Half-Yearly Financial Report

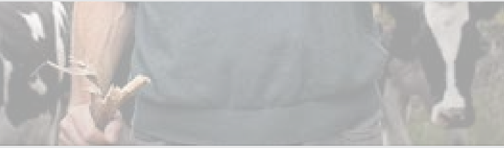
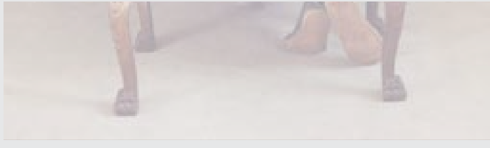
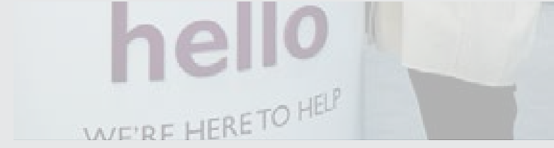
For the six months ended 30 June 2017

Allied Irish Banks, p.l.c.

Michael Ryan,
Deansgrove Farm,
SME customer

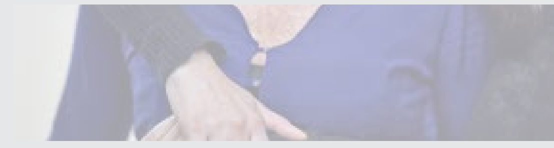
Bo Owen,
Personal Loan customer

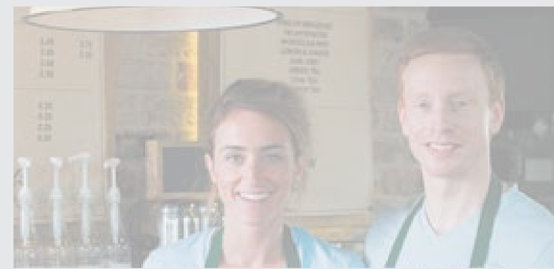
Mary Wall, AIB Stillorgan,
helping customer
Carolina Calazans

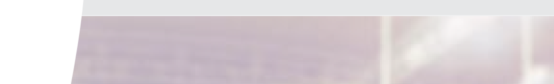
Damien Mullins,
Heat Doc,
SME customer

Máire O'Meara,
Mortgage customer





Peter & Marion Fairburn,
Blend & Batch,
SME customer (First Trust Bank)



Fionán Healy,
Personal Loan customer

The front cover of this report features AIB Group customers.

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Forward Looking Statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as ‘aim’, ‘anticipate’, ‘target’, ‘ expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘may’, ‘could’, ‘will’, ‘seek’, ‘continue’, ‘should’, ‘assume’, or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group’s future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in the ‘Principal risks and uncertainties’ on pages 50 to 58 of the Annual Financial Report 2016 and on page 34 ‘Update on risk management and governance’ of the Half-Yearly Financial Report 2017. In addition to matters relating to the Group’s business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 50 to 58 of the Annual Financial Report 2016 and on page 34 of the Half-Yearly Financial Report 2017 is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement.

Half-Year 2017 Highlights

Compared to half-year 2016 (Balance sheet compared to as at 31 December 2016)

Progress on Financial Targets

Metric	H1 2017	Comparative	Commentary	3-5 year targets
Net interest margin[1]	2.54%	2.06%	Continued positive NIM growth from stable assets yield and reduction in cost of funds. NIM excluding once off interest on cured loans 2.47%.	2.40%+
Cost income ratio[2]	45%	55%	Stable costs and strong income drove improvement in cost income ratio to 45%. CIR, excluding once off income from cured/restructured loans, was 51%.	<50%
CET1 fully loaded	16.6%	15.3%	Robust capital generation of 130 bps with strong capital position of 16.6% to support future growth and capital return.	13.0%
RoE[3]	10.1%	13.6%	Strong H1 2017 performance with increase in operating profit. Reduction in return driven by enhanced profit in H1 2016 from profit on disposal of Visa Europe. Focus on target RoTE of 10%+.	10%+
RoTE[3]	14.4%	16.5%		

Strong Balance Sheet

Metric	H1 2017	Comparative	Commentary
Earning loans	€ 56.1bn	€ 56.1bn	Growth of € 0.5 billion in earning loan book excluding FX impact.
Impaired loans	€ 7.8bn	€ 9.1bn	Continued focus and investment on reducing impaired and non performing loans through - sustainable business as usual restructuring - disposal of distressed loan portfolios.
Non Performing loans	€ 12.1bn	€ 14.1bn	
Customer accounts	€ 63.7bn	€ 63.5bn	Robust funding structure underpinned by low cost deposit base. Further reduction in term deposits as current accounts continue to increase in 2017.

Investment in Franchise Growth

Metric	H1 2017	Comparative	Commentary
New lending[4]	€ 4.3bn	€ 3.8bn	New lending increased by 15% through strong retail lending performance in Ireland and growth in syndicated lending outside Ireland.
Mortgage market share	37%	34%	No. 1 position in mortgage market share for new lending in Ireland in the first five months to May 2017.
SME current account market share[5]	43%	44%	No. 1 position for main business current account for SMEs in Ireland.
Transactional NPS[6]	+38		Continued high performance as customer experience and efficiency benefits of the investment programme begin to be realised.
Personal Relationship NPS[6]	+21		

[1]Net interest margin ("NIM") including eligible liabilities guarantee ("ELG") charge. ELG charge is no longer material and has been included in the NIM.
[2]Before bank levies, regulatory fees and exceptional items, cost income ratio ("CIR") including these items was 53% in H1 2017 (H1 2016: 49%). For exceptional items see page 16.
[3]Return on average ordinary shareholders' equity ("RoE"). Return on tangible equity ("RoTE"). For further detail please see page 17.
[4]Half-year to June 2016 has been restated by € 0.1 billion to exclude all transaction based new lending.
[5]Based on AIB SME Financial Monitor 2017.
[6]The Net Promoter Score or NPS is a measurement program that tracks customers' loyalty and advocacy and ranges from -100 to 100 (ROI only). Reflects Q2 2017.

Chief Executive's Review

Bernard Byrne
Chief Executive Officer

"The successful relisting of the Company on the Dublin and London Stock Exchanges, supported by a strong underlying financial performance and the reinstatement of an ordinary dividend were the highlights from a very positive first half of 2017."

Introduction

The successful relisting[(1)] of the Company on the Dublin and London Stock Exchanges, supported by a strong underlying financial performance and the reinstatement of an ordinary dividend were the highlights from a very positive first half of 2017.

Over the past number of months we have worked hard to help the Government begin the sell down of its 99.9% ownership interest in the bank. Our ability to do this was always going to be dependent on the credibility of our track record in turning the bank around and describing our future vision for the bank in a realistic yet engaging way.

I was therefore delighted that the first half of 2017 concluded with the successful sale, by the Government, of their first material stake in AIB. This was a landmark event for the bank and paves the way for the full recovery of the investment made by the State as the bank returns, over time, to full private ownership. The shares commenced trading on the main listing of the Dublin and London stock exchanges on 27 June. The sale generated c. €3.4 billion for the State, reducing its shareholding to c. 71% and bringing the total cash received by the State, since the bailout, to c. €10.2 billion.

While this was a significant event for the bank, there are many additional positives. In particular, the level of investor interest and support for the sale is a great vote of confidence in the strength of the turnaround in the bank and the wider economy in which we operate. I want to take this opportunity to thank my colleagues and our advisors for their exceptional commitment and professionalism over an extended period of time to achieve this milestone.

The successful relisting was built on the success of our business transformation. Our job is to continue to deliver a better bank, over time, by continuing to invest in creating an enhanced customer experience through simpler and more efficient operations, while continuing to address and proactively manage legacy issues. The results for the six months, I believe, demonstrate that we have continued to do this.

Financial Performance

We continue to deliver a strong financial performance. We achieved a Profit Before Tax (PBT) of €761 million in the first half of this year. This comprises €814 million of operating profit, compared to €729 million in the half-year to June 2016, excluding exceptional items, driven by an increase in income levels while costs remained stable.

This continued strong ongoing profitability adds to our solid capital base, which is comfortably above minimum regulatory requirements and gives us a robust fully loaded CET1 ratio of 16.6% (transitional 19.9%) at 30 June 2017.

Our Net Interest Margin (NIM) is 2.54%, an increase of 48bps on the same period last year. Operating income, at €1,529 million and costs at €693 million are both trending favourably to expectations, with operating income up €289 million on prior year and costs broadly in line with prior year. The reported cost income ratio (CIR), which benefits from one off items, is 45%. In the year to date we experienced continued strong new

[(1)]Readmission to main listing.

lending, approving c. €7 billion across the Group, with actual customer drawdowns at €4.3 billion, up from €3.8 billion in the same period of 2016. Encouragingly, across our core segments, new personal lending was up 31% and business and corporate lending was slightly ahead on the same period last year. Our mortgage drawdowns increased by 41% year on year, despite the backdrop of a challenging and increasingly competitive market and a constrained supply of new housing.

Adopting a fair and equitable approach to customers in difficulty is fundamental to maintaining sustainable long term relationships. We have maintained this approach while still working hard to reduce the level of legacy impaired loans. Our impaired loan balances of €7.8 billion have reduced by €1.3 billion since 31 December 2016 and by €21.1 billion since year end 2013. The impaired loan balances are €4.3 billion net of specific provision cover of 45%.

The resolution of these difficult cases remains a key focus for AIB and our Regulator, as we are committed to reducing impaired loans to a level more in line with European peers. We continue to consider all options available to us and earlier this year, we transferred a portfolio of impaired buy-to-let loans, the vast majority of which were in deep long term arrears, to Goldman Sachs. We continue to work hard to achieve satisfactory outcomes for both the bank and our customers who engage with us.

In summary, we have a customer focused, well capitalised business that is well on its way to return to full private ownership. We continue to grow core profitability within agreed risk parameters and are actively investing in our strategic priority areas. We are maintaining our cost discipline and addressing legacy issues. We still have much to do but we are on the right path to deliver a bank that everyone can believe in.

Our Strategic Priorities

There are four strategic priorities that determine how we run our business and drive our investment programme. These priorities and the progress made on each in the first half of 2017 are set out below.

1. Customer First

Of our four strategic priority areas, Customer First is our north star. This means that we put the needs of our customers at the heart of what we do. Our purpose is to understand our customers' aspirations and help them to achieve their financial ambition. We do that by building a franchise that is founded on meeting their needs.

Personal Customers

Servicing our customers

We continue to adapt our service offering to meet the ways in which our customers interact with us on a daily basis. In terms of banks in the Irish market, we have the leading mobile offering, with c. 680,000 daily interactions via this channel, with an additional c. 180,000 daily interactions on this channel when compared with December 2016. We continue to innovate and add functionality in this space, based on customer feedback and technological advances in the wider market. AIB launched Android Pay in late 2016 and more recently, we were very pleased to launch Apple Pay to our customers. Similar to Android Pay, Apple Pay enables customers to use their Apple device to pay for items, wherever the Apple Pay or contactless logo is visible. Apple Pay is another addition to our growing suite of innovative customer tools for Digitally Enabled banking.

We also have the number 1 physical distribution network in Ireland with over 270 branches between AIB and EBS, 19 business centres and a partnership with An Post which sees banking facilities available at c. 1,100 An Post locations. Last year we launched our Local Markets structure to enable us to get closer to our customers. We continue to keep our distribution model under review to ensure it is meeting our customers' needs and also operating as efficiently as possible.

Propositions that meet our customers' needs

It's not just about better service. Understanding and meeting customers' needs by being fair, delivering value and ultimately helping them to achieve their financial ambition is critical to building enduring customer relationships.

In May, AIB launched 'AIB Everyday Rewards'. This is a programme designed to reward our customers with relevant cashback offers from some of Ireland's favourite brands. This enables the bank, in conjunction with our partners, to give something back to our customers by providing them with access to these cashback offers when they use their AIB debit or credit card. At the end of June, over 100,000 customers had signed up and received savings of c. €563,000.

In terms of mortgage lending, customers tell us that they want choice and this is driving our multi brand mortgage strategy, enabling us to provide that choice and meet the needs of a wide variety of customer cohorts. In AIB, we continue to offer our new and existing customers the most competitive home mortgage variable rates in the Irish market. We have empowered our front line employees to decision home mortgages locally to deliver a faster response for our customers. We continue, in AIB and Haven, to offer €2,000 towards the cost of mortgage switching. In EBS the "2% back in cash" proposition has been extended to the end of this year, reflecting the continuing demand from a certain cohort of home mortgage customers for a cash upfront offer.

In response to customer feedback and the current challenges relating to supply within the housing market, we have extended the length of our mortgage sanction in principle, across all of our brands, from 6 to 12 months. This provides customers with greater certainty as the length of time to find a suitable home may be protracted.

The benefits of focusing on the real needs of customers are clear. In the first half of 2017, AIB was the leading mortgage provider in Ireland, with drawdowns in excess of €1 billion, an increase of 41% on the same period in 2016. Our market share of mortgage drawdowns for the first half of 2017 was 37%. Overall personal lending drawdowns were €416 million for the first half of 2017, up 31% year on year.

Business and corporate customers

We continue to support our business and corporate customers, across private and public markets, through a relationship-driven model with sector and product specialists. We use our comprehensive understanding of our customers, their sectors and markets to create integrated solutions to meet their needs.

A new SBCI Agri Cashflow Support Loan was introduced earlier this year to aid farmers facing income and cashflow challenges as a result of price volatility as well as the impact of the Brexit vote. Of the €416 million loans drawn in the first half of the year, €92 million were in the SBCI Liquidity product at a customer rate of 4.5% and €53 million were in the SBCI Agri product at a rate of 2.95%. We also supported our Business customers with the addition of business credit applications up to €60k over the phone via our Direct Banking channel. This simplified the customer journey and also improved turnaround times.

Through our Corporate Banking teams, we serve a broad range of sectors including hotels and leisure, food, agriculture and healthcare. Our Syndicated and International Finance team provides a window for the bank to public loan markets. We continue to be the Number 1 bank for Foreign Direct Investment (FDI) in Ireland.

SME and Housing continue to be strategic areas of focus for AIB and with that in mind we have appointed a Head of SME and a Head of Housing in each of our 19 Local Markets. These markets are critical areas where AIB will continue to support customers and the wider Irish economy. Brexit advisors are also in place in each of our Local Markets across the country, to support our business customers with the decisions, opportunities and challenges that Brexit presents.

We are committed to supporting Ireland's transition to a low carbon economy and have established a centre of excellence to serve our Energy, Climate Change and Infrastructure customers. AIB is delighted to have backed the successful floatation of Greencoat Renewables plc, the first renewable energy infrastructure company to list in Ireland, and the first Euro denominated renewable infrastructure company to list on the London Stock Exchange. We are committed to deploying our capital and our expertise in supporting the green energy sector and developing key partnerships that will enable Ireland meet its renewable energy targets. AIB's co-investment in the seed portfolio and €15 million subscription for shares in Greencoat clearly demonstrates our appetite to invest and to support this strategically important sector.

AIB UK

The impact of the UK decision last year to vote in favour of exiting the EU and the subsequent triggering of Article 50 continued to dominate the UK economic and political landscape in the first half of 2017. Contrary to expectations prior to the Brexit referendum, the UK economy has remained relatively robust with confidence levels holding up well. There are now, however, signs of weakness emerging in the broader UK economy, particularly in the consumer sector, with leading indicators of economic performance trending negatively and signs that investment decisions are being delayed or postponed, due in the main, to Brexit related uncertainties. The result of the UK general election has added to that uncertainty. As a separately regulated subsidiary, we do not foresee a material operational impact arising for our UK business as a result of Brexit. We continue to support our UK customers to grow their businesses while monitoring events in the UK and the international markets and highlighting to our customers both the risks and opportunities that Brexit presents for their businesses.

We have made significant progress in 2017 in transforming our UK business platform and cost base. In February we announced the rationalisation of our branch network in Northern Ireland and we are on track to deliver this transformation and realise the intended cost and efficiency benefits. We established a local business banking presence in five locations across the province, mirroring the local markets approach that we have implemented in the Republic of Ireland. We continue to make good progress in rolling out digital self-service products for our Northern Irish retail customers. We have also entered into an agreement with the NI Post Office that allows our customers to conduct their daily banking transactions using this network. Our GB business is well progressed in rolling out its sector led strategy in pursuit of our ambition to be a leading specialist niche business bank in Great Britain. Our objective of using 2017 as the year to establish a robust and sustainable business platform in the UK remains the same, as we believe that can be supportive of future growth opportunities that may arise.

Tracking our progress with customers

A number of years ago we introduced a Voice of the Customer programme to allow us to track how our customers were experiencing AIB as we went about changing the business. Our ultimate objective was to enable our customers to be our biggest advocates. We use regular NPS[2] tracking to show how we are doing in this regard. Overall our success will be judged by the level of our Relationship NPS (i.e. the way our customers feel about AIB). However we also track Transactional NPS to allow us to improve the small day to day interactions that our customers have with us. When we started the programme it was clear that if we didn't improve that aspect then it was going to be hard to build better relationships with customers.

Since 2013 the Transactional NPS has risen from +1 to +38. Interestingly it actually decreased in the last quarter by three points. Much of this decline was on process activities that were unchanged over the past 12 months; in many ways it's our customers telling us that their expectations continue to rise and they expect us to continue to improve. Importantly, our Personal Relationship NPS has increased by ten points, from +11 in Q1 2016 to +21 at Q2 2017. This demonstrates continued progress across the franchise. We will continue to use NPS, both the positive and negative feedback, as a key input into our service considerations.

Legacy customer challenges

We have completed a significant amount of work and made material progress throughout 2016 and 2017 on the tracker mortgage redress program. We have engaged with and paid redress and compensation, where applicable, to c. 2,900 customer accounts to date. The overall process, as defined under the CBI framework, which includes a full independent third party review and an appeals process, will take some time to conclude. We continue to engage with our affected customers and work through this process with remaining customers as set out in the CBI framework.

2. Simple and Efficient

Our market leading digitally enabled offerings allow our customers to bank with us how and when they wish and they are increasingly choosing digital as their preferred means of banking. We have over 1.2 million active digital customers with approximately 30% of our customers using our digital transaction banking services (internet, mobile and tablet) each day. We now have 700,000 customers active on mobile banking and 784,000 on internet banking.

[2]The Net Promoter Score or NPS is a measurement program that tracks customers' loyalty and advocacy and ranges from -100 to +100. Transactional NPS is an aggregate NPS for 17 key customer journeys.

On average, our customers interact with us c. 1.4 million times daily. We can see a continuing strong shift to mobile, with customer transactions up 30% in the first six months of 2017 versus the same period last year.

These channels are also a key enabler for sales with 82% of personal loans and 74% of credit cards now applied for online. In contrast we have seen our in-branch counter transactions fall by 50% since 2013. Developments in channel functionality have increased convenience for our customers, particularly on the AIB Mobile App. In addition to personal loans, customers can now apply for a credit card and open a savings account online end-to-end via the mobile app, as we continue to make banking easier and more convenient for customers. "Pay someone new" functionality allows customers to make a payment directly from the AIB Mobile app without pre-saving details on Internet Banking.

Separately we have rolled out Tablet devices across our Local Market teams, enabling our employees to have more informed conversations with customers, leveraging the bank's data and insights. Digital scanning was also rolled out to all branches which has simplified processes for employees and customers, while promoting sustainable business operations and reducing paper waste. An electronic signature solution was launched for our Bancassurance customers via Direct Banking, enabling fully paperless remote consultation and product fulfilment, reducing a four day manual process to a quick ten minutes.

Our €870 million three year strategic investment programme, which will complete at the end of this year, continues to deliver operational efficiencies and enhancements. As an example, following the successful transformation to the new Dovetail Payments Engine, a number of incoming payments from the SEPA scheme are now processed via Dovetail. More recently we enabled Sepa Outgoing Credit Transfers via this platform, resulting in the quicker transfer of funds to other banks. By the end of July 2017 c. 35% of our payment volumes will have transferred to this engine.

3. Risk and Capital Management

Our strong risk management framework and credit underwriting standards continue to deliver improved asset quality, further reductions in impaired loans and progress in relation to legacy challenges.

Maintaining appropriately robust capital levels is a priority and we have achieved this while still delivering a strong financial performance, value for our customers and returning material amounts of capital to the State. In the first six months of this year our capital increased by 130bps, with our CET1 ratio rising to 16.6% (transitional 19.9%), confirming strong capital ratios that are very comfortably above Regulatory requirements. Within this, our Risk Weighted Assets (RWA's), which are primarily driven by volume and quantity of credit

exposures, fell by c. €700 million mainly driven by the reduction in stock of non performing exposures and foreign exchange movements.

The Group's liquidity position is strong. All of our liquidity metrics are above regulatory minimums through our focus on growing customer deposits as well as rebuilding our wholesale presence in secured, unsecured and hybrid markets.

The Group uses Risk Adjusted Return on Capital ("RAROC") for capital allocation purposes and as a behavioural driver of sound risk management. The methodology and models continue to be improved. The use of RAROC for portfolio management and in lending decisions continues to be an area of focus and a key consideration for pricing of lending products, both at portfolio level and individually for large transactions.

4. Talent and Culture

Through their daily interactions with customers, our people determine how our customers feel about our brand. And so it follows that having the right people and the right culture throughout the entire organisation is critical, and together, we are working to achieve that.

Since the crisis of 2008 and its aftermath, the banking sector has, at times, been a challenging environment to work in. Over the last four years, we have seen a material change in our workforce – a net decrease of c. 3,000 employees with 7,400 colleagues leaving the organisation and 4,400 new colleagues joining. AIB has transformed for the better and that is down to the dedication and commitment of our people continuing to develop themselves and focus on our customer first culture.

I was very pleased to see our progress on employee engagement, through our interim iConnect employee survey which took place in April, continue on a positive trajectory. It is really encouraging to see that one in two employees in AIB is now giving top marks for every question in this survey. Together, we are continuing to focus on ensuring that this momentum is maintained.

We want AIB to be a truly diverse and inclusive workplace and to have a culture where all of our employees can bring the best of themselves to work each day. We have talked a lot about diversity and inclusion this year as part of our Talent and Culture agenda. For the first time we celebrated Irish Pride week in AIB. This was a great step forward in our journey to embrace diversity across the organisation.

I know that there is a direct correlation between the hard work of all employees and these strong financial results. I would like to acknowledge and thank my colleagues for their ongoing commitment and contribution as we continue to respond to our customers' needs and in so doing, evolving this business and building a franchise founded on those needs.

Outlook and priorities

On the domestic front, Ireland is a fast growing economy with increasing employment levels and attractive GDP growth prospects. Taking into consideration the possible implications of Brexit, GDP growth in Ireland at between 3 and 4% per annum over the next three years, is currently forecast to be consistently above that for the Eurozone. National unemployment levels in Ireland continue to decline, at c. 6.3% as at May 2017, with rising consumer confidence. This provides a positive domestic environment for the bank to operate in and the strength of our franchise provides growth opportunities as the economy continues to develop.

The restructuring of the business is over and we expect to complete the implementation of a new Holdco structure to align with the requirements of the Single Resolution Board (SRB) towards the end of the second half of this year.

We now look forward to the opportunities and challenges that lie ahead as a strong, efficient bank. These financial results demonstrate a good performance and are an output of the continued delivery against our strategic priorities. All of our financial indicators are in line with or ahead of expectations, with strong profitability, a stronger balance sheet, significant capital generation and further improvement in our risk profile. Our focus now turns to building on this momentum as we continue to deliver on our plans for the remainder of 2017 and beyond, focusing on our customer's needs, simplifying our operating model and becoming even more efficient.

Earlier this year, on the back of the 2016 results, we paid a dividend of €250 million and any proposals in relation to a future dividend will be considered in the context of the 2017 year end results.

Overall it has been a positive first half. The IPO was a market endorsement of all we have achieved over the last number of years. It was a tangible demonstration that our customer first strategy is working and we remain focused on delivering for our customers. We are on track for another strong year in AIB and to continue to build a bank that our employees, customers and stakeholders can really believe in. There will be plenty of challenges, many of which including Brexit, may be material but we are well positioned to deliver for our stakeholders and continue the journey of improvement.

Bernard Byrne
Chief Executive Officer

26 July 2017

Business review - 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. On this management basis, profit from continuing operations before exceptional items excludes exceptional items that management believe obscure the underlying performance trends in the business. Exceptional items are presented separately on the Summary income statement in this section.

Where information is presented on a management basis, that is not an IFRS line item, it is an Alternative Performance Measure ("APM"). A reconciliation to each such APM from the most directly reconcilable IFRS line item is included within "Additional Information" page 143. APMs should not be considered in isolation or as a substitute for analysis of AIB's operating and financial results as reported under IFRS in the "Condensed Consolidated Interim Financial Statements'' section of this Report.

Percentages presented throughout this report are calculated on the absolute figures and therefore may differ from the percentages based on the rounded numbers. Throughout the Operating and financial review half-year to June 2017 is compared to half-year to June 2016 for the income statement and 30 June 2017 is compared to 31 December 2016 for balance sheet and capital.

Financial performance prepared under IFRS

As per the Condensed Consolidated Interim Financial Statements profit before taxation from continuing operations of € 761 million for the half-year to 30 June 2017, compared to a profit of € 1,017 million for the half-year to 30 June 2016.

- **Net interest income** of € 1,077 million for the half-year to June 2017 has increased from € 945 million for the half-year to June 2016 mainly due to a reduction in the cost of funds.

- **Other income** of € 459 million for the half-year to June 2017 compared to € 583 million for the half-year to June 2016 has decreased by € 124 million, of which € 272 million related to profit on disposal of Visa Europe in the half-year to June 2016. The offsetting increase mainly relates to an increase of € 103 million in realisation/re-estimation of cashflows on loans and receivables previously restructured and net trading income of € 60 million.

- **Total operating expenses** of € 807 million for the half-year to June 2017 have increased from € 749 million for the half-year to June 2016 by € 58 million, of which € 41 million related to costs in connection with the Initial Public Offering ("IPO") and € 21 million increase in termination benefits. The remaining movement is due to an increase in investment in loan restructuring operations and impairment and amortisation of intangible assets offset by a decrease in restitution and restructuring expenses.

- **Writebacks of provisions for impairment on loans and receivables** of € 19 million for the half-year to June 2017 have decreased by € 192 million from € 211 million for the half-year to June 2016 due to an increase in new to impaired loans and an increase in the IBNR charge to reflecting an increase in the emergence period on the non mortgage portfolio.

Business review - Operating and financial review

Overview of income statement

The following table presents AIB's summary income statement on a management basis for the half-year ended 30 June 2017 and 2016. This income statement should be considered with the reconciliations to the most directly reconcilable IFRS line item as set out under Additional information page 143.

Summary income statement[1]	**Half-year June 2017 € m**	Half-year June 2016 € m	*% change*
Net interest income	**1,077**	945	*14*
Business income	**287**	223	*29*
Other items	**165**	72	*129*
Other income	**452**	295	*53*
Total operating income	**1,529**	1,240	*23*
Personnel expenses	**(360)**	(359)	*-*
General and administrative expenses	**(279)**	(273)	*2*
Depreciation, impairment and amortisation	**(54)**	(45)	*20*
Total operating expenses	**(693)**	(677)	*2*
Operating profit before bank levies, regulatory fees and provisions	**836**	563	*48*
Bank levies and regulatory fees	**(45)**	(48)	*-6*
Writeback of provisions for impairment on loans and receivables	**19**	211	*-91*
Writeback of provisions for liabilities and commitments	**4**	1	*300*
Writeback of provisions for impairment on financial investments available for sale	**-**	2	*-*
Total writeback of provisions	**23**	214	*-89*
Operating profit	**814**	729	*12*
Associated undertakings	**10**	23	*-57*
Loss on disposal of property	**(1)**	-	*-*
Profit on disposal of business	**-**	1	*-*
Profit from continuing operations before exceptional items	**823**	753	*9*
Gain on disposal of loan portfolios	**7**	-	*-*
Restitution and restructuring expenses	**(3)**	(20)	*-*
Termination benefits	**(24)**	(3)	*-*
IPO and capital related expenses	**(42)**	(1)	*-*
Gain on transfer of financial instruments	**-**	16	*-*
Profit on disposal of Visa Europe	**-**	272	*-*
Total exceptional items	**(62)**	264	*-*
Profit before taxation from continuing operations	**761**	1,017	*-25*
Income tax charge from continuing operations	**(109)**	(194)	*-44*
Profit for the year	**652**	823	*-21*

Operating contribution before bank levies, regulatory fees and provisions by segment	**€ m**	€ m	*% change*
RCB	**646**	446	*45*
WIB	**105**	107	*-2*
AIB UK	**90**	56	*61*
Group	**(5)**	(46)	*89*
Operating profit before bank levies, regulatory fees and provisions	**836**	563	*48*

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

Overview of income statement

	H1 2017 Performance	Outlook
Net interest income **€1,077m** (up) €945m	Net interest income increased by 14% and NIM increased by 48 bps to 2.54% driven by stable assets yield and reduction in cost of funds in particular from redemption of legacy instruments.	The NIM for the half-year to June 2017, excluding once off interest on cured loans (upgraded from impaired without incurring financial loss), was 2.47%. Medium term target to maintain strong and stable NIM of 2.40%+.
Other income[(1)] **€452m** (up) €295m	Net fee and commission income is in line with the previous period reflecting the stable nature of this income stream. Other income increased due to higher income from the realisation/re-estimation of cashflows on loans and receivables previously restructured and higher net trading income.	Continued stability of net fee and commission income is expected, with net trading income dependent on future market volatility and interest rate movements, and other items dependent on once off activity.
Operating expenses[(2)] **€693m** (up) €677m	Factors impacting costs include salary inflation, continued investment in loan restructuring operations, impact of increased regulatory compliance and increased depreciation as assets created under the strategic investment programme are put into operational use. These costs are partly absorbed by savings from process efficiencies and product enhancements.	Benefits from the € 870 million Investment programme, which is to conclude in 2017, will support the Group's continued focus on achieving a sustainable cost income ratio of below 50% in the medium term.
Bank levies and regulatory fees **€45m** (down) €48m	Bank levies and regulatory fees in the half-year to June 2017 were broadly in line with the half-year to June 2016.	The Irish bank levy of c. € 48 million is due to be paid in October 2017 compared to € 60 million paid in October 2016.
Writeback of provisions for impairment on loans and receivables **€19m** (down) €211m	The Group continues to make good progress on case by case restructuring of customers in difficulty. Movement is due to increased new to impaired charge, including those loans that have been previously restructured, and increased IBNR charge.	The Group continues to manage non performing exposures.
Total exceptional items **(€62m)** (down) €264m	Total exceptional items in the half-year to June 2017 were a net charge of € 62 million due to expenses in connection with the IPO and termination benefits. The net credit of € 264 million in the half-year to June 2016 was mainly due to a profit on the disposal of the equity interest in Visa Europe of € 272 million in H1 2016. For further detail on exceptional items see page 16.	
Profit before tax **€761m** (down) €1,017m	The Group performed strongly in the half-year to June 2017, with a profit before tax of € 761 million, benefitting from higher operating income € 289 million (net interest income € 132 million and other income € 157 million) offset by reduction in exceptional items of € 326 million and lower net credit provision writebacks of € 192 million.	Organic capital accretion from sustainable profit supporting growth.

[(1)]Other income before exceptional items. Other income including exceptional items was € 459 million in the half-year to June 2017 (€ 583 million in the half-year to June 2016).

[(2)]Operating expenses before bank levies, regulatory fees and exceptional items. Operating expenses including bank levies, regulatory fees and exceptional items are € 807 million in the half-year to June 2017 (€ 749 million in the half-year to June 2016).

Net interest income

Net interest income	Net interest margin
€1,077m	**2.54%**
€945m	2.06%

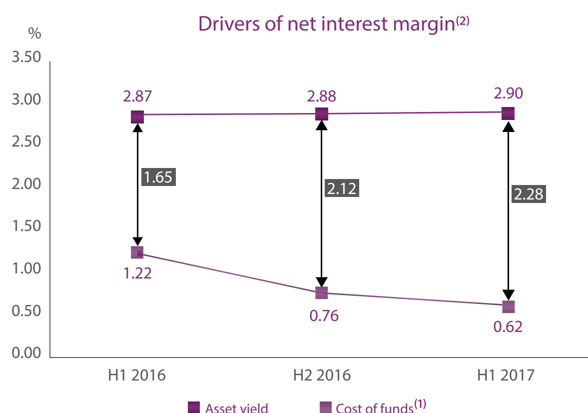
Net interest income	Half-year June 2017 € m	Half-year June 2016 € m	% change
Net interest income	1,077	945	14
Average interest earning assets	85,522	92,130	-7
	%		% change
NIM[1]	2.54	2.06	0.48
NIM excluding once off interest on cured loans	2.47	1.99	0.48

Net interest income €1,077m €945m

Net interest income increased by € 132 million (+14%) compared to the half-year to June 2016, excluding the impact of currency movements underlying net interest income increased by € 143 million.

Net interest income increase was due to a stable asset yield and reduction in the cost of funds driven by lower deposit pricing, positive mix from term deposits to current accounts and the redemption of € 1.6 billion of Contingent Capital Notes in July 2016. The yield gap between assets and liabilities has widened by 63 bps from half-year ending June 2016 to half-year ending June 2017.

Drivers of net interest margin[2]



Positive impact on average asset yield with reduction in average interest earning assets

€1,232m €1,313m

Net increase in average asset yield

The half-year to June 2017 average asset yield of 290 bps was 3 bps higher than the half-year to June 2016 of 287 bps. Although yields on loans and receivables to customers and financial investments available for sale decreased over the period, the mix of assets changed to a higher percentage of loans and receivables to customers, with a reduction in lower yielding NAMA senior bonds. Yields on loans and receivables to customers reduced to 357 bps from 363 bps driven by mortgage rate reduction in the second half of 2016 and impact of lower rate environment on non mortgage yields offset by roll off tracker mortgage book (average volume € 1.1 billion lower than the half-year to June 2016) The 2016 mortgage rate reductions were part of the multi-proposition mortgage approach, underpinning the Group's strategic focus on customers. Yields on financial investments available for sale reduced through the mix of sales, maturities and purchases and the lower market rate environment.

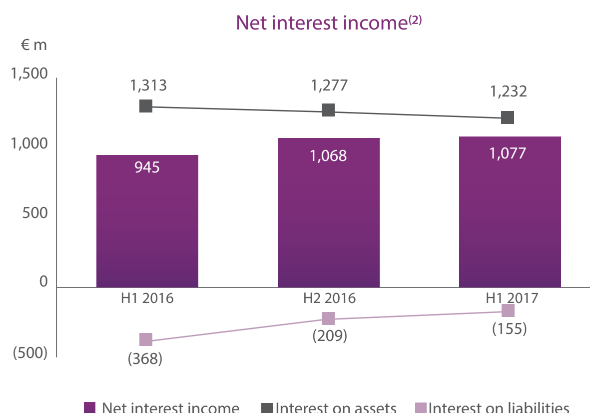
Lower average interest earning assets

Average interest earning assets of € 85.5 billion in the half-year to June 2017 reduced from € 92.1 billion in the half-year to June 2016 mainly due to average redemptions of NAMA senior bonds of € 3.7 billion and lower loans and receivables to customers of € 1.9 billion (€ 0.9 billion due to movement in FX rates and € 1.0 billion due to redemptions and disposals on the non performing loan book). Further decreases were from reduction in financial investments of € 0.9 billion towards liquidity requirements.

Significant reductions in funding costs.

€155m €368m The reduction in cost of funds was driven by a lower funding requirement from lower assets and lower average yields. The half-year to June 2017 average yield of 62 bps reduced from 122 bps in the half-year to June 2016 mainly as a result of the redemption of Contingent Capital Notes in July 2016 and maturity of other higher yielding debt issued. Cost of funds also benefitted from a reduction in yields on customer account to 69 bps from 93 bps as high interest bearing corporate and treasury deposits reduced. With the ongoing low interest rate environment customers continued to migrate funds to non interest bearing retail current accounts with resulting benefit to the Groups overall funding cost.

Net interest income[2]



[1]ELG charge is no longer material and has been included in the cost of customer accounts in the half-year to June 2017 (€ 5 million) and the half-year to June 2016 (€ 9 million).

[2]Interest income or expense recognised includes interest on derivatives which are in a hedge relationship with the relevant asset or liability.

Business review | Risk management | Financial statements | Additional information

Net interest margin ("NIM")

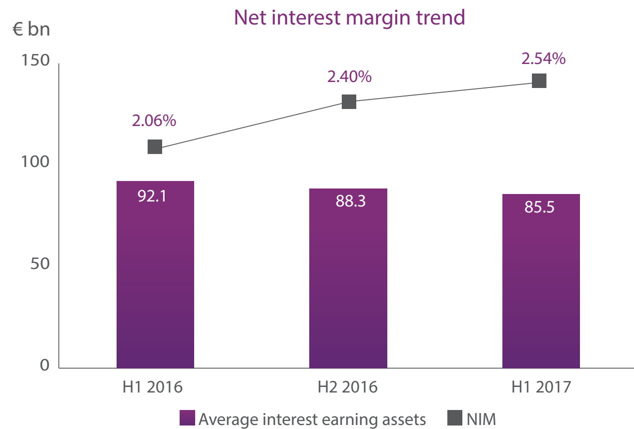
Net interest margin
2.54% 2.06%

The NIM has continued its positive trajectory throughout the half-year to June 2017.

The material drivers of NIM increase in the period were:

- Redemption of € 1.6 billion Contingent Capital Notes, +30 bps positive impact
- Continued redemption of low yielding NAMA senior bond, +9 bps positive impact.

The NIM for the half-year to June 2017, excluding once off interest on cured loans (upgraded from impaired without incurring financial loss), was 2.47%. This compared to 1.99% in the half-year to June 2016.



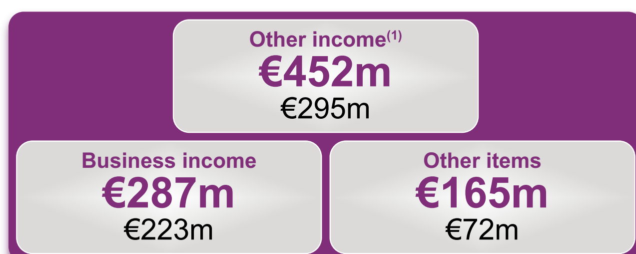
The table below provides a summary of the Group's average balance sheet, volumes and yields.

Average balance sheet

	Half-year ended 30 June 2017			Half-year ended 30 June 2016		
Assets	**Average balance €m**	**Interest[1] €m**	**Average rate %**	Average balance €m	Interest[1] €m	Average rate %
Loans and receivables to customers	60,815	1,078	3.57	62,767	1,133	3.63
NAMA senior bonds	845	2	0.49	4,529	7	0.32
Financial investments available for sale	14,299	81	1.14	15,168	96	1.27
Financial investments held to maturity	3,325	65	3.92	3,451	65	3.79
Other interest earning assets	6,238	6	0.17	6,215	12	0.37
Average interest earning assets	85,522	1,232	2.90	92,130	1,313	2.87
Non interest earning assets	7,401			8,023		
Total assets	92,923	1,232		100,153	1,313	
Liabilities & equity						
Deposits by banks	5,981	(4)	(0.15)	10,951	(6)	(0.10)
Customer accounts	37,104	128	0.69	39,686	183	0.93
Subordinated liabilities	792	16	3.97	2,348	162	13.87
Other interest earning liabilities	6,625	15	0.46	7,684	29	0.76
Average interest earning liabilities	50,502	155	0.62	60,669	368	1.22
Non interest earning liabilities	29,217			27,114		
Equity	13,204			12,370		
Total liabilities & equity	92,923	155		100,153	368	
Net interest income		1,077	2.54		945	2.06

[1]Includes the net interest on the related derivatives on any assets or liabilities in hedge relationships (half-year to June 2016 comparative has been updated to reflect this presentation).

Other income

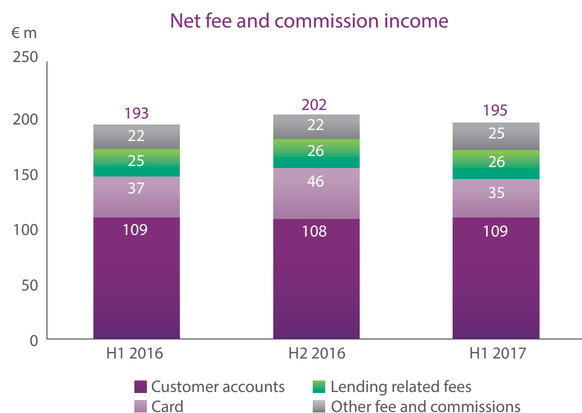


Other income	Half-year June 2017 € m	Half-year June 2016 € m	% change
Net fee and commission income	195	193	1
Dividend income	27	25	8
Net trading income	61	-	-
Miscellaneous business income	4	5	-20
Business income	287	223	29
Net profit on disposal of AFS securities	16	22	-27
Effect of acceleration of the timing of cash flows on NAMA senior bonds	4	10	-60
Settlements and other gains	145	40	263
Other items	165	72	129
Other income	452	295	53

Other income[1]
€452m €295m

Other income increased by € 157 million (+53%) compared to the half-year to June 2016. Excluding the impact of currency movements underlying other income increased by € 160 million. Net fee and commission income remained stable with increase in other income mainly driven by movement of valuations on long-term derivatives and an increase in realisation/re-estimation of cash flows of loans and receivables previously restructured.

Business income
€287m €223m



Net fee and commission income

€195m €193m Net fee and commission income of € 195 million in the half-year to June 2017 increased by € 2 million. Increases in wealth income of € 2 million, under other fees and commissions, and lending related fees of € 1 million was offset by a reduction in card income following the sale of Visa Europe in 2016 and the associated cessation of annual profit share rebates.

Dividend income

€27m €25m Dividend income of € 27 million in the half-year to June 2017. € 25 million was received on NAMA subordinated bonds in both periods.

Net trading income

€61m €0m The increase in net trading income was mainly due to movement in valuations on the Group's long term customer derivative positions with a net positive movement € 18 million in the half-year to June 2017 compared to a net negative movement of € 28 million in the half-year to June 2016. There was an increase in income on interest rate contracts and debt securities of € 14 million compared to the half-year to June 2016. The customer foreign exchange business income was up 2% to € 23 million driven by increased market activity.

Other items
€165m €72m

Net profit on disposal of AFS securities

€16m €22m Net profit of € 16 million in the half year to June 2017 from the disposal of available for sale securities. Sales and purchases of AFS are managed towards liquidity requirements.

Acceleration of the timing of cash flows on NAMA senior bonds

€4m €10m A gain of € 4 million was recognised reflecting accelerated repayments following redemptions of € 1.4 billion NAMA senior bonds in the half-year to June 2017.

Settlements and other gains

Settlements and other gains	Half-year June 2017 € m	Half-year June 2016 € m
Effect of realisation/re-estimation of cash flows on loans and receivables previously restructured[2]	146	43
Fair value gain on equity warrants	-	1
Net gain on buyback of debt securities in issue	-	1
Loss on disposal of loans	(1)	(5)
Settlements and other gains	145	40

€145m €40m

With settlements and other gains, the realisation/re-estimation of cash flows on loans and receivables previously restructured resulted in income received of € 146 million in the half-year to June 2017 which included € 116 million of gains recognised on a small number of complex legacy property cases.

[1]Other income before exceptional items. Other income including exceptional items is € 459 million in the half-year to June 2017 (€ 583 million in the half-year to June 2016).
[2]For further detail please see page 80.

Total operating expenses

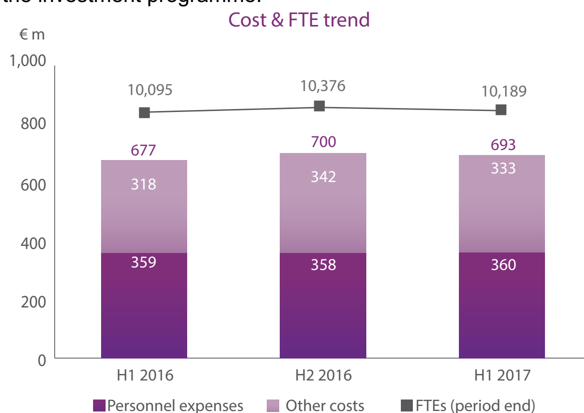
Total operating expenses[1]	Cost income ratio[1]
€693m	**45%**
€677m	55%

Operating expenses	Half-year June 2017 € m	Half-year June 2016 € m	% change
Personnel expenses	**360**	359	*-*
General and administrative expenses	**279**	273	*2*
Depreciation, impairment and amortisation	**54**	45	*20*
Total operating expenses before exceptional items	**693**	677	*2*
Staff numbers at period end (FTE)[2]	**10,189**	10,095	*1*
Average staff numbers (FTE)[2]	**10,286**	10,116	*2*

Total operating expenses[1] €693m €677m Total operating expenses increased by € 16 million (+2%) compared to the half-year to June 2016, excluding the impact of currency movements underlying operating expenses increased by € 23 million.

Increase in costs are mainly driven by salary inflation, investment in loan restructuring unit, and increased depreciation as assets created under the investment programme are put into operational use. These costs are partly absorbed by savings from process efficiencies and product enhancements and improvements in staff grade mix.

Focus continues on cost control and delivery of efficiencies on foot of the investment programme.



Personnel expenses

€360m €359m Personnel expenses were broadly in line with the half-year to June 2016. Higher average staff numbers and salary increases based on the recommendation of the Workplace Relations Commission were offset by a favourable staff grade mix.

Period end staff numbers of 10,189 increased by 94 (1%) from June 2016 mainly due to the Group's increased investment in its loan restructuring operations of c. 300 to support the non performing loan deleveraging strategy and increasing regulatory compliance requirements.

General and administrative expenses

€279m €273m General administration expenses increased € 6 million compared to the half-year to June 2016, mainly due to increase in statutory fees of € 3 million and third party resourcing for the loan restructuring operation of € 3 million.

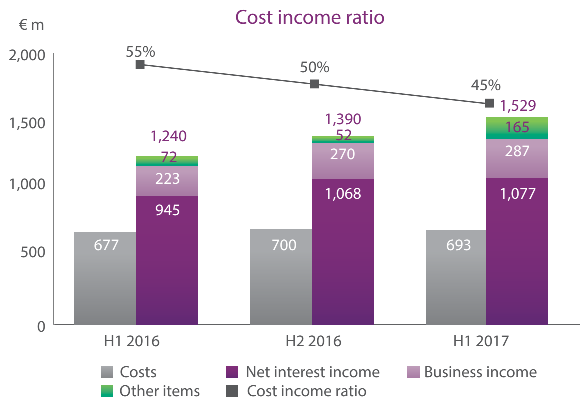
Depreciation, impairment and amortisation

€54m €45m The charge increased by € 9 million (+20%) compared to the half-year to June 2016 due to asset investments which are now in use in the business as the 3 year strategic investment programme nears completion.

Cost income ratio[1] 45% 55% Costs of € 693 million and income € 1,529 million resulted in a ratio[1] of 45% in the half-year to June 2017 compared to 55% in the half-year to June 2016. The cost income ratio of 45% is enhanced by, the once off income from realisation/re-estimation of cash flows on loans and receivables previously restructured of € 146 million and once off interest on cured loans of € 30 million, excluding these items the cost income ratio was 51%.

Cost income ratio before bank levies, regulatory fees and exceptional items was 53% in the half-year to June 2017 compared to 49% in the half-year to June 2016.

Based on sustainable income growth, the Group is on track to achieve a cost income ratio of less than 50% in the medium term.



Strategic investment programme

The Group continues to invest in its strategic agenda and is delivering on growth and efficiencies.

The investment programme is primarily focused on transforming the customer experience, simplifying internal processes and improving efficiency. The programme also includes investment on regulatory requirements, the sustainment and maintenance of legacy systems and renewal of the entire estate. This programme will complete at the end of 2017.

To date the Group has invested € 705 million[3] (€ 313 million in 2015, € 293 million in 2016 and € 99 million in the half-year to June 2017), of which 79% is asset creation.

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

Net credit provision writeback

€19m €211m The overall net credit provision writeback of € 19 million in the half-year to June 2017 compared to an overall net credit provision writeback of € 211 million in the half-year to June 2016.

Specific net writeback

Income statement specific provisions net writeback of € 74 million:
- € 158 million of a charge in the half-year to June 2017 on new impairments is higher than the half-year to June 2016 (€ 103 million) with the increase driven by a higher level of new impairments including those loans that have been previously restructured. The level of new impairment across the different portfolios are within expected risk levels.
- Net increase in the writeback (net of top ups) of € 18 million to € 232 million in the half-year to June 2017 from € 214 million in the half-year to June 2016 figure for the 6 months to 30 June 2017.

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

The impairment provisions remain dependent on significant levels of future collateral realisations.

IBNR charge/net writeback

The overall net credit provision IBNR charge of € 55 million in the half-year to June 2017 compared to an overall net credit provision IBNR writeback of € 100 million in the half-year to June 2016. The charge primarily reflects the extended emergence period on SME and commercial real estate loans.

See the Risk management section on page 46 for more detail.

Bank levies and regulatory fees

€45m €48m

Bank levies and regulatory fees	Half-year June 2017 € m	Half-year June 2016 € m
Irish bank levy	-	-
Deposit Guarantee Scheme	(24)	(28)
Single Resolution Fund/BRRD	(20)	(18)
Other regulatory fees	(1)	(2)
Bank levies and regulatory fees	(45)	(48)

Irish bank levy is payable in October 2017 as in 2016.
Deposit Guarantee Scheme ("DGS") Fee includes recovery from the DGS legacy fund of € 4 million.
Single Resolution Fund ("SRF") contribution of € 20 million in the half-year to June 2017.

Associated undertakings

€10m €23m Income from associated undertakings decreased by € 13 million compared to the half-year to June 2016. The half-year to June 2016 included a reversal of an impairment in AIB's share in associate Aviva Health[1] € 8 million. AIB Merchant Services € 10 million profit in the half-year to June 2017 reduced from € 14 million in the half-year to June 2016.

Income tax

€109m €194m The effective rate was 14% in the half year to June 2017 compared with 19% in the half year to June 2016. The effective tax rate is influenced by the geography and the mix of profit streams which may be taxed at different rates. The higher effective tax rate in the half-year to June 2016 is mainly due to tax provided on equity transaction profits.
Further detail in respect of the taxation charge for the period is available in note 13 to the condensed consolidated interim financial statements.

Total exceptional items

(€62m) €264m Total exceptional items net charge of € 62 million in the half-year to June 2017 compared to a net credit of € 264 million half-year to 2016.

Total exceptional items	Half-year June 2017 € m	Half-year June 2016 € m
Gain on disposal of loan portfolios	7	-
Restitution and restructuring expenses	(3)	(20)
Termination benefits	(24)	(3)
IPO and capital related expenses	(42)	(1)
Gain on transfer of financial instruments	-	16
Profit on disposal of Visa Europe	-	272
Total exceptional items	(62)	264

Given the nature and materiality of these transactions, the gain or costs associated with such transactions were viewed as exceptional by management.

Gain on disposal of loan portfolios: The Group has committed to achieve a medium term target of bringing level of non performing exposures in line with European banking norms. As part of this process a number of distressed loan portfolios were disposed of in the half-year to June 2017 which resulted in a gain recognised of € 7 million.

Restitution and restructuring expenses include costs associated with restitution, transformation, reorganisation, certain provisions for liabilities and write off of intangible assets.

Termination benefits: Since 2012, AIB has undergone a structured exercise of cost reduction with over 3,600 employees on an FTE basis leaving under a voluntary severance programme. The reduction in employees was supported by AIB's transformation strategy which enabled the staff exits.

IPO and capital related expenses: € 42 million of expenses mainly in connection with the IPO which includes € 16 million paid on behalf of the Minister for Finance in respect of commissions payable to underwriters and intermediaries and transaction advisory fees and expenses associated with IPO.

Gain on transfer of financial instruments: During 2010 and 2011, AIB transferred approximately € 20 billion of customer loans and receivables to NAMA. The settlement process has extended over a number of years subsequent to the transfer. Given the nature of this transaction, any subsequent valuation adjustments arising from these transfers have been viewed as exceptional.

Profit on disposal of Visa Europe During 2016, AIB's membership in Visa Europe was disposed of when Visa Inc acquired 100% ownership of Visa Europe.

[1] Aviva Undershaft Five Limited previously known as Aviva Health Group Ireland Limited.

Return on average ordinary shareholders' equity

10.1% 13.6% Operating profit increased to € 0.8 billion in the half-year to June 2017 from € 0.7 billion in the half-year to June 2016. The decrease in the return on average ordinary shareholders' equity in the half-year to June 2017 is mainly attributable to € 272 million profit on disposal of Visa Europe in the half-year to June 2016. Average ordinary shareholders' equity increased to € 12.7 billion at the half-year to June 2017 from € 11.9 billion at the half-year to June 2016 mainly due to profit retained over the period.

Return on tangible equity

14.4% 16.5% In assessing capital efficiency return on tangible equity is a better reflection of performance given capital requirements and the nature and quantum of deferred tax assets recognised for unutilised tax losses in equity.

Return on tangible equity is defined as profit after tax from continuing operations plus movement in carrying value of deferred tax assets in respect of prior losses, less coupons on other equity instruments, divided by targeted (13 per cent.) CET1 capital on a fully loaded basis plus deferred tax assets recognised for unutilised tax losses in equity.

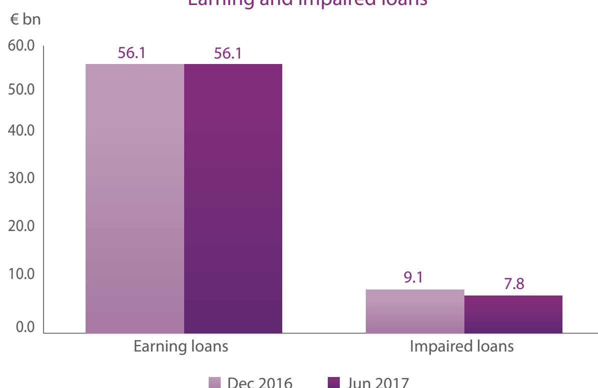
Business review - Operating and financial review

Assets

Earning loans	Impaired loans
€56.1bn	€7.8bn
€56.1bn	€9.1bn
New lending	**Provisions**
€4.3bn	€4.1bn
€3.8bn	€4.6bn

Assets	30 Jun 2017 € bn	31 Dec 2016 € bn	% change
Gross loans to customers	63.9	65.2	-2
Provisions	(4.1)	(4.6)	-11
Net loans to customers	59.8	60.6	-1
Financial investments available for sale	14.3	15.4	-7
Financial investments held to maturity	3.3	3.4	-2
NAMA senior bonds	0.4	1.8	-80
Other assets	12.7	14.4	-12
Total assets	90.5	95.6	-5

Earning and impaired loans



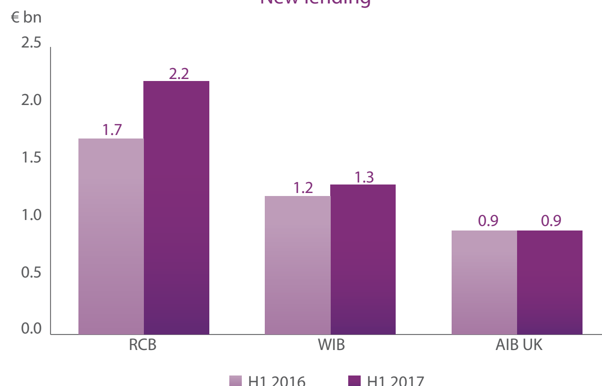
Earning loans €56.1bn €56.1bn

Earning loans, excluding the impact of currency movements of € 0.5 billion, increased € 0.5 billion compared to 31 December 2016. High quality new term lending of € 4.3 billion and € 0.7 billion of loans upgraded to earning in the period were partly offset by redemptions[(1)] of € 4.3 billion and new to impaired of € 0.4 billion.

New lending €4.3bn €3.8bn

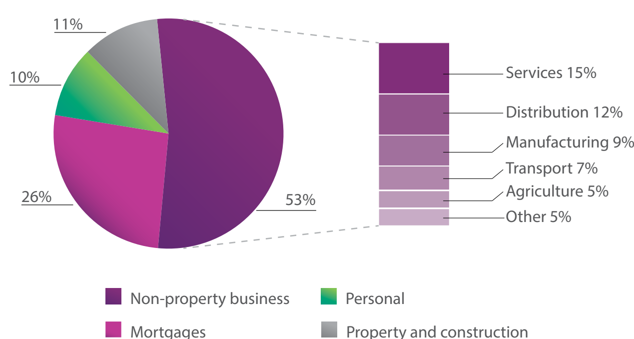
New lending of € 4.3 billion in the half-year to June 2017, € 0.5 billion higher (+15%) compared to the half-year to June 2016.

New lending



Strong momentum in Retail & Commercial Banking ("RCB") with new lending of € 2.2 billion up 29%, including mortgage lending up 41% and other lending up 19%. The increase in mortgage lending is driven by a growing Irish market and the Group retaining its position as the no. 1 provider of mortgage lending in Ireland. Wholesale, Institutional & Corporate Banking ("WIB") new lending of € 1.3 billion up 10% driven by its syndicated and international lending. AIB UK down at € 0.9 billion (up 5% excluding the impact of currency movements). Uncertainty around the impact of the UK's decision to exit the European Union has had a negative impact on the level of new business activity in the market.

New lending H1 2017 by sector



New transaction lending

In addition to new lending of € 4.3 million there was new transaction lending of € 0.5 billion in the half-year to June 17. This is defined as balances which are drawn down for the first time on transactional based products.

Impaired loans €7.8bn €9.1bn

Impaired loans, excluding the impact of currency movements, have reduced by € 1.3 billion to € 7.8 billion since 31 December 2016. This reduction mainly reflects the continued implementation of sustainable restructure solutions for customers and improved economic conditions. The Group also disposed of distressed loan portfolios which accounted for € 0.4 billion of the decrease. New to impaired loans in the half-year to June 2017 were € 0.4 billion.

Restructuring

Restructuring the loans of customers in difficulty continues to be a key focus for the Group. Treatment strategies, as described on pages 68 to 80 of this report, are in place for customers who are experiencing financial difficulties.

The approach is one of structured engagement with co-operating customers to assess their long term levels of sustainable debt. The restructuring engagement with customers resulted in € 0.7 billion being restructured out of impairment in the six months to 30 June 2017, with a further € 0.4 billion of loans written off (including non-contracted write-offs and disposals).

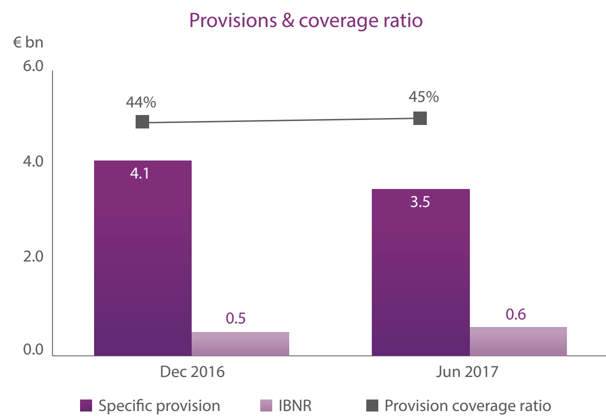
[(1)]New transaction lending is netted against redemptions given the revolving nature of these products.

Assets *(continued)*

Provisions
€4.1bn €4.6bn

Specific impairment provisions overall as a percentage of impaired loans have increased from 44% at 31 December 2016 to 45% at 30 June 2017. The increase occurred in collectively assessed loans and where the cover increased from 41% to 43% at 30 June 2017. The cover on individually assessed loans remained unchanged at 47% from 31 December 2016. Provision write-offs are generated through both restructuring agreements with customers and also where further recovery is considered unlikely. The impairment provisions remain dependent on significant levels of future collateral realisation.

IBNR provisions of € 0.6 billion were held at 30 June 2017 compared to € 0.5 billion at 31 December 2016, an increase of € 0.1 billion. The level of IBNR reflects a conservative estimate of unidentified incurred losses within the portfolio.



The table below sets out the asset quality by sector for a range of credit metrics. Further details of the risk profile of the Group and non performing disclosures are available in the Risk management section on pages 35 to 64.

Loan book sectoral profile 30 June 2017	Residential mortgages € bn	Other personal € bn	Property and construction € bn	Non-property business € bn	Total € bn
Loans and receivables to customers	**34.4**	**3.1**	**9.1**	**17.4**	**63.9**
Of which: Impaired	**3.8**	**0.4**	**2.4**	**1.2**	**7.8**
Balance sheet provisions (specific + IBNR)	**1.7**	**0.3**	**1.3**	**0.8**	**4.1**
Specific provisions / Impaired loans (%)	**38%**	**60%**	**50%**	**55%**	**45%**
Total provisions / Total loans (%)	**5%**	**9%**	**14%**	**5%**	**6%**
6 months to 30 June 2017	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	**(50)**	**2**	**(48)**	**22**	**(74)**
Total impairment (credit)/charge	**(66)**	**8**	**(19)**	**58**	**(19)**
31 December 2016	**€ bn**	**€ bn**	**€ bn**	**€ bn**	**€ bn**
Loans and receivables to customers	35.2	3.1	9.4	17.5	65.2
Of which: Impaired	4.6	0.4	2.7	1.4	9.1
Balance sheet provisions (specific + IBNR)	2.0	0.3	1.5	0.8	4.6
Specific provisions / Impaired loans (%)	38%	58%	50%	51%	44%
Total provisions / Total loans (%)	6%	9%	15%	5%	7%
6 months to 30 June 2016	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	1	(32)	(71)	(9)	(111)
Total impairment (credit)/charge	(63)	(36)	(111)	(1)	(211)

Non performing exposures

The Group also focuses on non performing exposures when managing the credit quality of the loan book. Non performing exposures, which includes both loans and receivables to customers and off balance sheet commitments under EBA definition[1]. Non performing loans have reduced to € 12.1 billion in June 2017 from € 14.1 billion in December 2016. Total non performing off balance sheet commitments at 30 June 2017 amounted to € 308 million (31 December 2016: € 321 million).

[1] Non performing exposures are defined by the EBA to include material exposures which are more than 90 days past due (regardless of whether they are impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due.

Business review - Operating and financial review

Assets *(continued)*

Net loans to customers

€59.8bn €60.6bn Net earning loans increased € 0.4 billion excluding the impact of currency movements. Net impaired loans of € 4.3 billion reduced by € 0.7 billion driven by restructuring activity, redemptions and disposals.

Summary of movement in Loans to customers

The table below sets out the movement in loans to customers from 1 January 2017 to 30 June 2017.

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 2017)	56.1	9.1	65.2	(4.1)	(0.5)	60.6
New lending volumes	4.3	-	4.3	-	-	4.3
New impaired loans[1]	(0.4)	0.4	-	(0.2)	-	(0.2)
Restructures and write-offs	0.7	(0.7)	-	0.4	-	0.4
Disposals	-	(0.4)	(0.4)	0.2	-	(0.2)
Redemptions of existing loans[2]	(4.3)	(0.4)	(4.7)	-	-	(4.7)
Foreign exchange movements	(0.5)	-	(0.5)	-	-	(0.5)
Other movements	0.2	(0.2)	-	0.2	(0.1)	0.1
Closing balance (30 June 2017)	56.1	7.8	63.9	(3.5)	(0.6)	59.8

Financial investments Available for Sale ("AFS")

€14.3bn €15.4bn AFS assets which are held for liquidity and investment purposes have reduced by € 1.1 billion since 31 December 2016 consistent with plans to reduce overall AFS holdings towards liquidity requirements.

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

NAMA senior bonds

€0.4bn €1.8bn NAMA senior bonds have reduced by € 1.4 billion since 31 December 2016 following redemptions in the period. NAMA senior bonds are expected to be fully redeemed by the end of 2017.

Other assets

€12.7bn €14.4bn Other assets of € 12.7 billion comprised:

- cash and loans to banks of € 6.5 billion were € 1.4 billion lower than 31 December 2016. 2017 included cash and balances with Central Banks of € 5.3 billion, and loans and receivables to banks of € 1.2 billion.
- deferred taxation of € 2.8 billion has reduced by 1% since 31 December 2016.
- derivative financial instruments of € 1.4 billion, € 0.4 billion lower than 31 December 2016.
- the remaining assets of € 2.0 billion up 10% from € 1.8 billion at 31 December 2016.

[1]New to impaired includes re-impaired loans.

[2]New transaction lending is netted against redemptions given the revolving nature of these products.

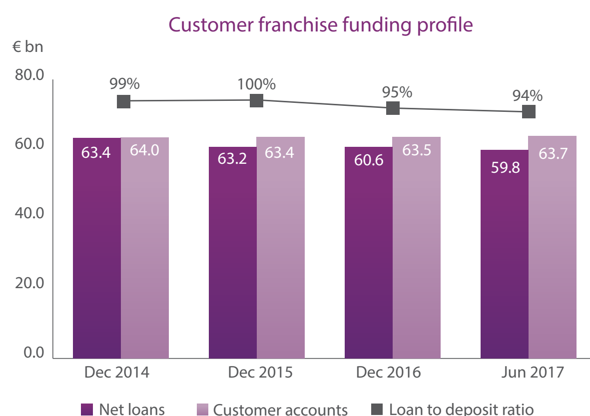
Liabilities & equity

Customer accounts	Equity
€63.7bn	**€13.2bn**
€63.5bn	€13.1bn

Liabilities & equity	30 Jun 2017 € bn	31 Dec 2016 € bn	% change
Customer accounts	63.7	63.5	-
Monetary authority funding	1.9	1.9	-
Other market funding	3.1	5.8	-48
Debt securities in issue	4.7	6.9	-31
Other liabilities	3.9	4.4	-12
Total liabilities	77.3	82.5	-6
Equity	13.2	13.1	-
Total liabilities & equity	90.5	95.6	-5
	%	%	change
Loan to deposit ratio	94	95	-1

Customer accounts
€63.7bn €63.5bn Customer accounts increased by € 0.2 billion to € 63.7 billion. Excluding the reduction of € 0.4 billion due to the impact of currency movements, customer accounts increased € 0.6 billion. The mix profile continued to change in the half-year to June 2017 with an increase of € 1.7 billion in current accounts offset by a reduction of € 1.5 billion in corporate and treasury deposits (including repos). As term deposits mature the trend continues to place in low and non-interest bearing accounts due to the ongoing low rate environment.

The loan to deposit ratio remained stable at 94% at 30 June 2017 compared to 95% at 31 December 2016.



Monetary authority funding
€1.9bn €1.9bn Monetary authority funding of € 1.9 billion in line with 31 December 2016. In 2016 the existing € 1.9 billion Targeted Long Term Refinancing Operation ("TLTRO") was replaced with TLTRO II facility, extending the term of the funding out to 4 years with an option to redeem after 2 years.

Other market funding
€3.1bn €5.8bn Other market funding reduced by € 2.7 billion (-48%) since 31 December 2016 due to reduced funding requirement following NAMA senior bond redemptions, reduction in both available for sale securities and loans to customers.

Debt securities in issue
€4.7bn €6.9bn Debt securities reduced following maturities of € 1.7 billion in June 2017 and € 0.4 billion in March 2017.

Other liabilities
€3.9bn €4.4bn Other liabilities of € 3.9 billion comprised:

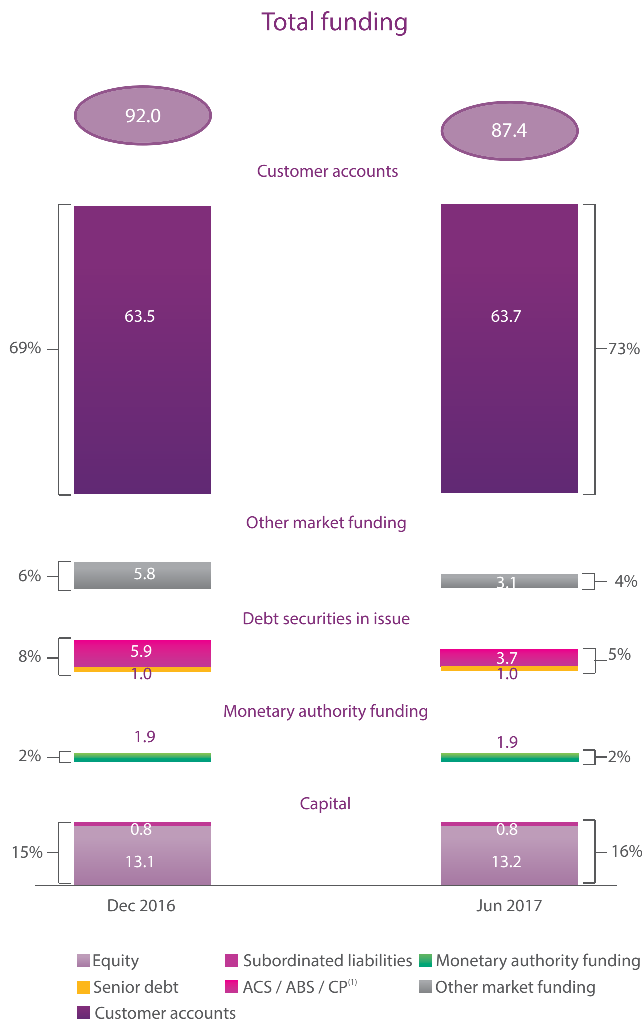
- Subordinated liabilities
  €0.8bn €0.8bn No change in the period.
- Derivative financial instruments
  €1.3bn €1.6bn Derivative financial instruments of € 1.3 billion decreased 18% from € 1.6 billion at 31 December 2016 driven by the impact of increased euro and sterling forward rates on cash flow hedges and fair value hedges.
- Retirement benefit liabilities
  €0.1bn €0.2bn For detail on the movement in retirement benefit liabilities see note 11 page 105 of this report.
- Remaining liabilities
  €1.7bn €1.8bn Remaining liabilities of € 1.7 billion were 9% lower compared to December 2016.

Equity
€13.2bn €13.1bn Equity of € 13.2 billion as at 30 June 2017 increased by € 0.1 billion compared to € 13.1 billion as at 31 December 2016. The table below sets out the movements in the period.

Equity	€ bn
Opening balance (1 January 2017)	**13.1**
Profit for the period	0.7
Other comprehensive income:	
Cash flow hedging reserves	(0.2)
Available for sale securities reserves	(0.1)
Dividends paid	(0.3)
Closing balance (30 June 2017)	**13.2**

Liabilities & equity *(continued)*

Funding



The Group has a robust funding structure underpinned by a stable low cost customer account base. The total funding was € 87.4 billion at 30 June 2017, details set out above.

Qualifying liquid assets

At 30 June 2017, the Group held € 27 billion (2016: € 30 billion) in qualifying liquid assets/contingent funding of which € 9 billion (2016: € 12 billion) was not available due to repurchase, secured loans and other restrictions. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 30 June 2017, the Group liquidity pool was € 18 billion (2016: € 18 billion). During 2017, the liquidity pool ranged from € 16 billion to € 20 billion and the average balance was € 18 billion.
For further detail on funding see pages 81 to 86.

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

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Business review - Operating and financial review

AIB

Segment overview

From the 1 January 2017, following realignment of Leadership Team responsibilities, the Group has been managed through the following business segments: Retail & Commercial Banking ("RCB"), Wholesale, Institutional & Corporate Banking ("WIB"), AIB UK and Group. The performance in the half-year to June 2016 has been restated to reflect this revised structure.

Segment allocations

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in 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.

Retail & Commercial Banking ("RCB")*

RCB is Ireland's leading provider of retail and commercial banking products and services based on its market shares across key products. It has approximately 2.3 million retail and SME customers. RCB offers retail banking services through three brands, AIB, EBS and Haven, and commercial banking services through the AIB brand. It has the largest distribution network of any bank in Ireland, comprising 296 locations, including 205 AIB branches, 71 EBS offices, 19 business centres and 1 digital banking location, 989 ATMs and AIB telephone, internet, tablet and mobile banking, as well as a partnership with An Post through which it offers certain banking services at approximately 1,100 locations in Ireland. Complementing its physical infrastructure, RCB has a market leading digital banking proposition which has contributed significantly to strengthened relationship and transactional NPS (Net Promoter Score—a measurement tool that tracks customers' loyalty and advocacy) and underpins a broader efficiency agenda.

Wholesale, Institutional & Corporate Banking ("WIB")*

WIB provides wholesale, institutional and corporate banking services to AIB's larger customers and customers requiring specific sector or product expertise. WIB serves customers through a relationship driven model with a sector specialist focus. In addition to traditional credit products, WIB offers corporate customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance. WIB teams are based in Dublin and New York. WIB's activities in New York comprise syndicated and international finance activities.

AIB UK*

AIB UK offers services in two distinct markets, Northern Ireland, where it operates under the trading name of First Trust Bank, and Great Britain, where it operates as Allied Irish Bank (GB). First Trust Bank has approximately 253,000 active personal customers and approximately 22,000 active business customers. First Trust Bank operates as a focused retail and SME challenger bank and is in the process of migrating to a more integrated business model, having announced, in February 2017, the closure of 15 of its 30 branches, of which 8 have already closed with the remaining 7 due to close by the end of 2017. This will be complemented by an arrangement with the Post Office in Northern Ireland. Allied Irish Bank (GB) is a niche specialist business bank, supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain targeting mid-tier corporates and larger SMEs in local geographies. AIB UK's overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland.

Group

The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads relating to these activities are managed and reported in AIB's Group segment.

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

AIB Segments at a glance

Retail & Commercial Banking ("RCB")

Financial metrics		% of Group[1]
Total operating income	€1,019m	67%
Net loans	€42.1bn	71%
New lending	€2.2bn	51%
Total operating expenses	€373m	54%

% of segment income

Net loans by sector	
Personal	6%
Mortgages	74%
Property & construction	7%
Non-property business	13%

Wholesale, Institutional & Corporate Banking ("WIB")

Financial metrics		% of Group[1]
Total operating income	€149m	10%
Net loans	€9.1bn	15%
New lending	€1.3bn	29%
Total operating expenses	€44m	6%

% of segment income

Net loans by sector	
Personal	1%
Mortgages	-
Property & construction	29%
Non-property business	70%

AIB UK

Financial metrics		% of Group[1]
Total operating income	£135m	10%
Net loans	£7.5bn	14%
New lending	£0.8bn	20%
Total operating expenses	£57m	10%

% of segment income

Net loans by sector	
Personal	2%
Mortgages	19%
Property & construction	26%
Non-property business	53%

Group

Financial metrics		% of Group[1]
Total operating income	€204m	13%
Net loans	€0.1bn	-
Total operating expenses	€209m	30%

% of segment income

Net loans by sector	
Personal	-
Mortgages	-
Property & construction	-
Non-property business	100%

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

Retail & Commercial Banking ("RCB")

RCB contribution statement	Half-year June 2017 Earning € m	Impaired € m	Total € m	Half-year June 2016 Earning € m	Impaired € m	Total € m
Net interest income	647	62	**709**	537	67	**604**
Business income	164	-	**164**	159	-	**159**
Other items	146	-	**146**	38	-	**38**
Other income	310	-	**310**	197	-	**197**
Total operating income	957	62	**1,019**	734	67	**801**
Total operating expenses	(320)	(53)	**(373)**	(310)	(45)	**(355)**
Operating contribution before bank levies, regulatory fees and provisions	637	9	**646**	424	22	**446**
Total provisions	(44)	83	**39**	118	107	**225**
Operating contribution	593	92	**685**	542	129	**671**
Associated undertakings	8	-	**8**	21	-	**21**
Contribution before disposal of property	601	92	**693**	563	129	**692**
Loss on disposal of property	(1)	-	**(1)**	-	-	**-**
Contribution before exceptional items	600	92	**692**	563	129	**692**

RCB balance sheet metrics	Half-year June 2017 Earning € bn	Impaired € bn	Total € bn	Half-year June 2016 Earning € bn	Impaired € bn	Total € bn
Mortgages			**1.1**			**0.8**
Personal			**0.4**			**0.3**
Business			**0.7**			**0.6**
New lending			**2.2**			**1.7**
	30 June 2017 Earning € bn	**Impaired € bn**	**Total € bn**	**31 December 2016 Earning € bn**	**Impaired € bn**	**Total € bn**
Mortgages	28.8	2.3	**31.1**	28.7	2.7	**31.4**
Personal	2.4	0.2	**2.6**	2.4	0.2	**2.6**
Business	6.5	1.2	**7.7**	6.4	1.3	**7.7**
Legacy distressed loans[(1)]	0.5	0.2	**0.7**	0.8	0.2	**1.0**
Net loans	38.2	3.9	**42.1**	38.3	4.4	**42.7**
Current accounts			**20.9**			**19.4**
Deposits			**23.8**			**23.5**
Customer accounts			**44.7**			**42.9**

Net interest income

€709m €604m Net interest income has increased by € 105 million due to the continued reduction in cost of funds partly offset by impact of mortgage rate reductions.

Other income

€310m €197m Business income increased by € 5 million mainly driven by increase of € 3 million in net fee and commission and € 2 million net trading income. Other items increased by € 108 million due to higher income on realisation / re-estimation of cashflows on loans previously restructured.

Total operating expenses

€373m €355m Costs have increased by € 18 million driven by an increase in resourcing for the FSG workout unit for loan restructuring and increase in depreciation as assets created under the investment programme are put into operational use partly offset by lower other distribution network costs.

Total net writeback of provisions

€39m €225m Decrease driven by higher levels of new to impaired including loans previously restructured, lower credit writebacks combined with IBNR charge for extended emergence period on non mortgage loans in the half-year to June 2017.

Net earning loans

€38.2bn €38.3bn Net earning loans reduced by € 0.1 billion driven by reduction in legacy distressed loans from repayment in relation to a legacy property case. Mortgage, personal and business portfolios increased in the period as new lending of € 1.1 billion, € 0.4 billion, € 0.7 billion respectively, new transaction lending of € 0.1 billion and net loans returned to earning from impaired of €0.3 billion exceeded redemptions. The Group remains the no. 1 mortgage provider in Ireland.

Net impaired loans

€3.9bn €4.4bn Net impaired loans decreased by € 0.5 billion mainly as a result of € 0.2 billion loan portfolio disposal and € 0.3 billion net loans returning to earning from impaired.

Customer accounts

€44.7bn €42.9bn The customer accounts base continued to grow in 2017, maintaining market share while reducing cost of funds.

(1) Larger legacy distressed loans that have been subject to restructuring arrangement which are managed through the FSG workout unit in RCB.

Wholesale, Institutional & Corporate Banking ("WIB")

WIB contribution statement	Half-year June 2017 € m	Half-year June 2016 € m	% change
Net interest income	130	121	7
Other income	19	25	-24
Total operating income	149	146	2
Total operating expenses	(44)	(39)	13
Operating contribution before bank levies, regulatory fees and provisions	105	107	-2
Total provisions	5	(28)	-
Contribution before exceptional items	110	79	39

WIB balance sheet metrics	Half-year June 2017 € bn	Half-year June 2016 € bn	% change
Corporate	0.3	0.4	-17
Syndicated & International	0.7	0.5	47
Real Estate Finance	0.2	0.3	-35
Specialised Finance	0.1	0.0	205
New lending	1.3	1.2	10
	30 Jun 2017 € bn	31 Dec 2016 € bn	% change
Corporate	4.2	4.4	-4
Syndicated & International	2.9	2.8	2
Real Estate Finance	1.8	1.7	9
Specialised Finance	0.2	0.2	16
Net loans	9.1	9.1	1
Current accounts	3.2	3.7	-13
Deposits	2.4	2.7	-13
Customer accounts	5.6	6.4	-13

Net interest income
€130m €121m Net interest income increased by € 9 million compared to the half-year to June 2016 due to net earning loan growth combined with margin improvement from continued reductions in the cost of funds.

Other income
€19m €25m Other income decreased by € 6 million compared to the half-year to June 2016. Business income was in line with the half-year to June 2016. Other items decreased € 6 million primarily due to € 5 million income on realisation/re-estimation of cash flows on loans and receivables previously restructured received in the half-year to June 2016 compared to nil in the half-year to June 2017.

Total operating expenses
€44m €39m Total operating expenses increased by € 5 million due to additional resources for the growth and development of the business and salary inflation.

Total provisions
€5m (€28m) Total net writeback of provisions of € 5 million in the half-year to June 2017 compared to a charge of € 28 million in the half-year to June 2016.

Net loans
€9.1bn €9.1bn

Net earning loans of € 9.1 billion at 30 June 2017 increased by € 0.2 billion compared to 31 December 2016.

Net impaired loans of nil at 30 June 2017 have reduced € 0.2 billion compared to 31 December 2016.

New lending
€1.3bn €1.2bn New term lending was up € 0.1 billion (up 10%) compared to the half-year to June 2016, with strong growth in Syndicated & international and Specialised finance.

In addition to new term lending WIB had new transaction lending of € 0.2 billion in the half-year to June 2017 mainly due to demand from Corporate Customers.

Customer accounts
€5.6bn €6.4bn Customer accounts decreased € 0.8 billion with a decrease in current accounts of € 0.5 billion and a decrease of € 0.3 billion in term deposits.

AIB

AIB UK

AIB UK contribution statement	Half-year June 2017 £ m	Half-year June 2016 £ m	% change
Net interest income	102	83	23
Other income	33	21	57
Total operating income	135	104	30
Total operating expenses	(57)	(60)	-5
Operating contribution before bank levies, regulatory fees and provisions	78	44	77
Bank levies and regulatory fees	(1)	(2)	-50
Total provisions	(18)	14	-
Operating contribution	59	56	5
Associated undertakings	1	2	-50
Contribution before disposal of business	60	58	3
Profit on disposal of business	-	1	-
Contribution before exceptional items	60	59	2
Contribution before exceptional items €m	70	75	-7

AIB UK balance sheet metrics	Half-year June 2017 £ bn	Half-year June 2016 £ bn	% change
AIB GB	0.6	0.6	2
FTB	0.2	0.1	18
New lending	0.8	0.7	5
	30 Jun 2017 £ bn	31 Dec 2016 £ bn	% change
AIB GB	5.1	5.1	-
FTB	2.4	2.4	-4
Net loans	7.5	7.5	-1
AIB GB	4.9	4.7	2
FTB	4.3	4.2	11
Customer accounts	9.2	8.9	3

Net interest income

£102m £83m Net interest income increased £ 19 million compared to the half-year to June 2016. The increase was mainly due to a reduction in the cost of funds as loan volumes remained stable.

Other income

£33m £21m The increase was mainly due to a net positive movement in valuations of long-term customer derivative positions of £ 1 million in the half-year to June 2017 compared to a net negative movement of £ 5 million in the half-year to June 2016 and an increase in net profit on disposal of AFS securities of £ 5 million compared to the half-year to June 2016. Net fee and commission income was in line with the half-year to June 2016.

Total operating expenses

£57m £60m Total operating expenses of £ 57 million the half-year to June 2017 decreased £ 3 million compared to the half-year to June 2016 reflecting cost management and control.

Total provisions

(£18m) £14m Total net charge of provisions of £ 18 million in the half-year to June 2017 was driven by an increase in new to impaired charge offset by writebacks due to repayments from asset disposals and valuation uplifts, compared to a net writeback of provisions of £ 14 million in the half-year to June 2016.

Net loans

£7.5bn £7.5bn

Net loans of £ 7.5 billion includes net earning loans of £ 7.2 billion and net impaired loans of £ 0.3 billion. Net earning loans of £ 7.2 billion were £ 0.1 billion higher than 31 December 2016 as new lending was higher than redemptions. Net impaired loans of £ 0.3 billion at 30 June 2017 have reduced from £ 0.4 billion at 31 December 2016 due to repayments in the period. There was also a disposal of a loan portfolio of £ 44 million, corresponding provision written off with no impact to net loans.

New lending

£0.8bn £0.7bn New lending of £ 0.8 billion in the half-year to June 2017, AIB GB at £ 0.6 billion and FTB at £ 0.2 billion, an increase of 5% compared to the half-year to June 2016.

In addition to new term lending AIB UK had new transaction lending of £ 0.1 billion in the half-year to June 2017.

Customer accounts

£9.2bn £8.9bn Customer accounts were £ 9.2 billion at 30 June 2017 and increased by £ 0.3 billion since 31 December 2016 with an increase in current accounts partly offset by a decrease in deposits.

Group

Group contribution statement	Half-year June 2017 € m	Half-year June 2016 € m	% change
Net interest income	120	114	5
Other income	84	46	83
Total operating income	204	160	28
Total operating expenses	(209)	(206)	1
Operating contribution before bank levies, regulatory fees and provisions	(5)	(46)	89
Bank levies and regulatory fees	(44)	(46)	-4
Total provisions	-	(1)	-
Contribution before exceptional items	(49)	(93)	47

Group balance sheet metrics	30 Jun 2017 € bn	31 Dec 2016 € bn	% change
Net loans	0.1	0.1	-22
Financial investments available for sale	14.3	15.4	-7
Financial investments held to maturity	3.3	3.4	-2
NAMA senior bonds	0.4	1.8	-80
Customer accounts	3.1	3.9	-21

Net interest income

€120m €114m Net interest income of € 120 million in the half-year to June 2017 was € 6 million higher than the half-year to June 2016 due to lower cost of funds. This was partly offset by lower income on NAMA senior bonds and lower income from the securities portfolio due to the disposals.

Other income

€84m €46m Other income of € 84 million increased € 38 million compared to the half-year to June 2016 mainly due to movement in valuations of long-term customer derivative positions with a net positive movement of € 17 million in the half-year to June 2017 compared to a net negative movement of € 20 million in the half-year to June 2016.

Other items movements are detailed in the table below.

Other items	Half-year June 2017 € m	Half-year June 2016 € m
Net profit on disposal of AFS securities	9	21
Effect of acceleration/re-estimation of the timing of cash flows on NAMA senior bonds	4	10
Settlements and other gains	2	(1)
Other items	15	30

Total operating expenses

€209m €206m Total operating expenses increased by € 3 million (+1%) compared to the half-year to June 2016 reflecting the impact of salary inflation and increased cost of regulatory compliance.

Bank levies and regulatory fees

€44m €46m Bank levies and regulatory fees of € 44 million for the half-year to June 2017 related to the Deposit Guarantee Scheme ("DGS") € 24 million (fee includes credit on the DGS legacy fund) and € 20 million for the Single Resolution Fund.

Net loans

€0.1bn €0.1bn Net loans are in line with 31 December 2016.

Financial investments Available for Sale ("AFS")

€14.3bn €15.4bn AFS assets which are held for liquidity and investment purposes have reduced by € 1.1 billion to € 14.3 billion as at 30 June 2017, consistent with plans to reduce overall AFS holdings towards liquidity requirements.

Financial investments Held to Maturity ("HTM")

€3.3bn €3.4bn There have been no further additions to the held to maturity category during the half-year to June 2017.

NAMA senior bonds

€0.4bn €1.8bn NAMA senior bonds reduced by € 1.4 billion since 31 December 2016 due to redemptions. NAMA senior bonds are expected to be fully redeemed by the end of 2017.

Customer accounts

€3.1bn €3.9bn Customer accounts have reduced € 0.8 billion mainly due to maturity of high yielding term deposits and a reduction in repos.

Business review - Capital management

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development. Further detail on this can be found in the Group's Annual Financial Report 2016.

Regulatory capital and capital ratios[1]

	CRD IV transitional basis		CRD IV fully loaded basis	
	30 June 2017 € m	31 December 2016 € m	30 June 2017 € m	31 December 2016 € m
Equity	**13,209**	13,148	**13,209**	13,148
Less: Additional Tier 1 Securities	**(494)**	(494)	**(494)**	(494)
Foreseeable charges[2] /proposed ordinary dividend[3]	**(125)**	(250)	**(125)**	(250)
Regulatory adjustments:				
Goodwill and intangibles	**(444)**	(392)	**(444)**	(392)
Cash flow hedging reserves	**(289)**	(460)	**(289)**	(460)
Available for sale securities reserves	**(203)**	(445)	**–**	–
Pension	**(112)**	(140)	**(102)**	(126)
Deferred tax	**(845)**	(610)	**(2,816)**	(3,050)
Expected loss deduction	**–**	(28)	**–**	(46)
Other	**(19)**	(22)	**(17)**	(16)
	(1,912)	(2,097)	**(3,668)**	(4,090)
Total common equity tier 1 capital	**10,678**	10,307	**8,922**	8,314
Additional tier 1 capital				
Additional Tier 1 Securities	**494**	494	**494**	494
Expected loss deduction	**–**	(9)	**–**	–
Total additional tier 1 capital	**494**	485	**494**	494
Total tier 1 capital	**11,172**	10,792	**9,416**	8,808
Tier 2 capital				
Subordinated debt	**783**	783	**783**	783
Credit provisions	**181**	200	**13**	–
Expected loss deduction	**–**	(9)	**–**	–
Other	**3**	6	**–**	–
Total tier 2 capital	**967**	980	**796**	783
Total capital	**12,139**	11,772	**10,212**	9,591
Risk weighted assets				
Credit risk	**47,910**	48,843	**48,017**	49,027
Market risk	**352**	288	**352**	288
Operational risk	**4,248**	3,874	**4,248**	3,874
Credit valuation adjustment	**1,017**	1,225	**1,017**	1,225
Other	**5**	5	**5**	5
Total risk weighted assets	**53,532**	54,235	**53,639**	54,419
	%	%	**%**	%
Common equity tier 1 ratio	**19.9**	19.0	**16.6**	15.3
Tier 1 ratio	**20.9**	19.9	**17.6**	16.2
Total capital ratio	**22.7**	21.7	**19.0**	17.6

[1]The capital ratios reflect the 30 June 2017 interim profit for the Group. An application for the inclusion of the 2017 interim profit in regulatory capital is being made under Article 26(2) of the Capital Requirements Regulation to the competent authority, namely, the European Central Bank.

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

[3]The proposed ordinary dividend was € 250 million in respect of 2016. Equity at 30 June 2017 was reduced by this dividend payment on 9 May 2017.

Capital ratios at 30 June 2017

Transitional ratio

The transitional common equity Tier 1 (CET1) ratio increased to 19.9% at 30 June 2017 from 19.0% at 31 December 2016. The increase in the CET1 ratio was broadly driven by profit retained, a reduction in regulatory adjustments and a reduction in risk weighted assets ("RWAs"), partially offset by a foreseeable charge of € 125 million.

CET1 capital increased by € 371 million to € 10,678 million at 30 June 2017.

Equity, net of the proposed dividend, at 31 December 2016 of € 12,898 million increased by € 311 million to € 13,209 million at 30 June 2017. This consisted of profit for the period of € 652 million offset by negative other comprehensive income of € 323 million, and a distribution paid on the Additional Tier 1 instrument of € 18 million.

Negative other comprehensive income was driven by a decrease in the cash flow hedging reserves of € 171 million and a reduction in available for sale securities reserves of € 98 million during the period. Revaluation of foreign exchange reserves in the Group, held primarily as a structural hedge for the capital ratio, resulted in a net reduction in foreign currency translation reserves of € 39 million.

Regulatory adjustments reduced by €185 million. The deduction for unrealised gains on AFS debt and equity securities reduced by € 242 million mainly due to the phase-in rate increasing from 60% to 80% in 2017 and the deduction in relation to the cash flow hedging reserves reduced by € 171 million. This was partially offset by the deduction of the deferred tax asset relating to unutilised tax losses which increased by € 235 million mainly due to the phase-in rate increasing from 20% to 30% in 2017 and intangible assets also increased by € 52 million.

The transitional CET1 ratio, at 19.9%, is significantly in excess of the Single Supervisory Mechanism's minimum CET1 regulatory requirement of 9.0%.

The transitional tier 1 capital ratio increased to 20.9% at 30 June 2017 from 19.9% at 31 December 2016. The increase in the ratio was driven by the CET1 movements outlined above and the RWAs reductions.

The transitional total capital ratio increased from 21.7% at December 2016 to 22.7% at 30 June 2017.

Risk weighted assets

RWAs reduced by € 0.7 billion during the half-year to 30 June 2017. Credit risk RWAs reduced by € 0.9 billion, while credit valuation adjustment RWAs decreased by € 0.2 billion. These decreases were partially offset by increases in operational risk RWAs of € 0.4 billion (reflecting the increased levels of income in the annual calculation) and market risk of € 0.1 billion.

The reduction in credit risk RWAs was partly driven by foreign exchange movements of € 0.5 billion. Positive grade migration in portfolios where AIB uses its own credit models to measure RWAs drove a decrease of € 0.1 billion with asset sales, redemptions and other balance sheet reductions driving a decrease of € 3.7 billion. These were partially offset by new drawdowns which accounted for an increase in RWAs of € 3.4 billion.

Fully loaded ratio

The Group continues to generate capital (130bps). The fully loaded CET1 ratio increased to 16.6% at 30 June 2017 from 15.3% at 31 December 2016. The increase in the CET1 ratio was broadly driven by profit retained, a reduction in regulatory adjustments and a reduction in RWAs, partially offset by a foreseeable charge of € 125 million.

CET1 capital increased by € 608 million to € 8,922 million at 30 June 2017. This was primarily driven by an increase in equity as outlined above, a decrease in the deduction for the deferred tax asset of € 234 million and the deduction in relation to the cash flow hedging reserves reducing by € 171 million, offset by a foreseeable charge of € 125 million.

The fully loaded tier 1 capital ratio increased to 17.6% at 30 June 2017 from 16.2% at 31 December 2016. The increase in the ratio was driven by the CET1 and RWAs movements outlined above.

The fully loaded total capital ratio increased to 19.0% at 30 June 2017 from 17.6% at 31 December 2016.

Capital requirements

AIB's minimum requirement set by the ECB for the transitional CET1 ratio is 9.0% and the minimum requirement for the transitional total capital ratio is 12.5% for 2017. This requirement excludes Pillar 2 guidance which is not publicly disclosed. The transitional CET1 and total capital ratios at 30 June 2017 were 19.9% and 22.7% respectively. Based on these ratios, AIB has a very significant buffer over maximum distributable amount trigger levels.

AIB has been designated as an Other Systemically Important Institution ("O-SII"). Accordingly, a buffer for O-SII will be applied at 0.5% from 2019, rising to 1.5% by 2021.

Developments in the period

The Central Bank of Ireland has maintained the countercyclical buffer on Irish exposures at 0%.

The Financial Policy Committee in the UK, increased the UK countercyclical buffer rate from 0% to 0.5%, with binding effect from 27 June 2018. Absent a material change, the Financial Policy Committee expects to increase the rate to 1% at its November 2017 meeting, with binding effect a year from then.

On 3 February 2017, AIB announced that it had been informed by the Single Resolution Board ("SRB") that the preferred strategy for the Group is a single point of entry bail-in strategy

through a holding company. This holding company will become the new parent company of the current Group. AIB currently expects, subject to receipt of the necessary consent of the Minister for Finance as well as regulatory, shareholder and court approvals, to set up the holding company by the end of 2017.

Leverage ratio

The leverage ratio is defined as tier 1 capital divided by a leverage ratio exposure. Based on full implementation of CRD IV, the leverage ratio, under the Delegated Act implemented in January 2015, was 10.4% at 30 June 2017 (9.2% at 31 December 2016).

Ratings

In January 2017, S&P upgraded AIB's long term rating by one notch to BBB- (investment grade) with a stable outlook. On 13 July S&P affirmed the rating.

In June 2017, Moody's upgraded AIB's long term rating by one notch to Baa2 with stable outlook from Baa3 with a positive outlook.

	30 June 2017		
AIB long-term ratings	**Moody's**	**S&P**	**Fitch**
Long-term	**Baa2**	**BBB–**	**BB+**
Outlook	**Stable**	**Stable**	**Positive**

	31 December 2016		
AIB long-term ratings	Moody's	S&P	Fitch
Long-term	Baa3	BB+	BB+
Outlook	Positive	Positive	Positive

Risk management

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Risk management

Update on risk management and governance

Risk is defined as any event that could damage the core earnings capacity of AIB Group, increase cash flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations.

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

The principal risks and uncertainties to the Group, set out on pages 50 to 58 of the Annual Financial Report 2016, are unchanged for the remaining six months of the year with the following exception:

> The risk factor on page 56 of the Annual Financial Report 2016 discusses how 'the Group uses risk measurement or quantum of valuation models across many of its activities and if these models prove to be inaccurate, its management of risk may be ineffective or compromised and/or the value of its financial assets and liabilities may be overestimated or underestimated'. Following consultation and agreement with the European Central Bank ("ECB"), AIB deferred submission to the ECB of an IRB model material change request for its residential mortgage portfolio until the end of the third quarter 2017. This exposes AIB to delivery risk in relation to the development and approval of this model and subsequent requests for new or updated IRB models. This delivery risk may also impact on AIB's expectation of normalising its RWA density[(1)] over time and could affect, in the short term, the RWA density which is currently high relative to peer banks. In this regard, the Group has recently reorganised the model development and validation teams within Group Risk and is closely monitoring progress on delivering updated models.

AIB Group's risk governance and organisation framework is set out on pages 59 to 61 of the Annual Financial Report 2016. There have been no material changes to AIB Group's risk governance framework.

AIB Group has adopted an Enterprise Risk Management approach to (a) the identification and assessment; (b) the management and mitigation; and (c) the monitoring and reporting of its risks. Processes and controls supporting this approach are set out in the Risk Management section of the Annual Financial Report 2016 (credit risk – pages 63 to 82, credit profile – pages 83 to 144 and for other risk types – pages 145 to 170).

Details of AIB Group's exposures to specific risks are outlined on pages 63 to 170 of the Annual Financial Report 2016.

Updates have been provided in this Report on the current status of the following specific risks:

- Capital – pages 30 to 32
- Credit risks including asset quality and impairment – pages 35 to 80; and
- Funding and liquidity risk – pages 81 to 86.

[(1)]Fully loaded RWAs divided by total assets.

Overview of credit risk

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

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

					30 June 2017
Loan portfolio profile	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Gross loans to customers	**34,357**	**3,140**	**9,072**	**17,359**	**63,928**
Of which impaired	**3,822**	**403**	**2,355**	**1,184**	**7,764**
Specific impairment (credit)/charge – half year to June 2017	**(50)**	**2**	**(48)**	**22**	**(74)**
Total impairment (credit)/charge – half year to June 2017	**(66)**	**8**	**(19)**	**58**	**(19)**
Statement of financial position provisions (specific and IBNR)	**1,705**	**283**	**1,305**	**813**	**4,106**
	%	**%**	**%**	**%**	**%**
Specific provisions/impaired loans	**38**	**60**	**50**	**55**	**45**
Total provisions/total loans	**5**	**9**	**14**	**5**	**6**

					31 December 2016
Loan portfolio profile	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Gross loans to customers	35,239	3,100	9,394	17,495	65,228
Of which impaired	4,576	432	2,724	1,404	9,136
Specific impairment (credit) – half year to June 2016	1	(32)	(71)	(9)	(111)
Total impairment (credit) – half year to June 2016	(63)	(36)	(111)	(1)	(211)
Specific impairment (credit)/charge – full year 2016	(110)	(11)	(74)	24	(171)
Total impairment (credit) – full year 2016	(111)	(22)	(145)	(16)	(294)
Statement of financial position provisions (specific and IBNR)	2,002	290	1,449	848	4,589
	%	%	%	%	%
Specific provisions/impaired loans	38	58	50	51	44
Total provisions/total loans	6	9	15	5	7

Gross loans and receivables to customers reduced by 2% or € 1.3 billion to € 63.9 billion in the six months to 30 June 2017. The reduction was driven by the impact of currency movements of € 0.5 billion, loan redemptions of € 4.7 billion and the sale of a portfolio of distressed loans of € 0.4 billion, principally mortgages, offset by new lending of € 4.3 billion.

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

- The Group is predominantly Republic of Ireland and United Kingdom focused where most sectors continue to experience buoyant trading conditions due to the favourable economic environment. This is driving the growth in the non-criticised portfolios which have increased by € 0.8 billion or 2% on 31 December 2016. The Group has material concentrations in residential mortgages (54% of gross loans) and property and construction (14% of gross loans). Furthermore, the non-property business lending book is 27% of gross loans and is spread across a number of sub-sectors. The remaining 5% is in the personal book.
- New lending of € 4.3 billion in the six months to 30 June 2017 (30 June 2016: € 3.8 billion) is spread across most sectors and included € 1.1 billion mortgage and € 1.1 billion non-mortgage in RCB, € 1.3 billion in WIB and € 0.8 billion in AIB UK.
- Continued progress in working to reduce the level of impaired loans resulted in the quantum of impaired loans reducing by € 1.4 billion in the six months to 30 June 2017 (a decrease of 15%). The reduction was impacted by redemptions and repayments from customers of € 0.4 billion, as well as a € 0.7 billion reduction due to restructuring activity and write-offs (including non-contracted write-offs) and by sales of portfolios of distressed loans that were impaired of € 0.4 billion.
- The overall credit quality profile has continued to show improvement and criticised loans (including impaired) have reduced from 29% of total loans at 31 December 2016 to 26% at 30 June 2017. The improvement in the non-criticised portfolio was driven by the level of new lending in the six months to 30 June 2017 and the upgrading of cases out of criticised due to improved performance.
- A net writeback of impairment provisions of € 19 million in the six months to 30 June 2017 compared to a net writeback of € 211 million in the same period in 2016. The writeback comprised € 74 million in specific provision writebacks offset by an IBNR provisions charge of € 55 million (30 June 2016: € 111 million net writeback in specific provisions and release of IBNR provisions of € 100 million).
- Restructuring activity is continuing across the portfolio, albeit at a reduced level, resulting in a net writeback being observed for the first six months of 2017. These writebacks are offset by provisions on new to impaired loans and are within expected levels for the current portfolio.

Risk management

Overview of credit risk

Restructuring

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

For mortgage customers in difficulty, the core objective is to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements.

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

Impaired loans have continued to reduce and in the six months to 30 June 2017 decreased by € 1.4 billion (15%). The rate of reduction has slowed somewhat as the primary restructuring period is now concluding. The restructuring engagement resulted in € 0.7 billion being restructured out of impairment in the six months to 30 June 2017, with a further € 0.4 billion of loans being removed from the stock of impaired loans as a result of sales of distressed portfolios.

When the prospects of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery, the loan (and any related specific provision) will be written off. Where the loan is secured, the write-off will take account of receipt of the net realisable value of the security held. Partial write-offs, including non-contracted write-offs, may also occur when it is considered that there is no prospect for the recovery of the provisioned amount, for example when a loan enters a legal process. The reduced loan balance remains on the balance sheet as impaired. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the revised agreement and subsequent satisfactory performance. In the six months to 30 June 2017, write-offs totalled € 244 million (12 months to 31 December 2016: € 1,829 million).

Provision writebacks

There was a total provision net writeback of € 19 million in the six months to 30 June 2017 compared to a provision net writeback of € 211 million to 30 June 2016.

Specific provision writebacks (net of top-ups) during the period were € 232 million (equivalent to c. 2.5% of opening impaired loans) and were split: mortgages € 85 million; other personal € 26 million; property and construction € 73 million; and non-property business lending € 48 million.

The writebacks were partially offset by specific provisions amounting to € 158 million on newly impaired loans (€ 103 million in the six months to 30 June 2016). New impairment provisions have continued to reduce in the Republic of Ireland mortgage portfolio reflecting the continuing improved economic conditions in the mortgage market, however, these were offset by increased new impairments in non-mortgage portfolios.

The key drivers of these writebacks include:

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

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

There was an IBNR provision charge of € 55 million for the first six months of 2017 (30 June 2016: a release of € 100 million). The charge mainly reflects the lengthening of emergence periods in the non-mortgage portfolio as part of an ongoing review of prevailing economic conditions.

Residential mortgages

At 30 June 2017, residential mortgages accounted for 54% of gross loans and receivables to customers (€ 34.4 billion), with the loans mainly located in the Republic of Ireland 95% (see page 48) with the remainder in the United Kingdom (see page 53). The portfolio consists of 87% owner-occupier and 13% buy-to-let loans.

AIB

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Overview of credit risk

Residential mortgages *(continued)*

Total loans in arrears by value (including impaireds) decreased by 15% in the six months to 30 June 2017, a decrease of 8% in the owner-occupier portfolio and a decrease of 29% in the buy-to-let portfolio in the period. These decreases are impacted by the sale of a distressed portfolio of mortgages. Excluding the movement due to the sale of this portfolio, the underlying decreases are 7% for mortgages overall, 7% for owner-occupiers and 7% for buy-to-lets. These decreases in the level of arrears can be mainly attributed to restructuring activity and favourable economic conditions. The reduction was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due).

Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 48 to 52 and the United Kingdom mortgage portfolio on pages 53 to 55.

Other personal lending

At 30 June 2017, the other personal portfolio amounted to € 3.1 billion (5% of gross loans and receivables to customers). 91% of loans relate to RCB, with 7% in AIB UK and the remainder of loans of 2% in WIB. The portfolio comprises € 2.3 billion in loans and overdrafts and € 0.8 billion in credit card facilities. The increase in demand for personal loans observed during 2016 continues into 2017, and is due to both the improved economic environment and the expanded service offering, including increased online approval through internet and mobile credit application activity.

Further detailed disclosures in relation to the other personal portfolio are provided on page 56.

Property and construction

At 30 June 2017, the property and construction portfolio amounted to € 9.1 billion (14% of gross loans and receivables to customers). 43% of loans relate to RCB, 29% in WIB and the remaining 28% in AIB UK. The portfolio is comprised of 77% investment loans (€ 6.9 billion), 16% land and development loans (€ 1.5 billion) and 7% other property and construction loans (€ 0.7 billion).

Overall, the portfolio reduced by € 0.3 billion or 3% in the first six months of 2017. The reduction is due primarily to the continuing impact of restructuring, write-offs, amortisations and repayments resulting from asset disposals by customers which were offset by new business written of c. € 0.5 billion.

Further detailed disclosures in relation to the property and construction portfolio are provided on pages 57 and 58.

Non-property business

At 30 June 2017, the non-property business portfolio amounted to € 17.4 billion (27% of gross loans and receivables to customers). 37% of loans relate to WIB, 35% to RCB, 27% to AIB UK and with the remainder of 1% to Group. The portfolio is concentrated in sub-sectors which are reliant on the respective domestic economies. It also includes corporate and syndicated and international lending exposures, some of which are dependent on international markets. Key sub-sectors include agriculture (10% of the portfolio), hotels (13% of the portfolio), licensed premises (3% of the portfolio), retail/wholesale (14% of the portfolio) and other services (32% of the portfolio). The level of criticised loans reduced by 10% or € 0.4 billion in the six months to 30 June 2017, mainly due to a reduction of € 0.2 billion in impaired loans.

Further detailed disclosures in relation to the non-property business portfolio are provided on pages 59 and 60.

Impairment provisions

The stock of specific impairment provisions reduced from € 4.1 billion at 31 December 2016 down to € 3.5 billion at 30 June 2017, and as a percentage of impaired loans increased from 44% at 31 December 2016 to 45% at 30 June 2017. The increase occurred in collectively assessed loans where the cover increased from 41% to 43% at 30 June 2017. The cover on individually assessed loans remained unchanged at 47% from 31 December 2016.

Provision write-offs are generated through both restructuring agreements with customers and where further recovery is considered unlikely. The impairment provisions remain dependent on significant levels of future collateral realisation.

IBNR provisions of € 0.6 billion were held at 30 June 2017 compared to € 0.5 billion at 31 December 2016, an increase of € 0.1 billion. The level of IBNR reflects a conservative estimate of unidentified incurred loss within the portfolio.

Credit risk – Credit profile of the loan portfolio

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

The following table shows loans and receivables to customers by industry sector:

	30 June 2017				31 December 2016			
	Total loans receivables and to customers*		Of which: impaired	Specific provisions for impairment	Total loans receivables and to customers		Of which: impaired	Specific provisions for impairment
	€ m	%	€ m	€ m	€ m	%	€ m	€ m
Agriculture	1,814	2.8	120	41	1,773	2.7	121	40
Energy	574	0.9	28	9	459	0.7	32	11
Manufacturing	2,090	3.3	70	49	2,029	3.1	76	53
Property and construction	9,072	14.2	2,355	1,177	9,394	14.4	2,724	1,350
Distribution	5,417	8.5	556	268	5,439	8.3	681	305
Transport	1,350	2.1	21	18	1,405	2.2	38	34
Financial	633	1.0	125	91	684	1.1	144	94
Other services	5,481	8.6	264	171	5,706	8.8	312	180
Personal:								
Residential mortgages	34,357	53.7	3,822	1,446	35,239	54.0	4,576	1,728
Other	3,140	4.9	403	241	3,100	4.7	432	252
Total	63,928	100.0	7,764	3,511	65,228	100.0	9,136	4,047

	30 June 2017 € m	31 December 2016 € m
Analysed as to:		
Neither past due nor impaired	54,468	54,265
Past due but not impaired	1,696	1,827
Impaired – provisions held	7,764	9,136
	63,928	65,228
Provisions for impairment:		
Specific	(3,511)	(4,047)
IBNR	(595)	(542)
	(4,106)	(4,589)
Total statement of financial position	59,822	60,639

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

Credit risk – Credit profile of the loan portfolio

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

	30 June 2017					31 December 2016				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
Gross loans and receivables to customers	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Residential mortgages:										
Owner-occupier	28,527	5	1,416	–	29,948	28,624	7	1,564	–	30,195
Buy-to-let	4,179	26	204	–	4,409	4,784	29	231	–	5,044
	32,706	31	1,620	–	34,357	33,408	36	1,795	–	35,239
Other personal	2,852	62	226	–	3,140	2,768	102	230	–	3,100
Property and construction	3,906	2,632	2,534	–	9,072	4,403	2,499	2,492	–	9,394
Non-property business	6,146	6,452	4,663	98	17,359	6,025	6,520	4,800	150	17,495
Total	45,610	9,177	9,043	98	63,928	46,604	9,157	9,317	150	65,228
Analysed as to asset quality[1]										
Satisfactory	30,959	8,804	7,418	98	47,279	30,397	8,588	7,363	114	46,462
Watch	2,173	23	394	–	2,590	2,441	28	532	–	3,001
Vulnerable	5,525	348	422	–	6,295	5,858	310	461	–	6,629
Impaired	6,953	2	809	–	7,764	7,908	231	961	36	9,136
Total criticised loans	14,651	373	1,625	–	16,649	16,207	569	1,954	36	18,766
Total loans percentage	%	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	32	4	18	–	26	35	6	21	24	29
Impaired loans/total loans	15	–	9	–	12	17	3	10	24	14
Statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific provisions	3,047	2	462	–	3,511	3,462	44	516	25	4,047
IBNR provisions	503	37	55	–	595	453	33	56	–	542
Total impairment provisions	3,550	39	517	–	4,106	3,915	77	572	25	4,589
Provision cover percentage	%	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	44	100	57	–	45	44	19	54	69	44
Total provisions/impaired loans	51	N/A	64	–	53	50	33	60	69	50
Total provisions/total loans	8	–	6	–	6	8	1	6	17	7
	Half-year 30 June 2017					Half-year 30 June 2016				
Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(84)	(11)	21	–	(74)	(107)	11	(18)	3	(111)
IBNR	51	4	–	–	55	(117)	17	–	–	(100)
Total impairment (credit)/charge	(33)	(7)	21	–	(19)	(224)	28	(18)	3	(211)
	%	%	%	%	%	%	%	%	%	%
Impairment (credit)/charge/ average loans	(0.14)	(0.18)	0.46	–	(0.06)	(0.92)	0.63	(0.32)	1.34	(0.62)

[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 61.

Credit risk – Credit profile of the loan portfolio

Asset quality

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

					30 June 2017
Asset quality*	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Neither past due nor impaired	**29,647**	**2,588**	**6,374**	**15,859**	**54,468**
Past due but not impaired	**888**	**149**	**343**	**316**	**1,696**
Impaired – provisions held	**3,822**	**403**	**2,355**	**1,184**	**7,764**
Gross loans and receivables	**34,357**	**3,140**	**9,072**	**17,359**	**63,928**
Specific provisions	**(1,446)**	**(241)**	**(1,177)**	**(647)**	**(3,511)**
IBNR provisions	**(259)**	**(42)**	**(128)**	**(166)**	**(595)**
Total provisions for impairment	**(1,705)**	**(283)**	**(1,305)**	**(813)**	**(4,106)**
Gross loans and receivables less provisions	**32,652**	**2,857**	**7,767**	**16,546**	**59,822**

					31 December 2016
Asset quality*	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired	29,730	2,498	6,308	15,729	54,265
Past due but not impaired	933	170	362	362	1,827
Impaired – provisions held	4,576	432	2,724	1,404	9,136
Gross loans and receivables	35,239	3,100	9,394	17,495	65,228
Specific provisions	(1,728)	(252)	(1,350)	(717)	(4,047)
IBNR provisions	(274)	(38)	(99)	(131)	(542)
Total provisions for impairment	(2,002)	(290)	(1,449)	(848)	(4,589)
Gross loans and receivables less provisions	33,237	2,810	7,945	16,647	60,639

Gross loans and receivables to customers reduced by 2% to € 63.9 billion in the six months to 30 June 2017. The reduction was due to the impact of currency movements of € 0.5 billion, loan redemptions of € 4.7 billion and the sale of a portfolio of distressed loans of € 0.4 billion, principally mortgages, offset by new lending of € 4.3 billion. The satisfactory portfolio grew by 2% in the half-year (including currency movements).

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

Credit risk – Credit profile of the loan portfolio

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

							30 June 2017
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	**29**	**10**	**2**	**11**	**13**	**25**	**90**
Energy	**9**	**–**	**–**	**–**	**–**	**2**	**11**
Manufacturing	**12**	**1**	**–**	**2**	**2**	**1**	**18**
Property and construction	**118**	**24**	**33**	**31**	**40**	**97**	**343**
Distribution	**46**	**7**	**5**	**11**	**13**	**16**	**98**
Transport	**8**	**1**	**–**	**–**	**–**	**–**	**9**
Financial	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Other services	**30**	**6**	**4**	**8**	**17**	**24**	**89**
Personal:							
Residential mortgages	**462**	**105**	**54**	**63**	**60**	**144**	**888**
Credit cards	**21**	**5**	**3**	**–**	**–**	**–**	**29**
Other	**51**	**14**	**6**	**15**	**7**	**27**	**120**
	786	**173**	**107**	**141**	**152**	**337**	**1,696**
Segment							
RCB	**704**	**162**	**76**	**129**	**138**	**327**	**1,536**
WIB	**26**	**–**	**18**	**–**	**3**	**3**	**50**
AIB UK	**56**	**11**	**13**	**12**	**11**	**6**	**109**
Group	**–**	**–**	**–**	**–**	**–**	**1**	**1**
	786	**173**	**107**	**141**	**152**	**337**	**1,696**
As a percentage of	**%**	**%**	**%**	**%**	**%**	**%**	**%**
total gross loans	**1.23**	**0.27**	**0.17**	**0.22**	**0.24**	**0.53**	**2.65**

							31 December 2016
Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
Agriculture	40	7	2	7	8	31	95
Energy	6	–	1	–	–	–	7
Manufacturing	8	1	–	2	–	2	13
Property and construction	144	28	25	28	38	99	362
Distribution	72	12	3	7	8	26	128
Transport	4	1	1	–	–	3	9
Financial	1	1	–	–	–	–	2
Other services	40	20	2	15	8	23	108
Personal:							
Residential mortgages	469	131	72	62	63	136	933
Credit cards	27	5	3	–	–	–	35
Other	55	15	11	12	15	27	135
	866	221	120	133	140	347	1,827
Segment							
RCB	781	185	103	121	126	330	1,646
WIB	11	3	–	3	8	9	34
AIB UK	74	33	17	9	6	8	147
Group	–	–	–	–	–	–	–
	866	221	120	133	140	347	1,827
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.33	0.34	0.18	0.20	0.21	0.53	2.80

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

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

Credit risk – Credit profile of the loan portfolio

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

At 30 June 2017, loans past due but not impaired reduced by € 0.1 billion to € 1.7 billion or 2.7% of total loans and receivables to customers (31 December 2016: € 1.8 billion or 2.8%).

Residential mortgage loans which were past due but not impaired at 30 June 2017, amounted to € 0.9 billion. This represents 52% of total loans which were past due but not impaired (31 December 2016: € 0.9 billion or 51%). The level of residential mortgage loans in early arrears (less than 30 days) continues to decrease which is due to active management of early arrears cases and the favourable economic environment.

Property and construction loans which were past due but not impaired represent 20% or € 0.4 billion of total loans which were past due but not impaired (31 December 2016: 20% or € 0.4 billion), with non-property business at 19% or € 0.3 billion (31 December 2016: 20% or € 0.4 billion) and other personal at 9% or € 0.1 billion (31 December 2016: 9% or € 0.2 billion).

All loans are tested for impairment when they reach 90 days past due to determine if a loss event has occurred and if an impairment provision is required.

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

AIB

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 2017	Gross loans and receivables € m	Impaired loans: Individually assessed € m	Impaired loans: Collectively assessed € m	Impaired loans: Total € m	Impaired loans: % of total gross loans	Specific impairment provisions: Total € m	Specific impairment provisions: % of impaired loans
Retail							
Residential mortgages	34,357	1,087	2,735	3,822	11	1,446	38
Other personal	3,140	260	143	403	13	241	60
Total retail	37,497	1,347	2,878	4,225	11	1,687	40
Commercial							
Property and construction	9,072	2,206	149	2,355	26	1,177	50
Non-property business	17,359	963	221	1,184	7	647	55
Total commercial	26,431	3,169	370	3,539	13	1,824	52
Total	63,928	4,516	3,248	7,764	12	3,511	45
Specific impairment provisions at 30 June 2017		2,120	1,391	3,511			
		%	%	%			
Specific provision cover percentage		47	43	45			

31 December 2016	Gross loans and receivables € m	Impaired loans: Individually assessed € m	Impaired loans: Collectively assessed € m	Impaired loans: Total € m	Impaired loans: % of total gross loans	Specific impairment provisions: Total € m	Specific impairment provisions: % of impaired loans
Retail							
Residential mortgages	35,239	1,298	3,278	4,576	13	1,728	38
Other personal	3,100	258	174	432	14	252	58
Total retail	38,339	1,556	3,452	5,008	13	1,980	40
Commercial							
Property and construction	9,394	2,570	154	2,724	29	1,350	50
Non-property business	17,495	1,176	228	1,404	8	717	51
Total commercial	26,889	3,746	382	4,128	15	2,067	50
Total	65,228	5,302	3,834	9,136	14	4,047	44
Specific impairment provisions at 31 December 2016		2,470	1,577	4,047			
		%	%	%			
Specific provision cover percentage		47	41	44			

Specific impairment provisions as a percentage of impaired loans have increased from 44% at 31 December 2016 to 45% at 30 June 2017. The increase occurred in collectively assessed loans where the cover increased from 41% at 31 December 2016 to 43% at 30 June 2017. The cover on individually assessed loans remained unchanged at 47%.

The increase in provision cover reflects the resolution of impaired loans with lower provision cover (to engaging borrowers) and the increased percentage of loans in the legal process which have a higher provision cover requirement.

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

Credit risk – Credit profile of the loan portfolio

Movements on impairment provisions*

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

	Residential mortgages	Other personal	Property and construction	Non-property business	Total
30 June 2017					
	€ m	€ m	€ m	€ m	€ m
At 1 January	2,002	290	1,449	848	4,589
Exchange translation adjustments	(3)	(2)	(10)	(4)	(19)
(Credit)/charge to income statement – customers	(66)	8	(19)	58	(19)
Amounts written off	(39)	(4)	(113)	(88)	(244)
Disposals	(191)	(9)	(2)	(3)	(205)
Recoveries of amounts written off in previous years	2	–	–	2	4
At 30 June 2017	1,705	283	1,305	813	4,106
Total provisions are split as follows:					
Specific	1,446	241	1,177	647	3,511
IBNR	259	42	128	166	595
	1,705	283	1,305	813	4,106
Amounts include:					
Loans and receivables to customers *(note 20 to the condensed consolidated interim financial statements)*					4,106
					4,106

	Residential mortgages	Other personal	Property and construction	Non-property business	Total
31 December 2016					
	€ m	€ m	€ m	€ m	€ m
At 1 January	2,322	535	2,649	1,326	6,832
Exchange translation adjustments	(28)	(10)	(73)	(19)	(130)
Credit to income statement – customers	(111)	(22)	(145)	(16)	(294)
Amounts written off	(181)	(213)	(985)	(450)	(1,829)
Recoveries of amounts written off in previous years	–	–	3	7	10
At 31 December 2016	2,002	290	1,449	848	4,589
Total provisions are split as follows:					
Specific	1,728	252	1,350	717	4,047
IBNR	274	38	99	131	542
	2,002	290	1,449	848	4,589
Amounts include:					
Loans and receivables to customers *(note 20 to the condensed consolidated interim financial statements)*					4,589
					4,589

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

Credit risk – Credit profile of the loan portfolio

Provisions – income statement

The following table analyses the income statement provisions/writeback of provisions split between individually significant, individually insignificant and IBNR for loans and receivables:

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

	RCB	WIB	AIB UK	Group	Half-year 30 June 2016 Total
	€ m	€ m	€ m	€ m	€ m
Specific provisions – Individually significant	(161)	8	(21)	3	(171)
– Individually insignificant	54	3	3	–	60
IBNR	(117)	17	–	–	(100)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(224)	28	(18)	3	(211)
Writeback of provisions for impairment on financial investments available for sale					(2)
Writeback of provisions for liabilities and commitments					(1)
Total					(214)

Credit risk – Credit profile of the loan portfolio

Provisions – income statement *(continued)*

The following table analyses by segment the income statement impairment provisions/writeback of provisions:

	Half-year 30 June 2017*			Half-year 30 June 2016*		
	Residential mortgages € m	Other € m	Total € m	Residential mortgages € m	Other € m	Total € m
RCB	**(67)**	**34**	**(33)**	(66)	(158)	(224)
WIB	**–**	**(7)**	**(7)**	–	28	28
AIB UK	**1**	**20**	**21**	3	(21)	(18)
Group	**–**	**–**	**–**	–	3	3
Total provisions for impairment (credit)/charge	**(66)**	**47**	**(19)**	(63)	(148)	(211)

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

	Half-year 30 June 2017*			Half-year 30 June 2016*		
	Residential mortgages bps	Other bps	Total bps	Residential mortgages bps	Other bps	Total bps
RCB	**(40)**	**52**	**(14)**	(39)	(218)	(92)
WIB	**–**	**(17)**	**(18)**	–	63	63
AIB UK	**2**	**56**	**46**	32	(48)	(32)
Group	**–**	**–**	**–**	–	138	134
Total	**(38)**	**32**	**(6)**	(35)	(91)	(62)

A net writeback of € 19 million for the six months to 30 June 2017 compared to a net writeback of € 211 million for the six months to 30 June 2016. The writeback comprises of € 74 million in specific provision writebacks offset by an IBNR charge of € 55 million (30 June 2016: € 111 million net writeback in specific provision writebacks and a release of IBNR provisions of € 100 million).

The specific provision writeback of € 74 million is split into a € 232 million writeback net of top-ups and a charge of € 158 million (30 June 2016: € 111 million, € 214 million and € 103 million respectively). Restructuring activity is continuing across the portfolios, albeit at lower levels, which has resulted in a net writeback being observed for the first six months of 2017. These writebacks were offset by provisions on new to impaired loans. The € 158 million impairment provisions charge is higher than in the half-year to 30 June 2016 (€103 million) with the increase driven by a higher level of new impairments including those loans that had previously been restructured. The quantum of new impairments across the different portfolios are within expected risk levels.

The IBNR charge in the six months to June 2017 was € 55 million (30 June 2016: a release of € 100 million). The charge mainly reflects the lengthening of emergence periods in the non-mortgage portfolio as part of an ongoing review of prevailing economic conditions.

In RCB, the provision writeback of € 33 million comprises a specific provision writeback of € 84 million and an IBNR charge of € 51 million. This compares to a specific provision writeback of € 107 million and an IBNR release of € 117 million for the six months to 30 June 2016. The writeback was primarily due to the positive impact of debt restructuring activities which exceeded new impairments.

In AIB UK, a specific provision charge of € 21 million compares to a specific provision writeback of € 18 million for the six months to 30 June 2016.

In WIB, the provision writeback of € 7 million comprises a specific provision writeback of € 11 million and an IBNR charge of € 4 million. This compares to a specific provision charge of € 11 million and an IBNR charge of € 17 million for the six months to 30 June 2016.

In Group, the provision charge was Nil compared to a provision charge of € 3 million for the six months to 30 June 2016.

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

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Residential mortgages

Residential mortgages amounted to € 34.4 billion at 30 June 2017, with the majority (95%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 35.2 billion at 31 December 2016, of which 95% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 30.0 billion and buy-to-let € 4.4 billion (2016: owner-occupier € 30.2 billion and buy-to-let € 5.0 billion).

Statement of financial position provisions of € 1.7 billion were held at 30 June 2017, split € 1.4 billion specific and € 0.3 billion IBNR (31 December 2016: € 2.0 billion, split € 1.7 billion specific and € 0.3 billion IBNR).

There was an impairment provision credit of € 66 million to the income statement in the six months to 30 June 2017 comprising a € 50 million specific writeback and a € 16 million IBNR release (30 June 2016: € 63 million provision credit comprising € 1 million specific charge and a € 64 million IBNR release).

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

Republic of Ireland residential mortgages – pages 48 to 52

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

United Kingdom (“UK”) residential mortgages – pages 53 to 55

- Credit profile
- Credit quality profile of United Kingdom residential mortgages
- 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
- Repossessions disposed of

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

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages

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

	30 June 2017*			31 December 2016*		
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	**28,532**	**4,205**	**32,737**	28,631	4,813	33,444
In arrears (>30 days past due)[(1)]	**2,926**	**1,163**	**4,089**	3,176	1,649	4,825
In arrears (>90 days past due)[(1)]	**2,808**	**1,130**	**3,938**	3,042	1,593	4,635
Of which impaired	**2,661**	**1,019**	**3,680**	2,898	1,484	4,382
Statement of financial position specific provisions	**1,024**	**378**	**1,402**	1,042	605	1,647
Statement of financial position IBNR provisions	**148**	**103**	**251**	160	106	266
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**38.5**	**37.1**	**38.1**	35.9	40.8	37.6

	Half-year 30 June 2017			Half-year 30 June 2016		
Income statement (credit)/charge	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Income statement specific provisions	**4**	**(54)**	**(50)**	(6)	3	(3)
Income statement IBNR provisions	**(13)**	**(4)**	**(17)**	(64)	1	(63)
Total impairment (credit)	**(9)**	**(58)**	**(67)**	(70)	4	(66)

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

Residential mortgages in the Republic of Ireland amounted to € 32.7 billion at 30 June 2017 compared to € 33.4 billion at 31 December 2016. 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 2017 were € 1.1 billion, of which 94% 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 87% owner-occupier and 13% buy-to-let and comprises 34% tracker rate, 54% variable rate and 12% fixed rate mortgages. The proportion of the residential mortgage portfolio in negative equity decreased from 20% at 31 December 2016 to 16% at 30 June 2017 reflecting the increase in residential property prices in Ireland during the first six months of 2017 and loan amortisation, whilst the quantum of negative equity in the portfolio reduced from € 1.0 billion to € 0.8 billion.

Residential mortgage arrears

Total loans in arrears by value decreased by 13% during the six months to 30 June 2017, a decrease of 5% in the owner-occupier portfolio and a decrease of 29% in the buy-to-let portfolio. The decreases were impacted by the sale of a distressed portfolio of mortgages. Excluding the impact of the sale, the underlying decreases were 6%, 5% and 7% respectively.

Total loans in arrears by number decreased by 11%, 6% and 24% respectively. Excluding the decrease due to the sale of the distressed portfolio, these decreases are 6%, 6% and 4% respectively.

The underlying decreases in arrears can be mainly attributed to restructuring activity and favourable economic conditions. The reduction was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due). The amount of loans which were new into arrears for the first time fell by 22% compared to the same period in 2016.

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

Credit risk – Credit profile of the loan portfolio

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

The number of loans in arrears greater than 90 days at 6.4% at 30 June 2017 decreased from 7.2% at 31 December 2016 and remain below the industry average of 7%[1]. For the owner-occupier portfolio, loans in arrears greater than 90 days at 5.2% were below the industry average of 7.2%. For the buy-to-let portfolio, loans in arrears greater than 90 days at 15.2% were below the industry average of 15.6%.

[1]Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 31 March 2017, based on numbers of accounts.

Forbearance

Residential mortgages subject to forbearance measures decreased by € 0.4 billion from 31 December 2016 to € 5.5 billion at 30 June 2017, compared to an increase of € 0.5 billion in the 12 months to 31 December 2016. A key feature of the forbearance portfolio is the level of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

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

Impairment provisions

Impaired loans decreased from € 4.4 billion at 31 December 2016 to € 3.7 billion at 30 June 2017, significantly impacted by the sale of a portfolio of distressed mortgages (€ 0.4 billion) in the period and also partly due to restructuring, write-offs, repayments and redemptions.

There was a specific provision writeback of € 50 million in the first half of 2017 compared to a € 3 million writeback in the same period in 2016. This can be split into a charge for new impairments of € 35 million and a writeback of provisions (net of top-ups) of € 85 million. The writeback was mainly due to the impact of restructuring, loans curing without financial loss from impairment, and changes in a number of assumptions in the mortgage model. The specific provision cover level remained static at 38% (31 December 2016 to 38%).

An IBNR release in the six months to 30 June 2017 of € 17 million compares to an IBNR release of € 63 million in the same period in 2016.

Specific provisions of € 0.7 billion were held against the forborne impaired portfolio of € 2.0 billion providing cover of 35%. In relation to the non-impaired forborne portfolio of € 3.5 billion, IBNR impairment provisions of € 0.2 billion were held at 30 June 2017 (31 December 2016: € 0.1 billion).

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 2017*			31 December 2016*		
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	25,218	2,980	28,198	25,069	3,093	28,162
Past due but not impaired	653	206	859	664	236	900
Impaired - provisions held	2,661	1,019	3,680	2,898	1,484	4,382
Gross residential mortgages	28,532	4,205	32,737	28,631	4,813	33,444
Provisions for impairment	(1,172)	(481)	(1,653)	(1,202)	(711)	(1,913)
	27,360	3,724	31,084	27,429	4,102	31,531

The percentage of the portfolio which is neither past due nor impaired increased at 30 June 2017 to 86% from 84% at 31 December 2016.

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 2017*			31 December 2016*		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	388	62	450	386	71	457
31 - 60 days	80	20	100	96	26	122
61 - 90 days	38	13	51	38	30	68
91 - 180 days	29	27	56	34	25	59
181 - 365 days	35	24	59	35	26	61
Over 365 days	83	60	143	75	58	133
Total past due but not impaired	653	206	859	664	236	900
Total gross residential mortgages	28,532	4,205	32,737	28,631	4,813	33,444

Loans past due but not impaired at 30 June 2017 decreased by 5% when compared to 31 December 2016, driven by the improved economic environment and continued increased focus on the management of early arrears.

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

Credit risk – Credit profile of the loan portfolio

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

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

	30 June 2017*			31 December 2016*		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Republic of Ireland	€ m	€ m	€ m	€ m	€ m	€ m
1 - 30 days	377	60	437	372	68	440
31 - 60 days	78	19	97	91	25	116
61 - 90 days	36	13	49	37	29	66
91 - 180 days	29	25	54	33	24	57
181 - 365 days	34	23	57	34	25	59
Over 365 days	81	55	136	73	53	126
Total	635	195	830	640	224	864

The collateral value for the past due but not impaired portfolio was 97% of the outstanding loan balances at 30 June 2017, an increase from 96% at 31 December 2016.

Republic of Ireland residential mortgages that were impaired

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

	30 June 2017*			31 December 2016*		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Republic of Ireland	€ m	€ m	€ m	€ m	€ m	€ m
Not past due	495	192	687	584	263	847
1 - 30 days	103	28	131	133	46	179
31 - 60 days	59	20	79	63	26	89
61 - 90 days	47	10	57	53	19	72
91 - 180 days	114	45	159	138	44	182
181 - 365 days	171	53	224	173	83	256
Over 365 days	1,672	671	2,343	1,754	1,003	2,757
Total impaired	2,661	1,019	3,680	2,898	1,484	4,382
Total gross residential mortgages	28,532	4,205	32,737	28,631	4,813	33,444

Impaired loans decreased by € 0.7 billion in the six months to 30 June 2017 due to restructuring, a distressed portfolio sale, cures and write-offs. In addition, the rate of new impairment continued to slow significantly compared to 2016 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 30 June 2017, € 0.7 billion or 19% was not past due (31 December 2016: € 0.8 billion or 19%), of which € 0.6 billion was subject to forbearance measures at 30 June 2017 (31 December 2016: € 0.7 billion).

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

Credit risk – Credit profile of the loan portfolio

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

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

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

	30 June 2017*		31 December 2016*	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	692	171	691	172
Buy-to-let	59	13	104	24
Total	751	184	795	196

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

The stock of residential properties in possession decreased by 44 properties in the six months to 30 June 2017. This decrease relates to the disposal of 64 properties (31 December 2016: 187 properties) which were offset by the addition of 68 properties (31 December 2016: 273 properties). In addition, a further 48 properties were removed from the stock in the period to 30 June 2017 as part of the sale of a portfolio of distressed mortgages.

The disposal of 64 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 7 million at 30 June 2017 (before specific impairment provisions) and compares to the full year 2016 when 187 residential properties were disposed of resulting in a total loss of € 26 million. Losses on the sale of such properties are recognised in the income statement as part of the specific provision charge.

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

Credit risk – Credit profile of the loan portfolio

United Kingdom (“UK”) residential mortgages

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

	30 June 2017*			31 December 2016*		
Statement of financial position	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	**1,416**	**204**	**1,620**	1,564	231	1,795
In arrears (>30 days past due)[1]	**138**	**21**	**159**	181	34	215
In arrears (>90 days past due)[1]	**130**	**21**	**151**	169	33	202
Of which impaired	**121**	**21**	**142**	161	33	194
Statement of financial position specific provisions	**37**	**7**	**44**	62	19	81
Statement of financial position IBNR provisions	**7**	**1**	**8**	7	1	8
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**30.4**	**37.0**	**31.4**	38.6	56.1	41.5

	Half-year 30 June 2017*			Half-year 30 June 2016*		
Income statement charge/(credit)	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Income statement specific provisions	**1**	**(1)**	**–**	3	1	4
Income statement IBNR provisions	**1**	**–**	**1**	–	(1)	(1)
Total impairment charge/(credit)	**2**	**(1)**	**1**	3	–	3

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

The UK mortgage portfolio is predominantly based in Northern Ireland (75% of total) with the remainder located in Great Britain. The portfolio decreased in sterling terms by c.7% on the financial year end December 2016. However, due to the impact of currency movements, the portfolio decreased by c.10% in euro terms.

Impaired loans reduced by 27% in the six months to 30 June 2017 and were significantly impacted by the sale of a portfolio of distressed mortgages.

UK economic growth for 2017 is estimated at 1.5%. Despite the continued low interest rate environment, growth in consumer spending is slowing with disposable incomes impacted by rising inflation as a result of the reduction in the value of sterling. Business investment has contracted due to the uncertainty generated by Brexit and firms remain cautious, with decisions deferred pending further certainty on the outlook of post-Brexit trading arrangements. The unemployment rate continues to reduce moderately, however employment growth remains subdued. The housing and mortgage market has shown signs of slowing down with a loss of momentum evident in the rate of house price growth in the six months to 30 June 2017, and is a reflection of constrained household spending.

Despite the recent slowdowns, overall, the improvement in domestic economic factors have had a positive impact on mortgage arrears in general. Total loans in arrears in AIB UK of greater than 90 days have improved to 9.3% (31 December 2016: 11.3%).

Statement of financial position specific provisions of € 44 million were held at 30 June 2017 and provided cover of 31% for impaired loans (31 December 2016: € 81 million, providing cover of 42%). The decrease in cover is due to the sale of a portfolio of distressed mortgages as these loans had a high provision cover.

Statement of financial position IBNR provisions of € 8 million were held at 30 June 2017 and have remained constant with the position at 31 December 2016, reflecting the improvement in estimated incurred loss in the non-impaired portfolio in recent years.

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

Credit risk – Credit profile of the loan portfolio

Credit quality profile of United Kingdom residential mortgages

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

	30 June 2017*			31 December 2016*		
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	1,267	182	1,449	1,373	195	1,568
Past due but not impaired	28	1	29	30	3	33
Impaired - provisions held	121	21	142	161	33	194
Gross residential mortgages	1,416	204	1,620	1,564	231	1,795
Provisions for impairment	(44)	(8)	(52)	(69)	(20)	(89)
	1,372	196	1,568	1,495	211	1,706

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 2017*			31 December 2016*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	11	1	12	10	2	12
31 - 60 days	5	–	5	8	1	9
61 - 90 days	3	–	3	4	–	4
91 - 180 days	7	–	7	3	–	3
181 - 365 days	1	–	1	2	–	2
Over 365 days	1	–	1	3	–	3
Total	28	1	29	30	3	33

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 2017*			31 December 2016*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	11	1	12	10	2	12
31 - 60 days	5	–	5	7	1	8
61 - 90 days	3	–	3	3	–	3
91 - 180 days	7	–	7	3	–	3
181 - 365 days	–	–	–	2	–	2
Over 365 days	1	–	1	3	–	3
Total	27	1	28	28	3	31

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

Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages that were impaired

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

	30 June 2017*			31 December 2016*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not in arrears	27	4	31	26	3	29
1 - 30 days	4	1	5	7	1	8
31 - 60 days	1	–	1	5	–	5
61 - 90 days	3	1	4	2	–	2
91 - 180 days	14	1	15	8	2	10
181 - 365 days	10	2	12	17	3	20
Over 365 days	62	12	74	96	24	120
Total impaired	**121**	**21**	**142**	161	33	194
Total gross residential mortgages	**1,416**	**204**	**1,620**	1,564	231	1,795

At 30 June 2017, 8.8% of residential mortgages were impaired having decreased from 10.8% at 31 December 2016, benefitting from the sale of a portfolio of distressed mortgages.

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 2017*		31 December 2016*	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	22	6	37	9
Buy-to-let	13	2	11	2
Total	**35**	**8**	48	11

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

The stock of residential properties in possession continued to decrease in the six months to 30 June 2017, and has reduced from 48 properties at 31 December 2016 to 35 properties.

United Kingdom residential mortgages – repossessions disposed of

The disposal of 30 residential properties in possession resulted in a loss on disposal of € 3 million before specific impairment provisions (31 December 2016: disposal of 60 properties resulting in a loss on disposal of € 5 million). 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 condensed consolidated interim financial statements

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 2017				31 December 2016			
	RCB € m	WIB € m	AIB UK € m	Total € m	RCB € m	WIB € m	AIB UK € m	Total € m
Analysed as to asset quality								
Satisfactory	2,103	61	176	2,340	1,995	96	161	2,252
Watch	109	–	7	116	110	–	10	120
Vulnerable	268	1	12	281	279	4	13	296
Impaired	372	–	31	403	384	2	46	432
Total criticised loans	749	1	50	800	773	6	69	848
Total gross loans and receivables	2,852	62	226	3,140	2,768	102	230	3,100
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	26	2	22	25	28	6	30	27
Impaired loans/total loans	13	–	14	13	14	2	20	14
Statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific provisions	215	–	26	241	218	–	34	252
IBNR provisions	38	–	4	42	34	–	4	38
Total impairment provisions	253	–	30	283	252	–	38	290
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	58	–	84	60	57	–	74	58
Total provisions/impaired loans	68	–	97	70	66	–	83	67
Total provisions/total loans	9	–	13	9	9	–	17	9

	Half-year 30 June 2017				Half-year 30 June 2016			
Income statement – charge/(credit)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	3	–	(1)	2	(31)	–	(1)	(32)
IBNR	6	–	–	6	(3)	1	(2)	(4)
Total impairment charge/(credit)	9	–	(1)	8	(34)	1	(3)	(36)
	%	%	%	%	%	%	%	%
Impairment charge/(credit) /average loans	0.66	–	(0.81)	0.52	(2.31)	0.59	(1.74)	(2.08)

The other personal lending portfolio of € 3.1 billion comprises € 2.3 billion in loans and overdrafts and € 0.8 billion in credit card facilities (31 December 2016: € 3.1 billion, € 2.2 billion and € 0.9 billion respectively).

An increase in demand for personal loans was observed during the period and was due to both the favourable economic environment and AIB's service offering, especially increased online approval through internet and mobile credit application activity. The strong level of new lending evident in the first half of 2017 of € 0.4 billion is 24% higher than the same period in 2016, and was offset by redemptions and repayments.

The portfolio experienced a € 0.1 billion reduction in criticised loans in the six months to 30 June 2017. At 30 June 2017, € 0.8 billion or 25% of the portfolio was criticised of which impaired loans amounted to € 0.4 billion (31 December 2016: € 0.8 billion or 27% and € 0.4 billion).

At 30 June 2017, the specific provision cover increased from 58% to 60% as the proportion of larger cases within the portfolio with a lower level of cover reduced. The income statement provision charge of € 8 million compares to a € 36 million writeback for the same period in 2016. Specific provisions on new impairments amounted to € 28 million which were off-set by a writeback of € 26 million (net of top-ups).

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 2017				31 December 2016			
	RCB € m	WIB € m	AIB UK € m	Total € m	RCB € m	WIB € m	AIB UK € m	Total € m
Investment:								
Commercial investment	2,265	2,144	1,525	5,934	2,612	2,053	1,533	6,198
Residential investment	661	79	263	1,003	716	102	233	1,051
	2,926	2,223	1,788	6,937	3,328	2,155	1,766	7,249
Land and development:								
Commercial development	309	126	13	448	324	100	20	444
Residential development	555	224	249	1,028	638	162	277	1,077
	864	350	262	1,476	962	262	297	1,521
Contractors	116	59	246	421	113	82	170	365
Housing associations	–	–	238	238	–	–	259	259
Total gross loans and receivables	3,906	2,632	2,534	9,072	4,403	2,499	2,492	9,394
Analysed as to asset quality								
Satisfactory	668	2,342	1,804	4,814	661	2,133	1,643	4,437
Watch	188	–	96	284	246	3	129	378
Vulnerable	1,188	290	141	1,619	1,421	264	170	1,855
Impaired	1,862	–	493	2,355	2,075	99	550	2,724
Total criticised loans	3,238	290	730	4,258	3,742	366	849	4,957
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	83	11	29	47	85	15	34	53
Impaired loans/total loans	48	–	19	26	47	4	22	29
Statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific provisions	881	–	296	1,177	1,011	9	330	1,350
IBNR provisions	103	12	13	128	77	7	15	99
Total impairment provisions	984	12	309	1,305	1,088	16	345	1,449
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	47	–	60	50	49	9	60	50
Total provisions/impaired loans	53	–	63	55	52	16	63	53
Total provisions/total loans	25	–	12	14	25	1	14	15

	Half-year 30 June 2017				Half-year 30 June 2016			
Income statement – (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(37)	(1)	(10)	(48)	(65)	–	(6)	(71)
IBNR	27	5	(3)	29	(41)	3	(2)	(40)
Total impairment (credit)/charge	(10)	4	(13)	(19)	(106)	3	(8)	(111)
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(0.52)	0.27	(0.98)	(0.43)	(3.98)	0.21	(0.50)	(2.03)

Credit risk – Credit profile of the loan portfolio

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

The property and construction sector amounted to 14% of total loans and receivables. The portfolio comprised of 76% investment loans (€ 6.9 billion), 16% land and development loans (€ 1.5 billion) and 8% other property and construction loans (€ 0.7 billion). AIB UK accounts for 28% of the total property and construction portfolio.

Overall, the portfolio reduced by € 0.3 billion or 3% during the six months to 30 June 2017. This reduction was due principally to the continuing impact of restructuring, and to write-offs, amortisations and repayments, resulting from asset disposals by customers. Total criticised loans in this portfolio reduced by € 0.7 billion during the six months to 30 June 2017.

There was a writeback of specific provisions net of top-ups of € 73 million (3% of opening impaired loans) mainly due to the improved economic environment and the restructuring process. This was partially off-set by provisions for new impairments which amounted to € 25 million.

Investment

Investment property loans amounted to € 6.9 billion at 30 June 2017 (31 December 2016: € 7.2 billion) of which € 5.9 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. € 5.1 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland and € 1.8 billion in the United Kingdom.

Total impairment provisions as a percentage of total loans is 12%, and is unchanged from 31 December 2016. The impairment charge to the income statement was € 9 million on the investment property element of the property and construction portfolio compared to a write-back of € 85 million for the same period in 2016.

Land and development

At 30 June 2017, land and development loans amounted to € 1.5 billion (31 December 2016: € 1.5 billion) of which € 0.9 billion related to loans in RCB, € 0.3 billion in WIB and € 0.3 billion in AIB UK.

€ 1.0 billion of the land and development portfolio was criticised at 30 June 2017 (31 December 2016: € 1.1 billion), including € 0.8 billion of loans which were impaired (31 December 2016: € 0.8 billion) and on which the Group had € 0.5 billion in statement of financial position specific provisions, providing cover of 60% (31 December 2016: 61%). The impairment writeback of € 28 million to the income statement for the first half of 2017 compares to a writeback of € 29 million for the same period in 2016.

Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Non-property business

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

	30 June 2017					31 December 2016				
Gross loans and receivables to customers	**RCB €m**	**WIB €m**	**AIB UK €m**	**Group €m**	**Total €m**	RCB €m	WIB €m	AIB UK €m	Group €m	Total €m
Agriculture	1,609	115	90	–	1,814	1,531	148	94	–	1,773
Distribution:										
Hotels	495	941	834	–	2,270	508	1,012	791	–	2,311
Licensed premises	413	127	–	–	540	386	155	–	–	541
Retail/wholesale	1,129	792	436	–	2,357	1,090	885	364	–	2,339
Other distribution	129	121	–	–	250	127	121	–	–	248
	2,166	1,981	1,270	–	5,417	2,111	2,173	1,155	–	5,439
Other services	1,365	1,990	2,121	5	5,481	1,435	1,897	2,368	6	5,706
Other	1,006	2,366	1,182	93	4,647	948	2,302	1,183	144	4,577
Total gross loans and receivables	6,146	6,452	4,663	98	17,359	6,025	6,520	4,800	150	17,495
Analysed as to asset quality										
Satisfactory	3,562	6,379	4,153	98	14,192	3,333	6,339	4,184	114	13,970
Watch	306	23	218	–	547	327	24	296	–	647
Vulnerable	1,239	48	149	–	1,436	1,296	29	149	–	1,474
Impaired	1,039	2	143	–	1,184	1,069	128	171	36	1,404
Total criticised loans	2,584	73	510	–	3,167	2,692	181	616	36	3,525
Total loans percentage	%	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	42	1	11	–	18	45	3	13	24	20
Impaired loans/total loans	17	–	3	–	7	18	2	4	24	8
Statement of financial position	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Specific provisions	549	2	96	–	647	587	34	71	25	717
IBNR provisions	111	25	30	–	166	77	25	29	–	131
Total impairment provisions	660	27	126	–	813	664	59	100	25	848
Provision cover percentage	%	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	53	100	67	–	55	55	27	42	69	51
Total provisions/impaired loans	64	N/A	88	–	69	62	46	58	69	60
Total provisions/total loans	11	–	3	–	5	11	1	2	17	5
	Half-year 30 June 2017					Half-year 30 June 2016				
Income statement – charge/(credit)	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Specific	–	(10)	32	–	22	(8)	11	(15)	3	(9)
IBNR	35	(1)	2	–	36	(10)	13	5	–	8
Total impairment charge/(credit)	35	(11)	34	–	58	(18)	24	(10)	3	(1)
	%	%	%	%	%	%	%	%	%	%
Impairment charge/(credit)/average loans	1.15	(0.34)	1.43	–	0.67	(0.60)	0.80	(0.38)	1.38	(0.01)

Credit risk – Credit profile of the loan portfolio

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

The non-property business portfolio comprises of Small and Medium Enterprises ("SME") which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers which are impacted by global economies. There was increased activity across most sub-sectors in the portfolio due to increased credit demand across all segments resulting in new lending of € 2.3 billion in the six months to 30 June 2017 (six months to 30 June 2016: € 1.9 billion). However, this was more than offset by amortisation, restructuring activity and sterling depreciation, resulting in a reduction of € 0.1 billion in the portfolio (a 1% reduction). The portfolio amounted to 27% of total loans and receivables at 30 June 2017. The majority of the portfolio exposure is to Irish borrowers with the UK and USA being the other main geographic concentrations.

Satisfactory loans and receivables increased in the six months to 30 June 2017, continuing the positive trend experienced in 2016, with new drawdowns exceeding amortisation and repayment coupled with upward grade migration through improved performance. The level of criticised loans reduced from € 3.5 billion at 31 December 2016 to € 3.2 billion at 30 June 2017, mainly due to a reduction of € 0.2 billion in impaired loans as a result of restructuring activity.

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

- The agriculture sub-sector (10% of the portfolio) continued to perform well in 2017 – with the dairy sector recovering as the positive momentum in milk prices continued. Downward pressure on prices exists in non-dairy sectors;
- The hotels sub-sector comprises 13% of the portfolio. This sector continued to perform well in the first half of 2017, helped by a stronger local economy. There has been a net growth in tourist numbers despite decline in visitors from UK. Valuations for hotels have continued to increase, with a number of foreign investors and fund managers competing for available properties;
- The licensed premises sub-sector comprises 3% of the portfolio. This sector continues to perform strongly in key urban centres, but outside the main cities, trading performance continues to show some weakness;
- The retail/wholesale sub-sector (14% of the portfolio) was broadly stable in the first half of 2017; there are still some areas of stress, in particular in rural areas; and
- The other services sub-sector comprises 32% of the portfolio which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery. This sub-sector has continued to perform well in 2017.

In the table on the preceding page, there is a category of "Other" totalling € 4.6 billion (27% of the portfolio). This category includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

Strong economic growth in the Republic of Ireland has continued during the first half of 2017. Notwithstanding this continued strong economic performance, there are still challenges. In particular, there is heightened economic uncertainty and increased foreign exchange volatility since the UK voted in favour of Brexit in 2016. The medium-term outlook for the UK economy continues to be uncertain as Brexit negotiations between the UK and the EU begin.

WIB includes € 2.9 billion (31 December 2016: € 2.8 billion) in syndicated and international lending exposures. The Group has specialised lending teams which are involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. At 30 June 2017, 100% of the syndicated and international lending portfolio is in a satisfactory grade. 71% of the customers in this portfolio are domiciled in the USA, 5% in the UK, and 24% in the Rest of the World (31 December 2016: 76% in the USA, 5% in the UK and 19% in the Rest of the World respectively). The largest industry sub-sectors within the portfolio include healthcare, business services, telecoms, financial services and media.

The income statement provision charge in the six months to 30 June 2017 was € 58 million compared to a writeback of € 1 million in the same period in 2016.

IBNR provisions increased from € 131 million at 31 December 2016 to € 166 million at 30 June 2017, or from 0.8% to 1.0% of non-impaired loans and receivables, in line with the evolving nature of the performing portfolios.

The specific provision cover increased from 51% at 31 December 2016 to 55% at 30 June 2017, reflecting the resolution of impaired loans with lower provision cover.

Specific provisions on new impairments amounted to € 70 million (30 June 2016: € 33 million) which were off-set by a writeback (net of top-ups) of € 48 million (30 June 2016: € 42 million). The writeback amounted to 3% of opening impaired loans and was driven by the improved economic environment and the ongoing restructuring programme.

Credit risk – Credit profile of the loan portfolio

Large exposures

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

At 30 June 2017, the Group's top 50 exposures amounted to € 4.3 billion, and accounted for 6.8% (31 December 2016: € 4.5 billion and 6.9%) of the Group's on-balance sheet total gross loans and receivables to customers. In addition, these customers have undrawn facilities amounting to € 84 million (31 December 2016: € 83 million). No single customer exposure exceeded regulatory limits. In addition, the Group holds NAMA senior bonds amounting to € 0.4 billion (31 December 2016: € 1.8 billion).

Credit ratings

Internal credit ratings*

The Group uses various rating tools in managing its credit risk. The role of rating tools in identifying and managing loans including those of lower credit quality is highlighted in further detail on pages 63 to 67 of the Annual Financial Report 2016. These lower credit quality loans are referred to as 'Criticised loans' and include Watch, Vulnerable and Impaired.

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

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

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

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

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

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

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

Good upper: Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.

Good lower: Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.

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

Vulnerable: Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources, or loans that are in a post impairment/restructuring phase.

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

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 2017
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	**16,726**	**195**	**183**	**1,690**	**18,794**
Good lower	**9,158**	**2,105**	**4,558**	**12,419**	**28,240**
Watch	**1,367**	**92**	**263**	**515**	**2,237**
Vulnerable	**2,396**	**196**	**1,370**	**1,235**	**5,197**
Total	**29,647**	**2,588**	**6,374**	**15,859**	**54,468**
Past due but not impaired					
Good upper	**4**	**2**	**–**	**2**	**8**
Good lower	**45**	**38**	**73**	**81**	**237**
Watch	**276**	**24**	**21**	**32**	**353**
Vulnerable	**563**	**85**	**249**	**201**	**1,098**
Total	**888**	**149**	**343**	**316**	**1,696**
Total impaired	**3,822**	**403**	**2,355**	**1,184**	**7,764**
Total gross loans and receivables	**34,357**	**3,140**	**9,072**	**17,359**	**63,928**
Impairment provisions					**(4,106)**
Total loans and receivables net of impairment provisions					**59,822**

					31 December 2016
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	15,937	229	199	1,545	17,910
Good lower	9,811	1,970	4,190	12,347	28,318
Watch	1,575	96	357	612	2,640
Vulnerable	2,407	203	1,562	1,225	5,397
Total	29,730	2,498	6,308	15,729	54,265
Past due but not impaired					
Good upper	5	3	1	1	10
Good lower	50	50	47	77	224
Watch	281	24	21	35	361
Vulnerable	597	93	293	249	1,232
Total	933	170	362	362	1,827
Total impaired	4,576	432	2,724	1,404	9,136
Total gross loans and receivables	35,239	3,100	9,394	17,495	65,228
Impairment provisions					(4,589)
Total loans and receivables net of impairment provisions					60,639

The above table shows reductions in the watch, vulnerable and impaired (i.e. “criticised”) categories across all asset classes in the six months to 30 June 2017. The increase in “good” grade categories was driven by new lending partially offset by pay-downs. Loans reduced in total by € 1.3 billion from 31 December 2016 (a decrease of 2%) representing a net increase in "good" loans of € 0.8 billion and a decrease in “criticised” of € 2.1 billion.

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

Credit risk – Credit profile of the loan portfolio

Non-performing exposures to customers

The internal credit ratings profile of loans and receivables to customers on the table above sets out the basis on which the Group manages its credit portfolio. In addition, the Group's off-balance sheet commitments are set out in Note 37 to the interim condensed consolidated financial statements.

For regulatory reporting purposes, the Group discloses details of its non-performing exposures which are set out in the table below. Non-performing exposures include a) loans and receivables to customers and b) off-balance sheet commitments such as loan commitments and financial guarantee contracts. In some respects, loans and receivables as reported in non-performing exposures overlap with the tables reported above, i.e. impaired loans (page 43) and greater than 90 days past due but not impaired (page 41). However, the category below 'Neither past due nor impaired and/or less than 90 days past due' will contain elements of the satisfactory portfolio, and the 'Watch' and 'Vulnerable' categories as set out above. All exposures categorised as non-performing have been tested for impairment.

A profile of non-performing loans and receivables to customers by asset class together with the total nominal value for non-performing off-balance sheet commitments is set out below:

(a) Non-performing loans

					30 June 2017
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Total gross loans and receivables	34,357	3,140	9,072	17,359	63,928
Non-performing loans					
Impaired	3,822	403	2,355	1,184	7,764
Greater than 90 days past due but not impaired	267	49	168	146	630
Neither past due nor impaired and/or less than 90 days past due	1,551	165	1,098	932	3,746
Total non-performing loans	5,640	617	3,621	2,262	12,140
Non-performing loans as % of total gross loans	16%	20%	40%	13%	19%

					31 December 2016
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Total gross loans and receivables	35,239	3,100	9,394	17,495	65,228
Non-performing loans					
Impaired	4,576	432	2,724	1,404	9,136
Greater than 90 days past due but not impaired	261	54	165	140	620
Neither past due nor impaired and/or less than 90 days past due	1,842	175	1,325	974	4,316
Total non-performing loans	6,679	661	4,214	2,518	14,072
Non-performing loans as % of total gross loans	19%	21%	45%	14%	22%

(b) Total non-performing off-balance sheet commitments

Total non-performing off-balance sheet commitments amounted to € 308 million (31 December 2016: € 321 million).

Non-performing exposures as defined by the EBA are:

- Material exposures which are more than 90 days past-due; and or,
- The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Non-performing loans in the table above include:

- Impaired loans;
- Loans that are greater than 90 days past due and not impaired;
- Loans that are deemed unlikely to repay without realisation of the underlying collateral; and
- Certain other loans including those that have previously received a forbearance solution and that are required to remain as non-performing for a probation period, as defined under regulatory and EBA Implementing Technical Standards.

Credit risk – Credit profile of the loan portfolio

Credit ratings

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 shares) and financial investments available for sale (excluding equity shares) and financial investments held to maturity is set out below:

					30 June 2017
	Bank € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**4,465**	**–**	**2,057**	**341**	**6,863**
A/A-	**738**	**6**	**8,723**[1]	**–**	**9,467**
BBB+/BBB/BBB-	**163**	**32**	**2,015**	**–**	**2,210**
Sub investment	**–**	**1**	**–**	**–**	**1**
Unrated	**74**	**–**	**–**	**–**	**74**
Total	**5,440**	**39**	**12,795**[2]	**341**	**18,615**

					31 December 2016
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	4,901	–	2,440	446	7,787
A+/A/A-	847	27	10,456[1]	–	11,330
BBB+/BBB/BBB-	186	19	2,028	–	2,233
Sub investment	11	21	–	–	32
Unrated	5	–	–	–	5
Total	5,950	67	14,924[2]	446	21,387

[1]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of A at 30 June 2017 i.e. the external rating of the Sovereign (31 December 2016: A).

[2]Includes supranational banks and government agencies.

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

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:

Debt securities	30 June 2017* Fair value € m	31 December 2016* Fair value € m
Irish Government securities	4,933	5,114
Euro government securities	2,532	2,706
Non Euro government securities	180	230
Supranational banks and government agencies	1,463	1,719
Collateralised mortgage obligations	329	433
Other asset backed securities	12	12
Euro bank securities	4,214	4,551
Euro corporate securities	39	47
Non Euro corporate securities	–	20
Total debt securities	13,702	14,832
Equity securities[(1)]	631	605
Total financial investment available for sale	14,333	15,437

[(1)]Includes NAMA subordinated bonds with a fair value of € 480 million (31 December 2016: € 466 million) of which unrealised gains amount to € 433 million (31 December 2016: € 419 million).

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

Government securities	30 June 2017* Irish Government € m	30 June 2017* Euro government € m	30 June 2017* Non Euro government € m	31 December 2016* Irish Government € m	31 December 2016* Euro government € m	31 December 2016* Non Euro government € m
Republic of Ireland	4,933	–	–	5,114	–	–
Italy	–	911	–	–	928	–
France	–	174	–	–	269	–
Spain	–	1,090	–	–	1,100	–
Netherlands	–	248	–	–	254	–
Germany	–	57	–	–	93	–
Austria	–	29	–	–	30	–
Belgium	–	23	–	–	–	–
Slovakia	–	–	–	–	32	–
United Kingdom	–	–	64	–	–	76
Czech Republic	–	–	29	–	–	36
Poland	–	–	56	–	–	89
Saudi Arabia	–	–	31	–	–	29
	4,933	2,532	180	5,114	2,706	230

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

Credit risk – Financial investments available for sale

Asset backed securities	30 June 2017* Total € m	31 December 2016* Total € m
United States of America	329	433
Ireland	12	12
	341	445

Bank securities	30 June 2017* Euro € m	30 June 2017* Non Euro € m	31 December 2016* Euro € m	31 December 2016* Non Euro € m
Republic of Ireland	425	–	471	–
France	530	–	569	–
Netherlands	541	–	712	–
United Kingdom	506	–	443	–
Australia	324	–	315	–
Sweden	373	–	394	–
Canada	644	–	661	–
Finland	199	–	234	–
Norway	265	–	300	–
Belgium	281	–	297	–
Germany	30	–	31	–
Denmark	57	–	57	–
New Zealand	24	–	24	–
Switzerland	–	–	18	–
Luxembourg	15	–	25	–
	4,214	–	4,551	–

Debt securities

Debt securities available for sale (“AFS”) decreased from a fair value of € 14.8 billion at 31 December 2016 to € 13.7 billion at 30 June 2017. Sales, maturities and redemptions of € 1.8 billion (nominal € 1.8 billion) were offset by purchases of € 0.9 billion (nominal € 0.9 billion). This is in line with plans to reduce holdings towards levels required for liquidity management purposes.

Within the AFS portfolio, Irish Government securities reduced by € 0.2 billion and euro government securities reduced by € 0.2 billion.

The decrease in fair value of the overall portfolio was due to net sales of € 0.9 billion and a fall in fair value of € 0.2 billion.

The external ratings profile remained relatively static with total investment grade ratings remaining at 99%. The breakdown by rating was AAA: 25% (2016: 31%); AA: 13% (2016: 18%); A: 50% (2016: 37%); BBB: 11% (2016: 13%); and sub investment grade 1% (2016: 1%).

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Credit risk – Financial investments held to maturity

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

	30 June 2017* € m	31 December 2016* € m
At 1 January	**3,356**	3,483
Amortisation of fair value gain	**(61)**	(127)
At end of period	**3,295**	3,356

Business review

Risk management

Financial statements

Additional information

Additional credit risk information – Forbearance*

The Group's forbearance initiatives are detailed on pages 73 to 75 in the 'Risk management' section of the Annual Financial Report 2016.

The following table sets out the risk profile of gross loans and receivables to customers analysed as to non-forborne and forborne:

					30 June 2017
	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	16,118	194	182	1,689	18,183
Good lower	8,460	1,791	4,508	12,268	27,027
Watch	1,044	72	214	439	1,769
Vulnerable	988	84	472	488	2,032
Total	26,610	2,141	5,376	14,884	49,011
Past due but not impaired	386	91	194	198	869
Impaired	1,806	270	1,808	817	4,701
Total	2,192	361	2,002	1,015	5,570
Total non-forborne loans and receivables to customers	28,802	2,502	7,378	15,899	54,581
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	608	1	1	1	611
Good lower	698	314	50	151	1,213
Watch	323	20	49	76	468
Vulnerable	1,408	112	898	747	3,165
Total	3,037	447	998	975	5,457
Past due but not impaired	502	58	149	118	827
Impaired	2,016	133	547	367	3,063
Total	2,518	191	696	485	3,890
Total forborne loans and receivables to customers	5,555[(1)]	638	1,694	1,460	9,347
Total gross loans and receivables to customers	34,357	3,140	9,072	17,359	63,928
	%	%	%	%	%
Weighted average interest rate on forborne loans and receivables to customers	2.4	6.6	3.2	3.6	3.0

[(1)]Republic of Ireland: € 5,509 million and United Kingdom: € 46 million.

The Republic of Ireland residential mortgage forbearance portfolio is profiled in more detail on pages 69 to 75 and further detail on the non-mortgage forbearance portfolio is included on pages 76 to 80.

Interest income is recognised, based on the original effective interest rate, on forborne loans in accordance with Accounting policy (f) 'Interest income and expense recognition' in note 1 to the consolidated financial statements in the Annual Financial Report 2016 and is included in 'Interest and similar income' in the Income Statement. Interest income on non-impaired forborne loans is based on the gross loan balance, whereas, the net carrying value after specific provisions is used for impaired forborne loans.

Interest income on overall impaired loans amounted to € 54 million in the six months to 30 June 2017. At 30 June 2017, the net carrying value of impaired loans was € 4,253 million (31 December 2016: € 5,089 million) which included forborne impaired mortgages of € 1,316 million (31 December 2016: € 1,535 million) and forborne impaired non-mortgages of € 561 million (31 December 2016: € 680 million).

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

Additional credit risk information – Forbearance*

The following table sets out the risk profile of gross loans and receivables to customers analysed as to non-forborne and forborne:

					31 December 2016
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	15,364	228	199	1,544	17,335
Good lower	9,099	1,695	4,150	12,195	27,139
Watch	1,236	74	293	529	2,132
Vulnerable	903	77	479	459	1,918
Total	26,602	2,074	5,121	14,727	48,524
Past due but not impaired	414	109	203	231	957
Impaired	2,236	302	2,124	954	5,616
Total	2,650	411	2,327	1,185	6,573
Total non-forborne loans and receivables to customers	29,252	2,485	7,448	15,912	55,097
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	573	1	–	1	575
Good lower	712	275	40	152	1,179
Watch	339	22	64	83	508
Vulnerable	1,504	126	1,083	766	3,479
Total	3,128	424	1,187	1,002	5,741
Past due but not impaired	519	61	159	131	870
Impaired	2,340	130	600	450	3,520
Total	2,859	191	759	581	4,390
Total forborne loans and receivables to customers	5,987[1]	615	1,946	1,583	10,131
Total gross loans and receivables to customers	35,239	3,100	9,394	17,495	65,228
	%	%	%	%	%
Weighted average interest rate on forborne loans and receivables to customers	2.4	6.5	3.0	3.5	2.9

[1]Republic of Ireland: € 5,931 million and United Kingdom: € 56 million.

Republic of Ireland residential mortgages

The Group has a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty, which builds on and formalises the Group's Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty.

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

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

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 2017 Number	30 June 2017 Balance € m	31 December 2016 Number	31 December 2016 Balance € m
At 1 January	**29,865**	**4,274**	29,514	3,995
Additions	**1,556**	**227**	3,805	537
Expired arrangements	**(1,930)**	**(262)**	(3,217)	(450)
Payments	**–**	**(122)**	–	(216)
Interest	**–**	**50**	–	101
Closed accounts[1]	**(470)**	**(36)**	(869)	(67)
Advanced forbearance arrangements – valuation adjustments	**–**	**–**	–	(6)
Write-offs[2]	**(22)**	**(7)**	(15)	(6)
Transfer between owner-occupier and buy-to-let	**1**	**1**	(6)	1
Adoption of EBA forbearance definition	**–**	**–**	653	385
At end of period	**29,000**	**4,125**	29,865	4,274

Republic of Ireland buy-to-let	30 June 2017 Number	30 June 2017 Balance € m	31 December 2016 Number	31 December 2016 Balance € m
At 1 January	**9,509**	**1,657**	7,826	1,486
Additions	**249**	**34**	659	104
Expired arrangements	**(427)**	**(70)**	(1,359)	(250)
Payments	**–**	**(78)**	–	(113)
Interest	**–**	**17**	–	29
Closed accounts[1]	**(468)**	**(57)**	(692)	(86)
Disposals	**(521)**	**(102)**	–	–
Advanced forbearance arrangements – valuation adjustments	**–**	**–**	–	(1)
Write-offs[2]	**(27)**	**(16)**	(26)	(16)
Transfer between owner-occupier and buy-to-let	**(1)**	**(1)**	6	(1)
Adoption of EBA forbearance definition	**–**	**–**	3,095	505
At end of period	**8,314**	**1,384**	9,509	1,657

Republic of Ireland – Total	30 June 2017 Number	30 June 2017 Balance € m	31 December 2016 Number	31 December 2016 Balance € m
At 1 January	**39,374**	**5,931**	37,340	5,481
Additions	**1,805**	**261**	4,464	641
Expired arrangements	**(2,357)**	**(332)**	(4,576)	(700)
Payments	**–**	**(200)**	–	(329)
Interest	**–**	**67**	–	130
Closed accounts[1]	**(938)**	**(93)**	(1,561)	(153)
Disposals	**(521)**	**(102)**	–	–
Advanced forbearance arrangements – valuation adjustments	**–**	**–**	–	(7)
Write-offs[2]	**(49)**	**(23)**	(41)	(22)
Adoption of EBA forbearance definition	**–**	**–**	3,748	890
At end of period	**37,314**	**5,509**	39,374	5,931

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

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

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

Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages (continued)

The stock of loans subject to forbearance measures decreased by € 0.4 billion from 31 December 2016 to € 5.5 billion at 30 June 2017 driven by lower numbers of customers seeking new forbearance solutions which is reflective of improving customer ability to meet their mortgage terms.

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

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 2017
	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	5,153	798	2,562	428	2,591	370
Reduced payment	1,085	219	636	136	449	83
Payment moratorium	1,835	290	311	43	1,524	247
Fundamental restructure	2	–	1	–	1	–
Restructure	291	38	197	25	94	13
Arrears capitalisation	12,827	1,753	4,327	627	8,500	1,126
Term extension	1,558	171	299	30	1,259	141
Split mortgages	3,020	461	557	84	2,463	377
Voluntary sale for loss	487	28	220	21	267	7
Low fixed interest rate	1,148	177	196	32	952	145
Positive equity solutions	1,341	146	92	9	1,249	137
Other	253	44	49	9	204	35
Total forbearance	29,000	4,125	9,447	1,444	19,553	2,681

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Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

						30 June 2017
	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	1,906	372	1,029	211	877	161
Reduced payment	611	135	295	62	316	73
Payment moratorium	323	45	185	24	138	21
Fundamental restructure	1,063	148	447	62	616	86
Restructure	733	65	648	55	85	10
Arrears capitalisation	2,380	439	1,192	216	1,188	223
Term extension	542	89	109	24	433	65
Split mortgages	139	25	83	17	56	8
Voluntary sale for loss	295	21	113	16	182	5
Low fixed interest rate	9	2	–	–	9	2
Positive equity solutions	20	2	1	–	19	2
Other	293	41	209	33	84	8
Total forbearance	8,314	1,384	4,311	720	4,003	664

						30 June 2017
	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	7,059	1,170	3,591	639	3,468	531
Reduced payment	1,696	354	931	198	765	156
Payment moratorium	2,158	335	496	67	1,662	268
Fundamental restructure	1,065	148	448	62	617	86
Restructure	1,024	103	845	80	179	23
Arrears capitalisation	15,207	2,192	5,519	843	9,688	1,349
Term extension	2,100	260	408	54	1,692	206
Split mortgages	3,159	486	640	101	2,519	385
Voluntary sale for loss	782	49	333	37	449	12
Low fixed interest rate	1,157	179	196	32	961	147
Positive equity solutions	1,361	148	93	9	1,268	139
Other[1]	546	85	258	42	288	43
Total forbearance	37,314	5,509	13,758	2,164	23,556	3,345

[1]Included in 'Other' are: € 45 million relating to forbearance solutions whereby it has been agreed that the customers will dispose of the relevant assets but this has not yet completed; € 28 million relating to negative equity trade downs; and € 5 million relating to affordable mortgage solutions whereby customers agree to pay an amount that is affordable.

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Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

	31 December 2016					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	5,214	796	2,587	417	2,627	379
Reduced payment	1,030	213	629	139	401	74
Payment moratorium	1,526	241	247	33	1,279	208
Fundamental restructure	2	–	–	–	2	–
Restructure	303	38	200	25	103	13
Arrears capitalisation	13,494	1,888	5,093	766	8,401	1,122
Term extension	1,857	212	336	36	1,521	176
Split mortgages	3,066	474	646	97	2,420	377
Voluntary sale for loss	510	28	241	21	269	7
Low fixed interest rate	1,163	182	170	29	993	153
Positive equity solutions	1,453	157	61	6	1,392	151
Other	247	45	35	9	212	36
Total forbearance	29,865	4,274	10,245	1,578	19,620	2,696

	31 December 2016					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,990	412	1,034	223	956	189
Reduced payment	770	175	414	92	356	83
Payment moratorium	307	40	191	25	116	15
Fundamental restructure	1,195	169	378	53	817	116
Restructure	804	72	703	59	101	13
Arrears capitalisation	3,015	564	1,736	321	1,279	243
Term extension	619	110	137	38	482	72
Split mortgages	138	37	85	28	53	9
Voluntary sale for loss	303	25	110	20	193	5
Low fixed interest rate	8	1	–	–	8	1
Positive equity solutions	27	3	1	–	26	3
Other	333	49	257	42	76	7
Total forbearance	9,509	1,657	5,046	901	4,463	756

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Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

						31 December 2016
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland – Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	7,204	1,208	3,621	640	3,583	568
Reduced payment	1,800	388	1,043	231	757	157
Payment moratorium	1,833	281	438	58	1,395	223
Fundamental restructure	1,197	169	378	53	819	116
Restructure	1,107	110	903	84	204	26
Arrears capitalisation	16,509	2,452	6,829	1,087	9,680	1,365
Term extension	2,476	322	473	74	2,003	248
Split mortgages	3,204	511	731	125	2,473	386
Voluntary sale for loss	813	53	351	41	462	12
Low fixed interest rate	1,171	183	170	29	1,001	154
Positive equity solutions	1,480	160	62	6	1,418	154
Other[1]	580	94	292	51	288	43
Total forbearance	39,374	5,931	15,291	2,479	24,083	3,452

[1]Included in 'Other' are: € 54 million relating to forbearance solutions whereby it has been agreed that the customers will dispose of the relevant assets but this has not yet completed; € 25 million relating to negative equity trade downs; and € 6 million relating to affordable mortgage solutions whereby customers agree to pay an amount that is affordable.

A key feature of the forbearance portfolio is the level of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers. Advanced forbearance solutions at € 0.9 billion accounted for 16% of the total forbearance portfolio at 30 June 2017 (31 December 2016: € 1 billion 17%). 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 five years, and therefore, represent in some cases forbearance solutions which were agreed up to five years ago. They include loans where a subsequent interest only or other temporary arrangement had expired at 30 June 2017, but where an arrears capitalisation or term extension was awarded previously.

Arrears capitalisation continues to be the largest category of forbearance solutions at 30 June 2017, accounting for 40% by value of the total forbearance portfolio (31 December 2016: 41%). While actually decreasing year on year, a high proportion of the arrears capitalisation portfolio (38% by value) is impaired or 90 days in arrears at 30 June 2017, a decrease from 44% at 31 December 2016. 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 improved significantly in recent 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 39% at 30 June 2017 from 42% at 31 December 2016.

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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 2017			31 December 2016		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 – 30 days	192	34	226	194	46	240
31 – 60 days	49	12	61	60	18	78
61 – 90 days	26	9	35	24	10	34
91 – 180 days	19	22	41	20	19	39
181– 365 days	26	19	45	24	20	44
Over 365 days	57	32	89	50	29	79
Total past due but not impaired	369	128	497	372	142	514

Loans subject to forbearance and past due but not impaired decreased by € 17 million in the six months to 30 June 2017 with later arrears (greater than 90 days in arrears) increasing by € 13 million. The proportion of the portfolio past due but not impaired increased slightly to 9% at 30 June 2017 (31 December 2016: 8.7%).

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 2017			31 December 2016		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	416	144	560	491	179	670
1 – 30 days	90	23	113	116	36	152
31 – 60 days	49	16	65	51	20	71
61 – 90 days	39	6	45	43	14	57
91 – 180 days	94	36	130	102	31	133
181 – 365 days	117	41	158	127	60	187
Over 365 days	537	381	918	554	493	1,047
Total impaired	1,342	647	1,989	1,484	833	2,317

Impaired loans subject to forbearance decreased by € 0.3 billion in the six months to 30 June 2017. Statement of financial position specific provisions of € 0.7 billion were held against the forborne impaired portfolio at 30 June 2017 (31 December 2016: € 0.8 billion), providing cover of 35% (31 December 2016: 35%), while the income statement specific provision writeback was € 43 million for the period (30 June 2016: € 26 million).

Within the impaired portfolio of € 2 billion at 30 June 2017, € 0.6 billion is currently performing in accordance with agreed terms for forbearance sustainable solutions and the continued compliance to these terms over a period of 12 months will result in an upgrade out of impairment. The remaining € 1.4 billion includes loans that have been the subject of a temporary or short term forbearance solution but will remain classified as impaired and in arrears until a sustainable solution has been put in place. Following this, they will be required to maintain a satisfactory performance for at least 12 months before being considered for upgrade out of impairment.

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Additional credit risk information – Forbearance*

Non-mortgage

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

				30 June 2017
Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	608	1,862	1,527	3,997
Additions	94	87	87	268
Fundamental restructures – valuation adjustments	(2)	(25)	(7)	(34)
Write-offs	(4)	(5)	(4)	(13)
Expired arrangements	(38)	(11)	(57)	(106)
Closed accounts	(20)	(237)	(78)	(335)
Other movements	(5)	(53)	(64)	(122)
At 30 June	**633**	**1,618**	**1,404**	**3,655**

				30 June 2017
United Kingdom	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	7	84	56	147
Additions	1	8	12	21
Expired arrangements	–	(3)	(1)	(4)
Closed acounts	(1)	(9)	(2)	(12)
Exchange translation adjustments	–	(2)	(2)	(4)
Other movements	(2)	(2)	(7)	(11)
At 30 June	**5**	**76**	**56**	**137**

				30 June 2017
Total	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	615	1,946	1,583	4,144
Additions	95	95	99	289
Fundamental restructures – valuation adjustments	(2)	(25)	(7)	(34)
Write-offs	(4)	(5)	(4)	(13)
Expired arrangements	(38)	(14)	(58)	(110)
Closed accounts	(21)	(246)	(80)	(347)
Exchange translation adjustments	–	(2)	(2)	(4)
Other movements	(7)	(55)	(71)	(133)
At 30 June	**638**	**1,694**	**1,460**	**3,792**

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Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The following table analyses the movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom, excluding residential mortgages which are analysed on page 73:

				31 December 2016
Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	646	2,182	1,679	4,507
Additions	169	337	276	782
Fundamental restructures – valuation adjustments	(10)	(53)	(23)	(86)
Write-offs	(82)	(130)	(105)	(317)
Expired arrangements	(53)	(83)	(129)	(265)
Closed accounts	(15)	(43)	(35)	(93)
Other movements	(47)	(348)	(136)	(531)
At 31 December	608	1,862	1,527	3,997

				31 December 2016
United Kingdom	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	4	128	88	220
Additions	5	20	11	36
Expired arrangements	(1)	(39)	(29)	(69)
Exchange translation adjustments	(1)	(17)	(12)	(30)
Other movements	–	(8)	(2)	(10)
At 31 December	7	84	56	147

				31 December 2016
Total	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	650	2,310	1,767	4,727
Additions	174	357	287	818
Fundamental restructures – valuation adjustments	(10)	(53)	(23)	(86)
Write-offs	(82)	(130)	(105)	(317)
Expired arrangements	(54)	(122)	(158)	(334)
Closed accounts	(15)	(43)	(35)	(93)
Exchange translation adjustments	(1)	(17)	(12)	(30)
Other movements	(47)	(356)	(138)	(541)
At 31 December	615	1,946	1,583	4,144

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Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

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

						30 June 2017
	Total € m	Loans neither > 90 days in arrears nor impaired € m	Loans > 90 days in arrears but not impaired € m	Impaired loans € m	Specific provisions on impaired loans € m	Specific provision cover % %
Other personal						
Interest only	50	24	8	18	11	63
Reduced payment	23	12	3	8	5	64
Payment moratorium	140	137	–	3	2	68
Arrears capitalisation	17	5	1	11	5	43
Term extension	158	148	1	9	6	65
Fundamental restructure	48	30	3	15	5	37
Restructure	172	106	8	58	29	49
Asset disposals	24	9	6	9	6	62
Other	6	3	1	2	2	87
Total	638	474	31	133	71	53
Property and construction						
Interest only	211	119	10	82	42	51
Reduced payment	87	62	3	22	9	40
Payment moratorium	8	4	2	2	1	54
Arrears capitalisation	42	15	1	26	12	48
Term extension	185	92	4	89	43	49
Fundamental restructure	687	519	39	129	40	31
Restructure	342	189	9	144	63	44
Asset disposals	78	46	5	27	13	46
Other	54	21	7	26	14	53
Total	1,694	1,067	80	547	237	43
Non-property business						
Interest only	158	100	8	50	26	52
Reduced payment	59	28	2	29	17	60
Payment moratorium	17	14	1	2	1	49
Arrears capitalisation	32	10	1	21	10	47
Term extension	149	124	3	22	11	50
Fundamental restructure	460	405	9	46	17	39
Restructure	496	285	36	175	84	48
Asset disposals	37	21	3	13	8	56
Other	52	38	5	9	4	44
Total	1,460	1,025	68	367	178	49
Total non-mortgage forbearance	3,792	2,566	179	1,047	486	46

The Group has treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties and who require a restructure. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. The approach is based on assessing the affordability level of the customer, and then applying asset-based treatment strategies to determine the long-term levels of sustainable and unsustainable debt. Further information on non-mortgage forbearance is included on pages 74 and 75 of the Annual Financial Report 2016.

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

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Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

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

						31 December 2016
	Total € m	Loans neither > 90 days in arrears nor impaired € m	Loans > 90 days in arrears but not impaired € m	Impaired loans € m	Specific provisions on impaired loans € m	Specific provision cover % %
Other personal						
Interest only	58	29	6	23	15	65
Reduced payment	25	16	–	9	6	63
Payment moratorium	109	107	–	2	1	59
Arrears capitalisation	17	4	1	12	5	41
Term extension	141	130	1	10	6	56
Fundamental restructure	48	36	3	9	4	46
Restructure	187	123	8	56	25	45
Asset disposals	25	11	6	8	4	55
Other	5	4	–	1	1	78
Total	615	460	25	130	67	51
Property and construction						
Interest only	235	57	9	169	54	32
Reduced payment	90	62	3	25	11	43
Payment moratorium	8	4	2	2	1	73
Arrears capitalisation	44	18	1	25	12	46
Term extension	193	97	–	96	39	41
Fundamental restructure	829	702	34	93	29	31
Restructure	355	201	9	145	63	43
Asset disposals	141	110	4	27	11	41
Other	51	26	7	18	13	69
Total	1,946	1,277	69	600	233	39
Non-property business						
Interest only	191	107	7	77	37	48
Reduced payment	64	37	2	25	14	57
Payment moratorium	17	14	1	2	1	50
Arrears capitalisation	42	18	1	23	11	47
Term extension	202	118	2	82	23	28
Fundamental restructure	448	416	7	25	12	49
Restructure	530	304	36	190	86	45
Asset disposals	33	21	1	11	8	75
Other	56	36	5	15	8	54
Total	1,583	1,071	62	450	200	45
Total non-mortgage forbearance	4,144	2,808	156	1,180	500	42

At 30 June 2017, non-mortgage loans subject to forbearance amounted to € 3.8 billion, of which € 1.0 billion is impaired with specific provision cover of 47%. The majority of these forborne loans are in property and construction (€ 1.7 billion) and non-property business (€ 1.4 billion). Within non-mortgage forbearance categories, 'Fundamental restructure' (€ 1.2 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'.

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Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

At the time the fundamental restructure is agreed, the size of the main facility reflects the estimated sustainable cash flows from the customer, such that the main facility will be repaid in full. Since no further cash flows are expected on the secondary facilities, the fair value of secondary facilities at inception is considered immaterial. During the six months to 30 June 2017, approximately € 0.1 billion of main facilities were recognised following the derecognition of € 0.2 billion of impaired loans with related impairment provisions of € 0.1 billion.

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

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

Additional cashflows received has resulted in income of € 81 million being recognised in the half-year to 30 June 2017 (30 June 2016: € 43 million) as asset sales were particularly strong in the period. Furthermore, significant future cash flows have now been estimated for a small number of complex cases with secondary facilities which has resulted in these facilities having a revised carrying value at 30 June 2017 of € 65 million (31 December 2016: Nil). This reflects the re-estimation of future cashflows and/or higher valuations on collateral.

At 30 June 2017, the carrying value of the main facilities in fundamental restructures, including buy-to-let mortgages, amounted to € 1.3 billion (31 December 2016:€ 1.5 billion).

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

- Buy-to-let of € 147 million, which has associated contractual secondary facilities of € 197 million (31 December 2016: € 169 million and € 204 million respectively).
- Property and construction of € 655 million, which has associated contractual secondary facilities of € 1,916 million (31 December 2016: € 809 million and € 2,129 million respectively) which are further analysed as:
  - Commercial real estate primary facilities of € 549 million, which have associated contractual secondary facilities of € 1,056 million (31 December 2016: € 703 million and € 1,237 million respectively).
  - Land and development primary facilities of € 106 million, which have associated contractual secondary facilities of € 860 million (31 December 2016: € 106 million and € 892 million respectively).

Non-property business lending and other personal lending where fundamental restructures have been granted amount to € 483 million which have associated secondary facilities of € 770 million (31 December 2016: € 496 million and € 778 million respectively).

The ‘Restructure’ category (€ 1.0 billion) includes some longer-term/permanent solutions where the existing customer debt was deemed to be sustainable post-restructuring. The solutions offered include interest only with asset disposal or bullet/fixed payment, debt consolidation, amongst others. This category also includes cases which were restructured prior to the current treatment strategies being developed. Some of these cases may yet qualify for a ‘Fundamental restructure’ following a full review of sustainable repayment capacity.

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

During the six months to 30 June 2017, the stock of non-mortgage forbearance loans reduced by € 352 million, with new forborne borrowers (€ 289 million) being offset by reductions due to expired and closed forbearance arrangements and repayments.

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Funding and liquidity risk

Liquidity

At 30 June 2017, the Group held € 27 billion (31 December 2016: € 30 billion) in qualifying liquid assets ("QLA")[(1)]/contingent funding of which € 9 billion (31 December 2016: € 12 billion) was not available due to repurchase, secured loan and other restrictions. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. At 30 June 2017, the Group liquidity pool was € 18 billion (31 December 2016: € 18 billion). During the six months to 30 June 2017, the liquidity pool ranged from € 16 billion to € 20 billion and the average balance was € 18 billion.

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

Composition of the Group liquidity pool

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

				30 June 2017
		Liquidity pool available	High Quality Liquid Assets (HQLA)	
	Liquidity pool* € bn	(ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	**0.7**	**–**	**3.3[(1)]**	**–**
Total government bonds	**10.3**	**10.2**	**10.2**	**–**
Other:				
Agencies and agency mortgage backed securities	**–**	**–**	**–**	**0.1**
Covered bonds	**3.2**	**3.0**	**2.5**	**0.7**
Other including NAMA senior bonds	**3.9**	**3.6**	**0.5**	**–**
Total other	**7.1**	**6.6**	**3.0**	**0.8**
Total	**18.1**	**16.8**	**16.5**	**0.8**

				31 December 2016
		Liquidity pool available	High Quality Liquid Assets (HQLA)	
	Liquidity pool* € bn	(ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	1.9	–	3.9[(1)]	–
Total government bonds	9.0	8.9	8.9	–
Other:				
Covered bonds	1.8	1.7	1.4	0.4
Other including NAMA senior bonds	5.0	4.9	1.4	0.1
Total other	6.8	6.6	2.8	0.5
Total	17.7	15.5	15.6	0.5

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

Liquidity pool by currency

	EUR € bn	GBP € bn	USD € bn	Other € bn	Total € bn
Liquidity pool at 30 June 2017	**17.3**	**0.7**	**0.1**	**–**	**18.1**
Liquidity pool at 31 December 2016	17.3	0.1	0.3	–	17.7

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

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

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

Funding and liquidity risk

Management of the Group liquidity pool*

AIB manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the independent Risk function. These pool assets primarily comprise of government guaranteed bonds. AIB's liquidity buffer increased in the six months to 30 June 2017 by € 0.4 billion which was predominantly due to an increase in customer deposits coupled with a decrease in the funding requirement in addition to a reduction in customer loans and financial investments available for sale.

Other contingent liquidity*

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

For further details of liquidity risks and its management see pages 146 to 158 of the Annual Financial Report 2016.

Liquidity regulation

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

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

AIB Group had an LCR of 134% as at 30 June 2017 (31 December 2016: 128%). The minimum LCR requirement in 2017 is 80%, rising to 100% by 1 January 2018. AIB Group has fully complied with the requirement.

The minimum NSFR requirement is scheduled to be introduced by 1 January 2018 at 100%. At 30 June 2017, the Group had a NSFR of 122% (31 December 2016: 119%).

In addition, the Group is required to carry out liquidity stress testing capturing firm-specific, systemic risk events and a combination of both. AIB adheres to this requirement.

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

Funding and liquidity risk
Liquidity risk
To reflect impending LCR disclosure requirements, all figures included in the table reflect average 12 month balances. The June figures are averages of the 12 month end LCR's from July 2016 to June 2017 and the December figures are the 12 month end LCR's from January 2016 to December 2016.

	30 June 2017		31 December 2016	
	Total unweighted value (average) € m	Total weighted value (average) € m	Total unweighted value (average) € m	Total weighted value (average) € m
High Quality Liquid Assets ("HQLA")				
Total HQLA		16,306		16,251
Cash outflows				
Retail deposits and deposits from small business customers, of which:				
Stable deposits	20,745	1,037	20,716	1,035
Less stable deposits	12,155	1,737	11,738	1,690
Unsecured wholesale funding of which:				
Operational deposits (all counterparties) and deposits in networks of co-operative banks	–	–	–	–
Non-operational deposits (all counterparties)	18,656	8,535	16,880	8,162
Unsecured debt	202	202	369	369
Secured wholesale funding	–	120	–	140
Additional requirements, of which:				
Outflows related to derivative exposures and other collateral requirements	385	385	401	401
Outflows related to loss of funding on debt products	–	–	220	220
Credit and liquidity facilities	10,083	882	10,012	887
Other contractual funding obligations	537	419	–	–
Other contingent funding obligations	1,347	415	1,415	1,110
Total cash outflows		13,732		14,014
Cash inflows				
Secured lending (reverse repos)	137	34	37	–
Inflows from fully performing exposures	738	427	1,736	692
Other cash inflows	955	214	123	144
Total cash inflows	1,830	675	1,896	836
		€ m		€ m
Total HQLA		16,306		16,251
Total net cash outflows		13,057		13,178
		%		%
Liquidity coverage ratio (average)		125[1]		123[1]

The month-end LCR ranged from 118% to 134% in the first six months of 2017 being 134% as at 30 June 2017. The average HQLA for the 12 months ended 30 June 2017 were € 16.3 billion of which government securities constituted 75%. The outflows relating to derivative exposures (net of cash inflows) and undrawn commitments constituted less than 0.1% and 6.5% respectively of average cash outflows of € 13.7 billion. Average inflows from assets were € 675 million.

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

Funding and liquidity risk

Funding structure

The Group's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to further enhance and strengthen the wholesale funding franchise with appropriate access to term markets to support core lending activities. The strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

Sources of funds	30 June 2017*		31 December 2016*	
	€ bn	%	€ bn	%
Customer accounts	63.7	73	63.5	69
Deposits by central banks and banks – secured	4.6	5	7.0	8
– unsecured	0.4	1	0.7	1
Certificates of deposit and commercial paper	0.1	–	0.2	–
Asset covered securities ("ACS")	3.6	4	5.2	5
Asset backed securities ("ABS")	–	–	0.5	1
Senior debt	1.0	1	1.0	1
Capital	14.0	16	13.9	15
Total source of funds	87.4	100	92.0	100
Other	3.1		3.6	
	90.5		95.6	

Customer deposits represent the largest source of funding for the Group. 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 € 0.2 billion in the six months to 30 June 2017. This was mainly due to an increase in Euro and GBP deposits and a fall in USD deposits. The underlying growth in GBP deposits of € 0.4 billion was offset by a fall in the value of GBP of € 0.3 billion over the course of the period. The Group's loan to deposit ratio at 30 June 2017 was 94% (31 December 2016: 95%).

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 € 1.9 billion at 30 June 2017 (31 December 2016: € 1.9 billion).

A final regulatory decision on future Minimum Required Eligible Liabilities ("MREL"), specific to AIB is expected by early 2018. In advance of this, the Group has considered a pathway to MREL compliance in the Group's funding and liquidity strategy.

The management of stable retail funds is paramount to the Group's overall funding and liquidity strategy and will be a key factor in the Group's overall funding and liquidity strategy.

Composition of wholesale funding*

At 30 June 2017, total wholesale funding outstanding was € 10.5 billion (31 December 2016: € 15.4 billion). € 3.2 billion of wholesale funding matures in less than one year (31 December 2016: € 8.1 billion). € 7.3 billion of wholesale funding had a residual maturity of over one year (31 December 2016: € 7.3 billion) including at 30 June 2017 € 1.9 billion of TLTRO II drawings (31 December 2016: € 1.9 billion).

Outstanding wholesale funding comprised € 8.2 billion of secured funding (31 December 2016: € 12.7 billion) and € 2.3 billion of unsecured funding (31 December 2016: € 2.7 billion).

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

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

30 June 2017

	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	Total € bn
Deposits by central banks and banks	1.9	1.1	0.1	–	3.1	1.9	–	–	5.0
Certificates of deposit and commercial paper	–	0.1	–	–	0.1	–	–	–	0.1
Senior debt	–	–	–	–	–	1.0	–	–	1.0
ACS/ABS	–	–	–	–	–	0.6	2.0	1.0	3.6
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	0.8	0.8
Total 30 June 2017	1.9	1.2	0.1	–	3.2	3.5	2.0	1.8	10.5
Of which:									
Secured	1.5	1.1	0.1	–	2.7	2.5	2.0	1.0	8.2
Unsecured	0.4	0.1	–	–	0.5	1.0	–	0.8	2.3
	1.9	1.2	0.1	–	3.2	3.5	2.0	1.8	10.5

31 December 2016

	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	Total € bn
Deposits by central banks and banks	3.1	2.5	0.2	–	5.8	–	1.9	–	7.7
Certificates of deposit and commercial paper	–	0.2	–	–	0.2	–	–	–	0.2
Senior debt	–	–	–	–	–	0.5	0.5	–	1.0
ACS/ABS	–	0.4	1.7	–	2.1	0.6	1.2	1.8	5.7
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	0.8	0.8
Total 31 December 2016	3.1	3.1	1.9	–	8.1	1.1	3.6	2.6	15.4
Of which:									
Secured	2.4	2.9	1.9	–	7.2	0.6	3.1	1.8	12.7
Unsecured	0.7	0.2	–	–	0.9	0.5	0.5	0.8	2.7
	3.1	3.1	1.9	–	8.1	1.1	3.6	2.6	15.4

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

Funding and liquidity risk

Encumbrance

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

The Group has seen a downward trend in asset encumbrance in recent years, this trend is expected to continue over the coming years.

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

During the six months to 30 June 2017, securities issued by two of the Group's securitisation vehicles, Emerald Mortgages No. 4 Public Limited Company and Tenterden Funding p.l.c., were redeemed.

The Group had an encumbrance ratio of 16% at 30 June 2017 (2016: 21%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. The decrease in encumbered assets is primarily related to a fall in the Group's funding requirements. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility.

Condensed consolidated interim financial statements *(unaudited)*

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Condensed consolidated income statement *(unaudited)*

for the half-year ended 30 June 2017

	Notes	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Continuing operations			
Interest and similar income	3	**1,241**	1,323
Interest expense and similar charges	4	**(164)**	(378)
Net interest income		**1,077**	945
Dividend income	5	**27**	25
Fee and commission income	6	**220**	211
Fee and commission expense	6	**(25)**	(18)
Net trading income	7	**61**	1
Profit on disposal/transfer of loans and receivables	8	**6**	11
Other operating income	9	**170**	353
Other income		**459**	583
Total operating income		**1,536**	1,528
Administrative expenses	10	**(752)**	(704)
Impairment and amortisation of intangible assets		**(34)**	(26)
Impairment and depreciation of property, plant and equipment		**(21)**	(19)
Total operating expenses		**(807)**	(749)
Operating profit before provisions		**729**	779
Writeback of provisions for impairment on loans and receivables	21	**19**	211
Writeback of provisions for impairment on financial investments available for sale	12	**–**	2
Writeback of provisions for liabilities and commitments	32	**4**	1
Operating profit		**752**	993
Associated undertakings and joint venture	25	**10**	23
Loss on disposal of property		**(1)**	–
Profit on disposal of business		**–**	1
Profit before taxation from continuing operations		**761**	1,017
Income tax charge from continuing operations	13	**(109)**	(194)
Profit for the period after taxation from continuing operations attributable to owners of the parent		**652**	823
Basic earnings per share			
Continuing operations	14(a)	**23.3c**	29.6c
Diluted earnings per share – adjusted			
Continuing operations	14(b)	**23.3c**	28.0c

Condensed consolidated statement of comprehensive income *(unaudited)*

for the half-year ended 30 June 2017

	Notes	**Half-year 30 June 2017 € m**	Half-year 30 June 2016 € m
Profit for the period		**652**	823
Other comprehensive income – continuing operations			
Items that will not be reclassified subsequently to profit or loss:			
Net change in property revaluation reserves		**–**	(1)
Net actuarial losses in retirement benefit schemes, net of tax	13	**(15)**	(505)
Total items that will not be reclassified subsequently to profit or loss		**(15)**	(506)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Net change in foreign currency translation reserves	13	**(39)**	(131)
Net change in cash flow hedges, net of tax	13	**(171)**	322
Net change in fair value of available for sale securities, net of tax	13	**(98)**	(293)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(308)**	(102)
Other comprehensive income for the period, net of tax from continuing operations		**(323)**	(608)
Total comprehensive income for the period from continuing operations attributable to owners of the parent		**329**	215

Condensed consolidated statement of financial position *(unaudited)*

as at 30 June 2017

	Notes	30 June 2017 € m	31 December 2016 € m
Assets			
Cash and balances at central banks	40	**5,262**	6,519
Items in course of collection		**195**	134
Disposal groups and non-current assets held for sale	16	**9**	11
Trading portfolio financial assets	17	**32**	1
Derivative financial instruments	18	**1,366**	1,814
Loans and receivables to banks	19	**1,226**	1,399
Loans and receivables to customers	20	**59,822**	60,639
NAMA senior bonds	22	**360**	1,799
Financial investments available for sale	23	**14,333**	15,437
Financial investments held to maturity	24	**3,295**	3,356
Interests in associated undertakings and joint venture	25	**149**	65
Intangible assets		**444**	392
Property, plant and equipment		**339**	357
Other assets		**238**	248
Current taxation		**12**	13
Deferred tax assets	26	**2,796**	2,828
Prepayments and accrued income		**449**	444
Retirement benefit assets	11	**135**	166
Total assets		**90,462**	95,622
Liabilities			
Deposits by central banks and banks	27	**4,955**	7,732
Customer accounts	28	**63,723**	63,502
Trading portfolio financial liabilities	29	**28**	–
Derivative financial instruments	18	**1,313**	1,609
Debt securities in issue	30	**4,726**	6,880
Current taxation		**13**	18
Deferred tax liabilities	26	**93**	81
Other liabilities	31	**929**	973
Accruals and deferred income		**407**	484
Retirement benefit liabilities	11	**97**	158
Provisions for liabilities and commitments	32	**177**	246
Subordinated liabilities and other capital instruments	33	**792**	791
Total liabilities		**77,253**	82,474
Equity			
Share capital	34	**1,696**	1,696
Share premium	34	**1,386**	1,386
Reserves		**9,633**	9,572
Total shareholders' equity		**12,715**	12,654
Other equity interests	35	**494**	494
Total equity		**13,209**	13,148
Total liabilities and equity		**90,462**	95,622

Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2017

	Notes	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Cash flows from operating activities			
Profit before taxation for the period from continuing operations		**761**	1,017
Adjustments for:			
– Non-cash and other items	40	**(271)**	(350)
– Change in operating assets	40	**2,104**	4,717
– Change in operating liabilities	40	**(4,279)**	(5,296)
– Taxation (paid)/refund		**(25)**	14
Net cash (outflow)/inflow from operating activities		**(1,710)**	102
Cash flows from investing activities			
Purchase of financial investments available for sale		**(835)**	(1,224)
Proceeds from sales and maturity of financial investments available for sale		**1,786**	2,787
Additions to property, plant and equipment		**(5)**	(7)
Disposal of property, plant and equipment		**1**	–
Additions to intangible assets		**(86)**	(50)
Investments in associated undertakings and joint venture		**(81)**	–
Dividends received from associated undertakings	25	**7**	12
Net cash inflow from investing activities		**787**	1,518
Cash flows from financing activities			
Dividends paid on ordinary shares	15	**(250)**	–
Distribution paid on other equity interests	15	**(18)**	(18)
Net cash outflow from financing activities		**(268)**	(18)
Change in cash and cash equivalents		**(1,191)**	1,602
Opening cash and cash equivalents		**7,164**	5,672
Effect of exchange translation adjustments		**(134)**	(501)
Closing cash and cash equivalents	40	**5,839**	6,773

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

for the half-year ended 30 June 2017

	Attributable to equity holders of parent										
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2017	1,696	1,386	494	1,199	14	15	1,113	460	7,323	(552)	13,148
Total comprehensive income for the period											
Profit for the period	–	–	–	–	–	–	–	–	652	–	652
Other comprehensive income *(note 13)*	–	–	–	–	–	–	(98)	(171)	(15)	(39)	(323)
Total comprehensive income for the period	–	–	–	–	–	–	(98)	(171)	637	(39)	329
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions	–	–	–	(66)	–	–	–	–	66	–	–
Dividends paid on ordinary shares *(note 15)*	–	–	–	–	–	–	–	–	(250)	–	(250)
Distribution on other equity interests *(note 15)*	–	–	–	–	–	–	–	–	(18)	–	(18)
Total contributions by and distributions to owners of the Group	–	–	–	(66)	–	–	–	–	(202)	–	(268)
At 30 June 2017	1,696	1,386	494	1,133	14	15	1,015	289	7,758	(591)	13,209

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

for the half-year ended 30 June 2016

	Attributable to equity holders of parent										
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2016	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	12,148
Total comprehensive income for the period											
Profit for the period	–	–	–	–	–	–	–	–	823	–	823
Other comprehensive income *(note 13)*	–	–	–	–	–	(1)	(293)	322	(505)	(131)	(608)
Total comprehensive income for the period	–	–	–	–	–	(1)	(293)	322	318	(131)	215
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions	–	–	–	(246)	–	–	–	–	246	–	–
Distribution on other equity interests *(note 15)*	–	–	–	–	–	–	–	–	(18)	–	(18)
Total contributions by and distributions to owners of the Group	–	–	–	(246)	–	–	–	–	228	–	(18)
At 30 June 2016	1,696	1,386	494	1,314	14	15	1,179	676	6,086	(515)	12,345

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

for the financial year ended 31 December 2016

	Attributable to equity holders of parent										
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2016	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	12,148
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	–	1,356	–	1,356
Other comprehensive income	–	–	–	–	–	(1)	(359)	106	103	(168)	(319)
Total comprehensive income for the year	–	–	–	–	–	(1)	(359)	106	1,459	(168)	1,037
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions	–	–	–	(361)	–	–	–	–	361	–	–
Distribution on other equity interests	–	–	–	–	–	–	–	–	(37)	–	(37)
Total contributions by and distributions to owners of the Group	–	–	–	(361)	–	–	–	–	324	–	(37)
At 31 December 2016	1,696	1,386	494	1,199	14	15	1,113	460	7,323	(552)	13,148

Notes to the condensed consolidated interim financial statements

1 Basis of preparation, accounting policies and estimates

Reporting entity

Allied Irish Banks, p.l.c. ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The condensed consolidated interim financial statements for the six months ended 30 June 2017 comprise the parent company and its subsidiary undertakings, collectively referred to as the 'AIB Group', and AIB Group's interests in associated undertakings and joint venture.

The consolidated financial statements of the Group for the year ended 31 December 2016 ('the Annual Financial Report 2016') are available upon request from the Company Secretary or at www.aibgroup.com.

Going concern

The financial statements for the six months ended 30 June 2017 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting AIB 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 their assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2017 to 2019 approved by the Board in December 2016, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors have also considered the outlook for the eurozone and UK economies, and the factors and uncertainties impacting their performance, including the possible fallout from Brexit.

In addition, the Directors have considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 50 to 58 in the 'Risk management' section of the Annual Financial Report 2016 and updated in the 'Risk management' section on page 34.

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 30 to 32.

The Group funding and liquidity profile is outlined on pages 81 to 86. In relation to funding and liquidity, the Directors are satisfied, based on AIB's position in the market place that in all reasonable circumstances required liquidity and funding would be available to the Group during the period of assessment.

Conclusion

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

Accounting policies

The condensed consolidated interim financial statements for the half-year ended 30 June 2017 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. These statements should be read in conjunction with the Annual Financial Report 2016, which was prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union ("EU"). The condensed consolidated interim financial statements comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, and the condensed consolidated statement of changes in equity together with the related notes. These notes include certain risk related disclosures which are contained in the Risk management section of the Half-Yearly Financial Report. The relevant information in the Risk management section is identified as forming an integral part of the condensed consolidated interim financial statements.

There have been no significant changes to the accounting policies described on pages 229 to 251 in the Annual Financial Report 2016. However, the Group entered a joint arrangement during the period and as a result has applied IFRS 11 'Joint Arrangements'. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement and determined it to be a joint venture. Similar to investments in associated undertakings, investments in joint ventures are accounted for using the equity method of accounting from the date joint control is deemed to arise until the date on which joint control ceases to exist or when the interest becomes classified

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

Accounting policies

as an asset held for sale. Investments in joint ventures are carried in the consolidated statement of financial position at cost and increased (or decreased) each period by changes in the Group's share of the post-acquisition net income (or loss) less any impairment in value. Loans advanced to equity accounted investments that have the characteristics of equity financing are also included in the investment held on the consolidated statement of financial position. Impairment losses on the carrying amount of an investment are reported within the Group's share of equity accounted investments' results in the consolidated income statement.

Critical accounting judgements and estimates

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; retirement benefit obligations; and provisions for liabilities and commitments. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

Critical accounting judgements and estimates adopted by AIB Group are set out on pages 256 to 260 of the Annual Financial Report 2016.

Adoption of new accounting standards

During the half-year to 30 June 2017, AIB Group adopted amendments to standards and interpretations which had an insignificant impact on these financial statements.

Prospective accounting changes

Information on prospective accounting changes is set out on pages 252 to 255 of the Annual Financial Report 2016. In relation to these changes, the principal focus is on the IFRS 9 project which is effective for accounting periods beginning 1 January 2018. The project team is continuing to build, refine and validate risk impairment models and methodologies, develop processes for embedding these models throughout the Group and ensure that the Group is ready to implement IFRS 9 as a 'business as usual' standard.

It is considered premature at this stage to quantify the precise financial effects of impairment under this new standard on AIB's results of operations with any degree of certainty owing to possible changes in the composition of the portfolios or different economic conditions. However, it is expected that IFRS 9 will have a significant impact for AIB as is the case for the banking industry as a whole. The estimated impact used by management, in particular for capital planning and forecasting purposes, is 90 to 100 basis points (representing € 0.5 billion to € 0.6 billion in additional credit provisions) on AIB's fully loaded CET 1 ratio on implementation of IFRS 9. This will be subject to change as the situation evolves.

Statement of compliance

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

The interim figures for the six months ended 30 June 2017 are unaudited but have been reviewed by the independent auditor, Deloitte, whose report is set out on page 141. The financial information presented herein does not amount to statutory financial statements. The Half-Yearly Financial Report is a requirement of the Transparency (Directive 2004/109/EC) Regulations 2007.

The summary financial statements for the financial year ended 31 December 2016 as presented in the condensed consolidated interim financial statements, represent an abbreviated version of the Group's full accounts for that year, on which the independent auditor, Deloitte, issued an unqualified audit report and which are not annexed to these interim financial statements. The financial statements for the financial year ended 31 December 2016 have been filed in the Companies Registration Office.

2 Segmental information

Segment overview

From 1 January 2017, following realignment of Leadership Team responsibilities, the Group has been managed through the following business segments: Retail & Commercial Banking ("RCB"), Wholesale, Institutional & Corporate Banking ("WIB"), AIB UK and Group. The performance in the half-year to June 2016 has been restated to reflect this revised structure.

Segment allocations

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in 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.

Retail & Commercial Banking ("RCB")*

RCB is Ireland's leading provider of retail and commercial banking products and services based on its market shares across key products. It has approximately 2.3 million retail and SME customers. RCB offers retail banking services through three brands, AIB, EBS and Haven, and commercial banking services through the AIB brand. It has the largest distribution network of any bank in Ireland, comprising 296 locations, including 205 AIB branches, 71 EBS offices, 19 business centres and 1 digital banking location, 989 ATMs and AIB telephone, internet, tablet and mobile banking, as well as a partnership with An Post through which it offers certain banking services at approximately 1,100 locations in Ireland. Complementing its physical infrastructure, RCB has a market leading digital banking proposition which has contributed significantly to strengthened relationship and transactional NPS (Net Promoter Score – a measurement tool that tracks customers' loyalty and advocacy) and underpins a broader efficiency agenda.

Wholesale, Institutional & Corporate Banking* ("WIB")

WIB provides wholesale, institutional and corporate banking services to AIB's larger customers and customers requiring specific sector or product expertise. WIB serves customers through a relationship driven model with a sector specialist focus. In addition to traditional credit products, WIB offers corporate customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance. WIB teams are based in Dublin and New York. WIB's activities in New York comprise syndicated and international finance activities.

AIB UK*

AIB UK offers services in two distinct markets, Northern Ireland, where it operates under the trading name of First Trust Bank, and Great Britain, where it operates as Allied Irish Bank (GB).

First Trust Bank has approximately 253,000 active personal customers and approximately 22,000 active business customers. First Trust Bank operates as a focused retail and SME challenger bank and is in the process of migrating to a more integrated business model, having announced, in February 2017, the closure of 15 of its 30 branches, of which 8 have already closed with the remaining 7 due to close by the end of 2017. This will be complemented by an arrangement with the Post Office in Northern Ireland.

Allied Irish Bank (GB) is a niche specialist business bank, supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain targeting mid-tier corporates and larger SMEs in local geographies. AIB UK's overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland.

Group

The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads relating to these activities are managed and reported in AIB's Group segment.

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

2 Segmental information *(continued)*

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

[1]In the consolidated financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial Review' - see page 16.

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

[3]Gain on disposal of financial instruments;

[4]Termination benefits;

[5]Restitution and restructuring expenses; and

[6]IPO and capital related expenses. For further information on these items see page 16.

2 Segmental information *(continued)*

	RCB	WIB	AIB UK	Group	Total	Bank levies and regulatory fees[1]	Exceptional items[2]	Total
								Half-year 30 June 2016
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment								
Net interest income	604	121	106	114	945	–	–	945
Other income	197	25	27	46	295	–	288[3]	583
Total operating income	801	146	133	160	1,240	–	288	1,528
Personnel expenses	(188)	(25)	(47)	(99)	(359)	–	(3)[4][5]	(362)
General and administrative expenses	(139)	(13)	(29)	(92)	(273)	(48)	(21)[5][6]	(342)
Depreciation, impairment and amortisation	(28)	(1)	(1)	(15)	(45)	–	–	(45)
Total operating expenses	(355)	(39)	(77)	(206)	(677)	(48)	(24)	(749)
Operating profit/(loss) before provisions	446	107	56	(46)	563	(48)	264	779
Bank levies and regulatory fees	–	–	(2)	(46)	(48)	48	–	–
Writeback/(provisions) for impairment on loans and receivables	224	(28)	18	(3)	211	–	–	211
Writeback of provisions for liabilities and commitments	1	–	–	–	1	–	–	1
Writeback of provisions for impairment on financial investments available for sale	–	–	–	2	2	–	–	2
Total writeback/(provisions)	225	(28)	18	(1)	214	–	–	214
Operating profit/(loss)	671	79	72	(93)	729	–	264	993
Associated undertakings	21	–	2	–	23	–	–	23
Profit on disposal of business	–	–	1	–	1	–	–	1
Profit/(loss) before taxation from continuing operations	692	79	75	(93)	753	–	264	1,017

[1]In the consolidated financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial separately in the 'Operating and Financial Review' - see page 16.

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

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

[4]Termination benefits;

[5]Restitution and restructuring expenses; and

[6]Capital related expenses. For further information on these items see page 16.

2 Segmental information *(continued)*

Other amounts – statement of financial position

	RCB	WIB	AIB UK	Group	Total
					30 June 2017
		€ m	€ m	€ m	€ m
Loans and receivables to customers	42,060	9,138	8,526	98	59,822
Customer accounts	44,652	5,562	10,446	3,063	63,723

	RCB	WIB	AIB UK	Group	Total
					31 December 2016
		€ m	€ m	€ m	€ m
Loans and receivables to customers	42,689	9,080	8,745	125	60,639
Customer accounts	42,869	6,384	10,350	3,899	63,502

				Half-year 30 June 2017
Geographic information – continuing operations[(1)(2)]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	1,356	175	5	1,536
Inter-geographical segment revenue	3	1	(4)	–
Total revenue	1,359	176	1	1,536

				Half-year 30 June 2016
Geographic information – continuing operations[(1)(2)]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	1,175	344	9	1,528
Inter-geographical segment revenue	203	(195)	(8)	–
Total revenue	1,378	149	1	1,528

Revenue from external customers comprises interest and similar income (note 3) and interest expense and similar charges (note 4), and all other items of income (notes 5 to 9).

				30 June 2017
Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[(3)]	748	34	1	783

				31 December 2016
Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[(3)]	717	31	1	749

[(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.

3 Interest and similar income

	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Interest on loans and receivables to customers	**1,078**	1,133
Interest on loans and receivables to banks	**7**	12
Interest on NAMA senior bonds	**2**	7
Interest on financial investments available for sale	**81**	96
Interest on financial investments held to maturity	**65**	65
	1,233	1,313
Negative interest on liabilities	**8**	10
Interest and similar income	**1,241**	1,323

Interest income includes a credit of € 97 million (30 June 2016: a credit of € 94 million) transferred from other comprehensive income in respect of cash flow hedges and is included within 'Interest on loans and receivables to customers'.

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 € 54 million (30 June 2016: € 78 million).

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as offset against interest expense.

4 Interest expense and similar charges

	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Interest on deposits by central banks and banks	**4**	4
Interest on customer accounts	**128**	183
Interest on debt securities in issue	**15**	29
Interest on subordinated liabilities and other capital instruments	**16**	162
	163	378
Negative interest on assets	**1**	–
Interest expense and similar charges	**164**	378

Interest expense includes a charge of € 38 million (30 June 2016: a charge of € 38 million) transferred from other comprehensive income in respect of cash flow hedges and is included within 'Interest on customer accounts'.

Included within interest expense is a charge of € 5 million (30 June 2016: a charge of € 9 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.

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as offset against interest income.

5 Dividend income

Dividend income amounting to € 27 million (30 June 2016: € 25 million) relates to income from equity shares held as financial investments available for sale of which € 25 million relates to NAMA subordinated bonds (30 June 2016: € 25 million).

6 Net fee and commission income

	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Retail banking customer fees	185	179
Credit related fees	21	18
Insurance commissions	14	14
Fee and commission income	220	211
Fee and commission expense[1]	(25)	(18)
	195	193

[1]Fee and commission expense includes ATM expenses of € 2 million (30 June 2016: € 3 million) and credit card commissions of € 17 million (30 June 2016: € 10 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 3) or interest expense and similar charges (note 4).

7 Net trading income

	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Foreign exchange contracts	28	22
Interest rate contracts and debt securities[1]	34	(27)
Credit derivative contracts	(1)	5
Equity securities, index contracts and warrants	–	1[2]
	61	1

[1]Includes a gain of € 18 million (30 June 2016: loss of € 28 million) in relation to XVA adjustments. (For definition of XVA, see page 326 of the Annual Financial Report 2016).

[2]Mark to market gain on equity warrants.

The total hedging ineffectiveness on cash flow hedges reflected in the condensed consolidated income statement amounted to Nil (30 June 2016: Nil).

8 Profit on disposal/transfer of loans and receivables

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

	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Profit/(loss) on disposal of loans and receivables to customers	6	(5)
Gain on transfer of loans and receivables to NAMA	–	16
Total	6	11

NAMA finalised certain issues in relation to loans and receivables which had transferred in 2010 and 2011. This resulted in a net release of provisions in 2016.

9 Other operating income	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Profit on disposal of available for sale debt securities	17	50
Loss on termination of hedging swaps[1]	(8)	(29)
Profit on disposal of available for sale equity securities	7	273[2]
Acceleration/re-estimation of the timing of cash flows on NAMA senior bonds (note 22)	4	10
Net gains on buy back of debt securities in issue	–	1
Realisation/re-estimation of cash flows on restructured loans	146[3]	43
Miscellaneous operating income[4]	4	5
	170	353

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

[2]€ 272 million relates to the disposal of the equity interest in Visa Europe.

[3]See page 80 in the 'Risk management' section for information on realisation/re-estimation of cash flows on restructured loans.

[4]Miscellaneous operating income includes foreign exchange gains € 1 million (30 June 2016: a gain of € 1 million).

10 Administrative expenses	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Personnel expenses:		
Wages and salaries	287	281
Termination benefits[1]	24	3
Retirement benefits[2]	40	39
Social security costs	31	30
Other personnel expenses[3]	6	9
Total personnel expenses	388	362
General and administrative expenses:		
Bank levies and regulatory fees	45	48
Other general and administrative expenses	319	294
Total general and administrative expenses	364	342
	752	704

[1]For the half-year to 30 June 2017, a charge of € 24 million (30 June 2016: € 3 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 defined contribution expense charge of € 37 million (30 June 2016: € 36 million) and a long-term disability payments expense charge of € 3 million (30 June 2016: € 3 million). For details of retirement benefits, see note 11.

[3]Other personnel expenses include staff training, recruitment and various other staff costs.

Personnel expenses of € 14 million (30 June 2016: € 9 million) were capitalised as part of the cost of intangible assets.

11 Retirement benefits

AIB Group's accounting policy for retirement benefit obligations is set out on pages 235 and 236 of the Annual Financial Report 2016.

All defined benefit schemes operated by AIB Group closed to future accrual with effect from 31 December 2013 and employees who were members of a defined benefit scheme (including hybrid arrangements) transferred to a defined contribution ("DC") scheme. The total cost in respect of defined contribution schemes for the half-year ended 30 June 2017 was € 37 million (30 June 2016: € 36 million).

The Group's net pension surplus as at 30 June 2017 was € 38 million (31 December 2016: € 8 million), comprising retirement benefit liabilities of € 97 million (31 December 2016: € 158 million) and retirement benefit assets of € 135 million (31 December 2016: €166 million).

Valuations

Independent actuarial valuations for the AIB Group Irish Pension Scheme ('Irish scheme') and the AIB Group UK Pension Scheme ('UK scheme') are carried out on a triennial basis by the Schemes' actuary, Mercer. The last such valuations of the Irish and UK schemes were carried out as at 30 June 2015 and 31 December 2014 respectively using the projected unit credit method. The next actuarial valuations of the Irish and UK schemes as at 30 June 2018 and 31 December 2017, will be completed by 31 March 2019 and 31 December 2018, respectively.

Contributions

Payments in the half-year ended 30 June 2017 amounted to € 54 million (30 June 2016: € 48 million), of which € 40 million related to the Irish scheme (30 June 2016: € 40 million) 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 2017 and the year ended 31 December 2016. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	30 June 2017 %	31 December 2016 %
Irish scheme		
Rate of increase of pensions in payment[1]	**0.00**	0.00
Discount rate	**2.20**	1.90
Inflation assumptions[2]	**1.25**	1.25
UK scheme		
Rate of increase of pensions in payment	**3.10**	3.20
Discount rate	**2.60**	2.70
Inflation assumptions (RPI)	**3.10**	3.20

[1]Having taken actuarial and external legal advice, the Board has determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. The Board decided that there would be nil funding for discretionary increases in pensions in payment in the Group's main Irish pension schemes in 2017.

[2]The inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date.

The demographic assumptions for retirement benefit obligations are set out in note 12 to the consolidated financial statements of the Annual Financial Report 2016.

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:

	30 June 2017				31 December 2016			
	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liability) asset	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liability) asset
	€ m	€ m	€ m	€ m	€ m	€ m		€ m
At 1 January	(6,153)	6,413	(252)	8	(6,343)	6,197		(146)
Included in profit or loss								
Past service cost	–	–	–	–	–	–		–
Interest (cost) income	(62)	65	(2)	1	(178)	177		(1)
Administration costs	–	(1)	–	(1)	–	(1)		(1)
	(62)	64	(2)	–	(178)	176		(2)
Included in other comprehensive income								
Remeasurements (loss) gain:								
– Actuarial (loss) gain arising from:								
– Experience adjustments	(37)	–		(37)	79	–		79
– Changes in demographic assumptions	–	–		–	(10)	–		(10)
– Changes in financial assumptions	249	–		249	(160)	–		(160)
– Return on scheme assets excluding interest income	–	12		12	–	470		470
– Asset ceiling/minimum funding adjustments			(247)	(247)			(252)	(252)
				(23)[2]				127[2]
Translation adjustment on non-euro schemes	38	(39)		(1)	198	(228)		(30)
	250	(27)	(247)	(24)	107	242	(252)	97
Other								
Contributions by employer	–	54		54	–	59		59
Benefits paid	225	(225)		–	261	(261)		–
	225	(171)		54	261	(202)		59
At end of period	(5,740)	6,279	(501)	38	(6,153)	6,413	(252)	8

Recognised on the statement of financial position as:	30 June 2017	31 December 2016
Retirement benefit assets		
– UK scheme	128	159
– Other schemes	7	7
Total retirement benefit assets	135	166
Retirement benefit liabilities		
– Irish scheme	(40)	(80)
– EBS scheme	(36)	(56)
– Other schemes	(21)	(22)
Total retirement benefit liabilities	(97)	(158)
Net pension surplus	38	8

[1]In recognising the net surplus or deficit of a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement and any ceiling on the amount that the sponsor has a right to recover from a scheme.

[2]After tax € 15 million (31 December 2016: € 103 million) see page 107.

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

	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Debt securities	–	2
	–	2

13 Taxation

	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Allied Irish Banks, p.l.c. and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the period	(13)	(89)
Adjustments in respect of prior periods	–	–
	(13)	(89)
Foreign tax		
Current tax on income for the period	(9)	(13)
Adjustments in respect of prior periods	–	–
	(9)	(13)
	(22)	(102)
Deferred taxation		
Origination and reversal of temporary differences	(4)	(15)
Adjustments in respect of prior periods	(7)	1
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(76)	(78)
	(87)	(92)
Total tax charge for the period	**(109)**	(194)
Effective tax rate	**14.3%**	19%

13 Taxation *(continued)*

Analysis of selected other comprehensive income

Continuing operations	Gross €m	Tax €m	Net €m	Gross €m	Tax €m	Net €m
			Half-year 30 June 2017			Half-year 30 June 2016
Property revaluation reserves						
Net change in property revaluation reserves	–	–	–	–	(1)	(1)
Total	–	–	–	–	(1)	(1)
Retirement benefit schemes						
Actuarial gains/(losses) in retirement benefit schemes	(23)	8	(15)	(556)	51	(505)
Total	(23)	8	(15)	(556)	51	(505)
Foreign currency translation reserves						
Change in foreign currency translation reserves	(39)	–	(39)	(131)	–	(131)
Total	(39)	–	(39)	(131)	–	(131)
Cash flow hedging reserves						
Fair value (gains) transferred to income statement	(59)	7	(52)	(56)	7	(49)
Fair value (losses)/gains taken to other comprehensive income	(135)	16	(119)	423	(52)	371
Total	(194)	23	(171)	367	(45)	322
Available for sale securities reserves						
Fair value (gains) transferred to income statement	(24)	4	(20)	(323)	95	(228)
Fair value (losses) taken to other comprehensive income	(85)	7	(78)	(80)	15	(65)
Total	(109)	11	(98)	(403)	110	(293)

14 Earnings per share

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

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

(a) Basic	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Profit attributable to equity holders of the parent from continuing operations	652	823
Distribution on other equity interests	(18)	(18)
Profit attributable to ordinary shareholders of the parent from continuing operations	634	805
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	2,714.4	2,714.4
Earnings per share from continuing operations – basic	EUR 23.3c	EUR 29.6c

(b) Diluted – adjusted	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Profit attributable to ordinary shareholders of the parent from continuing operations (note 14 (a))	634	805
Dilutive effect of CCN's interest charge	–	135
Adjusted profit attributable to ordinary shareholders of the parent from continuing operations	634	940
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	2,714.4	2,714.4
Dilutive effect of CCNs	–	640.0
Potential weighted average number of shares	2,714.4	3,354.4
Earnings per share from continuing operations – diluted	EUR 23.3c	EUR 28.0c

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

Following the Initial Public Offering ("IPO") and AIB's admission on 27 June 2017 to the main markets for listed securities on the Irish Stock Exchange and theLondon Stock Exchange, AIB issued warrants on 4 July 2017 to the Minister for Finance to subscribe for 271,166,685 ordinary shares of Allied Irish Banks, p.l.c. The warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027 (see notes 34 and 41 for further detail). These warrants were not included in calculating the diluted earnings per share as they were antidilutive.

In July 2011, AIB issued €1.6 billion in contingent capital notes ("CCNs"). These notes were mandatorily redeemable and convertible into 640 million new AIB ordinary shares if the Core Tier 1 capital ratio fell below 8.25%. These incremental shares were included in calculating the diluted per share amounts in the six months to 30 June 2016. On 28 July 2016, AIB redeemed the CCNs at their nominal amount.

15 Distributions on equity shares and other equity interests

	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Ordinary shares – dividends paid	**250**	–
Other equity interests – distribution	**18**	18

Final dividends are not accounted for until they have been approved at the Annual General Meeting of shareholders or in the case of the interim dividend, when it has been declared by the Board of Directors and paid in the period. On 27 April 2017, a final dividend of € 0.0921 per ordinary share, amounting in total to € 250 million for 2016, was approved at the Annual General Meeting and subsequently paid on 9 May 2017. No dividends were paid on the ordinary shares in the half-year to 30 June 2016.

16 Disposal groups and non-current assets held for sale

	30 June 2017 € m	31 December 2016 € m
Loans and receivables to customers	**–**	–
Property[(1)]	**9**	11
Total disposal groups and non-current assets held for sale	**9**	11

[(1)]Includes property surplus to requirements and repossessed assets.

17 Trading portfolio financial assets

	30 June 2017 € m	31 December 2016 € m
Debt securities	**31**	–
Equity shares	**1**	1
	32	1

18 Derivative financial instruments

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

	30 June 2017 € m	31 December 2016 € m
Interest rate contracts[1]		
Notional principal amount	55,018	64,882
Positive fair value	1,236	1,692
Negative fair value	(1,226)	(1,485)
Exchange rate contracts[1]		
Notional principal amount	5,911	4,968
Positive fair value	83	73
Negative fair value	(35)	(79)
Equity contracts[1]		
Notional principal amount	926	1,036
Positive fair value	47	49
Negative fair value	(44)	(45)
Credit derivatives[1]		
Notional principal amount	130	–
Positive fair value	–	–
Negative fair value	(8)	–
Total notional principal amount	61,985	70,886
Total positive fair value[2]	1,366	1,814
Total negative fair value	(1,313)	(1,609)

[1]Interest rate, exchange rate, credit derivative and equity contracts are entered into for both hedging and trading purposes.

[2]At 30 June 2017, 57% of fair value relates to exposures to banks (31 December 2016: 64%).

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in the Risk management section of the Annual Financial Report 2016. There have been no significant changes to the Group's derivative activity as set out in note 22 to the consolidated financial statements in the Annual Financial Report 2016.

19 Loans and receivables to banks

	30 June 2017 € m	31 December 2016 € m
Funds placed with central banks	**538**	587
Funds placed with other banks	**688**	812
	1,226	1,399
Amounts include:		
Reverse repurchase agreements	**37**	–

Loans and receivables to banks include cash collateral of € 445 million (31 December 2016: € 494 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties.

Under reverse repurchase agreements, the Group accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted of government securities with a fair value of € 36 million. The fair value of collateral sold or repledged amounted to Nil. These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

20 Loans and receivables to customers

	30 June 2017 € m	31 December 2016 € m
Loans and receivables to customers	**62,528**	63,975
Reverse repurchase agreements	**67**	–
Amounts receivable under finance leases and hire purchase contracts	**1,322**	1,173
Unquoted debt securities	**11**	80
Provisions for impairment *(note 21)*	**(4,106)**	(4,589)
	59,822	60,639
Of which repayable on demand or at short notice	**9,620**	11,112
Amounts include:		
Due from associated undertakings and joint venture	**–**	–

The unwind of the discount on the carrying amount of impaired loans amounted to € 54 million (31 December 2016: € 140 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 € 66 million (31 December 2016: Nil) 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 include cash collateral amounting to € 1 million (31 December 2016: € 11 million) placed with derivative counterparties.

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

21 Provisions for impairment on loans and receivables

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

	30 June 2017 € m	31 December 2016 € m
At 1 January	**4,589**	6,832
Exchange translation adjustments	**(19)**	(130)
Credit to income statement – customers	**(19)**	(294)
Amounts written off	**(244)**	(1,829)
Disposals	**(205)**	–
Recoveries of amounts written off in previous years	**4**	10
At end of period	**4,106**	4,589
Total provisions are split as follows:		
Specific	**3,511**	4,047
IBNR	**595**	542
	4,106	4,589
Amounts include:		
Loans and receivables to customers *(note 20)*	**4,106**	4,589
	4,106	4,589

22 NAMA senior bonds

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

The senior bonds carry a guarantee of the Irish Government with interest payable semi-annually each March and September at a rate of six month Euribor, subject to a 0% floor. The bonds were issued on 1 March 2010 and all bonds issued on, or after, 1 March in any year will mature on or prior to 1 March in the following year. NAMA may, with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

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

	30 June 2017 € m	31 December 2016 € m
At 1 January	**1,799**	5,616
Amortisation of discount	**2**	11
Repayments	**(1,445)**	(3,838)
Acceleration/re-estimation of the timing of cash flows	**4**	10
At end of period	**360**	1,799

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. The assumptions underpinning the repayments and their timing are subject to continuing review. Accordingly, in the half-year to 30 June 2017, a gain of € 4 million has been recognised following the acceleration of repayments by NAMA (31 December 2016: a gain of € 10 million). These gains are accounted for as adjustments to the carrying value of the bonds and are reflected in 'Other operating income'.

The estimated fair value of the bonds at 30 June 2017 is € 361 million (31 December 2016: € 1,807 million). The nominal value of the bonds is € 360 million (31 December 2016: € 1,805 million). Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of A (31 December 2016: A) i.e. the external rating of the Sovereign.

At 30 June 2017, € 20 million (31 December 2016: € 729 million) of NAMA senior bonds were pledged to central banks and banks (note 27).

23 Financial investments available for sale

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

	30 June 2017 € m	31 December 2016 € m
Debt securities		
Irish Government securities	**4,933**	5,114
Euro government securities	**2,532**	2,706
Non-Euro government securities	**180**	230
Supranational banks and government agencies	**1,463**	1,719
Collateralised mortgage obligations	**329**	433
Other asset backed securities	**12**	12
Euro bank securities	**4,214**	4,551
Euro corporate securities	**39**	47
Non-Euro corporate securities	**–**	20
Total debt securities	**13,702**	14,832
Equity securities		
Equity securities – NAMA subordinated bonds	**480**	466
Equity securities – other	**151**	139
Total equity securities	**631**	605
Total financial investments available for sale	**14,333**	15,437

Net unrealised gains on debt securities amounted to € 581 million (31 December 2016: € 753 million) and net unrealised gains on equity securities amounted to € 465 million (31 December 2016: € 446 million).

24 Financial investments held to maturity

Analysis of movements in financial investments held to maturity	30 June 2017 € m	31 December 2016 € m
At 1 January	**3,356**	3,483
Amortisation of fair value gain	**(61)**	(127)
At end of period	**3,295**	3,356

Financial investments held to maturity comprised of Irish Government bonds.

25 Interests in associated undertakings and joint venture

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

Income statement	**Half-year 30 June 2017 € m**	Half-year 30 June 2016 € m
Share of results of associated undertakings and joint venture	**10**	15
Reversal of impairment of associated undertakings	**–**	8
	10[1]	23[1]

Share of net assets including goodwill	**30 June 2017 € m**	31 December 2016 € m
At 1 January	**65**	70
Income for the period	**10**	27
Dividends received from associated undertakings/income from joint venture[2]	**(7)**	(40)
Investments in associated undertakings/joint venture[3]	**81**	–
Reversal of impairment of associated undertakings	**–**	8
At end of period[4]	**149**	65
Disclosed in the statement of financial position within:		
Interests in associated undertakings	**149**	65
Of which listed on a recognised stock exchange	**–**	–

[1] Includes AIB Merchant Services € 10 million profit and Aviva Health Group Ireland Limited Nil (30 June 2016: AIB Merchant Services € 14 million profit and Aviva Health Group Ireland Limited € 9 million profit which includes an impairment reversal of € 8 million).

[2] Includes dividends received from: AIB Merchant Services € 7 million (31 December 2016: € 16 million); Aviva Undershaft Five Limited Nil (31 December 2016: € 24 million).

[3] Includes investment amounting to € 76 million in Greencoat Renewables plc and a capital contribution of € 5 million to Zolter Services d.a.c., the holding company of First Merchant Processing (Ireland) d.a.c., trading as AIB Merchant Services.

[4] Includes AIB Group's investments in AIB Merchant Services, Aviva Undershaft Five Limited and Greencoat Renewables plc. Aviva Undershaft Five Limited with a carrying value of € 2 million, is in the process of being liquidated.

26 Deferred taxation

Analysis of movements in deferred taxation	30 June 2017 € m	31 December 2016 € m
At 1 January	**2,747**	2,897
Exchange translation and other adjustments	**1**	(19)
Deferred tax through other comprehensive income	**42**	81
Income statement – Continuing operations *(note 13)*	**(87)**	(212)
At end of period	**2,703**	2,747
Analysed as to:		
Deferred tax assets	**3,008**	3,105
Deferred tax liabilities	**(305)**	(358)
	2,703	2,747
Represented on the statement of financial position:		
Deferred tax assets	**2,796**	2,828
Deferred tax liabilities	**(93)**	(81)
	2,703	2,747

At 30 June 2017, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,703 million (31 December 2016: € 2,747 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 provisions for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of the business.

Net deferred tax assets at 30 June 2017 of € 2,637 million (31 December 2016: € 2,651 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.

The Group has not recognised deferred tax assets in respect of: Irish tax on unused tax losses at 30 June 2017 of € 122 million (31 December 2016: € 122 million); overseas tax (UK and USA) on unused tax losses of € 3,253 million (31 December 2016: € 3,315 million); and foreign tax credits for Irish tax purposes of € 3 million (31 December 2016: € 3 million). Of these tax losses totalling € 3,375 million for which no deferred tax is recognised: € 31 million expires in 2032; € 39 million in 2033; € 25 million in 2034; and € 5 million in 2035.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates for which deferred tax liabilities have not been recognised amounted to Nil (31 December 2016: Nil).

Deferred tax recognised directly in equity amounted to Nil (31 December 2016: Nil).

Additional information on the basis of recognition of deferred tax assets on unused tax losses is included in Note 2 'Critical accounting judgements and estimates' on pages 257 to 259 of the Annual Financial Report 2016.

27 Deposits by central banks and banks

	30 June 2017 € m	31 December 2016 € m
Central banks		
Eurosystem refinancing operations[1]	1,900	1,900
Other borrowings	25	12
	1,925	1,912
Banks		
Securities sold under agreements to repurchase	2,637	4,973
Other borrowings – secured	–	150
– unsecured	393	697
	3,030	5,820
	4,955	7,732
Amounts include:		
Due to associated undertakings and joint venture	–	–

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

Securities sold under agreements to repurchase and Eurosystem refinancing operations, with the exception of € 1.9 billion funded through the ECB two year Targeted Long Term Refinancing Operation II ("TLTRO II") 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. Repurchase agreements with the ECB are completed under a Master Repurchase Agreement.

Deposits by central banks and banks include cash collateral at 30 June 2017 of € 257 million (31 December 2016: € 268 million) received from derivative counterparties in relation to net derivative positions and also from repurchase agreement counterparties.

Financial assets pledged

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

	30 June 2017			31 December 2016		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	3,461	2,694	6,155	3,293	5,239	8,532
Of which:						
Government securities[1]	20	1,594	1,614	498	3,891	4,389
Other securities[2]	3,441	1,100	4,541	2,795	1,348	4,143

[1]Includes NAMA senior bonds.

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

28 Customer accounts

	30 June 2017 € m	31 December 2016 € m
Current accounts	**31,164**	29,721
Demand deposits	**13,475**	12,663
Time deposits	**18,902**	20,496
Securities sold under agreements to repurchase[1]	**182**	622
	63,723	63,502
Of which:		
Non-interest bearing current accounts	**26,971**	25,748
Interest bearing deposits, current accounts and short-term borrowings	**36,752**	37,754
	63,723	63,502
Amounts include:		
Due to associated undertakings and joint venture	**149**	271

[1]At 30 June 2017, the Group had pledged government available for sale securities with a fair value of € 154 million (31 December 2016: € 220 million) and non-government available for sale securities with a fair value of € 38 million (31 December 2016: € 420 million) as collateral for these facilities and providing access to future funding facilities (see note 44 to the consolidated financial statements in the Annual Financial Report 2016 for further information).

Customer accounts include cash collateral of € 44 million (31 December 2016: € 60 million) received from derivative counterparties in relation to net derivative positions (see note 44 to the consolidated financial statements in the Annual Financial Report 2016 for further information).

At 30 June 2017, the Group's five largest customer deposits amounted to 2% (31 December 2016: 3%) of total customer accounts.

29 Trading portfolio financial liabilities

	30 June 2017 € m	31 December 2016 € m
Debt securities:		
Government securities	**28**	–
	28	–

30 Debt securities in issue

	30 June 2017 € m	31 December 2016 € m
Bonds and medium-term notes:		
European medium-term note programmes	**1,000**	1,000
Bonds and other medium-term notes	**3,590**	5,733
	4,590	6,733
Other debt securities in issue:		
Commercial paper	**136**	147
	4,726	6,880

In the six months to 30 June 2017, AIB issued debt securities amounting to € 282 million under the short-term commercial paper programme. In 2016, issuances related to an EMTN bond (€ 1,000 million) and € 389 million under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 2,428 million (31 December 2016: € 1,509 million) of which € 450 million related to the redemption of debt securities issued by the securitisation vehicles, Emerald Mortgages No. 4 Public Limited Company and Tenterden Funding p.l.c. (note 38).

31 Other liabilities

	30 June 2017 € m	31 December 2016 € m
Notes in circulation	**342**	366
Items in transit	**100**	122
Creditors	**10**	10
Fair value of hedged liability positions	**52**	146
Other	**425**	329
	929	973

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32 Provisions for liabilities and commitments

						30 June 2017
	Liabilities and charges	NAMA[1] provisions	Onerous[2] contracts	Legal claims	Other[3] provisions	Total
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	47	2	12	32	153	246
Reclassification	–	–	–	7	(7)	–
Exchange translation adjustments	(2)	–	–	–	–	(2)
Charged to income statement	2[4]	–	–	3	3	8
Released to income statement	(6)[4]	–	(1)	(1)	(6)	(14)
Provisions utilised	(5)	–	(2)	(1)	(53)	(61)
At 30 June 2017	**36**	**2**	**9**	**40**	**90**	**177[5]**

						31 December 2016
	Liabilities and charges	NAMA[1] provisions	Onerous[2] contracts	Legal claims	Other[3] provisions	Total
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	49	39	13	32	249	382
Transfers in	–	(12)	–	–	–	(12)
Exchange translation adjustments	–	–	(1)	(1)	(6)	(8)
Charged to income statement	2[4]	14[1]	4	6	56	82
Released to income statement	(4)[4]	(31)[1]	(2)	(4)	(15)	(56)
Provisions utilised	–	(8)	(2)	(1)	(131)	(142)
At 31 December 2016	47	2	12	32	153	246[5]

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

At 31 December 2015, the Group made a provision of € 190 million in relation to the tracker mortgage examination requested by the Central Bank of Ireland at that time. This provision related to the expected outflow for compensation/refunds of interest to customers in respect of tracker mortgages where rates given to customers were either not in accordance with original contract terms or where the transparency of terms did not conform to that which a customer could reasonably expect. The provision covered various compensations and costs arising from this issue.

Considerable progress has been made in the intervening period in identifying impacted customers and in calculating and making redress. To date, € 133 million of the provision has been utilised covering both redress and related costs leaving a residual provision of € 57 million at 30 June 2017.

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

For additional information see note 38 to the consolidated financial statements in the Annual Financial Report 2016.

[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 the provisions for customer redress and related matters noted above, other restitution provisions, and miscellaneous provisions.
[4]Included in writeback of provisions for liabilities and commitments in income statement.
[5]The total provisions for liabilities and commitments expected to be settled within one year amount to € 92 million (31 December 2016: € 141 million).

33 Subordinated liabilities and other capital instruments

	30 June 2017 € m	31 December 2016 € m
Allied Irish Banks, p.l.c.		
€ 1.6bn Contingent Capital Tier 2 Notes due 2016		
Proceeds of issue	–	1,600
Fair value adjustment on initial recognition	–	(447)
Amortisation	–	447
	–	1,600
Redemption	–	(1,600)
	–	–
Dated loan capital – European Medium Term Note Programme:		
€ 750 million Subordinated Tier 2 Notes due 2025, Callable 2020	750	750
€ 500m Callable Step-up Floating Rate Notes due October 2017		
– nominal value € 25.5 million (maturity extended to 2035 as a result of the SLO)	9	8
£ 368m 12.5% Subordinated Notes due June 2019		
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	32	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	1
	792	791
	792	791

Maturity of dated loan capital	30 June 2017 € m	31 December 2016 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	792	791

The € 1.6bn Contingent Capital Tier 2 Notes matured on 28 July 2016 and were redeemed at their nominal value of € 1.6 billion.

For details of subordinated liabilities and other capital instruments, refer to note 39 to the consolidated financial statements in the Annual Financial Report 2016.

34 Share capital

	30 June 2017		31 December 2016	
	Number of shares m	€ m	Number of shares m	€ m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each	**4,000.0**	**2,500**	4,000.0	2,500
Issued				
Ordinary share capital				
Ordinary shares of € 0.625 each	**2,714.4**	**1,696**	2,714.4	1,696

Following the IPO (Note 41 'Related Party Transactions – Relationship with the Irish Government'), AIB ordinary shares were admitted to the main markets for listed securities on the Irish Stock Exchange and the London Stock Exchange on 27 June 2017. The previous listing on the Enterprise Securities Market of the Irish Stock Exchange was cancelled on this date.

On 26 April 2017, the Minister for Finance issued a Warrant Creation Notice requiring AIB to issue warrants to the Minister five business days after re-admission of AIB's ordinary shares to a regulated market. On 4 July 2017, AIB issued warrants to the Minister to subscribe for 271,166,685 ordinary shares of Allied Irish Banks, p.l.c. in accordance with the terms of the Warrant Agreement approved by shareholders in December 2015. The exercise price for the warrants is € 8.80 per ordinary share and the warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027.

Share premium	30 June 2017 € m	31 December 2016 € m
At beginning and end of period:	**1,386**	1,386

Movements in share capital

There were no movements in the share capital or share premium for the half-year to 30 June 2017 or for the year to 31 December 2016.

Structure of the Company's share capital as at 30 June 2017	Authorised share capital %	Issued share capital %
Class of share		
Ordinary share capital	**100**	**100**

The following table shows the Group's capital resources:

Capital resources	30 June 2017 € m	31 December 2016 € m
Equity	**13,209**	13,148
Dated capital notes *(note 33)*	**792**	791
Total capital resources	**14,001**	13,939

35 Other equity interests

	30 June 2017 € m	31 December 2016 € m
At beginning and end of period	494	494

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

On 3 December 2015, as part of its capital reorganisation, AIB issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ('AT1s'). The securities, which are accounted for as equity in the statement of financial position, are included in AIB's capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

For details of these securities, refer to note 42 to the consolidated financial statements in the Annual Financial Report 2016.

36 Capital reserves and capital redemption reserves

	30 June 2017			31 December 2016		
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	1,021	178	1,199	1,382	178	1,560
Transfer to revenue reserves:						
Anglo business transfer	(66)	–	(66)	(285)	–	(285)
CCNs issuance	–	–	–	(76)	–	(76)
	(66)	–	(66)	(361)	–	(361)
At end of period	955[(1)]	178	1,133	1,021	178	1,199

[(1)]Relates to the acquisition of EBS d.a.c.

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 ab in note 1 to the consolidated financial statements in the Annual Financial Report 2016. The transfers to revenue reserves relate to the capital contributions being deemed distributable. The capital contribution reserves which arose on a) the Anglo business transfer and b) the CCNs issuance are now deemed to be distributable and have been transferred in full to revenue reserves.

Capital redemption reserves	30 June 2017 € m	31 December 2016 € m
At beginning and end of period	14	14

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

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

	Contract amount	
	30 June 2017 € m	31 December 2016 € m
Contingent liabilities[(1)] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**502**	527
Other contingent liabilities	**384**	383
	886	910
Commitments[(2)]		
Documentary credits and short-term trade-related transactions	**59**	62
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[(3)]	**7,321**	7,760
1 year and over[(4)]	**2,560**	2,467
	9,940	10,289
	10,826	11,199

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

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

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

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

The credit ratings of contingent liabilities and commitments are set out in the following table. Details of the Group's rating profiles are set out in the 'Risk management' section of this report.

	30 June 2017 € m	31 December 2016 € m
Good upper	**4,724**	3,231
Good lower	**5,618**	7,145
Watch	**102**	383
Vulnerable	**229**	268
Impaired	**153**	172
Total	**10,826**	11,199

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

Legal proceedings

AIB Group, in the course of its business, is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as the 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. Accordingly, the Group has maintained a provision for the amount of the expected outflow in respect of various adjustments. If the actual amount provided proves to be lower or higher than the provision, an inflow or outflow of economic benefits may result to the Group (notes 32 and 38).

(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.

38 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity (“SPE”) forms the basis for their treatment in the Group’s financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements.* The primary form of SPE utilised by the Group are securitisations and employee compensation trusts. Further details of SPEs are set out in note 47 to the consolidated financial statements in the Annual Financial Report 2016.

In addition, AIB enters into repurchase agreements and securities lending transactions in the normal course of business that do not result in the derecognition of the financial assets concerned. Details of these transactions are set out in note 47 to the consolidated financial statements in the Annual Financial Report 2016.

There was no new securitisation activity in the half-year to 30 June 2017. However, in March 2017, the special purpose entity, Emerald Mortgages No. 4 Public Limited Company redeemed all outstanding notes of which € 392 million were held by third parties and included in ‘Debt securities in issue’ (note 30). Since the securitised assets had not been derecognised in AIB Group’s financial statements, the redemption of the bonds had no impact on these assets. (See page 320 of the Annual Financial Report 2016.)

Furthermore, in June 2017, the special purpose entity, Tenterden Funding p.l.c. redeemed all outstanding notes of which € 58 million were held by third parties and included in ‘Debt securities in issue’ (note 30). These securitised assets had not been derecognised in AIB Group’s financial statements, accordingly, the redemption of the bonds had no impact on these assets. (See page 320 of the Annual Financial Report 2016.)

39 Fair value of financial instruments

					30 June 2017
	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	31	31	–	–	31
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,236	–	817	419	1,236
Exchange rate derivatives	83	–	83	–	83
Equity derivatives	47	–	44	3	47
Financial investments available for sale					
Government securities	7,645	7,645	–	–	7,645
Supranational banks and government agencies	1,463	1,463	–	–	1,463
Asset backed securities	341	329	12	–	341
Bank securities	4,214	4,214	–	–	4,214
Corporate securities	39	39	–	–	39
Equity securities	631	–	1	630	631
	15,731	13,721	958	1,052	15,731
Financial assets not measured at fair value					
Cash and balances at central banks	5,262	460[1]	4,802	–	5,262
Items in the course of collection	195	–	–	195	195
Loans and receivables to banks	1,226	–	550	989	1,539
Loans and receivables to customers					
Mortgages[2]	32,752	–	–	30,519	30,519
Non-mortgages	27,070	–	–	26,652	26,652
Total loans and receivables to customers	59,822	–	–	57,171	57,171
NAMA senior bonds	360	–	–	361	361
Financial investments held to maturity	3,295	3,353	–	–	3,353
Other financial assets	569	–	–	569	569
	70,729	3,813	5,352	59,285	68,450
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	28	28	–	–	28
Derivative financial instruments					
Interest rate derivatives	1,226	–	1,101	125	1,226
Exchange rate derivatives	35	–	35	–	35
Equity derivatives	44	–	42	2	44
Credit derivatives	8	–	8	–	8
	1,341	28	1,186	127	1,341
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	395	–	3	392	395
Secured borrowings	4,560	–	1,927	2,638	4,565
Customer accounts					
Current accounts	31,164	–	–	31,164	31,164
Demand deposits	13,475	–	–	13,475	13,475
Time deposits	18,902	–	–	18,972	18,972
Securities sold under agreements to repurchase	182	–	–	182	182
Debt securities in issue					
Bonds and medium term notes	4,590	4,664	109	–	4,773
Other debt securities in issue	136	–	136	–	136
Subordinated liabilities and other capital instruments	792	802	78	–	880
Other financial liabilities	1,208	–	–	1,208	1,208
	75,404	5,466	2,253	68,031	75,750

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

39 Fair value of financial instruments *(continued)*

					31 December 2016
	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	1,692	–	1,189	503	1,692
Exchange rate derivatives	73	–	73	–	73
Equity derivatives	49	–	43	6	49
Financial investments available for sale					
Government securities	8,050	8,050	–	–	8,050
Supranational banks and government agencies	1,719	1,719	–	–	1,719
Asset backed securities	445	432	13	–	445
Bank securities	4,551	4,551	–	–	4,551
Corporate securities	67	67	–	–	67
Equity securities	605	–	1	604	605
	17,252	14,819	1,320	1,113	17,252
Financial assets not measured at fair value					
Cash and balances at central banks	6,519	598[1]	5,921	–	6,519
Items in the course of collection	134	–	–	134	134
Loans and receivables to banks	1,399	–	587	812	1,399
Loans and receivables to customers					
Mortgages[2]	33,375	–	–	31,296	31,296
Non-mortgages	27,264	–	–	26,790	26,790
Total loans and receivables to customers	60,639	–	–	58,086	58,086
NAMA senior bonds	1,799	–	–	1,807	1,807
Financial investments held to maturity	3,356	3,439	–	–	3,439
Other financial assets	430	–	–	430	430
	74,276	4,037	6,508	61,269	71,814
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	1,485	–	1,328	157	1,485
Exchange rate derivatives	79	–	79	–	79
Equity derivatives	45	–	41	4	45
	1,609	–	1,448	161	1,609
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	709	–	–	709	709
Secured borrowings	7,023	–	1,901	5,123	7,024
Customer accounts					
Current accounts	29,721	–	–	29,721	29,721
Demand deposits	12,663	–	–	12,663	12,663
Time deposits	20,496	–	–	20,625	20,625
Securities sold under agreements to repurchase	622	–	–	622	622
Debt securities in issue					
Bonds and medium term notes	6,733	6,391	559	–	6,950
Other debt securities in issue	147	–	147	–	147
Subordinated liabilities and other capital instruments	791	766	79	–	845
Other financial liabilities	442	–	–	442	442
	79,347	7,157	2,686	69,905	79,748

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

39 Fair value of financial instruments *(continued)*

Details of the methodologies used for calculating fair value and definition of terms are set out in note 49 to the consolidated financial statements in the Annual Financial Report 2016.

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

There were no transfers between Level 1 and Level 2 of the fair value hierarchy:

Reconciliation of balances in Level 3 of the fair value hierarchy

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

	30 June 2017					
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2017	509	–	604	1,113	161	161
Transfers into Level 3[1]	2	–	–	2	(2)	(2)
Transfers out of Level 3[1]	(7)	–	–	(7)	–	–
Total gains or (losses) in:						
Profit or loss						
– Net trading income	(82)	–	–	(82)	(25)	(25)
– Other operating income	–	–	7	7	–	–
	(82)	–	7	(75)	(25)	(25)
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	–	21	21	–	–
– Net change in fair value of cash flow hedges	–	–	–	–	–	–
	–	–	21	21	–	–
Purchases/additions	–	–	9	9	–	–
Sales/disposals	–	–	(11)	(11)	–	–
Settlements	–	–	–	–	(7)	(7)
At 30 June 2017	422	–	630	1,052	127	127

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

Net transfers out of Level 3 are a function of the observability of inputs into instrument valuations.

39 Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

					31 December 2016	
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2016	512	11	780	1,303	291	291
Transfers into Level 3[(1)]	38	–	–	38	–	–
Total gains or (losses) in:						
Profit or loss						
– Net trading income	(41)	–	–	(41)	(70)	(70)
– Other operating income	–	–	272	272	–	–
	(41)	–	272	231	(70)	(70)
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	–	(250)	(250)	–	–
– Net change in fair value of cash flow hedges	–	–	–	–	(2)	(2)
	–	–	(250)	(250)	(2)	(2)
Purchases/additions	–	–	79	79	–	–
Sales/disposals	–	(9)	(277)	(286)	–	–
Settlements	–	(2)	–	(2)	(58)	(58)
At 31 December 2016	509	–	604	1,113	161	161

[(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 the measurement of fair value for a particular agreement relied mainly on unobservable data.

The table below sets out the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 30 June 2017 and 31 December 2016:

	30 June 2017 € m	31 December 2016 € m
Net trading income – gains	**14**	136

39 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair Value				Range of estimates	
Financial instrument		**30 June 2017 € m**	31 December 2016 € m	**Valuation technique**	**Significant unobservable input**	**30 June 2017**	31 December 2016
Uncollateralised customer derivatives	Asset	**422**	509	CVA	LGD	**46% – 66% (Base 53%)**	47% – 67% (Base 54%)
	Liability	**127**	161		PD	**0.5% – 1.2% (Base 0.8% 1 year PD)**	0.8% – 1.6% (Base 1.2% 1 year PD)
					Combination LGD and PD[1]	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
				FVA	Funding spreads	**(0.3%) to 0.3%**	(0.6%) to 0.5%

[1]The fair value measurement sensitivity to unobservable inputs at 30 June 2017 ranges from negative € 37 million to positive € 19 million (31 December 2016: negative € 37 million to positive € 23 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.

Financial instrument		**30 June 2017 € m**	31 December 2016 € m	**Valuation technique**	**Significant unobservable input**	**30 June 2017**	31 December 2016
NAMA subordinated bonds	Asset	**480**	466	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 5.21% applicable to base asset price. The estimates range from (a) discount rate of 9%; to (b) an early full repayment of coupons plus capital (March 2019).	Discount rate of 7.21% applicable to base asset price. The estimates range from: (a) discount rate of 9%; to (b) an early full repayment of coupons plus capital (March 2019).

In June 2016, the Group received Series B Preferred Stock in Visa Inc. as part consideration for its holding of shares in Visa Europe. This preferred stock will be convertible into Class A Common Stock of Visa Inc. at some point in the future. The conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate. In addition, the stock, being denominated in US dollars, is subject to foreign exchange risk.

		Fair Value				Range of estimates	
Financial instrument		**30 June 2017 € m**	31 December 2016 € m	**Valuation technique**	**Significant unobservable inputs**	**30 June 2017**	**31 December 2016**
Visa Inc. Series B Preferred Stock	Asset	**80**	70	Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. (45%). This was converted to euro at the period end rate.	Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.	Estimates range from: (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 100% discount for conversion rate variability.	Estimates range from: (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 100% discount for conversion rate variability.

39 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 2017			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	25	(43)	–	–
Financial investments available for sale – equity securities	–	(65)	65	(56)
Total	25	(108)	65	(56)
Classes of financial liabilities				
Derivative financial instruments	1	(2)	–	–
Total	1	(2)	–	–

	31 December 2016			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	38	(47)	–	–
Financial investments available for sale – equity securities	–	(65)	81	(12)
Total	38	(112)	81	(12)
Classes of financial liabilities				
Derivative financial instruments	–	(3)	–	–
Total	–	(3)	–	–

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.

40 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Profit on disposal of business	–	(1)
Loss on disposal of property, plant and equipment	1	–
Profit on disposal/transfer of loans and receivables	(6)	(11)
Dividends received from equity securities	(27)	(25)
Dividends received from associated undertakings	(7)	(12)
Associated undertakings	(10)	(23)
Writeback of provisions for impairment on loans and receivables	(19)	(211)
Writeback of provisions for impairment on financial investments available for sale	–	(2)
Writeback of provisions for liabilities and commitments	(4)	(1)
Change in other provisions	(2)	42
Depreciation, amortisation and impairment	55	45
Interest on subordinated liabilities and other capital instruments	16	162
Net gain on buy back of debt securities in issue	–	(1)
Profit on disposal of financial investments available for sale	(24)	(323)
Loss on termination of hedging swaps	8	29
Remeasurement of NAMA senior bonds	(4)	(10)
Amortisation of premiums and discounts	47	111
Fair value gain on re-estimation of cash flows on restructured loans	(65)	(13)
Change in prepayments and accrued income	(6)	41
Change in accruals and deferred income	(93)	(182)
Effect of exchange translation and other adjustments[1]	(104)	58
Total non-cash items	**(244)**	(327)
Contributions to defined benefit pension schemes	(54)	(48)
Dividends received from equity securities	27	25
Total other items	**(27)**	(23)
Non-cash and other items for the period	**(271)**	(350)

[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.

40 Statement of cash flows *(continued)*

Change in operating assets[1]	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Change in loans and receivables to customers	435	993
Change in NAMA senior bonds	1,445	2,442
Change in loans and receivables to banks	89	750
Change in trading portfolio financial assets	(12)	–
Change in derivative financial instruments	184	46
Change in items in course of collection	(63)	(28)
Change in other assets	26	514
	2,104	4,717

Change in operating liabilities[1]	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Change in deposits by central banks and banks	(2,737)	(5,786)
Change in customer accounts	664	(325)
Change in trading portfolio financial liabilities	28	(86)
Change in debt securities in issue	(2,146)	949
Change in notes in circulation	(24)	(60)
Change in other liabilities	(64)	12
	(4,279)	(5,296)

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

Analysis of cash and cash equivalents

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

	Half-year 30 June 2017 € m	Half-year 30 June 2016 € m
Cash and balances at central banks	5,262	5,277
Loans and receivables to banks	577	1,496
	5,839	6,773

The Group is required to maintain balances with the Central Bank of Ireland which at 30 June 2017 amounted to € 20 million (30 June 2016: € 55 million).

The Group is required by law to maintain reserve balances with the Bank of England. At 30 June 2017, these amounted to € 517 million (30 June 2016: € 552 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.

41 Related party transactions

Other than as outlined below, there have been no related party transactions or changes therein since 31 December 2016 that have materially affected AIB Group's financial position or performance in the six months ended 30 June 2017.

Transactions with Key Management Personnel

Key Management Personnel as defined in IAS 24, Related Party Disclosures, comprise Executive and Non-Executive Directors and Senior Executive Officers.

As at 30 June 2017, the aggregate of loans and overdrafts/credit cards outstanding to Key Management Personnel and their close family members amounted to € 4.76 million; 26 persons (31 December 2016: € 5.23 million; 26 persons).

Loans to Key Management Personnel and their close family members are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with the Group, and do not involve more than the normal risk of collectability or present other unfavourable features.

During the period, no impairment charges or provisions have been recognised in respect of any loans or facilities and all interest that has fallen due has been paid.

Relationship with the Irish Government

AIB's relationship with the Irish Government is set out in note 51(f) to the consolidated financial statements in the Annual Financial Report 2016. As detailed, this relationship encompasses a number of dimensions, namely:

- Capital investments;
- Capital reorganisation;
- Guarantee schemes;
- NAMA;
- Funding support;
- PCAR/PLAR;
- Credit Institutions (Stabilisation) Act 2010:
  - (i) Direction Order;
  - (ii) Transfer Order;
  - (iii) Subordinated Liabilities Order;
- Central Bank and Credit Institutions (Resolution) Act 2011; and
- Relationship framework which was signed in March 2012.

The significant changes since 31 December 2016 that affected AIB's relationship with the Irish Government are as follows:
- Equity holdings;
- Issue of warrants to the Minister for Finance; and
- Relationship Framework.

Equity holdings

At 31 December 2016, the Irish Government, through the ISIF, held 2,710,821,149 ordinary shares in AIB with a nominal value of € 0.625 per share (99.9% of the total issued ordinary share capital). Following the Initial Public Offering ("IPO") to certain institutional and retail investors in June 2017, the Irish Government sold 780,384,606 of these ordinary shares (28.75% of the issued ordinary share capital). The Irish Government now holds 1,930,436,543 ordinary shares in AIB (71.12% of total).

Trading in AIB's ordinary shares on the Enterprise Securities Market of the Irish Stock Exchange ("ESM") was suspended on 23 June 2017. Admission to the Official Lists together with admission to trading on the main markets for listed securities on the Irish Stock Exchange and the London Stock Exchange commenced on 27 June 2017.

41 Related party transactions *(continued)*

Relationship with the Irish Government

Under the 2011 Placing Agreement between AIB, the Minister for Finance ("the Minister"), the NPRFC and the NTMA, AIB agreed to effect and/or facilitate, at its own expense, the placing or offer to the public or the admission to trading of the ordinary shares owned by the Minister. In this regard, AIB paid € 12 million in the half-year to 30 June 2017 on behalf of the Minister in respect of commissions payable to underwriters and intermediaries and € 4 million for transaction advisory fees and expenses incurred by the Minister and the underwriters in connection with the IPO.

Issue of warrants to the Minister for Finance

As part of the 2015 Capital Reorganisation, AIB entered into a Warrant Agreement with the Minister and granted the Minister the right to receive warrants to subscribe for additional ordinary shares.

On 26 April 2017, the Minister exercised his rights under the Warrant Agreement by issuing a Warrant Notice to AIB requiring it to issue warrants to the Minister to subscribe for such number of ordinary shares representing 9.99% in aggregate of the issued share capital of the company at admission of the ordinary shares to the Official Lists and to trading in accordance with the Listing Rules on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange.

Following the admission to listing on the Irish Stock Exchange and the London Stock Exchange, AIB issued warrants to the Minister on 4 July 2017 to subscribe for 271,166,685 ordinary shares of AIB representing 9.99% of the issued share capital. The exercise price for the warrants is 200% of the Offer Price of € 4.40 per ordinary share, the Offer Price being the price in euro per ordinary share which was payable under the IPO. This price may be adjusted in accordance with the terms of the Warrant Instrument and the warrants will be capable of exercise by the holder of the warrants during the period commencing on 27 June 2018 and ending on 27 June 2027.

In accordance with the terms of the Warrant Agreement, no cash consideration was payable by the Minister to AIB in respect of the issue of the warrants.

Relationship Framework

The relationship between AIB and the Minister is governed by the 2012 Relationship Framework, which was amended and restated on 12 June 2017. 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 and AIB's management team.

41 Related party transactions *(continued)*

Relationship with the Irish Government

Balances held with the Irish Government and related entities

The following table outlines the balances held with Irish Government entities[1] together with the highest balances held at any point during the period.

	Note	30 June 2017 Balance € m	30 June 2017 Highest[2] balance held € m	31 December 2016 Balance € m	31 December 2016 Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	**204**	**3,452**	1,529	3,618
Trading portfolio financial assets		**18**	**50**	–	–
Derivative financial instruments		**2**	**3**	–	7
Loans and receivables to banks	b	**20**	**21**	21	965
Loans and receivables to customers		**9**	**30**	19	82
NAMA senior bonds	c	**360**	**1,800**	1,799	5,619
Financial investments available for sale	d	**5,413**	**5,694**	5,580	5,854
Financial investments held to maturity	e	**3,295**	**3,356**	3,356	3,483
Total assets		**9,321**		12,304	

	Note	30 June 2017 Balance € m	30 June 2017 Highest[2] balance held € m	31 December 2016 Balance € m	31 December 2016 Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks	f	**1,903**	**1,912**	1,912	2,950
Customer accounts	g	**845**	**1,153**	806	1,020
Trading portfolio financial liabilities		**12**	**41**	–	86
Derivative financial instruments		**3**	**18**	18	55
Total liabilities		**2,763**		2,736	

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

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

- a Cash and balances at the central banks represent the minimum reserve requirements which AIB is required to hold with the Central Bank. Balances on this account can fluctuate significantly due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. The Group is required to maintain a monthly average Primary Liquidity balance which at 30 June 2017 was € 525 million (31 December 2016: € 529 million).
- b The balances on loans and receivables to banks include statutory balances with the Central Bank as well as overnight funds placed.
- c NAMA senior bonds were received as consideration for loans transferred to NAMA and as part of the Anglo and EBS transactions.
- d Financial investments available for sale comprise € 4,933 million (31 December 2016: € 5,114 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 30 June 2017 of € 480 million (31 December 2016: € 466 million) detailed above under 'NAMA'.
- e These comprise Irish Government securities (note 24).
- f Relates to funding received from the ECB through the Central Bank of Ireland (note 27).
- g Includes € 400 million (31 December 2016: € 325 million) borrowed from the Strategic Banking Corporation of Ireland ("SBCI"), the ordinary share capital of which is owned by the Minister for Finance.

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

41 Related party transactions *(continued)*

Relationship with the Irish Government

Local government[1]

During 2017 and 2016, 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 2017 and 2016, 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 2017 € m	31 December 2016 € m
Assets		
Derivative financial instruments	1	1
Loans and receivables to banks[1]	1	3
Financial investments available for sale	425	471
Liabilities		
Deposits by central banks and banks[2]	84	89
Derivative financial instruments	1	4
Customer deposits[3]	–	–

[1]The highest balance in loans and receivables to banks amounted to € 3.6 million in respect of funds placed during the period (31 December 2016: € 501 million).

[2]The highest balance in deposits by central banks and banks amounted to € 305 million in respect of funds received during the period (31 December 2016: € 369 million).

[3]The highest balance in customer deposits amounted to Nil in respect of funds received during the period (31 December 2016: € 17 million).

AIB

41 Related party transactions *(continued)*

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). AIB Group is currently engaging with the Joint Special Liquidators in relation to the claim. Given AIB's aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

Investment in Greencoat Renewables plc

AIB and the Ireland Strategic Investment Fund ("ISIF") have jointly invested in Greencoat Renewables plc to fund the purchase of wind farms in Ireland. AIB and ISIF have each invested € 76 million (note 25).

42 Financial and other information

	Half-year 30 June 2017 %	Half-year 30 June 2016 %
Operating ratios		
Operating expenses/operating income	**52.5**	49.0
Other income/operating income	**29.9**	38.2
Net interest margin[1]	**2.54**	2.06
Performance measures		
Return on average total assets	**1.4**	1.7
Return on average ordinary shareholders' equity[2]	**10.1**	13.6

[1]Represents net interest income as a percentage of average interest earning assets.

[2]Profit attributable to ordinary shareholders after deduction of the distribution on other equity interests as a percentage of average ordinary shareholders' equity which excludes other equity interests of € 494 million.

Rates of exchange	Half-year 30 June 2017	Half-year 30 June 2016	Year 31 December 2016
€ /$*			
Closing	**1.1412**	1.1102	1.0541
Average	**1.0836**	1.1162	1.1069
€ /£*			
Closing	**0.8793**	0.8265	0.8562
Average	**0.8605**	0.7791	0.8196

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

43 Average balance sheets and interest rates *(continued)*

The following table shows the average balances and interest rates of interest earning assets and interest bearing liabilities. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

	Half-year ended 30 June 2017			Half-year ended 30 June 2016		
Assets	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest €m	Average rate %
Loans and receivables to banks	**6,238**	**6**	**0.2**	6,215	12	0.4
Loans and receivables to customers	**60,815**	**1,078**	**3.6**	62,767	1,133	3.6
NAMA senior bonds	**845**	**2**	**0.5**	4,529	7	0.3
Financial investments available for sale	**14,299**	**81**	**1.1**	15,168	96	1.3
Financial investments held to maturity	**3,325**	**65**	**3.9**	3,451	65	3.8
Total average interest earning assets	**85,522**	**1,232**	**2.9**	92,130	1,313	2.9
Non-interest earning assets	**7,401**			8,023		
Total average assets	**92,923**	**1,232**	**2.7**	100,153	1,313	2.6
Liabilities and equity						
Trading portfolio financial liabilities less assets	**2**	**–**	**–**	–	–	–
Due to central banks and banks	**5,981**	**(4)**	**(0.1)**	10,951	(6)	(0.1)
Customer accounts	**37,104**	**128**	**0.7**	39,686	183	0.9
Other debt issued	**6,623**	**15**	**0.5**	7,684	29	0.8
Subordinated liabilities	**792**	**16**	**4.0**	2,348	162	13.9
Average interest earning liabilities	**50,502**	**155**	**0.6**	60,669	368	1.2
Non-interest earning liabilities	**29,217**			27,114		
Total average liabilities	**79,719**	**155**	**0.4**	87,783	368	0.8
Equity	**13,204**			12,370		
Total average liabilities and equity	**92,923**	**155**	**0.3**	100,153	368	0.7

In the above table, negative interest expense amounting to € 8 million (30 June 2016: € 10 million) is offset against interest expense and negative interest income amounting to € 1 million (30 June 2016: Nil) is offset against interest income. In the income statement, the Group presents interest resulting from negative effective interest rates on financial assets as interest expense. Similarly, interest resulting from negative effective interest rates on financial liabilities is presented as interest income.

44 Dividends

On 9 May 2017, following approval by the shareholders at the Annual General Meeting held on 27 April 2017, Allied Irish Bank, p.l.c. paid a final dividend of € 0.0921 per ordinary share amounting in total to € 250 million. The financial statements for the half-year ended 30 June 2017 reflect this in shareholders' equity as an appropriation of distributable reserves.

No dividends were paid on ordinary shares during the financial year ended 31 December 2016.

45 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 30 June 2017.

46 Approval of Half-Yearly Financial Report

The Half-Yearly Financial Report was approved by the Board of Directors on 26 July 2017.

Statement of Directors' responsibilities

for the half-year ended 30 June 2017

The Directors are responsible for preparing the Group Half-Yearly Financial Report in accordance with IAS 34 Interim Financial Reporting as issued by the IASB and adopted by the EU; the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, who are listed on pages 172 to 175 of the Annual Financial Report 2016, confirm, to the best of their knowledge and belief, that, the condensed set of financial statements have been prepared in accordance with IAS 34 and that they give a true and fair view of the state of the Group's affairs as at 30 June 2017 and of its profit for the period then ended.

The Half-Yearly Financial Report as required by the Transparency (Directive 2004/109/EC) Regulations 2007 includes:

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

For and on behalf of the Board

Richard Pym
Chairman

Bernard Byrne
Chief Executive Officer

Independent review report to Allied Irish Banks, p.l.c.

We have been engaged by Allied Irish Banks, p.l.c. (the "company") to review the condensed consolidated set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes 1 to 46. We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board ("ISRE 2410"). Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this review report, or for the conclusions we have formed.

Directors' responsibilities

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

As disclosed in note 1 Statement of Compliance, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Half-Yearly Financial Report has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the Half-Yearly Financial Report based on our review.

Scope of review

We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

Deloitte
Chartered Accountants and Statutory Audit Firm
Dublin

26 July 2017

Deloitte.

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Additional information

Management basis

AIB's results of operations are presented on a management basis with exceptional items reported separately. Exceptional items are items that management believes obscure the underlying performance trends in the business. Financial information presented on this basis represent the results under IFRS, excluding the impact of exceptional items. The management basis information is in line with information presented to the Board and Leadership team. Management basis should not be considered in isolation or as a substitute for analysis of AIB's results of operations as reported under IFRS in the "Condensed Consolidated Interim Financial Statements" section of this Report.

The following are exceptional items that management believes obscure the underlying performance trends in the business:
- Gain on disposal of loan portfolios.
- Restitution and restructuring expenses include costs associated with restitution, transformation, reorganisation, certain provisions for liabilities and write off of intangible assets.
- Termination benefits related to the cost of the voluntary severance programme.
- IPO and capital related expenses.
- Gain on transfer of financial instruments related to valuation adjustments on previous transfers of financial assets to NAMA.
- Profit on disposal of Visa Europe (2016) resulted from the acquisition of Visa Europe by Visa Inc.

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

Reconciliation between IFRS and management basis

Other income	Half-year June 2017 € m	Half-year June 2016 € m
Per consolidated income statement	**459**	583
Gain on disposal of loan portfolios	(7)	-
Gain on transfer of financial instruments	-	(16)
Profit on disposal of Visa Europe	-	(272)
Total exceptional items	(7)	(288)
Total other income before exceptional items	**452**	295

Operating expenses		
Per consolidated income statement	**(807)**	(749)
Bank levies and regulatory fees	45	48
Restitution and restructuring expenses	3	20
Termination benefits	24	3
IPO and capital related expenses	42	1
Total exceptional items	69	24
Total operating expenses before exceptional items, bank levies and regulatory fees	**(693)**	(677)

Profit before tax from continuing operations		
Per consolidated income statement	**761**	1,017
Adjustments to other income	(7)	(288)
Adjustments to operating expenses	69	24
Total exceptional items	62	(264)
Profit before tax from continuing operations before exceptional items	**823**	753

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