EMBARGO 07:00 **4 August 2021**

EMBARGO 07:00

AIB Group plc ("AIB") announces half-year profit after tax of €274m

"Reflecting the improving economic environment, today, 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. These results, coupled with our strong customer franchise and digital leadership, position us well for the future, as we continue to tightly manage costs and execute our strategy at pace. While remaining alert to the economic uncertainties, I look forward to the remainder of 2021 and beyond with confidence, focused on our newly revised medium-term targets, united by our purpose and continuing to support our customers and the communities that we serve."

– Colin Hunt, Chief Executive Officer

KEY HIGHLIGHTS

Financial highlights ***(all comparisons versus H1 2020 unless otherwise stated)***

- Strong financial performance - Profit after tax €274m; Operating profit(1) €373m
- Capital strength continues - CET1 16.4% up 80bps (Dec 20: 15.6%)
- Stable income of €1.2bn
  - 9% decline in net interest income (NII) with improving trajectory and
  - 37% increase in other income
- Costs(2) decreased 1% with continued downward trend in FTEs; 3% reduction to 9,003 FTEs
- Net credit impairment writeback of €103m (H1 2020: €1.2bn charge) due to a more favourable economic environment and improved credit quality
- Performing loans broadly stable at €54.9bn; New lending increased 3% to €4.5bn
- NPEs 12.5% lower at €3.8bn or 6.5% of gross loans (Dec 20: €4.3bn or 7.3%) post portfolio sales
- Well positioned for growth as customer deposits increased 8% to €88.3bn; additional €6bn TLTRO(3) drawn
- On track to deliver full year market expectations for income and costs, with a net credit impairment writeback expected

Strategic highlights and outlook

- Delivering on Strategy 2023 to generate €230m of cost savings
- Significant corporate development activity in train and subject to regulatory approvals
  - Purchase of c. €4.2bn Ulster Bank corporate and commercial loans
  - Acquisition of Goodbody
  - JV agreed with Great-West LifeCo
- New green and transitional lending €0.9bn in H1 2021; 20% of total new lending
- Our digitally active customer base grew to 1.78m customers. Digital wallet payments continue to grow with c. 40m transactions in H1, up 85% versus H1 2020
- Improved economic outlook and strategic progress driving revised medium-term targets:
  - **Focused cost discipline** - Absolute cost(2) base of <€1.475bn
  - **Appropriate capital target** - CET1(4) of >13.5%
  - **Deliver sustainable returns** - RoTE(5) of >9%

FINANCIAL PERFORMANCE

Return to profit with solid income performance and focused cost management; Profit after tax of €274m was recorded in H1 2021 and included a net credit impairment writeback of €103m and exceptional items of €191m. Operating profit(1) was €373m.

Net interest income (NII) of €881m (H1 2020: €967m) reduced by 9%, having improved from a 13% decline in Q1 and is on track for a moderate decline for the full year as guided. In the first half of the year the impact of the lower interest rate environment, lower loan volumes and excess liquidity remained while momentum continued on our negative deposit pricing strategy. A net funding benefit of €15m, from the €4bn TLTRO drawn down in September 2020, was recognised in NII in the period. A further €6bn TLTRO was drawn down in June 2021.

Net interest margin (NIM) for H1 2021 was 1.66% (H1 2020: 2.10%) versus a Q4 2020 exit NIM of 1.70%. The distortionary impact of excess liquidity grossing up the balance sheet has led to a material decline in reported NIM over recent periods.

Other income increased by 37% to €302m (H1 2020: €220m). The primary component of other income continues to be net fees and commission which increased 10% to €212m (H1 2020: €192m) predominantly as a result of higher transaction volumes from some recovery in economic activity and changes in customer behaviour. Other income also included the benefit from positive valuation movements.

Our strategic initiatives to reduce costs have progressed significantly in the first half and our programme to generate €230m cost savings by 2023 is on track. Our continued focus on costs led to a 1% decrease in costs to €739m (H1 2020: €747m). FTE employee numbers reduced by 3% with staff costs declining by 2%. A reduction in general and administration expenses was offset by increased depreciation as anticipated. We remain comfortable with our full year guidance of a marginal decline in the cost base(2).

With a more favourable economic environment, there was a net credit impairment writeback in H1 2021 of €103m (H1 2020: €1.2bn charge) reflecting improved credit quality and updated macroeconomic assumptions, partially offset by COVID-19-related management judgements. We expect a small writeback in the second half based on our current view of macroeconomic assumptions. Asset quality remains a priority and we continue to carefully manage the loan book, particularly in the sectors most impacted by COVID-19 restrictions. Our overall approach remains conservative, comprehensive and forward looking and is reflected in an ECL coverage rate of 3.6%.

Exceptional items in the first half were €191m which predominantly relate to restructuring costs and provisions associated with legacy issues.

CUSTOMER LOANS

The Group’s performing loan book was broadly stable at €54.9bn (Dec 20: €55.2bn).

Regarding new lending, Q2 followed a similar pattern to Q1 with mixed trends across sectors, as we saw subdued demand in consumer lending offset by stronger activity in business sectors. Total new lending in the first half increased 3% to €4.5bn (H1 2020: €4.4bn).

The mortgage market in Ireland performed strongly in H1 2021 with total drawdowns of €4.4bn up 26% on H1 2020. A solid rise in mortgage lending is expected with market estimates revised to c. €10bn for 2021. New mortgage lending in our ROI business was €1.1bn in the first six months. 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, while credit card debt and overdrafts declined.

New lending in Corporate, Institutional and Business Banking (CIB) increased 6%, driven by an increase in property and renewable energy lending coupled with some recovery in syndicated 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, green and transitional lending was €0.9bn and accounted for 20% of total new lending whilst our green mortgage product represented 16% of new ROI mortgage lending.

In the first half of 2021, NPEs decreased 12.5% to €3.8bn (6.5% gross loans) from €4.3bn (7.3% of gross loans) at Dec 20. This decrease reflects €0.6bn of portfolio sales and €0.3bn redemptions partly offset by €0.4bn net flow to NPEs.

FUNDING & CAPITAL

Customer deposits of €88.3bn increased 8% from €82.0bn at Dec 2020 as COVID-19 pandemic related savings continued to accumulate. This increase, together with an additional €6bn TLTRO drawn down in June 2021 (Total TLTRO drawn: €10bn), contributed to higher cash held at the CBI amounting to €32bn. We continue with our negative deposit rates strategy and we currently have c. €10bn at negative rates. The Group continues to have strong funding and liquidity ratios with an LDR of 64%, LCR of 201% and NSFR of 149% at June 2021.

In May 2021 we issued our second green bond, raising €750m, the proceeds of which will contribute to the financing of projects with clear environmental and climate change benefits. The deal brings the total quantum of MREL(6) eligible instruments to €6.6bn and provides capacity for increases in RWAs through acquisitions. The Group's MREL ratio at June 2021 was 31.9% of RWAs which is ahead of our expected intermediate target of 27.1% of RWAs for January 2022. Moody's upgraded AIB Group plc senior rating to Baa1 from Baa2 following the publication of their updated banks methodology. AIB continues to be rated investment grade across all three rating agencies.

Our capital position remained robust with a reported fully loaded CET1 of 16.4%, up 80bps (Dec 20: 15.6%), well in excess of minimum requirements of 10.19%. There was an increase of 110bps in the half year due to the impacts of profit (+50bps), a decrease in RWAs (+60bps), calendar provisioning (+10bps) and other capital movements (-10bps). This was partially offset by the deduction of a foreseeable charge(7) (-30bps) in relation to dividend. SME art. 501 is expected to have a further capital benefit of c. 20bps in 2021.

STRATEGY & OUTLOOK

<u>Strategy 2023 progress</u>

We are executing our strategy at pace and we are on plan to generate €230m cost savings by 2023. Solid progress was made in the first six months of the year with initiatives such as branch amalgamations, exit of a Dublin office location and advancing the sales process for the GB SME business.

Inorganic developments

Corporate development activity in H1 2021, included agreements, which remain subject to regulatory approval, as follows:

- Purchase of c. €4.2bn Ulster Bank corporate and commercial loans
- Acquisition of Goodbody, a leading Irish provider of wealth management, corporate finance and capital market services
- Formation of a joint venture with Great-West LifeCo's subsidiary Canada Life to provide life, pension and investment solutions

Sustainability

Progressing our Sustainability agenda is a strategic priority for AIB. We continue to play our part to ensure a greener tomorrow by backing those building it today. The summary below gives a sample of the progress made in 2021 across each of the ESG categories/criteria:

Environment

- Total **green and transitional lending** €913m in H1 2021; 20% of new lending
- **Net zero commitment** in own operations (Scope 1 and Scope 2) by 2030; Net zero ambition in customer loan portfolio (ex-Agriculture) by 2040, including Agriculture by 2050
- Commitment to publish **science based targets** – signed Net Zero Banking Alliance & Low Carbon Pledge
- Raised €750 million in our second **Green Bond** issuance
- On our green propositions – we cut **interest rates on our green mortgages**, further enhanced our **green consumer loan** offering as well as introducing a **green mortgage through Haven, our broker channel**
- **Supporting bio-diversity** – reforestation initiative to plant 100,000 trees
- First disclosures under **TCFD**(8) & **UNEP FI Principles for Responsible Banking**(8)

Social

- Published **Social Bond Framework** aligned to International Capital Market Association ("ICMA") Social Bond Principles 2020
- Supporting development of >**1,200 social housing units**
- **Sustainable Communities**
    - Renewed our partnership with **FoodCloud** to 2023, with further investment of €1.5m
    - **AIB Together Community partnerships** / fundraising
- **Future of Work** programme defining our return to office approach in the short and medium terms

Governance

- New Executive Committee **Group Sustainability Committee** introduced in addition to the existing Board-level **Sustainability Business Advisory Committee** to ensure integration of sustainability strategy and implementation
- Multi-year **Sustainability Regulatory Programme** in train to deliver on the ESG regulatory expectations; **ESG regulatory training** provided at Board, Executive and employee level

- **Gender balance** at Board and Executive Committee
- Launched the **AIB Sustainable Lending Framework**, which outlines clear criteria by which we will report our green and transitional lending which is published externally
- First Irish company to have committed to use **World Economic Forum Stakeholder Capitalism metrics** in our reporting
- Sustainalytics ranked us **53rd out of 1,047 banks globally** with a low risk ESG score of 14.5 in April this year

Medium-term targets

In December 2020, we communicated a set of medium-term targets to the market. 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, it is now timely to revise these targets. Our new targets with the same timeframe of delivery by 2023 are as follows:

- **Focused cost discipline** - **Absolute cost[2] base of <€1.475bn** (Previously: <€1.35bn)
  - Commitment to take out €230m costs retained; new target reflects impact of inorganic initiatives
- **Appropriate capital target** - **CET1[4] of >13.5%** (Previously: >14%)
  - New target reflects the impact of Art. 104a which reduced CET1 P2R by 1.31%
- **Deliver sustainable returns** - **RoTE[5] of >9%** (Previously: >8%)
  - New target reflects improved economic outlook, growth opportunities, lower CET1 target and inorganic initiatives

Outlook

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 COVID-19 related restrictions.

Following a strong H1 financial performance, we are on track to meet expectations for the full year and re-iterate our income and cost guidance[9]. With the improving economic outlook, we expect a net credit impairment writeback for the full year.

We will continue to monitor developments in relation to distribution of dividends complying with both regulatory recommendations and adherence to our own dividend policy.

While the fundamentals of our business are sound, we remain alert to the economic uncertainties that exist over the longer term as well as the evolution of the Irish banking landscape. We are firmly committed to maintaining momentum in the implementation of our strategy and we look forward with confidence to the remainder of 2021 and beyond, focused on our revised medium-term targets.

Further detail is provided in the Half-Yearly Report which can be found on

https://aib.ie/investorrelations

Notes:

All FY 2021 guidance excludes impact from inorganic initiatives
Figures presented above may be subject to rounding and thereby differ to the 2021 Half Year Financial Report

1) *Operating profit before impairment and exceptional items*
2) *Costs before bank levies and regulatory fees and exceptional items*
3) *TLTRO: Targeted Longer-Term Refinancing Operations*
4) *Fully loaded*
5) *RoTE = (PAT – AT1) / (CET1 @ 13.5% of RWAs)*
6) *MREL: Minimum requirements for own funds and eligible liabilities*
7) *Article 2 Regulation (EU) No 241/2014 requires a foreseeable charge, being the maximum dividend pay-out ratio under the Group's internal dividend policy, to be deducted from equity*
8) *Task Force on Climate-related Financial Disclosures; UN Environment Programme Finance Initiative Principles for Responsible Banking*
9) *FY 2021 Guidance below and excludes impact from inorganic initiatives*
    - *Net Interest Income – expect moderate decline in FY 2021 (vs FY 2020)*
    - *Costs – expect marginal decline in FY 2021 (vs FY 2020)*

- ENDS -

For further information, please contact:

Donal Galvin	Niamh Hore	Paddy McDonnell
Chief Financial Officer	Head of Investor Relations	Head of Media Relations
Tel: +353-1-6418300	Tel: +353-1-6411817	Tel: +353-1-6412869
email: donal.j.galvin@aib.ie	email: niamh.a.hore@aib.ie	email: paddy.x.mcdonnell@aib.ie

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 the Principal risks on pages 50 to 53 in the Annual Financial Report 2020 and updated on page 36 of the Half-Yearly Financial Report 2021. 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.

Figures presented may be subject to rounding.