



EMBARGO 07:00

5 December 2017

## **ALLIED IRISH BANKS, P.L.C. (“AIB”) – TRADING UPDATE (UNAUDITED)**

### **On track to deliver a full year financial performance in line with market expectations**

#### **CEO COMMENT ON FINANCIAL PERFORMANCE**

*“Following a strong financial performance in H1 and the successful completion of the IPO in June, H2 YTD performance continues to deliver sustainable profitability, generating capital of 100bps to finish Q3 with a fully loaded CET1 ratio of 17.6%. The growth in new lending and earning loan balances combined with further reductions in impaired loans are creating a stronger balance sheet and further improving the bank’s risk profile. As we approach the end of the three year €870m investment programme, we continue to focus on understanding better our customers’ needs, becoming more efficient and sustainably delivering for both our customers and our shareholders.”*

#### **Key Highlights**

- Continued strong profitability and consistent capital generation
- Fully loaded CET1 of 17.6% at end September 2017 up 230bps from 15.3% at December 2016, remaining well in excess of our medium term CET1 target of 13%
  - Transitional CET1 of 21% at end September 2017 very materially above SREP requirements
- Net Interest Margin<sup>(1)</sup> (NIM) of 2.57% for the nine months to September 2017 up 3bps from H1 NIM (2.54%)
- New ROI lending drawdowns to Q3 up 15% yoy
- Earning loan book continues to grow in line with H1 performance
- Impaired loans of €7.3bn at end Q3 down 20% from €9.1bn at year end 2016 with strong momentum continuing into year end

#### **ECONOMIC ENVIRONMENT**

Economic conditions in the domestic Irish economy remain positive. GDP growth in 2017 has been stronger than expected and is now c. 4.5%. The unemployment rate in October 2017 fell to a new nine-year low of 6%. Employment growth is trending at c. 2.5% with job creation across most sectors, including the construction sector. Activity metrics in the housing market point to a steady improvement although supply constraints remain.

With high levels of uncertainty in the global economy and in particular with the potential challenges of Brexit, we continue to work closely with our Irish and UK-based customers to better understand the potential implications of Brexit and to support their businesses. To date the impact has been modest for both the Irish and UK economies.

## FINANCIAL PERFORMANCE

The Group had a strong Q3 performance and is on track to deliver a full year financial performance in line with market expectations. Sustainable NIM increased to 2.50%<sup>(1)</sup> by the end of Q3 up from 2.47% in H1 2017 with stable asset yields and lower funding costs. Taking account of interest income from cured loans, reported NIM was 2.57% at the end of Q3, up 3bps and well ahead of our medium term target of 2.40%+.

Customer fees and commissions are stable and in line with expectations. In the first half of 2017 Other Income benefitted from gains on re-estimation of cash-flows of loans previously restructured (including a small number of large transactions) – reported income from this source has reverted to more normalised levels in the second half.

Disciplined cost management is a priority across the Group and trends experienced in H1 are expected to continue for the remainder of the year. As previously communicated, the factors expected to impact costs in 2017 include ongoing operational efficiencies, wage inflation, continued operational investment in loan restructuring activity and increased cost of regulatory compliance. Our three-year strategic investment programme is on track and will conclude in 2017 with more normalised levels of investment spend expected thereafter. We remain on track to deliver on our sustainable cost income ratio target of less than 50% by end 2019.

Regulatory costs and levies for 2017, relating to the Single Resolution Fund (SRF), the Deposit Guarantee Scheme (DGS) and the Bank Levy, are expected to be broadly in line with guidance given at the half year stage of c. €100m.

We continue to focus on actively implementing sustainable solutions for customers in financial difficulty who engage with us. Case by case restructuring is ongoing as we work through higher volume, lower value impaired loans. Following a small credit provision write-back in H1 2017, we expect a credit provision write-back to be recorded for the full year which will be, as signalled, materially lower than write-backs reported in previous years.

Exceptional costs in H2 2017 will include costs incurred in the implementation of IFRS 9 and some lease-related provisions as we roll out our ongoing property programme.

We are well-progressed with our work on the tracker mortgage examination and made a substantial provision in this regard in 2015. The Bank continues its work which is subject to review by the Central Bank. Any change in provisioning levels, as we conclude, is not expected to have a material impact.

## BALANCE SHEET

Net loans remain stable and in line with H1, reflecting strong growth in new lending, growth in earning loans and the continued reduction in impaired loans.

The growth in the earning loan book continued to feature in Q3. Overall new term lending drawdowns to Q3 2017 were 11% higher than the equivalent prior year period with a stronger performance from ROI sectors in particular, which are up 15%. Mortgage lending was particularly strong with drawdowns up 29%. Our market share<sup>(2)</sup> of mortgage drawdowns was 34% to September 2017, in line with our goal of holding mid-30% mortgage market share over the medium term. UK lending remains stable, is performing well and reflects the Bank's current appetite given the Brexit backdrop.

Impaired loans reduced to €7.3bn (NPE €11.5bn) at September 2017 from €7.8bn (NPE €12.1bn) in June 2017 and reflects a strongly resourced and experienced work out unit continuing to deliver significant progress. This is in line with our plan to reach normalised European levels of NPEs by end 2019 through continued case by case loan restructuring and portfolio deleveraging. The continued reduction in impaired loans and the associated restructuring activity remains a key focus and a strategic priority for the Bank.

NAMA Senior Bonds which were €0.4bn at June 2017 were fully redeemed in October.

Overall customer account credit balances remain consistently stable with a higher mix of current account balances positively impacting NIM. The loan to deposit ratio was 93% at the end of Q3 2017. Combined with the Bank's strong capital position (see below), AIB is well positioned to deliver its strategic objectives in a growing Irish economy.

#### CAPITAL

The Bank's fully loaded CET1 ratio at September 2017 increased by 100bps to 17.6%, well in excess of the medium term target of 13%. The increase was due to a strong operating performance and a reduction in risk weighted assets. On a transitional basis CET1 was 21% and Total Capital 23.8%.

The SREP CET 1 ratio for 2018 is 9.525% with overall requirements remaining broadly unchanged. The Bank's reported capital ratios are materially in excess of minimum regulatory requirements and AIB continues to maintain a very significant buffer above maximum distributable amount (MDA) trigger levels.

Fitch Rating Agency upgraded AIB plc's Long Term Rating to BBB- in November 2017. AIB plc is now rated Investment Grade by S&P, Moody's and Fitch.

Previous guidance relating to the adoption of IFRS 9 and expected MREL issuance remains unchanged.

#### SUMMARY

2017 continues to be a year of strong performance for AIB. The business strategy underpinning the successful IPO in June 2017 is delivering sustainable profitability and strong capital generation. The economic backdrop is favourable and our customer first strategy is delivering results across all our business segments. With regard to legacy challenges, we remain committed to resolving them in a fair and equitable way for our customers. We continue to make progress on our key priorities of simplification, efficiency and balance sheet normalisation and we are on track to deliver our medium term targets and commitments.

(1) Interest income also contains additional income from cured loans, which increased NIM from 2.50% to 2.57%

(2) Source: Mortgage drawdowns ytd to September 2017 BPF1

**-ENDS-**

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## **Appendix - Additional information on capital:**

Please see table below for further detail on capital requirements:

<b>SREP Requirements</b>	<b>Preliminary AIB SREP Requirement 2018</b>	<b>AIB SREP Requirement 2017</b>
Pillar 1 CET1	4.50%	4.50%
<b>Pillar 2 Requirement (P2R)</b>	<b>3.15%</b>	<b>3.25%</b>
<b>Capital Conservation Buffer (CCB)</b>	<b>1.875%</b>	<b>1.25%</b>
Other Systemically Important Institutions Buffer (O-SII) <sup>(1)</sup>	0.00%	0.00%
Total CET1 <sup>(2)</sup> / MDA trigger	9.525%	9.00%
(1) O-SII phased in from 2019 to 2021 at 0.5% per annum		
(2) Excludes Pillar 2 Guidance		

Please [click here](#) for a link to updated debt investor relations slides

### **Conference Call Dial-In Details:**

Mark Bourke, CFO, will host a conference call for analysts today at 09.00 GMT

*Please dial in 5 to 10 minutes prior to start time*

### **Title: AIB Trading Update – access code 491816**

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### **Replay facility available until 12:00 GMT 12<sup>th</sup> December 2017 – access code 8096888**

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### **Important Information and forward-looking statements**

This document should be considered with AIB's Annual Financial Report 2016 and Half-Yearly Financial Report 2017, and all other relevant market disclosures, copies of which can be found at the following link: <http://aib.ie/investorrelations>

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 the 'Principal risks and uncertainties' on pages 50 to 58 of the Annual Financial Report 2016 and on page 34 'Update on risk management and governance' of the Half-Yearly Financial Report 2017. In addition to matters relating to the Group's business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. 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 50 to 58 of the Annual Financial Report 2016 and on page 34 of the Half-Yearly Financial Report 2017 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.