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26 October 2018

## AIB GROUP PLC (“AIB”) – Q3 2018 TRADING UPDATE (UNAUDITED)

### Strong quarterly performance and on track to deliver full year expectations

#### CEO COMMENT ON FINANCIAL PERFORMANCE

*“Following a positive financial performance in H1, we continue to deliver strong profitability, generate capital and increase new lending. With a strong capital base, lower NPEs and a growing loan book the balance sheet continues to strengthen and risk profile improves. In October we executed a successful inaugural USD 750m MREL issuance, putting us firmly on track to meet our overall MREL requirements. As a truly purpose-led organisation we continue to evolve our operating model to align our strategy and our structure on delivering for our customers.”*

*-Bernard Byrne, CEO*

#### Key Highlights

- Fully loaded CET1 of 17.9%, well in excess of our medium term CET1 target of 13%
- NIM of 2.51% for the nine months to September 2018; underlying<sup>(1)</sup> NIM 2.47%
- Disciplined cost management with costs stable
- Performing loans (gross) increased by €3bn since December 2017 to €56.1bn
- NPEs reduced by 29% to €7.2bn from €10.2bn at December 2017

#### ECONOMIC ENVIRONMENT

The Irish economy continues to outperform expectations with recent upgrades to economic forecasts and underlying growth in domestic demand of c. 5% expected in 2018. The unemployment rate fell to 5.4% in September 2018, its lowest level since 2007. Employment continues to grow at over 3% with job creation across most sectors. Activity in the Irish housing market continues to improve although significant supply constraints remain. The impact of the CBI macro-prudential rules, amongst other factors, have led to a moderation in house price inflation to more sustainable levels.

Uncertainty in the global macro-economy has increased and in particular Brexit-related risk. Adopting a vigilant approach, we are planning for a range of scenarios, assessing potential impacts on our business and customers, keeping our risk appetite under review and carefully monitoring asset quality indicators from both regional and sector perspectives. Our team of 26 Brexit advisors continue to work closely with our Irish and UK-based customers to better understand and advise on the potential implications of Brexit to support their businesses. The current situation has created uncertainty and has likely resulted in postponed investment decisions, particularly in SME communities, both in Ireland and the UK.

#### FINANCIAL PERFORMANCE

The Group continued to perform well in Q3 and is on track to deliver a full year financial performance in line with market expectations.

Net interest income, on an underlying<sup>(1)</sup> basis, was stable in the nine months to September 2018 compared to the equivalent prior year period. NIM was 2.51% compared to 2.53% in H1 2018, with stable asset yields and lower funding costs offset by excess liquidity. Actions are being taken to reduce the effect of excess liquidity. We have seen positive early indications of their impact but are also mindful of the impact on customers of sustained negative returns on liquidity. Underlying NIM was 2.47% for the first nine months of the year (H1 2018: 2.50%); we remain comfortable with our medium term target of 2.40%+.

Customer fees and commissions remained stable in Q3 and in line with expectations.

Disciplined cost management is a priority across the Group and trends experienced in H1 are expected to continue for the remainder of the year. The factors which continue to impact costs in 2018 include ongoing operational efficiencies, wage inflation, continued operational investment in loan restructuring activity and increased depreciation from our investment programme. Exceptional costs include costs associated with the management of our tracker mortgage examination programme, IFRS9 implementation and transformation/business restructuring projects. We remain on track to deliver our sustainable cost income ratio target of less than 50% by end 2019.

Regulatory costs and levies for 2018, relating to the Single Resolution Fund (SRF), the Deposit Guarantee Scheme (DGS) and the Bank Levy, are expected to be broadly in line with last year.

We expect a net credit provision write-back in H2, although lower than H1, reflecting increased security values, improved business cashflows and the stronger economic environment.

#### **BALANCE SHEET**

Net loans increased €0.5bn from December 2017 to €60.5bn reflecting strong growth in new lending notwithstanding the continued reduction in NPEs.

Performing loans (gross) increased €3bn from December 2017 to €56.1bn. Overall new term lending drawdowns in the nine months to September 2018 were 15% higher than the equivalent prior year period. Our corporate and institutional businesses are delivering a very strong performance in 2018 while our SME business is trading well despite a weaker market backdrop. Mortgage lending in Ireland year to date is strong with drawdowns up 13% on the prior year period. Our market share<sup>(2)</sup> of mortgage drawdowns remained steady at 32% to August 2018. As the largest mortgage lender in Ireland, we deploy a multi-proposition mortgage strategy and continue to monitor and balance the considerations of price, volume and quality. New lending in the UK remains stable and reflects our current cautious risk appetite given the Brexit backdrop.

NPEs represent 11% of gross loans, down from 16% at December 2017, having reduced to €7.2bn at September 2018 from €10.2bn at December 2017. Our well-resourced and experienced team in our Financial Solutions Group (FSG) continues to deliver progress. The continued reduction in NPEs remains a key focus and a strategic priority for the Group and we remain on track to reach normalised levels by end 2019.

The loan to deposit ratio was 90% at the end of Q3 2018 and represents the combined effects of a build-up of liquidity in a buoyant economy and continuing customer deleveraging.

#### **FUNDING & CAPITAL**

Strong funding and capital management ensure AIB is well positioned for growth.

In October, AIB Group plc launched its US dollar debt 144A programme and successfully executed its inaugural USD MREL issuance, USD 750m 5yr HoldCo Senior. AIB has now completed €1.65bn of its c. €4bn MREL issuance requirement. AIB Group plc is rated Investment Grade by Moody's and Fitch.

The Group's fully loaded CET1 ratio at September 2018 increased by 30bps from June 2018 to 17.9%, well in excess of our medium term CET1 target of 13%. Our strong capital generation continues with a positive operating performance in the quarter and a reduction in risk weighted assets, reflecting the H1 loan portfolio sale, less dividend deduction.

With regard to regulatory matters, the Group currently has no update on the potential impact of the Targeted Review of Internal Models (TRIM) exercise. We await the publication of the EBA stress tests scheduled for 2 November 2018. Our very strong capital starting level and our ability to generate capital give us significant comfort about the overall outcome even though the elevated levels of NPEs and the nature of the test may lead to higher than average capital depletion under an adverse scenario.

#### **MANAGEMENT CHANGES & OUTLOOK**

Today by separate notification, we announced that Bernard Byrne has informed the Board of his intention to step down as CEO. We recently appointed Tomás O'Midheach (COO) to the role of Deputy CEO and Donal Galvin (Group Treasurer) to the role of Deputy CFO.

We continue to evolve our operating model to align strategy, structure and customer delivery supported by a revised property portfolio, agile ways of working and enabling technology, so that we can deliver our purpose to back our customers to achieve their dreams and ambitions.

In summary, 2018 continues to be a year of strong performance for AIB. The business strategy 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. 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.

As we move through the final quarter of 2018, we remain on track to meet expectations, are well-positioned for the future and continue to deliver for our customers and shareholders. We look forward to publishing our 2018 Annual Financial Results on 1 March 2019.

(1) Underlying NIM excludes interest on loans upgraded from Stage 3 without incurring financial loss (suspense interest).

(2) Source: Mortgage drawdowns YTD to August 2018 BPF1

**-ENDS-**

#### **Management conference call**

Mark Bourke, CFO, will host a conference call for analysts today at 08.30 BST

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

#### **Title: AIB Trading Update – access code 9675970**

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## Replay facility available until Friday 2 November 2018 – access code 9675970

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### Important Information and forward-looking statements

This document should be considered with AIB's Annual Financial Report 2017 and Half-Yearly Financial Report 2018, 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 58 to 68 of the Annual Financial Report 2017 and on page 32 'Update on risk management and governance' of the Half-Yearly Financial Report 2018. 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 and on page 32 of the Half-Yearly Financial Report 2018 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.