EMBARGO 07:00 **28 July 2023**

AIB Group plc announces half-year profit after tax of €854m

"As we enter the final stages of our three-year transformation strategy, AIB Group has delivered a strong financial and operational performance with after-tax profit of €854 million in the first half as we welcomed large numbers of new customers against the backdrop of an evolving banking market, a higher interest rate environment and a resilient Irish economy. Gross loans rose to €62.8 billion driven by a combination of acquired new loans and new lending of €5.6 billion. Underpinned by our long-standing commitment to Sustainability and to the communities in which we serve, AIB is well-placed to support our 3.2 million customers and the wider Irish economy.

The continued delivery of our strategy enabled the State to recoup almost €1.2 billion in the first half as the State's shareholding reduced to 46.9% in June - marking a significant milestone as the bank returned to majority private ownership. 2023 is expected to be a very strong year and, with a transformed Group, we are now planning for the next strategic cycle. Our focus remains on supporting our customers, creating shareholder value and delivering sustainable returns."

– Colin Hunt, Chief Executive Officer

KEY HIGHLIGHTS

Financial highlights ***(all comparisons versus H1 2022 unless otherwise stated)***

- Very strong profitability in H1 2023: Profit after tax €854m; Operating profit [(1)] €1,205m
- 2023 guidance revised upwards to expect:
  - Net interest income (NII) >€3.6bn and net interest margin (NIM) >2.90%
  - RoTE[(2)] in 2023 of c.20%, materially in excess of >13% medium-term target
- Total income increased by 73% to €2.2bn; supported by a higher interest rate environment
  - NIM of 2.94%; NII of €1,772m up 40% and 98% compared to H2 2022 and H1 2022 respectively
  - Other income of €437m up 15%, increase of 7% in net fee and commission income
- Costs [(3)] up 15% to €897m reflecting an inflationary environment, higher employee numbers and the cost of servicing an expanded customer base
  - Cost income ratio (CIR) of 41% (H1 2022: 61%)
- Net credit impairment charge of €91m (H1 2022: €309m writeback)
  - Maintaining our conservative approach to asset quality cognisant of the impact of rising rates and inflation
- Gross loans up €1.6bn to €62.8bn (Dec 22: €61.2bn)
  - €0.7bn of Ulster Bank corporate and commercial loans migrated in H1 2023
  - New lending of €5.6bn, up 2%; Green lending of €1.1bn representing 20% of total new lending
  - Mortgage market share 30.7% in the first half [(4)]
- NPEs at €2.1bn or 3.3% of gross loans (Dec 22: €2.2bn or 3.5%)
- Strong and diversified funding with customer accounts up €1.3bn to €103.7bn (Dec 22: €102.4bn)
- A further c. 185,000 new accounts opened in H1 as we welcomed new customers from exiting banks; overall market share of account openings at 49% [(5)]
- Fully loaded CET1 of 15.7% (Dec 22: 16.3%) comfortably ahead of regulatory requirements
- Majority private ownership as the State's shareholding reduced to 46.9% in June 2023

Strategic highlights

- Successfully delivering on our strategic priorities as we approach the end of our current three-year plan
- Strategic progress in H1 further demonstrates the transformation of AIB
    - Enhanced product suite with launch of AIB life and Goodbody-Private in H1
    - Increased customer base to 3.2m customers with c. 635,000 new accounts opened since Jan 2022
    - Loan book acquisitions:
        - Ulster Bank corporate and commercial loans: €0.7bn migrated in H1; completed the final tranche in July resulting in the transfer of €3.1bn of loans, c. 3,500 customers and 227 ex-Ulster Bank colleagues
        - Ulster Bank tracker (and linked) mortgages: received regulatory approval in H1, expect c. €5bn of loans to transfer on completion with c. 80% migrated in July
- Continuous investment in IT providing modern, resilient, customer-focused digital technology
    - Investment averaging c. €300m per annum
    - Launched the new mobile AIB Business (iBB) app in June 2023 offering prompt, convenient and secure banking on the go
    - 2.15m digitally-active customers; 3m daily interactions on Mobile
- Lower property footprint as hybrid working model implemented
- Continued progress on Sustainability agenda
    - Environment: €9bn of €10bn climate action fund drawn to date
    - Social: €750m social bond issued in H1
    - Governance: returned to majority private ownership

FINANCIAL PERFORMANCE

The Group recorded a very strong financial performance in H1 2023 driven by increased income which contributed to profit after tax of €854m.

Net interest income (NII) of €1,772m increased significantly (H1 2022: €895m) due to the changed interest rate environment and higher average customer loan volumes. The Group operated in a negative interest rate environment in H1 2022 compared to entering 2023 with an ECB deposit rate at 2% which moved to 3.50% by June 2023. NIM for H1 2023 was 2.94% (H1 2022: 1.48%) versus a Q4 2022 exit NIM of 2.18% which excluded the net TLTRO funding benefit recognised in Q4 2022. For 2023 we expect NII of >€3.6bn and NIM of >2.90% which compares to our previous guidance of >€3.3bn and >2.70% respectively. Our NII guidance of >€3.6bn uses revised rate assumptions of an ECB deposit rate of 3.75% (3.50% previously assumed) and a BOE rate of 5.5% (4.0% previously assumed) by December 2023.

Other income increased by 15% to €437m (H1 2022: €379m) and includes a total of €138m in respect of forward contracts for the acquisition of Ulster Bank tracker (and linked) mortgages (€126m) and Ulster Bank corporate & commercial loans (€12m). Net fee and commission income increased by 7% to €306m (H1 2022: €286m) primarily reflecting higher transaction volumes due to increased customer numbers and higher card interchange fees. We expect FY 2023 other income of c. €780m.

Operating costs were €897m (H1 2022: €782m), an increase of 15%. Factors impacting costs include wage and general inflation, an allowance for limited variable remuneration[(6)] payable in 2024 (following the relaxation of some pay constraints), increased cost of servicing for a larger customer base and higher staff numbers given the enlarged Group. FTEs at H1 2023 were 10,133 (H1 2022: 9,027). Taking these factors into consideration, we expect costs in FY 2023 to be c. €1.8bn with a CIR in the low-40%s.

Overall credit quality remains robust against the backdrop of inflation and higher interest rates. There was a net credit impairment charge of €91m in the half-year to June 2023 driven by a charge in relation to commercial property, including additional post-model adjustments, to address the potential adverse impacts from higher interest rates and lower valuations[7]. Our overall approach remains conservative, comprehensive and forward-looking and is reflected in an expected credit loss coverage rate of 2.6%. For FY 2023 we expect CoR at the lower end of our through-the-cycle range of 30-40bps.

Regulatory costs and bank levies increased to €107m in H1 2023 (H1 2022: €101m) primarily due to higher Deposit Guarantee Scheme (DGS) fees. Regulatory costs and bank levies are expected to be c. €165m in 2023.

Exceptional items of €130m are primarily driven by costs for Belfry[8] investment property funds and inorganic transaction costs. Exceptional costs are expected to be c. €150m in 2023.

CUSTOMER LOANS

Gross loans of €62.8bn increased by €1.6bn (Dec 22: €61.2bn) primarily driven by new lending exceeding redemptions and the further migration of €0.7bn Ulster Bank corporate and commercial loans in H1. We expect customer loans to grow by >10% in 2023.

Total new lending increased by 2% to €5.6bn (H1 2022: €5.4bn) with positive trends across personal, corporate and energy climate action & infrastructure (ECAI) portfolios.

New mortgage lending in Ireland was €1.7bn broadly in line with the equivalent prior year period and representing a market share of 30.7%[4] in the first half. Personal lending was up 29% to €0.6bn reflecting our enlarged customer base and an increase in consumer credit demand.

Capital Markets delivered new lending of €2.1bn with growth in corporate banking and ECAI offset by lower property lending as we maintain a prudent approach. SME credit demand in Ireland remains subdued with new lending of €0.7bn in the first half.

In AIB UK, new lending of £0.6bn was up 23% as we focus on our chosen sectors such as renewable energy and infrastructure.

We continue to support our customers as we all transition to a lower-carbon economy. New green lending was €1.1bn and accounted for 20% of total new lending whilst our green mortgage products represented 24% [9] of new mortgage lending.

NPEs decreased to €2.1bn or 3.3% of gross loans (Dec 2022: €2.2bn or 3.5%). Legacy[10] NPEs have been addressed and were €0.2bn or 0.3% of gross loans at June 2023. We are well-progressed towards our target of c. 3% by end 2023.

FUNDING & CAPITAL

AIB's balance sheet remains strong with ample and diversified funding. Customer accounts increased by €1.3bn to €103.7bn with 77% in our Retail Banking segment (Dec 22: 74%). 53% of all customer accounts are DGS insured. The mix between current accounts and deposits remains broadly unchanged from Dec 22. The Group continues to have strong funding and liquidity ratios with an LDR of 59%, LCR of 164% and NSFR of 158% at H1 2023. The LCR reduced from 192% at Dec 22 due to the expected cash outflow of the consideration for the acquisition of Ulster Bank tracker mortgages in July; post-settlement, the LCR was 177%. The majority of excess liquidity is deposited with the Central Bank of Ireland (€31.2bn) and Bank of England (€4.0bn).

Capital remains robust and ahead of minimum regulatory requirements of 10.61%. The fully loaded CET1 at H1 2023 was 15.7% (Dec 2022: 16.3%). The main drivers of the 60bps CET1 movement were profit (+150bps) offset by a dividend accrual (-100bps[11]), the completed €215m share buyback (-40bps), increased RWAs for the Ulster Bank tracker mortgage portfolio (-50bps) and an increase in RWAs for the redeveloped mortgage and corporate IRB models (-40bps) and other capital adjustments including RWA-related efficiency measures (+20bps).

In January 2023 AIB raised €750m in our second social bond issuance bringing total proceeds raised from ESG bonds to €5bn. The Group's MREL ratio at June 2023 was 31.4% of RWAs which is ahead of our estimated requirement of 29.4% of RWAs for 1 January 2024.

The Group is rated at investment grade with Moody's and Standard & Poor's (S&P). In June 2023 S&P upgraded the AIB Group plc senior rating to BBB from BBB- following an upgrade of Ireland's sovereign debt rating. S&P's expectation is for the Irish economy to grow this year, asset quality to remain robust with increased profitability and market consolidation to support momentum.

SUSTAINABILITY

The Group continued to progress the Sustainability agenda, addressing both our own and our financed emissions and deepening our support for our communities. 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 2023 across each of the ESG categories/criteria:

Environment

- AIB is the first bank globally to secure a validated electricity generation maintenance target from the Science Based Targets initiative (SBTi), recognising AIB's early commitment to financing renewables and the existing low-carbon intensity of AIB's electricity generation loan book. Financed emissions targets for 75% of the AIB loan book have now been validated by SBTi
- Secured a Corporate Power Purchase Agreement with NTR plc in October 2022 to provide up to 80% of the Group's energy needs along with additional capacity for the national grid. The construction of two solar farms is well-advanced with the first expected to be ready for energisation in H2 2023
- Supporting Agri Sector transition as the exclusive financial institution partner with the Farm Zero C project, a joint project of Carbery, West-Cork based international food ingredients company, and BiOrbic Ireland's national bioeconomy research centre, which aims to create an economically viable, climate neutral model for Irish dairy farming

Social

- The Group issued its second social bond in January raising €750m, the proceeds of which 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
- Supported the humanitarian agency GOAL through the promotion of the GOAL Syria & Turkey Crisis Appeal and raising c. €460,000 customer donations through our mobile banking app supporting over 245,000 impacted people with their daily water needs for a month
- Launched the AIB Community €1 Million Fund 2023 to support 70 local charities; c. 16,000 nominations received from our customers, our people and members of the public

Governance

- The Group returned to majority private ownership with a free-float of 53.1% in June following a directed buyback, a share placing in an accelerated book build process with institutional investors and disposals as part of a pre-arranged trading plan. The State's shareholding is now below 50% at 46.9%

- Updated our remuneration policy to reflect our intention to provide healthcare benefits from 2024 and a variable remuneration scheme based on performance in 2023, payable in 2024
- Our employee engagement strategy incorporates new ways of listening that enable us to focus on the issues that matter to our people; in Q2, 82% of colleagues were satisfied with AIB as a place to work, an increase of 6% since Q4 2022

OUTLOOK & GUIDANCE

As we approach the end of our current strategic cycle, we have made significant progress on transforming the Group having grown customer numbers, increased our loan book organically and inorganically and filled customer proposition gaps. Our conservative approach to asset quality, resolving legacy NPEs and maintaining a stable and diversified funding base have ensured a resilient balance sheet with robust capital. In a changed operating environment, our strategy has positioned us well for the future. 2023 is expected to be a very strong year and with a transformed Group, we are now planning for the next strategic cycle. Our focus remains on supporting our customers, creating shareholder value and delivering sustainable returns.

Guidance full year 2023

- NII is expected to be >€3.6bn with NIM >2.90%
- Other income is expected to be c. €780m
- Costs are expected to be c. €1.8bn with CIR in the low-40%s
- CoR at the lower end of our through-the-cycle range of 30-40bps
- Bank levies and regulatory fees are expected to be c. €165m
- Exceptional costs are expected to be c. €150m
- Customer loans are expected to grow by >10%

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

Further information is provided in the half-yearly financial report 2023 which can be found on our website. aib.ie/investorrelations

Notes:

(1) Operating profit before impairment losses and exceptional items
(2) RoTE = (PAT – AT1) / (CET1 @ 13.5% of RWAs)
(3) Costs before bank levies and regulatory fees and exceptional items
(4) Source: Mortgage drawdowns BPFI Jun 2023
(5) New accounts opened across the three main Irish retail banks
(6) Following the relaxation of some restrictions on staff pay and incentives in the Retail Banking Review
(7) Due to the potential adverse impacts from higher interest rates and lower valuations in specific areas of CRE, a net €2.3bn of assets moved to Stage 2 from Stage 1 in the period, bringing total Stage 2 assets to €8.3bn with ECL coverage of 8.5%
(8) Belfry relates to a series of UK commercial investment property funds which were sold to individual investors during the period 2002 to 2006. Further information is available on page 107 of the 2023 Half-Yearly Financial Report
(9) Actual % of new mortgage lending to energy efficient homes was 44% based on AIB brand in H1 2023
(10) Legacy NPEs are those NPEs in default prior to December 2018
(11) 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 2023 Half-Yearly Financial Report

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For further information, please contact:

Niamh Hore / Siobhain Walsh
Investor Relations
AIB Group
Dublin
Tel: +353-86-3135647 / +353-87-3956864
email: niamh.a.hore@aib.ie
siobhain.m.walsh@aib.ie

Paddy McDonnell
Media Relations
AIB Group
Dublin
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 23 to 25 of the Annual Financial Report 2022 and updated on page 33 of the Half-Yearly Financial Report 2023. In addition to matters relating to the Group's business, future performance will be impacted by the Group's ability along with governments and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, the impact of higher inflation on customer sentiment and by Irish, UK and wider European and global economic and financial market considerations. Future performance will further be impacted by the direct and indirect consequences of the Russia-Ukraine War on European and global macroeconomic conditions. 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 23 to 25 of the Annual Financial Report 2022 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.