EMBARGO 07:00 **6 March 2020**

AIB Group plc ("AIB") announces FY2019 results; pre-exceptional PBT €1,091m

"Today we announce full year results, my first as Chief Executive, along with new medium-term targets and an update on capital plans. I am glad to report that the fundamentals of the Group remain strong with sustainable underlying profits and a robust capital base. 2019 was a year of progress, delivery and planning. Led by our purpose we improved our customer proposition and streamlined service to our c. 2.8 million customers whilst increasing our new lending to €12.3 billion to support economic growth. We achieved our milestone of reducing non-performing exposures (NPEs) to c. 5%, continue to take action on costs and are returning a dividend to shareholders. As we announce our new medium-term targets today and embark on our next phase, I am intent on addressing legacy matters of the past so that our future, characterised by a normalised cost base, balance sheet and capital structure, will deliver for our stakeholders and sustainably generate shareholder value."

– Colin Hunt, Chief Executive Officer

Highlights

- **Solid underlying profitability, stable net interest income and customer loan yields**
  Pre-exceptional PBT €1,091m; Exceptionals of €592m driven by legacy restitution
  NII broadly stable; NIM 2.37% included excess liquidity impact of 10bps
- **Strong capital base supporting sustainable growth and capital returns**
  CET1 (FL) 16.4%[1]; includes indicative AIB mortgage model TRIM impact c. 90bps
  Proposed dividend of 8c per share
- **Renewed focus on cost discipline**
  Cost of €1.5 billion in line with guidance; 5%[2] reduction in headcount
  Comprehensive plans to rightsize cost base
- **Growing performing loan book and increased new lending**
  Performing loans up 3% to €58.8bn with new lending up 2% to €12.3bn
  Irish mortgage lending up 8% with No. 1 position maintained at 31.4% market share
- **NPEs at 5.4% reaching c.5% milestone**
  Reduced by €2.8bn (-45%) to €3.3bn from €6.1bn at December 2018
  Further plans to reduce NPEs and strengthen balance sheet
- **MREL €4.3bn issued; well-positioned to meet expected MREL requirements**
  Four successful 2019 transactions; c.86% of our MREL issuance requirement complete
  Two rating agency upgrades reflecting improved asset quality

Medium-term targets 2020-2022

- Absolute cost target[3] of €1.5 billion in 2022
- CET1 fully loaded target > 14%
- RoTE[4] > 8% by 2022

FINANCIAL PERFORMANCE

The operating environment for European banks continued to be challenging in 2019. Notwithstanding this backdrop, the fundamentals of the Group remain strong and in 2019, we delivered pre-exceptional PBT of €1,091m reflecting a solid underlying business performance (FY 2018: €1,414m). Including exceptional items PBT was €499m (FY 2018: €1,247m).

Net interest income (NII) of €2,076m was in line with the prior year (2018: €2,100m). Net interest margin (NIM) was 2.37% in 2019 (excluding the impact of excess liquidity NIM 2.47%) as customer loan yields expanded slightly to 3.45% (2018: 3.42%) and the spread between customer loans and deposits widened. Compared to the prior year, NIM declined by 10bps due to lower income from investment securities, increased MREL-related funding costs and growing excess liquidity. Q4 2019 exit NIM was 2.25%.

Fee and commission income of €472m in 2019 was up 3% on the prior year (FY 2018: €457m), with an increase in current accounts and credit related fees.

Operating costs of €1,504m were in line with guidance and 5% higher than prior year with a cost income ratio (CIR) of 56%. Factors that continue to impact costs are wage inflation and rising depreciation from previously committed investment spend. 2020 will see a continuation of this trend, although we expect a slower pace of cost growth to c. 2-3%.

Cost discipline continues to be a key management focus for the Group and we have introduced a number of cost management initiatives. During the year we reduced our FTEs by 5% through natural attrition and voluntary severance. FTEs at 31 Dec 2019 were 9,520 (which includes 91 related to Payzone and c. 100 related to insourcing) (2018: 9,831 FTE). We continue to simplify the organisation through management de-layering and rightsizing our workforce as we continue to work towards making the bank as efficient as possible.

Regulatory costs and levies were €104m in 2019, relating to the Single Resolution Fund (SRF), the Deposit Guarantee Scheme, the Bank levy and other regulatory levies and charges (FY 2018: €99m).

There was a small net credit impairment charge of €16m in 2019 (FY 2018: €204m write-back). We are moving towards a more normalised cost of risk (c. 20-30bps) and write-backs will continue to diminish.

Exceptional items were €592m in 2019 and include the €300m of additional tracker mortgage-related provisions announced on 4 February 2020 to cover a range of possible outcomes and related additional potential charges, following a preliminary decision by the Financial Services and Pensions Ombudsman.

Exceptional items include restitution costs of €416m, provisions for potential regulatory fines of €78m, termination benefits of €48m and loss on disposal of loan portfolios of €40m. We continue to work with the Central Bank of Ireland on legacy conduct matters. We know that issues may continue to emerge and we are committed to dealing with them in an expedited, transparent and fair way for our customers.

BALANCE SHEET

AIB's performing loan book continues to grow across all asset classes and was up 3% or €2bn to €58.8bn FY 2019 from €56.8bn FY 2018. New lending increased by 2% to €12.3bn which exceeded redemptions of €11.7bn.

Customer accounts increased to €71.8bn at December 2019 from €67.7bn at December 2018. The loan to deposit ratio at the end of 2019 was 85%.

Total new lending in 2019 grew 2% to €12.3bn (FY 2018: €12.1bn). New mortgage lending in Ireland grew by 8% to €3.0bn. Our market share of mortgage drawdowns was 31.4% and we remain the largest mortgage provider in Ireland offering customers choice and competitive products. We have seen an increase in the use of our AIB Express Mortgage as six out of 10 customers use the new digital journey to gain Approval in Principle within one hour and progress their application online. Personal lending in Ireland increased by 15% and we now have 75% of personal loan applications processed through our digital channels. New lending for property in Ireland of €1.4bn was broadly in line with the prior year supporting the construction of over 8,200 housing units, of which over 900 units will be newly built social housing units. New lending has been strong in our energy and climate action sector but this has been offset by lower activity in syndicated and international lending. Lending to the SME sector in Ireland of €1.6bn increased by 7%, however Brexit uncertainty continues to weigh on sentiment. Within new lending, AIB UK contributed £2.1bn, up 7% and focused on our chosen defensive sectors of healthcare, renewable energy and infrastructure. Given our market leading positions in key segments, we are well positioned for further growth on a sustainable basis.

NPEs reduced significantly by 45% from €6.1bn (9.6% gross loans) to €3.3bn (5.4% gross loans) demonstrating success in reaching our c. 5% milestone by end 2019. This reduction reflects our ongoing engagement with customers as well as two portfolio sales of deep arrears non-performing loans which had a gross value of €1.8bn. Further reduction of NPEs remains a key focus for the Group and with all levers at our disposal, we will continue to focus on reducing NPEs decisively lower in the medium term.

FUNDING & CAPITAL

Strong funding and capital ensure AIB is well positioned for sustainable growth.

Customer accounts of €71.8bn represent 76% of total funding.

We have completed €4.3bn of MREL issuance reflecting c. 86% of our c. €5bn MREL requirements. AIB Group plc was upgraded by both Fitch and Moody's in 2019 reflecting the strong progress in asset quality and ability to access the debt capital markets. This positively contributed to our successful MREL issuances in 2019, consisting of senior non-preferred US$1bn and €750m, AT1 €500m and Tier 2 €500m with all transactions over-subscribed. As a result, we are well positioned to meet our expected MREL issuance requirement.

The fully loaded CET1 at the end of December 2019 was 16.4% including the indicative TRIM impact of the AIB mortgage model of c. -90bps (FY 2018: 17.5%). Capital generation from profits of +70bps was offset by the impact of the proposed dividend -40bps, IFRS 16 impact -20bps and other deductions -30bps. The proposed dividend of €217m equates to a dividend per share of 8 cents.

The Group's capital ratios are materially in excess of minimum regulatory requirements and AIB continues to maintain a very significant buffer above maximum distributable amount (MDA) trigger levels.

A SUSTAINABLE, INNOVATIVE BUSINESS

We remain focused on our key strategic priorities and building long-term sustainability. Supported by modern, resilient and flexible IT architecture, we are at the forefront of digitally-enabled banking, providing convenience to our customers and a competitive advantage for AIB. The bank remains number one for digital distribution in Ireland, with 1.5m digital users. We continue to innovate and deliver for our customers.

- **Lower fixed mortgage rates** – complementing our market-leading variable rate and offering customer certainty and choice.
- **Payzone acquisition** – strengthening our fintech capability with the acquisition of Ireland's largest consumer payments network.
- **Award-winning mortgage customer experience**[4] – 2019 NPS for Homes journey +53 while Express Mortgage journey rolled out nationally with a 2019 NPS +64
- **AIB mobile App** – No 1 Irish Banking App with over 1 million active customer users and 1.5m daily mobile interactions on app.
- **Personal loan journey** – 75% of applications processed online with nine out of 10 customers receiving a decision in less than a minute; 2019 NPS for approved online loans +85

Our refreshed three-year strategy to 2022 sees the introduction of an additional pillar – Sustainable Communities - which sets out a clear direction for this important agenda. We recognise we have more to do but are committed to building on our progress to date, including:

- **€5bn climate action fund** – launch of €5bn fund to support customers' transition to a low-carbon economy – €1.2bn green lending in 2019
- **Green mortgage launch –** competitive five year fixed rate, currently 2.45%
- **Reduced carbon footprint –** 20% decline in our own carbon footprint since 2014
- **UNEP FI Principles for Responsible Banking -** founding signatory at UN General Assembly in September 2019

We have prioritised culture and accountability in order to build a best-in-class culture that is underpinned by our values, behaviours and actions. In order to further simplify AIB operations, remove complexity and foster a culture of collaboration, we have organised our structure around two core segments Retail Banking and Corporate, Institutional & Business Banking. Additionally, we have strengthened our management team and achieved gender balance well ahead of industry peers. We believe the Executive team has the right blend of skills and experience to deliver our strategy and back our customers over the coming years.

OUTLOOK AND REFRESHED TARGETS

AIB had a solid underlying performance in 2019. However given the wider economic uncertainty we remain focused on controlling the controllables in the medium term. In conjunction with the publication of our 2019 results, we provide a strategic update and revised financial targets to 2022:

- **Absolute cost target of €1.5bn in 2022**

  Material reduction in staff costs will be delivered as we continue to work towards lowering our FTE headcount to <8,000, from areas primarily engaged in resolving legacy issues, as well as efficiencies achieved through digitisation; these benefits will be offset by increasing depreciation charges.
- **CET1 fully loaded target > 14%**

  Comfortably ahead of regulatory requirements; reflects known regulatory developments
- **RoTE[5] > 8% by 2022**

  Sustainable profitability to drive attractive returns

The financial targets reflect our priorities and consideration of our stakeholders. We are confident that their achievement by FY 2022 will deliver an AIB with the following attributes:

- A strong and resilient balance sheet
- Sustainable profits; capital generation and return to shareholders
- Excellent customer experience with competitive products and efficient processes
- Appropriate cost base for a leaner, simpler and more agile business
- Further de-risking with lower NPEs and resolution of legacy issues
- Positioned for growth and opportunities

CAPITAL UPDATE

Over the last couple of years we have made material progress in reducing our NPEs and have met the c. 5% milestone we set ourselves. While there is some additional clarity on our future capital requirements, some uncertainty remains. Reflecting our progress, we now believe it is appropriate to maintain a target CET1 of >14% but will maintain flexibility to amend the target subject to regulatory developments. Looking forward, we will continue to invest in our business where we can generate sustainable returns and will combine this with a sustainable ordinary dividend policy which will target a pay-out ratio of attributable profit of 40-60% through the cycle. Any distributions require prior regulatory approval.

Acknowledging our plan for further NPE reduction and cognisant of macro uncertainties, we intend to apply for regulatory approval to make an additional capital distribution as soon as possible, ideally this year, as a first step in what we envisage to be a multi-year programme to converge on the Group's capital target. Subject to the necessary regulatory and other approvals we intend to maintain flexibility on the form of any additional distributions.

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Further detail, including the 2019 Annual Financial Report, can be found on aib.ie/investorrelations

1) *Includes 90bps indicative TRIM impact for AIB mortgage model; Reported CET1 fully loaded 17.3% at December 2019*
2) *Excludes acquisition-related & insourcing staff*
3) *Costs before bank levies and regulatory fees and exceptional items*
4) *AIB Mortgage Customer Experience Programme was recognised as World leader and Innovator in Experience Management in Experience Makers Category of Medallia Expy Awards*
5) *RoTE defined as (PAT-AT1) / (CET1 @ 14% of RWAs)*

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Forward Looking Statements

This announcement 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 the ‘Principal risks and uncertainties’ on pages 40 to 43 of the Annual Financial Report 2019. 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.