


CHIEF EXECUTIVE'S REVIEW



“ WE ARE EXECUTING OUR STRATEGY AT PACE AS DEMONSTRATED BY THE SOLID PROGRESS MADE IN THE FIRST SIX MONTHS OF THE YEAR ”

UNITED BY PURPOSE, DRIVEN BY AMBITION

With strong fundamentals, AIB Group has returned to profitability in 2021 and progressed our strategy to achieve long-term growth objectives.

INTRODUCTION

Ireland is finally emerging from the global pandemic with the rapid roll out of highly effective vaccines allowing for the gradual lifting of restrictions imposed to control the spread of COVID-19. This paves the way for a robust recovery in economic activity.

Against this backdrop, 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.

We are proud to be Ireland's leading digital bank and continue to hold a No.1 position across a number of product areas including current accounts, personal loans and credit cards. In addition, we continue to lead the sustainability agenda in financial services in Ireland by both enabling action and making meaningful progress in this space.

We are executing our strategy at pace as demonstrated by the solid progress made in the first six months of the year. We have entered into a binding agreement with Natwest Holdings Limited and Ulster Bank Ireland DAC for the acquisition of c.€4.2bn of performing Ulster Bank corporate and commercial loans. We announced our intention to acquire Goodbody, a leading provider of wealth management, corporate finance and capital markets services and we have also reached agreement to form a joint venture with Great-West LifeCo's subsidiary Canada Life, all of which remain subject to regulatory approval. Combined, these moves will ensure that AIB is the market-leading, full service financial services provider in Ireland. As well as reinforcing our long-term growth objectives, these initiatives will also provide benefits for customers, employees and shareholders and enable us to

continue to support Ireland's economic recovery as we emerge from the COVID-19 pandemic. Further details on the initiatives that have already been delivered across each of our strategic pillars can be found on page 11.

In December 2020, we communicated a revised set of medium-term targets to the market. On the back of significant progress made in the delivery of our strategic plan since then, including our corporate development related activity, the opportunity for further loan book and fee income growth and an improved economic outlook, it is now timely to revise these targets again to ensure that we continue to deliver in the interests of all of our stakeholders. As such, in 2023 we commit to delivering a CET1 ratio of greater than 13.5%, a cost base of less than €1.475bn and a Return on Tangible Equity (RoTE) of greater than 9%.

FINANCIAL PERFORMANCE

Reflecting the improving economic environment, we delivered a strong performance in the first half of this year achieving a profit before tax of €291m. This includes €373m operating profit before exceptional items and bank levies.

Our total income of €1,183m is in line with the first half of 2020. We have seen a reduction in our net interest income to €881m which represents a 9% decrease compared to the half-year to June 2020. This reduction was principally due to lower loan volumes, the low interest rate environment, lower investment securities income and the cost of excess liquidity partially offset by a decrease in interest expense. Other income increased by 37% to €302m when compared to the same period

last year, mainly due to positive valuation movements and some recovery in net fees and commission income.

Our total operating expenses were €739m, cost management remains a priority and ongoing focus for the Group. Our newly revised medium-term target reflects the impact of the progress made in our strategic growth initiatives and is set to generate €230m cost savings by 2023.

With a more favourable economic environment, there was a net credit impairment writeback in the first half of 2021 of €103m reflecting improved credit quality and updated macroeconomic assumptions, partially offset by COVID-19 related management judgements. Our overall approach remains conservative, comprehensive and forward looking and is reflected in an expected credit loss coverage rate of 3.6%.

Exceptional items of €191m include provisions of €100m in respect of potential liabilities relating to a series of legacy investment property funds which were sold to individual investors during 2002-2006. The remaining €91m includes other restitution related costs, restructuring costs attributed to the implementation of the Group's revised strategy and losses incurred on the disposal of loan portfolios.

In terms of other legacy items, where we identify an issue, our priority is to put things right for our customers who have been affected. We work closely with the Central Bank of Ireland, on an ongoing basis in relation to any tracker related issues and associated enforcement investigations.

New lending of €4.5bn in the half-year to June 2021 was 3% higher compared to the same period in 2020, with mixed trends across sectors. The mortgage market in Ireland performed strongly in the first half of 2021 with total drawdowns of €4.4bn up 26% on the same period in 2020. New mortgage lending in our ROI business was €1.1bn in the first six months. A solid rise in mortgage lending is expected with market estimates revised to c.€10bn for 2021. 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. New lending in Corporate, Institutional and Business Banking increased 6%, driven by an increase in property and renewable energy lending coupled with some recovery in syndicate 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 of 2021, green and transitional lending was €0.9bn and accounted for 20% of total new lending.

Gross loans and gross performing loans at €58.7bn and €54.9bn remained broadly stable when compared to 2020 year-end. Net loans were down €0.9bn (excluding FX impact) with redemptions exceeding new lending and reflecting the disposal of non-performing loan portfolios. As at 30 June 2021, 85% of AIB's loan book is of strong or satisfactory quality. Maintaining the quality of new lending is critical, with >98% of our new lending being of strong or satisfactory credit quality in the first half of 2021.

Non-performing loans as a percentage of gross loans to customers was 6.5% at 30 June 2021 compared to 7.3% at 31 December 2020. This decrease primarily reflects the disposal of loan portfolios and redemptions, partially offset by net flow to non-performing. We remain committed to reducing non-performing exposures to c.3% of gross loans by 2023 given the impact on cost, capital requirements and balance sheet resilience.

AIB's funding ratios remain robust. As deposits continue to accumulate up 8% to €88.3bn, our Loan to Deposit Ratio was 64% at the end of June 2021 and we continue to have strong liquidity metrics (Liquidity Coverage Ratio 201% and Net Stable Funding Ratio 149%).

In May we issued our second green bond to the market, raising €750m, the proceeds of which will contribute to financing projects with clear environmental and climate change benefits. Orders for the transaction peaked at €1.5bn, representing a twice oversubscribed book. This follows the successful issuance of our €1bn Green Tier 2 transaction in September 2020. With two full years of impact and allocation reporting available on our green bond pool showing strong carbon reduction figures, our green issuance attracted keen interest from committed socially responsible investors. Overall, there were 99 separate investors from 19 different countries. The deal further strengthens AIB's funding position and brings the total quantum of MREL eligible instruments to €6.6bn.

We have a strong capital base with a CET1 ratio of 16.4% at 30 June 2021, well in excess of regulatory requirements and our revised medium-term target of greater than 13.5%.



In May, AIB employees and their children took part in No Litter Day as part of our support for PickerPals, inspiring the next generation of environmentalists



We are creating an AIB woodland of Irish trees. John Beckett, Forestry Partners; David Feeney, Land Solutions, Coillte with Mary Whitelaw, AIB's Director of Corporate Affairs, Strategy & Sustainability

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**82% OF PERSONAL
 LOAN APPLICATIONS
 WERE COMPLETED
 DIGITALLY IN THE
 FIRST HALF OF 2021**”

DIGITAL

Continued investment to enhance our technological capability remains a priority so that we provide our customers with secure banking systems, increased efficiency and ease of access. We are investing heavily in mitigating cyber risk so that our digital offering is secure, resilient and equipped with leading security features.

Digital adoption by our customers continues with digital wallet usage growing by a further 13% and the value of e-commerce purchases on debit cards increasing by 36% compared to the same period last year. Our digitally active base has grown to 1.78m customers and our mobile banking app is the channel of choice with one in three of all personal bank accounts now opened via this platform and an average of 870,000 customers logging on at least once a day. In addition, 82% of personal loan applications were completed digitally in the first half of 2021, an increase of 5% on the same period last year.

Digital investment is also critical to our ways of working now and into the future. In June, we launched 'aib Connect', our new employee communications hub, to enable our people to digitally connect, communicate and collaborate across the organisation from any location.

CULTURE & OUR PEOPLE

The right culture is vital to the success of any business and at AIB, our culture is underpinned by five values and associated behaviours that

support the delivery of high quality service and fair customer outcomes. Recent results from the Irish Banking Culture Board survey demonstrated many of the positive steps we have taken to embed the customer at the heart of everything we do, while also outlining some areas that require further focus. The Board and Executive Committee remain committed to ensuring that the culture at AIB continues to evolve positively.

We know that it is our people who are the heartbeat of our business and in June, we launched our first Employee Values Awards to recognise some of those who truly bring our values to life every day. We continue to take a holistic approach to our wellbeing programme, and in April, to support our Right to Disconnect Policy and to recognise the commitment shown by all our people during the pandemic we announced a 'Digital Disconnect & Refresh Day', which is effectively an additional day's leave for every AIB employee in 2021. We also hosted our first virtual AIB Wellbeing Festival to help our people create effective wellbeing habits, an inclusive environment and greater connectivity across the organisation.

We are committed to being representative of the diverse communities we serve and we recognise, as an employer, the key role we play in supporting social inclusion in society. That is why we have signed up to both the Business in the Community's Elevate Pledge and Diversity Charter. These pledges signal our renewed commitment at an organisational level to advancing a diverse and inclusive workplace while also supporting the broader values of inclusion, equality and opportunity in the communities in which we operate.

As previously reported in the Annual Financial Report 2020, a number of searches for Board positions were underway and have led to a series of appointments to the Board in 2021 to date. Andy Maguire joined the Board and the Board Risk Committee in March and Fergal O'Dwyer and Anik Chaumartin joined the Board and the Board Audit Committee in January and July 2021, respectively. In addition, our Chief Financial Officer, Donal Galvin joined the Board as an Executive Director in May 2021. There are a number of additional Board appointments in the course of the supervisory fitness and probity assessment process and announcements will be made in due course.

The process to identify a candidate for the position of Chair, which is being led by the Senior Independent Director, is well advanced and an announcement will be made as soon as circumstances permit. In the meantime, Deputy Chair Brendan McDonagh continues to fulfil the duties of the Chair role at the request of the Board.

SUSTAINABLE COMMUNITIES

As leader of the sustainability agenda in financial services in Ireland, we are fundamentally committed to supporting the transition to a low-carbon economy, reducing our own carbon footprint and helping our customers to do the same. Since the beginning of the year, we have made further advances on this agenda, which sits at the very heart of our strategy.

We have continued to embed Environmental, Social and Governance (ESG) considerations into our business processes through the introduction of an ESG Questionnaire for borrowers in sectors more exposed to climate risk as well as launching the AIB Sustainable Lending Framework, which

outlines clear criteria by which we will report our green, transition and social lending. These changes are critical building blocks in providing sustainable social infrastructure, achieving our sustainability ambition of 70% of our new lending to be green/transition lending by 2030, and also in understanding our exposure to ESG risk.

In supporting our customers' transition to a low-carbon future, in the first seven months of the year we have cut interest rates on our green mortgages, further enhanced our green consumer loan offering as well as introducing a green mortgage through the Haven broker channel. In addition, our Energy, Climate Action & Infrastructure team continues to support large corporate investment, ensuring a greener tomorrow by backing those building it today with new lending increasing by c.40% in the first six months of this year.

Recognising the role of strategic partners, we have also recently announced a new partnership with the Teagasc Signpost series, a programme utilising 100 demonstration farms, aimed at supporting the sector on its transition to net zero emissions by 2050. To continue tackling the issue of food waste, in May we renewed our partnership with FoodCloud to 2023, with further investment of €1.5m. We have also pledged €1.25m to fund the First Chair of Sustainable Business in Ireland at University College Cork. Finally, we recognise the importance of biodiversity and we have committed to plant a tree for every new youth account opened. In addition, we continue to embed our Pledge to Do More across the Group and we will plant a tree for every colleague, creating an AIB woodland of native Irish trees.

We are proud to be the first Irish company to have committed to use World Economic Forum

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THE BOARD AND EXECUTIVE COMMITTEE REMAIN COMMITTED TO ENSURING THAT THE CULTURE AT AIB CONTINUES TO EVOLVE POSITIVELY
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AIB CEO Colin Hunt with GAA President Larry McCarthy and players launching the AIB GAA All-Ireland Senior Football Championship 2021. AIB has been supporting GAA communities across Ireland for 30 years.

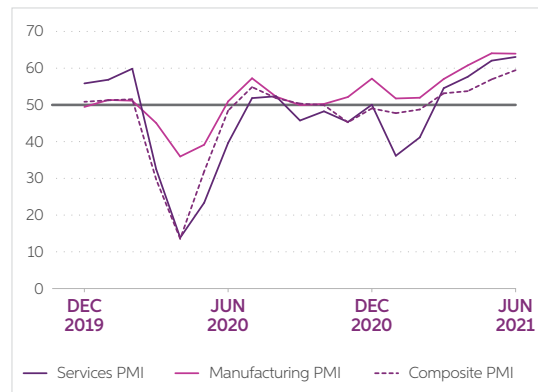
Stakeholder Capitalism metrics in our reporting, joining 80 other sustainability-focused companies globally. Additionally, we are the first Irish bank to join the UN Net Zero Banking Alliance.

Our progress has been recognised independently and externally by both rating agencies and industry bodies. Most recently in April this year Sustainalytics ranked us 53rd out of 1,047 banks globally with a low risk ESG score of 14.5. This benchmarks very favourably compared to our peer group and demonstrates AIB's significant progress in advancing the sustainability agenda.

OUTLOOK

The COVID-19 pandemic has cast a long shadow over everyday life across the world for the past 18 months. However, 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 restrictions.

Sentiment improves as restrictions are eased¹

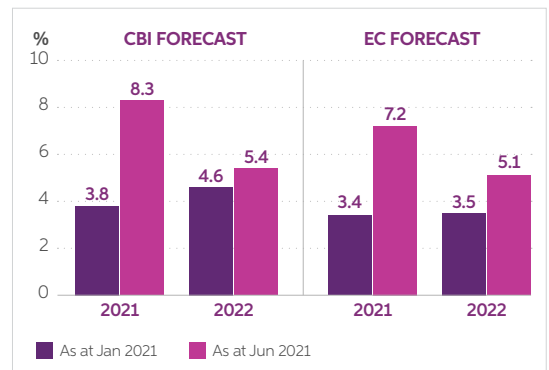


As anticipated, economic activity rebounded strongly in the second quarter of 2021 in Ireland as restrictions were lifted. By June, the Purchasing Managers' Indexes (PMIs) for the manufacturing, services and construction sectors had hit record or near record highs. Core retail sales in May rose by 9% as the sector re-opened and new car sales rose by 21.6% in the first half of 2021. Also, consumer confidence hit a two year high in June, while government tax receipts were up by almost 10% at mid-year, well ahead of target. Unemployment is also now falling, which provides a positive platform for the economic recovery at all levels.

Expectations are for the strong rebound to continue over the second half of the year and into 2022, with many favourable factors at work. Accommodative monetary and fiscal policies are being kept in place as the economic recovery gathers momentum. Interest rates are set to remain very low, while the

Irish government has indicated that there will be continuing supports to help businesses and households get back on their feet.

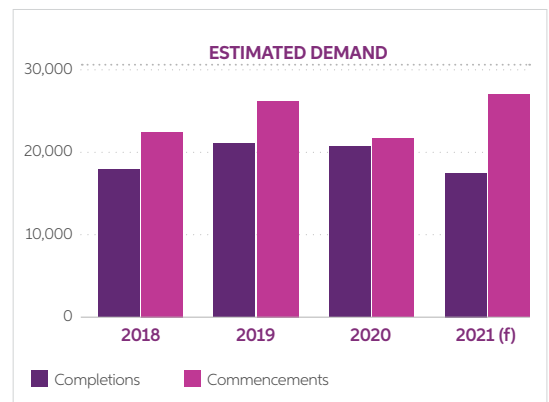
Upward revisions to GDP forecasts²



The enormous build-up of household savings in the Irish economy since early 2020 points to considerable firepower to fuel a strong rebound in the domestic economy. Meanwhile, with a strong recovery underway in the global economy, Irish exports should continue to perform well. Recent forecasts from the Central Bank of Ireland and European Commission are for Irish GDP to grow by 8.3% and 7.2% respectively this year and over 5% in 2022, with growth in the domestic economy averaging 4.5–5.0% over the two years.

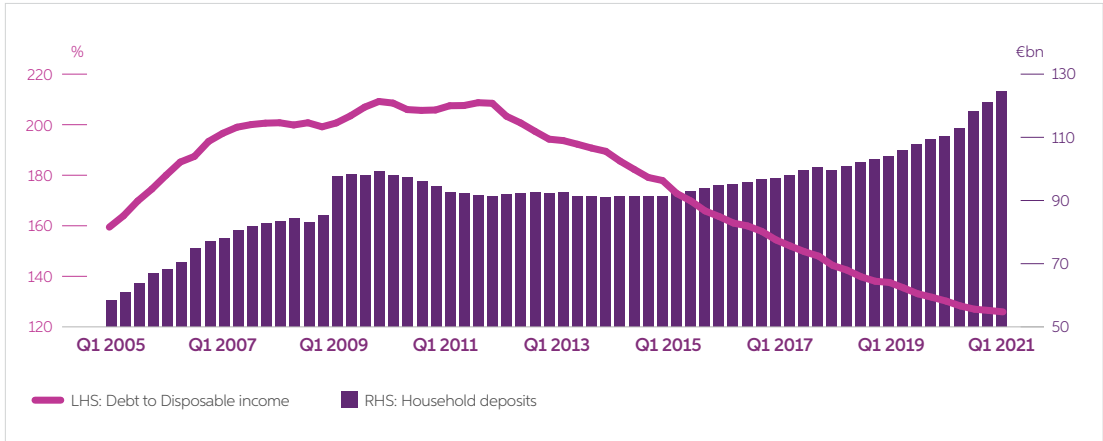
The pandemic and lockdowns have had a negative impact on housing supply. New house building will struggle to reach 20,000 units in 2021, well below estimated annual demand of c.30,000. This has been one of the factors putting marked upward pressure on house prices this year, although this is a notable feature of many economies and increasing housing supply is a key focus of government policy. Most encouragingly, there has been a surge in new housing commencements since the sector re-opened in April, which augurs well for future supply. We expect the mortgage market will grow strongly over the next number of years as more housing supply comes on stream.

Commencements increase as construction sector opens³



1. Source: Markit via Thomson Datastream. 2. Source: CBI 'Quarterly Bulletin Q3 2021', EC 'Economic Forecast Summer 2021'
3. Source: CSO, Dept. of Housing, AIB ERU

Deposits surge as household deleveraging continues⁴



Overall, prospects on the Irish economy are quite favourable. However, there are potential economic headwinds on the horizon that will need to be navigated carefully such as risks posed by new COVID-19 variants, challenges in implementing the Trade and Co-Operation Agreement concluded by the EU and UK and expected changes to the global corporate tax regime.

As I mentioned previously, significant progress has already been made this year on the implementation of our strategic plans which will see our organisation transformed and delivering our newly revised medium-term targets – a CET1 ratio of greater than 13.5%, a cost base of less than €1.475bn, and a RoTE of greater than 9%. With these targets, we aim to generate sustainable profits and provide our investors with appropriate returns over the longer term. We continue to comply with the ECB’s recommendations in relation to the distribution of dividends. We will continue to monitor developments in this regard and work in the interests of all of our stakeholders.

I would like to thank my fellow Board and Executive Committee members, and all of my colleagues across the Group for their extraordinary energy, care and resilience. We will remain alert to the economic uncertainties that exist as well as the evolution of the Irish banking landscape. We are firmly committed to maintaining momentum in the implementation of our strategy and will do so with increasing fervour and rigour. I look forward with confidence to the remainder of 2021 and beyond, focused on our revised medium-term targets, united by our purpose and driven by our ambition to be at the heart of our customers' financial lives.

COLIN HUNT
 Chief Executive Officer
 3 August 2021



We are fundamentally committed to supporting our customers in the transition to a low-carbon economy.

4. Source: CSO, CBI, AIB ERU