EMBARGO 07:00 **29 July 2022**

AIB Group plc announces half-year profit after tax of €477m

"Against the backdrop of ongoing economic uncertainty, AIB has reported a solid set of financial results for the first six months of the year, demonstrating the Group's ongoing stability and strength. We maintained leading positions in our core markets and continued to progress our cost-savings programme and growth strategy. Crucially, we continued to set the pace for the sustainability agenda in Irish financial services and during the first half we provided €1.3 billion of new green lending supporting our customers as together we tackle the challenges of climate change.

Having significantly de-risked the balance sheet with legacy NPEs now reduced to only 0.6% of gross loans, we are in as robust financial shape as possible to support our 2.8 million customers and the wider economy as we collectively navigate the next period of uncertainty.

Given the changing banking landscape and evolving operating environment, our medium-term targets are under review and we will update the market in due course. We see upside potential to our ROTE target, with the significant momentum we are seeing in income offset to some extent by cost inflation."

– Colin Hunt, Chief Executive Officer

KEY HIGHLIGHTS

Financial highlights ***(all comparisons versus H1 2021 unless otherwise stated)***

- Strong financial performance - Profit after tax €477m
- Capital strength maintained – fully loaded CET1 15.3% (Dec 21: 16.6%) and incorporates -130bps RWA impact for the Ulster Bank corporate and commercial loan book acquisition
    - Share buyback of €91m completed in May 2022
- New lending increased by 20% to €5.4bn
    - Green lending €1.3bn representing 23% of total new lending
    - Irish mortgage market share 31%[1]
- Total income up 8% to €1.3bn
    - 2% increase in net interest income (NII) with improving trajectory
    - 26% increase in other income with strong fee-based income
- Costs[2] up 6% to €0.8bn, increase of 1% on an underlying basis[3]
    - 2% reduction in average FTEs to 8,946
    - Wage agreement for 10% increase over three years
- Net credit impairment writeback of €309m (H1 2021: €103m writeback)
    - Maintaining our conservative approach to asset quality
- NPEs 22% lower at €2.4bn or 4.2% of gross loans (Dec 21: €3.1bn or 5.4%)
    - Legacy NPEs[4] of €0.3bn or 0.6% of gross loans
- Performing loans increased by €0.8bn to €56.1bn (Dec 21: €55.3bn)
    - €0.2bn of Ulster Bank corporate and commercial loans migrated by end June
- Strong funding with customer deposits increased 3% to €95.9bn; €1.75bn MREL issued in H1

Strategic highlights and outlook

- Delivering on our strategic priorities - Halfway through three-year plan
- Closing out legacy items
  - NPEs: Key <5% milestone passed with a clear path to c. 3% by 2023
  - Conclusion of CBI's enforcement actions regarding tracker mortgages
- Focus on c. €230m cost-savings plan against inflationary backdrop
  - Completed 'future of work' initiative with 3 Dublin head offices exits (50% reduction)
  - Completed UK transformation with exit of GB SME business
- Inorganic initiatives enhance our product suite, diversify revenue and provide loan book growth opportunities
  - Commenced migration of Ulster Bank corporate and commercial loans - positions AIB as No. 1 bank for corporate banking in Ireland
  - Entered binding agreement with NatWest Group plc for the acquisition of a c. €5.7bn Ulster Bank performing tracker mortgage portfolio comprising 47,000 customers
- Onboarding new customers as two retail banks exit Ireland
  - Opened 205,000 bank accounts, a 110% increase on the same period last year
  - Recruiting up to 700 temporary staff to support onboarding
- Independently recognised sustainability leader
  - Environment – €750m green bond issuance
  - Social – €1bn inaugural social bond issuance
  - Governance – Sustainalytics ranked AIB 44 out of 1,001 banks
- Continuous investment in IT providing modern, resilient, customer-focused digital technology
  - Average c. €300m investment per annum
  - 74% of AIB personal customers are digitally active
- Medium-term targets under review given the momentum in income, which is expected to be offset to some extent by cost inflation
  - Upside potential to our ROTE[5] target, we will update the market in due course

FINANCIAL PERFORMANCE

With continuing momentum from full year 2021, the Group delivered another solid financial performance in the first half of this year. Profit after tax of €477m was recorded and included a net credit impairment writeback of €309m.

Net interest income (NII) of €895m (H1 2021: €881m) increased by 2% with lower cost of liabilities and higher income from investment securities. Deposits at negative rates increased from c. €12bn at December 21 to c. €16bn at end June. Net interest margin (NIM) for H1 2022 was 1.48% (H1 2021: 1.66%) versus a Q4 2021 exit NIM of 1.41% which excluded the net TLTRO funding benefit recognised in Q4.

The structure of our balance sheet is geared towards higher interest rates. In an update to previous guidance of high single-digit percentage increase in NII (which assumed official ECB and BOE rates of 0% and 2% respectively), we now expect NII to increase by c. 10% in 2022 compared to 2021.
The updated guidance uses revised rate assumptions of an ECB Deposit rate of 1% and a BOE rate of 2.75% by December 2022.

Interest rate sensitivity[6]

The table below shows updated NII sensitivities.

NII Sensitivity as at June 2022 (€m)	-100bps	+25bps	+50bps	+100bps
Euro	(301)	75	150	301
Sterling	(48)	12	23	47
Other (mainly US$)	(21)	5	10	21
Total	**(370)**	**92**	**183**	**369**

Other income increased by 26% to €379m (H1 2021: €302m) which includes €33m of income for Goodbody. Net fee and commission income increased by 35% to €286m (H1 2021: €212m) predominantly as a result of higher transaction volumes from the recovery in economic activity. Other income also included income from equity investments and €26m in respect of a forward contract to acquire corporate and commercial loans from Ulster Bank. We expect full year 2022 other income of c. €700m.

H1 2022 operating costs were up 1% on an underlying basis or up 6% inclusive of Goodbody. This incorporates both the impacts of wage inflation and temporary costs to onboard new customers from those banks exiting the Irish market. Notwithstanding the inflationary pressures, with full year costs of c. €1.6bn expected, we are confident we can manage the business such that cost growth will be lower than income growth over the medium-term.

There was a net credit impairment writeback of €309 million in H1 2022 (H1 2021: +€103m) due to repayments, updated macroeconomic assumptions and a release of some post-model adjustments. Asset quality remains a priority and we continue to carefully manage the loan book, particularly those sectors impacted by inflationary pressures and rising interest rates. At this point, we continue to expect a small ECL charge in FY22 as we maintain our conservative, forward-looking and comprehensive ECL approach.

Regulatory costs and bank levies increased to €101m in H1 2022 (H1 2021: €71m) and relate to higher contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS). The increase was due to an industry-wide increase in the target funding rate which impacted the SRF and higher levels of liabilities. Regulatory costs and bank levies are expected to be c. €150m in 2022.

Exceptional items of €168m include costs associated with legacy items such as the Belfry[7] investment property funds and the agreed tracker mortgage enforcement fine. Additional exceptional items primarily include restructuring and inorganic transaction costs. Exceptional costs are expected to be c. € 300m in 2022.

CUSTOMER LOANS

Gross loans of €58.5bn increased by €0.1bn (Dec 21: €58.4bn) with performing loans of €56.1bn (Dec 21: €55.3bn) as new lending exceeded redemptions and c. €0.2bn Ulster Bank corporate and commercial loans migrated in June 2022.

Total new lending increased by 20% to €5.4bn (H1 2021: €4.5bn). Mortgage drawdowns in Retail Banking were €1.7bn up 59%, representing a market share of 31% YTD June. Our strong market franchise, across our different brands and channels, positions us to grow as the market and competitive landscape evolve. Personal lending in Retail Banking was up 19% to €0.5bn reflecting a recovery in consumer credit demand.

Capital Markets had a strong first half with new lending up 32% to €2.1bn as new real estate finance lending almost doubled. Whilst inflationary pressures and supply-chain constraints are evident, sentiment in the corporate sector is positive with new corporate lending up 47%.

SME credit demand in Ireland remains subdued with new lending of €0.8bn in the first half.

In AIB UK, new lending of £0.5bn was down 38% reflecting our decision to exit the GB SME market and our reduced credit appetite against the backdrop of a more challenging UK economic outlook.

We continue to support our customers as we collectively tackle the challenges of climate change. In H1 2022, green lending increased 37% to €1.3bn and accounted for 23% of total new lending, up from 20% in H1 2021. In Ireland, our green mortgage products represented 25% of new mortgage lending.

Significant progress has been made on NPEs with an 80% reduction in the last five years bringing the NPE ratio below the <5% milestone to 4.2% at June 2022 (Dec 21: 5.4%). NPEs at end June of €2.4bn decreased by €0.7bn (Dec 21: €3.1bn) primarily due to a €0.4bn portfolio sale and redemptions. Legacy NPEs have effectively been addressed and at end June represented 0.6% of gross loans (€0.3bn). We remain focused and on track to reach our c. 3% NPE target by 2023 given the impact on cost, capital requirements and balance sheet resilience.

We expect customer loans to grow by 5-6% inclusive of the Ulster Bank corporate and commercial loans in 2022. In terms of the outlook for loan book growth we expect a c. 8% CAGR over the period to 2024 inclusive of both Ulster Bank loan book acquisitions.

FUNDING & CAPITAL

Strong funding and capital ensure AIB is well positioned for sustainable growth. Customer deposits of €95.9bn increased by 3% (Dec 21: €92.9bn) reflecting inflows from the exiting banks and increased customer savings. This increase, together with €10bn drawn TLTRO, contributed to cash held at the ECB of €38.1bn and BOE of €5.6bn. The Group continues to have strong funding and liquidity ratios with an LDR of 59%, LCR of 215% and NSFR of 164% at June 2022.

In June, AIB raised €750m in our third green bond issuance, which followed our €1bn inaugural social bond issuance, the first by an Irish bank. This brings total proceeds raised from ESG bonds to €3.5bn and the total quantum of MREL eligible instruments to €5.4bn. The Group's MREL ratio at June 2022 was 30.8% of RWAs which is ahead of our estimated intermediate target of 27.9% of RWAs for 1 January 2023. AIB is rated investment grade across all three rating agencies. In the first half, Moody's upgraded AIB Group plc senior rating one notch to A3 from Baa1 and maintained the Stable Outlook whilst S&P revised the Outlook to Stable from Negative and reaffirmed the BBB- rating.

Capital remains robust and ahead of December 2022 minimum regulatory requirements of 10.2%. The fully loaded CET1 at June 2022 was 15.3% (Dec 21: 16.6%) and reflects the -130bps impact due to increased RWAs as a result of the Ulster Bank corporate and commercial loan book acquisition. Other CET1 movements included profit (+90bps), calendar provisioning release (+10bps), dividend accrual(8) (-60bps), share buyback completed in May (-20bps) and a reduction in investment securities (-20bps). We expect the acquisition of the c. €5.7bn Ulster Bank performing tracker mortgage portfolio to reduce CET1 by c. 60bps reflecting increased risk weighted assets of c. €2.5 billion.

STRATEGY & SUSTAINABILITY

Strategic progress

We are delivering on our strategy at pace and have reached the halfway mark of our three year plan. We are implementing our transformation programme to future-proof our business model and reduce costs by c. €230m. In the first six months of the year we concluded initiatives such as the exit of the UK SME market, completing the UK transformation. We also made significant progress on our 'future of work' initiative with three office exits reducing our foot print by 50% and embedding a hybrid work model.

We have engaged selectively in M&A to help fill product gaps and provide growth opportunities. Our acquisition of Goodbody, which is now well integrated, enhances our wealth management and capital markets propositions whilst our joint venture with Great-West LifeCo, which is intended to launch later this year, will transform our Retail Wealth offering and provide life, pensions and savings solutions.

In the first half, we received competition clearance for the acquisition of c. €3.7bn Ulster Bank corporate and commercial loans. Migration of these customer loans has commenced with c. €0.2bn on the balance sheet at June 2022. We expect the transfer of loans to complete in Q1 2023.

Additionally we entered into a binding agreement with NatWest Group plc for the acquisition of a c. €5.7bn performing tracker mortgage portfolio, for a total consideration of €5.4bn equivalent to 95.15% of par value. AIB will acquire an economic interest in the mortgage portfolio in the second half of 2022 with formal completion expected in 2023, subject to regulatory approvals.

Sustainability

Progressing our Sustainability agenda is a strategic priority for AIB. We continue to play our part as a sustainability leader to ensure a greener tomorrow by backing those building it today. The summary below shows some of the highlights of H1 2022 across each of the ESG categories/criteria:

Environment

- We have completed setting science-based targets for our corporate loan portfolio and our targets now cover 75% of our Group loan book and we will be seeking external validation with the Science-Based Targets Institute in the coming months
- We are actively working to reduce our own carbon footprint and have completed a tender process for a Corporate Purchase Power Agreement (CPPA) which will deliver solar powered renewable energy to be used across our business

Social

- The social bond raised €1bn, of which the proceeds will contribute to the financing of projects with clear social benefits in communities across Ireland in the areas of healthcare, education and social and affordable energy efficient housing
- We supported the launch of the First Homes Scheme which is a significant public private partnership to provide up to 30% equity stake in the home; total stakeholder funding is €400m and equates to nearly 5,000 homes

Governance

- Received improved ESG ratings from Sustainalytics; AIB now ranks in the top five per cent (44 out 1,001) of global banks and was assessed to be at Low Risk of experiencing material financial impacts from ESG factors
- Helen Normoyle, Chair of Sustainable Business Advisory Committee was appointed our new Senior Independent Director (SID)

OUTLOOK & GUIDANCE

With positive momentum from full year 2021, we have delivered a solid financial performance in the first half. For the remainder of 2022 we will continue to grow our loan book prudently, onboard our new customers, embed inorganic initiatives and maintain cost discipline.

Economic conditions and volatility are rapidly changing with upward pressure on inflation and interest rates and we are cognisant of the impact that this may have on many of our customers. With our strong balance sheet position we will continue to support our customers and the wider economy through the challenges ahead.

Given the changing banking landscape, evolving operating environment and the rising interest rate outlook, our medium-term targets are under review. With upside potential to our >9% RoTE target, we will update the market in due course.

Guidance:

All guidance is for 2022 and includes the impact of inorganic initiatives

- NII to increase by c.10%
- Other income is expected to be c. €700m
- Costs to be c. €1.6bn incorporating higher inflation, agreed salary increases and cost of onboarding new customers
- We continue to expect a small ECL charge in FY22 as we maintain our conservative, forward-looking and comprehensive ECL approach
- Regulatory costs and bank levies are expected to be c. €150m
- Exceptional costs are expected to be c. € 300m
- Customer loans to grow by 5-6%

Further detail is provided in the half-yearly financial report 2022 which can be found on aib.ie/investorrelations

An analyst webcast and conference call will be held @ 09:00 IST, details of which are available on our website at aib.ie/investorrelations

Notes:

(1) Source: Mortgage drawdowns BPFI June 2022
(2) Costs before bank levies and regulatory fees and exceptional items
(3) Goodbody was acquired in H2 2021. Underlying basis excludes the impact of Goodbody
(4) Legacy NPEs are those NPEs in default prior to December 2018
(5) RoTE = (PAT – AT1) / (CET1 @ 13.5% of RWAs)
(6) Reported sensitivities should not be considered a forecast of future performance

(7) Belfry relates to a series of investment property funds which were sold to individual investors during the period 2002 to 2006. Further information is available on page 109 of the 2022 Half-Yearly Financial Report

(8) 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

Figures presented above may be subject to rounding and thereby may differ to the 2022 Half-Yearly Financial Report

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For further information, please contact:

Donal Galvin
Chief Financial Officer
Tel: +353-1-6418300
email: donal.j.galvin@aib.ie

Niamh Hore
Head of Investor Relations
Tel: +353-1-6411817
email: niamh.a.hore@aib.ie

Paddy McDonnell
Head of Media Relations
Tel: +353-87-7390743
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 Principal risks on pages 28 to 30 of the Annual Financial Report 2021 and updated on page 37 of the Half-Yearly Financial Report 2022. In addition to matters relating to the Group's business, future performance will be impacted by the direct and indirect impacts of the COVID-19 pandemic, the direct and indirect consequences of the Russia-Ukraine War on European and global macroeconomic conditions, the impact of higher inflation on customer sentiment 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 28 to 30 of the Annual Financial Report 2021 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.