

Chief Executive's Review



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Colin Hunt
Chief Executive Officer

2023 was a landmark year for AIB as we concluded our three-year strategic cycle by enhancing the suite of products and services we offer our customers, significantly growing our customer base to record levels and transforming, simplifying and streamlining our business.

In the period under review, the Group returned to majority private ownership, an important development in repaying the State's investment, and our profitability and return on capital was boosted by the strong performance of our business, continued economic growth in our core market and a return, following tightening by central banks, to a more normalised monetary policy environment.

The growth we experienced in our core business activity, customer base and net interest margin delivered a very strong financial performance in 2023. Profit before tax amounted to €2,394m, our return on tangible equity rose to 25.7% and our balance sheet remained robust with a CET1 of 15.8%.

Notwithstanding the ongoing impact of geo-political instability in Eastern Europe and more recently the Middle East, along with the stubborn persistence of inflationary pressures throughout the year and subdued growth overall, the Irish economy continued to support high employment levels, solid consumer demand and international trade. This backdrop helped underpin the Group's performance across key sectors including corporate and business lending, retail services and the broad spectrum of personal loans.

Mortgage lending and the provision of finance to enable our customers to retrofit their homes and make them more sustainable are key areas of activity for AIB. We remain a leader in the market, focused on prudent pricing and underwriting rather than the pursuit of market share.

We are acutely aware that the change in ECB monetary policy from mid-2022 that triggered an unprecedented succession of interest rate

increases, combined with underlying inflation, has caused financial challenges for some of our customers.

Against a fast-changing monetary policy backdrop, AIB took a measured approach to pricing on both sides of the balance sheet and was mindful not to pass on the full extent of the ECB rate increases to mortgage customers. In the same context, we extended our range of savings products and increased our rates on fixed term deposits in particular.

Organic growth during the period was bolstered by the further addition of new business and personal customers. During 2023, the Group continued to welcome the highest proportion of customers seeking new banking relationships arising from the departure of Ulster Bank and KBC from the Irish market.

In total, AIB has opened in excess of 800,000 new accounts since the start of 2022, the majority through our digital channels, and this brings our overall customer base to 3.3 million. We welcome them and thank them for their custom. We also look forward to offering them, and all customers of the Group, our extensive range of financial products and services to meet their changing needs and support the life they're after.

During the summer we completed the acquisition of the Ulster Bank corporate and commercial loan book and, notwithstanding some initial challenges due to the sheer scale of the operation, we are on track to complete the migration of the performing tracker (and linked) mortgage portfolio from Ulster Bank in the course of 2024.

As we deepen and strengthen our relationship with new and existing customers, one area of focus is to provide attractive longer-term savings, wealth and investment offerings, and we delivered on two key objectives in this area during 2023. In April we launched Goodbody-Private, offering high-net-worth AIB customers the product portfolio, services and recognised

capability of Goodbody through a collaboration with AIB Private Banking and utilising AIB's distribution channels.

June brought the official launch of AIB life, a joint venture between AIB and Great-West Lifeco. It is the first full-service, technology-led life company to be designed and built in the Irish market in a generation. A fully cloud-based service, AIB life's product suite is now exclusively available to all our customers via our AIB Mobile Banking App with support from AIB's existing network of financial advisors nationwide. The initial customer response has met our ambitious expectations.

We also continued to make great strides in supporting our customers in the transition to a low-carbon economy. Our green and transition lending continues to grow with 30% of Group new lending comprising green and transition lending in 2023. The more green lending we do, the more green capital we can attract and we were pleased to have raised €750m from issuing another green bond during the year, our fifth in total.

Recognising rising customer demand and the need to do more to help combat climate change, towards the end of the year we announced that we have tripled our Climate Action Fund to €30bn available for green and transition financing activities to 2030.

One area I have been determined to address conclusively has been the often complex legacy issues that have persisted from a prior era in the bank. In August 2021, the Group instigated a programme to review investments in a series of investment property funds, known as Belfry, which the Group sold during the period 2002 to 2006 to c. 2,500 individual investors. The programme has conducted a case-by-case review of investments to determine if redress may be due and payments to investors commenced in the second half of 2022 and are substantially complete. An independent appeals process has been established and is available to all investors.



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Supporting our customers in the transition to lower carbon

Financial Performance

Our 2023 financial performance is the strongest in our history. For the year, we are reporting a profit before tax of €2,394m. This includes an operating profit of €2,730m before impairment losses and exceptional items.

Total operating income €4,741m was 64% higher than 2022. Net interest income of €3,841m increased by €1,746m or 83% year-on-year reflecting the impact of the higher interest rate environment and growth in customer loan volumes. Net interest margin (NIM) increased by 142 bps to 3.11% in 2023 compared to 1.69% in 2022. Other income of €900m increased by €100m or 13% compared to 2022 primarily reflecting the forward contract for the acquisition of the Ulster Bank tracker mortgage portfolio and an 8% increase in net fee and commission income partly offset by a reduction in other items.

Total operating expenses of €1,826m increased by 10% compared to 2022. Factors impacting costs include wage and general inflation, increased customer servicing for a larger customer base, higher staff numbers given the enlarged Group and an allowance for limited variable pay. The Group's cost income ratio in 2023 was 39% compared to 57% in the prior year.

Overall credit quality remains robust against the backdrop of inflation and higher interest rates. There was a net credit impairment charge of €172m in 2023 driven by a charge in relation to commercial property, including additional post model adjustments, to address the potential adverse impacts from higher interest rates and lower valuations. This was partially offset by writebacks in the corporate & SME portfolio reflecting strong credit performance and repayments in Covid-impacted sectors. Our overall approach remains conservative, comprehensive, and forward-looking and is reflected in an expected credit loss coverage rate of 2.3%.

Exceptional items of €150m include a charge of €88m primarily related to the aforementioned Belfry investment property funds, reflecting a provision for customer redress of €77m and associated costs of €11m. Exceptional items also include inorganic transaction costs.

New lending of €12.3bn in 2023 was €0.3bn or 2% lower compared to 2022. Irish mortgage lending of €4.0bn, representing a market share of 33% (2022: 32%) was 12% lower compared to 2022 as the prior year benefited from a high level of switching activity. Property related lending was down 26% to €2.0bn reflecting reduced activity levels in the commercial real estate sector. Non-property lending of €5.0bn was up 18% driven by continued growth in renewable energy and infrastructure and corporate lending in Ireland as well as selective growth in syndicated lending partially offset by lower UK lending. Personal lending was up 23% to €1.2bn.

Gross loans at €67.0bn were up €5.8bn or 9% compared to 31 December 2022 primarily driven by the acquisition of loans from Ulster Bank and new lending exceeding redemptions.

As at 31 December 2023, 92% of AIB's loan book is of strong or satisfactory quality (up from 90% at 2022 year-end). Maintaining the quality of new lending is critical, with >98% of our new lending being of strong or satisfactory credit quality in 2023.

Non-performing loans as a percentage of gross loans to customers were 3% at 31 December 2023 compared to 3.5% at 31 December 2022. We remain committed to carefully managing non-performing exposures (NPEs) given the impact on cost, capital requirements and balance sheet resilience.

AIB's funding and liquidity ratios remain robust. The loan to deposit ratio increased to 63% at 31 December 2023 compared to 58% at 31 December 2022 as growth in loans to customers, which included the acquisition of loans from Ulster Bank, outpaced growth in customer accounts. We continue to have strong liquidity metrics (Liquidity Coverage Ratio 199% and Net Stable Funding Ratio 159%).

Debt securities issued of €8.4bn increased by €1.2bn from 31 December 2022 primarily due to further MREL related issuances of €2.4bn, including €1.5bn social and green bond issuances, partly offset by maturities of €1.4bn.

The Group has a strong capital base with a reported CET1 ratio of 15.8% at 31 December 2023, well in excess of regulatory requirements.

Digital

The great majority of our customers now choose to interact with AIB Group through our digital channels. Our digital base across the Group continued its growth in 2023, reaching 2.19 million customers, up 5% on 2022. Within Ireland, 81% of current account holders were digitally active by the end of the year, up from 77% at the end of 2022.

Smartphones continue to dominate our customers' interactions as the most prominent touchpoint for digital banking, while we continue to see growth in the use of contactless payments. Within Ireland, the base of active mobile users exceeded 1.9 million customers at the end of 2023, up 7% on the previous year. Mobile activity itself increased, peaking at 3.3 million interactions in a single day (up 12%), the number of Mobile Wallet transactions throughout the year increased by 47%, while eCommerce – for example, card purchases online – volumes grew by 27%.

In Ireland, 62% of all new personal account relationships were onboarded digitally in 2023, allowing those new customers to join AIB entirely at a time and place of their choosing. We also witnessed mobile adoption in the over 65 age category which grew by a further 18% throughout last year.

Online product sales continue to dominate, with 78% of key consumer products sold digitally in Ireland. Again, we witnessed growth in digital applications across most products in 2023; our customers applied online for 67% of overdrafts (2022 62%), 69% of credit cards (2022 55%) and 89% of personal loans (2022 no change), while 25% of mortgage applications were made online (2022 22%).

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Continued digital growth



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AIB Sustainability Conference



In our response to this ongoing digital evolution, AIB has continued to invest in our product offerings. In 2023, we enhanced our credit offerings with streamlined, digitalised processes. We also launched a new dedicated AIB Business (IBB) App in June, providing a more convenient way to review and approve payments on the move. 15,000 of our business customers were using the app by the end of the year.

We remain committed to protecting customers against the threats associated with fraud, making significant investments to enhance our systems and proactively drive ongoing education and awareness in response to new and existing threats. We also continue to advocate for a cross-sectoral, multi-stakeholder approach in order to limit the opportunities for online platforms and telephone networks to be misused for fraudulent communications.

Sustainable Communities

In November, we hosted the seventh AIB Sustainability Conference, facilitating conversation about the continued importance of environmental, social and governance action amongst our customers and other stakeholders. I was very proud to welcome Rt. Hon. Dame Jacinda Ardern to Dublin who, along with comedian and author Trevor Noah and a number of our own customers, provided plenty of food for thought for the more than 9,200 attending in person and online. The continued popularity of this annual event is further evidence that sustainability remains

high on the agenda of global thought leaders and customers alike.

It came as no surprise, therefore, that we exceeded our previous target to provide €10bn in green and transition funding by the end of 2023. Last year alone, we provided €3.7bn in funding, bringing the total over five years to €11.6bn. Along with our fifth green bond in 2023, we issued our second social bond in January, bringing the total AIB has raised in ESG bonds to date to €5.75bn.

It remains our ambition for our portfolio to be net zero by 2040 (with Agriculture to be net zero by 2050, in line with the Irish Government's target). Having now expanded our Climate Action Fund to €30bn by 2030, we intend to enhance our green products and services over the coming years to ensure we are both delivering against our ESG measures and empowering people to build a sustainable future. For further details of our sustainability strategy, see pages 22 to 25.

We are aware, though, that the sustainability journey can be a daunting one, and that our customers are also now challenged by cost-of-living constraints. We are focused on continuous upskilling of our colleagues to support our customers' evolving needs, and facilitating knowledge sharing both directly to our customers and through our involvement with like-minded organisations. In 2023, for example, we were aware that the introduction of the Corporate Sustainability Reporting Directive (CSRD) would impact our business

customers, and aimed to support small and medium-sized enterprises (SMEs), in particular, through the provision of information and a training webinar. In tandem, we rolled out a comprehensive internal programme to prepare ourselves for CSRD.

At the end of 2022, AIB Group entered into a virtual Corporate Power Purchase Agreement (vCPPA) with NTR to construct two solar farms in Co. Wexford, which will not only supply electricity to the Group but will also provide much-needed extra capacity to the national grid. Construction progressed swiftly, and in January 2024 I was delighted to visit the first solar farm from which we are now purchasing renewable energy. This was the first such vCPPA involving an Irish corporate, and importantly, is a huge step in the Group's strategy to become net zero in our own operations by 2030.

Unfortunately, 2023 further reminded us of the harsh realities of war. I have been very proud of the support AIB, along with our customers, has provided to GOAL, an Irish organisation providing vital humanitarian relief to the most vulnerable people around the world. At the end of the year, our communities came out in greater than ever numbers to complete the annual GOAL Mile, raising a record €630k, some of which was raised directly via a new 'Donate' functionality on the AIB Mobile App, which had been used for the first time earlier in the year to support those affected by the devastating earthquake in Turkey-Syria.



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The GOAL Mile, proudly supported by AIB

Chief Executive's Review continued

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AIB Community €1 Million Fund



Closer to home, our own AIB Community €1 Million Fund provided direct support to 80 charities primarily throughout Ireland and also in Great Britain. The recipients of this fund are charitable organisations nominated by our customers, employees and the general public, and in 2023, these nominations nearly trebled. This engagement shows the important social role AIB and our customers play in our communities – both locally and globally.

Culture and Our People

In the final quarter of 2023, 81% of colleagues were satisfied with AIB as a place to work, and we remain committed to providing a supportive and inclusive working environment where our people are enabled to reach their full potential.

We continue to promote a culture of universal inclusion in AIB, delivering our second enterprise-wide Universal Inclusion campaign in 2023. We also continued our focus on the diversification of our talent pipeline through the expansion of our Apprenticeship and Internship programmes.

We were delighted to again be recognised by the Grad Ireland Student Awards in 2023 as the Most Popular Graduate Recruiter in Financial Services for the fourth year in a row, and to receive external recognition via multiple awards for our Graduate Programme and Leaders Enabling a Difference (LEAD) Programme, two of our core development initiatives.

In 2023, we again enhanced our range of workplace supports to help colleagues navigate and thrive in their career, adding to the progressive enhancements made to our family leave policies. We broadened our existing Marriage Leave offering of five days' paid leave into Significant Life Event Leave. We introduced 10 days' paid Carers Leave to support colleagues providing critical care to vulnerable loved ones, and have partnered with Family Carer's Ireland to provide a holistic support package to our working carers. We extended our Compassionate Leave for pregnancy loss to up to four weeks' paid leave, with this leave available to all employees regardless of

whether pregnancy loss occurs to them personally, their partner or their surrogate.

Throughout 2023, we also delivered a number of bespoke Wellbeing initiatives across the organisation, supported by our Group-wide network of advocates. In April, we launched our first Financial Wellbeing Month, and we held our third annual Mental Health Awareness Month in September.

Following the easing of some Government remuneration restrictions in December 2022 and AIB Group's return to majority private ownership, we announced in October the provision for the first time of healthcare benefits to all AIB employees in Ireland along with the introduction of a measured variable remuneration scheme subject to the achievement of a range of performance targets across the business.

These new benefits recognise the contribution our employees have made in supporting our customers and putting the Group on a long-term sustainable footing and will help AIB retain and attract employees.



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Progressive Leave enhancements



“Looking ahead, we are now preparing to deliver on our new three-year strategy, which places an enhanced focus on serving our customers, further greening our loan book and driving greater operational efficiency.”

A new strategic cycle

Outlook

Looking ahead, we are now preparing to deliver on our new three-year strategy which places an enhanced focus on serving our customers, further greening our loan book, driving greater operational efficiency and delivering sustainable returns for all our stakeholders. More details can be found on pages 20 and 21.

With this focus in mind, we have taken the opportunity to review the Group structure and update our 2026 medium-term financial targets to a RoTE of 15%, a CET1 ratio above 14% and an absolute cost base below €2 billion, with a cost income ratio of less than 50%.

In January 2024, we announced three new additions to the Executive Committee. A new Chief Customer Officer position has been established to focus solely on our customers and drive improved customer experience through aligning our strategy, channels and propositions. Sajid Arshad has been appointed as interim Chief Customer Officer while a selection process for the full-time role is ongoing and will be announced in due course. Paul Travers has been appointed to the new role of Managing Director of Climate Capital, supporting business growth and our ambition to be a driving force in the transition to a zero-carbon future in Ireland and selected overseas markets. Barry Field has been appointed Corporate Affairs Director, bringing together the core enterprise activities of Corporate Affairs and Communications in support of the Group's strategic direction.

Turning to the year ahead, modest growth is anticipated for the global economy, with the International Monetary Fund (IMF) forecasting a similar pace of growth to the 1.6% gain in 2023 in advanced economies. This will be characterised by relatively rapid US growth (2.1%) and more sluggish growth in the Eurozone (0.9%) in 2024. However, recent forecasts from the Economic and Social Research Institute (ESRI) and Central Bank of Ireland (CBI) show they expect a pick-up in Irish growth, assuming the drag on output, exports and investment in the multi-national sector abates. A number of factors should underpin growth. Inflation is on the wane and interest rates are expected to be cut over the next couple of years. Combined with solid wage growth, this will boost real household disposable incomes. Fiscal policy is set to remain expansionary in the context of the healthy state of the public finances. The IDA also reports that Ireland's foreign direct investment proposition remains strong against a challenging international environment heading into 2024. Meanwhile, private sector balance sheets remain characterised by low debt and high levels of savings. These buffers will be vital if any downside risks emerge to impact growth in the highly open Irish economy.

As Ireland's largest financial services provider, AIB continues to be a driving force in the Irish economy. I am pleased that our reshaped Group is generating sustainable profits and is well positioned to support our 3.3 million customers, our shareholders and the wider economy now and into the future.

We welcomed the decision and subsequent transaction undertaken by the Minister for Finance on 7 November, which led to a further divestment of the State's shareholding in AIB Group plc to c. 40.8%. It is another important development in the process of returning the State's investment in the Group, enhancing liquidity and normalising the share register.

AIB owes the Irish State and taxpayer an immense debt of gratitude for its support during the financial crisis. We remain focused on our strategy to grow and strengthen the Group to ensure we continue to support our customers and generate sustainable returns for all our stakeholders.

I would like to thank our customers for their business in 2023. Our franchise has never been stronger and we are determined to satisfy the full breadth of our customers' financial needs and aspirations with agility, efficiency and prudence. Finally, I would like to thank my fellow Board and Executive Committee members and all my colleagues across the Group for their unwavering support in delivering for our customers, our communities and the wider economies we serve.

Colin Hunt
Chief Executive Officer
5 March 2024