



AIB Group preliminary interim results announcement June 2011

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Headlines

- The reported profit of € 2.2 billion includes the sale of BZW BK and capital initiatives taken in conjunction with the State.
- Underlying loss of € 2.6 billion (excluding debt buyback gains and BZW BK profit) driven by continuing elevated bad debts.
- Proforma core tier 1 capital (post proposed recapitalisation) 22.4%.
- Fall in customer deposits in H1 excluding acquisition of Anglo deposit book and deposit placed by NTMA of c. € 5 billion but broadly stable in recent weeks.
- Loans and receivables to customers down c. € 11 billion through a combination of action and natural deleveraging.
- Funding conditions remain highly challenging in volatile markets.

Key financial information		30 June 2011	31 December 2010
Capital			
Risk weighted assets	€ bn	78	99
Core tier 1 ratio	%	9.9	4.0
Tier 1 ratio	%	9.7	4.3
Total capital ratio	%	10.6	9.2
Funding			
Loan to deposit ratio ⁽¹⁾	%	143	165
Wholesale funding as % of total funding	%	41	48

Summary profit statement		Half-year June 2011	Half-year June 2010
Profit/(loss) before tax - continuing operations	€ m	260	(2,438)
Profit/(loss) after tax - continuing operations	€ m	611	(2,075)
Profit after tax - discontinued operations	€ m	1,628	344
Profit/(loss) for the period	€ m	2,239	(1,731)

⁽¹⁾ Including corporate loans held for sale and excluding deposit placed by the NTMA.

Introduction

Allied Irish Banks, p.l.c. (AIB) today announces preliminary results for the six months ended 30 June 2011.

Today's announcement covers the following:

1. Strategy and update on EU Restructuring Plan
2. Key events impacting on AIB since December 2010
3. Income statement and statement of financial position
4. Operating and financial review
5. Asset quality

Basis of preparation

The information included in this preliminary announcement (which is based on unaudited interim financial statements to be included in the June 2011 Half-Yearly Financial Report) was approved by the Board of Directors on 22 July 2011.

This Preliminary Announcement does not comply with the requirements of International Accounting Standard 34 - Interim Financial Reporting (IAS 34), however, interim financial statements, which form the basis of information contained in this Preliminary Announcement, will comply with IAS 34 when published in due course.

The interim financial statements for 30 June 2011 have not yet been finalised and will be unaudited, but will be reviewed by the auditors. It is expected that the auditor's review will be unqualified, but will contain an emphasis of matter in relation to going concern such as that contained in the auditor's report on page 356 of the Annual Financial Report 2010.

For the half-year ended 30 June 2011, the performance of the Group has been assessed on a total Group ("One Bank") basis by the Board and Executive Committee and the results for the half-year have therefore been presented on a One Bank basis. AIB is in a period of transition at present as the former divisional structure is being dismantled and the new business segments are being established. Financial information is therefore presented as one operating segment. The half-year to June 2010 is now re-presented to show AIB Group (UK) as a continuing operation, as it had been classified as a discontinued operation in the June 2010 Half-Yearly Financial report.

Going concern

The interim financial statements are being prepared on a going concern basis. There are a number of material economic, political and market risks and uncertainties that continue to impact on the Irish banking system which may cast significant doubt upon the Group's ability to continue as a going concern. These factors are outlined on page 148 of the Annual Financial Report 2010 and continue to be relevant. The sovereign debt issue in the Eurozone remains a concern.

In making its assessment of the Group's ability to continue as a going concern, the Board of Directors has taken into consideration the various uncertainties and concerns impacting Irish financial institutions and the Group. The considerations taken into account in determining the appropriateness of the going concern basis for preparing the financial statements are similar to those set out on page 149 of the Annual Financial Report 2010 and the events outlined below under 'Key events impacting on AIB since December 2010'. These considerations include the continuing ability to access funding from the Eurosystem and the Central Bank of Ireland liquidity facilities. They also include the commitment of the Government to provide the Group's required capital. Concern related to the sovereign debt issue in the Eurozone has also been considered.

Having evaluated the risks and uncertainties and the mitigating options available to the Group, the directors are satisfied that it remains appropriate to prepare the financial statements on a going concern basis.



1. AIB Strategy

1 Strategy and update on EU Restructuring Plan

Strategy

As outlined in the Annual Financial Report 2010, AIB's strategy is to establish a new core bank with a restructured balance sheet. This will be achieved through the separation and progressive disposal and winding down of non core assets through its deleverage plan with a target loan to deposit ratio of 122.5% by 2013.

In May 2011 AIB outlined the bank's new operating model and announced a number of appointments to its new top executive leadership team. The former divisional structure has been replaced by an integrated bank comprising the following customer facing units: Personal & Business Banking, Corporate & Institutional Banking and Commercial Banking. The operations of AIB and First Trust Bank will be more aligned. AIB (GB) will be managed as a separate unit. Control and support functions are in the process of being streamlined and centralised. To manage deleveraging, the Group has set up a non core unit to oversee the disposal and run-off of selected assets. This unit is now operational with its own management team since 1 July 2011. The team has a strong emphasis on governance, risk, performance measurement and oversight reporting. The entire organisational transformation process is supported by a dedicated team.

Through this transformation, AIB will have a strong foundation from which a profitable business can be rebuilt and will be well positioned in the market as one of two pillar domestic Irish banks. The acquisition of EBS Limited (formerly EBS Building Society), on 1 July 2011 is expected to further support a return to economic viability.

Update on EU Restructuring Plan

The financial support provided to date by the State to AIB and the support expected to be provided under the proposed recapitalisation by the State in July 2011 will be subject to review and approval by the European Commission under EU state aid rules. AIB's original restructuring plan was submitted to the European Commission in November 2009. An updated plan was submitted in May 2010. Following the capital injection from the State in December 2010, and the proposed recapitalisation by the State in July 2011, a revised restructuring plan is necessary. This plan which incorporates the acquisition of EBS will be submitted by AIB to the European Commission by 31 July 2011. The European Commission may require AIB to undertake structural and behavioural measures, including measures to support the development of competition in the Irish market.

2. Key events

2 Key events impacting on AIB since December 2010

A number of important events have impacted AIB during the year to date, these events include:

- Prudential Capital Assessment Review (“PCAR”) 2011 and Prudential Liquidity Assessment Review (“PLAR”) 2011
- Proposed recapitalisation by the State
- Increase in Government shareholding
- Acquisition of EBS to form a ‘Pillar Bank’ on 1 July 2011
- Other capital generating measures in the first six months of 2011
- Difficult economic environment and further credit impairment/asset quality deterioration
- Funding and liquidity conditions remain highly challenging in the context of the economic environment

PCAR 2011 and PLAR 2011

On 31 March 2011, the Central Bank of Ireland (“Central Bank”) published its “Financial Measures Programme Report”, which detailed the outcome of PCAR 2011 and PLAR 2011 for certain Irish credit institutions. The review, a requirement of the EU/IMF/ECB programme for Ireland, involved three separate but complementary exercises:

- an independent loan loss assessment exercise performed by BlackRock Solutions, the results of which informed the calculation of capital requirements under PCAR 2011;
- the PCAR 2011 exercise to stress-test the capital resources of Irish banks, in a given stress scenario, for the purposes of determining the level of the recapitalisation required to meet Central Bank required minimum ratios; and
- the PLAR 2011 exercise to establish funding targets for the credit institutions participating in the PCAR in order to reduce the leverage of the Irish banking system and short-term funding. This funding was significantly dependent on central banks. In addition the exercise set out targets to ensure convergence to Basel III liquidity standards over time.

PCAR 2011

PCAR 2011 relied heavily on the independent loan loss assessment exercise performed by BlackRock Solutions. For elements of the income and expenditure accounts, it relied, in part, on each bank’s own forecasts based on Central Bank-specified parameters. Additional buffers to ensure sufficient capital to cover post-2013 events and other contingencies were also included. The Central Bank on the basis of its criteria set a new capital target for AIB and EBS which requires both institutions remain above a minimum capital target of 10.5% core tier 1 capital for its base scenario and in excess of 6% core tier 1 capital in its stress scenario. As a result and following the acquisition of EBS Limited by AIB, AIB is required to raise both the AIB PCAR and EBS PCAR requirements, by 31 July 2011 to achieve its capital targets. This results in a total capital requirement of c. € 14.8 billion of core tier 1 capital, of which c. € 1.6 billion which may be in the form of contingent capital.

PLAR 2011

PLAR 2011, undertaken by the Central Bank together with the EU/IMF/ECB, is an assessment of measures to be implemented requiring deleveraging of the Irish banking system and thereby reducing reliance on short term wholesale funding and liquidity support from monetary authorities.

PLAR 2011 assessed the funding and liquidity structure of the balance sheets of Irish credit institutions. The central target arising from PLAR is the loan to deposit ratio, with the explicit purpose of reducing the asset side of the balance sheets of Irish banks. Each of the credit institutions participating in PLAR 2011 must achieve a target loan to deposit ratio of 122.5% by December 2013. To achieve that target, AIB is required to sell assets in a controlled manner between 31 December 2010 and the end of 2013. In doing so, AIB is likely to incur losses relative to book value. An estimate of losses is included in the overall assessment of the capital needs of AIB as part of PCAR 2011.



2. Key events

Proposed recapitalisation by the State

Placing of € 5 billion

Subject to ordinary shareholder approval of the resolutions proposed to the EGM of 26 July 2011, AIB will raise proceeds of € 5 billion in core tier 1 capital. Under the placing agreement, the National Pensions Reserve Fund Commission (“NPRFC”) has conditionally agreed to subscribe in cash for 500,000,000,000 new ordinary shares at a price of € 0.01 per share.

Contingent capital notes issue

Subject to ordinary shareholder approval at the EGM of 26 July 2011, contingent capital notes will be issued by AIB, or a subsidiary guaranteed by AIB, to the Minister by 31 July 2011. This will be a subordinated tier 2 capital instrument issued at par with a five year and one day maturity and an aggregate principal amount of up to € 1.6 billion. The contingent capital notes will convert immediately and mandatorily in their entirety into ordinary shares should a predefined capital deficiency or non-viability event occur.

Capital contribution

It is anticipated that the portion of AIB’s PCAR requirement that is not satisfied by the liability management exercise (“LME”) undertaken in June 2011, the placing of € 5 billion, the contingent capital notes issue and any further burden-sharing with the Group’s subordinated debt holders will be satisfied by way of a capital contribution to be made by the State to AIB once the Minister for Finance is satisfied that an appropriate level of burden-sharing has been achieved with the Group’s subordinated debt holders.

Increase in Government shareholding

As described in the Annual Financial Report 2010, on 8 April 2011, following the completion of the BZWBK disposal, all of the convertible non-voting (“CNV”) shares of AIB were converted into ordinary shares on a one-for-one basis, which resulted in the NPRFC holding 92.8% of the issued ordinary shares at that date.

On 13 May 2011, ordinary shares were issued to the NPRFC in part satisfaction of the bank’s obligation to issue shares in lieu of a dividend on the 2009 preference shares held by the NPRFC. Following this issue of shares, the NPRFC held 93.1% of the total issued ordinary shares.

If the resolutions proposed to the EGM on the 26 July 2011 are passed, 500,762,370,687 additional ordinary shares will be issued to the NPRFC on 27 July 2011 and the NPRFC will then hold 99.8% of the total issued ordinary shares.

The NPRFC also currently holds 3.5 billion 2009 preference shares.

Acquisition of EBS to form a ‘Pillar Bank’ on 1 July 2011

The acquisition by AIB of EBS Limited and the formation of one of two pillar banks in Ireland was completed on 1 July 2011. This acquisition represents a significant consolidation within the Irish banking sector.

Other capital generating measures in the first six months of 2011

AIB’s capital requirements increased significantly in 2010 and again in 2011. As well as recapitalisation measures taken by the State, AIB has also progressed a series of other capital raising measures in 2011.

- On 24 January 2011, AIB completed a tender offer for certain of its tier 2 capital instruments, in which it offered to purchase for cash at 30% of their face value, lower tier 2 securities with a nominal value of € 3.9 billion. Tender offers were approved for approximately € 2 billion of these lower tier 2 securities. In addition € 0.2 billion was exchanged for cash in a private placement. The Group generated core tier 1 capital of approximately € 1.5 billion as a result of this liability management exercise.
- On 24 February 2011, AIB acquired deposits of € 7 billion and NAMA senior bonds with a nominal value of € 12 billion from Anglo Irish Bank, pursuant to a transfer order issued by the High Court under the Credit Institutions (Stabilisation) Act 2010. AIB also acquired Anglo Irish Bank Corporation (International) PLC in the Isle of Man, including customer deposits of almost € 1.6 billion. Approximately € 1.5 billion of core tier 1 capital was generated by AIB as a result of these acquisitions.
- On 1 April 2011, AIB completed the sale of its 70.36% stake in BZWBK and its 50% stake in BZWBK AIB Asset Management S.A. to Banco Santander S.A. for a total cash consideration of € 3.1 billion. AIB generated core tier 1 capital of approximately € 2.3 billion as a result of the disposal (excluding € 0.2 billion reported in the Group’s income statement since the announcement of the transaction in September 2010).

2. Key events

Other capital raising measures in the first six months of 2011 (continued)

- On 13 May 2011, AIB launched a tender offer for cash for all its outstanding subordinated liabilities and other capital instruments. Under this offer AIB agreed to purchase these instruments at prices ranging from 10% to 25% of their face value. Where the offer was accepted and completed by 30 June 2011, AIB recognised a gain of € 1.7 billion (€ 1.3 billion in its income statement and € 0.4 billion directly in equity). In the case of securities where the required quorum for acceptance was not reached or where the acceptance date was after 30 June 2011, these securities are now recorded at fair value, resulting in an additional gain of € 0.4 billion (recognised in the income statement). The total impact of the LME was a gain of € 2.1 billion, € 1.7 billion recognised in the income statement and € 0.4 billion recognised directly in equity.

Difficult economic environment and further credit impairment/asset quality deterioration

AIB's performance in recent years and for the year to date has been affected by economic conditions in Ireland in particular. While there are some emerging signs of recovery; predominantly export-led, concerns relating to the Irish public finances, increasing unemployment and falling property prices have contributed to weak consumer demand and a decreased level of business investment, which have resulted in an adverse impact on the Group's financial condition. These weak economic conditions have resulted in an impairment charge of almost € 3 billion for the six months ended 30 June 2011. See section 5 for commentary on levels of credit impairment and asset quality for the six months ended 30 June 2011.

Challenging funding/liquidity environment

AIB in common with other banks continues to face funding and liquidity issues and currently relies heavily on sourcing funding from monetary authorities. Monetary authority funding amounted to € 29 billion at 30 June 2011 (31 December 2010: € 39 billion). Despite this challenging environment AIB exited non standard funding facilities with the Central Bank of Ireland in the half-year to June 2011.

The acquisition of deposits from Anglo Irish Bank in February 2011 improved liquidity and the funding base of the Group. In the six months ended 30 June 2011 there was a net increase in deposits of € 1 billion (excluding the deposit placed by the NTMA of € 11 billion) which when combined with a loan reduction of € 11 billion, including deleveraging activity, resulted in an improvement in the Group's underlying loan to deposit ratio, to 143% at 30 June 2011, from 165% at 31 December 2010.



3. Condensed consolidated income statement (unaudited)

	Half-year June 2011 € m	Re-presented Half-year June 2010 € m
Continuing operations		
Interest and similar income	2,096	2,431
Interest expense and similar charges	1,492	1,404
Net interest income	604	1,027
Dividend income	2	1
Fee and commission income	246	296
Fee and commission expense	(14)	(65)
Net trading income/(loss)	40	(164)
Gain on redemption/remeasurement of subordinated liabilities and other capital instruments	3,273	372
Loss on transfer of financial instruments to NAMA	(20)	(963)
Other operating (loss)/income	(151)	100
Other income/(loss)	3,376	(423)
Total operating income	3,980	604
Administrative expenses	772	760
Impairment and amortisation of intangible assets	36	59
Depreciation of property, plant and equipment	24	26
Total operating expenses	832	845
Operating profit/(loss) before provisions	3,148	(241)
Provisions for impairment of loans and receivables	2,961	2,260
Writeback of provisions for liabilities and commitments	(173)	-
Provisions for impairment of financial investments available for sale	99	3
Operating profit/(loss)	261	(2,504)
Associated undertakings	(2)	28
Profit on disposal of property	-	38
Profit on disposal of business	1	-
Profit/(loss) before taxation from continuing operations	260	(2,438)
Income tax income from continuing operations	(351)	(363)
Profit/(loss) after taxation from continuing operations	611	(2,075)
Discontinued operations:		
Profit after taxation from discontinued operations	1,628	344
Profit/(loss) for the period	2,239	(1,731)
Attributable to:		
Owners of the parent:		
Continuing operations	611	(2,075)
Discontinued operations	1,608	309
Profit/(loss) for the period attributable to owners of the parent	2,219	(1,766)
Non-controlling interests:		
Continuing operations	-	-
Discontinued operations	20	35
Profit for the period attributable to non-controlling interests	20	35
	2,239	(1,731)

3. Condensed consolidated statement of financial position

(unaudited)

	30 June 2011 € m	31 December 2010 € m
Assets		
Cash and balances at central banks	3,269	3,686
Items in course of collection	277	273
Financial assets held for sale to NAMA	952	1,937
Disposal groups and non-current assets held for sale	2,619	13,911
Trading portfolio financial assets	58	33
Derivative financial instruments	2,753	3,315
Loans and receivables to banks	5,992	2,943
Loans and receivables to customers	73,097	86,350
NAMA senior bonds	19,549	7,869
Financial investments available for sale	13,754	20,825
Interests in associated undertakings	281	283
Intangible assets and goodwill	163	193
Property, plant and equipment	329	348
Other assets	491	264
Current taxation	6	30
Deferred taxation	2,740	2,384
Prepayments and accrued income	545	578
Total assets	126,875	145,222
Liabilities		
Deposits by central banks and banks ⁽¹⁾	36,294	49,869
Customer accounts ⁽²⁾	63,932	52,389
Disposal groups held for sale	12	11,548
Derivative financial instruments	2,331	3,020
Debt securities in issue	14,374	15,664
Current taxation	12	21
Other liabilities	1,308	1,499
Accruals and deferred income	778	991
Retirement benefit liabilities	277	400
Provisions for liabilities and commitments	570	1,141
Subordinated liabilities and other capital instruments	126	4,331
Total liabilities	120,014	140,873
Shareholders' equity		
Share capital	4,120	3,965
Share premium	4,934	5,089
Other equity interests	-	239
Reserves	(746)	(330)
Profit and loss account	(1,447)	(5,304)
Shareholders' equity	6,861	3,659
Non-controlling interests in subsidiaries	-	690
Total shareholders' equity including non-controlling interests	6,861	4,349
Total liabilities, shareholders' equity and non-controlling interests	126,875	145,222

⁽¹⁾ Includes € 28,541 million of central bank borrowings (December 2010: € 38,616 million).

⁽²⁾ Includes deposits placed by the NTMA of € 11,020 million at 30 June 2011. These are expected to be repaid prior to the completion of the recapitalisation of AIB.

4. Operating and financial review

4.1 Overview of results

The Group recorded a profit for the period of € 2.2 billion in the half-year to June 2011 compared to a loss of € 1.7 billion in the comparative period to 30 June 2010. The outturn for the half-year to June 2011 included gains of € 3.3 billion on the two debt buyback offers in the first half of 2011 and profit on disposal of BZW BK of € 1.5 billion. The outturn for the half-year to June 2010 included a gain of € 372 million on redemption of subordinated liabilities. Excluding these material items, the Group reported a loss for the period of € 2.6 billion in the half-year to June 2011 compared to a loss of € 2.1 billion in the half-year to June 2010.

The increase in underlying losses reflect continuing high provision levels, lower interest income on reducing balance sheet volumes and continued high funding costs combined with the loss of income from disposed businesses, particularly BZW BK and M&T.

4.2 Income statement commentary

Net interest income	Half-year June 2011 € m	Half-year June 2010 € m	<i>% charge 2011 v 2010</i>
Net interest income	604	1,027	-41

Average interest earning assets	Half-year June 2011 € m	Half-year June 2010 € m	<i>% charge 2011 v 2010</i>
Average interest earning assets	127,097	147,514	-14

Net interest margin	Half-year June 2011 %	Half-year June 2010 %	<i>Basis point charge</i>
Group net interest margin	0.96	1.40	-44
Group net interest margin excluding eligible liabilities guarantee ("ELG")	1.36	1.56	-20

Net interest income was € 604 million in the half-year to June 2011 compared with € 1,027 million in the half-year to June 2010, a decrease of € 423 million or 41%. Net interest income for the half-years to June 2011 and June 2010 included charges for the ELG scheme of € 256 million and € 117 million⁽²⁾ respectively excluding which net interest income reduced by € 284 million or 25%. The net interest income decrease excluding the ELG cost mainly reflected lower income on loans and higher wholesale funding costs.

Excluding the cost of the ELG scheme, the net interest margin for the half-year to June 2011 was 1.36%. This was a reduction of 20 basis points compared with 1.56% in the half-year to June 2010. The estimated⁽¹⁾ factors contributing to the decline in the margin of 20 basis points were: -12bp due to higher wholesale funding costs, -12bp due to lower loan income and -2bp due to lower treasury /other net interest income. This was partly offset by +6bp due to higher income on capital. The cost of deposits were in line with the half-year to June 2010 and had no impact on the margin movement. The reduction in loan income reflects lower levels of earning loans and an increase in the level of impaired loans. The impact on income of deleveraging the loan portfolio was partly offset through the repricing of loans at higher margins.

⁽¹⁾ Management estimate.

⁽²⁾ The total government guarantee charge was € 163 million in the half-year to June 2010 including Covered Institutions (Financial Support) scheme ("CIFS") charge of € 46 million which is included in other income and € 117 million ELG charge in net interest income.

4. Operating and financial review

Other income	Half-year June 2011 € m	Half-year June 2010 € m	% change 2011 v 2010
Dividend income	2	1	100
Banking fees and commissions	213	249	-14
Investment banking and asset management fees	33	47	-30
Fee and commission income	246	296	-17
Irish Government guarantee scheme expense ("CIFIS")	-	(46)	-
Other fee and commission expense	(14)	(19)	26
Less: Fee and commission expense	(14)	(65)	78
Trading income/(loss)	23	(96)	124
Interest rate hedge volatility	17	(68)	125
Net trading income/(loss) ⁽¹⁾	40	(164)	124
Other operating (loss)/income	(10)	102	-110
Subtotal	264	170	55
Loss on disposal of loans	(141)	(2)	-6,950
Loss on transfer of financial instruments to NAMA	(20)	(963)	98
Subtotal	103	(795)	113
Gain on redemption of subordinated debt and other capital instruments	3,273	372	780
Other income/(loss)	3,376	(423)	898

Other income was € 3,376 million in the half-year to June 2011 compared to a loss of € 423 million in the half-year to June 2010. The 2011 outturn included losses of € 141 million on disposal of non core and core loans, a loss of € 20 million on the transfer of assets to NAMA and € 3,273 million gains on redemption of subordinated liabilities from capital buyback offerings in the half-year to June 2011. The outturn for the half-year to June 2010 included losses of € 2 million on disposal of loans, a loss of € 963 million on the transfer of assets to NAMA and a € 372 million gain on redemption of subordinated liabilities from the capital exchange offering. Excluding these items other income was € 264 million in the half-year to June 2011, compared with € 170 million in the half-year to June 2010. This increase reflects no deposit guarantee costs for the CIFIS scheme (see page 10 on net interest income in relation to government guarantee costs) through other income and a more positive trading income outcome in the half-year to June 2011. The weaker economic conditions and challenging trading markets in which AIB operates resulted in lower business volumes and lower revenues from its investment banking activities.

Banking fees and commissions decreased by 14% reflecting lower business volumes and activity.

Investment banking and asset management fees were down 30% in the half-year to June 2011 mainly reflecting lower brokerage income following the sale of Goodbody Stockbrokers in December 2010.

Fee and commission expense included the cost of the CIFIS scheme of € 46 million in the half-year to June 2010.

Trading income was € 23 million in the half-year to June 2011 compared to a loss of € 96 million in the half-year to June 2010. Trading income excludes interest payable and receivable arising from hedging and the funding of trading activities, these are included in interest income. Trading income was impacted by reclassification of income between other income and net interest income. As a result the trend in trading income in other income cannot be considered in isolation.

Other operating income in the half-year to June 2011 was negative € 10 million compared with € 102 million in the half-year to June 2010, a reduction of € 112 million. In the half-year to June 2011 there was € 6 million income from the disposal of available for sale equity shares and a loss of € 17 million from the disposal of available for sale debt securities, these primarily related to bonds in peripheral Eurozone countries. In the half-year to June 2010 there was € 57 million profit from the disposal of available for sale debt securities and € 13 million profit from the disposal of available for sale equity shares.

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



4. Operating and financial review

Operating expenses	Half-year June 2011 € m	Half-year June 2010 € m	<i>% change 2011 v 2010</i>
Personnel expenses	476	514	-7
General and administrative expenses	296	246	20
Depreciation, ⁽¹⁾ impairment and amortisation ⁽²⁾	60	85	-29
Total operating expenses	832	845	-2

Total operating expenses were € 832 million in the half-year to June 2011, a decrease of € 13 million or 2% when compared to € 845 million in the half-year to June 2010. This decrease reflected cost management in a period of difficult economic conditions with lower staff numbers and reduced business activity, partly offset by the cost of significant external engagement in the half-year to June 2011.

Personnel expenses in the half-year to June 2011 were € 476 million, a decrease of € 38 million or 7% compared with € 514 million in the half-year to June 2010 reflecting a reduction of approximately 550 in staff numbers since 30 June 2010 (excluding Anglo staff who joined AIB in 2011) and a reduction in other associated staff costs.

General and administrative expenses of € 296 million in the half-year to June 2011 were € 50 million or 20% higher than € 246 million in the half-year to June 2010. The increase mainly related to higher professional fees of € 35 million due to significant external engagement including consultancy costs connected with the sale of businesses and business restructuring.

Depreciation and amortisation of € 60 million in the half-year to June 2011 was € 25 million or 29% lower than the half-year to June 2010 reflecting the writedown in the half-year to June 2010 of the value of intangible assets of € 25 million in relation to projects discontinued during 2010.

Cost income ratio	Half-year June 2011 %	Half-year June 2010 %
Cost income ratio - headline	20.9	139.9
Cost income ratio ⁽³⁾	114.4	70.7

The headline cost income ratio benefits from gains on the redemption/remeasurement of subordinated liabilities and other capital instruments. The cost income ratio excluding the losses on transfer of assets to NAMA and the gains on the redemption/remeasurement of subordinated liabilities and other capital instruments was 114.4% for the half-year to June 2011 compared to 70.7% for the half-year to June 2010. While costs decreased, lower total income resulted in an increase in the underlying cost income ratio.

⁽¹⁾ Depreciation of property, plant and equipment.

⁽²⁾ Impairment and amortisation of intangible assets.

⁽³⁾ Cost income ratio excluding losses on transfer of assets to NAMA and gains on the redemption/remeasurement of subordinated liabilities and other capital instruments.

4. Operating and financial review

Associated undertakings	Half-year June 2011 € m	Half-year June 2010 € m
Associated undertakings	(2)	28

Loss from associated undertakings in the half-year to June 2011 was € 2 million compared with a profit of € 28 million in the comparative period. Associated undertakings includes AIB's share of Aviva Life Holdings Ireland Limited, Aviva Health Insurance Ireland Limited and AIB's share in the joint venture with First Data International trading as AIB Merchant Services. The decrease in profitability reflects losses on disposal of bonds and changes in the treatment of acquisition costs by Aviva Life Holdings Ireland Limited in the half-year to June 2011 and negative sentiment on life assurance business.

Income tax

The taxation credit for the half-year to June 2011 was € 351 million (including a € 356 million credit relating to deferred taxation), compared with a taxation credit of € 363 million in the half-year to June 2010 (including a credit of € 349 million relating to deferred taxation). The taxation credits exclude taxation on share of results of associated undertakings. Associated undertakings are reported net of taxation in the Group profit/(loss) before taxation. The credit is influenced by the geographic mix of profits and losses, which are taxed at the rates applicable in the jurisdictions where the Group operates. Deferred tax credit continues to be recognised in full for the value of tax losses arising in Group companies, as it is expected that the tax losses will be utilised in full against future profits.



4. Operating and financial review

Discontinued operations

The results for the half-year to June 2011 included the consolidated results of BZWBK for the quarter to 31 March 2011 and the profit on sale of BZWBK in the period.

	Half-year June 2011 € m	Half-year June 2010 € m
Profit from discontinued operations		
BZWBK	99	175
M&T	-	237
BACB	-	(26)
Profit before taxation	99	386
Income tax expense	17	39
Profit after taxation	82	347
Profit on disposal of business	1,546	-
Loss recognised on the remeasurement to fair value less costs to sell ⁽¹⁾	-	(3)
Profit for the period from discontinued operations	1,628	344

⁽¹⁾Relates to impairment of intangible assets.

Discontinued operations recorded a profit after taxation of € 1,628 million in the half-year to June 2011 compared to € 344 million in the half-year to June 2010. Discontinued operations in 2010 were impacted by investment reviews which resulted in a € 28 million writedown with regard to the investment in BACB and a € 213 million writeback relating to M&T.

BZWBK recorded a profit before taxation of € 99 million in the three months to March 2011, compared with € 175 million in the half-year to June 2010 and there was a profit on disposal of the business of € 1,546 million, following completion of the sale on 1 April 2011.

4. Operating and financial review

4.3 Balance sheet commentary

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

The balance sheet identifies loans eligible for sale to NAMA and corporate loans classified as held for sale as part of deleveraging measures (included in 'disposal groups and non-current assets held for sale') separately from other customer loans. Loan balances reported in the following tables include these balances in order to reflect the full movement in customer loans:

	30 June 2011 € bn	31 December 2010 € bn	<i>% change</i>
Gross loans			
Gross loans to customers	83	94	-12
Gross loans held for sale to NAMA	1	2	-50
Corporate loans held for sale	3	-	-
Total	87	96	-9

Continued weak demand for credit in 2011 and ongoing deleveraging measures resulted in lower gross loans to customers, down 9% or € 9 billion since 31 December 2010.

	30 June 2011 € bn	31 December 2010 € bn	<i>% change</i>
Net loans			
Net loans to customers	73	86	-15
Net loans held for sale to NAMA	1	2	-50
Corporate loans held for sale	3	-	-
Total	77	88	-13

Net loans decreased by € 11 billion or 13% as a result of deleveraging measures (the identified pool of non core assets reducing from € 25 billion to € 17 billion), the aforementioned weaker credit demand and provisions for non NAMA eligible loans.

	30 June 2011 € bn	31 December 2010 € bn	<i>% change</i>
Customer accounts			
Customer accounts excluding deposit placed by NTMA	53	52	2
Deposit placed by NTMA	11	-	-
Customer accounts including deposit placed by NTMA	64	52	23

The increase in customer accounts reflects the acquisition of Anglo deposit book in February 2011 (which amounted to € 6.4 billion at 30 June 2011) and the deposit placed by NTMA of € 11 billion. Excluding the deposit placed by NTMA, customer accounts were up € 1 billion or 2% but were down c. € 5 billion excluding the acquisition of Anglo deposit book. Bank and sovereign ratings downgrades contributed to an outflow in deposits, particularly from Non Bank Financial Institutions ("NBFIs") and international corporates during Q1 2011.



4. Operating and financial review

4.4 Capital - total Group basis

AIB has undertaken to rebuild its capital base from a variety of sources with the continued support of the Irish State. This commitment is reflected in a significant strengthening of the capital ratios in the period from 31 December 2010 to 30 June 2011, during which the Group's core tier 1 ratio increased from 4.0% to 9.9% (total capital ratio increased from 9.2% to 10.6%). The following table summarises the Group capital position.

	30 June 2011 € bn	31 December 2010 € bn
Capital		
Core tier 1	7.7	3.9
Tier 1	7.6	4.2
Total capital	8.3	9.1
	30 June 2011 € bn	31 December 2010 € bn
Risk weighted assets		
Credit	71.6	89.4
Market	1.2	1.5
Operational	5.6	7.9
Total risk weighted assets	78.4	98.8
	30 June 2011 %	31 December 2010 %
Capital ratios		
Core tier 1	9.9	4.0
Tier 1	9.7	4.3
Total capital	10.6	9.2 ⁽¹⁾

Risk weighted assets reduced by € 20.4 billion in the period. Credit risk weighted assets account for € 17.8 billion of the reduction, of which c. € 8.5 billion was related to the disposal of AIB's shareholding in BZWBK, c. € 1.3 billion relates to transfer of assets to NAMA, with the remaining reduction in credit risk weighted assets due mainly to deleveraging of assets. The disposal of BZWBK also contributed to the reduction in market risk weighted assets and operational risk weighted assets.

Core tier 1 capital increased by € 3.8 billion to June 2011. This was primarily due to the combined gains of the liability management exercises ("LME") of € 1.5 billion in the January LME and € 2.1 billion in the June LME, a € 1.5 billion gain on the disposal of AIB's shareholding in BZWBK in April 2011 and a € 1.5 billion net capital contribution resulting from the Anglo transaction. These gains were offset by underlying losses of € 2.6 billion in the period. The net impact of these movements together with the decrease in risk weighted assets is an increase in the core tier 1 capital ratio from 4.0% at 31 December 2010 to 9.9% at 30 June 2011.

Tier 1 capital increased by € 3.4 billion to June 2011. In addition to the aforementioned factors relating to the increase in core tier 1 capital, there was a reduction of c. € 560 million in tier 1 capital following the buyback of tier 1 capital instruments which were part of the June LME. These factors combined with the reduction in risk weighted assets resulted in a tier 1 ratio of 9.7% at 30 June 2011, up from 4.3% at 31 December 2010.

Tier 2 capital decreased by € 4.2 billion in the period. This was mainly due to the LME's which resulted in a significant reduction in the carrying value of Tier 2 capital instruments from € 4.1 billion as at 31 December 2010 to € 122 million at 30 June 2011.

The total capital ratio increased from 9.2% at 31 December 2010 to 10.6% at 30 June 2011 which reflected the net movements in tier 1 and tier 2 capital as detailed above, together with the reduction in risk weighted assets.

⁽¹⁾ At 31 December 2010, the Group benefited from derogations from certain regulatory capital requirements granted on a temporary basis by the Central Bank. These derogations remained in place until the completion of the liability management exercise on 24 January 2011.

4. Operating and financial review

PCAR

On 31 March 2011, the Central Bank of Ireland announced the results of its PCAR exercise. The Central Bank of Ireland required AIB to raise core tier 1 capital of € 13.3 billion of which an amount of € 1.4 billion may be in the form of contingent capital (tier 2 capital). EBS was also included in the Central Bank's PCAR assessment. The Central Bank of Ireland required EBS to raise core tier 1 capital of € 1.5 billion of which an amount of € 0.2 billion may be in the form of contingent capital. Following the acquisition of EBS by AIB, the combined PCAR requirement of the Group is € 14.8 billion of which € 1.6 billion may be in the form of contingent capital. The June 2011 LME has raised € 2.1 billion of the PCAR requirement. Subject to shareholder approval, a proposed placing agreement will raise € 5 billion of core tier 1 capital and the issue of subordinated tier 2 capital instruments will raise € 1.6 billion of contingent capital. The portion of the PCAR requirement not met by the aforementioned capital raising measures is anticipated to be satisfied by way of a capital contribution from the State to AIB (see page 6).

If the acquisition of EBS and the satisfaction of the PCAR requirement by the State were completed by 30 June 2011 the proforma core tier 1 capital ratio for June is c. 22.4%.

European Banking Authority (“EBA”) stress test

On 15 July 2011, the results of the EU-wide EBA stress test were published. The test showed that AIB would have a core tier 1 ratio of 11.7% (10.0% excluding contingent capital) at December 2012 following the application of the stress and the raising of capital required by PCAR. Measured against the threshold for passing the test of a core tier 1 ratio of 5%, AIB has no further capital raising requirements.



4. Operating and financial review

4.5 Funding⁽¹⁾

Sources of funds - Total AIB Group basis	30 June 2011		31 December 2010 ⁽²⁾	
	€ bn	%	€ bn	%
Customer accounts excluding deposit placed by NTMA	53	44	63	45
Deposit placed by NTMA	11	9	-	-
Deposits by central banks and banks - secured	35	29	41	29
- unsecured	1	1	9	7
Certificates of deposit and commercial paper	-	-	1	1
Asset covered securities ("ACS")	3	2	3	2
Senior debt	11	9	12	9
Capital ⁽³⁾	7	6	9	7
Total source of funds	121	100	138	100
Other ⁽⁴⁾	6		7	
	127		145	

The overall source of funds reduced by € 17 billion in the first half of 2011 reflecting a reduced funding requirement. This funding requirement reduction was primarily due to the disposal of BZWBK, the sale of securities held in AIB's available for sale ("AFS") portfolio and asset deleveraging. This reduction was partly offset by the transfer of Anglo's NAMA senior bonds of € 12 billion to AIB as part of the purchase of the Anglo deposit book in February 2011 which resulted in NAMA senior bonds increasing to € 20 billion at 30 June 2011.

Customer accounts excluding the deposit placed by NTMA, amounting to € 53 billion at 30 June 2011 are the largest funding source of the Group at 44%, down from 45% at 31 December 2010. Taking into account the reduction in customer accounts following the disposal of BZWBK (c. € 10 billion customer deposits) and the 30 June 2011 balance of € 6.4 billion of the acquired Anglo deposit books, underlying customer deposits have decreased by c. € 5 billion reflecting weak economic conditions, sovereign concerns about Ireland and more general uncertainty about Europe's solution to the peripheral country debt issue. Secured funding decreased by € 6 billion. The unsecured interbank reduced by € 8 billion to € 1 billion reflecting the exit of the Group from non standard facilities with the Central Bank of Ireland. Senior debt and ACS remain unchanged at 9% and 2% of funding sources respectively.

Net customer loans on a continuing basis decreased by € 13 billion or 15% in the half-year to June 2011. This decrease was due to a combination of deleveraging and the classification of € 3 billion corporate loans as held for sale. When combined with customer resources this resulted in a Group loan to deposit ratio of 114% down from 165% at 31 December 2010. The loan to deposit ratio including the held for sale corporate loans and excluding the deposit placed by the NTMA was 143%.

The Group experienced a reduction in its access to wholesale funding markets, a symptom of its credit rating, continued negative sentiment towards the Irish sovereign and lack of resolution to the Eurozone peripheral countries debt issue. The retention and gathering of customer accounts in a challenging and increasingly competitive market environment remains a key focus of the Group. This coupled with the action to deleverage non core assets is paramount to the Group's overall funding and liquidity strategy.

At 30 June 2011, the Group held € 44 billion (including pledged assets) in qualifying liquid assets/contingent funding of which approximately € 38 billion was used in repurchase agreements. The credit rating downgrades for both AIB and the Sovereign in 2011 had a negative impact on the funding value of the Group's bond holdings and internal asset covered securities. The Group continues to explore and develop contingent collateral and funding facilities to support its funding requirements.

⁽¹⁾ The funding commentary is on a total AIB Group basis.

⁽²⁾ Includes BZWBK at 31 December 2010.

⁽³⁾ Includes total shareholders' equity, subordinated liabilities and other capital instruments.

⁽⁴⁾ Non-funding liabilities including derivative financial instruments, other liabilities, retirement benefits and accruals and other deferred income.

4. Operating and financial review

	30 June 2011	31 December 2010
Summary items from the balance sheet	€ bn	€ bn
Total assets	127	145
Net loans and receivables to customers	73	86
NAMA senior bonds	20	8
Disposal groups and non-current assets held for sale	3	14
Financial assets held for sale to NAMA	1	2
Customer accounts	53	52
Deposit placed by NTMA	11	-
Wholesale funding	50	66
Loan to deposit ratio	114%	165%
Loan to deposit ratio (including held for sale corporate loans and excluding deposit placed by NTMA)	143%	165%

4.6 Non core/deleveraging

The Non Core Unit was established on 1 July 2011 to formulate and implement AIB's strategy of deleveraging its non core assets through a combination of disposals, run-off, refinancing and other forms of deleveraging. Non core assets are managed as a distinct portfolio within the business by a dedicated management team. The structure and operational framework for the non core management team is now implemented with strong focus on governance, risk, performance measurement and oversight reporting to the key stakeholders. The team has an explicit performance mandate to realise optimum value from the portfolio while also preserving AIB's core customer franchise within the overall objective of meeting the defined deleveraging targets as agreed with the authorities.

Total net loans of € 25.1 billion have been designated as non core assets, of which it is planned to deleverage € 17.4 billion over a three year period to the end of 2013. Deleveraging progress to 30 June 2011 is outlined in the following table.

	30 June 2011	31 December	Year to date
	2011	2010	movement
	€ bn	€ bn	€ bn
Total non core portfolio	16.8	25.1	(8.3)

Deleveraging of non core assets amounted to € 8.3 billion during the half year to June 2011. This was achieved through a combination of disposals of specific asset pools, repayments and redemptions, increased provisioning and other deleveraging impacts. Asset disposals to date of € 1.5 billion were achieved, principally in property and project finance related assets located in the United States, United Kingdom and Europe. Repayments and redemptions to date amounted to € 3.6 billion principally in the United Kingdom and overseas, while increased impairment provisions, foreign exchange movements and other deleveraging impacts amounted to € 3.2 billion. The impact on capital as a consequence of deleveraging to date, including losses on disposal of € 131 million on non core assets, has been positive, due to the resulting reduction in risk weighted assets. The pipeline for further asset disposals in the second half of the year remains strong with a number of additional non core asset pools identified and in the course of disposal.



5. Asset quality

Asset quality

The credit quality profile of the Group was significantly impacted by further deterioration in Irish economic conditions. Increasing unemployment, higher interest rates, a lack of consumer spending and continued illiquidity in the property sector have influenced the increase in criticised loan levels, including higher impaired loans, and associated provisions. The Group had non NAMA total criticised loans and receivables for continuing operations of € 29.1 billion (34% of total gross loans of € 86 billion) at 30 June 2011 compared to € 27.3 billion at 31 December 2010. At 30 June 2011 the Group had loans held for sale to NAMA of € 1.1 billion of which € 306 million were impaired with balance sheet provisions of € 170 million.

Criticised loans		30 June 2011			31 December 2010		
		Non NAMA	NAMA	total	Non NAMA	NAMA	total
Watch loans ⁽¹⁾	€ m	6,864	285	7,149	7,645	456	8,101
Vulnerable loans ⁽²⁾	€ m	6,995	271	7,266	7,560	425	7,985
Impaired loans ⁽³⁾	€ m	15,213 ⁽⁴⁾	306	15,519	12,141 ⁽⁴⁾	741	12,882
Criticised loans	€ m	29,072	862	29,934	27,346	1,622	28,968
Gross loans	€ m	85,433 ⁽⁵⁾	1,110	86,543	93,839	2,249	96,088
Criticised as % of total gross loans	%	34.0	77.6	34.6	29.2	72.2	30.2
Impaired as % of total gross loans	%	17.8	27.5	17.9	12.9	33.0	13.4

The following commentary excludes NAMA loans. The Group's criticised loans and receivables to customers in continuing operations amounted to € 29.1 billion or 34.0% of customer loans, up from € 27.3 billion or 29.2% at 31 December 2010, an increase of € 1.7 billion. Residential mortgages accounted for 19% of the Group's criticised loans compared with 16% at December 2010. Group watch loans decreased by € 781 million since 31 December 2010 to € 6.9 billion or 8% of advances. There were decreases in a number of sectors, particularly in the property and distribution sectors offset by increases in the residential mortgage sectors. Group vulnerable loans decreased by € 565 million to € 7.0 billion since December 2010 and remained at 8% of advances since December 2010. Decreases in vulnerable loans were evident particularly in the property sector in Ireland and the UK, however there was an increase in vulnerable residential mortgages in both locations. Group impaired loans increased significantly since December 2010, up € 3.1 billion to € 15.2 billion and now represent 17.8% of advances up from 12.9% at December 2010. The increases occurred mainly in the property, residential mortgage, distribution (hotels and licenced premises) and personal sectors in Ireland with borrowers continuing to be impacted by the ongoing challenging economic environment. Property loans represent 56% of Group impaired advances at June 2011 compared with 58% at December 2010. The increase in property impaired loans occurred largely in Ireland.

⁽¹⁾ Watch: credit exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cashflow.

⁽²⁾ Vulnerable: credit where repayment is in jeopardy from normal cashflow and may be dependent on other sources.

⁽³⁾ Impaired: a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact such that the present value of future cashflows is less than the current carrying value of the financial asset or group of assets i.e. requires a provision to be raised through the income statement.

⁽⁴⁾ Includes € 15,196 million impaired loans and AmCredit € 17 million, (€ 12,114 million impaired loans and AmCredit € 27 million at December 2010).

⁽⁵⁾ Includes € 124 million in unearned income.

5. Asset quality

Provisions (income statement)	Half-year June 2011 € m	Half-year June 2010 € m
Provisions for impairment of loans and receivables	2,961	2,260
Writeback of provisions for liabilities and commitments	(173)	-
Provisions for impairment of financial investments available for sale	99	3
Total provisions	2,887	2,263

The provision charge for loans and receivables was € 2,961 million or 6.48% of average customer loans and compared to € 2,260 million or 3.78% of average customer loans in the half-year to June 2010. The provision charge included € 54 million for loans held for sale to NAMA and the charge for loans and receivables to customers was € 2,907 million compared with € 1,221 million and € 1,039 million respectively for the same period last year.

The writeback of provisions for liabilities and commitments of € 173 million reflects the release of contingent provisions raised in 2010 for loans that were held for sale to NAMA at 31 December 2010 but were not classified as held for sale to NAMA at 30 June 2011.

The provision for impairment of financial investments available for sale mainly reflects provisions for bonds held in financial institutions.

Provisions for impairment of loans and receivables	€ m	30 June 2011 bps	€ m	30 June 2010 bps
Non NAMA ⁽¹⁾	2,558	856	931	270
Non NAMA residential mortgages	349	233	108	68
Subtotal non NAMA	2,907	647	1,039	212
NAMA	54	654	1,221	1,307
Total	2,961	648	2,260	378

⁽¹⁾ Non NAMA loans excluding residential mortgages.

The following comment excludes provisions on loans held for sale to NAMA. The Group provision charge for loans comprised € 2,766 million of specific provisions and € 141 million of IBNR provisions (€ 1,063 million in specific provisions and a release of IBNR of € 24 million in the half-year to June 2010). The increase in specific provisions was influenced by the impact of a continued fall in values attached to the bank's collateral for both existing and newly impaired loans in the period. This was particularly evident in commercial and residential property sectors in Ireland. The increase in IBNR provisions was due to management's view of the heightened level of incurred loss (not yet identified), particularly in the residential mortgage book in Ireland and the land and development book in Northern Ireland.



5. Asset quality

Gross loans and receivables to customers (non NAMA)	30 June 2011		31 December 2010
	€ bn		€ bn
Retail⁽¹⁾			
Residential mortgages	30		31
Other personal lending	6		6
Total retail	36		37
Commercial⁽¹⁾			
Property	24		26
SME/commercial	17		18
Total commercial	41		44
Corporate⁽¹⁾	9		13
Total	86		94

	€ bn	30 June 2011		31 December 2010
		%	€ bn	%
Credit Profile				
Satisfactory	56.4	66	66.6	71
Watch	6.9	8	7.6	8
Vulnerable	7.0	8	7.6	8
Impaired	15.2	18	12.1	13
Balance sheet provisions	9.6	-	7.3	-
Balance sheet provisions/loans	-	11.2	-	7.8
Specific provisions/impaired loans cover	-	48	-	42
Total provisions/impaired loans	-	63	-	60
		Half-year		Half-year
		June 2011		June 2010
Income statement provision charge/average advances		6.47		2.12

Gross loans and receivables to customers amounted to € 86 billion at 30 June 2011 (including € 2.6 billion loans which are classified as held for sale). € 29.1 billion or 34.0% of the portfolio is criticised of which € 15.2 billion is impaired. Balance sheet specific provisions of € 7.4 billion providing cover of 48% are held at 30 June 2011 for this portfolio with total provisions to total loans of 11.2%. The income statement provision charge for June 2011 was € 2,907 million or 6.47% of average advances up from € 1,039 million or 2.12% in June 2010. The key portfolios and credit quality are profiled in the following pages.

⁽¹⁾ The segmentation of the loan book is based on the historical composition of the balance sheet and is not reflective of business segmentation under the new structure. The new business segments will be reported in future reporting periods.

5. Asset quality

Residential mortgages

Residential mortgages for continuing operations amounted to € 30 billion at 30 June 2011 (including € 0.1 billion mortgages which are classified as held for sale). The provision charge for residential mortgages was € 349 million or 2.33% of average residential mortgages. Residential mortgages comprise owner occupier € 21.2 billion and Buy to Let (“BTL”) € 8.6 billion. The portfolio held in the Republic of Ireland (€ 26.7 billion) is profiled below:

	30 June 2011		
	Owner occupier € m	Buy to Let € m	Total € m
Republic of Ireland residential mortgages			
Total residential mortgages	18,488	8,173	26,661
In arrears (>30 days past due)	982	1,604	2,586
In arrears (>90 days past due)	731	1,353	2,084
Of which impaired	545	1,123	1,668
Balance sheet specific provisions	158	317	475
Balance sheet IBNR provisions	137	251	388
Income statement specific provisions 2011	82	192	274
Income statement IBNR provisions 2011	7	13	20
	%	%	%
Specific provisions/impaired loans cover	29.0	28.2	28.5

	31 December 2010		
	Owner occupier € m	Buy to Let € m	Total € m
Republic of Ireland residential mortgages			
Total residential mortgages	19,382	7,783	27,165
In arrears (>30 days past due)	749	924	1,673
In arrears (>90 days past due)	557	747	1,304
Of which impaired	422	561	983
Balance sheet specific provisions	73	125	198
Balance sheet IBNR provisions	138	230	368
Income statement specific provisions 2010	56	80	136
Income statement IBNR provisions 2010	107	205	312
	%	%	%
Specific provisions/impaired loans cover	17.3	22.3	20.1

The portfolio in the Republic of Ireland has experienced an increase in arrears reflecting the impact of a harsher economic climate on borrowers’ repayment affordability. The pace of increase in total arrears eased somewhat in the second half of 2010 but has accelerated in 2011. The level of >90 days in arrears was 7.82% at 30 June 2011 compared with 4.80% at 31 December 2010.

The level of total arrears (>90 days) in the owner occupier book increased since 31 December 2010 from € 557 million (2.87% of mortgages) to € 731 million or 3.95% at 30 June 2011. Unemployment, wage cuts and high levels of personal debt continued to be the principal drivers of increased arrears.

The level of total arrears (>90 days) in the BTL portfolio has increased significantly from € 747 million or 9.60% at 31 December 2010 to € 1,353 million or 16.55% at 30 June 2011 and was influenced by increased financial pressure on borrowers.

Total owner occupier and BTL impaired loans were € 1,668 million at 30 June 2011. Balance sheet specific provisions of € 475 million provided cover of 28.5% up from 20% at December 2010. IBNR balance sheet provisions of € 388 million are held for the performing book (94% of residential mortgage book) based on management’s view of incurred loss in this book. The total income statement charge for the period was € 294 million (specific € 274 million and IBNR € 20 million). The IBNR charge was influenced by the increase in the level of arrears, requests for loan restructures and the level of interest only mortgages (€ 4.1 billion) in the portfolio.



5. Asset quality

Residential mortgages (continued)

AIB has received a number of requests for forbearance from customers who are experiencing cash flow difficulties. AIB considers these against the borrowers' current and likely future financial circumstances, their willingness to resolve these issues, as well as the legal and regulatory obligations. As part of that process loans are tested for impairment and where appropriate, the loans are downgraded to impaired status and provisions raised.

United Kingdom residential mortgages

Residential mortgages in the United Kingdom were € 3.1 billion at 30 June 2011. The level of >90 days in arrears was 5.4% compared with 4.1% at 31 December 2010, driven by an increase in Northern Ireland in particular.

5. Asset quality

Other personal lending	30 June 2011		31 December 2010	
	€ m	%	€ m	%
Total personal lending portfolio	5,586	-	6,021	-
Credit profile				
Satisfactory	3,414	61	3,916	65
Watch	522	9	634	11
Vulnerable	577	11	632	10
Impaired	1,073	19	839	14
Balance sheet provisions	810	-	619	-
Balance sheet provisions/loans	-	14.5	-	10.3
Specific provisions/impaired loans cover	-	64	-	61
Total provisions/impaired loans	-	76	-	74
		Half-year June 2011		Half-year June 2010
Income statement provision charge/average advances		7.36		4.09

The Group other personal portfolio amounted to € 5.6 billion at 30 June 2011 and includes € 1.1 billion in credit card loans with the remaining € 4.5 billion relating to loans/overdrafts. The portfolio decreased by € 435 million since December 2010, largely in the Republic of Ireland. € 2.2 billion (39%) of the portfolio was criticised at 30 June 2011 (up from 35% at 31 December 2010) of which € 1.1 billion were impaired. Balance sheet specific provisions of € 687 million provided cover of 64% of impaired loans and the ratio of total provisions to total loans was 14.5%. The income statement provision charge for this portfolio in the half-year to June 2011 was € 216 million or 7.36% of average advances up from € 139 million or 4.09% in the half-year to June 2010.



5. Asset quality

	30 June 2011		31 December 2010	
	€ m		€ m	
Property and construction⁽¹⁾				
Investment				
Commercial investment		12,882		13,679
Residential investment		3,318		3,497
		16,200		17,176
Land and development				
Commercial development		1,645		1,847
Residential development		5,117		5,543
		6,762		7,390
Contractors		513		807
Total⁽¹⁾		23,475		25,373
	€ m	30 June 2011 %	31 December 2010 € m	%
Credit profile (excluding housing associations)				
Satisfactory	10,178	43	12,362	49
Watch	2,277	10	2,789	11
Vulnerable	2,432	10	3,215	13
Impaired	8,588	37	7,007	27
Balance sheet provisions	5,415	-	4,047	-
Balance sheet provisions/loans	-	23	-	16
Specific provisions/impaired loans cover	-	49	-	41
Total provisions/impaired loans	-	63	-	58
		Half-year June 2011		Half-year June 2010
Income statement provision charge/average advances		12.98		2.57

At 30 June 2011, excluding exposures to housing associations in the UK of € 494 million (€ 529 million at 31 December 2010), the property and construction portfolio was € 23.5 billion (including € 1.2 billion loans which are classified as held for sale). Balance sheet specific provisions of € 4.2 billion provided cover of 49% of impaired loans for this portfolio with total provisions to total loans of 23%. The income statement provision charge in the half-year to June 2011 was € 1,641 million or 12.98% of average property loans up from € 344 million or 2.57% of average property loans in the half-year to June 2010.

At 30 June 2011, investment property amounted to € 16.2 billion (€ 17.2 billion at 31 December 2010) of which € 12.9 billion related to commercial investment. € 8.0 billion of investment property related to loans for the purchase of property in the Republic of Ireland, € 6.7 billion in the United Kingdom, € 0.6 billion in the United States and € 0.9 billion in other geographical locations. € 7.0 billion of investment property loans were criticised at 30 June 2011 of which € 3.5 billion were impaired. AIB had balance sheet specific provisions of € 1,257 million at 30 June 2011 for these impaired loans which provide impaired loan cover of 36% and total provisions to total loans of 11.2%.

At 30 June 2011, land and development loans amounted to € 6.8 billion and related to loans of less than € 20 million. The portfolio is split by locations as follows: € 4.8 billion in Republic of Ireland, € 1.8 billion in the United Kingdom and € 0.2 billion in other geographic locations. Criticised loans amounted to € 6.0 billion of which € 4.9 billion were impaired. The Group had balance sheet specific provisions of € 2.8 billion providing cover of 57% on these impaired loans and total provisions to total loans of 51%.

⁽¹⁾ Excludes exposures to housing associations of € 494 million at 30 June 2011 and € 529 million at 31 December 2010.

5. Asset quality

SME/commercial	30 June 2011 € m	31 December 2010 € m
Hotels	2,649	2,827
Licensed premises	1,147	1,181
Retail/wholesale	2,931	3,150
Other services	5,451	6,886
Agriculture	1,851	1,838
Other	2,554	1,764
Total SME/commercial	16,583	17,646

	€ m	30 June 2011 %	€ m	31 December 2010 %
Credit profile				
Satisfactory	9,228	55	10,444	59
Watch	1,934	12	2,405	14
Vulnerable	2,100	13	2,121	12
Impaired	3,321	20	2,676	15
Balance sheet provisions	2,083	-	1,700	-
Balance sheet provisions/loans	-	12.6	-	9.6
Specific provisions/impaired loans cover	-	51	-	50
Total provisions/impaired loans	-	63	-	64
		Half-year June 2011		Half-year June 2010
Income statement provision charge/average advances		6.50		3.17

The main sub-sectors included in the SME/commercial category of € 16.6 billion were: hotels and licensed premises € 3.8 billion; retail/wholesale € 2.9 billion; other services € 5.5 billion and agriculture € 1.9 billion. € 7.4 billion or 45% were in criticised grades (up from 41% at 31 December 2010) and include € 3.3 billion in impaired loans. Balance sheet specific provisions of € 1.7 billion provide cover of 51% for the impaired element of this portfolio with total provisions to total loans (€ 16.6 billion) coverage of 12.6%. The income statement provision charge for this portfolio in June 2011 was € 554 million or 6.50% of average loans up from € 288 million or 3.17% in June 2010.



5. Asset quality

Corporate loans	30 June 2011		31 December 2010	
	€ m	%	€ m	%
Total corporate portfolio	9,207	-	13,412	-
Credit profile				
Satisfactory	8,537	93	12,679	95
Watch	176	2	176	1
Vulnerable	116	1	90	1
Impaired	378	4	467	3
Balance sheet provisions	273	-	285	-
Balance sheet provisions/loans	-	3.0	-	2.1
Specific provisions/impaired loans	-	53	-	45
Total provisions/impaired loans	-	72	-	61
		Half-year June 2011		Half-year June 2010
Income statement provision charge/average advances		2.53		1.16

The corporate book which relates to large corporate borrowers amounted to € 9.2 billion (including € 1.3 billion loans which are classified as held for sale) spread as follows: Republic of Ireland € 2.7 billion, United Kingdom € 1.1 billion, United States € 1.9 billion, International € 3.2 billion and other € 0.3 billion. Included in this portfolio is a leveraged finance book of € 1.8 billion down from € 3.3 billion at December 2010 and € 1.5 billion of project finance (€ 1.7 billion at 31 December 2010). € 0.7 billion of corporate loans are in criticised grades of which € 0.4 billion are impaired. Balance sheet specific provisions of € 200 million provided cover of 53% of impaired loans with total provisions to total loans of 3.0%. The income statement provision charge in the half-year to June 2011 for this portfolio was € 147 million or 2.53% of average loans compared to € 92 million or 1.16% of average advances in the half-year to June 2010. This is partly due to the reduction of € 3.6 billion in average loans in the half-year to June 2011 as a result of deleveraging and flowback in the period.

5. Asset quality

Available for sale (“AFS”) financial investments	30 June 2011		31 December 2010	
	€ bn	%	€ bn	%
Government securities - Ireland	3.4	24.6	4.3	20.7
Government securities - Eurozone	1.8	13.0	3.5	16.8
Government securities - non Euro	1.1	8.0	1.7	8.2
Supranational banks and Government agencies	1.2	8.7	1.3	6.3
Senior bank microfinance institution debt	1.5	10.9	3.0	14.4
Residential mortgage backed securities	2.0	14.5	2.9	13.9
Government guaranteed senior bank debt	0.7	5.1	1.1	5.3
Covered bonds (originated externally)	0.7	5.1	0.9	4.3
Corporate debt	0.4	2.9	0.6	2.9
Other asset backed securities	0.3	2.2	0.6	2.9
Subordinated bank and microfinance institution debt	0.3	2.2	0.5	2.4
Other assets	-	-	0.1	0.5
Equity investments (including subordinated NAMA bonds)	0.4	2.8	0.3	1.4
Total	13.8	100.0	20.8	100.0

At 30 June 2011, 96% of the AFS securities of € 13.8 billion held by the Group were externally rated as investment grade and 64% were rated A- or stronger. Sovereign issued or guaranteed securities accounted for 54% of the holdings. Other asset classes included senior bank debt and covered bonds (16%) and, senior tranches of residential mortgage backed securities (15%). Smaller holdings included senior tranches of other asset backed securities (2%), as well as corporate debt (3%) and bank subordinated debt (2%). The AFS portfolio has reduced significantly in the period by € 7.0 billion largely driven by planned reductions in government securities and bank senior bonds. Included in ‘Government securities - Eurozone’ at 30 June 2011 are exposures to Portugal € 99 million, Italy € 212 million and Spain nil (Portugal € 237 million, Italy € 805 million and Spain € 326 million at 31 December 2010). Included in ‘Senior bank institution debt’ at 30 June 2011 are exposures to Portugal € 54 million, Italy € 61 million and Spain € 45 million (Portugal € 52 million, Italy € 289 million and Spain € 404 million at 31 December 2010).

A charge of approximately € 95 million was taken in the period to June 2011 to reflect the impact of liability management exercises on Irish subordinated bank bonds (nominal value € 202 million, 85% of which are investment grade income statement charge € 75 million), the creation of an IBNR provision of € 10 million for the residual subordinated bank bonds (nominal value € 221 million) and a charge of € 10 million for a Euro country sovereign bond holding of € 41 million.

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**This announcement and a detailed presentation can be viewed on our internet site at
www.aibgroup.com/investorrelations**

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1934, with respect to the financial condition, results of operations and business of the Group and certain of the plans and objectives of the Group. In particular, among other statements in this preliminary results announcement, with regard to management objectives, trends in results of operations, margins, risk management, competition and the impact of changes in International Financial Reporting Standards are forward-looking in nature. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward-looking statements include among others, statements regarding the Group's future financial position, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to the effects of the challenging economic environment, both domestically and internationally, the impact of the Irish Government's relationship with AIB through both its ordinary and preference share investments, the impact of the Irish Government's austerity measures arising from the EU/IMF financial support package, constraints on liquidity and the challenging liquidity environment for the Group created by market reaction to factors affecting Ireland and the Irish economy, the impact of further downgrades to the Irish sovereign ratings and other country ratings, or the Group's credit ratings, the uncertainty of further extensions of the ELG Scheme, systemic risks in the markets the Group operates in, the ability to access capital to meet targeted and minimum capital requirements for the Group, customer and counterparty credit quality, the National Pensions Reserve Fund Commission investments, the National Asset Management Agency programme and the ELG Scheme, conditions that may be imposed by the European Commission following consideration of the Group's restructuring plan, market risk, including non-trading interest rates, operational and reputational risks, the success of the Group's deleveraging plan, the effects of continued volatility in credit markets, the effects of changes in valuation of credit market exposures, changes in fiscal or other policies adopted by various governments and regulatory authorities, the effects of changes in taxation or accounting standards and practices, acquisitions and disposals, the risks relating to the Group's deferred tax assets, future exchange and interest rates and the success of the Group in managing these events. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. AIB cautions that the foregoing list of important factors is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this announcement may not occur. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.