



AIB Group plc

# OUR STRATEGY 2023

Investor and Analyst Update  
*2 December 2020*



## Forward looking statement

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This document contains certain forward looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward looking statements include, among others, statements regarding the Group's future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward looking information. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These are set out in Principal risks on pages 40 to 43 in the Annual Financial Report 2019 and updated on pages 36 and 37 of this Half-Yearly Financial Report. In addition to matters relating to the Group's business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 40 to 43 of the Annual Financial Report 2019 is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward looking statement.

Figures presented may be subject to rounding.



# Agenda



## **Colin Hunt - CEO Update**

Strategic Update



## **Donal Galvin - CFO Update**

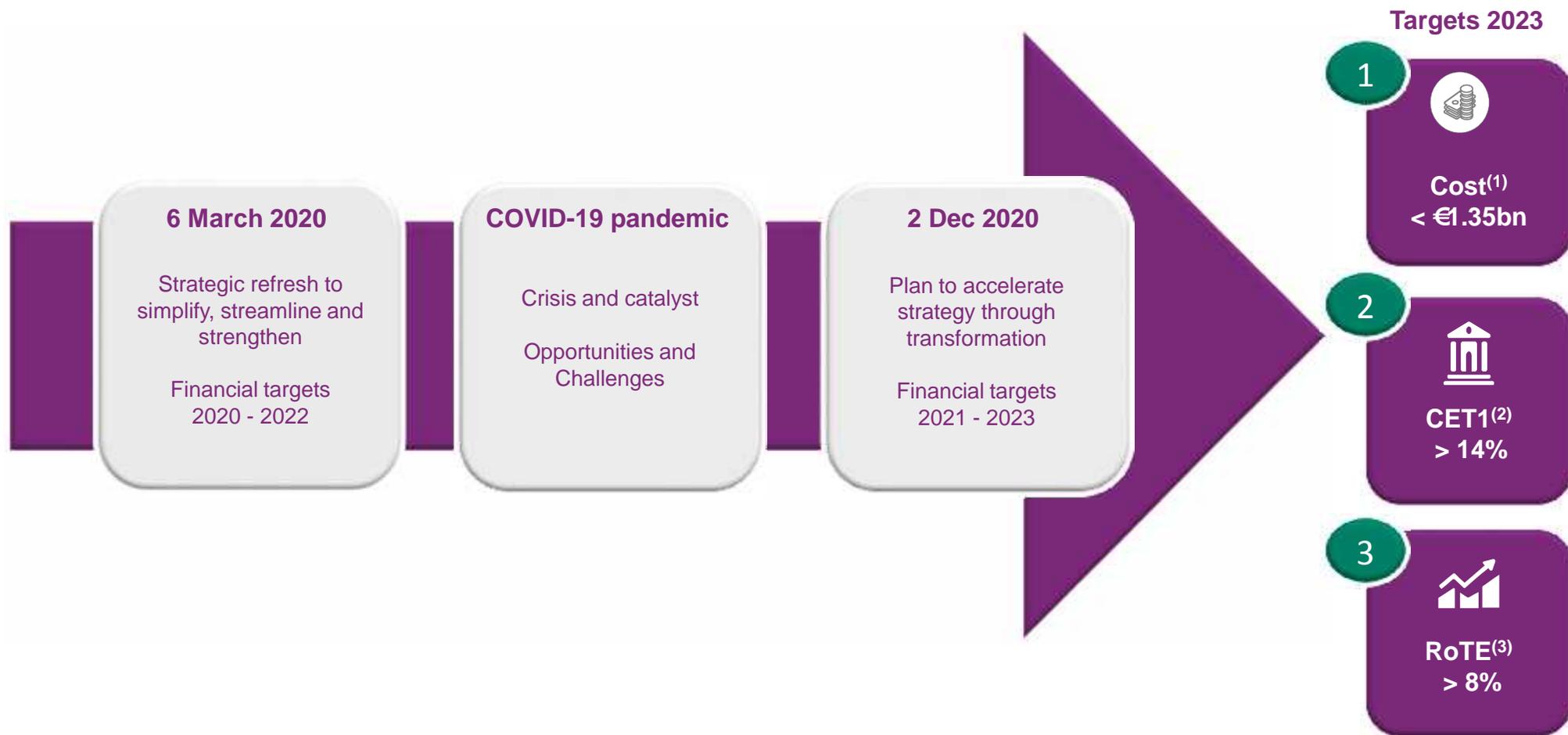
Financial Targets

1

# Strategic Update

**Colin Hunt**  
*Chief Executive Officer*

 **2020: Twin-track approach to crisis management and future planning**  
*COVID-19 pandemic has made radical change necessary and possible*



1) Costs before bank levies and regulatory fees and exceptional items  
 2) Fully loaded  
 3)  $RoTE = (PAT - AT1) / (CET1 @ 14\% \text{ of RWAs})$



## Prepared and well-positioned

*Sound fundamentals allow us address challenges and opportunities*

### Sound AIB fundamentals

- Leading market positions in attractive market
- Modern, resilient and flexible digital IT architecture; No1 Irish banking app
- Resilient balance sheet, focus on asset quality and strong funding and capital
- Sustainability leader

### Reflections on COVID-19 crisis

- Support to customers, communities and economy
- Proven operational resilience delivered with agility
- Secure, seamless transition of dedicated workforce to remote working environment

### Macro challenges

- Significantly changed operating environment
- Macroeconomy – domestic and global
- COVID-19 impact on asset quality, new lending and surplus liquidity
- Interest rate outlook

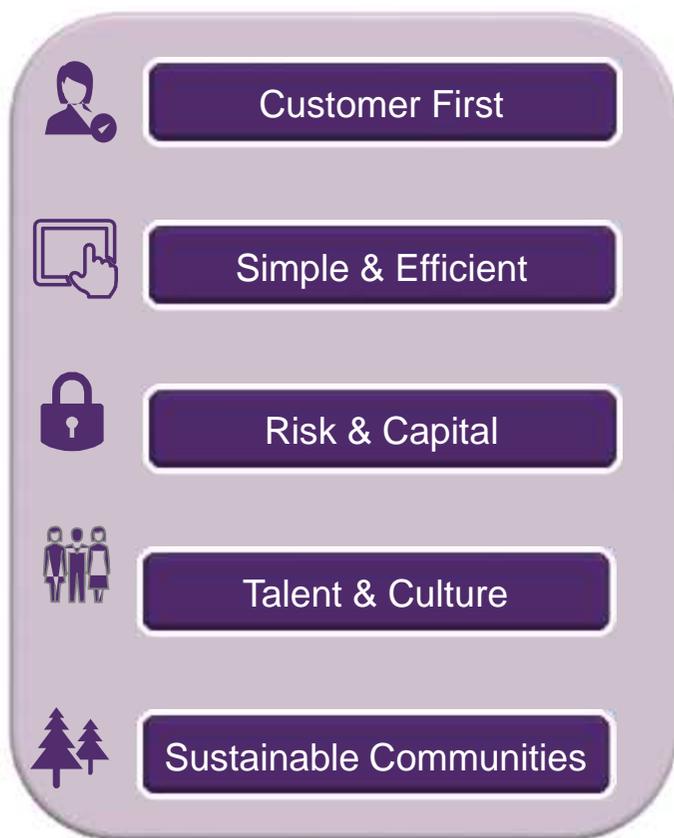
Strategic review complete  
Clear pathway to achieving medium-term targets



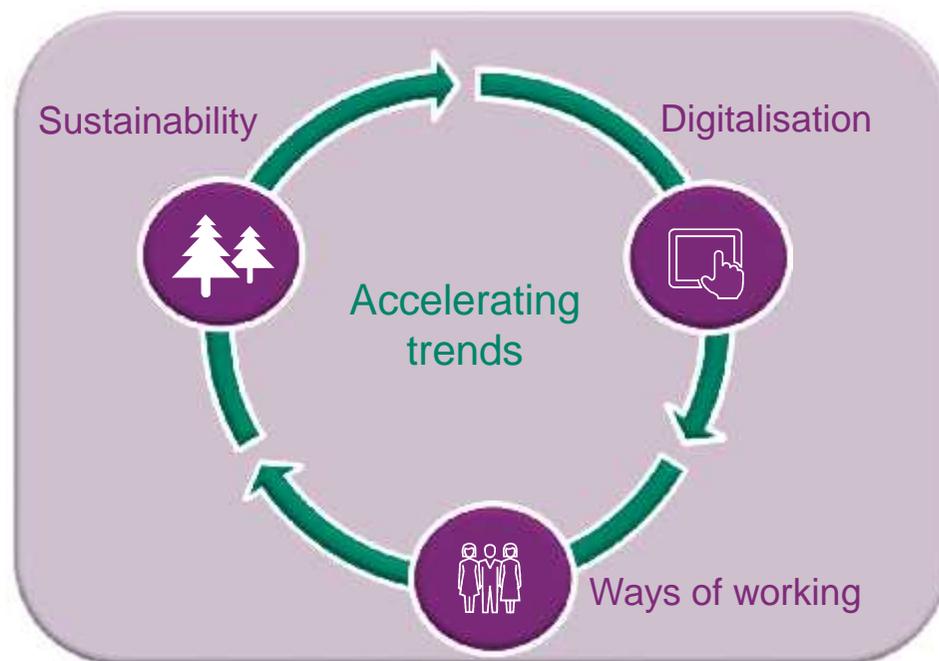
# Strategic review complete

*Proven strategy compounded by accelerating trends*

## Strategic Pillars



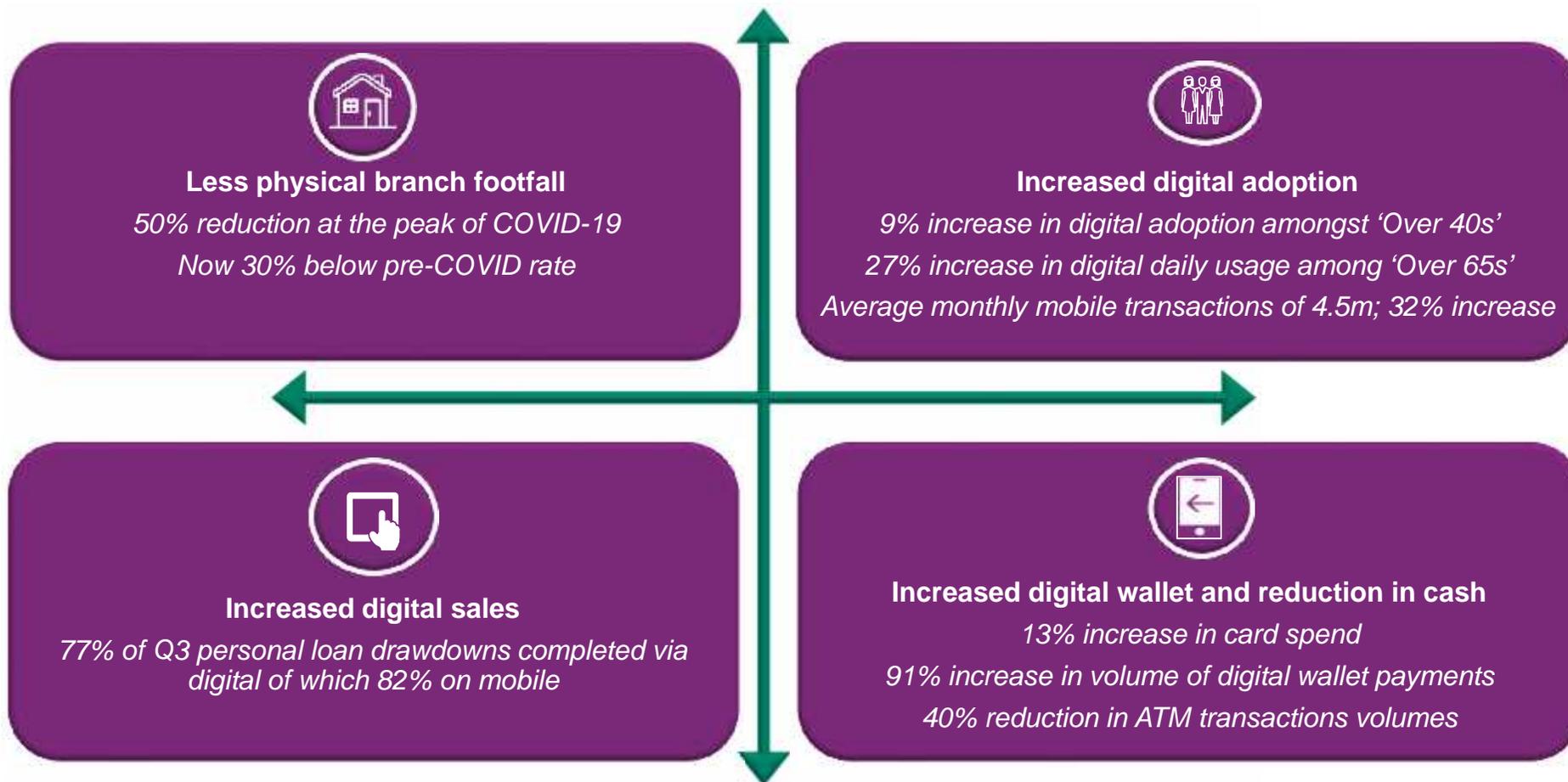
## Accelerating trends





## Digitalisation

*COVID-19 has changed the way our customers bank*



*With the exception of branch footfall, all comparisons are Q3 2020 versus Q3 2019*



## Digitalisation – refocused customer engagement

*Reconfigured sales and advisory model due to accelerated digital adoption, increased mobile enablement, declining cash usage and reduced branch footfall*



### Outcomes

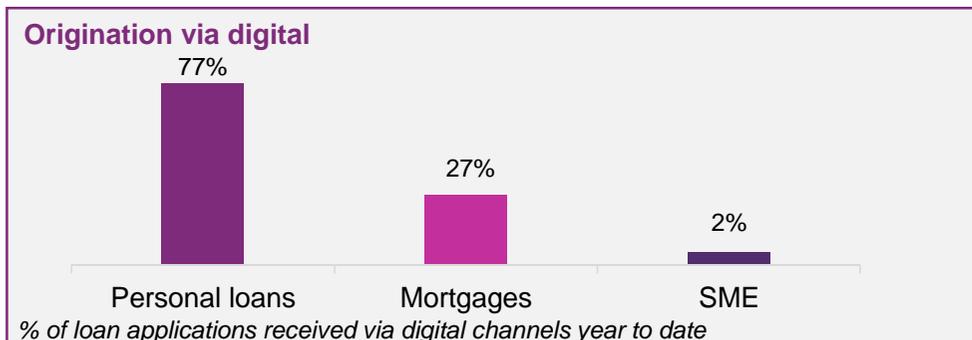
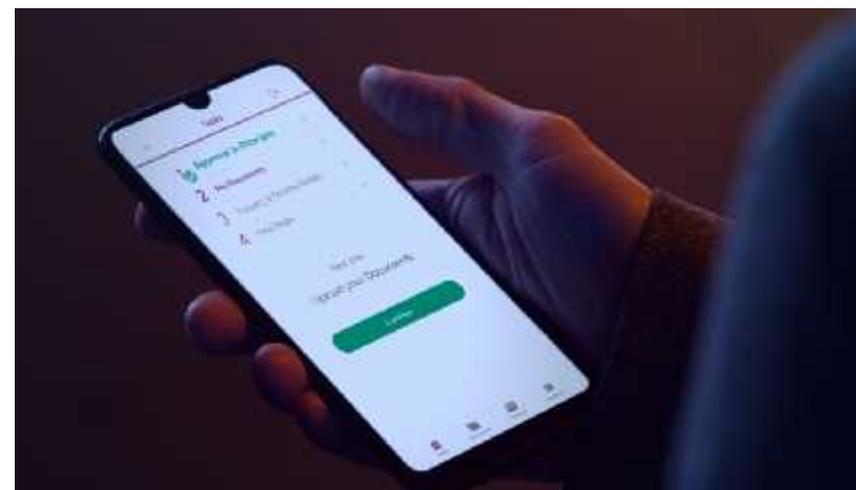
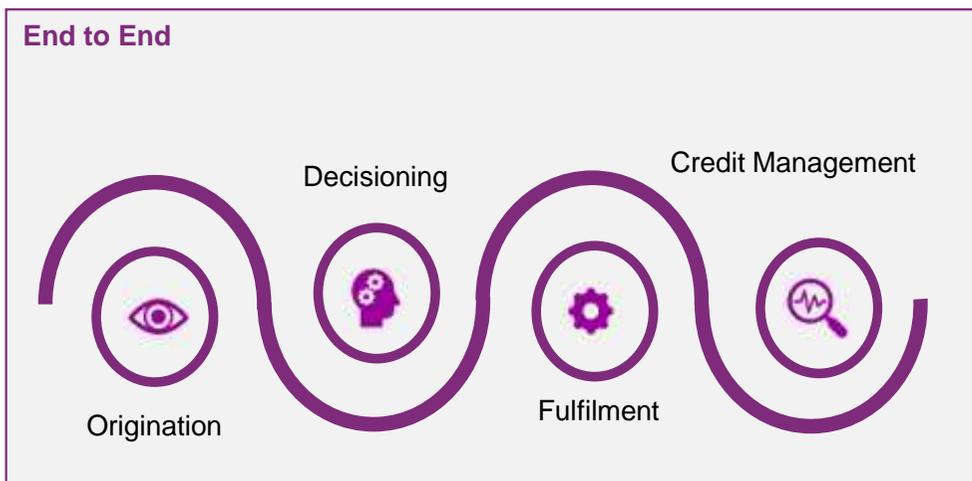
- ✓ A refocused branch network embedded in the community
- ✓ Evolution of branch services beyond transactional support towards sales and advisory
- ✓ Network Optimisation: Five urban overlapping branches to close in H1 2021
- ✓ Increased mobile enablement and digital straight-through processing

c. €65m cost saving



# Digitalisation – End to End credit

*Data-driven, digitally-enabled, agile & frictionless credit*



## Outcomes

- ✓ Enhanced customer experience with faster response and turnaround times
- ✓ Automation of back office and workflow processes
- ✓ Auto-decisioning below €1m
- ✓ Leaner, more efficient and agile credit organisation
- ✓ Reducing resources, change & resilience cost

c. €35m cost saving



# Ways of working – Property

*Responding to workforce trends to provide greater flexibility while saving costs*



- Outcomes**
- ✓ Customer needs met irrespective of location of staff
  - ✓ Facilitating greater flexibility for employees
  - ✓ 50% reduction in Dublin office estate locations
    - ✓ 40% reduction in capacity
  - ✓ Lower carbon footprint

c. €15m cost saving



# Ways of working – Change Delivery

*Creating roles whilst delivering sustainable annual cost savings & reducing risk*

Creation of 400 new AIB roles



Shift the change management agenda in-house

External expertise

AIB employees

Current workforce model, paying a premium

75% : 25%

Working towards 50/50 model

50% : 50%



## Outcomes

- ✓ Creation of 400 roles in change and digital disciplines
- ✓ Reduced third party dependency
- ✓ Enhanced in-house talent and career opportunities
- ✓ Workforce will provide a sustainable foundation to protect & run AIB's digital platforms and deliver strategic change

c. €15m cost saving



## Business model – UK

*Refocusing on GB Corporate banking market and exiting the SME market in GB*

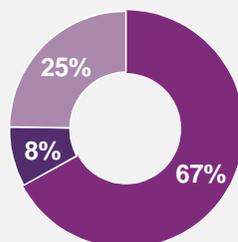
Reshaping the business towards higher return assets

AIB UK – Loans



2020 estimate

AIB UK – Loans



2023 estimate



### Outcomes

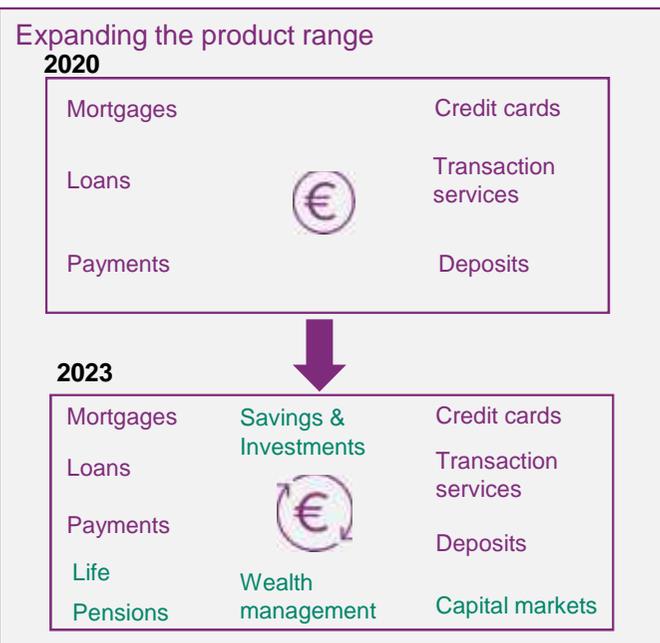
- ✓ Withdraw from the 'high cost to serve' GB SME segment lending; lower number of FTEs and property footprint
- ✓ Refocusing the business towards the Corporate Banking market
- ✓ Targeted growth in renewables, infrastructure, healthcare, manufacturing and warehousing / logistics
- ✓ AIB NI focus on driving efficiency, maintaining business growth and future optionality

c. €35m cost saving



## Business model – product gaps

*Exploring opportunities to enhance and diversify our revenue to become a full service provider of financial services for our customers*



### Outcomes

- ✓ Broaden our offering addressing product and service gaps to ensure we can serve customers at each step of their financial lives
- ✓ Closing the product gaps particularly in mass affluent segment and corporate advisory
- ✓ Strengthening and deepening customer relationships
- ✓ Deliver additional non-interest income growth streams



# Sustainability

*'We pledge to Do More'* to be the leading Irish Financial Institution in Climate Action

2020 Progress	
<p><b>Leadership</b></p> <ul style="list-style-type: none"> <li>✓ Net zero targets &amp; ambition published</li> <li>✓ Founding Signatory UN Principles for Responsible Banking and support of TCFD</li> <li>✓ Constituent of FTSE4Good Index series</li> <li>✓ Virtual Sustainability Conference</li> <li>✓ Sustainability Report</li> </ul>	<p><b>Our Footprint</b></p> <ul style="list-style-type: none"> <li>✓ 40% reduction in own carbon footprint (since 2014)</li> <li>✓ Retained CDP Leadership status</li> <li>✓ Power Purchase Agreement in train</li> </ul>
<p><b>Customer transition</b></p> <ul style="list-style-type: none"> <li>✓ €1bn+ Green lending expected</li> <li>✓ Green Bond €1bn issued</li> <li>✓ Electric Vehicle Proposition</li> <li>✓ Sustainability linked loans</li> <li>✓ Social Housing Fund of €300m</li> </ul>	<p><b>Integrating ESG</b></p> <ul style="list-style-type: none"> <li>✓ ESG Integrated Credit Decision making (CIB/ Corporate)</li> <li>✓ Responsible Supplier standards</li> <li>✓ Launched excluded activities list</li> <li>✓ Employee engagement &amp; training</li> </ul>



**External endorsement**



57<sup>th</sup> of 978 Banks; Low-Risk Category



Now a Part of S&P Global

78<sup>th</sup> percentile; Score: 61/100



Large Green Organisation of 2020



Outstanding Achievement in Sustainability

**Outcomes**

- ✓ Lending for climate change €1bn pa & 70% green by 2030
- ✓ Net Zero in own operations by 2030
- ✓ New lending to support Irish SMEs (2019: €1.6bn)
- ✓ Financing new housing (incl social housing and forthcoming affordable purchase scheme)

*2019 supported build of 8.2k units incl 900 social units*

**Net zero commitment made for our business and our lending book**



# AIB in 2023

*A re-shaped business delivering sustainable returns*



Customer First



Simple & Efficient



Risk & Capital



Talent & Culture



Sustainable Communities



Excellent customer experience as a digital bank across all segments

Cost challenge addressed for a leaner, more agile business

Strong and resilient balance sheet to deliver sustainable profitability

Diversify income streams and improve the breadth of our offerings

Drive the sustainability agenda through culture, processes and credit provision

Enhance shareholder value and returns

2

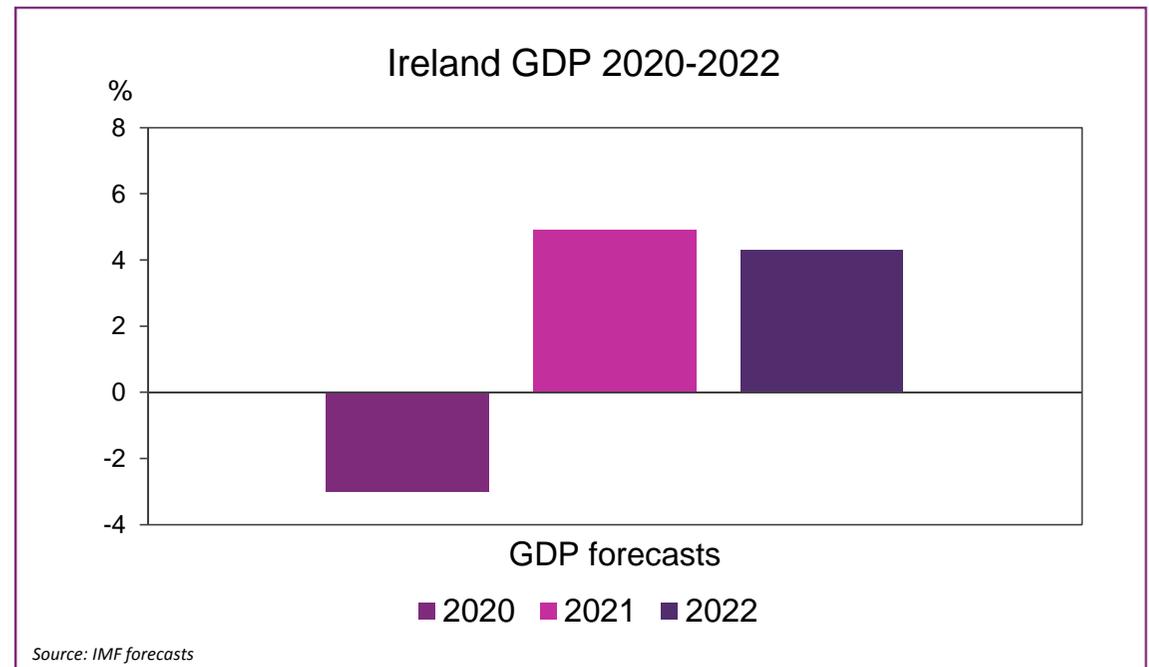
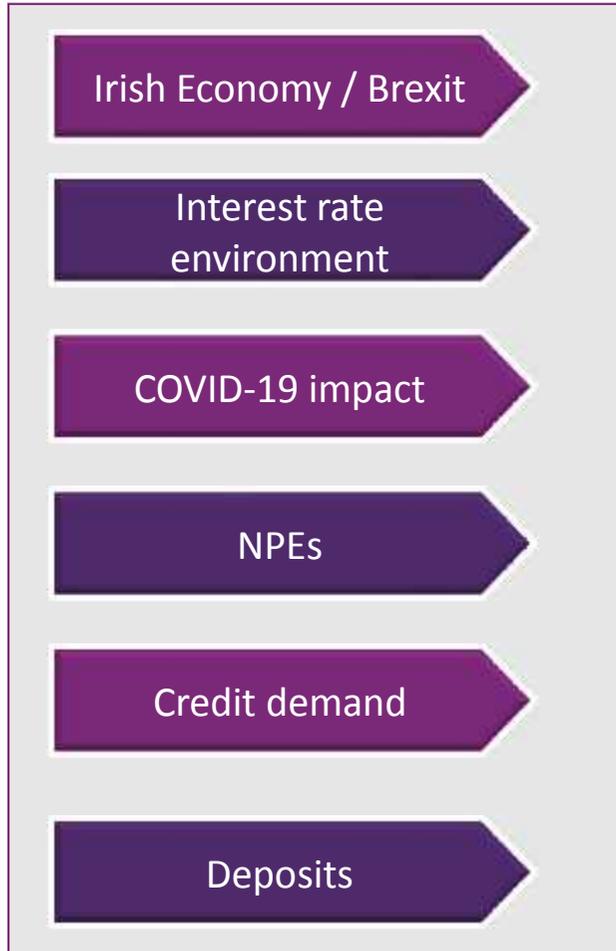
# Financial Targets

**Donal Galvin**  
*Chief Financial Officer*



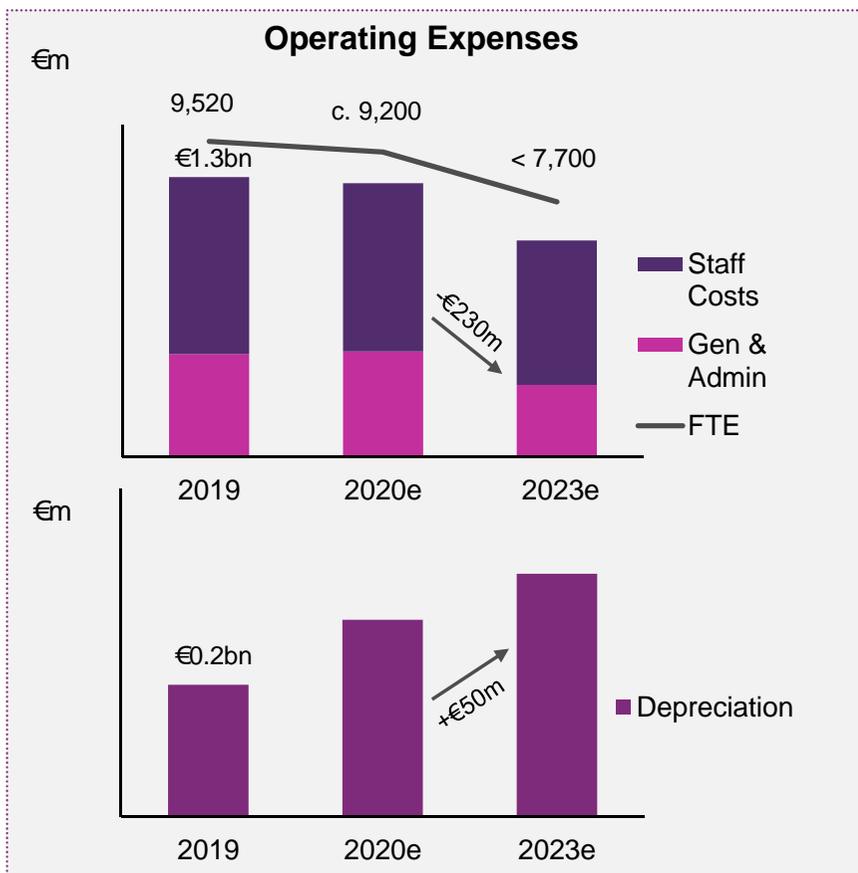
## Challenging environment for banks

*Significant uncertainty remains*





# 1 Medium-term target: operating expenses<sup>(1)</sup> < €1.35bn by 2023 >10% cost take-out delivering a leaner and more efficient organisation



c. €180m (>10%) net cost reduction from 2020 to 2023

c. €230m cost take-out (ex depreciation)

- Digitalisation c. €100m
- Ways of working c. €30m
- UK c. €35m
- Legacy / Simplification c. €65m

c. €50m increase in depreciation

c. 1,500 (>15%) reduction in FTE

- Digitalisation -900 FTE
- Ways of working +400 FTE
- Business model: UK / Legacy / Simplification -1,000 FTE

c. €400m (1.7x) restructuring costs to deliver; split across 2021/22

- Voluntary severance c. €200m
- Property c. €100m
- Other c. €100m

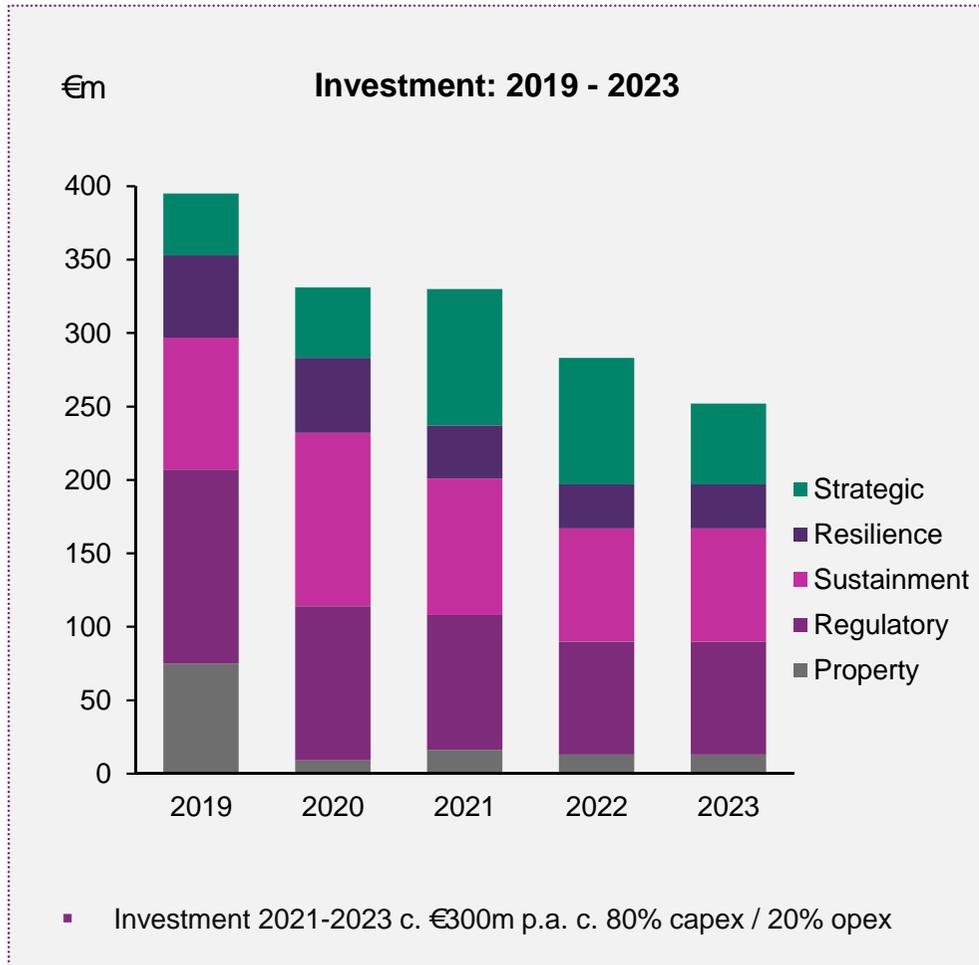
Medium-term target - Costs < €1.35bn

1) Costs before bank levies and regulatory fees and exceptional items



# Investment: 2019 - 2023

*Continuing to invest to enhance our customer experience and efficiency*



- Strategic**
  - Continue digital transformation of our credit processes
  - Enable our customers to digitally self serve
  - Expand negative interest rate response
- Resilience**
  - Replacement of corporate and business accounting platform
  - Complete EBS mortgage platform upgrade
- Sustainment**
  - Continuous investment in cyber resilience capability
  - Digital workplace implementation
  - Ongoing upgrades of IT systems
- Regulatory**
  - Address sustainability and loan origination regulations
  - Implement PSD2 strong customer authentication (SCA) for e-commerce card-based payment transactions
  - IRB: Mortgage, Corporate and Bank models
- Property**
  - Delivery of sustainability, security and upgrade agendas for our property portfolio



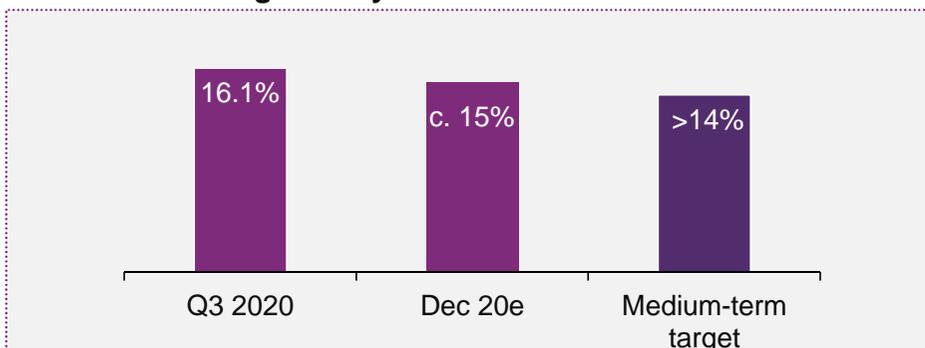
2

## Medium-term target: CET1 >14% *Strong capital gives optionality*

CET1 - Capital requirements (%)<sup>(1)</sup>



Medium-term target: Fully loaded CET1 > 14%



### Capital requirements – fully phased

- CET1 capital requirement 10.19%
- Significant buffers to SREP/MDA

### Medium term target: CET1 >14%

- Q3 2020 CET1 16.1%
- Regulatory headwinds / tailwinds to broadly offset over 2020 and 2021; headwinds greater in 2020
- Steady state CET1 target >14%

### Distribution policy

- Monitor regulatory developments
- Existing policy 40-60% ordinary dividend payout
  - Will assess balance between dividends and buybacks at the appropriate time

Medium-term target - CET1 > 14%

(1) Pillar 2 Guidance (P2G) not disclosed

(2) The Group's minimum CET1 requirement is 9.69% at Dec 20 under Article 104a. In addition any shortfall of AT1 & Tier 2 must be held in CET1



### 3 Medium-term target: Return on Tangible Equity (RoTE) >8%

#### Pathway to >8% returns

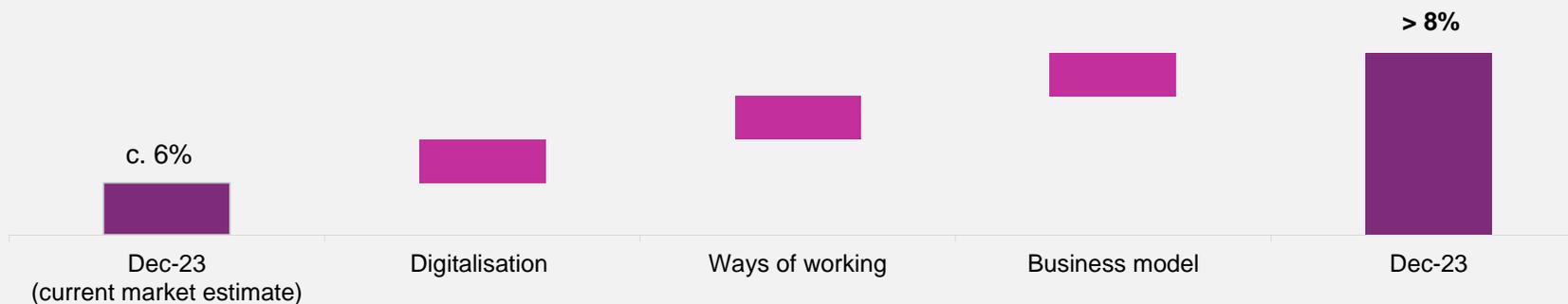
RoTE method:  $(PAT - AT1) / (CET1 @ 14\% \text{ of RWAs})$

$$\frac{\text{Return: PAT - AT1}}{\text{Equity: CET1 @ 14\% of RWAs}} = \text{Return on CET1 @ 14\% of RWAs}$$

RoTE method > 8% by 2023:

- Return: Profit after tax less AT1 coupons
- Equity: CET1 @ 14% of RWAs
  - Anticipate modest RWA growth by 2023
- Assumptions:
  - No change in interest rate environment
  - Modest loan growth
  - Excludes potential inorganic opportunities

Medium-term target: RoTE > 8% (Illustration)

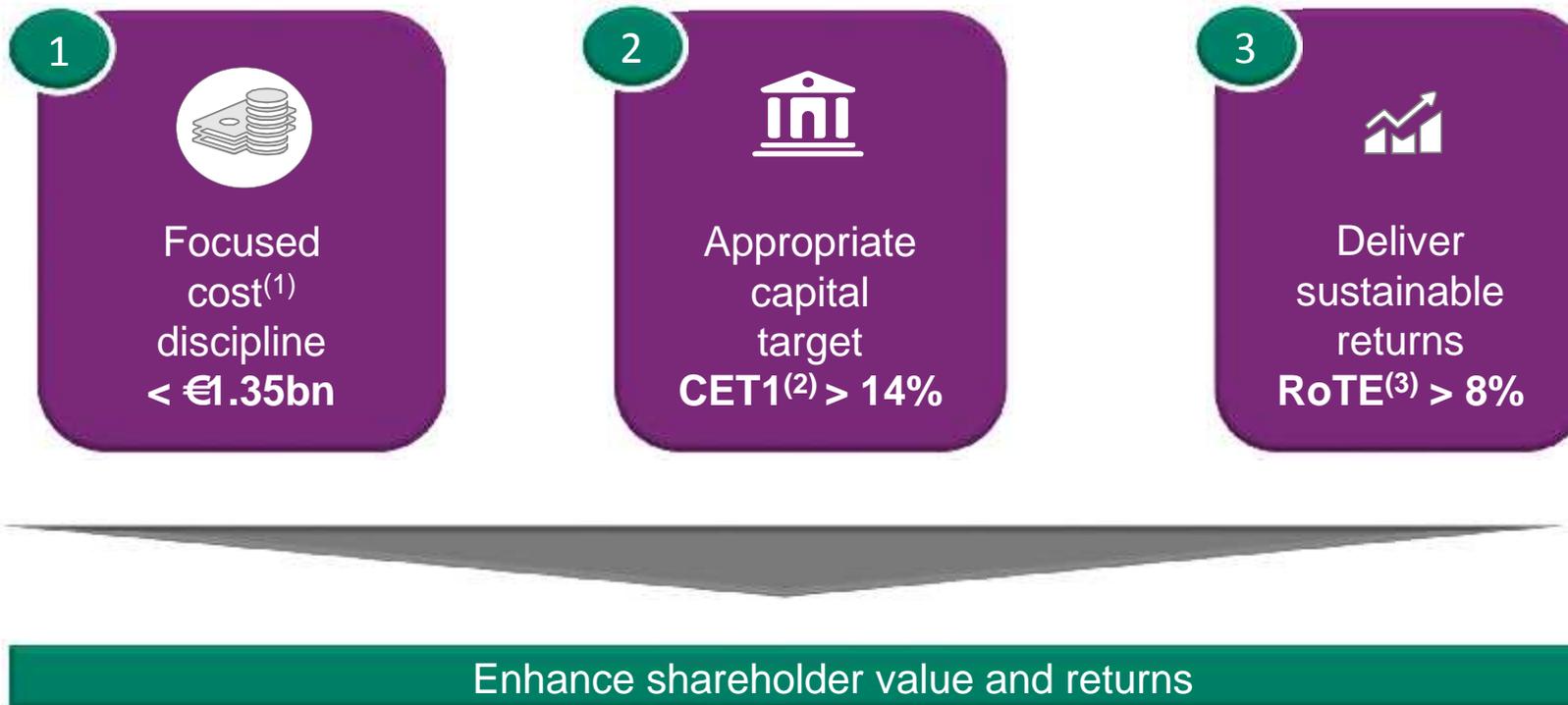


Medium-term target - RoTE > 8%



## Medium-term targets (2023)

*A re-shaped business delivering sustainable returns*



1) Costs before bank levies and regulatory fees and exceptional items

2) Fully loaded

3)  $RoTE = (PAT - AT1) / (CET1 @ 14\% \text{ of RWAs})$



AIB Group plc

**OUR**

**STRATEGY**

**2023**



## Contacts

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