Backing our Customers

Half-Yearly Financial Report
For the six months ended
30 June 2020

AIB Group plc

OUR PURPOSE IS TO BACK OUR CUSTOMERS TO ACHIEVE THEIR DREAMS AND AMBITIONS

AIB is a financial services group operating predominantly in Ireland and the United Kingdom. We provide a range of services to retail, business and corporate customers, with market-leading positions in key segments. AIB is our principal brand across all geographies. In Ireland, EBS is our challenger brand and Haven is our mortgage broker channel.

With over 2.8 million customers, we are committed to supporting the transition to a low-carbon economy and backing sustainable communities. In the first half of 2020, we introduced a range of supports for our customers impacted by COVID-19 and funded the COVID-19 Research Hub to help meet the challenges ahead.

ON OUR COVER

Ger Leahy, AIB customer and Tillage Farmer from Co. Tipperary.
Featured as part of our Backing Brave campaign.

Half-Yearly Financial Report
For the six months ended 30 June 2020

01 OVERVIEW

02 BUSINESS REVIEW

03 RISK MANAGEMENT

04 FINANCIAL STATEMENTS

This Half-Yearly Financial Report contains forward-looking statements with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. See page 141.

BUSINESS PERFORMANCE

H1 2020 RESULTS

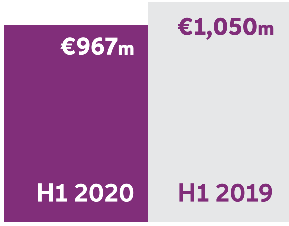
FINANCIAL PERFORMANCE

NET INTEREST INCOME

€967m

LOW INTEREST RATE ENVIRONMENT IMPACTING INCOME

Down 8% due to the low interest rate environment, lower investment securities income and reduced loan volumes partially offset by a decrease in the cost of customer accounts

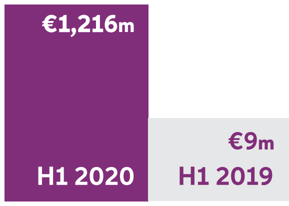


NET CREDIT IMPAIRMENT CHARGE

€1,216m

INCREASE IN PROVISION STOCK DUE TO DETERIORATION IN ECONOMIC OUTLOOK

Impairment charge of €1,216m reflecting prudent provisioning approach given the revised economic outlook

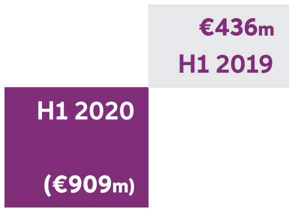


(LOSS)/PROFIT BEFORE TAX

(€909m)

IMPACTED BY IMPAIRMENT CHARGE

Operating profit[1] of €377m, with operating income down 13% due to interest rates and sharp decline in economic activity, offset by impairment charge of €1,216m and exceptional items of €75m

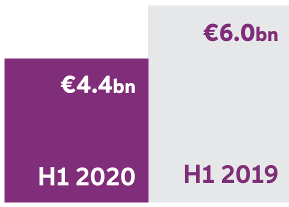


NEW LENDING

€4.4bn

LOWER INTERNATIONAL LENDING, Q2 IMPACTED BY COVID LOCKDOWN

New lending down 27% reflects lower syndicated and UK lending. Mortgage lending down 17%

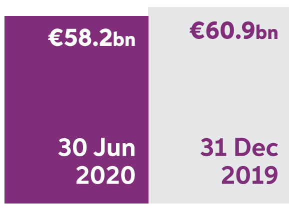


NET LOANS

€58.2bn

GROSS LOANS DOWN 3% TO €60.6BN DUE TO LOWER ECONOMIC ACTIVITY

Net loans down €2.1bn (excluding FX impact) with redemptions exceeding new lending and increase in provision stock

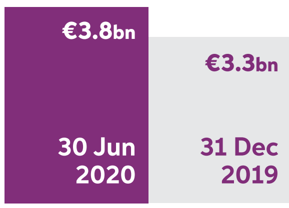


NON-PERFORMING EXPOSURES[2]

€3.8bn

6.3% OF GROSS LOANS

Non-performing exposures (NPEs) increased by €0.5bn to €3.8bn primarily reflecting changes to definition of default



1. Operating profit before impairment losses and exceptional items.
2. Non-performing exposures (NPEs) refers to non-performing loans (NPLs) and excludes €147m of off-balance sheet commitments. For further information see pages 52 and 53.

In March 2020, in line with our strategy, we set a number of medium-term financial targets to 2022 along with long-term non-financial targets.

MEDIUM-TERM FINANCIAL TARGETS (END 2022)

	TARGETS	OUTCOMES	
ABSOLUTE COST BASE[3] Cost of running the business, excluding exceptional costs	**€1.5bn** Focussed cost discipline; controlling costs annually at €1.5bn by 2022	**€747m** H1 2020	**€744m** H1 2019
RETURN ON TANGIBLE EQUITY[4] A measure of how well capital is deployed to generate earnings growth	**>8%** Deliver sustainable returns; ROTE >8% by 2022	**n/a** 30 Jun 2020	**4.5%** 31 Dec 2019
CET1 RATIO (FULLY LOADED) A measure of our ability to withstand financial stress and remain solvent	**>14%** Appropriate capital target; CET1 >14% needed to run the business	**16.4%**[5] 30 Jun 2020	**17.3%** 31 Dec 2019

LONG-TERM NON-FINANCIAL TARGETS[6]

	TARGETS	OUTCOMES	
RELATIONSHIP NET PROMOTER SCORE (NPS) A measure of our personal customers' overall AIB relationship experience	**50+**	**25** 30 Jun 2020	**34** 31 Dec 2019
TRANSACTION NET PROMOTER SCORE (NPS) Measured after customer transactions for key touch points[7]	**HOMES: 60+** **SME: 70+**	**54** **65** 30 Jun 2020	**53** **60** 31 Dec 2019
ACTIVE MOBILE USERS Number of active users on mobile platform	**>2 million**	**1.34 million** 30 Jun 2020	**1.30 million** 31 Dec 2019
DIVERSITY Women as % of management	**GENDER BALANCED**	**41%** 30 Jun 2020	**41.5%** 31 Dec 2019

3. Before bank levies, regulatory fees and exceptional items. For exceptional items see pages 20 and 29.
4. For further information see the Capital section on page 31. The RoTE actual outcome is not reported for the 30 June 2020 as it would require the loss for the period to be annualised which is considered not appropriate at this stage.
5. Pro forma CET1 including TRIM indicative impact of 80bps is 15.6% - see page 32 for further information.
6. Long-term non-financial targets for Engagement, Reduction in Emissions and ESG Ratings are reported on an annual basis.
7. The Transactional NPS score for Homes is an aggregation of Mortgage Success, Mortgage Drawdown and Mortgage Decline customer journeys; the Transactional NPS score for SME comprises Loan Success, New Current Account, Asset Finance, Cashflow and Onboarding journeys.

CHIEF EXECUTIVE'S REVIEW

RESILIENCE IN THE FACE OF ADVERSITY

Although it has been an extraordinary six months, AIB remains committed to supporting economic recovery while maintaining a strong and resilient balance sheet.

COLIN HUNT
AIB's Chief Executive Officer

As I reflect on the first seven months of 2020, they are without doubt, unlike anything we have experienced in our lifetimes. The exceptional challenges caused by the COVID-19 pandemic are still unfolding in real time and their scale and ultimate impact, as yet, are impossible to measure at a public health, social and economic level domestically or globally. We are now compelled to adjust and acclimatise to meet, head-on, challenges few could have envisaged.

Because it is virus-led, the current recession is not a "conventional" one. The normal text book response has had to be rewritten in a short space of time as the demands now placed on the banking sector are unmatched. As an industry, we are responding with unprecedented flexibility and this extraordinarily severe crisis demands that we call on all our strength as a resilient financial force to support our customers and the economies in which we operate. The emergency has demanded that we respond rapidly and with agility to play a central role, in particular, in Ireland's recovery. At the outset of COVID-19, I said the banking sector could be the difference between this country's economy slipping from crisis to catastrophe and we will demonstrate by our actions that this assessment holds true.

There are striking differences between banks' circumstances during the COVID-19 crisis and the collapse of the financial sector 12 years ago. In 2008, the country's lenders were part of the problem and today banks are part of the solution. In March 2020, when the COVID-19 pandemic sent its first shockwaves through the economy, leading to widespread disruption to supply chains, jobs and incomes, AIB had the financial and technical wherewithal to rapidly implement exceptional containment measures to help individual customers, households and businesses. In essence, there is no comparison between our resilience levels now and back then.

"WE STREAMLINED PROCESSES AND SYSTEMS TO IMPLEMENT A RANGE OF RELIEF MEASURES, INCLUDING A TOTAL OF C. 64,000 PAYMENT BREAKS"

When we felt the first effects of the pandemic, we moved swiftly to overcome operational challenges; we streamlined processes and systems to implement a range of relief measures, including a total of c. 64,000 payment breaks on mortgages, small business and personal loans to customers impacted by COVID-19. These moratoria provided vital immediate liquidity to households and businesses; a deferral of fees and charges was also effected; the contactless card charge was waived and increased limits on cashless payments were facilitated in order to reduce health risks. All of these changes were effected whilst maintaining an open dialogue with the Minister for Finance, the Regulator and other stakeholders.

As customer calls to AIB's contact centres increased significantly overnight, we reassigned staff and kept 99.4% of our branch network open. We introduced priority banking hours for those that needed it as well as a dedicated helpline for over 65s, to ensure safe service for all our customers. While adhering to the prudential rules of responsible lending, we ensured that credit facilities aimed at mitigating the impact of the coronavirus on businesses were released as quickly as possible.

Our sectoral teams worked assiduously to provide expert advice and assistance to our thousands of SME customers across the retail trade, hospitality, tourism, pubs and restaurants who were, at best, cast into uncertainty overnight and, at worst, temporarily forced to cease trading.

Like others globally, the Irish government has sought to cushion the impact of the shock on the economy through a series of measures including, most recently, the €7.4bn Stimulus Package announced in July. As an integral part of this raft of measures to reflate the economy, AIB is participating fully with the provision of low-cost loans to SMEs, the backbone of our national economy, through the €2.8bn Strategic Banking Corporation Ireland (SBCI) Credit Guarantee and Future Growth Schemes. The government's decision to remove the portfolio cap[1] to provide an 80% guarantee allows the bank to discount versus our standard pricing and facilitates a quantum leap in the amount of businesses likely to draw down credit.

Financial Performance

We are announcing financial results that reflect the new COVID-19 economic reality and the acute deterioration in the macro-financial outlook. However, because of the measures the bank has taken over the last decade to replenish its capital, repair its balance sheet and reduce non-performing loans, we now have capital in excess of €10bn in place, and our regulatory CET1 capital ratio is currently over three times stronger than before the last global financial crisis. This puts us in a strong position to absorb loan losses incurred in

1. The current Credit Guarantee Scheme has a portfolio cap in place for individual finance providers which limits the State's exposure to 13% of the loan facilities included in the scheme. The Government decision removes any portfolio cap for credit facilities provided by each finance provider.


An AIB volunteer "gleaning" on a potato farm for our charity partner FoodCloud.


CEO Colin Hunt joined Minister for Further and Higher Education, Research, Innovation and Science Simon Harris for a visit to the AIB COVID-19 Research Hub in Trinity College Dublin.

the pandemic and to continue to write new loans to support our customers.

We are reporting a loss before tax of €909m for the first half of the year. This loss has been driven by the net impairment charge of €1,216m. The increase in provision stock reflects a prudent approach to provisioning given the deterioration in economic outlook. Further information on the charge is detailed on page 7. We have seen a reduction in our net interest income to €967m, which represents a decrease of €83m compared to the first half of 2019. This adverse outcome was principally due to the low interest rate environment, lower investment securities income and reduced loan volumes partially offset by a decrease in the interest expense on customer accounts.

Our total operating expenses remained stable at €747m for the first six months of the year. Cost management remains a priority for the Group with a continued focus on cost discipline aligning with our financial targets for 2022. Exceptional items of €75m include restitution costs as well as the incremental costs of implementing a large volume of payment breaks on home mortgages, personal and SME loans to customers impacted by COVID-19.

Gross loans and gross performing loans at €60.6bn and €56.8bn respectively have both decreased since 31 December 2019. As at June 2020, 87% of AIB's loan book is of strong or satisfactory quality (down from 89% at 2019 year-end), with the reduction in quality due to the impact of COVID-19 on the back book. Maintaining the quality of new lending is critical, with more than 97% of our new lending being of strong or satisfactory credit quality in 2020 YTD.

The sharp reduction in economic activity has negatively impacted the demand for new credit across most business areas, with new lending of €4.4bn for the first six months of the year, 27% lower than the half year to June 2019. SME and corporate lending was 29% lower at €2.2bn primarily due to lower syndicated and UK lending, with property and construction lending 36% lower at €0.7bn. Mortgage lending was 17% lower at €1.1bn and personal lending was down 18% to €0.4bn.

The sustainability agenda is being accelerated as a result of the current crisis and for the last two years green lending has been the fastest-growing part of our balance sheet. Our Energy, Climate Action and Infrastructure portfolio continues to perform well against the backdrop of COVID-19 uncertainty with an increase in new lending of 36% compared to the first-half of 2019 with no payment break modifications made to this portfolio in the first half of 2020.

Addressing non-performing exposures (NPEs) in a sustainable way is a key priority for the Group and our core preference has always been to offer a range of sustainable solutions to our customers and to restructure customers in difficulty on a case by case basis. Non-performing loans as a percentage of gross loans to customers was 6.3% at 30 June 2020 compared to 5.4% at 31 December 2019. This increase primarily reflects a change in the definition of default. We remain focused on NPEs and their reduction must continue over time.

In terms of legacy issues, in our full year 2019 results published in March, we made additional provisions of €300m to cover the application of a Financial Services and Pensions Ombudsman

In May, our annual Future Sparks Festival went ahead online as an eight-part series to inspire and educate students.

(FSPO) decision to the wider customer group of c. 5,900 AIB customers who had an option of a prevailing tracker rate, together with related potential additional charges. These customers had previously received a €1,615 payment under the Tracker Mortgage Examination (TME) and

"FOR THE LAST TWO YEARS GREEN LENDING HAS BEEN THE FASTEST GROWING PART OF OUR BALANCE SHEET"

following the application of the FSPO decision to the wider group, we are on track to complete planned customer payments to this group by the end of August 2020. Also, following intervention by the Central Bank of Ireland (CBI), c. 300 of these customers, who rolled off their fixed rate very shortly after the tracker product was withdrawn in 2008, were deemed eligible for further review under the TME. Appropriate payments to this particular group will commence in August. As previously communicated, AIB identified a group of c. 1,000 EBS customers as part of the CBI's tracker investigation process. These customers are also entitled to redress and compensation under the TME as the tracker rate applied was incorrect. We have taken an additional provision of €7m to cover these payments as well as other potential costs. We are continuing to engage and work closely with the CBI in relation to these tracker-related issues and associated enforcement investigations.

AIB continues to have strong funding and capital ratios and is well positioned to absorb the impact of COVID-19 on our balance sheet. As retail deposits continued to increase, our Loan-to-Deposit Ratio was 77% and we continued to have strong liquidity metrics (Liquidity Coverage Ratio of 158% and Net Stable Funding Ratio of 136%).

In June 2020, AIB Group plc successfully issued €625m of AT1, bringing our MREL eligible issuance to €5bn. This transaction highlights the strong support that AIB has within credit markets with a nine times oversubscribed order book which included quality institutions across geographies. This transaction has allowed AIB to strengthen its capital position further and take advantage of recent European Central Bank (ECB) regulatory change which allows AIB to fill a portion of its Pillar 2 requirements from hybrid instruments. We have also taken this opportunity to buy back €202m of our existing Allied Irish Banks p.l.c. (OpCo) AT1 transaction which is callable in December 2020. AIB Group own funds and eligible liabilities are in excess of the estimated 2022 interim MREL requirement of 27.1% of risk weighted assets. We continue to focus on improving the efficiency of our capital structure.

We have a strong capital base with a robust pro forma fully-loaded CET1 ratio (reflecting indicative 80bps TRIM impact) of 15.6% at 30 June 2020, well in excess of regulatory requirements.

Expected credit losses

In the first half of 2020, the expected credit loss (ECL) was a charge of €1.2bn primarily due to the economic impact of COVID-19 on the economy. Of this, €0.7bn related to significant changes in factors associated with the macro-economic scenarios, namely GDP and unemployment, applied in the second quarter of 2020 compared to those used in the first quarter. These factors are also key drivers in the IFRS 9 models used for assessing probability of default (PD) and loss given default (LGD). The change in these factors has increased both PD and LGD, thus increasing ECL cover within stage and contributing to stage transfer. As such, €0.4bn of the total ECL charge was related to downward staging migration of exposures and credit deterioration within stage with the remaining €0.1bn related to post-model adjustments.

ECL coverage has increased across all stages with Stage 2 and 3 exposures rising by €6.5bn and €0.4bn respectively. The Stage 2 movements were primarily in the Commercial Real Estate, Corporate and SME sectors, those most vulnerable to the impact of the lockdown restrictions from March to May. Stage 3 increased by €0.4bn primarily due to a change in the definition of default.
We are satisfied that the ECL approach applied is conservative, forward looking and comprehensive

based on our current view of macro-economic scenarios. We anticipate that the ECL charge applied will substantially cover the expected COVID-19 credit impact and so represents the significant majority of the expected charge for the full-year.

Digital

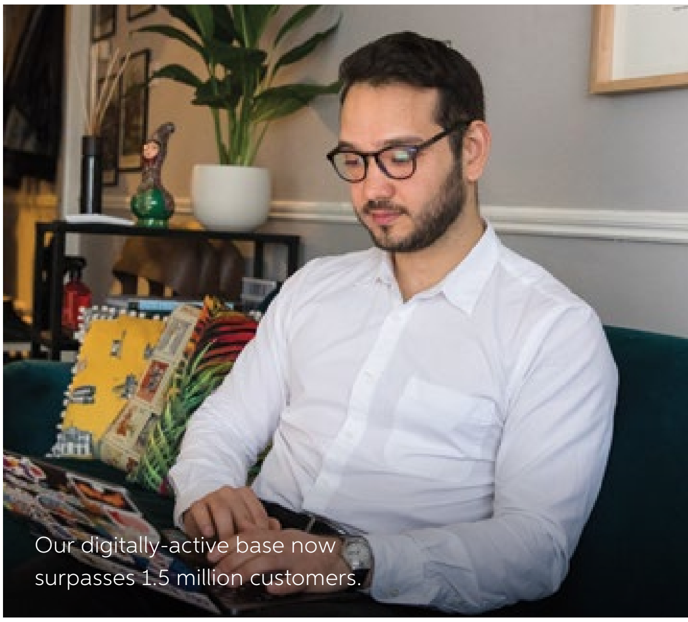
Our digitally-active base now surpasses 1.5 million customers with an increase in the percentage of product sales being carried out on our online platforms. Thanks to our investment in technology in recent years, we have a modern, resilient and flexible IT infrastructure, making us, without question, and by a margin, the largest and the most digitally-enabled provider within the Irish banking market. This has been a critical element in assisting the delivery of our digital banking services while also enabling over 80% of our staff to work remotely during these extraordinary times. We remain open for business at every level and are available to our customers through all our channels, physical and digital.

COVID-19 has highlighted our customers' willingness to adopt digital technology – there has been a notable decline in the use of cash with a 38% reduction in volume of ATM withdrawals and a 66% increase in uptake of Digital Wallet payments for the first six months of the year when compared to the half-year to June 2019. Furthermore, our digital strategy is being accelerated to further focus on the financing needs of our business customers and bring them in line with those available to personal customers. Continuous enhancement of our digital offering will remain a priority.

Culture and our people

When it comes to behaviour and culture we are determined to meet our stakeholders' expectations. As a community-based retail bank in Ireland, AIB has a uniquely close relationship with the country. Our 9,500-strong workforce is drawn from the communities we serve and understands the needs and concerns of our 2.8 million customers. It is imperative that reliability, honesty and trust are the cornerstones of AIB's relationship with these customers. We partner with them in managing their financial wellbeing and preserving their confidence in us as an institution is essential. To do

"OUR WELLBEING PROGRAMME WAS LAUNCHED IN JANUARY 2020 AND IS UNDERPINNED BY FOUR PILLARS: PHYSICAL, MENTAL, FINANCIAL AND SOCIAL"



Our digitally-active base now surpasses 1.5 million customers.

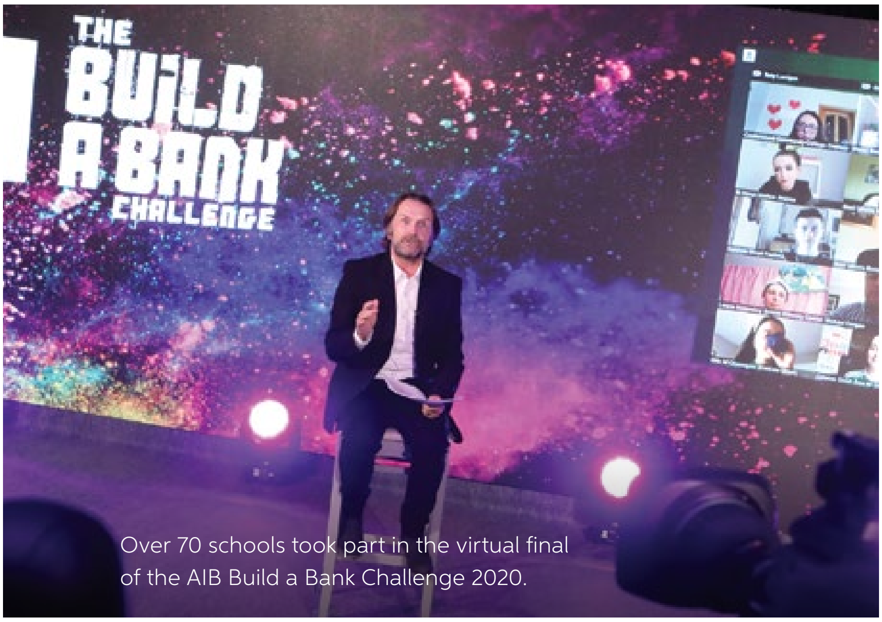
that, we must communicate in a clear, transparent, straightforward way that allows them to believe the bank is operating in their best interests. The banking industry has been under pressure since the last financial crash to retrieve public trust and, ultimately, we are judged on our service to our customers. That customer service is at the core of our culture, our ethos and business philosophy.

It is extremely important that our employees feel they can operate in a stimulating work environment where they are respected and know their knowledge and opinions are valued.

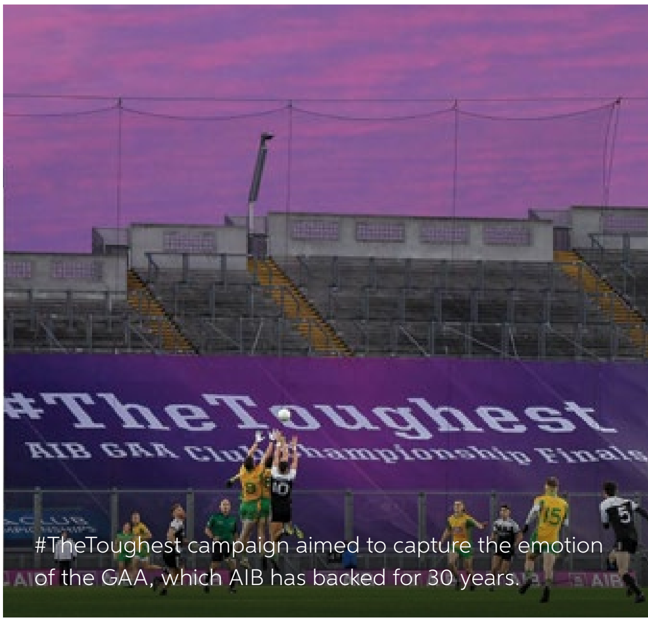
In the first half of the year, as part of an extensive Culture Evolution Programme led by the Board and Executive Committee, we launched our new and evolved company values and behaviours – Drive Progress, Own the Outcome, Show Respect, Eliminate Complexity and Be One Team – which centre on our purpose to back our customers to achieve their dreams and ambitions.

The response of our people during the current crisis has been one of energy, creativity and resilience and has reinforced both our organisational purpose and evolved values. We have demonstrated collaboration, resilience, and agility in our ways of working.

Wellbeing has become of increasing importance as our employees' working environment continues to evolve. Our Wellbeing Programme was launched in January 2020 and is underpinned by four pillars: Physical, Mental, Financial and Social. In response to COVID-19, we accelerated the rollout of the programme to ensure our people have the necessary supports available. Further initiatives are planned for the remainder of 2020 to sustain



Over 70 schools took part in the virtual final of the AIB Build a Bank Challenge 2020.



#TheToughest campaign aimed to capture the emotion of the GAA, which AIB has backed for 30 years.

the momentum of both the Culture Evolution and Wellbeing programmes.

We have seen a number of changes to the Board and Executive Committee in 2020. Tom Foley retired from the Board following our Annual General Meeting on 29 April 2020. Tom served on the Board for nearly eight years with great diligence and made many meaningful contributions to the Group during his tenure. Tom remains a director on a number of our subsidiary boards. Tom's retirement from the Group Board led to a vacancy in the role of Senior Independent Director. Carolan Lennon has succeeded Tom in this role with effect from his retirement.

With regard to our Executive Committee, as detailed in the Annual Financial Report 2019, Geraldine Casey was appointed as Chief People Officer and member of the Executive Committee in January 2020. With effect from June 2020, Brendan O'Connor resigned from AIB Group and stepped down from the Executive Committee. Brendan had an exceptional career in AIB Group during his 35 year tenure, working across many areas such as Treasury, Corporate Banking, Business Banking and most recently, in his role as AIB UK Managing Director. Brendan was a huge support to me personally and the Executive Committee as a whole and we wish him well in his future endeavours. Robert Mulhall has assumed the role of AIB UK Managing Director and has already made a positive impact during this most unusual time for the business as a whole. On 30 July 2020 we announced that Tomás O'Midheach, Chief Operating Officer, Deputy CEO and Executive Director, had given notice of his resignation to take effect early in 2021 so that he can pursue another executive opportunity in Ireland. Tomás has shown great commitment and leadership in his 14 years with the Group, is a highly valued colleague and we wish him the very best for his future.

Sustainable Communities

The core priorities of our refreshed strategy – to strengthen, streamline and simplify the Group's operations, in the interests of all our stakeholders are more relevant today as we work through this current crisis. The importance that we ascribe to the environmental agenda, and also our commitment to be embedded in the communities that we serve was acknowledged with the addition of Sustainable Communities to our strategic pillars this year. Our ambition is to lead the financial market in Ireland's response to climate change and social issues.

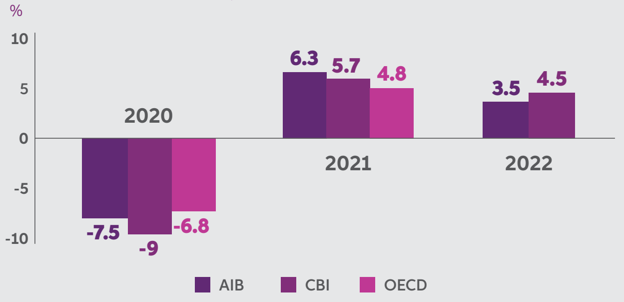
Our achievements to date in 2020 on this important area of focus include being awarded 'A-' leadership status for our continued progress in corporate climate action and environment stewardship by CDP[2] as well as inclusion in the FTSE4Good Index Series which identifies companies that demonstrate strong environmental, social and governance practices measured against globally recognised standards.

In 2019 we became a Founding Signatory of the UNEP FI[3] Principles for Responsible Banking and also a Supporter of the Task Force on Climate-Related Financial Disclosures. We are making strong progress in delivering on these commitments as we continue to embed environmental and social factors into our risk management processes with updated disclosures planned for the end of this year.

As articulated in our strategy, sustainability is broader than climate change and we are

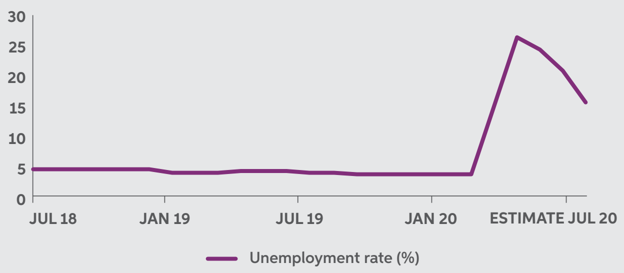
2. CDP (formerly the Carbon Disclosure Project) runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.
3. United Nations Environment Programme Finance Initiative.

Strong GDP* growth expected in 2021, but off a low base due to impact of COVID-19 in 2020



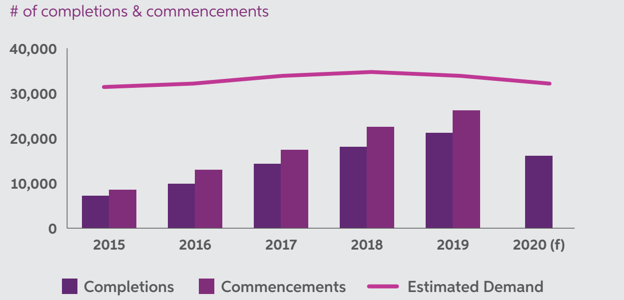
Source: AIB, OECD 'World Economic Outlook', CBI 'Q3 Quarterly Bulletin'

Unemployment rate (COVID-adjusted) spikes to 28.2% in April, but falls to an estimated 17% by July



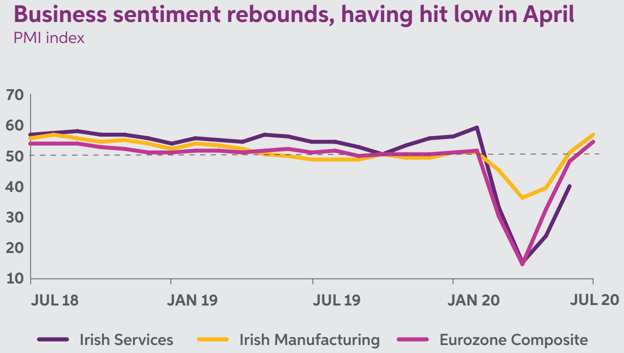
Source: CSO

Housing output continues to be well below estimated demand



Source: CSO, Dept. of Housing

Business sentiment rebounds, having hit low in April



Source: Markit via Thomson Datastream

committed to making a positive contribution to society. As part of that commitment and as a further opportunity for us to give back and support communities in the area of youth and education, we pledged a €1m educational grant to Technical University Dublin to support increased participation in higher level education among students from areas and backgrounds of socio-economic disadvantage.

With the onset of COVID-19 we recognise the crucial role we play in the communities in which we operate and are proud to serve more than ever. As such we introduced a range of supports to help our communities impacted by the pandemic. Further details of these are contained in a later section of this report.

The programme for the newly-formed government focuses on rebooting the Irish economy, accelerating the green agenda and delivering solutions to the housing crisis. We recognise, as a financial institution at the heart of Ireland's economy, that we are well positioned to be a key driver and supporter of the proposed initiatives.

Outlook

Prior to the onset of COVID-19, the Irish economy was performing strongly with growth evident across leading indicators. The global recession triggered by the pandemic has been like no other due to the shock being so large and sudden as well as the fact that there is a continuing high degree of uncertainty about its duration and intensity. Notwithstanding concerns over a second wave of the virus, the most recent indicators published in July show early signs of rebound following the reopening of the Irish economy with continuing increases in the services, manufacturing and construction PMIs. Positive trends can also be seen in unemployment rates with the COVID-19 adjusted jobless rate down from a high of 28.2% in April to an estimated 17% in July. The number of Irish workers availing of the special Pandemic Unemployment Payment has fallen markedly from a peak of 598,000 on 5 May to 286,900 as of 27 July.

Before the crisis struck, housing completions rose by 17% in the first quarter of the year with the new housing supply for 2020 projected at c. 24,000 units. The 'lost' period of homebuilding activity is expected to reduce the overall level of completions to between 16,000 and 18,000 units. The shortfall in supply versus demand, estimated at c. 30,000 units a year, will offer some support to house prices this year, which will be put under pressure from the weak macroeconomic backdrop. Forecasts by market commentators suggest prices could fall by 5-10% over the course of 2020-21. The substantial reduction in new supply, combined with likely house price falls, will result in a significant decline

* Note that GDP can be distorted due to the impact of multi-national sector in Ireland.

"WE WILL HAVE A STREAMLINED, APPROPRIATE COST BASE FOR A LEANER, SIMPLER AND MORE AGILE BUSINESS"

in new mortgage lending this year, as evidenced by the 16% year-on-year fall in the value of mortgage drawdowns in the first half of the year. In the same period, mortgage approvals for home purchases dropped by 37% year-on-year.

A year ago, our concerns were largely tied up with the prospect of Brexit and we could not have imagined how those would be overshadowed by an even greater crisis. The prospect of the EU and UK being unable to reach a trade deal, in effect a no-deal hard Brexit, will add complexity to an already uncertain future. Preparations for the UK's exit from the EU in fact provided us with useful lessons in terms of dealing with disruption and, likewise, the experience of the pandemic is further informing our groundwork for Brexit.

Because of COVID-19, businesses are adapting to a new norm with some changes in consumer behaviours expected to persist for the long term. The impact of the coronavirus will most likely see the acceleration of three secular trends that predate the pandemic, namely, digitisation, flexible working and sustainability. We should see greater agility in terms of ways of working. The importance of digitisation of our processes and our products is going to be highlighted like never before and the sustainability agenda, which is becoming of greater importance globally, has been boosted further as a consequence of COVID-19. These three themes are going to become ever more important over the coming years and will have a meaningful impact on the execution of our refreshed strategy.

While our strategic priorities and medium-term financial targets remain unchanged, the challenge to achieve these is greater. As part of our annual business planning process this year we are considering the future shape of our business and our ways of working in order to adjust to the financial impact of COVID-19 so that AIB maintains a strong and resilient balance sheet, generates sustainable profits and returns capital to our shareholders. We are determined to be providing a customer experience that is characterised by excellence with highly competitive products and efficient processes and we will have a streamlined, appropriate cost base for a leaner, simpler and more agile business.

As the largest bank in Ireland we are one of the principal institutions which is being relied upon to sustain economic wellbeing through this crisis and to support the rebooting of the economy. AIB is committed to being at the forefront of supporting and enabling our Irish SMEs access the increased funding announced in the Government's July Stimulus Plan.

On the back of prudent lending decisions and balance sheet remediation in recent years, AIB entered this crisis in a position of capital strength. This, combined with our market-leading franchise, underpins our capacity to assist our customers and the economies in which we operate through this period of great uncertainty.

In addition, we aim to provide our investors, including our 71% State shareholder, with appropriate returns over the long term. We are obliged to meet our regulator's benchmarks and to be seen by all of our stakeholders as a clear corporate leader that takes visible actions to contribute to a strong economy and a better society. As such, in advance of our Annual General Meeting on 29 April 2020, the Board of Directors announced its intention to withdraw the resolution to pay a dividend of 8 cent per share for 2019 respecting the recommendation from the ECB to all banks supervised and regulated by it. We will continue to monitor developments and work in the interests of all of our stakeholders.

I would like to thank my fellow Board and Executive Committee members, and all of my colleagues across the Group for their ongoing support, especially in these unprecedented circumstances. 2020 is undoubtedly proving to be a difficult year globally with a high level of uncertainty in the near term due to the risk of a 'second wave'. The Group's financial strength and robust business model will ensure that it can continue to support its customers. Acknowledging the need for caution, we proceed into the second half of 2020 with the same level of commitment, resilience and flexibility demonstrated in the early days of the crisis. I look forward to 2021 and beyond with confidence as the fundamentals of the AIB Group remain healthy and strong.

COLIN HUNT
Chief Executive Officer
5 August 2020

COVID-19 SUPPORTS

BACKING OUR CUSTOMERS AND COMMUNITIES DURING COVID-19

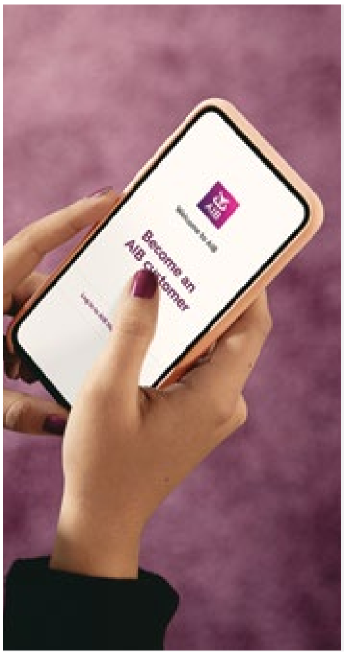
We introduced a range of supports for our customers who have been impacted by the COVID-19 pandemic, helping our communities to meet the challenges ahead.

OUR BRANCHES ARE OPEN

Throughout the pandemic, 99.4% of AIB branches and EBS offices have remained open to our customers across Ireland and the UK. We're operating social distancing, have increased cleaning operations, and have dedicated priority hours for vulnerable customers from 10am to 11am every day.

PAYMENT BREAKS

Recognising the extraordinary pressure on families, individuals, businesses and communities across Ireland and the UK, we offered payment breaks on home mortgages, personal and SME loans to customers impacted by COVID-19.



MOBILE AND ONLINE BANKING

As Ireland's leading digitally-enabled bank, our customers can carry out their financial needs online and on our mobile app. They can even open a personal account on their smartphone – no trip to a branch required.

SUPPORTING VULNERABLE CUSTOMERS

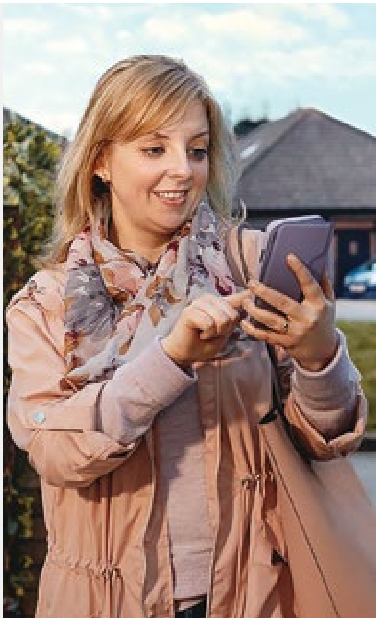
As part of our Vulnerable Customer Programme, which works with the HSE and Community Guards in Ireland, we introduced a dedicated helpline for over 65s and priority banking hours for those who need it. Our cocooning customers could nominate a trusted person to take out cash on their behalf. We made similar supports available for our customers in the UK.

BACKING BRAVE

As well as payment breaks on business loans for impacted SME customers, AIB provided 48-hour decisions on business loans, working capital support, the rescheduling of loan payments, and deferral options for both Q1 and Q2 maintenance and transaction fees. We engaged with many stakeholder bodies across a wide range of industries in order to provide the most appropriate support.

REFUNDING UNPAID ITEM CHARGES

Usually, €10 is charged for direct debits that cannot be paid due to insufficient funds in a customer's account. To offer some relief, we refunded these charges in March and April.



AIB COVID-19 RESEARCH HUB

In April, we announced a collaboration with Trinity College Dublin (TCD) to establish a research hub that would accelerate TCD's immunology project in tackling the COVID-19 pandemic. Our investment of €2.4m has enabled the launch of the AIB COVID-19 Research Hub.

SUPPORTING OUR UK CUSTOMERS

AIB UK has helped thousands of personal customers with support for mortgage, loan and overdraft payments. And, as an accredited lender for the Bounce Back Loan Scheme (BBLS) and the Coronavirus Business Interuption Loan Scheme (CBILS), we have provided over £200m to business customers experiencing cashflow disruptions.

COVID-19 SUPPORTS

COVID-19 CUSTOMER SUPPORT IN ACTION

WE KEPT **99.4%** OF OUR BRANCH NETWORK OPEN IN ROI & UK

WE ENABLED **81%** OF OUR WORKFORCE TO WORK REMOTELY

WE DEALT WITH A **35%** INCREASE IN OUR PHONE BANKING

WE DEALT WITH A **91%** INCREASE IN OUR BUSINESS LINE

24,326 PERSONAL LOAN PAYMENT BREAKS[1]

22,166 MORTGAGE PAYMENT BREAKS[1]

€50/£45 TAP LIMIT INCREASED

231,487 REFUNDS OF UNPAID ITEM CHARGES IN MARCH AND APRIL[1]

1,896 CALLS TO DEDICATED HELPLINE FOR OVER 65s

3,310 NEW BUSINESS LOANS[1]

17,720 BUSINESS LOAN PAYMENT BREAKS[1]

147 ACCOUNTS WITH FEES DEFERRED FOR Q1[1]

£202M SUPPORT THROUGH BBLS AND CBILS[2]

AIB Together
Supporting Our Communities

WE COMMITTED **€2.4M** TO TRINITY COLLEGE DUBLIN TO SET UP THE AIB COVID-19 RESEARCH HUB

WE DONATED **450 LAPTOPS** TO DEIS SCHOOL STUDENTS

WE HAVE RAISED **€390K** SO FAR FOR PIETA HOUSE, FOODCLOUD, ALONE, SOAR, AGE NI AND AGE UK

1. Retail Banking only as at 24 July 2020.
2. As at 24 July 2020.

Business review

Business review – 1. Operating and financial review

Basis of presentation

The operating and financial review is prepared using IFRS and non-IFRS measures to analyse the Group's performance, providing comparability period on period. These performance measures are consistent with those presented to the Board and Executive Committee. Non-IFRS measures include management performance measures which are considered Alternative Performance Measures ("APMs"). APMs arise where the basis of calculation is derived from non-IFRS measures. A description of the Group's APMs and their calculation is set out on page 29. These measures should be considered in conjunction with IFRS measures as set out in the condensed consolidated interim financial statements from page 90. A reconciliation between the IFRS and management performance summary income statements is set out on page 30.

Figures presented in the operating and financial review may be subject to rounding and thereby differ to the risk management section and the condensed consolidated interim financial statements.

Basis of calculation

Percentages are calculated on exact numbers and therefore may differ from the percentages based on rounded numbers. The impact of currency movements is calculated by comparing the results for the current reporting period to results for the comparative reporting period retranslated at exchange rates for the current reporting period.

The Group's business has been adversely affected by the economic impact of policies designed to contain the spread of COVID-19 pandemic in the Group's core markets. The impact to date has included a sharp decline in economic activity, which in combination with general uncertainty regarding the evolution of the pandemic, has resulted in substantial harm to the economies in which the Group operates. The impact on the Group's financial performance is reflected in lower new lending, a reduction in income and a significant increase in the Group's expected credit loss estimates due to the acute deterioration in the macroeconomic outlook. For further information see the Chief Executive's Review on page 4 to 11 and the Risk management section on pages 35 to 88.

Management performance – summary income statement	**Half-year June 2020 € m**	Half-year June 2019 € m	*% change*
Net interest income	**967**	1,050	*-8*
Business income	**184**	244	*-24*
Other items	**36**	75	*-52*
Other income[(1)]	**220**	319	*-31*
Total operating income[(1)]	**1,187**	1,369	*-13*
Personnel expenses[(1)]	**(368)**	(393)	*-6*
General and administrative expenses[(1)]	**(243)**	(243)	–
Depreciation, impairment and amortisation[(1)]	**(136)**	(108)	*26*
Total operating expenses[(1)]	**(747)**	(744)	–
Bank levies and regulatory fees[(1)]	**(63)**	(58)	*7*
Operating profit before impairment losses and exceptional items[(1)]	**377**	567	*-33*
Net credit impairment charge	**(1,216)**	(9)	–
Operating (loss)/profit before exceptional items[(1)]	**(839)**	558	–
Associated undertakings	**5**	9	*-46*
(Loss)/profit before exceptional items[(1)]	**(834)**	567	–
Restitution costs	**(58)**	(102)	–
Covid product costs	**(10)**	–	–
Termination benefits	**(6)**	(7)	–
Property strategy	**(1)**	(3)	–
Provision for regulatory fines	**–**	(43)	–
Restructuring costs	**–**	(10)	–
Gain on disposal of loan portfolios	**–**	34	–
Total exceptional items[(1)]	**(75)**	(131)	–
(Loss)/profit before taxation	**(909)**	436	–
Income tax credit/(charge)	**209**	(75)	–
(Loss)/profit for the period	**(700)**	361	–

[(1)]Performance has been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance period on period. The adjusted performance measure is considered an APM.

Net interest income

Net interest income

€967m

Net interest income	Half-year June 2020 € m	Half-year June 2019 € m	% change
Interest income[1]	**1,072**	1,180	*-9*
Interest expense[1]	**(105)**	(130)	*-19*
Net interest income	**967**	1,050	*-8*
Average interest earning assets	**92,405**	85,886	*8*
	%	%	*change*
Net interest margin (NIM)	**2.10**	2.46	*-0.36*

Net interest income

€967m

Net interest income of € 967 million decreased by € 83 million compared to the half-year to June 2019.

Interest income

Interest income of € 1,072 million in half-year to June 2020 decreased by € 108 million compared to the half-year to June 2019 primarily due to:

- Reduced asset yields driven by the lower interest rate environment including decreases in sterling and dollar interest rates in March 2020.
- Lower income on investment securities due to maturities and disposals of higher yielding securities and reinvestment at lower yields.
- Lower volumes on loans and advances to customers due to further deleveraging of non-performing loans.

Interest expense

Interest expense of € 105 million in the half-year to June 2020 decreased by € 25 million compared to the half-year to June 2019. The lower cost of customer accounts was offset by an increase in MREL-related costs following the issuances of Subordinated Tier 2 Notes in November 2019.

Net interest margin

2.10%

NIM decreased 36 bps to 2.10% in the half-year to June 2020 compared to 2.46% in the half-year to June 2019 due to:

- Reduced interest income primarily due to the impact of the lower interest rate environment, decrease in investment security yields and lower customer loan volumes c. -23bps.
- Higher average interest earning assets driven by excess liquidity c. -18bps partly offset by:
- Lower interest expense on customer accounts c. +5bps.

Average interest earning assets of € 92.4 billion in the half-year to June 2020 increased by € 6.5 billion from half-year to June 2019 primarily due to funds placed with banks. This was driven by excess liquidity mainly due to higher customer account balances and proceeds from MREL-related issuances.

Average balance sheet

	Half-year 30 June 2020			Half-year 30 June 2019		
Assets	**Average balance € m**	**Interest[1] € m**	**Average rate %**	Average balance € m	Interest[1] € m	Average rate %
Loans and advances to customers	**60,417**	**1,004**	**3.33**	61,577	1,058	3.47
Investment securities	**17,417**	**72**	**0.82**	16,666	106	1.28
Loans and advances to banks	**14,571**	**(4)**	**(0.05)**	7,643	16	0.41
Average interest earning assets	**92,405**	**1,072**	**2.33**	85,886	1,180	2.77
Non-interest earning assets	**7,649**			7,932		
Total average assets	**100,054**	**1,072**		93,818	1,180	
Liabilities & equity						
Deposits by banks	**999**	**3**	**0.57**	885	6	1.43
Customer accounts	**39,819**	**36**	**0.18**	38,670	60	0.31
Other debt issued	**6,567**	**39**	**1.19**	6,090	41	1.37
Subordinated liabilities	**1,299**	**20**	**3.15**	796	16	4.00
Lease liability	**419**	**7**	**3.21**	448	7	3.10
Average interest earning liabilities	**49,103**	**105**	**0.43**	46,889	130	0.56
Non-interest earning liabilities	**36,869**			32,933		
Equity	**14,082**			13,996		
Total average liabilities & equity	**100,054**	**105**		93,818	130	
Net interest income		**967**	**2.10**		1,050	2.46

[1]Negative interest income on assets amounting to € 13 million in the half-year to June 2020 (half-year to June 2019: € 4 million) is offset against interest income. Negative interest expense on liabilities amounting to € 13 million in the half-year to June 2020 (half-year to June 2019: € 9 million) is offset against interest expense.

Business review – 1. Operating and financial review

Other income

Other income[(1)]

€220m

Other income[(1)]	Half-year June 2020 Business income € m	Half-year June 2020 Other items € m	Half-year June 2020 Total € m	Half-year June 2019 Business income € m	Half-year June 2019 Other items € m	Half-year June 2019 Total € m	% change Total
Net fee and commission income	192	–	192	230	–	230	-16
Dividend income	25	–	25	25	–	25	–
Net trading loss	(34)	(6)	(40)	(12)	(36)	(48)	-17
Net gain on equity investments (FVTPL)	–	22	22	–	44	44	-49
Net gain on loans and advances to customers (FVTPL)	–	21	21	–	28	28	-25
Other operating income	1	(1)	–	1	39	40	–
Other income	184	36	220	244	75	319	-31

Other income[(1)]

€220m

Other income of € 220 million decreased by € 99 million compared to the half-year to June 2019 with decreased business income of € 60 million and other items of € 39 million.

Business income

€184m

Business income was € 184 million in the half-year to June 2020 compared to € 244 million in the half-year to June 2019.

Net fee and commission income	Half-year June 2020 € m	Half-year June 2019 € m	% change
Customer accounts	90	107	-16
Card income	30	37	-20
Lending related fees	21	26	-19
Customer related foreign exchange	26	36	-26
Payzone	7	–	–
Other fees and commissions	18	24	-24
Net fee and commission income	192	230	-16

Net fee and commission income of € 192 million in the half-year to June 2020 decreased by € 38 million compared to the half-year to June 2019 reflecting lower transactions volumes due to a sharp reduction in economic activity in recent months. Payzone income was € 7 million in the half-year to June 2020 following acquisition in late 2019.

Dividend income was € 25 million in the half-year to June 2020 including € 23 million received on NAMA subordinated bonds, which were redeemed in March 2020.

Net trading loss of € 34 million in the half-year to June 2020 increased by € 22 million compared to the half-year to June 2019 mainly due to negative movements on derivative valuation adjustments (XVA).

Other items

€36m

Other items were € 36 million in the half-year to June 2020 compared to € 75 million in the half-year to June 2019.

Net income from equity investments of € 16 million in the half-year to June 2020 (half-year to June 2019: € 8 million) reflected the disposal and revaluation of equity investments. This comprises a net gain on equity investments (FVTPL) of € 22 million in the half-year to June 2020 (half-year to June 2019: € 44 million), offset by a net trading loss of € 6 million on a partial hedge of the equity investments (half-year to June 2019: € 36 million).

Net gain on loans and advances to customers (FVTPL) of € 21 million in the half-year to June 2020 (half-year to June 2019: € 28 million) represents income recognised on previously restructured loans carried at fair value through profit and loss.

Other operating income was a loss of € 1 million in the half-year to June 2020 compared to a gain of € 39 million in the half-year to June 2019 which reflected a gain on disposal of investment securities.

IFRS basis

On an IFRS basis other income was € 220 million in the half-year to June 2020 compared to € 353 million including a net gain on exceptional items[(1)] of € 34 million in the half-year to June 2019.

[(1)]Other income before exceptional items. A net gain of € 34 million was reflected in exceptional items in the half-year to June 2019 which comprised; a Net gain on loans and advances to customers (FVTPL) € 6 million and Other operating income (gain on disposal of loan portfolios) € 28 million.

Total operating expenses[(1)(2)]

€747m

Operating expenses[(1)(2)]	Half-year June 2020 € m	Half-year June 2019 € m	% change
Personnel expenses	**368**	393	-6
General and administrative expenses	**243**	243	–
Depreciation, impairment and amortisation	**136**	108	26
Total operating expenses	**747**	744	–
Staff numbers at period end[(3)]	**9,310**	9,831	-5
Average staff numbers[(3)]	**9,402**	9,888	-5

Total operating expenses[(1)(2)]

€747m

Total operating expenses of € 747 million were broadly in line with the half-year to June 2019, with increased depreciation, impairment and amortisation of € 28 million offset by lower personnel expenses of € 25 million.

Personnel expenses

Personnel expenses decreased by € 25 million compared to the half-year to June 2019 primarily due to the decrease in average staff numbers and lower retirement benefit costs, partly offset by salary inflation.

General and administrative expenses

General and administrative expenses were in line with the half-year to June 2019.

Depreciation, impairment and amortisation

Depreciation, impairment and amortisation increased by € 28 million compared to the half-year to June 2019 due to the increase in amortisation as assets created under investment programmes were commissioned to operational use.

Cost income ratio[(1)(2)]

63%

Costs of € 747 million and income of € 1,187 million resulted in a cost income ratio of 63% in the half-year to June 2020 compared to 54% in the half-year to June 2019.

Bank levies and regulatory fees

€63m

Bank levies and regulatory fees	Half-year June 2020 € m	Half-year June 2019 € m
Irish bank levy	**–**	–
Deposit Guarantee Scheme	**34**	32
Single Resolution Fund	**17**	16
Other regulatory levies and charges	**12**	10
Bank levies and regulatory fees	**63**	58

The Irish bank levy for financial institutions is payable in October each year.

IFRS basis

On an IFRS basis total costs, including bank levies and regulatory fees of € 63 million and the cost of exceptional items[(2)] of € 75 million, were € 885 million in the half-year to June 2020 compared to € 967 million in the half-year to June 2019. This results in a cost income ratio (IFRS basis) of 75% in the half-year to June 2020, compared to 69% in the half-year to June 2019.

[(1)] Before bank levies and regulatory fees and exceptional items.

[(2)] The cost of exceptional items of € 75 million in the half-year to June 2020 (half-year to June 2019: € 165 million) comprised: Personnel expenses € 12 million (half-year to June 2019: € 11 million), General and administrative expenses € 63 million (half-year to June 2019: € 145 million) and Depreciation, impairment and amortisation Nil (half-year to June 2019: € 9 million).

[(3)] Staff numbers are on a full time equivalent ("FTE") basis. Staff numbers at 30 June 2020 include 94 FTEs following the acquisition of Payzone in late 2019.

Business review – 1. Operating and financial review

Net credit impairment charge

€1,216m

There was a net credit impairment charge of € 1,216 million[(1)] in the half-year to June 2020 comprising of a € 1,168 million charge on loans and advances to customers (net re-measurement of expected credit loss ("ECL") allowance charge of € 1,202 million, offset by recoveries of amounts previously written-off of € 34 million) and a € 47 million charge for off-balance sheet exposures.

There was a net credit impairment charge of € 9 million in the half-year to June 2019 comprising of a € 19 million charge on loans and advances to customers and a € 10 million writeback for off-balance sheet exposures.

For further information see pages 38 to 84 in the Risk management section.

Income tax credit/(charge)

€209m

The effective rate was 23.0% in the half-year to June 2020 compared with 17.2% in the half-year to June 2019. The income tax credit recognised in in the half-year to June 2020 reflected the deferred tax asset recognised against losses in the period as well as a credit due to the set back of losses against tax for earlier years. It also reflected the release of previously recognised liabilities following resolution of a tax matter where uncertainty had existed in prior years.

For further information see note 13 'Taxation' of the condensed consolidated interim financial statements.

Total exceptional items

€75m

Total exceptional items	Half-year June 2020 € m	Half-year June 2019 € m
Restitution costs	**(58)**	(102)
Covid product costs	**(10)**	–
Termination benefits	**(6)**	(7)
Property strategy	**(1)**	(3)
Provision for regulatory fines	**–**	(43)
Restructuring costs	**–**	(10)
Gain on disposal of loan portfolios	**–**	34
Total exceptional items	**(75)**	(131)

These gains/costs were viewed as exceptional by management.

Restitution costs include provision for customer redress and compensation in relation to the tracker mortgage examination of € 7 million, and other customer redress of € 14 million, along with € 37 million of associated costs.

Covid product costs reflect the incremental cost of implementing a large volume of payment breaks on home mortgages, personal and SME loans to customers impacted by COVID-19.

Termination benefits relate to the cost of the voluntary severance programme.

Provision for regulatory fines included a provision for the impact of monetary penalties arising from the Central Bank of Ireland investigation in respect of tracker mortgages in June 2019.

Restructuring costs for the half-year to June 2019 included the impairment of assets.

Gain on disposal of loan portfolios. The disposal of loan portfolios in the half-year to June 2019 resulted in a net gain of € 34 million.

[(1)]There was also a € 1 million charge on investment debt securities in the half-year to June 2020 (half-year to June 2019: Nil).

Assets

Net loans to customers

€58.2bn

New lending

€4.4bn

Assets	30 June 2020 € bn	31 Dec 2019 € bn	% change
Gross loans to customers	**60.6**	62.1	*-3*
ECL allowance	**(2.4)**	(1.2)	*90*
Net loans to customers	**58.2**	60.9	*-4*
Investment securities	**19.6**	17.3	*13*
Loans and advances to banks	**16.6**	13.5	*24*
Other assets	**7.0**	6.9	*2*
Total assets	**101.4**	98.6	*3*

Net loans to customers

€58.2bn

Net loans, excluding the impact of currency movements of € 0.6 billion, decreased by € 2.1 billion compared to 31 December 2019 reflecting redemptions of € 5.3 billion exceeding new lending of € 4.4 billion and an increase in ECL allowance of € 1.2 billion from 31 December 2019.

New lending

€4.4bn

New lending of € 4.4 billion in the half-year to June 2020 was € 1.6 billion or 27% lower than the half-year to June 2019 driven by the sharp reduction in economic activity in recent months. Non-property lending was 29% lower at € 2.2 billion primarily due to lower syndicated and UK lending with property related lending 36% lower at € 0.7 billion. Mortgage lending was 17% lower at € 1.1 billion and personal lending down 18% to € 0.4 billion.

New lending comprises € 3.6 billion term lending in the half-year to June 2020 (€ 5.1 billion in the half-year to June 2019) and € 0.8 billion transaction lending (€ 0.9 billion in the half-year to June 2019).

Non-performing loans

€3.8bn

Non-performing loans ratio

6.3%

Non-performing loans increased by € 0.5 billion to € 3.8 billion at 30 June 2020 reflecting net flow to non-performing of € 0.8 billion, which included changes to the definition of default of € 0.3 billion, partially offset by redemptions of € 0.3 billion.

Non-performing loans ratio

Non-performing loans as a percentage of gross loans to customers was 6.3% at 30 June 2020 compared to 5.4% at 31 December 2019.

ECL allowance

€2.4bn

Non-performing loans cover

32%

The ECL allowance of € 2.4 billion at 30 June 2020 increased from € 1.2 billion at 31 December 2019 reflecting the net credit impairment charge recognised in the half-year to June 2020 due to the deterioration in the macroeconomic outlook.

Non-performing loans cover

The ECL allowance cover rate on non-performing loans of 32% at 30 June 2020 compared to 27% at 31 December 2019.

Summary of movement in loans to customers

The table below sets out the movement in loans to customers from 1 January 2020 to 30 June 2020.

Loans to customers	Performing loans € bn	Non-performing loans € bn	Loans to customers € bn
Gross loans (opening balance 1 January 2020)	**58.8**	**3.3**	**62.1**
New lending	**4.4**	**–**	**4.4**
Redemptions of existing loans	**(5.0)**	**(0.3)**	**(5.3)**
Portfolio disposals	**–**	**–**	**–**
Write-offs and restructures	**–**	**(0.1)**	**(0.1)**
Net movement to non-performing	**(0.8)**	**0.8**	**–**
Foreign exchange movements	**(0.6)**	**–**	**(0.6)**
Other movements	**–**	**0.1**	**0.1**
Gross loans (closing balance 30 June 2020)	**56.8**	**3.8**	**60.6**
ECL allowance	**(1.2)**	**(1.2)**	**(2.4)**
Net loans (closing balance 30 June 2020)	**55.6**	**2.6**	**58.2**

Business review – 1. Operating and financial review

Assets *(continued)*

The tables below summarise the credit profile of the loan portfolio by asset class and include a range of credit metrics that the Group uses in managing the portfolio. Further information on the Group's risk profile and non-performing loans is available in the Risk management section on pages 35 to 88.

Loan portfolio profile 30 June 2020	**Residential mortgages € bn**	**Other personal € bn**	**Property and construction € bn**	**Non-property business € bn**	**Total € bn**
Gross loans to customers	**31.0**	**2.7**	**7.2**	**19.7**	**60.6**
Of which: Stage 2	**2.5**	**0.4**	**2.4**	**5.2**	**10.5**
Of which: Non-performing loans	**2.2**	**0.2**	**0.6**	**0.8**	**3.8**
Total ECL allowance	**0.9**	**0.2**	**0.5**	**0.8**	**2.4**
Total ECL allowance cover (%)	**2.7%**	**8.8%**	**6.8%**	**4.0%**	**3.9%**
ECL allowance cover Stage 2 (%)	**4.6%**	**13.6%**	**8.1%**	**7.3%**	**7.1%**
ECL allowance cover non-performing loans (%)	**27.5%**	**60.5%**	**38.6%**	**31.6%**	**31.9%**
31 December 2019	€ bn	€ bn	€ bn	€ bn	€ bn
Gross loans to customers	31.5	3.0	7.3	20.3	62.1
Of which: Stage 2	2.2	0.3	0.4	1.1	4.0
Of which: Non-performing loans	2.3	0.2	0.4	0.4	3.3
Total ECL allowance	0.6	0.1	0.2	0.3	1.2
Total ECL allowance cover (%)	1.8%	5.9%	2.6%	1.5%	2.0%
ECL allowance cover Stage 2 (%)	2.4%	13.9%	5.9%	7.5%	5.1%
ECL allowance cover non-performing loans (%)	21.8%	59.6%	35.1%	32.1%	26.8%

Non-performing loans 30 June 2020	**Residential mortgages € bn**	**Other personal € bn**	**Property and construction € bn**	**Non-property business € bn**	**Total € bn**
Collateral disposals	**0.1**	**0.0**	**0.1**	**0.0**	**0.2**
Unlikely to pay (including > 90 days past due)	**1.9**	**0.2**	**0.4**	**0.7**	**3.2**
Non-performing loans probation	**0.2**	**0.0**	**0.1**	**0.1**	**0.4**
Total non-performing loans	**2.2**	**0.2**	**0.6**	**0.8**	**3.8**
Total non-performing loans/Total loans (%)	**7.2%**	**8.4%**	**7.5%**	**4.1%**	**6.3%**
31 December 2019	€ bn	€ bn	€ bn	€ bn	€ bn
Collateral disposals	0.1	0.0	0.1	0.0	0.2
Unlikely to pay (including > 90 days past due)	1.9	0.2	0.3	0.3	2.7
Non-performing loans probation	0.3	0.0	0.0	0.1	0.4
Total non-performing loans	2.3	0.2	0.4	0.4	3.3
Total non-performing loans/Total loans (%)	7.4%	6.4%	5.1%	2.2%	5.4%

Investment securities

Investment securities of € 19.6 billion, primarily held for liquidity purposes, have increased by € 2.3 billion from 31 December 2019.

Loans and advances to banks

Loans and advances to banks of € 16.6 billion, including € 14.7 billion of cash and balances at central banks, were € 3.1 billion higher than 31 December 2019. The increased placement with banks was due to excess liquidity driven by increased customer account balances and MREL-related issuances.

Other assets

Other assets of € 7.0 billion comprised:

- Deferred tax assets of € 2.7 billion(1) increased by € 0.1 billion compared to 31 December 2019.
- Derivative financial instruments of € 1.8 billion, € 0.5 billion increase from 31 December 2019 primarily reflecting interest rate and foreign exchange rate movements in the period.
- Remaining assets of € 2.5 billion, decreased € 0.5 billion from 31 December 2019 due to the settlement of proceeds from a loan portfolio disposal.

(1)For further information see note 1 Basis of preparation, accounting policies and estimates in the condensed consolidated interim financial statements.

Liabilities & equity

Customer accounts

€75.7bn

Equity

€13.8bn

Liabilities & equity	30 June 2020 € bn	31 Dec 2019 € bn	% change
Customer accounts	**75.7**	71.8	*5*
Deposits by banks	**0.8**	0.8	–
Debt securities in issue	**6.3**	6.8	*-7*
Subordinated liabilities	**1.3**	1.3	–
Other liabilities	**3.5**	3.7	*-4*
Total liabilities	**87.6**	84.4	*4*
Equity	**13.8**	14.2	*-3*
Total liabilities & equity	**101.4**	98.6	*3*
	%	%	*change*
Loan to deposit ratio	**77**	85	*-8*

Customer accounts

€75.7bn

Customer accounts, excluding the impact of currency movements of € 0.8 billion, increased by € 4.7 billion compared to 31 December 2019 primarily reflecting higher levels of household and SME balances in the half-year to June 2020.

Loan to deposit ratio

The loan to deposit ratio decreased to 77% at 30 June 2020 compared to 85% at 31 December 2019 reflecting increased customer accounts and a reduction in net loans.

Deposits by banks

Deposits by banks of € 0.8 billion were in line with 31 December 2019.

Debt securities in issue

Debt securities of € 6.3 billion decreased by € 0.5 billion from 31 December 2019 following the maturity of medium term notes of € 0.5 billion.

Subordinated liabilities

Subordinated liabilities of € 1.3 billion were in line with 31 December 2019.

Other liabilities

Other liabilities of € 3.5 billion comprised:

- Derivative financial instruments of € 1.3 billion, in line with 31 December 2019.
- Remaining liabilities of € 2.2 billion, € 0.2 billion decrease from 31 December 2019.

Equity

€13.8bn

Equity decreased by € 0.4 billion to € 13.8 billion compared to € 14.2 billion at 31 December 2019.

The table below sets out the movements to 30 June 2020.

Equity	€ bn
Opening balance (1 January 2020)	**14.2**
Loss for the period	**(0.7)**
Issue of Additional Tier 1 securities	**0.6**
Buyback of Additional Tier 1 securities	**(0.2)**
Other comprehensive income:	
Cash flow hedging reserves	**0.1**
Investment securities reserves	**(0.2)**
Closing balance (30 June 2020)	**13.8**

The Group issued € 0.6 billion of Additional Tier 1 securities in June 2020 at a coupon rate of 6.25%.

Business review – 1. Operating and financial review

Segment reporting

Segment overview

Following changes to the Group's operating model in the second half of 2019, performance is now managed and reported across the Retail Banking, Corporate, Institutional & Business Banking ("CIB"), AIB UK and Group segments. Figures for the half-year to June 2019 have been restated on a comparative basis, in line with the basis of segment reporting adopted in the Annual Financial Report 2019. Segment performance excludes exceptional items.

Retail Banking

Retail Banking comprises Homes & Consumer, SME and Financial Solutions Group ("FSG") in a single integrated segment, focussed on meeting the current, emerging and future needs of our personal and SME customers.

- Homes & Consumer is responsible for meeting the homes needs of customers in Ireland across the AIB, EBS and Haven brands and delivering innovative and differentiated products, propositions and services to meet our customers' everyday banking needs through an extensive range of physical and digital channels. Our purpose is to achieve a seamless, transparent and simple customer experience in all of our propositions across current accounts, personal lending, payments & credit cards, deposits, insurance and wealth to maintain and grow our market leading position.
- SME is a leading provider of financial services to micro and small SMEs through our sector-led strategy and local expertise with an extensive product and proposition offering across a number of channels. Our purpose is to help our customers create and build sustainable businesses in their communities.
- FSG is a standalone dedicated workout unit to which the Group has migrated the management of the majority of its non-performing exposures (NPEs), with the objective of delivering the Group's strategy to reduce NPEs.

Corporate, Institutional & Business Banking ("CIB")

CIB provides institutional, corporate and business banking services to the Group's larger customers and customers requiring specific sector or product expertise. CIB's relationship driven model serves customers through sector specialist teams including: corporate banking, real estate finance, business banking and energy, climate action & infrastructure. In addition to traditional credit products, CIB offers 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 advisory services, as well as Private Banking services and advice. CIB also has syndicated and international finance teams based in Dublin and in New York.

AIB UK

AIB UK offers retail and business banking services in two distinct markets, a sector-led corporate and commercial bank supporting businesses in Great Britain ("Allied Irish Bank (GB)"), and a retail and business bank in Northern Ireland ("AIB (NI)").

Group

Group comprises wholesale treasury activities and Group control and support functions. Treasury manages the Group's liquidity and funding positions and provides customer treasury services and economic research. The Group control and support functions include Business & Customer Services, Risk, Group Internal Audit, Finance, Legal & Corporate Governance, Human Resources and Corporate Affairs, Strategy & Sustainability.

Segment allocations

The segments' performance statements include all income and directly related costs, excluding overheads which are managed centrally, the costs of which are included in the Group segment. Funding and liquidity income/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 Banking

Retail Banking contribution statement	Half-year June 2020 € m	Half-year June 2019 € m	% change
Net interest income	572	628	-9
Other income	161	190	-15
Total operating income	733	818	-10
Total operating expenses	(445)	(455)	-2
Bank levies and regulatory fees	(1)	(1)	–
Operating contribution before impairments and exceptional items	287	362	-21
Net credit impairment (charge)/ writeback	(491)	22	–
Operating contribution before exceptional items	(204)	384	–
Associated undertakings	4	8	-49
Contribution before exceptional items	(200)	392	–

Net interest income

€572m Net interest income has decreased by € 56 million compared to the half-year to June 2019 driven by the impact on income of the continued deleveraging of non-performing loans and lower liquidity income.

Other income

€161m Other income decreased by € 29 million compared to the half-year to June 2019, mainly due to lower net fee and commission income reflecting lower transactions volumes due to a sharp reduction in economic activity in recent months and lower income recognised on previously restructured loans. Net fee and commission income includes income of € 7 million following the acquisition of Payzone in late 2019.

Total operating expenses

€445m Total operating expenses decreased by € 10 million compared to the half-year to June 2019 driven by reductions in personnel costs due to lower average staff numbers and lower general and administration costs. The reductions were partially offset by an increase in depreciation and amortisation as assets created under the investment programme were commissioned to operational use and the amortisation of intangible assets created following the acquisition of Payzone.

Net credit impairment (charge)/writeback

€(491)m There was a net credit impairment charge of € 491 million in the half-year to June 2020 comprising of a € 482 million charge on loans and advances to customers and a € 9 million charge for off-balance sheet exposures. The € 482 million charge comprises net re-measurement of ECL allowance charge of € 513 million, offset by recoveries of amounts previously written-off of € 31 million. There was a net credit impairment writeback of € 22 million in the half-year to June 2019.

Retail Banking balance sheet metrics	30 June 2020 € bn	30 June 2019 € bn	% change
Mortgages	1.1	1.2	
Personal	0.4	0.5	
Property	0.1	0.1	
Non-property business	0.4	0.5	
New lending	2.0	2.3	-13
	30 June 2020 € bn	31 Dec 2019 € bn	
Mortgages	29.3	29.6	
Personal	2.6	2.8	
Property	0.8	0.9	
Non-property business	3.2	3.3	
Gross loans	35.9	36.6	-2
ECL allowance	(1.5)	(1.1)	41
Net loans	34.4	35.5	-3
Current accounts	28.1	25.5	10
Deposits	24.1	23.1	4
Customer accounts	52.2	48.6	7

New lending

€2.0bn New lending was 13% lower at € 2.0 billion reflecting lower economic activity. Mortgage market share was stable at 31.3% for the half-year to June 2020.

Net loans

€34.4bn Net loans decreased by € 1.1 billion mainly reflecting redemptions exceeding new lending and an increase in expected credit loss allowance.

ECL allowance

€1.5bn The ECL allowance of € 1.5 billion at 30 June 2020 increased by € 0.4 billion from € 1.1 billion at 31 December 2019 reflecting the net credit impairment charge recognised in the half-year to June 2020 due to the deterioration in the macroeconomic outlook.

Customer accounts

€52.2bn Customer accounts increased by € 3.6 billion compared to 31 December 2019 reflecting higher levels of household and SME balances.

Business review – 1. Operating and financial review

Corporate, Institutional & Business Banking ("CIB")

CIB contribution statement	Half-year June 2020 € m	Half-year June 2019 € m	% change
Net interest income	219	225	-3
Other income	45	46	–
Total operating income	264	271	-2
Total operating expenses	(64)	(60)	7
Operating contribution before impairments and exceptional items	200	211	-5
Net credit impairment charge	(538)	(10)	–
Operating contribution before exceptional items	(338)	201	–
Associated undertakings	–	(1)	–
Contribution before exceptional items	(338)	200	–

CIB balance sheet metrics	30 June 2020 € bn	30 June 2019 € bn	% change
Mortgages	0.0	0.0	
Personal	0.0	0.0	
Property	0.4	0.6	
Non-property business	1.1	1.8	
New lending	1.5	2.4	-35
	30 June 2020 € bn	**31 Dec 2019 € bn**	
Mortgages	0.6	0.6	
Personal	0.1	0.1	
Property	4.4	4.3	
Non-property business	10.9	11.2	
Gross loans	16.0	16.2	-1
ECL allowance	(0.6)	0.0	
Net loans	15.4	16.2	-5
Investment securities	0.9	0.7	29
Current accounts	8.3	7.4	12
Deposits	3.6	3.9	-7
Customer accounts	11.9	11.3	5

Net interest income

€219m Net interest income was broadly in line with the half-year to June 2019 with higher average asset volumes offset by lower liquidity income and the impact of the lower interest rate environment.

Other income

€45m Other income was broadly in line with the half-year to June 2019. There was an increase in net income from equity investments in the half-year to June 2020 which was offset by lower net fee and commission income and a reduction in income from loan disposals.

Total operating expenses

€64m Total operating expenses increased by € 4 million compared to the half-year to June 2019 mainly due to increased personnel costs.

Net credit impairment charge

€538m There was a net credit impairment charge of € 538 million in the half-year to June 2020 comprising of a € 507 million charge on loans and advances to customers and a € 31 million charge for off-balance sheet exposures. There was a net credit impairment charge of € 10 million in the half-year to June 2019.

New lending

€1.5bn New lending of € 1.5 billion was € 0.9 billion lower than the half-year to June 2019. The reduction was driven by lower syndicated, property and corporate lending partly offset by an increase in lending to the energy, climate action and infrastructure sectors.

Net loans

€15.4bn Net loans of € 15.4 billion at 30 June 2020 decreased by € 0.8 billion driven by increase in expected credit loss allowance and the impact of lower syndicated lending.

ECL allowance

€0.6bn The ECL allowance of € 0.6 billion at 30 June 2020 increased by € 0.6 billion from 31 December 2019 reflecting the net credit impairment charge recognised in the half-year to June 2020 due to the deterioration in the macroeconomic outlook.

Investment securities

€0.9bn Investment securities of € 0.9 billion were € 0.2 billion higher than 31 December 2019.

Customer accounts

€11.9bn Current accounts of € 8.3 billion were € 0.9 billion higher than 31 December 2019. Deposits of € 3.6 billion decreased by € 0.3 billion compared to 31 December 2019.

AIB UK

AIB UK contribution statement	Half-year June 2020 £ m	Half-year June 2019 £ m	% change
Net interest income	**100**	118	-16
Other income	**17**	33	-46
Total operating income	**117**	151	-22
Total operating expenses	**(73)**	(74)	-3
Operating contribution before impairments and exceptional items	**44**	77	-41
Net credit impairment charge	**(164)**	(18)	–
Operating contribution before exceptional items	**(120)**	59	–
Associated undertakings	**1**	1	–
Contribution before exceptional items	**(119)**	60	–
Contribution before exceptional items € m	**(135)**	68	–

AIB UK balance sheet metrics	30 June 2020 £ bn	30 June 2019 £ bn	% change
AIB GB	**0.6**	1.1	-42
AIB NI	**0.2**	0.1	16
New lending	**0.8**	1.2	-35
	30 June 2020 £ bn	31 Dec 2019 £ bn	
AIB GB	**5.6**	5.6	1
AIB NI	**2.2**	2.2	-3
Gross loans	**7.8**	7.8	–
ECL allowance	**(0.3)**	(0.1)	146
Net loans	**7.5**	7.7	-2
Current accounts	**6.2**	5.8	8
Deposits	**3.0**	3.0	-2
Customer accounts	**9.2**	8.8	5

Net interest income

£100m Net interest income decreased by £ 18 million compared to the half-year to June 2019 primarily due to the UK base rate cuts in March 2020.

Other income

£17m Other income decreased by £ 16 million compared to the half-year to June 2019 driven by a decrease of £ 12 million in net fee and commission income and negative movements on derivative valuation adjustments (XVA).

Total operating expenses

£73m Total operating expenses were broadly in line with the half-year to June 2019.

Net credit impairment charge

£164m There was a net credit impairment charge of £ 164 million in the half-year to June 2020. There was a net credit impairment charge of £ 18 million in the half-year to June 2019.

New lending

£0.8bn New lending of £ 0.8 billion in the half-year to June 2020 decreased by £ 0.4 billion compared to the half-year to June 2019 driven by a general slowdown of new business activity due to Brexit uncertainty and lower economic activity in recent months.

Net loans

£7.5bn Net loans of £ 7.5 billion decreased £ 0.2 billion compared to 31 December 2019 driven by an increase in expected credit loss allowance.

ECL allowance

£0.3bn The ECL allowance of £ 0.3 billion at 30 June 2020 increased by £ 0.2 billion from 31 December 2019 reflecting the net credit impairment charge recognised in the half-year to June 2020 due to the deterioration in the macroeconomic outlook.

Customer accounts

£9.2bn Customer accounts of £ 9.2 billion at 30 June 2020 were £ 0.4 billion higher compared to 31 December 2019.

Business review – 1. Operating and financial review

Group

Group contribution statement	Half-year June 2020 € m	Half-year June 2019 € m	% change
Net interest income	62	62	–
Other income	(6)	46	–
Total operating income	56	108	-49
Total operating expenses	(155)	(144)	8
Bank levies and regulatory fees	(62)	(57)	9
Contribution before exceptional items	(161)	(93)	75

Group balance sheet metrics	30 June 2020 € bn	31 Dec 2019 € bn	% change
Gross loans	0.1	0.1	-3
Investment securities	18.7	16.6	13
Customer accounts	1.5	1.5	3

Net interest income

€62m Net interest income was in line with the half-year to June 2019.

Other income

€(6)m Other income decreased by € 52 million compared to the half-year to June 2019 due to a decrease in other operating income and negative movements on derivative valuation adjustments (XVA). Other operating income for the half-year to June 2019 reflected a gain on disposal of investment securities of € 39 million.

Total operating expenses

€155m Total operating expenses of € 155 million increased by € 11 million compared to the half-year to June 2019 primarily due to an increase in depreciation and amortisation as assets created under the investment programme were commissioned to operational use.

Bank levies and regulatory fees

€62m Bank levies and regulatory fees of € 62 million in the half-year to June 2020 include the Deposit Guarantee Scheme of € 33 million, the Single Resolution Fund € 17 million, and other regulatory levies and charges of € 12 million.

Investment securities

€18.7bn Investment securities of € 18.7 billion primarily held for liquidity purposes increased by € 2.1 billion from 31 December 2019.

Customer accounts

€1.5bn Customer accounts were in line with 31 December 2019.

Alternative performance measures

The following is a list, together with a description, of APMs used in analysing the Group's performance, provided in accordance with the European Securities and Markets Authority ("ESMA") guidelines.

Average rate	Interest income/expense for balance sheet categories divided by corresponding average balance.
Average balance	Average balances for interest-earning assets are based on daily balances for all categories with the exception of loans and advances to banks, which are based on a combination of daily/monthly balances. Average balances for interest-earning liabilities are based on a combination of daily/monthly balances, with the exception of customer accounts which are based on daily balances.
Absolute cost base	Total operating expenses excluding exceptional items, bank levies and regulatory fees.
Cost income ratio	Total operating expenses excluding exceptional items, bank levies and regulatory fees divided by total operating income excluding exceptional items.
Cost income ratio (IFRS basis)	Total operating expenses divided by total operating income.
Exceptional items	Performance measures have been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance period on period. The adjusted performance measure is considered an APM. A reconciliation between the IFRS and management performance summary income statements is set out on page 30. Exceptional items include: – *Restitution costs* include provision for potential customer redress and compensation in relation to the tracker mortgage examination and other customer redress along with associated costs. – *Covid product costs* reflect the incremental cost of implementing a large volume of payment breaks on home mortgages, personal and SME loans to customers impacted by COVID-19. – *Termination benefits* reflect costs associated with the reduction in employees arising from the voluntary severance programme. – *Property strategy* relates to the implementation of the Group property strategy including the exit from Bankcentre and the acquisition and development of various office locations across Dublin. – *Restructuring costs* for the half-year to June 2019 included the impairment of assets. – *(Loss)/gain on disposal of loan portfolios* includes net (loss)/gain on disposals and net gain on loans and advances to customers measured at FVTPL. – *Provision for regulatory fines* includes a provision for the potential impact of monetary penalties arising from the Central Bank of Ireland investigation in respect of tracker mortgages.
Loan to deposit ratio	Net loans and advances to customers divided by customer accounts.
Net interest margin	Net interest income divided by average interest-earning assets.
Non-performing exposures	Non-performing exposures as defined by the European Banking Authority, include loans and advances to customers (Non-performing loans) and off-balance sheet commitments such as loan commitments and financial guarantee contracts.
Non-performing loans cover	ECL allowance on non-performing loans as a percentage of non-performing loans.
Non-performing loans ratio	Non-performing loans as a percentage of total gross loans.
Return on Tangible Equity (RoTE)	Details of the Group's RoTE is set out in the Capital Section on page 34.
Management performance – summary income statement	The following line items in the management performance summary income statement are considered APMs: • Other income • Total operating income • Personnel expenses • General and administrative expenses • Depreciation, impairment and amortisation • Total operating expenses • Bank levies and regulatory fees • Operating profit before impairment losses and exceptional items • Operating (loss)/profit before exceptional items • Profit on disposal of property • Profit before exceptional items • Total exceptional items

Business review – 1. Operating and financial review

Reconciliation between IFRS and management performance summary income statements

Performance has been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance period on period. The adjusted performance measure is considered an APM. A reconciliation of management performance measures to the directly related IFRS measures, providing their impact in respect of specific line items and the overall summary income statement, is set out below.

IFRS – summary income statement	Half-year June 2020 € m	Half-year June 2019 € m
Net interest income	967	1,050
Other income	220	353
Total operating income	1,187	1,403
Total operating expenses	(885)	(967)
Operating profit before impairment losses	302	436
Net credit impairment charge	(1,216)	(9)
Operating (loss)/profit	(914)	427
Associated undertakings	5	9
(Loss)/profit before taxation	(909)	436
Income tax credit/(charge)	209	(75)
(Loss)/profit for the period	(700)	361

Adjustments – between IFRS and management performance

		2020	2020	2019	2019
Other income	**of which: exceptional items**				
	Gain on disposal of loan portfolios	–	–	(34)	(34)
Total operating expenses	**of which: bank levies and regulatory fees**		63		58
	of which: exceptional items				
	Restitution costs	58		102	
	Covid product costs	10		–	
	Termination benefits	6		7	
	Property strategy	1		3	
	Provision for regulatory fines	–		43	
	Restructuring costs	–	75	10	165

Management performance – summary income statement	Half-year June 2020 € m	Half-year June 2019 € m
Net interest income	967	1,050
Other income[(1)]	220	319
Total operating income[(1)]	1,187	1,369
Total operating expenses[(1)]	(747)	(744)
Bank levies and regulatory fees[(1)]	(63)	(58)
Operating profit before impairment losses and exceptional items[(1)]	377	567
Net credit impairment charge	(1,216)	(9)
Operating (loss)/profit before exceptional items[(1)]	(839)	558
Associated undertakings	5	9
(Loss)/profit before exceptional items[(1)]	(834)	567
Total exceptional items[(1)]	(75)	(131)
(Loss)/profit before taxation	(909)	436
Income tax credit/(charge)	209	(75)
(Loss)/profit for the period	(700)	361

[(1)]Performance has been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance year on year. The adjusted performance measure is considered an APM.

Business review – 2. Capital

Objectives

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. Detail on the management of capital and capital adequacy risk can be found in 'Risk management 2.3' on page 154 of the Group's Annual Financial Report 2019.

Regulatory capital and capital ratios[1]

	CRD IV transitional basis		CRD IV fully loaded basis	
	30 June 2020 € m	31 December 2019 € m	**30 June 2020 € m**	31 December 2019 € m
Equity	**13,771**	14,230	**13,771**	14,230
Less: Additional Tier 1 Securities	**(1,410)**	(990)	**(1,410)**	(990)
Proposed ordinary dividend[2]	**–**	(217)	**–**	(217)
Regulatory adjustments:				
Intangible assets	**(805)**	(798)	**(805)**	(798)
Cash flow hedging reserves	**(573)**	(469)	**(573)**	(469)
IFRS 9 CET1 transitional add-back	**943**	251	**–**	–
Pension	**(42)**	(31)	**(42)**	(31)
Deferred tax	**(1,679)**	(1,334)	**(2,759)**	(2,667)
Expected loss deduction	**–**	(8)	**–**	(8)
Other	**(44)**	(45)	**(44)**	(45)
	(2,200)	(2,434)	**(4,223)**	(4,018)
Total common equity tier 1 capital	**10,161**	10,589	**8,138**	9,005
Additional tier 1 capital				
Additional Tier 1 issuance	**1,116**	496	**1,116**	496
Instruments issued by subsidiaries that are given recognition in additional tier 1 capital	**122**	129	**152**	159
Total additional tier 1 capital	**1,238**	625	**1,268**	655
Total tier 1 capital	**11,399**	11,214	**9,406**	9,660
Tier 2 capital				
Subordinated debt	**500**	500	**500**	500
Instruments issued by subsidiaries that are given recognition in tier 2 capital	**402**	426	**480**	507
IRB Excess of provisions over expected losses eligible	**110**	–	**110**	–
IFRS 9 Tier 2 transitional adjustment	**(110)**	–	**–**	–
Total tier 2 capital	**902**	926	**1,090**	1,007
Total capital	**12,301**	12,140	**10,496**	10,667
Risk-weighted assets				
Credit risk	**44,925**	46,811	**44,293**	46,689
Market risk	**618**	473	**618**	473
Operational risk	**4,686**	4,700	**4,686**	4,700
Credit valuation adjustment	**166**	137	**166**	137
Total risk-weighted assets	**50,395**	52,121	**49,763**	51,999
	%	%	**%**	%
Common equity tier 1 ratio	**20.2**	20.3	**16.4**	17.3
Tier 1 ratio	**22.6**	21.5	**18.9**	18.6
Total capital ratio	**24.4**	23.3	**21.1**	20.5

[1]Prepared under the regulatory scope of consolidation.

[2]On 30 March 2020, the Group announced, following the recommendation of the European Central Bank, that the Company did not intend to seek shareholder approval for the payment of a final dividend for 2019. Accordingly, the relevant Annual General Meeting ("AGM") resolution was withdrawn and the proposed dividend cancelled.

Business review – 2. Capital

Capital requirements

The table below sets out the capital requirements as at 1 January 2020, 30 June 2020 and the pro forma requirements for 31 December 2020. The table does not include Pillar 2 Guidance ("P2G") which is not publicly disclosed.

A suite of measures have been introduced to support the financial sector through the current COVID-19 pandemic. These include the reduction in the Countercyclical capital buffer ("CCyB") to zero by both the Central Bank of Ireland ("CBI") and the Bank of England ("BOE"). Other measures include amendments to the transitional rules for IFRS 9 in respect of COVID-19 related losses.

On 1 January 2020 the Group's Pillar 2 Requirement ("P2R") reduced to 3% from 3.15% in 2019. Previously the P2R had to be met with CET1 only, post 8 April 2020 at least 56.25% of P2R (1.69% of RWA) must be CET1 and at least 75% (2.25% of RWA) must be Tier 1.

	Actual		Pro forma
Regulatory Capital Requirements	**1 January 2020**	**30 June 2020**	**31 December 2020**
CET1 Requirements			
Pillar 1	4.50%	4.50%	4.50%
Pillar 2 requirement (P2R)	3.00%	1.69%	1.69%
Combined buffer requirement	3.90%	3.00%	3.50%
Capital Conservation Buffer (CCB)	*2.50%*	*2.50%*	*2.50%*
O-SII buffer	*0.50%*	*0.50%*	*1.00%*
Countercyclical buffer (CCYB) Impact			
Irish exposures	*0.70%*	*0.00%*	*0.00%*
UK exposures	*0.20%*	*0.00%*	*0.00%*
CET1 Requirement	**11.40%**	**9.19%**	**9.69%**
Pillar 1 AT1/Tier 2	**3.50%**	**3.50%**	**3.50%**
P2R AT1/Tier 2	**0.00%**	**1.31%**	**1.31%**
Total Capital Requirement	**14.90%**	**14.00%**	**14.50%**

The Group's minimum CET1 requirement is 9.19% at 30 June 2020 under Article 104a. In addition any shortfall in AT1 and Tier 2 must be held in CET1.

The Other Systemically Important Institution ("O-SII") buffer of 0.5% will rise to 1.0% on 1 July 2020 and 1.5% on 1 July 2021 and accordingly will increase the minimum CET1 requirements.

The minimum requirement for the total capital ratio was 14.0% at 30 June 2020 and will increase to 14.5% by the end of 2020.

Capital ratios at 30 June 2020

Fully Loaded Ratio

The fully loaded CET1 ratio decreased to 16.4% at 30 June 2020 from 17.3% at 31 December 2019.

The decrease of 0.9% is due to a loss after tax of € 0.7 million (-1.3%) reflecting an ECL charge at 30 June 2020 of € 1.2 billion, a decrease in the investment securities reserve (-0.3%) and other capital movements (-0.4%). These are offset by lower RWAs (+0.7%) and the cancellation of the 2019 dividend (+0.4%).

The fully loaded total capital ratio increased to 21.1% from 20.5% at 31 December 2019. The increase in the ratio was due to a new € 625 million AT1 capital issuance in June 2020 (+1.2%), a Tier 2 IRB excess of provisions over expected losses (+0.2%) and lower RWAs (+0.9%) partially offset by the other CET1 movements outlined above.

Transitional Ratio

The transitional CET1 ratio decreased to 20.2% at 30 June 2020 from 20.3% at 31 December 2019. This decrease is mainly driven by the movements detailed above and an additional year's phasing of the deferred tax asset deduction (-0.7%), offset by the increase in the IFRS 9 transitional addback (+1.3%) as part of the suite of measures to support the financial sector through the current COVID-19 pandemic.

At 30 June 2020 the transitional total capital ratio increased to 24.4% from 23.3% as at 31 December 2019.

Targeted Review of Internal Models (TRIM)

The table below shows the pro forma impact of the draft AIB mortgage TRIM outcome, which is not expected to be materially different from the final decision.

TRIM adjusted capital metrics	Expected Impact	30 June 2020 Pro Forma
Fully Loaded	€ m	€ m
CET1 impact	(57)	8,081
RWA impact	2,023	51,786
CET1 ratio impact	(0.8)%	15.6%

TRIM decisions are postponed due to the current COVID-19 pandemic.

The pro forma CET1 impact as at 30 June 2020 is 80 basis points which would reduce the fully loaded CET1 ratio to 15.6% from the reported 16.4% and the total capital ratio to 20.2% from the reported 21.1%.

Leverage ratio

Based on the full implementation of CRD IV, the fully loaded leverage ratio, under the Delegated Act implemented in January 2015, was 9.2% at 30 June 2020 (9.7% at 31 December 2019).

Total leverage exposures (transitional) basis increased by € 3.4 billion in the six months to 30 June 2020, mainly driven by increases in cash and balances at central banks of € 2.7 billion and derivative financial instruments of € 0.5 billion.

Leverage Ratio Metrics	30 June 2020 € m	31 December 2019 € m
Total Exposure (Transitional Basis)	**104,538**	101,126
Total Exposure (Fully Loaded)	**102,425**	99,548
Tier 1 Capital (Transitional Basis)	**11,399**	11,214
Tier 1 Capital (Fully Loaded)	**9,405**	9,660
Leverage Ratio (Transitional Basis)	**10.9%**	11.1%
Leverage Ratio (Fully Loaded)	**9.2%**	9.7%

Finalisation of Basel III

The Group continues to closely monitor regulatory developments to ensure that the Group maintains a strong capital position.

One of the key areas of regulatory development is the finalisation of Basel III reforms, exact implementation details will be confirmed once the finalised requirements are transposed into law. Initial assessments signal upward pressure on RWAs, mostly in relation to operational risk.

In relation to RWA floors, the Group's high RWA density make it less likely to be severely impacted by their introduction.

Minimum Requirement for Own Funds and Eligible Liabilities ("MREL")

The Group continued to work towards its MREL target in 2020 to ensure that there is sufficient loss absorption and re-capitalisation capability. The Group has now completed issuance of the € 5 billion MREL eligible liabilities needed to meet its MREL issuance target of which € 0.625 billion was issued in 2020.

The Single Resolution Board ("SRB") has provided the Group with its default formula for the MREL target calibration under the new BRRD II legislative framework to be complied with by 1 January 2022. The Group has estimated its January 2022 intermediate binding target is 27.1% of RWA including the combined buffer requirement.

At 30 June 2020 the Group had an actual MREL ratio of 30% of RWAs (inclusive of mortgage TRIM impact).

The Group continues to monitor changes in MREL requirements together with developments in the SRB's MREL Policy which has the potential to impact on the Group's MREL target.

Dividends

The final dividend in respect of 2019 was cancelled in line with regulatory guidance.

Ratings

AIB Group plc and Allied Irish Banks, p.l.c. are rated at investment grade with all three rating agencies, Moody's, Fitch and Standard & Poor's (S&P).

AIB Group plc

All three rating agencies re-affirmed their ratings in the six months to 30 June 2020 and changed the outlook to stable from positive (Moody's) and to negative from stable (Fitch and S&P). The changed outlook reflects the expectation that the Irish and UK economies will contract as a result of the COVID-19 pandemic.

Long term Ratings	Moody's	30 June 2020 S&P	Fitch
Long term	**Baa2**	**BBB-**	**BBB**
Outlook	**Stable**	**Negative**	**Negative**
Investment grade	✓	✓	✓

Long term Ratings	Moody's	31 December 2019 S&P	Fitch
Long term	Baa2	BBB-	BBB
Outlook	Positive	Stable	Stable
Investment grade	✓	✓	✓

Allied Irish Banks, p.l.c.

During the six months to 30 June 2020 S&P and Fitch reaffirmed the ratings and changed the outlook to negative from stable. This reflects the anticipated reduction in economic activity as a result of the COVID-19 pandemic. During the six months to 30 June 2020 Moody's reaffirmed the ratings and outlook.

Long term Ratings	Moody's	30 June 2020 S&P	Fitch
Long term	**A2**	**BBB+**	**BBB+**
Outlook	**Stable**	**Negative**	**Negative**
Investment grade	✓	✓	✓

Long term Ratings	Moody's	31 December 2019 S&P	Fitch
Long term	A2	BBB+	BBB+
Outlook	Stable	Stable	Stable
Investment grade	✓	✓	✓

Business review – 2. Capital

Return on Tangible Equity ("RoTE")*

As part of its strategy, the Group has now set a revised financial target for RoTE of greater than 8% in the medium term.

Return on Tangible Equity (RoTE)	30 June 2020 € m	31 December 2019 € m
(Loss)/profit after tax	(700)	364
AT1 coupons paid	(32)	(37)
Attributable earnings	(732)	327
Average RWA	52,993	51,631
RWA x 14% (CET1 target)	7,419	7,228
Return on Tangible Equity	n/a[1]	4.5%

*RoTE is considered an Alternative Performance Measurement. RoTE includes the pro forma impact of TRIM.

[1]The RoTE actual outcome is not reported for the period as it would require the loss for the period to be annualised which is considered not appropriate at this stage.

Risk management

Risk management

Update on risk management and governance

This section provides an update on risk management and governance during the reporting period and should be read in conjunction with the risk management section of the Annual Financial Report 2019 on pages 71 to 170. During the reporting period there have been no significant changes to the Group's Risk Management Framework, as set out on pages 72 to 78 of the Annual Financial Report 2019.

While the principal risks identified through the Material Risk Assessment process and reported in the Annual Financial Report 2019 on pages 79 to 170 covering the period for the next six months have not changed, the drivers of those risks have been reviewed in light of the global COVID-19 pandemic as described below.

COVID-19 pandemic

The most significant development in the reporting period has been in relation to the rapid spread of the COVID-19 pandemic and the associated health crisis. The public policy response, at a national and supranational level, has been rapid and far ranging. Notwithstanding this, there remain many uncertainties regarding the prevalence of COVID-19 and future course of the public health response. This makes it difficult to judge the duration, severity and long term economic implications arising from both the health crisis and the resultant economic downturn. Consequently, there are a wide range of possible outcomes for the economies in which the Group operates that will in turn affect the financial and operational performance of the Group.

Impact on the control environment and operational resilience

Since the onset of the crisis, the Group has focused on safeguarding the wellbeing of its employees and their families, helping its customers, and preserving its operational continuity. The governmental and banking industry response to the COVID-19 pandemic has caused the Group to modify its operational practices, ensuring social distancing in its branches and properties, facilitating the majority of its staff to work remotely and migrating the delivery of critical services to online and digital channels. In addition, the Group has implemented schemes to support affected customers through the unprecedented challenges presented by COVID-19.

Although the crisis has demanded certain changes to the operational processes, the Group has continued to operate in adherence with its Risk Management Framework and has maintained its internal control environment. During this period the Group invoked its operational contingency plan for a pandemic, which included daily meetings of the Executive Committee as well as more frequent Board meetings. Operational resilience has been demonstrated with the majority of its workforce enabled to work remotely from home and through the successful provision of customer services since March. During this period the Group kept its branch network open, with appropriate safeguards in place to protect customers and staff.

Impact of COVID-19 on principal risks

While the Group expects the impacts of COVID-19 to continue to evolve, the current assessment of the Group's principal risks for the reported period are described below. The definition for each principal risk are included in the individual risk types section on pages 80 to 169 of the Annual Financial Report 2019.

Credit Risk – The economic impact arising from COVID-19 has been significant and has given rise to a higher risk that the Group's customers may be unable to meet their loan repayment commitments. Should the progression of COVID-19 be worse than anticipated or should there be a further deterioration in economic conditions beyond those included in the Group's macroeconomic scenarios used for internal purposes, this may result in higher expected credit losses in future periods.

Further details on Credit Risk are set out on pages 38 to 84.

Business Model Risk – The business model risk has increased due to the direct and indirect impacts arising from COVID-19. The European Central Bank, Bank of England and Federal Reserve Bank have indicated that official interest rates are expected to remain low for a protracted period of time. In addition, loan growth is expected to be subdued in the coming six months, due to lower economic activity. In response to these factors, the Group is continuing to progress its digital strategy and will accelerate its sustainability and green lending agenda.

Regulatory Compliance Risk – The Group continues to interact proactively with its regulators with respect to the introduction of payment breaks and other restructuring arrangements to assist its customers in these unprecedented times. Notwithstanding this, there is a risk that the Group may not be able to respond appropriately to meet the additional regulatory obligations or expectations.

Model Risk – The Group's model risk profile remains unchanged during the reporting period. However, the unique nature of COVID-19 means that model outputs may require adjustment and expert judgement. Consequently, there is increased model risk until the experience of the Group's customers is fully reflected in its time series data.

Operational Risk – The COVID-19 pandemic has increased the operational risk profile, primarily due to changes in operational processes such as working from home, increased use of digital processes and additional measures to support customers affected by COVID-19. While cyber threats continue to increase, the Group's cybersecurity defenses and controls have supported its business continuity and ensured the Group and its customers were protected during this period. While third party risk continues to be an area of focus, service delivery remained robust in the period. The Group continues to monitor its operational risk profile closely.

Funding and Liquidity Risk – The Group's funding and liquidity has improved during the period. The substantial liquidity surplus which existed at the start of the year has been further enhanced by an increase in deposits. While the crisis initially resulted in increased market volatility and fluctuations in wholesale funding costs these have since reduced. The Group's reliance on such sources of funding is not significant.

Further details on Funding & Liquidity Risk are set out on pages 85 to 88.

Financial Risk – The Group's financial risk initially increased due to substantial volatility in global financial markets following the onset of the COVID-19 pandemic. The Group is exposed to market volatility through its investment securities portfolio, the trading book and the interest rate risk in the banking book ("IRRBB"). The financial risk profile has since reduced in line with market developments.

People and Culture Risk – The significant changes in work practices implemented across the Group has impacted the approach to its recruitment, retention and training. The Group's employees have demonstrated strong resilience in response to the crisis during this period. While there will be continued agility in the ways of working, the Group has enhanced its Wellbeing Programme to ensure that employees have the necessary supports available to them. During the period, the Group launched new and evolved values and behaviours.

Conduct Risk – COVID-19 has increased conduct risk due to the rapid implementation of customer products for those affected by COVID-19. Additional controls and safeguards have been implemented to protect the Group's customers and to provide appropriate support to those customers affected. The Group will continue to engage proactively with its customers, regulators and other stakeholders and consider the end-to-end customer lifecycle when considering conduct risk related matters.

Capital Adequacy Risk – The Group remains very well capitalised, despite the business performance being impacted by COVID-19 during the period. The capital adequacy of the Group has been considered under a variety of downside and stress scenarios. The Group continues to maintain strong levels of capital above its regulatory requirements.

Further details on Capital are set out on pages 31 to 34.

Withdrawal of the UK from the European Union

The risks around the United Kingdom's exit from the European Union ("Brexit") remains elevated. A range of different Brexit scenarios are possible. The Group continues to expect an arrangement to be concluded between the UK and the EU, while preparing for a no-deal scenario. Were the UK and EU not to conclude a comprehensive trade deal by December 2020, it would be likely to have a significant impact on the Group's customers at a time when the effects of COVID-19 are still being felt. The potential consequences to the Group's activities, while considerable, are expected to be within the range that has been prepared for. The Group's Brexit planning approach remains consistent with its approach in 2019, that is a focus on securing the Group's operational resilience while at the same time engaging actively with its customers to assist their preparedness. The Group continues to monitor the potential risks through four Brexit readiness and response working groups and will take necessary actions as appropriate.

Risk management

Credit risk – Overview

Details on the various aspects of the Group's credit risk management are outlined on pages 79 to 100 of the Annual Financial Report 2019 with the Group's accounting policies for financial assets included in note 1 to the consolidated financial statements on pages 254 to 256.

There have been no changes to the Group's accounting policies for financial assets since 31 December 2019. In determining ECL allowances, the Group keeps under constant review its bases of measurement, methodologies and judgements as outlined on pages 88 to 98 of the Annual Financial Report 2019. There have been no changes to these bases of measurement, methodologies and judgements apart from the following:

Credit risk management response to COVID-19

The Group has adapted its credit risk management operating model, including its underlying credit processes, in response to COVID-19 to ensure proactive and appropriate management of the heightened credit risk in the portfolio, and particularly for those sectors believed to be most impacted by COVID-19. In adapting its credit operating model, the Group have also enabled the introduction and implementation of a number of customer support measures in a streamlined, agile and risk appropriate manner.

The Group's focus continues to be on supporting its existing customers and ensuring they are provided with the appropriate measures taking account of the current and expected financial impact and recovery outlook. As part of the Group's credit risk management response to COVID-19, a range of actions have been taken to ensure the appropriate measurement, classification, and reporting of its credit risk exposures during this time. These include:

- The development of a suite of additional guidance documents to support credit risk assessment and management activities, such as credit grading, staging, unlikely-to-pay testing, and taking account of COVID-19 sector risk and expected recovery outlook. This guidance supplements the Group's existing credit risk policies and frameworks.
- Enhanced scope and frequency of portfolio asset quality monitoring, particularly focused on those sectors believed to be most impacted by COVID-19 (for example, hospitality, non-food retail, travel etc.).
- Proactive bottom-up reviews of individual cases, in addition to top-down portfolio/sector reviews, prioritising higher exposures and the more vulnerable segments of the balance sheet.

Notwithstanding the range of actions that have been taken, significant uncertainty remains with regard to the extent of the direct and indirect impacts of COVID-19 on the economy and the Group's loan book and asset quality.

Macroeconomic scenarios and weightings*

The macroeconomic scenarios used by the Group for IFRS 9 purposes are subject to the same governance process covering the development and approval of macroeconomic scenarios used for planning and internal stress testing purposes. The macroeconomic scenarios and attached probabilities are approved by the Asset and Liability Committee ('ALCo'). The parameters used within the Group's ECL models include macroeconomic factors which have been established as drivers of the default risk and loss estimates. A different credit loss estimate is produced for each scenario. These credit loss estimates for each scenario are then weighted by the assessed likelihood of occurrence of the respective scenarios to yield the ECL outcome.

Macroeconomic scenarios

The onset of the COVID-19 pandemic and associated lockdown measures and restrictions on economic activity, means that the scenarios in use for the half-year 2020 have changed materially from those applied for the year-end 2019 outcomes. In order to reflect the significant uncertainty presented by the health crisis and associated economic downturn, as at the reporting date, there are five scenarios used for the purposes of the ECL calculation as compared to four at 31 December 2019. These five scenarios are comprised of a Base case scenario, along with four alternative scenarios, one upside scenario "Virus Eliminated" and three downside scenarios "Persistent Virus", "Failed EU/UK trade talks" and "Persistent Virus plus Second Wave". The inclusion of extra downside scenarios was deemed necessary to ensure that the range of possible outcomes in relation to the ultimate recovery from the pandemic are captured. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both a single upside and three downside scenarios.

The Group's Economic Research Unit (ERU) provide the scenario forecasts over five years. These are then independently reviewed and challenged, on both a quantitative and qualitative basis, by the Group's Enterprise Risk Management (ERM) function. The Base case is benchmarked against the outlook available from official sources (e.g. IMF, Department of Finance, ESRI, Central Bank of Ireland, etc.). Upside and downside forecasts are provided for each scenario and represent expected outcomes under each scenario. For IFRS 9 purposes, longer term economic projections beyond five years are sourced from a reputable external provider with the internal scenarios converging on a linear basis towards the external forecasts from years 5 to 8. External long term forecasts represent long term base line forecasts for the parameter/economy in question. The forecasted scenarios are kept under review by the Group ALCo and approved at least on a quarterly basis at Group ALCo and by the Board prior to the publication of the Group's financial results.

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

Credit risk – Overview

Macroeconomic scenarios and weightings *(continued)*

The scenarios are described below and reflect the views of the Group as at the reporting date.

Base case: The world economy experiences a very deep recession in 2020 that commenced in March in most countries. The recession is unique in terms of its suddenness and severity. The scale of the immediate impact on employment in particular is unprecedented in its speed and scale, with jobless rates soaring in the space of a few weeks. Under this scenario, each of the Group's core economies (Ireland, UK, US, Eurozone) suffer very significant contractions in the first half of 2020 as lockdowns dramatically reduce activity.

It is assumed that COVID-19 begins to fade during the second half of 2020 coinciding with a return to more normalised levels of activity, but that economic momentum does not gather speed until 2021. This is highly dependent on the efficacy of fiscal and central bank supports in mitigating the more serious scarring effects on the economies. In the Base case, economic activity does not return to pre-pandemic levels of activity until late 2022 in Ireland and mid-2023 in the UK. Unemployment, in all economies, remains significantly higher than the pre-COVID-19 level until 2024 and beyond. In the Irish and UK markets, house prices are forecast to decline by up to 10% over the 2020 to 2021 period. Property prices in the Base case are assumed to return to slow growth thereafter.

This scenario assumes that, in terms of the EU/UK trade negotiations, the transition period is extended by one year due to delays in the negotiations caused by the COVID-19 pandemic. It is assumed that a EU/UK free trade agreement is finalised in 2021 and that it comes into effect at the start of 2022. This is expected to reduce growth in Ireland and the UK by c. 0.5% per annum over the 2022-2024 period.

Downside scenario ('Persistent virus'): Under this scenario, measures to contain COVID-19, the prevalence of which proves more persistent than expected, are required to remain in place for a longer period of time than assumed in the Base case and extend well into the second half of 2020. This results in a larger decline in output in 2020 than in the Base case. As a result, additional scarring effects in 2021 are assumed, with further negative impact on business and consumer confidence, lower economic growth and more business failures, tighter financial conditions and a higher rate of unemployment (one to three percentage points higher than the Base case through to 2024). In this scenario, economic activity does not return to pre-pandemic levels of activity until 2023 in Ireland and 2025 in the UK. This scenario assumes the same outcome to the EU/UK trade negotiations as in the Base case.

Downside scenario ('Failed EU/UK trade talks'): Under this scenario, COVID-19 and economy evolves as per the Base case but it becomes clear in late 2020 that the EU/UK trade talks will end in failure, as the UK remains unwilling to adhere to EU rules in return for favourable access to the Single Market. In this scenario, the UK falls back to trade under World Trade Organisation (WTO) rules, involving tariffs, customs checks, new regulatory controls etc. from the start of 2021.

Under such a scenario it is assumed that the failed trade talks result in an end to the nascent recovery in economic activity seen in the second half of 2020 in a Base case. Growth is assumed to remain sluggish from 2021 to mid-2023, with activity only picking up again in the second half of 2023. In this scenario, economic activity does not return to pre-pandemic levels of activity until 2024 in Ireland and 2027 in the UK.

It is assumed there is a sharp decline in trade between the UK and EU and outflow of investment from the UK, especially from the financial sector, as well as a decline in foreign direct investment. Unemployment remains at an elevated level over the forecast period.

The combination of the COVID-19 recession in 2020 followed by a hard Brexit at the start of 2021 results in sharp falls in Irish and UK property prices. The price declines are more significant in the UK than in Ireland as the recession in 2020 is followed by a long period of stagnation in property markets.

Downside scenario ('Persistent virus plus second wave'): Under this scenario, it is assumed that COVID-19 proves more persistent than expected and a second outbreak of COVID-19 occurs in 2021. However, lessons learnt from the first outbreak are implemented such as containment measures and testing. Nevertheless, in such a scenario there are renewed lockdowns, financial conditions tighten and confidence suffers a further blow, all of which weighs on economic activity in 2021. In this scenario, economic activity does not return to pre-pandemic levels of activity until 2025 in Ireland and 2027 in the UK. Unemployment returns to very high levels during the second lockdown, peaking in 2021 but only slowly reducing through to 2024. This scenario assumes the same outcome to the EU/UK trade negotiations as in the Base case.

Given that the recession under this scenario is very deep and extends into 2021 and unemployment is at very high levels, there are large property price falls in Ireland and the UK in both residential and commercial property sectors.

Risk management

Credit risk – Overview

Macroeconomic scenarios and weightings *(continued)*

Upside scenario ('Virus eliminated'): Under this scenario, COVID-19 is essentially eliminated in the second half of 2020 due to the success of social distancing and self-isolation measures. As a result, there is a much quicker rebound in activity than assumed under the Base case, which is supported by significant fiscal and monetary supports. There is still falling growth in 2020 but GDP returns to pre-pandemic levels of activity in the second half of 2021. Given Ireland's exposure to international trade, a better than expected performance by its key trading partners would have a positive knock-on impact on its exports and in turn, on the rate of growth of the economy. This results in the 2021 rebound in Irish GDP being stronger than other economies. In this scenario, economic activity returns to pre-pandemic levels of activity in mid-2021 in both Ireland and the UK. As a result, employment growth is strong and unemployment is consistently 1%-2% lower than in the Base case. This scenario assumes the same outcome to the EU/UK trade negotiations as in the Base case.

While property prices fall as a result of the effects of containment measures on economic activity, the declines are more moderate. In addition, prices start to increase from mid-2021 onwards, as greater demand returns to the market.

The table below sets out the five year forecast for each of the key macroeconomic variables that are required to generate the scenarios or are material drivers of the ECL under each scenario at 30 June 2020:

	Base					Downside Scenario ('Persistent Virus')					Downside Scenario ('Failed EU/UK trade talks')				
Macroeconomic factor	2020 %	2021 %	2022 %	2023 %	2024 %	2020 %	2021 %	2022 %	2023 %	2024 %	2020 %	2021 %	2022 %	2023 %	2024 %
Republic of Ireland															
GDP growth	(7.5)	6.3	3.5	3.0	2.7	(9.5)	4.5	4.0	3.0	2.7	(7.5)	3.5	1.5	1.8	2.5
Residential property price growth	(5.5)	(4.5)	4.0	3.5	3.0	(7.5)	(6.5)	1.0	4.5	3.5	(5.5)	(8.0)	(7.0)	(1.0)	1.5
Unemployment rate	10.0	9.0	7.1	6.3	6.0	12.8	12.0	9.6	8.3	7.6	10.0	10.6	10.1	9.6	9.0
Commercial property price growth	(9.5)	(5.5)	6.0	3.0	2.0	(11.5)	(7.5)	2.0	4.0	3.0	(9.5)	(9.0)	(5.5)	(2.5)	–
Employment growth	(4.6)	2.4	3.3	2.1	1.8	(7.6)	1.9	3.9	2.6	2.2	(4.6)	0.3	1.5	1.4	1.7
Average disposable income growth	(15.5)	9.9	6.0	1.1	0.8	(18.9)	7.8	7.2	1.8	1.4	(15.4)	6.5	3.1	0.9	1.2
United Kingdom															
GDP growth	(6.5)	4.0	2.3	1.7	1.5	(9.0)	2.5	2.8	1.7	1.5	(6.5)	1.8	–	0.3	1.3
Residential property price growth	(5.0)	(4.0)	3.5	3.5	3.5	(7.0)	(6.0)	1.0	4.0	3.0	(5.0)	(7.5)	(9.0)	(6.5)	1.0
Unemployment rate	7.5	6.0	5.5	5.3	5.0	9.5	8.0	7.0	6.5	6.0	7.5	7.5	8.0	9.0	8.8
Commercial property price growth	(8.5)	(5.0)	5.0	3.0	3.0	(11.0)	(8.0)	3.0	4.0	3.0	(8.5)	(11.0)	(9.5)	(6.5)	1.5

	Downside Scenario ('Persistent Virus plus Second Wave')					Upside Scenario ('Virus eliminated')				
Macroeconomic factor	2020 %	2021 %	2022 %	2023 %	2024 %	2020 %	2021 %	2022 %	2023 %	2024 %
Republic of Ireland										
GDP growth	(9.5)	(5.0)	8.5	3.5	3.0	(5.0)	7.3	4.0	3.0	2.7
Residential property price growth	(7.5)	(14.0)	(6.0)	3.0	4.0	(4.0)	–	4.0	3.0	3.0
Unemployment rate	12.8	14.5	12.0	9.8	9.0	9.1	7.4	6.0	5.3	5.0
Commercial property price growth	(11.5)	(16.0)	(6.0)	3.0	4.0	(7.5)	(1.0)	4.0	3.0	3.0
Employment growth	(7.6)	(1.2)	4.0	3.7	2.3	(3.5)	3.1	2.8	2.1	1.8
Average disposable income growth	(18.8)	(8.0)	17.4	3.1	1.7	(12.2)	10.8	5.4	1.1	0.8
United Kingdom										
GDP growth	(9.0)	(5.0)	8.0	2.3	1.7	(4.0)	5.0	2.8	1.7	1.5
Residential property price growth	(7.0)	(14.0)	(6.0)	3.0	4.0	(4.0)	0.5	3.5	3.0	3.0
Unemployment rate	9.5	11.5	8.5	7.5	6.5	6.5	5.0	4.5	4.2	4.0
Commercial property price growth	(11.0)	(15.5)	(5.5)	3.5	4.0	(7.0)	(1.0)	3.5	3.0	3.0

Credit risk – Overview

Macroeconomic scenarios and weightings *(continued)*

The key changes to the scenario forecasts in the reporting period are driven by the COVID-19 pandemic. The extent of contagion and the wider economic impact of COVID-19 was not foreseen at 31 December 2019. The severe and sudden shock to all economies has resulted in a significant re-assessment of the forecasts. The 5 year average forecasts that applied at December 2019 is outlined on page 94 of the Annual Financial Report 2019.

The five scenarios detailed above are used to reflect a representative sample of possible outcomes. The ECL allowance reflects a weighted average of the credit loss estimates under the five scenarios.

Similar to the scenario forecasts, the probability weighting assigned to each scenario is proposed by the ERU, supported with reference to external market information, with a review and challenge from ERM.

These weightings are reviewed regularly during the reporting period. Given the significant change in the forecasts, comparing the weightings to previous reporting periods is less useful than normal. The key drivers of the weightings are:

- The much larger aggregate downside weighting (35%) versus the upside weighting (10%) reflects the Group's view that risks are skewed to the downside in view of the fact that, in many countries, efforts at containing the spread of COVID-19 (notably the Americas) are proving unsuccessful, as at the reporting date. This is consistent with external commentary that COVID-19 related risks remain to the downside.
- The 'Persistent Virus' scenario reflects the fact that the virus is likely to prove difficult to bring under control with the consequence that the economic recovery may be delayed or weaker than in the Base case. This has been assigned the highest downside weighting (20%).
- The 'Failed EU/UK Trade Talks' scenario has been assigned the next highest weighting (10%) reflecting the fact that an agreement here lies within the power of governments and so, while negotiations may continue to be fraught, the likelihood of a deal remains high.
- The downside scenario 'Persistent Virus plus Second Wave' is seen as a particularly unlikely event as, in the event of a 'second wave', we expect that lockdown measures will be more focussed (i.e. confined to a locality, or to specific sectors) than for the first lockdown, thus mitigating a significant element of the economic risks. It is assigned a 5% weighting.

The weightings that have been applied as at the reporting date are below. The weights applied at December 2019 is outlined on page 95 of the Annual Financial Report 2019.

Scenario	Weighting 30 June 2020
Base	55%
Downside Scenario ('Persistent Virus')	20%
Downside Scenario ('Failed EU/UK trade talks')	10%
Downside Scenario ('Persistent Virus plus Second Wave')	5%
Upside Scenario ('Virus eliminated')	10%

In assessing the adequacy of the ECL allowance, the Group has considered available forward looking information as of the balance sheet date in order to estimate the future expected credit losses. The Group, through its risk management processes (including the use of expert credit judgement and other techniques) assesses its ECL allowance for events that cannot be captured by the statistical models it uses and for other risks and uncertainties. The assessment of ECL at the balance sheet date does not reflect the worst case outcome, but rather a probability weighted outcome of the five scenarios. Should the credit environment deteriorate beyond the Group's expectation, the Group's estimate of ECL would increase accordingly.

Risk management

Credit risk – Overview

Sensitivities*

The Group's estimates of expected credit losses are responsive to varying economic conditions and forward looking information. These estimates are driven by the relationship between historic experienced loss and the combination of macroeconomic variables. Given the co-relationship of each of the macroeconomic variables to one another and the fact that loss estimates do not follow a linear path, a sensitivity to any single economic variable is not meaningful. As such, the following sensitivities are provided which indicate the approximate impact on the current ECL allowance before the application of probability weights to the forward looking macroeconomic scenarios. The sensitivities provide an estimate of ECL movements driven by both changes in model parameters and quantitative 'significant increase in credit risk' ("SICR") staging assignments.

Relative to the base scenario, for the 100% downside scenarios 'Persistent Virus', 'Failed EU/UK Trade Talks' and 'Persistent Virus plus Second Wave' scenario, the ECL allowance increases by 28%, 21% and 55% respectively. In the 100% upside scenario, the ECL allowance declines by 13%, showing that the ECL impact in the three downside scenarios is greater than that of the upside scenario. For 30 June 2020, a 100% downside 'Persistent Virus', 'Failed EU/UK Trade Talks' and 'Persistent Virus plus Second Wave' scenario sees a higher ECL allowance sensitivity of € 638 million, € 466 million and € 1,249 million respectively compared to base (€ 467 million, € 295 million and € 1,078 million respectively compared to reported). Reasonably similar relative impacts are observed for the AIB UK portfolio.

	ECL allowance at 30 June 2020					
	Reported	Base	Downside Scenario ('Persistent Virus')	Downside Scenario ('Failed EU/UK trade talks')	Downside Scenario ('Persistent Virus plus Second Wave')	Upside Scenario ('Virus eliminated')
Loans and advances to customers	Total € m	Total € m	Total € m	Total € m	Total € m	Total € m
Residential mortgages	836	785	926	962	1,146	726
Other personal	237	228	259	252	292	215
Property and construction	490	455	677	557	824	356
Non-property business	790	726	935	866	1,117	623
Total	2,353	2,194	2,797	2,637	3,379	1,920
Loan commitments	55	47	73	65	97	38
Financial guarantee contracts	33	29	38	34	43	26
	2,441	2,270	2,908	2,736	3,519	1,984
Of which: AIB UK segment	302	286	358	372	447	239

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

Credit risk – Overview

Management judgements*

The Group reflects reasonable and supportable information that is available at the reporting date, in the risk measurement of ECLs.

Management adjustments may be required to increase or decrease ECLs to reflect available reasonable and supportable information to include risk factors that have not been included in the risk measurement process or where there is insufficient time to appropriately incorporate relevant new information. Such adjustments should be temporary in nature. If an ongoing adjustment is required, the risk measurement methodology should be updated to eliminate the adjustment. Adjustments are directionally consistent with forward looking forecast, supported by appropriate documentation and subject to appropriate governance processes. Experienced credit judgement is used to incorporate the expected impact of all reasonable and supportable forward looking information, including macroeconomic factors, on ECLs.

As a result, the calculation of the ECL allowance on loans and advances to customers at 30 June 2020 includes the following management adjustments as outlined below:

1. ROI PDH mortgage post model adjustments

Mortgage (PDH) post model adjustment

The Group's strategy is to deliver sustainable long term solutions and to work with customers through their financial difficulties. This has primarily been through work-out arrangements with customers, including arrears capitalisations, split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solution or through loan recovery following realisation of collateral. The mortgage LGD model is based on empirical internal data for such resolved cases, and represents the Group's expected loss based on those expected work-out strategies. However, it is recognised that alternative recovery strategies, such as portfolio sales, also need to be considered which were not envisaged at the time of model development. Accordingly, a post model adjustment has been applied to a cohort of Stage 3 loans to reflect the potential resolution outcomes not currently considered within the modelled outcome.

The post model adjustment is calculated on a range of alternative recovery assumptions (including portfolio sales). An independent external benchmark exercise has been undertaken to provide information to support the range of alternative recovery outcomes with reference to collateral values underpinning the loans and the underlying market conditions. The cohort of loans to which the post model adjustment applies continues to be primarily those PDH loans in Stage 3 and in deep arrears (greater than 180 days past due) and certain loans within the 90 to 180 days past due category.

The ECL allowance of € 800 million for residential mortgages in Ireland at 30 June 2020 includes € 250 million as a result of this management adjustment. At 31 December 2019, the ECL allowance of € 552 million included a management adjustment of € 208 million. The main driver of the movement in the post model adjustment in the six months to 30 June 2020 is the impact of COVID-19 on the market outlook and the revised economic scenarios used for modelling. This has resulted in an additional income statement charge of € 67 million.

Forbearance product post model adjustment

An element of forborne loans in Stage 3 were identified in 2019 which required an alternative treatment at loan expiry in line with the Group's current mortgage resolution strategy. This alternative treatment is not currently captured within the modelled ECL outcome for this product. Management have considered that a proportion of this cohort (€ 152 million, 31 December 2019: € 160 million) may require an alternative treatment. The range of quantitative outcomes in determining the estimated loss amounts at loan expiry has resulted in a post model adjustment of € 18 million as at 30 June 2020 (31 December 2019: € 20 million).

Lifetime interest only post model adjustment

A cohort of non-defaulted lifetime interest only mortgages were identified in 2019 for individual assessment to confirm likeliness to pay (31 December 2019: € 103 million). In the six months to 30 June 2020, this cohort of loans has reduced to € 101 million, of which € 44 million has migrated to Stage 2 and € 5 million to Stage 3. The remaining loans within this cohort (€ 52 million) have been allocated to Stage 2, pending individual assessment, reflecting management's qualitative judgement of a significant increase in credit risk given the additional end of term risk not fully incorporated into modelled outcomes. This has resulted in a post model adjustment of € 11 million as at 30 June 2020 (31 December 2019: € 9 million).

Further information on the above overlays is not provided as the Group believes that such information could compromise the resolution outcomes given the underlying nature of the portfolios.

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

Risk management

Credit risk – Overview

Management judgements* *(continued)*

2. COVID-19 modifications post model adjustment

The performing mortgage and personal loans which have been granted COVID-19 short term modifications (e.g. payment breaks) have been identified as requiring a temporary ECL post model adjustment due to the heightened risk of downward stage migration on the expiry of payment breaks. The short term payment breaks for temporary liquidity support as a result of COVID-19, have been deemed to not automatically trigger significant increase in credit risk or loan default. This treatment is in line with regulatory and accounting guidance.

The post model adjustment increases the ECL allowance on existing € 2,841 million Stage 1 and Stage 2 residential mortgage and € 178 million Stage 1 other personal loans which have received a COVID-19 modification. It reflects the risk that on expiry of the temporary payment breaks, some of these loans will require further support, e.g. forbearance, as these borrowers would otherwise be unable to return to their prior contractual loan repayments. Therefore, the ECL post model adjustment allows for early recognition of anticipated downward stage migration on expiry of the temporary COVID-19 modifications.

The post model adjustment amounts to € 42 million ECL at 30 June 2020 and is based on stage migration assumptions which take into account (i) the risk associated with the borrowers employment sector and the extent to which it has been impacted by COVID-19, (ii) high level analysis of impact on the borrowers income and (iii) expert management judgement. The post model adjustment is temporary in nature and will be unwound upon expiry of the temporary COVID-19 modifications when greater clarity will exist whether significant increases in credit risk or unlikeliness to pay have occurred.

3. Property and construction portfolio post model adjustment

A review of the ECL model for the property and construction portfolio in Ireland determined that the historically observed relationships between default rates and macroeconomic factors in the model are not fully reflective of expectations for a portion of the portfolio. While the modelled outcome suggested that certain cases had moved to Stage 2, expert credit judgement determined that a significant increase in credit risk had not occurred and that these cases, amounting to € 839 million, be retained in Stage 1. This resulted in € 34 million of modelled ECL being reversed.

4. Syndicated lending portfolio post model adjustment

A detailed review of the ECL model for the syndicated lending portfolio in the CIB business segment was carried out in late 2019 and it was determined that historically observed relationships between default rates and macroeconomic factors in the model needed to be revised. As a result, a post model adjustment for this portfolio of € 37 million (increase on Stage 1: € 11 million and Stage 2: € 26 million) has been applied at 30 June 2020 to increase the ECL allowance to € 118 million. At 31 December 2019, a post model adjustment of € 16 million was applied to increase the ECL allowance to € 20 million (Stage 1: € 15 million and Stage 2: € 5 million). The post model adjustment increased modelled probabilities of default based on more recent observed experience.

5. UK management post model adjustment

For the UK segment, £ 47 million of post model adjustments have been applied, increasing Stage 1 by £ 28 million, Stage 2 by £ 7 million and Stage 3 by £ 12 million.

At 31 December 2019, a management overlay of £ 15 million was applied to the UK ECL allowance to take account of the political and economic uncertainties that existed and that were not adequately captured in the output from the macroeconomic scenarios and weightings. The £ 47 million post model adjustment also addresses these issues, therefore, the net impact is £ 32 million.

Stage 1 and Stage 2 adjustments followed in-depth reviews performed with UK sector experts to understand in more detail the anticipated account behaviour during the COVID-19 pandemic, and subsequent periods, to project future cover rates.

For Stage 3, an adjustment is required to reflect the forward looking macroeconomic environment and incorporate the anticipated economic downturn as a result of COVID-19.

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

Credit risk – Overview

ECL governance*

The Board has put in place a framework, incorporating the governance and delegation structures commensurate with a material risk, to ensure credit risk is appropriately managed throughout the Group.

The key governance points in the ECL approval process during 2020 were:
- Model Risk Committee;
- Asset and Liability Committee;
- Business level ECL Committees;
- Group Credit Committee; and
- Board Audit Committee.

For ECL governance, the Group management employs its expert judgement on the adequacy of ECL. The judgements are supported by detailed information on the portfolios of credit risk exposures, and by the outputs of the measurement and classification approaches described above, coupled with internal and external data provided on both short term and long term economic outlook. Business segments and Group management are required to ensure that there are appropriate levels of cover for all of its credit portfolios and must take account of both accounting and regulatory compliance when assessing the expected levels of loss.

Assessment of the credit quality of each business segment is initially informed by the output of the quantitative analytical models but may be subject to management adjustments. This ECL output is then scrutinised and approved at individual business unit level (ECL Committee) prior to onward submission to the Group Credit Committee (GCC). GCC reviews and challenges ECL levels for onward recommendation to the Board Audit Committee.

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

Risk management

Credit risk – Overview

Credit risk exposure derives from standard on-balance sheet products such as mortgages, loans, overdrafts and credit cards. In addition, credit risk arises from other products and activities including, but not limited to: “off-balance sheet” guarantees and commitments; the trading portfolio (e.g. bonds and derivatives); investment securities; asset backed securities; and the failure/partial failure of a trade in a settlement or payments system.

The following table summarises financial instruments in the statement of financial position:*

	30 June 2020 Statement of financial position			Half-year 30 June 2020 Income statement	31 December 2019 Statement of financial position			Half-year 30 June 2019 Income statement
	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)/ writeback	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)/ writeback
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cash and balances at central banks	**14,666**	**–**	**14,666**	**–**	11,982	–	11,982	–
Items in course of collection	**50**	**–**	**50**	**–**	57	–	57	–
Loans and advances to banks	**1,970**	**–**	**1,970**	**–**	1,478	–	1,478	–
Loans and advances to customers:								
at amortised cost	**60,493**	**2,353**	**58,140**	**(1,168)**	62,049	1,238	60,811	(19)
at FVTPL	**76**	**n/a**	**76**	**n/a**	77	n/a	77	n/a
	60,569	**2,353**	**58,216**	**(1,168)**	62,126	1,238	60,888	(19)
Investment debt securities[1]	**19,265**	**1**	**19,264**	**(1)**	16,516	–	16,516	–
Loan commitments	**11,741**	**(55)**	**(55)**	**(37)**	11,539	(19)	(19)	–
Financial guarantee contracts	**696**	**(33)**	**(33)**	**(10)**	711	(23)	(23)	10
Total				**(1,216)**				(9)

[1] ECL allowance amounting to € 4 million (31 December 2019: € 4 million) included in carrying amount of investment securities at FVOCI. There is also an ECL allowance of € 1 million on investment debt securities at amortised cost.

There was a € 1,216 million net credit impairment charge in the six months to 30 June 2020. This comprised of a € 1,168 million charge on loans and advances to customers (net re-measurement of ECL allowance charge of € 1,202 million, offset by recoveries of amounts previously written off of € 34 million) and a € 47 million charge for off-balance sheet exposures. There was also a € 1 million charge on investment debt securities measured at amortised cost.

For further details on the net credit impairment charge in the six months to 30 June 2020, see note 12 ‘Net credit impairment charge’ in the condensed consolidated interim financial statements.

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

Credit risk – Credit profile of the loan portfolio

The 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 analyses loans and advances to customers at amortised cost by segment, internal credit ratings and ECL staging:

Amortised cost

	30 June 2020*					31 December 2019*				
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Residential mortgages	29,280	629	1,118	–	31,027	29,565	632	1,257	–	31,454
Other personal	2,528	63	108	8	2,707	2,747	100	128	9	2,984
Property and construction	784	4,314	2,038	–	7,136	868	4,179	2,252	–	7,299
Non-property business	3,266	10,948	5,300	109	19,623	3,389	11,253	5,558	112	20,312
Total	35,858	15,954	8,564	117	60,493	36,569	16,164	9,195	121	62,049
Analysed by internal credit ratings[(1)]										
Strong	24,520	8,238	4,706	24	37,488	24,693	11,561	6,186	14	42,454
Satisfactory	5,719	6,435	3,119	93	15,366	6,034	4,220	2,437	107	12,798
Total strong/satisfactory	30,239	14,673	7,825	117	52,854	30,727	15,781	8,623	121	55,252
Criticised watch	1,779	820	330	–	2,929	1,856	173	246	–	2,275
Criticised recovery	754	101	32	–	887	938	193	44	–	1,175
Total criticised	2,533	921	362	–	3,816	2,794	366	290	–	3,450
Non-performing	3,086	360	377	–	3,823	3,048	17	282	–	3,347
Gross carrying amount	35,858	15,954	8,564	117	60,493	36,569	16,164	9,195	121	62,049
Analysed by ECL staging										
Stage 1	28,882	10,272	6,989	117	46,260	30,698	15,680	8,224	121	54,723
Stage 2	3,905	5,404	1,198	–	10,507	2,836	467	689	–	3,992
Stage 3	2,880	278	377	–	3,535	2,841	17	282	–	3,140
POCI	191	–	–	–	191	194	–	–	–	194
Total	35,858	15,954	8,564	117	60,493	36,569	16,164	9,195	121	62,049
ECL allowance – statement of financial position										
Stage 1	178	129	112	–	419	65	45	31	–	141
Stage 2	283	388	73	–	744	151	23	28	–	202
Stage 3	974	72	104	–	1,150	796	1	67	–	864
POCI	40	–	–	–	40	31	–	–	–	31
Total	1,475	589	289	–	2,353	1,043	69	126	–	1,238
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.6	1.3	1.6	–	0.9	0.2	0.3	0.4	–	0.3
Stage 2	7.2	7.2	6.1	–	7.1	5.3	5.0	4.1	–	5.1
Stage 3	33.8	25.7	27.7	–	32.5	28.0	10.1	23.6	–	27.5
POCI	20.8	–	–	–	20.9	16.1	–	–	–	16.1

	Half-year to 30 June 2020*					Half-year to 30 June 2019*				
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	513	507	182	–	1,202	32	12	22	–	66
Recoveries of amounts previously written-off	(31)	–	(3)	–	(34)	(45)	–	(2)	–	(47)
Net credit impairment charge/(writeback)	482	507	179	–	1,168	(13)	12	20	–	19
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans – annualised	2.67	6.30	4.00	–	3.81	(0.08)	0.22	0.23	–	0.06

[(1)]Further analysis of internal credit grade profile by ECL staging is set out on pages 50 and 51. Further details on the internal credit ratings are outlined on pages 82 and 83 of the Annual Financial Report 2019.

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

Risk management

Credit risk – Credit profile of the loan portfolio

The following table analyses loans and advances to customers at FVTPL by segment and internal credit ratings:

FVTPL

	30 June 2020					31 December 2019				
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	76	–	–	76	–	77	–	–	77
Total	–	76	–	–	76	–	77	–	–	77
Analysed by internal credit ratings										
Strong	–	76	–	–	76	–	77	–	–	77
Satisfactory	–	–	–	–	–	–	–	–	–	–
Total strong/satisfactory	–	76	–	–	76	–	77	–	–	77
Criticised watch	–	–	–	–	–	–	–	–	–	–
Criticised recovery	–	–	–	–	–	–	–	–	–	–
Total criticised	–	–	–	–	–	–	–	–	–	–
Non-performing	–	–	–	–	–	–	–	–	–	–
Total	–	76	–	–	76	–	77	–	–	77

Gross loans and advances to customers

Gross loans and advances to customers reduced by € 1.6 billion in the six months to 30 June 2020. Of the total portfolio of € 60.6 billion, € 60.5 billion is measured at amortised cost with the remaining € 0.1 billion being measured at fair value through profit or loss. The reduction in the period was primarily driven by redemptions/repayments net of interest credited and foreign exchange transactions exceeding new lending activity. The level of new lending activity in the six months to 30 June 2020 of € 4.4 billion has been impacted by the COVID-19 pandemic. As a result, new lending activity is € 1.6 billion lower than the comparable period in 2019 (30 June 2019: € 6.0 billion), as reduced demand has been experienced across all asset classes. However, despite the reduced demand, € 4.3 billion of new lending activity is in the strong/satisfactory credit quality category. Overall, from a segment perspective, the reduction was primarily due to Retail Banking which decreased by € 0.7 billion and AIB UK which decreased by € 0.6 billion.

Of the total loans to customers of € 60.6 billion, € 52.9 billion or 87% are rated as either ‘strong’ or ‘satisfactory’ which is a decrease of € 2.4 billion (31 December 2019: € 55.3 billion or 89%), and was evidenced across all segments. The ‘criticised’ classification includes ‘criticised watch’ of € 2.9 billion and ‘criticised recovery’ of € 0.9 billion, the total of which has increased by € 0.4 billion in the six months to 30 June 2020. The total performing book has decreased by € 2.0 billion to € 56.8 billion or 94% of gross loans and advances to customers (31 December 2019: € 58.8 billion and 95%).

The COVID-19 pandemic has also had a significant negative impact on the credit quality of the total portfolio. Stage 2 loans have increased by € 6.5 billion to € 10.5 billion. The increase was driven by net transfers to Stage 2 of € 8.1 billion, predominately from Stage 1, which was slightly offset by redemptions/repayments net of interest credited of € 0.5 billion. The transfers to Stage 2 reflect the downward revision of the macroeconomic forecasts and the contraction of the economy as a result of the COVID-19 pandemic and cases migrating to Stage 2 following case assessments.

Stage 3 loans have increased by € 0.4 billion to € 3.5 billion. The increase was primarily as a result of net transfers to Stage 3 of € 0.5 billion which was slightly offset by redemptions/repayments net of interest credited of € 0.2 billion. The transfers to Stage 3 were impacted by cases migrating from Stage 2 to Stage 3, particularly those identified as directly impacted by COVID-19 in the non-property portfolio.

Non-performing loans are aligned to the Group’s definition of default and Stage 3 credit impaired with the exception of those originating in Stage 1 (€ 0.1 billion) and POCI (€ 0.2 billion). Non-performing loans have increased by € 0.5 billion to € 3.8 billion or 6.3% of gross loans and advances to customers (31 December 2019: € 3.3 billion and 5.4%). The increase reflects an additional € 0.3 billion following amendments made to the definition of default in the period (of which € 0.1 billion originating in Stage 1 and € 0.2 billion impacting Stage 3) and € 0.2 billion of net underlying flow to non-performing loans.

Credit risk – Credit profile of the loan portfolio

ECL allowance

The ECL allowance on loans and advances to customers has increased by € 1.1 billion to € 2.4 billion in the six months to 30 June 2020. Stage 1 and Stage 2 were the key drivers, as the ECL allowance increased by € 0.3 billion to € 0.4 billion and € 0.5 billion to € 0.7 billion respectively. These increases were primarily as a result of the downward revision of the macroeconomic forecasts which impacted Stage 1 by € 0.2 billion and Stage 2 by € 0.4 billion. Stage 3 ECL allowance increased by € 0.3 billion to € 1.2 billion and was also impacted by the macroeconomic changes and the increase in the mortgage PDH post model adjustment. The total ECL cover rate has increased from 2.0% at 31 December 2019 to 3.9% at 30 June 2020.

Income Statement

There was a € 1,216 million net credit impairment charge in the six months to 30 June 2020 (30 June 2019: € 9 million net credit impairment charge).

This comprised of a € 1,168 million charge on loans and advances to customers and a € 47 million charge for off-balance sheet exposures (30 June 2019: credit impairment charge of € 19 million and a writeback of € 10 million respectively). There was also a € 1 million charge on investment debt securities measured at amortised cost.

The € 1,168 million charge comprised a € 1,202 million ECL re-measurement allowance offset by € 34 million of recoveries of amounts previously written-off (30 June 2019: € 19 million charge comprising € 66 million charge offset by € 47 million of recoveries).

There were a number of key drivers which contributed to the € 1,202 million charge, the most significant were; the change in macroeconomic factors and probability weightings across economic scenarios used in ECL reporting, stage migration from credit downgrades in highly impacted sectors as a result of COVID-19, and post model adjustments to appropriately reflect expected COVID-19 impacts as outlined under the management judgements section. The ECL allowance movements are outlined on page 72.

The onset of the COVID-19 pandemic and associated lockdown measures and restrictions on economic activity has resulted in a material change in the macroeconomic scenarios used for the purpose of ECL calculation. There are now five scenarios compared to four at 31 December 2019. Details on the changes to the macroeconomic scenarios and weightings are outlined on pages 38 to 41. The revision of the macroeconomic factors and probability weightings throughout the six months to 30 June 2020 has led to significant changes in the probability of default across the Group's loan portfolio. This has resulted in a € 705 million charge. The impact was mainly observed in Stage 2 (€ 391 million) and Stage 1 (€ 216 million) with a € 90 million impact in Stage 3. The property (€ 267 million), non-property (€ 233 million) and mortgage (€ 166 million) asset classes were predominately impacted.

Stage migration from individual case assessment of exposures in high impacted COVID-19 sectors also impacted the ECL charge. Throughout the second quarter of 2020, case reviews were conducted across the CIB portfolio which led to a number of credit downgrades contributing to a further charge of € 209 million. € 154 million was as a result of exposures migrating from Stage 1 to Stage 2 and € 55 million to Stage 3. Borrowers in the non-property asset class were particularly impacted, accounting for € 134 million of the total € 209 million charge. There was also a further € 162 million charge due to net ECL re-measurements within each stage.

As outlined under the management judgements section, the impact of the changes to the PDH mortgage post model adjustment resulted in an additional € 67 million charge in Retail Banking. Similarly within Retail Banking, a post model adjustment in relation to COVID-19 modified loans within the mortgages and other personal portfolio which were adjusted to cater for the higher likelihood of default for those seeking modifications resulted in an impact of € 38 million and € 4 million respectively. The UK post model adjustment also resulted in an additional £ 32 million charge reflecting managements view of likely sector specific default rates as a result of COVID-19.

Recoveries of amounts previously written-off of € 34 million (30 June 2019: € 47 million) included € 25 million recoveries (30 June 2019: € 29 million) which reflects cash recoveries against legacy non-performing exposures in line with the Group's resolution strategies. The remaining € 9 million (30 June 2019: € 18 million) relates to interest received as a result of loans curing from Stage 3.

Risk management

Credit risk – Credit profile of the loan portfolio

Internal credit grade profile by ECL staging

The table below analyses the internal credit grading profile by ECL staging for loans and advances to customers:

Amortised cost

	30 June 2020*					31 December 2019*				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Total										
Strong	35,531	1,955	–	2	37,488	42,123	329	–	2	42,454
Satisfactory	9,785	5,581	–	–	15,366	11,346	1,452	–	–	12,798
Total strong/satisfactory	45,316	7,536	–	2	52,854	53,469	1,781	–	2	55,252
Criticised watch	813	2,115	–	1	2,929	1,111	1,163	–	1	2,275
Criticised recovery	23	856	–	8	887	119	1,048	–	8	1,175
Total criticised	836	2,971	–	9	3,816	1,230	2,211	–	9	3,450
Non-performing	108	–	3,535	180	3,823	24	–	3,140	183	3,347
Gross carrying amount	46,260	10,507	3,535	191	60,493	54,723	3,992	3,140	194	62,049
ECL allowance	(419)	(744)	(1,150)	(40)	(2,353)	(141)	(202)	(864)	(31)	(1,238)
Carrying amount	45,841	9,763	2,385	151	58,140	54,582	3,790	2,276	163	60,811
Analysis by asset class										
Residential mortgages										
Strong	23,290	537	–	2	23,829	23,766	162	–	2	23,930
Satisfactory	2,628	699	–	–	3,327	2,795	610	–	–	3,405
Total strong/satisfactory	25,918	1,236	–	2	27,156	26,561	772	–	2	27,335
Criticised watch	314	769	–	1	1,084	405	668	–	1	1,074
Criticised recovery	6	526	–	8	540	4	704	–	8	716
Total criticised	320	1,295	–	9	1,624	409	1,372	–	9	1,790
Non-performing	3	–	2,064	180	2,247	3	–	2,143	183	2,329
Gross carrying amount	26,241	2,531	2,064	191	31,027	26,973	2,144	2,143	194	31,454
ECL allowance	(101)	(117)	(578)	(40)	(836)	(10)	(52)	(476)	(31)	(569)
Carrying amount	26,140	2,414	1,486	151	30,191	26,963	2,092	1,667	163	30,885
Other personal										
Strong	1,145	85	–	–	1,230	1,312	29	–	–	1,341
Satisfactory	843	184	–	–	1,027	1,074	106	–	–	1,180
Total strong/satisfactory	1,988	269	–	–	2,257	2,386	135	–	–	2,521
Criticised watch	71	98	–	–	169	117	103	–	–	220
Criticised recovery	1	52	–	–	53	–	50	–	–	50
Total criticised	72	150	–	–	222	117	153	–	–	270
Non-performing	1	–	227	–	228	1	–	192	–	193
Gross carrying amount	2,061	419	227	–	2,707	2,504	288	192	–	2,984
ECL allowance	(42)	(57)	(138)	–	(237)	(21)	(40)	(114)	–	(175)
Carrying amount	2,019	362	89	–	2,470	2,483	248	78	–	2,809
Property and construction										
Strong	2,805	1,014	–	–	3,819	4,983	78	–	–	5,061
Satisfactory	1,328	1,052	–	–	2,380	1,313	166	–	–	1,479
Total strong/satisfactory	4,133	2,066	–	–	6,199	6,296	244	–	–	6,540
Criticised watch	118	181	–	–	299	114	115	–	–	229
Criticised recovery	3	101	–	–	104	86	68	–	–	154
Total criticised	121	282	–	–	403	200	183	–	–	383
Non-performing	93	–	441	–	534	9	–	367	–	376
Gross carrying amount	4,347	2,348	441	–	7,136	6,505	427	367	–	7,299
ECL allowance	(121)	(190)	(179)	–	(490)	(31)	(26)	(132)	–	(189)
Carrying amount	4,226	2,158	262	–	6,646	6,474	401	235	–	7,110

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

Credit risk – Credit profile of the loan portfolio

Internal credit grade profile by ECL staging *(continued)*

	30 June 2020*					31 December 2019*				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Non-property business										
Strong	8,291	319	–	–	8,610	12,062	60	–	–	12,122
Satisfactory	4,986	3,646	–	–	8,632	6,164	570	–	–	6,734
Total strong/satisfactory	13,277	3,965	–	–	17,242	18,226	630	–	–	18,856
Criticised watch	310	1,067	–	–	1,377	475	277	–	–	752
Criticised recovery	13	177	–	–	190	29	226	–	–	255
Total criticised	323	1,244	–	–	1,567	504	503	–	–	1,007
Non-performing	11	–	803	–	814	11	–	438	–	449
Gross carrying amount	13,611	5,209	803	–	19,623	18,741	1,133	438	–	20,312
ECL allowance	(155)	(380)	(255)	–	(790)	(79)	(84)	(142)	–	(305)
Carrying amount	13,456	4,829	548	–	18,833	18,662	1,049	296	–	20,007

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

Risk management

Credit risk – Credit profile of the loan portfolio

Non-performing exposures (“NPE”) to customers

The table below analyses non-performing loans and advances to customers by asset class:

					30 June 2020
Non-performing loans	**Residential mortgages €m**	**Other personal €m**	**Property and construction €m**	**Non-property business €m**	**Total €m**
At amortised cost					
Collateral disposals	120	8	59	18	205
Unlikely to pay (including > 90 days past due)	1,917	198	352	686	3,153
Non-performing loans probation	210	22	123	110	465
Total gross carrying amount at amortised cost	2,247	228	534	814	3,823
Total carrying amount at FVTPL	–	–	–	–	–
Total non-performing loans and advances to customers	2,247	228	534	814	3,823
Total ECL allowance on non-performing loans and advances to customers	618	138	206	257	1,219
Non-performing loans as % of total loans and advances to customers	7.2%	8.4%	7.4%	4.2%	6.3%

					31 December 2019
Non-performing loans	Residential mortgages €m	Other personal €m	Property and construction €m	Non-property business €m	Total €m
At amortised cost					
Collateral disposals	128	10	67	21	226
Unlikely to pay (including > 90 days past due)	1,931	168	248	345	2,692
Non-performing loans probation	270	15	61	83	429
Total gross carrying amount at amortised cost	2,329	193	376	449	3,347
Total carrying amount at FVTPL	–	–	–	–	–
Total non-performing loans and advances to customers	2,329	193	376	449	3,347
Total ECL allowance on non-performing loans and advances to customers	507	115	132	144	898
Non-performing loans as % of total loans and advances to customers	7.4%	6.4%	5.1%	2.2%	5.4%

Non-performing loans have increased by € 0.5 billion to € 3.8 billion in the six months to 30 June 2020. The increase reflects an additional € 0.3 billion following amendments made to the Group’s definition of default exit criteria, and alignment of arrears days past due (DPD) count methodology to the European Banking Authority (EBA) convention, and € 0.2 billion of net underlying flow to non-performing loans.

Credit risk – Credit profile of the loan portfolio

Summary of movements on ECL allowance

The following table summarises the movements on the ECL allowance on loans and advances to customers:

					30 June 2020*
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January 2020	**569**	**175**	**189**	**305**	**1,238**
Net re-measurement of ECL allowance – customers	**294**	**84**	**314**	**510**	**1,202**
Changes in ECL allowance due to write-offs	**(25)**	**(21)**	**(14)**	**(12)**	**(72)**
Changes in ECL allowance due to disposals	**–**	**–**	**–**	**(2)**	**(2)**
Exchange translation adjustments/other	**(2)**	**(1)**	**1**	**(11)**	**(13)**
At 30 June 2019	**836**	**237**	**490**	**790**	**2,353**

					31 December 2019*
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January 2019	713	253	480	593	2,039
Net re-measurement of ECL allowance – customers	129	32	(27)	(17)	117
Changes in ECL allowance due to write-offs	(188)	(39)	(100)	(35)	(362)
Changes in ECL allowance due to disposals	(86)	(68)	(180)	(231)	(565)
Exchange translation adjustments/other	1	(3)	16	(5)	9
At 31 December 2019	569	175	189	305	1,238

For detailed analysis of ECL allowance movements, see pages 72 to 75.

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

Risk management

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Residential mortgages

Residential mortgages amounted to € 31.0 billion at 30 June 2020, with the majority (96%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 31.5 billion at 31 December 2019, of which 96% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 28.7 billion and buy-to-let € 2.3 billion (31 December 2019: owner-occupier € 29.0 billion and buy-to-let € 2.5 billion).

At 30 June 2020, a € 0.8 billion ECL allowance was held against the Group's residential mortgages portfolio, or 2.7% total cover rate.

During the six months to 30 June 2020, there was a net credit impairment charge of € 279 million to the income statement. This was primarily as a result of the revised macroeconomic assumptions due to COVID-19 (€ 166 million) and a further € 123 million charge on post model adjustments as outlined under the management judgements section on pages 43 and 44. In addition, the Group recovered € 15 million on loans previously written-off.

Residential mortgages – page 55

– Residential mortgage portfolio at amortised cost by segment, internal credit ratings and ECL staging

Republic of Ireland residential mortgages – pages 56 to 59

– By ECL staging

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 – Asset class analysis

Loans and advances to customers – Residential mortgages

The following table analyses the residential mortgage portfolio at amortised cost by segment, internal credit ratings and ECL staging:

					30 June 2020*					31 December 2019*
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Owner occupier	27,224	462	1,031	–	28,717	27,368	457	1,157	–	28,982
Buy-to-let	2,056	167	87	–	2,310	2,197	175	100	–	2,472
Total	29,280	629	1,118	–	31,027	29,565	632	1,257	–	31,454
Analysed by internal credit ratings										
Strong	22,659	549	621	–	23,829	22,684	574	672	–	23,930
Satisfactory	2,921	57	349	–	3,327	2,975	38	392	–	3,405
Total strong/satisfactory	25,580	606	970	–	27,156	25,659	612	1,064	–	27,335
Criticised watch	1,026	12	46	–	1,084	986	9	79	–	1,074
Criticised recovery	524	8	8	–	540	703	8	5	–	716
Total criticised	1,550	20	54	–	1,624	1,689	17	84	–	1,790
Non-performing	2,150	3	94	–	2,247	2,217	3	109	–	2,329
Gross carrying amount	29,280	629	1,118	–	31,027	29,565	632	1,257	–	31,454
Analysed by ECL staging										
Stage 1	24,707	563	971	–	26,241	25,296	592	1,085	–	26,973
Stage 2	2,415	63	53	–	2,531	2,044	37	63	–	2,144
Stage 3	1,967	3	94	–	2,064	2,031	3	109	–	2,143
POCI	191	–	–	–	191	194	–	–	–	194
Total	29,280	629	1,118	–	31,027	29,565	632	1,257	–	31,454
ECL allowance – statement of financial position										
Stage 1	82	1	18	–	101	9	–	1	–	10
Stage 2	112	3	2	–	117	50	1	1	–	52
Stage 3	562	–	16	–	578	461	–	15	–	476
POCI	40	–	–	–	40	31	–	–	–	31
Total	796	4	36	–	836	551	1	17	–	569
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.3	0.2	1.8	–	0.4	–	–	0.1	–	–
Stage 2	4.6	4.6	5	–	4.6	2.4	3.6	2.4	–	2.4
Stage 3	28.6	–	16.8	–	28.0	22.7	2.5	13.5	–	22.2
POCI	20.8	–	–	–	20.8	16.1	–	–	–	16.1

					Half-year to 30 June 2020*					Half-year to 30 June 2019*
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	269	3	22	–	294	38	(1)	1	–	38
Recoveries of amounts previously written-off	(14)	–	(1)	–	(15)	(15)	–	–	–	(15)
Net credit impairment charge/(writeback)	255	3	21	–	279	23	(1)	1	–	23
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans – annualised	1.73	0.95	3.5	–	1.79	0.21	(0.46)	0.02	–	0.14

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

Risk management

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio at amortised cost by ECL staging:

			30 June 2020*			31 December 2019*
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Gross carrying amount	**27,686**	**2,223**	**29,909**	27,825	2,372	30,197
Analysed as to ECL staging						
Stage 1	**23,705**	**1,565**	**25,270**	24,132	1,756	25,888
Stage 2	**2,097**	**381**	**2,478**	1,748	333	2,081
Stage 3	**1,698**	**272**	**1,970**	1,757	277	2,034
POCI	**186**	**5**	**191**	188	6	194
Total	**27,686**	**2,223**	**29,909**	27,825	2,372	30,197
ECL allowance – statement of financial position						
Stage 1	**75**	**8**	**83**	8	1	9
Stage 2	**85**	**30**	**115**	34	17	51
Stage 3	**494**	**68**	**562**	397	64	461
POCI	**37**	**3**	**40**	28	3	31
Total	**691**	**109**	**800**	467	85	552
Republic of Ireland residential mortgages at amortised cost	**26,995**	**2,114**	**29,109**	27,358	2,287	29,645
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**0.3**	**0.5**	**0.3**	–	0.1	–
Stage 2	**4.1**	**7.7**	**4.6**	2.0	5.0	2.5
Stage 3	**29.1**	**25.3**	**28.6**	22.6	23.1	22.7
POCI	**19.8**	**54**	**20.8**	14.9	55.0	16.1

			Half-year to 30 June 2020*			Half-year to 30 June 2019*
Income statement	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Net re-measurement of ECL allowance	**243**	**29**	**272**	41	(4)	37
Recoveries of amounts previously written-off	**(11)**	**(3)**	**(14)**	(9)	(6)	(15)
Net credit impairment charge/(writeback)	**232**	**26**	**258**	32	(10)	22
	%	**%**	**%**	%	%	%
Net credit impairment charge/(writeback) on average loans – annualised	**1.67**	**2.27**	**1.72**	0.32	(0.91)	0.20

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

Credit risk – Credit profile of the loan portfolio – Asset class analysis

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

Residential mortgages in Ireland amounted to € 29.9 billion at 30 June 2020 compared to € 30.2 billion at 31 December 2019. The decrease in the portfolio was primarily due to loan repayments offset by new lending. Total drawdowns in the six months to 30 June 2020 were € 1.1 billion (30 June 2019: € 1.3 billion), of which 98% were by owner occupiers, whilst the weighted average indexed loan-to-value for new residential mortgages was 68%. New lending in the period decreased by 16% impacted by COVID-19 movement restrictions, the prevailing uncertainty and precautionary consumer behaviour.

The split of the Irish residential mortgage portfolio is 93% owner-occupier and 7% buy-to-let and comprises 26% tracker rate, 48% variable rate and 26% fixed rate mortgages.

Non-performing loans remained stable at € 2.2 billion at 30 June 2020 compared to 31 December 2019. However, a material amount of the mortgage portfolio received COVID-19 support payment moratoria.

Income statement

There was a net credit impairment charge of € 258 million to the income statement in the first half of 2020 compared to a net credit impairment charge of € 22 million in the same period in 2019 mainly driven by the revised macroeconomic assumptions due to COVID-19. € 105 million of the total € 258 million charge specifically related to the Mortgage PDH (€ 67 million) and COVID-19 modifications (€ 38 million) post model adjustments.

The ECL allowance provision cover level at 30 June 2020 for the Irish residential mortgage portfolio is 2.7% (31 December 2019: 2%). For the Stage 3 element of the Irish residential mortgage portfolio, € 0.6 billion of ECLs are held providing Stage 3 cover of 29% (31 December 2019: € 0.5 billion and 23% respectively).

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 27% during the six months to 30 June 2020, a decrease of 31% in the owner-occupier portfolio but an increase of 1% in the buy-to-let portfolio. The total decrease in arrears was impacted by the alignment of the arrears days past due count methodology to the EBA convention.

The number of loans in arrears (based on number of accounts) greater than 90 days was 4.6% at 30 June 2020 and remains below the industry average of 6.5 %[1]. For the owner-occupier portfolio, the number of loans in arrears greater than 90 days at 4.3% were below the industry average of 5.6%[1]. For the buy-to-let portfolio, loans in arrears greater than 90 days at 6.8% were below the industry average of 13.3%[1].

[1]Source: Central Bank of Ireland (“CBI”) Residential Mortgage Arrears and Repossessions Statistics as at 31 March 2020, based on numbers of accounts.

Forbearance

Irish residential mortgages subject to forbearance measures decreased by € 0.2 billion from € 2.5 billion at 31 December 2019 to € 2.3 billion at 30 June 2020. A key feature of the forbearance portfolio is the level of advanced forbearance 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 80 to 83.

Risk management

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Republic of Ireland residential mortgages – aged analysis

The following table provides an age profile of the Republic of Ireland residential mortgage portfolio by ECL staging:

	30 June 2020					31 December 2019				
	At amortised cost					At amortised cost				
Owner-occupier	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Not past due	23,703	2,062	683	155	26,603	24,057	1,490	575	143	26,265
1 - 30 days	2	20	21	2	45	75	195	91	14	375
31 - 60 days	–	4	8	1	13	–	47	66	4	117
61 - 90 days	–	11	11	1	23	–	16	56	4	76
91 - 180 days	–	–	77	4	81	–	–	119	4	123
181 - 365 days	–	–	86	2	88	–	–	114	4	118
Over 365 days	–	–	812	21	833	–	–	736	15	751
Total	23,705	2,097	1,698	186	27,686	24,132	1,748	1,757	188	27,825
Buy-to-let										
Not past due	1,562	342	112	4	2,020	1,751	307	108	5	2,171
1 - 30 days	3	5	5	–	13	5	20	9	–	34
31 - 60 days	–	2	2	–	4	–	5	7	–	12
61 - 90 days	–	32	5	–	37	–	1	3	–	4
91 - 180 days	–	–	8	–	8	–	–	11	–	11
181 - 365 days	–	–	10	–	10	–	–	12	–	12
Over 365 days	–	–	130	1	131	–	–	127	1	128
Total	1,565	381	272	5	2,223	1,756	333	277	6	2,372
Total										
Not past due	25,265	2,404	795	159	28,623	25,808	1,797	683	148	28,436
1 - 30 days	5	25	26	2	58	80	215	100	14	409
31 - 60 days	–	6	10	1	17	–	52	73	4	129
61 - 90 days	–	43	16	1	60	–	17	59	4	80
91 - 180 days	–	–	85	4	89	–	–	130	4	134
181 - 365 days	–	–	96	2	98	–	–	126	4	130
Over 365 days	–	–	942	22	964	–	–	863	16	879
Total gross carrying amount of residential mortgages	25,270	2,478	1,970	191	29,909	25,888	2,081	2,034	194	30,197
ECL allowance	(83)	(115)	(562)	(40)	(800)	(9)	(51)	(461)	(31)	(552)
Carrying amount	25,187	2,363	1,408	151	29,109	25,879	2,030	1,573	163	29,645

Credit risk – Credit profile of the loan portfolio – Asset class analysis

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

The Group seeks to avoid repossession through working with customers. However, in situations where an agreement cannot be reached, the Group proceeds with the repossession of the property or the appointment of a receiver. The Group uses 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 2020		31 December 2019	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	457	106	492	112
Buy-to-let	18	3	23	5
Total	**475**	**109**	515	117

[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 40 properties in the six months to 30 June 2020 (31 December 2019: 78 properties). This decrease relates to the disposal of 61 properties (31 December 2019: 231 properties) which were offset by the addition of 30 properties (31 December 2019: 180 properties), the majority of which were voluntary surrenders or abandonments. In addition, a further 9 properties were removed from the stock in the six months to 30 June 2020 (31 December 2019: 27 properties).

The disposal of 61 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 4 million at 30 June 2020 (before ECL allowance) and compares to 31 December 2019 when 231 residential properties were disposed of resulting in a total loss of € 28 million. Losses on the sale of such properties are recognised in the income statement as part of the net credit impairment losses.

Risk management

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Other personal

The following table analyses other personal lending at amortised cost by segment, internal credit ratings and ECL staging:

	30 June 2020*					31 December 2019*				
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Credit cards	505	4	22	–	531	676	7	31	–	714
Loans/overdrafts	2,023	59	86	8	2,176	2,071	93	97	9	2,270
Total	2,528	63	108	8	2,707	2,747	100	128	9	2,984
Analysed by internal credit ratings										
Strong	1,119	32	79	–	1,230	1,205	42	94	–	1,341
Satisfactory	977	21	21	8	1,027	1,099	50	22	9	1,180
Total strong/satisfactory	2,096	53	100	8	2,257	2,304	92	116	9	2,521
Criticised watch	161	6	2	–	169	210	5	5	–	220
Criticised recovery	50	2	1	–	53	46	3	1	–	50
Total criticised	211	8	3	–	222	256	8	6	–	270
Non-performing	221	2	5	–	228	187	–	6	–	193
Gross carrying amount	2,528	63	108	8	2,707	2,747	100	128	9	2,984
Analysed by ECL staging										
Stage 1	1,943	24	86	8	2,061	2,297	90	108	9	2,504
Stage 2	365	37	17	–	419	264	10	14	–	288
Stage 3	220	2	5	–	227	186	–	6	–	192
POCI	–	–	–	–	–	–	–	–	–	–
Total	2,528	63	108	8	2,707	2,747	100	128	9	2,984
ECL allowance – statement of financial position										
Stage 1	42	–	–	–	42	21	–	–	–	21
Stage 2	55	1	1	–	57	39	1	–	–	40
Stage 3	135	1	2	–	138	111	–	3	–	114
POCI	–	–	–	–	–	–	–	–	–	–
Total	232	2	3	–	237	171	1	3	–	175
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	2.2	–	–	–	2.0	0.9	0.3	0.3	–	0.9
Stage 2	15.1	2.7	5.9	–	13.6	14.7	7.1	3.2	–	13.9
Stage 3	61.4	50.0	40.0	–	60.8	59.9	–	57.0	–	59.8
POCI	–	–	–	–	–	–	–	–	–	–

	Half-year to 30 June 2020*					Half-year to 30 June 2019*				
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	83	1	–	–	84	25	(1)	(1)	–	23
Recoveries of amounts previously written-off	(5)	–	–	–	(5)	(15)	–	–	–	(15)
Net credit impairment charge/(writeback)	78	1	–	–	79	10	(1)	(1)	–	8
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans – annualised	5.95	2.57	–	–	5.59	1.01	(2.96)	(0.23)	–	0.54

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

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Other personal

At 30 June 2020, the other personal lending portfolio of € 2.7 billion comprises of € 2.2 billion in loans and overdrafts and € 0.5 billion in credit card facilities (31 December 2019: total € 3.0 billion and € 2.3 billion and € 0.7 billion respectively). The credit quality of the portfolio has been negatively impacted by COVID-19 during the period, with 17% categorised as less than satisfactory, of which defaulted loans amounted to € 0.2 billion and have increased by 18% in the period (31 December 2019: 16% and € 0.2 billion).

The demand for personal loans, which accounts for the largest portion of the portfolio, reduced significantly in April and May due to COVID-19. June volumes indicate a return to pre-COVID-19 application activity. This has resulted in a decrease in new lending of € 0.1 billion or 18% to € 0.4 billion for the six months to 30 June 2020 versus the level of lending experienced in the six months to 30 June 2019 (€ 0.5 billion).

Stage 3 loans, predominately in Retail Banking increased by € 35 million in the six months to 30 June 2020, primarily due to downward grade migration due to COVID-19. At 30 June 2020, the ECL allowance cover was 9% with Stage 3 cover at 61% (31 December 2019: 6% and 60% respectively).

The net credit impairment charge in the income statement amounted to € 79 million in the six months to 30 June 2020 compared to a an € 8 million charge in the same period in 2019. The charge was mainly driven by the revised macroeconomic assumptions due to COVID-19 which accounted for € 39 million and net transfers between stages which resulted in a further € 26 million charge.

Risk management

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Property and construction

The following table analyses property and construction lending at amortised cost by segment, internal credit ratings and ECL staging:

	30 June 2020*					31 December 2019*				
Gross carrying amount	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Investment:										
Commercial investment	433	2,984	733	–	4,150	488	2,956	750	–	4,194
Residential investment	124	445	674	–	1,243	129	498	747	–	1,374
	557	3,429	1,407	–	5,393	617	3,454	1,497	–	5,568
Land and development:										
Commercial development	90	241	33	–	364	99	213	28	–	340
Residential development	57	564	129	–	750	61	431	160	–	652
	147	805	162	–	1,114	160	644	188	–	992
Contractors	80	80	136	–	296	91	81	124	–	296
Housing associations	–	–	333	–	333	–	–	443	–	443
Total	784	4,314	2,038	–	7,136	868	4,179	2,252	–	7,299
Analysed by internal credit ratings										
Strong	138	2,590	1,091	–	3,819	158	3,510	1,393	–	5,061
Satisfactory	188	1,415	777	–	2,380	212	548	719	–	1,479
Total strong/satisfactory	326	4,005	1,868	–	6,199	370	4,058	2,112	–	6,540
Criticised watch	127	98	74	–	299	150	21	58	–	229
Criticised recovery	38	53	13	–	104	46	94	14	–	154
Total criticised	165	151	87	–	403	196	115	72	–	383
Non-performing	293	158	83	–	534	302	6	68	–	376
Gross carrying amount	784	4,314	2,038	–	7,136	868	4,179	2,252	–	7,299
Analysed by ECL staging										
Stage 1	314	2,335	1,698	–	4,347	424	4,077	2,004	–	6,505
Stage 2	188	1,903	257	–	2,348	151	96	180	–	427
Stage 3	282	76	83	–	441	293	6	68	–	367
POCI	–	–	–	–	–	–	–	–	–	–
Total	784	4,314	2,038	–	7,136	868	4,179	2,252	–	7,299
ECL allowance – statement of financial position										
Stage 1	11	91	19	–	121	4	20	7	–	31
Stage 2	19	159	12	–	190	15	4	7	–	26
Stage 3	114	27	38	–	179	105	–	27	–	132
POCI	–	–	–	–	–	–	–	–	–	–
Total	144	277	69	–	490	124	24	41	–	189
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	3.4	3.9	1.1	–	2.8	1.1	0.5	0.4	–	0.5
Stage 2	10.4	8.3	4.6	–	8.1	9.8	4.2	3.5	–	5.9
Stage 3	40.5	35.6	45.5	–	40.6	35.6	5.0	39.6	–	35.9
POCI	–	–	–	–	–	–	–	–	–	–

	Half-year to 30 June 2020*					Half-year to 30 June 2019*				
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	39	241	34	–	314	(6)	6	8	–	8
Recoveries of amounts previously written-off	(6)	–	(1)	–	(7)	(12)	–	–	–	(12)
Net credit impairment (writeback)/charge	33	241	33	–	307	(18)	6	8	–	(4)
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans – annualised	8.29	11.37	3.01	–	8.49	(1.58)	0.45	0.78	–	(0.10)

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

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Property and construction

The property and construction portfolio consists of € 7.1 billion in loans and advances to customers measured at amortised cost together with € 0.1 billion of loans measured at FVTPL (total € 7.2 billion).

The portfolio measured at amortised cost amounted to 12% of total loans and advances. The portfolio comprised of 76% investment loans (€ 5.4 billion), 16% land and development loans (€ 1.1 billion) and 8% other property and construction loans (€ 0.6 billion). The CIB and AIB UK segments continue to account for the majority of this portfolio at 60% and 29% respectively.

The portfolio reduced by € 0.2 billion or 2% during the six months to 30 June 2020, though within this, land and development had increased by € 0.1 billion. The reduction was mainly due to foreign exchange adjustments of € 0.2 billion as new lending was largely offset by redemptions/repayments. New lending of € 0.7 billion was predominately in the CIB segment (€ 0.4 billion) and is primarily to provide senior secured funding. At 30 June 2020, € 6.2 billion of the portfolio was in a strong/satisfactory grade, which is a reduction of € 0.3 billion in the period. The level of non-performing loans has increased by € 0.2 billion in the six months to 30 June 2020 as the effects of COVID-19 were felt across the portfolio.

Property and construction loans measured at FVTPL reduced by € 1 million to € 76 million in the six months to 30 June 2020.

There was a net credit impairment charge of € 307 million to the income statement in the six months to 30 June 2020. This was driven by a net re-measurement charge of € 314 million and by recoveries of previously written-off loans of € 7 million. The net re-measurement charge of € 314 million was mainly driven by the revised macroeconomic assumptions due to COVID-19 which accounted for € 267 million. In addition, re-measurements within stage accounted for a further € 42 million charge.

The portfolio held € 0.5 billion of ECL allowances which provide ECL allowance cover of 7%, reflecting the € 1.9 billion net migration into Stage 2. For the Stage 3 portfolio, the ECL allowance cover is 41% (31 December 2019: € 0.2 billion, 3% and 36% respectively). Retail shopping centres, in particular, have been adversely impacted by COVID-19, with 76% of the Group's € 1.4 billion exposure to this sector now designated Stage 2 or Stage 3, with an associated ECL of € 151 million.

Investment

Investment property loans amounted to € 5.4 billion at 30 June 2020 (31 December 2019: € 5.6 billion) of which € 4.2 billion related to commercial investment. The geographic profile of the investment property portfolio remained predominately in the Republic of Ireland (€ 3.5 billion) and the United Kingdom (€ 1.5 billion).

At 30 June 2020, there was a net credit impairment charge of € 243 million to the income statement on the investment property element of the property and construction portfolio (30 June 2019: € 12 million writeback).

Land and development

At 30 June 2020, land and development loans amounted to € 1.1 billion (31 December 2019: € 1.0 billion) of which € 0.1 billion related to loans in the Retail Banking segment, € 0.8 billion in the CIB segment and € 0.2 billion in the AIB UK segment. Whilst construction activity had stalled on both residential and commercial sites during the COVID-19 lockdown phases of the crisis, nearly all development sites to which the Group provides development finance have subsequently reopened.

The income statement net credit impairment charge for the six months to 30 June 2020 was € 42 million (30 June 2019: € 11 million writeback).

Contractors

At 30 June 2020, loans to contractors have remained unchanged in the six months to 30 June 2020 at € 0.3 billion (31 December 2019: € 0.3 billion). However, there was a net credit impairment charge of € 21 million in the six months to 30 June 2020 (30 June 2019: € 19 million charge).

Risk management

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Non-property business

The following table analyses non-property business lending at amortised cost by segment, internal credit ratings and ECL staging:

					30 June 2020*					31 December 2019*
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,236	375	102	–	1,713	1,203	435	103	–	1,741
Distribution:										
Hotels	148	1,248	848	–	2,244	157	1,231	824	–	2,212
Licensed premises	199	218	103	–	520	203	215	114	–	532
Retail/wholesale	500	1,127	315	–	1,942	552	1,130	342	–	2,024
Other distribution	86	236	168	–	490	83	230	176	–	489
	933	2,829	1,434	–	5,196	995	2,806	1,456	–	5,257
Other services	636	3,025	1,903	–	5,564	727	3,160	2,088	6	5,981
Other:										
Energy	18	625	910	–	1,553	19	604	868	–	1,491
Financial	16	358	242	109	725	21	389	248	106	764
Manufacturing	201	2,463	304	–	2,968	211	2,572	360	–	3,143
Transport	226	1,273	405	–	1,904	213	1,287	435	–	1,935
	461	4,719	1,861	109	7,150	464	4,852	1,911	106	7,333
Total	3,266	10,948	5,300	109	19,623	3,389	11,253	5,558	112	20,312
Analysed by internal credit ratings										
Strong	604	5,067	2,915	24	8,610	646	7,435	4,027	14	12,122
Satisfactory	1,633	4,942	1,972	85	8,632	1,748	3,584	1,304	98	6,734
Total strong/satisfactory	2,237	10,009	4,887	109	17,242	2,394	11,019	5,331	112	18,856
Criticised watch	465	704	208	–	1,377	510	138	104	–	752
Criticised recovery	142	38	10	–	190	143	88	24	–	255
Total criticised	607	742	218	–	1,567	653	226	128	–	1,007
Non-performing	422	197	195	–	814	342	8	99	–	449
Gross carrying amount	3,266	10,948	5,300	109	19,623	3,389	11,253	5,558	112	20,312
Analysed by ECL staging										
Stage 1	1,918	7,350	4,234	109	13,611	2,681	10,921	5,027	112	18,741
Stage 2	937	3,401	871	–	5,209	377	324	432	–	1,133
Stage 3	411	197	195	–	803	331	8	99	–	438
POCI	–	–	–	–	–	–	–	–	–	–
Total	3,266	10,948	5,300	109	19,623	3,389	11,253	5,558	112	20,312
ECL allowance – statement of financial position										
Stage 1	43	37	75	–	155	31	25	23	–	79
Stage 2	97	225	58	–	380	47	17	20	–	84
Stage 3	163	44	48	–	255	119	1	22	–	142
POCI	–	–	–	–	–	–	–	–	–	–
Total	303	306	181	–	790	197	43	65	–	305
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	2.3	0.5	1.8	–	1.1	1.2	0.2	0.5	–	0.4
Stage 2	10.3	6.6	6.7	–	7.3	12.5	5.3	4.6	–	7.5
Stage 3	39.7	22.1	24.8	–	31.8	36.0	14.4	21.9	–	32.4
POCI	–	–	–	–	–	–	–	–	–	–

					Half-year to 30 June 2020*					Half-year to 30 June 2019*
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	122	262	126	–	510	(25)	8	14	–	(3)
Recoveries of amounts previously written-off	(6)	–	(1)	–	(7)	(3)	–	(2)	–	(5)
Net credit impairment (writeback)/charge	116	262	125	–	503	(28)	8	12	–	(8)
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans – annualised	7.00	4.70	4.59	–	5.03	(0.93)	0.21	0.51	–	(0.08)

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

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Non-property business

The non-property business portfolio includes small and medium enterprises ("SMEs") which are reliant on the domestic economies in which they operate. In addition to SMEs, the portfolio also includes exposures to larger corporate and institutional borrowers which are impacted by global economic conditions. The majority of the portfolio exposure is to Irish borrowers with the UK and USA being the other main geographic concentrations. The portfolio decreased by 3% (€ 0.7 billion) to € 19.6 billion in the six months to 30 June 2020. The reduction was primarily due to redemptions/repayments exceeding new drawdowns due to reduced demand for credit across all segments resulting in new lending of € 2.2 billion (30 June 2019: € 3.1 billion). The non-property business portfolio amounted to 32% of total Group loans and advances at 30 June 2020 (31 December 2019: 33%).

COVID-19 has had a material negative impact on the asset quality of the non-property business portfolio. Timing of recovery is dependent on sector specific dynamics. Loans graded as strong/satisfactory decreased in the six months to 30 June 2020 from 93% to 88%, as repayments exceeded new drawdowns coupled with downward grade migration mainly due to the impact of COVID-19 pandemic. The downward grade migration has resulted in an increase in the level of less than satisfactory grades (including defaulted loans) from € 1.5 billion at 31 December 2019 to € 2.4 billion at 30 June 2020.

Additional disclosures on the non-property business portfolio are outlined on the following page.

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

- The agriculture sub-sector represents 9% of the portfolio at € 1.7 billion. Initial COVID-19 impact on most agricultural sectors resulted in price reductions due to reduced demand and closure of key markets. However, global demand and prices have stabilised with signs of recovery in dairy, beef and sheep sectors. There has been no significant disruption to the supply chain while reduced input costs are assisting in maintaining margins. For tillage, the sustained dry weather throughout much of March into early June has impacted crop growth in many parts of the country and yields are expected to be impacted;
- The hotels sub-sector comprises 11% of the portfolio at € 2.2 billion. This sector has been severely impacted by the Government measures to contain the COVID-19 pandemic. In Ireland and the UK, hotels were closed or operating at significantly reduced occupancy from mid-March to the end of June. Key operating metrics are expected to be weaker for 2020. Phased re-openings have commenced, and occupancy is expected to be slow to recover to pre-COVID-19 levels, particularly for those most reliant on international tourism;
- The licensed premises sub-sector comprises 3% of the portfolio at € 0.5 billion. Similar to hotels, this sector has been severely negatively impacted by the Government measures to contain the COVID-19 pandemic. Licensed premises were closed in Ireland from mid-March. Phased re-opening has commenced for licensed premises with food offering from 29 June 2020. Current social distancing measures will reduce capacity and may impact demand. Licensed premises without food offering remain closed at this time;
- The retail/wholesale sub-sector comprises 10% of the portfolio at € 1.9 billion. Many non-grocery retailers have also been severely negatively impacted by COVID-19. There has been an increase in online purchasing during this period which has accelerated this competitive challenge to 'Brick and Mortar Retail'. Consumer confidence may be slow to recover. Grocery retail/wholesale continued to operate with some businesses experiencing increases in revenue and profitability despite some increases in costs;
- The other services sub-sector comprises 28% of the portfolio at € 5.6 billion, which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery. Performance across this sub-sector has been mixed depending on COVID-19 impact to specific sub-sectors in the six months to 30 June 2020; and
- The category titled 'Other' totalling € 7.2 billion (36% of the portfolio) includes a broad range of sub-sectors such as manufacturing (€ 3.0 billion), energy (€ 1.6 billion), transport (€ 1.9 billion) and financial (€ 0.7 billion).

There was a net credit impairment charge of € 503 million to the income statement in the six months to 30 June 2020. This was driven by a net re-measurement charge of € 510 million and by recoveries of previously written-off loans of € 7 million. The net re-measurement charge of € 510 million was mainly driven by the revised macroeconomic assumptions due to COVID-19 which accounted for € 233 million. In addition, net stage transfers and re-measurements within stage accounted for further charges of € 134 million and € 115 million respectively.

The portfolio held € 0.8 billion in ECL allowances which provides ECL allowance cover of 4%. For the Stage 3 portfolio, the ECL allowance cover is 32% (31 December 2019: € 0.3 billion, 2% and 32% respectively).

Risk management

Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Non-property business

Additional disclosures

The following table provides further analysis by industry sector of the non-property business portfolio, by gross carrying amount and ECL allowance. Given the international profile of the Syndicated International Finance (SIF) business, all exposures within this business unit are reported separately.

30 June 2020

	Analysed by ECL stage profile			Gross	Analysed by ECL stage profile			ECL
	Stage 1	Stage 2	Stage 3	carrying amount	Stage 1	Stage 2	Stage 3	allowance
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,083	502	102	1,687	16	22	35	73
Distribution:								
Hotels	798	1,215	93	2,106	24	75	13	112
Licensed premises	235	217	68	520	8	22	21	51
Retail/Wholesale	966	507	141	1,614	20	51	45	116
Other distribution	220	64	29	313	4	7	18	29
	2,219	2,003	331	4,553	56	155	97	308
Other services	3,112	748	144	4,004	39	45	59	143
Other:								
Energy	1,382	105	29	1,516	13	7	2	22
Financial	395	110	3	508	3	4	2	9
Manufacturing	926	696	57	1,679	9	45	34	88
Transport	970	278	46	1,294	7	12	10	29
	3,673	1,189	135	4,997	32	68	48	148
Total	10,087	4,442	712	15,241	143	290	239	672
SIF	3,524	767	91	4,382	12	90	16	118
Total	13,611	5,209	803	19,623	155	380	255	790

31 December 2019

	Analysed by ECL stage profile			Gross	Analysed by ECL stage profile			ECL
	Stage 1	Stage 2	Stage 3	carrying amount	Stage 1	Stage 2	Stage 3	allowance
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,452	177	78	1,707	7	10	23	40
Distribution:								
Hotels	1,865	203	21	2,089	8	10	7	25
Licensed premises	448	56	28	532	7	12	8	27
Retail/Wholesale	1,351	183	114	1,648	12	19	28	59
Other distribution	275	37	10	322	2	1	6	9
	3,939	479	173	4,591	29	42	49	120
Other services	3,940	236	93	4,269	14	14	36	64
Other:								
Energy	1,436	15	4	1,455	4	1	2	7
Financial	552	9	3	564	2	1	2	5
Manufacturing	1,568	131	57	1,756	5	8	24	37
Transport	1,174	35	30	1,239	3	3	6	12
	4,730	190	94	5,014	14	13	34	61
Total	14,061	1,082	438	15,581	65	79	142	286
SIF	4,680	51	–	4,731	15	5	–	20
Total	18,741	1,133	438	20,312	79	84	142	305

The Syndicated International Finance (SIF) business unit, which is a specialised lending unit within CIB, is involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. The SIF non-property lending portfolio totalled € 4.4 billion at 30 June 2020 (31 December 2019: € 4.8 billion of which € 0.1 billion property and construction). The portfolio has reduced by € 0.3 billion in the period through a combination of asset sales and net loan repayments. At 30 June 2020, 80% of the SIF lending portfolio is in a strong/satisfactory grade (31 December 2019: 99%).

93% of the SIF portfolio is rated by S&P, with 68% rated B+ or above, 19% rated B and 6% rated B- or below. The majority of the loans (72%) are to large borrowers with EBITDA > € 250 million. Exposures are well diversified by name and sector with the top 20 borrowers accounting for 21% of total exposure. 67% of the customers in this portfolio are domiciled in the USA, 3% in the UK, and 30% in the Rest of the World (31 December 2019: 65% in the USA, 4% in the UK and 31% in the Rest of the World (primarily Europe) respectively).

At 30 June 2020, there was a net credit impairment charge of € 106 million on the SIF portfolio. The charge was driven by downward grade migration of € 0.7 billion to Stage 2 and € 0.1 billion to Stage 3. The SIF post model adjustment as outlined on page 44 also increased by € 21 million in the period.

Risk management

Credit risk – Credit profile of the loan portfolio

The following tables set out the concentration of credit by industry sector and geography for loans and advances to customers and loan commitments and financial guarantee contracts issued together with the related ECL allowance analysed by the ECL stage profile:

Gross exposures to customers

	30 June 2020								
	At amortised cost								At FVTPL
	Gross carrying amount			Analysed by ECL stage profile					
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,713	584	2,297	1,538	652	107	–	2,297	–
Energy	1,553	679	2,232	2,071	123	38	–	2,232	–
Manufacturing	2,968	1,559	4,527	3,312	1,127	88	–	4,527	–
Property and construction	7,136	1,717	8,853	5,778	2,590	485	–	8,853	76
Distribution	5,196	1,217	6,413	3,317	2,713	383	–	6,413	–
Transport	1,904	487	2,391	1,979	350	62	–	2,391	–
Financial	725	452	1,177	1,023	151	3	–	1,177	–
Other services	5,564	2,176	7,740	6,121	1,417	202	–	7,740	–
Personal: Residential mortgages	31,027	635	31,662	26,856	2,538	2,077	191	31,662	–
Other	2,707	2,931	5,638	4,813	589	236	–	5,638	–
Total	60,493	12,437	72,930	56,808	12,250	3,681	191	72,930	76
Concentration by location[1]									
Republic of Ireland	46,142	9,943	56,085	43,340	9,437	3,118	190	56,085	76
United Kingdom	8,836	2,204	11,040	9,065	1,524	451	–	11,040	–
North America	2,982	64	3,046	2,355	610	81	–	3,046	–
Rest of the World	2,533	226	2,759	2,048	679	31	1	2,759	–
	60,493	12,437	72,930	56,808	12,250	3,681	191	72,930	76

ECL allowance

	30 June 2020							
	ECL allowance			Analysed by ECL stage profile				
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	73	3	76	17	24	35	–	76
Energy	22	2	24	14	8	2	–	24
Manufacturing	110	7	117	16	62	39	–	117
Property and construction	490	32	522	132	195	195	–	522
Distribution	357	17	374	61	210	103	–	374
Transport	32	3	35	11	13	11	–	35
Financial	13	1	14	4	8	2	–	14
Other services	183	16	199	50	84	65	–	199
Personal: Residential mortgages	836	–	836	101	117	578	40	836
Other	237	7	244	45	60	139	–	244
Total	2,353	88	2,441	451	781	1,169	40	2,441
Concentration by location[1]								
Republic of Ireland	1,872	73	1,945	311	553	1,041	40	1,945
United Kingdom	310	13	323	119	94	110	–	323
North America	81	1	82	9	58	15	–	82
Rest of the World	90	1	91	12	76	3	–	91
	2,353	88	2,441	451	781	1,169	40	2,441

[1]Based on country of risk.

Risk management

Credit risk – Credit profile of the loan portfolio

Gross exposures to customers

	31 December 2019								
	At amortised cost								At FVTPL
	Gross carrying amount			Analysed by ECL stage profile					
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,741	547	2,288	1,993	213	82	–	2,288	–
Energy	1,490	633	2,123	2,104	15	4	–	2,123	–
Manufacturing	3,143	1,461	4,604	4,352	180	72	–	4,604	–
Property and construction	7,299	1,646	8,945	8,054	460	431	–	8,945	77
Distribution	5,257	1,307	6,564	5,840	532	192	–	6,564	–
Transport	1,936	576	2,512	2,438	41	33	–	2,512	–
Financial	764	497	1,261	1,248	9	4	–	1,261	–
Other services	5,981	1,953	7,934	7,514	295	125	–	7,934	–
Personal: Residential mortgages	31,454	866	32,320	27,816	2,151	2,158	195	32,320	–
Other	2,984	2,764	5,748	5,119	429	200	–	5,748	–
Total	62,049	12,250	74,299	66,478	4,325	3,301	195	74,299	77
Concentration by location[(1)]									
Republic of Ireland	46,893	9,496	56,389	49,820	3,424	2,951	194	56,389	77
United Kingdom	9,589	2,253	11,842	10,735	777	330	–	11,842	–
North America	3,192	120	3,312	3,249	61	2	–	3,312	–
Rest of the World	2,375	381	2,756	2,674	63	18	1	2,756	–
	62,049	12,250	74,299	66,478	4,325	3,301	195	74,299	77

ECL allowance

	31 December 2019							
	ECL allowance			Analysed by ECL stage profile				
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	40	2	42	8	11	23	–	42
Energy	7	1	8	4	1	3	–	8
Manufacturing	41	3	44	8	12	24	–	44
Property and construction	189	20	209	34	26	149	–	209
Distribution	125	4	129	34	45	50	–	129
Transport	14	1	15	6	3	6	–	15
Financial	6	–	6	3	1	2	–	6
Other services	72	5	77	24	17	36	–	77
Personal: Residential mortgages	569	–	569	10	52	476	31	569
Other	175	6	181	23	43	115	–	181
Total	1,238	42	1,280	154	211	884	31	1,280
Concentration by location[(1)]								
Republic of Ireland	1,087	34	1,121	103	173	814	31	1,121
United Kingdom	125	7	132	35	29	68	–	132
North America	15	–	15	9	6	–	–	15
Rest of the World	11	1	12	7	3	2	–	12
	1,238	42	1,280	154	211	884	31	1,280

[(1)]Based on country of risk.

Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due loans and advances to customers

The following table shows aged analysis of contractually past due loans and advances to customers by industry sector analysed by ECL staging and segment:

At amortised cost

							30 June 2020
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	14	3	2	7	9	22	57
Energy	–	–	–	–	–	4	4
Manufacturing	7	–	2	4	7	16	36
Property and construction	53	10	51	28	25	180	347
Distribution	67	39	43	40	10	38	237
Transport	50	6	–	10	1	8	75
Financial	2	–	–	–	–	2	4
Other services	53	3	6	11	8	26	107
Personal:							
Residential mortgages	64	18	62	94	102	1,001	1,341
Credit cards	5	3	2	6	7	5	28
Other	29	7	13	23	32	95	199
Total gross carrying amount	344	89	181	223	201	1,397	2,435
ECL staging							
Stage 1	79	–	–	–	–	–	79
Stage 2	162	54	85	–	–	–	301
Stage 3	101	34	95	220	198	1,375	2,023
POCI	2	1	1	3	3	22	32
	344	89	181	223	201	1,397	2,435
Segment							
Retail Banking	166	64	122	190	181	1,289	2,012
CIB	127	12	47	12	8	5	211
AIB UK	51	13	12	21	12	103	212
Group	–	–	–	–	–	–	–
	344	89	181	223	201	1,397	2,435
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	0.57	0.15	0.3	0.37	0.33	2.31	4.03

At FVTPL

Industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	–	–	–	–	–	–
Total at FVTPL	–	–	–	–	–	–	–
Segment	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Retail Banking	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
As a percentage of total gross loans at FVTPL	%	%	%	%	%	%	%
	–	–	–	–	–	–	–

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

Risk management

Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due loans and advances to customers *(continued)*

At amortised cost

							31 December 2019
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	2	2	3	6	12	54
Energy	4	–	–	–	–	4	8
Manufacturing	7	1	3	3	4	7	25
Property and construction	33	15	3	12	12	141	216
Distribution	37	4	2	5	7	31	86
Transport	3	1	–	1	1	4	10
Financial	1	–	–	–	1	2	4
Other services	26	3	4	10	8	20	71
Personal:							
Residential mortgages	416	136	86	141	141	912	1,832
Credit cards	19	6	3	5	14	–	47
Other	63	15	13	22	28	71	212
Total gross carrying amount	638	183	116	202	222	1,204	2,565
ECL staging							
Stage 1	196	–	–	–	–	–	196
Stage 2	300	90	33	–	–	–	423
Stage 3	127	89	79	198	217	1,187	1,897
POCI	15	4	4	4	5	17	49
	638	183	116	202	222	1,204	2,565
Segment							
Retail Banking	551	164	106	185	200	1,114	2,320
CIB	41	2	–	–	1	–	44
AIB UK	46	17	10	17	21	90	201
Group	–	–	–	–	–	–	–
	638	183	116	202	222	1,204	2,565
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	1.03	0.29	0.19	0.33	0.36	1.94	4.14

At FVTPL

Industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	–	–	–	–	–	–
Total at FVTPL	–	–	–	–	–	–	–
Segment	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Retail Banking	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
As a percentage of total gross loans at FVTPL	%	%	%	%	%	%	%
	–	–	–	–	–	–	–

In order to fully align to EBA guidelines on default, DPD materiality thresholds and DPD day count conventions, the aged analysis of the contractually past due loans at 30 June 2020 have been prepared under a newly implemented EBA DPD counter. The comparable analysis for 31 December 2019 was prepared under the Basel DPD counter. The new EBA DPD counter reflects changes to materiality threshold and count methodology.

In the six months to 30 June 2020, total loans past due reduced by € 0.2 billion to € 2.4 billion or 4.0% of total loans and advances to customers (31 December 2019: € 2.6 billion or 4.1%). The reduction was predominately in the 1-30 days past due category which decreased by € 0.3 billion as a result of the new EBA DPD counter, however, this also resulted in a € 0.2 billion increase in the greater than 365 days category.

Residential mortgage loans which were past due at 30 June 2020 amounted to € 1.3 billion. This represents 55% of total loans which were past due (31 December 2019: € 1.8 billion or 71%). The reduction in the level of residential mortgage loans in early arrears (less than 30 days past due) reflects continued active management of cases and the aforementioned new EBA DPD counter.

Non-property business loans which were past due represent 21% or € 0.5 billion (31 December 2019: 10% or € 0.3 billion), with property and construction at 14% or € 0.3 billion (31 December 2019: 8% or € 0.2 billion), and other personal at 9% or € 0.2 billion (31 December 2019: 10% or € 0.3 billion).

All loans past due by 90 days or more on any material obligation are considered non-performing/defaulted.

Credit risk – Credit profile of the loan portfolio

Gross loans[1] and ECL movements

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by ECL staging.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 89 of the Annual Financial Report 2019) and that subsequently reverted within the period to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2' and 'Transferred from Stage 2 to Stage 1'. The Group believes this presentation aids the understanding of the underlying credit migration.

Gross carrying amount movements – total

					30 June 2020*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January 2020	**54,723**	**3,992**	**3,140**	**194**	**62,049**
Transferred from Stage 1 to Stage 2	**(9,777)**	**9,777**	**–**	**–**	**–**
Transferred from Stage 2 to Stage 1	**1,352**	**(1,352)**	**–**	**–**	**–**
Transferred to Stage 3	**(160)**	**(544)**	**704**	**–**	**–**
Transferred from Stage 3	**65**	**180**	**(245)**	**–**	**–**
New loans originated/top-ups	**4,127**	**–**	**–**	**–**	**4,127**
Redemptions/repayments	**(4,937)**	**(609)**	**(234)**	**(7)**	**(5,787)**
Interest credited	**789**	**116**	**36**	**5**	**946**
Write-offs	**–**	**–**	**(70)**	**(2)**	**(72)**
Derecognised due to disposals	**(94)**	**(32)**	**–**	**–**	**(126)**
Exchange translation adjustments	**(553)**	**(91)**	**(26)**	**–**	**(670)**
Impact of model, parameter and overlay changes	**839**	**(839)**	**–**	**–**	**–**
Other movements	**(114)**	**(91)**	**230**	**1**	**26**
At 30 June 2020	**46,260**	**10,507**	**3,535**	**191**	**60,493**

					31 December 2019*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January 2019	51,693	5,290	5,541	236	62,760
Transferred from Stage 1 to Stage 2	(3,287)	3,287	–	–	–
Transferred from Stage 2 to Stage 1	3,070	(3,070)	–	–	–
Transferred to Stage 3	(254)	(655)	909	–	–
Transferred from Stage 3	120	447	(567)	–	–
New loans originated/top-ups	12,110	–	–	2	12,112
Redemptions/repayments	(11,124)	(1,111)	(790)	(17)	(13,042)
Interest credited	1,736	169	83	9	1,997
Write-offs	–	–	(357)	(5)	(362)
Derecognised due to disposals	(326)	(47)	(1,673)	(6)	(2,052)
Exchange translation adjustments	521	40	17	–	578
Impact of model, parameter and overlay changes	333	(333)	–	–	–
Other movements	131	(25)	(23)	(25)	58
At 31 December 2019	54,723	3,992	3,140	194	62,049

[1]Movements on the gross loans table have been prepared on a 'sum of the months' basis.

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

Risk management

Credit risk – Credit profile of the loan portfolio
Gross loans and ECL movements *(continued)*

ECL allowance movements – total

	30 June 2020*				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January 2020	141	202	864	31	1,238
Transferred from Stage 1 to Stage 2	(52)	244	–	–	192
Transferred from Stage 2 to Stage 1	30	(68)	–	–	(38)
Transferred to Stage 3	(6)	(65)	147	–	76
Transferred from Stage 3	4	16	(41)	–	(21)
Net re-measurement	17	51	91	3	162
New loans originated/top-ups	19	–	–	–	19
Redemptions/repayments	(9)	(15)	–	–	(24)
Impact of model and overlay changes	65	(7)	73	–	131
Impact of credit or economic risk parameters	216	391	90	8	705
Income statement net credit impairment charge/(writeback)	284	547	360	11	1,202
Write-offs	–	–	(70)	(2)	(72)
Derecognised due to disposals	(1)	(1)	–	–	(2)
Exchange translation adjustments	(6)	(5)	(6)	–	(17)
Other movements	1	1	2	–	4
At 30 June 2020	419	744	1,150	40	2,353

	31 December 2019*				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January 2019	171	271	1,566	31	2,039
Transferred from Stage 1 to Stage 2	(33)	235	–	–	202
Transferred from Stage 2 to Stage 1	59	(211)	–	–	(152)
Transferred to Stage 3	(10)	(93)	203	–	100
Transferred from Stage 3	10	21	(86)	–	(55)
Net re-measurement	(73)	(22)	(17)	2	(110)
New loans originated/top-ups	40	–	–	–	40
Redemptions/repayments	(14)	(15)	–	(1)	(30)
Impact of model and overlay changes	(4)	5	72	3	76
Impact of credit or economic risk parameters	1	10	32	3	46
Income statement net credit impairment charge/(writeback)	(24)	(70)	204	7	117
Write-offs	–	–	(357)	(5)	(362)
Derecognised due to disposals	(4)	(2)	(557)	(2)	(565)
Exchange translation adjustments	2	2	5	–	9
Other movements	(4)	1	3	–	–
At 31 December 2019	141	202	864	31	1,238

Total exposures to which an ECL applies decreased during the period by € 1.6 billion from € 62.1 billion at 1 January 2020 to € 60.5 billion at 30 June 2020.

The updated macroeconomic forecasts and scenario probability weightings resulted in a charge of € 0.7 billion consisting of € 0.5 billion due to re-measurement within stage and € 0.2 billion movement due to stage transfer. This ECL movement is presented separately within 'impact of credit or economic risk parameters'. These impacts were most significant within the property and non-property business portfolios accounting for an increase in ECL stock of € 0.3 billion and € 0.2 billion respectively.

Stage transfers are a key component of ECL allowance movements (i.e. Stage 1 to Stage 2 to Stage 3 and vice versa) in addition to the net re-measurement of ECL due to change in risk parameters within a stage.

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

Credit risk – Credit profile of the loan portfolio

Gross loans and ECL movements *(continued)*

The gross loan transfers from Stage 1 to Stage 2 of € 9.8 billion are due to underlying credit activity where a significant increase in credit risk occurred at some point during the period through either the quantitative or qualitative criteria for stage movement and incorporates loans which transferred due to the impact of the updated macroeconomic forecasts. The main driver of the total movements to Stage 2 was the doubling of PDs, subject to 50bps (85bps for the ROI Mortgage portfolio). 28% of the movements relied on a qualitative or backstop indicator of significant increase in credit risk (e.g. forbearance or movement to a watch grade) of which 1% was caused solely by the backstop of 30 days past due. Of the € 9.8 billion which transferred from Stage 1 to Stage 2 in the period, approximately € 8.2 billion is reported as Stage 2 at 30 June 2020.

Where a movement to Stage 2 is triggered by multiple drivers simultaneously these are reported in the following order: quantitative; qualitative; backstop.

Similarly, transfers from Stage 2 to Stage 1 of € 1.4 billion represent those loans where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period. These transfers include loans which have been upgraded through the normal credit management process.

Transfers from Stage 2 to Stage 3 of € 0.5 billion represent those loans that defaulted during the period. These arose in cases where it was determined that the customers were unlikely to pay their credit obligations in full without the realisation of collateral regardless of the existence of any past due amount or the number of days past due. In addition, transfers also include all credit obligors that are 90 days or more past due on a material obligation. Of the transfers from Stage 2 to Stage 3, € 0.2 billion had transferred from Stage 1 to Stage 2 earlier in the period.

Transfers from Stage 3 to Stage 2 of € 0.2 billion were mainly driven by resolution activity with the customer, through either restructuring or forbearance previously granted and which subsequently adhered to default probation requirements. As part of the credit management practices, active monitoring of loans and their adherence to default probation requirements is in place. Transfers from Stage 3 to Stage 1 of € 0.1 billion primarily reflect curing events from default where no forbearance measure was required.

The enhancement of the Group's definition of default, including the alignment of arrears DPD count methodology to EBA convention, resulted in an increase of Stage 3 gross loans of € 0.2 billion and a reduction within both Stage 1 and Stage 2 gross loans of € 0.1 billion which are reflected within other movements.

Further detail on the impacts due to model and overlay changes is outlined within the management judgements section on pages 43 and 44.

In summary, the staging movements of the overall portfolio were as follows:
Stage 1 loans decreased by € 8.5 billion in the period to € 46.3 billion with an ECL of € 0.4 billion and resulting cover of 0.9% (31 December 2019: 0.3%). The decrease in gross loans was primarily on foot of transfers to Stage 2 while the increase cover was primarily due to the impact of the updated macroeconomic forecasts and scenario probability weightings.

Stage 2 loans increased by € 6.5 billion in the period to € 10.5 billion with an ECL of € 0.7 billion and resulting cover of 7.1% (31 December 2019: 5.1%). This was driven by the recognition of loans for which a significant increase in credit risk had occurred either through underlying credit activity or due to the updated macroeconomic forecasts and scenario probability weightings.

Stage 3 exposures increased by € 0.4 billion in the period with the ECL cover increasing from 27.5% to 32.5%. The key drivers were the recognition of loans which were deemed unlikely to pay without realisation of security, loans which had reached 90 days past due and loans impacted by enhancements to the Group's definition of default. The increase in cover reflects the impact of the updated macroeconomic forecasts and scenario probability weightings and the increase in ECL attributable the Mortgage (PDH) post management adjustment.

Further details on stage movements by asset class are set out in the following tables.

Credit risk – Credit profile of the loan portfolio

Gross loans[1] and ECL movements *(continued)*

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by asset class and ECL staging:

Gross carrying amount movements – Asset class

30 June 2020

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January 2020	26,973	2,144	2,143	194	31,454	2,504	288	192	2,984	6,505	427	367	–	7,299	18,741	1,133	438	20,312
Transferred from Stage 1 to Stage 2	(1,413)	1,413	–	–	–	(373)	373	–	–	(3,018)	3,018	–	–	–	(4,973)	4,973	–	–
Transferred from Stage 2 to Stage 1	868	(868)	–	–	–	103	(103)	–	–	123	(123)	–	–	–	258	(258)	–	–
Transferred to Stage 3	(15)	(132)	147	–	–	(5)	(51)	56	–	(7)	(95)	102	–	–	(133)	(266)	399	–
Transferred from Stage 3	14	108	(122)	–	–	2	12	(14)	–	19	15	(34)	–	–	30	45	(75)	–
New loans originated/top-ups	1,122	–	–	–	1,122	411	–	–	411	511	–	–	–	511	2,083	–	–	2,083
Redemptions/repayments	(1,607)	(131)	(111)	(7)	(1,856)	(638)	(92)	(22)	(752)	(478)	(87)	(37)	–	(602)	(2,214)	(299)	(64)	(2,577)
Interest credited	348	28	16	5	397	91	18	5	114	83	18	4	–	105	267	52	11	330
Write-offs	–	–	(23)	(2)	(25)	–	–	(21)	(21)	–	–	(14)	–	(14)	–	–	(12)	(12)
Derecognised due to disposals	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(94)	(32)	–	(126)
Exchange translation adjustments	(72)	(6)	(8)	–	(86)	(7)	(1)	–	(8)	(138)	(18)	(6)	–	(162)	(336)	(66)	(12)	(414)
Impact of model, parameter and overlay changes	–	–	–	–	–	–	–	–	–	839	(839)	–	–	–	–	–	–	–
Other movements	23	(25)	22	1	21	(27)	(25)	31	(21)	(92)	32	59	–	(1)	(18)	(73)	118	27
At 30 June 2020	26,241	2,531	2,064	191	31,027	2,061	419	227	2,707	4,347	2,348	441	–	7,136	13,611	5,209	803	19,623

31 December 2019

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January 2019	25,617	3,441	3,023	234	32,315	2,334	398	343	3,075	6,200	415	1,187	2	7,804	17,542	1,036	988	19,566
Transferred from Stage 1 to Stage 2	(1,197)	1,197	–	–	–	(387)	387	–	–	(438)	438	–	–	–	(1,265)	1,265	–	–
Transferred from Stage 2 to Stage 1	1,935	(1,935)	–	–	–	276	(276)	–	–	220	(220)	–	–	–	639	(639)	–	–
Transferred to Stage 3	(30)	(247)	277	–	–	(12)	(85)	97	–	(104)	(90)	194	–	–	(108)	(233)	341	–
Transferred from Stage 3	17	306	(323)	–	–	3	22	(25)	–	41	49	(90)	–	–	59	70	(129)	–
New loans originated/top-ups	3,116	–	–	2	3,118	1,043	–	–	1,043	1,897	–	–	–	1,897	6,054	–	–	6,054
Redemptions/repayments	(3,529)	(394)	(309)	(17)	(4,249)	(996)	(145)	(66)	(1,207)	(1,649)	(156)	(272)	–	(2,077)	(4,950)	(416)	(143)	(5,509)
Interest credited	689	79	36	9	813	190	31	9	230	197	14	18	–	229	660	45	20	725
Write-offs	–	–	(183)	(5)	(188)	–	–	(39)	(39)	–	–	(100)	–	(100)	–	–	(35)	(35)
Derecognised due to disposals	(17)	(21)	(382)	(4)	(424)	(14)	(5)	(128)	(147)	(47)	(14)	(594)	(2)	(657)	(248)	(7)	(569)	(824)
Exchange translation adjustments	55	5	7	–	67	7	2	–	9	111	5	8	–	124	348	28	2	378
Impact of model, parameter and overlay changes	303	(303)	–	–	–	4	(4)	–	–	3	(3)	–	–	–	23	(23)	–	–
Other movements	14	16	(3)	(25)	2	56	(37)	1	20	74	(11)	16	–	79	(13)	7	(37)	(43)
At 31 December 2019	26,973	2,144	2,143	194	31,454	2,504	288	192	2,984	6,505	427	367	–	7,299	18,741	1,133	438	20,312

[1]Movements on the gross loans table have been prepared on a 'sum of the months' basis.

Credit risk – Credit profile of the loan portfolio
Gross loans and ECL movements *(continued)*

ECL allowance movements – Asset class

30 June 2020

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January 2020	**10**	**52**	**476**	**31**	**569**	**21**	**40**	**114**	**175**	**31**	**26**	**132**	**–**	**189**	**79**	**84**	**142**	**305**
Transferred from Stage 1 to Stage 2	(11)	34	–	–	23	(6)	35	–	29	(11)	31	–	–	20	(24)	144	–	120
Transferred from Stage 2 to Stage 1	13	(24)	–	–	(11)	3	(12)	–	(9)	6	(9)	–	–	(3)	8	(23)	–	(15)
Transferred to Stage 3	–	(7)	13	–	6	–	(18)	27	9	–	(7)	31	–	24	(6)	(33)	76	37
Transferred from Stage 3	2	6	(15)	–	(7)	–	4	(7)	(3)	–	–	(3)	–	(3)	2	6	(16)	(8)
Net re-measurement	(1)	(7)	(1)	3	(6)	(6)	(7)	24	11	13	12	17	–	42	11	53	51	115
New loans originated/top-ups	1	–	–	–	1	6	–	–	6	4	–	–	–	4	8	–	–	8
Redemptions/repayments	–	(1)	–	–	(1)	(1)	(1)	–	(2)	(2)	(6)	–	–	(8)	(6)	(7)	–	(13)
Impact of model and overlay changes	47	8	68	–	123	4	–	–	4	1	(33)	3	–	(29)	13	18	2	33
Impact of credit or economic risk parameters	41	54	63	8	166	21	16	2	39	80	178	9	–	267	74	143	16	233
Income statement net credit impairment charge/(writeback)	**92**	**63**	**128**	**11**	**294**	**21**	**17**	**46**	**84**	**91**	**166**	**57**	**–**	**314**	**80**	**301**	**129**	**510**
Write-offs	–	–	(23)	(2)	(25)	–	–	(21)	(21)	–	–	(14)	–	(14)	–	–	(12)	(12)
Derecognised due to disposals	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1)	(1)	–	(2)
Exchange translation adjustments	(1)	–	(1)	–	(2)	–	–	–	–	(1)	(1)	(2)	–	(4)	(4)	(4)	(3)	(11)
Other movements	–	2	(2)	–	–	–	–	(1)	(1)	–	(1)	6	–	5	1	–	(1)	–
At 30 June 2020	**101**	**117**	**578**	**40**	**836**	**42**	**57**	**138**	**237**	**121**	**190**	**179**	**–**	**490**	**155**	**380**	**255**	**790**

31 December 2019

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January 2019	8	51	623	31	713	29	52	172	253	41	36	403	–	480	93	132	368	593
Transferred from Stage 1 to Stage 2	(2)	35	–	–	33	(10)	76	–	66	(4)	21	–	–	17	(17)	103	–	86
Transferred from Stage 2 to Stage 1	4	(25)	–	–	(21)	12	(48)	–	(36)	4	(28)	–	–	(24)	39	(110)	–	(71)
Transferred to Stage 3	–	(9)	25	–	16	(1)	(32)	46	13	(5)	(10)	47	–	32	(4)	(42)	85	39
Transferred from Stage 3	1	7	(30)	–	(22)	1	4	(12)	(7)	2	3	(16)	–	(11)	6	7	(28)	(15)
Net re-measurement	(1)	(24)	25	2	2	(16)	(8)	16	(8)	(7)	2	(39)	–	(44)	(49)	8	(19)	(60)
New loans originated/top-ups	1	–	–	–	1	16	–	–	16	6	–	–	–	6	17	–	–	17
Redemptions/repayments	–	(1)	–	(1)	(2)	(1)	(1)	–	(2)	(5)	(2)	–	–	(7)	(8)	(11)	–	(19)
Impact of model and overlay changes	(2)	11	71	3	83	(8)	(2)	1	(9)	–	(1)	1	–	–	6	(3)	(1)	2
Impact of credit or economic risk parameters	–	7	29	3	39	–	–	(1)	(1)	–	2	2	–	4	1	1	2	4
Income statement net credit impairment charge/(writeback)	1	1	120	7	129	(7)	(11)	50	32	(9)	(13)	(5)	–	(27)	(9)	(47)	39	(17)
Write-offs	–	–	(183)	(5)	(188)	–	–	(39)	(39)	–	–	(100)	–	(100)	–	–	(35)	(35)
Derecognised due to disposals	–	–	(84)	(2)	(86)	–	(1)	(67)	(68)	(3)	–	(177)	–	(180)	(1)	(1)	(229)	(231)
Exchange translation adjustments	–	–	1	–	1	–	–	–	–	–	–	4	–	4	2	2	–	4
Other movements	1	–	(1)	–	–	(1)	–	(2)	(3)	2	3	7	–	12	(6)	(2)	(1)	(9)
At 31 December 2019	10	52	476	31	569	21	40	114	175	31	26	132	–	189	79	84	142	305

Risk management

Credit risk – Credit profile of the loan portfolio

Movements in off-balance sheet exposures

The following tables set out the movements in the nominal amount and ECL allowance for loan commitments and financial guarantees by ECL staging:

Nominal amount movements

								30 June 2020*
	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January 2020	11,098	323	118	11,539	657	11	43	711
Transferred from Stage 1 to Stage 2	(1,294)	1,294	–	–	(251)	251	–	–
Transferred from Stage 2 to Stage 1	140	(140)	–	–	2	(2)	–	–
Transferred to Stage 3	(37)	(11)	48	–	(1)	(1)	2	–
Transferred from Stage 3	21	5	(26)	–	2	2	(4)	–
Net movement	223	11	(32)	202	(11)	(1)	(3)	(15)
At 30 June 2020	10,151	1,482	108	11,741	398	260	38	696

								31 December 2019*
	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January 2019	10,688	296	123	11,107	691	31	58	780
Transferred from Stage 1 to Stage 2	(241)	241	–	–	(5)	5	–	–
Transferred from Stage 2 to Stage 1	170	(170)	–	–	16	(16)	–	–
Transferred to Stage 3	(39)	(7)	46	–	(3)	–	3	–
Transferred from Stage 3	11	4	(15)	–	–	–	(1)	(1)
Net movement	509	(41)	(36)	432	(44)	(9)	(26)	(79)
Derecognised due to disposals	–	–	–	–	2	–	9	11
At 31 December 2019	11,098	323	118	11,539	657	11	43	711

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

Credit risk – Credit profile of the loan portfolio
Movements in off-balance sheet exposures *(continued)*

ECL allowance movements

30 June 2020*

	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January 2020	10	8	1	19	3	2	18	23
Transferred from Stage 1 to Stage 2	(2)	24	–	22	–	10	–	10
Transferred from Stage 2 to Stage 1	2	(11)	–	(9)	–	(1)	–	(1)
Transferred to Stage 3	–	–	1	1	–	–	–	–
Transferred from Stage 3	–	–	–	–	–	–	–	–
Net re-measurement	18	5	–	23	2	–	(1)	1
Income statement (credit)/charge	18	18	1	37	2	9	(1)	10
Derecognised due to disposals	–	–	–	–	–	–	–	–
Other movements	(1)	–	–	(1)	–	–	–	–
At 30 June 2020	27	26	2	55	5	11	17	33

31 December 2019*

	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January 2019	13	11	1	25	3	1	29	33
Transferred from Stage 1 to Stage 2	(4)	24	–	20	–	1	–	1
Transferred from Stage 2 to Stage 1	8	(26)	–	(18)	1	(1)	–	–
Transferred to Stage 3	–	(2)	1	(1)	–	–	–	–
Transferred from Stage 3	–	–	–	–	–	–	–	–
Net re-measurement	(6)	(1)	–	(7)	(2)	–	(4)	(6)
Income statement (credit)/charge	(2)	(5)	1	(6)	(1)	–	(4)	(5)
Derecognised due to disposals	–	–	–	–	–	–	(5)	(5)
Other movements	(1)	2	(1)	–	1	1	(2)	–
At 31 December 2019	10	8	1	19	3	2	18	23

The internal credit grade profile of loan commitments and financial guarantees is set out in the following table:

	30 June 2020* € m	31 December 2019* € m
Strong	**8,030**	8,230
Satisfactory	**3,953**	3,642
Criticised watch	**298**	197
Criticised recovery	**9**	19
Default	**147**	162
Total	**12,437**	12,250

Non-performing off-balance sheet commitments
Total non-performing off-balance sheet commitments amounted to € 147 million (31 December 2019: € 162 million).

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

Risk management

Credit risk – Investment securities

The following table analyses the carrying value of investment securities by major classifications:

	30 June 2020* Carrying value € m	31 December 2019* Carrying value € m
Debt securities at FVOCI		
Irish Government securities	5,747[1]	5,296
Euro government securities	1,332	1,538
Non Euro government securities	180	212
Supranational banks and government agencies	931	1,034
Collateralised mortgage obligations	221	222
Other asset backed securities	95	106
Euro bank securities	5,202	5,343
Non Euro bank securities	1,630	1,654
Euro corporate securities	417	375
Non Euro corporate securities	93	101
Total debt securities at FVOCI	15,848	15,881
Debt securities at amortised cost		
Irish Government securities	2,300	–
Euro government securities	91	–
Non Euro government securities	55	–
Supranational banks and government agencies	175	–
Asset backed securities	645	591
Euro bank securities	88	–
Euro corporate securities	23	14
Non Euro corporate securities	39	30
Total debt securities at amortised cost	3,416	635
Equity securities		
Equity investments at FVOCI	–	458
Equity investments at FVTPL	379	357
Total investment securities	19,643	17,331

[1]Includes € 1,806 million in Euro commercial paper issued by the Irish Government.

Debt securities at FVOCI include unrealised gross gains of € 532 million (31 December 2019: € 577 million) and unrealised gross losses of € 19 million (31 December 2019: € 10 million).

Equity investments at FVOCI included unrealised gross gains of € 414 million at 31 December 2019. Equity investments at FVTPL include unrealised gross gains of € 171 million (31 December 2019: € 147 million) and unrealised gross losses of € 6 million (31 December 2019: € 4 million).

For further details on investment securities, see note 21 'Investment securities' in the condensed consolidated interim financial statements.

Debt securities and related ECL analysed by IFRS 9 staging

	30 June 2020*				31 December 2019*			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At amortised cost – gross	3,397	20	–	3,417	635	–	–	635
ECL allowance	–	(1)	–	(1)	–	–	–	–
At amortised cost – carrying value	3,397	19	–	3,416	635	–	–	635
At FVOCI – carrying value	15,806	42	–	15,848	15,881	–	–	15,881
ECL allowance (included in carrying value)	*(4)*	–	–	*(4)*	*(4)*	–	–	*(4)*
Total carrying value	19,203	61	–	19,264	16,516	–	–	16,516

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

Credit risk

Credit ratings

External credit ratings of financial assets*

The following table sets out the credit quality of financial assets based on external credit ratings. These include loans and advances to banks, investment debt securities and trading portfolio financial assets. Information on the external credit ratings for loans and advances to customers where an external credit rating is available is disclosed on page 66.

	At amortised cost					At FVOCI					30 June 2020 Total
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	€ m
AAA/AA	807	–	263	423	1,493	5,108	36	1,134	316	6,594	8,087
A/A-	1,239	–	2,320	212	3,771	1,324	237	5,782	–	7,343	11,114
BBB+/BBB/BBB-	12	–	38	10	60	400	209	1,274	–	1,883	1,943
Sub investment	–	62	–	–	62	–	28	–	–	28	90
Unrated	–	–	–	–	–	–	–	–	–	–	–
Total	2,058	62	2,621	645[1]	5,386	6,832	510	8,190[2]	316	15,848	21,234
Of which: Stage 1	2,058	52	2,621	635	5,366	6,832	468	8,190	316	15,806	21,172
Stage 2	–	10	–	10	20	–	42	–	–	42	62
Stage 3	–	–	–	–	–	–	–	–	–	–	–

	At amortised cost				At FVOCI					31 December 2019 Total
	Bank € m	Corporate € m	Other € m	Total € m	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	€ m
AAA/AA	840	–	383	1,223	5,257	31	1,277	328	6,893	8,116
A/A-	592	–	198	790	1,396	209	5,420	–	7,025	7,815
BBB+/BBB/BBB-	45	–	10	55	344	208	1,383	–	1,935	1,990
Sub investment	1	44	–	45	–	28	–	–	28	73
Unrated	–	–	–	–	–	–	–	–	–	–
Total	1,478	44	591[1]	2,113	6,997	476	8,080[2]	328	15,881	17,994
Of which: Stage 1	1,478	44	591	2,113	6,997	476	8,080	328	15,881	17,994
Stage 2	–	–	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–	–	–	–

[1] Relates to asset backed securities.
[2] Includes supranational banks and government agencies.

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 2020, the Group's top 50 exposures amounted to € 4.7 billion, and accounted for 7.7% (31 December 2019: € 4.7 billion and 7.6%) of the Group's on-balance sheet total gross loans and advances to customers. In addition, these customers have undrawn facilities amounting to € 886 million (31 December 2019: € 485 million). No single customer exposure exceeded regulatory requirements.

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

Risk management

Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

The Group's forbearance initiatives are detailed on pages 135 to 144 in the 'Risk management' section of the Annual Financial Report 2019. The following table sets out the internal credit ratings and ECL staging of forborne loans and advances to customers:

	30 June 2020					
	At amortised cost					At FVTPL
	Residential mortgages	Other personal	Property and construction	Non-property business	Total	Total
Analysed by internal credit ratings	€ m	€ m	€ m	€ m	€ m	€ m
Strong	–	–	–	–	–	–
Satisfactory	–	–	–	–	–	–
Total strong/satisfactory	–	–	–	–	–	–
Criticised watch	–	–	–	–	–	–
Criticised recovery	560	53	110	209	932	–
Total criticised	560	53	110	209	932	–
Non-performing	1,799	94	268	285	2,446	–
Gross carrying amount	2,359[(1)]	147	378	494	3,378	–
Analysed by ECL staging						
Stage 1	8	2	97	24	131	–
Stage 2	547	52	106	196	901	–
Stage 3	1,617	93	175	274	2,159	–
POCI	187	–	–	–	187	–
Total	2,359[(1)]	147	378	494	3,378	–
Total gross carrying amount of loans and advances to customers	31,027	2,707	7,136	19,623	60,493	76

	31 December 2019					
	At amortised cost					At FVTPL
	Residential mortgages	Other personal	Property and construction	Non-property business	Total	Total
Analysed by internal credit ratings	€ m	€ m	€ m	€ m	€ m	€ m
Strong	–	–	–	–	–	–
Satisfactory	–	–	–	–	–	–
Total strong/satisfactory	–	–	–	–	–	–
Criticised watch	–	–	–	–	–	–
Criticised recovery	716	51	154	255	1,176	–
Total criticised	716	51	154	255	1,176	–
Non-performing	1,867	80	156	172	2,275	–
Gross carrying amount	2,583[(1)]	131	310	427	3,451	–
Analysed by ECL staging						
Stage 1	7	1	95	40	143	–
Stage 2	704	50	68	226	1,048	–
Stage 3	1,681	80	147	161	2,069	–
POCI	191	–	–	–	191	–
Total	2,583[(1)]	131	310	427	3,451	–
Total gross carrying amount of loans and advances to customers	31,454	2,984	7,299	20,312	62,049	77

[(1)]Republic of Ireland € 2,310 million (31 December 2019: € 2,541 million) and United Kingdom € 49 million (31 December 2019: € 42 million).

Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Republic of Ireland residential mortgages

The Group has a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in actual or apparent financial 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 relevant regulatory requirements. MARS includes long term forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in financial difficulty.

Under the definition of forbearance, which complies with that prescribed by the European Banking Authority, facilities subject to forbearance measures remain in forbearance stock for a minimum 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 analyses, by number of accounts and loan balance, type of forbearance and staging, residential mortgages based on current forbearance measures in the Republic of Ireland:

							30 June 2020
			Gross at amortised cost				
		Total	Stage 1	Stage 2	Stage 3	POCI	ECL allowance
	Number	Balance	Balance	Balance	Balance	Balance	Balance
Total		€ m	€ m	€ m	€ m	€ m	€ m
Interest only	5,263	615	–	103	497	15	177
Reduced payment	1,128	160	–	20	140	–	50
Payment moratorium	1,955	247	–	96	150	1	45
Fundamental restructure	107	11	2	–	9	–	2
Restructure	553	21	–	2	19	–	10
Arrears capitalisation	6,636	744	–	260	449	35	156
Term extension	711	66	–	25	39	2	15
Split mortgages	604	78	–	24	53	1	16
Voluntary sale for loss	503	10	–	–	2	8	8
Low fixed interest rate	1,118	159	–	1	34	124	27
Positive equity solutions	1,462	147	–	5	142	–	29
Other	353	52	6	4	41	1	11
Total forbearance	20,393	2,310	8	540	1,575	187	546
Of which: Performing	4,370	553	6	540	–	7	41
Non-performing	16,023	1,757	2	–	1,575	180	505
Of which:							
Owner-occupier							
Interest only	4,543	523	–	88	420	15	158
Reduced payment	933	129	–	10	119	–	44
Payment moratorium	1,614	203	–	83	119	1	34
Fundamental restructure	5	2	1	–	1	–	–
Restructure	210	10	–	1	9	–	4
Arrears capitalisation	6,081	671	–	233	403	35	145
Term extension	617	53	–	21	30	2	12
Split mortgages	587	75	–	24	51	–	15
Voluntary sale for loss	325	6	–	–	1	5	6
Low fixed interest rate	1,111	158	–	1	34	123	27
Positive equity solutions	1,440	145	–	5	140	–	28
Other	297	40	6	4	29	1	10
Total	17,763	2,015	7	470	1,356	182	483

Risk management

Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance *(continued)*

							31 December 2019
	Gross at amortised cost						
		Total	Stage 1	Stage 2	Stage 3	POCI	ECL allowance
	Number	Balance	Balance	Balance	Balance	Balance	Balance
Total		€ m	€ m	€ m	€ m	€ m	€ m
Interest only	5,414	651	–	140	507	4	137
Reduced payment	1,301	195	–	36	159	–	46
Payment moratorium	954	104	–	29	75	–	23
Fundamental restructure	138	15	2	–	13	–	2
Restructure	531	21	–	4	17	–	8
Arrears capitalisation	7,772	961	–	390	532	39	127
Term extension	864	88	–	36	50	2	13
Split mortgages	829	117	–	51	65	1	18
Voluntary sale for loss	541	10	–	–	1	9	10
Low fixed interest rate	1,192	173	–	1	37	135	19
Positive equity solutions	1,489	152	–	3	149	–	28
Other	383	54	5	9	39	1	8
Total forbearance	21,408	2,541	7	699	1,644	191	439
Of which: Performing	5,433	711	4	699	–	8	20
Non-performing	15,975	1,830	3	–	1,644	183	419
Of which:							
Owner-occupier							
Interest only	4,574	541	–	112	425	4	120
Reduced payment	1,065	153	–	21	132	–	39
Payment moratorium	782	85	–	26	59	–	14
Fundamental restructure	6	1	–	–	1	–	–
Restructure	190	9	–	1	8	–	3
Arrears capitalisation	7,093	865	–	346	480	39	117
Term extension	727	68	–	27	39	2	10
Split mortgages	807	113	–	50	62	1	17
Voluntary sale for loss	345	7	–	–	1	6	7
Low fixed interest rate	1,184	172	–	1	37	134	19
Positive equity solutions	1,468	150	–	3	147	–	28
Other	312	41	5	9	26	1	6
Total	18,553	2,205	5	596	1,417	187	380

A key feature of the forbearance portfolio is the level of advanced forbearance measures (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 € 0.4 billion accounted for 18% of the total forbearance portfolio at 30 June 2020 (31 December 2019: € 0.5 billion,18%). Following restructure, loans are reported as defaulted for a probationary period of at least 12 months.

Other permanent standard forbearance measures are term extensions and arrears capitalisation (which often include a term extension). Permanent forbearance measures are reported within the stock of forbearance for at least two years. These include loans where a subsequent interest only or other temporary arrangement had expired at 30 June 2020, 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 2020, accounting for 32% by value of the total forbearance portfolio (31 December 2019: 38%). A high proportion of the arrears capitalisation portfolio (60% by value) is in Stage 3 at 30 June 2020.

Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Non-mortgage subject to forbearance measures by type of forbearance

The Group has developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties. The approach is based on assessing customer affordability and applying treatment strategies that deliver a sustainable solution for the customer and the Group. Further information on non-mortgage forbearance is included on page 142 of the Annual Financial Report 2019.

Non-retail customers in difficulty may have exposures across a number of asset classes including SME debt, associated property exposures and residential mortgages. The following table sets out an analysis of non-mortgage forbearance solutions:

Amortised cost

	30 June 2020					31 December 2019				
	At amortised cost					At amortised cost				
	Total	Stage 1	Stage 2	Stage 3/ POCI[1]	ECL allowance	Total	Stage 1	Stage 2	Stage 3/ POCI[1]	ECL allowance
Other personal	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m
Interest only	11	–	3	8	5	11	–	3	8	4
Reduced payment	5	–	1	4	3	5	–	2	3	2
Payment moratorium	28	–	12	16	12	16	–	6	10	7
Arrears capitalisation	8	–	3	5	3	6	–	2	4	2
Term extension	36	–	14	22	14	28	–	12	16	10
Fundamental restructure	8	2	1	5	2	9	1	1	7	3
Restructure	49	–	18	31	23	53	–	24	29	20
Asset disposals	2	–	–	2	1	3	–	–	3	1
Other	–	–	–	–	–	–	–	–	–	–
Total	147	2	52	93	63	131	1	50	80	49
Property and construction										
Interest only	102	64	8	30	31	34	–	6	28	11
Reduced payment	9	–	5	4	3	10	–	5	5	2
Payment moratorium	34	–	12	22	9	7	–	3	4	1
Arrears capitalisation	7	–	1	6	2	7	–	4	3	1
Term extension	48	–	20	28	8	47	–	20	27	8
Fundamental restructure	49	15	2	32	16	51	10	9	32	14
Restructure	50	–	16	34	16	132	84	15	33	18
Asset disposals	6	–	–	6	2	8	–	–	8	3
Other	73	18	42	13	12	14	1	6	7	3
Total	378	97	106	175	99	310	95	68	147	61
Non-property business										
Interest only	24	–	5	19	8	35	–	21	14	7
Reduced payment	10	–	3	7	5	17	–	6	11	5
Payment moratorium	118	–	60	58	32	5	–	1	4	2
Arrears capitalisation	7	–	3	4	2	2	–	1	1	–
Term extension	61	–	29	32	12	71	–	49	22	9
Fundamental restructure	97	24	15	58	27	94	22	33	39	20
Restructure	149	–	77	72	45	116	–	57	59	24
Asset disposals	3	–	–	3	2	4	–	–	4	2
Other	25	–	4	21	5	83	18	58	7	5
Total	494	24	196	274	138	427	40	226	161	74
Total non-mortgage forbearance at amortised cost	1,019	123	354	542	300	868	136	344	388	184
Of which: Performing	372	18	354	–	58	460	116	344	–	46
Non-performing	647	105	–	542	242	408	20	–	388	138

[1]POCI assets amounting to € 0.1 million are included in 'Property and construction' (31 December 2019: € 0.2 million 'Property and construction').

Risk management

Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

EBA Compliant Moratoria

Introduction

During the period, the Group introduced payment break options to support customers in response to COVID-19. The following information relates to loans and advances that meet the definition of EBA Guidelines (EBA – Compliant moratoria) and are not reported as having received forbearance. (Specific conditions that must be met so that a moratorium is considered a general payment moratorium include that a) it applies to a wide group of borrowers, b) the moratorium only changes the schedule of payments and c) the same conditions for changes to payment schedules are offered to all).

The table below analyses the total loans and advances that received EBA compliant moratoria, together with a maturity analysis of loans and advances that had remained on a payment break at 30 June 2020.

				30 June 2020
		Main components		
	Total € m	Households € m	*of which: Residential Mortgages* *€ m*	Other € m
Granted	7,414	3,619	*3,223*	3,795
Expired	1,896	1,011	*978*	885
Remaining 30 June 2020	5,518	2,608	*2,245*	2,910
Maturity				
<= 3 months	4,841	2,260	*1,942*	2,581
> 3 months <= 6 months	643	348	*303*	295
> 6 months <= 9 months	34	–	*–*	34

The table below analyses the credit profile and ECL allowance for loans and advances that had remained on a payment break at 30 June 2020.

								30 June 2020
		Main components				Main components		
	Gross carrying amount € m	Households € m	*of which: Residential Mortgages* *€ m*	Other € m	ECL allowance € m	Households € m	*of which: Residential Mortgages* *€ m*	Other € m
Stage 1	3,339	1,950	*1,705*	1,389	71	38	*27*	33
Stage 2	1,973	537	*430*	1,436	141	30	*18*	111
	5,312	2,487	*2,135*	2,825	212	68	*45*	144
Non-performing	206	121	*110*	85	40	20	*15*	20
Total	5,518	2,608	*2,245*	2,910	252	88	*60*	164

Funding and liquidity risk

Liquidity

Liquidity risk is the risk that the Group will not be able to fund its assets and meet its payment obligations as they fall due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, wholesale, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost.

At 30 June 2020, the Group held € 42,960 million (31 December 2019: € 32,045 million) in qualifying liquid assets (QLA)[(1)]/contingent funding of which € 4,581 million (31 December 2019: € 2,617 million) 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. At 30 June 2020, the Group liquidity pool was € 38,379 million (31 December 2019: € 29,428 million). During the six months to 30 June 2020, the liquidity pool ranged from € 29,176 million to € 39,772 million and the average balance was € 34,973 million.

[(1)]QLA is an asset that can be readily converted into cash, either with the market or with the monetary authorities, and where 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. The liquidity amounts shown in the table represent the clean prices after deduction of the ECB haircut.

	30 June 2020				31 December 2019			
		Liquidity pool available (ECB eligible)	High Quality Liquid Assets (HQLA)[(1)] in the liquidity pool			Liquidity pool available (ECB eligible)	High Quality Liquid Assets (HQLA)[(1)] in the liquidity pool	
	Liquidity pool € m	€ m	Level 1 € m	Level 2 € m	Liquidity pool € m	€ m	Level 1 € m	Level 2 € m
Cash and deposits with central banks	10,082[(2)]	–	12,372[(2)]	–	7,502[(2)]	–	9,897[(2)]	–
Total government bonds	9,160	8,473	8,865	295	6,506	5,444	6,101	405
Other:								
Covered bonds	4,726	3,906	2,782	1,453	4,576	3,761	3,079	1,409
Other[(3)]	14,411	11,196	50	377	10,844	8,007	100	356
Total other	19,137	15,102	2,832	1,830	15,420	11,768	3,179	1,765
Total	38,379	23,575	24,069	2,125	29,428	17,212	19,177	2,170
Of which:								
EUR	35,212				26,217			
GBP	1,569				1,549			
USD	1,593				1,655			
Other	5				7			

[(1)]Level 1 – High Quality Liquid Assets ("HQLAs") 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 – HQLAs include highly rated sovereign bonds, highly rated covered bonds and certain other strongly rated securities.
[(2)]For Liquidity Coverage Ratio ("LCR") purposes, assets outside the Liquidity function's control can qualify as HQLAs in so far as they match outflows in the same jurisdiction. For the Group, this means that UK HQLAs (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.
[(3)]Includes unsecured bank bonds and self-issued covered bonds arising from the securitisation of residential mortgage assets.

Management of the Group liquidity pool

The Group manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the Risk function. These pool assets primarily comprise government guaranteed bonds, central bank reserves and internal and external covered bonds. The Group's liquidity buffer increased in the six months to 30 June 2020 by € 8,951 million which was predominantly due to an increase in customer deposits in Ireland, proceeds from net retained covered bond and securitisation issuances, net proceeds from Additional Tier 1 ('AT1s') issuance and buy-back, proceeds from the portfolio sale of distressed loans during 2019 and customer loan redemptions during the period offset by the maturity of senior debt.

Other contingent liquidity

The Group has access to other unencumbered assets providing a source of contingent liquidity which are not in the Group's 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 risk and its management, see pages 146 to 153 of the Annual Financial Report 2019.

Risk management

Funding and liquidity risk

Liquidity regulation

The Group is required to comply with the liquidity requirements of the Single Supervisory Mechanism/Central Bank of Ireland and also with the requirements of local regulators in jurisdictions in which it operates. In addition, the Group is required to carry out liquidity stress testing capturing firm specific, systemic risk events and a combination of both. The Group adheres to these requirements.

The following table outlines the LCR, Net Stable Funding Ratio ("NSFR") and Loan to Deposit Ratio ("LDR"):

Liquidity metrics	30 June 2020 %	31 December 2019 %
Liquidity Coverage Ratio	**158**	157
Net Stable Funding Ratio	**136**	129
Loan to Deposit Ratio	**77**	85

The Group monitors and reports its current and forecast position against CRD IV and other related liquidity metrics and has fully complied with the minimum LCR requirement of 100% in the six months to 30 June 2020.

The calculated NSFR is based on the current Basel standard. The second Capital Requirements Regulation (CRR2), effective 27 June 2019, introduces a binding NSFR requirement of 100% and comes into force in June 2021.

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.

	30 June 2020		31 December 2019	
Sources of funds	€ m	%	€ m	%
Customer accounts	75,678	78	71,803	76
Of which:				
Euro	62,838		58,507	
Sterling	11,026		11,316	
US dollar	1,685		1,803	
Other currencies	129		177	
Deposits by central banks and banks – secured	367	–	294	–
– unsecured	453	1	529	1
Asset covered securities ("ACS")	3,025	3	3,025	3
Senior debt	3,312	3	3,806	4
Capital	15,070	15	15,529	16
Total source of funds	97,905	100	94,986	100
Other	3,536		3,576	
	101,441		98,562	

Customer deposits represent the largest source of funding for the Group with the core retail franchises and accompanying deposit base in both Ireland and the UK providing a stable and reasonably predictable source of funds. Customer accounts increased by € 3,875 million in the six months to 30 June 2020. This was mainly due to a € 4,331 million increase in Euro deposits, primarily in current and demand deposit accounts driven by government COVID-19 related supports in place since mid-March, the impact of reduced consumption and increased precautionary savings.

The other significant currencies of the Group's deposit book are GBP and USD. In the six months to 30 June 2020, there was a decrease in the value of GBP deposits of € 799 million and an increase in the value of USD deposits of € 6 million due to currency movements. On a constant currency basis there was an increase in GBP deposits of € 509 million and a decrease in USD deposits of € 124 million.

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 capacity for future asset growth. The Group maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

In the six months to 30 June 2020, senior debt decreased € 494 million to € 3,312 million primarily due to a contractual maturity. Outstanding asset covered securities (ACS) at 30 June 2020 remained flat at € 3,025 million. For further details on debt securities, see 'Debt securities in issue' (note 28) in the condensed consolidated interim financial statements.

In the six months to 30 June 2020, capital decreased € 459 million to € 15,070 million primarily driven by a reduction in reserves (31 December 2019: € 15,529 million). Offsetting this, the Group issued € 625 million nominal value in June 2020 of AT1 Perpetual Contingent Temporary Write Down Securities. In addition, the Group redeemed € 202 million of the € 500 million AT1 Perpetual Contingent Temporary Write Down Securities issued in 2015. For further details on these capital items, see 'Other equity interests' (note 34) and 'Non-controlling interests in subsidiaries' (note 35) in the condensed consolidated interim financial statements.

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

Risk management

Funding and liquidity risk

Composition of wholesale funding

At 30 June 2020, total wholesale funding outstanding was € 8,455 million (31 December 2019: € 8,953 million). € 1,796 million of wholesale funding matures in less than one year (31 December 2019: € 1,779 million). € 6,659 million of wholesale funding has a residual maturity of over one year (31 December 2019: € 7,174 million).

Outstanding wholesale funding comprised € 3,392 million in secured funding (31 December 2019: € 3,319 million) and € 5,063 million in unsecured funding (31 December 2019: € 5,634 million).

30 June 2020	< 1 month € m	1–3 months € m	3–6 months € m	6–12 months € m	Total < 1 year € m	1–3 years € m	3–5 years € m	> 5 years € m	Total € m
Deposits by central banks and banks	480	66	–	–	546	274	–	–	820
Senior debt	–	–	–	–	–	500	2,312	500	3,312
ACS	750	–	–	500	1,250	1,750	–	25	3,025
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	1,298	1,298
Total 30 June 2020	1,230	66	–	500	1,796	2,524	2,312	1,823	8,455
Of which:									
Secured	777	66	–	500	1,343	2,024	–	25	3,392
Unsecured	453	–	–	–	453	500	2,312	1,798	5,063
	1,230	66	–	500	1,796	2,524	2,312	1,823	8,455

31 December 2019	< 1 month € m	1–3 months € m	3–6 months € m	6–12 months € m	Total < 1 year € m	1–3 years € m	3–5 years € m	> 5 years € m	Total € m
Deposits by central banks and banks	351	–	178	–	529	294	–	–	823
Senior debt	–	500	–	–	500	–	1,916	1,390	3,806
ACS	–	–	–	750	750	1,250	1,000	25	3,025
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	1,299	1,299
Total 31 December 2019	351	500	178	750	1,779	1,544	2,916	2,714	8,953
Of which:									
Secured	–	–	–	750	750	1,544	1,000	25	3,319
Unsecured	351	500	178	–	1,029	–	1,916	2,689	5,634
	351	500	178	750	1,779	1,544	2,916	2,714	8,953

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or to be sold. The Group manages encumbrance levels to ensure that the Group has sufficient contingent collateral to maximise balance sheet flexibility.

The Group had an encumbrance ratio of 11% at 30 June 2020 (31 December 2019: 11%) with € 11,256 million of the Group's assets encumbered (31 December 2019: € 11,572 million). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

Condensed consolidated interim financial statements *(unaudited)*

Notes to the condensed consolidated interim financial statements

Condensed consolidated income statement *(unaudited)*

for the half-year ended 30 June 2020

	Notes	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Interest income calculated using the effective interest method	3	**1,060**	1,155
Other interest income and similar income	3	**38**	38
Interest and similar income	3	**1,098**	1,193
Interest and similar expense	4	**(131)**	(143)
Net interest income		**967**	1,050
Dividend income	5	**25**	25
Fee and commission income	6	**276**	256
Fee and commission expense	6	**(84)**	(26)
Net trading loss	7	**(40)**	(48)
Net gain on other financial assets measured at FVTPL	8	**43**	78
Net (loss)/gain on derecognition of financial assets measured at amortised cost	9	**(1)**	28
Other operating income	10	**1**	40
Other income		**220**	353
Total operating income		**1,187**	1,403
Operating expenses	11	**(749)**	(850)
Impairment and amortisation of intangible assets		**(88)**	(70)
Impairment and depreciation of property, plant and equipment		**(48)**	(47)
Total operating expenses		**(885)**	(967)
Operating profit before impairment losses		**302**	436
Net credit impairment charge	12	**(1,216)**	(9)
Operating (loss)/profit		**(914)**	427
Associated undertakings	22	**5**	9
(Loss)/profit before taxation		**(909)**	436
Income tax credit/(charge)	13	**209**	(75)
(Loss)/profit for the period		**(700)**	361
Attributable to:			
– Equity holders of the parent		**(718)**	343
– Non-controlling interests	35	**18**	18
(Loss)/profit for the period		**(700)**	361
Basic (loss)/earnings per share			
Basic (loss)/earnings per ordinary share	14(a)	**(27.0)c**	12.6c
Diluted (loss)/earnings per share			
Diluted (loss)/earnings per ordinary share	14(b)	**(27.0)c**	12.6c

Condensed consolidated statement of comprehensive income *(unaudited)*

for the half-year ended 30 June 2020

	Notes	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
(Loss)/profit for the period		**(700)**	361
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial losses in retirement benefit schemes, net of tax	13	**—**	(5)
Net change in fair value of equity investments at FVOCI, net of tax	13	**(18)**	(15)
Total items that will not be reclassified subsequently to profit or loss		**(18)**	(20)
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Net change in foreign currency translation reserves	13	**(86)**	(6)
Net change in cash flow hedges, net of tax	13	**104**	265
Net change in fair value of investment debt securities at FVOCI, net of tax	13	**(140)**	(4)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(122)**	255
Other comprehensive income for the period, net of tax		**(140)**	235
Total comprehensive income for the period		**(840)**	596
Attributable to:			
– Equity holders of the parent		**(858)**	578
– Non-controlling interests		**18**	18
Total comprehensive income for the period		**(840)**	596

Condensed consolidated statement of financial position *(unaudited)*

as at 30 June 2020

	Notes	30 June 2020 € m	31 December 2019 € m
Assets			
Cash and balances at central banks		14,666	11,982
Items in course of collection		50	57
Disposal groups and non-current assets held for sale	16	15	20
Derivative financial instruments	17	1,763	1,271
Loans and advances to banks	18	1,970	1,478
Loans and advances to customers	19	58,216	60,888
Investment securities	21	19,643	17,331
Interests in associated undertakings	22	88	83
Intangible assets and goodwill		921	917
Property, plant and equipment		740	803
Other assets	23	203	655
Current taxation		63	8
Deferred tax assets	24	2,737	2,666
Prepayments and accrued income		311	364
Retirement benefit assets	25	55	39
Total assets		101,441	98,562
Liabilities			
Deposits by central banks and banks	26	820	823
Customer accounts	27	75,678	71,803
Derivative financial instruments	17	1,322	1,197
Debt securities in issue	28	6,337	6,831
Lease liabilities	29	404	429
Current taxation		2	70
Deferred tax liabilities	24	60	109
Retirement benefit liabilities	25	55	60
Other liabilities	30	858	869
Accruals and deferred income		286	339
Provisions for liabilities and commitments	31	549	503
Subordinated liabilities and other capital instruments	32	1,298	1,299
Total liabilities		87,669	84,332
Equity			
Share capital	33	1,696	1,696
Reserves		10,666	11,543
Total shareholders' equity		12,362	13,239
Other equity interests	34	1,116	496
Non-controlling interests	35	294	495
Total equity		13,772	14,230
Total liabilities and equity		101,441	98,562

Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2020

	Notes	**Half-year 30 June 2020 € m**	Half-year 30 June 2019 € m
Cash flows from operating activities			
(Loss)/profit before taxation for the period		**(909)**	436
Adjustments for:			
– Non-cash and other items	40	**1,378**	211[1]
– Change in operating assets	40	**1,356**	(218)
– Change in operating liabilities	40	**4,036**	1,436[1]
– Taxation paid		**(33)**	(20)
Net cash inflow from operating activities		**5,828**	1,845
Cash flows from investing activities			
Purchase of investment securities	21	**(5,000)**	(2,885)
Proceeds from sales, redemptions and maturity of investment securities	21	**2,518**	2,757
Additions to property, plant and equipment		**(5)**	(25)
Disposal of property, plant and equipment		**7**	–
Additions to intangible assets		**(95)**	(94)
Dividends received from associated undertakings	22	**–**	10
Net cash outflow from investing activities		**(2,575)**	(237)
Cash flows from financing activities			
Net proceeds on issue of Additional Tier 1 Securities	34	**620**	–
Redemption of capital instruments	35	**(206)**	–
Proceeds on issue of debt securities – MREL	28	**–**	1,640[1]
Dividends paid on ordinary shares	15	**–**	(461)
Distributions paid to other equity interests	15	**(13)**	–
Distributions paid to non-controlling interests	35	**(19)**	(18)
Repayment of lease liabilities		**(28)**	(33)
Interest paid on debt securities – MREL		**(53)**	(23)[1]
Net cash inflow from financing activities		**301**	1,105
Change in cash and cash equivalents		**3,554**	2,713
Opening cash and cash equivalents		**12,923**	7,246
Effect of exchange translation adjustments		**(289)**	(7)
Closing cash and cash equivalents	40	**16,188**	9,952

[1]Half-year 30 June 2019 has been re-presented to align the balance sheet classification. MREL was previously presented in operating activities and is now presented in financing activities.

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

for the half-year ended 30 June 2020

	Attributable to equity holders of parent												
	Share capital	Other equity interests	Capital reserves	Merger reserve	Capital redemption reserves	Revaluation reserves	Investment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total	Non-controlling interests	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2020	1,696	496	1,133	(3,622)	14	14	623	469	13,441	(529)	13,735	495	14,230
Total comprehensive income for the period													
Loss for the period	–	–	–	–	–	–	–	–	(718)	–	(718)	18	(700)
Other comprehensive income *(note 13)*	–	–	–	–	–	–	(158)	104	–	(86)	(140)	–	(140)
Total comprehensive income for the period	–	–	–	–	–	–	(158)	104	(718)	(86)	(858)	18	(840)
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group:													
Redemption of capital instruments *(note 35)*	–	–	–	–	–	–	–	–	(6)	–	(6)	(200)	(206)
Issue of Additional Tier 1 Securities *(note 34)*	–	620	–	–	–	–	–	–	–	–	620	–	620
Distributions paid to other equity interests *(note 15)*	–	–	–	–	–	–	–	–	(13)	–	(13)	–	(13)
Distributions paid to non-controlling interests *(note 35)*	–	–	–	–	–	–	–	–	–	–	–	(19)	(19)
Total contributions by and distributions to owners of the Group	–	620	–	–	–	–	–	–	(19)	–	601	(219)	382
Realised gains on equity shares held at fair value through other comprehensive income	–	–	–	–	–	–	(344)	–	344	–	–	–	–
At 30 June 2020	1,696	1,116	1,133	(3,622)	14	14	121	573	13,048	(615)	13,478	294	13,772

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

for the half-year ended 30 June 2019

	Attributable to equity holders of parent												
	Share capital	Other equity interests	Capital reserves	Merger reserve	Capital redemption reserves	Revaluation reserves	Investment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total	Non-controlling interests	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2019	1,696	494	1,133	(3,622)	14	14	676	285	13,763	(595)	13,858	–	13,858
Total comprehensive income for the period													
Profit for the period	–	–	–	–	–	–	–	–	343	–	343	18	361
Other comprehensive income *(note 13)*	–	–	–	–	–	–	(19)	265	(5)	(6)	235	–	235
Total comprehensive income for the period	–	–	–	–	–	–	(19)	265	338	(6)	578	18	596
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group:													
Transferred to non-controlling interests *(notes 35)*	–	(494)	–	–	–	–	–	–	–	–	(494)	494	–
Dividends paid on ordinary shares *(note 15)*	–	–	–	–	–	–	–	–	(461)	–	(461)	–	(461)
Distributions paid to non-controlling interests *(note 15)*	–	–	–	–	–	–	–	–	–	–	–	(18)	(18)
Total contributions by and distributions to owners of the Group	–	(494)	–	–	–	–	–	–	(461)	–	(955)	476	(479)
At 30 June 2019	1,696	–	1,133	(3,622)	14	14	657	550	13,640	(601)	13,481	494	13,975

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

for the financial year ended 31 December 2019

	Attributable to equity holders of parent												
	Share capital	Other equity interests	Capital reserves	Merger reserve	Capital redemption reserves	Revaluation reserves	Investment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total	Non-controlling interests	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2019	1,696	494	1,133	(3,622)	14	14	676	285	13,763	(595)	13,858	–	13,858
Total comprehensive income for the year													
Profit for the year	–	–	–	–	–	–	–	–	327	–	327	37	364
Other comprehensive income	–	–	–	–	–	–	(53)	184	(188)	66	9	–	9
Total comprehensive income for the year	–	–	–	–	–	–	(53)	184	139	66	336	37	373
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group:													
Transferred to non-controlling interests *(note 35)*	–	(494)	–	–	–	–	–	–	–	–	(494)	494	–
Non-controlling interests on acquisition of subsidiary *(note 35)*	–	–	–	–	–	–	–	–	–	–	–	1	1
Issue of Additional Tier 1 Securities *(note 34)*	–	496	–	–	–	–	–	–	–	–	496	–	496
Dividends paid on ordinary shares	–	–	–	–	–	–	–	–	(461)	–	(461)	–	(461)
Distributions paid to other equity interests	–	–	–	–	–	–	–	–	–	–	–	–	–
Distributions paid to non-controlling interests *(note 35)*	–	–	–	–	–	–	–	–	–	–	–	(37)	(37)
Total contributions by and distributions to owners of the Group	–	2	–	–	–	–	–	–	(461)	–	(459)	458	(1)
At 31 December 2019	1,696	496	1,133	(3,622)	14	14	623	469	13,441	(529)	13,735	495	14,230

Notes to the condensed consolidated interim financial statements

1 Basis of preparation, accounting policies and estimates

Reporting entity

AIB Group plc ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's Registered Office was changed to 10 Molesworth Street, Dublin 2, Ireland on 16 June 2020 (previously Bankcentre, Ballsbridge, Dublin 4, Ireland). AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

The condensed consolidated interim financial statements for the six months ended 30 June 2020 comprise the parent company and its subsidiary undertakings, collectively referred to as 'AIB Group', and the Group's interests in associated undertakings.

Comparative information was previously reported in the Half-Yearly Financial Report 2019 other than the following: Distributions of € 18 million were originally reported as 'Other equity interests – distributions' but is now disclosed as 'Profit Attributable to Non-controlling interests' and 'Distributions paid to non-controlling interests'. These distributions related to AT1 Securities that were reported as 'Other equity interests' at 30 June 2019 but were subsequently classified in 2019 as 'Non-controlling interests', hence a representation in June 2019 income statement was appropriate.

Following a change in methodology of allocating proceeds from loan disposals, the amounts reported as income under 'Net gain on other financial assets measured at FVTPL' and 'Net (loss)/gain on derecognition of financial assets measured at amortised cost' has changed from € 92 million and € 14 million to € 78 million and € 28 million. This revised methodology was adopted for the full year financial statements in 2019 and hence a representation in June 2019 income statement was appropriate.

The consolidated financial statements of the Group for the year ended 31 December 2019 ('the Annual Financial Report 2019') are available upon request from the Company Secretary or at www.aib.ie.

Going concern

The financial statements for the six months ended 30 June 2020 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including internally generated stress scenarios. The period of assessment used by the Directors is 12 months from the date of approval of these half-yearly financial statements

Accounting policies

The condensed consolidated interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These statements should be read in conjunction with the Annual Financial Report 2019, which was prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "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 has been no significant changes to the accounting policies described on pages 245 to 272 of the Annual Financial Report 2019.

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 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 impairment of financial assets; 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.

Notes to the condensed consolidated interim financial statements

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

Critical accounting judgements and estimates adopted by the Group are set out on pages 273 to 277 of the Annual Financial Report 2019 and while they remain appropriate, additional disclosures taking account of developments in the six months to 30 June 2020 are given as follows:

Deferred taxation: update on the *significant judgement* that is being made about the projection of long term future profitability because of the period over which recovery extends is given in note 24 – Deferred taxation.

Impairment of financial assets and ECL allowance: The calculation of the ECL allowance is highly complex and the process requires significant use of a number of accounting judgements, estimates and assumptions, some of which, by their nature, are highly subjective and very sensitive to risk factors such as economic conditions. This is particularly amplified at 30 June 2020 given the COVID-19 pandemic. The most *significant judgements*, i.e. relating to management adjustments to reflect all available information that have not been included in the risk measurement process modelled outcomes, are outlined on pages 43 and 44. Updated macroeconomic variables, *a critical accounting estimate,* used in models to calculate ECL allowances are set out on pages 38 to 41.

Provision for liabilities and commitments: An update on individual *material estimates* is given in note 31 – Provisions for liabilities and commitments.

Adoption of new accounting standards

During the half-year to 30 June 2020, the 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 page 272 of the Annual Financial Report 2019. There are no standards that are not yet effective that would be expected to have a material impact on the Group in future reporting periods.

Statement of compliance

The condensed consolidated interim financial statements comply with IAS 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 2020 are unaudited but have been reviewed by the independent auditor, Deloitte Ireland LLP, whose report is set out on page 143. 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 2019 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 Ireland LLP, 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 2019 have been filed in the Companies Registration Office.

2 Segmental information

Segment overview

Following changes to the Group's operating model in the second half of 2019, performance is now managed and reported across the Retail Banking, Corporate, Institutional & Business Banking ("CIB"), AIB UK and Group segments. Figures for the half-year to 30 June 2019 have been restated on a comparative basis, in line with the basis of segment reporting adopted in the Annual Financial Report 2019. Segment performance excludes exceptional items.

For further information refer to the Operating and Financial Review on page 24.

Segment allocations

The segments' performance statements include all income and directly related costs, excluding overheads which are managed centrally and the costs of which are included in the Group segment. Funding and liquidity income/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.

2 Segmental information *(continued)*

	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m	Exceptional items[1] € m	Total € m
							Half-year 30 June 2020
Operations by business segment							
Net interest income	572	219	114	62	967	–	967
Net fee and commission income*	140	33	22	(3)	192	–	192
Other	21	12	(2)	(3)	28	–	28
Other income	161	45	20	(6)	220	–	220
Total operating income	733	264	134	56	1,187	–	1,187
Other operating expenses	(445)	(64)	(83)	(155)	(747)	(75)	(822)
Of which: Personnel expenses	*(205)*	*(47)*	*(43)*	*(73)*	*(368)*	*(12)*[2][3]	*(380)*
General and administrative expenses	*(154)*	*(12)*	*(28)*	*(49)*	*(243)*	*(63)*[3]-[5]	*(306)*
Depreciation, impairment and amortisation	*(86)*	*(5)*	*(12)*	*(33)*	*(136)*	–	*(136)*
Bank levies and regulatory fees	(1)	–	–	(62)	(63)	–	(63)
Total operating expenses	(446)	(64)	(83)	(217)	(810)	(75)	(885)
Operating profit/(loss) before impairment losses	287	200	51	(161)	377	(75)	302
Net credit impairment charge	(491)	(538)	(187)	–	(1,216)	–	(1,216)
Operating loss	(204)	(338)	(136)	(161)	(839)	(75)	(914)
Associated undertakings	4	–	1	–	5	–	5
Loss before taxation	(200)	(338)	(135)	(161)	(834)	(75)	(909)

[1]Exceptional and one-off items are shown separately above. These are items that Management view as distorting comparability of performance from period to period. Exceptional items include:
[2]Termination benefits;
[3]Restitution costs;
[4]Property strategy; and
[5]Covid product costs.

For further information on these items see page 20.

***Analysis of net fee and commission income**	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
					Half-year 30 June 2020
Retail banking customer fees	104	11	13	9	137
Foreign exchange fees	15	10	5	(4)	26
Credit related fees	5	9	7	–	21
Specialised payment services fees	70	–	–	–	70
Other fees and commissions	24	4	–	(6)[1]	22
Fee and commission income	218	34	25	(1)	276
Specialised payment services expenses	(63)	–	–	–	(63)
Other fee and commission expenses	(15)	(1)	(3)	(2)	(21)
Fee and commission expense	(78)	(1)	(3)	(2)	(84)
	140	33	22	(3)	192

[1]Reflects the allocation of the Group's segment fee and commission income to Retail Banking and CIB segments.

Further information on 'Net fee and commission income' is set out in note 6.

Notes to the condensed consolidated interim financial statements

2 Segmental information *(continued)*

	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m	Exceptional items[1] € m	Total € m
							Half-year 30 June 2019
Operations by business segment							
Net interest income	628	225	135	62	1,050	–	1,050
Net fee and commission income*	161	37	31	1	230	–	230
Other	29	9	6	45	89	34	123
Other income	190	46	37	46	319	34[2]	353
Total operating income	818	271	172	108	1,369	34	1,403
Other operating expenses	(455)	(60)	(85)	(144)	(744)	(165)	(909)
Of which: Personnel expenses	*(231)*	*(42)*	*(44)*	*(76)*	*(393)*	*(11)*[3][4]	*(404)*
General and administrative expenses	*(153)*	*(14)*	*(32)*	*(44)*	*(243)*	*(145)*[4]-[7]	*(388)*
Depreciation, impairment and amortisation	*(71)*	*(4)*	*(9)*	*(24)*	*(108)*	*(9)*	*(117)*
Bank levies and regulatory fees	(1)	–	–	(57)	(58)	–	(58)
Total operating expenses	(456)	(60)	(85)	(201)	(802)	(165)	(967)
Operating profit/(loss) before impairment losses	362	211	87	(93)	567	(131)	436
Net credit impairment writeback/(charge)	22	(10)	(21)	–	(9)	–	(9)
Operating profit/(loss)	384	201	66	(93)	558	(131)	427
Associated undertakings	8	(1)	2	–	9	–	9
Profit/(loss) before taxation	392	200	68	(93)	567	(131)	436

[1]Exceptional and one-off items are shown separately above. These are items that Management view as distorting comparability of performance from period to period. Exceptional items include:
[2]Gain on disposal of financial instruments;
[3]Termination benefits;
[4]Restitution costs;
[5]Property strategy costs;
[6]Restructuring costs; and
[7]Provision for regulatory fines.

For further information on these items see page 20.

*Analysis of net fee and commission income**	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
					Half-year 30 June 2019
Retail banking customer fees	126	14	17	9	166
Foreign exchange fees	19	10	6	1	36
Credit related fees	6	9	11	–	26
Other fees and commissions	30	5	–	(7)[1]	28
Fee and commission income	181	38	34	3	256
Fee and commission expense	(20)	(1)	(3)	(2)	(26)
	161	37	31	1	230

[1]Reflects the allocation of the Group's segment fee and commission income to Retail Banking and CIB segments.

Further information on 'Net fee and commission income' is set out in note 6.

2 Segmental information *(continued)*

Other amounts – statement of financial position

	30 June 2020				
	Retail Banking € m	**CIB € m**	**AIB UK € m**	**Group € m**	**Total € m**
Loans and advances to customers:					
– measured at amortised cost	**34,383**	**15,365**	**8,275**	**117**	**58,140**
– measured at FVTPL	**–**	**76**	**–**	**–**	**76**
Total loans and advances to customers	**34,383**	**15,441**	**8,275**	**117**	**58,216**
Customer accounts	**52,168**	**11,943**	**10,105**	**1,462**	**75,678**

	31 December 2019				
	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Loans and advances to customers:					
– measured at amortised cost	35,526	16,095	9,069	121	60,811
– measured at FVTPL	–	77	–	–	77
Total loans and advances to customers	35,526	16,172	9,069	121	60,888
Customer accounts	48,636	11,347	10,364	1,456	71,803

				Half-year 30 June 2020
Geographic information[1][2]	**Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Gross external revenue	**903**	**260**	**24**	**1,187**
Inter-geographical segment revenue	**166**	**(145)**	**(21)**	**–**
Total revenue	**1,069**	**115**	**3**	**1,187**

				Half-year 30 June 2019
Geographic information[1][2]	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	1,121	261	21	1,403
Inter-geographical segment revenue	98	(77)	(21)	–
Total revenue	1,219	184	–	1,403

Revenue from external customers comprises interest and similar income (note 3) and interest and similar expense (note 4), and all other items of income (notes 5 to 10).

				30 June 2020
Geographic Information	**Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Non-current assets[3]	**1,573**	**83**	**5**	**1,661**

				31 December 2019
Geographic Information	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[3]	1,608	107	5	1,720

[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 goodwill and property, plant and equipment.

Notes to the condensed consolidated interim financial statements

3 Interest and similar income

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Interest on loans and advances to customers at amortised cost	**966**	1,020
Interest on loans and advances to banks at amortised cost	**9**	20
Interest on investment securities	**72**	106
	1,047	1,146
Negative interest on financial liabilities at amortised cost	**13**	9
Interest income calculated using the effective interest method	**1,060**	1,155
Interest income on finance leases and hire purchase contracts	**37**	37
Interest income on financial assets at FVTPL	**1**	1
Other interest income and similar income	**38**	38
Total interest and similar income	**1,098**	1,193

Interest income includes a credit of € 63 million (30 June 2019: a credit of € 59 million) transferred from other comprehensive income in respect of cash flow hedges which is included in 'Interest on loans and advances to customers'.

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 and similar expense

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Interest on deposits by central banks and banks	**3**	7
Interest on customer accounts	**48**	68
Interest on debt securities in issue	**39**	41
Interest on lease liabilities	**7**	7
Interest on subordinated liabilities and other capital instruments	**20**	16
	117	139
Negative interest on financial assets at amortised cost	**13**	4
Negative interest on financial assets at FVOCI	**1**	–
Interest expense calculated using the effective interest method	**131**	143

Interest expense includes a charge of € 13 million (30 June 2019: a charge of € 18 million) transferred from other comprehensive income in respect of cash flow hedges which is included in 'Interest on customer accounts'.

Interest expense reported above, calculated using the effective interest rate 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

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
NAMA subordinated bonds at FVOCI	**23**	23
Equity investments at FVTPL	**2**	2
Total	**25**	25

6 Net fee and commission income

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Retail banking customer fees	**137**	166
Foreign exchange fees	**26**	36
Credit related fees	**21**	26
Specialised payment services fees[(1)]	**70**	–
Other fees and commissions[(2)]	**22**	28
Fee and commission income	**276**	256
Specialised payment services expenses[(1)]	**(63)**	–
Other fee and commissions expenses[(3)]	**(21)**	(26)
Fee and commission expense	**(84)**	(26)
	192	230

[(1)]Specialised payment services: fee income and fee expenses in respect of services and prepaid credits for cellular phone and utilities sold to third parties.
[(2)]Other fees and commissions includes wealth commissions € 8 million (30 June 2019: € 12 million), insurance commissions € 7 million (30 June 2019: € 10 million), and other commissions € 7 million (30 June 2019: € 6 million).
[(3)]Other fee and commission expenses includes credit card commissions of € 16 million (30 June 2019: € 20 million), and ATM expenses of € 1 million (30 June 2019: € 2 million), both of which relate to 'Retail banking customer fees'. This also includes € 4 million (30 June 2019: € 4 million) relating to 'Other fees and commissions'.

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 and similar expense (note 4).

7 Net trading loss

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Foreign exchange contracts	**(17)**	(15)
Interest rate contracts and debt securities[(1)]	**(14)**	8
Credit derivative contracts	**(2)**	(8)
Equity investments, index contracts and warrants[(2)]	**(7)**	(33)
	(40)	(48)

[(1)]Includes a loss of € 19 million (30 June 2019: a gain of € 5 million) in relation to XVA adjustments.
[(2)]Includes a loss amounting to € 6 million on a total return swap, which is hedging equities measured at FVTPL (30 June 2019: loss of € 33 million).

The total hedging ineffectiveness on cash flow hedges reflected in the condensed consolidated income statement amounted to Nil (30 June 2019: Nil).

8 Net gain on other financial assets measured at FVTPL

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Loans and advances to customers[(1)]	**21**	34
Investment securities – equity[(2)]	**22**	44
Total	**43**	78

[(1)]Excludes interest income (note 3).
[(2)]Includes unrealised gain of € 6 million on equities hedged by a trading total return swap (30 June 2019: € 35 million).

Notes to the condensed consolidated interim financial statements

9 Net (loss)/gain on derecognition of financial assets measured at amortised cost

	Carrying value at derecognition € m	Gain on derecognition € m	Loss on derecognition € m	Half-year 30 June 2020 Net loss on derecognition € m
Loans and advances to customers	**124**	**–**[1]	**(1)**[1]	**(1)**

	Carrying value at derecognition € m	Gain on derecognition € m	Loss on derecognition € m	Half-year 30 June 2019 Net gain on derecognition € m
Loans and advances to customers	738	200[1]	(172)[1]	28

[1]The (loss)/gain on derecognition has been based on the sales proceeds, net of costs, computed at a customer connection level.

In 2019, loans and advances to customers were derecognised mainly due to the sale of distressed loan portfolios.

10 Other operating income

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Gain on disposal of investment securities at FVOCI – debt	**7**	73
Loss on termination of hedging swaps[1]	**(7)**	(34)
Miscellaneous operating income	**1**	1
	1	40

[1]The majority of the loss on termination of hedging swaps relates to the disposal of debt securities at FVOCI. In addition, it includes a € 1 million charge transferred from other comprehensive income in respect of cash flow hedges.

11 Operating expenses

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Personnel expenses:		
Wages and salaries	**299**	310
Termination benefits[1]	**6**	7
Retirement benefits[2]	**45**	55
Social security costs	**33**	35
Other personnel expenses[3]	**10**	9
	393	416
Less: staff costs capitalised[4]	**(13)**	(12)
Personnel expenses	**380**	404
General and administrative expenses	**248**	286[5]
Restitution and associated costs	**58**	102
	306	388
Bank levies and regulatory fees	**63**	58
Operating expenses	**749**	850

[1]Voluntary severance programme charge of € 6 million (30 June 2019: € 7 million).

[2]Comprises a defined contribution charge of € 39 million (30 June 2019: a charge of € 40 million), a charge of € 2 million in relation to defined benefit expense (30 June 2019: a charge of € 11 million), and a long term disability payments/death in service benefit charge of € 4 million (30 June 2019: a charge of € 4 million). For details of retirement benefits, see note 25.

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

[4]Staff costs capitalised relate to intangible assets.

[5]Includes a provision for a regulatory fine of € 35 million for the CBI investigation with regard to the Tracker Mortgage Examination, created in the half-year 30 June 2019.

12 Net credit impairment charge

The following table analyses the income statement net credit impairment charge on financial instruments.

	Half-year 30 June 2020			Half-year 30 June 2019		
Credit impairment charge on financial instruments	**Measured at amortised cost € m**	**Measured at FVOCI € m**	**Total € m**	Measured at amortised cost € m	Measured at FVOCI € m	Total € m
Net re-measurement of ECL allowance						
Loans and advances to banks	**–**	**–**	**–**	–	–	–
Loans and advances to customers	**(1,202)**	**–**	**(1,202)**	(66)	–	(66)
Loan commitments	**(37)**	**–**	**(37)**	–	–	–
Financial guarantee contracts	**(10)**	**–**	**(10)**	10	–	10
Investment securities – debt	**(1)**	**–**	**(1)**	–	–	–
Credit impairment charge	**(1,250)**	**–**	**(1,250)**	(56)	–	(56)
Recoveries of amounts previously written-off	**34**	**–**	**34**	47	–	47
Net credit impairment charge	**(1,216)**	**–**	**(1,216)**	(9)	–	(9)

13 Taxation

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
AIB Group plc and subsidiaries		
Corporation tax in Ireland		
Current tax on income for the period	**–**	(15)
Adjustments in respect of prior periods	**61**	–
	61	(15)
Foreign tax		
Current tax on income for the period	**31**	(15)
Adjustments in respect of prior periods	**(1)**	–
	30	(15)
	91	(30)
Deferred taxation		
Origination and reversal of temporary differences	**(8)**	(17)
Adjustments in respect of prior periods	**21**	–
Recognition of deferred tax assets in respect of current period losses	**109**	–
Reduction in carrying value of deferred tax assets in respect of carried forward losses	**(4)**	(28)
	118	(45)
Total tax credit/(charge) for the period	**209**	(75)
Effective tax rate	**23.0%**	17.2%

Liabilities for current and deferred tax are recognised based on best estimates of the probable outcome, taking into account all available evidence and external advice, where appropriate. This necessarily involves some estimation because the tax law is uncertain and its application requires a degree of judgement, which authorities may dispute.

During the period, following resolution of a specific tax matter where uncertainty had existed relating to prior years, previously recognised net liabilities for this and related matters of € 81 million were released.

Notes to the condensed consolidated interim financial statements

13 Taxation *(continued)*

Analysis of selected other comprehensive income

	Half-year 30 June 2020			Half-year 30 June 2019		
	Gross € m	**Tax € m**	**Net € m**	Gross € m	Tax € m	Net € m
Property revaluation reserves						
Net change in property revaluation reserves	**–**	**–**	**–**	–	–	–
Total	**–**	**–**	**–**	–	–	–
Retirement benefit schemes						
Actuarial losses in retirement benefit schemes	**–**	**–**	**–**	(5)	–	(5)
Total	**–**	**–**	**–**	(5)	–	(5)
Foreign currency translation reserves						
Foreign currency translation losses transferred to income statement	**–**	**–**	**–**	–	–	–
Change in foreign currency translation reserves recognised in other comprehensive income	**(86)**	**–**	**(86)**	(6)	–	(6)
Total	**(86)**	**–**	**(86)**	(6)	–	(6)
Cash flow hedging reserves						
Amounts reclassified from the cash flow hedging reserves to the income statement as a reclassification adjustment:						
– *amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur*	**–**	**–**	**–**	–	–	–
– *amounts that have been transferred because the hedged item has affected the income statement*	**(49)**	**6**	**(43)**	(41)	5	(36)
Hedging gains recognised in other comprehensive income	**168**	**(21)**	**147**	344	(43)	301
Total	**119**	**(15)**	**104**	303	(38)	265
Investment debt securities at FVOCI reserves						
Fair value (gains) transferred to income statement	**(7)**	**1**	**(6)**	(73)	9	(64)
Fair value (losses)/gains recognised in other comprehensive income	**(153)**	**19**	**(134)**	68	(8)	60
Total	**(160)**	**20**	**(140)**	(5)	1	(4)
Investment equity securities measured at FVOCI reserves						
Fair value (losses) recognised in other comprehensive income	**(21)**	**3**	**(18)**	(17)	2	(15)
Total	**(21)**	**3**	**(18)**	(17)	2	(15)

14 Earnings per share

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

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

(a) Basic	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
(Loss)/profit attributable to equity holders of the parent	(718)	343
Distributions on other equity interests *(note 15)*	(13)	–
(Loss)/profit attributable to ordinary shareholders of the parent	(731)	343
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	2,714.4	2,714.4
(Loss)/earnings per share – basic	EUR (27.0)c	EUR 12.6c

(b) Diluted	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
(Loss)/profit attributable to ordinary shareholders of the parent *(note 14 (a))*	(731)	343
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	2,714.4	2,714.4
Potential weighted average number of shares	2,714.4	2,714.4
(Loss)/earnings per share – diluted	EUR (27.0)c	EUR 12.6c

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

Warrants

The Minister for Finance was issued warrants in 2017 to subscribe for 271,166,685 ordinary shares of AIB Group plc.

The warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027. These warrants were not included in calculating the diluted earnings per share as they were antidilutive (see note 42 to the consolidated financial statements in the Annual Financial Report 2019 for further details).

Notes to the condensed consolidated interim financial statements

15 Distributions on equity shares and other equity interests

	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Ordinary shares – dividends paid	**–**	461
Other equity interests – distributions	**13**	–

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 they become irrevocable having already been approved for payment by the Board of Directors. Interim dividends may be cancelled at any time prior to the actual payment.

On 30 March 2020, the Group announced, following the recommendation of the European Central Bank, that the Company did not intend to seek shareholder approval for the payment of a final dividend for 2019. Accordingly, the relevant Annual General Meeting ("AGM") resolution was withdrawn and the proposed dividend cancelled.

Distributions amounting to € 13 million were paid in the period on the Additional Tier 1 Securities issued by AIB Group plc in 2019. In June 2019, payments of € 18 million relating to AT1 Securities were reported as 'Other equity interests - distributions'. The AT1 Securities, issued by Allied Irish Banks, p.l.c., are now classified as non-controlling interests and the payments are therefore recorded as 'Distributions paid to non-controlling interests' – see note 35.

16 Disposal groups and non-current assets held for sale

	30 June 2020 € m	31 December 2019 € m
Property and non-financial assets held for sale[(1)]	**15**	19
Other	**–**	1
Total disposal groups and non-current assets held for sale	**15**	20

[(1)]Includes property surplus to requirements and repossessed assets which are expected to be disposed of within one year.

17 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 2020 € m	31 December 2019 € m
Interest rate contracts[1]		
Notional principal amount	**52,847**	51,330
Positive fair value	**1,514**	1,230
Negative fair value	**(1,229)**	(998)
Exchange rate contracts[1]		
Notional principal amount	**8,551**	6,710
Positive fair value	**239**	36
Negative fair value	**(77)**	(180)
Equity contracts[1]		
Notional principal amount	**199**	354
Positive fair value	**2**	5
Negative fair value	**–**	(6)
Credit derivatives[1]		
Notional principal amount	**1,300**	240
Positive fair value	**8**	–
Negative fair value	**(16)**	(13)
Total notional principal amount	**62,897**	58,634
Total positive fair value[2]	**1,763**	1,271
Total negative fair value	**(1,322)**	(1,197)

[1]Interest rate, exchange rate, equity and credit derivative contracts are entered into for both hedging and trading purposes.
[2]At 30 June 2020, 26% of fair value relates to exposures to banks (31 December 2019: 30%).

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 2019. There have been no significant changes to the Group's derivative activity as set out in note 23 to the consolidated financial statements in the Annual Financial Report 2019. The marginal increase in derivatives volumes relates to an increase in hedging of the Group's net interest income, liquidity and trading book activity.

Notes to the condensed consolidated interim financial statements

18 Loans and advances to banks	30 June 2020 € m	31 December 2019 € m
At amortised cost		
Funds placed with central banks	**391**	468
Funds placed with other banks	**1,579**	1,010
ECL allowance	**–**	–
	1,579	1,010
Total loans and advances to banks	**1,970**	1,478
Amounts include:		
Reverse repurchase agreements	**851**	151

Loans and advances to banks include cash collateral of € 531 million (31 December 2019: € 631 million) placed with derivative counterparties in relation to net derivative positions.

19 Loans and advances to customers	30 June 2020 € m	31 December 2019 € m
Amortised cost		
Loans and advances to customers	**58,788**	60,359
Reverse repurchase agreements	**87**	87
Amounts receivable under finance leases and hire purchase contracts	**1,618**	1,603
	60,493	62,049
ECL allowance	**(2,353)**	(1,238)
	58,140	60,811
Mandatorily at fair value through profit or loss		
Loans and advances to customers	**76**	77
Total loans and advances to customers	**58,216**	60,888
Of which repayable on demand or at short notice	**3,034**	3,147
Amounts include:		
Due from associated undertakings[1]	**1**	1

[1]Undrawn commitments amount to € 126 million (31 December 2019: € 104 million) and are for less than one year.

Loans and advances to customers include cash collateral amounting to € 22 million (31 December 2019: € 18 million) placed with derivative counterparties.

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of € 91 million that it is permitted to sell or repledge in the absence of default by the owner of the collateral.

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

20 ECL allowance on financial assets

The following table shows the movements on the ECL allowance on financial assets. Further information is disclosed in the 'Risk management' section of this report.

	30 June 2020 € m	31 December 2019 € m
At 1 January	**1,238**	2,039
Exchange translation adjustments	**(17)**	9
Net re-measurement of ECL allowance – investment securities-debt	**1**	–
Net re-measurement of ECL allowance – banks	**–**	–
Net re-measurement of ECL allowance – customers	**1,202**	117
Changes in ECL allowance due to write-offs	**(72)**	(362)
Changes in ECL allowance due to disposals	**(2)**	(565)
Other	**4**	–
At end of period	**2,354**	1,238
Amounts include ECL allowance on:		
Investment securities-debt measured at amortised cost	**1**	–
Loans and advances to banks measured at amortised cost	**–**	–
Loans and advances to customers measured at amortised cost	**2,353**	1,238
	2,354	1,238

Notes to the condensed consolidated interim financial statements

21 Investment securities

The following table analyses the carrying value of investment securities by type and by measurement category:

	30 June 2020 € m	31 December 2019 € m
Debt securities at FVOCI		
Irish Government securities	5,747[1]	5,296
Euro government securities	1,332	1,538
Non Euro government securities	180	212
Supranational banks and government agencies	931	1,034
Collateralised mortgage obligations	221	222
Other asset backed securities	95	106
Euro bank securities	5,202	5,343
Non Euro bank securities	1,630	1,654
Euro corporate securities	417	375
Non Euro corporate securities	93	101
Total debt securities at FVOCI	15,848	15,881
Debt securities at amortised cost		
Irish Government securities	2,300	–
Euro government securities	91	–
Non Euro government securities	55	–
Supranational banks and government agencies	175	–
Asset backed securities	645	591
Euro bank securities	88	–
Euro corporate securities	23	14
Non Euro corporate securities	39	30
Total debt securities at amortised cost	3,416	635
Equity securities		
Equity investments at FVOCI	–	458
Equity investments at FVTPL	379	357
Total equity securities	379	815
Total investment securities	19,643	17,331

[1]Includes € 1,806 million in Euro commercial paper issued by the Irish Government.

Credit impairment losses recognised in the income statement at 30 June 2020 amounted to € 1 million (31 December 2019: Nil).

In addition to the existing business model Hold-to-Collect-and-Sell ("HTCS") within Treasury, the Group introduced a new business model Hold-to-Collect ("HTC"). This business model reflects the updated strategy to invest in long term high quality bonds to maturity for yield enhancement purposes given the increasingly liability led nature of the balance sheet. On 1 January 2020, the Group transferred Irish Government securities with a fair value of € 614 million out of HTCS to HTC with an amortised cost of € 577 million which had met the criteria for inclusion under this business model. The HTC portfolio within Treasury at 30 June 2020 amounts to € 2,709 million of the total debt securities at amortised cost.

The fair value at 30 June 2020 of the assets that were reclassified on 1 January 2020, amounted to € 597 million (31 December 2019: € 614 million). If the reclassification had not been made, the Group's statement of comprehensive income for the period ended 30 June 2020 would have included additional fair value gains on the reclassified investment securities assets of € 29 million.

21 Investment securities *(continued)*

The following table sets out an analysis of movements in investment securities:

					30 June 2020
	Debt securities at FVOCI	**Debt securities at amortised cost**	**Equity investments measured at**		**Total**
			FVOCI	**FVTPL**	
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
At 1 January	**15,881**	**635**	**458**	**357**	**17,331**
Exchange translation adjustments	**(54)**	**(1)**	**–**	**–**	**(55)**
Purchases/acquisitions	**2,775**	**2,209**	**–**	**16**	**5,000**
New business model transfer	**(614)**	**577**	**–**	**–**	**(37)**
Sales/disposals/redemptions	**(879)**	**–**	**(437)**	**(16)**	**(1,332)**
Maturities	**(1,186)**	**–**	**–**	**–**	**(1,186)**
Amortisation of discounts net of premiums	**(28)**	**(4)**	**–**	**–**	**(32)**
Movement in unrealised gains/(losses)	**(47)**	**–**	**(21)**	**22**	**(46)**
At 30 June	**15,848**	**3,416**	**–**	**379**	**19,643**
Of which:					
Listed	**15,848**	**3,416**	**–**	**55**	**19,319**
Unlisted	**–**	**–**	**–**	**324**	**324**
	15,848	**3,416**	**–**	**379**	**19,643**

					31 December 2019
	Debt securities at FVOCI	Debt securities at amortised cost	Equity investments measured at		Total
			FVOCI	FVTPL	
	€ m	€ m	€ m	€ m	€ m
At 1 January	15,946	187	468	260	16,861
Exchange translation adjustments	68	–	–	–	68
Purchases/acquisitions	4,441	449	–	47	4,937
Sales/disposals	(2,192)	–	–	(24)	(2,216)
Maturities	(2,472)	(1)	–	–	(2,473)
Amortisation of discounts net of premiums	(62)	–	–	–	(62)
Movement in unrealised (losses)/gains	152	–	(10)	74	216
At 31 December	15,881	635	458	357	17,331
Of which:					
Listed	15,881	635	–	46	16,562
Unlisted	–	–	458	311	769
	15,881	635	458	357	17,331

Notes to the condensed consolidated interim financial statements

22 Interests in associated undertakings

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

Income statement	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Share of results of associated undertakings	5	9
	5[1]	9[1]

Share of net assets including goodwill	30 June 2020 € m	31 December 2019 € m
At 1 January	83	90
Income for the period	5	20
Dividends received from associated undertakings	–	(27)[2]
At end of period[3]	88	83
Of which listed on a recognised stock exchange	–	–

[1]Includes AIB Merchant Services € 5 million (30 June 2019: € 9 million).
[2]In 2019 a dividend of € 27 million was received from Merchant Services.
[3]Comprises the Group's investment in AIB Merchant Services and Fulfil Holdings Limited.

23 Other assets

	30 June 2020 € m	31 December 2019 € m
Proceeds due from disposal of loan portfolio	–	427[1]
Fair value of hedged positions	68	–
Other[2]	135	228
Total	203	655

[1]ECL – Nil.
[2]Includes items in transit € 40 million and sundry debtors € 52 million (31 December 2019: Items in transit € 75 million and sundry debtors € 67 million).

24 Deferred taxation

Analysis of movements in deferred taxation	30 June 2020 € m	31 December 2019 € m
At 1 January	**2,557**	2,595
Exchange translation and other adjustments	**(6)**	(1)
Deferred tax through other comprehensive income	**8**	44
Income statement *(note 13)*	**118**	(81)
At end of period	**2,677**	2,557
Analysed as to:		
Deferred tax assets	**2,858**	2,844
Deferred tax liabilities	**(181)**	(287)
	2,677	2,557
Represented on the statement of financial position:		
Deferred tax assets	**2,737**	2,666
Deferred tax liabilities	**(60)**	(109)
	2,677	2,557

At 30 June 2020, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,677 million (31 December 2019: € 2,557 million).

The Group accounting policy and the significant judgements made by management in relation to deferred taxation are set out in accounting policy (k) in note 1 and note 2 to the consolidated financial statements in the Annual Financial Report 2019. The following includes an update on these significant judgements as at 30 June 2020.

The amount of recognised deferred tax assets arising from unused tax losses amounts to € 2,789 million of which € 2,687 million relates to Irish tax losses and € 102 million relates to UK tax losses.

With regard to relevant Irish companies, using the Group's latest financial forecast, which takes into account the potential impact of COVID-19 on future performance, as a base and a profit growth rate of 3% from 2025, it was assessed that it will take in excess of 25 years for the deferred tax asset (€ 2,687 million) to be utilised. In 2019, the Group reported that it expected that it would take in excess of 20 years for the deferred tax asset (€ 2,669 million) to be utilised.

Furthermore, under this scenario, it is expected that 66% of the deferred tax asset will be utilised within 20 years (31 December 2019: 77%) and 43% utilised within 15 years (31 December 2019: 51%).

For the Group'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. The deferred tax asset for unutilised tax losses in the UK subsidiary amounts to £ 91 million at 30 June 2020 (31 December 2019: £ 87 million).

Following changes announced in the UK Budget in March 2020, a resolution was subsequently passed whereby the previously legislated reduction in the corporation tax rate from 19% to 17% from 2020 onwards was cancelled. Accordingly, a corporation tax rate of 19%, effective from 1 April 2020, has been substantially enacted in the period and this change has resulted in an increase of the Group's UK deferred tax asset by c. £ 10 million.

In relation to the losses incurred in the half-year ended 30 June 2020, a deferred tax asset of £ 5 million has been recognised. Furthermore, the deferred tax asset for unutilised losses carried forward was written down by £ 11 million at 30 June 2020 as the expected profitability over the 15 years, has reduced in the period primarily by the impact of COVID-19 on business performance.

Notes to the condensed consolidated interim financial statements

24 Deferred taxation *(continued)*

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.

Temporary differences recognised in other comprehensive income consist of deferred tax on financial assets at FVOCI, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provisions for expected credit losses on financial instruments, amortised income, assets leased to customers, and assets used in the course of the business.

Net deferred tax assets at 30 June 2020 of € 2,620 million (31 December 2019: € 2,504 million) are expected to be recovered after more than 12 months.

The Group has not recognised deferred tax assets in respect of: Irish tax on unused tax losses at 30 June 2020 of € 122 million (31 December 2019: € 122 million); overseas tax (UK and USA) on unused tax losses of € 3,171 million (31 December 2019: € 3,309 million); and foreign tax credits for Irish tax purposes of € 13 million (31 December 2019: € 13 million). Of these tax losses totalling € 3,293 million for which no deferred tax is recognised: € 20 million expires in 2032; € 39 million in 2033; € 26 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 2019: Nil).

Deferred tax recognised directly in equity amounted to Nil (31 December 2019: Nil).

25 Retirement benefits

The Group's accounting policy for retirement benefit obligations is set out on pages 252 and 253 of the Annual Financial Report 2019.
All defined benefit schemes operated by the Group were closed to future accrual no later than 31 December 2013 and employees who were members of a defined benefit scheme (including hybrid arrangements) transferred to a defined contribution (''DC'') scheme.

Defined contribution schemes

The total cost in respect of defined contribution schemes for the half-year ended 30 June 2020 was € 39 million (30 June 2019: € 40 million).

Defined benefit schemes

The Group's net pension surplus as at 30 June 2020 was Nil (31 December 2019: net pension deficit of € 21 million), comprising retirement benefit assets of € 55 million (31 December 2019: € 39 million) and retirement benefit liabilities of € 55 million (31 December 2019: € 60 million).

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 2020 and the year ended 31 December 2019. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	**30 June 2020 %**	31 December 2019 %
Irish scheme		
Rate of increase of pensions in payment[1]	**0.00**	0.00
Discount rate	**1.56**	1.42
Inflation assumptions[2]	**0.70**	1.05
UK scheme		
Rate of increase of pensions in payment	**2.80**	2.90
Discount rate	**1.60**	2.10
Inflation assumptions (RPI)	**2.80**	2.90

[1]Having taken actuarial and external legal advice, the Board determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. Accordingly, the long term rate of increases of pensions in payment is Nil. This does not reflect the ability of the Trustee to grant increases at any point in the future when the financial position of the scheme would enable such an increase at that point in time.
[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 34 to the consolidated financial statements in the Annual Financial Report 2019.

Increases in pensions in payment 2020

As disclosed in the Annual Financial Report 2019, the Group deemed in 2020 that funding for increases in pensions in payment was not appropriate for 2020. The Trustees of certain Irish schemes did not award an increase in respect of pensions eligible for discretionary pension increases during the period.

Contributions

There were no contributions made to the Irish Scheme for the six months to 30 June 2020. Contributions of £ 21 million were made to the UK Scheme, as a result of the revised funding arrangement implemented in December 2019. See note 34 to the consolidated financial statements in the Annual Financial Report 2019 for further details.

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 most recent valuation of the Irish scheme was 30 June 2018 and reported the scheme to be in surplus and requiring no deficit funding at this time. The most recent valuation of the UK scheme was carried out at 31 December 2017. The Group and the Trustee of the UK scheme have agreed funding payments under a new arrangement agreed in December 2019 which is described in detail in note 34 to the consolidated financial statements in the Annual Financial Report 2019.

Notes to the condensed consolidated interim financial statements

25 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 2020				31 December 2019			
	Defined benefit obligation	**Fair value of scheme assets**	**Asset ceiling/ minimum funding[1]**	**Net defined benefit (liabilities) assets**	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liabilities) assets
	€ m	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
At 1 January	**(5,904)**	**6,474**	**(591)**	**(21)**	(5,323)	6,136	(621)	192
Included in profit or loss								
Past service cost	**–**	**–**		**–**	(12)	–		(12)
Settlement	**–**	**–**		**–**	3	(5)		(2)
Interest (cost) income	**(45)**	**49**	**(4)**	**–**	(119)	139	(14)	6
Administration costs	**–**	**(2)**		**(2)**	–	(3)		(3)
	(45)	**47**	**(4)**	**(2)**	(128)	131	(14)	(11)
Included in other comprehensive income								
Re-measurements gain/(loss):								
– Actuarial gain/(loss) arising from:								
– Experience adjustments	**(1)**	**–**		**(1)**	(9)	–		(9)
– Changes in demographic assumptions	**–**	**–**		**–**	2	–		2
– Changes in financial assumptions	**110**	**–**		**110**	(620)	–		(620)
– Return on scheme assets excluding interest income	**–**	**(10)**		**(10)**	–	332		332
– Asset ceiling/minimum funding adjustments			**(99)**	**(99)**			44	44
				–[2]				(251)[2]
Translation adjustment on non-euro schemes	**75**	**(78)**		**(3)**	(52)	58		6
	184	**(88)**	**(99)**	**(3)**	(679)	390	44	(245)
Other								
Contributions by employer	**–**	**26**		**26**	–	43		43
Benefits paid	**111**	**(111)**		**–**	226	(226)		–
	111	**(85)**		**26**	226	(183)		43
At end of period	**(5,654)**	**6,348**	**(694)**	**–**	(5,904)	6,474	(591)	(21)

	30 June 2020 € m	31 December 2019 € m
Recognised on the statement of financial position as:		
Retirement benefit assets		
UK scheme	**48**	32
Other schemes	**7**	7
Total retirement benefit assets	**55**	39
Retirement benefit liabilities		
Irish scheme	**–**	–
EBS scheme	**(32)**	(35)
Other schemes	**(23)**	(25)
Total retirement benefit liabilities	**(55)**	(60)
Net pension surplus/(deficit)	**–**	(21)

[1]In recognising the net surplus or deficit on 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 Nil (31 December 2019: € 188 million), see page 106.

26 Deposits by central banks and banks

	30 June 2020 € m	31 December 2019 € m
Central Banks		
Securities sold under agreements to repurchase	**27**	–
Borrowings – secured	**274**	294
– unsecured	**–**	178
	301	472
Banks		
Securities sold under agreements to repurchase	**66**	–
Other borrowings – unsecured	**453**	351
	519	351
	820	823
Amounts include:		
Due to associated undertakings	**–**	–

Securities sold under agreements to repurchase with banks mature within six months and are secured by Irish Government bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements.

Deposits by central banks and banks include cash collateral at 30 June 2020 of € 412 million (31 December 2019: € 285 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 2020			31 December 2019		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	**1,232**	**17**	**1,249**	1,452	17	1,469
Of which:						
Government securities	**–**	**17**	**17**	–	17	17
Other securities[1]	**1,232**	**–**	**1,232**	1,452	–	1,452

[1]The Group has issued covered bonds secured on pools of residential mortgages. Securities, other than those issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

Notes to the condensed consolidated interim financial statements

27 Customer accounts

	30 June 2020 € m	31 December 2019 € m
Current accounts	**43,805**	40,283
Demand deposits	**18,928**	17,742
Time deposits	**12,922**	13,755
Other – non-controlling interests[1]	**23**	23
	75,678	71,803
Of which:		
Non-interest bearing current accounts	**35,590**	32,544
Interest bearing deposits, current accounts and short term borrowings	**40,088**	39,259
	75,678	71,803
Amounts include:		
Due to associated undertakings	**206**	208

[1]Relates to long term loans from minority shareholders in Augmentum Limited, see note 35.

Customer accounts include cash collateral of € 125 million (31 December 2019: € 89 million) received from derivative counterparties in relation to net derivative positions (see note 46 to the consolidated financial statements in the Annual Financial Report 2019 for more information).

At 30 June 2020, the Group's five largest customer deposits amounted to 1% (31 December 2019: 1%) of total customer accounts.

28 Debt securities in issue

	30 June 2020 € m	31 December 2019 € m
Issued by AIB Group plc		
Euro Medium Term Note Programme	**1,749**	1,750
Global Medium Term Note Programme	**1,563**	1,556
	3,312	3,306
Issued by subsidiaries		
Bonds and medium term notes:		
Euro Medium Term Note Programme	**–**	500
Bonds and other medium term notes	**3,025**	3,025
	3,025	3,525
	6,337	6,831

Analysis of movements in debt securities in issue

	30 June 2020 € m	31 December 2019 € m
At 1 January	**6,831**	5,745
Issued during the period	**–**	1,640
Matured	**(500)**	(565)
Amortisation of discounts net of premiums	**–**	–
Exchange translation adjustments/other	**6**	11
At end of period	**6,337**	6,831

All the issuances by AIB Group plc are eligible to meet the Group's MREL requirements. These instruments are redeemable for tax or for regulatory reasons, subject to the permission of the relevant regulation authority.

29 Lease liabilities

	30 June 2020 € m	31 December 2019 € m
At end of period	**404**	429
Maturity analysis – contractual undiscounted cash flows:		
Not later than one year	**54**	61
Later than one year and not later than five years	**189**	193
Later than five years	**262**	281
Total undiscounted lease liabilities at end of period	**505**	535

30 Other liabilities

	30 June 2020 € m	31 December 2019 € m
Notes in circulation	**174**	213
Items in transit	**53**	94
Creditors	**37**	46
Fair value of hedged liability positions	**204**	113
Other[1]	**390**	403
	858	869

[1]Includes bank drafts € 161 million (31 December 2019: € 153 million), items in course of collection € 12 million (31 December 2019: € 14 million), the purchase of debt securities awaiting settlement € 15 million (31 December 2019: € 38 million).

Notes to the condensed consolidated interim financial statements

31 Provisions for liabilities and commitments

							30 June 2020
	Onerous contracts	**Legal claims**	**ROU[1] commit-ments**	**Other provisions**	**ECLs on loan commit-ments**	**ECLs on financial guarantee contracts**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
At 1 January 2020	**10**	**37**	**15**	**399**	**19**	**23**	**503**
Transfers in	**–**	**(3)**	**–**	**3**	**–**	**–**	**–**
Charged to income statement	**–**	**1**[2]	**–**	**29**[2]	**46**[3]	**14**[3]	**90**
Released to income statement	**–**	**(2)**[2]	**–**	**(7)**[2]	**(9)**[3]	**(4)**[3]	**(22)**
Dilapidation provisions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Provisions utilised	**(1)**	**(2)**	**–**	**(17)**	**–**	**–**	**(20)**
Exchange translation adjustments	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**(2)**
At 30 June 2020	**9**	**31**	**15**	**406**	**55**	**33**	**549**[4]

							31 December 2019
	Onerous contracts	Legal claims	ROU[1] commit-ments	Other provisions	ECLs on loan commit-ments	ECLs on financial guarantee contracts	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 31 December 2018	65	39	–	57	25	33	219
Impact of adopting IFRS 16 at 1 January 2019	(3)	–	12	–	–	–	9
Restated balance at 1 January 2019	62	39	12	57	25	33	228
Transfers in	–	(1)	–	1	–	–	–
Charged to income statement	1	6	–	430	13	6	456
Released to income statement	(1)	(3)	–	(8)	(19)	(16)	(47)
Dilapidation provisions	–	–	2	–	–	–	2
Provisions utilised	(52)	(4)	–	(81)	–	–	(137)
Unwind of discount	–	–	1	–	–	–	1
At 31 December 2019	10	37	15	399	19	23	503[4]

[1]Provisions for dilapidations included in measurement of right-of-use assets ('ROU').
[2]Included in 'General and administrative expenses' in note 11 'Operating expenses'.
[3]Included in 'Net credit impairment charge' (note 12).
[4]Excluding the ECLs on loan commitments and financial guarantee contracts, the total provisions for liabilities and commitments expected to be settled within one year amount to € 387 million (31 December 2019: € 380 million).

31 Provisions for liabilities and commitments *(continued)*

(a) Other provisions

Includes the provisions for customer redress and related matters, other restitution provisions, and miscellaneous provisions.

FSPO Decision and Tracker Mortgage Examination related provisions

FSPO Decision: The provision at 30 June 2020 for customer redress and compensation and other related costs amounted to € 252 million (31 December 2019: € 265 million) in respect of certain mortgage customers - the '06-09 Ts & Cs[(1)] who never had a tracker' cohort.

Following a complaint to the Financial Services and Pensions Ombudsman ('FSPO') by a customer from the '06-09 Ts &Cs who never had a tracker' cohort, the Group received a preliminary decision in January 2020 which found that the Bank had breached the terms of the customer's mortgage loan contract and directed it to remedy the matter in what the FSPO believed was a fair and proportionate manner. The Group considered this preliminary decision and recorded a provision of € 265 million as at 31 December 2019 based on an initial assessment of the likelihood that the same remedy may be due to all customers in this cohort.

The Group subsequently received the FSPO's final decision and decided to accept the decision in full and furthermore decided to apply the remedy to all other customers within this cohort, with payments to customers commencing in July 2020. Following intervention by the Central Bank of Ireland, some of these customers were also deemed eligible for inclusion in the Tracker Mortgage Examination. This resulted in € 13 million of the original provision being reclassified accordingly, leaving a provision of € 252 million at 30 June 2020.

The Group continues to engage with stakeholders and a number of related issues also exists that have yet to be resolved. Accordingly, the provision remains appropriate given the uncertainties at this stage.

[(1)]Terms and conditions

Tracker Mortgage Examination: In respect of customer redress and compensation a provision of € 23 million is held for identified impacted accounts in the first half of 2020 under the Tracker Mortgage Examination and the ongoing appeals process. Provisions, including the € 13 million reclassified as noted earlier, amounting to € 201 million were created in the period 2015 to 30 June 2020 (€ 7 million in the six months to 30 June 2020). Over € 178 million of these provisions have now been utilised (€ 3 million in the six months to 30 June 2020).

The provision at 30 June 2020 for 'Other costs' amounted to € 5 million (31 December 2019: € 5 million). Provisions amounting to € 94 million were created in the period 2015 to 30 June 2020 (Nil in the six months to 30 June 2020). Over € 89 million of these provisions have now been utilised (Nil in the six months to 30 June 2020).

In March 2018, AIB and EBS were advised by the CBI of the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. The investigations relate to alleged breaches of the relevant consumer protection legislation, principally, regarding inadequate controls or instances where AIB or EBS acted with a lack of transparency, unfairly or without due skill and care. The investigations are ongoing and AIB and EBS are co-operating with the CBI.

In this regard, the Group previously created a provision of € 70 million in 2019 for the impact of monetary penalties that is expected to be imposed on the Group by the CBI. However, this matter is still ongoing, and the Group has retained the provision of € 70 million, as it remains the Group's best estimate. This is subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of all matters associated with the investigation.

Further disclosures in relation to the wider impact of Tracker Mortgage Examination are contained in note 37: Memorandum items: contingent liabilities and commitments, and contingent assets in the section 'Legal Proceedings'.

(b) Onerous contracts

Provisions for onerous contracts at 30 June 2020 amount to € 9 million and include the unavoidable cost of leases that the Group will exit in the short term.

Notes to the condensed consolidated interim financial statements

32 Subordinated liabilities and other capital instruments

	30 June 2020 € m	31 December 2019 € m
Dated loan capital – European Medium Term Note Programmes:		
Issued by AIB Group plc		
€ 500 million Subordinated Tier 2 Notes due 2029, Callable 2024	**500**	500
Issued by subsidiaries		
€ 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)	**10**	10
£ 368m 12.5% Subordinated Notes due June 2019		
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	**37**	38
£ 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
	798	799
	1,298	1,299

Maturity of dated loan capital	30 June 2020 € m	31 December 2019 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**1,298**	1,299

For further details of subordinated liabilities and other capital instruments, see note 41 to the consolidated financial statements in the Annual Financial Report 2019.

33 Share capital

	30 June 2020 Number of shares m	30 June 2020 € m	31 December 2019 Number of shares m	31 December 2019 € m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each	**4,000.0**	**2,500**	4,000.0	2,500
Issued and fully paid				
Ordinary share capital				
Ordinary shares of € 0.625 each	**2,714.4**	**1,696**	2,714.4	1,696

For further information, refer to note 42 to the consolidated financial statements in the Annual Financial Report 2019.

Movements in share capital

There were no movements in issued share capital for the half-year to 30 June 2020. For details of movements in share capital for the year to 31 December 2019, refer to note 42 to the consolidated financial statements in the Annual Financial Report 2019.

Structure of the Company's share capital

The following table shows the structure of the Company's share capital:

	30 June 2020 Authorised share capital %	30 June 2020 Issued share capital %	31 December 2019 Authorised share capital %	31 December 2019 Issued share capital %
Class of share				
Ordinary share capital	**100**	**100**	100	100

Capital resources

The following table shows the Group's capital resources:

	30 June 2020 € m	31 December 2019 € m
Equity	**13,772**	14,230
Dated capital notes *(note 32)*	**1,298**	1,299
Total capital resources	**15,070**	15,529

Notes to the condensed consolidated interim financial statements

34 Other equity interests

		30 June 2020 € m	31 December 2019 € m
Issued by AIB Group plc			
€ 500 million Additional Tier 1 Perpetual Contingent Temporary Write Down Securities issued 2019	(a)	**496**	496
€ 625 million Additional Tier 1 Perpetual Contingent Temporary Write Down Securities issued 2020	(b)	**620**	–
Total		**1,116**	496

These securities, which are accounted for as equity in the statement of financial position, are included in the Group's capital base.

(a) For details of these securities, see note 43 to the consolidated financial statements in the Annual Financial Report 2019.

(b) In June 2020, the Company issued € 625 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write Down Securities ('AT1s'). The transaction costs incurred were € 5 million.

Interest on the securities, at a fixed rate of 6.250% per annum, is payable semi-annually in arrears on 23 June and 23 December, commencing on 23 December 2020. On the first reset date on 23 December 2025, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year fixed rate plus a margin of 662.9 bps per annum. The interest payment is fully discretionary and non-cumulative and conditional upon the Company being solvent at the time of payment, having sufficient distributable reserves and not being required by the regulatory authorities to cancel an interest payment.

The securities are perpetual securities with no fixed redemption date. The Company may, in its sole and full discretion, subject to regulatory approval, redeem all (but not some only) of the securities on any day falling in the period commencing on (and including) 23 June 2025 and ending on (and including) the first reset date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. In addition, the securities are redeemable at the option of the Company for certain regulatory or tax reasons, subject to regulatory approval.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the Company's ordinary shares). They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors and to Tier 2 capital of the Company.

Under the EU (Bank Recovery and Resolution) Regulations 2015, these securities are loss absorbing at the point of non-viability.

Furthermore, if the CET1 ratio of the Group at any time falls below 7%, subject to certain conditions, the Company shall write down the AT1s by the write-down amount and irrevocably cancel any accrued and unpaid interest up to (but excluding) the write-down date. To the extent permitted by regulatory capital requirements, the Company may reinstate any previously written down amount.

35 Non-controlling interests in subsidiaries

	30 June 2020 € m	31 December 2019 € m
At 1 January	**495**	494[1]
Acquisition of subsidiary	**–**	1
Non-controlling interests share of net (loss)/profit	**18**	37
Redemption of Additional Tier 1 Securities issued by subsidiary	**(200)**	–
Distributions paid on Additional Tier 1 Securities issued by subsidiary	**(19)**	(37)
At end of period	**294**	495
Of which:		
Equity interests in subsidiary	**–**	1
Additional Tier 1 Securities issued by subsidiary	**294**	494

[1]Relates to a reclassification from 'Other equity interests' during 2019. For further details see note 44 to the consolidated financial statements in the Annual Financial Report 2019.

Additional Tier 1 Perpetual Contingent Temporary Write Down Securities issued by subsidiary

In 2015, Allied Irish Banks, p.l.c. issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write Down Securities ('AT1s'). Following a tender process in June 2020, € 202 million of the securities were redeemed for € 207 million (including accrued interest of € 1 million), leaving a nominal value outstanding at 30 June 2020 of € 298 million. The loss arising on the redemption amounted to € 6 million and was recognised directly in equity.

For further details of these securities see note 44 to the consolidated financial statements in the Annual Financial Report 2019.

Non-controlling interests in subsidiary undertaking

Augmentum Limited with issued share capital of 619,761 ordinary shares of € 1.25 each, is 75% owned by AIB and 25% owned by First Data Global Services Limited. Augmentum Limited, in turn, holds 96.77% of the equity share capital of Semeral Limited with non-controlling interests holding the residual.

Semeral/Payzone place of business: 4 Heather Road, Sandyford Industrial Estate, Dublin 18.

For details of the acquisition of the subsidiary, see note 31 to the consolidated financial statements in the Annual Financial Report 2019.

36 Capital reserves, merger reserve and capital redemption reserves

	30 June 2020			31 December 2019		
Capital reserves	**Capital contribution reserves € m**	**Other capital reserves € m**	**Total € m**	Capital contribution reserves € m	Other capital reserves € m	Total € m
At beginning and end of period	**955[1]**	**178**	**1,133**	955[1]	178	1,133

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

Merger reserve	**30 June 2020 € m**	31 December 2019 € m
At beginning and end of period	**(3,622)**	(3,622)

Capital redemption reserve	**30 June 2020 € m**	31 December 2019 € m
At beginning and end of period	**14**	14

Notes to the condensed consolidated interim financial statements

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

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

	Contract amount	
	30 June 2020 € m	31 December 2019 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	596	596
Other contingent liabilities	100	115
	696	711
Commitments[2]		
Documentary credits and short term trade-related transactions	91	84
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	8,406	8,129
1 year and over[4]	3,244	3,326
	11,741	11,539
	12,437	12,250

[1]Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds.
[2]A commitment is an off-balance sheet product where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.
[3]An original maturity of up to and including 1 year or which may be cancelled at any time without notice.
[4]An original maturity of more than 1 year.

For details of the internal credit ratings and geographic concentration of contingent liabilities and commitments, see pages 67 and 77 in the 'Risk management' section of this report.

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note 31.

Legal proceedings

The 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 Group is aware, (other than as set out in the following paragraphs), pending or threatened by or against the 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 the Group.

Specifically, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Customers have also lodged complaints to the Financial Services and Pensions Ombudsman (''FSPO'') in relation to tracker mortgages issues which are outlined in 'Provisions for liabilities and commitments' (note 31).

Further claims may also be served in the future in relation to tracker mortgages. The Group will also receive further rulings by the FSPO in relation to complaints concerning tracker mortgages.

Based on the facts currently known and the current stages that the litigation and the FSPO's complaints process is at, it is not practicable at this time to predict the final outcome of this litigation/FSPO complaints, nor the timing and possible impact on the Group.

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 49 to the consolidated financial statements in the Annual Financial Report 2019.

In addition, the Group 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 49 to the consolidated financial statements in the Annual Financial Report 2019.

Securitisation activity in the six months to 30 June 2020

In 2020, the Group securitised c. € 4 billion of its residential mortgage portfolio held in two of its subsidiaries, EBS d.a.c. and Haven Mortgages Limited. These mortgages were transferred to a securitisation vehicle, Burlington Mortgages No. 1 DAC "Burlington". In order to fund the acquired mortgages, Burlington issued twelve classes of notes to EBS d.a.c. and Haven in the same proportion as the mortgages securitised. The transferred mortgages have not been derecognised as the Group retains substantially all the risks and rewards of ownership and continue to be reported in the Group's financial statements. Burlington is consolidated into the Group's financial statements with all the notes being eliminated on consolidation.

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

			30 June 2020
	Carrying amount of assets originally transferred € m	Carrying amount of assets currently recognised € m	Carrying amount of associated liabilities currently recognised € m
Loans and advances to customers	**4,020**	**3,876**	**–**

Notes to the condensed consolidated interim financial statements

39 Fair value of financial instruments

					30 June 2020
	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					
Derivative financial instruments:					
Interest rate derivatives	1,514	–	1,000	514	1,514
Exchange rate derivatives	239	–	239	–	239
Equity derivatives	2	–	2	–	2
Credit derivatives	8	–	8	–	8
Loans and advances to customers at FVTPL	76	–	–	76	76
Investment debt securities at FVOCI:					
Government securities	7,259	7,259	–	–	7,259
Supranational banks and government agencies	931	931	–	–	931
Asset backed securities	316	233	83	–	316
Bank securities	6,832	6,832	–	–	6,832
Corporate securities	510	510	–	–	510
Equity investments at FVTPL	379	55	–	324	379
	18,066	15,820	1,332	914	18,066
Financial assets not measured at fair value					
Cash and balances at central banks	14,666	543[1]	14,123	–	14,666
Items in the course of collection	50	–	–	50	50
Loans and advances to banks	1,970	–	391	1,579	1,970
Loans and advances to customers:					
Mortgages[2]	30,272	–	–	30,822	30,822
Non-mortgages	27,868	–	–	27,986	27,986
Total loans and advances to customers	58,140	–	–	58,808	58,808
Investment debt securities measured at amortised cost	3,416	2,855	–	640	3,495
Other financial assets	321	–	–	321	321
	78,563	3,398	14,514	61,398	79,310
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	1,229	–	1,144	85	1,229
Exchange rate derivatives	77	–	77	–	77
Credit derivatives	16	–	16	–	16
	1,322	–	1,237	85	1,322
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	453	–	–	453	453
Secured borrowings	367	–	301	66	367
Customer accounts:					
Current accounts	43,805	–	–	43,805	43,805
Demand deposits	18,928	–	–	18,928	18,928
Time deposits	12,945	–	–	12,984	12,984
Debt securities in issue	6,337	6,507	36	–	6,543
Subordinated liabilities and other capital instruments	1,298	1,226	66	–	1,292
Other financial liabilities	865	–	–	865	865
	84,998	7,733	403	77,101	85,237

[1]Comprises cash on hand.
[2]Includes residential and commercial mortgages.

39 Fair value of financial instruments *(continued)*

	31 December 2019				
	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					
Derivative financial instruments:					
Interest rate derivatives	1,230	–	783	447	1,230
Exchange rate derivatives	36	–	36	–	36
Equity derivatives	5	–	5	–	5
Loans and advances to customers at FVTPL	77	–	–	77	77
Investment debt securities at FVOCI:					
Government securities	7,046	7,046	–	–	7,046
Supranational banks and government agencies	1,034	1,034	–	–	1,034
Asset backed securities	328	237	91	–	328
Bank securities	6,997	6,997	–	–	6,997
Corporate securities	476	476	–	–	476
Equity investments at FVOCI	458	–	–	458	458
Equity investments at FVTPL	357	46	–	311	357
	18,044	15,836	915	1,293	18,044
Financial assets not measured at fair value					
Cash and balances at central banks	11,982	659[1]	11,323	–	11,982
Items in the course of collection	57	–	–	57	57
Loans and advances to banks	1,478	–	468	1,010	1,478
Loans and advances to customers:					
Mortgages[2]	30,972	–	–	30,890	30,890
Non-mortgages	29,839	–	–	29,943	29,943
Total loans and advances to customers	60,811	–	–	60,833	60,833
Investment debt securities measured at amortised cost	635	45	–	590	635
Other financial assets	890	–	–	890	890
	75,853	704	11,791	63,380	75,875
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	998	–	892	106	998
Exchange rate derivatives	180	–	180	–	180
Equity derivatives	6	–	6	–	6
Credit derivatives	13	–	12	1	13
	1,197	–	1,090	107	1,197
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	529	–	178	351	529
Secured borrowings	294	–	294	–	294
Customer accounts:					
Current accounts	40,283	–	–	40,283	40,283
Demand deposits	17,742	–	–	17,742	17,742
Time deposits	13,778	–	–	13,813	13,813
Debt securities in issue	6,831	7,060	36	–	7,096
Subordinated liabilities and other capital instruments	1,299	1,281	84	–	1,365
Other financial liabilities	1,004	–	–	1,004	1,004
	81,760	8,341	592	73,193	82,126

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

Notes to the condensed consolidated interim financial statements

39 Fair value of financial instruments *(continued)*

Details of the methodologies used for calculating fair value and the definition of terms are set out in note 51 to the consolidated financial statements in the Annual Financial Report 2019.

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

There were no significant 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 2020
	Financial assets						Financial liabilities	
	Derivatives	Investment securities		Loans and advances at FVTPL	Equities at FVTPL	Total	Derivatives	Total
		Debt	Equities at FVOCI					
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2020	447	–	458	77	311	1,293	107	107
Transfers into/out of level 3[(1)]	–	–	–	–	–	–	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	67	–	–	–	–	67	(22)	(22)
Net change in FVTPL	–	–	–	21	13	34	–	–
	67	–	–	21	13	101	(22)	(22)
Other comprehensive income:								
Net change in fair value of investment securities	–	–	(21)	–	–	(21)	–	–
Net change in fair value of cash flow hedges	–	–	–	–	–	–	–	–
	–	–	(21)	–	–	(21)	–	–
Purchases/additions	–	–	–	–	16	16	–	–
Sales/disposals/redemptions	–	–	(437)	–	(16)	(453)	–	–
Settlements	–	–	–	–	–	–	–	–
Cash received:								
Principal	–	–	–	(22)	–	(22)	–	–
At 30 June 2020	514	–	–	76	324	914	85	85

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

39 Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy *(continued)*

	31 December 2019							
	Financial assets						Financial liabilities	
	Derivatives	Investment securities		Loans and advances at FVTPL	Equities at FVTPL	Total	Derivatives	Total
		Debt	Equities at FVOCI					
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2019	359	9	468	147	236	1,219	122	122
Transfers into/out of level 3[(1)]	–	(9)	–	–	1	(8)	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	88	–	–	–	–	88	(15)	(15)
Net change in FVTPL	–	–	–	66	72	138	–	–
	88	–	–	66	72	226	(15)	(15)
Other comprehensive income:								
Net change in fair value of investment securities	–	–	(10)	–	–	(10)	–	–
Net change in fair value of cash flow hedges	–	–	–	–	–	–	–	–
	–	–	(10)	–	–	(10)	–	–
Purchases/additions	–	–	–	5	26	31	–	–
Sales/disposals	–	–	–	(54)	(24)	(78)	–	–
Cash received:								
Principal	–	–	–	(87)	–	(87)	–	–
At 31 December 2019	447	–	458	77	311	1,293	107	107

[(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.

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 2020 and 31 December 2019:

	30 June 2020 € m	31 December 2019 € m
Net trading income – gains	**113**	155
Gains on equity investments at FVTPL	**13**	70
Gains on loans and advances at FVTPL	**–**	1
	126	226

Notes to the condensed consolidated interim financial statements

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:

Financial instrument		Fair value 30 June 2020 € m	Fair value 31 December 2019 € m	Valuation technique	Significant unobservable input	Range of estimates 30 June 2020	Range of estimates 31 December 2019
Uncollateralised customer derivatives	Asset	**514**	447	CVA	LGD	**57% – 73% (Base 66%)**	43% – 63% (Base 53%)
	Liability	**85**	107		PD	**0.5% – 1.7% (Base 1.0%, 1 year PD)**	0.2% – 0.7% (Base 0.4%, 1 year PD)
				FVA	Funding spreads	**(0.3%) to 0.4%**	(0.2%) to 0.3%
NAMA subordinated bonds	Asset	**n/a**	458	Discounted cash flows	Discount rate	**n/a n/a**	1% – 4% (Base 1.94%)
Visa Inc. Series B Preferred Stock	Asset	**178**	171	Quoted market price (to which a discount has been applied)	Final conversion rate	**0% – 75%**	0% – 75%
Loans and advances to customers measured at FVTPL	Asset	**76**	77	Discounted cash flows*	Discount on market value	**(1%) to 5%**	(1%) – 7%
				Collateral values	Collateral changes	**n/a**	n/a

*Expected cash flows discounted at market rates, taking into consideration the fair value of collateral where relevant.

Uncollateralised customer derivatives

The fair value measurement sensitivity to unobservable inputs at 30 June 2020 ranges from (i) negative € 42 million to positive € 22 million for CVA (31 December 2019: negative € 29 million to positive € 14 million) and (ii) negative € 10 million to positive € 7 million for FVA (31 December 2019: negative € 7 million to positive € 5 million).

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

NAMA subordinated bonds

In early 2020, the NAMA subordinated bonds were fully redeemed. The fair value measurement sensitivity to unobservable discount rates at 31 December 2019 ranged from negative € 2 million to positive € 1 million.

Visa Inc. Series B Preferred Stock

In June 2016, the Group received Series B Preferred Stock in Visa Inc. with a fair value of € 65 million as part consideration for its holding of shares in Visa Europe. The 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.

– **Valuation technique:** 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. 40% haircut (31 December 2019: 41%). This was converted at the year end exchange rate.
– **Unobservable input:** Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.
– **Range of estimates:** Estimates range from (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 75% discount for conversion rate variability.

Loans and advances to customers measured at FVTPL

The fair value measurement sensitivity to unobservable collateral values and interest rates ranges from negative € 1 million to positive € 4 million at 30 June 2020 (31 December 2019: negative € 1 million to positive € 5 million).

Fair value is applied in respect of secondary facilities arising on restructured loans subject to forbearance measures, on the likelihood that additional cash flows, in excess of their primary facilitates, will be received from customers. Given the significant uncertainty with regard to such cash flows, the Group does not attribute a fair value unless it is reasonably certain that this value will be realised.

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 2020			
	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	28	(51)	–	–
Investment securities – equity	45[1]	(103)[1]	–	–
Loans and advances to customers measured at FVTPL	4	(1)	–	–
Total	77	(155)	–	–
Classes of financial liabilities				
Derivative financial liabilities	–	–	–	–
Total	–	–	–	–

	31 December 2019			
	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	19	(37)	–	–
Investment securities – equity	46[1]	(99)[1]	1	(2)
Loans and advances to customers measured at FVTPL	5	(1)	–	–
Total	70	(137)	1	(2)
Classes of financial liabilities				
Derivative financial liabilities	–	–	–	–
Total	–	–	–	–

[1]Relates to the largest equity investment, the carrying value of which was € 178 million at 30 June 2020 (31 December 2019: € 171 million). Sensitivity information has not been provided for other equities as the portfolio comprises several investments, none of which is individually material.

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.

Notes to the condensed consolidated interim financial statements

40 Statement of cash flows

Non-cash and other items included in (loss)/profit before taxation

Non-cash items	Half-year 30 June 2020 € m	Half-year 30 June 2019 € m
Net (loss)/gain on derecognition of financial assets measured at amortised cost	1	(28)
Dividends received from equity investments	(25)	(25)
Dividends received from associated undertakings	–	(10)
Associated undertakings	(5)	(9)
Net credit impairment charge	1,250	56
Change in other provisions	21	120
Retirement benefits – defined benefit expense	2	11
Depreciation, amortisation and impairment	136	117
Interest on subordinated liabilities and other capital instruments	20	16
Interest on debt securities – MREL	50	34
Gain on disposal of investment securities	(7)	(73)
Loss on termination of hedging swaps	7	34
Amortisation of premiums and discounts	32	29
Net gain on equity investments at FVTPL	(22)	(40)
Net gain on loans and advances to customers at FVTPL	–	(1)
Change in prepayments and accrued income	51	100
Change in accruals and deferred income	(68)	(43)
Effect of exchange translation and other adjustments[1]	(64)	(79)
Total non-cash items	**1,379**	209
Contributions to defined benefit pension schemes	(26)	(23)
Dividends received from equity investments	25	25
Total other items	**(1)**	2
Non-cash and other items for the period	**1,378**	211

[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 2020 € m**	Half-year 30 June 2019 € m
Change in items in course of collection	**7**	(52)
Change in derivative financial instruments	**(41)**	(51)
Change in loans and advances to banks	**51**	99
Change in loans and advances to customers	**813**	(312)
Change in other assets	**526**	98
	1,356	(218)

Change in operating liabilities[1]	**Half-year 30 June 2020 € m**	Half-year 30 June 2019 € m
Change in deposits by central banks and banks	**17**	173
Change in customer accounts	**4,636**	1,838
Change in debt securities in issue	**(500)**	(500)
Change in notes in circulation	**(39)**	(65)
Change in other liabilities	**(78)**	(10)
	4,036	1,436

[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 2020 € m	Half-year 30 June 2019 € m
Cash and balances at central banks	**14,666**	9,278
Loans and advances to banks[1][2]	**1,522**	674
	16,188	9,952

[1]Included in 'Loans and advances to banks' total of € 1,970 million (30 June 2019: € 1,286 million) set out in note 18.

[2]Includes € 4 million relating to restricted balances held in trust in respect of certain payables which are included in 'Other liabilities' (note 30).

The Group is required by law to maintain reserve balances with the Bank of England. At 30 June 2020, these amounted to € 391 million (30 June 2019: € 449 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.

Notes to the condensed consolidated interim financial statements

41 Related party transactions

Other than as outlined below, there have been no related party transactions or changes therein since 31 December 2019 that have materially affected the Group's financial position or performance in the six months ended 30 June 2020.

Transactions with Key Management Personnel

Key Management Personnel ("KMP") as defined in IAS 24 *Related Party Disclosures*, comprise Executive and Non-Executive Directors and Senior Executive Officers.

As at 30 June 2020, the aggregate amounts outstanding, in respect of all loans, quasi loans and credit transactions between the Group and KMP, as defined above, together with members of their close families and entities controlled by them, amounted to € 2.0 million (31 December 2019: € 3.0 million).

Loans to KMP 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 provision for doubtful debts has been recognised in respect of any loans or facilities above.

Relationship with the Irish Government

AIB's relationship with the Irish Government is set out in note 53(g) to the consolidated financial statements in the Annual Financial Report 2019. As detailed, this relationship encompasses a number of dimensions, namely:

- Capital investments;
- Guarantee schemes;
- NAMA; and
- Relationship framework.

There were no significant changes to the various aspects of the relationship in the six months to 30 June 2020.

41 Related party transactions *(continued)*

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.

		30 June 2020		31 December 2019	
		Balance € m	Highest[(2)] balance held € m	Balance € m	Highest[(2)] balance held € m
Assets					
Cash and balances at central banks	a	9,608	11,322	6,953	7,934
Trading portfolio financial assets		–	–	–	43
Derivative financial instruments		–	3	–	5
Loans and advances to customers		–	6	6	6
Investment securities	b	8,047	8,124	5,754	7,327
Total assets		17,655		12,713	

		30 June 2020		31 December 2019	
		Balance € m	Highest[(2)] balance held € m	Balance € m	Highest[(2)] balance held € m
Liabilities					
Deposits by central banks and banks		–	19	–	–
Customer accounts	c	287	1,094	336	1,050
Trading portfolio financial liabilities		–	–	–	34
Derivative financial instruments		1	2	–	4
Total liabilities		288		336	

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

[(2)]The highest balance during the period, together with the outstanding balance at the 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 2020 was € 664 million (31 December 2019: € 622 million).

b Investment securities at 30 June 2020 comprise € 8,047 million in Irish Government securities held in the normal course of business, and includes Euro Commercial Paper amounting to € 1,806 million (31 December 2019: € 5,296 million and NAMA subordinated bonds of € 458 million).

c Includes € 150 million (31 December 2019: € 215 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.

Notes to the condensed consolidated interim financial statements

41 Related party transactions *(continued)*

Relationship with the Irish Government

Local government[(1)]

During 2020 and 2019, 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 2020 and 2019, 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 debt securities and repurchase agreements.

The following balances were outstanding in total to these financial institutions:

	30 June 2020 € m	31 December 2019 € m
Assets		
Derivative financial instruments	**–**	1
Loans and advances to banks[(1)]	**–**	2
Investment securities	**162**	284
Liabilities		
Deposits by central banks and banks[(2)]	**–**	–
Derivative financial instruments	**–**	–

[(1)]The highest balance in loans and advances to banks amounted to € 30 million in respect of funds placed during the period (31 December 2019: € 43 million).
[(2)]The highest balance in deposits by central banks and banks by these financial institutions amounted to € 8 million in respect of funds received during the period (31 December 2019: € 48 million).

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

While certain progress has been made in the current period, engagement continues between AIB Group and the Joint Special Liquidators in relation to the claim. AIB maintains its position that no financial loss is expected to occur.

42 Financial and other information

	Half-year 30 June 2020 %	Half-year 30 June 2019 %
Operating ratios		
Operating expenses/operating income	**74.6**	68.9
Other income/operating income	**18.5**	25.2

Rates of exchange	Half-year 30 June 2020	Half-year 30 June 2019	Year 31 December 2019
€/$*			
Closing	**1.1198**	1.1380	1.1234
Average	**1.1017**	1.1297	1.1194
€/£*			
Closing	**0.9124**	0.8966	0.8508
Average	**0.8748**	0.8735	0.8777

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

43 Dividends

On 30 March 2020, the Group announced, following the recommendation of the European Central Bank, that the Company did not intend to seek shareholder approval for the payment of a final dividend for 2019. Accordingly, the relevant Annual General Meeting ("AGM") resolution was withdrawn and the proposed dividend cancelled.

On 3 May 2019, AIB Group plc paid a final dividend to its shareholders of € 0.17 per ordinary share amounting in total to € 461 million.

44 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 30 June 2020.

45 Approval of financial statements

The Half-Yearly Financial Report was approved by the Board of Directors on 5 August 2020.

Directors' Responsibility Statement

for the half-year ended 30 June 2020

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 Central Bank (Investment Market Conduct) Rules 2019.

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 listed below 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 assets, liabilities, financial position and loss of the Group and that as required by the Transparency (Directive 2004/109/EC) Regulations 2007, the Half-Yearly Financial Report includes:

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

For and on behalf of the Board

Brendan McDonagh
Deputy Chair

Colin Hunt
Chief Executive Officer

Non-Executive Directors
Basil Geoghegan
Sandy Kinney Pritchard
Carolan Lennon (Senior Independent Director)
Elaine MacLean
Brendan McDonagh (Deputy Chair)
Helen Normoyle
Ann O'Brien
Ranjit (Raj) Singh

Executive Directors
Colin Hunt (Chief Executive Officer)
Tomás O'Midheach (Chief Operating Officer and Deputy Chief Executive Officer)

Independent review report to AIB Group plc

We have been engaged by AIB Group plc ("the Group") to review the condensed set of financial statements included in the Half-Yearly Financial Report for the six months ended 30 June 2020 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 45 for the six month period then ended. 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 Group in accordance with International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council ("ISRE 2410"). Our work has been undertaken so that we might state to the Group 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 Group, 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 International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007, and the Central Bank (Investment Market Conduct) Rules 2019.

As disclosed in note 1 'Statement of compliance', the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). 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 Group 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 pursuant to 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 set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007, and the Central Bank (Investment Market Conduct) Rules 2019.

John McCarroll
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

5 August 2020

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 Principal risks on pages 40 to 43 in the Annual Financial Report 2019 and updated on pages 36 and 37 of this Half-Yearly Financial Report. In addition to matters relating to the Group’s business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 40 to 43 of the Annual Financial Report 2019 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-YEARLY FINANCIAL REPORT
Designed and produced by Originate.
Print Management by Custodian Consultancy.

The paper used in this production has been sourced from a sustainably managed forest.

AIB Group plc
10 Molesworth Street, Dublin 2, D02 R126
+353 (1) 660 0311
aib.ie/investorrelations