EMBARGO 07:00 **5 March 2021**

AIB Group plc ("AIB") announces FY 2020 results

"Today we announce full year results that have been shaped by COVID-19. I am pleased to report that the fundamentals of our business remain robust, sustainable and strong. We entered this crisis in a position of capital strength which, enabled by our leading digital technology, allowed us to deliver unprecedented levels of support to our customers, communities and the economy when it mattered most. Now, I look forward with confidence as we implement our strategy to 2023 at pace, demonstrated by our growth initiatives announced this year. We remain driven by our ambition to be at the heart of our customers' financial lives while sustainably creating value and returns to our shareholders."
-Colin Hunt, Chief Executive Officer

Highlights

- **Supporting our customers, colleagues and communities through COVID-19**
  - >66k Retail Banking payment breaks granted, 88% have returned to normal terms
  - Organisational resilience with >99% of branches remaining open and >80% of employees seamlessly transitioned to remote working
- **Operating profit[(1)] €0.7bn; loss after tax €0.7bn**
  - €1.46bn ECL charge (cost of risk 240bps); in line with guidance
  - Expect return to profit in 2021 and resumption of normal dividend distributions
- **Strong capital base supporting sustainable growth and capital returns**
  - CET1 (FL) 15.6%; includes impact from regulatory developments of -120bps
  - Monitoring regulatory developments in relation to capital distribution
- **Total income reduced 12% to €2.4bn**
  - Net interest income €1.9bn reduced 10%
  - Other income €0.5bn reduced 19%
- **Continued focus on cost discipline**
  - Operating expenses €1.5bn[(2)] in line with guidance; 5% reduction in average FTEs
  - Strategic plan to reduce costs to <€1.35bn by 2023
- **Performing loans decreased by €3.6bn (-6%) to €55.2bn as redemptions exceeded new lending**
  - New lending €9.2bn; down €3.1bn (-25%); recovery in H2 up 9% versus H1
  - NPEs increased to €4.3bn at December; NPE deleveraging strategy on track – Q1 2021 portfolio sales reduce NPE ratio by 1% to c. 6%
- **Growth in savings due to COVID-19 restrictions adding to excess liquidity**
  - Customer deposits increased 14% to €82bn; strong liquidity position with LDR 69% facilitating lending to support economic recovery
  - MREL target achieved; two issuances in 2020 - €625m AT1 and €1bn Green Tier 2
- **Sustainability leader**
  - Continued strong green lending: €1.5bn in 2020 representing 16% of new lending
  - Recognised externally: ESG ratings, CDP 'A' rating and industry awards
- **Progressing inorganic opportunities to broaden customer proposition and enhance earnings**
  - Potential acquisition of Ulster Bank's c. €4bn corporate and commercial loan book
  - Capacity to grow fee income and diversify revenue through the acquisition of Goodbody and proposed joint venture with Great-West LifeCo

Strategy 2023 - medium-term targets[3]

Following a comprehensive review in 2020, the Group refreshed its strategy and confirmed its medium-term targets on 2 December 2020 as follows:

- Absolute cost target[2] of <€1.35bn in 2023
- CET1[4] target > 14%
- RoTE[5] > 8% by 2023

Significant progress on our strategic intent to complete our product suite and diversify revenue was delivered in early 2021. On 2 March 2021, we announced the agreement to acquire Goodbody, a leading Irish provider of wealth management, corporate finance and capital markets services. We are also in advanced discussions with Great-West LifeCo Inc to establish a joint venture to greatly enhance our life, pensions and savings propositions.

Additionally, on 19 February 2021 we announced the potential acquisition of a c. €4bn portfolio of performing corporate and commercial loans and the transfer of employees to AIB from within Ulster Bank Ireland DAC's Commercial franchise directly involved in the day to day management of the loan book.

2020 FINANCIAL PERFORMANCE

The challenging operating environment for European banks remained in 2020 with the continued lower for longer interest rate backdrop and uncertainties created by the COVID-19 pandemic.

The Group delivered an operating profit[1] of €729m (FY 2019: €1,087m) and a loss after tax of €741m driven by expected credit loss (ECL) charge of €1,460m and exceptional items of €215m.

Total income reduced 12% reflecting a 10% decline in Net Interest Income (NII) and a 19% decline in Other Income.

Net interest income (NII) of €1,872m was 10% lower than the prior year (FY 2019: €2,076m) and the lower interest rate environment was a key driver of this decline. Other factors were lower loan volumes and income from investment securities partially offset by lower cost of deposits. Net interest margin (NIM) of 1.94% reduced 43bps in 2020 (FY 2019: 2.37%), of which 26bps was due to excess liquidity factors, the remainder was primarily due to lower yields on investment securities and reduced loan volumes. Q4 2020 exit NIM was 1.70% and excess liquidity continues to impact in the first quarter of 2021.

Other income of €499m was 19% lower in 2020 than in the previous year. Fee and commission income of €395m was down 16% on the prior year (FY 2019: €472m), predominantly as a result of reduced economic activity and changes in customer behaviour. These changes include the shift from cash to digital payments demonstrated by a 39% reduction in the number of ATM transactions in 2020 versus 2019 and the continued rise in the number of digital wallet/contactless payments which have increased by 71% over the same period. The other material components of Other Income were income on previously restructured loans (€42m), gains on leverage loan disposals (€24m) and gains on equity investments (€36m).

Operating costs of €1,527m[2] were in line with guidance and 2% higher than prior year. Factors that impacted costs in 2020 were increased depreciation and expenses incurred due to the COVID-19 pandemic, partially offset by lower staff costs. FTE numbers reduced by 5% on average or 3% in the year to 9,356 and 9,193 respectively.

2021 costs are expected to decline marginally from FY 2020 as we progress towards our updated medium-term target of <€1.35bn by 2023 reflecting >10% net cost reduction and >15% or c. 1,500 reduction in FTEs. We continue to simplify, streamline and strengthen the organisation through digitalisation and ways of working as we enhance the efficiency of the bank.

Regulatory costs and bank levies were €115m in 2020, relating to the Single Resolution Fund (SRF), the Deposit Guarantee Scheme (DGS), the Bank levy and other regulatory levies and charges (FY 2019: €104m). The higher cost was mainly due to an increase in the DGS.

The ECL charge was €1,460m and is covered in more detail below (FY 2019: €16m ECL charge).

The Group's share of associated undertakings was €15m in 2020 compared to €20m in the previous year.

Exceptional items were €215m in 2020. These include the operational costs of the tracker restitution programme and customer redress, UK restructuring, impairment of intangibles and other one-off system and resourcing costs incurred due to the implementation of COVID-19 related payment breaks.

ASSET QUALITY

The ECL charge was €1.46bn (CoR 240bps) with the majority (€1.2bn) taken in H1 2020. Coverage rates increased across all stages and in total doubled to 4%. As outlined previously, our ECL methodology comprises three key components.

1. **Macroeconomic assumptions: €0.4bn ECL**
   The IFRS 9 models have been updated with four macroeconomic scenarios and weightings resulting in a €0.3bn reduction to the ECL charge in H2 2020 versus a €0.7bn charge in H1 2020. Economic indicators such as GDP and house price inflation (HPI) were better than expected while other factors such as unemployment remain challenging.
   €0.4bn of the €1.46bn 2020 ECL charge relates to macroeconomic scenarios.

2. **Staging movements: €0.7bn ECL**
   While Stage 2 exposures decreased by €1.1bn in the second half to €9.4bn (June 20: €10.5bn; Dec 19: €4.0bn), there was an increase in Stage 3 exposures[(6)] in those sectors most impacted by COVID-19 restrictions. The volume of Stage 3 exposures increased by €1bn to €4.3bn at the end of December (June 20: €3.7bn; Dec 19: €3.3bn). Increased ECL allowance in the sectors most impacted by COVID-19 restrictions (e.g. accommodation, hospitality, retail commercial real estate) was the key driver of the H2 ECL charge.
   €0.7bn of the €1.46bn 2020 ECL charge relates to staging movements.

3. **Post model adjustments (PMAs): €0.4bn ECL**
   In the second half, there were additional PMAs of €0.3bn. The increase in ECL provisions from additional PMAs during the year was primarily due to increased coverage of €0.2bn on legacy NPE mortgages and €0.2bn for risk of further downward staging migration in those sectors most impacted by COVID-19 restrictions.
   €0.4bn of the €1.46bn 2020 ECL charge relates to post model adjustments.

Our ECL approach remains conservative, forward looking and comprehensive. Notwithstanding the significant uncertainty, we expect the cost of risk to be more normalised in 2021 (c. 40bps) based on our current view of macroeconomic assumptions.

BALANCE SHEET

Gross loans in the year declined by 4% to €59.5bn (June 20: €60.6bn; Dec 19: €62.1bn). In 2020 the performing loan book decreased by €3.6bn (-6%) to €55.2bn due to redemptions exceeding new lending, a net movement of €1.8bn to non-performing exposures, €0.5bn leverage loan disposals and foreign exchange impacts.

Despite the various challenges of COVID-19, the Irish mortgage market remained resilient in 2020 with new lending of €8.4bn and house price inflation of 2.2%. Following a strong start to the year, our 2020 market share was 28.4%[7]. Amid high uncertainty, we temporarily amended our credit policy to protect customers from taking on unsustainable debt until their situations were more thoroughly assessed. While there is a lag in drawdowns, our new application pipeline has recovered to pre-COVID-19 levels.

Our new mortgage lending in Ireland reduced 21% in the year to €2.3bn and our personal lending was 10% lower than the previous year. Within our CIB business, traditional corporate lending was down c. 10% and there was a c. 40% decrease in real estate finance lending. Syndicated and international lending was significantly lower than 2019 reflecting our subdued risk appetite for this sector. Our renewable energy and infrastructure loan book continues to grow as we support our customers in the transition to a low-carbon economy. In total, green lending of €1.5bn was recorded in 2020 representing 16% of new lending.

Our Irish SME new lending in the year was broadly flat versus the prior year. Throughout the year, SME businesses continued to face numerous challenges such as the impact of COVID-19 restrictions and Brexit uncertainty. The sector remains in receipt of government supports and in 2020 AIB was first to market with our Government-backed COVID-19 Credit Guarantee Scheme term loan. Our allocation of €746m allows us to further support this sector although credit demand has been subdued so far with modest drawdowns. UK new lending (in sterling) reduced 26% reflecting reduced economic activity in COVID-19 impacted sectors and Brexit related uncertainty.

In total, Group new lending was better than expected with a decrease of 25% in the year versus guidance of -30%. A pick-up in economic activity in the second half of 2020 led to a 9% increase in new lending versus the first half of 2020 with growth in mortgages, personal and SME.

NPEs increased by €1bn to €4.3bn (7.3% of gross loans) in the year within the sectors most impacted by COVID-19 restrictions such as hospitality and retail shopping centres. In Q1 2021 we agreed the sales of two NPE portfolios in deep arrears which collectively reduce the NPE ratio by c. 1% as well as reducing RWAs and alleviating some negative calendar provisioning impact.

FUNDING & CAPITAL

AIB's funding ratios remain strong with LDR, LCR and NSFR of 69%, 193% and 148% respectively, all well in excess of minimum requirements. Customer deposits have increased significantly to €82bn from €71.8bn in December 2019 (June 20: €75.7bn) reflecting a higher rate of savings. This accumulation of deposits, in addition to €4bn of TLTRO III, contributed to increased balances held at Central Bank of Ireland of €19bn at the end of the year (Dec 19: €7bn).

AIB has met its MREL requirements and issued €6bn of HoldCo debt to date. In 2020, AIB successfully issued an AT1 of €650m and our inaugural Green Tier 2 bond of €1bn, further strengthening our capital position.

The fully loaded CET1 at the end of year was 15.6% (Dec 19: 17.3%) and movements in the year represent a loss of €0.7bn (-140bps), lower RWAs from reduction in loans (+80bps), cancellation of the 2019 dividend (+40bps) and other smaller movements (-30bps). In addition to these movements, there was a reduction in CET1 from regulatory adjustments (-120bps) incorporating the negative impacts of TRIM and calendar provisioning partially offset by the benefits from software intangibles and SME CRR Art. 501.

Total capital ratio at December 2020 was 20.8% on a fully loaded basis while transitional capital ratio was 23.9%. At 15.6%, our CET1 fully loaded capital ratio is in excess of our greater than 14% medium-term target and minimum regulatory requirements with a very significant buffer above maximum distributable amount (MDA) trigger levels.

SUSTAINABLE COMMUNITIES

As a leader in Sustainability, progressing the Sustainability agenda is a strategic priority. We continue to play our part to ensure a greener tomorrow by backing those building it today. 2020 marks our first year reporting under TCFD(8) and UNEP FI PRB(8) enhanced disclosures which can be found in our Sustainability report. The summary below gives a sample of the progress made in 2020 across each of the ESG categories/criteria:

Environment

- **Net Zero long term target and ambitions** set and approved by Board; working to set Science Based Targets aligned to the SBTi(9) methodology
- Launched **Green Consumer Loan** to support customers to retrofit homes to make them more energy efficient and launched the **electric vehicle (EV)** proposition
- A number of **Sustainability linked loans** provided to our Corporate customers
- Raised €1 billion in the first **Green Bond** issuance by an Irish bank
- **First disclosures under TCFD**(8) and **UNEP FI Principles for Responsible Banking**(8)

Social

- Launched a €300 million **Social Housing Fund** in November 2020 to deliver 2,000 sustainable A-rated homes
- Pledged €5m to community causes including €2.4 million funding in the battle against COVID-19 for a dedicated **Research Hub at Trinity College Dublin**
- **AIB Together Community Partnerships** - FoodCloud and GAA
- **Financial Literacy focus** - AIB Schools Programme, Vulnerable Customer Training, Fraud Prevention training and alerts
- Established a **Socially Responsible Investment (SRI) Bond Framework** & related SRI Bond Portfolio (aiming to represent 10% of the Treasury Fixed Income portfolio)

Governance

- **ESG regulatory training** provided at Board, Executive and employee level
- Enhanced **Human Rights Commitment statement published** and signatory to **UN Global Compact**
- In November 2020 we hosted our **fourth annual Sustainability Conference** as part of Ireland's Climate Finance Week 2020, hosting 18 events with 5,100 attendees over five days including significant employee participation
- **Excluded activities lis**t(10) published externally for a defined list of lending activities for customers with an exposure greater than €300k and integrated into our Group Credit Risk policy
- Launched our **Responsible Supplier Code** setting out expectations for suppliers and the key social, ethical and environmental values to abide by

With the ongoing public health crisis, we continue to follow Government guidelines in relation to the management of COVID-19 and to put the health and safety of our customers and colleagues at the forefront of our minds as we support the communities in which we operate. We welcome the Government's initiatives and are well positioned to support the rebooting of the Irish economy.

OUTLOOK

Although the economic and operating environment has changed dramatically over the past year, the five pillars of our strategy remain in place and their relevance has been further validated and underpinned by the COVID-19 crisis. Strategy 2023, announced in December 2020, will see us delivering on a revised set of financial targets enabled by a refocused set of strategic priorities and initiatives.

We have started the year in earnest and are pleased with the progress so far including the agreement with Natwest Holdings for the proposed acquisition of Ulster Bank's c. €4bn corporate and commercial loan book and the acquisition of Goodbody. We will continue to seek to make selective investments in order to address gaps in our overall customer offering and to diversify income streams, ensuring AIB is the market-leading full service financial services provider in Ireland.

In terms of economic outlook, the return to lockdown at the start of 2021 has delayed the recovery. However, the conclusion of an EU-UK Free Trade Agreement and the approval and roll-out of COVID-19 vaccines were two positive developments in late 2020. While it will be the second half of 2021 before the vaccines become widely available, it does provide the foundation for a strong sustained recovery as the year progresses. Additionally, the potential for the unwinding of the large build-up of private sector savings together with the continuing supportive macro policies provide optimism for a strong rebound in activity in the next couple of years.

While in the near term, uncertainty remains high, overall we remain positive in our return to profitability in 2021 and a resumption of normal dividend distributions in line with regulatory guidelines. With our strong balance sheet and implementation of our refreshed strategy underway, we will reshape our business so that we generate growing and sustainable profits, provide an excellent and efficient customer experience and make a meaningful contribution to the communities and societies that we serve. Our targets are set, our plans are in place and we are prepared at every level to deliver on these commitments in the interests of all of our stakeholders.

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Further detail, including the 2020 Annual Financial Report, can be found on aib.ie/investorrelations

1) *Operating profit before impairment losses and exceptional items*
2) *Costs before bank levies and regulatory fees and exceptional items*
3) *Excludes potential inorganic opportunities*
4) *Fully loaded*
5) *RoTE = (PAT – AT1) / (CET1 @ 14% of RWAs)*
6) *Stage 3 exposures include Purchased or Originated Impaired Loans (POCI)*
7) *Source: Mortgage drawdowns BPFI Dec 2020*
8) *Task Force on Climate-related Financial Disclosures; UN Environment Programme Finance Initiative Principles for Responsible Banking*
9) *Science Based Target initiative*
10) *Excluded Activities list (see https://aib.ie/corporate/sector-expertise/excluded-activities) is effective in Group Credit Risk Policy since 29.1.2021. It applies to new term lending to business customers with a Gross Connected Exposure of >£/€300k and which are relationship managed.*

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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-(0)87-739 0743
email: paddy.x.mcdonnell@aib.ie

Figures presented in the presentation may be subject to rounding and thereby differ to the 2020 Annual Financial Report.