

AIB Group (UK) p.l.c. Highlights of 2016 Business and Financial Performance

For the year ended 31 December 2016



Company number: NI018800



Forward-looking statements

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.

Within this document any reference made to “The Bank” or “The Company” will relate to AIB Group (UK) p.l.c., whilst any reference to “AIB UK Group” will relate to AIB Group (UK) p.l.c. and its subsidiaries. Reference made to “AIB plc” or “the Parent” will relate to Allied Irish Banks, p.l.c. whilst reference to “the Parent Group” or “AIB Group” will relate to Allied Irish Banks, p.l.c. and its subsidiary undertakings, which includes AIB Group (UK) p.l.c.



Contents

	Page
Financial and Business review	
1. 2016 Performance Highlights	01
2. Quotes from Chairman's Statement	02
3. Business Proposition	03
4. Strategic Direction	04
5. Financial Performance – Summary of Income Statement	05
6. Financial Performance – Summary of Statement of Financial Position	06
Appendix I. Organisational structure of AIB Group (UK) p.l.c in the context of AIB Group	07

This document should be considered with AIB Group (UK) p.l.c.'s Annual Financial Report for the year ended 31 December 2016 (statutory accounts), which can be found at the following link:

<http://investorrelations.aib.ie/>

The financial information included herein does not constitute AIB Group (UK) p.l.c.'s statutory accounts for the year ended December 2016 and does not constitute full accounts within the meaning of section 435 (1) and (2) of the Companies Act 2006. These statutory accounts, which contain an unqualified audit report under Section 495 of the Companies Act 2006 have been delivered to the registrar of companies in accordance with Section 441 of the Companies Act 2006 on 15 March 2017.

For further information, please contact:

Brendan O'Connor

Managing Director
AIB Group (UK) p.l.c.
1 Undershaft
London EC3A 8AB

Tel: +44 -207-6473300

Email:
brendan.j.o'connor@aib.ie

Rose O'Donovan/ Niamh Hore

Investor Relations
AIB Bankcentre
Dublin

Tel: +353-1-6414191

Email:
rose.m.o'donovan@aib.ie
niamh.a.hore@aib.ie

Helen Leonard

Corporate Affairs
AIB Bankcentre
Dublin

Tel: +353-1-6414141

Email:
helen.m.leonard@aib.ie



I. 2016 Performance Highlights

Operating performance		
<p>Profit before tax*</p> <p>£170m £49m ▲</p> <p>Increased profit before tax enhanced by one off non-recurring exceptional items of £23m. The main driver of this was profit on sale of VISA Europe shares.</p>	<p>Net interest margin*</p> <p>2.12% 18bps ▼</p> <p>Reduced net interest margin as margins compress due to BoE base rate reductions coupled with higher average interest earning advances balances.</p>	<p>Total operating income*</p> <p>£263m £9m ▲</p> <p>Operating income remains flat despite falling interest rates.</p>
<p>Operating expenses*</p> <p>£116m £8m ▼</p> <p>Cost reductions in line with expectation driven by disciplined cost management. Cost/income ratio of 44%, down 5% on 2015.</p>	<p>Credit provision</p> <p>£1m £4m ▼</p> <p>Continued progress on debt restructuring, coupled with low new impairments.</p>	<p>Profit after tax</p> <p>£66m £145m ▲</p> <p>Impacted by tax charge of £104m (2015: £200m) owing to changes in tax legislation with consequences for recognition of the deferred tax asset.</p>

Balance Sheet / Capital		
<p>Capital adequacy ratio¹</p> <p>17.0% 50bps ▲</p> <p>Capital position remains strong.</p> <p>¹Common Equity Tier 1 (fully loaded)</p>	<p>New lending</p> <p>£1.5bn £0.4bn ▼</p> <p>Measured growth in key segments reflecting continued support to Corporates and SMEs in the UK.</p>	<p>Customer deposits</p> <p>£8.7bn £0.4bn ▲</p> <p>Customer balances remain stable with marginal growth in current accounts.</p>
<p>Impaired loans</p> <p>£0.4bn £0.1bn ▼</p> <p>20% reduction reflecting support for customers in difficulty through sustainable restructuring solutions for customers.</p> <p>Provision coverage ratio remains at a robust level of 50% (2015 49%).</p>	<p>Leverage ratio</p> <p>8.7% 10bps ▲</p> <p>Leverage ratio remains in excess of regulatory requirements.</p>	<p>Loan deposit ratio</p> <p>74% 3% ▼</p> <p>The decreased loan deposit ratio reflects higher customer accounts and stable net loans.</p>

*These numbers are used by management for internal reporting purposes and represent a non-statutory view.

2. Quotes from the Chairman's Statement

Peter Spratt
Chairman



Financial Performance

"2016 has seen changes both within the Bank, in terms of organisational structure, and within the economy ... I am pleased to report that AIB UK Group has performed well and has produced an **improved financial performance** for the year, while maintaining a **strong customer focus**"

"New business lending for the year at £1.5bn was down on 2015's new lending however the **quality of the loan book improved** with a reduction in non-performing loans"

Business Strategy

"In 2016 we continued to provide **specialist industry and sectoral expertise** to our business banking and corporate sector customers. We also serviced our customers in First Trust Bank offering a full banking service in branch, online and through mobile channels"

"A new organisational structure was announced in April ... we are now ready, with a **refreshed management team**, to take the business forward in 2017"

Customers

"In line with our core brand values, we continue to put our **customers first** and aim to provide them with services that **meet their needs**, through our personal relationship banking and digital channels ... I would like to thank our loyal and valued customers for their continued support"

"**Treating our customers fairly** is also a key element of the customer experience we provide to all our customers, but most importantly to our vulnerable customers and those in financial difficulty"

Culture and Staff

"A 'One UK' transformation programme was developed in 2016 with cultural change, and ways of working, as key elements of this programme"

"Our culture is an ongoing area for development that the Board and I are focused on so that our staff feel appropriately empowered, governance remains appropriately tight, and we are all **fully engaged** in working in a manner that looks after **our customers' interests**"

Outlook

"With the new organisational structure in place and a 'One UK' transformation programme launched, I look forward to 2017 being a **successful year** for the UK business"

"I believe AIB UK Group is currently well positioned to meet our customer's needs, for **growth** in our chosen markets, and to **deliver enhancements** to our business model to **ensure sustainability** into the future"



P Spratt
Chairman
28 February 2017



3. Business Proposition



AIB Group (UK) p.l.c. (“AIB UK”) comprises two distinct trading entities operating in two distinct markets with different economies and operating environments: Allied Irish Bank (GB) (“AIB GB”) which offers full banking services to predominantly business customers in Great Britain and First Trust Bank (“FTB”) which offers full banking services to business and personal customers across Northern Ireland.

Allied Irish Bank (GB)

AIB GB is a long established specialist Business Bank, supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain, providing a full clearing and day-to-day transactional banking service to customers. AIB GB has approximately 1% of the business lending market in GB, and has clear opportunities to increase its presence and market share through its new sector-focused strategy and people and talent renewal initiatives.

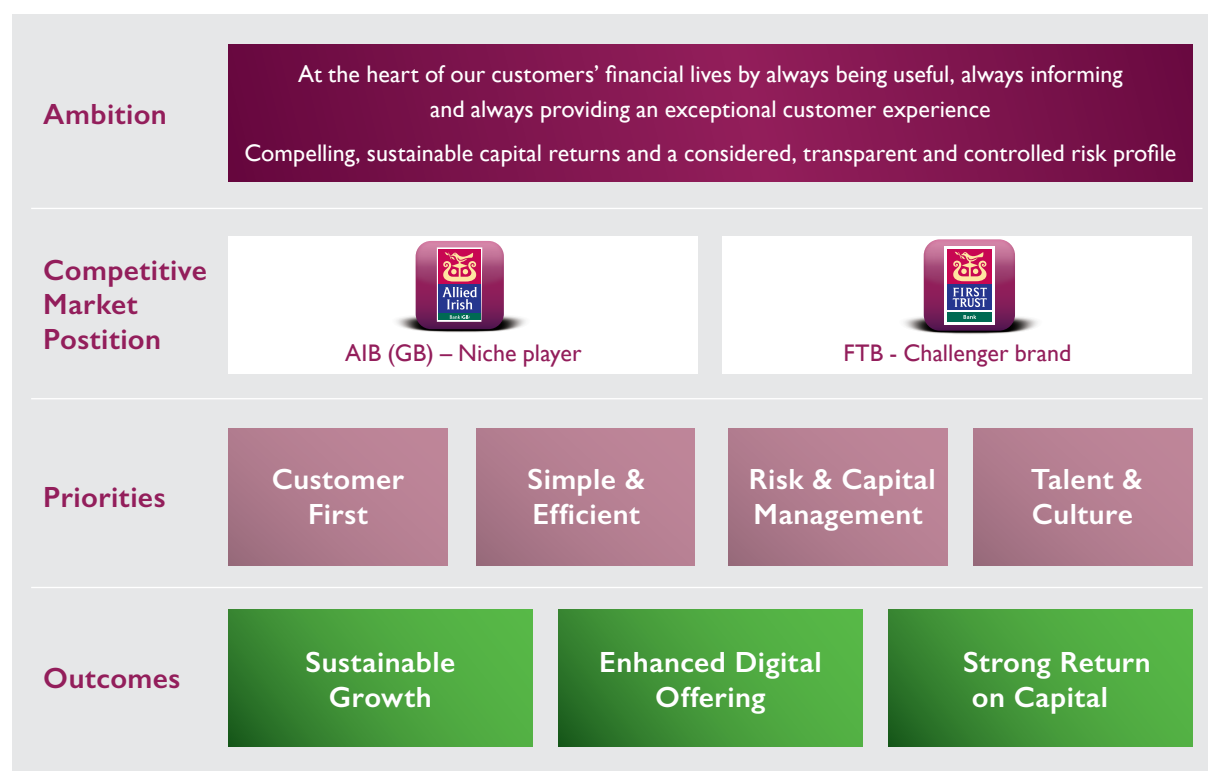
First Trust Bank

FTB is a long established bank in Northern Ireland, providing a full banking service, including online, mobile and telephone banking to business and personal customers. FTB aims to offer customers a wide choice of how to engage with the Bank in a way that is most suited to them in a modern banking setting, whether it be through traditional channels or via technology.

UK Financial Solutions Group

AIB UK Group has an established Financial Solutions Group (“FSG”) to assist all its customers in difficulty. This ensures there is a centre of expertise where the right people with the appropriate skills and products can tailor solutions for each customer on a case by case basis. Wherever possible AIB UK Group works with its customers whether they are mortgage holders, SMEs or Corporates, to establish a path back to affordability and viability.

4. Strategic Direction



- AIB GB's strategy is to be a leading niche business bank, with recognised expertise in its chosen sectors and markets, targeting mid-tier corporates/ larger SMEs in local geographies who value a high-touch relationship model. Dedicated relationship management teams work closely with customers to establish and find solutions to their banking needs. A full range of banking services are offered, including lending, treasury, trade facilities, asset finance, invoice discounting and day-to-day transactional banking. In addition, AIB GB has a committed focus on British Irish Trade, meeting the needs of companies in Ireland and the UK who are operating, or want to set up operations in either jurisdiction.
- FTB's strategic aim is to be a focused challenger bank in Northern Ireland, offering business banking with a local market presence, a refreshed competitive mortgage proposition to customers via intermediary and direct channels, and digitally enabled personal products and services. The overall proposition will include simplified products and improved digital capability, aligned over time to that offered by the retail operations of AIB plc in the Republic of Ireland. To enable FTB to deliver its strategic aim, FTB is implementing the following simplified model:
 - Retail Banking – Full range of personal banking services and products for personal/ retail customers across an optimised retail branch network.
 - Business Banking – A segmented Relationship Manager approach, across four business centres and two satellite hubs.
 - Direct Banking – Digital and telephone banking for retail and business customers to self-serve, or manage their banking needs remotely.



5. Financial Performance – Summary of Income Statement

	2016	2015	2016 v 2015
Income Statement	£m	£m	£m
Total operating income	263	254	9
Total costs	(116)	(124)	8
Operating profit	147	130	17
Total credit provisions	(1)	3	(4)
Profit on disposal of business assets	1	0	1
Profit before tax (pre-exceptionals)	147	133	14
Exceptional items	23	(12)	35
Profit before tax	170	121	49
Net interest margin %	2.12%	2.30%	
Cost income ratio %	44%	49%	

Key Highlights for 2016

- Significant increase in profitability
- Operating income increased £9m in the year and net interest margin decreased 18bps
- 6% decline in costs driven by disciplined cost management
- Improved cost income ratio – 5% decrease on 2015
- Credit provisions charge of £1m in 2016 (£3m recovery 2015)
- Profit on disposal of business assets £1m
- Exceptional items include £21m gain on sale of Visa Europe shares



6. Financial Performance – Summary of Statement of Financial Position

	2016	2015
Income Statement	£m	£m
Earning gross loans	6,323	6,263
Impaired gross loans	375	490
Total gross loans	6,698	6,753
Specific provisions	(187)	(240)
IBNR provisions	(40)	(41)
Total net loans	6,471	6,472
Available for sale	38	54
Other assets/placings	6,865	6,391
Total assets	13,374	12,917
Current accounts	5,239	4,644
Deposits	3,487	3,683
Total customer accounts	8,726	8,327
Shareholders' equity	1,703	1,614
Other liabilities/funding	2,945	2,976
Total liabilities	13,374	12,917

Key Highlights for 2016

- ▶ 2016 delivered continued stabilisation in asset quality with net loans remaining flat
- ▶ New lending written decreased 20% in the year, reflecting a measured approach to new lending in a very competitive marketplace
- ▶ Reduction in impaired loans and balance sheet provisions
- ▶ Non-impaired loans account for 94% of total loans at December 2016 (93% in 2015)
- ▶ Customer accounts have remained resilient in 2016, with £0.4bn growth versus December 2015
- ▶ Increase in current account balances offsets deposits outflows as funding costs reductions continue to be targeted



Appendix I – Organisational structure of AIB Group (UK) p.l.c in context of AIB Group

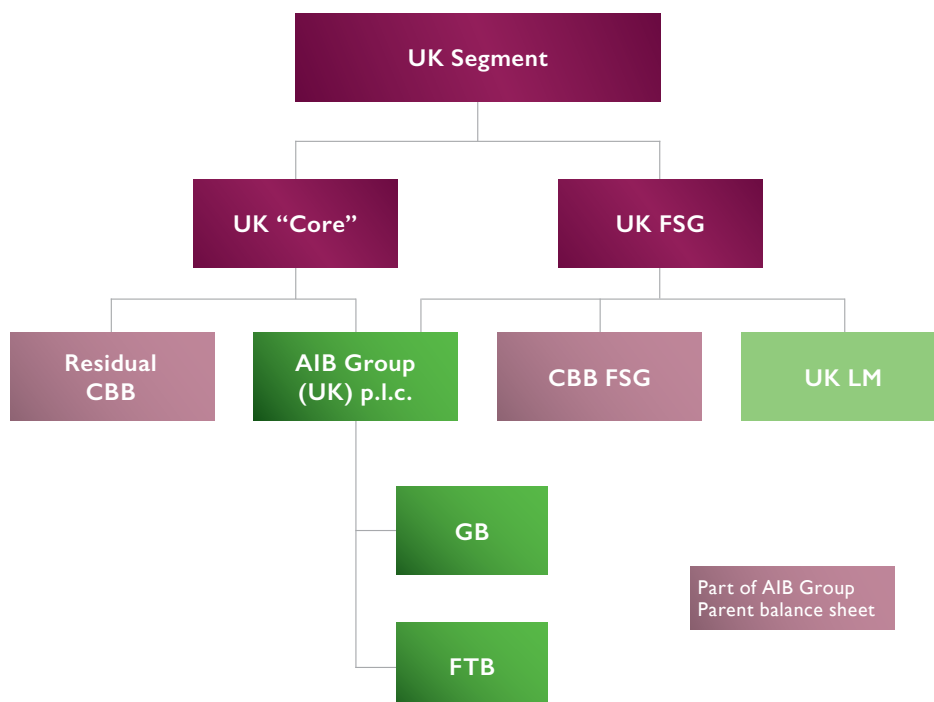
The ultimate parent of AIB Group (UK) p.l.c. (“AIB UK Group”) is Allied Irish Banks, p.l.c. (“AIB plc”). AIB plc is registered in the Republic of Ireland and regulated by the Central Bank of Ireland. AIB UK Group is a company registered in Northern Ireland and regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). AIB UK has a Board of Directors which is made up of Executive and Non-Executive Directors (the UK Board).

AIB Group (Allied Irish Banks, p.l.c. and all of its subsidiaries) is comprised of the following segments:

- **AIB Ireland**
- **AIB UK**
- **Group & International**

AIB UK is a collective term used internally to capture the business areas and entities managed within the UK operation. AIB UK operates in two distinct markets, Allied Irish Bank (GB) (“AIB GB”) in Great Britain and First Trust Bank (“FTB”) in Northern Ireland, each with different economies and operating environments. AIB UK’s activities are carried out primarily through AIB UK Group, although there are some residual lending exposures through the UK Corporate Banking branch (“CBB”) of AIB Group. In addition, UK Financial Solutions Group (“UK FSG”) has responsibility for the management of all vulnerable and impaired loans within AIB UK including AIB UK Loan Management Limited (“UK LM”), CBB as well as any vulnerable and impaired cases within AIB UK Group.

AIB UK (“UK segment”) structure is illustrated below:





© AIB GROUP 2017

Design and print management by Custodian Consultancy, 33 Lower Leeson Street, Dublin 2, Ireland
The paper used in this production has been sourced from a sustainably managed forest