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AIB Group plc ("AIB") announces Half-Yearly Financial Results 2020

"Today we announce a set of AIB Half-Yearly Financial Results that has been shaped by the COVID-19 public health crisis which has provoked such a severe and rapid deterioration in the global and national economy. Against the backdrop of this sudden and ongoing emergency, the bank has taken a €1.2bn expected credit loss (ECL) charge in H1 2020 which represents the significant majority of the FY 2020 anticipated ECL charge. The strength of our capital base allows us to take this conservative, forward looking and comprehensive approach. Equally, our strong funding and capital position help us to underpin Ireland's economic recovery by assisting and sustaining individual customers, families and SMEs through these times of extraordinary stress. While our strategic priorities and medium-term financial targets remain unchanged, the challenge to achieve these is greater. We are actively considering the future shape of our business and our ways of working, adjusting to the challenges presented by the COVID-19 crisis so that AIB maintains a strong and resilient balance sheet, generates sustainable profits and returns capital to our shareholders."
– Colin Hunt, Chief Executive Officer

KEY HIGHLIGHTS

Financial performance

- *Pre-provision operating profit of €0.4bn; Loss after tax €0.7bn:* €1.2bn ECL charge due to the impact across all portfolios from the deterioration in the economic outlook caused by the COVID-19 pandemic
- *Lower income*: H1 net interest income reduced 8% versus H1 2019 to €967m; H1 net interest margin (NIM) of 2.10% (Q4 2019 exit NIM: 2.25%) largely reflecting the impact of excess liquidity
- *Continued management focus on cost discipline*: Costs €747m(1) in line with H1 2019; 6% decrease in FTE employee numbers versus June 2019(2)
- *Lower new lending across all sectors*: New lending reduced €1.6bn (-27%) to €4.4bn; Retail Banking new lending reduced 13%
- *Strong capital position:* Reported CET1 (FL) 16.4%; pro-forma CET1 (FL) 15.6%(3) including indicative TRIM impact of 80bps, well in excess of our target CET1 of >14%. On a regulatory basis, our transitional CET1 ratio of 20.2% is more than double our 2020 regulatory requirement
- *MREL requirement on track:* Successful AT1 issuance €625m bringing MREL issuance to €5bn; MREL ratio currently in excess of MREL expected intermediate target of 27.1% of RWAs

Backing customers, colleagues and communities

- *Financially and operationally resilient*; backing our customers, colleagues and the Irish economy through the COVID-19 pandemic crisis

- *Introduction of a wide range of customer initiatives*; c. 64k payment breaks implemented for our retail banking customers
- *Enabled over 80% of our workforce to work seamlessly and securely on remote basis*
- *99.4% of our branch network remains open to serve the community*
- *Extensive Culture Evolution Programme;* launched our new and evolved company values and behaviours; positively evidenced by our people's response to the COVID-19 emergency
- *Wellbeing Programme;* accelerated rollout of the programme to ensure colleagues had the necessary supports available as their working environment suddenly and radically changed
- *Recharge the economic recovery;* well capitalised and ready to support the July Stimulus package from the Government including Credit Guarantee and Future Growth Loan Schemes of €2bn and €0.8bn respectively
- *Leader in Irish housing finance:* €300 million social housing fund for the provision of 2,000 new social houses

Outlook

- Strategic priorities and medium-term targets remain unchanged
- Examining the challenges and opportunities presented by the crisis and how our business may be re-shaped for the future
- Strong capital and funding position enable us to support our customers and the recharging of the Irish economy

FINANCIAL PERFORMANCE

A loss after tax of €700m was recorded in H1 2020 due to the ECL charge of €1.2bn.

Net interest income (NII) reduced by €83m or 8% to €967m (H1 2019: €1,050m). As highlighted previously, the operating backdrop for banks is challenging and the lower interest rate environment contributed to about half of this decline in NII. Lower income on investment securities and reduced loan volumes partially offset by lower cost of deposits also impacted NII.

NIM for H1 2020 was 2.10% (H1 2019: 2.46%) versus a Q4 2019 exit NIM of 2.25%. The key impacts since Q4 were an increase in surplus liquidity c. 7bps, the lower interest rate environment c. 6bps, and changes in asset and liability mix c. 2bps.

Other income declined €99m to €220m (H1 2019: €319m). The primary component of other income continues to be net fees and commissions which reduced 16% to €192m (H1 2019: €230m) predominantly as a result of reduced economic activity and changes in customer behaviour.

Operating expenses[(1)] of €747m were in line with H1 2019 of €744m. Staff costs declined 6% and FTE employee numbers reduced over 6% versus H1 2019[(2)]. Other factors that impacted operating expenses are increased depreciation as guided and some operational costs incurred as a result of our response to the COVID-19 pandemic. Cost discipline continues to be a key management priority and we remain focused on our medium-term target of a €1.5bn cost base.

The ECL charge in H1 2020 was €1,216m and is covered in more detail below.

Exceptional costs in the first half were €75m. The key component was €58m for legacy issues, of which €37m related to the operational costs of the Tracker Mortgage Examination (TME) programme. The remaining items of €17m included voluntary severance payments and other one off system and resourcing costs incurred due to COVID-19.

ECL and Asset Quality

In H1 2020 the ECL charge was €1.2bn primarily reflecting the deterioration in outlook for the economic environment due to the COVID-19 pandemic. As outlined at the Q1 update, our ECL methodology comprises three key components:

1. Macro-economic assumptions:

€0.7bn of the €1.2bn ECL charge relates to revised COVID-19 macroeconomic scenarios and reflects the deterioration in economic outlook. Five new scenarios were used with weighting to the downside to reflect uncertainty – see Table 1 below. GDP and unemployment are key drivers in the IFRS 9 models impacting probability of default (PD) and loss given default (LGD), both increasing ECL cover within stage (€0.5bn) and contributing to stage transfer (€0.2bn).

Table 1: Probability weighted macroeconomic assumptions - H1 2020

H1 2020 ECL probability weighted macroeconomic assumptions*	**2020**	**2021**	**2022**
Irish GDP	-7.8%	5.2%	3.7%
Irish Unemployment	10.6%	9.9%	8.0%
Irish House Price Index (HPI)	-5.9%	-5.3%	1.8%
Irish Commercial Real Estate Index	-9.8%	-6.3%	3.3%

**HY 2020 economic scenarios –COVID-19 base scenario (55%); Upside scenario 'Virus eliminated' (10%); Downside scenario 1 'Persistent virus' (20%); Downside scenario 2 'Failed EU/UK trade talks' (10%) and Downside scenario 3 / Severe 'Persistent virus plus second wave' (5%)*

2. Staging movements:

€0.4bn of the €1.2bn ECL charge was related to downward staging migration of exposures and credit deterioration within stage. Stage 2 loan exposures increased €6.5bn and Stage 3 loan exposures increased €0.4bn. The Stage 2 movements were primarily in sectors most vulnerable to the impact of the lockdown restrictions. There was a €1.9bn move to Stage 2 within Property & Construction, primarily related to Commercial Real Estate (retail / shopping centres) which were highly impacted by COVID-19 restriction measures. Within Corporate & SME there was a €4.1bn move to Stage 2 as previously highlighted sectors, such as Hotels, Bars, Restaurants, Retail/Wholesale and Transport were the key drivers of the move. Stage 3 loan exposures increased by €0.4bn, most of which was due to a definition of default change.

3. Post model adjustments:

In addition, the ECL charge included a €0.1bn for post model adjustments. This included €42m overlay for COVID-19 payment breaks in Retail Banking Mortgages and Personal loans. While these remain within existing stage the overlay reflects management's best estimate of potential future losses given the risk of downward stage migration on the expiry of payment breaks – see Table 2 below.

Table 2 – Retail Banking payment breaks

Retail Banking - Payment breaks currently in place				
	Mortgages	**Personal**	**Business**	**Total Retail Banking**
No of accounts	14,557	18,320	14,004	46,881
Amount in Euro (€m)	€2,053m	€201m	€647m	€2,901m
% of number of customer loan accounts	6%	3%	11%	-
% of portfolio value	7%	8%	16%	-

Data as at 24th July 2020

Our ECL approach is conservative, forward looking and comprehensive and as such we expect the H1 2020 ECL to represent the significant majority of the FY 2020 anticipated ECL charge.

BALANCE SHEET

AIB's performing loan book decreased €2bn to €56.8bn as redemptions exceeded new lending. Customer accounts of €75.7bn significantly increased from €71.8bn at December 2019.

Total new lending in H1 2020 reduced 27% to €4.4bn (H1 2019: €6bn). Following a strong Q1 of 11% growth, our new mortgage lending in Ireland reduced 16% to €1.1bn in H1. We maintained our position as Ireland's largest mortgage provider with a stable 31.3% market share and recent trends show a tentative pick up in applications data. Personal lending in Ireland decreased 17% to €0.4bn. Lending to the corporate sector in Ireland reduced 21%, which was driven mostly by reduction in property lending somewhat offset by an increase in renewable energy lending. We continue to have a cautious approach to risk appetite in syndicated and international lending which was significantly lower than last year. The SME sector has suffered from the economic impact of COVID-19; new lending to the sector decreased by 10%. In the UK, new lending reduced by 36% to £0.8bn reflecting a slowdown in economic activity. In the UK, we are accredited to two UK Government Loans Schemes (Bounce Back Loan Scheme (BBLS) and Coronavirus Business Interruption Loan Scheme (CBILS)) and so far we have approved over 3,700 customer requests, with a total loan value of c. £200m. Given our market leading positions and strong funding, together with supportive government backed credit schemes, we are well positioned for further growth and to aid the recharging of the economies in which we operate.

In the first half of 2020, NPEs increased 14% to €3.8bn (6.3% gross loans). This increase reflects a definition of default change of €0.3bn, net flow to NPEs of €0.5bn offset by redemptions of €0.3bn. As a result of the ECL charge, total provision coverage has increased from 27% to 32%.

FUNDING & CAPITAL

AIB continues to have strong funding and capital ratios and is well positioned to absorb the impact of COVID-19 on the balance sheet. As retail deposits continued to increase, our LDR was 77% and we continued to have strong liquidity metrics (LCR 158% and NSFR 136%).

We successfully issued €625m of AT1 in June 2020, highlighting the strong support that AIB has within credit markets with a nine times oversubscribed order book. This transaction allowed AIB to strengthen its capital position further and take advantage of recent ECB regulatory changes (Art 104a which allows banks fill a portion of its P2R requirements from hybrid instruments). This transaction increased our MREL issuance to €5bn. Our actual MREL ratio at June 2020 was 30% of RWAs; ahead of our expected intermediate target of 27.1% of RWAs for January 2022. AIB continues to be rated investment grade across all three rating agencies.

At the end of June, our capital position remained robust with a reported fully loaded CET1 of 16.4% (pro-forma CET1 (FL) 15.6% including indicative TRIM impact of 80bps) well in excess of minimum requirements and our medium-term target of >14%. There was a 90bps decrease from reported CET1 at Dec 2019 of 17.3% (Dec 2019: pro-forma CET1 16.4%) comprising the following movements: the loss in the first half of -130bps, movement in investment securities reserve -30bps and other capital movements -40bps was partly offset by a decrease in RWA of +70bps and cancelled ordinary dividend of +40bps. The indicative TRIM impact of -80bps is lower than the -90bps previously expected due to the change of definition of default.

To support the financial sector through the COVID-19 pandemic, both the CBI and BOE reduced the Countercyclical Buffer (CCyB) to zero and there was a postponement of the introduction of the Systemic Risk Buffer. In addition, Art 104a which allows AIB to fill some of the P2R requirement (3.00%) from AT1 and Tier2 has a benefit to AIB of 131bps to CET1. Table 3 shows the updated regulatory capital requirements.

Table 3: Regulatory capital requirements

Regulatory capital requirements	**FY 2020 (Pre-Art 104a)**	**FY 2020***	**FY 2021**
Pillar 1	4.50%	4.50%	4.50%
Pillar 2 requirement (P2R)	3.00%	1.69%	1.69%
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%
O-SII Buffer	1.00%	1.00%	1.50%
Countercyclical Buffer (CCyB)	0.00%	0.00%	0.00%
Total CET1 requirement	**11.00%**	**9.69%**	**10.19%**

**The Group's minimum CET 1 requirement is 9.69% at December 2020 under Art104a; any shortfall of AT1 and Tier2 must be held in CET1*

The EU regulatory package in relation to software intangibles and SME art. 501 is expected to benefit capital, while capital headwinds exist due to the ongoing TRIM process and calendar provisioning. Broadly speaking, in aggregate we expect these items to offset each other over time.

We are committed to our medium-term CET1 target of >14% and are comfortable that our CET1 ratio will remain above this level over the near and medium-term.

Backing our customers

The Group has processed over 64,000 payment breaks for our retail banking customers since the start of the pandemic. We are currently engaging with customers to discuss supports they may require when they reach the end of their breaks with a suite of solutions available to meet their needs.

AIB has kept 99.4% of its branch network open to provide service and support to its 2.8 million customers throughout the pandemic. We have redeployed staff to our contact centres after customer calls to AIB's contact centres increased significantly. We introduced priority banking hours for those that needed it as well as a dedicated helpline for over 65s, to ensure safe service for all our customers. Like others globally, the Irish government has sought to cushion the impact of the shock on the economy through a series of measures including, most recently, the €7.4bn Stimulus Package announced in July. As an integral part of this raft of measures to reflate the economy, AIB is participating fully with the provision of low-cost loans to SMEs, the backbone of our national economy, through the €2bn SBCI Credit Guarantee and €0.8bn Future Growth Loan Schemes.

Digital – largest and most digitally-enabled provider in Irish banking

Our digitally-active base now surpasses 1.5 million customers with c. 60% of credit products now sold digitally. Thanks to our investment in technology in recent years, we have a modern, resilient and flexible IT infrastructure, making us, without question, and by a margin, the largest and the most digitally-enabled provider within the Irish banking market. This has been a critical element in assisting the delivery of our digital banking services while also enabling over 80% of our staff to work remotely during these extraordinary times. We remain open for business at every level and are available to our customers through all our channels, physical and digital.

COVID-19 has demonstrated our customers' willingness to adopt digital technology – there has been a notable decline in the use of cash with a 38% reduction in volume of ATM withdrawals and a 66% increase in uptake of Digital Wallet payments for the first six months of the year when compared to the half-year to June 2019.

Furthermore, our digital strategy is being accelerated to further focus on the financing needs of our business customers and bring them in line with those available to personal customers. Continuous enhancement of our digital offering will remain a priority.

Sustainable communities

The core priorities of our refreshed strategy - to strengthen, streamline and simplify the Group's operations, in the interests of all our stakeholders are more relevant today as we work through this current crisis. The importance that we ascribe to the environmental agenda, and also our commitment to be embedded in the communities that we serve was acknowledged with the addition of Sustainable Communities to our strategic pillars this year. Our ambition is to lead the financial market in Ireland's response to climate change and social issues.

Our achievements to date in 2020 on this important area of focus include being awarded 'A–' leadership status for our continued progress in corporate climate action and environment stewardship by CDP(4) as well as inclusion in the FTSE4Good Index Series which identifies companies that demonstrate strong environmental, social and governance practices measured against globally recognised standards.

In 2019 we became a Founding Signatory of the UNEP FI(5) Principles for Responsible Banking and also a Supporter of the Task Force on Climate-Related Financial Disclosures (TCFD). We are making strong progress in delivering on these commitments as we continue to embed environmental and social factors into our risk management processes with updated disclosures planned for the end of this year.

We announced a collaboration with Trinity College Dublin (TCD) to establish a research hub that will accelerate TCD's immunology project in tackling the COVID-19 pandemic. Our investment of €2.4m has enabled the launch of the AIB COVID-19 research hub.

The programme for the newly-formed government focuses on rebooting the Irish economy, accelerating the green agenda and delivering solutions to the housing crisis. We recognise, as a financial institution at the heart of Ireland's economy, that we are well positioned to be a key driver and supporter of the proposed initiatives. Today AIB is announcing a €300 million social housing fund for the provision of 2,000 new social houses.

OUTLOOK

Guidance

Earlier this year and primarily due to the lower for longer interest rate environment, we guided NII of c. €2.0bn. Having withdrawn this guidance at the Q1 stage and as a result of the impact of COVID-19, we now expect NII to be 5% lower than originally expected at approximately €1.9bn for the full year. In addition, with the slowdown in economic activity and changed consumer behaviour, previous guidance for Other Income of €500-€550m is now revised to c. €420m for the full year.

We continue to manage costs within our control and expect full year cost inflation, driven by depreciation, of c. 2% in line with previous guidance.

Following the H1 ECL charge of almost 200bps, we anticipate that the full year 2020 ECL charge is likely to be in the range of 235-250bps based on our current view of macroeconomic scenarios. We believe our ECL approach is conservative, forward looking and comprehensive, therefore we expect a return to a more normalised charge in 2021 and beyond.

Medium-term

While our strategic priorities and medium-term financial targets remain unchanged, the challenge to achieve these is greater as a direct result of the COVID-19 health crisis. As part of our annual business planning process this year we are considering the future shape of our business in order to adjust to the financial impact of COVID-19 and equally to examine the opportunities presented by the crisis, namely, the acceleration of themes such as digitisation, flexible working and sustainability, so that AIB maintains a strong and resilient balance sheet, generates sustainable profits and returns capital to shareholders. We are determined to provide a customer experience that is characterised by excellence with highly competitive products and efficient processes and we will have a streamlined appropriate cost base for a leaner, simpler and more agile business. Acknowledging the need for caution, we proceed into the second half of 2020 with the same level of commitment, resilience and flexibility demonstrated in the early days of the crisis. We look forward to 2021 and beyond with confidence as the fundamentals of AIB remain healthy and strong.

Further detail, including all relevant disclosures and notes to financial statements can be found on https://aib.ie/investorrelations

(1) Operational Costs excludes exceptional items, bank levies and regulatory fees
(2) On a like for like basis FTEs reduced 6% year on year which excludes the Payzone acquisition (91 FTE)
(3) CET1 (FL) pro-forma 15.6% includes indicative TRIM impact of 80bps
(4) CDP (formerly the Carbon Disclosure Project) runs a global disclosures system or investors, companies, cities, states and regions to manage their environmental impacts
(5) United Nations Environment Programme Finance Initiative

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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 Principal risks on pages 40 to 43 in the Annual Financial Report 2019 and updated on pages 36 and 37 of this Half-Yearly Financial Report 2020. 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.

Figures presented may be subject to rounding.