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## **AIB GROUP PLC – Q1 2018 TRADING UPDATE (UNAUDITED)**

AIB releases the following update in advance of its AGM which takes place today at 11:00 (BST).

### **A good start to 2018 and performing to expectations**

*“Q1 delivered a good start to the year with strong profitability, capital generation and continued loan book growth. The quality of the loan book also improved with increased new lending and further NPE reductions. In the quarter, we commenced our MREL issuance programme, executing a successful HoldCo transaction. We continue to focus on meeting our customers’ needs, simplifying our operating model and increasing efficiency which positions us well for the remainder of the year.”*

*- Bernard Byrne, CEO*

#### **Key Highlights**

- Fully loaded CET1 17.1% driven by strong profitability offset by IFRS 9 impact and dividend accrual
- Holding normalised Net Interest Margin (NIM) of 2.50% for Q1, excluding cured loan interest
- Gross loans increased by €0.3bn to €63.6bn in the quarter; new lending up 18% in Ireland
- Disciplined cost management with stable costs year on year
- NPEs reduced by 10% to €9.2bn from €10.2bn in December 2017

#### **ECONOMIC ENVIRONMENT**

The positive momentum continues in the Irish economy. In 2017, economic growth as measured by Modified Final Domestic Demand (which excludes some multi-national activity) grew by 4%. The number in employment continues to rise by c. 3% per annum while the unemployment rate declined for a sixth consecutive month in February 2018, falling to a near 10-year low of 6.1%. Activity metrics in the housing market are positive although the pace of housing supply is still some way short of estimated demand.

As global macro-economic and geo-political risks rise, notwithstanding a continued buoyant economic backdrop, we are cognisant of uncertainties and potential challenges in the medium term. We continue to support our Irish and UK-based customers, working closely with them to better understand any potential implications, with particular reference to Brexit.

#### **FINANCIAL PERFORMANCE**

The Group is performing well and remains on track to meet its medium term targets.

In Q1 2018 NIM was 2.53% and in line with the prior year equivalent period (Q1 2017: 2.53% incl ELG). Excluding income from cured loans, normalised NIM was 2.50%, consistent with FY 2017 NIM. This reflects lower funding costs offset by the disposal of high yielding government bonds and the absorption of Q4 mortgage pricing changes.

Fees and commission income remained stable in the quarter.

Group operating costs to 31 March 2018 were as anticipated and in line with Q1 last year. As previously stated, the factors expected to impact costs in 2018 include wage inflation, continued investment in loan restructuring and increased depreciation. We continue to invest to generate efficiencies and harvest benefits from the ongoing simplification of our operating model. We continue to focus on cost management and are confident of achieving 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 in line with full year 2017 (€105m).

A net credit provision write-back was recorded in Q1, however, we recognise the scope for some volatility in provisioning in the short term due to the introduction of IFRS 9 and the move to lifetime expected loss calculation.

We continue to make progress on the Tracker Mortgage Review. 96% of identified impacted customers have received payment and the remaining identified customers will be paid in Q2. The related provisions are unchanged.

#### **BALANCE SHEET**

The performing loan book increased from December 2017 to March 2018 as new lending exceeded redemptions. Gross loans of €63.6bn were up €0.3bn, however an equal increase in provisions due to IFRS 9 implementation resulted in a flat net loan book of €60.0bn.

New lending drawdowns in the quarter were strong. Lending in Ireland increased by 18% on the prior year period. Our market share<sup>(1)</sup> of mortgage drawdowns in the month of February was 33%, up on month December 2017, and a positive trend in applications continues. In the UK, new lending was lower in Q1 2018 compared to the prior year period, overall however, the UK loan book has remained stable since December.

Non-performing exposures (NPEs)<sup>(2)</sup> reduced by €1.0bn to €9.2bn driven by continued case by case resolution (c. €400m) and the impact of harmonisation of definitions of defaulted loans under IFRS 9<sup>(3)</sup>. The normalisation of NPEs remains a key focus and a strategic priority for the Bank.

Customer accounts of €64.8bn increased from €64.6bn at December 2017 primarily as current accounts continue to grow. During Q1 2018, we sold a €0.5bn high yielding government bond within our AFS portfolio to lower this balance to €15.7bn at March 2018. The loan to deposit ratio was 93% at the end of Q1 2018.

#### **FUNDING & CAPITAL**

In Q1 2018 we delivered a successful €500m 5 year HoldCo Senior transaction priced at mid-swaps +115bps. The quality and breadth of investor interest (4.2x oversubscribed) for our inaugural HoldCo transaction is a positive result as we commence our MREL issuance programme.

The fully loaded CET1 at the end of Q1 was 17.1% (Dec 2017: 17.5%) driven by strong profitability offset predominantly by IFRS 9 impact<sup>(3)</sup>, a marginal increase in RWA and dividend accrual.

#### **OUTLOOK**

We have had a good start to the year and remain on track to meet expectations. The economic backdrop is favourable and our customer first strategy is delivering results. We continue to make progress on our key priorities of delivering for our customers, driving efficiencies through the evolution of our operating model and

reducing NPEs to normalised levels. With strong profitability and capital generation, we are well positioned to deliver for our customers and shareholders.

- (1) *Source: BPFI February 2018*
- (2) *NPEs can broadly be split into two categories: customers that we have resolved subject to a probationary period or completion of property sales before the loans exit from NPE; customers yet to be resolved (previously defined as impaired and 90 days past due)*
- (3) *Subject to finalisation*

**-ENDS-**

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**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.