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

### CEO COMMENT ON Q1 PERFORMANCE

*"The first quarter has continued the trend from 2015 with strong profitability, increased lending and reductions in impaired loans. Our focus on growth, a more efficient operating model and improved funding costs enabled us to pass on a 4<sup>th</sup> reduction of 25bps to variable rate mortgage customers and a €2,000 contribution to switching costs. We look forward to increasing our payments<sup>(1)</sup> to the State to c. €6.5 billion when we pay a further €1.8 billion in capital and interest in July on the maturity of the Contingent Capital Notes."*

### Key Highlights – Quarter to 31 March 2016

- Strong profitability in the quarter
- CET1 capital remains comfortably above regulatory minimum requirements with a fully loaded capital ratio of 13.1% and a transitional capital ratio of 15.9%
- Net Interest Margin<sup>(2)</sup> (NIM) positive momentum continues at 2.09%, up 12bps from 1.97% in full year December 2015
- New lending drawdowns increased by 17% as leading market shares in retail and business sectors in Ireland are maintained
- Impaired loans further reduced by €1 billion since December 2015 to €12 billion; a reduction of €17 billion since the peak in 2013; Credit provision write-backs of €109 million in Q1.
- 1.1 million active digital customers with 540,000 customers active on mobile app – leading position in Ireland
- Payment of €1.8 billion to the State in July 2016 on the maturity of the Contingent Capital Notes

### ECONOMIC ENVIRONMENT

The Irish economy has capacity to continue to grow strongly, with 5% growth in GDP forecast for 2016<sup>(3)</sup>. An improving labour market, growth in employment, increasing retail spending and investment in business are providing a positive domestic operating environment. Economic expansion in the UK has been at a moderate pace, however, uncertainty regarding the upcoming Brexit Referendum may be subduing business activity.

### OPERATING PERFORMANCE

In the first three months of year, the Group has continued to make very good progress delivering a strong financial performance. NIM<sup>(2)</sup> increased to 2.09% in the three months to March 2016 versus 1.97% for full year 2015 (2.02% in Qtr 4 2015). Stable asset yields, lower funding costs and customers curing from impaired status are benefiting NIM, partially offset by sales and lower yields in the AFS portfolio.

The upward trajectory in NIM is expected to continue in 2016, driven mainly by the maturity of the €1.6 billion Contingent Capital Notes in July 2016. The ongoing redemption of NAMA Senior Bonds will also have a positive impact on the NIM trajectory. Overall lower funding costs have supported the reduction in SVR mortgage rates which are effective from July 2016 for new and existing customers.

Underlying banking fees and commissions remain steady and in line with expectations. Other income benefited from AFS disposals in the period, re-estimation of cash-flows of loans previously restructured and acceleration of timing of cash-flows on NAMA Senior Bonds. Trading income has been negatively impacted by heightened market volatility from macro events and Brexit fears which has led to reduced client activity, this is partially offset by the receipt of the coupon on NAMA Subordinated Bonds.

Regulatory costs and levies which relate to the Banking Recovery and Resolution Directive, the Deposit Guarantee Scheme and the bank levy are anticipated to increase in 2016.

Cost discipline is being maintained across the Group while continuing to strategically invest in creating a simpler and more efficient business model and enhancing customer experience.

#### **ASSET QUALITY**

Performing loans, excluding FX impact, increased by €0.5 billion in the quarter driven by increased new lending and restructures offset by redemptions. Impaired loans reduced by €1 billion in the same period to €12 billion due to the ongoing case by case process of implementing restructuring solutions. The pace of new-to-impaired loans is normalising. Specific provision to impaired loans coverage of 47% at the end of March 2016 was unchanged from the year end.

Irish mortgage arrears declined by 4% in the period with similar declines evident in both early and late stage arrears. The total number of accounts in arrears in the Owner-Occupier and Buy-to-Let portfolios declined by 29% and 27% respectively since December 2014.

Net provision writebacks of €109 million in Q1 2016 were driven by ongoing customer restructuring activity, improvements in trading performance and collateral values underpinned by positive economic trends. As previously indicated, it is expected that the level of provision writebacks will be lower in 2016 than 2015.

#### **BALANCE SHEET AND FUNDING**

New lending drawdowns increased 17% year on year with strong activity across corporate, SME and personal lending sectors. Market share in mortgage drawdowns remains strong at 34% in Q1 2016, however market constraints are expected to curtail growth in the overall mortgage market in 2016. Momentum continues in lending in AIB UK, particularly in owner-managed-business sectors and corporate in AIB GB.

NAMA Senior Bonds reduced by €1.7 billion to €3.9 billion since December 2015. Overall customer accounts, excluding FX impact, remain stable with a higher mix of current account balances. The loan to deposit ratio was 102% at the end of March 2016.

#### **CAPITAL UPDATE**

The Group continued to generate capital in the quarter with an increase in shareholders' equity. Capital ratios remain robust and comfortably above minimum regulatory requirements. Strong profitability was partially offset by an increase in the deficit in the Irish DB pension scheme mainly due to a lower discount rate. The CET1 transitional ratio was 15.9% and the CET1 fully loaded ratio was 13.1% at the end of March 2016.

(1) Includes capital, interest, fees, coupons and levies

(2) Excluding the impact of Eligible Liabilities Guarantee (ELG)

(3) AIB Economic Research Unit

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This document should be considered with AIB's Annual Financial Report 2015, and all other relevant market disclosures, copies of which can be found at the following link:

<http://investorrelations.aib.ie>

**Important Information and forward-looking statements**

AIB is 99.9% owned by the Irish State and therefore the limited freefloat distorts trading and valuation of AIB shares.

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 Risk and Uncertainties on pages 50 to 59 in the AIB Annual Financial Report 2015. 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 59 of the AIB Annual Financial Report 2015 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.