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AIB Group plc ("AIB") announces half year pre-exceptional PBT €567m

"Today we announce our half year results, my first as CEO. We continued to deliver on our strategic plan with solid underlying profitability, sustainable new lending growth, an expanding performing loan book and a robust capital base. Our progress towards non-performing exposure (NPE) normalisation continues and with all levers at our disposal, we remain firmly on track to reach the milestone of c.5% by year end. Our primary strategic focus remains NPE reduction facilitating the potential for capital returns. Supported by market-leading technology, we continue to invest in all of our customer channels and AIB is the No 1 Irish Banking App with over one million users reached this year."

– Colin Hunt, Chief Executive Officer

Highlights

- **Sustainable profitability with stable net interest income**
  Pre-exceptional PBT €567m; NIM 2.46%
- **Robust capital base supporting growth and capital returns**
  CET1 (FL) 17.3%[1]; indicative AIB mortgage model TRIM impact estimated c. 90bps
- **Renewed focus on cost discipline**
  Cost income ratio 54%
- **Growing performing loan book and increased new lending**
  New lending up 8% to €6bn; mortgage market share 31% with strong approvals trend
- **Ongoing progress in NPE normalisation**
  Reduced by €1.4bn (-22%) to €4.7bn from €6.1bn at December 2018
- **MREL €3.3bn issued; well positioned to meet expected MREL requirements**
  Two successful transactions in H1 of $1bn and €750m
- **Leading digital capability and customer experience**
  No 1 Irish Banking App; 1 million+ active customers: top quartile NPS +66

FINANCIAL PERFORMANCE

Pre-exceptional PBT was €567m in the first half with positive underlying business performance. Including exceptional items PBT was €436m.

Sustainable profitability is underpinned by stable net interest income and solid margin. NIM for H1 2019 was 2.46% (H1 2018: 2.50%) with a Q2 exit NIM of 2.43% and this reflects a widening of spread between loans and deposits offset by a combination of factors such as the impact of MREL issuance, investment securities' maturities/sales and excess liquidity. We continue to monitor and manage the impact of excess liquidity and remain comfortable with our medium-term NIM target of 2.40%+.

Other Income of €319m was in line with H1 2018. The primary component of this continues to be fees and commissions which were up 6% to €230m (H1 2018: €217m).

Operating expenses of €744m were 6% higher than the prior year. Factors that continue to impact expenses are wage inflation, increased depreciation, the elevated cost of our distressed loan work-out unit and the cost of delivering the many requirements needed to meet heightened regulatory oversight and EU wide developments such as Open Banking.

Our cost income ratio (CIR) was 54% in the first half of the year. Cost discipline is a key management priority. We continue to work towards a sub-50% cost income ratio and making the bank as efficient as possible.

Following a small net credit impairment write-back in Q1, a charge of €9m was recorded in the first half.

As guided, the first half included exceptional items of €131m which predominantly relate to restitution costs and provisions associated with legacy issues. As we reach the conclusion of the tracker mortgage examination with payments issued to the vast majority of customers, we are now working with the Central Bank of Ireland through the enforcement process. We know that issues may continue to emerge and we are committed to dealing with them in an expedited, transparent and fair way for our customers.

BALANCE SHEET

AIB's performing loan book continues to grow, supported by strong liquidity and capital ratios. Customer accounts of €69.5bn increased from €67.7bn at December 2018. The loan to deposit ratio at the end of June 2019 was 88%.

Total new lending in H1 2019 grew 8% to €6.0bn (H1 2018: €5.5bn). New mortgage lending in Ireland grew by 8% to €1.3bn. Our market share of mortgage drawdowns in the first half was 31.3% and we are witnessing a strong trend in applications and approvals data following positive reaction to our mortgage pricing changes in April 2019. Personal lending in Ireland increased 17% to €0.5bn and we now have 75% of personal loan applications processed through our digital channels. New lending for property in Ireland of €0.7bn was 13% lower than in H1 2018 which included a number of large transactions. Lending to the corporate sector in Ireland has been strong while our activity in syndicated and international lending has been more muted. Sentiment in the SME sector remains cautious as Brexit uncertainty prevails; new lending to the sector increased by 4%. In the UK, new lending of £1.2bn was focused on our chosen defensive sectors of healthcare, renewable energy and infrastructure. Given our market leading positions in key segments, we are well positioned for further growth on a sustainable basis.

In the first half of 2019, the performing loan book (gross) increased by €1.2bn to €58bn. There was marginal growth in the net loan book in the half to €61.1bn (Dec 2018: €60.9bn) as new lending exceeded redemptions and we completed a €1bn non-performing loan sale.

In the first half of 2019, NPEs reduced by 22% from €6.1bn (9.6% gross loans) to €4.7bn (7.5% gross loans). This reduction reflects our ongoing engagement with customers as well as a sale of deep arrears non-performing loans which had a gross value of €1bn and resulted in a gain on disposal of €36m. The normalisation of NPEs remains a key focus and with all levers at our disposal, we remain on track to reach the milestone of c. 5% by end 2019.

FUNDING & CAPITAL

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

AIB Group plc continues to be rated investment grade across all three rating agencies. This positively contributed to our successful MREL issuances in H1, consisting of US$1bn and €750m. As a result, we are well positioned to meet expected MREL issuance requirement with €3.3bn issued to date.

At the end of June, our capital remains robust with a fully loaded CET1 of 17.3% well in excess of minimum requirements. Capital generation from profits of 80bps in the first half was offset by the impact of accrued dividend, IFRS 16 initial impact and increase in RWAs.

While still working through the TRIM process with our Regulator, we have received indicative feedback on our AIB mortgage model. The current estimated capital impact is a reduction of c. 90bps on the CET1 ratio, with a c. €2bn increase in RWA.

A SUSTAINABLE, INNOVATIVE BUSINESS

We remain focused on our key strategic priorities and building long-term sustainability. Supported by market-leading technology, we are at the forefront of digitally-enabled banking, providing convenience to our customers and a competitive advantage for AIB. The bank remains number one for digital distribution in Ireland, with 1.4m online users. We continue to innovate and deliver for our customers, with some highlights from H1 below:

- **Lower fixed mortgage rates** – complementing our market-leading variable rate and offering customer certainty and choice.
- **Payzone[2] proposed acquisition** – strengthening our fintech capability with the acquisition of Ireland's largest consumer payments network.
- **Award-winning mortgage customer experience[3]** – Q2 NPS for Homes journey +53 while Express Mortgage journey, rolled out nationally with a Q2 NPS +65
- **€5bn to fund sustainability** – Launch of €5bn fund to support customers' transition to a low-carbon economy
- **AIB mobile App** – No 1 Irish Banking App with over 1 million active customer users and a top quartile NPS +66

OUTLOOK

We have had a solid first half of 2019 and are well positioned, despite rising uncertainty, for the remainder of the year. We are committed to implementing a proven strategy, with a relentless focus on Customer First, by delivering a simple and efficient business model and growing the balance sheet in a sustainable manner while normalising NPEs.

Further detail, including all relevant disclosures and notes to financial statements can be found on https://aib.ie/investorrelations

[1)] *The capital ratios reflect the 30 June 2019 interim profit for the Group. An application for the inclusion of the 2019 interim profit in regulatory capital is being made under Article 26(2) of the Capital Requirements Regulation to the competent authority, namely, the European Central Bank*

[2)] *On 18th April, we announced a proposed acquisition with First Data Corporation of Payzone, the transaction is subject to relevant approvals*

[3)] *AIB Mortgage Customer Experience Programme was recognised as World leader and Innovator in Experience Management in Experience Makers Category of Medallia Expy Awards*

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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 of the Annual 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 62 to 68 of the Annual 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.