific provision required on an individually assessed loan is highly dependent on estimates of the amount of future cash flows and their timing. Individually insignificant impaired loans are collectively evaluated for impairment provisions. As this process is model driven, the total amount of the Group's impairment provisions on these loans is somewhat uncertain as it may not totally reflect the impact of the prevailing market conditions. For further details please refer to 'Impact of changes to key assumptions and estimates on impairment provisions' on pages 57 to 58 of the Risk management section of this report.

The property and construction loan portfolio continues to have a high level of provisions following the downturn in both the Irish and UK economies. While collateral values have stabilised and recovered somewhat, market activity remains low relative to normalised levels. Accordingly, the estimation of cash flows likely to arise from the realisation of such collateral is subject to a high degree of uncertainty.

Incurred but not reported provisions

Incurred but not reported ("IBNR") provisions are also maintained to cover loans which are impaired at the reporting date and, while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements; historic loan loss rates; changes in credit management; procedures, processes and policies; levels of credit management skills; local and international economic climates; portfolio sector profiles/industry conditions; and current estimates of loss in the portfolio.

The total amount of impairment loss in the Group's non-impaired portfolio, and therefore, the adequacy of the IBNR allowance, is inherently uncertain. There may be factors in the portfolio that have not been a feature of the past and changes in credit grading profiles and grading movements may lag the change in the credit profile of the customer. In addition, current estimates of loss within the non-impaired portfolio and the period of time it takes following a loss event for an individual loan to be recognised as impaired ('emergence period') are subject to a greater element of estimation due to the speed of change in the economies in which the Group operates. For further details of the potential impact of an increase in the emergence period, please refer to: 'Impact of changes to key assumptions and estimates on impairment provisions' on pages 57 to 58 of the Risk management section of this report.

Forbearance

The Group's accounting policy for forbearance is set out in accounting policy number 20 'Impairment of financial assets' which incorporates forbearance.

The Group has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. Forbearance strategies take place in both retail and business portfolios, particularly, residential mortgages. Where levels of forbearance are significant, higher levels of uncertainty with regard to judgement and estimation are involved in determining their effects on impairment provisions. Further information on forbearance strategies is set out in the 'Risk management' section of this report.

Deferred taxation

The Group's accounting policy for deferred tax is set out in accounting policy number 12. Details of the Group's deferred tax assets and liabilities are set out in note 30.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing other evidence to underpin this assessment. The recognition of the deferred tax asset relies on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward. It requires significant judgements to be made about the projection of long-term future profitability because of the period over which recovery extends.

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

- the financial support provided to the Irish State under the EU/IMF programme and the fact that Ireland successfully exited the three-year bailout programme in December 2013;
- the financial support provided by the Irish Government to AIB as agreed with the EU/IMF from 2009 to 2011;
- the Irish Government's committed support to AIB and its nomination of the Group as one of two pillar banks in the smaller reconstructed Irish banking sector;
- the Restructuring Plan approved by the European Commission in May 2014, targeting a return to profitability in 2014 and the ability to grow profits thereafter;

Deferred taxation *(continued)*

– Management actions taken in 2012 to 2014 in returning the Group to a normalised earnings path, the benefits of which have become apparent in the past year with the Group returning to profitability;
– the absence of any expiry dates for Irish and UK tax losses;
– the non-enduring nature of the loan impairments at levels which resulted in losses in prior years; and
– external forecasts for Ireland, and the UK economies which indicate continued economic recovery through the period of the medium-term financial plan. This is evident in a levelling off of bad debts growth, reductions in unemployment and increased spending.

The Board considered negative evidence and the inherent uncertainties in any long-term financial assumptions and projections, including:
– the absolute level of deferred tax assets compared to the Group's equity;
– the reduced size of the Group's operations following re-structuring;
– the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
– the challenge of forecasting over a long period, taking account of the level of competition, market dynamics and resultant margin and funding pressures;
– potential instability in the eurozone and global economies over an extended period; and
– recent taxation changes (including the Bank Levy and the changes to the UK tax rates and the utilisation of deferred tax assets) and the likelihood of future developments and their impact on profitability and utilisation.

The Group's strategy and its medium term financial plan targeted a return to profitability by 2014 and growth in profitability thereafter. The return to profitability objective was realised in 2014 and is continuing in 2015. Growth thereafter has been reaffirmed in the annual planning exercise covering the period 2015 to 2017 undertaken by the Group in the second half of 2014. Growth assumptions and profitability levels underpinning the plan are within market norms.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, the Group further believes that it is more likely than not that there will be future profits in the medium term, and beyond, in the relevant Irish Group companies against which to use the tax losses. In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario based on the financial planning outturn 2015-2017. Assuming a sustainable market return on equity (9%) over the long term for future profitability levels in Ireland and a GDP growth in Ireland of 2.5%, based on this scenario, it will take in excess of 20 years for the deferred tax asset (€ 3.11 billion) to be utilised. Furthermore, under this scenario, it is expected that 51% of the deferred tax asset will be utilised by 31 December 2029 with 84% utilised by 31 December 2034.

In a more stressed scenario with a return on equity of 8% and GDP growth of 1.5%, the utilisation period increases by a further 3 years. The Group's analysis of the results of the scenarios examined would not alter the basis of recognition or the current carrying value.

Notwithstanding the absence of any expiry date for tax losses in the UK, AIB has concluded that the recognition of deferred tax assets in its UK subsidiary be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its UK profits arising as being more likely than not.

Furthermore, in March 2015, legislation was enacted in the UK, effective from 1 April 2015, whereby only fifty per cent of a bank's annual trading profits can be sheltered by unused tax losses arising before that date. This resulted in an immediate reduction of £178 million (€ 242 million) in the Group's UK deferred tax asset.

However, for certain other subsidiaries and branches, the Group has also concluded that it is more likely than not that there will be insufficient profits to support recognition of deferred tax assets. The amount of recognised deferred tax assets arising from unused tax losses amounts to € 3,315 million of which € 3,111 million relates to Irish tax losses and € 204 million relates to UK tax losses. IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. The Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

Critical accounting judgements and estimates

Determination of fair value of financial instruments

The Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 16.

The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread.

Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate a fair value than those based wholly on observable data.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures. Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different valuation, with a consequent impact on shareholders' equity and, in the case of derivatives and contingent capital instruments, the income statement.

NAMA senior bonds designation and valuation

The Group's accounting policy for NAMA senior bonds is set out in accounting policy number 18. These bonds are separately disclosed in the statement of financial position.

NAMA senior bonds are designated as loans and receivables as they meet the criteria to be so designated.

The bases for measurement, interest recognition and impairment for NAMA senior bonds are the same as those for loans and receivables (see accounting policy numbers 6, 13, and 20). There is no active market for the NAMA senior bonds, accordingly, the fair value at initial recognition was determined using a valuation technique.

The absence of quoted prices in an active market required an increased use of management judgement in the estimation of fair value. This judgement included, but was not limited to: evaluating available market information; determining the cash flows generated by the instruments and their expected timing; identifying a risk free discount rate and applying an appropriate credit spread.

The valuation technique and critical assumptions used were subject to internal review and approval procedures. While the Group believes its estimates of fair value are appropriate, the use of different measurements, valuation techniques or assumptions could have given rise to the NAMA senior bonds being measured at a different valuation at initial recognition, with a consequent impact on the income statement.

AIB continually reviews its assumptions as to the expected timing of future cash flows based on its experience of repayments to date, as required by IAS 39, AG8. If the revised assumptions when reassessed prove to be different, this will impact the carrying value and income statement in future periods. Following reviews in 2014 and 2013, AIB adjusted the carrying value of the bonds and reflected the difference between the previous carrying value and new carrying value (2014: € 132 million and 2013: € 62 million) in the income statement.

NAMA senior bonds are subject to the same credit review processes and procedures as for loans and receivables (accounting policy number 20).

Retirement benefit obligations

The Group’s accounting policy for retirement benefit plans is set out in accounting policy number 10.

The Group provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded. All defined benefit schemes were closed to future accrual with effect from 31 December 2013.

Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

In calculating the scheme liabilities and the charge to the income statement, the Directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from the Group’s actuaries which include price inflation, pension increases, earnings growth and the longevity of scheme members. The impact on the income statement and statement of financial position could be materially different if a different set of assumptions were used or when it was deemed an inability to fund discretionary increases to members. The assumptions adopted for the Group's pension schemes are set out in note 11 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

Basis of consolidation

For third party acquisitions, assets acquired and liabilities assumed are measured at their acquisition date fair values.

Where these acquisitions relate to the acquisition of a business between entities under the control of the Irish Government, assets acquired and liabilities assumed are measured at their carrying value in the books of the transferor at the date of transfer, adjusted for any differences in accounting policies.

Consolidated income statement

for the half-year ended 30 June 2015

	Notes	**Half-year 30 June 2015 € m**	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Continuing operations				
Interest and similar income	2	**1,487**	1,546	*3,090*
Interest expense and similar charges	3	**(547)**	(739)	*(1,403)*
Net interest income		**940**	807	*1,687*
Dividend income	4	**25**	25	*25*
Fee and commission income	5	**230**	214	*430*
Fee and commission expense	5	**(23)**	(19)	*(40)*
Net trading income/(loss)	6	**75**	8	*(1)*
Profit on disposal/transfer of loans and receivables	7	**19**	50	*52*
Other operating income	8	**90**	168	*379*
Other income		**416**	446	*845*
Total operating income		**1,356**	1,253	*2,532*
Administrative expenses	9	**(655)**	(693)	*(1,527)*
Impairment and amortisation of intangible assets	28	**(21)**	(24)	(65)
Impairment and depreciation of property, plant and equipment	29	**(18)**	(18)	*(46)*
Total operating expenses		**(694)**	(735)	*(1,638)*
Operating profit before provisions		**662**	518	*894*
Writeback/(provisions) for impairment on loans and receivables	24	**540**	(92)	*185*
Writeback of provisions for liabilities and commitments	36	**16**	–	*4*
Provisions for impairment on financial investments available for sale	12	**–**	–	*(1)*
Operating profit		**1,218**	426	*1,082*
Associated undertakings	27	**13**	9	*23*
Profit on disposal of property	13	**4**	2	*6*
Profit before taxation from continuing operations		**1,235**	437	*1,111*
Income tax charge from continuing operations	14	**(395)**	(60)	*(230)*
Profit after taxation from continuing operations		**840**	377	*881*
Discontinued operations				
Profit after taxation from discontinued operations	15	**–**	34	*34*
Profit for the period		**840**	411	*915*
Attributable to:				
Owners of the parent:				
Profit from continuing operations		**840**	377	*881*
Profit from discontinued operations		**–**	34	*34*
		840	411	*915*
Basic earnings per share				
Continuing operations	16(a)	**0.1c**	0.1c	*0.2c*
Discontinued operations	16(a)	**–**	–	*–*
		0.1c	0.1c	*0.2c*
Diluted earnings per share				
Continuing operations	16(b)	**0.1c**	0.1c	*0.2c*
Discontinued operations	16(b)	**–**	–	*–*
		0.1c	0.1c	*0.2c*

Consolidated statement of comprehensive income

for the half-year ended 30 June 2015

	Notes	**Half-year 30 June 2015 € m**	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Profit for the period		**840**	411	*915*
Other comprehensive income – continuing operations				
Items that will not be reclassified to profit or loss:				
Net change in property revaluation reserves		**(1)**	–	*(1)*
Net actuarial gain/(losses) in retirement benefit schemes, net of tax	14	**449**	(487)	*(939)*
Total items that will not be reclassified to profit or loss		**448**	(487)	*(940)*
Items that are or may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation reserves	14	**34**	14	*27*
Net change in cash flow hedges, net of tax	14	**(152)**	193	*348*
Net change in fair value of available for sale securities, net of tax	14	**(139)**	604	*728*
Total items that may be reclassified subsequently to profit or loss		**(257)**	811	*1,103*
Other comprehensive income for the period, net of tax from continuing operations		**191**	324	*163*
Total comprehensive income for the period		**1,031**	735	*1,078*
Attributable to:				
Owners of the parent:				
Continuing operations		**1,031**	701	*1,044*
Discontinued operations		**–**	34	*34*
		1,031	735	*1,078*

Consolidated statement of financial position

as at 30 June 2015

	Notes	30 June 2015 € m	31 December 2014 € m
Assets			
Cash and balances at central banks	49	**5,231**	5,393
Items in course of collection		**223**	146
Disposal groups and non-current assets held for sale	18	**4**	14
Trading portfolio financial assets	19	**350**	1
Derivative financial instruments	20	**1,706**	2,038
Loans and receivables to banks	21	**3,363**	1,865
Loans and receivables to customers	22	**63,778**	63,362
NAMA senior bonds	25	**7,522**	9,423
Financial investments available for sale	26	**19,828**	20,185
Interests in associated undertakings	27	**73**	69
Intangible assets	28	**190**	171
Property, plant and equipment	29	**284**	290
Other assets		**346**	211
Current taxation		**43**	10
Deferred taxation	30	**3,180**	3,576
Prepayments and accrued income		**488**	526
Retirement benefit assets	11	**131**	175
Total assets		**106,740**	107,455
Liabilities			
Deposits by central banks and banks	31	**16,063**	16,768
Customer accounts	32	**64,471**	64,018
Trading portfolio financial liabilities	33	**369**	–
Derivative financial instruments	20	**2,300**	2,334
Debt securities in issue	34	**6,816**	7,861
Current taxation		**25**	–
Other liabilities	35	**1,302**	1,225
Accruals and deferred income		**681**	729
Retirement benefit liabilities	11	**641**	1,239
Provisions for liabilities and commitments	36	**238**	258
Subordinated liabilities and other capital instruments	37	**1,511**	1,451
Total liabilities		**94,417**	95,883
Shareholders' equity			
Share capital	38	**1,344**	1,344
Share premium	38	**1,752**	1,752
Reserves		**9,227**	8,476
Total shareholders' equity		**12,323**	11,572
Total liabilities and shareholders' equity		**106,740**	107,455

Consolidated statement of cash flows

for the half-year ended 30 June 2015

	Notes	**Half-year 30 June 2015 € m**	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Cash flows from operating activities				
Profit before taxation for the period from continuing operations		**1,235**	437	*1,111*
Adjustments for:				
– Non-cash and other items	49	**(820)**	(277)	*(573)*
– Change in operating assets	49	**1,816**	4,735	*9,449*
– Change in operating liabilities	49	**(2,180)**	(6,354)	*(11,161)*
– Taxation paid		**(1)**	(24)	*(26)*
Net cash inflow/(outflow) from operating activities		**50**	(1,483)	*(1,200)*
Cash flows from investing activities				
Purchase of financial investments available for sale	26	**(2,654)**	(4,226)	*(7,336)*
Proceeds from sales and maturity of financial investments available for sale		**2,773**	5,411	*8,791*
Additions to property, plant and equipment	29	**(10)**	(17)	*(47)*
Disposal of property, plant and equipment	29	**4**	5	*9*
Additions to intangible assets	28	**(39)**	(17)	*(60)*
Proceeds of disposal of investment in associated undertakings		**–**	3	*2*
Proceeds of disposal of investment in businesses and subsidiaries		**–**	336[1]	*336*
Dividends received from associated undertakings	27	**9**	5	*11*
Net cash inflow from investing activities		**83**	1,500	*1,706*
Cash flows from financing activities				
Interest paid on subordinated liabilities and other capital instruments		**–**	–	*(160)*
Dividend paid on 2009 Preference Shares		**(280)**	–	*–*
Net cash outflow from financing activities		**(280)**	–	*(160)*
Change in cash and cash equivalents		**(147)**	17	*346*
Opening cash and cash equivalents		**6,384**	5,730	*5,730*
Effect of exchange translation adjustments		**424**	137	*308*
Closing cash and cash equivalents	49	**6,661**	5,884	*6,384*

[1]Disposal of Ark Life Assurance Company Limited.

Consolidated statement of changes in equity

for the half-year ended 30 June 2015

	Attributable to equity holders of parent										
	Share capital € m	Share premium € m	Capital reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Treasury shares € m	Share based payments reserves € m	Total € m
At 1 January 2015	1,344	1,752	1,958	17	1,369	383	5,621	(415)	(462)	5	11,572
Total comprehensive income for the period											
Profit for the period	–	–	–	–	–	–	840	–	–	–	840
Other comprehensive income *(note 14)*	–	–	–	(1)	(139)	(152)	449	34	–	–	191
Total comprehensive income for the period	–	–	–	(1)	(139)	(152)	1,289	34	–	–	1,031
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions *(note 40)*	–	–	(198)	–	–	–	198	–	–	–	–
Dividend on 2009 Preference shares *(note 17)*	–	–	–	–	–	–	(280)	–	–	–	(280)
Share based payments	–	–	–	–	–	–	5	–	–	(5)	–
Total contributions by and distributions to owners of the Group	–	–	(198)	–	–	–	(77)	–	–	(5)	(280)
At 30 June 2015	1,344	1,752	1,760	16	1,230	231	6,833	(381)	(462)	–	12,323

Consolidated statement of changes in equity

for the half-year ended 30 June 2014 (Unaudited)

	Attributable to equity holders of parent											
	Share capital € m	Share premium € m	Capital reserves € m	Capital redemption reserves	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Treasury shares € m	Share based payments reserves € m	Total € m
At 1 January 2014	5,248	2,848	2,597	–	18	641	35	(2)	(442)	(462)	13	10,494
Total comprehensive income for the period												
Profit for the period	–	–	–	–	–	–	–	411	–	–	–	411
Other comprehensive income *(note 14)*	–	–	–	–	–	604	193	(487)	14	–	–	324
Total comprehensive income for the period	–	–	–	–	–	604	193	(76)	14	–	–	735
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Capital contributions	–	–	(331)	–	–	–	–	331	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 38)*	22	(22)	–	–	–	–	–	–	–	–	–	–
Cancellation of deferred shares *(notes 38 and 40)*	(3,926)	–	–	3,926	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	–	8	–	–	(8)	–
Other movements	–	–	(75)	–	–	–	–	75	–	–	–	–
Total contributions by and distributions to owners of the Group	(3,904)	(22)	(406)	3,926	–	–	–	414	–	–	(8)	–
At 30 June 2014	1,344	2,826	2,191	3,926	18	1,245	228	336	(428)	(462)	5	11,229

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Attributable to equity holders of parent											
	Share capital	*Share premium*	*Capital reserves*	*Capital redemption reserves*	*Revaluation reserves*	*Available for sale securities reserves*	*Cash flow hedging reserves*	*Revenue reserves*	*Foreign currency translation reserves*	*Treasury shares*	*Share based payments reserves*	*Total*
	€ m	*€ m*	*€ m*	*€ m*	*€ m*	*€ m*	*€ m*	*€ m*	*€ m*	*€ m*	*€ m*	*€ m*
At 1 January 2014	5,248	2,848	2,597	–	18	641	35	(2)	(442)	(462)	13	10,494
Total comprehensive income for the year												
Profit for the year	–	–	–	–	–	–	–	915	–	–	–	915
Other comprehensive income *(note 14)*	–	–	–	–	(1)	728	348	(939)	27	–	–	163
Total comprehensive income for the year	–	–	–	–	(1)	728	348	(24)	27	–	–	1,078
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Capital contributions *(note 40)*	–	–	(564)	–	–	–	–	564	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 38)*	22	(22)	–	–	–	–	–	–	–	–	–	–
Cancellation of deferred shares *(notes 38 and 40)*	(3,926)	–	–	3,926	–	–	–	–	–	–	–	–
Reduction of capital *(notes 38 and 40)*	–	(1,074)	–	(3,926)	–	–	–	5,000	–	–	–	–
Share based payments	–	–	–	–	–	–	–	8	–	–	(8)	–
Other movements *(note 40)*	–	–	(75)	–	–	–	–	75	–	–	–	–
Total contributions by and distributions to owners of the Group	(3,904)	(1,096)	(639)	–	–	–	–	5,647	–	–	(8)	–
At 31 December 2014	1,344	1,752	1,958	–	17	1,369	383	5,621	(415)	(462)	5	11,572

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Notes to the consolidated financial statements

1 Segmental information

Following a review of the organisation's structure, a new operating structure was implemented in 2015 and the Group's operations are now reported under the following segments:

- **Retail & Business Banking ("RBB");**
- **Corporate & Institutional Banking ("CIB");**
- **AIB UK; and**
- **Group.**

The half-year to 30 June 2014 and full year to 31 December 2014 have been presented in the new operating structure. These segments reflect the internal reporting structure which is used by management to assess performance and allocate resources. A description of each segment is set out below as follows:

Retail & Business Banking ("RBB") services Irish personal and business customers through AIB and EBS brands with the largest banking distribution in Ireland including c.200 AIB branches, c. 70 EBS outlets and 10 business centres. This is combined with telephone and Internet banking and a partnership with An Post through which it offers services at over 1,000 post offices.

Corporate & Institutional Banking ("CIB") serves large business, corporate and institutional customers in multiple industry sectors through the provision of an integrated suite of product and services. In addition, CIB is responsible for management of the Group's market-facing treasury and investment activities.

AIB UK comprises retail and commercial banking operations in Great Britain operating under the trading name Allied Irish Bank (GB) ("AIB GB") and in Northern Ireland operating under the trading name First Trust Bank ("FTB"). AIB UK operates through 30 branches and 5 business centres in Northern Ireland and 16 business centres in mainland UK.

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

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

Income attributable to capital is allocated to segments based on each segment's capital requirement. The cost of services between segments is based on the estimated actual cost incurred in providing the service.

1 Segmental information *(continued)*

Operations by business segment	RBB € m	CIB € m	AIB UK € m	Group € m	Total € m	Exceptional[1] items € m	Total € m
							Half-year 30 June 2015
Net interest income	619	174	148	(1)	940	–	940
Other income	176	176	50	7	409	7[2]	416
Total operating income	795	350	198	6	1,349	7	1,356
Personnel expenses	(203)	(36)	(45)	(72)	(356)	(13)[3]	(369)
General and administrative expenses	(115)	(20)	(30)	(88)	(253)	(33)[4]	(286)
Depreciation, impairment and amortisation	(20)	(2)	(1)	(16)	(39)	–	(39)
Total operating expenses	(338)	(58)	(76)	(176)	(648)	(46)	(694)
Operating profit/(loss) before provisions	457	292	122	(170)	701	(39)	662
Writeback of provisions for impairment on loans and receivables	510	26	4	–	540	–	540
Writeback of provisions for liabilities and commitments	–	3	–	–	3	13	16
Total writeback of provisions	510	29	4	–	543	13	556
Operating profit/(loss)	967	321	126	(170)	1,244	(26)	1,218
Associated undertakings	11	–	2	–	13	–	13
Profit on disposal of property	4	–	–	–	4	–	4
Profit/(loss) before taxation from continuing operations	982	321	128	(170)	1,261	(26)	1,235

[1]Exceptional and one-off items are shown separately above. These are items that management believes obscures the underlying performance trends in the business. Exceptional items include:
[2]Profit on transfer of financial instruments to NAMA;
[3]Termination benefits; and
[4]Restructuring and restitution expenses and capital restructuring costs.

For further information on these items see page 9.

Notes to the consolidated financial statements

1 Segmental information *(continued)*

							Half-year 30 June 2014 (Unaudited)
	RBB	CIB	AIB UK	Group	Total	Exceptional[1] items	Total
Operations by business segment	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net interest income	568	125	112	2	807	–	807
Other income	147	243	43	6	439	7[2]	446
Total operating income	715	368	155	8	1,246	7	1,253
Personnel expenses	(212)	(37)	(53)	(87)	(389)	(7)[3]	(396)
General and administrative expenses	(118)	(21)	(28)	(88)	(255)	(42)[4]	(297)
Depreciation, impairment and amortisation	(23)	(2)	(1)	(16)	(42)	–	(42)
Total operating expenses	(353)	(60)	(82)	(191)	(686)	(49)	(735)
Operating profit/(loss) before provisions	362	308	73	(183)	560	(42)	518
(Provisions) for impairment on loans and receivables	(10)	(16)	(66)	–	(92)	–	(92)
Operating profit/(loss)	352	292	7	(183)	468	(42)	426
Associated undertakings	5	–	4	–	9	–	9
Profit on disposal of property	2	–	–	_	2	–	2
Profit/(loss) before taxation from continuing operations	359	292	11	(183)	479	(42)	437

[1]Exceptional and one-off items are shown separately above. These are items that management believes obscures the underlying performance trends in the business. Exceptional items include:
[2]Profit on transfer of financial instruments to NAMA;
[3]Termination benefits; and
[4]Restructuring and restitution expenses.

For further information on these items see page 9.

1 Segmental information *(continued)*

Operations by business segment	RBB € m	CIB € m	AIB UK € m	Group € m	Total € m	Exceptional[1] items € m	Total € m
							Year 31 December 2014
Net interest income	*1,178*	*262*	*246*	*1*	*1,687*	*–*	*1,687*
Other income	*324*	*445*	*68*	*6*	*843*	*2*[2]	*845*
Total operating income	*1,502*	*707*	*314*	*7*	*2,530*	*2*	*2,532*
Personnel expenses	*(432)*	*(72)*	*(101)*	*(162)*	*(767)*	*(24)*[3]	*(791)*
General and administrative expenses	*(258)*	*(42)*	*(58)*	*(193)*	*(551)*	*(185)*[4]	*(736)*
Depreciation, impairment and amortisation	*(46)*	*(4)*	*(3)*	*(32)*	*(85)*	*(26)*	*(111)*
Total operating expenses	*(736)*	*(118)*	*(162)*	*(387)*	*(1,403)*	*(235)*	*(1,638)*
Operating profit/(loss) before provisions	*766*	*589*	*152*	*(380)*	*1,127*	*(233)*	*894*
Writeback/(provisions) for impairment on loans and receivables	*235*	*20*	*(70)*	*–*	*185*	*–*	*185*
Writeback/(provisions) for liabilities and commitments	*3*	*2*	*–*	*(1)*	*4*	*–*	*4*
(Provisions) for impairment on financial investments available for sale	*–*	*(1)*	*–*	*–*	*(1)*	*–*	*(1)*
Total writeback/(provisions)	*238*	*21*	*(70)*	*(1)*	*188*	*–*	*188*
Operating profit/(loss)	*1,004*	*610*	*82*	*(381)*	*1,315*	*(233)*	*1,082*
Associated undertakings	*18*	*–*	*5*	*–*	*23*	*–*	*23*
Profit on disposal of property	*3*	*–*	*3*	*–*	*6*	*–*	*6*
Profit/(loss) before taxation from continuing operations	*1,025*	*610*	*90*	*(381)*	*1,344*	*(233)*	*1,111*

[1]Exceptional and one-off items are shown separately above. These are items that management believes obscures the underlying performance trends in the business. Exceptional items include:
[2]Profit on transfer of financial instruments to NAMA;
[3]Termination benefits; and
[4]Restructuring and restitution expenses.

For further information on these items see page 9.

Other amounts – statement of financial position

	RBB € m	**CIB € m**	**AIB UK € m**	**Group € m**	**Total € m**
					30 June 2015
Loans and receivables to customers	**43,297**	**9,531**	**10,950**	**–**	**63,778**
Customer accounts	**38,917**	**13,098**	**12,456**	**–**	**64,471**

	RBB € m	CIB € m	AIB UK € m	Group € m	Total € m
					31 December 2014
Loans and receivables to customers	43,594	9,394	10,374	–	63,362
Customer accounts	37,699	14,815	11,504	–	64,018

Notes to the consolidated financial statements

1 Segmental information *(continued)*

Geographic information - continuing operations[1][2]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Half-year 30 June 2015 Total € m
Gross external revenue	**1,157**	**194**	**5**	**1,356**
Inter-geographical segment revenue	**11**	**(11)**	**–**	**–**
Total revenue	**1,168**	**183**	**5**	**1,356**

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

Geographic information - continuing operations[1][2]	*Republic of Ireland € m*	*United Kingdom € m*	*Rest of the World € m*	*Year 31 December 2014 Total € m*
Gross external revenue	*1,975*	*547*	*10*	*2,532*
Inter-geographical segment revenue	*314*	*(308)*	*(6)*	–
Total revenue	*2,289*	*239*	*4*	*2,532*

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

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	30 June 2015 Total € m
Non-current assets[3]	**450**	**23**	**1**	**474**

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	31 December 2014 Total € m
Non-current assets[3]	441	19	1	461

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

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

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

2 Interest and similar income	**Half-year 30 June 2015 € m**	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Interest on loans and receivables to customers	**1,198**	1,187	*2,421*
Interest on loans and receivables to banks	**11**	12	*22*
Interest on trading portfolio financial assets	**–**	–	*–*
Interest on NAMA senior bonds	**20**	47	*80*
Interest on financial investments available for sale	**258**	300	*567*
	1,487	1,546	*3,090*

Interest income includes a credit of € 69 million (30 June 2014: a credit of € 64 million; 31 December 2014: a credit of € 138 million) removed from other comprehensive income in respect of cash flow hedges.

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

Interest income recognised on impaired loans amounts to € 144 million (30 June 2014: € 173 million; 31 December 2014: € 329 million).

3 Interest expense and similar charges	**Half-year 30 June 2015 € m**	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Interest on deposits by central banks and banks	**5**	31	*46*
Interest on customer accounts	**295**	407	*766*
Interest on debt securities in issue	**111**	173	*335*
Interest on subordinated liabilities and other capital instruments	**136**	128	*256*
	547	739	*1,403*

Interest expense includes a charge of € 44 million (30 June 2014: a charge of € 45 million; 31 December 2014: a charge of € 92 million) removed from other comprehensive income in respect of cash flow hedges.

Included within interest expense is a charge of € 17 million (30 June 2014: a charge € 32 million; 31 December 2014: a charge of € 59 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

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

4 Dividend income

Dividend income relates to income from equity shares held as financial investments available for sale and amounts to € 25 million (30 June 2014: € 25 million; 31 December 2014: € 25 million). This dividend income was received on NAMA subordinated bonds.

Notes to the consolidated financial statements

5 Net fee and commission income	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Retail banking customer fees	**191**	183	*373*
Credit related fees	**20**	14	*30*
Insurance commissions	**19**	17	*27*
Fee and commission income	**230**	214	*430*
Fee and commission expense[(1)]	**(23)**	(19)	*(40)*
	207	195	*390*

[(1)]Fee and commission expense includes ATM expenses of € 3 million (30 June 2014: € 2 million; 31 December 2014: € 5 million) and credit card commissions of € 15 million (30 June 2014: € 13 million; 31 December 2014: € 26 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 2) or interest expense and similar charges (note 3).

6 Net trading income/(loss)	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Foreign exchange contracts	**23**	23	*45*
Interest rate contracts and debt securities	**44**	(15)	*(68)*
Credit derivative contracts	**–**	–	*(2)*
Equity securities, index contracts and warrants	**8**	–	*24*
	75	8	*(1)*

The total hedging ineffectiveness on cash flow hedges reflected in the income statement amounted to Nil (30 June 2014: Nil; 31 December 2014: Nil).

7 Profit on disposal/transfer of loans and receivables

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

	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Profit on disposal of loans and receivables to customers	**12**	43	*50*
Gain on transfer of loans and receivables to NAMA	**7**	7	*2*
Total	**19**	50	*52*

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

8 Other operating income

	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Profit on disposal of available for sale debt securities	**66**	133	*369*
Loss on termination of hedging swaps[1]	**(19)**	(40)	*(208)*
Profit on disposal of available for sale equity securities	**4**	16	*20*
Acceleration/re-estimation of the timing of cash flows on NAMA senior bonds *(note 25)*	**4**	22	*132*
Net gains on buy back of debt securities in issue	**7**	3	*(1)*
Miscellaneous operating income[2]	**28**	34	*67*
	90	168	*379*

[1]Realised loss where the hedged item was disposed of, the majority of which is reported in profit on disposal of available for sale debt securities.

[2]Miscellaneous operating income includes:

- Foreign exchange gains € 8 million (30 June 2014: a gain of € 5 million; 31 December 2014: a gain of € 11 million).
- Income of Nil in settlement of claim (30 June 2014: € 27 million; 31 December 2014: € 27 million).
- Nil charge relating to terminated cash flow hedges which has been removed from equity (30 June 2014: Nil; 31 December 2014: Nil).
- Effect of realisation/re-estimation of cash flows on loans and receivables previously restructured - credit of € 17 million (30 June 2014: Nil; 31 December 2014: a credit of € 24 million).

9 Administrative expenses

	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Personnel expenses:			
Wages and salaries	**283**	298	*599*
Termination benefits[1]	**13**	7	*24*
Retirement benefits[2] *(note 11)*	**54**	51	*91*
Social security costs	**26**	33	*66*
Other personnel expenses	**(7)**	7	*11*
Total personnel expenses	**369**	396	*791*
General and administrative expenses:			
Irish banking levy	**–**	–	*60*
Other general and administrative expenses	**286**	297	*676*
Total general and administrative expenses	**286**	297	*736*
	655	693	*1,527*

[1]At 30 June 2015, a charge of € 13 million (30 June 2014: a charge of € 7 million; 31 December 2014: a charge of € 24 million) was made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in the Group.

[2]Comprises a charge of € 11 million relating to defined benefit expense (30 June 2014: a charge of € 4 million; 31 December 2014: a credit of € 3 million), a defined contribution expense charge of € 40 million (30 June 2014: a charge of € 43 million; 31 December 2014: a charge of € 86 million) and a long term disability payments expense charge of € 3 million (30 June 2014: a charge of € 4 million; 31 December 2014: a charge of € 8 million (note 11).

10 Share-based compensation schemes

The Group has operated a number of share-based compensation schemes as outlined in this note on terms approved by the shareholders. The share-based compensation schemes which AIB Group has operated in respect of ordinary shares in Allied Irish Banks, p.l.c., are:

(i) The AIB Group Share Option Scheme;
(ii) Employees' Profit Sharing Schemes;
(iii) AIB Group Performance Share Plan 2005.

(i) AIB Group Share Option Scheme

Options were last granted under this scheme in 2005. This scheme terminated in April 2015 with all outstanding options either being forfeited or lapsed.

The following table summarises the share option scheme activity:

	Half-year 30 June 2015		Year-end 31 December 2014	
	Number of options '000	**Weighted average exercise price €**	Number of options '000	Weighted average exercise price €
Outstanding at 1 January	**1,205.0**	**16.20**	3,490.7	13.85
Exercised	**–**	**–**	–	–
Forfeited/lapsed	**(1,205.0)**	**16.20**	(2,285.7)	12.62
Outstanding at the end of the period	**–**	**–**	1,205.0	16.20
Exercisable at the end of the period	**–**	**–**	1,205.0	16.20

(ii) Employees' Profit Sharing Schemes

The Company operates the **'AIB Approved Employees' Profit Sharing Scheme 1998'** ('the Scheme') on terms approved by the shareholders at the 1998 Annual General Meeting. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods and being in employment on the date on which an invitation to participate is issued. The Directors, at their discretion, may set aside each year, for distribution under the Scheme, a sum not exceeding 5% of eligible profits of participating companies. No shares have been awarded under this Scheme since 2008.

(iii) AIB Group Performance Share Plan 2005

There were no awards of performance shares in either the half-year to 30 June 2015 or the year to 31 December 2014. This plan terminated in April 2015.

Income statement expense

The total expense arising from share-based payment transactions amounted to Nil for the period ended 30 June 2015 (30 June 2014: Nil; 31 December 2014: Nil).

11 Retirement benefits

The Group operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

From 1 January 2014, all Group staff transferred to defined contribution schemes with a standard employer contribution of 10% plus an additional matched employer contribution, subject to limits based on age bands of 12%, 15% or 18%. In 2015, the employer contribution is 12%, 15% or 18% for each employee who was employed on or before 31 December 2013, irrespective of whether the staff member makes a contribution. The same contribution arrangement applied in 2014.

The total cost in respect of the Irish DC scheme, the EBS DC scheme and the UK DC scheme for the half-year to 30 June 2015 was € 40 million (half-year to 30 June 2014: € 43 million; year to 31 December 2014: € 86 million). The cost in respect of defined contributions is included in administrative expenses (note 9).

Defined benefit schemes

All defined benefit schemes operated by the Group closed to future accrual with effect from 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by the Group are the AIB Group Irish Pension Scheme ('the Irish scheme') and the AIB Group UK Pension Scheme ('the UK scheme').

Retirement benefits for the defined benefit schemes are calculated by reference to service and Final Pensionable Salary at 31 December 2013. The Final Pensionable Salary used in the calculation of this benefit for staff is based on their average pensionable salary in the period between 30 June 2009 and 31 December 2013. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirement to revalue deferred benefits. There is no link to any future changes in salaries.

Regulatory framework

In Ireland, the Pensions Act provisions set out the requirement for a defined benefit scheme that fails the Minimum Funding Standard ("MFS") to have a funding plan in place and approved by the Pensions Authority. The objective of an MFS funding plan is to set out the necessary corrective action to restore the funding of the scheme over a reasonable time period and enable the scheme to meet the MFS standard, together with the additional risk reserve requirements, at a future date.

The AIB MFS funding proposal, which was agreed in 2013 under these regulatory requirements with the Pensions Authority and Trustee of the Irish Scheme, has four annual contributions of € 40 million remaining.

Responsibilities for governance

The Trustees of each Group pension scheme are ultimately responsible for the governance of the schemes.

Risks

Details of the Pension risk to which the Group is exposed is set out in the Risk section on page 139 of this report.

Valuations

Independent actuarial valuations for the main Irish and UK schemes are carried out on a triennial basis by the Schemes' actuary, Mercer. The last such valuations of the Irish and UK schemes were carried out as at 30 June 2012 and 31 December 2011 respectively using Projected Unit Methods. The next actuarial valuations of the Irish and UK schemes as at 30 June 2015 and 31 December 2014, will be completed by 31 March 2016 and 31 December 2015 respectively. Actuarial valuations are available for inspection by the members of the schemes.

Pension Levy

The Irish Finance (No 2) Act 2011 which was signed into law in June 2011, introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension schemes, for the years 2011 to 2014 (inclusive). The levy is based on the market value of the assets at the 30 June in each relevant year, or as at the end of the preceding financial year.

The Irish Finance Act 2014 which was signed into law in December 2014, introduced an additional stamp duty levy of 0.15% on the market value of the assets under management in Irish pension schemes, for the years 2014 and 2015 (inclusive). The levy is based on the market value of the assets at the 30 June in each relevant year, or as at the end of the preceding financial year.

In the half-year to 30 June 2015, the Group has recognised a charge of € 6 million in the statement of comprehensive income in respect of the full estimated 2015 pension levy on Irish defined benefit pension schemes (31 December 2014: € 30 million).

Notes to the consolidated financial statements

11 Retirement benefits *(continued)*

Contributions

The total contributions to all the defined benefit pension schemes operated by the Group in the year ended 31 December 2015 are estimated to be € 83.6 million. Payments in the half-year to 30 June 2015 amounted to € 44 million, of which € 42 million related to the Irish scheme, as required by regulation, as part of the Scheme's Minimum Funding Standard regulatory funding plan.

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of these financial statements in respect of the main schemes for the half-year ended 30 June 2015 and year ended 31 December 2014. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	**30 June 2015 %**	31 December 2014 %
Irish scheme		
Rate of increase of pensions in payment	**1.40**[(1)]	1.40
Discount rate	**2.60**	2.20
Inflation assumptions	**1.75**	1.75
UK scheme		
Rate of increase of pensions in payment	**3.20**	3.00
Discount rate	**3.80**	3.70
Inflation assumptions (RPI)	**3.20**	3.00
Other schemes		
Rate of increase of pensions in payment	**0.00 – 3.10**	0.00 – 3.00
Discount rate	**2.60 – 4.15**	2.20 – 4.00
Inflation assumptions	**1.50 – 3.10**	1.75 – 3.00

[(1)]Nil for the next 2.5 years and 1.75% per annum thereafter.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 30 June 2015 and 31 December 2014 are shown in the following table:

		Life expectancy - years			
		Irish scheme		**UK scheme**	
		30 June 2015	31 December 2014	**30 June 2015**	31 December 2014
Retiring today age 63					
	Males	**24.8**	24.8	**26.4**	26.3
	Females	**26.2**	26.2	**28.7**	28.6
Retiring in 10 years at age 63					
	Males	**26.1**	26.1	**27.6**	27.5
	Females	**27.3**	27.3	**29.9**	29.8

The mortality assumptions for the Irish scheme were updated in 2013 to reflect emerging market experience following a review of mortality undertaken by the Society of Actuaries in 2013. The table shows that a member of the Irish scheme retiring at age 63 on 30 June 2015 is assumed to live on average for 24.8 years for a male (26.4 years for the UK scheme) and 26.2 years for a female (28.7 years for the UK scheme). There will be variation between members but these assumptions are expected to be appropriate for all members. The table also shows the life expectancy for members aged 53 on 30 June 2015 who will retire in ten years. Younger members are expected to live longer in retirement than those retiring now, reflecting a decrease in mortality rates in future years due to advances in medical science and improvements in standards of living.

11 Retirement benefits *(continued)*

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets for the half year ended 30 June 2015 and year ended 31 December 2014:

			30 June 2015			31 December 2014
	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit (liability) asset € m	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit (liability) asset € m
At 1 January	(7,071)	6,007	(1,064)	(5,336)	5,242	(94)
Included in profit or loss						
Past service cost	(1)	–	(1)	4	–	4
Interest cost (income)	(89)	79	(10)	(215)	215	–
Administration costs	–	–	–	–	(1)	(1)
	(90)	79	(11)	(211)	214	3
Included in other comprehensive income						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from:						
Experience adjustments	–	–	–	16	–	16
Changes in demographic assumptions	–	–	–	–	–	–
Changes in financial assumptions	430	–	430	(1,631)	–	(1,631)
Return on scheme assets excluding interest income[(1)]	–	78	78	–	548	548
Translation adjustment on non-euro schemes	(131)	144	13	(87)	94	7
	299	222	521	(1,702)	642	(1,060)
Other						
Contributions by employer	–	44	44	–	87	87
Benefits paid	89	(89)	–	178	(178)	–
	89	(45)	44	178	(91)	87
At end of period	(6,773)	6,263	(510)	(7,071)	6,007	(1,064)

	30 June 2015	31 December 2014
Recognised on the statement of financial position as:		
Retirement benefit assets		
– UK scheme	118	164
– Other schemes	13	11
Total retirement benefit assets	131	175
Retirement benefit liabilities		
– Irish scheme	(563)	(1,125)
– EBS scheme	(58)	(97)
– Other schemes	(20)	(17)
Total retirement benefit liabilities	(641)	(1,239)
Net pension deficit	(510)	(1,064)

[(1)]Includes payment of pension levy.

11 Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets for the half year ended 30 June 2015 and year ended 31 December 2014:

	30 June 2015 € m	31 December 2014 € m
Cash and cash equivalents	**177**	185
Equity instruments		
Quoted equity instruments:		
Basic materials	**74**	70
Consumer goods	**189**	180
Consumer services	**161**	148
Energy	**105**	106
Financials	**331**	312
Healthcare	**163**	147
Industrials	**176**	169
Technology	**156**	150
Telecoms	**52**	49
Utilities	**45**	48
Total quoted equity instruments	**1,452**	1,379
Unquoted equity instruments	**11**	10
Total equity instruments	**1,463**	1,389
Debt instruments		
Quoted debt instruments		
Corporate bonds	**956**	823
Government bonds	**977**	869
Total quoted debt instruments	**1,933**	1,692
Unquoted debt instruments		
Corporate bonds	**49**	49
Government bonds	**–**	28
Total unquoted debt instruments	**49**	77
Total debt instruments	**1,982**	1,769
Real estate[(1)(2)]	**248**	230
Derivatives[(2)]	**39**	5
Investment funds		
Quoted investment funds		
Alternatives	**–**	13
Bonds	**424**	420
Cash	**38**	24
Equity	**87**	133
Fixed interest	**102**	82
Forestry	**36**	35
Liability driven	**869**	801
Multi-asset	**324**	423
Property	**1**	1
Total quoted investment funds	**1,881**	1,932
Total investment funds	**1,881**	1,932
Mortgage backed securities[(2)]	**463**	486
Structured debt	**10**	11
Fair value of scheme assets at end of period	**6,263**	6,007

[(1)]Located in Europe.

[(2)]A quoted market price in an active market is not available.

11 Retirement benefits *(continued)*

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the pension schemes. Set out in the table below is a sensitivity analysis of the key assumptions for the Irish scheme and the UK scheme at 30 June 2015.

Note that the changes in assumptions are independent of each other i.e. the effect of the reflected change in the discount rate assumes that there has been no change in the rate of mortality assumption and vice versa.

	Irish scheme defined benefit obligation		UK scheme defined benefit obligation	
	Increase € m	Decrease € m	Increase € m	Decrease € m
Discount rate (0.25% movement)	**(245)**	**256**	**(67)**	**71**
Inflation (0.25% movement)	**260**	**(248)**	**67**	**(64)**
Future mortality (1 year movement)	**151**	**(151)**	**40**	**(40)**

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 30 June 2015 is 21 years and of the UK scheme at 30 June 2015 is 20 years.

Asset-liability matching strategies

The Irish Scheme continues to review its investment strategies which included a consideration of the nature and duration of its liabilities. The current Minimum Funding Standard regulatory funding plan requires that the scheme's investment strategy takes account of the liabilities by the completion of the plan in 2018. The UK scheme has already implemented a de-risking strategy that has resulted in a significant investment in liability matching assets. This strategy includes the elimination of all equity investments and the investment of all assets in a combination of corporate bonds, sovereign bonds and liability matching instruments.

Funding arrangements and policy

In addition to the funding arrangement set out in 'Regulatory framework' on page 189, AIB executed a series of agreements on 22 October 2013 to give effect to an asset backed funding plan for the UK scheme which replaced the previous funding plan. Based on the results of the 31 December 2011 valuation, the asset backed funding plan grants the scheme expected annual payments of £ 22.4 million (range of £ 15 million to £ 35 million), which will be payable quarterly from 1 January 2016 to 31 December 2032. In addition, if the 31 December 2032 actuarial valuation of the scheme reveals a deficit, the scheme will receive a termination payment equal to the lower of that deficit or £ 60 million (note 45).

Long-term disability payments

AIB provides an additional benefit to employees who suffer prolonged periods of sickness, subject to qualifying terms of the insurer. It provides for the partial replacement of income in event of illness or injury resulting in the employee's long term absence from work. In the half-year to the 30 June 2015, the Group contributed € 3 million (half-year to 30 June 2014: € 4 million; year to 31 December 2014: €8 million) towards insuring this benefit. This amount is included in administrative expenses (note 9).

12 Provisions for impairment on financial investments available for sale

	Half-year 30 June 2015	Half-year 30 June 2014 (Unaudited)	*Year 31 December 2014*
	€ m	€ m	*€ m*
Debt securities *(note 26)*	**–**	–	*(1)*

13 Profit on disposal of property

2015

The sale of properties surplus to requirements gave rise to profit on disposal of € 4 million during the half-year to 30 June 2015.

2014

The sale of properties surplus to requirements gave rise to profit on disposal of € 2 million during the half-year to 30 June 2014 and € 6 million in the year to 31 December 2014.

14 Taxation

	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	Year 31 December 2014 € m
Allied Irish Banks, p.l.c. and subsidiaries			
Corporation tax in Republic of Ireland			
Current tax on income for the period	(1)	(1)	(1)
Adjustments in respect of prior periods	–	–	–
	(1)	(1)	(1)
Foreign tax			
Current tax on income for the period	(3)	–	–
Adjustments in respect of prior periods	4	33	34
	1	33	34
	–	32	33
Deferred taxation			
Origination and reversal of temporary differences	(149)	(62)	(156)
Adjustments in respect of prior periods	(4)	(30)	(21)
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(242)	–	(86)
	(395)	(92)	(263)
Total tax charge for the period	(395)	(60)	(230)
Effective tax rate	32%	13.7%	20.7%

Factors affecting the effective tax rate

The effective income tax rate for the half-year to 30 June 2015 is 32% (30 June 2014: 13.7%; 31 December 2014: 20.7%). The following table explains the differences between the Group's weighted average statutory corporation tax rates across its geographic locations and its effective income tax rate:

	Half-year 30 June 2015 %	Half-year 30 June 2014 (Unaudited) %	Year 31 December 2014 %
Weighted average corporation tax rate	13.1	11.7	12.3
Effects of:			
Expenses not deductible for tax purposes	0.2	1.5	1.8
Exempted income, income at reduced rates and tax credits	(0.2)	(0.5)	(0.2)
Income taxed at higher rates	–	0.2	–
Deferred tax assets not recognised/reversal of amounts previously not recognised	(0.4)	1.3	8.5
Other differences	(0.3)	0.2	(0.6)
Change in tax rates	–	–	–
Adjustments to tax charge in respect of previous periods	–	(0.7)	(1.1)
Impact of change in tax legislation on deferred tax asset[1]	19.6	–	–
Effective income tax rate	32.0	13.7	20.7

[1]See note 30.

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Notes to the consolidated financial statements

14 Taxation *(continued)*

Analysis of selected other comprehensive income

Continuing operations	**Half-Year 30 June 2015** Gross €m	Tax €m	Net €m	Half-year 30 June 2014 (Unaudited) Gross €m	Tax €m	Net €m	*Year 31 December 2014* Gross €m	Tax €m	Net €m
Retirement benefit schemes									
Actuarial gains/(losses) in retirement benefit schemes	**508**	**(59)**	**449**	(557)	70	(487)	*(1,067)*	*128*	*(939)*
Total	**508**	**(59)**	**449**	(557)	70	(487)	*(1,067)*	*128*	*(939)*
Foreign currency translation reserves									
Change in foreign currency translation reserves	**34**	**–**	**34**	14	–	14	*27*	*–*	*27*
Total	**34**	**–**	**34**	14	–	14	*27*	*–*	*27*
Cash flow hedging reserves									
Fair value (gains) transferred to income statement	**(25)**	**3**	**(22)**	(19)	2	(17)	*(46)*	*5*	*(41)*
Fair value (losses)/gains taken to other comprehensive income	**(146)**	**16**	**(130)**	240	(30)	210	*445*	*(56)*	*389*
Total	**(171)**	**19**	**(152)**	221	(28)	193	*399*	*(51)*	*348*
Available for sale securities reserves									
Fair value (gains) transferred to income statement	**(70)**	**9**	**(61)**	(149)	20	(129)	*(388)*	*48*	*(340)*
Fair value (losses)/gains taken to other comprehensive income	**(81)**	**3**	**(78)**	843	(110)	733	*1,223*	*(155)*	*1,068*
Total	**(151)**	**12**	**(139)**	694	(90)	604	*835*	*(107)*	*728*

15 Discontinued operations

2015

There were no discontinued operations in the half-year to 30 June 2015.

Disposal of Ark Life in 2014

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

16 Earnings per share

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

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

(a) Basic	**Half-year 30 June 2015 € m**	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Profit attributable to equity holders of the parent from continuing operations	**840**	377	*881*
Dividend on the 2009 Preference Shares	**(280)**	–	–
Profit attributable to ordinary shareholders of the parent from continuing operations	**560**	377	*881*
Profit attributable to ordinary shareholders from discontinued operations	**–**	34	*34*
Profit attributable to ordinary shareholders	**560**	411	*915*
	Number of shares (millions)		
Weighted average number of ordinary shares in issue during the period	**523,437.0**	521,849.1	*522,649.5*
Earnings per share from continuing operations – basic	**EUR 0.1c**	EUR 0.1c	*EUR 0.2c*
Earnings per share from discontinued operations – basic	**–**	–	–

(b) Diluted	**Half-year 30 June 2015 € m**	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Profit attributable to ordinary shareholders of the parent from continuing operations *(note 16 (a))*	**560**	377	*881*
Dilutive effect of CCN's interest charge	**125**	–	*234*
Adjusted profit attriibutable to ordinary shareholders from continuing operations	**685**	377	*1,115*
Profit attributable to ordinary shareholders of the parent from discontinued operations	**–**	34	*34*
Adjusted profit attributable to ordinary shareholders	**685**	411	*1,149*
	Number of shares (millions)		
Weighted average number of ordinary shares in issue during the period	**523,437.0**	521,849.1	*522,649.6*
Dilutive effect of options outstanding	**–**	–	–
Dilutive effect of CCNs	**160,000.0**	–	*160,000.0*
Potential weighted average number of shares	**683,437.0**	521,849.1	*682,649.6*
Earnings per share from continuing operations - diluted	**EUR 0.1c**	EUR 0.1c	*EUR 0.2c*
Earnings per share from discontinued operations - diluted	**–**	–	–

16 Earnings per share *(continued)*

- Bonus shares in lieu of the dividend on the 2009 Preference Shares were issued to the NPRFC[1] in May 2014, amounting to 2,177,293,934 ordinary shares (note 38). These bonus shares have been included in the weighted average number of shares in issue prospectively from the date of issue as they represent a dilution of earnings per share from that date.
- The incremental shares from assumed conversion of options were not included in calculating the diluted per share amounts because they were anti-dilutive. All outstanding options lapsed or were forfeited during the half-year to 30 June 2015.
- In July 2011, AIB issued € 1.6 billion in contingent capital notes ("CCNs"). These notes are mandatorily redeemable and will convert to AIB ordinary shares, by dividing the capital amount of € 1.6 billion by the conversion price of € 0.01 resulting in 160 billion new ordinary shares (note 37), if the Core Tier 1 capital ratio falls below 8.25%. These incremental shares have been included in calculating the diluted per share amounts in both the half-year to 30 June 2015 and in the year to 31 December 2014 because they were dilutive. In the half-year to 30 June 2014, these shares were excluded in calculating the diluted per share amounts as they were anti-dilutive. However, the impact is minimal.

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

[1]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

17 Distributions on equity shares

Dividends were not paid in either 2015 or 2014 on the ordinary equity shares. A dividend amounting to € 280 million was paid on 13 May 2015 on the 2009 Preference Shares. In 2014, bonus ordinary shares were issued in lieu of dividend to the 2009 Preference Shareholders (note 38).

18 Disposal groups and non-current assets held for sale

	30 June 2015 € m	31 December 2014 € m
Total disposal groups and non-current assets held for sale	**4**	14

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

19 Trading portfolio financial assets

	30 June 2015 € m	31 December 2014 € m
Debt securities		
Government securities	282	–
Other debt securities[1]	67	–
	349	–
Equity shares	1	1
	350	1

	30 June 2015 € m	31 December 2014 € m
Of which listed:		
Debt securities	349	–
Of which unlisted:		
Equity shares	1	1
	350	1

[1]Other debt securities include € 48 million corporate bonds and € 19 million bank bonds.

For contractual residual maturity see Liquidity risk 3.3.

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 2015 was € 40 million (31 December 2014: € 42 million; 2013: € 467 million; 2012: € 1,025 million; 2011: € 1,410 million; 2010: € 2,538 million; 2009: € 4,104 million; 2008: € 5,674 million).

As at the reclassification date, effective variable interest rates on reclassified trading portfolio financial assets ranged from 4% to 10% with expected gross recoverable cash flows of € 7,105 million. If the reclassification had not been made, the Group's income statement for the half-year ended 30 June 2015 would have included unrealised fair value losses on reclassified trading portfolio financial assets of € 2 million (30 June 2014: gains € 14 million; 31 December 2014: gains of € 15 million).

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

	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Interest on financial investments available for sale	1	1	*2*
Provisions for impairment on financial investments available for sale	–	–	*(1)*

Up to the date of reclassification in 2008, € 55 million of unrealised losses on the reclassified trading portfolio financial assets were recognised in the income statement (year ended December 2007: € 111 million).

Notes to the consolidated financial statements

20 Derivative financial instruments

Derivatives are used to service customer requirements, to manage the Group's interest rate, exchange rate, equity and credit exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices.

Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates.

Credit risk in derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract (i.e. contracts with a positive fair value). The Group would then have to replace the contract at the current market rate, which may result in a loss. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

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

	30 June 2015 € m	31 December 2014 € m
Interest rate contracts(1)		
Notional principal amount	**97,454**	73,230
Positive fair value	**1,512**	1,852
Negative fair value	**(2,082)**	(2,136)
Exchange rate contracts(1)		
Notional principal amount	**6,250**	4,816
Positive fair value	**63**	48
Negative fair value	**(79)**	(73)
Equity contracts(1)		
Notional principal amount	**2,777**	3,010
Positive fair value	**131**	138
Negative fair value	**(130)**	(117)
Credit derivatives(1)		
Notional principal amount	**640**	340
Positive fair value	**–**	–
Negative fair value	**(9)**	(8)
Total notional principal amount	**107,121**	81,396
Total positive fair value(2)	**1,706**	2,038
Total negative fair value	**(2,300)**	(2,334)

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

(2)At 30 June 2015, 68% of fair value relates to exposures to banks (31 December 2014: 70%).

20 Derivative financial instruments *(continued)*

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.

The following table analyses the total notional principal amount of interest rate, exchange rate, equity and credit derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant for the half-year ended 30 June 2015 and the year ended 31 December 2014:

	30 June 2015				31 December 2014			
	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
Residual maturity								
Notional principal amount	**50,625**	**34,853**	**21,643**	**107,121**	30,037	33,844	17,515	81,396
Positive fair value	**165**	**681**	**860**	**1,706**	98	820	1,120	2,038

AIB Group has the following concentration of exposures in respect of notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		Positive fair value	
	30 June 2015 € m	31 December 2014 € m	30 June 2015 € m	31 December 2014 € m
Republic of Ireland	**104,018**	78,035	**1,243**	1,542
United Kingdom	**2,626**	2,886	**440**	469
United States of America	**477**	475	**23**	27
	107,121	81,396	**1,706**	2,038

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20 Derivative financial instruments *(continued)*

Trading activities

The Group maintains trading positions in a variety of financial instruments including derivatives. These derivative financial instruments include interest rate, foreign exchange, equity and credit derivatives. Most of these positions arise as a result of activity generated by corporate customers while the remainder represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis and the level of credit risk is minimised by dealing with counterparties of good credit standing and by the use of Credit Support Annexes and ISDA Master Netting Agreements. As the traded instruments are recognised at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

The Group undertakes trading activities in interest rate contracts with the Group being a party to interest rate swap, forward, future, option, cap and floor contracts. The Group's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount.

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or transacting derivatives is the management of interest rate and foreign exchange risks which arise within the banking book through the operations of the Group as outlined below.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives. Similarly, foreign exchange derivatives can be used to hedge the Group's exposure to foreign exchange risk.

Derivative prices fluctuate in value as the underlying interest rate or foreign exchange rates change. If the derivatives are purchased or sold as hedges of statement of final position items, the appreciation or depreciation of the derivatives will generally be offset by the unrealised depreciation or appreciation of the hedged items.

To achieve its risk management objectives, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, cross currency interest rate swaps, forward rate agreements, futures, options and currency swaps, as well as other contracts. The notional principal and fair value amounts for instruments held for risk management purposes entered into by the Group at the half-year ended 30 June 2015 and the year ended 31 December 2014, are presented within this note.

20 Derivative financial instruments *(continued)*

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose for the half-year ended 30 June 2015 and the year ended 31 December 2014. A description of how the fair values of derivatives are determined is set out in note 46.

	30 June 2015			31 December 2014		
	Notional principal amount	Fair values Assets	Liabilities	Notional principal amount	Fair values Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter ("OTC")						
Interest rate swaps	16,279	721	(821)	17,182	789	(905)
Cross-currency interest rate swaps	625	68	(64)	629	46	(42)
Interest rate options bought and sold	1,044	4	(5)	677	3	(5)
Total interest rate derivatives – OTC	17,948	793	(890)	18,488	838	(952)
Interest rate derivatives – OTC – central clearing						
Interest rate swaps	100	–	–	–	–	–
Total interest rate derivatives – central clearing	100	–	–	–	–	–
Interest rate derivatives – exchange traded						
Interest rate futures bought and sold	26,666	–	–	1,706	–	–
Total interest rate derivatives – exchange traded	26,666	–	–	1,706	–	–
Total interest rate derivatives	44,714	793	(890)	20,194	838	(952)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	6,046	59	(77)	4,650	46	(70)
Currency options bought and sold	204	4	(2)	166	2	(3)
Total foreign exchange derivatives	6,250	63	(79)	4,816	48	(73)
Equity derivatives – OTC						
Equity warrants	2	2	–	23	23	–
Equity index options bought and sold	2,775	129	(130)	2,987	115	(117)
Total equity derivatives	2,777	131	(130)	3,010	138	(117)
Credit derivatives – OTC						
Credit derivatives	640	–	(9)	340	–	(8)
Total credit derivatives	640	–	(9)	340	–	(8)
Total derivatives held for trading	54,381	987	(1,108)	28,360	1,024	(1,150)
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	15,677	345	(514)	17,130	500	(587)
Total derivatives designated as fair value hedges	15,677	345	(514)	17,130	500	(587)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	34,352	369	(372)	32,792	511	(380)
Cross currency interest rate swaps	2,711	5	(306)	3,114	3	(217)
Total derivatives designated as cash flow hedges	37,063	374	(678)	35,906	514	(597)
Total derivatives held for hedging	52,740	719	(1,192)	53,036	1,014	(1,184)
Total derivative financial instruments	107,121	1,706	(2,300)	81,396	2,038	(2,334)

20 Derivative financial instruments *(continued)*

Cash flow hedges

The table below sets out the hedged cash flows which are expected to occur in the following periods:

	30 June 2015				
	Within 1 year € m	**Between 1 and 2 years € m**	**Between 2 and 5 years € m**	**More than 5 years € m**	**Total € m**
Forecast receivable cash flows	**21**	**29**	**216**	**248**	**514**
Forecast payable cash flows	**7**	**13**	**58**	**96**	**174**

	31 December 2014				
	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	27	16	83	114	240
Forecast payable cash flows	8	11	52	80	151

The table below sets out the hedged cash flows, including amortisation of terminated cash flow hedges, which are expected to impact the income statement in the following periods:

	30 June 2015				
	Within 1 year € m	**Between 1 and 2 years € m**	**Between 2 and 5 years € m**	**More than 5 years € m**	**Total € m**
Forecast receivable cash flows	**21**	**29**	**216**	**248**	**514**
Forecast payable cash flows	**32**	**31**	**95**	**114**	**272**

	31 December 2014				
	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	27	16	83	114	240
Forecast payable cash flows	33	32	97	99	261

For AIB Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges at 30 June 2015 is Nil (31 December 2014: Nil).

The pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities and the receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets.

The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges at 30 June 2015 was a charge of € 152 million (30 June 2014: a gain of € 193 million; 31 December 2014: a gain of € 348 million).

Fair value hedges

Fair value hedges are entered into to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily, available for sale securities and fixed rate liabilities. The fair values of financial instruments are set out in note 47. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments at 30 June 2015 is negative € 136 million (31 December 2014: negative € 161 million) and the net mark to market on the related hedged items at 30 June 2015 is positive € 131 million (31 December 2014: positive € 157 million).

Netting financial assets and financial liabilities

Derivative financial instruments are shown on the statement of financial position at their fair value, those with a positive fair value are reported as assets and those with a negative fair value are reported as liabilities.

Details on offsetting financial assets and financial liabilities are set out in note 42.

21 Loans and receivables to banks

	30 June 2015 € m	31 December 2014 € m
Funds placed with central banks	**670**	664
Funds placed with other banks	**2,693**	1,201
	3,363	1,865
Amounts include:		
Reverse repurchase agreements	**1,177**	–

Loans and receivables to banks by geographical area[1]	30 June 2015 € m	31 December 2014 € m
Republic of Ireland	**1,567**	402
United Kingdom	**1,793**	1,461
Rest of the World	**3**	2
	3,363	1,865

[1]The classification of loans and receivables to banks by geographical area is based primarily on the location of the office recording the transaction.

Loans and receivables to banks at 30 June 2015 include cash collateral of € 1,047 million placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties (31 December 2014: € 773 million) (notes 20 and 42).

Under reverse repurchase agreements, the Group accepted collateral that it was permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted exclusively of non-government securities (bank bonds) with a fair value of € 1,291 million. These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

22 Loans and receivables to customers

	30 June 2015 € m	31 December 2014 € m
Loans and receivables to customers	**72,089**	74,651
Reverse repurchase agreements	**29**	110
Amounts receivable under finance leases and hire purchase contracts *(note 23)*	**1,021**	860
Unquoted debt securities	**118**	147
Provisions for impairment *(note 24)*	**(9,479)**	(12,406)
	63,778	63,362
Of which repayable on demand or at short notice	**20,638**	25,078

The unwind of the discount on the carrying amount of impaired loans amounted to € 144 million (30 June 2014: € 173 million) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of € 29 million (31 December 2014: € 107 million) that it is permitted to sell or repledge in the absence of default by the owner of the collateral. In addition, loans and receivables to customers includes cash collateral amounting to € 90 million (31 December 2014: € 72 million) placed with derivative counterparties.

For details of credit quality of loans and receivables to customers, including forbearance, refer to 'Risk management – 3.1 and 3.2'.

23 Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements involving vehicles, plant, machinery and equipment.

	30 June 2015 € m	31 December 2014 € m
Gross receivables		
Not later than 1 year	**197**	386
Later than one year and not later than 5 years	**868**	578
Later than 5 years	**55**	29
	1,120	993
Unearned future finance income	**(103)**	(136)
Deferred costs incurred on origination	**4**	3
Total	**1,021**	860
Present value of minimum payments analysed by residual maturity		
Not later than 1 year	**169**	315
Later than one year and not later than 5 years	**802**	519
Later than 5 years	**50**	26
Present value of minimum payments	**1,021**	860
Provision for uncollectible minimum payments receivable[1]	**73**	80
Net investment in new business	**322**	462

[1]Included in the provisions for impairment on loans and receivables (note 24).

24 Provisions for impairment on loans and receivables

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

	30 June 2015 € m	31 December 2014 € m
At 1 January	**12,406**	17,090
Exchange translation adjustments	**172**	150
Credit to income statement – customers	**(540)**	(178)
Credit to income statement – banks	**–**	(7)
Amounts written off	**(2,562)**	(4,655)
Recoveries of amounts written off in previous years	**3**	6
At end of period	**9,479**	12,406
Total provisions are split as follows:		
Specific	**8,577**	11,315
IBNR	**902**	1,091
	9,479	12,406
Amounts include:		
Loans and receivables to customers *(note 22)*	**9,479**	12,406

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 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 2015 € m	31 December 2014 € m
At 1 January	**9,423**	15,598
Amortisation of discount	**12**	36
Repayments	**(1,917)**	(6,343)
Acceleration/re-estimation of the timing of cash flows	**4**	132
At end of period	**7,522**	9,423

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. These assumptions underpinning the repayments and their timing are subject to continuing review. Accordingly, in 2015, a gain of € 4 million has been recognised following the acceleration of repayments by NAMA (31 December 2014: a gain of € 132 million was recognised on re-estimation of expected timing of repayments). These gains were accounted for as adjustments to the carrying value of the bonds and were reflected in 'Other operating income'.

The estimated fair value of the bonds at 30 June 2015 is € 7,550 million (31 December 2014: € 9,479 million). The nominal value of the bonds is € 7,560 million (31 December 2014: € 9,477 million). Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of A- (31 December 2014: A-) i.e. the external rating of the Sovereign.

At 30 June 2015, € 257 million (31 December 2014: € 1,805 million) of NAMA senior bonds have been pledged to central banks and banks (note 31).

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26 Financial investments available for sale

The following table sets out at 30 June 2015 and 31 December 2014, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses.

						30 June 2015
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities						
Irish Government securities	9,097	1,168	(7)	1,161	(145)	1,016
Euro government securities	3,047	92	(18)	74	(9)	65
Non Euro government securities	233	7	(4)	3	–	3
Supranational banks and government agencies	2,483	95	(2)	93	(12)	81
Collateralised mortgage obligations	233	–	(1)	(1)	–	(1)
Other asset backed securities	1	–	–	–	–	–
Euro bank securities	4,236	84	(9)	75	(9)	66
Euro corporate securities	15	–	–	–	–	–
Non Euro corporate securities	24	2	(2)	–	–	–
Total debt securities	**19,369**	**1,448**	**(43)**	**1,405**	**(175)**	**1,230**
Equity securities						
Equity securities – NAMA subordinated bonds	414	367	–	367	(46)	321
Equity securities – other	45	15	(3)	12	(2)	10
Total equity securities	**459**	**382**	**(3)**	**379**	**(48)**	**331**
Total financial investments available for sale	**19,828**	**1,830**	**(46)**	**1,784**	**(223)**	**1,561**

						31 December 2014
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities						
Irish Government securities	9,107	1,327	–	1,327	(166)	1,161
Euro government securities	3,631	170	–	170	(21)	149
Non Euro government securities	182	9	–	9	(1)	8
Supranational banks and government agencies	2,852	119	–	119	(15)	104
Collateralised mortgage obligations	99	–	(1)	(1)	–	(1)
Other asset backed securities	1	–	–	–	–	–
Euro bank securities	3,897	105	–	105	(13)	92
Non Euro corporate securities	3	–	(1)	(1)	–	(1)
Total debt securities	19,772	1,730	(2)	1,728	(216)	1,512
Equity securities						
Equity securities – NAMA subordinated bonds	374	327	–	327	(41)	286
Equity securities – other	39	11	(3)	8	(2)	6
Total equity securities	413	338	(3)	335	(43)	292
Total financial investments available for sale	20,185	2,068	(5)	2,063	(259)	1,804

26 Financial investments available for sale *(continued)*

Analysis of movements in financial investments available for sale	Debt securities 30 June 2015 € m	Equity securities 30 June 2015 € m	Total 30 June 2015 € m	Debt securities 31 December 2014 € m	Equity securities 31 December 2014 € m	Total 31 December 2014 € m
At 1 January	19,772	413	20,185	20,251	117	20,368
Exchange translation adjustments	23	–	23	14	–	14
Purchases	2,648	6	2,654	7,324	12	7,336
Sales	(2,478)	(3)	(2,481)	(8,022)	(24)	(8,046)
Maturities	(289)	–	(289)	(735)	–	(735)
Writeback of provisions for impairment	–	–	–	(1)	–	(1)
Amortisation of discounts net of premiums	(48)	–	(48)	(67)	–	(67)
Movement in unrealised (losses)/gains	(259)	43	(216)	1,008	308	1,316
At end of period	19,369	459	19,828	19,772	413	20,185
Of which:						
Listed	19,369	–	19,369	19,772	–	19,772
Unlisted	–	459	459	–	413	413
	19,369	459	19,828	19,772	413	20,185

Debt securities analysed by remaining contractual maturity	30 June 2015 € m	31 December 2014 € m
Due within one year	901	507
After one year, but within five years	11,820	11,678
After five years, but within ten years	5,877	6,918
After ten years	771	669
	19,369	19,772

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26 Financial investments available for sale *(continued)*

The following table sets out an analysis of the securities portfolio with unrealised losses, distinguishing between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months.

						30 June 2015
			Fair value			Unrealised losses
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities						
Irish Government securities	160	–	160	(7)	–	(7)
Euro government securities	819	–	819	(18)	–	(18)
Non Euro government securities	141	–	141	(4)	–	(4)
Supranational banks and government agencies	114	–	114	(2)	–	(2)
Collateralised mortgage obligations	183	–	183	(1)	–	(1)
Euro bank securities	1,083	–	1,083	(9)	–	(9)
Non Euro corporate securities	–	2	2	–	(2)	(2)
Total debt securities	2,500	2	2,502	(41)	(2)	(43)
Equity securities						
Equity securities – other	4	17	21	(1)	(2)	(3)
Total	2,504	19	2,523	(42)	(4)	(46)

						31 December 2014
			Fair value			Unrealised losses
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities						
Collateralised mortgage obligations	70	–	70	(1)	–	(1)
Non Euro corporate securities	–	3	3	–	(1)	(1)
Total debt securities	70	3	73	(1)	(1)	(2)
Equity securities						
Equity securities – other	11	5	16	(2)	(1)	(3)
Total	81	8	89	(3)	(2)	(5)

Available for sale financial investments with unrealised losses have been assessed for impairment based on the credit risk profile of the counterparties involved. Impairment losses on debt securities of Nil (31 December 2014: € 1 million) and Nil (31 December 2014: Nil) on equity securities have been recognised as set out in note 12.

27 Interests in associated undertakings

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

Income statement	**Half-year 30 June 2015 € m**	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Share of results of associated undertakings[1]	**13**	7	*23*
Impairment of associated undertakings	**–**	(1)	*(2)*
Gain on disposal of investment in associated undertakings	**–**	3	*2*
	13	9	*23*

Share of net assets including goodwill	**30 June 2015 € m**	31 December 2014 € m
At 1 January	**69**	58
Exchange translation adjustments	**–**	1
Income for the period – Continuing operations	**13**	23
Dividends received from associates	**(9)**	(11)
Impairment on associated undertakings – Continuing operations	**–**	(2)
At end of period[2]	**73**	69
Disclosed in the statement of financial position within:		
Interests in associated undertakings	**73**	69
Of which listed on a recognised stock exchange	**–**	–

[1]Includes AIB Merchant Services € 11 million profit (30 June 2014: € 6 million profit; 31 December 2014: € 21 million profit), Aviva Health Insurance Ireland Limited € 2 million profit (30 June 2014: € 1 million profit; 31 December 2014: € 2 million profit) and other associates Nil (30 June 2014: Nil; 31 December 2014: Nil).

[2]Includes the Group's investments in AIB Merchant Services and Aviva Health Insurance Ireland Limited (31 December 2014: AIB Merchant Services and Aviva Health Insurance Ireland Limited).

27 Interests in associated undertakings *(continued)*

The following are the principal associates of the Group:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group at 30 June 2015 %	31 December 2014 %
(A) Aviva Health Insurance Ireland Limited	Transaction of health insurance business within the Republic of Ireland	1 Park Place Hatch Street, Dublin 2 Ireland	30	30
(B) Zoltar Services Limited trading as AIB Merchant Services	Provider of merchant payment solutions	Registered Office: Unit 6, Belfield Business Park Clonskeagh, Dublin 4 Ireland	49.9	49.9

All of the associates are accounted for using the equity method in these consolidated financial statements.

There was no unrecognised share of losses of associates at 30 June 2015 or 31 December 2014.

Change in the Group's ownership interest in associates

There was no change in the ownership interest in associates.

Significant restrictions

There is no significant restriction on the ability of associates to transfer funds to the Group in the form of cash or dividends, or to repay loans or advances made by the Group.

28 Intangible assets

	30 June 2015			31 December 2014		
	Software € m	Other € m	Total € m	Software € m	Other € m	Total € m
Cost						
At 1 January	768	3	771	708	3	711
Additions – internally generated	33	–	33	48	–	48
– externally purchased	6	–	6	12	–	12
Amounts written off[(1)]	(28)	–	(28)	–	–	–
Exchange translation adjustments	1	–	1	–	–	–
At end of period	780	3	783	768	3	771
Amortisation/impairment						
At 1 January	597	3	600	532	3	535
Amortisation for the period	21	–	21	48	–	48
Impairment for the period	–	–	–	17	–	17
Amounts written off[(1)]	(28)	–	(28)	–	–	–
Exchange translation adjustments	–	–	–	–	–	–
At end of period	590	3	593	597	3	600
Carrying value at end of period	190	–	190	171	–	171

[(1)]Relates to assets which are no longer in use with a nil carrying value.

Internally generated intangible assets under construction amounted to: € 73 million (31 December 2014: € 40 million).

The cost of internally generated software amounted to: € 417 million (31 December 2014: € 442 million).

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 51.

29 Property, plant and equipment

	Property			Equipment	Total
	30 June 2015				
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2015	175	88	126	473	862
Additions	–	–	7	3	10
Disposals	–	–	–	(1)	(1)
Amounts written off[1]	–	–	(6)	(2)	(8)
Exchange translation adjustments	2	1	2	3	8
At 30 June 2015	177	89	129	476	871
Depreciation/impairment					
At 1 January 2015	68	32	80	392	572
Depreciation charge for the period	2	1	4	11	18
Disposals	–	–	–	(1)	(1)
Amounts written off[1]	–	–	(6)	(2)	(8)
Exchange translation adjustments	2	–	1	3	6
At 30 June 2015	72	33	79	403	587
Carrying value at 30 June 2015	105	56	50	73	284

	Property			Equipment	Total
	31 December 2014				
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2014	173	99	142	469	883
Reclassification to disposal groups and non-current assets held for sale	(4)	(10)	–	–	(14)
Additions	9	1	10	27	47
Disposals	(1)	–	–	(4)	(5)
Amounts written off[1]	(4)	(2)	(28)	(22)	(56)
Exchange translation adjustments	2	–	2	3	7
At 31 December 2014	175	88	126	473	862
Depreciation/impairment					
At 1 January 2014	68	32	93	389	582
Reclassification to disposal groups and non-current assets held for sale	(2)	(2)	–	–	(4)
Depreciation charge for the year	4	4	8	20	36
Impairment charge for the year	1	2	5	4	12
Reversal of impairment charge for the year	–	(2)	–	–	(2)
Disposals	–	–	–	(2)	(2)
Amounts written off[1]	(4)	(2)	(28)	(22)	(56)
Exchange translation adjustments	1	–	2	3	6
At 31 December 2014	68	32	80	392	572
Carrying value at 31 December 2014	107	56	46	81	290

[1]Relates to assets which are no longer in use with a Nil carrying value.

The carrying value of property occupied by the Group for its own activities was € 194 million (2014: € 199 million), excluding those held as disposal groups and non-current assets held for sale. Property leased to others by AIB Group had a carrying value of € 3 million (2014: € 2 million). Property and equipment includes € 14 million for items in the course of construction (2014: € 8 million). Future capital expenditure in relation to both property plant and equipment and intangible assets is set out in note 51.

30 Deferred taxation

	30 June 2015 € m	31 December 2014 € m
Deferred tax assets:		
Provision for impairment on loans and receivables	**2**	4
Retirement benefits	**63**	128
Assets leased to customers	**10**	12
Unutilised tax losses	**3,315**	3,670
Amortised income	**1**	1
Other	**46**	46
Total gross deferred tax assets	**3,437**	3,861
Deferred tax liabilities:		
Cash flow hedges	**(35)**	(54)
Amortised income on loans	**(23)**	(22)
Assets used in business	**(14)**	(12)
Available for sale securities	**(185)**	(197)
Total gross deferred tax liabilities	**(257)**	(285)
Net deferred tax assets	**3,180**	3,576
Represented on the statement of financial position as follows:		
Deferred tax assets	**3,180**	3,576

For the half-year ended 30 June 2015 and the year ended 31 December 2014, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	30 June 2015 € m	31 December 2014 € m
At 1 January	**3,576**	3,828
Exchange translation and other adjustments	**27**	41
Deferred tax through other comprehensive income	**(28)**	(30)
Income statement – Continuing operations *(note 14)*	**(395)**	(263)
At end of period	**3,180**	3,576

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in 'Critical accounting judgements and estimates' on pages 167 to 171. Information on the regulatory capital treatment of deferred tax assets is included in 'Principal risks and uncertainties' on page 38.

At 30 June 2015, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 3,180 million (31 December 2014: € 3,576 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

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

Net deferred tax assets at 30 June 2015 of € 3,163 million (31 December 2014: € 3,463 million) are expected to be recovered after more than 12 months.

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

30 Deferred taxation *(continued)*

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

The Group has not recognised deferred tax assets in respect of Irish tax on unused tax losses at 30 June 2015 of € 183 million (31 December 2014: € 226 million) and overseas tax (UK and USA) on unused tax losses of € 3,936 million (31 December 2014: € 2,439 million), and foreign tax credits for Irish tax purposes, of € 3 million (31 December 2014: € 5 million). Of these tax losses totalling € 4,119 million for which no deferred tax is recognised, € 80 million expire in 2031, € 57 million in 2032, € 41 million in 2033, € 20 million in 2034 and € 5 million expire in 2035.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates for which deferred tax liabilities have not been recognised amounted to Nil (31 December 2014: Nil).

Deferred tax recognised directly in equity amounted to Nil (31 December 2014: Nil).

In July 2015, the UK Chancellor announced a proposed reduction to 19% in the UK corporation tax rate effective from April 2017 and a further reduction to 18% effective from April 2020. In addition, the Chancellor announced a proposed 8% corporation tax surcharge on banking profits from January 2016, subject to an annual exemption for the first £25 million of profits. Taxable profits for the purpose of the surcharge cannot be reduced by pre-2016 tax losses. As these changes had not been substantively enacted at the reporting date, their effects have not been included in the financial statements.

Analysis of income tax relating to total comprehensive income

				30 June 2015
	Gross	**Tax**	**Net of tax**	**Net amount attributable to owners of the parent**
	€ m	**€ m**	**€ m**	**€ m**
Profit for the period	**1,235**	**(395)**	**840**	**840**
Exchange translation adjustments	**34**	**–**	**34**	**34**
Net change in cash flow hedge reserves	**(171)**	**19**	**(152)**	**(152)**
Net change in fair value of available for sale securities	**(151)**	**12**	**(139)**	**(139)**
Net actuarial losses in retirement benefit schemes	**508**	**(59)**	**449**	**449**
Net change in property revaluation reserves	**(1)**	**–**	**(1)**	**(1)**
Total comprehensive income for the period	**1,454**	**(423)**	**1,031**	**1,031**
Attributable to:				
Owners of the parent	**1,454**	**(423)**	**1,031**	**1,031**

				30 June 2014 (Unaudited)
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
	€ m	€ m	€ m	€ m
Profit for the period – continuing operations	437	(60)	377	377
Profit for the period – discontinued operations	34	–	34	34
Exchange translation adjustments	14	–	14	14
Net change in cash flow hedge reserves	221	(28)	193	193
Net change in fair value of available for sale securities	694	(90)	604	604
Net actuarial losses in retirement benefit schemes	(557)	70	(487)	(487)
Total comprehensive income for the period	843	(108)	735	735
Attributable to:				
Owners of the parent	843	(108)	735	735

30 Deferred taxation *(continued)*

Analysis of income tax relating to total comprehensive income

	31 December 2014			
	Gross € m	Tax € m	Net of tax € m	Net amount attributable to owners of the parent € m
Profit for the year – continuing operations	1,111	(230)	881	881
Profit for the year – discontinued operations	34	–	34	34
Exchange translation adjustments	27	–	27	27
Net change in cash flow hedge reserves	399	(51)	348	348
Net change in fair value of available for sale securities	835	(107)	728	728
Net actuarial losses in retirement benefit schemes	(1,067)	128	(939)	(939)
Net change in property revaluation reserves	(1)	–	(1)	(1)
Total comprehensive income for the year	1,338	(260)	1,078	1,078
Attributable to:				
Owners of the parent	1,338	(260)	1,078	1,078

31 Deposits by central banks and banks

	30 June 2015 € m	31 December 2014 € m
Central banks		
Securities sold under agreements to repurchase	**3,300**	3,400
Other borrowings	**25**	–
	3,325	3,400
Banks		
Securities sold under agreements to repurchase	**12,135**	12,653
Other borrowings – secured	**350**	350
– unsecured	**253**	365
	12,738	13,368
	16,063	16,768

Securities sold under agreements to repurchase (note 45), (with the exception of € 1.9 billion funded through the ECB two year Targeted Long Term Refinancing Operation ("TLTRO")) mature within six months and are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements.

In addition, the Group has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 30 June 2015 (31 December 2014: Nil).

Deposits by central banks and banks include cash collateral at 30 June 2015 of € 149 million (31 December 2014: € 318 million) received from derivative counterparties in relation to net derivative positions (note 20) and also from repurchase agreement counterparties.

Financial assets pledged

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

	30 June 2015			31 December 2014		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	**5,408**	**12,936**	**18,344**	5,337	13,857	19,194
Of which:						
Government securities(1)	**101**	**8,859**	**8,960**	1,084	9,479	10,563
Other securities(2)	**5,307**	**4,077**	**9,384**	4,253	4,378	8,631

(1)Includes NAMA senior bonds.

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

(b) The Group has securitised credit card receivables with a carrying value of € 293 million (31 December 2014: € 297 million) as described in note 45. Funding received from external investors is included above as 'other borrowings - secured' and has been secured on these and future credit card receivables.

Notes to the consolidated financial statements

32 Customer accounts	**30 June 2015 € m**	31 December 2014 € m
Current accounts	**24,185**	21,665
Demand deposits	**11,143**	10,004
Time deposits	**27,837**	30,196
Securities sold under agreements to repurchase[1]	**1,306**	2,153
	64,471	64,018
Of which:		
Non-interest bearing current accounts	**20,071**	18,260
Interest bearing deposits, current accounts and short-term borrowings	**44,400**	45,758
	64,471	64,018
Amounts include:		
Due to associated undertakings	**37**	75

(1At 30 June 2015, the Group had pledged government available for sale securities with a fair value of € 1,175 million (31 December 2014: € 2,941 million) and non-government available for sale securities with a fair value of € 158 million (31 December 2014: Nil) as collateral for these facilities and providing access to future funding facilities (see note 42 for further information).

At 30 June 2015, the Group's five largest customer deposits amounted to 7% (31 December 2014: 9%) of total customer accounts.

33 Trading portfolio financial liabilities	**30 June 2015 € m**	31 December 2014 € m
Debt securities:		
Government securities	**369**	–

For contractual residual maturity see Liquidity risk 3.3.

34 Debt securities in issue	**30 June 2015 € m**	31 December 2014 € m
Bonds and medium term notes:		
European medium term note programmes	**1,598**	3,293
Bonds and other medium term notes	**5,168**	4,518
	6,766	7,811
Other debt securities in issue:		
Commercial paper	**50**	50
	6,816	7,861

Debt securities issued during the period amounted to € 2,089 million (31 December 2014: € 3,198 million) of which: € 750 million relates to a covered bond issuance (31 December 2014: € 500 million); € 500 million relates to an EMTN bond issuance (31 December 2014: € 500 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 3,152 million (31 December 2014: € 4,091 million) of which € 119 million (31 December 2014: € 937 million) related to securities repurchased as part of a debt buyback programme.

35 Other liabilities

	30 June 2015 € m	31 December 2014 € m
Notes in circulation	**433**	422
Items in transit	**256**	126
Creditors	**17**	12
Fair value of hedged liability positions	**216**	325
Other	**380**	340
	1,302	1,225

36 Provisions for liabilities and commitments

							30 June 2015
	Liabilities and charges € m	**NAMA[1] provisions € m**	**Onerous[2] contracts € m**	**Legal claims € m**	**Other[3] provisions € m**	**Voluntary severance scheme € m**	**Total € m**
At 1 January	**60**	**33**	**51**	**32**	**81**	**1**	**258**
Transfers in	**–**	**14**	**–**	**–**	**–**	**–**	**14**
Exchange translation adjustments	**–**	**–**	**3**	**–**	**4**	**–**	**7**
Amounts charged to income statement	**–**	**6**[1]	**–**	**7**	**6**	**4**	**23**
Amounts released to income statement	**(16)**[4]	**(13)**[1]	**(7)**	**(1)**	**(5)**	**–**	**(42)**
Provisions utilised	**–**	**(2)**	**(7)**	**–**	**(10)**	**(3)**	**(22)**
At 30 June 2015	**44**	**38**	**40**	**38**	**76**	**2**	**238**

							31 December 2014
	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other provisions € m	Voluntary severance scheme € m	Total € m
At 1 January	72	35	36	14	139	3	299
Transfers out	–	–	–	–	(5)	–	(5)
Exchange translation adjustments	(1)	–	1	–	5	–	5
Amounts charged to income statement	1[4]	6[1]	29	21	34	1	92
Amounts released to income statement	(5)[4]	(8)[1]	(9)	(2)	(3)	–	(27)
Provisions utilised	(7)	–	(6)	(1)	(89)	(3)	(106)
At 31 December 2014	60	33	51	32	81	1	258

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

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

[3]Includes € 59 million provisions for refunds to customers. These relate to payment protection insurance in both Ireland and the UK, interest rate hedge products in the UK, credit card insurance, and other restitutions. Provisions in respect of restructuring and reorganisation are also included in 'Other provisions'.

[4]Included in the writeback of provisions for liabilities and commitments in the income statement.

The total provisions for liabilities and commitments expected to be settled within one year amount to € 116 million (31 December 2014: € 147 million).

37 Subordinated liabilities and other capital instruments

	Notes	30 June 2015 € m	31 December 2014 € m
Allied Irish Banks, p.l.c.			
€ 1.6bn Contingent Capital Tier 2 Notes due 2016			
Proceeds of issue		1,600	1,600
Fair value adjustment on initial recognition		(447)	(447)
Amortisation to date		313	258
	(a)	1,466	1,411
Dated loan capital – European Medium Term Note Programme:			
€ 500m Callable Step-up Floating Rate Notes due October 2017			
– nominal value € 25.5 million (maturity extended to 2035 as a result of the SLO)		8	8
£ 368m 12.5% Subordinated Notes due June 2019			
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)		36	32
£ 500m Callable Fixed/Floating Rate Notes due March 2025			
– nominal value £ 1 million (maturity extended to 2035 as a result of the SLO)		1	–
	(b)	45	40
		1,511	1,451

Maturity of dated loan capital	30 June 2015 € m	31 December 2014 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	45	40

€ 1.6bn Contingent Capital Tier 2 Notes due 2016

(a) On 26 July 2011, AIB issued € 1.6 billion in nominal value of Contingent Capital Tier 2 Notes ('CCNs') to the Minister for Finance of Ireland ('the Minister') for cash consideration of € 1.6 billion. The fair value of these notes at initial recognition was € 1,153 million with € 447 million being accounted for as a capital contribution from the Minister (note 41). Interest is payable annually in arrears on the nominal value of the notes at a fixed rate of 10% per annum. The interest rate may increase up to 18% at the behest of the Minister but with effect only from the date that the CCNs are sold to a third party external to a State entity. The notes are due to mature on 28 July 2016. The CCNs are unsecured and subordinated obligations of AIB. They rank:

(i) junior to the claims of all holders of unsubordinated obligations of AIB;

(ii) pari passu with the claims of holders of all other subordinated obligations of AIB which qualify as consolidated Tier 2 capital of the Group for regulatory capital purposes or which rank, or are expressed to rank, pari passu with the CCNs; and

(iii) senior to the claims of holders of all other subordinated obligations of AIB which rank junior to the CCNs including any subordinated obligations of AIB which qualify as Tier 1 capital of the Group for regulatory purposes.

While the CCNs are outstanding, if AIB's Common Equity Tier 1 (CET 1) ratio falls below the trigger ratio of 8.25%, the CCNs will immediately and mandatorily convert to ordinary shares of AIB at a conversion price of € 0.01 per share.

Dated loan capital

(b) The dated loan capital above issued under the European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Group.

Following the liability management exercises in 2011 and the Subordinated Liabilities Order ("SLO") in April 2011, residual balances remained outstanding on the dated loan capital instruments above. The SLO, which was effective from 22 April 2011, changed the terms of all of those dated loan agreements outstanding. 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. These instruments will amortise to their nominal value in the period to their maturity in 2035.

38 Share capital

	Authorised		Issued	
	30 June 2015 m	31 December 2014 m	**30 June 2015 m**	31 December 2014 m
Ordinary share capital				
Ordinary shares of € 0.0025 each	**702,000.0**	702,000.0	**523,474.1**	523,474.1
Preference share capital				
2009 Non-cumulative preference shares of € 0.01 each	**3,500.0**	3,500.0	**3,500.0**	3,500.0

Share capital/share premium
2015

There were no movements in the ordinary or preference share capital in the half-year to 30 June 2015.

2014

On 13 May 2014, arising from AIB's decision not to pay the discretionary dividend on the 2009 Preference Shares amounting to € 280 million, the NPRFC(1) became entitled to bonus shares in lieu and the Company issued 2,177,293,934 ordinary shares of € 0.01 each by way of a bonus issue to the NPRFC(1). This number of shares is equal to the aggregate cash amount of the annual dividend of € 280 million on the NPRFC's(1) holding of 3.5 billion 2009 Preference Shares, divided by the average ordinary share price per share in the 30 trading days prior to 13 May 2014. In accordance with the Company's Articles of Association, an amount of € 22 million, equal to the nominal value of the shares issued, was transferred from share premium account to ordinary share capital. Following this transaction, the NPRFC(1) holds 522,558,712,910 ordinary shares in AIB (99.8% of the issued ordinary share capital).

Following shareholder resolutions passed at the EGM held on 19 June 2014:

– the authorised share capital of the Company was reduced from € 11,092,752,297 to € 1,790,000,000;
– the ordinary shares of the Company were renominalised, each ordinary share of € 0.01 was subdivided into one ordinary share of € 0.0025 each (carrying the same rights and obligations as an existing ordinary share) and one deferred share of € 0.0075. The deferred shares created on the renominalisation had no voting or dividend rights and had no economic value; and
– the Company acquired all of the deferred shares for nil consideration and immediately cancelled them in accordance with its Articles of Association adopted at the EGM, which resulted in € 3,926 million transferring from share capital to a capital redemption reserve fund.

On 15 October 2014, the Irish High Court confirmed an application by AIB for a reduction of the share premium account by € 1,074 million, in addition to a reduction of € 3,926 million of its capital redemption reserves (note 40). This resulted in a transfer from these reserve accounts (€ 5 billion) to revenue reserves.

Preference share capital - 2009 Preference Shares

On 13 May 2009, in implementing the Government's recapitalisation of AIB, the Company issued: (i) € 3.5 billion of core tier 1 securities in the form of non-cumulative redeemable preference shares (the '2009 Preference Shares') and (ii) 294,251,819 warrants to subscribe for ordinary shares (the '2009 Warrants'), to the NPRFC(1) for an aggregate subscription price of € 3.5 billion. The Government's national pensions reserve fund is controlled by the NPRFC(1) and managed by the National Treasury Management Agency ("NTMA").

The 2009 Preference Shares carry a fixed non-cumulative dividend at a rate of 8% per annum, payable annually in arrears at the discretion of AIB. If a cash dividend is not paid, AIB must issue bonus ordinary shares to the holders of the 2009 Preference Shares by capitalising its reserves. The issue of bonus shares can be deferred by AIB, but if so, the holders of 2009 Preference Shares will acquire voting rights at general meetings of AIB equivalent to the voting rights that would have attached to the bonus shares if they had been issued. The dividend may not be deferred beyond the date on which AIB (a) pays a cash dividend on the 2009 Preference Shares or on the ordinary shares; or (b) redeems or purchases any of the 2009 Preference Shares, or ordinary shares. Arising from this provision, AIB issued ordinary shares in lieu of dividend due to the NPRFC(1) in 2010, 2011, 2012, 2013 and 2014. In accordance with the Company's Articles of Association, an amount equal to the nominal value of the shares issued, was transferred from the share premium account to the ordinary share capital account. In May 2015, this dividend, amounting to € 280 million, was paid in cash.

The 2009 Preference Shares may be purchased or redeemed at the option of AIB, in whole or in part, from distributable profits and/or the proceeds of an issue of shares constituting core tier 1 capital (now CET 1), which for the first five years after the date of issue was at a subscription price of € 1.00 per share (now expired) and thereafter, at a price of € 1.25 per share, subject at all times to the consent of the Central Bank of Ireland/Single Supervisory Mechanism.

(1Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

38 Share capital *(continued)*

Preference share capital - 2009 Preference Shares

The 2009 Preference Shares give the Minister the right, while any such preference shares are outstanding, to appoint directly 25 per cent. of the directors of AIB and has voting rights equal to 25 per cent. of all votes capable of being cast by shareholders on a poll at a general meeting of the Company on shareholder resolutions relating to:

(i) the appointment, reappointment or removal of Directors; and

(ii) a change of control of AIB or a sale of all or substantially all of its business. In relation to item (i) above, the 25 per cent. voting rights entitlement is inclusive of the voting rights of all Government entities in respect of any ordinary shares they may hold.

To the extent that the NPRFC[1] holds ordinary shares, it is not restricted from exercising its voting rights in respect of such ordinary shares at a general meeting of the Company.

The 2009 Preference Shares are freely transferable in minimum lots of 50,000 shares. However, the voting rights attaching to the 2009 Preference Shares, the right to appoint directors to the board of AIB and the veto over certain share capital-related resolutions are not transferable, as those rights are exercisable only by a Government Preference Shareholder.

The warrants attaching to the 2009 Preference Shares were cancelled in December 2010.

The following tables show the movements in share capital in the statement of financial position during the period to 30 June 2015 and 31 December 2014:

Issued share capital	30 June 2015 € m	31 December 2014 € m
At 1 January:		
Ordinary shares	1,309	5,213
Preference shares	35	35
	1,344	5,248
Ordinary shares in lieu of dividend	–	22
	1,344	5,270
Ordinary shares of € 0.01 each renominalised	–	(5,235)
Ordinary shares of € 0.0025 each arising on renominalisation	–	1,309
Deferred shares of € 0.0075 each arising on renominalisation	–	3,926
Cancellation of deferred shares	–	(3,926)
At end of period	1,344	1,344
Of which:		
Ordinary shares	1,309	1,309
2009 Preference Shares	35	35
	1,344	1,344

Share premium	30 June 2015 € m	31 December 2014 € m
At 1 January	1,752	2,848
Transfer to ordinary share capital in respect of ordinary shares issued in lieu of dividend on 2009 Preference Shares	–	(22)
Reduction and transfer to revenue reserves	–	(1,074)
At end of period	1,752	1,752

Structure of the Company's share capital as at 30 June 2015	Authorised share capital %	Issued share capital %
Class of share		
Ordinary share capital	98	97.4
2009 Preference Shares	2	2.6

[1]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

38 Share capital *(continued)*

The following table shows the Group's capital resources:

Capital resources	**30 June 2015 € m**	31 December 2014 € m
Shareholders' equity	**12,323**	11,572
Contingent capital notes *(note 37)*	**1,466**	1,411
Dated capital notes *(note 37)*	**45**	40
Total capital resources	**13,834**	13,023

39 Own shares

The details of ordinary shares previously purchased under shareholder authority and held as Treasury Shares are as follows:

Treasury Shares	**30 June 2015**	31 December 2014
At end of period	**35,680,114**	35,680,114

Since 2008, the company has not reissued any ordinary shares from its pool of Treasury Shares.

Employee share schemes and trusts

In the past, the Group sponsored a number of employee share schemes whereby purchases of shares were made in the open market to satisfy commitments under the various schemes.

At 30 June 2015, 1.5 million shares (31 December 2014: 1.5 million shares) were held by trustees with a book value of € 23 million (31 December 2014: € 23 million), and a market value of € 0.1 million (31 December 2014: € 0.1 million). The book value is deducted from revenue reserves while the shares continue to be held by the Group.

40 Capital reserves and capital redemption reserves

	30 June 2015			31 December 2014		
Capital reserves	**Capital contribution reserves €m**	**Other capital reserves €m**	**Total €m**	Capital contribution reserves €m	Other capital reserves €m	Total €m
At 1 January	**1,780**	**178**	**1,958**	2,344	253	2,597
Transfer to revenue reserves:						
Anglo business transfer	**(142)**	**–**	**(142)**	(470)	–	(470)
CCNs issuance *(note 37)*	**(56)**	**–**	**(56)**	(94)	–	(94)
Disposal of Ark Life[1]	**–**	**–**	**–**	–	(75)	(75)
	(198)	**–**	**(198)**	(564)	(75)	(639)
At end of period	**1,582**	**178**	**1,760**	1,780	178	1,958

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

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 26 in this Half-Yearly Financial Report. The transfers to revenue reserves relate to the capital contributions being deemed distributable.

Capital redemption reserves

On 20 June 2014, the ordinary shares of Allied Irish Banks, p.l.c. were renominalised which resulted in the creation of ordinary shares of € 0.0025 each, totalling € 1,309 million and deferred shares of € 0.0075 each, totalling € 3,926 million. The deferred shares were acquired by AIB for Nil consideration and immediately cancelled which resulted in € 3,926 million transferring from share capital to capital redemption reserves (note 38).

Following the Irish High Court confirmation on 15 October 2014 of an application by AIB for a reduction of its capital redemption reserve fund, € 3,926 million was transferred to revenue reserves from this account.

Capital redemption reserves	**30 June 2015 €m**	31 December 2014 €m
At 1 January	**–**	–
Transfer from share capital *(note 38)*	**–**	3,926
Reduction and transfer to revenue reserves	**–**	(3,926)
At end of period	**–**	–

41 Capital contributions

On 28 July 2011, the Minister for Finance ('the Minister') and the NPRFC[1] 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 CET 1 for regulatory purposes and are included within 'Revenue reserves'. Neither the Minister nor the NPRFC[1] has an entitlement to seek repayment of these capital contributions.

[1]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

42 Offsetting financial assets and financial liabilities

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

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

The similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and receivables and customer accounts are not included in the tables below unless they are offset in the statement of financial position.

The Group has a number of ISDA Master Agreements (netting agreements) in place which allow it to net the termination values of derivative contracts upon the occurrence of an event of default with respect to its counterparties. The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 1,046 million at 30 June 2015 (31 December 2014: € 1,221 million).

The Group's sale and repurchase and reverse sale and repurchase transactions and securities borrowing and lending are covered by netting agreements with terms similar to those of ISDA Master Agreements. Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon the occurrence of an event of default.

The ISDA Master Agreements and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position as they create a right of set-off of recognised amounts that become enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group provides and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

– derivatives
– sale and repurchase agreements
– reverse sale and repurchase agreements
– securities lending and borrowing

Collateral is subject to the standard industry terms of Credit Support Annexes ('CSAs'), which enable the Group to pledge or sell securities received during the term of the transaction. The collateral must be returned on the maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions where the counterparty fails to post collateral. The Credit Support Annexes ("CSAs") in place provide collateral for derivative contracts. At 30 June 2015, € 929 million (31 December 2014: € 843 million) of CSAs are included within financial assets and € 170 million (31 December 2014: € 279 million) of CSAs are included within financial liabilities.

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

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

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

The following tables show financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 30 June 2015 and 31 December 2014:

							30 June 2015
					Related amounts not offset in the statement of financial position		
Financial assets	**Note**	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	20	1,211	–	1,211	(1,046)	(170)	(5)
Loans and receivables to banks –							
Reverse repurchase agreements	21	1,177	–	1,177	(1,291)	–	(114)
Loans and receivables to customers							
Reverse repurchase agreements	22	29	–	29	(29)	–	–
Total		2,417	–	2,417	(2,366)	(170)	(119)

							30 June 2015
					Related amounts not offset in the statement of financial position		
Financial liabilities	**Note**	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	31	15,435	–	15,435	(16,247)	(205)	(1,017)
Customer accounts –							
Securities sold under agreements to repurchase	32	1,306	–	1,306	(1,331)	(2)	(27)
Derivative financial instruments	20	2,091	–	2,091	(1,046)	(929)	116
Total		18,832	–	18,832	(18,624)	(1,136)	(928)

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

Financial assets	Note	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Related amounts not offset in the statement of financial position: Financial instruments € m	Related amounts not offset in the statement of financial position: Financial collateral (including cash collateral) received € m	Net amount € m
							31 December 2014
Derivative financial instruments	20	1,490	–	1,490	(1,221)	(279)	(10)
Loans and receivables to customers –							
Reverse repurchase agreements	22	110	–	110	(107)	–	3
Total		1,600	–	1,600	(1,328)	(279)	(7)

Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Related amounts not offset in the statement of financial position: Financial instruments € m	Related amounts not offset in the statement of financial position: Financial collateral (including cash collateral) pledged € m	Net amount € m
							31 December 2014
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	31	16,053	–	16,053	(16,862)	51	(758)
Customer accounts –							
Securities sold under agreements to repurchase	32	2,153	–	2,153	(2,206)	2	(51)
Derivative financial instruments	20	2,140	–	2,140	(1,221)	(843)	76
Total		20,346	–	20,346	(20,289)	(790)	(733)

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

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

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

The following tables reconcile the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out in the previous pages, to the line items presented in the statement of financial position at 30 June 2015 and 31 December 2014:

Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m (30 June 2015)	Financial assets not in scope of offsetting disclosures € m (30 June 2015)
Derivative financial instruments	**1,211**	Derivative financial instruments	**1,706**	**495**
Loans and receivables to banks –				
Reverse repurchase agreements	**1,177**	Loans and receivables to banks	**3,363**	**2,186**
Loans and receivables to customers –				
Reverse repurchase agreements	**29**	Loans and receivables to customers	**63,778**	**63,749**

Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m (30 June 2015)	Financial liabilities not in scope of offsetting disclosures € m (30 June 2015)
Deposits by central banks and banks –				
Securities sold under agreements				
to repurchase	**15,435**	Deposits by central banks and banks	**16,063**	**628**
Customer accounts –				
Securities sold under agreements				
to repurchase	**1,306**	Customer accounts	**64,471**	**63,165**
Derivative financial instruments	**2,091**	Derivative financial instruments	**2,300**	**209**

Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m (31 December 2014)	Financial assets not in scope of offsetting disclosures € m (31 December 2014)
Derivative financial instruments	1,490	Derivative financial instruments	2,038	548
Loans and receivables to customers –				
Reverse repurchase agreements	110	Loans and receivables to customers	63,362	63,252

Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m (31 December 2014)	Financial liabilities not in scope of offsetting disclosures € m (31 December 2014)
Deposits by central banks and banks –				
Securities sold under agreements				
to repurchase	16,053	Deposits by central banks and banks	16,768	715
Customer accounts –				
Securities sold under agreements				
to repurchase	2,153	Customer accounts	64,018	61,865
Derivative financial instruments	2,140	Derivative financial instruments	2,334	194

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

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers.

These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated statement of financial position. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for 'on balance sheet lending'.

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

	Contract amount	
	30 June 2015 € m	31 December 2014 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**658**	739
Other contingent liabilities	**478**	507
	1,136	1,246
Commitments[2]		
Documentary credits and short-term trade-related transactions	**20**	14
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**6,952**	6,837
1 year and over[4]	**2,670**	2,231
	9,642	9,082
	10,778	10,328

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

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

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

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

	Contingent liabilities		Commitments	
	30 June 2015 € m	31 December 2014 € m	**30 June 2015 € m**	31 December 2014 € m
Concentration of exposure				
Republic of Ireland	**477**	629	**7,807**	7,580
United Kingdom	**525**	480	**1,810**	1,480
United States of America	**134**	137	**25**	22
Total	**1,136**	1,246	**9,642**	9,082

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

The credit ratings of contingent liabilities and commitments as at 30 June 2015 and 31 December 2014 are set out in the following table. Details of the Group's rating profiles are set out in the 'Risk management' section of this report.

	30 June 2015 € m	31 December 2014 € m
Good upper	**3,282**	3,544
Good lower	**4,024**	3,527
Watch	**995**	730
Vulnerable	**159**	196
Impaired	**426**	488
Unrated	**1,892**	1,843
Total	**10,778**	10,328

Legal proceedings

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

Contingent liability/contingent asset - NAMA

(a) Transfers of financial assets to NAMA are complete. However, NAMA continues to finalise certain value to transfer adjustments and the final consideration payable on tranches which have already transferred. Accordingly, the Group has maintained a provision for the amount of the expected outflow in respect of various adjustments. If the actual amounts provided prove to be lower or higher than the provision, an inflow or outflow of economic benefits may result to the Group (notes 36 and 45).

(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.

Participation in TARGET 2 - Ireland

AIB migrated to the TARGET 2 system during 2008. TARGET 2, being the wholesale payment infrastructure for credit institutions across Europe, is a real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to the charges arising as a result of the migration to TARGET 2:

By Deeds of Charge made on 15 February 2008, AIB created first floating charges in favour of the Central Bank of Ireland ('Central Bank') over all of AIB's right, title, interest and benefit, present and future, in and to:

(i) the balances then or at any time standing to the credit of Payment Module accounts held by AIB with a Eurosystem central bank ('Charge over Payment Module Accounts'); and

(ii) each of the eligible securities included from time to time in the Eligible Securities Schedule furnished by AIB to the Central Bank ('Charge over Eligible Securities').

In each case, a 'Charged Property', for the purpose of securing all present and future liabilities of AIB in respect of AIB's participation in TARGET 2, arising from the Deeds of Charge and the Terms and Conditions for participation in TARGET 2 – Ireland (specified from time to time by the Central Bank), including, without limitation, liabilities to the Central Bank, the European Central Bank, or any national central bank of a Member State that has adopted the euro.

The Deeds of Charge contain a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, AIB shall not:

(a) create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Property or any part thereof; or

(b) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

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

Participation in TARGET 2 - Ireland

The Central Bank amended its collateral management system in May 2014, moving from an earmarking system to a pooling one for certain collateral accepted for Eurosystem credit operations. As part of this transition, AIB and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations secured over Collateral Pool Assets dated 7 April 2014 ('Framework Agreement'). The Framework Agreement provided for the release of the Charge over Eligible Securities with effect from 26 May 2014.

A deed of charge was made on 7 April 2014 between AIB and the Central Bank in connection with the Framework Agreement ('Framework Agreement Deed of Charge'). The Framework Agreement Deed of Charge created a first fixed charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to eligible assets (as identified as such by the Central Bank) which comprise present and future rights, title, interest, claims and benefits of AIB at that time in and to, or in connection with, a collateral account (the "Collateral Account") and eligible assets which stand to the credit of the Collateral Account and a first floating charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to other eligible assets of AIB.

The Charge over Payment Module Accounts remains in place.

Notes to the consolidated financial statements

44 Subsidiaries and consolidated structured entities

The following are the material companies of AIB Group at 30 June 2015 and 31 December 2014:

Name of company	Principal activity	Place of incorporation
Allied Irish Banks, p.l.c.	The parent company of the majority of the subsidiaries within the Group. Its activities include banking and financial services – a licensed bank	Republic of Ireland
AIB Mortgage Bank	Issue of mortgage covered securities – a licensed bank	Republic of Ireland
EBS Limited	Mortgages and savings – a licensed bank	Republic of Ireland
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and First Trust Bank in Northern Ireland	Banking and financial services – a licensed bank	Northern Ireland

The proportion of ownership interest and voting power held by the Group in the above subsidiaries is 100%.

All subsidiaries of AIB are wholly owned and there are no non-controlling interests in these subsidiaries. Practically all subsidiaries of AIB Group are involved in the provision of financial services or ancillary services.

Significant restrictions

Each of the subsidiaries listed above which is a licensed bank is required by its respective financial regulator to maintain capital ratios above a certain minimum level. These minimum ratios restrict the payment of dividend by the subsidiary and, where the ratios fall below the minimum requirement, will require the parent company to inject capital to make up the shortfall.

Consolidated structured entities

The Group has acted as sponsor and invested in a number of special purpose entities ("SPEs") in order to generate funding for the Group's lending activities (with the exception of AIB PFP Scottish Limited Partnership). The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The following SPEs are consolidated by the Group:

- Emerald Mortgages No. 4 Public Limited Company;
- Emerald Mortgages No. 5 Limited;
- Mespil 1 RMBS Limited;
- Tenterden Funding p.l.c.;
- Goldcrest Funding No. 1 Limited ; and
- AIB PFP Scottish Limited Partnership.

Further details on these SPEs are set out in note 45.

There are no contractual arrangements that could require Allied Irish Banks, p.l.c. or its subsidiaries to provide financial support to the consolidated structured entities listed above. During the period, neither Allied Irish Banks, p.l.c. nor any of its subsidiaries provided financial support to a consolidated structured entity and there is no current intention to provide financial support.

The Group has no interest in unconsolidated structured entities.

45 Off-balance sheet arrangements and transferred financial assets

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

Securitisations

The Group utilises securitisations primarily to support the following business objectives:

– as an investor, AIB has primarily been an investor in securitisations issued by other credit institutions as part of the management of its interest rate and liquidity risks through Treasury;
– as an investor, securitisations have been utilised by the Group to invest in transactions that offered an appropriate risk-adjusted return opportunity; and
– as an originator of securitisations to support the funding activities of the Group.

AIB controls certain SPEs which were set-up to support the funding activities of the Group. Details of these SPEs are set out below under the heading 'Special purpose entities'. AIB controls two special purpose entities set up in relation to the funding of the Group Pension Schemes which are also detailed below.

Stock borrowing and lending

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss is included in trading income.

Employee compensation trusts

AIB and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of the Group's equity by employees. The Group consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. Details of these schemes are provided in note 10 'Share-based compensation schemes' to the consolidated financial statements.

Transfer of financial assets

The Group enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*:

(i) continue to be recognised in their entirety; or
(ii) be derecognised in their entirety but the Group retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements, issuance of covered bonds and securitisations.

(i) Transferred financial assets not derecognised in their entirety

Sale and repurchase agreements/securities lending

Sale and repurchase agreements are transactions in which the Group sells a financial asset to another party, with an obligation to repurchase it at a fixed price on a certain later date. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. The Group's sale and repurchase agreements are both with central banks, banks and customers. The obligation to pay the repurchase price is recognised within 'Deposits by central banks and banks' (note 31) and 'Customer accounts' (note 32). As the Group sells the contractual rights to the cash flows of the financial assets, it does not have the ability to use or pledge the transferred assets during the term of the sale and repurchase agreement. The Group remains exposed to credit risk and interest rate risk on the financial assets sold. Details of sale and repurchase activity are set out in notes 31 and 32. The obligation arising as a result of sale and repurchase agreements together with the carrying value of the financial assets pledged are set out in the table below.

The Group has entered into securities lending in the form of collateral swap agreements with another party. The Group continues to recognise the financial assets (Government bonds) in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. As a result of this transaction, the Group is unable to use, sell or pledge the transferred assets for the duration of the transaction. A fee is generated for the Group under this transaction.

Issuance of covered bonds

Covered bonds, which the Group issues, are debt securities backed by cash flows from mortgages for the purpose of financing loans secured on residential property through its wholly owned subsidiaries, AIB Mortgage Bank and EBS Mortgage Finance. The Group retains all the risks and rewards of these mortgage loans, including credit risk and interest rate risk, and therefore, the loans continue to

45 Off-balance sheet arrangements and transferred financial assets *(continued)*

Issuance of covered bonds *(continued)*

be recognised on the Group's statement of financial position with the related covered bonds included within 'Debt securities in issue' (note 34). As the Group segregates the assets which back these debt securities into "cover asset pools" it does not have the ability to otherwise use such segregated financial assets during the term of these debt securities. However, of the total debt securities of this type issued amounting to € 11 billion, internal Group companies hold € 6 billion which are eliminated on consolidation. These internally issued bonds are used by the Group as part of sale and repurchase agreements with the Central Bank of Ireland as outlined above.

Special purpose entities

Securitisations are transactions in which the Group sells customer loans (mainly mortgages and credit card receivables) to special purpose entities ("SPEs"), which, in turn, issue notes or deposits to external investors. The notes or deposits issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised on the Group's statement of financial position. The Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans sold. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' (note 34) or in 'Deposits by central banks and banks' (note 31). Under the terms of the securitisations, the rights of the investors are limited to the assets in the securitised portfolios and any related income generated by the portfolios, without further recourse to the Group. The Group does not have the ability to otherwise use the assets transferred as part of securitisation transactions during the term of the arrangement.

In 2012, the Group securitised € 533 million of its residential mortgage portfolio held in the AIB UK segment. These mortgages were transferred to a securitisation vehicle, Tenterden Funding p.l.c. ('Tenterden'). In order to fund the acquired mortgages, Tenterden issued class A notes to external investors and class B notes to an AIB subsidiary. The transferred mortgages have not been derecognised as the Group retains substantially all the risks and rewards of ownership and continue to be reported in the Group's statement of financial position. Tenterden is consolidated into the Group's financial statements 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 34) on the statement of financial position. At 30 June 2015, the carrying amount of the assets which the Group continues to recognise is € 335 million (31 December 2014: € 332 million) and the carrying amount of the associated liabilities is € 167 million (31 December 2014: € 178 million).

In 2013, the Group securitised part of its credit card receivables portfolio. These credit card receivables were transferred to a securitisation vehicle, Goldcrest Funding No.1 Limited ('Goldcrest'). In order to fund the acquired receivables, Goldcrest received senior loan facility proceeds from external investors secured on these and future credit card receivables and junior loan facility proceeds from Allied Irish Banks p.l.c.. The transferred receivables have not been derecognised as the Group retains substantially all the risks and rewards of ownership and the credit card receivables continue to be reported in the Group's statement of financial position. Goldcrest is consolidated into the Group's financial statements with the junior loan facility being eliminated on consolidation. At 30 June 2015, the carrying amount of the receivables which the Group continues to recognise is € 293 million (31 December 2014:€ 297 million). The liability in respect of cash received by Goldcrest from external investors is included within 'Deposits by central banks and banks' (note 31) on the statement of financial position.

Arising from the acquisition of EBS on 1 July 2011, the Group controls three SPEs which had previously been set up by EBS: Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 Limited; and Mespil 1 RMBS Limited.

Emerald Mortgages No. 4 Public Limited Company

The total carrying value of the original residential mortgages transferred by EBS Limited to Emerald Mortgages No. 4 Public Limited Company ('Emerald 4') as part of the securitisation amounted to € 1,500 million. The carrying amount of transferred secured loans that the Group has recognised at 30 June 2015 is € 710 million (31 December 2014: € 735 million). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to € 486 million (31 December 2014: € 575 million) and is included within 'Debt securities in issue' (note 34).

Emerald Mortgages No. 5 Limited

The total carrying amount of original residential mortgages transferred by EBS Limited to Emerald Mortgages No.5 Limited ('Emerald 5') as part of the securitisation amounted to € 2,500 million. The amount of transferred secured loans that the Group has recognised at 30 June 2015 is € 1,473 million (31 December 2014: € 1,533 million). Bonds were issued by Emerald 5 to EBS Limited but these are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

Mespil 1 RMBS Limited

The total carrying amount of secured loans that the Group has recognised at 30 June 2015 is € 804 million (31 December 2014: € 814 million) in relation to the transfers from EBS Limited and Haven Mortgages Limited to Mespil 1 RMBS Limited. The bonds issued by Mespil 1 RMBS Limited to EBS Limited are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

45 Off-balance sheet arrangements and transferred financial assets *(continued)*

The following table summarises as at 30 June 2015 and the 31 December 2014, the carrying value and fair value of financial assets which did not qualify for derecognition together with their associated financial liabilities:

							30 June 2015
	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by Group companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by Group companies	Net fair value position
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Sale and repurchase agreements/							
similar products	**20,169**[(1)(2)]	**16,891**[(1)]	**–**	**20,170**[(2)]	**16,891**	**–**	**3,279**
Covered bond programmes							
Residential mortgage backed	**7,771**[(3)]	**4,515**	**–**	**6,630**	**4,782**	**–**	**1,848**
Securitisations	**1,338**	**854**	**570**	**1,281**	**830**	**554**	**(103)**

							31 December 2014
	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by Group companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by Group companies	Net fair value position
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Sale and repurchase agreements	22,135[(1)]	18,206[(1)]	–	22,146	18,206	–	3,940
Covered bond programmes							
Residential mortgage backed	7,379[(3)]	3,765	–	6,387	4,103	–	2,284
Securitisations	1,365	953	498	1,286	902	478	(94)

[(1)]See notes 31 and 32.
[(2)]Includes € 492 million of assets pledged in relation to securities lending arrangements at 30 June 2015.
[(3)]The asset pools € 19 billion (31 December 2014: € 20 billion) in the covered bond programme have been apportioned on a pro-rata basis in relation to the value of bonds held by external investors and those held by AIB Group companies. The € 7,771 million (31 December 2014: € 7,379 million) above refers to those assets apportioned to external investors.

AIB Group (UK) p.l.c. Pension Scheme interest in the AIB PFP Scottish Limited Partnership

In December 2013, the Group agreed with the Trustee of the AIB UK Defined Benefit Pension Scheme ("the UK scheme") a restructure of the funding of the deficit in the UK scheme. The future funding period was extended from 8 to 16 years, commencing in 2016 with the implementation of an asset backed funding arrangement.

The Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") under which a portfolio of loans were transferred to the SLP from another Group entity, AIB UK Loan Management Limited ("UKLM") for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK scheme.

Assets ring fenced for this purpose entitle the UK scheme to expected annual payments of £ 22.4 million (range of £ 15 million to £ 35 million) from 2016 until 2033, with a potential termination payment in 2032 of up to £ 60 million.

The general partner in the partnership, AIB PFP (General Partner) Limited, which is an indirect subsidiary of Allied Irish Banks p.l.c. has controlling power over the partnership. In addition, the majority of the risks and rewards will be borne by AIB Group as the pension scheme has a priority right to the cash flows from the partnership, such that the variability in recoveries is expected to be borne by AIB Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Group has determined that the SLP should be consolidated into AIB Group.

45 Off-balance sheet arrangements and transferred financial assets *(continued)*

(ii) Transferred financial assets derecognised in their entirety but the Group retains some continuing involvement

AIB has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which AIB has a continuing involvement in assets transferred.

Pension scheme

On 31 July 2012, AIB entered into a Contribution Deed with the Trustee of the AIB Group Irish Pension Scheme ('the Irish Scheme'), whereby it agreed to make contributions to the scheme to enable the Trustee ensure that the regulatory Minimum Funding Standard position of non-pensioner members of the pension scheme was not affected by the agreed early retirement scheme. These contributions amounting to € 594 million were settled through the transfer to the Irish Scheme of interests in an SPE owning loans and receivables previously transferred at fair value from the Group. The loans and receivables were derecognised in the Group's financial statements as all of the risks and rewards of ownership had transferred.

A subsidiary company of the Group was appointed as a service provider for the loans and receivables transferred. Under the servicing agreement, the Group subsidiary company collects the cash flows on the transferred loans and receivables on behalf of the pension scheme in return for a fee. The fee is based on an annual rate of 0.125% of the principal balance outstanding of all transferred loans and receivables on the last day of each calendar month. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement, as the fee is considered to be a market rate. Under the servicing agreement, the Irish Scheme has the right to replace the Group subsidiary company as the service provider with an external third party. In the half-year to 30 June 2015, the Group recognised € 0.6 million (cumulative € 3.8 million) (30 June 2014: € 0.6 million (cumulative € 2.6 million)) in the income statement for the servicing of the loans and receivables transferred.

NAMA

During 2010 and 2011, AIB transferred financial assets with a net carrying value of € 15,428 million to NAMA. All assets transferred were derecognised in their entirety.

As part of this transaction, the Group has provided NAMA with a series of indemnities relating to the transferred assets. Also, on the dissolution or restructuring of NAMA, the Irish Minister for Finance ('the Minister') may require a report and accounts to be prepared. If NAMA reports an aggregate loss since its establishment and this 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 transferred by the institution in relation to the total book value of assets transferred by all participating institutions. At this stage, it is not possible to quantify the maximum exposure to loss which may arise on the dissolution or restructuring of NAMA.

In addition, the Group was appointed by NAMA as a service provider for the loans and receivables transferred, for which it receives a fee. The fee is based on the lower of actual costs incurred or 0.1% of the value of the financial assets transferred. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement. In the half-year to 30 June 2015, the Group recognised € 6 million (cumulative € 75 million) (30 June 2014: € 8.4 million (cumulative € 61.4 million)) in the income statement for the servicing of financial assets transferred to NAMA.

46 Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policy for financial assets (number 13) and financial liabilities (number 14), describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and financial liabilities by category as defined in IAS 39 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading.

	At fair value through profit and loss		At fair value through equity		At amortised cost		30 June 2015 Total
	Held for trading €m	Fair value hedge derivatives €m	Cashflow hedge derivatives €m	Available for sale securities €m	Loans and receivables €m	Other €m	€m
Financial assets							
Cash and balances at central banks	–	–	–	–	4,831	400[(1)]	5,231
Items in the course of collection	–	–	–	–	223	–	223
Trading portfolio financial assets	350	–	–	–	–	–	350
Derivative financial instruments	987	345	374	–	–	–	1,706
Loans and receivables to banks	–	–	–	–	3,363	–	3,363
Loans and receivables to customers	–	–	–	–	63,778	–	63,778
NAMA senior bonds	–	–	–	–	7,522	–	7,522
Financial investments available for sale	–	–	–	19,828	–	–	19,828
Other financial assets	–	–	–	–	–	460	460
	1,337	345	374	19,828	79,717	860	102,461
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	16,063	16,063
Customer accounts	–	–	–	–	–	64,471	64,471
Trading portfolio financial liabilities	369	–	–	–	–	–	369
Derivative financial instruments	1,108	514	678	–	–	–	2,300
Debt securities in issue	–	–	–	–	–	6,816	6,816
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,511	1,511
Other financial liabilities	–	–	–	–	–	603	603
	1,477	514	678	–	–	89,464	92,133

(1)Comprises cash on hand.

46 Classification and measurement of financial assets and financial liabilities *(continued)*

	At fair value through profit and loss		At fair value through equity		At amortised cost		Total
31 December 2014	Held for trading €m	Fair value hedge derivatives €m	Cashflow hedge derivatives €m	Available for sale securities €m	Loans and receivables €m	Other €m	€m
Financial assets							
Cash and balances at central banks	–	–	–	–	4,879	514[(1)]	5,393
Items in the course of collection	–	–	–	–	146	–	146
Trading portfolio financial assets	1	–	–	–	–	–	1
Derivative financial instruments	1,024	500	514	–	–	–	2,038
Loans and receivables to banks	–	–	–	–	1,865	–	1,865
Loans and receivables to customers	–	–	–	–	63,362	–	63,362
NAMA senior bonds	–	–	–	–	9,423	–	9,423
Financial investments available for sale	–	–	–	20,185	–	–	20,185
Other financial assets	–	–	–	–	–	499	499
	1,025	500	514	20,185	79,675	1,013	102,912
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	16,768	16,768
Customer accounts	–	–	–	–	–	64,018	64,018
Derivative financial instruments	1,150	587	597	–	–	–	2,334
Debt securities in issue	–	–	–	–	–	7,861	7,861
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,451	1,451
Other financial liabilities	–	–	–	–	–	446	446
	1,150	587	597	–	–	90,544	92,878

(1)Comprises cash on hand.

47 Fair value of financial instruments

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

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 30 June 2015.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. AIB has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

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

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

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

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

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Available for sale securities and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.

All valuations are carried out within the Finance function of the Group and valuation methodologies are validated by the independent Risk function within the Group.

The methods used for calculation of fair value in the half-year to 30 June 2015 are as follows:

Financial instruments measured at fair value in the financial statements

Trading portfolio financial instruments

The fair value of trading debt securities, together with quoted equity shares is based on quoted prices or bid/offer quotations sourced from external securities dealers, where these are available on an active market. Where securities and equities are traded on an exchange, the fair value is based on prices from the exchange.

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over the counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide the Group's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty Valuation Adjustment ("CVA") and Funding Valuation Adjustment ("FVA") are applied to all uncollateralised over the counter derivatives. CVA is calculated as: (Option replacement cost x probability of default ("PD") x loss given default ("LGD")). PDs are derived from market based Credit Default Swap ("CDS") information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security where applicable. For unsecured counterparties, an LGD of 60% is applied.

Notes to the consolidated financial statements

47 Fair value of financial instruments *(continued)*

Funding valuation adjustment

In line with market practice which continues to evolve, AIB applies a FVA for calculating the fair value of uncollateralised derivative contracts. The application of the FVA in the valuation of uncollateralised derivative contracts, introduces the use of a funding curve for discounting of cash flows where market participants consider that this cost is included in market pricing. The funding curve used is the average funding curve implied by the Credit Default Swaps ("CDS") of the Group's most active external derivative counterparties. The logic in applying this curve is to best estimate the FVA which a counterparty would apply in a transaction to close out the Group's existing positions. The application of FVA, while an overall negative adjustment, contains within it the benefit of own credit.

Within the range of estimates and fair value sensitivity measurements, a favourable and an adverse scenario have been selected for PDs and LGDs for CVA. The favourable/adverse scenario for customer PDs are (i) a single rating upgrade and (ii) a single rating downgrade respectively. Customer LGDs are shifted according to estimates of improvement in value of security compared with potential derivatives market values. Within the combination of LGD and PD, both are shifted together yielding positive and negative valuations which are disclosed as potential alternative valuations on page 246. For FVA, a favourable scenario is the use of the bond yields of the Group's most active derivative counterparties while an adverse scenario is the use of the Group's own estimated senior unsecured bond yields.

Financial investments available for sale

The fair value of available for sale debt securities and equities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability. Where screen prices are unavailable, fair values are estimated by valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement on an appropriate credit spread to similar or related instruments with market data available is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and receivables to banks

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

Loans and receivables to customers

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

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. An adjustment is made for credit risk which at 30 June 2015 took account of the Group's expectations on credit losses over the life of the loans.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

NAMA senior bonds

The Group's holding of NAMA Senior Bonds is classified as loans and receivables measured at amortised cost. For disclosure purposes, the fair value of the NAMA senior bonds has been estimated using a valuation technique since there in no active market for these bonds. The valuation technique requires an increased use of management judgement which includes, but is not limited to, evaluating available market information, determining the amount and timing of cash flows generated by the instruments, identifying a risk free discount rate and applying an appropriate credit spread.

Deposits by central banks and banks and customer accounts

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

47 Fair value of financial instruments *(continued)*

Debt securities in issue

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

Other financial assets and other financial liabilities

This caption includes accrued interest receivable and payable and the carrying amount is considered representative of fair value.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by the Group are included in note 43. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The tables on the following pages set out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 30 June 2015 and 31 December 2014:

47 Fair value of financial instruments *(continued)*

					30 June 2015
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value					
Trading portfolio financial assets					
Debt securities	349	349	–	–	349
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,512	–	965	547	1,512
Exchange rate derivatives	63	–	63	–	63
Equity derivatives	131	–	90	41	131
Financial investments available for sale					
Government securities	12,377	12,022	355	–	12,377
Supranational banks and government agencies	2,483	2,483	–	–	2,483
Asset backed securities	234	233	1	–	234
Bank securities	4,236	4,236	–	–	4,236
Corporate securities	39	37	–	2	39
Equity securities	459	–	1	458	459
	21,884	19,360	1,476	1,048	21,884
Financial assets not measured at fair value					
Cash and balances at central banks	5,231	400[(1)]	4,831	–	5,231
Items in the course of collection	223	–	–	223	223
Loans and receivables to banks	3,363	–	670	2,693	3,363
Loans and receivables to customers					
Mortgages[(2)]	35,489	–	–	32,282	32,282
Non-mortgages	28,289	–	–	27,858	27,858
Total loans and receivables to customers	63,778	–	–	60,140	60,140
NAMA senior bonds	7,522	–	–	7,550	7,550
Other financial assets	460	–	–	460	460
	80,577	400	5,501	71,066	76,967
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	369	369	–	–	369
Derivative financial instruments					
Interest rate derivatives	2,082	–	1,870	212	2,082
Exchange rate derivatives	79	–	79	–	79
Equity derivatives	130	–	88	42	130
Credit derivatives	9	–	9	–	9
	2,669	369	2,046	254	2,669
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	628	–	–	628	628
Securities sold under agreements to repurchase	15,435	–	3,300	12,135	15,435
Customer accounts					
Current accounts	24,185	–	–	24,185	24,185
Demand deposits	11,143	–	–	11,143	11,143
Time deposits	27,837	–	–	28,132	28,132
Securities sold under agreements to repurchase	1,306	–	–	1,306	1,306
Debt securities in issue					
Bonds and medium term notes	6,766	6,182	903	–	7,085
Other debt securities in issue	50	–	50	–	50
Subordinated liabilities and other capital instruments	1,511	–	1,818	–	1,818
Other financial liabilities	603	–	–	603	603
	89,464	6,182	6,071	78,132	90,385

(1)Comprises cash on hand. (2)Includes residential and commercial mortgages.

47 Fair value of financial instruments *(continued)*

					31 December 2014
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,852	–	1,295	557	1,852
Exchange rate derivatives	48	–	48	–	48
Equity derivatives	138	–	53	85	138
Financial investments available for sale					
Government securities	12,920	12,538	382	–	12,920
Supranational banks and government agencies	2,852	2,852	–	–	2,852
Asset backed securities	100	99	1	–	100
Bank securities	3,897	3,897	–	–	3,897
Corporate securities	3	–	–	3	3
Equity securities	413	–	2	411	413
	22,224	19,386	1,782	1,056	22,224
Financial assets not measured at fair value					
Cash and balances at central banks	5,393	514[(1)]	4,879	–	5,393
Items in the course of collection	146	–	–	146	146
Loans and receivables to banks	1,865	–	664	1,201	1,865
Loans and receivables to customers					
Mortgages[(2)]	35,973	–	–	31,845	31,845
Non-mortgages	27,389	–	–	27,319	27,319
Total loans and receivables to customers	63,362	–	–	59,164	59,164
NAMA senior bonds	9,423	–	–	9,479	9,479
Other financial assets	499	–	–	499	499
	80,688	514	5,543	70,489	76,546
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	2,136	–	1,897	239	2,136
Exchange rate derivatives	73	–	73	–	73
Equity derivatives	117	–	56	61	117
Credit derivatives	8	–	8	–	8
	2,334	–	2,034	300	2,334
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	715	–	–	715	715
Securities sold under agreements to repurchase	16,053	–	3,400	12,653	16,053
Customer accounts					
Current accounts	21,665	–	–	21,665	21,665
Demand deposits	10,004	–	–	10,004	10,004
Time deposits	30,196	–	–	30,613	30,613
Securities sold under agreementsto repurchase	2,153	–	–	2,153	2,153
Debt securities in issue					
Bonds and medium term notes	7,811	7,214	965	–	8,179
Other debt securities in issue	50	–	50	–	50
Subordinated liabilities and other capital instruments	1,451	–	1,831	–	1,831
Other financial liabilities	446	–	–	446	446
	90,544	7,214	6,246	78,249	91,709

(1)Comprises cash on hand.

(2)Includes residential and commercial mortgages.

47 Fair value of financial instruments *(continued)*

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

The following table shows significant transfers between Level 1 and Level 2 of the fair value hierarchy:

	30 June 2015			31 December 2014		
	Financial assets			Financial assets		
Group	Trading portfolio € m	Debt securities € m	Total € m	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 1 from Level 2	–	–	–	–	–	–
Transfer into Level 2 from Level 1	–	–	–	–	1	1

Transfers into Level 2 from Level 1 occurred due to reduced availability of reliable quoted market prices.

Reconciliation of balances in Level 3 of the fair value hierarchy

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

	30 June 2015					
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
Group	€ m	Debt securities € m	Equity securities € m	€ m	€ m	€ m
At 1 January 2015	642	3	411	1,056	300	300
Transfers out of/into Level 3[1]	(3)	–	–	(3)	44	44
Total gains or (losses) in:						
Profit or loss						
– Net trading loss/income	(49)	–	–	(49)	(53)	(53)
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	(1)	42	41	–	–
– Net change in fair value of cash flow hedges	(2)	–	–	(2)	(37)	(37)
	(2)	(1)	42	39	(37)	(37)
Purchases	–	–	6	6	–	–
Sales	–	–	(1)	(1)	–	–
At 30 June 2015	588	2	458	1,048	254	254

Transfers into Level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these instruments. Transfers out of level 3 arose as a result of the ability to measure financial instruments using observable data for their fair value measurement either directly or indirectly.

47 Fair value of financial instruments *(continued)*

	31 December 2014					
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
Group	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2014	419	12	104	535	125	125
Transfers into Level 3[(1)]	114	3	–	117	119	119
Total gains or (losses) in:						
Profit or loss						
– Net trading income/loss	107	–	–	107	26	26
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	–	307	307	–	–
– Net change in fair value of cash flow hedges	2	–	–	2	30	30
	2	–	307	309	30	30
Purchases	–	–	12	12	–	–
Sales	–	(12)	(12)	(24)	–	–
At 31 December 2014	642	3	411	1,056	300	300

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

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

Reconciliation of balances in Level 3 of the fair value hierarchy

Total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 30 June 2015 and 31 December 2014:

	30 June 2015	31 December 2014
	€ m	€ m
Net trading (loss)/income	**(3)**	193

47 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the half-year ended 30 June 2015 and the year ended 31 December 2014 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Financial instrument		Fair Value 30June 2015 € m	Fair Value 31 December 2014 € m	Valuation technique	Significant unobservable input	Range of estimates 30 June 2015	Range of estimates 31 December 2014
Uncollateralised customer derivatives	Asset	**588**	642	CVA	LGD	**46% to 77% (Base 55%)**	46% to 82% (Base 55%)
	Liability	**254**	300				
					PD	**0.8% to 1.3% (Base 1.1% 1 year PD)**	0.9% to 1.4% (Base 1.1% 1 year PD)
					Combination LGD and PD[(1)]	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
				FVA	Funding spreads	**(0.3%) to 0.9%**	(0.3%) to 0.8%
NAMA subordinated bonds	Asset	**414**	374	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 9% applicable to base asset price. The estimates range from: (a) NAMA making 50% of full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2019)	Discount rate of 12% applicable to base asset price. The estimates range from: (a) NAMA making 50% of full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2018) at a reduced discount rate.

[(1)]The fair value measurement sensitivity to unobservable inputs ranges at 30 June 2015 from negative € 50 million to positive € 23 million (31 December 2014: negative € 53 million to positive € 25 million).

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

47 Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

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

	30 June 2015			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	79	(80)	–	–
Financial investments available for sale – equity securities	–	–	12	(49)
Total	79	(80)	12	(49)
Classes of financial liabilities				
Derivative financial instruments	15	(55)	–	–
Total	15	(55)	–	–

	31 December 2014			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	61	(77)	–	–
Financial investments available for sale – equity securities	–	–	59	(56)
Total	61	(77)	59	(56)
Classes of financial liabilities				
Derivative financial instruments	10	(37)	–	–
Total	10	(37)	–	–

Day 1 gain or loss:

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

48 Interest rate sensitivity

The net interest rate sensitivity of the Group is illustrated in the following tables. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are included within non-interest bearing or trading captions. The tables show the sensitivity of the statement of financial position at one point in time and are not necessarily indicative of positions at other dates. In developing the classifications used in the tables, it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The fair value of derivative financial instruments is included within other assets and other liabilities as interest rate insensitive. However, some derivative instruments are derived from interest sensitive financial instruments, and are shown separately below in each year's table.

48 Interest rate sensitivity *(continued)*

30 June 2015

	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets											
Disposal groups and non-current assets held for sale	–	–	–	–	–	–	–	–	4	–	4
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	350	350
Loans and receivables to banks	2,120	733	2	–	–	–	–	–	508	–	3,363
Loans and receivables to customers	60,404	6,644	1,977	845	1,001	426	734	1,300	(9,553)	–	63,778
NAMA senior bonds	–	7,522	–	–	–	–	–	–	–	–	7,522
Financial investments available for sale	426	687	900	859	2,783	4,018	3,229	6,465	461	–	19,828
Other assets	4,831	–	–	–	–	–	–	–	6,077	987	11,895
Total assets	67,781	15,586	2,879	1,704	3,784	4,444	3,963	7,765	(2,503)	1,337	106,740
Liabilities											
Deposits by central banks and banks	8,445	5,676	–	1,900	–	–	–	–	42	–	16,063
Customer accounts	26,709	4,151	10,013	2,057	1,039	296	131	4	20,071	–	64,471
Trading portfolio financial liabilities	–	–	–	–	–	–	–	–	–	369	369
Debt securities in issue	516	261	524	2,675	–	1,000	565	1,275	–	–	6,816
Subordinated liabilities and other capital instruments	–	–	–	1,466	–	–	–	45	–	–	1,511
Other liabilities	–	–	–	–	–	–	–	–	4,079	1,108	5,187
Shareholders' equity	–	–	–	–	–	–	–	–	12,323	–	12,323
Total liabilities and shareholders' equity	35,670	10,088	10,537	8,098	1,039	1,296	696	1,324	36,515	1,477	106,740
Derivatives affecting interest rate sensitivity	15,440	1,243	(4,618)	(4,922)	92	(2,057)	627	(5,805)	–	–	
Interest sensitivity gap	16,671	4,255	(3,040)	(1,472)	2,653	5,205	2,640	12,246	(39,018)	(140)	
Cumulative interest sensitivity gap	16,671	20,926	17,886	16,414	19,067	24,272	26,912	39,158	140	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	11,947	2,231	(1,794)	(1,668)	2,803	4,525	2,294	11,342	(30,904)	(68)	
Cumulative interest sensitivity gap	11,947	14,178	12,384	10,716	13,519	18,044	20,338	31,680	776	708	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	375	948	(155)	(20)	(1)	81	–	122	(1,023)	(10)	
Cumulative interest sensitivity gap	375	1,323	1,168	1,148	1,147	1,228	1,228	1,350	327	317	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	4,373	1,068	(1,107)	217	(149)	599	346	782	(7,578)	(68)	
Cumulative interest sensitivity gap	4,373	5,441	4,334	4,551	4,402	5,001	5,347	6,129	(1,449)	(1,517)	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(24)	9	16	(2)	–	–	–	–	487	6	
Cumulative interest sensitivity gap	(24)	(15)	1	(1)	(1)	(1)	(1)	(1)	486	492	

48 Interest rate sensitivity *(continued)*

31 December 2014

	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets											
Disposal groups and non-current assets held for sale	–	–	–	–	–	–	–	–	14	–	14
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	1	1
Loans and receivables to banks	1,400	8	–	3	–	–	–	–	454	–	1,865
Loans and receivables to customers	63,398	6,806	1,898	947	691	214	434	1,380	(12,406)	–	63,362
NAMA senior bonds	–	9,423	–	–	–	–	–	–	–	–	9,423
Financial investments available for sale	538	625	296	1,350	2,747	2,693	4,192	7,329	415	–	20,185
Other assets	4,879	–	–	–	–	–	–	–	6,702	1,024	12,605
Total assets	70,215	16,862	2,194	2,300	3,438	2,907	4,626	8,709	(4,821)	1,025	107,455
Liabilities											
Deposits by central banks and banks	10,109	4,714	–	1,900	1	–	–	–	44	–	16,768
Customer accounts	25,612	4,585	10,900	2,387	1,559	601	113	1	18,260	–	64,018
Debt securities in issue	605	2,470	521	1,000	1,675	500	565	525	–	–	7,861
Subordinated liabilities and other capital instruments	–	–	–	1,411	–	–	–	40	–	–	1,451
Other liabilities	–	–	–	–	–	–	–	–	4,635	1,150	5,785
Shareholders' equity	–	–	–	–	–	–	–	–	11,572	–	11,572
Total liabilities and shareholders' equity	36,326	11,769	11,421	6,698	3,235	1,101	678	566	34,511	1,150	107,455
Derivatives affecting interest rate sensitivity	10,260	(4,659)	(2,126)	649	(2,601)	(800)	1,179	(1,902)	–	–	
Interest sensitivity gap	23,629	9,752	(7,101)	(5,047)	2,804	2,606	2,769	10,045	(39,332)	(125)	
Cumulative interest sensitivity gap	23,629	33,381	26,280	21,233	24,037	26,643	29,412	39,457	125	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	19,087	7,383	(6,495)	(4,949)	2,767	2,553	2,709	10,116	(31,474)	(114)	
Cumulative interest sensitivity gap	19,087	26,470	19,975	15,026	17,793	20,346	23,055	33,171	1,697	1,583	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	447	762	21	2	4	–	(6)	(41)	(554)	(11)	
Cumulative interest sensitivity gap	447	1,209	1,230	1,232	1,236	1,236	1,230	1,189	635	624	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	4,115	1,608	(641)	(100)	33	53	66	(30)	(7,803)	(7)	
Cumulative interest sensitivity gap	4,115	5,723	5,082	4,982	5,015	5,068	5,134	5,104	(2,699)	(2,706)	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(20)	(1)	14	–	–	–	–	–	499	7	
Cumulative interest sensitivity gap	(20)	(21)	(7)	(7)	(7)	(7)	(7)	(7)	492	499	

49 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	**Half-year 30 June 2015 € m**	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Profit on disposal of property, plant and equipment	**(4)**	(2)	*(6)*
Profit on disposal/transfer of loans and receivables	**(19)**	(50)	*(52)*
Dividends received from equity securities	**(25)**	(25)	*(25)*
Dividends received from associated undertakings	**(9)**	(5)	*(11)*
Associated undertakings net income	**(13)**	(9)	*(23)*
(Writeback)/provision for impairment on loans and receivables	**(540)**	92	*(185)*
Writeback of provisions for liabilities and commitments	**(16)**	–	*(5)*
Provisions for impairment on financial investments available for sale	**–**	–	*1*
Change in other provisions	**–**	13	*70*
Retirement benefits – defined benefit expense/(credit)	**11**	4	*(3)*
Termination benefits	**1**	1	*(2)*
Depreciation, amortisation and impairment	**39**	42	*111*
Interest on subordinated liabilities and other capital instruments	**136**	128	*256*
Net (gain)/loss on buy back of debt securities in issue	**(7)**	(3)	*1*
Profit on disposal of financial investments available for sale	**(70)**	(149)	*(389)*
Loss on termination of fair value hedging swaps	**19**	40	*208*
Remeasurement of NAMA senior bonds	**(4)**	(22)	*(132)*
Amortisation of premiums and discounts	**37**	–	*31*
Fair value gain on realisation/re-estimation of cash flows on loans and receivables previously restructured	**(1)**	–	*–*
Change in prepayments and accrued income	**41**	100	*87*
Change in accruals and deferred income	**(132)**	(246)	*(220)*
Effect of exchange translation and other adjustments[1]	**(245)**	(165)	*(223)*
Total non-cash items	**(801)**	(256)	*(511)*
Contributions to defined benefit pension schemes	**(44)**	(46)	*(87)*
Dividends received from equity securities	**25**	25	*25*
Total other items	**(19)**	(21)	*(62)*
Non-cash and other items for the period	**(820)**	(277)	*(573)*

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

49 Statement of cash flows (continued)

Change in operating assets[1]	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	Year 31 December 2014 € m
Change in loans and receivables to customers	**1,447**	1,601	*3,736*
Change in NAMA senior bonds	**1,917**	3,834	*6,343*
Change in loans and receivables to banks	**(1,007)**	(576)	*(420)*
Change in trading portfolio financial assets	**(349)**	1	*1*
Change in derivative financial instruments	**(112)**	(80)	*(271)*
Change in items in course of collection	**(69)**	(97)	*24*
Change in other assets	**(11)**	52	*36*
	1,816	4,735	*9,449*

Change in operating liabilities[1]	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	Year 31 December 2014 € m
Change in deposits by central banks and banks	**(727)**	(6,648)	*(6,395)*
Change in customer accounts[2]	**(836)**	(90)	*(3,586)*
Change in trading portfolio financial liabilities	**366**	–	–
Change in debt securities in issue	**(1,056)**	462	*(886)*
Change in notes in circulation	**11**	(3)	*5*
Change in other liabilities	**62**	(75)	*(299)*
	(2,180)	(6,354)	*(11,161)*

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

[2]Includes deposits placed by NTMA of € 2,401 million (June 2014: € 7,178 million; 31 December 2014: € 3,305 million).

Analysis of cash and cash equivalents

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

	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	Year 31 December 2014 € m
Cash and balances at central banks	**5,231**	4,957	*5,393*
Loans and receivables to banks	**1,430**	927	*991*
	6,661	5,884	*6,384*

The Group is required to maintain balances with the Central Bank of Ireland which at 30 June 2015 amounted to € 120 million (30 June 2014: € 111 million; 31 December 2014: € 120 million).

The Group is required by law to maintain reserve balances with the Bank of England. At 30 June 2015, these amounted to € 550 million (30 June 2014: € 508 million; 31 December 2014: € 544 million).

There are certain regulatory restrictions on the ability of subsidiaries to transfer funds to the parent company in the form of cash dividends, loans or advances. The impact of such restrictions is not expected to have a material effect on the Group's ability to meet its cash obligations.

50 Related party transactions

Related parties of the Group include associated undertakings, joint arrangements, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB.

(a) Associated undertakings and joint arrangements

From time to time, the Group provides certain banking and financial services for associated undertakings. These transactions 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 and do not involve more than the normal risk of collectability or present other unfavourable features.

(b) Provision of banking and related services and funding to Group Pension schemes

The Group provides certain banking and financial services including money transmission services for the AIB Group Pension schemes. Such services are provided in the ordinary course of business, on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other persons.

During 2013, the Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") in the UK. Following this, a subsidiary of AIB transferred loans to the SLP for the purpose of ring-fencing the repayments of these loans to fund future deficit payments of the AIB UK Defined Benefit Pension Scheme (note 45).

During 2012, AIB agreed to make certain contributions to the pension scheme which were settled through the transfer to the AIB Group Irish Pension Scheme of interests in a special purpose entity owning loans and receivables previously transferred at fair value from the Group. A subsidiary of AIB was appointed as a service provider for the loans and receivables transferred in return for a servicing fee at a market rate (note 45).

(c) Compensation of Key Management Personnel

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures*, in respect of the compensation of Key Management Personnel. Under IAS 24, Key Management Personnel are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Leadership Team.

	Half-year 30 June 2015 € m	Half-year 30 June 2014 (Unaudited) € m	*Year 31 December 2014 € m*
Short-term compensation[(1)]	**3.1**	2.9	*6.6*
Post-employment benefits[(2)]	**0.4**	0.3	*0.7*
Total	**3.5**	3.2	*7.3*

[(1)]Comprises (a) in the case of Executive Directors and Senior Executive Officers: salary and a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits and (b) in the case of Non-Executive Directors: Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by the Company.

[(2)]Comprises payments to defined contribution pension schemes for Executive Directors and Senior Executive Officers. The defined benefit schemes closed for future accrual with effect from 31 December 2013. The fees of the Non-Executive Directors are non-pensionable.

50 Related party transactions *(continued)*

(d) Transactions with Key Management Personnel

As at 30 June 2015, deposit and other credit balances held by Key Management Personnel, namely Executive and Non-Executive Directors and Senior Executive Officers, who were in office during the half-year amounted to € 5.45 million (31 December 2014: € 4.56 million).

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

Details of transactions with Key Management Personnel, and connected parties where indicated, for the half-year ended 30 June 2015 and the year ended 31 December 2014 are as follows:

(i) Current Directors

(Aggregate of 5 persons)

	Balance at 30 June 2015 € 000	Balance at 31 December 2014 € 000
Loans	661	689
Overdraft/Credit card	1	4
Total	662	693
Interest charged during the period	4	
Maximum debit balance during the period*	703	

As at 30 June 2015, guarantees entered into by a Director in favour of the Group amounted to € 0.1 million.

(ii) Former Directors who were in office during the period

(Aggregate of 1 person)

	Balance at 30 June 2015 € 000	Balance at 31 December 2014 € 000
Loans	1,125	1,171
Overdraft/Credit card	16	4
Total	1,141	1,175
Interest charged during the period	4	
Maximum debit balance during the period*	1,219	

(iii) Senior Executive Officers in office during the period

(Aggregate of 6 persons)

	Balance at 30 June 2015 € 000	Balance at 31 December 2014 € 000
Loans	1,243	561
Overdraft/Credit card	4	2
Total	1,247	563
Interest charged during the period	3	
Maximum debit balance during the period*	1,291	

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the period.

50 Related party transactions *(continued)*
(d) Transactions with Key Management Personnel
(iv) Aggregate amounts outstanding at end of the period

	Loans, overdrafts/credit cards	
	30 June 2015 € 000	31 December 2014 € 000
Directors (2015: 6 persons)	1,803	1,868
Senior Executive Officers (2015: 6 persons)	1,247	563
	3,050	2,431

As at 30 June 2015, guarantees entered into by a Director in favour of the Group amounted to € 0.1 million (31 December 2014: € 0.1 million by a Director) and no Senior Executive Officers held guarantees in favour of the Group.

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 30 June 2015, as defined in Section 311 of the Companies Act 2014, are as follows (aggregate of 16 persons):

	Balance at 30 June 2015 € 000	Balance at 31 December 2014 € 000
Loans	884	1,322
Overdraft/Credit card	40	52
Total	924	1,374
Interest charged during the period	16	
Maximum debit balance during the period*	1,552	

No impairment charges or provisions have been recognised during the period in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that has fallen due on all of these loans or facilities has been paid.

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the period.

(e) Summary of relationship with the Irish Government

The Irish Government, as a result of both its investment in AIB's 2009 Preference shares and AIB's participation in Government guarantee schemes, became a related party of AIB in 2009. Following the various share issues to NPRFC[(1)] during 2010 and 2011, AIB is under the control of the Irish Government.

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on an arm's length basis. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate.

Following the crisis in the Irish banking sector and the stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in other Irish banks has been and continues to be considerable. This involvement is outlined below.

[(1)]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

Rights and powers of the Irish Government and the Central Bank of Ireland

The Irish Minister for Finance ('the Minister') and the Central Bank of Ireland ("the Central Bank") have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. These rights and powers relate to, inter alia:
– The acquisition of shares in other institutions;
– Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank, following consultation with the Minister, may direct;
– The appointment of non-executive directors and board changes;
– The appointment of persons to attend meetings of various committees;
– Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
– Declaration and payment of dividends;

50 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

- Restrictions on various types of remuneration;
- Buy-backs or redemptions by the Group of its shares;
- The manner in which the Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and the Group's balance sheet growth.

In addition, various other initiatives such as strategies/codes of conduct for dealing with mortgage and other consumer/business loan arrears are set out in the Risk section of this report.

The relationship of the Irish Government with AIB is outlined under the following headings:

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

In addition, the European Commission, in approving AIB's restructuring plan on 7 May 2014, found that restructuring aid granted by Ireland to AIB is in line with EU state aid rules.

- ***Capital investments***

  National Treasury Management Agency ("NTMA")

  The Ireland Strategic Investment Fund (the "ISIF") was established on 22 December 2014 by the National Treasury Management (Amendment) Act 2014. Pursuant to this Act, all assets and liabilities of the National Pensions Reserve Fund Commission (the "NPRFC"), including its holding of ordinary shares and the 2009 Preference Shares in AIB transferred to the ISIF on 22 December 2014. Ownership of the ISIF vests in the Minister for Finance and is controlled and managed by the NTMA.

  Ordinary shares

  At 30 June 2015, the Irish Government, through the NTMA, held 522.6 billion (31 December 2014: 522.6 billion) ordinary shares in AIB representing 99.8% of the issued ordinary share capital (31 December 2014: 99.8%). See note 38 for details of the Government's investment in the ordinary shares of AIB.

  2009 Preference Shares

  At 30 June 2015, the Irish Government, through the NTMA, held € 3.5 billion capital (31 December 2014: € 3.5 billion) in the form of non-cumulative preference shares ("2009 Preference Shares"). In May 2015, a dividend amounting to € 280 million was paid in cash on the 2009 Preference Shares. The terms and conditions attaching to the 2009 Preference Shares are outlined in note 38.

  Contingent capital notes

  On 27 July 2011, AIB issued € 1.6 billion of contingent capital notes at par to the Minister with interest payable annually in arrears at a rate of 10% on the nominal value of the notes. Details of this transaction are set out in note 37.

  Capital contributions

  On 28 July 2011, capital contributions totalling € 6.054 billion were made by the Irish State to AIB for nil consideration. For further details, see note 41.

- ***Guarantee schemes***

  The European Communities (Deposit Guarantee Schemes) Regulations 1995 have been in operation since 1995. These regulations guarantee certain retail deposits up to a maximum of € 100,000. In addition, since September 2008, the Irish Government has guaranteed relevant deposits and debt securities of AIB through the Credit Institutions (Financial Support) Scheme 2008 ("the CIFS scheme") which expired in September 2010 and the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ("ELG Scheme") which expired on 28 March 2013 for all new liabilities.

50 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

– ***Guarantee schemes***

In January 2010, Allied Irish Banks, p.l.c., and certain of its subsidiaries, became participating institutions for the purposes of the ELG Scheme. The total liabilities guaranteed under the ELG Scheme at 30 June 2015 amounted to € 2.1 billion (31 December 2014: € 4.6 billion). Participating institutions must pay a fee to the Minister in respect of each liability guaranteed under the ELG Scheme. Details of the total charge for the period to the 30 June 2015, 30 June 2014 and 31 December 2014, are set out in note 3. Participating institutions are also required to indemnify the Minister for any costs and expenses of the Minister and for any payments made by the Minister under the ELG Scheme which relate to the participating institution's guarantee under the ELG Scheme.

– ***NAMA***

AIB was designated a participating institution under the NAMA Act in February 2010. Under this Act, AIB transferred financial assets to NAMA for which it received consideration from NAMA in the form of NAMA senior bonds and NAMA subordinated bonds which are detailed in notes 7, 25 and 26. In addition, AIB acquired NAMA senior bonds in 2011 as part of the Anglo transaction (€ 11,854 million fair value at acquisition date) and the EBS transaction (€ 301 million carrying value at acquisition date). AIB also acquired € 6 million in subordinated NAMA bonds, as part of the EBS transaction. The NAMA senior bonds are guaranteed by the Irish Government.

Following on the transfer of financial assets to NAMA, a contingent liability/contingent asset arises in relation to:
- final settlement amounts with NAMA on assets transferred;
- a series of indemnities which AIB has provided to NAMA on transferred assets;
- a possible requirement for AIB to share NAMA losses on dissolution of NAMA.

Details of the contingent liability/asset are set out in note 43.

Investment in National Asset Management Agency Investment Ltd ("NAMAIL")

In March 2010, a then subsidiary of Allied Irish Banks, p.l.c. made an equity investment in 17 million "B" shares of NAMAIL, a special purpose entity established by NAMA. The total investment amounted to € 17 million, of which € 12 million was invested on behalf of the AIB Group pension scheme (fair value at 30 June 2015: € 11 million; 31 December 2014 of € 10 million), with the remainder invested on behalf of clients.

– ***Funding support***

Throughout the financial crisis, the Irish Government provided guarantees under the CIFS (expired September 2010) and ELG schemes as outlined above. In addition, through the Central Bank, the Irish Government provides direct funding as follows:
- AIB has borrowings from the Central Bank as part of Eurosystem. These borrowings are under ECB Monetary Policy Operation Sale and Repurchase Agreements and at 30 June 2015 amount to € 3.3 billion (31 December 2014: € 3.4 billion). At 30 June 2015, AIB had no borrowings from the Central Bank under non-standard liquidity facilities (31 December 2014: Nil).

The interest rate on the facilities above is set by the Central Bank and advised to AIB on each rollover date and at 30 June 2015 was 0.05 %, being the current ECB refinancing rate. Of the facilities, € 1.4 billion currently rolls over on a one week basis. The remaining € 1.9 billion (31 December 2014: € 1.9 billion) in the Targeted Long Term Refinancing Operation (note 31) will mature between September 2016 and September 2018 depending on eligible lending activities in excess of specific benchmarks. At 30 June 2015, the amounts outstanding, totalling € 3.3 billion (31 December 2014: € 3.4 billion) are included within Deposits by central banks and banks in the table below. See note 31 for details of collateral.

These facilities, together with other assets and liabilities with Irish Government entity counterparties, are set out below.

– ***PCAR/PLAR***

On 31 March 2011, the Central Bank published the 'Financial Measures Programme Report' which detailed the outcome of its review of the capital (PCAR) and funding requirements (PLAR) of the domestic Irish banks. The PCAR/PLAR assessments followed the announcement of the EU-IMF Programme for Ireland in November 2010, in which the provision of an overall amount of € 85 billion in financial support for the sovereign was agreed in principle. Up to € 35 billion of this support was earmarked for the banking system, € 10 billion of which was for immediate recapitalisation of the banks with the remaining € 25 billion to be provided on a contingency basis. Arising from the 2011 PCAR and PLAR assessments, AIB, including EBS, was required to raise € 14.8 billion in total capital (including €1.6 billion in contingent capital), all of which was subsequently raised.

50 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

– ***Credit Institutions (Stabilisation) Act 2010***

The Credit Institutions (Stabilisation) Act 2010, which was enacted in December 2010, ceased to have effect on 31 December 2014. During the period when the Act was effective, the Minister invoked certain of his powers under the Act in relation to AIB as follows:

- a Direction Order in December 2010;
- a Transfer Order in February 2011;
- a Subordinated Liabilities Order in April 2011; and
- Acquisition of EBS Limited ("EBS").

On 31 March 2011, the Minister proposed the combination of AIB and EBS (formerly EBS Building Society) to form one of the two Pillar banks. On 26 May 2011, AIB entered into an agreement with EBS, the Minister and the NTMA to acquire EBS for a consideration of € 1 (one euro). The acquisition was effective from 1 July 2011.

– ***Central Bank and Credit Institutions (Resolution) Act 2011***

The Central Bank and Credit Institutions (Resolution) Act 2011 became effective on 28 October 2011. This legislation provides the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that are failing or likely to fail and that is effective in protecting the Exchequer and the stability of the financial system and the economy.

The Act gives the Central Bank power to take control of banks, appoint managers to run them and remove directors, staff and consultants, and to move their deposits and loans to other banks. On 30 September 2014, the Minister for Finance made Regulations – the Credit Institutions Resolution Fund Levy Regulations, 2014 ("2014 Regulations") – which amend and update the 2012 Regulations and provide for contributions by authorised credit institutions to the Credit Institutions' Resolution Fund ("Resolution Fund") pursuant to Section 15 of the Central Bank and Credit Institutions (Resolution) Act 2011. The 2012 Regulations (as updated by the 2014 Regulations) require every person who, on 1 October 2014, is an authorised credit institution described in the Schedule to the 2012 Regulations to pay a levy in respect of the levy period to the Central Bank of Ireland ("Central Bank") for the account of the Resolution Fund. This includes all banks, building societies and credit unions licensed in Ireland with the exception of institutions covered by the Credit Institutions (Stabilisation) Act, 2010. This Resolution Fund has been designed to provide a source of funding for the resolution of financial instability in, or of, an imminent serious threat to the financial stability of an authorised credit institution.

The Act provides for the establishment of "Bridge-Banks" for the purpose of holding assets or liabilities which have been transferred under a transfer order. Bridge-Banks are only intended to hold such assets or liabilities on a temporary basis pending onward transfer as soon as possible.

The Central Bank is empowered to make special management orders in relation to an authorised credit institution, or in relation to a subsidiary or holding company of the authorised credit institution in certain circumstances. The Act also provides powers to the Central Bank regarding the liquidation of authorised credit institutions. Authorised credit institutions may also be directed to prepare a recovery plan setting out actions that could be taken to facilitate the continuation or secure the business or part of the business of that institution.

– ***Relationship Framework***

In order to comply with contractual commitments imposed on AIB in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a Relationship Framework was entered into between the Minister and AIB in March 2012. This provides the framework under which the relationship between the Minister and AIB is governed. Under the Relationship Framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board of AIB and its management team. However, the Board is required to obtain the prior written consent of the Minister, or to consult with the Minister, in respect of certain material matters, such as material disposals.

– ***Approval of AIB Restructuring Plan***

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

Notes to the consolidated financial statements

50 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

– ***Restructuring Plan commitments***

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

Balances held with the Irish Government and related entities

The following table outlines the balances held with Irish Government entities[(1)] together with the highest balances held at any point during the period.

	Note	30 June 2015 Balance € m	30 June 2015 Highest[(2)] balance held € m	31 December 2014 Balance € m	31 December 2014 Highest[(2)] balance held € m
Assets					
Cash and balances at central banks	a	**131**	**2,531**	560	2,496
Trading portfolio financial assets		**206**	**323**	–	–
Derivative financial instruments		**1**	**4**	3	10
Loans and receivables to banks	b	**208**	**279**	120	122
Loans and receivables to customers		**1**	**3**	73	86
NAMA senior bonds	c	**7,522**	**9,427**	9,423	15,605
Financial investments available for sale	d	**9,511**	**10,019**	9,481	10,715
Total assets		**17,580**		19,660	

	Note	30 June 2015 Balance € m	30 June 2015 Highest[(2)] balance held € m	31 December 2014 Balance € m	31 December 2014 Highest[(2)] balance held € m
Liabilities					
Deposits by central banks and banks	e	**3,325**	**5,300**	3,400	13,480
Customer accounts	f	**2,480**	**3,736**	3,349	8,993
Trading portfolio financial liabilities		**293**	**293**	–	–
Derivative financial instruments		**88**	**142**	93	93
Subordinated liabilities and other capital instruments	g	**1,466**	**1,466**	1,411	1,411
Total liabilities		**7,652**		8,253	

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

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

Substantially all of the above balances relate to Allied Irish Banks, p.l.c..

a Cash and balances at the central banks represent the minimum reserve requirements which AIB is required to hold with the Central Bank. Balances on this account can fluctuate significantly due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. The Group is required to maintain a monthly average Primary Liquidity balance which at 30 June 2015 was € 510 million (31 December 2014: € 511 million).

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

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

d Financial investments available for sale comprise € 9,097 million (2014: € 9,107 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 30 June 2015 of € 414 million (31 December 2014: € 374 million) detailed above under 'NAMA'.

e This relates to funding received from the Central Bank which is detailed under 'Funding Support' above.

f Includes € 850 million (2014: € 1,575 million) received from an Irish Government body under a repurchase agreement (note 32). The Group has pledged Irish Government securities with a fair value of € 873 million (2014: € 1,619 million) for this borrowing.

g On 27 July 2011, AIB issued € 1.6 billion of contingent capital notes at par to the Minister for Finance, the fair value of these notes at initial recognition was € 1,153 million (note 37).

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

50 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

Local government[1]

During 2015 and 2014, AIB entered into banking transactions in the normal course of business with local government bodies. These transactions include the granting of loans and the acceptance of deposits, and clearing transactions.

Commercial semi-state bodies[2]

During 2015 and 2014, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions.

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

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

Financial institutions under Irish Government control/significant influence

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

– Permanent tsb plc

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

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

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

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

	30 June 2015 € m	31 December 2014 € m
Assets		
Derivative financial instruments	**11**	20
Loans and receivables to banks[1]	**497**	4
Financial investments available for sale	**385**	267
Liabilities		
Deposits by central banks and banks[2]	**3**	9
Derivative financial instruments	**11**	17
Customer deposits[3]	**22**	19

(1)The highest balance in loans and receivables to banks amounted to € 608 million in respect of funds placed during the period (2014: € 108 million).

(2)The highest balance in deposits by central banks and banks amounted to € 367 million in respect of funds received during the period (2014: € 509 million).

(3)The highest balance in customer deposits amounted to € 22 million in respect of funds received during the period (2014: € 48 million).

50 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

Financial institutions under Irish Government control/significant influence

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

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

(f) Indemnities

Allied Irish Banks, p.l.c. has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Republic of Ireland defined benefit pension scheme and defined contribution pension scheme, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default.

51 Commitments

Capital expenditure	30 June 2015 € m	31 December 2014 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	35	17
Capital expenditure authorised but not yet contracted for	38	35

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out in the following table:

	30 June 2015 € m	31 December 2014 € m
One year	58	57
One to two years	61	61
Two to three years	57	58
Three to four years	55	56
Four to five years	54	55
Over five years	382	394
Total	667	681

The Group holds a number of significant operating lease arrangements in respect of branches and the headquarter locations. AIB Group leases the Bankcentre campus in Ballsbridge, Dublin 4 under two separate lease arrangements.

The minimum lease terms remaining on the most significant leases vary from 1 year to 15 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 7 years with the final contractual remaining terms ranging from 1 year to 23 years.

There are no contingent rents payable and all lease payments are at market rates.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date were € 2 million (2014: € 2 million).

Operating lease payments recognised as an expense for the period were € 35 million (2014: € 67 million). Sublease income amounted to Nil (2014: € 4 million).

52 Regulatory compliance

During the half-year to 30 June 2015 and the year ended 31 December 2014, AIB Group, and Allied Irish Banks, p.l.c. and its regulated subsidiaries complied with their externally imposed capital ratios.

53 Financial and other information	**Half-year 30 June 2015 %**	Half-year 30 June 2014 (Unaudited) %	*Year 31 December 2014 %*
Operating ratios			
Operating expenses/operating income	**51.2**	58.7	*64.7*
Operating expenses/operating income before exceptional items	**48.0**	55.1	*55.5*
Other income/operating income	**30.7**	35.6	*33.4*
Other income/operating income before exceptional items	**30.3**	35.3	*33.3*
Net interest margin[1]	**1.88**	1.54	*1.63*
Performance measures			
Return on average total assets	**1.6**	0.7	*0.8*
Return on average ordinary shareholders' equity[2]	**16.8**	7.1	*8.0*

[1]Represents net interest income as a percentage of average interest earning assets.

[2]Profit attributable to ordinary shareholders after deduction of the annual dividend on the 2009 Preference Shares as a percentage of average ordinary shareholders' equity which excludes the € 3.5 billion in 2009 Preference Shares.

Rates of exchange	**Half-year 30 June 2015**	Half-year 30 June 2014 (Unaudited)	*Year 31 December 2014*
€ /$*			
Closing	**1.1189**	1.3658	*1.2141*
Average	**1.1161**	1.3706	*1.3286*
€ /£*			
Closing	**0.7114**	0.8015	*0.7789*
Average	**0.7325**	0.8213	*0.8062*

*Throughout this report, Pound sterling is denoted by £ and US dollar by $.

	Assets		**Liabilities and equity**	
Currency information	**Half-year 30 June 2015 € m**	Year ended 31 December 2014 € m	**Half-year 30 June 2015 € m**	Year ended 31 December 2014 € m
Euro	**84,666**	86,771	**86,783**	88,395
Other	**22,074**	20,684	**19,957**	19,060
	106,740	107,455	**106,740**	107,455

Notes to the consolidated financial statements

54 Average balance sheets and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the half-years ended 30 June 2015 and 30 June 2014. 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 2015			Half-year ended 30 June 2014		
Assets	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %
Trading portfolio financial assets less liabilities	**72**	**–**	**–**	–	–	–
Loans and receivables to banks	**7,128**	**11**	**0.3**	5,777	12	0.4
Loans and receivables to customers	**65,129**	**1,115**	**3.5**	66,244	1,108	3.4
NAMA senior bonds	**8,683**	**20**	**0.5**	14,168	47	0.7
Financial investments available for sale	**19,625**	**258**	**2.7**	19,517	300	3.1
Average interest earning assets	**100,637**	**1,404**	**2.8**	105,706	1,467	2.8
Net interest on swaps		**38**			33	
Total average interest earning assets	**100,637**	**1,442**	**2.9**	105,706	1,500	2.9
Non-interest earning assets	**7,632**			9,029		
Total average assets	**108,269**	**1,442**	**2.7**	114,735	1,500	2.6
Liabilities and shareholders' equity						
Due to central banks and banks	**16,944**	**5**	**0.1**	21,219	31	0.3
Due to customers	**44,808**	**250**	**1.1**	49,486	361	1.5
Other debt issued	**7,466**	**111**	**3.0**	9,145	173	3.8
Subordinated liabilities	**1,480**	**136**	**18.5**	1,376	128	18.7
Average interest earning liabilities	**70,698**	**502**	**1.4**	81,226	693	1.7
Non-interest earning liabilities	**25,726**			22,423		
Total average liabilities	**96,424**	**502**	**1.0**	103,649	693	1.4
Shareholders' equity	**11,845**			11,086		
Total average liabilities and shareholders' equity	**108,269**	**502**	**0.9**	114,735	693	1.2

55 Non-adjusting events after the reporting period

The Bank Recovery and Resolution Directive (BRRD)

The Bank Recovery and Resolution Directive ("BRRD") is a single EU-wide rulebook designed to address bank and investment firm failure. It was transposed into Irish law through the European Union (Bank Recovery and Resolution) Regulations, 2015 (S.I. No. 289 of 2015) which commenced on 15 July 2015. Under the requirements of the BRRD, the Group along with other Irish authorised banks and investment firms within the scope of the BRRD will pay a resolution levy to the national resolution fund in 2015 and to a European resolution fund from 1 January 2016.

56 Dividends

No dividend on ordinary shares will be paid in respect of the half-year ended 30 June 2015.

57 Approval of Half-Yearly Financial Report

The Half-Yearly Financial Report was approved by the Board of Directors on 6 August 2015.

Glossary of terms

ABS	Asset backed securities are securities that represent an interest in an underlying pool of referenced assets. They are typically structured in tranches of differing credit qualities. Some common types of asset backed securities are those backed by credit card receivables, home equity loans and car loans. Within this report, ABS which are backed by an underlying pool of residential mortgage loans are referred to as "RMBS" – see below.
Arrears	Arrears relates to any interest or principal on a loan which was due for payment, but where payment has not been received. Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue.
Banking book	A regulatory classification to support the regulatory capital treatment that applies to all exposures which are not in the trading book. Banking book positions tend to be structural in nature and, typically, arise as a consequence of the size and composition of a bank's balance sheet. Examples include the need to manage the interest rate risk on fixed rate mortgages or rate insensitive current account balances. The banking book portfolio will also include all transactions/positions which are accounted for on an interest accruals basis or, in the case of financial instruments, on an available for sale or hold to maturity basis (e.g. AFS Securities portfolios).
Basis point	One hundredth of a per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.
Basis risk	A type of market risk that refers to the possibility that the change in the price of an instrument (e.g. asset, liability, derivative, etc) may not match the change in price of the associated hedge, resulting in losses arising in the Group's portfolio of financial instruments.
Buy-to-let	A residential mortgage loan approved for the purpose of purchasing a residential investment property to rent out.
CBOs/CDOs	A collateralised bond obligation ("CBO")/collateralised debt obligation ("CDO") is an investment vehicle (generally an SPE) which allows third party investors to make debt and/or equity investments in a vehicle containing a portfolio of loans and bonds with certain common features. In the case of synthetic CBOs/CDOs, the risk is backed by credit derivatives instead of the sale of assets (cash CBOs/CDOs).
CET 1 ratio	Common equity tier 1 – A measurement of a bank's core equity capital compared with its total risk-weighted assets.
Collectively assessed impairment	Impairment assessment on a collective basis for portfolios of impaired loans that are not considered individually significant for specific provisioning. In addition, portfolios of performing loans are assessed on a collective basis to estimate the amount of losses incurred, but which have yet to be individually identified (IBNR provisions).
Commercial paper	Commercial paper is similar to a deposit and is a relatively low-risk, short-term, unsecured promissory note traded on money markets issued by companies or other entities to finance their short-term expenses. In the USA, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days; although maturity is commonly 30 days in the USA and 90 days in Europe.
Commercial property	Commercial property lending focuses primarily on the following property segments: a) Apartment complexes; b) Develop to sell; c) Office projects; d) Retail projects; e) Hotels; and f) Selective mixed-use projects and special purpose properties.
Concentration risk	Concentration risk is the risk of loss from lack of diversification, investing too heavily in one industry, one geographic area or one type of security.
Contractual maturity	The period when a scheduled payment is due and payable in accordance with the terms of a financial instrument.
Core tier 1 capital	Called-up share capital, share premium and eligible reserves plus equity non-controlling interests, less goodwill, intangible assets and supervisory deductions as specified by the Central Bank of Ireland.
CRD	Capital requirements directives ('CRD'): Capital adequacy legislation implemented by the European Union and adopted by member states. They are designed to ensure the financial soundness of credit institutions and certain investment firms.
Credit default swaps	An agreement between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event, such as a default, occurs, at which time a payment is made and the swap terminates. Credit default swaps are typically used by the purchaser to provide credit protection in the event of default by a counterparty.
Credit derivatives	Financial instruments where credit risk connected with loans, bonds or other risk-weighted assets or market risk positions is transferred to counterparties providing credit protection. The credit risk might be the exposure inherent in a financial asset such as a loan or might be generic credit risk such as the bankruptcy risk of an entity.

Glossary of terms

Credit risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
Credit risk mitigation	Techniques by lenders used to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.
Credit risk spread	Credit spread can be defined as the difference in yield between a given security and a comparable benchmark government security, or the difference in value of two securities with comparable maturity and yield but different credit qualities. It gives an indication of the issuer's or borrower's credit quality.
Criticised loans	Loans requiring additional management attention over and above that normally required for the loan type.
Customer accounts	A liability of the Group where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.
Debt restructuring	This is the process whereby customers in arrears, facing cash flow or financial distress, renegotiate the terms of their loan agreements in order to improve the likelihood of repayment. Restructuring may involve altering the terms of a loan agreement including a partial write down of the balance. In certain circumstances, the loan balance may be swapped for equity in the counterparty.
Debt securities	Assets on the Group's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings.
Debt securities in issue	Liabilities of the Group which are represented by transferable certificates of indebtedness of the Group to the bearer of the certificates.
Default	When a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside.
Economic capital	The amount of capital which the Group needs to protect against extreme losses from a material risk it is running (e.g. credit risk, market risk). It is based on internally developed calculation methodologies and estimates, as opposed to regulatory capital, which uses a methodology determined by the Basel Accord and imposed by the Regulator.
Eurozone	The eurozone consists of the following eighteen European Union countries that have adopted the euro as their common currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.
Exposure at default	Exposure at default ("EAD") is the expected or actual amount of exposure to the borrower at the time of default.
First/second lien	Where a property or other security is taken as collateral for a loan, first lien holders are paid before all other claims on the property. Second lien holders are subordinate to the rights of first lien holders to a property security.
Forbearance	Forbearance is the term that is used when repayment terms of a loan contract have been renegotiated in order to make repayment terms more manageable for borrowers. Forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by the Group include: - interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising arrears amounts and related interest.
Funded/ unfunded exposures	Funded: Loans, advances and debt securities where funds have been given to a debtor with an obligation to repay at some future date and on specific terms. Unfunded: Unfunded exposures are those where funds have not yet been advanced to a debtor, but where a commitment exists to do so at a future date or event.
Guarantee	An undertaking by the Group/other party to pay a creditor should a debtor fail to do so.
Home loan	A loan secured by a mortgage on the primary residence or second home of a borrower.
ICAAP	Internal Capital Adequacy Assessment Process ("ICAAP"): The Group's own assessment, through an examination of its risk profile from regulatory and economic capital perspectives, of the levels of capital that it needs to hold.

Impaired loans	Loans are typically reported as impaired when interest thereon is 91 days or more past due or where a provision exists in anticipation of loss, except: (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs) will be made within a reasonable and identifiable time period, either from realisation of security, refinancing commitment or other sources; or (ii) where there is independent evidence that the balance due, including interest, is adequately secured. Upon impairment the accrual of interest income based on the original terms of the claim is discontinued but the increase of the present value of impaired claims due to the passage of time is reported as interest income.
IRBA	The Internal Ratings Based Approach ("IRBA") allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: Probability of Default ("PD"); Loss Given Default ("LGD"); and Exposure at Default ("EAD").
ISDA Master Agreements	Standardised contracts, developed by the International Swaps and Derivatives Association ("ISDA"), used as an umbrella under which bilateral derivatives contracts are entered into.
LCR	Liquidity Coverage Ratio: The ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario. CRD IV requires that this ratio exceed 60% on 1 January 2015 and 100% on 1 January 2018.
Leveraged lending	Leveraged lending involves lending to entities by leveraging off their equity structures having considered the cash generating capacity of the business and its capacity to repay any associated debt. Leveraging structures are typically used in management and private equity buy-outs, mergers and acquisitions. Leverage lending typically is to non-investment grade borrowers and carries commensurate rates of return.
Leverage ratio	To prevent an excessive build-up of leverage on institutions' balance sheets, Basel III introduces a non-risk-based leverage ratio to supplement the risk-based capital framework of Basel II. It is defined as the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure.
LGD	Loss Given Default ("LGD") is the expected or actual loss in the event of default, expressed as a percentage of 'exposure at default'.
Liquidity risk	The risk that Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.
Loans past due	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 that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower: – has breached an advised limit; – has been advised of a limit lower than the then current amount outstanding; or – has drawn credit without authorisation. When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.
Loan to deposit ratio	This is the ratio of loans and receivables compared to customer accounts as presented in the statement of financial position.
Loan workout	Loan workout is the process whereby once a loan is deemed to be criticised (i.e. 'Watch', 'Vulnerable' or 'Impaired'), the Group monitors and reviews it regularly with the objective of working with the customer to resolve their financial difficulties, which may include restructuring, in order to maximise the level of recovery by the Group.
LTV	Loan to value ("LTV") is an arithmetic calculation that expresses the amount of the loan as a percentage of the value of security/collateral. A high LTV indicates that there is less of a cushion to protect the lender against collateral price decreases or increases in the loan carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance.
Medium term notes	Medium term notes ("MTNs") are notes issued by the Group across a range of maturities under the European Medium Term Note Programme.
NAMA	National Asset Management Agency ("NAMA") was established in 2009 as one of a number of initiatives taken by the Irish Government to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending.
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
Net interest margin	Net interest margin ("NIM") is a measure of the difference between the interest income generated on average interest earning financial assets (lendings) and the amount of interest paid on average interest bearing financial liabilities (borrowings) relative to the amount of interest-earning assets.
NSFR	Net Stable Funding Ratio: The ratio of available stable funding to required stable funding over a 1 year time horizon.

Glossary of terms

Optionality risk	A type of market risk associated with option features that are embedded within assets and liabilities on the Group's balance sheet. The embedded option features can significantly change the cash flows (and/or redemption) of the contract and can, therefore, effect its duration, yield and pricing. Examples include bonds with early call provisions or prepayment risk on a mortgage portfolio. Where these risks are left unhedged, it can result in losses arising in the Group's portfolio.
OUBBs	Own-use bank bonds ("OUBBs"): Banks issue government-guaranteed bonds to themselves and use these bonds as collateral to procure funding from the European Central Bank.
PCA	Principal components analysis ("PCA") is a tool used to analyse the behaviour of correlated random variables. It is especially useful in explaining the behaviour of yield curves. Principal components are linear combinations of the original random variables, chosen so that they explain the behaviour of the original random variables, and so that they are independent of each other. Principal components can, therefore, be thought of as just unobservable random variables. For yield curve analysis, it is usual to perform PCA on arithmetic or logarithmic changes in interest rates. Often the data is "de-meaned"; adjusted by subtracting the mean to produce a series of zero mean random variables. When PCA is applied to yield curves, it is usually the case that the majority (> 95%) of yield curve movements can be explained using just three principal components (i.e. a parallel change, a rotation and a change of the curvature). PCA is a very useful tool in reducing the dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios.
PD	Probability of Default ("PD") is the likelihood that a borrower will default on an obligation to repay.
Prime loan	A loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high quality and low-risk.
Re-pricing risk	Re-pricing risk is a form of interest rate risk (i.e. a type of market risk) that occurs when asset and liability positions are mismatched in terms of re-pricing (as opposed to final contractual) maturity. Where these interest rate gaps are left unhedged, it can result in losses arising in the Group's portfolio of financial instruments.
Repo	Repurchase Agreement ("Repo") is a short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty to the transaction, it is termed a reverse repurchase agreement or a reverse repo.
RWAs	Risk weighted assets ("RWAs") are a measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.
RMBS	Residential mortgage-backed securities ("RMBS") are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.
Securitisation	Securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and receivables, or company cash flow into securities that can be issued and traded in the capital markets.
SLO	On 14 April 2011, following an application by the Irish Minister for Finance under section 29 of the Credit Institutions (Stabilisation) Act 2010, the Irish High Court issued a Subordinated Liabilities Order (the "SLO") in relation to all outstanding subordinated liabilities and other capital instruments, with the consent of AIB. The Irish High Court declared the SLO effective as of 22 April 2011. The effect of the SLO was to amend the terms of certain subordinated liabilities and other capital instruments.
SME	Small and medium enterprises
SSM	The Single Supervisory Mechanism ("SSM") is a system of financial supervision comprising the European Central Bank ("ECB") and the national competent authorities of participating EU countries which in Ireland is the Central Bank of Ireland ("CBI"). The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

SPE	Special purpose entity ("SPE") is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk.
Structured securities	This involves non-standard lending arrangements through the structuring of assets or debt issues in accordance with customer and/or market requirements. The requirements may be concerned with funding, liquidity, risk transfer or other needs that cannot be met by an existing off the shelf product or instrument. To meet this requirement, existing products and techniques must be engineered into a tailor-made product or process.
Sub-prime	Extension of credit to borrowers who, at the time of the loans' origination, exhibit characteristics indicating a significantly higher risk of default than traditional bank lending customers.
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures core tier 1 capital plus other tier 1 securities in issue, but is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tier 2 capital	Broadly includes qualifying subordinated debt and other tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the accounting impairment provisions on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tracker mortgage	A mortgage with a variable interest rate which tracks the European Central Bank ("ECB") rate, at an agreed margin above the ECB rate and will increase or decrease within five days of an ECB rate movement.
VaR	The Group's core risk measurement methodology is based on an historical simulation application of the industry standard Value at Risk ("VaR") technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange, equity, as applicable). The resulting VaR figures, calculated at the close of business each day, are an estimate of the probable maximum loss in fair value over a one day holding period that would arise from an adverse movement in market rates. This VaR metric is derived from an observation of historical prices over a period of one year and assessed at a 95% statistical confidence level (i.e. the VaR metric may be exceeded at least 5% of the time).
Vulnerable loans	Loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources for repayment.
Watch loan	Loans exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flow.
Yield curve risk	A type of market risk that refers to the possibility that an interest rate yield curve changes its shape unexpectedly (e.g. flattening, steepening, non-parallel shift), resulting in losses arising in the Group's portfolio of interest rate instruments.