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AIB Group plc (“AIB”) announces half year pre-tax profits of €762m

“We have had a positive six months with solid underlying profitability, significant progress towards NPE normalisation, stable NIM and increases in the performing loan portfolio. The fundamentals of the business are sound and sustainable. The strong Irish economy continues to provide good growth opportunities for our customers and our business.”

– Bernard Byrne, CEO

Highlights

- **Sustainable profitability underpinned by stable net interest income and margin**
PBT €762m; NIM 2.53% with underlying NIM¹ of 2.50%
- **Strong capital generation supporting growth and capital returns**
CET1 (FL) 17.6%
- **Continued focus on cost control, H1 2018 in line with expectations**
Stable costs and income, CIR 51%; excluding enhanced income effects CIR 53%
- **Growing performing loan book and increased new lending**
New term lending +15% to €5bn; new transactional lending €0.5bn²
- **Ongoing progress in NPE normalisation**
Reduced by €2.7bn (-27%) to €7.5bn from €10.2bn at December 2017
- **Investment grade status achieved; MREL programme commenced**
€1bn issued in H1 via two transactions

AIB continues to perform well and we remain on track to achieve all of our medium term targets. In the first half of 2018 AIB continued to make progress on strategic priorities, resulting in robust financial numbers and strong positions in key segments. Our focus on improving the customer experience, value management and efficiency is driving commercial success.

FINANCIAL PERFORMANCE

Profit before tax of €762m is consistent with H1 2017. Continued momentum in business performance is in line with market expectations.

Sustainable profitability is underpinned by stable net interest income and margin. NIM for H1 2018 was 2.53% as the underlying spread between loans and deposits widened. Mortgage pricing changes and the cost of excess liquidity were absorbed by a favourable mix and lower funding costs on customer accounts. NIM underlying was 2.50%, unchanged from FY 2017 and well ahead of our medium term target of 2.40%+.

¹ NIM underlying 2.50% in half year to June 18 excludes interest on loans upgraded from Stage 3 without incurring financial loss

² New transactional lending are balances drawn down for the first time on transactional based products

Stable fees and commissions of €217m are the primary component of Other Income, which at €322m included €40m from previously restructured loans compared to €146m in H1 2017.

Operating expenses of €711m were marginally higher than the prior year and in line with expectations. Staff costs were flat while absorbing wage inflation. Other factors that continue to impact expenses are investment in loan restructuring operations and increased depreciation.

We continue to focus on cost management, simplifying our operating model while delivering the many requirements needed to meet heightened regulatory oversight. Our cost income ratio (CIR) was 51%. We are on track to achieve our cost income ratio target of less than 50% by the end of 2019.

A net credit impairment write back of €130m was recorded in H1 2018 reflecting increased security values and a strong economic environment.

We are entering the final stages of the tracker mortgage examination with payments issued to the vast majority of customers, with the remainder being completed by the end of September. We know that issues may continue to emerge and we are committed to dealing with them in a transparent and fair way for our customers.

BALANCE SHEET

AIB's balance sheet is growing, facilitated by stable customer-based funding and strong capital ratios. The loan to deposit ratio at the end of June 2018 was 89%.

Total new lending in the half was €5.5bn. New term lending increased by 15% to €5.0bn with a very strong performance in Wholesale, Institutional and Corporate banking of €1.9bn and 11% growth in mortgages. Our market share of mortgage drawdowns in the first half was 32% and our strong trend in applications and sanctions continues. Based on market leading shares in key segments, we are well positioned for further growth.

Having passed the inflection point, since December 2017 the net loan book grew by €0.5bn excluding disposals of loan portfolios. In the same period, the performing loan book (gross) increased by €2.2bn.

The momentum in reducing non-performing exposures (NPEs) continues, with a 27% reduction in NPEs from €10.2bn (16% gross loans) to €7.5bn (12% gross loans) as a result of ongoing restructuring activity and the sale of non-performing portfolios. In H1 2018, non-performing loans with gross value of €1.1bn and characterised by deep arrears were sold, resulting in a gain on disposal of €140m. We remain on track to achieve normalised NPE levels by 2019.

FUNDING & CAPITAL

Strong funding and capital ensures AIB is well positioned for growth. We maintain a robust capital position with a fully loaded CET1 of 17.6% well in excess of minimum requirements. Capital generation

of 130bps in the first half was offset by impact of accrued dividend, IFRS 9 initial impact and movement in investment securities reserves, which under IFRS 9 are now marked to market.

Following recent rating agency actions, including upgrade from Moody's, AIB Group plc (HoldCo) is now considered investment grade status. This is a positive development and recognises the ongoing significant progress in NPE reduction and augers well for MREL issuance.

Based on our MREL target of 28.04%, our issuance requirement is c. €4bn (the mid-point of our guided range €3bn-€5bn). In H1 2018 we successfully executed our first two AIB Group plc senior issuances for MREL purposes, totalling €1bn.

A SUSTAINABLE, INNOVATIVE BUSINESS

We remain focused on reaching our medium term targets and delivering sustainable performance. With ongoing investment in technology and innovation, we are at the forefront of digitally enabled banking, which is a key enabler for customers and a competitive advantage for AIB. The bank remains number one for digital distribution in Ireland, with 1.3m online users.

- 96% of customer transactions are now automated
- 67% of transactional customers active on digital channels³
- 78% of personal loan applications made online or via mobile

We will continue our focus on improving customer experience through greater efficiency, product offering and delivery.

OUTLOOK

We have had a solid first half of 2018 and remain on track to meet our stated medium term targets. We are committed to implementing a proven strategy, with a relentless focus on Customer First, by delivering a simple and efficient business model and growing the balance sheet with enhanced quality new lending while normalising NPEs.

The overall economic backdrop continues to be favourable and our Customer First strategy is delivering results.

Further detail, including all relevant disclosures and notes to financial statements can be found on <https://aib.ie/investorrelations> or [click here](#)

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³ Based on personal current account customers

Forward Looking Statements

This announcement 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 58 to 68 of the Annual 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 58 to 68 of the Annual 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.