EMBARGO 07:00 **5 November 2019**

AIB GROUP PLC – Q3 2019 TRADING UPDATE (UNAUDITED)

Solid operational performance and planning for the future

"Following a solid operational performance in H1, we continue to focus on controlling the controllables; non-performing exposures (NPEs), quality of lending and cost discipline. Our recently announced portfolio sale brings our 2019 c. 5% NPE milestone into sight. We continue to align our business to serve our customers sustainably and look forward to updating the market in Q1 2020 with our strategic refresh and intentions for capital return."
- Colin Hunt, Chief Executive Officer

Highlights

- Fully-loaded CET1 post-TRIM impact 16.5%; indicative 2020 SREP includes 15bps reduction in P2R to 3.00%
- Stable customer loan yields; NIM 2.42% for 9 months to Sept includes excess liquidity impact of 7bps
- New lending YTD in line with prior year; continued strong mortgages and personal credit demand
- Recent portfolio sale brings NPEs below 6%(1); NPEs down 39% from €6.1bn at year end to €3.7bn(1)
- Successful AT1 transaction of €500m in October 2019; c. 75% of our MREL issuance requirement complete

FINANCIAL PERFORMANCE

As we have moved through 2019, the operating environment for European banks has become more challenging, but despite this the group continues to perform well to deliver a solid underlying operational performance in 2019.

In the nine months to September 2019, net interest income has remained steady compared to the prior year period. NIM for the nine month period was 2.42%; excess liquidity continues to weigh on NIM (7bps impact YTD) along with previously guided lower income from investment securities and increased MREL-related funding costs. Importantly, the yield on customer loans (3.46%) has remained stable and the spread between customer loans and deposit costs has widened.

The enduring negative interest rate environment is very challenging for the industry and manifested in a negative 11bps impact on our Q3 NIM of 2.32% due to average Euro excess liquidity of c. €4bn in the quarter. We continue to take management action in relation to negative deposit pricing. Due to the distortionary impact on NIM from excess Euro liquidity volumes grossing up our balance sheet, we expect our full year NIM to be marginally below 2.40%.

Fee and commission income is trending stable for the full year, other business income is expected to be lower. Following receipt of regulatory approvals, the acquisition of Payzone has completed.

Cost discipline is a key priority for the Group. We have introduced a number of cost management initiatives and expect to finish the year with less than 9,500 employees. We expect full year costs of approximately €1.5bn. The drivers of cost growth remain consistent and include wage inflation, maintaining capacity in our distressed credit work-out unit, increased cost of regulation and rising depreciation from investment spend. We continue to simplify the organisation through management de-layering and rightsizing our workforce as we work towards making the bank as efficient as possible.

Regulatory costs and levies for 2019, relating to the Single Resolution Fund, the Deposit Guarantee Scheme and the Bank Levy, are expected to be c. €100m for full year 2019, in line with expectations. IFRS 9 has introduced some volatility in ECLs and for the second half we expect a credit impairment charge.

We expect to incur exceptional items in H2 2019 similar to that of H1 including termination benefits and loss on disposal of portfolio sale.

BALANCE SHEET

Gross loans at the end of September were €62.7bn (Dec 18: €62.9bn). The performing loan book increased 2% or €1.3bn from €56.8bn in December 2018 to €58.1bn at end September 2019.

New lending in the nine months to September 2019 was in line with the equivalent prior year period and we expect that trend to be reflected in the full year. Earlier this year, we refreshed our mortgage proposition and now offer greater customer choice across a competitive suite of products. New mortgage lending year to date increased 9% and our market share[2] of mortgage drawdowns YTD September was 32%. Personal lending is delivering a strong performance. SME sentiment is cautious amid Brexit uncertainty but notwithstanding this we have seen an uptick in new lending year to date. Corporate credit demand in Ireland remains solid while we have moderated our appetite for syndicated and international lending. Our UK business continues to target defensive niche sectors and has delivered a strong performance YTD.

NPEs at the end of September were €4.5bn (Dec 18: €6.1bn; June 19: €4.7bn). We recently announced a non-performing loan portfolio sale of c. €0.85bn to give an NPE ratio of <6%[1] as we close in on our original end 2019 c. 5% milestone. Further NPE reduction remains a priority given the impact on cost, capital requirements and balance sheet resilience.

Customer accounts continue to build and increased to €70.2bn (Dec 18: €67.7bn) reflecting the strong Irish macro-economic backdrop. The loan to deposit ratio was 87% at the end of Q3 2019.

FUNDING & CAPITAL

Given the volume and stickiness of our retail deposit base, AIB's wholesale funding is primarily driven by MREL issuance requirement which is now c. 75% completed. Our recently transacted AT1 of €500m was positively received by the market with 7x over-subscription. The launch of our green bond framework will further broaden our universe of debt investors. Fitch recently upgraded AIB Group plc one notch to BBB primarily driven by significant improvement in asset quality. We are well positioned to complete our MREL issuance requirement and improve the efficiency of our capital structure.

The fully loaded CET1 at the end of Q3 was 16.5% (June 2019: 17.3%) and represents solid underlying Q3 profitability offset by Q3 dividend accrual and indicative TRIM impact (90bps). Notwithstanding expected profit generation in Q4, the expected 2019 outturn for CET1 is c. 16% due to exceptional items and Q4 dividend accrual. As guided on 1 November, the recent portfolio sale is expected to have a negative P&L impact but overall will be capital accretive by c. 20bps due to the reduction in RWAs, the timing of which will occur upon receipt of proceeds in early 2020.

The indicative 2020 SREP[(3)] includes a reduction in P2R of 15bps to 3.00%, reflecting the significant progress made in reducing NPEs. The Group's capital ratios are materially in excess of minimum regulatory requirements and AIB continues to maintain a very significant buffer above maximum distributable amount (MDA) trigger levels.

OUTLOOK

Given the wider economic uncertainty, particularly Brexit-related, we remain focused on controlling the controllables for the remainder of the year and beyond. We look forward to updating the market on our strategic plans including medium-term targets, the next phase of NPE reduction and capital return.

AIB will announce full year 2019 results and strategic update on 6 March 2020.

Footnotes:

(1) <6% pro-forma NPE ratio is based on September 2019 NPEs and gross loans adjusted for recently announced €0.85bn NPE loan portfolio sale.
(2) Source: Mortgage drawdowns BPFI Sept 2019.
(3) Indicative 2020 SREP of 11.9% includes the scheduled 50bps phase-in of Other Systematically Important Institution (OSII) buffer to 1% and the P2R reduction of 15bps to 3.00%.

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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 62 to 68 in the 2018 Annual Financial Report. 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 62 to 68 of the 2018 Annual Financial Report 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.