AIB

BACKING OUR CUSTOMERS

HALF-YEARLY FINANCIAL REPORT
For the six months ended 30 June 2021

AIB Group plc

ENSURING A GREENER TOMORROW BY BACKING THOSE BUILDING IT TODAY.

AIB is a financial services group. Our main business activities are retail, business and corporate banking, as well as mobile payments and card acquiring. We are committed to supporting the transition to the low-carbon economy and backing sustainable communities.

Beekeeper and AIB employee Kevin Power attending to his bees on the roof of our head office in Molesworth St, Dublin.

Half-Yearly Financial Report
For the six months ended 30 June 2021

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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 133.

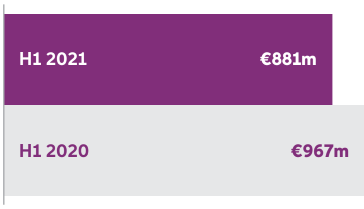
BUSINESS PERFORMANCE

H1 2021 RESULTS

FINANCIAL PERFORMANCE

NET INTEREST INCOME

€881m

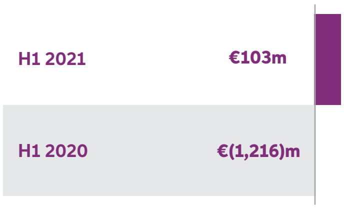


Lower lending volumes and low interest rate environment impacting income

Down 9% due to reduced loan volumes, the low interest rate environment and lower investment securities income partially offset by a decrease in funding costs

NET CREDIT IMPAIRMENT WRITEBACK/(CHARGE)

€103m

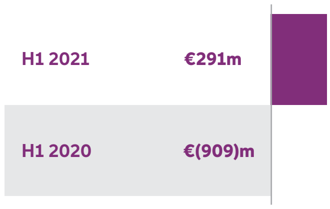


Conservative, forward looking and comprehensive provisioning approach maintained

Writeback reflecting a more favourable economic environment with improved credit quality and updated macro economic assumptions partially offset by management judgements

PROFIT/(LOSS) BEFORE TAX

€291m



Return to profitability with net credit impairment writeback

Operating profit[1] of €373m, in line with H1 2020, and impairment writeback of €103m partly offset by exceptional items of €191m

NEW LENDING

€4.5bn

New lending up 3%

Increase in property and renewable energy lending, some recovery in syndicated lending partly offset by subdued credit demand from consumer and those business sectors most impacted by COVID-19 restrictions

NET LOANS

€56.6bn

Net loans broadly stable at €56.6bn

Net loans down €0.9bn (excluding FX impact) with redemptions exceeding new lending and reflecting the disposal of non-performing loan portfolios

NON-PERFORMING EXPOSURES[2]

€3.8bn

6.5% of gross loans

Non-performing exposures (NPEs) decreased by €0.5bn to €3.8bn driven by disposal of non-performing loan portfolios

1. Operating profit before impairment losses and exceptional items.
2. Non-performing exposures (NPEs) refers to non-performing loans (NPLs) and excludes €160m of off-balance sheet commitments.

MEDIUM-TERM FINANCIAL TARGETS[3] (END 2023)

In December 2020, we communicated a set of medium-term targets to 2023. Against the backdrop of an improved economic outlook, the opportunity for further loan book and fee income growth together with progress on our strategy, including our inorganic activity, we have revised these targets.

ABSOLUTE COST BASE[4]

Cost of running the business, excluding exceptional costs

TARGET

<€1.475bn

Focussed cost discipline; controlling costs annually at <€1.475bn by 2023

OUTCOME

H1 2021	€739m
H1 2020	€747m

Costs down 1% to €739m

RETURN ON TANGIBLE EQUITY

A measure of how well capital is deployed to generate earnings growth

TARGET

>9%

Deliver sustainable returns; RoTE >9% by 2023

OUTCOME

30 Jun 2021	6.7%[5]
31 Dec 2020	-11.2%

Improved RoTE on return to profitability

CET1 RATIO (FULLY LOADED)

A measure of our ability to withstand financial stress and remain solvent

TARGET

>13.5%

Appropriate capital target of CET1 >13.5% needed to run the business

OUTCOME

30 Jun 2021	16.4%
31 Dec 2020	15.6%

Strong capital position with CET1 16.4%

NON-FINANCIAL PERFORMANCE

GREEN FINANCE

Amount of new lending per year for sustainability purposes

€913m

OUTCOMES

H1 2021	€913m
H1 2020	€479m[6]

DIGITALLY ACTIVE CUSTOMERS

Number of active users on digital channels

1.78 million

OUTCOMES

30 Jun 2021	1.78 million
31 Dec 2020	1.72 million

CUSTOMER SATISFACTION

Transaction Net Promoter Score[7]

Measured after customer transactions for key touch points

47

OUTCOMES

H1 2021	47
H1 2020	51

DIVERSITY

Women as % of management

41.6%

OUTCOMES

H1 2021	41.6%
H1 2020	41%

3. Revised medium term targets. **4.** Before bank levies, regulatory fees and exceptional items. For exceptional items see pages 20 and 29.
5. Based on CET1 target of 14%. Using the revised CET1 target of 13.5% the RoTE is 7.0%. **6.** Excludes UK Green Mortgage lending, which was launched during H1 2020.
7. Transactional Net Promoter Score (NPS) is an aggregation of 20 customer journeys across Homes, Personal, SME, Digital, Retail, Direct and Day-to-Day Banking.

CHIEF EXECUTIVE'S REVIEW

"WE ARE EXECUTING OUR STRATEGY AT PACE AS DEMONSTRATED BY THE SOLID PROGRESS MADE IN THE FIRST SIX MONTHS OF THE YEAR"

UNITED BY PURPOSE, DRIVEN BY AMBITION

With strong fundamentals, AIB Group has returned to profitability in 2021 and progressed our strategy to achieve long-term growth objectives.

INTRODUCTION

Ireland is finally emerging from the global pandemic with the rapid roll out of highly effective vaccines allowing for the gradual lifting of restrictions imposed to control the spread of COVID-19. This paves the way for a robust recovery in economic activity. Against this backdrop, I am pleased to report a return to profitability for the Group for the first half of 2021 with the fundamentals of our business remaining strong, underpinned by our solid balance sheet and robust capital base.

We are proud to be Ireland's leading digital bank and continue to hold a No.1 position across a number of product areas including current accounts, personal loans and credit cards. In addition, we continue to lead the sustainability agenda in financial services in Ireland by both enabling action and making meaningful progress in this space.

We are executing our strategy at pace as demonstrated by the solid progress made in the first six months of the year. We have entered into a binding agreement with Natwest Holdings Limited and Ulster Bank Ireland DAC for the acquisition of c.€4.2bn of performing Ulster Bank corporate and commercial loans. We announced our intention to acquire Goodbody, a leading provider of wealth management, corporate finance and capital markets services and we have also reached agreement to form a joint venture with Great-West LifeCo's subsidiary Canada Life, all of which remain subject to regulatory approval. Combined, these moves will ensure that AIB is the market-leading, full service financial services provider in Ireland. As well as reinforcing our long-term growth objectives, these initiatives will also provide benefits for customers, employees and shareholders and enable us to continue to support Ireland's economic recovery as we emerge from the COVID-19 pandemic. Further details on the initiatives that have already been delivered across each of our strategic pillars can be found on page 11.

In December 2020, we communicated a revised set of medium-term targets to the market. On the back of significant progress made in the delivery of our strategic plan since then, including our corporate development related activity, the opportunity for further loan book and fee income growth and an improved economic outlook, it is now timely to revise these targets again to ensure that we continue to deliver in the interests of all of our stakeholders. As such, in 2023 we commit to delivering a CET1 ratio of greater than 13.5%, a cost base of less than €1.475bn and a Return on Tangible Equity (RoTE) of greater than 9%.

FINANCIAL PERFORMANCE

Reflecting the improving economic environment, we delivered a strong performance in the first half of this year achieving a profit before tax of €291m. This includes €373m operating profit before exceptional items and bank levies.

Our total income of €1,183m is in line with the first half of 2020. We have seen a reduction in our net interest income to €881m which represents a 9% decrease compared to the half-year to June 2020. This reduction was principally due to lower loan volumes, the low interest rate environment, lower investment securities income and the cost of excess liquidity partially offset by a decrease in interest expense. Other income increased by 37% to €302m when compared to the same period last year, mainly due to positive valuation movements and some recovery in net fees and commission income.

Our total operating expenses were €739m, cost management remains a priority and ongoing focus for the Group. Our newly revised medium-term target reflects the impact of the progress made in our strategic growth initiatives and is set to generate €230m cost savings by 2023.

With a more favourable economic environment, there was a net credit impairment writeback in the first half of 2021 of €103m reflecting improved credit quality and updated macroeconomic assumptions, partially offset by COVID-19 related management judgements. Our overall approach remains conservative, comprehensive and forward looking and is reflected in an expected credit loss coverage rate of 3.6%.

Exceptional items of €191m include provisions of €100m in respect of potential liabilities relating to a series of legacy investment property funds which were sold to individual investors during 2002-2006. The remaining €91m includes other restitution related costs, restructuring costs attributed to the implementation of the Group's revised strategy and losses incurred on the disposal of loan portfolios.

In terms of other legacy items, where we identify an issue, our priority is to put things right for our customers who have been affected. We work closely with the Central Bank of Ireland, on an ongoing basis in relation to any tracker related issues and associated enforcement investigations.

New lending of €4.5bn in the half-year to June 2021 was 3% higher compared to the same period in 2020, with mixed trends across sectors. The mortgage market in Ireland performed strongly in the first half of 2021 with total drawdowns of €4.4bn up 26% on the same period in 2020. New mortgage lending in our ROI business was €1.1bn in the first six months. A solid rise in mortgage lending is expected with market estimates revised to c.€10bn for 2021. With a strengthened proposition, momentum continues in our applications and approvals data, giving us confidence in our full-year performance.

The impact of COVID-19 restrictions continued to weigh on consumer credit demand and contributed to a 6% decline in new ROI personal lending. New lending in Corporate, Institutional and Business Banking increased 6%, driven by an increase in property and renewable energy lending coupled with some recovery in syndicate and international finance partially offset by a decrease in lending to those sectors most impacted by COVID-19 restrictions. New lending in the SME sector in Ireland increased by 11% as business sentiment improved supported by government schemes.

In the UK, new lending was broadly stable with increased new mortgage lending partially offset by a reduction in commercial lending as we exit the GB SME market.

We continue to support our customers as we collectively tackle the challenges of climate change. In the first half of 2021, green and transitional lending was €0.9bn and accounted for 20% of total new lending.

Gross loans and gross performing loans at €58.7bn and €54.9bn remained broadly stable when compared to 2020 year-end. Net loans were down €0.9bn (excluding FX impact) with redemptions exceeding new lending and reflecting the disposal of non-performing loan portfolios. As at 30 June 2021, 85% of AIB's loan book is of strong or satisfactory quality. Maintaining the quality of new lending is critical, with >98% of our new lending being of strong or satisfactory credit quality in the first half of 2021.

Non-performing loans as a percentage of gross loans to customers was 6.5% at 30 June 2021 compared to 7.3% at 31 December 2020. This decrease primarily reflects the disposal of loan portfolios and redemptions, partially offset by net flow to non-performing. We remain committed to reducing non-performing exposures to c.3% of gross loans by 2023 given the impact on cost, capital requirements and balance sheet resilience.

AIB's funding ratios remain robust. As deposits continue to accumulate up 8% to €88.3bn, our Loan to Deposit Ratio was 64% at the end of June 2021 and we continue to have strong liquidity metrics (Liquidity Coverage Ratio 201% and Net Stable Funding Ratio 149%).

In May we issued our second green bond to the market, raising €750m, the proceeds of which will contribute to financing projects with clear environmental and climate change benefits. Orders for the transaction peaked at €1.5bn, representing a twice oversubscribed book. This follows the successful issuance of our €1bn Green Tier 2 transaction in September 2020. With two full years of impact and allocation reporting available on our green bond pool showing strong carbon reduction figures, our green issuance attracted keen interest from committed socially responsible investors. Overall, there were 99 separate investors from 19 different countries. The deal further strengthens AIB's funding position and brings the total quantum of MREL eligible instruments to €6.6bn.

We have a strong capital base with a CET1 ratio of 16.4% at 30 June 2021, well in excess of regulatory requirements and our revised medium-term target of greater than 13.5%.

In May, AIB employees and their children took part in No Litter Day as part of our support for PickerPals, inspiring the next generation of environmentalists

We are creating an AIB woodland of Irish trees. John Beckett, Forestry Partners; David Feeney, Land Solutions, Coillte with Mary Whitelaw, AIB's Director of Corporate Affairs, Strategy & Sustainability

> **"82% OF PERSONAL LOAN APPLICATIONS WERE COMPLETED DIGITALLY IN THE FIRST HALF OF 2021"**

DIGITAL

Continued investment to enhance our technological capability remains a priority so that we provide our customers with secure banking systems, increased efficiency and ease of access. We are investing heavily in mitigating cyber risk so that our digital offering is secure, resilient and equipped with leading security features.

Digital adoption by our customers continues with digital wallet usage growing by a further 13% and the value of e-commerce purchases on debit cards increasing by 36% compared to the same period last year. Our digitally active base has grown to 1.78m customers and our mobile banking app is the channel of choice with one in three of all personal bank accounts now opened via this platform and an average of 870,000 customers logging on at least once a day. In addition, 82% of personal loan applications were completed digitally in the first half of 2021, an increase of 5% on the same period last year.

Digital investment is also critical to our ways of working now and into the future. In June, we launched 'aib *Connect*', our new employee communications hub, to enable our people to digitally connect, communicate and collaborate across the organisation from any location.

CULTURE & OUR PEOPLE

The right culture is vital to the success of any business and at AIB, our culture is underpinned by five values and associated behaviours that support the delivery of high quality service and fair customer outcomes. Recent results from the Irish Banking Culture Board survey demonstrated many of the positive steps we have taken to embed the customer at the heart of everything we do, while also outlining some areas that require further focus. The Board and Executive Committee remain committed to ensuring that the culture at AIB continues to evolve positively.

We know that it is our people who are the heartbeat of our business and in June, we launched our first Employee Values Awards to recognise some of those who truly bring our values to life every day. We continue to take a holistic approach to our wellbeing programme, and in April, to support our Right to Disconnect Policy and to recognise the commitment shown by all our people during the pandemic we announced a 'Digital Disconnect & Refresh Day', which is effectively an additional day's leave for every AIB employee in 2021. We also hosted our first virtual AIB Wellbeing Festival to help our people create effective wellbeing habits, an inclusive environment and greater connectivity across the organisation.

We are committed to being representative of the diverse communities we serve and we recognise, as an employer, the key role we play in supporting social inclusion in society. That is why we have signed up to both the Business in the Community's Elevate Pledge and Diversity Charter. These pledges signal our renewed commitment at an organisational level to advancing a diverse and inclusive workplace while also supporting the broader values of inclusion, equality and opportunity in the communities in which we operate.

As previously reported in the Annual Financial Report 2020, a number of searches for Board positions were underway and have led to a series of appointments to the Board in 2021 to date. Andy Maguire joined the Board and the Board Risk Committee in March and Fergal O'Dwyer and Anik Chaumartin joined the Board and the Board Audit Committee in January and July 2021, respectively. In addition, our Chief Financial Officer, Donal Galvin joined the Board as an Executive Director in May 2021. There are a number of additional Board appointments in the course of the supervisory fitness and probity assessment process and announcements will be made in due course.

The process to identify a candidate for the position of Chair, which is being led by the Senior Independent Director, is well advanced and an announcement will be made as soon as circumstances permit. In the meantime, Deputy Chair Brendan McDonagh continues to fulfil the duties of the Chair role at the request of the Board.

SUSTAINABLE COMMUNITIES

As leader of the sustainability agenda in financial services in Ireland, we are fundamentally committed to supporting the transition to a low-carbon economy, reducing our own carbon footprint and helping our customers to do the same. Since the beginning of the year, we have made further advances on this agenda, which sits at the very heart of our strategy.

We have continued to embed Environmental, Social and Governance (ESG) considerations into our business processes through the introduction of an ESG Questionnaire for borrowers in sectors more exposed to climate risk as well as launching the AIB Sustainable Lending Framework, which outlines clear criteria by which we will report our green, transition and social lending. These changes are critical building blocks in providing sustainable social infrastructure, achieving our sustainability ambition of 70% of our new lending to be green/transition lending by 2030, and also in understanding our exposure to ESG risk.

In supporting our customers' transition to a low-carbon future, in the first seven months of the year we have cut interest rates on our green mortgages, further enhanced our green consumer loan offering as well as introducing a green mortgage through the Haven broker channel. In addition, our Energy, Climate Action & Infrastructure team continues to support large corporate investment, ensuring a greener tomorrow by backing those building it today with new lending increasing by c.40% in the first six months of this year.

Recognising the role of strategic partners, we have also recently announced a new partnership with the Teagasc Signpost series, a programme utilising 100 demonstration farms, aimed at supporting the sector on its transition to net zero emissions by 2050. To continue tackling the issue of food waste, in May we renewed our partnership with FoodCloud to 2023, with further investment of €1.5m. We have also pledged €1.25m to fund the First Chair of Sustainable Business in Ireland at University College Cork. Finally, we recognise the importance of biodiversity and we have committed to plant a tree for every new youth account opened. In addition, we continue to embed our Pledge to Do More across the Group and we will plant a tree for every colleague, creating an AIB woodland of native Irish trees.

We are proud to be the first Irish company to have committed to use World Economic Forum

"THE BOARD AND EXECUTIVE COMMITTEE REMAIN COMMITTED TO ENSURING THAT THE CULTURE AT AIB CONTINUES TO EVOLVE POSITIVELY"

AIB CEO Colin Hunt with GAA President Larry McCarthy and players launching the AIB GAA All-Ireland Senior Football Championship 2021. AIB has been supporting GAA communities across Ireland for 30 years.

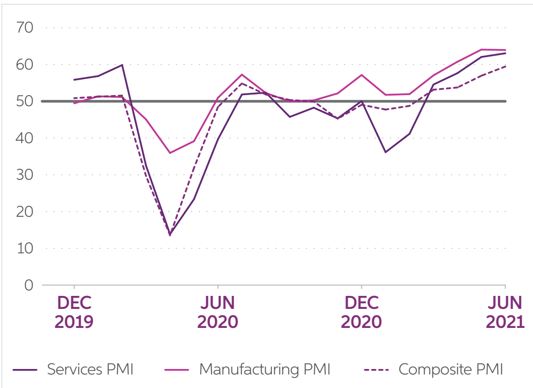
Stakeholder Capitalism metrics in our reporting, joining 80 other sustainability-focused companies globally. Additionally, we are the first Irish bank to join the UN Net Zero Banking Alliance.

Our progress has been recognised independently and externally by both rating agencies and industry bodies. Most recently in April this year Sustainalytics ranked us 53rd out of 1,047 banks globally with a low risk ESG score of 14.5. This benchmarks very favourably compared to our peer group and demonstrates AIB's significant progress in advancing the sustainability agenda.

OUTLOOK

The COVID-19 pandemic has cast a long shadow over everyday life across the world for the past 18 months. However, on the back of a successful vaccine rollout programme, the outlook for the Irish economy is increasingly positive with strong growth rates anticipated as sentiment improves with the easing of restrictions.

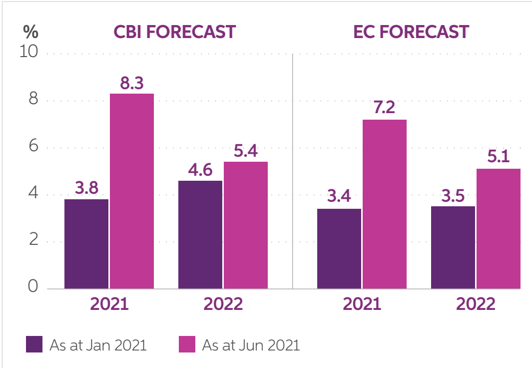
Sentiment improves as restrictions are eased[1]



As anticipated, economic activity rebounded strongly in the second quarter of 2021 in Ireland as restrictions were lifted. By June, the Purchasing Managers' Indexes (PMIs) for the manufacturing, services and construction sectors had hit record or near record highs. Core retail sales in May rose by 9% as the sector re-opened and new car sales rose by 21.6% in the first half of 2021. Also, consumer confidence hit a two year high in June, while government tax receipts were up by almost 10% at mid-year, well ahead of target. Unemployment is also now falling, which provides a positive platform for the economic recovery at all levels.

Expectations are for the strong rebound to continue over the second half of the year and into 2022, with many favourable factors at work. Accommodative monetary and fiscal policies are being kept in place as the economic recovery gathers momentum. Interest rates are set to remain very low, while the Irish government has indicated that there will be continuing supports to help businesses and households get back on their feet.

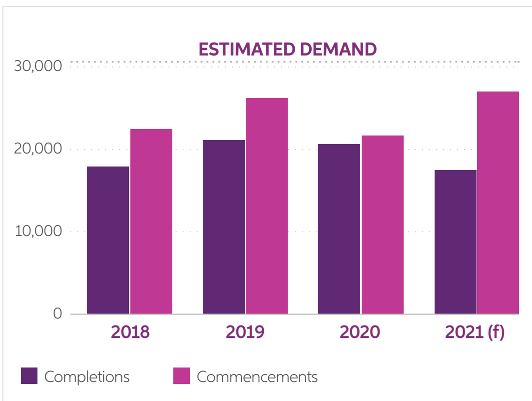
Upward revisions to GDP forecasts[2]



The enormous build-up of household savings in the Irish economy since early 2020 points to considerable firepower to fuel a strong rebound in the domestic economy. Meanwhile, with a strong recovery underway in the global economy, Irish exports should continue to perform well. Recent forecasts from the Central Bank of Ireland and European Commission are for Irish GDP to grow by 8.3% and 7.2% respectively this year and over 5% in 2022, with growth in the domestic economy averaging 4.5–5.0% over the two years.

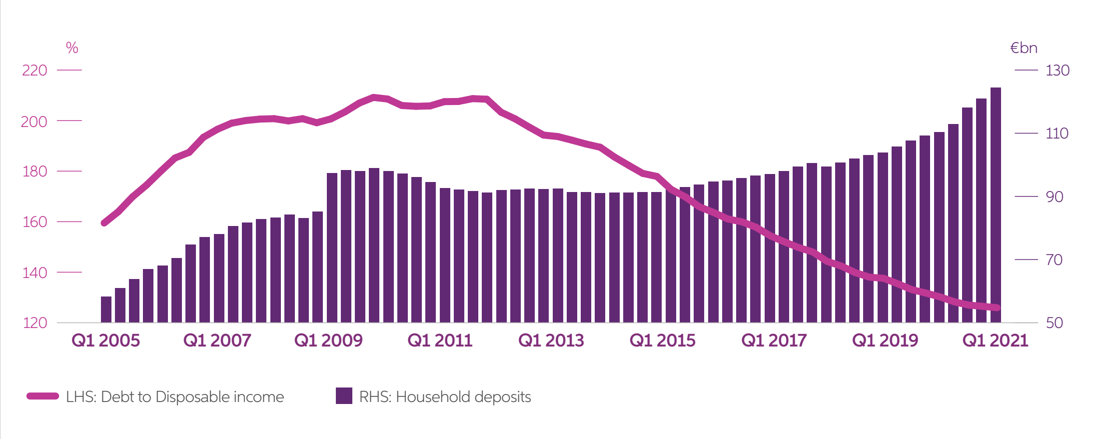
The pandemic and lockdowns have had a negative impact on housing supply. New house building will struggle to reach 20,000 units in 2021, well below estimated annual demand of c.30,000. This has been one of the factors putting marked upward pressure on house prices this year, although this is a notable feature of many economies and increasing housing supply is a key focus of government policy. Most encouragingly, there has been a surge in new housing commencements since the sector re-opened in April, which augurs well for future supply. We expect the mortgage market will grow strongly over the next number of years as more housing supply comes on stream.

Commencements increase as construction sector opens[3]



1. Source: Markit via Thomson Datastream. **2.** Source: CBI 'Quarterly Bulletin Q3 2021', EC 'Economic Forecast Summer 2021'
3. Source: CSO, Dept. of Housing, AIB ERU

Deposits surge as household deleveraging continues[4]



Overall, prospects on the Irish economy are quite favourable. However, there are potential economic headwinds on the horizon that will need to be navigated carefully such as risks posed by new COVID-19 variants, challenges in implementing the Trade and Co-Operation Agreement concluded by the EU and UK and expected changes to the global corporate tax regime.

As I mentioned previously, significant progress has already been made this year on the implementation of our strategic plans which will see our organisation transformed and delivering our newly revised medium-term targets – a CET1 ratio of greater than 13.5%, a cost base of less than €1.475bn, and a RoTE of greater than 9%. With these targets, we aim to generate sustainable profits and provide our investors with appropriate returns over the longer term. We continue to comply with the ECB's recommendations in relation to the distribution of dividends. We will continue to monitor developments in this regard 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 extraordinary energy, care and resilience. We will remain alert to the economic uncertainties that exist as well as the evolution of the Irish banking landscape. We are firmly committed to maintaining momentum in the implementation of our strategy and will do so with increasing fervour and rigour. I look forward with confidence to the remainder of 2021 and beyond, focused on our revised medium-term targets, united by our purpose and driven by our ambition to be at the heart of our customers' financial lives.

COLIN HUNT
Chief Executive Officer
3 August 2021

4. Source: CSO, CBI, AIB ERU

OUR STRATEGY

PROGRESSING OUR STRATEGY AT PACE

Our strategy has been shaped by the emerging trends of Digitalisation, Ways of Working and Sustainability, as well as our continued focus to simplify, streamline and strengthen our business.

We will continue developing our digital capability, streamlining services, improving customer journeys and creating an inclusive and optimised employee experience. We will personalise our service offering, refocusing our branches where appropriate while maintaining our commitment to our local communities. We will broaden our products and services, aligning our operating model and ways of working to ensure we can continue to serve our customers as their banking needs evolve.

Along with delivering our revised medium-term financial targets, we are progressing a number of initiatives in order to meet these strategic goals and ensure we remain at the heart of our customers' financial lives.

In the first six months of 2021, AIB has demonstrated that we are delivering our strategy at pace.

STRATEGIC PILLAR	INITIATIVE	H1 2021 UPDATE
CUSTOMER FIRST	PRODUCT GAPS; INORGANIC GROWTH (Business model)	• Announced intention to acquire Goodbody • Confirmed intention to form JV with Great West LifeCo • Acquisition of c.€4.2bn of performing Ulster Bank corporate and commercial loans agreed pending regulatory approvals • Discussions are underway to extend our partnership with An Post
SIMPLE & EFFICIENT	REFOCUSED BRANCH NETWORK (Digitalisation)	• Amalgamated AIB branches in 6 urban overlapping locations in Ireland, with 15 further amalgamations in urban centres planned in H2 • Strategic review of Northern Ireland branch network complete with 8 closures planned in H2 2021
	CHANGE DELIVERY (Ways of working)	• Insourced 100 digital, data and change specialist roles; reducing reliance on third party providers
RISK & CAPITAL	AIB GB BUSINESS MODEL (Business model)	• Exit of GB SME business process underway and progressing in line with plan. Aim to conclude the exit by year-end 2021 • New Corporate Banking model on target to be in place from September 2021
	END-TO-END CREDIT (Digitalisation)	• 2021 focus on centralising and simplifying credit, customer and account management activities for SME customers. In parallel, design work mobilised to create our long-term end-to-end credit solution for SME and Corporate customers, centred on increased digital and data enablement, with implementation commencing in 2022
TALENT & CULTURE	FUTURE OF WORK (Ways of working)	• Announced our phased Return to Office plan, commencing in September 2021 • Design work underway on future long-term hybrid work model • Physical exit completed of Burlington Road central office building in Dublin
SUSTAINABLE COMMUNITIES	NET ZERO (Sustainability)	• Launched the AIB Personal Green Loan and Haven Green Mortgage • First Irish bank to join the UN Net Zero Banking Alliance • Raised €750m on completion of our second green bond issuance

KEY: DIGITALISATION | WAYS OF WORKING | SUSTAINABILITY | BUSINESS MODEL

HIGHLIGHTS

BACKING OUR CUSTOMERS

While many of us are still working remotely, AIB Group has continued to put our customers first in 2021.

MARKET-LEADING GREEN MORTGAGE

In March, we announced a market-leading rate of 2.1% on our AIB Green Five Year Fixed Rate Mortgage where the loan represents less than 50% of the value (LTV) of an energy efficient home. We continue to support our customers to live in a more sustainable way by taking steps to reduce their own carbon footprint.

SUPPORTING BIODIVERSITY

In May, we partnered with Coillte Nature and top Irish DJ, Welshy, to launch our new Youth Reforestation Initiative to plant trees over the next three years on behalf of new AIB second-level student account holders. This, coupled with a similar initiative for every employee, will result in the creation of a woodland of 100,000 native Irish trees.

INCREASING HOUSING SUPPLY

AIB is the primary lender on a number of live developments which will, over the life of the developments, deliver over 10,000 new sustainable homes, with more than 1,200 of these being Social Housing units.

DATA INSIGHTS TO SUPPORT BUSINESSES

In May, AIB Merchant Services, Ireland's largest payment solutions company, launched 'Main Street Insights', an online tool providing key customer analytics on spend, demographics and more. The tool is available to all AIB Merchant Services customers in Ireland, where it is the first of its kind.

INORGANIC GROWTH

Aligned to our commitment to make selective investments to address product gaps in our customer offering and diversify our income, in H1 2021 we announced our intention to acquire Goodbody, which is progressing well. Subject to approvals, we also agreed to form a joint venture with Great-West LifeCo and acquired c.€4.2bn corporate and commercial loans from Ulster Bank.

AIB ALL TOGETHER

On 25 June, teams across AIB completed 5km to raise funds for our partner charities. Every euro donated was matched through the AIB Together Fund, which raised €165,000 in H1 2021.

GREEN PERSONAL LOAN

In March, we launched the AIB green personal loan, with a rate of just 6.25% on amounts up to €60,000. Customers can apply for a green loan on our app or over the phone.

DRIVING TRANSPARENCY IN ESG

We are proud to be the first Irish company to have committed to use World Economic Forum Stakeholder Capitalism metrics in our reporting, joining 80 other sustainability-focused companies globally. These metrics are based on the four value-driven principles of People, Planet, Prosperity and Governance. In the first half of 2021, we also joined the United Nations Global Compact and were the first Irish bank to join the United Nations Net Zero Banking Alliance.

€750M GREEN BOND ISSUANCE

In May, we raised €750m in our second green bond issuance in less than a year. It garnered an order book of more than €1.5bn at its peak, making it twice oversubscribed. The proceeds will contribute to the financing of projects with clear environmental and climate change benefits, and further strengthen AIB's capital position.

#ITSWHOWEARE

Our first Employee Value Awards took place at the beginning of June, recognising our outstanding colleagues. And it launched EveryBody Festival – a month-long virtual wellbeing festival.

REDUCING FOOD WASTE TO HELP FIGHT CLIMATE CHANGE

To continue tackling the issue of food waste and to support local communities across Ireland, we renewed our partnership with FoodCloud for another three years, investing €1.5m. Our investment with FoodCloud to date has meant that in the past three years 6,300 tonnes of surplus food were redistributed; the equivalent of 15.1 million meals provided to those in need, and 20,353 tonnes of CO_2-eq avoided.

#backedbyAIB

AIB

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 84. 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.

Management performance – summary income statement	Half-year June 2021 € m	Half-year June 2020 € m	% change
Net interest income	881	967	-9
Business income	230	184	25
Other items	72	36	99
Other income[(1)]	302	220	37
Total operating income[(1)]	1,183	1,187	–
Personnel expenses[(1)]	(360)	(368)	-2
General and administrative expenses[(1)]	(239)	(243)	-2
Depreciation, impairment and amortisation[(1)]	(140)	(136)	3
Total operating expenses[(1)]	(739)	(747)	-1
Bank levies and regulatory fees[(1)]	(71)	(63)	13
Operating profit before impairment losses and exceptional items[(1)]	373	377	-1
Net credit impairment writeback/(charge)	103	(1,216)	–
Operating profit/(loss) before exceptional items[(1)]	476	(839)	–
Associated undertakings	6	5	29
Profit/(loss) before exceptional items[(1)]	482	(834)	–
Restitution costs	(124)	(58)	–
Restructuring costs	(44)	–	–
Inorganic transaction costs	(16)	–	–
Loss on disposal of loan portfolios	(12)	–	–
Termination benefits	(2)	(6)	–
Covid product costs	–	(10)	–
Other	7	(1)	–
Total exceptional items[(1)]	(191)	(75)	–
Profit/(loss) before taxation	291	(909)	–
Income tax (charge)/credit	(17)	209	–
Profit/(loss) for the period	274	(700)	–

[(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

€881m

Net interest income	Half-year June 2021 € m	Half-year June 2020 € m	% change
Interest income(1)	911	1,072	-15
Interest expense(1)	(30)	(105)	-71
Net interest income	881	967	-9
Average interest earning assets	107,158	92,405	16
	%	%	change
Net interest margin (NIM)	1.66	2.10	-0.44

Net interest income

€881m

Net interest income of € 881 million decreased by € 86 million or 9% compared to the half-year to June 2020.

Interest income

Interest income of € 911 million in the half-year to June 2021 decreased by € 161 million compared to the half-year to June 2020 primarily due to:

- Lower volumes of loans and advances to customers as redemptions exceeded new lending and reflecting the disposal of non-performing loan portfolios.
- Reduced asset yields driven by the lower interest rate environment.
- Lower income on investment securities due to maturities and disposals of higher yielding securities and reinvestment at lower yields.
- Higher volumes of excess liquidity held with the central bank at negative rates.

Interest expense

Interest expense of € 30 million in the half-year to June 2021 decreased by € 75 million compared to the half-year to June 2020. The reduction in funding costs was primarily due to;

- The lower cost of customer accounts which includes the impact from broadening the scope of accounts to which negative rates are applied.
- Deposits by banks which includes TLTRO III funding benefit following verification that the relevant March 2021 lending benchmark has been achieved.
- Lower cost of other debt issued.

Net interest margin

1.66%

NIM decreased 44 bps to 1.66% in the half-year to June 2021 compared to 2.10% in the half-year to June 2020 due to:

- Reduced interest income primarily due to lower customer loan volumes, the impact of the lower interest rate environment and decrease in investment security yields c. -30 bps;
- Higher excess liquidity impacting average interest earning assets c. -25 bps partly offset by;
- Lower interest expense on customer accounts and other debt issued c. +8 bps; and
- Net TLTRO III income benefit of € 15 million c. +3 bps.

Average interest earning assets of € 107.2 billion in the half-year to June 2021 increased by € 14.8 billion from the half-year to June 2020 primarily due to funds placed with banks. This was driven by an increase in excess liquidity mainly due to higher customer account balances and TLTRO III funding drawdown.

Average balance sheet

	Half-year 30 June 2021			Half-year 30 June 2020		
Assets	Average balance € m	Interest(1) € m	Average rate %	Average balance € m	Interest(1) € m	Average rate %
Loans and advances to customers	57,823	922	3.22	60,417	1,004	3.33
Investment securities	18,762	31	0.33	17,417	72	0.82
Loans and advances to banks/others	30,573	(42)	(0.27)	14,571	(4)	(0.05)
Average interest earning assets	107,158	911	1.72	92,405	1,072	2.33
Non-interest earning assets	6,325			7,649		
Total average assets	113,483	911		100,054	1,072	
Liabilities & equity						
Deposits by banks	4,929	(26)	(1.06)	999	3	0.57
Customer accounts	46,141	3	0.01	39,819	36	0.18
Other debt issued	5,396	27	1.01	6,567	39	1.19
Subordinated liabilities	1,552	20	2.65	1,299	20	3.15
Lease liability	373	6	3.29	419	7	3.21
Average interest earning liabilities	58,391	30	0.11	49,103	105	0.43
Non-interest earning liabilities	41,712			36,869		
Equity	13,380			14,082		
Total average liabilities & equity	113,483	30		100,054	105	
Net interest income		881	1.66		967	2.10

(1)Negative interest income on assets amounting to € 49 million in the half-year to June 2021 (half-year to June 2020: € 13 million) is offset against interest income. Negative interest expense on liabilities amounting to € 50 million in the half-year to June 2021 (half-year to June 2020: € 13 million) is offset against interest expense.

Business review – 1. Operating and financial review

Other income

Other income[(1)]

€302m

Other income[(1)]	Half-year June 2021 Business income € m	Half-year June 2021 Other items € m	Half-year June 2021 Total € m	Half-year June 2020 Business income € m	Half-year June 2020 Other items € m	Half-year June 2020 Total € m	% change Total
Net fee and commission income	212	–	212	192	–	192	10
Dividend income	1	–	1	25	–	25	-95
Net trading income/(loss)	17	(8)	9	(34)	(6)	(40)	–
Net gain on equity investments (FVTPL)	–	53	53	–	22	22	138
Net gain on loans and advances to customers (FVTPL)	–	17	17	–	21	21	-19
Other operating income	–	10	10	1	(1)	–	–
Other income	230	72	302	184	36	220	37

Other income[(1)]

€302m

Other income of € 302 million increased by € 82 million compared to the half-year to June 2020 with increased business income of € 46 million and other items of € 36 million.

Business income

€230m

Business income was € 230 million in the half-year to June 2021 compared to € 184 million in the half-year to June 2020.

Net fee and commission income	Half-year June 2021 € m	Half-year June 2020 € m	% change
Customer accounts	99	90	11
Card income	32	30	6
Lending related fees	26	21	22
Customer related foreign exchange	29	26	11
Payzone	7	7	-3
Other fees and commissions	19	18	4
Net fee and commission income	212	192	10

Net fee and commission income of € 212 million in the half-year to June 2021 increased by € 20 million compared to the half-year to June 2020 primarily reflecting higher transaction volumes due to some recovery in economic activity and the removal of the exemption on customer account fees for customers that maintain a minimum credit balance.

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

Net trading income of € 17 million in the half-year to June 2021 increased by € 51 million compared to a net trading loss of € 34 million in the half-year to June 2020 mainly due to favourable movements on derivative valuation adjustments (XVA) and on non-customer foreign exchange contracts.

Other items

€72m

Other items were € 72 million in the half-year to June 2021 compared to € 36 million in the half-year to June 2020.

Net income from equity investments of € 45 million in the half-year to June 2021 (half-year to June 2020: € 16 million) reflected the revaluation and disposal of equity investments. This comprises a net gain on equity investments (FVTPL) of € 53 million in the half-year to June 2021 (half-year to June 2020: € 22 million), offset by a net trading loss of € 8 million (half-year to June 2020: € 6 million) on a partial hedge of the equity investments.

Net gain on loans and advances to customers (FVTPL) of € 17 million in the half-year to June 2021 (half-year to June 2020: € 21 million) represents income recognised on previously restructured loans carried at fair value through profit and loss.

Other operating income of € 10 million in the half-year to June 2021 primarily reflects a € 7 million gain on disposal of investment securities.

IFRS basis

On an IFRS basis other income, including a net loss of € 12 million on exceptional items[(1)] was € 290 million in the half-year to June 2021 compared to € 220 million in the half-year to June 2020.

[(1)]Other income before exceptional items. A net loss of € 12 million was reflected in exceptional items in the half-year to June 2021 relating to Other operating income (loss on disposal of loan portfolios) € 12 million.

Total operating expenses[(1)(2)]

€739m

Operating expenses[(1)(2)]	Half-year June 2021 € m	Half-year June 2020 € m	% change
Personnel expenses	360	368	-2
General and administrative expenses	239	243	-2
Depreciation, impairment and amortisation	140	136	3
Total operating expenses	739	747	-1
Staff numbers at period end[(3)]	9,003	9,310	-3
Average staff numbers[(3)]	9,100	9,402	-3

Total operating expenses[(1)(2)]

€739m

Total operating expenses of € 739 million decreased by € 8 million compared to the half-year to June 2020, with lower personnel expenses of € 8 million and lower general and administrative expenses of € 4 million partly offset by increased depreciation, impairment and amortisation of € 4 million.

Personnel expenses

Personnel expenses decreased by € 8 million compared to the half-year to June 2020 primarily due to the decrease in average staff numbers.

General and administrative expenses

General and administrative expenses decreased by € 4 million compared to the half-year to June 2020 primarily due to savings on reduced travel and business expenses.

Depreciation, impairment and amortisation

Depreciation, impairment and amortisation increased by € 4 million compared to the half-year to June 2020 due to the increase in amortisation as assets created under investment programmes were commissioned to operational use.

Cost income ratio[(1)(2)]

62%

Costs of € 739 million and income of € 1,183 million resulted in a cost income ratio of 62% in the half-year to June 2021 compared to 63% in the half-year to June 2020.

Bank levies and regulatory fees

€71m

Bank levies and regulatory fees	Half-year June 2021 € m	Half-year June 2020 € m	% change
Irish bank levy	–	–	–
Deposit Guarantee Scheme	39	34	14
Single Resolution Fund	21	17	26
Other regulatory levies and charges	11	12	-11
Bank levies and regulatory fees	71	63	12

Bank levies and regulatory fees of € 71 million increased by € 8 million compared to the half-year to June 2020 due to higher Deposit Guarantee Scheme and Single Resolution Fund fees.

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 € 71 million and the cost of exceptional items[(2)] of € 179 million, were € 989 million in the half-year to June 2021 compared to € 885 million in the half-year to June 2020.
This results in a cost income ratio (IFRS basis) of 84% in the half-year to June 2021, compared to 75% in the half-year to June 2020.

[(1)]Before bank levies and regulatory fees and exceptional items.
[(2)]The cost of exceptional items of € 179 million in the half-year to June 2021 (half-year to June 2020: € 75 million) comprised: Personnel expenses € 4 million (half-year to June 2020: € 12 million), and General and administrative expenses € 134 million (half-year to June 2020: € 63 million) and Depreciation, impairment and amortisation € 41 million (half-year to June 2020: Nil).
[(3)]Staff numbers are on a full time equivalent ("FTE") basis.

Business review – 1. Operating and financial review

Net credit impairment writeback

€103m

There was a net credit impairment writeback of € 103 million in the half-year to June 2021 reflecting a more favourable economic environment with improved credit quality and updated macroeconomic assumptions partially offset by new and enhanced post model adjustments.

The net credit impairment writeback of € 103 million reflected a € 106 million writeback on loans and advances to customers (net re-measurement of expected credit loss ("ECL") allowance writeback of € 70 million and recoveries of amounts previously written-off of € 36 million) and a € 3 million charge for off-balance sheet exposures.

There was a net credit impairment charge of € 1,216 million in the half-year to June 2020 comprising of a € 1,168 million charge on loans and advances to customers and a € 47 million charge for off-balance sheet exposures.

For further information see pages 37 to 77 in the Risk Management section.

Income tax charge

€17m

The effective rate was 6% in the half-year to June 2021 compared with 23% in the half-year to June 2020.

The income tax charge recognised in the half-year to June 2021 reflects an increase in deferred tax assets in respect of carried forward losses due to an increase in the UK corporation tax rate.

For further information see note 12 'Taxation' of the condensed consolidated interim financial statements.

Total exceptional items

€191m

Total exceptional items	**Half-year June 2021 € m**	Half-year June 2020 € m
Restitution costs	**(124)**	(58)
Restructuring costs	**(44)**	–
Inorganic transaction costs	**(16)**	–
Loss on disposal of loan portfolios	**(12)**	–
Termination benefits	**(2)**	(6)
Covid product costs	**–**	(10)
Other	**7**	(1)
Total exceptional items	**(191)**	(75)

These gains/costs were viewed as exceptional by management.

Restitution costs includes provisions of € 100 million related to a series of investment property funds which were sold to individual investors during the period 2002 to 2006. See note 31 'Provisions for liabilities and commitments' in the condensed consolidated interim financial statements for further information. It also includes the provision of € 1 million for customer redress and compensation in relation to the tracker mortgage examination and € 23 million of associated costs.

Restructuring costs reflect the implementation of the Group's revised strategy (Strategy 2023) including costs associated with the exit of a Dublin office location, changes to the Retail network in ROI and the exit from the SME market in Great Britain.

Inorganic transaction costs includes costs associated with the proposed acquisition of c. € 4.2 billion of performing Ulster Bank corporate and commercial loans and the agreed creation of a joint venture with Great-West Lifeco Inc to provide life, pension and investment solutions.

Loss on disposal of loan portfolios reflects the loss from the disposals of loan portfolios.

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

Other reflects the writeback of a provision for regulatory fines in the half-year to June 2021. In the half-year to June 2020 it included costs relating to the Group's property strategy.

Assets

Net loans to customers

€56.6bn

New lending

€4.5bn

Assets	30 June 2021 € bn	31 Dec 2020 € bn	% change
Gross loans to customers	**58.7**	59.5	*-1*
ECL allowance	**(2.1)**	(2.5)	*-17*
Net loans to customers	**56.6**	57.0	*-1*
Investment securities	**16.5**	19.5	*-15*
Loans and advances to banks	**43.0**	27.3	*57*
Other assets	**6.8**	6.6	*2*
Total assets	**122.9**	110.4	*11*

Net loans to customers

€56.6bn

Net loans, excluding the impact of currency movements of € 0.5 billion, decreased by € 0.9 billion compared to 31 December 2020 reflecting redemptions of € 5.2 billion exceeding new lending of € 4.5 billion and the disposal of non-performing loan portfolios of € 0.3 billion (net).

New lending

€4.5bn

New lending of € 4.5 billion in the half-year to June 2021 was € 0.1 billion higher compared to the half-year to June 2020. Mortgage lending was 10% higher at € 1.2 billion with property related lending up 16% to € 0.8 billion. Non-property lending was 3% lower at € 2.1 billion with strong new lending in renewable energy, some recovery in syndicated lending and an increase in Irish SME lending (which benefited from government supported schemes) offset by a decrease in lending to those sectors most impacted by COVID-19 restrictions. Personal lending was down 4% to € 0.4 billion.

New lending comprises € 4.0 billion term lending in the half-year to June 2021 (€ 3.6 billion in the half-year to June 2020) and € 0.5 billion transaction lending (€ 0.8 billion in the half-year to June 2020).

Non-performing loans

€3.8bn

Non-performing loans ratio

6.5%

Non-performing loans decreased by € 0.5 billion to € 3.8 billion at 30 June 2021 primarily reflecting the disposal of loan portfolios of € 0.6 billion and redemptions of € 0.3 billion, partially offset by net flow to non-performing of € 0.4 billion.

Non-performing loans ratio

Non-performing loans as a percentage of gross loans to customers was 6.5% at 30 June 2021 compared to 7.3% at 31 December 2020.

ECL allowance

€2.1bn

Non-performing loans cover

27.5%

The ECL allowance of € 2.1 billion at 30 June 2021 decreased from € 2.5 billion at 31 December 2020 primarily reflecting the impact of the disposal of non-performing loan portfolios.

Non-performing loans cover

The ECL allowance cover rate on non-performing loans of 27.5% at 30 June 2021 compared to 32.4% at 31 December 2020.

Summary of movement in loans to customers

The table below sets out the movement in loans to customers from 1 January 2021 to 30 June 2021.

Loans to customers	Performing loans € bn	Non-performing loans € bn	Loans to customers € bn
Gross loans (opening balance 1 January 2021)	**55.2**	**4.3**	**59.5**
New lending	**4.5**	**–**	**4.5**
Redemptions of existing loans	**(4.9)**	**(0.3)**	**(5.2)**
Portfolio disposals	**–**	**(0.6)**	**(0.6)**
Write-offs and restructures	**–**	**–**	**–**
Net movement to non-performing	**(0.4)**	**0.4**	**–**
Foreign exchange movements	**0.5**	**–**	**0.5**
Gross loans (closing balance 30 June 2021)	**54.9**	**3.8**	**58.7**
ECL allowance	**(1.1)**	**(1.0)**	**(2.1)**
Net loans (closing balance 30 June 2021)	**53.8**	**2.8**	**56.6**

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 82.

Loan portfolio profile 30 June 2021	**Residential mortgages € bn**	**Other personal € bn**	**Property and construction € bn**	**Non-property business € bn**	**Total € bn**
Gross loans to customers	**29.6**	**2.6**	**7.5**	**19.0**	**58.7**
Of which: Stage 2	**1.5**	**0.3**	**1.6**	**4.4**	**7.8**
Of which: Non-performing loans	**1.5**	**0.2**	**0.9**	**1.2**	**3.8**
Total ECL allowance	**0.5**	**0.2**	**0.4**	**1.0**	**2.1**
Total ECL allowance cover (%)	**1.7%**	**8.8%**	**4.8%**	**5.3%**	**3.6%**
ECL allowance cover Stage 2 (%)	**2.9%**	**14.3%**	**7.8%**	**13.1%**	**10.0%**
ECL allowance cover non-performing loans (%)	**27.8%**	**61.2%**	**19.8%**	**26.1%**	**27.5%**
31 December 2020	€ bn	€ bn	€ bn	€ bn	€ bn
Gross loans to customers	30.6	2.8	7.4	18.7	59.5
Of which: Stage 2	2.0	0.3	2.1	5.0	9.4
Of which: Non-performing loans	2.1	0.2	1.0	1.0	4.3
Total ECL allowance	0.9	0.2	0.4	1.0	2.5
Total ECL allowance cover (%)	2.8%	8.5%	5.4%	5.5%	4.2%
ECL allowance cover Stage 2 (%)	3.7%	15.4%	6.4%	11.6%	9.0%
ECL allowance cover non-performing loans (%)	33.9%	61.1%	22.0%	32.3%	32.4%

Investment securities

Investment securities of € 16.5 billion, primarily held for liquidity purposes, have decreased by € 3.0 billion from 31 December 2020 due to sales and maturities exceeding purchases.

Loans and advances to banks

Loans and advances to banks of € 43.0 billion, including € 39.0 billion of cash and balances at central banks, were € 15.7 billion higher than 31 December 2020. The increased placement with banks was due to an increase in excess liquidity due to higher customer account balances and a further € 6 billion TLTRO III funding drawdown.

Other assets

Other assets of € 6.8 billion comprised:

- Deferred tax assets of € 2.8 billion[(1)] increased € 0.1 billion from 31 December 2020.
- Derivative financial instruments of € 1.0 billion, € 0.4 billion decrease from 31 December 2020 primarily reflecting interest rate and foreign exchange rate movements in the period.
- Remaining assets of € 3.0 billion, increased € 0.5 billion from 31 December 2020 mainly due to securities borrowing transactions with non-bank financial counterparties of € 0.8 billion.

[(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	Equity
€88.3bn	**€13.5bn**

Liabilities & equity	30 June 2021 € bn	31 Dec 2020 € bn	% change
Customer accounts	**88.3**	82.0	*8*
Deposits by banks	**10.6**	4.7	*126*
Debt securities in issue	**5.7**	5.5	*5*
Subordinated liabilities	**1.6**	1.6	*-3*
Other liabilities	**3.2**	3.2	*-1*
Total liabilities	**109.4**	97.0	*13*
Equity	**13.5**	13.4	–
Total liabilities & equity	**122.9**	110.4	*11*
	%	%	*change*
Loan to deposit ratio	**64**	69	*-5*

Customer accounts

€88.3bn

Customer accounts, excluding the impact of currency movements of € 0.6 billion, increased by € 5.7 billion compared to 31 December 2020 reflecting substantially higher balances across all segments primarily due to COVID-19 related dynamics of increased savings and lower consumer consumption.

Loan to deposit ratio

The loan to deposit ratio decreased to 64% at 30 June 2021 compared to 69% at 31 December 2020 primarily reflecting increased customer accounts.

Deposits by banks

Deposits by banks of € 10.6 billion increased by € 5.9 billion compared to 31 December 2020 driven by a further € 6.0 billion TLTRO III funding drawdown in June 2021 bringing total TLTRO III funding to € 10.0 billion.

Debt securities in issue

Debt securities of € 5.7 billion increased by € 0.2 billion from 31 December 2020 following a further MREL related issuance of € 0.75 billion partly offset by the maturity of a covered bond of € 0.5 billion.

Subordinated liabilities

Subordinated liabilities of € 1.6 billion were in line with 31 December 2020.

Other liabilities

Other liabilities of € 3.2 billion comprised:

- Derivative financial instruments of € 1.0 billion, € 0.2 billion decrease from 31 December 2020.
- Remaining liabilities of € 2.2 billion, € 0.2 billion increase from 31 December 2020.

Equity

€13.5bn

Equity increased by € 0.1 billion to € 13.5 billion compared to € 13.4 billion at 31 December 2020 driven by the profit for the period partly offset by movements in the cash flow hedging reserves.

Business review – 1. Operating and financial review

Segment reporting

Segment overview

The Group's performance is managed and reported across the Retail Banking, Corporate, Institutional & Business Banking ("CIB"), AIB UK and Group segments. Segment performance excludes exceptional items.

Retail Banking

Retail Banking comprises Homes & Consumer, SME and Financial Solutions Group ("FSG") in a single integrated segment, focused 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 provides 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 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)").

The Group's revised strategy (Strategy 2023) entails changes to the AIB UK business model including the withdrawal from SME lending in Great Britain and a refocus on our corporate business, particularly in renewables, infrastructure, health and manufacturing.

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 Technology, Operations, Finance, Risk, Legal, Corporate Governance & Customer Care, Human Resources, Corporate Affairs, Strategy & Sustainability and Group Internal Audit.

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 2021 € m	Half-year June 2020 € m	% change
Net interest income	519	572	-9
Other income	174	161	8
Total operating income	693	733	-6
Total operating expenses	(433)	(445)	-3
Bank levies and regulatory fees	(1)	(1)	11
Operating contribution before impairments and exceptional items	259	287	-9
Net credit impairment writeback/(charge)	55	(491)	–
Operating contribution before exceptional items	314	(204)	–
Associated undertakings	4	4	7
Contribution before exceptional items	318	(200)	–

Retail Banking balance sheet metrics	30 June 2021 € bn	30 June 2020 € bn	% change
Mortgages	1.1	1.1	
Personal	0.4	0.4	
Property	0.1	0.1	
Non-property business	0.4	0.4	
New lending	2.0	2.0	2
	30 June 2021 € bn	31 Dec 2020 € bn	
Mortgages	27.9	29.0	
Personal	2.5	2.6	
Property	0.7	0.7	
Non-property business	3.2	3.2	
Gross loans	34.3	35.5	-3
ECL allowance	(1.1)	(1.5)	-23
Net loans	33.2	34.0	-2
Current accounts	34.8	31.7	10
Deposits	26.4	25.2	5
Customer accounts	61.2	56.9	8

Net interest income

€519m Net interest income has decreased by € 53 million compared to the half-year to June 2020. This was primarily due to lower average loans, as redemptions exceeded new lending and the deleveraging of non-performing loans in 2021, as well as the increase in customer account volumes coupled with the impact of the negative interest rate environment partially offset by lower funding costs.

Other income

€174m Other income increased by € 13 million compared to the half-year to June 2020, mainly due to an increase in net fee and commission income driven by customer accounts and card income, partly offset by lower income recognised on previously restructured loans. Customer accounts income has benefited from the removal of the exemption on customer account fees for customers that maintain a minimum credit balance.

Total operating expenses

€433m Total operating expenses decreased by € 12 million compared to the half-year to June 2020 driven by reductions in personnel costs due to lower average staff numbers.

Net credit impairment writeback

€55m There was a net credit impairment writeback of € 55 million in the half-year to June 2021 comprising of a € 52 million writeback on loans and advances to customers and a € 3 million writeback for off-balance sheet exposures. There was a net credit impairment charge of € 491 million in the half-year to June 2020.

New lending

€2.0bn New lending was in line with half-year June 2020 at € 2.0 billion. There was an increase in SME lending, which benefited from government supported schemes, partially offset by lower personal lending.

Net loans

€33.2bn Net loans decreased by € 0.8 billion mainly reflecting redemptions exceeding new lending and the disposal of non-performing loan portfolios.

ECL allowance

€1.1bn The ECL allowance of € 1.1 billion at 30 June 2021 decreased by € 0.4 billion compared to 31 December 2020 primarily reflecting the disposal of non-performing loan portfolios.

Customer accounts

€61.2bn Customer accounts increased by € 4.3 billion compared to 31 December 2020 reflecting reduced consumer spending and higher savings which elevated balances across all sectors.

Business review – 1. Operating and financial review

Corporate, Institutional & Business Banking ("CIB")

CIB contribution statement	Half-year June 2021 € m	Half-year June 2020 € m	% change
Net interest income	212	219	-4
Other income	64	45	39
Total operating income	276	264	4
Total operating expenses	(65)	(64)	2
Operating contribution before impairments and exceptional items	211	200	4
Net credit impairment writeback/(charge)	39	(538)	–
Operating contribution before exceptional items	250	(338)	–
Associated undertakings	1	–	–
Contribution before exceptional items	251	(338)	–

CIB balance sheet metrics	30 June 2021 € bn	30 June 2020 € bn	% change
Mortgages	0.0	0.0	
Personal	0.0	0.0	
Property	0.4	0.4	
Non-property business	1.2	1.1	
New lending	1.6	1.5	6
	30 June 2021 € bn	**31 Dec 2020 € bn**	
Mortgages	0.6	0.6	
Personal	0.1	0.1	
Property	4.7	4.7	
Non-property business	10.1	9.9	
Gross loans	15.5	15.3	1
ECL allowance	(0.7)	(0.8)	-7
Net loans	14.8	14.5	2
Investment securities	1.2	1.1	16
Current accounts	9.9	9.0	9
Deposits	3.5	3.7	-5
Customer accounts	13.4	12.7	5

Net interest income

€212m Net interest income decreased by € 7 million compared to the half-year to June 2020. This was primarily due to lower average loans, as redemptions exceeded new lending, and the impact of the lower interest rate environment partly offset by lower funding costs.

Other income

€64m Other income increased by € 19 million compared to the half-year to June 2020, reflecting an increase in net income from equity investments, loan disposals and higher lending related fees.

Total operating expenses

€65m Total operating expenses were broadly in line with the half-year to June 2020.

Net credit impairment writeback

€39m There was a net credit impairment writeback of € 39 million in the half-year to June 2021 comprising of a € 40 million writeback on loans and advances to customers and a € 1 million charge for off-balance sheet exposures. There was a net credit impairment charge of € 538 million in the half-year to June 2020.

New lending

€1.6bn New lending of € 1.6 billion increased by € 0.1 billion compared to the half-year to June 2020 with strong new lending in renewable energy and some recovery in syndicated lending partially offset by a decrease in lending to those sectors most impacted by COVID-19 restrictions.

Net loans

€14.8bn Net loans of € 14.8 billion at 30 June 2021 increased by € 0.3 billion compared to 31 December 2020 primarily due to the impact of currency movements of € 0.1 billion and reduction in the ECL allowance.

ECL allowance

€0.7bn The ECL allowance of € 0.7 billion at 30 June 2021 decreased by € 0.1 billion compared to 31 December 2020.

Investment securities

€1.2bn Investment securities of € 1.2 billion were € 0.1 billion higher than 31 December 2020.

Customer accounts

€13.4bn Current accounts of € 9.9 billion were € 0.9 billion higher than 31 December 2020. Deposits of € 3.5 billion decreased by € 0.2 billion compared to 31 December 2020.

AIB UK

AIB UK contribution statement	Half-year June 2021 £ m	Half-year June 2020 £ m	% change
Net interest income	91	100	-8
Other income	22	17	27
Total operating income	113	117	-3
Total operating expenses	(75)	(73)	4
Operating contribution before impairments and exceptional items	38	44	-14
Net credit impairment writeback/(charge)	8	(164)	–
Operating contribution before exceptional items	46	(120)	–
Associated undertakings	1	1	37
Contribution before exceptional items	47	(119)	–
Contribution before exceptional items € m	54	(135)	–

AIB UK balance sheet metrics	30 June 2021 £ bn	30 June 2020 £ bn	% change
AIB GB	0.6	0.6	-9
AIB NI	0.2	0.2	29
New lending	0.8	0.8	-1
	30 June 2021 £ bn	31 Dec 2020 £ bn	
AIB GB	5.6	5.6	1
AIB NI	2.1	2.1	-4
Gross loans	7.7	7.7	-1
ECL allowance	(0.2)	(0.3)	-12
Net loans	7.5	7.4	–
Current accounts	7.4	6.8	8
Deposits	3.1	3.0	3
Customer accounts	10.5	9.8	7

Net interest income

£91m Net interest income decreased by £ 9 million compared to the half-year to June 2020 primarily due to the Bank of England base rate cuts in March 2020.

Other income

£22m Other income increased by £ 5 million compared to the half-year to June 2020 mainly due to favourable movements on derivative valuation adjustments (XVA).

Total operating expenses

£75m Total operating expenses increased £ 2 million compared to the half-year to June 2020.

Net credit impairment writeback

£8m There was a net credit impairment writeback of £ 8 million in the half-year to June 2021. There was a net credit impairment charge of £ 164 million in the half-year to June 2020.

New lending

£0.8bn New lending of £ 0.8 billion in the half-year to June 2021 was in line with the half-year to June 2020. There was an increase in mortgage lending offset by a reduction in commercial lending.

Net loans

£7.5bn Net loans of £ 7.5 billion increased by £ 0.1 billion compared to 31 December 2020 driven by a reduction in expected credit loss allowance.

ECL allowance

£0.2bn The ECL allowance of £ 0.2 billion at 30 June 2021 decreased by £ 0.1 billion from 31 December 2020.

Customer accounts

£10.5bn Customer accounts of £ 10.5 billion at 30 June 2021 were £ 0.7 billion higher compared to 31 December 2020.

Business review – 1. Operating and financial review

Group

Group contribution statement	Half-year June 2021 € m	Half-year June 2020 € m	% change
Net interest income	**45**	62	*-28*
Other income	**39**	(6)	–
Total operating income	**84**	56	*52*
Total operating expenses	**(155)**	(155)	–
Bank levies and regulatory fees	**(70)**	(62)	*13*
Contribution before exceptional items	**(141)**	(161)	*13*

Group balance sheet metrics	30 June 2021 € bn	31 Dec 2020 € bn	% change
Gross loans	**0.0**	0.1	*-86*
Investment securities	**15.3**	18.4	*-17*
Customer accounts	**1.5**	1.4	*4*

Net interest income

€45m Net interest income of € 45 million decreased by € 17 million compared to the half-year to June 2020 reflecting the impact of the lower interest rate environment and lower income on investment securities.

Other income

€39m Other income increased by € 45 million compared to the half-year to June 2020 driven by net trading income from favourable movements on derivative valuation adjustments (XVA) and foreign exchange contracts, higher net income from equity investments and a gain on disposal of investment securities. The half-year to June 2020 included € 23 million of dividend income on NAMA subordinated bonds, which were redeemed in 2020.

Total operating expenses

€155m Total operating expenses of € 155 million were in line with the half-year to June 2020.

Bank levies and regulatory fees

€70m Bank levies and regulatory fees of € 70 million in the half-year to June 2021 include the Deposit Guarantee Scheme of € 39 million, the Single Resolution Fund € 21 million, and other regulatory levies and charges of € 10 million.

Investment securities

€15.3bn Investment securities of € 15.3 billion primarily held for liquidity purposes decreased by € 3.1 billion from 31 December 2020 due to sales and maturities exceeding purchases.

Customer accounts

€1.5bn Customer accounts were € 1.5 billion at the half-year to June 2021 compared to € 1.4 billion at 31 December 2020.

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. – *Restructuring costs* reflect the implementation of the Group's revised strategy (Strategy 2023) including costs associated with the exit of a Dublin office location, changes to the Retail network in ROI and the exit from the SME market in Great Britain. – *Inorganic transaction costs* includes costs associated with the proposed acquisition of c. € 4.2 billion of performing Ulster Bank corporate and commercial loans and the creation of a joint venture with Great-West Lifeco Inc to provide life, pension and investment solutions. – *Loss on disposal of loan portfolios* reflects the loss from the disposals of loan portfolios. – *Termination benefits* relate to the cost of the voluntary severance programme. – *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. – *Other* reflects the writeback of a provision for regulatory fines in the half-year to June 2021. In the half-year to June 2020 it included costs relating to the Group's property strategy.
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 exposures 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)	Profit after tax less AT1 coupons paid, divided by targeted CET1 capital on fully loaded basis. Details of the Group's RoTE is set out in the Capital Section on page 33.
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 profit/(loss) before exceptional items • Profit on disposal of property • Profit/(loss) 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 2021 € m	Half-year June 2020 € m
Net interest income	881	967
Other income	290	220
Total operating income	1,171	1,187
Total operating expenses	(989)	(885)
Operating profit before impairment losses	182	302
Net credit impairment writeback/(charge)	103	(1,216)
Operating profit/(loss)	285	(914)
Associated undertakings	6	5
Profit/(loss) before taxation	291	(909)
Income tax (charge)/credit	(17)	209
Profit/(loss) for the period	274	(700)

Adjustments – between IFRS and management performance

		Half-year June 2021		Half-year June 2020	
Other income	**of which: exceptional items**				
	Loss on disposal of loan portfolios	12	12	–	–
Total operating expenses	**of which: bank levies and regulatory fees**		71		63
	of which: exceptional items				
	Restitution costs	124		58	
	Restructuring costs	44		–	
	Inorganic transaction costs	16		–	
	Termination benefits	2		6	
	Covid product costs	–		10	
	Other	(7)	179	1	75

Management performance – summary income statement	Half-year June 2021 € m	Half-year June 2020 € m
Net interest income	881	967
Other income[(1)]	302	220
Total operating income[(1)]	1,183	1,187
Total operating expenses[(1)]	(739)	(747)
Bank levies and regulatory fees[(1)]	(71)	(63)
Operating profit before impairment losses and exceptional items[(1)]	373	377
Net credit impairment writeback/(charge)	103	(1,216)
Operating profit/(loss) before exceptional items[(1)]	476	(839)
Associated undertakings	6	5
Profit/(loss) before exceptional items[(1)]	482	(834)
Total exceptional items[(1)]	(191)	(75)
Profit/(loss) before taxation	291	(909)
Income tax (charge)/credit	(17)	209
Profit/(loss) for the period	274	(700)

[(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.

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 156 of the Group's Annual Financial Report 2020.

Regulatory capital and capital ratios[1]

	CRD IV transitional basis		CRD IV fully loaded basis	
	30 June 2021 € m	31 December 2020 € m	30 June 2021 € m	31 December 2020 € m
Equity	13,479	13,422	13,479	13,422
Less: Additional Tier 1 Securities	(1,115)	(1,115)	(1,115)	(1,115)
Foreseeable charges[2]	(158)	–	(158)	–
Regulatory adjustments:				
Intangible assets	(506)	(485)	(506)	(485)
Cash flow hedging reserves	(334)	(540)	(334)	(540)
IFRS 9 CET 1 transitional add-back	720	796	–	–
Pension	(21)	(22)	(21)	(22)
Deferred tax	(1,943)	(1,654)	(2,753)	(2,721)
Calendar provisioning[3]	(243)	(317)	(243)	(317)
Other	(33)	(38)	(33)	(38)
	(2,360)	(2,260)	(3,890)	(4,123)
Total common equity tier 1 capital	9,846	10,047	8,316	8,184
Additional tier 1 capital				
Additional Tier 1 issuance	1,115	1,115	1,115	1,115
Total additional tier 1 capital	1,115	1,115	1,115	1,115
Total tier 1 capital	10,961	11,162	9,431	9,299
Tier 2 capital				
Subordinated debt	1,500	1,500	1,500	1,500
Instruments issued by subsidiaries that are given recognition in tier 2 capital	22	19	26	24
IRB Excess of provisions over expected losses eligible	123	131	123	131
IFRS 9 tier 2 transitional adjustment	(123)	(131)	–	–
Total tier 2 capital	1,522	1,519	1,649	1,655
Total capital	12,483	12,681	11,080	10,954
Risk-weighted assets				
Credit risk	46,318	47,807	45,905	47,350
Market risk	378	429	378	429
Operational risk	4,303	4,686	4,303	4,686
Credit valuation adjustment	137	114	137	114
Total risk-weighted assets	51,136	53,036	50,723	52,579
	%	%	%	%
Common equity tier 1 ratio	19.3	18.9	16.4	15.6
Tier 1 ratio	21.4	21.0	18.6	17.7
Total capital ratio	24.4	23.9	21.8	20.8

[1]Prepared under the regulatory scope of consolidation.

[2]Article 2 Regulation (EU) No 241/2014 requires a foreseeable charge, being the maximum dividend payout ratio under the Group's internal dividend policy, to be deducted from equity.

[3]Calendar provisioning is a Supervisory Review and Evaluation Process ("SREP") recommendation to ensure minimum coverage levels on long term NPE exposures. The difference between the SREP recommended coverage levels and the IFRS 9 ECL coverage is taken as a CET1 deduction.

Business review – 2. Capital

Capital requirements

The table below sets out the Group's capital requirements from 1 July 2021 under Article 104a. In addition any shortfall in AT1 and Tier 2 must be held in CET1. The table does not include Pillar 2 Guidance ("P2G") which is not publicly disclosed.

Regulatory Capital Requirements	
CET1 Requirements	
Pillar 1	4.50%
Pillar 2 requirement (P2R)	1.69%
Combined buffer requirement	4.00%
Capital Conservation Buffer (CCB)	*2.50%*
O-SII buffer	*1.50%*
Countercyclical buffer (CCYB) Impact	*–%*
CET1 Requirement	**10.19%**
Pillar 1 AT1/Tier 2	**3.50%**
P2R AT1/Tier 2	**1.31%**
Total Capital Requirement	**15.00%**

The Other Systemically Important Institution ("O-SII") buffer increased from 1.0% to 1.5% on 1 July 2021.

Capital ratios at 30 June 2021

Fully Loaded Ratio

The fully loaded CET1 ratio increased to 16.4% at 30 June 2021 from 15.6% at 31 December 2020.

The increase of 0.8% is due to a profit after tax of € 0.3 billion (+0.5%) and RWA reductions (+0.6%) partially offset by foreseeable charges in respect of dividends (-0.3%) and a reduction in investment securities (-0.1%).

RWA reductions include increased application of Article 501/501A for SME exposures (+0.1%), Non-Performing Exposure ("NPE") portfolio sales (+0.1%) and reduced operational risk RWAs (+0.1%). Loans and advances to customers drove the remaining reduction (+0.3%) through business mix, volumes and credit grade movements.

The fully loaded total capital ratio increased to 21.8% from 20.8% at 31 December 2020 primarily due to lower RWAs and the other CET1 movements outlined above.

Transitional Ratio

The transitional CET1 ratio increased to 19.3% at 30 June 2021 from 18.9% at 31 December 2020. The increase is mainly due to the fully loaded movements outlined above partially offset by an additional year's phasing of the deferred tax asset deduction and further recognition of IFRS 9 provisions recorded in 2020 as per Regulation (EU) 2020/873 ("CRR Quick Fix" in response to the COVID-19 pandemic).

At 30 June 2021 the transitional total capital ratio increased to 24.4% from 23.9% at 31 December 2020.

Acquisition of Ulster Bank corporate & commercial loans and Goodbody

Note 45 'Proposed acquisitions' in the condensed consolidated interim financial statements sets out the details on the proposed transactions.

The Group estimates that if the Ulster Bank transaction had completed on 30 June 2021 the increase in the Group's RWAs would have led to a reduction in CET1 of (c. -1.6%).

When the Goodbody transaction completes it will not materially impact the Group's CET1 position (c. -0.15%).

Finalisation of Basel III

The Group continues to closely monitor regulatory developments to ensure that the Group maintains a strong capital position. The final Basel III requirements in respect of Counterparty Credit Risk have been implemented as part of CRR2.

Further regulatory developments in respect of the finalisation of Basel III are expected in the near term. Exact implementation details will be confirmed once the finalised requirements are transposed into law (i.e. the CRR is further updated). Initial assessments signal upward pressure on RWAs, mostly in relation to operational risk.

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

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

At 30 June 2021, the Group has an MREL ratio of 31.9% of RWAs.

The Group's MREL ratio is in excess of the target for 2021 and there is currently sufficient loss absorption and re-capitalisation capability. The Group has now completed issuance of € 6.6 billion MREL eligible liabilities of which € 0.75 billion was issued in the first half of 2021. This provides capacity for some RWA growth through acquisitions.

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.

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.

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

On 13 July 2021, Moody's upgraded the credit rating by one notch to Baa1 following the publication of their updated Banks Methodology. The Stable outlook was reaffirmed. S&P confirmed their ratings in June 2021.

Long term ratings	Moody's	3 August 2021 S&P	Fitch
Long term	**Baa1**	**BBB-**	**BBB**
Outlook	**Stable**	**Negative**	**Negative**
Investment grade	✓	✓	✓

Long term ratings	Moody's	31 December 2020 S&P	Fitch
Long term	Baa2	BBB-	BBB
Outlook	Stable	Negative	Negative
Investment grade	✓	✓	✓

Allied Irish Banks, p.l.c.

Long term ratings	Moody's	3 August 2021 S&P	Fitch
Long term	**A2**	**BBB+**	**BBB+**
Outlook	**Stable**	**Negative**	**Negative**
Investment grade	✓	✓	✓

Long term ratings	Moody's	31 December 2020 S&P	Fitch
Long term	A2	BBB+	BBB+
Outlook	Stable	Negative	Negative
Investment grade	✓	✓	✓

Return on Tangible Equity ("RoTE")*

The Group's medium term financial targets as set out in the Annual Financial Report 2020 included a CET1 fully loaded capital ratio of more than 14% and a RoTE of greater than 8%. The RoTE below is based on these targets.

Return on Tangible Equity (RoTE)	30 June 2021 € m	31 December 2020 € m
Profit/(loss) after tax	**274**	(741)
AT1 coupons paid	**(33)**	(76)
Attributable earnings	**241**	(817)
Average RWA	**51,719**	
RWA x 14% (CET 1 target)	**7,241**	7,320
Return on Tangible Equity	**6.7%**[(1)]	(11.2)%

*RoTE is considered an Alternative Performance Measurement.

[(1)]Annualised RoTE

Following Board approval in August 2021, the Group is updating its CET1 target to > 13.5% and its RoTE target to > 9%. Applying a CET1 ratio of 13.5%, the proforma RoTE for the six months to 30 June 2021 is 7.0%.

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Risk management

Risk management

Update on risk management and governance

The Group has implemented a robust risk management approach to protect its customers and safeguard the Group against the risks identified.

The Group's Risk Management Framework ensures tools are in place to identify, assess and manage these risks, including emerging risks. The following is 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 2020 on pages 79 to 170.

The Group has followed its established risk management processes during the six months to 30 June 2021. The Group reviewed its principal risks and uncertainties, including the key emerging risk drivers in the second quarter of 2021 and there have been no changes to those set out on pages 50 to 53 in the Annual Financial Report 2020. The Group continues to monitor the principal risks and key emerging risks and is not expecting any significant changes to its principal risks for the remainder of 2021.

These principal risks should not be regarded as a complete and comprehensive statement of all potential risks/uncertainties. Other factors not yet identified, or not currently material, may adversely affect the Group.

Key Risk Developments in the first six months of 2021

Continued impact of COVID-19: The public health restrictions in place during the first six months of 2021 in Ireland and the UK were more severe than had been generally expected. Recognising the increased uncertainty, the Irish and UK Governments announced extensions of the COVID-19 supports. However, the pace of vaccine roll-out has also been faster than was widely anticipated at the end of 2020. The emergence of new variants has increased the risks of further restrictions being introduced or delays to the removal of public health restrictions.

The reduced uncertainty in the economic outlook in Ireland and the UK, due to a number of factors including the successful vaccine roll-out programmes and continued government supports, has driven a stabilisation of the credit profile of the Group's exposures. The Group's stress testing process during the first six months of 2021 has continued to incorporate risks related to the possibility of further public health restrictions being imposed, a slower pace of vaccine roll-out and lower efficacy of vaccines. The Group's capital position remains strong under these various adverse scenarios.

Cyber risk and information security: The Group continues to invest significantly in its cyber security capability to prevent, detect and respond to an evolving cyber threat landscape, and continues to educate customers and staff on actions they can take to prevent cyber-attacks. This includes detailed guidance on how to identify and prevent common fraud and threats such as the COVID-19 related scam that continued into 2021 where fraudsters leveraged publicity surrounding COVID-19 to pose as genuine organisations, including bank staff, government and health service officials in an attempt to get customers to disclose personal security credentials. Recognising the strength of wider collective effort in the fight against cyber-crime, the Group has also partnered with other banks across Europe through the Banking & Payments Federation of Ireland and the Cyber Defence Alliance, playing a role in fostering an open, knowledge-based and mutual protection culture that enhances the ability of all participants to protect against cyber threats.

Business model risks: The Group announced its strategy in December 2020 and confirmed a number of transactions during the first six months of the year in line with that strategy as set out in the CEO's review on pages 4 to 10. Each of these transactions aim to strengthen the Group's business model, the attainment of the expected benefits requires the successful integration into the Group and the achievement of the financial projections that are expected from these transactions. If the implementation risks are not mitigated successfully, or if financial performance was to deviate materially from expectations, then the business model risk profile of the Group would increase accordingly.

Sustainability and climate change: During the first half of 2021, the Group has updated its qualitative risk appetite statements for business model risk and credit risk, which are two of the Group's principal risks, in relation to Environmental, Social and Governance ("ESG") factors. These set out that the Group will take ESG considerations into account when formulating and implementing the Group's strategy and in material lending decisions in high climate risk sectors.

To support the credit risk appetite the Group has updated its credit sanctioning policies and procedures across different sectors to require greater consideration of ESG factors in the credit process, at origination, particularly in relation to climate change. These have been supported by the development of a sectoral heatmap in order to identify the high climate risk sectors. A new ESG questionnaire has been developed to assist the Group's credit processes and procedures in identifying and assessing the ESG risk during the lending process. This is being implemented for customers in high climate risk sectors in Ireland and the UK.

Risks for the remainder of 2021: The main risk to the Group's outlook relates to the strength and sustainability of the recovery as the economy begins to emerge from COVID-19. Other key risks for the remainder of 2021 include the continued threat from cyber criminals, the implementation of the EU-UK Trading and Co-operation Agreement (TCA), the resolution of legacy customer claims and mortgage tracker enforcement proceedings.

Credit risk – Overview

Details on the various aspects of the Group's credit risk management are outlined on pages 87 to 109 of the Annual Financial Report 2020 with the Group's accounting policies for financial assets included in note 1 to the consolidated financial statements on pages 243 to 245.

There have been no changes to the Group's accounting policies for financial assets since 31 December 2020. In determining ECL allowance, the Group keeps under constant review its bases of measurement, methodologies and judgements as outlined on pages 95 to 107 of the Annual Financial Report 2020. There have been no changes to these bases of measurement, methodologies and judgements apart from the following:

Ongoing credit risk management response to COVID-19

The Group has been proactive in terms of its credit risk management response to COVID-19 over the past 16 months, having adapted its credit risk management operating model including its underlying credit processes in response to COVID-19 and enabling the implementation of customer support measures in a streamlined, agile and risk appropriate manner.

The level of uncertainty relating to the impact of COVID-19 on the economy at 30 June 2021 has reduced to that at 31 December 2020 as restrictions on the economy are lifted and the vaccine roll-out continues. It is also noted that reliance on government supports has begun to reduce since 31 December 2020 and while government supports are being withdrawn, the support for sectors deemed high risk is expected to be continued should the reopening of the economy be delayed. Therefore, the risk of a sudden withdrawal of supports is considered unlikely.

Throughout the second half of the year, 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, with sectors believed to be most impacted by COVID-19 (for example, hospitality, non-food retail, travel etc.) being monitored very closely. The enhanced credit management practices which have been in place since the beginning of COVID-19 will continue to ensure that customers are dealt with in a proactive manner with appropriate customer solutions and a timely recognition of risk.

Macroeconomic scenarios and weightings*

The macroeconomic scenarios used by the Group for ECL allowance calculations have been developed in a consistent way with that set out in the Annual Financial Report 2020 and have been subject to the Group's established governance process.

Macroeconomic scenarios

The key risk to the macroeconomic outlook continues to be the COVID-19 pandemic and associated public health measures and restrictions on economic activity during the reporting period. In order to reflect a reasonable range of possible outcomes as well as the significant uncertainty presented by the public health crisis and associated economic downturn, as at the reporting date, four scenarios have been used in the ECL calculation. These four scenarios consist of a Base case scenario, along with three alternative scenarios (comprising one upside and two downside scenarios considering differing paths for the virus and the consequent economic impacts). Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both the single upside and two downside scenarios.

Base case: The scenario assumes that vaccine roll-out in developed economies continues through the remainder of 2021 and that public health restrictions are materially eliminated.

Economic activity in most economies is expected to gather strength in the second half of 2021 and into 2022. GDP growth returns to longer term trends from 2023 and beyond. In this scenario, economic activity returns to pre-pandemic levels of activity by the second half of 2021 in Ireland (as measured by modified domestic demand) and by the end of 2022 in the UK.

For Irish unemployment, the Group's approach is to estimate the true underlying rate (i.e. the rate prevailing after the temporary government support schemes have ended). This estimate is within the range provided by the official unemployment rate and the Covid-adjustment unemployment rate published by the Central Statistics Office. In this scenario, unemployment remains relatively high over the coming years, persistently above the 2019 rate out to 2025.

House prices in both Ireland and the UK have continued to grow in the first half of 2021. In this scenario, growth in house prices is maintained out to 2025, at c. 3% p.a. in Ireland and c. 2% p.a. in the UK, while further falls in commercial property prices are expected in Ireland and the UK in 2021 before a rebound from 2022 onwards.

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

Risk management

Credit risk – Overview

Macroeconomic scenarios and weightings* *(continued)*

Downside 1 ('Lower growth in 2021'): This scenario reflects a situation with limited recovery in terms of GDP growth in 2021 as extensive public health measures remain in place for a longer period of time than assumed in the Base case. This holds back economic growth in 2021 and the additional scarring effects as a result of this results in growth being between 2.5% and 3% lower, versus the Base case, across the main economies over the 2021-2025 period.

Unemployment is higher in 2021 versus the Base case in both Ireland and the UK and remains higher than in the Base case over the period to 2025.

House prices in both Ireland and the UK fall in 2021 and are c. 5% lower by end-2025 compared to the Base case.

Downside 2 ('Extended high unemployment'): This scenario reflects a situation where the already high unemployment rate increases in 2022 and only recovers very slowly through to 2025. This is caused by more extensive public health measures than in the 'Downside 1' scenario, reducing confidence in an economic recovery which impacts on financial markets and causes a collapse in commodity prices. Precautionary savings continue to rise, while business investment weakens even more. This slows GDP growth significantly over 2021-2023, with cumulative growth over 2021-2025 being c. 6.5% lower than in the Base case for both Ireland and the UK.

Unemployment in Ireland peaks at 14% in 2022 but only slowly reducing to c. 9% in 2025, which is still c. 3 percentage points higher than the Base case. In the UK, unemployment peaks at 9%, reducing to 6% by 2025, which is still 1.7 percentage points higher than the Base case.

House prices in both Ireland and the UK suffer large falls in 2021 and 2022 with prices only picking up slowly from 2024. Under this scenario, house prices are between 21% and 22% lower by end-2025 than under the Base case.

Upside ('Quick economic recovery'): This scenario reflects a much quicker economic recovery than outlined in the Base case as public health restrictions are removed quicker than expected with confidence returning to consumers and businesses. This results in GDP growing faster than in the Base case over 2021-2023, with Irish GDP c. 3.5% higher in 2025 versus the Base case.

In this scenario, unemployment remains higher than pre-Covid levels in the short term, by 2025 it is close to pre-Covid levels.

Under this scenario, house prices also grow more quickly as demand continues to be robust and by 2025 house prices are c. 7% higher than in the Base case in both Ireland and the UK.

The table below sets out the five year average forecast for each of the key macroeconomic variables that are required to generate the scenarios or are material drivers of the ECL under (i) Base, (ii) Downside 1, (iii) Downside 2 and (iv) Upside scenarios at 30 June 2021 (average over 2021-2025) and at 31 December 2020 (average over 2021-2025). Further detail on the scenarios as at 31 December 2020 can be found in the Annual Financial Report 2020 on pages 100 to 101.

	June 2021 5 year (2021-2025) average forecast				December 2020 5 year (2021-2025) average forecast			
Macroeconomic factor (%)	Base	Downside ('Lower growth in 2021')	Downside ('Extended high unemployment')	Upside ('Quick economic recovery')	Base	Downside ('Lower growth in 2021')	Downside ('Extended high unemployment')	Upside ('Quick economic recovery')
Republic of Ireland								
GDP growth	3.7	3.3	2.6	4.5	3.7	3.0	2.0	4.4
Residential property price growth	2.9	1.8	(1.8)	4.4	1.7	0.8	(3.6)	3.4
Unemployment rate	7.7	9.4	11.4	7.1	7.2	8.9	11.9	6.6
Commercial property price growth	1.4	0.5	(2.6)	3.1	1.8	1.1	(3.8)	3.1
Employment growth	2.3	1.8	1.4	2.5	2.3	1.9	1.0	2.5
Average disposable income growth	2.2	1.4	0.8	2.9	1.8	1.4	1.3	2.5
United Kingdom								
GDP growth	3.1	2.6	1.9	3.9	2.9	2.3	1.1	3.7
Residential property price growth	2.0	0.9	(2.6)	3.4	1.3	0.4	(4.4)	2.9
Unemployment rate	5.1	6.3	7.2	4.7	5.6	6.8	10.1	4.6
Commercial property price growth	1.4	0.2	(2.9)	2.6	2.2	1.2	(3.9)	3.1

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Credit risk – Overview

Macroeconomic scenarios and weightings* *(continued)*

Additional information is provided in the table below which details the individual macroeconomic factor forecast for each year across the four scenarios, at 30 June 2021. This is because, due to the increased variability in the forecasts as the economy begins to emerge from COVID-19, the average for the five years 2021-2025 above does not provide sufficient insight for each factor across the impacted years. Page 102 in the Annual Financial Report 2020 provides the same detail for the 31 December 2020 scenarios.

	30 June 2021									
	Base					Downside 1 ('Lower growth in 2021')				
Macroeconomic factor	2021 %	2022 %	2023 %	2024 %	2025 %	2021 %	2022 %	2023 %	2024 %	2025 %
Republic of Ireland										
GDP growth	3.0	5.5	4.0	3.2	3.0	0.2	4.5	4.5	4.0	3.2
Residential property price growth	3.0	3.0	3.0	3.0	2.5	(1.0)	0.5	3.5	3.0	3.0
Unemployment rate	11.0	8.2	6.9	6.3	6.0	12.2	10.6	9.0	7.9	7.3
Commercial property price growth	(5.0)	5.0	3.0	2.0	2.0	(7.5)	(0.5)	3.5	4.0	3.0
Employment growth	0.4	4.4	2.8	2.1	1.8	(1.4)	2.9	3.0	2.5	2.1
Average disposable income growth	(0.5)	–	3.5	4.0	4.0	(2.0)	(1.0)	2.5	3.5	3.8
United Kingdom										
GDP growth	4.5	5.8	2.0	1.7	1.5	1.7	4.0	3.2	2.2	1.8
Residential property price growth	1.0	1.0	2.5	3.0	2.5	(3.0)	(1.5)	2.5	3.5	3.0
Unemployment rate	5.7	5.9	5.1	4.5	4.3	5.9	7.4	6.5	6.0	5.6
Commercial property price growth	(6.0)	4.0	3.0	3.0	3.0	(8.0)	(1.0)	3.0	4.0	3.0

	Downside 2 ('Extended high unemployment')					Upside 1 ('Quick economic recovery')				
Macroeconomic factor	2021 %	2022 %	2023 %	2024 %	2025 %	2021 %	2022 %	2023 %	2024 %	2025 %
Republic of Ireland										
GDP growth	(1.0)	3.0	3.5	4.0	3.5	4.0	7.0	4.8	3.5	3.0
Residential property price growth	(6.0)	(10.0)	–	4.0	3.0	7.0	5.0	4.0	3.0	3.0
Unemployment rate	13.0	14.0	11.3	9.8	8.9	10.5	7.9	6.4	5.6	5.2
Commercial property price growth	(10.0)	(13.0)	2.0	4.0	4.0	2.0	4.5	3.5	3.0	2.5
Employment growth	(2.4)	(0.1)	4.3	2.9	2.3	1.0	4.2	2.9	2.3	1.9
Average disposable income growth	(2.5)	(2.5)	2.5	3.2	3.3	–	1.5	4.5	4.5	4.2
United Kingdom										
GDP growth	0.5	2.5	2.3	2.5	1.8	5.3	7.5	2.8	2.0	1.7
Residential property price growth	(8.0)	(13.0)	1.0	4.0	3.0	5.0	3.5	3.0	3.0	2.5
Unemployment rate	6.3	9.5	7.7	6.7	6.0	5.5	5.3	4.6	4.2	4.0
Commercial property price growth	(9.0)	(15.0)	1.5	4.0	4.0	1.0	3.5	3.0	3.0	2.5

The key changes to the scenario forecasts versus December 2020 are driven by a stronger than expected performance in 2020 for the Irish economy, continuing growth in Irish and UK house prices and the pace and effectiveness of the vaccine roll-out, especially in the UK. Additionally, the longer than expected public health restrictions in place in the first six months of 2021, has resulted in a higher Irish unemployment rate in the scenarios compared to the December 2020 outlook.

The four 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 four scenarios.

The weights for the scenarios are derived based on expert judgement, with reference to external market information where possible. Given the unprecedented nature and impact of COVID-19, the standard quantitative approaches (such as statistical distribution analysis of Irish GDP growth over different time horizons informed by historic patterns in the economic data) used to assess scenario likelihoods are less informative than normal in this environment. As a result, they have not been a key driver of the weightings at the reporting date.

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Risk management

Credit risk – Overview

Macroeconomic scenarios and weightings* *(continued)*

The equal weightings between the downside and upside scenarios reflects the Group's view that risks have become more balanced as uncertainties have reduced. The key drivers for the increased upside weighting at 30 June 2021 are the successful vaccine roll-out, the significant extensions of fiscal supports that have been announced in the first 6 months and the ongoing resilience of a number of key sectors of the Irish economy. The continued significant downside weighting reflects that downside risks remain, including the potential for greater than expected economic scarring, the risk that government supports have only delayed and not prevented defaults and bankruptcies, and the potential that savings built up during the pandemic will be retained rather than spent, impacting on economic growth.

The weights that have been applied as at the reporting date are:

Scenario	Weighting 30 June 2021	Weighting 31 December 2020
Base	50%	50%
Downside 1 ('Lower growth in 2021')	20%	25%
Downside 2 ('Extended high unemployment')	5%	5%
Upside ('Quick economic recovery')	25%	20%

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 four scenarios. Should the credit environment deteriorate beyond the Group's expectation, the Group's estimate of ECL would increase accordingly.

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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 that include changes in model parameters and quantitative 'significant increase in credit risk' ("SICR") staging assignments.

Relative to the base scenario, in the 100% downside 'Lower Growth in 2021' and 'Extended high unemployment' scenarios, the ECL allowance increases by 12% and 31% respectively. In the 100% upside scenario, the ECL allowance declines by 5%, showing that the ECL impact in the downside scenarios is greater than that of the upside scenario. For 30 June 2021, a 100% downside 'Lower Growth in 2021' and 'Extended high unemployment' scenario sees a higher ECL allowance sensitivity of € 256 million and € 657 million respectively compared to base (€ 197 million and € 598 million respectively compared to reported). Reasonably similar relative impacts are observed for the AIB UK portfolio.

					ECL allowance at 30 June 2021
Loans and advances to customers	Reported Total € m	100% Base Total € m	100% Downside Scenario ('Lower growth in 2021') Total € m	100% Downside Scenario ('Extended high unemployment') Total € m	100% Upside Scenario ('Quick economic recovery') Total € m
Residential mortgages	501	490	526	602	477
Other personal	232	228	245	272	223
Property and construction	357	345	416	537	291
Non-property business	1,001	973	1,091	1,243	937
Total	2,091	2,036	2,278	2,654	1,928
Off-balance sheet loan commitments	57	54	65	83	50
Financial guarantee contracts	30	29	32	39	27
	2,178	2,119	2,375	2,776	2,005
Of which:					
AIB UK segment	288	279	314	347	264

					ECL allowance at 31 December 2020
Loans and advances to customers	Reported Total € m	100% Base Total € m	100% Downside Scenario ('Lower growth in 2021') Total € m	100% Downside Scenario ('Extended high unemployment') Total € m	100% Upside Scenario ('Quick economic recovery') Total € m
Residential mortgages	843	832	869	990	804
Other personal	234	229	245	271	223
Property and construction	396	383	444	529	337
Non-property business	1,037	1,011	1,113	1,257	950
Total	2,510	2,455	2,671	3,047	2,314
Off-balance sheet loan commitments	54	51	62	82	45
Financial guarantee contracts	29	28	31	39	25
	2,593	2,534	2,764	3,168	2,384
Of which:					
AIB UK segment	306	294	347	424	252

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

Risk management

Credit risk – Overview

Management judgements*

The Group reflects reasonable and supportable information that is available at the reporting date, in 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 into modelled outcomes. Experienced credit judgement may be used to determine the particular attributes of exposures that have not been adequately captured in the impairment models. Adjustments are required to be directionally consistent with forward looking forecasts, supported by appropriate documentation and subject to appropriate governance processes. If an ongoing adjustment is required, the risk measurement methodology should be updated to eliminate the adjustment, and as such, should be short term in nature, where appropriate.

As set out below certain post model adjustments applied at 31 December 2020 are no longer required at 30 June 2021 as the appropriate ECL is now reflected in the modelled outcomes following updated model inputs and the review of certain loans through the credit grading process. Furthermore new and enhanced management adjustments have been applied at 30 June 2021 as the modelled ECL did not reflect all of the underlying credit risk at that date.

The ECL allowance on loans and advances to customers at 30 June 2021 includes the following management adjustments as outlined below:

1. Mortgage post model adjustments – Loss given default incorporating alternative recovery strategies

The Group's preferred strategy is to deliver sustainable long term solutions and to work with customers through their financial difficulties, achieved through different workout arrangements including arrears capitalisations, split mortgages, voluntary sale for loss, and negative equity trade down or through loan recovery following realisation of collateral.

However, the Group's NPE reduction strategy has resulted in portfolio sales being a more likely outcome for NPE cohorts that are difficult to resolve through business as usual strategies.

The mortgage LGD model is based on empirical internal data assuming business as usual resolution. Given that the model does not account for portfolio sale outcomes, post model adjustments have been applied to reflect the potential outcomes, pending model redevelopment.

The post model adjustments are calculated based on a range of alternative recovery assumptions. 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, underlying market conditions and outcome of loan sales. The changed impact of certain macro factors (e.g. House Price Index) as a result of these recovery strategies, on both the performing and non-performing mortgages portfolio has also been considered.

Cohorts of loans have been identified which due to their current characteristics are likely to form part of future loans sales or other alternative recovery strategies not currently considered within the model. Such loans include primary dwelling house (PDH) loans in Stage 3 in deep arrears (i.e. greater than 180 days past due) and certain residential mortgage loans displaying zero or low days past due that will remain classified as non-performing.

The Mortgage ECL allowance of € 490 million for residential mortgages in ROI at 30 June 2021 includes € 254 million as a result of this management adjustment. At 31 December 2020, the ECL allowance of € 816 million included a management adjustment of € 433 million, with the reduction attributable to portfolio sales in the period.

2. Mortgage model employment growth post model adjustment

A review of the mortgage model ECL at 30 June 2021 identified that the year-on-year employment growth rate parameter, on this date, had a temporary spike resulting in a reduction of the ECL allowance. This temporary spike will reverse in the second half of 2021 as year-on-year employment levels are not as impacted by COVID-19 compared to the position at 30 June 2021. As a result, a post model adjustment of € 12 million has been applied to offset the impact of this parameter at 30 June 2021.

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Credit risk – Overview

Management judgements* *(continued)*

3. Lifetime interest only post model adjustment

As previously reported, a cohort of non-defaulted lifetime interest only mortgages were identified for individual assessment to confirm likeliness to pay. At 30 June 2021, the assessment for € 68 million of this cohort is pending and as a result these have been allocated to Stage 2 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. As a result, at 30 June 2021 a post model adjustment of € 3 million has increased the modelled ECL allowance (31 December 2020: € 77 million and € 9 million respectively).

4. COVID-19 government supports post model adjustment

A review of the performing Retail-ROI Mortgage, Personal and SME portfolios identified that where the borrower is in ongoing receipt of COVID-19 government payment supports[1] there is a heightened risk of downward stage migration and unlikeliness to pay following withdrawal of these government supports. This is not currently reflected within the customers' credit grade or the probability of default assigned within the ECL model.

As a result, an ECL post model adjustment is required to reflect this heightened risk and results in an additional ECL allowance of € 89 million at 30 June 2021. This is split across Retail-ROI Mortgages € 27 million, Personal € 19 million and SME € 43 million (relating to € 1,238 million of Stage 1 ROI Mortgages, € 142 million of Stage 1 Personal and € 425 million of SME (Stage 1 € 300 million, Stage 2 € 125 million respectively)).

This post model adjustment supersedes the Retail element of the COVID-19 Modification Expiry post model adjustment at 31 December 2020 which focused on borrowers previously in receipt of COVID-19 payment breaks which amounted to € 48 million (ROI Mortgages: € 11 million, Personal: € 5 million, SME: € 32 million).

[1](Mortgage/Personal: Pandemic Unemployment Payment (PUP)/Business: Employee Wage Subsidy Scheme (EWSS)).

5. Property and construction portfolio post model adjustment

A review of the ECL model for the Property and Construction portfolio in ROI 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 indicated 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 € 465 million should be retained in Stage 1. At 30 June 2021 this results in a € 4 million reduction in ECL. At 31 December 2020, a similar adjustment was required where certain cases amounting to € 519 million were retained in Stage 1 which resulted in a € 9 million ECL reduction.

6. CIB non-property portfolio post model adjustment

A review of the ECL model for the CIB non-property portfolio determined that the observed reduction in the modelled probability of default at 30 June 2021 needed to be revised.

Expert credit judgement considered it appropriate that the probability of default should be increased for a cohort of Stage 2 loans to customers operating in sectors highly impacted by COVID-19 (e.g. hospitality). As a result, a post model adjustment of € 68 million has increased the ECL allowance to € 200 million on € 910 million of loans at 30 June 2021.

In addition, € 220 million of loans were retained in Stage 2 despite a lower modelled probability of default as expert credit judgement determined that a significant increase in credit risk since origination had not reversed sufficiently for the loans to be classified as Stage 1. As a result, a post model adjustment of € 3 million has increased the ECL allowance to € 8 million.

At 31 December 2020, a post model adjustment was required due to the COVID-19 impact within the CIB SME portfolio which increased the ECL allowance by € 28 million. This post model adjustment is not required, at 30 June 2021, as the modelled ECL outcomes now reflect the underlying risks following focused case reviews in the period.

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Risk management

Credit risk – Overview

Management judgements* *(continued)*

7. Syndicated lending portfolio post model adjustment

It was previously determined that historically observed relationships between default rates and macroeconomic factors in the modelled probabilities of default needs to be revised for this portfolio.

The requirement for this adjustment remains at 30 June 2021 and expert credit judgement has determined that modelled probabilities of default should be increased thus increasing ECL cover for both Stage 1 and Stage 2 assets.

The post model adjustment of € 51 million at 30 June 2021 increases the total ECL allowance, on the SIF portfolio, to € 133 million (31 December 2020: € 63 million was applied to increase the ECL allowance to € 144 million).

8. UK management post model adjustment

The Group has identified that a post model adjustment of £ 16 million is required for the AIB UK Segment at 30 June 2021 (£ 95 million at 31 December 2020).

This includes an £ 11 million adjustment (£ 18 million at 31 December 2020) to reflect a minimum LGD floor being applied to £ 534 million of Stage 3 loans (£ 451 million at 31 December 2020).

Included in the 31 December 2020 PMA of £ 95 million was £ 73 million relating to a requirement to align modelled outcomes for Stage 1 and Stage 2 loans to expected credit losses derived from an agreed consensus forecast that includes the impact of COVID-19 restrictions on the macroeconomic environment. At 30 June 2021, this requirement has reduced to £ 2 million as the modelled ECL outcomes substantially reflect the underlying risks.

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 the first half of 2021 were:
- Model Risk Committee;
- Asset and Liability Committee;
- Business level ECL Committees;
- Group Credit Committee; and
- Board Audit Committee.

For ECL governance, the Group's senior management employs its expert judgement on the adequacy of ECL allowance. 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 as the final approval authority.

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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 2021*			Half-year 30 June 2021*	31 December 2020*			Half-year 30 June 2020*
	Statement of financial position			Income statement	Statement of financial position			Income statement
	Exposure € m	ECL allowance € m	Carrying amount € m	Net credit impairment writeback/ (charge) € m	Exposure € m	ECL allowance € m	Carrying amount € m	Net credit impairment (charge)/ writeback € m
Cash and balances at central banks	39,008	–	39,008	–	25,550	–	25,550	–
Items in course of collection	61	–	61	–	43	–	43	–
Loans and advances to banks	4,022	–	4,022	–	1,799	–	1,799	–
Loans and advances to customers:								
at amortised cost	58,447	(2,091)	56,356	106	59,380	(2,510)	56,870	(1,168)
at FVTPL	256	n/a	256	n/a	75	n/a	75	n/a
	58,703	(2,091)	56,612	106	59,455	(2,510)	56,945	(1,168)
Securities borrowing – customers	760	–	760	–	–	–	–	–
Investment debt securities[1]	16,270	(1)	16,269	–	19,279	(1)	19,278	(1)
Loan commitments	13,326	(57)	(57)	(2)	12,504	(54)	(54)	(37)
Financial guarantee contracts	701	(30)	(30)	(1)	722	(29)	(29)	(10)
Total				103				(1,216)

[1] ECL allowance amounting to € 3 million (31 December 2020: € 3 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 € 103 million net credit impairment writeback in the six months to 30 June 2021 (30 June 2020: € 1,216 million charge). This comprised of a € 106 million writeback on loans and advances to customers (net re-measurement of ECL allowance writeback of € 70 million and recoveries of amounts previously written-off of € 36 million) and a € 3 million charge for off-balance sheet exposures ((30 June 2020: € 1,168 million charge (net re-measurement charge € 1,202 million and recoveries € 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 writeback in the six months to 30 June 2021, see ‘Net credit impairment writeback/(charge)’ (note 11).

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Risk management

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 2021*					31 December 2020*				
	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	27,892	578	1,147	–	29,617	28,949	610	1,090	–	30,649
Other personal	2,468	40	119	1	2,628	2,569	62	112	23	2,766
Property and construction	680	4,435	2,116	–	7,231	712	4,584	1,964	–	7,260
Non-property business	3,266	10,144	5,543	18	18,971	3,236	9,954	5,398	117	18,705
Total	34,306	15,197	8,925	19	58,447	35,466	15,210	8,564	140	59,380
Analysed by internal credit ratings[1]										
Strong	22,120	8,213	4,602	5	34,940	24,589	7,781	4,233	–	36,603
Satisfactory	7,701	4,603	2,820	14	15,138	5,544	4,898	3,214	140	13,796
Total strong/satisfactory	29,821	12,816	7,422	19	50,078	30,133	12,679	7,447	140	50,399
Criticised watch	1,520	687	358	–	2,565	1,654	1,429	567	–	3,650
Criticised recovery	544	1,116	520	–	2,180	628	307	47	–	982
Total criticised	2,064	1,803	878	–	4,745	2,282	1,736	614	–	4,632
Non-performing	2,421	578	625	–	3,624	3,051	795	503	–	4,349
Gross carrying amount	34,306	15,197	8,925	19	58,447	35,466	15,210	8,564	140	59,380
Analysed by ECL staging										
Stage 1	29,558	10,813	6,735	19	47,125	29,500	9,364	6,709	140	45,713
Stage 2	2,326	3,886	1,565	–	7,777	2,924	5,132	1,352	–	9,408
Stage 3	2,260	498	625	–	3,383	2,858	714	503	–	4,075
POCI	162	–	–	–	162	184	–	–	–	184
Total	34,306	15,197	8,925	19	58,447	35,466	15,210	8,564	140	59,380
ECL allowance – statement of financial position										
Stage 1	162	81	42	–	285	136	90	55	–	281
Stage 2	152	502	125	–	779	209	523	113	–	845
Stage 3	753	121	103	–	977	1,044	144	127	–	1,315
POCI	50	–	–	–	50	69	–	–	–	69
Total	1,117	704	270	–	2,091	1,458	757	295	–	2,510
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.5	0.7	0.6	–	0.6	0.5	1.0	0.8	–	0.6
Stage 2	6.5	12.9	8.0	–	10.0	7.1	10.2	8.4	–	9.0
Stage 3	33.3	24.4	16.4	–	28.9	36.5	20.2	25.1	–	32.3
POCI	30.8	–	–	–	30.8	37.5	–	–	–	37.5

	Half-year to 30 June 2021*					Half-year to 30 June 2020*				
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	(18)	(39)	(13)	–	(70)	513	507	182	–	1,202
Recoveries of amounts previously written-off	(34)	(1)	(1)	–	(36)	(31)	–	(3)	–	(34)
Net credit impairment (writeback)/charge	(52)	(40)	(14)	–	(106)	482	507	179	–	1,168
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans – annualised	(0.08)	(0.13)	(0.08)	–	(0.09)	2.67	6.30	4.00	–	3.81

[1]Further analysis of internal credit grade profile by ECL staging is set out on pages 49 and 50. Further details on the internal credit ratings are outlined on pages 90 and 91 of the Annual Financial Report 2020.

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

Credit risk – Credit profile of the loan portfolio

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

FVTPL

	30 June 2021*					31 December 2020*				
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
Property and construction	–	256	–	–	256	–	75	–	–	75
Total	–	256	–	–	256	–	75	–	–	75
Analysed by internal credit ratings										
Strong	–	75	–	–	75	–	75	–	–	75
Satisfactory	–	–	–	–	–	–	–	–	–	–
Total strong/satisfactory	–	75	–	–	75	–	75	–	–	75
Criticised watch	–	–	–	–	–	–	–	–	–	–
Criticised recovery	–	–	–	–	–	–	–	–	–	–
Total criticised	–	–	–	–	–	–	–	–	–	–
Non-performing	–	181	–	–	181	–	–	–	–	–
Total	–	256	–	–	256	–	75	–	–	75

Gross loans and advances to customers

Gross loans and advances to customers decreased by € 0.8 billion in the six months to 30 June 2021. Of the total portfolio of € 58.7 billion, € 58.4 billion is measured at amortised cost with the remaining € 0.3 billion being measured at FVTPL. The € 0.2 billion increase in loans measured at FVTPL relates to two defaulted customers whose loans were reclassified in the period following a restructure and changes to the terms and conditions relating to these loans. The reduction in the period was largely due to the non-performing mortgage portfolio sales which resulted in a € 0.6 billion reduction in non-performing loans. Overall, from a segment perspective, Retail Banking decreased by € 1.2 billion, however, this was offset by increases in CIB and AIB UK of € 0.2 billion and € 0.4 billion respectively. The level of new lending activity in the six months to 30 June 2021 of € 4.5 billion continues to be impacted by COVID-19. New lending activity remains lower than pre-pandemic levels (30 June 2019: € 6.0 billion), however, there was a € 0.1 billion increase versus the comparable period last year (30 June 2020: € 4.4 billion). New lending activity across the Business segments was in line with the same period last year with the slight increase driven by CIB.

Of the total loans to customers of € 58.7 billion, € 50.2 billion or 85% are rated as either 'strong' or 'satisfactory' which is a slight decrease of € 0.3 billion (31 December 2020: € 50.5 billion or 85%), primarily evidenced across Retail Banking. The 'criticised' classification includes 'criticised watch' of € 2.5 billion and 'criticised recovery' of € 2.2 billion, the total of which has increased by € 0.1 billion in the six months to 30 June 2021. The 'criticised recovery' portfolio increased by € 1.2 billion which was predominately driven by increased levels of customers in receipt of forbearance arrangements migrating from 'criticised watch'. The total performing book has decreased by € 0.2 billion to € 54.9 billion or 94% of gross loans and advances to customers (31 December 2020: € 55.1 billion and 93%).

Despite the ongoing impact regarding the COVID-19 pandemic, the credit quality of the total portfolio has improved in the period. Stage 2 loans have decreased by € 1.6 billion to € 7.8 billion as Stage 1 loans increased by € 1.4 billion to € 47.1 billion. The reduction in Stage 2 loans was driven by the non-property portfolio which decreased by € 0.7 billion, while both the mortgage and property portfolios reduced by € 0.4 billion. Redemptions/repayments net of interest credited accounted for € 1.2 billion and net stage transfers from Stage 2 to Stage 1 resulted in a € 0.4 billion reduction.

Stage 3 loans have decreased by € 0.7 billion to € 3.4 billion. The decrease was primarily due to the mortgage portfolio sales completed in the period which accounted for € 0.6 billion. Net transfers to Stage 3 accounted for € 0.4 billion and were slightly offset by redemptions/ repayments net of interest credited of € 0.2 billion. Transfers to Stage 3 in the period predominately related to the non-property portfolio as a result of cases in this sector directly impacted by COVID-19.

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

Risk management

Credit risk – Credit profile of the loan portfolio

Non-performing loans

Total Group non-performing loans have decreased by € 0.5 billion to € 3.8 billion or 6.5% of total gross loans and advances to customers (31 December 2020: € 4.3 billion and 7.3%). The decrease reflects the non-performing mortgage portfolio sales completed in the period (€ 0.6 billion) offset by a net underlying increase to non-performing loans. The total Group non-performing portfolio consists of € 3.6 billion in loans and advances to customers measured at amortised cost together with € 0.2 billion of loans measured at FVTPL.

ECL allowance

The ECL allowance on loans and advances to customers has decreased by € 0.4 billion to € 2.1 billion in the six months to 30 June 2021. The reduction was predominately due to the non-performing mortgage portfolio sales as Stage 3 ECL allowance decreased by € 0.3 billion. The total ECL cover rate has decreased from 4.2% at 31 December 2020 to 3.6% at 30 June 2021.

Income Statement

There was a € 106 million net credit impairment writeback in the six months to 30 June 2021 which comprised a net re-measurement of ECL allowance writeback of € 70 million and recoveries of amounts previously written-off of € 36 million (30 June 2020: € 1,168 million charge comprising € 1,202 million charge offset by € 34 million of recoveries).

There were three components which contributed to the net re-measurement of ECL allowance writeback of € 70 million.

There was a € 91 million writeback comprising of a € 124 million ECL writeback occurring within stage, driven by loans fully repaid, reflecting overall improvements in credit quality and a charge of € 33 million due to net stage movements.

On review of ECL writebacks driven by improved credit quality and the impact of updated macroeconomic scenarios and weightings, it was considered that new and enhanced post model adjustments are required at 30 June 2021 to mitigate latent risk. The net impact of these updates is a € 36 million increase in ECL due to post model adjustments. Further details are outlined under the management judgements section on pages 42 to 44.

Updated macroeconomic scenarios and weightings applied at 30 June 2021 resulted in a € 15 million writeback.

Further details on the ECL allowance movements are outlined on page 69.

Recoveries of amounts previously written-off of € 36 million (30 June 2020: € 34 million) included € 27 million recoveries (30 June 2020: € 25 million) which reflects cash recoveries against legacy non-performing exposures in line with the Group's resolution strategies. The remaining € 9 million (30 June 2020: € 9 million) relates to interest received as a result of loans curing from Stage 3.

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 2021*					31 December 2020*				
	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	34,101	835	–	4	34,940	35,341	1,257	–	5	36,603
Satisfactory	12,098	3,037	–	3	15,138	9,411	4,384	–	1	13,796
Total strong/satisfactory	46,199	3,872	–	7	50,078	44,752	5,641	–	6	50,399
Criticised watch	818	1,745	–	2	2,565	834	2,814	–	2	3,650
Criticised recovery	18	2,160	–	2	2,180	27	953	–	2	982
Total criticised	836	3,905	–	4	4,745	861	3,767	–	4	4,632
Non-performing	90	–	3,383	151	3,624	100	–	4,075	174	4,349
Gross carrying amount	47,125	7,777	3,383	162	58,447	45,713	9,408	4,075	184	59,380
ECL allowance	(285)	(779)	(977)	(50)	(2,091)	(281)	(845)	(1,315)	(69)	(2,510)
Carrying amount	46,840	6,998	2,406	112	56,356	45,432	8,563	2,760	115	56,870
Analysis by asset class										
Residential mortgages										
Strong	20,965	212	–	4	21,181	23,478	318	–	5	23,801
Satisfactory	5,206	339	–	3	5,548	2,654	574	–	1	3,229
Total strong/satisfactory	26,171	551	–	7	26,729	26,132	892	–	6	27,030
Criticised watch	440	569	–	2	1,011	395	602	–	2	999
Criticised recovery	7	405	–	2	414	6	456	–	2	464
Total criticised	447	974	–	4	1,425	401	1,058	–	4	1,463
Non-performing	1	–	1,311	151	1,463	2	–	1,980	174	2,156
Gross carrying amount	26,619	1,525	1,311	162	29,617	26,535	1,950	1,980	184	30,649
ECL allowance	(50)	(44)	(357)	(50)	(501)	(39)	(73)	(662)	(69)	(843)
Carrying amount	26,569	1,481	954	112	29,116	26,496	1,877	1,318	115	29,806
Other personal										
Strong	1,229	37	–	–	1,266	1,243	51	–	–	1,294
Satisfactory	847	119	–	–	966	885	154	–	–	1,039
Total strong/satisfactory	2,076	156	–	–	2,232	2,128	205	–	–	2,333
Criticised watch	58	64	–	–	122	70	84	–	–	154
Criticised recovery	1	31	–	–	32	2	43	–	–	45
Total criticised	59	95	–	–	154	72	127	–	–	199
Non-performing	–	–	242	–	242	1	–	233	–	234
Gross carrying amount	2,135	251	242	–	2,628	2,201	332	233	–	2,766
ECL allowance	(48)	(36)	(148)	–	(232)	(41)	(51)	(142)	–	(234)
Carrying amount	2,087	215	94	–	2,396	2,160	281	91	–	2,532
Property and construction										
Strong	3,482	425	–	–	3,907	2,981	757	–	–	3,738
Satisfactory	1,328	789	–	–	2,117	1,175	924	–	–	2,099
Total strong/satisfactory	4,810	1,214	–	–	6,024	4,156	1,681	–	–	5,837
Criticised watch	49	149	–	–	198	71	317	–	–	388
Criticised recovery	1	272	–	–	273	2	78	–	–	80
Total criticised	50	421	–	–	471	73	395	–	–	468
Non-performing	84	–	652	–	736	90	–	865	–	955
Gross carrying amount	4,944	1,635	652	–	7,231	4,319	2,076	865	–	7,260
ECL allowance	(65)	(128)	(164)	–	(357)	(75)	(133)	(188)	–	(396)
Carrying amount	4,879	1,507	488	–	6,874	4,244	1,943	677	–	6,864

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

Risk management

Credit risk – Credit profile of the loan portfolio

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

	30 June 2021*					31 December 2020*				
	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	8,425	161	–	–	8,586	7,639	131	–	–	7,770
Satisfactory	4,717	1,790	–	–	6,507	4,697	2,732	–	–	7,429
Total strong/satisfactory	13,142	1,951	–	–	15,093	12,336	2,863	–	–	15,199
Criticised watch	271	963	–	–	1,234	298	1,811	–	–	2,109
Criticised recovery	9	1,452	–	–	1,461	17	376	–	–	393
Total criticised	280	2,415	–	–	2,695	315	2,187	–	–	2,502
Non-performing	5	–	1,178	–	1,183	7	–	997	–	1,004
Gross carrying amount	13,427	4,366	1,178	–	18,971	12,658	5,050	997	–	18,705
ECL allowance	(122)	(571)	(308)	–	(1,001)	(126)	(588)	(323)	–	(1,037)
Carrying amount	13,305	3,795	870	–	17,970	12,532	4,462	674	–	17,668

*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 – Residential mortgages

Residential mortgages amounted to € 29.6 billion at 30 June 2021, with the majority (96%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 30.6 billion at 31 December 2020, of which 96% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 27.6 billion and buy-to-let € 2.0 billion (31 December 2020: owner-occupier € 28.5 billion and buy-to-let € 2.1 billion).

The continued impact of COVID-19 on employment levels, mitigated by Government income support schemes, will become clearer as these supports are gradually withdrawn and businesses continue to re-open.

Income statement

There was a € 37 million net credit impairment writeback in the six months to 30 June 2021 compared to a € 279 million charge in the same period in 2020. This was driven by a net re-measurement of ECL allowance writeback of € 24 million and by recoveries of previously written-off loans of € 13 million.

There were three components which contributed to the net re-measurement of ECL allowance writeback of € 24 million.

There was a € 37 million writeback comprising of a € 45 million ECL writeback occurring within stage due to improved credit quality and a charge of € 8 million due to net stage movements.

On review of ECL writebacks driven by improved credit quality and the impact of updated macroeconomic scenarios and weightings, it was considered that new and enhanced post model adjustments are required at 30 June 2021 to mitigate latent risk. The net impact of these updates is a € 50 million increase in ECL due to post model adjustments. Further details regarding new/enhancements to post model adjustments are outlined under the management judgements section on pages 42 to 44.

Updated macroeconomic scenarios and weightings applied at 30 June 2021 resulted in a writeback of € 37 million.

At 30 June 2021, the ECL allowance for the Group's residential mortgages portfolio totalled € 0.5 billion, or 1.7% total cover rate.

Residential mortgages – page 52

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

Republic of Ireland residential mortgages – pages 53 and 54

- By ECL staging
- Actual and weighted average indexed loan-to-value ratios by 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.

Risk management

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

Loans and advances to customers – Residential mortgages *(continued)*

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

					30 June 2021*					31 December 2020*
	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	26,150	440	1,065	–	27,655	27,051	452	1,005	–	28,508
Buy-to-let	1,742	138	82	–	1,962	1,898	158	85	–	2,141
Total	27,892	578	1,147	–	29,617	28,949	610	1,090	–	30,649
Analysed by internal credit ratings										
Strong	20,157	360	664	–	21,181	22,648	545	608	–	23,801
Satisfactory	4,987	196	365	–	5,548	2,856	43	330	–	3,229
Total strong/satisfactory	25,144	556	1,029	–	26,729	25,504	588	938	–	27,030
Criticised watch	946	13	52	–	1,011	928	7	64	–	999
Criticised recovery	398	5	11	–	414	443	10	11	–	464
Total criticised	1,344	18	63	–	1,425	1,371	17	75	–	1,463
Non-performing	1,404	4	55	–	1,463	2,074	5	77	–	2,156
Gross carrying amount	27,892	578	1,147	–	29,617	28,949	610	1,090	–	30,649
Analysed by ECL staging										
Stage 1	25,038	531	1,050	–	26,619	25,043	534	958	–	26,535
Stage 2	1,440	43	42	–	1,525	1,824	71	55	–	1,950
Stage 3	1,252	4	55	–	1,311	1,898	5	77	–	1,980
POCI	162	–	–	–	162	184	–	–	–	184
Total	27,892	578	1,147	–	29,617	28,949	610	1,090	–	30,649
ECL allowance – statement of financial position										
Stage 1	48	–	2	–	50	34	1	4	–	39
Stage 2	40	2	2	–	44	66	5	2	–	73
Stage 3	350	–	7	–	357	641	–	21	–	662
POCI	50	–	–	–	50	69	–	–	–	69
Total	488	2	11	–	501	810	6	27	–	843
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.2	–	0.1	–	0.2	0.1	0.1	0.4	–	0.1
Stage 2	2.8	3.2	6.1	–	2.9	3.6	6.8	4.9	–	3.7
Stage 3	28.0	–	12.8	–	27.3	33.8	–	26.6	–	33.4
POCI	30.8	–	–	–	30.8	37.5	–	–	–	37.5
					Half-year to 30 June 2021*					Half-year to 30 June 2020*
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	(15)	(4)	(5)	–	(24)	269	3	22	–	294
Recoveries of amounts previously written-off	(12)	–	(1)	–	(13)	(14)	–	(1)	–	(15)
Net credit impairment (writeback)/charge	(27)	(4)	(6)	–	(37)	255	3	21	–	279
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans – annualised	(0.05)	(0.34)	(0.27)	–	(0.06)	1.73	0.95	3.50	–	1.79

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

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

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

	30 June 2021*			31 December 2020*		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Gross carrying amount	26,590	1,880	28,470	27,503	2,056	29,559
Analysed as to ECL staging						
Stage 1	24,155	1,414	25,569	24,082	1,495	25,577
Stage 2	1,243	240	1,483	1,611	284	1,895
Stage 3	1,035	221	1,256	1,631	272	1,903
POCI	157	5	162	179	5	184
Total	26,590	1,880	28,470	27,503	2,056	29,559
ECL allowance – statement of financial position						
Stage 1	45	3	48	29	6	35
Stage 2	31	11	42	51	20	71
Stage 3	289	61	350	553	88	641
POCI	47	3	50	66	3	69
Total	412	78	490	699	117	816
Republic of Ireland residential mortgages at amortised cost	26,178	1,802	27,980	26,804	1,939	28,743
ECL allowance cover percentage	%	%	%	%	%	%
Stage 1	0.2	0.2	0.2	0.1	0.4	0.1
Stage 2	2.5	4.3	2.8	3.1	7.1	3.7
Stage 3	28.0	27.5	27.9	33.9	32.5	33.7
POCI	30.0	53.1	30.8	37.0	56.0	37.5

	Half-year to 30 June 2021*			Half-year to 30 June 2020*		
Income statement	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	3	(22)	(19)	243	29	272
Recoveries of amounts previously written-off	(9)	(3)	(12)	(11)	(3)	(14)
Net credit impairment (writeback)/charge	(6)	(25)	(31)	232	26	258
	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans – annualised	(0.01)	(0.64)	(0.05)	1.67	2.27	1.72

*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 *(continued)*

Residential mortgages in Ireland amounted to € 28.5 billion at 30 June 2021 compared to € 29.6 billion at 31 December 2020. The decrease in the portfolio was primarily due to the non-performing mortgage portfolio sales (€ 0.6 billion) and redemptions/repayments of € 1.6 billion exceeding new lending of € 1.1 billion (30 June 2020: € 1.1 billion) for the six months to 30 June 2021. For new lending to 30 June 2021, 98% was to owner-occupiers, whilst the weighted average indexed loan-to-value for new residential mortgages was 66% (31 December 20: 69%). The weighted average indexed loan-to-value of the stock of residential mortgages at 30 June 2021 was 54% (31 December 2020: 57%) and Stage 3 residential mortgages was 58% (31 December 2020: 61%).

The split of the Irish residential mortgage portfolio is 93% owner-occupier and 7% buy-to-let and comprises 23% tracker rate, 42% variable rate and 35% fixed rate mortgages.

Non-performing loans decreased from € 2.1 billion at 31 December 2020 to € 1.4 billion at 30 June 2021, primarily due to the non-performing mortgage portfolio sales.

Income statement

There was a net credit impairment writeback of € 31 million to the income statement for the six months to 30 June 2021 compared to a net credit impairment charge of € 258 million in the same period in 2020.

The net re-measurement of ECL allowance writeback of € 19 million was driven by improvements in the grade profiles within stage and ECL release associated with redemptions. The charges associated with the new/enhanced post model adjustments were largely offset by writebacks due to the revised macroeconomic scenarios and weightings assumptions. In addition, the Group also recovered € 12 million on loans previously written-off.

The ECL allowance provision cover level at 30 June 2021 for the Irish residential mortgage portfolio is 1.7% (31 December 2020: 2.8%). For the Stage 3 element of the Irish residential mortgage portfolio, € 0.4 billion of ECLs are held providing Stage 3 cover of 28% (31 December 2020: € 0.6 billion and 34% respectively).

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 52% during the six months to 30 June 2021, a decrease of 56% in the owner-occupier portfolio and a decrease of 29% in the buy-to-let portfolio. The reduction in arrears was also due to the non-performing mortgage portfolio sales.

The number of loans in arrears (based on number of accounts) greater than 90 days was 2.3% at 30 June 2021 and remains below the industry average of 6.1%[1]. For the owner-occupier portfolio, the number of loans in arrears greater than 90 days at 2.0% were below the industry average of 5.2%[1]. For the buy-to-let portfolio, loans in arrears greater than 90 days at 6.0% were below the industry average of 12.7%[1].

[1]Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 31 March 2021, based on numbers of accounts.

Forbearance

Irish residential mortgages subject to forbearance measures decreased by € 0.5 billion from € 2.1 billion at 31 December 2020 to € 1.6 billion at 30 June 2021. The decrease in the forbearance portfolio was impacted by the non-performing mortgage portfolio sales.

Details of forbearance measures are set out on pages 76 and 77.

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 2021					31 December 2020				
	At amortised cost					At amortised cost				
	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	25,564	1,452	732	149	27,897	25,575	1,852	779	155	28,361
1 - 30 days	5	23	21	1	50	2	21	22	1	46
31 - 60 days	–	6	15	–	21	–	19	27	2	48
61 - 90 days	–	2	6	–	8	–	3	8	–	11
91 - 180 days	–	–	54	2	56	–	–	39	1	40
181 - 365 days	–	–	62	1	63	–	–	114	4	118
Over 365 days	–	–	366	9	375	–	–	914	21	935
Total gross carrying amount of residential mortgages	25,569	1,483	1,256	162	28,470	25,577	1,895	1,903	184	29,559
ECL allowance	(48)	(42)	(350)	(50)	(490)	(35)	(71)	(641)	(69)	(816)
Carrying value	25,521	1,441	906	112	27,980	25,542	1,824	1,262	115	28,743
Of which:										
Owner-occupier										
Not past due	24,151	1,218	626	146	26,141	24,080	1,574	674	151	26,479
1 - 30 days	4	17	18	1	40	2	17	16	1	36
31 - 60 days	–	6	12	–	18	–	17	26	2	45
61 - 90 days	–	2	5	–	7	–	3	6	–	9
91 - 180 days	–	–	45	2	47	–	–	35	1	36
181 - 365 days	–	–	58	1	59	–	–	83	4	87
Over 365 days	–	–	271	7	278	–	–	791	20	811
Total	24,155	1,243	1,035	157	26,590	24,082	1,611	1,631	179	27,503

Risk management

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 2021		31 December 2020	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	128	24	432	100
Buy-to-let	11	4	16	3
Total	**139**	**28**	448	103

[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 309 properties in the six months to 30 June 2021 (31 December 2020: 67 properties). The overall decrease relates mainly to the non-performing portfolio sales of 284 properties (31 December 2020: 93 properties) and a further 36 properties disposed of in the six months to 30 June 2021 (31 December 2020: 13 properties). This was offset by the addition of 11 properties (31 December 2020: 39 properties), the majority of which were voluntary surrenders or abandonments.

The disposal of 36 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 1 million at 30 June 2021 (before ECL allowance) and compares to 31 December 2020 when 93 residential properties were disposed of resulting in a total loss of € 7 million. COVID-19 continues to impact the closing of sales in 2021. Losses on the sale of such properties are recognised in the income statement as part of the net credit impairment losses.

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 2021*					31 December 2020*				
	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	511	5	23	–	539	558	6	22	–	586
Loans/overdrafts	1,957	35	96	1	2,089	2,011	56	90	23	2,180
Total	2,468	40	119	1	2,628	2,569	62	112	23	2,766
Analysed by internal credit ratings										
Strong	1,172	16	78	–	1,266	1,179	35	80	–	1,294
Satisfactory	914	17	34	1	966	973	19	24	23	1,039
Total strong/satisfactory	2,086	33	112	1	2,232	2,152	54	104	23	2,333
Criticised watch	117	2	3	–	122	149	2	3	–	154
Criticised recovery	29	3	–	–	32	40	4	1	–	45
Total criticised	146	5	3	–	154	189	6	4	–	199
Non-performing	236	2	4	–	242	228	2	4	–	234
Gross carrying amount	2,468	40	119	1	2,628	2,569	62	112	23	2,766
Analysed by ECL staging										
Stage 1	1,996	28	110	1	2,135	2,032	47	99	23	2,201
Stage 2	236	10	5	–	251	310	13	9	–	332
Stage 3	236	2	4	–	242	227	2	4	–	233
POCI	–	–	–	–	–	–	–	–	–	–
Total	2,468	40	119	1	2,628	2,569	62	112	23	2,766
ECL allowance – statement of financial position										
Stage 1	48	–	–	–	48	40	–	1	–	41
Stage 2	35	1	–	–	36	50	1	–	–	51
Stage 3	145	1	2	–	148	139	1	2	–	142
POCI	–	–	–	–	–	–	–	–	–	–
Total	228	2	2	–	232	229	2	3	–	234
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	2.4	–	–	–	2.3	1.9	–	1.0	–	1.8
Stage 2	14.8	5.9	–	–	14.2	16.0	10.5	–	–	15.4
Stage 3	61.4	50.8	47.8	–	61.1	61.2	53.1	44.7	–	60.9
POCI	–	–	–	–	–	–	–	–	–	–

	Half-year to 30 June 2021*					Half-year to 30 June 2020*				
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	9	(1)	–	–	8	83	1	–	–	84
Recoveries of amounts previously written-off	(8)	–	–	–	(8)	(5)	–	–	–	(5)
Net credit impairment charge/(writeback)	1	(1)	–	–	–	78	1	–	–	79
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans – annualised	0.02	(0.93)	–	–	–	5.95	2.57	–	–	5.59

*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 – Other personal *(continued)*

At 30 June 2021, the other personal lending portfolio of € 2.6 billion comprises € 2.1 billion in loans and overdrafts and € 0.5 billion in credit card facilities (31 December 2020: total € 2.8 billion and € 2.2 billion and € 0.6 billion respectively). Despite the impact of COVID-19, the credit quality of the portfolio has remained stable during the period, with 15% categorised as less than satisfactory, of which defaulted loans amounted to € 0.2 billion. (31 December 2020: 16% and € 0.2 billion).

The continued impact of COVID-19 on employment levels, mitigated by Government income support schemes, will become clearer as these supports are gradually withdrawn and businesses continue to re-open.

New lending totalled € 0.4 billion for the six months to 30 June 2021 (30 June 2020: € 0.4 billion). However, the demand for personal loans, which accounts for the largest portion of the portfolio, has reduced based on application activity volumes due to lockdown restrictions during the six months to 30 June 2021 compared to the same period in 2020.

Stage 3 loans, predominately in Retail Banking increased by € 9 million in the six months to 30 June 2021. At 30 June 2020, the ECL allowance cover was 9% with Stage 3 cover at 61% (31 December 2020: 8% and 61% respectively).

Income statement

There was a Nil net credit impairment charge to the income statement for the six months to 30 June 2021 compared to a € 79 million charge in the same period in 2020. There was a € 8 million net re-measurement charge primarily driven by enhancements approved to the COVID-19 government support post model adjustment (€ 15 million charge). This was offset against recoveries of € 8 million on loans previously written-off.

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 2021*					31 December 2020*				
	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
Investment:										
Commercial investment	321	2,901	747	–	3,969	353	3,109	723	–	4,185
Residential investment	104	659	768	–	1,531	127	633	673	–	1,433
	425	3,560	1,515	–	5,500	480	3,742	1,396	–	5,618
Land and development:										
Commercial development	102	283	35	–	420	93	275	37	–	405
Residential development	50	472	109	–	631	51	447	120	–	618
	152	755	144	–	1,051	144	722	157	–	1,023
Contractors	103	30	121	–	254	88	42	119	–	249
Housing associations	–	90	336	–	426	–	78	292	–	370
Total	680	4,435	2,116	–	7,231	712	4,584	1,964	–	7,260
Analysed by internal credit ratings										
Strong	115	2,712	1,080	–	3,907	120	2,617	1,001	–	3,738
Satisfactory	205	1,069	843	–	2,117	185	1,125	789	–	2,099
Total strong/satisfactory	320	3,781	1,923	–	6,024	305	3,742	1,790	–	5,837
Criticised watch	85	84	29	–	198	109	240	39	–	388
Criticised recovery	22	205	46	–	273	29	42	9	–	80
Total criticised	107	289	75	–	471	138	282	48	–	468
Non-performing	253	365	118	–	736	269	560	126	–	955
Gross carrying amount	680	4,435	2,116	–	7,231	712	4,584	1,964	–	7,260
Analysed by ECL staging										
Stage 1	316	2,845	1,783	–	4,944	315	2,350	1,654	–	4,319
Stage 2	115	1,305	215	–	1,635	137	1,755	184	–	2,076
Stage 3	249	285	118	–	652	260	479	126	–	865
POCI	–	–	–	–	–	–	–	–	–	–
Total	680	4,435	2,116	–	7,231	712	4,584	1,964	–	7,260
ECL allowance – statement of financial position										
Stage 1	9	44	12	–	65	13	51	11	–	75
Stage 2	13	108	7	–	128	15	108	10	–	133
Stage 3	91	43	30	–	164	99	54	35	–	188
POCI	–	–	–	–	–	–	–	–	–	–
Total	113	195	49	–	357	127	213	56	–	396
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	2.9	1.6	0.7	–	1.3	3.9	2.2	0.7	–	1.7
Stage 2	10.9	8.3	3.6	–	7.8	11.2	6.2	5.2	–	6.4
Stage 3	36.5	15.2	25.2	–	25.1	38.1	11.2	27.9	–	21.7
POCI	–	–	–	–	–	–	–	–	–	–

	Half-year to 30 June 2021*					Half-year to 30 June 2020*				
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	(14)	(6)	(1)	–	(21)	39	241	34	–	314
Recoveries of amounts previously written-off	(8)	–	–	–	(8)	(6)	–	(1)	–	(7)
Net credit impairment (writeback)/charge	(22)	(6)	(1)	–	(29)	33	241	33	–	307
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans – annualised	(1.58)	(0.07)	(0.02)	–	(0.20)	8.29	11.37	3.01	–	8.49

*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 – Property and construction *(continued)*

The property and construction portfolio consists of € 7.2 billion in loans and advances to customers measured at amortised cost together with € 0.3 billion of loans measured at FVTPL (total € 7.5 billion).

The portfolio measured at amortised cost amounted to 12% of total loans and advances to customers. The portfolio comprised of 76% investment loans (€ 5.5 billion), 15% land and development loans (€ 1.0 billion) and 9% other property and construction loans (€ 0.7 billion). The CIB and AIB UK segments continue to account for the majority of this portfolio at 61% and 29% respectively.

The portfolio measured at amortised cost reduced marginally by € 0.1 billion during the six months to 30 June 2021. New lending in the period of € 0.8 billion was offset by redemptions/repayments net of interest credited of € 0.8 billion. New lending continues to be predominately in the CIB segment (€ 0.4 billion) and is primarily to provide senior secured funding. At 30 June 2021, € 6.0 billion of the portfolio was in a strong/satisfactory grade, which is an increase of € 0.2 billion in the period. The level of non-performing loans has reduced by € 0.2 billion in the six months to 30 June 2021, however, this reduction reflects two defaulted customers whose loans were reclassified as FVTPL in the period following a restructure and changes to the terms and conditions relating to these loans.

Property and construction loans measured at FVTPL have increased by € 181 million to € 256 million in the six months to 30 June 2021, as a result of the aforementioned two defaulted customers reclassified as FVTPL.

Income statement

There was a net credit impairment writeback of € 29 million to the income statement in the six months to 30 June 2021 compared to a € 307 million charge in the same period in 2020. This was driven by a net re-measurement writeback of € 21 million and by recoveries of previously written-off loans of € 8 million. The net re-measurement writeback of € 21 million was mainly driven by reductions in ECL due to redemptions/repayments (€ 12 million) and a further € 10 million writeback was due to post model adjustment releases.

The ECL allowance for the portfolio totalled € 0.4 billion providing ECL allowance cover of 5%. For the Stage 3 portfolio, the ECL allowance cover is 25%, the increase in cover was impacted by the removal of the defaulted customers reclassified as FVTPL. (31 December 2020: € 0.4 billion, 5% and 22% respectively).

Investment

Investment property loans amounted to € 5.5 billion at 30 June 2021 (31 December 2020: € 5.6 billion) of which € 4.0 billion related to commercial investment. The geographic profile of the investment property portfolio remained predominately in the Republic of Ireland (€ 3.6 billion) and the United Kingdom (€ 1.6 billion).

At 30 June 2021, there was a net credit impairment writeback of € 42 million to the income statement on the investment property element of the property and construction portfolio (30 June 2020: € 243 million charge).

Land and development

At 30 June 2021, land and development loans remained unchanged at € 1.0 billion (31 December 2020: € 1.0 billion) of which € 0.2 billion related to loans in the Retail Banking segment, € 0.7 billion in the CIB segment and € 0.1 billion in the AIB UK segment. In Ireland, the first half of 2021 saw a return of COVID-19 restrictions across the construction sector. Construction activity from January to March 2021 was limited to a small number of exempted schemes/activities in line with government restrictions. Activity subsequently increased as residential development reopened in April 2021 followed by commercial development in May 2021. All development sites to which the Group provides development funding have now recommenced activity.

The income statement net credit impairment charge for the six months to 30 June 2021 was € 9 million (30 June 2020: € 42 million charge).

Contractors

At 30 June 2021, loans to contractors have remained unchanged at € 0.3 billion (31 December 2020: € 0.3 billion). However, there was a net credit impairment charge of € 3 million in the six months to 30 June 2021 (30 June 2020: € 21 million charge).

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 2021*					31 December 2020*				
	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	1,262	323	108	–	1,693	1,202	365	104	–	1,671
Energy	19	916	1,244	–	2,179	17	749	1,049	–	1,815
Manufacturing	197	2,101	271	–	2,569	200	2,023	324	–	2,547
Distribution:										
Hotels	151	1,170	882	–	2,203	153	1,148	891	–	2,192
Licensed premises	182	207	106	–	495	185	213	103	–	501
Retail/wholesale	485	965	263	–	1,713	496	1,031	340	–	1,867
Other distribution	90	176	161	–	427	86	193	147	–	426
	908	2,518	1,412	–	4,838	920	2,585	1,481	–	4,986
Transport	221	1,212	429	–	1,862	224	1,184	421	–	1,829
Financial	14	383	154	18	569	16	360	137	117	630
Other services	645	2,691	1,925	–	5,261	657	2,688	1,882	–	5,227
Total	3,266	10,144	5,543	18	18,971	3,236	9,954	5,398	117	18,705
Analysed by internal credit ratings										
Strong	676	5,125	2,780	5	8,586	642	4,584	2,544	–	7,770
Satisfactory	1,595	3,321	1,578	13	6,507	1,530	3,711	2,071	117	7,429
Total strong/satisfactory	2,271	8,446	4,358	18	15,093	2,172	8,295	4,615	117	15,199
Criticised watch	372	588	274	–	1,234	468	1,180	461	–	2,109
Criticised recovery	95	903	463	–	1,461	116	251	26	–	393
Total criticised	467	1,491	737	–	2,695	584	1,431	487	–	2,502
Non-performing	528	207	448	–	1,183	480	228	296	–	1,004
Gross carrying amount	3,266	10,144	5,543	18	18,971	3,236	9,954	5,398	117	18,705
Analysed by ECL staging										
Stage 1	2,208	7,409	3,792	18	13,427	2,110	6,433	3,998	117	12,658
Stage 2	535	2,528	1,303	–	4,366	653	3,293	1,104	–	5,050
Stage 3	523	207	448	–	1,178	473	228	296	–	997
POCI	–	–	–	–	–	–	–	–	–	–
Total	3,266	10,144	5,543	18	18,971	3,236	9,954	5,398	117	18,705
ECL allowance – statement of financial position										
Stage 1	57	37	28	–	122	49	38	39	–	126
Stage 2	64	391	116	–	571	78	409	101	–	588
Stage 3	167	77	64	–	308	165	89	69	–	323
POCI	–	–	–	–	–	–	–	–	–	–
Total	288	505	208	–	1,001	292	536	209	–	1,037
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	2.6	0.5	0.7	–	0.9	2.3	0.6	1.0	–	1.0
Stage 2	12.1	15.5	8.9	–	13.1	12.0	12.4	9.1	–	11.6
Stage 3	31.9	37.3	14.2	–	26.1	34.8	39.1	23.3	–	32.4
POCI	–	–	–	–	–	–	–	–	–	–

	Half-year to 30 June 2021*					Half-year to 30 June 2020*				
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	2	(28)	(7)	–	(33)	122	262	126	–	510
Recoveries of amounts previously written-off	(6)	(1)	–	–	(7)	(6)	–	(1)	–	(7)
Net credit impairment (writeback)/charge	(4)	(29)	(7)	–	(40)	116	262	125	–	503
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans – annualised	(0.06)	(0.14)	(0.06)	–	(0.11)	7.00	4.70	4.59	–	5.03

*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 – Non-property business *(continued)*

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 largest geographic concentration of the portfolio exposure is to Irish borrowers (47%) with the UK (30%) and USA (12%) being the other main geographic concentrations.

The portfolio increased by € 0.3 billion to € 19.0 billion in the six months to 30 June 2021 (31 December 2020: € 18.7 billion). The increase was primarily due to new lending of € 2.1 billion (30 June 2020: € 2.2 billion) and foreign exchange adjustments of € 0.4 billion exceeding redemptions/repayments net of interest credited of € 2.2 billion. The non-property business portfolio amounted to 32% of total Group loans and advances to customers at 30 June 2021 (31 December 2020: 32%).

COVID-19 continues to impact the asset quality of the non-property business portfolio. Timing of recovery is dependent on sector specific dynamics. Loans graded as strong/satisfactory decreased slightly in the six months to 30 June 2021 from 81% to 80%, due to downward grade migration. This downward grade migration also resulted in an increase in the level of less than satisfactory grades (including defaulted loans) from € 3.5 billion at 31 December 2020 to € 3.9 billion at 30 June 2021. This was specifically evident in the non-property forbearance portfolio as the criticised recovery category increased by € 1.1 billion to € 1.5 billion at 30 June 2021 (31 December 2020: € 0.4 billion).

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. The sector has proven to be resilient and robust through 2021 to date. Demand for credit to support on-farm investment is strong and above 2020 levels. The short term outlook remains positive with average farm incomes and margins expected to be above 2020 levels for most farms, as increased output prices offset increased input expenditure, assuming normalised weather conditions;
- The energy sub-sector comprises 11% of the portfolio at € 2.2 billion. The increase of € 0.4 billion is driven by new lending to renewable energy initiatives. To date, this sub-sector is proving very resilient to COVID-19;
- The manufacturing sub-sector comprises 14% of the portfolio at € 2.6 billion. To date, food manufacturing has adapted effectively to mitigate impact of COVID-19. Non-Food manufacturing had a positive first half of the year with increasing production and employment levels, however, supply challenges still exist for the sector due to Brexit and COVID-19;
- The hotels sub-sector comprises 12% of the portfolio at € 2.2 billion. This sector has been severely impacted by Government measures to contain COVID-19. In Ireland and the UK, hotels were either closed or operating at significantly reduced occupancy from mid-March 2020 for a significant proportion of the year. The first half of 2021 saw prolonged lockdowns, the level of which had not been anticipated at year-end 2020. There has been material progress in the vaccination programme, however, ongoing threat of variants leads to continued uncertainty for this sector. A return to pre-COVID-19 occupancy levels is expected to be slow, particularly for those most reliant on international tourism;
- The licensed premises sub-sector comprises 3% of the portfolio at € 0.5 billion. This sector has been severely negatively impacted by Government measures to contain COVID-19. Licensed premises were either closed or operating at significantly reduced capacity in Ireland from mid-March 2020, with some establishments unable to open during the year due to their lack of a food offering. The sector remains impacted, more acutely than hotels, as premises are not open for indoor custom. At the end of June 2021, outlook for the sector remains uncertain. In the UK, licensed premises have been fully re-opened since mid-May 2021;
- The retail/wholesale sub-sector comprises 9% of the portfolio at € 1.7 billion and has experienced a varied impact during the pandemic, dependent on whether activity is essential or non-essential. There has been an increase in online purchasing during this period which has accelerated this competitive challenge to 'Brick and Mortar Retail'. Grocery retail/wholesale continued to operate with some businesses experiencing increases in revenue and profitability despite some increases in costs;
- The transport sub-sector comprises 10% of the portfolio at € 1.9 billion and consists primarily of logistic, storage and travel businesses. After initial negative impacts due to COVID-19 and Brexit, logistics and storage have rebounded due to increased demand for logistics and warehousing to deal with increased online retail purchasing. However, cost challenges remain due to border and custom delays. Travel sector continues to be severely impacted by COVID-19 due to international travel restrictions;
- The financial sub-sector comprises 3% of the portfolio at € 0.6 billion. To date, this sub-sector is proving resilient to COVID-19 as companies have been able to operate virtually and many services provided remain essential during any economic backdrop;
- The other services sub-sector comprises 28% of the portfolio at € 5.3 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 2021.

Income statement

There was a net credit impairment writeback of € 40 million to the income statement in the six months to 30 June 2021 compared to a € 503 million charge in the same period in 2020. This was driven by a net re-measurement writeback of € 33 million and by recoveries of previously written-off loans of € 7 million. The net re-measurement writeback of € 33 million was due to a € 40 million writeback comprising of a € 54 million ECL writeback driven by re-measurements within stage and ECL release associated with redemptions/repayments, and a charge of € 14 million due to net stage movements. Updates to the revised macroeconomic scenarios and weightings assumptions (€ 21 million charge) was largely offset by an ECL release relating to post model adjustments (€ 14 million writeback) which resulted in a further € 7 million charge.

The ECL allowance for the portfolio totalled € 1.0 billion in ECL providing ECL allowance cover of 5%. For the Stage 3 portfolio, the ECL allowance cover is 26% (31 December 2020: € 1.0 billion, 6% and 32% respectively).

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

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

Additional disclosures

The following table provides further analyses 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 2021

	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	1,265	304	95	1,664	11	15	32	58
Energy	2,047	53	32	2,132	10	7	3	20
Manufacturing	1,257	244	54	1,555	6	21	20	47
Distribution:								
Hotels	77	1,670	374	2,121	5	273	45	323
Licensed premises	110	211	174	495	5	30	57	92
Retail/Wholesale	1,098	260	112	1,470	21	34	32	87
Other distribution	217	57	28	302	4	8	11	23
	1,502	2,198	688	4,388	35	345	145	525
Transport	954	275	76	1,305	5	29	24	58
Financial	302	15	4	321	2	1	2	5
Other services	3,233	617	220	4,070	28	47	80	155
Total	10,560	3,706	1,169	15,435	97	465	306	868
SIF	2,867	660	9	3,536	25	106	2	133
Total	13,427	4,366	1,178	18,971	122	571	308	1,001

31 December 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	1,183	365	94	1,642	13	20	32	65
Energy	1,700	47	15	1,762	10	3	2	15
Manufacturing	1,050	431	71	1,552	6	29	25	60
Distribution:								
Hotels	321	1,573	223	2,117	9	237	40	286
Licensed premises	113	242	146	501	6	39	53	98
Retail/Wholesale	1,017	442	143	1,602	20	51	46	117
Other distribution	200	69	19	288	2	9	12	23
	1,651	2,326	531	4,508	37	336	151	524
Transport	878	379	69	1,326	5	18	35	58
Financial	373	29	9	411	2	2	4	8
Other services	2,948	767	193	3,908	30	63	70	163
Total	9,783	4,344	982	15,109	103	471	319	893
SIF	2,875	706	15	3,596	23	117	4	144
Total	12,658	5,050	997	18,705	126	588	323	1,037

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 has decreased by € 0.1 billion to € 3.5 billion at 30 June 2021 (31 December 2020: € 3.6 billion).

At 30 June 2021, 95% of the SIF lending portfolio is in a strong/satisfactory grade (31 December 2020: 96%). 89% of the SIF portfolio is rated by S&P, with 66% rated B+ or above, 20% rated B and 3% rated B- or below. The majority of the loans (66%) are to large borrowers with EBITDA > € 250 million. Exposures are well diversified by name and sector with the top 20 borrowers accounting for 24% of total exposure. 65% of the customers in this portfolio are domiciled in the USA, 3% in the UK, and 32% in the Rest of the World (primarily Europe) (31 December 2020: 63% in the USA, 3% in the UK and 34% in the Rest of the World (primarily Europe) respectively).

At 30 June 2021, there was a net credit impairment writeback of € 6 million on the SIF portfolio (30 June 2020: € 106 million charge). Details on the SIF post model adjustment are outlined on page 44 which resulted in a writeback of € 7 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 2021

	At amortised cost								At FVTPL
	Gross carrying amount			Analysed by ECL stage profile					
Concentration by industry sector	Loans and advances to customers € m	Loan commitments and financial guarantees issued € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Total € m
Non-property business:									
Agriculture	1,693	612	2,305	1,817	388	100	–	2,305	–
Energy	2,179	940	3,119	3,026	53	40	–	3,119	–
Manufacturing	2,569	1,662	4,231	3,668	497	66	–	4,231	–
Distribution	4,838	1,411	6,249	2,828	2,695	726	–	6,249	–
Transport	1,862	571	2,433	2,035	316	82	–	2,433	–
Financial	569	554	1,123	1,041	78	4	–	1,123	–
Other services	5,261	2,236	7,497	6,296	948	253	–	7,497	–
Property and construction	7,231	2,016	9,247	6,752	1,799	696	–	9,247	256
Residential mortgages	29,617	1,114	30,731	27,717	1,530	1,322	162	30,731	–
Other personal	2,628	2,911	5,539	4,830	455	254	–	5,539	–
Total	58,447	14,027	72,474	60,010	8,759	3,543	162	72,474	256
Concentration by location[1]									
Republic of Ireland	44,486	10,696	55,182	46,290	6,078	2,652	162	55,182	256
United Kingdom	9,253	2,742	11,995	9,446	1,863	686	–	11,995	–
North America	2,311	183	2,494	2,102	385	7	–	2,494	–
Rest of the World	2,397	406	2,803	2,172	433	198	–	2,803	–
	58,447	14,027	72,474	60,010	8,759	3,543	162	72,474	256

ECL allowance

30 June 2021

	At amortised cost							
	Gross carrying amount			Analysed by ECL stage profile				
Concentration by industry sector	Loans and advances to customers € m	Loan commitments and financial guarantees issued € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Non-property business:								
Agriculture	59	3	62	12	17	33	–	62
Energy	21	1	22	12	7	3	–	22
Manufacturing	72	11	83	15	46	22	–	83
Distribution	573	23	596	41	408	147	–	596
Transport	63	2	65	10	30	25	–	65
Financial	28	1	29	4	23	2	–	29
Other services	185	11	196	41	75	80	–	196
Property and construction	357	29	386	71	134	181	–	386
Residential mortgages	501	–	501	50	44	357	50	501
Other personal	232	6	238	50	40	148	–	238
Total	2,091	87	2,178	306	824	998	50	2,178
Concentration by location[1]								
Republic of Ireland	1,648	67	1,715	229	565	871	50	1,715
United Kingdom	285	17	302	48	141	113	–	302
North America	55	2	57	17	39	1	–	57
Rest of the World	103	1	104	12	79	13	–	104
	2,091	87	2,178	306	824	998	50	2,178

[1]Based on country of risk.

Credit risk – Credit profile of the loan portfolio

Gross exposures to customers

31 December 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
Non-property business:									
Agriculture	1,671	607	2,278	1,740	439	99	–	2,278	–
Energy	1,815	919	2,734	2,607	91	36	–	2,734	–
Manufacturing	2,547	1,593	4,140	3,346	707	87	–	4,140	–
Distribution	4,986	1,271	6,257	2,773	2,911	573	–	6,257	–
Transport	1,829	506	2,335	1,810	452	73	–	2,335	–
Financial	630	570	1,200	1,095	96	9	–	1,200	–
Other services	5,227	2,114	7,341	5,977	1,139	225	–	7,341	–
Property and construction	7,260	1,940	9,200	5,977	2,321	902	–	9,200	75
Residential mortgages	30,649	837	31,486	27,354	1,956	1,992	184	31,486	–
Other personal	2,766	2,869	5,635	4,837	556	242	–	5,635	–
Total	59,380	13,226	72,606	57,516	10,668	4,238	184	72,606	75
Concentration by location[1]									
Republic of Ireland	45,917	10,328	56,245	44,535	8,102	3,424	184	56,245	75
United Kingdom	8,879	2,502	11,381	9,087	1,689	605	–	11,381	–
North America	2,304	103	2,407	1,971	419	17	–	2,407	–
Rest of the World	2,280	293	2,573	1,923	458	192	–	2,573	–
	59,380	13,226	72,606	57,516	10,668	4,238	184	72,606	75

ECL allowance

31 December 2020

	At amortised cost							
	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
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:								
Agriculture	66	4	70	15	23	32	–	70
Energy	15	2	17	12	3	2	–	17
Manufacturing	84	8	92	15	50	27	–	92
Distribution	590	17	607	42	412	153	–	607
Transport	63	2	65	10	20	35	–	65
Financial	22	1	23	4	15	4	–	23
Other services	197	12	209	43	92	74	–	209
Property and construction	396	30	426	82	140	204	–	426
Residential mortgages	843	–	843	39	73	662	69	843
Other personal	234	7	241	42	56	143	–	241
Total	2,510	83	2,593	304	884	1,336	69	2,593
Concentration by location[1]								
Republic of Ireland	2,000	67	2,067	214	609	1,175	69	2,067
United Kingdom	322	12	334	61	130	143	–	334
North America	61	2	63	15	43	5	–	63
Rest of the World	127	2	129	14	102	13	–	129
	2,510	83	2,593	304	884	1,336	69	2,593

[1]Based on country of risk.

Risk management

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 2021
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**
Non-property business:							
Agriculture	11	5	1	4	6	20	47
Energy	–	–	–	–	–	2	2
Manufacturing	1	1	–	3	2	13	20
Distribution	92	20	7	32	95	54	300
Transport	11	1	1	1	3	6	23
Financial	–	–	1	–	–	2	3
Other services	49	4	3	17	11	35	119
Property and construction	22	5	13	54	24	193	311
Residential mortgages	51	22	9	57	67	392	598
Other personal	34	6	6	18	36	132	232
Total gross carrying amount	**271**	**64**	**41**	**186**	**244**	**849**	**1,655**
ECL staging							
Stage 1	102	–	–	–	–	–	102
Stage 2	65	28	24	–	–	–	117
Stage 3	103	36	16	184	243	841	1,423
POCI	1	–	1	2	1	8	13
	271	64	41	186	244	849	1,655
Segment							
Retail Banking	135	52	23	117	183	733	1,243
CIB	105	2	5	19	11	50	192
AIB UK	31	10	13	50	50	66	220
Group	–	–	–	–	–	–	–
	271	64	41	186	244	849	1,655
As a percentage of total gross loans at amortised cost	**%**	**%**	**%**	**%**	**%**	**%**	**%**
	0.46	0.11	0.07	0.32	0.42	1.45	2.83

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.

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 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
Non-property business:							
Agriculture	18	6	1	3	7	17	52
Energy	–	–	–	–	–	2	2
Manufacturing	2	8	1	3	1	14	29
Distribution	103	73	23	43	37	40	319
Transport	4	7	7	3	1	6	28
Financial	1	1	–	–	–	2	4
Other services	17	22	10	11	13	29	102
Property and construction	26	18	8	15	63	172	302
Residential mortgages	49	51	11	42	124	968	1,245
Other personal	37	12	9	19	42	117	236
Total gross carrying amount	257	198	70	139	288	1,367	2,319
ECL staging							
Stage 1	68	–	–	–	–	–	68
Stage 2	109	88	28	–	–	–	225
Stage 3	79	108	42	138	285	1,345	1,997
POCI	1	2	–	1	3	22	29
	257	198	70	139	288	1,367	2,319
Segment							
Retail Banking	165	111	40	102	216	1,275	1,909
CIB	23	46	5	9	48	7	138
AIB UK	69	41	25	28	24	85	272
Group	–	–	–	–	–	–	–
	257	198	70	139	288	1,367	2,319
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	0.43	0.33	0.12	0.23	0.49	2.30	3.90

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 the six months to 30 June 2021, total loans past due reduced by € 0.7 billion to € 1.6 billion or 2.8% of total loans and advances to customers (31 December 2020: € 2.3 billion or 3.9%).

The reduction is directly attributed to the non-performing mortgage portfolio sales completed in the period as the total residential mortgage loans past due reduced by € 0.6 billion. This reduction was predominately in the greater than 365 days past due category as the total residential mortgage loans past due at 30 June 2021 amounted to € 0.6 billion or 36% of total loans past due (31 December 2020: € 1.2 billion or 54%).

Non-property business loans which were past due represent 31% or € 0.5 billion (31 December 2020: 23% or € 0.5 billion), with property and construction at 19% or € 0.3 billion (31 December 2020: 13% or € 0.3 billion), and other personal at 14% or € 0.2 billion (31 December 2020: 10% or € 0.2 billion).

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

Risk management

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 between 1 January 2021 and 30 June 2021 and the corresponding movements for the year to 31 December 2020.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 96 of the Annual Financial Report 2020) and that subsequently reverted within the year 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 2021*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January 2021	**45,713**	**9,408**	**4,075**	**184**	**59,380**
Transferred from Stage 1 to Stage 2	**(2,444)**	**2,444**	**–**	**–**	**–**
Transferred from Stage 2 to Stage 1	**2,885**	**(2,885)**	**–**	**–**	**–**
Transferred to Stage 3	**(75)**	**(502)**	**577**	**–**	**–**
Transferred from Stage 3	**36**	**154**	**(190)**	**–**	**–**
New loans originated/top-ups	**4,659**	**–**	**–**	**–**	**4,659**
Redemptions/repayments	**(4,441)**	**(1,311)**	**(278)**	**(6)**	**(6,036)**
Interest credited	**662**	**138**	**38**	**3**	**841**
Write-offs	**–**	**–**	**(51)**	**(1)**	**(52)**
Derecognised due to disposals	**(21)**	**(42)**	**(654)**	**(19)**	**(736)**
Exchange translation adjustments	**390**	**110**	**31**	**–**	**531**
Impact of model, parameter and overlay changes	**(274)**	**274**	**–**	**–**	**–**
Other movements	**35**	**(11)**	**(165)**	**1**	**(140)**
At 30 June 2021	**47,125**	**7,777**	**3,383**	**162**	**58,447**

					31 December 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	(11,954)	11,954	–	–	–
Transferred from Stage 2 to Stage 1	2,534	(2,534)	–	–	–
Transferred to Stage 3	(459)	(1,483)	1,942	–	–
Transferred from Stage 3	105	352	(457)	–	–
New loans originated/top-ups	8,578	–	–	–	8,578
Redemptions/repayments	(8,911)	(2,224)	(616)	(17)	(11,768)
Interest credited	1,471	285	72	8	1,836
Write-offs	–	–	(148)	(3)	(151)
Derecognised due to disposals	(221)	(214)	(86)	–	(521)
Exchange translation adjustments	(651)	(120)	(23)	–	(794)
Impact of model, parameter and overlay changes	519	(519)	–	–	–
Other movements	(21)	(81)	251	2	151
At 31 December 2020	45,713	9,408	4,075	184	59,380

[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

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

ECL allowance movements – total

					30 June 2021*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January 2021	281	845	1,315	69	2,510
Transferred from Stage 1 to Stage 2	(37)	119	–	–	82
Transferred from Stage 2 to Stage 1	53	(124)	–	–	(71)
Transferred to Stage 3	(6)	(75)	126	–	45
Transferred from Stage 3	3	16	(42)	–	(23)
Net re-measurement	(32)	(6)	(85)	4	(119)
New loans originated/top-ups	32	–	–	–	32
Redemptions/repayments	(14)	(22)	–	(1)	(37)
Impact of model and overlay changes	16	2	23	(5)	36
Impact of credit or economic risk parameters	(11)	18	(22)	–	(15)
Income statement net credit impairment charge/(writeback)	4	(72)	–	(2)	(70)
Write-offs	–	–	(51)	(1)	(52)
Derecognised due to disposals	–	(4)	(297)	(16)	(317)
Exchange translation adjustments	3	9	8	–	20
Other movements	(3)	1	2	–	–
At 30 June 2021	285	779	977	50	2,091

					31 December 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	(110)	305	–	–	195
Transferred from Stage 2 to Stage 1	78	(112)	–	–	(34)
Transferred to Stage 3	(42)	(197)	382	–	143
Transferred from Stage 3	10	33	(83)	–	(40)
Net re-measurement	(61)	362	105	–	406
New loans originated/top-ups	82	–	–	–	82
Redemptions/repayments	(9)	(89)	–	–	(98)
Impact of model and overlay changes	74	144	187	33	438
Impact of credit or economic risk parameters	129	227	37	8	401
Income statement net credit impairment charge	151	673	628	41	1,493
Write-offs	–	–	(148)	(3)	(151)
Derecognised due to disposals	(5)	(18)	(34)	–	(57)
Exchange translation adjustments	(2)	(8)	(7)	–	(17)
Other movements	(4)	(4)	12	–	4
At 31 December 2020	281	845	1,315	69	2,510

Total exposures to which an ECL applies decreased during the period by € 1.0 billion from € 59.4 billion at 1 January 2021 to € 58.4 billion at 30 June 2021.

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. An ECL writeback of € 91 million due to stage transfers and net re-measurement within stage occurred due to underlying credit management activity and improvement in credit parameters which inform the modelled outcomes. ECL writeback on loans fully repaid was a feature of the impact within stage.

*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)*

The updated macroeconomic scenarios and weightings resulted in a release of € 15 million. This ECL movement is presented separately within 'Impact of credit or economic risk parameters'. This release was most significant within the mortgage portfolio accounting for a release of € 37 million within the portfolio. This was driven by an improvement in macroeconomic forecasts specific to the residential property market and is largely offset by ECL charge resulting from model and overlay changes. Within the non-property business portfolio a charge of € 21 million was driven primarily by a higher Irish unemployment rate in the scenarios compared to the December 2020 outlook.

Model and overlay changes resulted in an ECL charge of € 36 million and further detail on the changes is outlined within the management judgements section on pages 42 to 44.

The gross loan transfers from Stage 1 to Stage 2 of € 2.4 billion are due to underlying credit management 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. 63% 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 5% was caused solely by the backstop of 30 days past due. Of the € 2.4 billion which transferred from Stage 1 to Stage 2 in the period approximately € 1.7 billion is reported as Stage 2 at 30 June 2021.

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 € 2.9 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 normal credit management process and incorporates loans which transferred due to the impact of the updated macroeconomic scenarios and weightings.

Transfers from Stage 2 to Stage 3 of € 0.5 billion represent those loans that defaulted during the year. 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 € 0.1 billion had transferred from Stage 1 to Stage 2 earlier in the year.

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.

In summary, the staging movements of the overall portfolio were as follows:
Stage 1 loans increased by € 1.4 billion in the year to € 47.1 billion with an ECL of € 0.3 billion and resulting cover of 0.6% (31 December 2020: 0.6%).

Stage 2 loans decreased by € 1.6 billion in the year to € 7.8 billion with an ECL of € 0.8 billion and resulting cover of 10.0% (31 December 2020: 9.0%). This was primarily driven by loans returning to Stage 1 where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period and repayments.

Stage 3 exposures decreased by € 0.7 billion in the year to € 3.4 billion with the ECL cover decreasing from 32.3% to 28.9%. Key driver was portfolio sales of distressed loans. The reduction in cover reflects the disposal of loans which carried a higher average ECL charge.

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 2021

	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 2021	26,535	1,950	1,980	184	30,649	2,201	332	233	2,766	4,319	2,076	865	–	7,260	12,658	5,050	997	18,705
Transferred from Stage 1 to Stage 2	(707)	707	–	–	–	(162)	162	–	–	(361)	361	–	–	–	(1,214)	1,214	–	–
Transferred from Stage 2 to Stage 1	1,022	(1,022)	–	–	–	152	(152)	–	–	449	(449)	–	–	–	1,262	(1,262)	–	–
Transferred to Stage 3	(20)	(120)	140	–	–	(7)	(43)	50	–	(13)	(40)	53	–	–	(35)	(299)	334	–
Transferred from Stage 3	5	86	(91)	–	–	2	9	(11)	–	12	7	(19)	–	–	17	52	(69)	–
New loans originated/top-ups	1,232	–	–	–	1,232	400	–	–	400	861	–	–	–	861	2,166	–	–	2,166
Redemptions/repayments	(1,820)	(116)	(92)	(6)	(2,034)	(554)	(70)	(28)	(652)	(392)	(430)	(58)	–	(880)	(1,675)	(695)	(100)	(2,470)
Interest credited	330	20	7	3	360	85	13	5	103	61	28	10	–	99	186	77	16	279
Write-offs	–	–	(17)	(1)	(18)	–	–	(9)	(9)	–	–	(14)	–	(14)	–	–	(11)	(11)
Derecognised due to disposals	–	–	(623)	(19)	(642)	–	–	(1)	(1)	–	–	(11)	–	(11)	(21)	(42)	(19)	(82)
Exchange translation adjustments	45	2	5	–	52	4	1	–	5	77	12	9	–	98	264	95	17	376
Impact of model, parameter and overlay changes	(10)	10	–	–	–	(1)	1	–	–	(72)	72	–	–	–	(191)	191	–	–
Other movements	7	8	2	1	18	15	(2)	3	16	3	(2)	(183)	–	(182)	10	(15)	13	8
At 30 June 2021	26,619	1,525	1,311	162	29,617	2,135	251	242	2,628	4,944	1,635	652	–	7,231	13,427	4,366	1,178	18,971

31 December 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	(1,812)	1,812	–	–	–	(438)	438	–	–	(3,189)	3,189	–	–	–	(6,515)	6,515	–	–
Transferred from Stage 2 to Stage 1	1,692	(1,692)	–	–	–	175	(175)	–	–	265	(265)	–	–	–	402	(402)	–	–
Transferred to Stage 3	(31)	(281)	312	–	–	(13)	(98)	111	–	(195)	(431)	626	–	–	(220)	(673)	893	–
Transferred from Stage 3	23	210	(233)	–	–	3	25	(28)	–	23	33	(56)	–	–	56	84	(140)	–
New loans originated/top-ups	2,470	–	–	–	2,470	841	–	–	841	1,172	–	–	–	1,172	4,095	–	–	4,095
Redemptions/repayments	(3,427)	(261)	(224)	(17)	(3,929)	(1,067)	(156)	(49)	(1,272)	(755)	(479)	(94)	–	(1,328)	(3,662)	(1,328)	(249)	(5,239)
Interest credited	682	50	25	8	765	180	33	9	222	146	54	12	–	212	463	148	26	637
Write-offs	–	–	(57)	(3)	(60)	–	–	(33)	(33)	–	–	(20)	–	(20)	–	–	(38)	(38)
Derecognised due to disposals	–	–	–	–	–	–	–	–	–	–	–	(10)	–	(10)	(221)	(214)	(76)	(511)
Exchange translation adjustments	(58)	(5)	(5)	–	(68)	(6)	(1)	–	(7)	(112)	(14)	(4)	–	(130)	(475)	(100)	(14)	(589)
Impact of model, parameter and overlay changes	–	–	–	–	–	–	–	–	–	519	(519)	–	–	–	–	–	–	–
Other movements	23	(27)	19	2	17	22	(22)	31	31	(60)	81	44	–	65	(6)	(113)	157	38
At 31 December 2020	26,535	1,950	1,980	184	30,649	2,201	332	233	2,766	4,319	2,076	865	–	7,260	12,658	5,050	997	18,705

[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 2021

	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 2021	39	73	662	69	843	41	51	142	234	75	133	188	–	396	126	588	323	1,037
Transferred from Stage 1 to Stage 2	(3)	16	–	–	13	(5)	25	–	20	(6)	11	–	–	5	(23)	67	–	44
Transferred from Stage 2 to Stage 1	9	(19)	–	–	(10)	7	(20)	–	(13)	9	(16)	–	–	(7)	28	(69)	–	(41)
Transferred to Stage 3	–	(9)	21	–	12	(1)	(18)	26	7	(2)	(4)	10	–	4	(3)	(44)	69	22
Transferred from Stage 3	–	5	(12)	–	(7)	–	3	(6)	(3)	1	1	(4)	–	(2)	2	7	(20)	(11)
Net re-measurement	(5)	(7)	(35)	4	(43)	(16)	(5)	(1)	(22)	(8)	10	(8)	–	(6)	(3)	(4)	(41)	(48)
New loans originated/top-ups	1	–	–	–	1	11	–	–	11	6	–	–	–	6	14	–	–	14
Redemptions/repayments	(1)	(1)	–	(1)	(3)	(1)	(1)	–	(2)	(4)	(8)	–	–	(12)	(8)	(12)	–	(20)
Impact of model and overlay changes	20	(6)	41	(5)	50	14	–	(4)	10	(4)	(4)	(2)	–	(10)	(14)	12	(12)	(14)
Impact of credit or economic risk parameters	(11)	(9)	(17)	–	(37)	–	–	–	–	(2)	6	(3)	–	1	2	21	(2)	21
Income statement net credit impairment charge/(writeback)	10	(30)	(2)	(2)	(24)	9	(16)	15	8	(10)	(4)	(7)	–	(21)	(5)	(22)	(6)	(33)
Write-offs	–	–	(17)	(1)	(18)	–	–	(9)	(9)	–	–	(14)	–	(14)	–	–	(11)	(11)
Derecognised due to disposals	–	–	(286)	(16)	(302)	–	–	(1)	(1)	–	–	(5)	–	(5)	–	(4)	(5)	(9)
Exchange translation adjustments	–	–	2	–	2	–	–	–	–	1	–	2	–	3	2	9	4	15
Other movements	1	1	(2)	–	–	(2)	1	1	–	(1)	(1)	–	–	(2)	(1)	–	3	2
At 30 June 2021	50	44	357	50	501	48	36	148	232	65	128	164	–	357	122	571	308	1,001

31 December 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	(17)	53	–	–	36	(7)	29	–	22	(33)	39	–	–	6	(53)	184	–	131
Transferred from Stage 2 to Stage 1	23	(47)	–	–	(24)	3	(5)	–	(2)	15	(20)	–	–	(5)	37	(40)	–	(3)
Transferred to Stage 3	–	(20)	49	–	29	(1)	(34)	50	15	(28)	(46)	90	–	16	(13)	(97)	193	83
Transferred from Stage 3	3	12	(31)	–	(16)	–	7	(16)	(9)	1	4	(8)	–	(3)	6	10	(28)	(12)
Net re-measurement	(18)	(34)	2	–	(50)	(18)	(11)	26	(3)	(5)	60	31	–	86	(20)	347	46	373
New loans originated/top-ups	4	–	–	–	4	15	–	–	15	42	–	–	–	42	21	–	–	21
Redemptions/repayments	(3)	(3)	–	–	(6)	(2)	(2)	–	(4)	10	(38)	–	–	(28)	(14)	(46)	–	(60)
Impact of model and overlay changes	10	19	183	33	245	5	4	–	9	7	3	–	–	10	52	118	4	174
Impact of credit or economic risk parameters	28	40	45	8	121	24	23	2	49	37	107	(23)	–	121	40	57	13	110
Income statement net credit impairment charge	30	20	248	41	339	19	11	62	92	46	109	90	–	245	56	533	228	817
Write-offs	–	–	(57)	(3)	(60)	–	–	(33)	(33)	–	–	(20)	–	(20)	–	–	(38)	(38)
Derecognised due to disposals	–	–	–	–	–	–	–	–	–	–	–	(6)	–	(6)	(5)	(18)	(28)	(51)
Exchange translation adjustments	–	–	(1)	–	(1)	–	–	–	–	–	(1)	(3)	–	(4)	(2)	(7)	(3)	(12)
Other movements	(1)	1	(4)	–	(4)	1	–	(1)	–	(2)	(1)	(5)	–	(8)	(2)	(4)	22	16
At 31 December 2020	39	73	662	69	843	41	51	142	234	75	133	188	–	396	126	588	323	1,037

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 2021*				
	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 2021	**11,259**	**1,113**	**132**	**12,504**	**544**	**147**	**31**	**722**
Transferred from Stage 1 to Stage 2	**(248)**	**248**	**–**	**–**	**(24)**	**24**	**–**	**–**
Transferred from Stage 2 to Stage 1	**369**	**(369)**	**–**	**–**	**71**	**(71)**	**–**	**–**
Transferred to Stage 3	**(12)**	**(5)**	**17**	**–**	**–**	**(1)**	**1**	**–**
Transferred from Stage 3	**5**	**4**	**(9)**	**–**	**1**	**–**	**(1)**	**–**
Net movement	**921**	**(85)**	**(14)**	**822**	**(1)**	**(23)**	**3**	**(21)**
At 30 June 2021	**12,294**	**906**	**126**	**13,326**	**591**	**76**	**34**	**701**

				31 December 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	(647)	647	–	–	(112)	112	–	–
Transferred from Stage 2 to Stage 1	158	(158)	–	–	3	(3)	–	–
Transferred to Stage 3	(35)	(12)	47	–	(1)	–	1	–
Transferred from Stage 3	27	3	(30)	–	3	1	(4)	–
Net movement	658	310	(3)	965	(6)	26	(9)	11
At 31 December 2020	11,259	1,113	132	12,504	544	147	31	722

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

Risk management

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

ECL allowance movements

30 June 2021*

	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 2021	20	30	4	54	3	8	18	29
Transferred from Stage 1 to Stage 2	(3)	18	–	15	(1)	4	–	3
Transferred from Stage 2 to Stage 1	4	(19)	–	(15)	–	(3)	–	(3)
Transferred to Stage 3	–	(1)	1	–	–	–	–	–
Transferred from Stage 3	–	–	–	–	1	–	(1)	–
Net re-measurement	(2)	5	(1)	2	(1)	2	–	1
Income statement (credit)/charge	(1)	3	–	2	(1)	3	(1)	1
Derecognised due to disposals	–	–	–	–	–	–	–	–
Other movements	–	1	–	1	–	–	–	–
At 30 June 2021	19	34	4	57	2	11	17	30

31 December 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	(7)	18	–	11	(1)	6	–	5
Transferred from Stage 2 to Stage 1	10	(8)	–	2	2	(2)	–	–
Transferred to Stage 3	–	(1)	2	1	–	(1)	2	1
Transferred from Stage 3	–	–	–	–	–	1	(2)	(1)
Net re-measurement	7	13	1	21	(1)	3	(3)	(1)
Income statement (credit)/charge	10	22	3	35	–	7	(3)	4
Other movements	–	–	–	–	–	(1)	3	2
At 31 December 2020	20	30	4	54	3	8	18	29

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

	30 June 2021* € m	31 December 2020* € m
Strong	8,744	8,187
Satisfactory	4,635	4,445
Criticised watch	409	413
Criticised recovery	79	18
Default	160	163
Total	14,027	13,226

Non-performing off-balance sheet commitments
Total non-performing off-balance sheet commitments amounted to € 160 million (31 December 2020: € 163 million).

*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 of € 4,022 million (31 December 2020: € 1,799 million), securities borrowing – customers of € 760 million (31 December 2020: Nil), investment debt securities (at amortised cost of € 3,875 million (31 December 2020: € 3,603 million) and at FVOCI of € 12,394 million (31 December 2020: € 15,675 million)) and trading portfolio financial assets of Nil (31 December 2020: Nil). Information on the external credit ratings for loans and advances to customers where an external credit rating is available is disclosed on page 63.

	At amortised cost					At FVOCI					30 June 2021 Total
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	€ m
AAA/AA	761	–	296	667	1,724	3,879	54	1,072	436	5,441	7,165
A/A-	3,332	–	2,427	964	6,723	1,186	250	3,777	–	5,213	11,936
BBB+/BBB/BBB-	16	2	37	5	60	414	195	1,131	–	1,740	1,800
Sub investment	–	74	–	–	74	–	–	–	–	–	74
Unrated	–	64	–	12	76	–	–	–	–	–	76
Total	4,109	140	2,760	1,648[(1)]	8,657	5,479	499	5,980[(2)]	436	12,394	21,051
Of which: Stage 1	4,109	140	2,760	1,648	8,657	5,479	468	5,980	436	12,363	21,020
Stage 2	–	–	–	–	–	–	31	–	–	31	31
Stage 3	–	–	–	–	–	–	–	–	–	–	–

	At amortised cost					At FVOCI					31 December 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	733	–	295	510	1,538	5,032	37	1,227	419	6,715	8,253
A/A-	1,134	–	2,314	212	3,660	1,380	257	5,527	–	7,164	10,824
BBB+/BBB/BBB-	18	–	38	5	61	381	165	1,219	–	1,765	1,826
Sub investment	1	73	–	–	74	–	31	–	–	31	105
Unrated	–	69	–	–	69	–	–	–	–	–	69
Total	1,886	142	2,647	727[(1)]	5,402	6,793	490	7,973[(2)]	419	15,675	21,077
Of which: Stage 1	1,886	142	2,647	722	5,397	6,793	490	7,973	419	15,675	21,072
Stage 2	–	–	–	5	5	–	–	–	–	–	5
Stage 3	–	–	–	–	–	–	–	–	–	–	–

[(1)]Of which: asset backed securities € 888 million and securities borrowing – customers € 760 million (31 December 2020: asset backed securities € 727 million).
[(2)]Includes supranational banks and government agencies.

Large exposures

The Group Connected Customers and Large Exposures Credit Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 30 June 2021, the Group's top 50 drawn exposures amounted to € 4.5 billion, and accounted for 7.8% (31 December 2020: € 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 € 927 million (31 December 2020: € 862 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 approach to forbearance initiatives are outlined on pages 144 to 146 in the 'Risk management' section of the Annual Financial Report 2020. The following tables set out the internal credit ratings and ECL staging of forborne loans and advances to customers:

					30 June 2021
	At amortised cost				
Analysed by forbearance type	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Temporary forbearance	745	45	259	1,180	2,229[1]
Permanent forbearance	897	84	329	973	2,283[2]
	1,642	129	588	2,153	4,512
Analysed by internal credit ratings					
Strong	–	–	–	–	–
Satisfactory	–	–	–	–	–
Total strong/satisfactory	–	–	–	–	–
Criticised watch	–	–	–	–	–
Criticised recovery	414	32	273	1,461	2,180
Total criticised	414	32	273	1,461	2,180
Non-performing	1,228	97	315	692	2,332
Gross carrying amount	1,642	129	588	2,153	4,512
Analysed by ECL staging					
Stage 1	8	1	85	14	108
Stage 2	405	31	272	1,452	2,160
Stage 3	1,076	97	231	687	2,091
POCI	153	–	–	–	153
Total	1,642	129	588	2,153	4,512
ECL allowance	368	61	151	480	1,060

					31 December 2020
	At amortised cost				
Analysed by forbearance type	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Temporary forbearance	1,033	46	154	414	1,647[1]
Permanent forbearance	1,146	94	171	334	1,745[2]
	2,179	140	325	748	3,392
Analysed by internal credit ratings					
Strong	–	–	–	–	–
Satisfactory	–	–	–	–	–
Total strong/satisfactory	–	–	–	–	–
Criticised watch	–	–	–	–	–
Criticised recovery	466	45	80	393	984
Total criticised	466	45	80	393	984
Non-performing	1,713	95	245	355	2,408
Gross carrying amount	2,179	140	325	748	3,392
Analysed by ECL staging					
Stage 1	8	2	92	20	122
Stage 2	457	43	78	376	954
Stage 3	1,537	95	155	352	2,139
POCI	177	–	–	–	177
Total	2,179	140	325	748	3,392
ECL allowance	631	63	85	193	972

[1] Of which: interest only € 1,239 million, payment moratorium € 529 million, reduced payment € 146 million (31 December 2020: interest only € 1,002 million, payment moratorium € 413 million, reduced payment € 171 million).

[2] Of which: arrears capitalisation and term extension € 927 million, breach/adjustment of covenant € 472 million, restructure € 260 million (31 December 2020: arrears capitalisation and term extension € 898 million, restructure € 274 million, low fixed interest rate € 149 million).

Credit risk

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

Forbearance

The Group's focus continues to be on supporting its existing customers and ensuring they are provided with the appropriate forbearance measures, particularly in the current environment by providing support to customers impacted by COVID-19. The total forbearance portfolio has increased by € 1.1 billion to € 4.5 billion at 30 June 2021 (31 December 2020: € 3.4 billion). The increase in the first half of 2021 was predominately in the non-property business portfolio which increased by € 1.4 billion to € 2.1 billion (31 December 2020: € 0.7 billion) as short term temporary interest only forbearance requests were the most prevalent. The UK and CIB non-property forbearance portfolios both experienced increases of € 0.7 billion in the period. The increase reflects specific sectors in this portfolio which are highly impacted by COVID-19 such as hotels, licensed premises and retail. These sectors continue to be closely monitored by the Group.

Irish residential mortgages subject to forbearance measures decreased by € 0.5 billion from € 2.1 billion at 31 December 2020 to € 1.6 billion at 30 June 2021. The decrease in the forbearance portfolio was impacted by the non-performing mortgage portfolio sales. The Group continues to closely monitor the Irish residential mortgage portfolio for potential residual risk as the expiry of government supports and general payment moratoria, introduced via EBA Guidelines in 2020 to support customers during the initial impact of COVID-19, may be delaying the realisation of forbearance and affordability issues. The total Irish residential mortgage portfolio subject to forbearance consists of € 0.7 billion relating to short term temporary arrangements and € 0.9 billion relating to long term permanent solutions. Interest only and arrears capitalisation were the most prominent forbearance solutions availed of by customers.

Risk management

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. Liquidity risk arises from differences in timing between cash inflows and outflows and can increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing debt.

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. Funding risk can occur where there is an over-reliance on a particular type of funding, a funding gap or a concentration of wholesale funding maturities.

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

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 recommended by the Risk function and approved by the Board. The liquidity pool assets primarily comprise government guaranteed bonds, balances with central banks and internal and external covered bonds.

At 30 June 2021, the Group held € 63,956 million (31 December 2020: € 53,816 million) in qualifying liquid assets (QLA)[(1)] of which € 16,777 million (31 December 2020: € 10,028 million) was not available due to repurchase, secured loans and other restrictions. The available Group liquidity pool is held to cover contractual and stress outflows. At 30 June 2021, the Group liquidity pool was € 47,179 million (31 December 2020: € 43,788 million). During the six months to June 2021, the liquidity pool ranged from € 43,602 million to € 47,902 million and the average balance was € 45,456 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.

The Group's liquidity pool increased in the six months to June 2021 by € 3,391 million which was predominantly due to an increase in customer deposits in Ireland, senior debt issuance, customer loan redemptions and proceeds from the portfolio sale of loans during the period offset by covered bond maturities and securities financing activities where cash was exchanged for non QLA.

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 2021				31 December 2020			
		Liquidity pool (ECB eligible)	High Quality Liquid Assets (HQLA)[(1)] in the liquidity pool			Liquidity pool (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	32,467[(2)]	–	35,394[(2)]	–	19,973[(2)]	–	22,506[(2)]	–
Total government bonds	2,032	1,381	1,589	443	5,952	5,345	5,582	370
Other:								
Covered bonds	964	28	4	960	3,656	2,796	2,206	1,450
Other[(3)]	11,716	8,916	–	74	14,207	11,523	50	363
Total other	12,680	8,944	4	1,034	17,863	14,319	2,256	1,813
Total	47,179	10,325	36,987	1,477	43,788	19,664	30,344	2,183
Of which:								
EUR	45,055				41,274			
GBP	799				1,247			
USD	1,322				1,263			
Other	3				4			

[(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.

Funding and liquidity risk

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 147 to 155 of the Annual Financial Report 2020.

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.

Liquidity metrics	30 June 2021 %	31 December 2020 %
Liquidity Coverage Ratio	201	193
Net Stable Funding Ratio	149	148
Loan to Deposit Ratio	64	69

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 2021.

The calculated NSFR is based on the second Capital Requirements Regulation (CRR2), effective 27 June 2019, which came into force in June 2021. This introduced a binding NSFR requirement of 100% which the Group is in compliance with. The calculated NSFR reflected up to this point was based on the Group's interpretation of the Basel Standard.

Risk management

Funding and liquidity risk

Funding structure*

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

Sources of funds	30 June 2021 € m	%	31 December 2020 € m	%
Customer accounts	88,299	74	81,972	77
Of which:				
Euro	72,668		67,998	
Sterling	13,426		12,207	
US dollar	2,021		1,561	
Other currencies	184		206	
Deposits by central banks and banks – secured	10,487	9	4,473	4
– unsecured	103	–	217	–
Asset covered securities ("ACS")	1,775	1	2,275	2
Senior debt	3,971	3	3,175	3
Capital	15,030	13	14,971	14
Total source of funds	119,665	100	107,083	100
Other	3,223		3,302	
	122,888		110,385	

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 source of funds. Customer accounts increased by € 6,327 million in the six months to 30 June 2021 due to COVID-19 related dynamics of precautionary savings and lower consumer consumption. This was mainly reflected across the Groups three significant currencies (EUR, GBP, USD) primarily in current and demand deposit accounts. There was an increase in the value of both GBP and USD deposits of € 1,003 million due to currency movements coupled with an underlying increase in GBP and USD deposits of € 676 million on a constant currency basis.

The Group extended its participation in the ECB three year Targeted Long Term Refinancing Operation III ("TLTRO III"). These ECB operations are aimed at supporting the continued access of firms and households to bank credit by applying favourable interest rates to TLTRO III operations of participating banks subject to achieving prescribed lending targets and having the option of early repayment after the first year. Secured deposits by central banks and banks increased by € 6,014 million to € 10,487 million predominantly due to the Group's € 6 billion June 2021 drawdown in TLTRO III operations.

In the six months to 30 June 2021, senior debt increased € 796 million to € 3,971 million primarily due to new debt issuance and foreign exchange translation adjustments. On 10 May 2021, the Group issued a € 750 million green bond issuance, the proceeds of which will contribute to the financing of projects with clear environmental and climate change benefits. Outstanding asset covered securities ("ACS") at 30 June 2021 decreased € 500 million to € 1,775 million due to a contractual maturity. 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 2021, capital increased € 59 million to € 15,030 million primarily driven by an increase in reserves and foreign exchange translation adjustments (31 December 2020: € 14,971 million).

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

Funding and liquidity risk

Composition of wholesale funding[1]

At 30 June 2021, total wholesale funding outstanding was € 17,889 million (31 December 2020: € 11,690 million). € 1,049 million of wholesale funding matures in less than one year (31 December 2020: € 912 million). € 16,840 million of wholesale funding has a residual maturity of over one year (31 December 2020: € 10,778 million).

Outstanding wholesale funding comprised € 12,262 million in secured funding (31 December 2020: € 6,748 million) and € 5,627 million in unsecured funding (31 December 2020: € 4,942 million).

									30 June 2021
	< 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	266	21	12	–	299	10,000	291	–	10,590
Senior debt	–	–	–	–	–	1,880	1,341	750	3,971
ACS	–	–	–	750	750	1,000	–	25	1,775
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	1,553	1,553
Total 30 June 2021	266	21	12	750	1,049	12,880	1,632	2,328	17,889
Of which:									
Secured	163	21	12	750	946	11,000	291	25	12,262
Unsecured	103	–	–	–	103	1,880	1,341	2,303	5,627
	266	21	12	750	1,049	12,880	1,632	2,328	17,889

									31 December 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	387	25	–	–	412	4,278	–	–	4,690
Senior debt	–	–	–	–	–	1,111	2,064	–	3,175
ACS	–	500	–	–	500	1,750	–	25	2,275
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	1,550	1,550
Total 31 December 2020	387	525	–	–	912	7,139	2,064	1,575	11,690
Of which:									
Secured	170	525	–	–	695	6,028	–	25	6,748
Unsecured	217	–	–	–	217	1,111	2,064	1,550	4,942
	387	525	–	–	912	7,139	2,064	1,575	11,690

[1]The maturity analysis has been prepared using the residual contractual maturity of the liabilities.

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 15% at 30 June 2021 (31 December 2020: 11%) with € 18,962 million of the Group's assets encumbered (31 December 2020: € 12,971 million). The movement in encumbered assets is due to an increase in secured funding following the Groups extended participation in the TLTRO operations. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

Risk management

Interest rate benchmark reform

Authorities and regulators are facilitating the market's transition from interbank offered rates, referred to as "IBOR" benchmark rates (e.g. LIBOR), to alternative Risk Free Rates (RFRs) by the end of 2021. While it is expected that most reforms affecting the Group will be completed by the end of 2021, consultations and possible regulatory changes are still in progress. For further details of the Group's Interest Rate Benchmark Reform Transition Programme and its activity see page 162 of the Annual Financial Report 2020.

During the six months to 30 June 2021, the Group made significant progress in the rollout of its communication strategy with impacted customers across all products and jurisdictions and a full suite of RFR products is now available. A robust plan is in place to transition all customers and to meet all regulatory milestones. Documentary processes have been updated to facilitate the move to RFR's across the business and, significantly, contract agreements are already in place with many customers which will enable a smooth transition to occur throughout the second half of 2021. The Group is well progressed, in its project to repaper wholesale derivative contracts, as evidenced by the reduction in GBP LIBOR volumes compared to the position at 31 December 2020. From a hedge accounting perspective, the transition has not had a material impact on hedge effectiveness given the high correlation between Sonia and short-dated LIBOR tenors.

The following table sets out the significant exposures impacted by interest rate benchmark reform by balance sheet account, which have yet to transition, as at 30 June 2021:

	GBP LIBOR € m	USD LIBOR € m	Total € m
Non-derivative financial assets			
Loans and advances to customers at amortised cost	6,302	2,431	8,733
Investment securities			
Debt securities at FVOCI	187	412	599
Debt securities at amortised cost	–	288	288
Non-derivative financial assets	6,489	3,131	9,620

	GBP LIBOR € m	USD LIBOR € m	Total € m
Non-derivative financial liabilities			
Customer accounts	26	–	26
Non-derivative financial liabilities	26	–	26

	GBP LIBOR € m	USD LIBOR € m	Total € m
Derivative notional contract amount			
Interest rate derivatives – OTC	4,788	561	5,349
Interest rate derivatives – OTC – central clearing	6,954	2,399	9,353
Non-derivative financial assets	11,742	2,960	14,702

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 2021

	Notes	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Interest income calculated using the effective interest method	3	970	1,060
Other interest income and similar income	3	40	38
Interest and similar income	3	1,010	1,098
Interest and similar expense	4	(129)	(131)
Net interest income		881	967
Dividend income	5	1	25
Fee and commission income	6	289	276
Fee and commission expense	6	(77)	(84)
Net trading income/(loss)	7	9	(40)
Net gain on other financial assets measured at FVTPL	8	70	43
Net loss on derecognition of financial assets measured at amortised cost		(8)	(1)
Other operating income	9	6	1
Other income		290	220
Total operating income		1,171	1,187
Operating expenses	10	(808)	(749)
Impairment and amortisation of intangible assets		(95)	(88)
Impairment and depreciation of property, plant and equipment		(86)	(48)
Total operating expenses		(989)	(885)
Operating profit before impairment losses		182	302
Net credit impairment writeback/(charge)	11	103	(1,216)
Operating profit/(loss)		285	(914)
Associated undertakings	22	6	5
Profit/(loss) before taxation		291	(909)
Income tax (charge)/credit	12	(17)	209
Profit/(loss) for the period		274	(700)
Attributable to:			
– Equity holders of the parent		275	(718)
– Non-controlling interests	35	(1)	18
Profit/(loss) for the period		274	(700)
Earnings per share			
Basic earnings/(loss) per ordinary share	13(a)	8.9c	(27.0)c
Diluted earnings/(loss) per ordinary share	13(b)	8.9c	(27.0)c

Condensed consolidated statement of comprehensive income *(unaudited)*

for the half-year ended 30 June 2021

	Notes	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Profit/(loss) for the period		**274**	(700)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gain in retirement benefit schemes, net of tax	12	**6**	–
Net change in fair value of equity investments at FVOCI, net of tax	12	**–**	(18)
Total items that will not be reclassified subsequently to profit or loss		**6**	(18)
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Net change in foreign currency translation reserves	12	**60**	(86)
Net change in cash flow hedges, net of tax	12	**(206)**	104
Net change in fair value of investment debt securities at FVOCI, net of tax	12	**(45)**	(140)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(191)**	(122)
Other comprehensive income for the period, net of tax		**(185)**	(140)
Total comprehensive income for the period		**89**	(840)
Attributable to:			
– Equity holders of the parent		**90**	(858)
– Non-controlling interests		**(1)**	18
Total comprehensive income for the period		**89**	(840)

Condensed consolidated statement of financial position *(unaudited)*

as at 30 June 2021

	Notes	30 June 2021 € m	31 December 2020 € m
Assets			
Cash and balances at central banks	40	39,008	25,550
Items in course of collection		61	43
Disposal groups and non-current assets held for sale	15	12	14
Derivative financial instruments	16	1,013	1,424
Loans and advances to banks	17	4,022	1,799
Loans and advances to customers	18	56,612	56,945
Securities borrowing – customers	19	760	–
Investment securities	21	16,528	19,479
Interests in associated undertakings	22	107	98
Intangible assets and goodwill		929	937
Property, plant and equipment		643	725
Other assets	23	110	235
Current taxation		38	57
Deferred tax assets	24	2,765	2,711
Prepayments and accrued income		250	339
Retirement benefit assets	25	30	29
Total assets		122,888	110,385
Liabilities			
Deposits by central banks and banks	26	10,590	4,690
Customer accounts	27	88,299	81,972
Derivative financial instruments	16	1,048	1,201
Debt securities in issue	28	5,746	5,450
Lease liabilities	29	357	382
Current taxation		5	1
Deferred tax liabilities	24	51	44
Retirement benefit liabilities	25	53	68
Other liabilities	30	978	955
Accruals and deferred income		248	255
Provisions for liabilities and commitments	31	483	396
Subordinated liabilities and other capital instruments	32	1,553	1,550
Total liabilities		109,411	96,964
Equity			
Share capital	33	1,696	1,696
Reserves		10,666	10,609
Total shareholders' equity		12,362	12,305
Other equity interests	34	1,115	1,115
Non-controlling interests	35	–	1
Total equity		13,477	13,421
Total liabilities and equity		122,888	110,385

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

for the half-year ended 30 June 2021

	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 2021	1,696	1,115	1,133	(3,622)	14	14	206	540	12,923	(599)	13,420	1	13,421
Total comprehensive income for the period													
Profit for the period	–	–	–	–	–	–	–	–	275	–	275	(1)	274
Other comprehensive income *(note 12)*	–	–	–	–	–	–	(45)	(206)	6	60	(185)	–	(185)
Total comprehensive income for the period	–	–	–	–	–	–	(45)	(206)	281	60	90	(1)	89
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group:													
Distributions paid to other equity interests *(note 14)*	–	–	–	–	–	–	–	–	(33)	–	(33)	–	(33)
Total contributions by and distributions to owners of the Group	–	–	–	–	–	–	–	–	(33)	–	(33)	–	(33)
At 30 June 2021	1,696	1,115	1,133	(3,622)	14	14	161	334	13,171	(539)	13,477	–	13,477

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 12)*	–	–	–	–	–	–	(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	–	–	–	–	–	–	–	–	(6)	–	(6)	(200)	(206)
Issue of Additional Tier 1 Securities	–	620	–	–	–	–	–	–	–	–	620	–	620
Distributions paid to other equity interests *(note 14)*	–	–	–	–	–	–	–	–	(13)	–	(13)	–	(13)
Distributions paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(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 financial year ended 31 December 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 year													
Loss for the year	–	–	–	–	–	–	–	–	(769)	–	(769)	28	(741)
Other comprehensive income	–	–	–	–	–	–	(73)	71	(38)	(70)	(110)	–	(110)
Total comprehensive income for the year	–	–	–	–	–	–	(73)	71	(807)	(70)	(879)	28	(851)
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group													
Non-controlling interests in subsidiary *(note 35)*	–	–	–	–	–	–	–	–	–	–	–	2	2
Redemption of capital instruments	–	–	–	–	–	–	–	–	(9)	–	(9)	(494)	(503)
Issue of Additional Tier 1 Securities *(note 34)*	–	619	–	–	–	–	–	–	–	–	619	–	619
Distributions paid to other equity interests	–	–	–	–	–	–	–	–	(46)	–	(46)	–	(46)
Distributions paid to non-controlling interests *(note 35)*	–	–	–	–	–	–	–	–	–	–	–	(30)	(30)
Total contributions by and distributions to owners of the Group	–	619	–	–	–	–	–	–	(55)	–	564	(522)	42
Realised gains on equity shares held at fair value through other comprehensive income	–	–	–	–	–	–	(344)	–	344	–	–	–	–
At 31 December 2020	1,696	1,115	1,133	(3,622)	14	14	206	540	12,923	(599)	13,420	1	13,421

Condensed consolidated statement of cash flows *(unaudited)*

for the half-year ended 30 June 2021

	Notes	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Cash flows from operating activities			
Profit/(loss) before taxation for the period		**291**	(909)
Adjustments for:			
– Non-cash and other items	41	**331**	1,378
– Change in operating assets	41	**(1,185)**	1,356
– Change in operating liabilities	41	**11,072**	4,036
– Taxation refund/(paid)		**9**	(33)
Net cash inflow from operating activities		**10,518**	5,828
Cash flows from investing activities			
Purchase of investment securities		**(1,367)**	(5,000)
Proceeds from sales, redemptions and maturity of investment securities		**4,302**	2,518
Additions to property, plant and equipment		**(6)**	(5)
Disposal of property, plant and equipment		**5**	7
Additions to intangible assets		**(85)**	(95)
Investments in associated undertakings	22	**(3)**	–
Net cash inflow/(outflow) from investing activities		**2,846**	(2,575)
Cash flows from financing activities			
Net proceeds on issue of Additional Tier 1 Securities	34	**–**	620
Redemption of capital instruments		**–**	(206)
Proceeds on issue of debt securities – MREL	28	**750**	–
Distributions paid to other equity interests	14	**(33)**	(13)
Distributions paid to non-controlling interests	35	**–**	(19)
Repayment of lease liabilities		**(20)**	(28)
Interest paid on debt securities – MREL		**(49)**	(53)
Interest paid on subordinated liabilities and other capital instruments		**(19)**	–
Net cash inflow from financing activities		**629**	301
Change in cash and cash equivalents		**13,993**	3,554
Opening cash and cash equivalents		**26,559**	12,923
Effect of exchange translation adjustments		**282**	(289)
Closing cash and cash equivalents	40	**40,834**	16,188

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 is 10 Molesworth Street, Dublin 2, 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 2021 comprise the parent company and its subsidiary undertakings, collectively referred to as 'AIB Group', and the Group's interests in associated undertakings.

The consolidated financial statements of the Group for the year ended 31 December 2020 ('the Annual Financial Report 2020') are available upon request from the Group Company Secretary or at www.aib.ie.

Going concern

The financial statements for the six months ended 30 June 2021 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. This includes capital forecasts and internally generated stress scenarios with additional scenarios to take account of the inorganic initiatives that the Group has committed to. The scenarios include the potential prolonged impacts of COVID-19 and Brexit. The period of assessment used by the Directors is twelve 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 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting.* These statements should be read in conjunction with the Annual Financial Report 2020, 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 changes in equity and the condensed consolidated statement of cash flows 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.

New and amended standards and interpretations

The accounting policies described on pages 234 to 260 in the Annual Financial Report 2020 have remained unchanged apart from the adoption of Interest Rate Benchmark Reform Phase 2 Amendments which are effective for annual periods beginning on or after 1 January 2021.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate ("IBOR") is replaced with an alternative nearly risk-free interest rate ('RFR'). The amendments include a number of practical expedients which were set out on page 260 of the Annual Financial Report 2020. These amendments had no material impact on the condensed consolidated interim financial statements of the Group.

For further details of Interest Rate Benchmark Reform see page 82.

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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The judgements 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 261 to 265 of the Annual Financial Report 2020 and while they remain appropriate, additional disclosures taking account of developments in the six months to 30 June 2021 are given as follows:

Note 31 'Provisions for liabilities and commitments' to the interim consolidated financial statements includes details of the additional provision of € 75 million relating to the ongoing review of investments in Belfry funds and the anticipated cost of redress and other related costs that may be payable.

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 continues to be relevant at 30 June 2021 given the changing nature of 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 42 to 44. Updated macroeconomic variables, used in models to calculate ECL allowance are set out on pages 37 to 40.

Prospective accounting changes

Information on prospective accounting changes is set out on page 260 of the Annual Financial Report 2020. 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 2021 are unaudited but have been reviewed by the independent auditor, Deloitte Ireland LLP, whose report is set out on page 132. The financial information presented herein does not amount to statutory financial statements within the meaning of the Companies Act 2014. 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 2020 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 did not include a reference to any matters to which the statutory auditor drew attention by way of emphasis. The 31 December 2020 financial statements are not annexed to these interim financial statements. The financial statements for the financial year ended 31 December 2020 have been filed in the Companies Registration Office. Deloitte Ireland LLP have not performed an audit of any information subsequent to 1 January 2020.

2 Segmental information

Segment overview

The Group's performance is managed and reported across the Retail Banking, Corporate, Institutional & Business Banking ("CIB"), AIB UK and Group segments. 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	CIB	AIB UK	Group	Total	Exceptional items[1]	Total
							Half-year 30 June 2021
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment							
Net interest income	519	212	105	45	881	–	881
Net fee and commission income*	156	37	20	(1)	212	–	212
Other	18	27	5	40	90	(12)[2]	78
Other income	174	64	25	39	302	(12)	290
Total operating income	693	276	130	84	1,183	(12)	1,171
Other operating expenses	(433)	(65)	(86)	(155)	(739)	(179)	(918)
Of which: Personnel expenses	*(194)*	*(46)*	*(47)*	*(73)*	*(360)*	*(4)*[3][4]	*(364)*
General and administrative expenses	*(150)*	*(14)*	*(28)*	*(47)*	*(239)*	*(134)*[4]-[7]	*(373)*
Depreciation, impairment and amortisation	*(89)*	*(5)*	*(11)*	*(35)*	*(140)*	*(41)*[5]	*(181)*
Bank levies and regulatory fees	(1)	–	–	(70)	(71)	–	(71)
Total operating expenses	(434)	(65)	(86)	(225)	(810)	(179)	(989)
Operating profit/(loss) before impairment losses	259	211	44	(141)	373	(191)	182
Net credit impairment writeback	55	39	9	–	103	–	103
Operating profit/(loss)	314	250	53	(141)	476	(191)	285
Associated undertakings	4	1	1	–	6	–	6
Profit/(loss) before taxation	318	251	54	(141)	482	(191)	291

[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]Loss on disposal of loan portfolios;
[3]Termination benefits;
[4]Restitution costs;
[5]Restructuring costs;
[6]Inorganic transaction costs; and
[7]Other.

For further information on these items see page 20.

*Analysis of net fee and commission income	Retail Banking	CIB	AIB UK	Group	Total
					Half-year 30 June 2021
	€ m	€ m	€ m	€ m	€ m
Retail banking customer fees	116	10	12	8	146
Foreign exchange fees	17	10	3	(1)	29
Credit related fees	5	13	8	–	26
Specialised payment services fees	65	–	–	–	65
Other fees and commissions	25	5	–	(7)[1]	23
Fee and commission income	228	38	23	–	289
Specialised payment services expenses	(58)	–	–	–	(58)
Other fee and commission expenses	(14)	(1)	(3)	(1)	(19)
Fee and commission expense	(72)	(1)	(3)	(1)	(77)
	156	37	20	(1)	212

[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 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 costs; 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.

2 Segmental information *(continued)*

Other amounts – statement of financial position

	30 June 2021				
	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Loans and advances to customers:					
– measured at amortised cost	33,189	14,493	8,655	19	56,356
– measured at FVTPL	–	256	–	–	256
Total loans and advances to customers	33,189	14,749	8,655	19	56,612
Customer accounts	61,194	13,386	12,262	1,457	88,299

	31 December 2020				
	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Loans and advances to customers:					
– measured at amortised cost	34,008	14,453	8,269	140	56,870
– measured at FVTPL	–	75	–	–	75
Total loans and advances to customers	34,008	14,528	8,269	140	56,945
Customer accounts	56,874	12,735	10,959	1,404	81,972

	Half-year 30 June 2021			
Geographic information[(1)(2)]	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	1,089	81	1	1,171
Inter-geographical segment revenue	(72)	69	3	–
Total revenue	1,017	150	4	1,171

	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

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 9).

	30 June 2021			
Geographic Information	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[(3)]	1,498	70	4	1,572

	31 December 2020			
Geographic Information	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[(3)]	1,587	71	4	1,662

[(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 2021 € m	Half-year 30 June 2020 € m
Interest on loans and advances to customers at amortised cost	883	966
Interest on securities borrowing – customers	–	–
Interest on loans and advances to banks at amortised cost	4	9
Interest on investment securities	33	72
	920	1,047
Negative interest on financial liabilities at amortised cost	50	13
Interest income calculated using the effective interest method	970	1,060
Interest income on finance leases and hire purchase contracts	37	37
Interest income on financial assets at FVTPL	3	1
Other interest income and similar income	40	38
Total interest and similar income	1,010	1,098

Interest income includes a credit of € 81 million (30 June 2020: a credit of € 63 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 2021 € m	Half-year 30 June 2020 € m
Interest on deposits by central banks and banks	–	3
Interest on customer accounts	27	48
Interest on debt securities in issue	27	39
Interest on lease liabilities	6	7
Interest on subordinated liabilities and other capital instruments	20	20
	80	117
Negative interest on financial assets at amortised cost	46	13
Negative interest on financial assets at FVOCI	3	1
Interest expense calculated using the effective interest method	129	131

Interest expense includes a charge of € 10 million (30 June 2020: a charge of € 13 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 2021 € m	Half-year 30 June 2020 € m
NAMA subordinated bonds at FVOCI	–	23
Equity investments at FVTPL	1	2
Total	1	25

6 Net fee and commission income

	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Retail banking customer fees	146	137
Foreign exchange fees	29	26
Credit related fees	26	21
Specialised payment services fees[1]	65	70
Other fees and commissions[2]	23	22
Fee and commission income	289	276
Specialised payment services expenses[1]	(58)	(63)
Other fee and commissions expenses[3]	(19)	(21)
Fee and commission expense	(77)	(84)
	212	192

[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 € 11 million (30 June 2020: € 8 million), insurance commissions € 6 million (30 June 2020: € 7 million) and other commissions € 6 million (30 June 2020: € 7 million).
[3]Other fee and commission expenses includes credit card commissions of € 14 million (30 June 2020: € 16 million), and ATM expenses of € 1 million (30 June 2020: € 1 million), both of which relate to 'Retail banking customer fees'. This also includes € 4 million (30 June 2020: € 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 income/(loss)

	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Foreign exchange contracts	(7)	(17)
Interest rate contracts and debt securities[1]	25	(14)
Credit derivative contracts	(2)	(2)
Equity investments, index contracts and warrants[2]	(7)	(7)
	9	(40)

[1]Includes a gain of € 17 million (30 June 2020: loss of € 19 million) in relation to XVA adjustments. (XVA comprises counterparty valuation adjustments ("CVA") and funding valuation adjustments ("FVA")).
[2]Includes a loss of € 7 million on a total return swap, which is hedging equities measured at FVTPL (30 June 2020: loss of € 6 million).

The total hedging ineffectiveness on cash flow hedges reflected in the condensed consolidated income statement amounted to Nil (30 June 2020: Nil).

8 Net gain on other financial assets measured at FVTPL

	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Loans and advances to customers[1]	17	21
Investment securities – equity[2]	53	22
Total	70	43

[1]Excludes interest income (note 3).
[2]Includes gain of € 29 million on equities hedged by a trading total return swap (30 June 2020: € 6 million).

Notes to the condensed consolidated interim financial statements

9 Other operating income

	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Gain on disposal of investment securities at FVOCI – debt	**18**	7
Loss on termination of hedging swaps[1]	**(11)**	(7)
Miscellaneous operating income	**(1)**	1
	6	1

[1]The majority of the loss on termination of hedging swaps relates to the disposal of debt securities at FVOCI. In the half-year to June 2020, it includes a charge of € 1 million transferred from other comprehensive income in respect of cash flow hedges.

10 Operating expenses

	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Personnel expenses:		
Wages and salaries	**292**	299
Termination benefits[1]	**2**	6
Retirement benefits[2]	**45**	45
Social security costs	**32**	33
Other personnel expenses[3]	**6**	10
	377	393
Less: staff costs capitalised[4]	**(13)**	(13)
Personnel expenses	**364**	380
General and administrative expenses	**248**	248
Restitution and associated costs	**125**[5]	58
	373	306
Bank levies and regulatory fees	**71**	63
Operating expenses	**808**	749

[1]Voluntary severance programme charge of € 2 million (30 June 2020: € 6 million).
[2]Comprises a defined contribution charge of € 39 million (30 June 2020: a charge of € 39 million), a charge of € 2 million in relation to defined benefit expense (30 June 2020: a charge of € 2 million), and a long term disability payments/death in service benefit charge of € 4 million (30 June 2020: 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]Relates primarily to the Belfry provisions (see note 31) and the associated costs related to the Tracker Mortgage Examination.

11 Net credit impairment writeback/(charge)

The following table analyses the income statement net credit impairment writeback/(charge) on financial instruments.

Credit impairment writeback/(charge) on financial instruments	Half-year 30 June 2021 Measured at amortised cost € m	Half-year 30 June 2021 Measured at FVOCI € m	Half-year 30 June 2021 Total € m	Half-year 30 June 2020 Measured at amortised cost € m	Half-year 30 June 2020 Measured at FVOCI € m	Half-year 30 June 2020 Total € m
Net re-measurement of ECL allowance						
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	70	–	70	(1,202)	–	(1,202)
Loan commitments	(2)	–	(2)	(37)	–	(37)
Financial guarantee contracts	(1)	–	(1)	(10)	–	(10)
Investment securities – debt	–	–	–	(1)	–	(1)
Credit impairment writeback/(charge)	67	–	67	(1,250)	–	(1,250)
Recoveries of amounts previously written-off	36	–	36	34	–	34
Net credit impairment writeback/(charge)	103	–	103	(1,216)	–	(1,216)

12 Taxation

	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
AIB Group plc and subsidiaries		
Corporation tax in Ireland		
Current tax on income for the period	(5)	–
Adjustments in respect of prior periods	2	61
	(3)	61
Foreign tax		
Current tax on income for the period	(14)	31
Adjustments in respect of prior periods	–	(1)
	(14)	30
	(17)	91
Deferred taxation		
Origination and reversal of temporary differences	(14)	(8)
Adjustments in respect of prior periods	2	21
Recognition of deferred tax assets in respect of current period losses	4	109
Increase/(reduction) in carrying value of deferred tax assets in respect of carried forward losses	8	(4)
	–	118
Total tax (charge)/credit for the period	(17)	209
Effective tax rate	5.8%	23.0%

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.

Increase/(reduction) in carrying value of deferred tax assets in respect of carried forward losses includes a credit of € 26 million in relation to the change in the UK corporation tax rate with effect from 1 April 2023.

During the half-year to 30 June 2020, 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

12 Taxation *(continued)*

Analysis of selected other comprehensive income

	Half-year 30 June 2021			Half-year 30 June 2020		
	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	6	–	6	–	–	–
Total	6	–	6	–	–	–
Foreign currency translation reserves						
Amounts reclassified from the foreign currency translation 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*	–	–	–	–	–	–
Recognised in other comprehensive income:						
– *Net (losses) on net investment hedges*	(69)	9	(60)	–	–	–
– *Exchange differences on translation of foreign operations*	120	–	120	(86)	–	(86)
Total	51	9	60	(86)	–	(86)
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*	(71)	9	(62)	(49)	6	(43)
Hedging (losses)/gains recognised in other comprehensive income	(165)	21	(144)	168	(21)	147
Total	(236)	30	(206)	119	(15)	104
Investment debt securities at FVOCI reserves						
Fair value (gains) transferred to income statement	(18)	2	(16)	(7)	1	(6)
Fair value (losses) recognised in other comprehensive income	(34)	5	(29)	(153)	19	(134)
Total	(52)	7	(45)	(160)	20	(140)
Investment equity securities measured at FVOCI reserves						
Fair value (losses) recognised in other comprehensive income	–	–	–	(21)	3	(18)
Total	–	–	–	(21)	3	(18)

13 Earnings per share

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

The diluted earnings/(loss) per share is based on the profit/(loss) 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 2021 € m**	Half-year 30 June 2020 € m
Profit/(loss) attributable to equity holders of the parent	**275**	(718)
Distributions on other equity interests *(note 14)*	**(33)**	(13)
Profit/(loss) attributable to ordinary shareholders of the parent	**242**	(731)
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	**2,714.4**	2,714.4
Earnings/(loss) per share – basic	**EUR 8.9c**	EUR (27.0)c

(b) Diluted	**Half-year 30 June 2021 € m**	Half-year 30 June 2020 € m
Profit/(loss) attributable to ordinary shareholders of the parent *(note 14 (a))*	**242**	(731)
	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
Earnings/(loss) per share – diluted	**EUR 8.9c**	EUR (27.0)c

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 38 in the Annual Financial Report 2020 for further details).

14 Distributions on equity shares and other equity interests

	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Ordinary shares – dividends paid	**–**	–
Other equity interests – distributions	**33**	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.

No final dividend on ordinary shares was paid in respect of the financial year ended 31 December 2020.

Distributions amounting to € 33 million (30 June 2020: € 13 million) were paid in the period on the Additional Tier 1 Securities issued by AIB Group plc.

Notes to the condensed consolidated interim financial statements

15 Disposal groups and non-current assets held for sale	30 June 2021 € m	31 December 2020 € m
Property and non-financial assets held for sale[1]	12	14
Total disposal groups and non-current assets held for sale	12	14

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

16 Derivative financial instruments

The following table presents the notional principal amount and the fair value of derivative financial instruments analysed by purpose.

	30 June 2021			31 December 2020		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives	11,307	455	(452)	11,013	579	(590)
Foreign exchange derivatives	9,267	43	(78)	7,848	70	(46)
Equity derivatives	185	–	(5)	49	–	(1)
Credit derivatives	125	–	(5)	350	1	(9)
Total derivatives held for trading	20,884	498	(540)	19,260	650	(646)
Derivatives held for hedging						
Derivatives designated as cash flow hedges	20,555	289	(163)	20,308	556	(114)
Derivatives designated as fair value hedges	18,825	226	(265)	19,109	218	(441)
Derivatives designated as net investment hedges	1,506	–	(80)	–	–	–
Total derivatives held for hedging	40,886	515	(508)	39,417	774	(555)
Total derivative financial instruments	61,770	1,013	(1,048)	58,677	1,424	(1,201)

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 2020.

During the period, the Group hedged the currency risk of its net investment in the first £ 1.3 billion of net assets in AIB Group (UK) p.l.c. using forward exchange contracts. The effective portion of the gains or losses on the revaluation of the forward contracts, due to exchange rate risk, is recorded in equity to offset any gains or losses on translation of the first £ 1.3 billion of net investments in AIB Group (UK) p.l.c. The ineffectiveness in this hedge was Nil in 2021.

For further details on the Group's derivative activity see note 20 in the Annual Financial Report 2020.

17 Loans and advances to banks

	30 June 2021 € m	31 December 2020 € m
At amortised cost		
Funds placed with central banks	382	378
Funds placed with other banks	3,640	1,421
	4,022	1,799
ECL allowance	–	–
Total loans and advances to banks	4,022	1,799
Amount include:		
Reverse repurchase agreements	1,518	194
Securities borrowings	1,371	513

Loans and advances to banks include cash collateral of € 532 million (31 December 2020: € 445 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties.

Under reverse repurchase agreements, the Group accepts collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 30 June 2021, the collateral received consisted of non-government securities with a fair value of € 1,517 million (31 December 2020: € 194 million), none of which had been resold or repledged. These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

Under securities borrowings, the Group accepts collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 30 June 2021, the collateral received consisted of non-government securities and equities with a fair value of € 1,369 million (31 December 2020: € 510 million), none of which had been resold or repledged. These transactions were conducted under terms that are usual and customary to standard securities borrowing agreements.

18 Loans and advances to customers

	30 June 2021 € m	31 December 2020 € m
Amortised cost		
Loans and advances to customers	56,827	57,684
Reverse repurchase agreements	5	104
Amounts receivable under finance leases and hire purchase contracts	1,615	1,592
	58,447	59,380
ECL allowance	(2,091)	(2,510)
	56,356	56,870
Mandatorily at fair value through profit or loss		
Loans and advances to customers	256	75
Total loans and advances to customers	56,612	56,945
Additional information:		
Amounts which are repayable on demand or at short notice	2,425	2,829
Amounts due from associated undertakings[1]	–	1

[1]Undrawn commitments amount to € 130 million and are for less than one year (31 December 2020: € 117 million).

Loans and advances to customers include cash collateral amounting to € 12 million (31 December 2020: € 14 million) placed with derivative counterparties.

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of € 6 million (31 December 2020: € 107 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.

Notes to the condensed consolidated interim financial statements

19 Securities borrowing – customers

	30 June 2021 € m	31 December 2020 € m
At end of period	**760**	–

During the period, the Group entered into securities borrowing transactions with counterparties who were not classified as banks for the first time. As a result, a new consolidated statement of financial position line item "Securities borrowing – customers" has been introduced. Previously, the only counterparties to securities borrowing transactions were banks and these transactions continue to be reported within "Loans and advances to banks".

Under securities borrowing with customers, the Group accepts collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 30 June 2021, the collateral received consisted of non-government securities and equities with a fair value of € 761 million, none of which had been resold or repledged. These transactions were conducted under terms that are usual and customary to standard securities borrowing agreements. They are classified as Stage 1 and have an ECL of Nil.

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 2021 € m	31 December 2020 € m
At 1 January	**2,511**	1,238
Exchange translation adjustments	**20**	(17)
Net re-measurement of ECL allowance – investment securities-debt	**–**	1
Net re-measurement of ECL allowance – banks	**–**	–
Net re-measurement of ECL allowance – customers	**(70)**	1,493
Changes in ECL allowance due to write-offs	**(52)**	(151)
Changes in ECL allowance due to disposals	**(317)**	(57)
Other	**–**	4
At end of period	**2,092**	2,511
Amounts include ECL allowance on:		
Investment securities – debt measured at amortised cost	**1**	1
Loans and advances to banks measured at amortised cost	**–**	–
Loans and advances to customers measured at amortised cost	**2,091**	2,510
	2,092	2,511

21 Investment securities

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

	30 June 2021 € m	31 December 2020 € m
Debt securities at FVOCI		
Irish Government securities[1]	3,557	5,421
Euro government securities	1,187	1,277
Non Euro government securities	108	95
Supranational banks and government agencies	1,128	1,180
Collateralised mortgage obligations	359	334
Other asset backed securities	77	85
Euro bank securities	3,934	5,173
Non Euro bank securities	1,545	1,620
Euro corporate securities	397	397
Non Euro corporate securities	102	93
Total debt securities at FVOCI	12,394	15,675
Debt securities at amortised cost		
Irish Government securities	2,407	2,294
Euro government securities	90	90
Non Euro government securities	55	55
Supranational banks and government agencies	208	208
Asset backed securities	888	727
Euro bank securities	87	87
Euro corporate securities	104	107
Non Euro corporate securities	36	35
Total debt securities at amortised cost	3,875	3,603
Equity securities		
Equity investments at FVTPL	259	201
Total equity securities	259	201
Total investment securities	16,528	19,479

[1]At 31 December 2020, this included € 1,804 million in Euro Commercial Paper issued by the Irish Government. This was Nil at 30 June 2021.

Debt securities at FVOCI include unrealised gross gains of € 398 million (31 December 2020: € 585 million) and unrealised gross losses of € 22 million (31 December 2020: € 1 million). Equity investments at FVTPL include unrealised gross gains of € 135 million (31 December 2020: € 84 million) and unrealised gross losses of € 5 million (31 December 2020: € 7 million).

Credit impairment losses recognised in the income statement for the period to 30 June 2021 amounted to Nil (2020: Nil).

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 2021 € m	Half-year 30 June 2020 € m
Share of results of associated undertakings[1]	6	5
	6	5

Share of net assets including goodwill	30 June 2021 € m	31 December 2020 € m
At 1 January	98	83
Investments in associated undertakings[2]	3	–
Income for the period	6	15
At end of period[3]	107	98
Of which listed on a recognised stock exchange	–	–

[1]Includes AIB Merchant Services € 8 million (30 June 2020: € 5 million).
[2]In 2021, this includes an investment amounting to € 3 million in Synch Payments d.a.c.
[3]Comprises the Group's investment in AIB Merchant Services, Fulfil Holdings Limited and Synch Payments d.a.c.

23 Other assets

	30 June 2021 € m	31 December 2020 € m
Fair value of hedged asset positions[1]	1	80
Other[2]	109	155
Total	110	235

[1]The fair value of the hedged asset positions only relates to when the hedged item is at amortised cost.
[2]Includes items in transit € 43 million (31 December 2020: € 34 million) and sundry debtors € 54 million (31 December 2020: € 84 million).

24 Deferred taxation

Analysis of movements in deferred taxation	30 June 2021 € m	31 December 2020 € m
At 1 January	2,667	2,557
Exchange translation and other adjustments	1	(3)
Deferred tax through other comprehensive income	46	12
Income statement *(note 12)*	–	101
At end of period	2,714	2,667
Analysed as to:		
Deferred tax assets	2,859	2,836
Deferred tax liabilities	(145)	(169)
	2,714	2,667
Represented on the statement of financial position:		
Deferred tax assets	2,765	2,711
Deferred tax liabilities	(51)	(44)
	2,714	2,667

At 30 June 2021, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,714 million (31 December 2020: € 2,667 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on 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 2021 of € 2,697 million (31 December 2020: € 2,646 million) are expected to be recovered after more than 12 months.

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.

Following changes announced in the UK budget, a resolution was subsequently passed that the UK Corporation Tax rate will increase from 19% to 25% from 1 April 2023. Accordingly, a corporation tax rate of 25% has been substantially enacted in the period and this change has resulted in an increase of the Group's UK deferred tax asset for unutilised losses by € 26 million.

For certain other subsidiaries and branches, the Group has concluded that it is more likely than not that there will be insufficient profits to support full recognition of deferred tax assets.

The Group has not recognised deferred tax assets in respect of: Irish tax on unused tax losses at 30 June 2021 of € 161 million (31 December 2020: € 161 million); overseas tax (UK and USA) on unused tax losses of € 3,368 million (31 December 2020: € 3,270 million); and foreign tax credits for Irish tax purposes of € 13 million (31 December 2020: € 12 million). Of these tax losses totalling € 3,529 million for which no deferred tax is recognised: € 34 million expires in 2033; € 24 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 2020: Nil).

Deferred tax recognised directly in equity amounted to Nil (31 December 2020: Nil).

Additional information on the basis of recognition of deferred tax assets on unused tax losses is included in note 2 'Critical accounting judgements and estimates' on pages 261 to 262 of the Annual Financial Report 2020.

Notes to the condensed consolidated interim financial statements

25 Retirement benefits

The Group's accounting policy for retirement benefit obligations is set out on pages 241 and 242 of the Annual Financial Report 2020.
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 2021 was € 39 million (30 June 2020: € 39 million).

Defined benefit schemes

The Group's net pension deficit as at 30 June 2021 was € 23 million (31 December 2020: € 39 million), comprising retirement benefit assets of € 30 million (31 December 2020: € 29 million) and retirement benefit liabilities of € 53 million (31 December 2020: € 68 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 2021 and the year ended 31 December 2020. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	30 June 2021 %	31 December 2020 %
Irish scheme		
Rate of increase of pensions in payment[(1)]	0.20	0.20
Discount rate	1.49	1.10
Inflation assumptions[(2)]	1.45	0.95
UK scheme		
Rate of increase of pensions in payment	3.20	2.90
Discount rate	1.90	1.40
Inflation assumptions (RPI)	3.20	2.90

[(1)] Having taken actuarial advice the Group adopted a rate of 0.2% (31 December 2020: 0.2%) for the long term assumption for future discretionary increases in pension in payment reflecting an assessment of the ability of the Trustee to grant future discretionary increases without funding from the Group.
[(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 30 in the Annual Financial Report 2020.

Contributions

There were no contributions made to the Irish Scheme for the six months to 30 June 2021. Contributions of £ 9.25 million were made to the UK Scheme, as a result of the revised funding arrangement implemented in December 2019. For further details on the agreed funding arrangement see note 30 in the Annual Financial Report 2020.

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. No deficit funding is required at this time as the Irish scheme meets the minimum funding standard. The next actuarial valuation of the Irish scheme as at 30 June 2021 is due to be completed by no later than 31 March 2022.
The most recent valuation of the UK scheme was carried out at 31 December 2017. The next actuarial valuation of the UK scheme as at 31 December 2020 is due to be completed by no later than 31 December 2021.

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 2021				31 December 2020			
	Defined benefit obligation € m	Fair value of scheme assets € m	Asset ceiling/ minimum funding[1] € m	Net defined benefit (liabilities) assets € m	Defined benefit obligation € m	Fair value of scheme assets € m	Asset ceiling/ minimum funding[1] € m	Net defined benefit (liabilities) assets € m
At 1 January	(6,226)	6,627	(440)	(39)	(5,904)	6,474	(591)	(21)
Included in profit or loss								
Past service cost	–	–	–	–	(1)	–	–	(1)
Interest (cost)/income	(36)	38	(2)	–	(90)	98	(8)	–
Administration costs	–	(2)	–	(2)	–	(4)	–	(4)
	(36)	36	(2)	(2)	(91)	94	(8)	(5)
Included in other comprehensive income								
Re-measurements gain/(loss):								
– Actuarial gain/(loss) arising from:								
– Experience adjustments	(7)	–	–	(7)	(11)	–	–	(11)
– Changes in demographic assumptions	–	–	–	–	3	–	–	3
– Changes in financial assumptions	259	–	–	259	(502)	–	–	(502)
– Return on scheme assets excluding interest income	–	49	–	49	–	301	–	301
– Asset ceiling/minimum funding adjustments	–	–	(295)	(295)	–	–	159	159
				6[2]				(50)[2]
Translation adjustment on non-euro schemes	(54)	55	–	1	64	(63)	–	1
	198	104	(295)	7	(446)	238	159	(49)
Other								
Contributions by employer	–	11	–	11	–	36	–	36
Benefits paid	110	(110)	–	–	215	(215)	–	–
	110	(99)	–	11	215	(179)	–	36
At end of period	(5,954)	6,668	(737)	(23)	(6,226)	6,627	(440)	(39)

	30 June 2021 € m	31 December 2020 € m
Recognised on the statement of financial position as:		
Retirement benefit assets		
UK scheme	27	26
Other schemes	3	3
Total retirement benefit assets	30	29
Retirement benefit liabilities		
Irish scheme	–	–
EBS scheme	(28)	(43)
Other schemes	(25)	(25)
Total retirement benefit liabilities	(53)	(68)
Net pension deficit	(23)	(39)

[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 € 6 million (31 December 2020: € 38 million), see page 100.

Notes to the condensed consolidated interim financial statements

26 Deposits by central banks and banks

	30 June 2021 € m	31 December 2020 € m
Central Banks		
Eurosystem refinancing operations	10,000	4,000
Borrowings – secured	303	278
– unsecured	–	–
	10,303	4,278
Banks		
Securities sold under agreements to repurchase	184	195
Other borrowings – unsecured	103	217
	287	412
	10,590	4,690
Amounts include:		
Due to associated undertakings	–	–

Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities and relates to Targeted Long Term Refinancing Operation III ("TLTRO III"). For further details on TLTRO see note 42.

Securities sold under agreements to repurchase are secured by Irish Government bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements. There were € 184 million repurchase agreements outstanding at 30 June 2021 (31 December 2020: € 195 million).

Deposits by central banks and banks include cash collateral at 30 June 2021 of € 89 million (31 December 2020: € 204 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 2021			31 December 2020		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	10,926	197	11,123	4,768	210	4,978
Of which:						
Government securities	6,430	183	6,613	2,473	192	2,665
Other securities[1]	4,496	14	4,510	2,295	18	2,313

[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.

27 Customer accounts

	30 June 2021 € m	31 December 2020 € m
Current accounts	**54,091**	49,013
Demand deposits	**24,656**	20,426
Time deposits	**9,527**	12,493
Securities sold under agreements to repurchase[1]	**–**	15
Other – non-controlling interests[2]	**25**	25
	88,299	81,972
Of which:		
Non-interest bearing current accounts	**39,821**	39,310
Interest bearing deposits, current accounts and short term borrowings	**48,478**	42,662
	88,299	81,972
Amounts include:		
Due to associated undertakings	**265**	277

[1]At 31 December 2020, the Group had pledged government investment securities with a fair value of € 16 million as collateral for these facilities. See note 42 in the Annual Financial Report 2020 for more information.
[2]Relates to long term loans from minority shareholders in Augmentum Limited, see note 35.

Customer accounts include cash collateral of € 78 million (31 December 2020: € 81 million) received from derivative counterparties in relation to net derivative positions (see note 42 in the Annual Financial Report 2020 for more information).

At 30 June 2021, the Group's five largest customer deposits amounted to 1% (31 December 2020: 1%) of total customer accounts.

28 Debt securities in issue

	30 June 2021 € m	31 December 2020 € m
Issued by AIB Group plc		
Euro Medium Term Note Programme	**2,500**	1,750
Global Medium Term Note Programme	**1,471**	1,425
	3,971	3,175
Issued by subsidiaries		
Euro Medium Term Note Programme	**–**	–
Bonds and other medium term notes	**1,775**	2,275
	1,775	2,275
	5,746	5,450

Analysis of movements in debt securities in issue

	30 June 2021 € m	31 December 2020 € m
At 1 January	**5,450**	6,831
Issued during the period	**750**	–
Matured	**(500)**	(1,250)
Exchange translation adjustments/other	**46**	(131)
At end of period	**5,746**	5,450

In May 2021, AIB Group plc issued € 750 million Senior Unsecured 0.50% Notes maturing on 17 November 2027. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 17 November each year, commencing on 17 November 2021 up to and including the maturity date.

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.

Notes to the condensed consolidated interim financial statements

29 Lease liabilities

	30 June 2021 € m	31 December 2020 € m
At end of period	**357**	382
Maturity analysis – contractual undiscounted cash flows:		
Not later than one year	**52**	53
Later than one year and not later than five years	**176**	182
Later than five years	**217**	240
Total undiscounted lease liabilities at end of period	**445**	475

30 Other liabilities

	30 June 2021 € m	31 December 2020 € m
Notes in circulation	**120**	145
Items in transit	**83**	81
Creditors	**34**	42
Fair value of hedged liability positions[1]	**102**	156
Other[2]	**639**	531
	978	955

[1]The fair value of the hedged liability positions only relates to when the hedged item is at amortised cost.
[2]Includes bank drafts € 279 million (31 December 2020: € 193 million), invoice discounting credit balances on customer accounts € 75 million (31 December 2020: € 96 million), items in course of collection € 19 million (31 December 2020: € 11 million) and the purchase of debt securities awaiting settlement € 53 million (31 December 2020: Nil).

31 Provisions for liabilities and commitments

30 June 2021

	Onerous contracts € m	Legal claims € m	ROU[1] commit-ments € m	Other provisions € m	ECLs on loan commit-ments € m	ECLs on financial guarantee contracts € m	Total € m
At 1 January 2021	**2**	**34**	**15**	**262**	**54**	**29**	**396**
Charged to income statement	**–**	**27**[2]	**–**	**79**[2]	**32**[3]	**8**[3]	**146**
Released to income statement	**–**	**(1)**[2]	**–**	**(9)**[2]	**(30)**[3]	**(7)**[3]	**(47)**
Provisions utilised	**–**	**(2)**	**–**	**(13)**	**–**	**–**	**(15)**
Exchange translation adjustments	**–**	**–**	**–**	**2**	**1**	**–**	**3**
At 30 June 2021	**2**	**58**	**15**	**321**	**57**	**30**	**483**[4]

31 December 2020

	Onerous contracts € m	Legal claims € m	ROU[1] commit-ments € m	Other provisions € m	ECLs on loan commit-ments € m	ECLs on financial guarantee contracts € m	Total € m
At 1 January 2020	10	37	15	399	19	23	503
Transfers in	–	(3)	–	3	–	–	–
Charged to income statement	–	6	–	93	46	14	159
Released to income statement	–	(3)	–	(16)	(11)	(7)	(37)
Provisions utilised	(8)	(3)	–	(216)	–	–	(227)
Exchange translation adjustments	–	–	–	(1)	–	(1)	(2)
At 31 December 2020	2	34	15	262	54	29	396[4]

[1]Provisions for dilapidations included in measurement of right-of-use assets ('ROU').
[2]Included in 'General and administrative expenses' in note 10 'Operating expenses'.
[3]Included in 'Net credit impairment writeback/(charge)' (note 11).
[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 € 343 million (31 December 2020: € 228 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

Note 36 in the Annual Financial Report 2020 sets out the background in relation to the FSPO Decision and Tracker Mortgage Examination related provisions.

FSPO Decision:

The Group continues to engage with certain stakeholders and there remains a number of related issues that have yet to be resolved, including tax liabilities arising that the Group will be required to discharge on behalf of impacted customers. The level of provision required for these other costs has been assessed at € 80 million (31 December 2020: € 80 million).

These issues are subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of such issues.

Tracker Mortgage Examination:

In respect of customer redress and compensation a provision of € 6 million is held at 30 June 2021 (31 December 2020: € 8 million) for the ongoing appeals process and any individual impacted accounts which may be identified under the Tracker Mortgage Examination.

The provision at 30 June 2021 for 'Other costs' amounted to € 8 million (31 December 2020: € 8 million).

The Group has retained the provision of € 70 million, as at 30 June 2021, for the impact of monetary penalties that is expected to be imposed on the Group by the CBI following the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. While it remains the Group's best estimate, it 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.

UK restructuring provision

A provision for restructuring costs in relation to the implementation of the revised strategy in the UK of € 28 million is held at 30 June 2021 (31 December 2020: € 28 million), primarily relating to the expected costs of termination benefits for staff impacted by the reorganisation.

(b) Belfry related provisions – legal claims/other provisions

During the period 2002 to 2006 the Group sold a series of investment property funds, known as Belfry, to c. 2,500 individual investors (c. £ 214 million invested). Following losses in those funds, c. 270 investors (who had invested c. £ 30 million) served claims against the Group which had been ongoing in the Courts since 2015. On 8 July 2021 the Group agreed to settle those claims. As a result, as at 30 June 2021, provisions were recorded under "legal claims" amounting to € 25 million, including amounts for all legal and settlement costs associated with these claims.

The Group has instigated a programme, which is ongoing, to review all investments in the Belfry funds on a case by case basis and to determine if redress may be due in certain instances. Based on an initial assessment, the Group has recorded an additional provision of € 75 million under "other provisions" above for the anticipated cost of redress and other related costs that may be payable under this programme.

Given that the principles and approach to the programme have yet to be established, the anticipated cost of redress and other related costs is subject to uncertainty, with a range of possible outcomes, with the final outcome being higher or lower depending on finalisation of such issues.

(c) ECLs on loan commitments and financial guarantee contracts

The ECL allowance on loan commitments and financial guarantee contracts are presented as a provision in the balance sheet (i.e. as a liability under IFRS 9) and separate from the ECL allowance on financial assets.

For details of the internal credit ratings and geographic concentration of contingent liabilities and commitments, see pages 64 and 74 in the 'Risk management' section of this report.

Notes to the condensed consolidated interim financial statements

32 Subordinated liabilities and other capital instruments

	30 June 2021 € m	31 December 2020 € 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
€ 1 billion Subordinated Tier 2 Notes due 2031, Callable 2026	**1,000**	1,000
Issued by subsidiaries		
€ 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)	**11**	11
£ 368m 12.5% Subordinated Notes due June 2019		
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	**41**	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
	53	50
	1,553	1,550

Maturity of dated loan capital	30 June 2021 € m	31 December 2020 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**1,553**	1,550

For further details of subordinated liabilities and other capital instruments, see note 37 in the Annual Financial Report 2020.

33 Share capital

	30 June 2021		31 December 2020	
	Number of shares m	€ m	Number of shares m	€ m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each	**4,000.0**	**2,500**	4,000.0	2,500
Issued 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 38 in the Annual Financial Report 2020.

Movements in share capital

There were no movements in issued share capital for the half-year to 30 June 2021. For details of movements in share capital for the year to 31 December 2020, refer to note 38 in the Annual Financial Report 2020.

Structure of the Company's share capital

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

	30 June 2021		31 December 2020	
	Authorised share capital %	Issued share capital %	Authorised share capital %	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 2021 € m	31 December 2020 € m
Equity	**13,477**	13,421
Dated capital notes *(note 32)*	**1,553**	1,550
Total capital resources	**15,030**	14,971

34 Other equity interests

	30 June 2021 € m	31 December 2020 € m
Issued by AIB Group plc		
€ 500 million Additional Tier 1 Perpetual Contingent Temporary Write Down Securities issued 2019	**496**	496
€ 625 million Additional Tier 1 Perpetual Contingent Temporary Write Down Securities issued 2020	**619**	619
Total	**1,115**	1,115

Other equity interests are included in the Group's capital base.

For details of these securities, see note 39 in the Annual Financial Report 2020.

Notes to the condensed consolidated interim financial statements

35 Non-controlling interests in subsidiaries

	30 June 2021 € m	31 December 2020 € m
At 1 January	1	495
Additions	–	2
Non-controlling interests share of net (loss)/profit	(1)	28
Redemption of Additional Tier 1 Securities issued by subsidiary	–	(494)
Distributions paid on Additional Tier 1 Securities issued by subsidiary	–	(30)
At end of period	–	1
Of which:		
Equity interests in subsidiary	–	1

Non-controlling interests in subsidiary undertaking

Augmentum Limited 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. During 2020, additional equity was contributed by the shareholders in Augmentum.

Semeral/Payzone place of business: 4 Heather Road, Sandyford Industrial Estate, Dublin 18.

36 Capital reserves, merger reserve and capital redemption reserves

	30 June 2021			31 December 2020		
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 2021 € m	31 December 2020 € m
At beginning and end of period	(3,622)	(3,622)

Capital redemption reserve	30 June 2021 € m	31 December 2020 € m
At beginning and end of period	14	14

37 Contingent liabilities and commitments

The following table gives the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	30 June 2021 € m	31 December 2020 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	649	631
Other contingent liabilities	52	91
	701	722
Commitments[2]		
Documentary credits and short term trade-related transactions	125	92
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	8,895	8,537
1 year and over[4]	4,306	3,875
	13,326	12,504
	14,027	13,226

[1]Contingent liabilities are off-balance sheet products and include guarantees, irrevocable 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 credit ratings and geographic concentration of contingent liabilities and commitments, see pages 64 and 74 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.

Notes to the condensed consolidated interim financial statements

37 Contingent liabilities and commitments *(continued)*

Chargeback risk

Note 43 to the Annual Financial Report 2020 sets out the background where in the unlikely event that First Merchant Processing (Ireland) dac ("FMPI"), a company that AIB Group has an indirect 49.9% interest, is unable to meet its obligations arising from chargeback risk, the exposure reverts to AIB Group (Allied Irish Banks p.l.c. and AIB Group (UK) p.l.c.) as the principal members of the card schemes for FMPI.

The gross exposure[(1)] to chargeback risk has not significantly reduced at 30 June 2021 from the € 4 billion exposure at 31 December 2020. FMPI management and Board of Directors continue to regularly monitor and assess the potential exposure arising from chargebacks and are of the view that FMPI has not needed to make any material provisions for this potential chargeback risk exposure as at 30 June 2021.

[(1)]Includes certain indirect exposures that initially reside with wholesale independent sales organisations.

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 forms of SPE utilised by the Group are securitisations and employee compensation trusts. Further details of SPEs are set out in note 45 in the Annual Financial Report 2020.

In addition, the Group enters into repurchase agreements and securities borrowing and lending transactions in the normal course of business. Further details are set out in note 45 in the Annual Financial Report 2020.

39 Fair value of financial instruments

					30 June 2021
	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	970	–	574	396	970
Exchange rate derivatives	43	–	43	–	43
Loans and advances to customers at FVTPL	256	–	–	256	256
Investment debt securities at FVOCI:					
Government securities	4,852	4,852	–	–	4,852
Supranational banks and government agencies	1,128	1,128	–	–	1,128
Asset backed securities	436	368	68	–	436
Bank securities	5,479	5,479	–	–	5,479
Corporate securities	499	499	–	–	499
Equity investments at FVTPL	259	25	–	234	259
	13,922	12,351	685	886	13,922
Financial assets not measured at fair value					
Cash and balances at central banks	39,008	547[1]	38,461	–	39,008
Items in the course of collection	61	–	–	61	61
Loans and advances to banks	4,022	–	382	3,640	4,022
Loans and advances to customers:					
Mortgages[2]	29,189	–	–	29,228	29,228
Non-mortgages	27,167	–	–	27,267	27,267
Total loans and advances to customers	56,356	–	–	56,495	56,495
Securities borrowing – customers	760	–	–	760	760
Investment debt securities measured at amortised cost	3,875	2,981	–	943	3,924
Other financial assets	275	–	–	275	275
	104,357	3,528	38,843	62,174	104,545
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	880	–	790	90	880
Exchange rate derivatives	158	–	158	–	158
Equity derivatives	5	–	5	–	5
Credit derivatives	5	–	5	–	5
	1,048	–	958	90	1,048
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	103	–	–	103	103
Secured borrowings	10,487	–	10,303	184	10,487
Customer accounts:					
Current accounts	54,091	–	–	54,091	54,091
Demand deposits	24,656	–	–	24,656	24,656
Time deposits	9,552	–	–	9,581	9,581
Debt securities in issue	5,746	5,954	–	35	5,989
Subordinated liabilities and other capital instruments	1,553	1,638	–	15	1,653
Other financial liabilities	1,036	–	–	1,036	1,036
	107,224	7,592	10,303	89,701	107,596

[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)*

					31 December 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	1,353	–	864	489	1,353
Exchange rate derivatives	70	–	70	–	70
Credit derivatives	1	–	1	–	1
Loans and advances to customers at FVTPL	75	–	–	75	75
Investment debt securities at FVOCI:					
Government securities	6,793	6,793	–	–	6,793
Supranational banks and government agencies	1,180	1,180	–	–	1,180
Asset backed securities	419	344	75	–	419
Bank securities	6,793	6,793	–	–	6,793
Corporate securities	490	490	–	–	490
Equity investments at FVOCI	–	–	–	–	–
Equity investments at FVTPL	201	24	–	177	201
	17,375	15,624	1,010	741	17,375
Financial assets not measured at fair value					
Cash and balances at central banks	25,550	618[1]	24,932	–	25,550
Items in the course of collection	43	–	–	43	43
Loans and advances to banks	1,799	–	378	1,421	1,799
Loans and advances to customers:					
Mortgages[2]	29,901	–	–	30,459	30,459
Non-mortgages	26,969	–	–	27,087	27,087
Total loans and advances to customers	56,870	–	–	57,546	57,546
Investment debt securities measured at amortised cost	3,603	2,973	–	796	3,769
Other financial assets	365	–	–	365	365
	88,230	3,591	25,310	60,171	89,072
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	1,145	–	1,065	80	1,145
Exchange rate derivatives	46	–	46	–	46
Equity derivatives	1	–	1	–	1
Credit derivatives	9	–	9	–	9
	1,201	–	1,121	80	1,201
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	217	–	–	217	217
Secured borrowings	4,473	–	4,278	195	4,473
Customer accounts:					
Current accounts	49,013	–	–	49,013	49,013
Demand deposits	20,426	–	–	20,426	20,426
Time deposits	12,518	–	–	12,561	12,561
Securities sold under agreements to repurchase	15	–	–	15	15
Debt securities in issue	5,450	5,689	36	–	5,725
Subordinated liabilities and other capital instruments	1,550	1,571	68	–	1,639
Other financial liabilities	970	–	–	970	970
	94,632	7,260	4,382	83,397	95,039

(1)Comprises cash on hand.

(2)Includes residential and commercial mortgages.

39 Fair value of financial instruments *(continued)*

Details of the methodologies used for calculating fair value and the definition of terms are set out in note 47 in the Annual Financial Report 2020.

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 2021							
	Financial assets						Financial liabilities	
	Derivatives	Investment securities: Debt	Investment securities: Equities at FVOCI	Loans and advances at FVTPL	Equities at FVTPL	Total	Derivatives	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2021	489	–	–	75	177	741	80	80
Transfers into/out of level 3[(1)]	–	–	–	–	–	–	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	(93)	–	–	–	–	(93)	10	10
Net change in FVTPL	–	–	–	17	51	68	–	–
	(93)	–	–	17	51	(25)	10	10
Other comprehensive income:								
Net change in fair value of investment securities	–	–	–	–	–	–	–	–
Net change in fair value of cash flow hedges	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
Purchases/additions	–	–	–	181[(2)]	19	200	–	–
Sales/disposals/redemptions	–	–	–	(1)	(13)	(14)	–	–
Cash received:								
Principal	–	–	–	(16)	–	(16)	–	–
At 30 June 2021	396	–	–	256	234	886	90	90

[(1)]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.
[(2)]Relates to the reclassification of loans previously held at amortised cost following a restructure.

Notes to the condensed consolidated interim financial statements

39 Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy *(continued)*

	31 December 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	42	–	–	–	–	42	(27)	(27)
Net change in FVTPL	–	–	–	41	29	70	–	–
	42	–	–	41	29	112	(27)	(27)
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	–	–	–	–	30	30	–	–
Sales/disposals	–	–	(437)	–	(193)	(630)	–	–
Cash received:								
Principal	–	–	–	(43)	–	(43)	–	–
At 31 December 2020	489	–	–	75	177	741	80	80

[(1)]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

The table below sets out the amount of the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to assets and liabilities categorised as Level 3 in the fair value hierarchy held at 30 June 2021 and 31 December 2020:

	30 June 2021 € m	31 December 2020 € m
Net trading income – (losses)/gains	**(103)**	89
Gains on equity investments at FVTPL	**51**	23
Gains on loans and advances at FVTPL	**–**	–
	(52)	112

39 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair value				Range of estimates	
Financial instrument		30 June 2021 € m	31 December 2020 € m	Valuation technique	Significant unobservable input	30 June 2021	31 December 2020
Uncollateralised customer derivatives	Asset	**396**	489	CVA	LGD	**40% – 61% (Base 53%)**	58% – 74% (Base 68%)
	Liability	**90**	80				
					PD	**0.5% – 2.6% (Base 1.2%, 1 year PD)**	0.4% – 1.9% (Base 0.9%, 1 year PD)
				FVA	Funding spreads	**(0.2%) to 0.2%**	(0.2%) to 0.3%
Visa Inc. Series B Preferred Stock	Asset	**60**	31	Quoted market price (to which a discount has been applied)	Final conversion rate	**0% – 90%**	0% – 90%
Loans and advances to customers measured at FVTPL	Asset	**256**	75	Discounted cash flows*	Discount on market value	**(1%) to 4%**	(1)% – 5%
				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 2021 ranges from (i) negative € 25 million to positive € 11 million for CVA (31 December 2020: negative € 38 million to positive € 19 million) and (ii) negative € 3 million to positive € 2 million for FVA (31 December 2020: negative € 7 million to positive € 3 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.

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. over time, with the first partial conversion having occurred in 2020. The remaining 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 reduction has been applied for the litigation risk. 64% haircut (31 December 2020: 80%). This was converted at the period 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) 90% 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 € 3 million to positive € 11 million at 30 June 2021 (31 December 2020: negative € 1 million to positive € 4 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.

Notes to the condensed consolidated interim financial statements

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 2021
	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	13	(27)	–	–
Investment securities – equity	41[(1)]	(43)[(1)]	–	–
Loans and advances to customers measured at FVTPL	11	(3)	–	–
Total	65	(73)	–	–
Classes of financial liabilities				
Derivative financial liabilities	–	(1)	–	–
Total	–	(1)	–	–

				31 December 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	20	(43)	–	–
Investment securities – equity	46[(1)]	(15)[(1)]	–	–
Loans and advances to customers measured at FVTPL	4	(1)	–	–
Total	70	(59)	–	–
Classes of financial liabilities				
Derivative financial liabilities	2	(2)	–	–
Total	2	(2)	–	–

[(1)]Relates to a significant equity investment, the carrying value of which was € 60 million at 30 June 2021 (31 December 2020: € 31 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.

40 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	30 June 2021 € m	30 June 2020 € m
Cash and balances at central banks	39,008	14,666
Loans and advances to banks[1][2]	1,826	1,522
Total	40,834	16,188

[1] Included in 'Loans and advances to banks' total of € 4,022 million (30 June 2020: € 1,970 million) set out in note 17.
[2] Includes € 4 million relating to restricted balances held in trust in respect of certain payables which are included in 'Other liabilities' (note 30).

Cash and balances at central banks (net of ECL allowance of Nil) comprise:

	30 June 2021 € m	30 June 2020 € m	31 December 2020 € m
Central Bank of Ireland	31,891	9,608	19,256
Bank of England	6,402	4,360	5,522
Federal Reserve Bank of New York	168	155	154
Other (cash on hand)	547	543	618
Total	39,008	14,666	25,550

The Group is required to hold minimum reserve balances with the Central Bank of Ireland. For details see page 128.

The Group is also required by law to maintain reserve balances with the Bank of England. At 30 June 2021, these amounted to € 382 million (30 June 2020: € 391 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 Statement of cash flows

Non-cash and other items included in profit/(loss) before taxation

Non-cash items	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Net loss on derecognition of financial assets measured at amortised cost	8	1
Dividends received from equity investments	(1)	(25)
Associated undertakings	(6)	(5)
Net credit impairment (writeback)/charge	(67)	1,250
Change in other provisions	96	21
Retirement benefits – defined benefit expense	2	2
Depreciation, amortisation and impairment	181	136
Interest on subordinated liabilities and other capital instruments	20	20
Interest on debt securities – MREL	47	50
Gain on disposal of investment securities	(18)	(7)
Loss on termination of hedging swaps	11	7
Amortisation of premiums and discounts	32	32
Net gain on equity investments at FVTPL	(53)	(22)
Change in prepayments and accrued income	90	51
Change in accruals and deferred income	(6)	(68)
Effect of exchange translation and other adjustments[1]	5	(64)
Total non-cash items	341	1,379
Contributions to defined benefit pension schemes	(11)	(26)
Dividends received on equity investments	1	25
Total other items	(10)	(1)
Non-cash and other items for the period	331	1,378

Change in operating assets[1]	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Change in items in course of collection	(18)	7
Change in derivative financial instruments	7	(41)
Change in loans and advances to banks	(1,378)	51
Change in loans and advances to customers	917	813
Change in securities borrowing – customers	(760)	–
Change in other assets	47	526
	(1,185)	1,356

Change in operating liabilities[1]	Half-year 30 June 2021 € m	Half-year 30 June 2020 € m
Change in deposits by central banks and banks	5,884	17
Change in customer accounts	5,692	4,636
Change in debt securities in issue	(500)	(500)
Change in notes in circulation	(25)	(39)
Change in other liabilities	21	(78)
	11,072	4,036

[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.

42 Related party transactions

Other than as outlined below, there have been no related party transactions or changes therein since 31 December 2020 that have materially affected the Group's financial position or performance in the six months ended 30 June 2021.

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 2021, 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 € 1.50 million (31 December 2020: € 1.56 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.

Relationship with the Irish Government

AIB's relationship with the Irish Government is set out in note 50(g) in the Annual Financial Report 2020. As detailed, this relationship encompasses a number of dimensions, namely:

- Capital investments;
- Guarantee schemes;
- NAMA;
- Funding support; and
- Relationship framework.

There were no significant changes to the various aspects of the relationship in the six months to 30 June 2021 other than an additional drawdown of € 6 billion of TLTRO III funding.

Notes to the condensed consolidated interim financial statements

42 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 2021		31 December 2020	
		Balance € m	Highest[2] balance held € m	Balance € m	Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	**31,891**	**32,324**	19,256	20,791
Derivative financial instruments		**–**	**–**	–	3
Loans and advances to customers		**1**	**1**	1	6
Investment securities	b	**5,964**	**7,745**	7,715	8,263
Total assets		**37,856**		26,972	

		30 June 2021		31 December 2020	
		Balance € m	Highest[2] balance held € m	Balance € m	Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks	c	**10,000**	**10,000**	4,000	4,000
Customer accounts	d	**289**	**1,019**	293	1,094
Derivative financial instruments		**–**	**3**	2	5
Total liabilities		**10,289**		4,295	

[1]Includes all departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank ("POSB") and the National Treasury Management Agency ("NTMA") are included.

[2]The highest balance during the period, together with the outstanding balance at the period end, is considered the most meaningful way of representing the amount of transactions that have occurred between AIB and the Irish Government.

a Cash and balances at the central banks represent the placements which the Group holds with the Central Bank. The Group is required to maintain minimum reserve balances with the Central Bank which can fluctuate due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. While the monthly average Primary Liquidity balance required by the Group was € 768 million at 30 June 2021 (31 December 2020: € 718 million), the balances reported reflect excess liquidity in the Group during the period.

b Investment securities at 30 June 2021 comprise € 5,964 million in Irish Government securities held in the normal course of business. There was no Euro Commercial Paper at 30 June 2021. (31 December 2020: € 7,715 million with Euro Commercial Paper of € 1,804 million).

c This relates to funding received from the ECB through the Central Bank.

d Includes € 120 million (31 December 2020: € 130 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.

42 Related party transactions *(continued)*

Relationship with the Irish Government

Local government[1]

During 2021 and 2020, 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.

[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.

Commercial semi-state bodies[1]

During 2021 and 2020, 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 and clearing transactions.

[1]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 may include 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 2021 € m	31 December 2020 € m
Assets		
Investment securities	**85**	117

During the period the highest balance in 'deposits by central banks and banks' held by these financial institutions amounted to € 26 million. There were no balances held during the period in 'loans and advances to banks' and 'derivative financial instruments'.

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, 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.

Notes to the condensed consolidated interim financial statements

43 Financial and other information

	Half-year 30 June 2021 %	Half-year 30 June 2020 %
Operating ratios		
Operating expenses/operating income	**84.5**	74.6
Other income/operating income	**24.8**	18.5

Rates of exchange	**Half-year 30 June 2021**	Half-year 30 June 2020	Year 31 December 2020
€/$*			
Closing	**1.1884**	1.1198	1.2271
Average	**1.2054**	1.1017	1.1417
€/£*			
Closing	**0.8581**	0.9124	0.8990
Average	**0.8680**	0.8748	0.8897

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

44 Dividends

No final dividend on ordinary shares was paid in respect of the financial year ended 31 December 2020.

45 Proposed acquisitions

Ulster Bank loans

On 28 June 2021, the Group confirmed that Allied Irish Banks, p.l.c. had entered into a binding agreement with NatWest Holdings Limited and Ulster Bank Ireland DAC for the acquisition of performing Ulster Bank corporate and commercial loans. The transaction remains subject to regulatory approvals following which the Group intends to acquire the loan book on a phased basis over a period of twelve to eighteen months.

The Group will acquire the portfolio of c. € 4.2 billion for a total consideration of c. € 4.1 billion, however, the exact size of the portfolio and consideration payable will depend on movements in the portfolio up to completion.

Goodbody

The Group announced on 2 March 2021 that it had reached agreement to acquire Goodbody, a leading Irish provider of wealth management, corporate finance and capital markets services. Under the terms of the agreement the Group will acquire the entire share capital for total consideration, including contingent consideration, of € 138 million reflecting c. € 82 million enterprise value and c. € 56 million of excess cash.

The Transaction remains subject to regulatory approval.

46 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 30 June 2021.

47 Approval of Half-Yearly Financial Report

The Half-Yearly Financial Report was approved by the Board of Directors on 3 August 2021.

Statement of Directors' Responsibilities

for the half-year ended 30 June 2021

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 profit 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 condensed 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 Group 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 Group 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
Anik Chaumartin
Basil Geoghegan
Sandy Kinney Pritchard
Carolan Lennon (Senior Independent Director)
Elaine MacLean
Andy Maguire
Brendan McDonagh (Deputy Chair)
Helen Normoyle
Ann O'Brien
Fergal O'Dwyer
Ranjit (Raj) Singh

Executive Directors
Colin Hunt (Chief Executive Officer)
Donal Galvin (Chief Financial 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 2021 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 changes in equity, the condensed consolidated statement of cash flows and the related notes 1 to 47 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 'Basis of preparation, accounting policies and estimates', 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 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." 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 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 2021 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

3 August 2021

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 50 to 53 in the Annual Financial Report 2020 and updated on page 36 of this Half-Yearly Financial Report. In addition to matters relating to the Group’s business, future performance will be impacted by direct and indirect impacts of the COVID-19 pandemic and by Irish, UK and wider European and global economic and financial market considerations. Any forward looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 50 to 53 of the Annual Financial Report 2020 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
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