EMBARGO 07:00 **30 October 2020**

AIB GROUP PLC – Q3 2020 TRADING UPDATE (UNAUDITED)

Covering the nine months to September 2020 unless otherwise specified

"The Group performed well in the third quarter and, generally speaking, economic indicators are proving more resilient than anticipated earlier this year. However, we must acknowledge and continue to be vigilant to the significant uncertainties which persist both domestically and internationally. Our strong capital position enables us to deliver on our priorities to support the Irish economy, work with our customers as they deal with the challenges of COVID-19 and Brexit, support our colleagues and play our part in the communities in which we serve. We also continue to drive the wider Sustainability agenda where we've made significant progress in recent months. At the same time, we are actively working to best position the Group to respond to the challenges and opportunities which will arise as the world emerges from this crisis. We look forward to providing an update before year end on our plans for the future shape of our business."

- Colin Hunt, Chief Executive Officer

Highlights

- Solid performance in Q3; more resilient than expected with positive momentum quarter on quarter
- 66k payment breaks granted in Retail Banking (€4.2bn) – 74% have rolled off and €1bn outstanding
- Asset quality remains a focus with 2020 ECL expected to be within guidance
- Total income for the nine months to September was 11% lower than the equivalent prior year period
- Stable cost; continued reduction in number of FTEs
- New lending in Q3 20 was 18% lower than Q3 19 (Sept YTD -24%); better than expected although redemptions continue to exceed new lending
- Strong capital position; Pro-forma CET1 (FL) 16.1% including 80bps TRIM mortgage impact; well in excess of our CET1 >14% target
- Successful inaugural Green Tier 2 issuance of €1bn in September 2020; MREL ratio currently in excess of our expected intermediate target of 27.1% of RWAs
- Significant progress made in Sustainability with numerous recent initiatives launched; Our Green Mortgage product now accounts for c. 15% of our new Irish mortgage lending
- Full year 2020 guidance re-iterated

ECONOMIC ENVIRONMENT

The 2020 global recession triggered by the COVID-19 pandemic saw a very large contraction in economic activity in the first half of the year, however global activity bounced back stronger than expected in the third quarter. In Ireland's case, the hit to the economy has been mitigated to some extent by the continuing strength of exports, most notably from the high-tech sectors of the economy. Thus, the declines of 7-10% in Irish GDP that were forecast earlier in the year will not now materialise.

However, there are signs that the recovery in global activity has lost momentum recently. The number of new COVID-19 cases is rising rapidly in Europe and the US, with countries re-imposing restrictions to try to rein in the second wave of the virus. This is now hampering the rebound in economic growth, which could stall or even go into reverse in the fourth quarter. Indeed, Ireland has recently implemented a fresh six week lockdown, so the economy can be expected to contract again in the fourth quarter. Overall, Irish GDP now seems likely to fall by 3.0-3.5% in 2020, a much smaller decline than forecasted earlier in the year. The contraction in the domestic economy is likely to be much greater though, probably of the order of 7% or more.

Meanwhile, the recession appears to be having little impact on house prices. Irish house prices look set to register just a very modest decline in 2020, with the latest CSO data showing prices down by 0.6% year-on-year in both July and August. Another notable feature of the recession has been considerable government supports for household incomes. There has also been a very sharp rise in private sector savings. This has been evident in other economies also and is manifesting itself in rising levels of banking deposits. In regard to AIB, customer deposits have grown significantly this year to €78.2bn in September from €71.8bn in December 2019. The upward trend in savings is likely to remain a feature while COVID-19 restrictions stay in place, as it is partly precautionary but also partly involuntary given the constraints on households' ability to spend.

It is clear that monetary policy will remain supportive of economic activity over the next number of years. In Ireland, the recent budget has ensured that fiscal policy will provide considerable support to the economy in the coming year to help counter the impact of both COVID-19 and Brexit. Some sectors of the economy have been hit very hard by COVID-19 restrictions, most notably hospitality, live entertainment, travel and tourism. The large build-up of private sector savings together with the supportive stance of macro policy, points to the scope for a strong rebound in activity once the COVID-19 pandemic is overcome. Most forecasts are for the Irish economy to grow by 5-6% next year if the EU and UK can conclude a free trade deal, or by 2-3% should a hard Brexit materialise. Trade talks aimed at achieving a deal are still ongoing between the UK and EU. Regardless of the outcome of these negotiations, next year will bring a major change for those businesses trading with the UK as it moves outside the EU Single Market and Customs Union.

FINANCIAL PERFORMANCE

Total income for the nine months to September reduced 11% with a combination of 9% decline in Net Interest Income (NII) and 18% decline in Other Income. While there is a high level of uncertainty as we face into the fourth quarter, total income has shown a level of resilience better than that anticipated at the onset of the COVID-19 crisis earlier this year.

NII reduced by 9% in the nine months to September 2020. The operating backdrop for banks continues to be challenging and the lower interest rate environment was a key driver of the decline in NII. Other movements were reduced loan volumes and lower income on investment securities which were partially offset by lower cost of deposits. We continue to take management action in relation to negative deposit pricing. Net interest margin (NIM) for the three months of Q3 was 1.91% versus Q2 NIM of 2.01%. TLTRO(1) III funds and the proceeds from our Tier 2 issuance along with the continued growth of customer deposits will further impact on NIM in Q4.

Other income for the nine months was down 18% versus the prior year period. Fees and commission income reduced 16% over the same period due to reduced economic activity and changes in customer behaviours as a result of the COVID-19 pandemic. These changes include the shift from cash to digital payments demonstrated by a 40% reduction in the number of ATM transactions in Q3 2020 versus Q3 2019 and the continued rise in the number of digital wallet/contactless payments which have effectively doubled over the same period.

Operating expenses for the nine months were held in line with the prior year period. Depreciation remains a factor impacting on cost while the trend towards lower FTEs was maintained in the third quarter despite having paused our planned voluntary severance programme. We continue to explore opportunities for cost-savings in our operating model and examine the shape of our business.

Regulatory costs and levies for 2020, including the Single Resolution Fund, the Deposit Guarantee Scheme and the Bank Levy, are expected to be c. €0.1bn for full year 2020, in line with 2019.

An expected credit loss (ECL) charge of c. €0.1bn was recognised in the third quarter, see Asset Quality section.

The Group's share of Associated undertakings[2] continues to perform well and is expected to contribute c. €15m for FY 2020 (FY 2019: €20m).

ASSET QUALITY

In the third quarter, the ECL charge was c. €0.1bn which is in addition to the €1.2bn ECL charge recorded in H1 2020. As outlined previously, our ECL methodology comprises three key components.

1. Macroeconomic assumptions
   There have been no changes to the macroeconomic scenarios or weightings in our IFRS 9 models since H1 2020. While economic indicators such as GDP and HPI are emerging better than expected, there are other factors such as unemployment, COVID-19 restrictions and Brexit which remain difficult to assess.

2. Staging movements
   While there was minimal movement in Stage 2 exposures on a net basis in Q3, there was an increase in Stage 2 exposures in those sectors most impacted by COVID-19 restrictions with an offsetting reduction in Stage 2 mortgages. The volume of Stage 3 exposures[3] increased to €3.9bn at the end of September versus €3.7bn at the end of June. 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 Q3 ECL charge. We expect to see more exposures in selective sectors move to Stage 3 in Q4.

3. Post model adjustments
   There were no material additional post model adjustments in the third quarter. The management overlay related to payment breaks (€42m) remains in place.

Payment breaks

We continue to engage with our customers and monitor the credit quality of those loans currently on payment breaks or subject to modification. We remain vigilant to the risk of downward stage migration on the expiry of the payment break periods.

In total we granted c. 66,000 payment breaks in Retail Banking and they have evolved (as at 16 Oct) as follows:

- 3% remain on payment break 1
- 60% rolled off payment break 1 without availing of payment break 2 – over 90% have returned to normalised payment schedules
- 37% rolled on to payment break 2 of which:
  - 23% remain on payment break 2
  - 14% rolled off payment break 2.

Overall this level of roll-off has proved better than originally anticipated and c. 96% of payment break 2 are due to reach their expiry period by the end of 2020. AIB is in continual contact with customers to understand if any further support measures may be required beyond this point.

The return to contracted payment terms by those customers who availed of payment breaks in our Corporate, Institutional & Business Banking (CIB) has similarly been better than expected. In the UK, over 90% of payment breaks granted have returned to normalised payment schedules.

Table 1 below shows all payment breaks currently in place in Retail Banking.

Table 1: Payment breaks – as at 16 October 2020

COVID-19 payment breaks Retail Banking segment	**Mortgage**	**Personal**	**Business (small business)**	**Total**
No. of accounts	3,985	7,978	5,157	17,120
Amount in Euro (€m)	604	96	319	1,019
% of number of customer loan accounts	2%	1%	4%	-
% of portfolio value	2%	4%	9%	-

Our ECL approach remains conservative, forward-looking and comprehensive and as such we continue to estimate that ECL taken to date €1.3bn (Sept YTD: 215bps cost of risk) represents the significant majority of the FY 2020 anticipated ECL charge.

BALANCE SHEET

Gross loans at the end of September were €60.1bn (June 20: €60.6bn; Dec 19: €62.1bn) due to redemptions exceeding new lending and FX impact. The performing loan book decreased €2.6bn (-5%) since December 2019.

New lending in Q3 showed tentative signs of recovery with an 18% decrease on Q3 2019, while in the nine months to September 2020 there was a 24% decrease. Our new mortgage lending in Ireland reduced 25% period on period and our market share(4) of mortgage drawdowns September YTD was 30%. Our personal lending in Ireland is down 10% for the nine months to September 2020 versus the prior year period. Renewable energy lending continues to be the fastest growing part of our balance sheet and while traditional corporate lending remains solid, there has been a decrease in new property lending. Syndicated and international lending was significantly lower than last year due to our continued cautious approach to this sector.

Our Irish SME new lending in the nine months to September was 3% lower than the prior year period, business sentiment is fragile as the sector continues to face numerous challenges such as the impact of COVID-19 restrictions and Brexit uncertainty. In September, AIB was first to market with our Government-backed COVID-19 Credit Guarantee Scheme term loan. This discounted, digitally-delivered product is aimed at supporting our SME customers as they respond to the economic and business implications of the COVID-19 pandemic. We have allocated €270m to this scheme and while it is too early to assess ultimate credit demand, customer appetite has been subdued so far. UK new lending (in sterling) reduced 27% reflecting the slowdown in the economy. We continue to support our customers in the UK through the various government support schemes having facilitated over 4,000 customer loans with a value of over £220m.

NPEs increased by €0.2bn to €4bn (6.6% of gross loans) in the third quarter and we expect to see more exposures in selective sectors move to NPEs in Q4.

Customer deposits have increased significantly to €78.2bn from €71.8bn last December (June 20: €75.7bn) reflecting higher savings rates.

FUNDING & CAPITAL

AIB's funding ratios remain strong and well in excess of minimum requirements. As deposits continue to accumulate, our LDR was 74% at the end of September 2020 and balances held with the Central Bank of Ireland increased to €16.5bn. AIB participated in TLTRO III and drew down €4bn of funding in September.

We successfully issued our inaugural Green Tier 2 bond of €1bn in September, further strengthening our capital position. AIB has now filled its AT1 and Tier 2 buckets which under Art. 104a reduce the Group's CET 1 Pillar 2 requirement to 1.69%. We have received regulatory approval to redeem the remaining AT1 and Tier 2 originally issued out of Allied Irish Banks, p.l.c. (OpCo) which are callable in Q4. Fitch has reaffirmed AIB's long term issuance rating at BBB and maintained its Outlook on Negative.

The fully loaded pro-forma CET1[(5)] at the end of Q3 was 16.1% (June 20: 15.6%) and movements since June represent organic capital generation in the quarter, lower RWAs helped by the application of SME CRR Art. 501 and other smaller offsetting movements. The capital ratios are materially in excess of minimum regulatory requirements and have a very significant buffer above maximum distributable amount (MDA) trigger levels.

As outlined at the Half Year results, there are a number of factors which will impact capital in 2020 and 2021 which will broadly offset over these two years. They included tailwinds from the revised capital treatment of Software Intangibles and the application of SME CRR Art. 501 and headwinds from Calendar Provisioning and TRIM (SME & Corporate). For FY 2020, the headwinds will outweigh the tailwinds and we expect the CET1 (FL) ratio to remain well in excess of our >14% medium-term target.

We confirm we have received the final TRIM letter regarding our AIB mortgage model and the previously guided 80bps impact will be reflected in our reported regulatory capital ratios in December.

SUSTAINABLE COMMUNITIES

Progressing the Sustainability agenda is a strategic priority and we were pleased with the achievements in the third quarter including:

- Awarded *Outstanding Achievement in Sustainability* by Chambers Ireland/Business in the Community at the Annual Sustainable Impact Awards 2020 as well as the *Excellence in the Environment* award
- Raised €1 billion in the first Green Bond issuance by an Irish bank
- Launched a €300 million Social Housing Fund to deliver 2,000 sustainable A-rated homes
- Launch of the 'Power of Zero' initiative in partnership with Nissan Ireland offering 0% finance to customers to purchase Electric Vehicles
- Established a Socially Responsible Investment (SRI) Bond Framework & related SRI Bond Portfolio (aiming to represent 10% of the Treasury Fixed Income portfolio)
- Launched our Responsible Supplier Code setting out expectations for suppliers, and the key social, ethical and environmental values to abide by
- Sponsors of Climate Finance Week, starting 2 November during which AIB will hold its fourth Sustainability Conference.

In addition, AIB customers have drawn down more than €245 million in Green Mortgages for energy efficient homes following the launch of the AIB five year fixed-rate Green Mortgage last November. This equates to c. 1,065 homes. This would deliver an estimated 137,000 tonnes in CO2 savings over 30 years. Our Green Mortgage product now accounts for c. 15% of our new Irish mortgage lending and we continue to develop our green customer propositions.

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

Guidance

We are cognisant of the significant uncertainty that remains in relation to the COVID-19 pandemic, Brexit and the global macro environment. As we approach year end, we remain comfortable with the full year 2020 guidance provided at the time of our Half Year Results:

- Net Interest Income c. €1.9bn
- Other Income c. €420m
- Cost inflation c. 2% year on year
- Cost of risk c. 235-250bps
- New lending to reduce c. 30% year on year

Market Update

Our annual business planning process is underway and we are considering the future shape of our business in order to adjust to the financial impact of COVID-19 and the changed external environment with particular reference to the acceleration of themes such as digitisation, flexible working and sustainability. While our strategic priorities and medium-term financial targets remain unchanged, the challenge to achieve these is greater in the wake of the COVID-19 health crisis. However, we continue to believe these targets are appropriate for the Group and intend to update the market on our pathway to achieving these targets before year end.

Footnotes:

1. *TLTRO: Targeted longer-term refinancing operations*
2. *Share of Associated undertakings (in particular AIB Merchant Services) has not been impacted by chargeback risk* with no material provisions required to date*
3. *Stage 3 exposures includes Purchased or Originated Impaired Loans (POCI)*
4. *Source: Mortgage drawdowns BPFI Sept 2020*
5. *Pro-forma CET1 (fully loaded) 16.1% includes 80bps TRIM impact for the AIB mortgage model*

**In the event that a merchant was unable to fulfil products or services subject to future delivery, the merchant processing services provider and ultimately the card scheme member, could be liable for refunding the purchase price of such products or services, under chargeback provisions. COVID-19 has resulted in potential increased chargeback risk to merchant processing services provided by First Merchant Processing (Ireland) dac ("FMPI"), trading as AIB Merchant Services, the Group's 49.9 per cent indirectly owned associate, and the potential obligations of AIB as card scheme member for FMPI. The Group has assessed this potential indirect exposure to be highly unlikely and has a number of mitigants to this risk in place.*

-ENDS-

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Forward Looking Statements

Figures presented may be subject to rounding.