Bank of Ireland Full Year 2021 Results

Monday, 28 February 2022

Introduction

Francesca McDonagh

Group CEO, Bank of Ireland Plc

Strong performance and strategic momentum in 2021

Good morning, everyone. Today we are announcing a strong rebound in our financial performance for 2021, continued momentum in the execution of our strategy and confidence in our growth outlook for 2022 and beyond.

As summarised in slide five, in 2021 we delivered our best performance since the financial crisis. We're reporting underlying profit before tax of €1.4 billion. Operating profit pre-impairment shows strong growth, up 53% year-on-year and up 25% versus 2019, pre the pandemic. And our 2021 RoTE is 12.7%.

While this is helped by an impairment gain, it also reflects strong business performance and the successful execution of our strategy over the past number of years. This shows that we're on track to deliver a sustainable RoTE of in excess of 10%.

A further key development in 2021 was the commencement of the sell down of the State's holding in the Group. This holding is below 6% and we expect to return to full private ownership during 2022. This is a positive step for Irish taxpayers, for the Irish economy and for Bank of Ireland.

We will always be grateful for the support we received over a decade ago. We repaid this back in full by 2013. And, by the end of 2021, we had returned €6.2 billion to the State from its original support of €4.8 billion. The ongoing sales process adds to these returns and will mark a milestone moment in normalising the relationship between the Irish State and Bank of Ireland.

The economic outlook across our markets has markedly improved. This is mirrored in our improved asset quality with a €194 million net impairment gain and a reduction in our non-performing exposures ratio. We've maintained our momentum in delivering our strategy, including the transformation of our business model and our technology. We continue our disciplined focus on costs, and we delivered on our 2021 cost target.

We're also reporting a 32% improvement in operating contribution from our UK business. This is enabled by our strategic reset, with a clear focus on the value of our lending in the UK over volume.

Capital is a particular highlight of today's results. We finished 2021 with a fully loaded CET1 ratio of 16%, an increase of 280 basis points year-on-year, excluding distributions. Last year, we said that distributions would recommence on a prudent and progressive basis based on performance and capital position. Since then, we have agreed two significant acquisitions, which, subject to the completion of the customary clearances, will materially enhance our returns and are a highly effective use of our capital.

We're also supporting economic growth across our markets and are continuing to invest in our business. Consistent with our distribution policy and investor feedback, we are returning capital to our shareholders. We are recommencing distributions with €104 million proposed in a mixture of dividends and buybacks, and we expect our distributions to grow from this position.

Our purpose is to enable our Customers, Colleagues and Communities to thrive

Turning to slide six, our purpose is to enable our customers, colleagues and communities to thrive.

For customers, in 2021 we provided over €5 billion in new Irish mortgage and SME lending. And our customers recognise Bank of Ireland as the market leader in supporting their Financial Wellbeing.

For colleagues, for a second successive year our cultural embedding score is above the global financial services benchmark. This reflects the investment we are making in transforming our culture, to make Bank of Ireland a great place to work for our colleagues. However, as with many employers, we face an increasingly competitive environment to attract and retain talent. At the same time, Bank of Ireland still remains subject to significant remuneration restrictions, including a ban on performance-related pay and benefits for colleagues at all levels in the Group.

These restrictions are unique to Ireland and they place us at a competitive disadvantage when recruiting and retaining staff at every level of the organisation. Our view is that Ireland should now align with European norms and that the historical crisis-era restrictions should be replaced with the guidelines set out by the European Banking Authority.

Returning to slide six, we continue to support the communities where we live, work and do business. We have increased our Sustainable Finance Fund from €2 billion to €5 billion. And our green bond issuance of €1.3 billion supports our green lending, including development funding for social housing.

Responsible and Sustainable Business; delivering on our 'Investing in Tomorrow' strategy launched in 2021

In 2021, we launched our Responsible and Sustainable Business strategy. We've made good progress under all three pillars as set out on slide seven. This includes, in green lending, we've provided €1.8 billion in green mortgages since the product was launched in 2019, making us the leading lender of green mortgages in Ireland.

Other highlights includes the wide range of actions we are taking to meet our Financial Wellbeing targets and the significant progress we've made towards 50-50 gender equality in our senior management appointments.

Our progress in 2021 is recognised in improving ESG ratings. In 2022, we are increasing our investment in Responsible and Sustainable business, including the appointment of our new Chief Sustainability Officer and the establishment of a new dedicated Board Committee.

The strength of our balance sheet and franchises ideally position us to manage the risks in the climate-related transition and support our customers with significant climate-related investment opportunities.

Positive outlook for Irish economy

Slide eight shows the improving external environment. In Ireland, we expect to see another year of growth and improving labour market conditions as the country recovers from the pandemic. Inflation and the impact it is having on disposable incomes is a key focus in the Eurozone, and Ireland is no exception. However, it is important to note that Irish household balance sheets are in good shape with a 23% increase in deposits since 2019.

The other impact inflation is having is on interest rate expectations. These are a potential tailwind for our net interest income. In addition, housing completions are expected to increase to 27,000 in 2022, the highest annual outturn in Ireland since 2008. This is supportive of our mortgage lending in the year ahead.

In terms of our wider outlook, we are vigilant to the impacts from the fast-evolving geopolitical situation in Eastern Europe.

Investment has supported transformation of digital offering

The next slide details how our systems investment is supporting customers' accelerated shift to digital. Digital adoption and delivery have stepped up a gear with 94% of our everyday product applications now digitised.

Mobile app logins increased 63% year-on-year. And, the improvements we've made to simplify customer journeys have delivered a material uplift in customer satisfaction and cost savings of around €70 million.

Transformation delivering customer benefits and improved business outcomes

Slide 10 sets out the tangible benefit of our transformation programme on our customers, costs and competitiveness. Key highlights of what we have delivered include: Wealth & Insurance enhancements to drive revenue growth and diversification; personalised customer engagement to drive tailored offers and advice; the roll-out of single view of customer to enhance how we use data; and the introduction of card controls to significantly reduce customer friction and toil.

And there's more to come in 2022. Further enhancements to our digital propositions are planned, and we will have dedicated resources in place to manage the expected on-boarding of a significant number of new customers as a result of structural change within Ireland's banking sector.

2021 cost target of <€1.65bn delivered

Slide 11 sets out the Group's progress on cost improvement. We continue to meet our targets. 2021 operating expenses were below €1.65 billion with costs reducing for an eighth successive reporting period. And, overall, we've reduced costs by 13% net since 2017.

We expect costs to continue to reduce year-on-year in both 2022 and 2023, excluding the impact of our announced acquisitions as planned. However, in 2022, the rate of cost reduction is likely to moderate. This is due to two factors: increased inflationary expectations and structural change in Ireland's banking sector, which warrants some focused investment to capture targeted growth opportunities. We then expect to return to our prior cost reduction trajectory in 2023.

I look forward to providing more detail on how we see the outlook for costs as part of our strategy refresh during this year.

UK strategic actions and supportive market drive turnaround in 2021

Turning now to slide 12. Our strategic actions in the UK and a supportive market backdrop delivered a step change in performance during 2021. The UK's operating contribution pre-impairment was up 32% last year and is 53% above the 2019 pre-pandemic outturn.

In line with our strategic plan to prioritise lending value over volume, we reduced the size of our loan book and plan further deleveraging in 2022. In addition, we reduced our deposit book as we move towards our UK end-state of a smaller but more profitable balance sheet. A good example of this pivot is the success of our Bespoke offering. This made up 25% of our UK new mortgage lending in 2021, four times its share in 2019.

Wealth and Insurance generated strong performance vs 2020

Wealth and Insurance delivered a robust performance in 2021 with operating profit increasing 32% to €121 million. Assets under management of €22.5 billion were up 14% year-on-year. And we saw around €800 million of net life inflows into the suite of funds offered by Wealth and Insurance during 2021, up 107% versus 2020.

This performance has been supported by our digital investments and our Wealth & Insurance business. For example, three quarters of pension applications through our broker channel are now made via our digital platforms. As Ireland's only universal bancassurer, we are ambitious for further growth in this area, supported by our planned acquisition of Davy in 2022.

Transformational acquisitions to add significant scale

Staying with acquisitions, our plans in relation to Davy and the KBC portfolios are transformational. Davy is Ireland's market-leading provider of wealth advisory and capital market services. It's an excellent fit for our existing Wealth capabilities. The acquisition is progressing through the approval process and has now been approved by the Irish competition authorities.

The planned acquisition of KBC's loan and deposit portfolios is another significant development for our business, consistent with our growth strategy. This acquisition is currently in Phase 2 of the competition approval process. We are preparing a detailed response to the Assessment we recently received from the Irish competition authority.

We will allocate circa 200 basis points of capital to execute these two acquisitions. This investment will significantly strengthen our franchise and future growth potential. Combined, the acquisitions are expected to deliver improvement in our Group RoTE of in excess of 1% on a full year basis.

I would now pass over to Myles to take you through our financial performance in more detail.

Financial Review

Myles O'Grady

Group CFO, Bank of Ireland Plc

FY 2021 financial summary

Thank you, Francesca, and good morning. I hope everyone is well. We are pleased to report a strong set of results, demonstrating recovery from COVID-19 and progress with our strategic objectives.

Highlights include: underlying profit of €1.4 billion; a net credit impairment gain of €194 million; net lending of €0.6 billion, which excludes planned UK deleveraging; 5.5% NPE ratio; very strong capital ratios; an adjusted RoTE of 12.7%, and the important recommencement of distributions.

Strong 2021 financial performance

Slide 18 sets out our P&L and performance metrics. A more supportive backdrop, augmented by the strategic initiatives which Francesca spoke to, has produced a strong outcome. Total income rose 12% last year with all businesses contributing.

Operating expenses fell 4% after absorbing the effects of inflation and investment. That's a net reduction of 13% or €254 million since 2017. The credit impairment gain captures an improved macro outlook and, generally, a more benign credit environment.

Net interest income +5%

Slide 19 covers net interest income. We've delivered a 5% increase, and that's down to a number of factors. We continue to maintain commercial discipline, with a 12-basis point improvement in the loan asset spread. Our participation in the ECB TLTRO scheme contributed €62 million to income, successfully hitting the required lending benchmark.

The application of negative interest rates provided a €72 million benefit, and our UK strategy helped to improve UK interest income by 8%.

We are mindful of the evolving interest rate environment and the positive impact this can have on future performance. We have factored in the market view that euro rates could rise to zero by early 2023, which will support interest income, and I'll come back to this when I provide guidance on the 2022 outlook.

Our balance sheet is positively geared to the dynamics at play in the rate environment. I've set out on the slide a 25-basis point interest income sensitivity which, on a 2022 annualised basis, could improve income by circa €60 million.

New customer lending +16% (excluding Retail UK)

Turning now to slide 20 on lending. Retail Ireland and Corporate new lending grew by 16% in 2021. UK new lending fell 24%, reflecting our strategic pivot to higher margin segments, with the UK NIM improving by 24 basis points to 1.97%.

We also saw higher redemptions in 2021, impacted in part by the build-up of liquidity during COVID, resulting overall in net lending of €0.6 billion when we exclude planned UK deleveraging.

Business income +15%

Slide 21 summarises business income growth of 15%. Wealth & Insurance business income grew by nearly a quarter, supported by higher new business and improved performance on the existing book. This result is a strong endorsement of our bancassurer model.

Corporate and Markets grew 13%, driven by higher fee income linked to lending transactions and increased customer activity.

And, on this slide, I would also like to mention the €72 million contribution from valuation items, reflecting equity and bond market performance in 2021.

Operating expenses -4%

Turning now to slide 22, and as Francesca said, these results are the eighth consecutive period in which we have reported lower costs. We met our target of reducing costs to below €1.65 billion, despite headwinds from inflation.

Staff costs fell 8% supported by the voluntary redundancy programme announced in 2020. Pension costs were higher in 2021, mainly as a consequence of the non-recurrence of the gain recognised in the 2020 results. Depreciation and transformation costs combined were 19% lower as a result of legacy technology assets reaching the end of their useful lives, and we continue to invest in new technology.

Non-core costs -62%

The following slide sets out our non-core charges for the year, which fell as we progressed important elements of our business restructuring. The customer redress charges you see here relate to the ongoing tracker mortgage examination and the €25 million Central Bank of Ireland fine relating to historical IT service continuity issues.

2021 net impairment gain of €194m

Slide 24 sets out the building blocks for the net impairment gain of €194 million. €152 million of this gain is a combination of ILA model releases from the improved economic outlook, partially offset by the retention of management adjustments, as we protect our balance sheet from latent COVID-19 risk and NPE resolution and related items.

We're also reporting a gain of €42 million from Stage 3 actual loan loss outcomes and portfolio activity. Subject to no material change in economic conditions, we expect the full year charge for 2022 to be lower than 20 basis points.

NPEs reduce to 5.5%

Slide 25 updates on the NPE position which reduced by 20 basis points to 5.5%. This was mainly driven by our Irish residential mortgage NPE disposal with minimal net inflows seen during the year. We are mindful of the risk of NPE inflows in 2022 from COVID-19 as fiscal supports are withdrawn. To counter this, we will continue to leverage our proven track record of working with customers to implement sustainable solutions. We also continue to explore potential NPE transaction opportunities.

On this slide, I'll also call out the strong ILA coverage on our books, 2.5% at the end of 2021, which compares to 1.6% at the end of 2019, pre-COVID.

Asset quality improved in 2021 and remains strong

Slide 26 provides a useful snapshot of our loan book, which is well diversified by sector and geography and predominantly secured.

You will see on this slide that, reflecting the economic recovery, there's been a big move from Stage 2 to Stage 1 in 2021. And we've maintained similar levels of coverage on Stage 2 and Stage 3 loans.

Capital ratios remain strong as we emerge from COVID-19

2021 saw very strong capital accretion from operating performance and a benign credit environment. This was augmented by the NPE disposal and balance sheet optimisation through the CRT transactions.

Our fully loaded CET1 ratio is 16.0% and 17.0% on a regulatory basis. Notwithstanding allocating around 200 basis points to the agreed acquisitions, we are very pleased to announce the recommence of distributions totalling €104 million.

The last item I'd call out in this slide is that as economic conditions improve, this will, over time, lead to the normalisation of regulatory capital requirements. We see this in the reintroduction of the UK countercyclical buffer, increasing Bank of Ireland requirements by 30 basis points in 2022. Our strong capital position leaves us well placed to meet future regulatory capital requirements while we continue to execute our strategy, grow our balance sheet, and continue with our distribution policy.

And now to 2022 outlook.

2022 Outlook (Excludes impact from announced acquisitions)

On profitability, overall we see 2022 total income in line with 2021. This reflects broadly stable net interest income, underpinned by rates rising to zero by 2023. Clearly, rates will be a swing factor here, mindful of the emerging Ukraine crisis. We expect higher business income and we assume a zero contribution from valuation items which is subject to equity and bond market movements.

Our cost will continue to reduce. On a net basis, 2022 costs will be lower than 2021, after absorbing inflation and excluding the announced acquisitions for which the customary clearances are currently being progressed.

The impairment outlook is expected to remain benign in 2022, with the charge expected to be below normalised levels. Subject to no material change in the economic conditions or outlook, we expect 2022 impairment charge to be lower than 20 basis points and we should see further improvements in our NPEs.

On capital, we reaffirm guidance for the expected acquisitions to consume circa 200 basis points of CET1 once completed. We expect strong capital generation in 2022, with this outlook supporting continued balance sheet growth and business investments. And distributions are expected to increase on a prudent and progressive basis.

Finally, before handing back to Francesca, as many of you will know, I depart the Group in March. I would like to take a small moment to thank you, as important market stakeholders, for your support during the three years I've been with Bank of Ireland. Our 2021 results show that the Group is executing the right strategy and I wish Francesca and the team, including my hard-working colleagues in Finance and Investor Relations, the very best for the future.

Francesca, back to you.

Summary

Francesca McDonagh

Group Chief Executive Officer, Bank of Ireland Plc

Summary Strong momentum into 2022

Thank you, Myles. It's been an absolute pleasure working with you these past few years. And I know everyone at Bank of Ireland, myself included, wishes you every success.

So, to recap, today we are announcing a strong rebound in our financial performance for 2021; continued momentum in the execution of our strategy; and confidence in our growth outlook for 2022 and beyond.

2021 was a year of strong performance and strategic progress. We’re reporting underlying profit before tax of €1.4 billion; an adjusted RoTE of 12.7%; and are on track to deliver a sustainable RoTE above 10%.

The completion of the acquisitions of Davy and the KBC portfolios is expected to contribute incremental RoTE in excess of 1% on a full-year basis. We see unique growth opportunities in our home market. We have turned around our UK performance. A return to full private ownership is expected during 2022. We have recommenced distributions. And, we will provide a strategy refresh, including new medium-term targets during this year.

Thank you and we'll now go to questions.

Q&A

Operator: Thank you. We will now move to Q&A. As a reminder, to ask a question you will need to press star one on your telephone. To withdraw your question, press the pound or hash key. Once again, if you'd like to ask a question, please press star and one on your telephone keypad.

Your first question today comes from Robert Noble from Deutsche Bank. Please go ahead your line is open.

Robert Noble (Deutsch Bank): Morning all. Thank you for taking my questions. Just a couple of questions from me. The outcome of the competition review, is it a black and white pass-or-fail situation or are there any other suggestions that they could come back with that will allow you to purchase KBC with restrictions?

And secondly, what's your tax on capital of rising rates on your bond portfolio? Is there any material capital risk from that perspective? Thank you.

Francesca McDonagh: Okay. Thank you, Robert. Thanks for the questions. So I'll answer the first one and pass to Myles on the capital question.

So for KBC, so, first of all, we feel very positive about both transactions. It's difficult to comment on the KBC process with the Irish competition authority, the CCPC. You would have seen it has gone to phase two, that's not entirely surprising. We're engaging very constructively with the competition authority to make progress as part of that process. So it's difficult for me to comment more broadly than that at this stage in the process, but we look forward to giving you an update in due course.

And I can turn to Myles on capital

Myles O'Grady: Yeah. Thanks, Rob. So in the context of accounting convention there's no material impact in the context of movements in bond valuations and capital. However, when we think about the rate environment and as our structural hedging matures and as our liquid asset matures, that will represent upside in income, which of course is positive to capital. Thanks, Rob.

Robert Noble: Thank you.

Francesca McDonagh: Thanks, Rob.

Operator: Thank you. Your next question comes from the line of Diarmaid Sheridan from Davy. Please go ahead your line is open.

Diarmaid Sheridan (Davy): Good morning, Francesca. Good morning, Myles. Thank you for the presentation and taking my questions. I have a couple, if I may. Firstly, on the cost outlook. Perhaps you could talk to the dynamics at play and to continue to achieve the cost reductions that you're flagging in 2022 and 2023. Should we expect non-core charges to achieve those?

And then maybe two questions which are somewhat interrelated. Just on the distributions, perhaps you could talk to the calibration of the pay out, you know, in the context of both a very strong capital number but also the significant profitability in 2021. And finally, just around capital, how should we think about minimum capital levels I guess in the context of normalisation of some of those regulatory buffers that you flagged, Myles, and also the Central Bank of Ireland’s views on the overall macro prudential landscape? Thank you.

Francesca McDonagh: Thank you, Diarmaid. I'll answer the broader cost outlook question and also how we think about distribution and calibration. And I'll pass to Myles on both non-core for cost and on minimum capital levels, if that's okay.

So, just in terms of cost, we've been clear cost will continue to reduce year-on-year in both 2022 and 2023. And we've made incredible progress, we believe, over the last four years. We've taken €250 million net out of our cost base since 2017, close to €400 million on a gross basis, and that won't stop. So the initiatives that we had in place to get up to sub €1.65 billion today will continue to make us increasingly efficient. Those programmes continue to drive cost reduction.

But what we said is that the rate of cost reduction is likely to moderate in 2022 for two reasons. One is the increase in inflation expectations that we're seeing, and second is just the degree of structural change that we're observing and expecting in Ireland's banking sector. And we see that as warranting some very focused investments to capture targeted growth opportunities and we do want to invest in that profitable growth. So we're definitely using some of the capacity from our ongoing cost reductions to invest in targeted strategic growth and would then expect to return to being more aligned to our prior cost reduction trajectory in 2023.

So, overall, that means we're still confident that we're going to land near the €1.5 billion target that we communicated before, and will provide more granularity on our cost outlook when we do our strategy refresh this year.

I know Myles will talk about non-core in a moment, but just broadly on distribution, how we think about buybacks and our policy.

So, we know how important distributions are for our shareholders. I mean, there's two key points that I would want you to take away from this. One is we've previously said that distributions would recommence on a prudent and progressive basis based on performance and capital position, and that's exactly what we're doing today. So we're emerging from the pandemic. We've got strong performance and we consider the recommencement of distributions as a really important progressive step for our shareholders. And we decided the quantum with our Board based on financial performance and capital outlook and we decided to split based on a number of factors. And that includes investor feedback. And some investors value cash, some investors value buybacks, and we wanted to reflect both components in what we're communicating today.

I think it's also important, whenever we're talking about distribution and the 20 basis points of capital or €104 million, we need to take that in the context the 200 basis points and circa €1 billion of capital being invested in the two transformational acquisitions of Davy and KBC's portfolio in Ireland. Those, combined, are going to strengthen our business model. They're going to generate higher sustainable returns. I would have made comments in my opening words about an incremental RoTE in excess of 1% on a full-year basis. And importantly, that helps enhance our future distribution capacity.

So we're in a very fortunate position to be able to do both distributions and two significant acquisitions. And we've been clear that our future distributions are expected to increase.

Myles O'Grady: Thanks, Francesca. And good morning Diarmaid, I hope you're well. Let me take the non-core question first and then I'll discuss capital requirement.

So non-core in the context of our transformation programme, our non-core cost has been elevated as we essentially invest today for both immediate and future benefits. A good example is the cost of the voluntary redundancy scheme announced in 2020 which we took as a cost of non-core, but that results in our staff cost, our support staff cost falling by 8% in 2021, as we saw 1,500 FTEs take up that voluntary redundancy scheme.

Now, as our formal transformation programme comes to an end, we can expect our non-core cost to reduce as well. And we see this in the 2021 results with non-core transformation cost falling by in the region of 50%. There are two important points to make.

When we set our 2023 cost target, we assumed non-core costs will not be a material feature, unless, of course, there are specific new opportunities that require further investment and which improve returns. And secondly, in that cost target, we include ongoing technology and digital investments.

In relation to capital guidance, I referenced earlier that as economic conditions improve, we can expect the reintroduction of regulatory capital buffers over time. And we've seen this already with the UK countercyclical buffer increasing Bank of Ireland requirements by 30 basis points this year. Now, in previously setting our capital target at greater than 13%, we factored in the reintroduction of these buffers. You're mindful, of course, of our 2021 requirements of 9.77% rising to 10.07% this year, which excludes P2G. And the Central Bank of Ireland is evaluating capital requirements. Hopefully, we'll get more clarity on that later this year.

So, two important – two items to note. If we do see a need to increase our capital target beyond 13%, I would expect increases to be relatively moderate. And secondly, our strong capital position as we enter 2022, combined with organic growth opportunities, leaves us in a very comfortable position to manage those requirements. And we look forward, the team look forward to provide an update on medium-term targets and requirements as part of our investor update in 2022.

Thanks, Diarmaid.

Diarmaid Sheridan: Thank you both. And Myles, I'd just like to wish the best in your new challenging adventure.

Myles O'Grady: Thank you very much, Diarmaid.

Operator: Thank you. Your next question comes from the line of John Cronin from Goodbody. Please go ahead your line is open.

John Cronin (Goodbody): Good morning, Francesca. Good morning, Myles. Thanks for the presentation. I have a few questions. The first one is, could you just talk through the constituents of income guidance for FY22 in a bit more depth and the drivers underpinning those?

Secondly, can I just press you further on the distributions point? So you finished the year with a CET1 rate of 16% relative to your capital target of 13%. Appreciate your comments to the effect that distributions will grow from here, but why didn't you go a little bit further for 2021, you know, given the very strong capital position?

And then thirdly, thanks for the improved rates sensitivity disclosures. Just could you talk us through some of your assumptions in terms of how deposit costs are expected to evolve within those expected rate sensitivity’s and whether deposit betas are expected to materially differ once you get to the further base rate increases? Thank you.

Francesca McDonagh: Thank you, John. I'll get Myles on the income guidance and rate sensitivity and I'll come back on distributions. Thanks.

Myles O'Grady: Hi John. So on income guidance, just to recap, we expect 2022 income to be in line with 2021. Interest income is expected to be broadly stable, I'll just give you some of the most material moving parts. We expect with the loss of the TLTRO income of €62 million, which we had the benefit in 2021, we won't have that in 2022. That is predominantly offset by a rise in interest rates from negative to zero. As I said earlier, movement in interest rates is a factor here. And, clearly, while emerging geopolitical concerns could result in rate uncertainty, overall, the direction of a rise in rate is a net positive for interest income. And we do set out on slide 19 the sensitivity for +25 basis points move in rates, which on an annualised basis will support income by €50 million in 2022. And then slide 38 in the appendices provides a further - I would describe as a simplified - sensitivity to a 1% movement in rates which would in a given year could improve income by €275 million.

Following the 15% increase in business income in 2021, we expect that to grow further in 2022, specifically from renewed economic activity supporting credit card and related fee income in Retail Ireland. And we also expect, as we have signalled previously, strong increases from our Wealth & Insurance business, particularly from our Life business. And just to remind everyone, that guidance on income excludes the benefit of the acquisitions, and in particular for 2022, the benefit of the Davy acquisition on business income.

And I should also comment on valuation items which we assume makes a zero contribution in 2022. The actual outturn for this will ultimately be driven by equity and bond markets impacting Wealth & Insurance and Group liquid assets. And if I think about what we've experienced so far in quarter one this year, we've seen some market volatility generate a level of negative valuations. Now, on the other hand, we see the increase in rate environment as also an opportunity to crystallise some gains on liquid assets.

And just to give you more detail on the interest rate sensitivity. So, in essence, we hedge all of our fixed rate asset exposure back to short-term interest rates and we're protected from longer term rate through our structural hedge programme. Now, we are exposed to ECB and BOE base rates; and particularly for euro, we have significantly more exposure to short-term flows in interest rate such as a EURIBOR. So, for example, that's the reason why we deployed negative interest rate to large deposits over the last couple of years, which you could view as an additional natural hedge to short-term interest rates. And, clearly, in a rising rate environment, our exposure to those short-term rates offers income upside, and we see that in the sensitivity we set out.

And in particular in relation to your question on deposit beta, that 1% interest rate sensitivity would assume a beta of 30-50%, in that region. And I would probably see that as being a relatively prudent assumption in the context of the analysis.

Thanks, John.

Francesca McDonagh: And John just to answer your question on distribution, let me give you a bit of colour on how we think about the prudent and progressive wording in our policy but also how we think about the future.

So, we are prudent. And I think in the context of investing 200 basis points in two acquisitions and proposing a 20-basis point distribution that is a reflection of prudence. That 200 basis point investment relates to two very significant transactions that will be materially beneficial to our business model and financial results. The progressiveness is the point of the fact that the €104 million is a starting point and we would expect distributions to grow.

And when we think about the future, and we've given our guidance about expecting to grow because it reflects confidence in our business performance, our improving RoTE trajectory, and organic capital generation. So when we sit down with the Board to talk about uses of capital, we want to get the right balance between future distributions and funding balance sheet growth and investing in our business. So future distributions will reflect: (1) improving RoTE trajectory in financial performance, and we've talked about our confidence on being on track to being in excess of 10%, plus the combined 1% accretion on a full-year basis from the two deals; (2), it reflects any evolving regulatory requirements, and Myles has spoken to that just now. And, third, it reflects our capital position. And, you know, even with our current business model, we generated 185 basis points of organic capital in 2021. So we feel positive about that, and all of which points to future distributions increasing.

John Cronin: Thanks very much, and best of luck, Myles, in the new position.

Myles O'Grady: Thanks a lot, John.

Operator: Thank you. Your next question comes from the line of Grace Dargan from Barclays. Please go ahead. Your line is open.

Grace Dargan (Barclays): Good morning. Thank you for taking my questions, and best of luck as well, Myles. So, a couple from me. So, firstly on Wealth & Insurance, we note the comments you've made so far, but maybe if you could add a little bit more colour on how you expect that division to evolve in 2022, including maybe any comments on AUM growth in particular, and also whether you'd be prepared to make any comments around IFRS 17 at this point.

And then, secondly, just coming back on rate sensitivity, particularly on the euro piece and thinking as rates rise to zero, how do you think about the dynamics there, including how do you think customers will react? Do you think they'll be comfortable still being charged at negative rates, even as rates are rising up to zero, for example? So how do you think about that interaction? Thank you.

Francesca McDonagh: Thank you, Grace. Thank you very much for the questions. I'll answer our ambitions for Wealth & Insurance, then Myles will cover IFRS 17 and then rate sensitivity. For Wealth and Insurance; we've made this part of our business a strategic priority for growth since we set our strategy in 2018, and we've executed against that strategy. We see AUM up more than 25% since 2018. It was 14% up year-on-year in 2021. We've seen a very strong rebound in sales volume in 2021, up 33% year-on-year. Still 15% above pre-pandemic levels, and in the year-to-date we've got off to a good start.

In terms of our outlook, I mean, we would expect our Wealth & Insurance business to grow organically, plus, obviously, the Davy acquisition will significantly strengthen and represent a step change in our Wealth & Insurance proposition. And our ability, subject to the final regulatory approval, to offer Davy's high-net-worth proposition to banking customers, and also their platform, Davy Select, to mass affluent customers, leads us to see real income synergies from that acquisition that will support further growth.

I would point you to the uniqueness of our position. So we are Ireland's only bancassurer. Our penetration of our eligible customer base is strong. It's 35%, and I see potential for that to increase. And our penetration of affluent and high-net-worth individual households is strong as well, and that's reflected in the sort of growth that we're sharing today. Our outlook for 2022 that we've given reflects a very positive Irish demographic of a young population that is very well employed, but there are pensions and savings gaps, and people are becoming increasingly aware of need to focus on Financial Wellbeing. And while we're still in a low-interest-rate environment, the opportunity to move deposits into some of our wealth solutions is very positive. We saw over €800 million of Life AUM inflows specifically from that source. And we're also seeing increased risk appetite post COVID as some of our customers are searching for high yields and returns; and all of that is supported by the digital investment we're making in Wealth & Insurance. But we're not giving a firm prediction on AUM growth; obviously, that reflects flows and market valuation, but we would see our Wealth & Insurance business as becoming a more significant part of our other business income in 2022 and beyond.

Myles O'Grady: Yeah. Thanks, Francesca, and, Grace, thank you also for those kind comments. Yeah, I mean, on the Wealth & Insurance, we've made consistently clear that Wealth & Insurance was one of the three pillars, in addition to cost reduction and loan asset growth, as being one of the pillars to get to that 10% sustainable return on equity. And, you know, we see that 24% growth in Wealth and Insurance in 2021 versus 2020. And in fact2021 numbers are now, you know, broadly back to 2019 pre-COVID levels, so that's very encouraging, and absolutely it's an area for growth in 2022, and that's before we have the benefit of the Davy acquisition.

You're right, on IFRS 17, I mean, I see it as an accounting standard which impacts the timing of profit recognition and doesn't change the economic value of our insurance business, or indeed the benefit of being the only bancassurer in Ireland. And, just as a reminder, the embedded value of our Wealth and Insurance business was 1.1 billion at the end of 2021. IFRS 17, as you know, will be introduced in 2023, so I'm not going to give you specific guidance on it today, but the Group will provide an update as part of the planned strategy refresh.

And your question on the euro rate environment and the interplay with deposit pricing and the application of negative rates – so we're – you know, the base case now is that ECB rates rise to zero over the course of 2022, and which would require – or at least, assuming 25bps increments, would require two moves by the ECB. Now, of course, recent events in-Ukraine, you know, may filter that down a little bit, and let's see how that plays out, but I would take you back to the sensitivity we provided on slide 19, where that 25-basis-point move this year, on an annualised basis on the euro component, would support income by about €40 million.

And to your substantive question on deposit rates, so we have applied negative rates to deposits of more than €1 million, which captures about €15 billion of deposits, supporting income by just over €70 million, and about €100 million on a run rate basis. Now, I would not announce any changes to the rate environment today, but we would expect that to prevail for much of 2022. Clearly, as the European rate environment evolves, we would then therefore consider the application of negative rates accordingly. Thanks, Grace.

Grace Dargan: Perfect. Thank you very much.

Operator: Thank you. Your next question comes from the line of Chris Cant from Autonomous. Please go ahead. Your line is open.

Chris Cant (Autonomous): Good morning, both. Thanks for taking my questions, and, Myles, if I could just echo the sentiments of others: good luck in your future endeavours. If I could ask, please, on Davy. So, there's not very much you can say about the competition review on the KBC deal, but with Davy you said it's been approved, so could you give us a bit more of a view on what impact you expect from that in 2022 – a sense of the sort of revenue and cost impact, and any kind of visibility you can give us on how that business performed in 2021 as a benchmark for that would be helpful?

And then secondly, Myles, you mentioned deposit beta future assumptions within your rate sensitivity disclosures, which you think is prudent. Obviously, you've got this kind of 15 billion at negative rates. If I think about your non-UK deposits, you've then got 60-odd billion at zero or above that are non-UK deposits. So are you expecting to pass through 30% 50% of the first hundred bps to those depositors as well, given the liquidity position on the balance sheet, and indeed within the Irish banking system as a whole? Obviously, they've been floored at zero; Euribor's been minus 50. It feels like quite a substantial pass-through of the rate rise, if it's – if we're talking about the first 100 basis points. If you could speak to that, please. That sort of comment surprised me a little bit, and I'm wondering whether that is part of the reason your rate sensitivity looks a bit light versus European banks who've talked more optimistically about the first hundred basis points. Thank you.

Francesca McDonagh: Okay. Thank you very much, Chris. I'll answer, so far as I can, about Davy, and then pass to Myles on deposits. So the Davy acquisition – well, first of all, we are very excited and look forward to welcoming Davy colleagues and customers to the Bank of Ireland group. We'd expect to do that, hopefully, in 2022. That is subject to the Central Bank of Ireland's approval. The CCPC, the Irish competition authority, has approved the transaction. In terms of the future of that, I mean, I – we will give more granularity in terms of our vision for how we integrate Davy into the group as part of our strategy refresh during the year, but obviously it adds a significant amount of AUM. I mean, you see that in the pack, and it's grown to €20 billion versus our €22.5 billion, and a market-leading proposition around wealth advisory, and it's also very complementary on the capital markets side to our corporate banking and markets business. So we see this very much as revenue-accretive and a real value-add to diversify income away from NII and to be market-leading in this space, but we'll give more information on that when we do our strategy refresh.

Over to Myles.

Myles O'Grady: Thank, Francesca. Hi, Chris, and thank you again for those comments. So just one comment, briefly, on – you reference negative rates, and I've given some information on that. Just to recap, the logic of applying those negative rates essentially is to offset our exposure to short-term rates as it's presented in the outcome on income from structural hedging and liquid assets. And there's a slide – 37 – give you some detail on that. And that application of negative rates has been largely successful to achieve that offset. Now, I do – I take your point on the interest-rate sensitivity. It's important to say that today, you know, I don't really want to be specific on customer pricing; that wouldn't be appropriate. But we have assumed, for the purposes of setting out what we would describe as an instantaneous and sustained 1% parallel movement in rates that impact of – if it's 1 basis point higher, a positive to income of €275 million. And I have said that the deposit base is between, you know, 30-50%. Now, in reality, we would need to think about in the moment, you know, when the – when that rate environment changes. So, I figured that guidance we've given is off a static balance sheet, and is really before management action to think about the precise impacts on the various customer cohorts. Sorry, I know that's a broad answer to their question. I know I haven't given you the precise component, but you'd appreciate not wanting to offer pricing guidance today.

Chris Cant: If I could – if I could possibly follow up on that and maybe come at it from a slightly different angle, then. I mean, if I think about the structure of your balance sheet, you have a loan-to-deposit ratio well below 100%. Where do you aim to get the group to from a loan-to-deposit ratio perspective over the next couple of years? Because I think you could probably still be quite comfortable from a liquidity perspective if the entire negative rates balance of €15 billion decided to go elsewhere because other European banks were offering slightly less negative rates, for instance. So where do you aim to get that loan-to-deposit ratio to from a group perspective by, say, 2023-2024?

Myles O'Grady: Yeah, thanks, Chris. So the dynamics of the Bank of Ireland balance sheet has been the build-up of liquidity. And we saw that in, you know, the average volume of liquid assets in the second half of last year was 46 billion. Now, that was heavily influenced by TLTRO. But even taking that aside, liquid assets are a large component of balance sheet. Now, actually, while that does represent a reduced amount for credit, in a rising rate environment, it's beneficial. That's the first point.

And to your more precise question, so firstly, in the Irish franchise, we are expecting to see – on the back of a stable balance sheet in 2021, we are expecting the Irish franchise to grow in 2022. That's driven by a couple of factors. One, on the mortgage side, a growing mortgage market to, say, €12 billion in 2022, possibly rising to €14-15 billion out over the further years. And also, on business banking – and, to be fair, we've kind of called this a couple of times where we – where we think sentiment from business customers will result in credit growth. We know Brexit had an impact. We know that the pandemic had an impact. But, again, we have reason to be – to be positive about that. And, of course, for that point, the execution of the KBC deal, which will bring both €9 billion of assets and €5 billion of deposits, grow our balance sheet, improve LDR, income and also suck up excess liquidity. So I think, on balance, you know, we expect the loan-to-deposit ratio to improve from our lending profile, and the liquid assets, by virtue of the rate environment, the return should enhance given the rate outlook.

Chris Cant: Okay. Thank you.

Myles O'Grady: Thank, Chris.

Operator: Thank you. As a reminder, if you'd like to ask a question today, please press star and one on your telephone keypad. Your next question comes from the line of Guy Stebbings, BNP. Please go ahead. Your line is open.

Guy Stebbings (Exane BNP Paribas): Hi. Morning, Francesca. Morning, Myles. Thanks for taking the questions. The first one was back on net interest income and the flat guidance. You talked about the TLTRO benefit falling out, then the benefit from rates hopefully coming through this year, but what are you assuming from a volume perspective? I mean, in the answer to Chris's question, it sounds like you're talking quite positively in terms of the mortgage market outlook and here structural changes in the market more broadly might help volumes, but any colour you can give on what volume expectations are predicated on that income guidance would be really helpful.

And also, associated with that, can I just double-check the comment you made around the benefit from rates assumed this year? Because obviously the timing of which we go to around zero is important. I think you said €40 million from the rate benefits of FY22. Is that – is that just euro short rates, or is that rate tailwinds more broadly?

And then the second question was on costs and just understanding the commentary around the slightly slower cost takeout in 2022 and then the step-up in 2023, on a – on a clean basis, at least. It's just around the comments on capturing the opportunities from the structural changes in the market. I guess we'll have to wait for the strategy update for what that might mean for top-line benefits, etc., but I would've thought that might be a multiyear process in terms of investment that would come alongside that; so any colour you can give around that would be useful just to help us feel comfortable that is a sort of a one-year impact. Thank you.

Francesca McDonagh: Sure. Thank you, Guy. I'll go to Myles on NII and rate benefits and I will come back to cost again.

Myles O'Grady: Yeah. Happy to. Good morning, Guy. So the assumption in the interest rate for the guidance is that the rate environment, based on what we know today, is expected to support income, I would say, in the region of between €50 and €60 million. And that's a combination of movements in euro rates, but also thinking about the UK rates as well, and indeed US, but the majority of that being in the euro space.

On volumes, so if I just unpick some of the moving parts. In the Retail Ireland franchise, it is the mortgage market growth, plus sentiment from our business banking customers, that will result in what I would describe as green shoots of balance sheet growth. And I call it green shoots because we do know that the level of liquidity in the system is still a factor impacting near-term growth, i.e., if a business wants to invest, there are cash reserves they can deploy in the first instance. But nonetheless, we do expect green shoots in 2022. On the corporate side, I mean, that was a very good contributor to balance sheet in 2021, and we expect that to feature again in 2022.

And the other part of our business, in the UK, in line with strategy we expect that balance sheet to continue to deleverage. But what's really important here – and it's not an exact science in a given year, but over a number of years, the dynamics are that, as the balance sheet falls, we write business at a higher margin, have a lower funding cost and a more operating model. And just to bring that to life, you know, we know that of the UK net interest margin in 2021 of 1.97%, up 24 basis points, about 16 of that was from better margins, particularly from our Bespoke business, but also lower funding costs by 10 basis points. So that interplay of higher margin, lower funding cost and the smaller balance sheet will play out. So I haven't given you, you know, the precise volume number, but hopefully I've given you the moving parts to get a good sense of it.

Francesca McDonagh: Yeah, Guy, on costs, so if we just take a step back, I mean, we set a €1.5 billion target. It was in the context of longer-term cost journey from the €1.9 billion cost base that we would've had back in 2017. So that's about a €400 million net reduction, probably closer to €600 million in gross terms. And, as of now, we are over 60% of the way there, and we're confident that, by the end of 2023, we would have achieved the vast majority of that cost. So we'll be in and around the €1.5 billion number on an underlying like-for-like basis. I think the reality is that we have two banks who've announced their departure from Ireland, and you will – we will see circa 1 million personal and business current account customers looking for a new home. And we're already seeing that, particularly in the case of Ulster Bank, and we want to capture that business. So we don't want to lose sight of growth opportunities, and that very strong track record in managing our cost gives us some capacity to invest in profitable growth. So, if we don't land precisely on the €1.5 billion number, that's because of deliberate decisions that we're taking to invest some of those growth savings back into growth opportunities, and we would expect most of that to be happening during the course of 2022 and be back on to a more regular cost reduction trajectory in 2023.

Guy Stebbings: Okay. Thank you. That's helpful.

Francesca McDonagh: Thanks.

Operator: Thank you. Your next question comes from the line of Diarmaid Sheridan from Davy. Please go ahead. Your line is open.

Diarmaid Sheridan (Davy): Hi again. Just a question on the UK, if I may. Just looking to – you know, clearly, you're flagging further deleveraging in 2022, but looking beyond that, I suppose, how should we think about the growth of that business, you know, once that's happened? Clearly the division has seen quite a substantial turnaround in recent years, so, you know, I suppose just how should we think about that in a – maybe a more longer-term picture? Thank you.

Francesca McDonagh: Thanks, Diarmaid. So, I mean, 2021's been an outstanding year for our Retail UK business, which reflects strong performance by the team, which I'm very pleased about, and also the actions that we've taken over the last two years to improve returns. It's also helped by a supportive market backdrop as well. In terms of our net lending balance, though, that reduced £2.6 billion year-on-year to 2022 billion, very much in line with the guidance that we provided previously. We would expect further reduction of around a similar amount – around 11% – in 2022. And that's as result of just the focus on lending value over volume. We're less focused on the hyper-competitive re-mortgage market, more focused on more niche lending, particularly in our Bespoke offering, which has been very successful and is – has now increased to a 25% percentage of our new mortgage origination, and also focused and disciplined lending in car financing and personal lending.

You know, when we step back, the UK – we always wanted the UK to be a more positive contributor. We use RoTE contribution as our North Star. What we have now is a very different business to four years ago. Its multi-niche, it's got its Bespoke offering, it's got industry recognition. We've reduced our funding, including with the Post Office, by about a third since 2019. We've got a new mortgage platform, recommitted to Northern Ireland, taken a lot of cost out, and we now see the UK as very much a positive overall contributor to group RoTE, which we're satisfied with. We'll talk more about how we see our future strategy and medium-term targets when we meet for our strategy refresh in the year.

Diarmaid Sheridan: Great. Thank you.

Francesca McDonagh: Thank you.

Operator: Thank you. As a reminder, if you'd like to ask a question, please press star and one on your telephone keypad. Your next question comes from John Cronin from Goodbody. Please go ahead. Your line is open.

John Cronin: Hi again, and thanks for taking a further question – well, two actually, and they should be pretty quick. One is on Stage 2 residential mortgages in the UK. Can you just talk through why there was a €400 million uplift in stage 2 loans there? And then, secondly, is there any update, or is there – I guess, is there – is an appointment of a CFO imminent, given, Myles, you're leaving in March? Thank you.

Francesca McDonagh: Okay. I'll have to answer the second one. It'll be – Myles is with us until the end of March. We would hope to be able to make an announcement soon. We are in a regulatory approval process, but I feel pretty positive about that.

Myles O'Grady: And in the meantime…

Francesca McDonagh: In the meantime, back to you on Stage 2 lending in the UK.

Myles O'Grady: So, overall, so, John, I did say, the increase in the mortgage Stage 2 is the application of LGD floor is just the main point. That doesn't really reflect any deterioration in the underlying quality of the book, but we have taken the opportunity to provide floors on LGDs, not just for UK mortgages but also for Irish ones. Thanks, John.

John Cronin: Okay. Thank you.

Operator: Thank you. I will now hand the call back for any closing remarks.

Francesca McDonagh: Okay. Well, I just want to say thank you to everyone for your questions and your time. We look forward to meeting some of you face to face when we're out and about. I reiterate the very good comments – positive comments about Myles, still here until 31st March, and thanks for your support and time. Thank you very much, everyone.

Myles O'Grady: Thanks a lot. Take care. Bye.

Operator: Thank you. That does conclude today's conference call. Thank you for participating. You may all disconnect.

[END OF TRANSCRIPT]