

Opening Address: AIB meeting Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach. Wednesday, September 14th, 2022.

Good afternoon Chairman and Members of the Joint-Committee on Finance, Public Expenditure and Reform, and Taoiseach.

Thank you for inviting AIB to meet you here today. Your invitation specifically refers to your wish to discuss recently announced services changes to branches but we are of course happy to consider any areas you wish to cover that also affect the bank, our customers and the wider economy.

With me here today representing AIB is:

- Managing Director of Retail Banking, Jim O’Keeffe
- Group General Counsel, Helen Dooley
- Director of Group Transformation, Adrian Moynihan

Branches

Let me begin by addressing the controversy that arose in July regarding AIB’s proposal to remove cash services from 70 of its branches. That announcement caused widespread public upset. We terminated the plan within three days of its publication but today I again acknowledge the alarm it caused and reiterate our regret.

It is very important from AIB’s perspective that we clearly explain our position and this forum provides us with an opportunity to do so. Given that the way in which customers manage their financial affairs is rapidly evolving, it is incumbent on the bank to map out coherent strategies in response to those changes. AIB’s original decision to remove cash and reshape its services in 70 branches was based on a genuine effort to future-proof the viability of our branch network, keeping our 170 branches open nationwide while ensuring that our customers could continue to access cash services in their communities through our expanded partnership with An Post. This, we believed, would provide a resilient, cost-sustainable network into the future as customers’ banking requirement continue to develop and, in the process, generate revenue for An Post.

A great deal has been written and said about the bank’s decision and it is imperative that we illustrate the reasoning behind it. The Covid-19 pandemic had accelerated the decline of cash usage and visits to bank branches and had triggered a dramatic increase in customers’ adoption of digital banking services.

In AIB’s case, from 2019 to 2022, there was a 35.3% reduction in the number of customer transactions completed in our branches. Transactions volumes involving our tellers fell from 9.9 million in 2019 to a forecasted 5.8 million overall this year. The figures for transactions at our cash and cheque lodgement (CCL) facilities almost halved from 14.1 million in that 3-year period to 7.7 million. ATM transactions fell from 15.4 million in 2019 to an estimated 12 million for all of 2022.

Meanwhile, daily digital interactions increased to 2.9 million compared to 35,000 customer branch visits. Customer preferences have in fact been changing since 2014. For example, that

year, over 19 million cheques were issued but this number would fall to 8.7 million by 2020; this trend is irrevocable and is going to influence the services required in the traditional model of the local branch. Against that backdrop, but determined to keep our branches open in the community, we proceeded to further develop our relationship with An Post on the basis that the complementary service would allow our customers to still access the vast majority of bank services in any of the country's 920 post offices. And we genuinely believed that the "AIB at An Post" model, together with our digital banking options, was sufficient to meet our customers' cash needs and expectations.

We were proven wrong in that belief and under-appreciated the huge value that customers continue to attach to the presence of a fully-serviced local branch. Though digital platforms are perfectly sufficient for much of our customer base, it is clear that many also want continued accessibility to cash, cheque and lodgement services as well as on-site support for larger and sometimes complicated transactions.

We are witnessing a transformational shift towards an increasingly digital economy. We are in transition but, as I said at the launch of our Interim Results at the end of July, AIB moved way too far, way too fast in withdrawing cash facilities. I hope that our prompt withdrawal of the plan and assurances that the status quo remains have fully quelled customers' anxiety.

We will retain Ireland's largest branch network, providing all existing services. The changes proposed in July are off the agenda.

What is not off our agenda, however, is the maintenance of our close connection to our customers and our communities. The geographic scale of our network ensures there is an AIB branch in 95% of the locations that Ulster Bank and KBC are leaving. These branches are staffed by our people who understand customers' needs at a very local level and who can provide tailored advice and support. The primacy of customers' interests is central to our success. It is incumbent on the business to meet their expectations so they can enjoy peace of mind that their finances are being looked after safely and professionally.

Backdrop

I do not have to remind this Committee that a well-functioning and secure banking sector capable of withstanding shock is of vital importance to our customers and the economy at any time. This is particularly the case in the present moment when we are dealing with the consequences of the protracted global pandemic and now the impact of the human tragedy and economic upheaval inflicted by the war in Ukraine. We are acutely aware of the effects of rising inflation and the cost-of-living crisis being experienced by so many of our customers.

As I mentioned earlier, AIB Group reported a very positive set of financial results for the first six months of the year, signalling the bank's ongoing capacity to support the Irish economy. For example, we were in a position to fund €5.4 billion in new loan finance from January to June this year, representing a 20% increase. As one of Ireland's pillar banks with 2.8 million customers -- a base that is now rapidly growing -- AIB is intrinsically linked to the Irish economy. Over the past decade, the bank's balance sheet has been transformed with the ratio of loans to deposits falling from circa 130% to 60%; so the Group now has a surplus of

resources and a massively reduced exposure to bad loans, due to the large amount of restructuring and customer solutions implemented over the last decade.

Our strong balance sheet, capital strength and the consolidation of a growth strategy that closed off a number of customer product gaps means we have a reshaped business, delivering improved returns and capacity to make the necessary investment in our physical and technological infrastructure. The bank is now very well positioned to adapt to economic strains and the challenges that lie ahead. In addition, that financial capability allows us to provide extensive support for Ireland's major infrastructural needs, including housing and meeting the country's onerous emissions targets.

Switching

Meanwhile, the exit of Ulster Bank and KBC from the market, which triggered the mass migration of customers in search of a new financial relationship, means that by half year, the bank had opened over 205,000 bank accounts, a 110% increase on the same period last year. (In any given year, AIB opens an average of 250,000 new accounts). We expect the figures to peak through this month (September) and through October. Facilitating the smooth arrival of new customers involved the continued recruitment of 700 temporary staff and our continued investment in our digital capabilities means that approximately 70% of personal customers can now open a new bank account digitally.

In April, when AIB last met with this Committee, we outlined our capacity, and readiness, to welcome customers from the departing banks. AIB's 170 branch locations and three contact centres have been resourced in order to reduce call and branch-appointment waiting times. A customer now waits an average of 4 minutes for a response from our contact centre and 12 days for an appointment with a member of branch staff in order to open new accounts. Support for vulnerable customers through the change process is supplemented with a dedicated helpline in addition to one-to-one service.

The unprecedented transition of almost one million current and deposit accounts, involving many millions of direct debits and standing orders, involves huge disruption for customers. However, given the levels of investment in personnel and technology that we are making, we will minimise customers' problems in transitioning to their new financial arrangements.

Conclude

Finally, thank you again for the opportunity to address a number of important questions. The banking ecosystem is changing; consumers are moving in ever-growing numbers from a reliance on the service of traditional market players – banks, An Post, Credit Unions – to a combination of digital, card usage, and electronic fund transfers. In the midst of the transition, however, consumers continue to use cash. The future banking landscape will include new entrants, business models and technologies that will further challenge the incumbents and we must invest in all of the skills, expertise and infrastructure required to compete. To date, new entrants to the market are smaller in scale with far lower cost bases than the traditional banks.

However, in the final analysis, the customer-staff relationship is the lifeblood of AIB's business and, regardless of the radical changes occurring across the banking landscape, we will endeavour to provide the services that ensure this is protected.

We are happy to answer your questions.