CHIEF EXECUTIVE'S REVIEW

AS WE ENTER THE FINAL STAGES OF IMPLEMENTING OUR THREE-YEAR STRATEGY, I AM PROUD OF WHAT THE GROUP AND OUR PEOPLE HAVE BEEN ABLE TO DELIVER

Colin Hunt
Chief Executive Officer

DELIVERING FOR OUR STAKEHOLDERS

While global instability and inflationary challenges persist, the Irish economy is resilient and AIB remains a key provider of capital and credit for our growing customer base.

Against an international backdrop of economic and political uncertainty, AIB Group continued to benefit from the resilient performance of the Irish economy and the execution of our own transformation strategy, accelerating our growth trajectory during the first six months of 2023.

Building on our exceptional customer franchise, our multi-channel customer delivery platforms, and continued leadership in key market segments including green lending products and services, the Group delivered a very strong financial and operational performance in the first half of the year.

Amongst the key challenges faced by governments, businesses and households during the period, inflation remains front and centre. Price levels have fallen from last year's highs but structural shifts in the cost of energy, food and other essentials have increased the strain on many budgets. These effects have been compounded by the tightening of monetary policy by the ECB in its efforts to tame the inflationary forces that war in Europe has unleashed.

AIB is acutely aware of the impact on some of our customers of the series of rapid interest rate increases announced by the ECB since last summer. While we have not detected any material impact on loan repayment capacity to date, we remain alert to the risk of this outcome over time. We have already engaged, and remain ready to engage further, with customers who are experiencing financial challenges.

In an environment of rising interest rates, AIB is also focused on delivering product pricing on both sides of the balance sheet in a measured manner.

Notwithstanding these challenges at both a macro and customer-specific level, the Irish economy continues to perform strongly. Solid single-digit growth projections, effective full employment, buoyant tax returns and continued high savings levels are amongst the key metrics that sustain business and consumer confidence and contribute significantly to AIB's ongoing growth and profitability.

In return, AIB continues to play its part as a key provider of capital and credit for the economy and its growing population. In this context, the Group's robust balance sheet and liquidity ratios serve as a foundation for prudent lending growth and an increasing range of products and services to a customer base that has expanded to over 3.2 million.

As we enter the final stages of implementing our three-year strategy, I am proud of what the Group and our people have been able to deliver given the fundamental changes to the domestic banking landscape. As we move towards the final withdrawal of Ulster Bank and KBC from the Irish market, the Group opened c. 185,000 accounts in H1 2023, of which 60% were opened digitally, this is in addition to the c. 450,000 accounts opened in 2022. Having now completed the acquisition of Ulster Bank's corporate and commercial loans, we welcomed the last of these customers to AIB in recent weeks. And following CCPC approval in January for the acquisition of Ulster Bank's tracker mortgage portfolio,involving c. 42,000 customers and c. €5bn of mortgages, we welcomed c. 80% of these customers in July and expect migration to complete in the second half of this year. We look forward to supporting all of our new customers with their banking needs through the enhanced range of financial services and products which AIB Group now provides.

A key focus of our strategy is to provide our customers with attractive savings, wealth and investment offerings, and we reached two milestones in this area in the last six months. Goodbody, which we acquired in the autumn of 2021, is now fully integrated in the Group and in April, we launched Goodbody-Private, offering high net worth AIB customers the wealth products and services of Goodbody through a collaboration with AIB Private Banking. Goodbody-Private maximises the delivery of Goodbody's recognised experience and capability through AIB distribution channels.

In June, AIB life, the joint venture between AIB and Great-West Lifeco, was officially launched. The new company is the first full-service, technology-led life company to be designed and built in the Irish market in a generation. It has been built from the ground up, with modern technology that is fully cloud-based, and is now exclusively available to all AIB customers with support from AIB's existing network of 120 Financial Advisors nationwide. Once the customers have been suitably advised, they gain access to the new AIB life hub via the AIB Mobile Banking app.

As I have previously stated, concluding legacy issues is of paramount importance to AIB. In August 2021, the Group instigated a programme to review investments in a series of investment property funds, known as Belfry, which the Group sold during the period 2002 to 2006 to c. 2,500 individual investors. The programme has conducted a case-by-case review of investments to determine if redress may be due and payments to investors commenced in the second half of 2022 and are ongoing. An independent appeals process has been established and is available to all investors.

Financial Performance

Continuing our momentum from 2022, we have achieved a strong financial performance in the first half of this year, and we are reporting a half-year profit before tax of €987m. This includes an operating profit of €1,205m before impairment charge and exceptional items.

Total operating income of €2,209m was 73% higher than in the first half of 2022. Net interest income of €1,772m increased by €877m or 98% compared to the half-year to June 2022 reflecting the impact of a higher interest rate environment and growth in customer loan volumes. Net interest margin (NIM) increased by 146 basis points to 2.94% in the half-year to June 2023 compared to 1.48% in the half-year to June 2022.

Other income of €437m increased by €58m compared to the half-year to June 2022 primarily reflecting the forward contract for the acquisition of Ulster Bank's tracker mortgage portfolio and a 7% increase in net fee and commission income partly offset by a reduction in other items.

Total operating expenses of €897m increased by 15% compared to the half-year to June 2022. Factors impacting costs include wage and general inflation, increased customer servicing for a larger customer base, higher staff numbers given the enlarged Group and an allowance for variable pay. The Group's cost income ratio in the half-year to June 2023 was 41% compared to 61% in the half-year to June 2022.

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. Our overall approach remains conservative, comprehensive and forward-looking and is reflected in an expected credit loss coverage rate of 2.6%.

Exceptional items of €130m include a charge of €63m related to the aforementioned Belfry investment property funds, reflecting an increased provision for customer redress of €59m and associated costs of €4m. Exceptional items also include inorganic transaction costs.

New lending of €5.6bn in half-year to June 2023 was €0.2bn higher compared to the half-year to June 2022. Irish mortgage lending of €1.7bn was in line with the half-year to June 2022. Property related lending was down 20% to €1bn reflecting the Group's prudent approach to this sector. Non-property lending of €2.2bn was up 12% driven by higher corporate and renewable energy & infrastructure lending partially offset by subdued SME lending. Personal lending was up 29% to €0.6bn.

Gross loans at €62.8bn were up €1.6bn or 3% primarily driven by the further migration of loans from Ulster Bank and new lending exceeding redemptions.

As at 30 June 2023, 91% of AIB's loan book is of strong or satisfactory quality (up from 90% at 2022 year-end). Maintaining the quality of new lending is critical, with >97% of our new lending being of strong or satisfactory credit quality in the first six months of 2023.

Non-performing loans as a percentage of gross loans to customers were 3.3% at 30 June 2023 compared to 3.5% at 31 December 2022. 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, pre-Covid NPEs now stand at 0.3% of gross loans.

AIB's funding and liquidity ratios remain robust. While customer deposits continue to accumulate, our Loan to Deposit Ratio increased to 59% at 30 June 2023 compared to 58% at 31 December 2022.

We continue to have strong liquidity metrics (Liquidity Coverage Ratio 164% and Net Stable Funding Ratio 158%).

Debt securities issued of €6.7bn decreased by €0.5bn from 31 December 2022 primarily due to maturities of €1.3bn partially offset by a further MREL related social bond issuance of €0.75bn.

The Group has a strong capital base with a reported CET1 ratio of 15.7% at 30 June 2023, well in excess of regulatory requirements and our medium-term target of greater than 13.5%.

Digital

Our digital base of c. 2.15 million customers continues to grow, with Mobile proving to be the most popular channel. We now have c. 1.85 million customers active on this channel, accounting for nearly 3 million daily interactions, and we have seen a 12% increase in the average daily usage of Mobile since the start of 2023. Encouragingly, we continue to see increasing levels of digital adoption across all customer segments, with growth in the over-65 age group up a further 18% since the start of 2023.

Digital Wallet payments continue to prove popular with our customers. We have witnessed an impressive 60% increase in the use of this channel along with an 80% increase in the value of transactions, year-on-year. In the same period, the value of eCommerce transactions has increased by 31%.

Today, online applications for our main personal products continue to rise. In the first six months of the year, 88% of personal loans, 62% of overdrafts and 59% of credit cards were applied for online, while a quarter of our mortgage applications were made online.

We once again witnessed a large increase in new current accounts in the first six months of the year and over 60% of those accounts were opened remotely, via our AIB Mobile Banking App. While continuing to transform our credit processes, we enhanced our digital offering to our c.70k business customers. In June, as well as updating our Business Online channel, we launched the AIB Business app, offering prompt, convenient and secure banking for business owners and managers on the move.

As our customers have become more digitally active, so too have fraudsters, targeting our customers on an ongoing basis. We continue to take this very seriously. We are committed to protecting customers against the threats associated with fraud, making significant investments to enhance our fraud monitoring systems in response to new threats and existing trends. Recognising that this type of fraud typically starts with fake communication, AIB runs an education programme for customers, which is ongoing, and continues to advocate for a cross-sectoral, multi-stakeholder approach.

Sustainable Communities
In the first six months of the year, the Group made great strides in addressing both our own and our financed emissions, while deepening our support for our communities and partnering with credible, research-based organisations. We remain steadfast in realising our Net Zero ambitions.

Having secured a Corporate Power Purchase Agreement with NTR plc in October 2022 to provide up to 80% of the Group's energy needs from renewable sources – along with additional capacity for the national grid – the construction of two solar farms has gained momentum, with the first expected to be ready for energisation in H2 2023. In parallel, we set financed emissions targets for c. 75% of the Group's loan book in 2022 and in April, having received validation for these targets from the Science Based Targets Initiative (SBTi), we became the first bank in the world to secure a Maintenance target for our Electricity Generation portfolio.

While providing direct support to our customers, we are also building relationships with industry and innovative organisations to achieve the common goal of transitioning to a Net Zero society. As such, in June, AIB announced a new partnership with GreenTech HQ, an entrepreneurial hub in Enniscorthy, Co. Wexford focused on developing green solutions, and became the exclusive financial institution partner with the Farm Zero C project, which aims to reduce greenhouse gas emissions and increase the productivity and resilience of dairy farms using a cross-disciplinary approach. More recently, in July, University College Cork announced the appointment of Professor Valeria Andreoni as the AIB Professor in Sustainable Business, a new position in the university that will play a pivotal role in advancing research, education and engagement initiatives that focus on promoting sustainability within the business sector.

While we continued to support our community partners FoodCloud, AsIAm, Junior Achievement Ireland and GOAL, we engaged our customers in 2023 by facilitating their support for charity causes that matter to them. We began the year responding to the devastating earthquake in Turkey and Syria by enabling our customers to donate directly to GOAL's emergency appeal via the AIB Mobile Banking app. Our customers' donations raised a fantastic €460k in total.

In May, we launched our second annual AIB Community €1 Million Fund, and received c. 16k nominations from our customers, employees and the public for charities across Ireland and the UK. We look forward to naming the 70 successful recipients in September as well as enabling our customers to increase that support directly through our app.

In January, we raised €750m through the issuance of our second social bond, bringing the total amount raised by our ESG bonds to €5bn since 2020. The transaction in January marked the largest orderbook of all AIB's outstanding senior debt, and in June we received the 'Most Impressive Financial Institution ESG Bond Issuer' accolade at the GlobalCapital awards.

Culture and our People
With the domestic labour market operating near full capacity, attracting, developing and retaining the best talent remains a key focus for us.

We have maintained our strong employer brand by enhancing our employee value proposition through career development opportunities, a culture of accountability and inclusivity and the development of a more progressive reward structure. 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.

In the first six months of 2023, we continued to build an inclusive workplace that enables everyone to reach their potential through a bank-wide universal inclusion campaign, progressive people policies, a wide range of Inclusion & Diversity training, and the continued diversification of our talent pipeline through apprenticeship and internship programmes. We empower our people to take ownership of their careers through initiatives such as our 'Invest in You Week', which was held in January this year, showcasing career development opportunities, with over 4,300 colleagues participating in events and seminars.

We remain steadfast in our commitment to truly embed a culture that champions customers' interests underpinned by values and behaviours that support the delivery of high-quality service and fair customer outcomes. Throughout the first half of the year, we maintained a strong emphasis on the promotion of a culture of accountability throughout the organisation. With the strong support of our Board and Executive Committee, the Group is well prepared for the implementation in 2024 of the Individual Accountability Framework regulation, which is intended to improve executive accountability within the Irish financial services sector. We continue to place an emphasis on our Speak Up agenda creating a supportive environment across all entities where colleagues can raise issues.

In line with the easing of some Government restrictions in December 2022, we 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. The Group's remuneration policies and practices support our strategy and values and promote long-term sustainable success for the organisation.

Two announcements were made in the first half of 2023 regarding our Executive Committee. After a distinguished career spanning more than 30 years, Jim O'Keeffe, MD of Retail Banking, decided to leave AIB to pursue other opportunities. Fergal Coburn, Chief Technology Officer, after more than 22 years of dedicated service in AIB, also announced his departure from the Group. I would like to take this opportunity to thank both Jim and Fergal for their enormous contribution over many years. A process to appoint their successors is well advanced and announcements will be made in due course.

Outlook
Overall, it has been a relatively solid performance by the Irish economy in the first half of 2023 and the outlook remains favourable despite the subdued global backdrop.

Growth in the world economy is projected to be restrained in 2023-24 as a result of high inflation, the restrictive stance of monetary policy and associated tightening of financial conditions. The OECD is forecasting growth rates of 2.7% and 2.9% for the global economy in 2023 and 2024, respectively, with a much smaller rise of 1.4% in GDP in OECD countries in both years.

Against this background and with significant capacity constraints also emerging in the domestic economy, Irish growth will slow significantly this year from the very high rates seen in 2021-22. Indeed, GDP contracted in the opening quarter of 2023, as a result of a fall in output from the multinational sector.

CHIEF EXECUTIVE'S REVIEW CONTINUED

There has also been a further softening in activity levels and prices in the CRE sector. Most indicators, though, point to a strong performance by the economy over the first half of the year. Employment rose by 1.9% in the first quarter, while preliminary estimates from the CSO are that the unemployment rate fell to an all-time low of 3.8% during the second quarter.

Housing completions also continued to trend upwards in Q1. The strength of the economy has seen further growth in tax revenues, which rose by 11% in the first half of 2023. The Department of Finance is now projecting a cumulative budget surplus of close to €45bn over the period 2023-2025. Meanwhile, household savings remain very high, while private sector debt levels are very low. The Irish economy also continues to be supported by ongoing large inflows of foreign direct investment, which remained at a high level in the first six months of 2023.

There is a wide range of forecasts for GDP growth in 2023 owing to the considerable volatility in the output of manufactured goods from the multinational sector, which also impacts exports. Modified domestic demand is projected to rise by c. 3.5% this year and around 3% in 2024. Meanwhile, Irish inflation fell sharply over the opening half of the year, helped by lower energy costs. The HICP rate stood at 4.8% in June, down from 8.2% in December and the peak of 9.6% reached last summer. The HICP rate is seen averaging 5.3% this year, falling to around 3% in 2024.

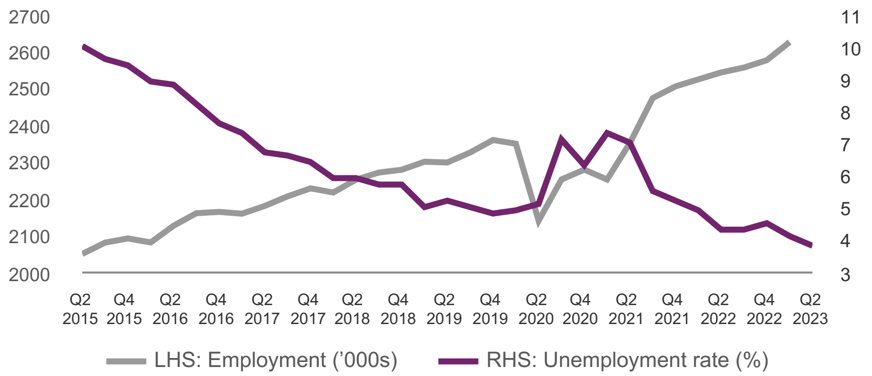
The first half of 2023 saw continued momentum in the sell down of the State's shareholding in AIB. We very much welcomed the announcement in June, by the Minister for Finance, Mr Michael McGrath, regarding the sell down of approximately 5% of the issued ordinary capital of the Group, which brought the State's shareholding to 46.9%. This was another important development in the process of returning the State's investment in the Group and a normalisation of the share register. This also marked a significant milestone for the Group as we returned to majority private ownership. AIB owes Irish taxpayers an immense debt of gratitude for their support during the financial crisis.

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.

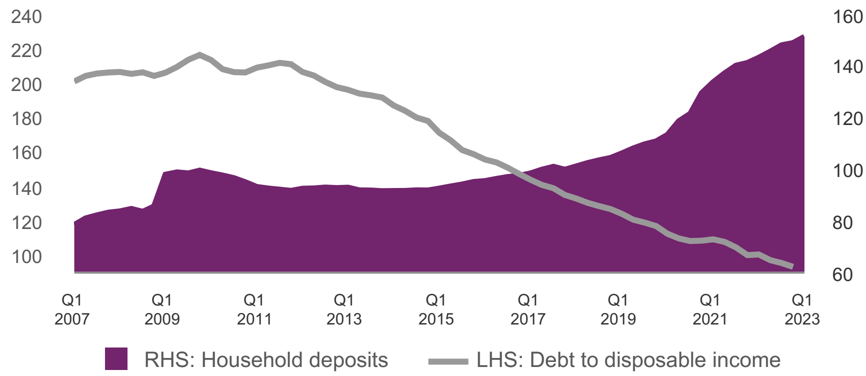
Their collective efforts are delivering tangible results and as we enter the final phase to close out our current three-year strategic cycle, and look forward to the next three years, I am confident that the Group is well positioned to continue to build on this momentum through 2023 and beyond.

Colin Hunt
Chief Executive Officer
27 July 2023

EMPLOYMENT LEVELS RISE WHILE UNEMPLOYMENT REMAINS LOW



HOUSEHOLD DEPOSITS REMAIN ELEVATED, INDEBTEDNESS FALLS



IRISH HEADLINE INFLATION RATE IN MARKED DECLINE