

CHIEF EXECUTIVE'S REVIEW



PROVIDING FINANCIAL STABILITY TO OUR CUSTOMERS IN A YEAR OF GREAT CHANGE

Colin Hunt
Chief Executive Officer

By any measure, 2022 was an eventful year as the restrictions of the Covid-19 pandemic receded and war broke out in Europe, sparking a humanitarian disaster, large-scale geo-political volatility, supply-chain issues and an energy crisis.

Rising inflation prompted central banks around the world to increase interest rates and in Europe the ECB raised rates for the first time in 11 years in July 2022. Despite high levels of volatility in the global environment, the Irish economy performed well notwithstanding the challenges of rising cost of living which impacted our customers, our people and the communities we serve. In light of these challenges it was imperative that the Group provided financial stability and continued strong support for our customers and the broader Irish economy.

AIB continued to progress our three-year strategy to transform the business, grow in scale and enhance our product offerings in what has become a rapidly evolving banking world. Providing customers with secure digital and physical banking services while helping to fund the nation's vital infrastructure can only be done on the basis that the Group is on a sustainably profitable footing.

In 2022 the Group delivered strategic progress and a strong financial performance, reporting a profit before tax of €880m and a strong CET1 capital position of 16.3% (or 15.9% including the proposed share buyback).

This financial strength enables us, as the country's principal financial services provider, to lead the mortgage market, support vital housing construction and play a key role in helping Ireland meet its emissions targets. Assisting our customers to lower their carbon footprint as well as backing green energy projects are priorities that can only be achieved through major investment in energy and climate action infrastructure.

The withdrawal of Ulster Bank and KBC is leading to a reshaping of the Irish banking sector. The exit of two such sizeable institutions placed a heavy demand on AIB, and we are pleased that in what is still a competitive market, thanks to a huge effort on the part of our colleagues, by the end of 2022 the bank had opened c. 450,000 new accounts, representing a 49% market share. This increased our customer base to approximately 3.2 million and embraced an extraordinary opportunity to build on our existing market-leading franchise.

Following the receipt of competition clearance in April 2022, we've made significant progress in bringing on board the Ulster Bank corporate and commercial loan book. As of 31 December, €2.1bn of good quality performing customer loans had migrated with the full transfer of loans and customers expected to be largely completed by the end of H1 2023. In June, we also agreed to buy Ulster Bank's performing tracker mortgage portfolio and in January 2023, we secured the necessary regulatory approvals for this transaction with formal completion expected in 2023.

Last year marked the first full year of renewed Goodbody ownership by AIB Group, broadening our customer offerings, particularly in capital markets, corporate finance and wealth management. Our joint venture with Great-West Lifeco, which we are calling AIB life, is on track to launch later this year and will transform our retail wealth and investment offering and provide our customers with a far broader range of life, pensions and savings solutions.

Against the backdrop of a more challenging UK economy, we focused on our chosen sectors, growing our corporate customer base following our decision to exit the GB SME market. We also continued to streamline our property holdings, exiting 50% of head office buildings in Dublin as employees continued to adopt hybrid working.

Among last year's challenges was the adverse public reaction to remove some in-branch cash and cheque services and provide those services under our enhanced 20 year 'AIB at An Post' arrangement as part of a wider branch repurposing plan. While we transition to digital banking, many customers retain a strong attachment to the use of cash. We responded promptly to their feedback to our July announcement, reversing our decision and giving a commitment to remain alert and sensitive to the ongoing needs of our customers.

Concluding legacy issues that cast a shadow over the Group's reputation for many years has been of paramount importance to AIB. In June 2022, the Central Bank of Ireland (CBI) announced the conclusion of the enforcement actions against AIB and EBS regarding the handling of Tracker mortgages, closing a very damaging chapter in the Group's history with a €96.7m fine being paid in June.

A separate legacy matter relates to a series of investment property funds, known as Belfry, which the Group sold during the period 2002 to 2006, which subsequently incurred losses for c. 2,500 individual investors. In August 2021, the Group instigated a programme to review investments in the Belfry Fund on a case-by-case basis to determine if redress may be due. Investors have been advised of the outcome of the review of their investment. Where a refund is due to individual investors, payments commenced in the second half of 2022. An independent appeals process has been established and is available to all investors.

Looking forward and based on the progress that we made on the implementation of our plans, the altered economic and financial industry environment and the beginning of monetary policy normalisation, in December 2022 we reset our medium-term financial targets. As a result, we are targeting a RoTE of greater than 13% for 2024, a CET1 ratio above 13.5% and a cost base below €1.75bn in 2024 with a cost income ratio of c. 50%.

Financial Performance

Our 2022 financial performance reflects a position of strength as our core business segments showed continued momentum from 2021 and we are reporting a profit before tax of €880m for the full year. This includes an operating profit of €1,081m before impairment charge and exceptional items.

Total operating income of €2,895m was 21% higher than 2021. Net interest income of €2,159m increased by €365m or 20% year-on-year reflecting the impact of a rising interest rate environment and higher average loan volumes. Net interest margin (NIM) increased by 16bps to 1.74% in 2022 compared to 1.58% in 2021. Other income of €736m increased by €146m or 25% compared to 2021. This reflects the full-year impact of Goodbody following the acquisition in 2021 and an underlying increase of €107m or 19% driven by strong growth in net fee and commission income and higher equity investment gains.

Total operating expenses of €1,659m increased by €125m compared to 2021 again reflecting the full-year impact of Goodbody and an underlying increase in costs of €75m or 5% which incorporates inflation impacts and costs to on-board new customers from those banks exiting the Irish market. The Group's cost income ratio has improved to 57% compared to 64% in the prior year.

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There was a net credit impairment charge of €7m in 2022 comprising a €316m charge in the second half of the year which incorporates post-model adjustments to address emerging headwinds and downside risks from inflation and interest rate impacts on credit quality. In the first half of the year, there was a €309m writeback which reflected the economic environment in Ireland with robust credit quality and repayments as well as some release of post-model adjustments. Our overall approach remains conservative, comprehensive and forward-looking and is reflected in an expected credit loss coverage rate of 2.7%.

Exceptional items of €231m include a charge of €101m related to the aforementioned Belfry investment property funds, reflecting an increased provision for customer redress of €82m and associated costs of €19m. Also included is a charge of €27m relating to the conclusion of the Central Bank of Ireland enforcement investigation in respect of Tracker mortgages at AIB and EBS, most of which was provided for in prior years. Additional exceptional items primarily include restructuring and inorganic transaction costs.

New lending of €12.6bn in 2022 was €2.2bn or 22% higher than in 2021. Mortgage lending of €4.6bn was 48% higher driven by strong Irish mortgage lending of €4.5bn, up 53%, representing a market share of 32%. Property-related lending was up 50% to €2.7bn. Non-property lending of €4.3bn was 5% lower as higher renewable energy & infrastructure and corporate lending in Ireland was more than offset by lower syndicated and UK lending. Personal lending was up 10% to €1.0bn.

Gross loans at €61.2bn were up €2.8bn compared to 31 December 2021 with an increase in performing loans of €3.7bn offset by a reduction in non-performing loans of €0.9bn or 31%. Net loans increased by €3.1bn year-on-year driven by the acquisition of loans from Ulster Bank and new lending exceeding redemptions partially offset by the disposal of non-performing and UK SME loans. As at 31 December 2022, 90% of AIB's loan book is of strong or satisfactory quality (up from 87% at 2021 year end). Maintaining the quality of new lending is critical, with >98% of our new lending being of strong or satisfactory credit quality in 2022.

Non-performing loans as a percentage of gross loans to customers were 3.5% at 31 December 2022 compared to 5.4% at 31 December 2021. This decrease primarily reflects the disposal of loan portfolios of €0.5bn and redemptions of €0.6bn partially offset by net flow to non-performing of €0.3bn. We remain committed to reducing

non-performing exposures (NPEs) to c. 3% of gross loans by the end of 2023 given the impact on cost, capital requirements and balance sheet resilience. Legacy NPEs were €0.2bn or 0.4% of total loans as at 31 December 2022.

AIB's funding and liquidity ratios remain robust. As customer deposits continue to accumulate our Loan to Deposit Ratio decreased to 58% at 31 December 2022 compared to 61% at 31 December 2021. We continue to have strong liquidity metrics (Liquidity Coverage Ratio 192% and Net Stable Funding Ratio 164%).

Debt securities issued of €7.2bn increased by €1.3bn from 31 December 2021 following further MREL related issuances of €3.2bn partly offset by the maturity of a covered bond of €0.75bn and buybacks of €0.85bn.

The Group has a strong capital base with a reported CET1 ratio of 16.3% (or 15.9% including the proposed share buyback) at 31 December 2022, well in excess of regulatory requirements and our medium-term target of greater than 13.5%. Our proposed distributions comprise an ordinary cash dividend of €166m and a share buyback of €215m.

Digital

The rate of growth in digital transactions continues at pace as our customers increasingly embrace this convenient, prompt and secure way of banking. In overall terms, the digital base grew 12%, to 2.1 million customers, with the strongest growth seen in the Mobile base which grew 15% to 1.8 million active customers. Within this wider trend, the particular highlight during 2022 was the significant increase in digital wallet adoption. The value of digital wallet payments more than doubled year-on-year to €4.8bn with the volume of such transactions increasing by 83% to 195 million.

Our customers are also increasingly sourcing their credit requirements via our digital channels. For instance, close to 90% of all applications for personal loans were carried out online in 2022 as were c. 25% of all mortgage applications.

And in a year when we were delighted to open a record number of new accounts, it was also pleasing to see that over 50% of new customers enjoyed the convenience of commencing their relationship with the bank via a digital channel.

During the year, we enhanced our Mobile payments offering with the launch of the Pay a Contact service. This enables customers to transfer funds swiftly to another AIB account holder in their phone contacts and precedes further planned

enhancements of our range of digital products and services.

It is important to note that while digital transactions will increasingly represent the most frequent form of customer engagement with the bank, our people will continue to offer an essential personal service for customers.

Sustainable Communities

AIB seeks to be a driving force for the sustainability agenda in Ireland. In that regard, our primary role is to enable our customers and the communities in which we operate to make the transition to a low-carbon economy. Through our various offerings, we are making attractively priced finance available so our customers can make greener choices at home, at work, and at scale.

As the demands for greater transparency and accountability for ESG targets continue to grow, we have set Financed Emissions Targets for 75% of our loan book, increasing from 63% in 2021. More information on these targets can be found in our Sustainability Report 2022, page 25 to 27.

To that end, our green and transition lending continues to grow. We closed out 2022 with green and transition lending comprising 26% of Group new lending. This includes our Green Mortgage lending, which accounted for 28% of our overall mortgage lending. We're also seeing continued growth in our Energy, Climate Action and Infrastructure (ECAI) team, as we saw significant new green lending activity across onshore and offshore wind with a considerable uplift in solar activity. We will continue to play a leading role in funding renewable energy and infrastructure development.

Our experience is that the more sustainable lending we do, the more capital we can attract to finance such investment. The €750m raised from the issuance of AIB's fourth green bond in November 2022 brought us to a total of €3.25bn in green bonds to date – and €1.5bn in 2022 alone. Earlier in the year, in March, we raised €1bn through the issuance of a social bond, the first social bond issued by an Irish bank.

In terms of AIB's own transition, the Corporate Power Purchase Agreement with NTR plc, announced in October, was the first agreement of its kind in Ireland. We will source up to 80% of the Group's electricity needs from two solar farms that NTR plc will build in Ireland, while also generating additional capacity to feed into the national grid.

More broadly, the bank continued to demonstrate progress against our overall sustainability strategy, and highlights of our activity in 2022 can be found on pages 16 and 21. I was particularly pleased with the AIB Community €1 Million Fund, which benefited over 70 local charities, each identified by our customers and employees.

Culture and our People

The attraction and development of talent in the face of huge changes in the Irish banking sector and in the overall post-pandemic labour market has been essential to the delivery of our Group strategic priorities. AIB is a bank with 170 branches, deeply embedded in the community, a relationship that is further enhanced by our support of the GAA and other organisations such as FoodCloud, GOAL and, our newest charity partner, AsIAM. Our people are well placed to understand our customers' financial needs and requirements, their difficulties and their opportunities.

We have adopted flexible hybrid working arrangements for our employees, fostered a strong ethos of career development and maintained a leading position on inclusion and diversity (I&D), all while promoting wellbeing across the organisation and embedding a culture of accountability based on our organisation's values and behaviours. In September, we were delighted that AIB received Gold 'Investors in Diversity' Accreditation from the Irish Centre for Diversity, the first bank and largest employer in Ireland to receive this accolade.

Also during 2022, we reached a three-year pay agreement for non-management staff with the Financial Services Union and increased our entry-level salary rates.

A culture that supports our people in achieving a sustainable work-life balance throughout their careers is a key element of our people strategy. As such, we made progressive enhancements to our Family Leave policies and additionally we improved our practical supports for colleagues experiencing domestic violence, coercion or ill-treatment, both of which are outlined on page 20. We want to ensure a safe and supportive working environment for all our colleagues and will continue to review and enhance our policies so that our people can thrive professionally and personally.

It is vital that the Group's management team shows continuous energy and innovation to keep pace with the changing nature of the industry. This imperative continued to be realised in AIB through 2022 with three outstanding additions to

our leadership team. In February, Hilary Gormley moved from Head of Business Banking in Dublin to become Managing Director of AIB UK. In July, we were joined by Mike Frawley as our new Chief Risk Officer and Andrew McFarlane as our new Chief Operating Officer. They bring enormous dynamism and experience to their respective roles.

Outlook

Ireland cannot remain unaffected while uncertainties and higher price pressures persist as features of the global economy. The prospect of recession among some of our main trading partners inevitably presents challenges for an open economy such as ours. Tighter financial conditions are likely to prevail for some time with domestic growth predicted by the ESRI to slow to 2.2% in 2023.

However, on the upside, the Irish economy has certain characteristics that should help counter-balance some of the risks. Our economy escaped with minimal scarring from the Covid-19 pandemic and last year recorded a near-record-low unemployment rate of less than 4.5%. The government's policy of targeting fiscal supports for families and businesses has been decisive in maintaining stability, contributing in part to the highest household savings ratios in the Eurozone. Balance sheets of households and businesses remain in very good health with real debt burdens at multi-decade lows and deposits continuing to build. These buffers are now forming a valuable protective layer against the worst of the current headwinds.

At this point we appear to have passed the point of peak inflation as energy costs ease, though the opening of the Chinese economy after almost three years of pandemic restrictions will potentially impact demand for oil and gas. Protecting and supporting customers is paramount so we will maintain a conservative approach to our underwriting standards as we move through the economic cycle and engage proactively with any customers anticipating or experiencing financial challenges arising from a more volatile economic environment.

Over the last year, the sell down of the State's shareholding in AIB continued. This is an important development in the process of returning the State's investment in the Group and a normalisation of the share register. Overall, the State shareholding reduced from 71% to just under 57% at December 2022 through a variety of means – namely, a trading plan, block sales and participation in our €91m share buyback. Among my key ambitions are the continued restoration of public trust in the

institution and the maximum return of the State's investment to the taxpayer.

Our strong performance also enabled the resumption of the payment of dividends to shareholders in May 2022. We paid an ordinary dividend of €122m or 4.5c per share and we are committed to a progressive dividend distribution strategy, as our operational performance permits.

I have often remarked that the most extraordinary feature of AIB is the strength of our customer franchise. The Group is in its strongest position in decades and we will continue to deliver on our growth plan to the end of 2023. Our balance sheet, capital and liquidity positions are robust, our customer numbers in our core market are at an all-time high and we are well placed to deliver on our medium-term targets. We are optimistic about our business and I look forward to AIB Group delivering progressive and sustainable returns for our shareholders over the years ahead.

I wish to thank my fellow Board and Executive Committee members, and all my colleagues across the Group for their ongoing support, energy and enthusiasm. Their collective efforts are delivering tangible results and we can look forward to building this momentum through 2023 and beyond.

Finally, I thank our customers for their loyalty, and I welcome the many new customers who have chosen to start their financial relationship with AIB Group. The Group's ability to provide them with a professional, safe and reliable service underpins their confidence in us.

Colin Hunt
Chief Executive Officer
7 March 2023