



**EMBARGO 07:00**

**27 April 2017**

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

### **Continued strong profitability and capital generation in Q1 2017**

#### **CEO COMMENT ON Q1 2017 FINANCIAL PERFORMANCE**

*“We have had a good start to the year, generating 70bps of capital to finish the quarter with a fully loaded CET1 ratio of 16.0%. The performance this quarter was in line with expectations with strong profitability, a stronger balance sheet, significant capital generation and further improvement in the bank’s risk profile. This demonstrates the ongoing success of our strategy. We continue to focus on our customers’ needs, simplifying our operating model and becoming more efficient. Our three year €870m investment programme will complete this year and positions us well to deliver for customers and shareholders.”*

#### **Key Highlights**

- Strong profit and capital generation year to date
- Fully loaded CET1 of 16.0% at 31 March 2017 up 70bps from 15.3% at December 2016 and remains well in excess of our medium term CET1 target of 13%
- Transitional CET1 of 19.3% at 31 March 2017 well in excess of the 2017 SREP CET1 requirement of 9%<sup>(1)</sup>
- Net Interest Margin<sup>(2)</sup> (NIM) of 2.46% for Q1, up 4bps from exit NIM of 2.42% for Q4 2016
- New lending drawdowns to 31 March 2017 up 10% yoy with all business segments contributing
- Impaired loans further reduced by €0.5 billion since December 2016 to €8.6 billion

#### **ECONOMIC ENVIRONMENT**

The Irish economy continues to perform well with favourable economic conditions evidenced by GDP growth forecasts of 3.5% for 2017. The number in employment continues to rise and the unemployment rate declined further to 6.4% in March 2017, the lowest level since June 2008. Positive trends in other economic indicators remain encouraging, including the progress made in enabling the necessary recovery of the Irish housing market. However, as Ireland is a small open economy we are cognisant of uncertainties and potential challenges in the medium term. 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 throughout the period of change. To date the impact has been modest for both the Irish and UK economies.

## FINANCIAL PERFORMANCE

The Group had a strong performance in the quarter with growth in net interest income and operating profit compared to Q1 2016. Sustainable NIM increased to 2.46%<sup>(2)</sup> for Q1 2017 from 2.42% for Q4 2016. Positive factors that impacted NIM included stable asset yields, lower funding costs and further redemptions of NAMA Senior Bonds. These were partially offset by lower volumes and yields in the Available for Sale (AFS) portfolio. We believe our strategy can continue to deliver a sustainable NIM target of 2.40%+ over the medium term.

Customer fees and commissions are stable and in line with expectations. In the first quarter of 2017 Other Income benefitted from gains on re-estimation of cash-flows of loans previously restructured (including one sizable transaction) and profit on AFS disposals.

Group operating costs to 31 March 2017 are in line with Q1 last year and consistent with our expectations. We continue to focus on cost management and, as previously stated, the factors expected to impact costs in 2017 include wage inflation, continued investment in loan restructuring and increased cost of regulatory compliance. Our three-year strategic investment programme is on track and will conclude in 2017.

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 2016.

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. In Q1 2017, a small net credit provision write-back was recorded.

## BALANCE SHEET

Customer accounts of €62.6 billion reduced from €63.5 billion at December 2016, partly due to a managed reduction in deposits while a higher mix of current account balances had a positive impact on NIM. NAMA Senior Bonds reduced to €1 billion at the end of March 2017 due to further redemption of €0.8 billion in the first quarter and are expected to be fully redeemed by end 2017. The loan to deposit ratio was 96% at the end of Q1 2017.

New lending drawdowns for the Group are 10% higher than the prior year period with continued increased new lending in key segments in Ireland. Our market share<sup>(3)</sup> of mortgage drawdowns was 38% in the first two months of 2017. In the UK, new lending trends show an improvement on the prior year with Q1 new lending in sterling up 18% year on year.

The earning loan book marginally increased from December to end March 2017 as new lending and cured/restructured loans exceeded redemptions. Overall net loans were broadly stable in Q1.

Impaired loans reduced by €0.5 billion in Q1 2017 to €8.6 billion in line with our plans, and represents a 70% reduction from peak levels of €29 billion in 2013. Non-performing exposures (NPEs)<sup>(4)</sup> reduced by €1 billion to €13.1 billion. In addition, since the quarter end, the bank has reached agreement on the transfer of a portfolio of impaired buy-to-let loans, the vast majority of which are in deep long term arrears. Overall the transaction, with a c. €0.2 billion net value, is expected to be capital accretive. The continued reduction in impaired loans and the associated restructuring activity remains a key focus and a strategic priority for the Bank.

## CAPITAL

Our fully loaded CET1 increased 70bps from December 2016 to 16.0% at the end of March 2017. This remains well in excess of our CET1 target of 13% and was driven by strong quarterly profits. On a transitional basis CET1 was 19.3% and Total Capital 22.0%. These ratios are significantly in excess of the minimum regulatory CET1 ratio requirement of 9.0%<sup>(1)</sup> set for 2017 and AIB continues to maintain a very significant buffer above maximum distributable amount (MDA) trigger levels.

The Minister for Finance has issued a Warrant Creation Notice<sup>(5)</sup> requiring AIB to issue warrants to the Minister 5 business days after re-admission of AIB's ordinary shares to a regulated market<sup>(6)</sup>. In the event of a re-admission occurring, the Minister will be entitled to subscribe for ordinary shares representing 9.99% of AIB's ordinary share capital at re-admission, at a price per share of 200% of the re-admission price per share, during the period commencing on the first anniversary and ending on the tenth anniversary of AIB's re-admission to a regulated market.

## SUMMARY

We have had a good start to year. The economic backdrop is favourable and our customer first strategy is delivering results across all our business segments. We continue to make progress on our key priorities of simplification, efficiency and balance sheet normalisation. With strong profitability and capital generation, we are well positioned to deliver for customers and shareholders.

(1) Excludes Pillar 2 Guidance (P2G)

(2) Excluding the impact of Eligible Liabilities Guarantee (ELG); Interest income for the quarter also contains additional income from cured loans, which increased NIM from 2.46% to 2.55%

(3) Source: Mortgage drawdowns ytd to February 2017 BPF

(4) NPEs: Regulatory definition of Non-Performing Exposures, reconciliation provided on slide 86 of Capital Markets Day presentation which is available on our website at <http://aib.ie/investorrelations>

(5) Warrant Creation Notice issued under the terms of the Warrant Agreement approved by Shareholders at AIB's EGM on 16 December 2015 as part of AIB's Capital Reorganisation

(6) The Capital Reorganisation in December 2015 provided for the potential issue of warrants to the Irish Government. Further information can be found in the Shareholder Circular dated 23 November 2015 which is available on our website at <http://aib.ie/investorrelations>

The information contained in this announcement contains inside information

**-ENDS-**

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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 2016, and all other relevant market disclosures, copies of which can be found at the following link: <http://aib.ie/investorrelations>

AIB is 99.9% owned by the Irish State and therefore the limited free-float 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 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 2016. 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 2016 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