Bank of Ireland Full Year Results Presentation

Tuesday, 7th March 2023

FY Performance

Myles O'Grady

Group CEO, Bank of Ireland

Welcome

Good morning from Dublin. We're joined today by analysts, investors and colleagues from across our international footprint. Wherever you're joining from, you're all very welcome.

This is my first presentation as Group CEO. I'm honoured and enthused with the opportunity to lead this great organisation. I'd like to acknowledge the sterling work of Francesca. As many of you know, I'm not new to Bank of Ireland. And I'm proud to see that the decisions we've taken in recent years have delivered an excellent performance in 2022. That is particularly evident in our strong and growing organic capital generation, which gives us a great place to build from.

In 2018, we set out an ambition to be the National Champion Bank with complementary international businesses. And while we're never complacent, we've made enormous strides. Our sharpened purpose is to help customers, colleagues, shareholders and society to thrive. We'll show you very shortly how we put that purpose into action through our refreshed strategy and updated targets.

First let's look at our full year results.

Strong strategic progress and financial performance in 2022

We had an excellent performance in 2022. That includes on ROTE, income, costs and NPEs. Our underlying PBT was €1.2 billion. We also made two transformational acquisitions, and welcomed 440,000 new customers to the Group, an 11% increase. That contributed to strong growth in customer balances. And on top of that, we returned to full private ownership. All of this feeds into our refreshed targets to 2025. And Mark will take us through the detail of these.

But in summary, this is a business with the capacity to deliver returns of around 15%; efficiency through a sub-50% cost/income ratio; a dividend payout ratio [building] to 40% by 2024 and, in addition, the potential to return surplus capital annually.

Today, I'm pleased to announce a distribution of €350 million through a mixture of dividends and buy-backs. That's more than three times last year's distribution.

Key business line highlights

2022 was also a year of strong business performance. Here in Ireland, we increased our mortgage lending by 64%. We acquired Davy. We bank almost two in three companies establishing in Ireland. And we had net lending growth in Business Banking for the first time in more than a decade. In the UK, we continued to deliver our successful strategy of prioritising value over volume.

Delivering improvements for our customers

2022 was a year of strong customer performance. The investments we have been making are bearing fruit in two core ways. How we serve our customers is changing. 85% of new

Classified as Public (Green)

mortgages are managed digitally. And satisfaction is at its highest ever level with customer NPS up 10 points year-on-year.

Significant progress on our ESG strategy

ESG is at the centre of all of this, and we've made a real step forward last year. We were the first Irish bank to have our Science Based Targets externally validated. And at the same time, we grew our green lending. Sustainability-related finance is now €8 billion.

Financial Wellbeing is at the heart of customer interactions, and we continue to make Bank of Ireland a better place for our colleagues, with engagement and culture improving. These are meaningful interventions that make a real difference.

Strong track record of delivery through 2018-22 cycle

So 2022 caps out four years of delivery by the team here at Bank of Ireland. This was very obviously through a period of uncertainty with Brexit, the pandemic, and negative interest rates top of mind. Our response was to control the controllables. That allowed us to hit our ROTE targets with 10.6% achieved in 2022, and exceed our cost and capital targets.

And it's not just about the financials. Our customer scorecard is good. And we've transformed what it's like to work here. All of these things are important for the long-term sustainability of our business. Mark will now take you through our financial performance in more detail.

FY22 Financials

Mark Spain

Group CFO, Bank of Ireland

FY 2022 financial summary

Thank you, Myles, and good morning, everyone. As Myles set out, we've had an excellent performance in 2022, with our strategic actions of recent years bearing fruit. We drove net lending growth in our Irish mortgage and SME books of €1 billion, an important moment for the Group. We maintained our cost discipline with like-for-like costs down. We delivered on our ROTE ambition with ROTE of 10.6%, equivalent to a return on CET1 of 12.4%. And as Myles mentioned, we propose to more than treble distributions.

Strong financial performance in 2022

Slide 16 sets out our Income Statement and key performance metrics. I'd like to highlight two things. Firstly, the 15% improvement in pre-impairment operating profit. This reflects our operating leverage, business momentum and the benefit of higher interest rates.

Secondly, we have updated our ROTE basis of calculation to be more conservative. We now deduct non-core costs.

Net interest income 12% higher

Next, we provide further information on our net interest income. Our strong growth is driven by deposit and lending growth in Ireland, reflecting our strategic actions; our successful UK strategy; and, of course, higher interest rates. This is partially offset by higher wholesale funding costs.

Classified as Public (Green)

We have maintained our commercial discipline on both asset and liability pricing. This can be seen from our increased loan asset and liquid asset spreads. There has, of course, been a huge change in the interest rate environment over the last number of months. It continues to be volatile. To help you think about 2023, we have disclosed our Q4 annualised NII, which is about €3 billion.

Looking ahead, we see 2023 NII more than 12% higher than this figure.

Net interest income resilience from structural hedge

We increased the size of our structural hedge to €60 billion last year and locked in value. This was predominantly in the second half of the year. The average yield on the structural hedge was 45 basis points in 2022, but this will materially increase as the hedge rolls over. As a consequence of the increased hedging, our NII sensitivity has reduced relative to the half year. And overall, our actions have improved the resilience of our net interest income.

Net lending of €1.6bn in Retail Ireland and Corporate

Slide 19 details our lending. As I mentioned earlier, we saw net loan book growth in Irish mortgages and SMEs of €1 billion. This is the highest level for more than a decade. And this momentum gives us confidence as we look into 2023 when we expect to see stronger net lending, particularly in mortgages.

In the UK, deleveraging was in-line with our value over volume strategy with the benefits of that contributing to the higher net interest income I referenced earlier.

In 2023, we expect deleveraging to moderate with the pace reflecting ongoing pricing discipline and market dynamics.

Business income +27% (+15% ex Davy)

On slide 20, we show strong growth in business income in 2022. This was assisted by the inclusion of seven months' revenue from Davy. Excluding that, business income was up 15%. The outcome was higher than 2019 levels, which I suggested at our interim results would be a good performance.

Our Wealth & Insurance business did well in difficult market circumstances. Recruitment of new customers from exiting banks and higher activity generally drove a meaningful uplift in business income in Retail Ireland.

In the UK the outturn is a function of our commission-sharing agreement with benefits reflected in net interest income. And our FRES JV benefited from the recovery in international travel.

Looking ahead to 2023, the introduction of IFRS 17 is the reason why we expect a high single-digit contraction in reported business income. Adjusting for this, we expect business income to increase supported by growth in Wealth, Retail Ireland and the benefit of a full year of Davy.

Like-for-like expenses below FY21

One of our key priorities over the last number of years has been clear cost discipline. As we are setting out today, we have maintained that cost discipline. Despite inflationary pressures, we reduced like-for-like costs last year. Reported costs of €1,746 million reflect the

Classified as Public (Green)

acquisition of Davy and a €28 million investment to attract and on-board customers from the exiting banks.

This €28 million investment has delivered magnificently for us. We attracted €7 billion of deposits and current accounts with annualised fee income benefits of more than €20 million in addition.

In 2023, we see mid-single digit percentage cost growth compared to 2022 reported costs.

There are a number of moving parts here, and I'd like to highlight the following. Keeping with our cost discipline, like-for-like expenses will be broadly in-line with 2022 levels. The completion of the KBC portfolios will add about €25 million to our cost base. We have allowed for the lifting of variable pay restrictions with any payment performance related. And we see further opportunities to realise efficiencies beyond prior plans and have allowed for an investment to support these.

Our cost guidance for 2023 factors in all of these moving parts.

Non-core items

Non-core items in 2022 primarily comprise three elements: Transformation, mainly in the UK; acquisition costs; and the conclusion of the Tracker Mortgage Examination. In 2023, we expect to see lower non-core costs.

FY22 net impairment charge of €187m or 25bps

There are two key moving parts in our impairment charge. Firstly, our IFRS 9 models had a net charge of €137 million, mainly due to our prudent macroeconomic assumptions. This was largely offset by PMA releases.

Secondly, our loss experience and portfolio activity resulted in a gross charge of €214 million. This was incurred evenly over the year and was partially offset by some recoveries. Pulling all that together, we have an overall net impairment charge of 25 basis points. For 2023, subject to no material change in the economic conditions or outlook, we expect a charge in the mid-30s basis points.

Significant reduction in NPEs

Our next slide sets out our NPE walk and staging overview. We made material progress in reducing our NPE stock last year through a combination of work-outs and disposals. This significantly de-risks the balance sheet.

Our impairment coverage is strong. Indeed, our coverage ratio remains higher than it was pre-COVID-19 even though our NPE stock has meaningfully reduced since then.

Strong capital generation supports material step up in distributions

We delivered a strong capital performance in 2022 with 135 basis points [of] capital generation. There was a step up in H2, which we expect to continue in 2023. We invested capital in acquiring Davy and in supporting growth in our loan books. And we are proposing total distributions of €350 million, more than treble last year's level.

We are proposing to pay an ordinary dividend of €0.21 a share. And, subject to approval, we also intend to distribute an additional €125 million via share buybacks.

Classified as Public (Green)

We've updated our CET1 guidance to be in excess of 14%. This reflects updated management consideration as the Group embarks on a new strategic cycle with an updated distribution policy.

2023 guidance

Slide 26 summarises our 2023 financial guidance which I've set out earlier. When I bring all of this together, we expect organic capital generation to materially increase as we go forwards. And this supports our ambition to deliver attractive returns to our shareholders.

We're now going to turn to our refreshed strategy for 2025. Before I hand back to Myles, we're going to show a short video.

[Video]

Strategy Update

Myles O'Grady

Group CEO, Bank of Ireland

Unique opportunity – Highly attractive markets, differentiated model

Welcome back. What we saw during that short video was the story of a successful bank in a successful economy. The strategy we are setting out today builds on being the National Champion Bank. And it presents a value creation opportunity, one that optimises the real potential of Bank of Ireland.

This is a simple equity story encompassing the strength and depth of the Irish franchise, the nature of the Irish economy and supporting demographics, complementary international businesses, revenue growth from balance sheet growth and interest rates, and more efficiency from our operating model. All of this delivers a business model with significant capital generation capability which can support strong distributions for shareholders.

We have a unique opportunity in the years ahead. That opportunity is built on two interconnected elements: highly attractive markets and our differentiated business model.

Highly attractive market and demographics

First off, Ireland is a highly attractive market. It has been the fastest growing economy in the EU for a number of years, which is likely to continue. Ireland also has a young population with 33% of the population less than 25 years old, and we have a strong savings culture. This supports the resilience of the economy. And it points to a greater need for wealth management into the future.

On top of this, the Irish market has consolidated, growing our deposits base and lending books. And, of course, we're never complacent about the risks like Brexit, the war in Ukraine or inflation. We remain vigilant to these risks and understand our role in mitigating them.

Differentiated business model is increasing value creation

The second interconnected element is our differentiated business model. Put simply, we are unique amongst Irish banks and financial services providers. We have Ireland's most compelling wealth, insurance and banking business model. This means we have the

Classified as Public (Green)

opportunity to serve our customers' financial needs at every stage of their lives and for their entire lives.

We complement this model with our successful UK and International businesses and we have a strong financial profile.

Purposeful and sustainable growth for our stakeholders

Looking to the period ahead, our strategy is all about making the most of the attractive market and our differentiated business model. And it builds on our track record. For that reason, I think of this as a natural evolution with three pillars: Stronger relationships; Simpler business; and Sustainable company. These pillars underpin our purpose, which is to help our customers, colleagues, shareholders and society to thrive.

Strategic pillars to deliver 2025 outcomes

Under the Stronger relationships pillar, our aim is to establish mutually value-adding customer relationships. We will do this by meeting more of our customers' needs more easily. We'll make ongoing investments in technology, and this will help grow customer satisfaction. We'll also drive forward with a needs-based approach, which gives us the opportunity to increase product holdings.

Turning to the next pillar, Simpler business, I want to make the day-to-day operation of Bank of Ireland and how we work with customers and colleagues much, much simpler; better for customers, better for colleagues, supporting efficiency and the cost-income ratio of less than 50%.

The third pillar is Sustainable company. This includes playing our part in addressing some of the big challenges our customers, colleagues and wider society face. And, as we deliver for these important stakeholders, we'll also deliver for shareholders through improved financial returns, back to that target of a 15% ROTE.

So, how do we get there? Some core parts of our business are going to be central to delivering this strategy, and I'll briefly double-click on each of these.

Irish Residential Mortgages – Capture Value in a Growing Market

First up, Irish Mortgages. Our starting position is strong. We have a market share in H2 last year of 31% and are number one for green mortgages. We're going to further improve our platform and service. This will enhance customer experience and efficiency, both of which protect the franchise.

Bank of Ireland has a longstanding record of maintaining risk and commercial discipline; it is part of our DNA and will continue to serve us well. With this backdrop, our expectation is for a growing share of a growing market.

Everyday Banking – Protect and Grow Relationship Value

In Everyday Banking, we have a growing deposit and customer account base. This franchise is especially valuable given the current rate environment and in the context of 49% growth in Irish household deposits since 2017. More than one in three Irish consumers and businesses bank with us.

We're setting out to enhance the customer experience and increase product holdings. As a bancassurer, we helpfully offer life and home protection products for our mortgage

Classified as Public (Green)

customers. Deepening customer relationships offers opportunities for cards, insurance and wealth products, all of which translates into growing customer relationships and income.

Wealth & Insurance – Market Leadership Via Clear Brand Propositions

In Wealth & Insurance, we have a unique offering in a market with very attractive demographics. We are Ireland's only bancassurer. Our New Ireland Assurance subsidiary is a mature business established over a century ago. It has an embedded value of €1.2 billion, with strong investment outcomes for our customers, comparing favourably with other market participants.

Combined with Davy, we cover the full spectrum of life, protection and wealth, and, of course, we retain 100% of the economics, with both businesses wholly owned and integrated. When you look at the market dynamics, this is a compelling position to be in. Today, we have 650,000 customers across our wealth and insurance businesses. However, one in three Irish workers is still without a private pension, and we have seen substantial growth in deposits in recent years. So, this is a business we will grow. Our objective is to grow AUM by between 5% and 10% per annum.

Business and Corporate – Serving Simple and Complex Customer Needs

Turning to slide 37. Our ambition is to maintain our strong position in Business and Corporate lending in Ireland. We have a 300,000-strong active customer base. For the years ahead, progressive technology combined with our great relationship model will help us even better meet customer needs, and we see a significant opportunity in sustainable financing and advisory.

I want to comment briefly on our international corporate business, which has been a source of balance sheet growth. We saw the value of this during COVID-19 and Brexit, when domestic demand for credit was muted. The international book will continue to be a big contributor to the Group's performance, mindful current global uncertainties drive a sustain and maintain approach.

Retail UK – Continuing to Deliver Returns Through Niche Strategy

Our UK business is a very important contributor to the Group as well. Here, we will continue our approach of delivering returns through a niche strategy. This has transformed the business. We have almost trebled our underlying PBT in the UK since 2017, while, at the same time, reducing our lending assets by about a quarter. We will continue our niche strategy for mortgages, expand our car finance distribution and support this with further investments in technology, an example being systems to support the car dealer network. And we will also seek to improve our customer proposition in Northern Ireland.

Practical, Meaningful ESG Interventions

In all of this, our Environmental, Social and Governance ambitions are at the centre of our strategy. ESG is integral to how I view the most sustainable way we can provide long term for our stakeholders. We've made some significant progress here already, but there is much, much more to go for. By 2025, our ambition is to have around €15 billion of green lending with our customers. We're also on track for net zero in our own operations by 2030.

Tackling the climate crisis takes deeds, not words. So, at Bank of Ireland, we want to offer our customers practical support to reduce their carbon consumption. Along with the E, the S

Classified as Public (Green)

and the G are important to us as we think about our future business. Under Social, we are proud of our position as Ireland's number one bank for Financial Wellbeing. We're determined to hardwire Financial Wellbeing into how we think about our customers' needs.

We've also put inclusion at the centre of our strategy. We're delivering positive change in culture and we've made progress on diversity, with more to do. And in governance, ESG is now mainstreamed into our Group's performance management system. This puts it on every colleague's 'to do' list.

Key Outcomes for our Stakeholders by 2025

Through all of these actions, I am confident that Bank of Ireland will be better for customers, colleagues, shareholders and society by 2025. This is supported by our recently announced approach to both variable pay and more family-friendly policies. For customers, we're targeting outcomes to improve relationship scores and meet more of their financial needs. This ensures alignment with continued delivery for shareholders, which is a nice link back to Mark, who will take you through our medium-term financial targets.

Medium-Term Financial Targets

Mark Spain

Group Chief Financial Officer, Bank of Ireland

Financial Targets – Step-Change in Returns and Distributions

Thanks Myles. Our key financial targets are founded on the strategic actions we've already taken over the past number of years, together with those contained in our strategic plan. These targets apply for each of 2023, 2024 and 2025. As Myles has said, we intend to deliver annual ROTE of about 15% each year.

2023 is anticipated to be stronger, based on our interest rate assumptions. Growth in income, and our focus on efficiencies, will lead to a sub-50% cost-income ratio. And, on distributions, we intend to build to a payout ratio of around 40% of statutory profits by 2024. Our formal policy of 40-60% provides the Group with further flexibility. In addition, we will consider distribution of surplus capital on an annual basis.

Financial Targets Based on Prudent Economic Assumptions

Slide 44 shows the macroeconomic forecasts underpinning our plan. We have set the forecasts at the cautious end of the spectrum. For example, our plan assumes flat Irish house prices for 2023 and 2024, which compares to market expectations of high single-digit percentage growth over that period. However, we believe that caution is appropriate given the current uncertain external environment. A key assumption is the level of interest rates, where we have factored in declines from 2024 on. However, the market has been volatile and current expectations are for materially higher interest rates. This would be a net positive for the Group.

Sustainable Reduction in Cost to Income Ratio (CIR)

Slide 45 sets out the key drivers of the reduction in our cost-income ratio between 2022 and 2025. As I mentioned earlier, the target applies in each year. Net interest income growth is the most important factor, with strategic actions to grow mortgage and deposit volumes in

Classified as Public (Green)

Ireland, the acquisition of KBC and the higher rates all supportive. This is offset by higher liability costs.

On business income, as Myles referred to earlier, we see Wealth and our Irish Retail franchise as the key growth drivers, reflecting the quality of our franchise, with IFRS 17 an offset.

On costs, the factors are similar to those I spoke about earlier when giving 2023 guidance. Inflation and investment are the key impacts, with existing and new efficiency initiatives and IFRS 17 being the key offsets. Combined, we see these factors sustainably reducing our cost income ratio below 50% over the plan.

Value drivers delivering ROTE target of c.15%

On ROTE, higher pre-impairment operating profit, reflecting the factors I have just spoken to, will be the key driver of the increase over the period to 2025. Other factors will be RWA investment, supporting loan growth and the KBC acquisition, and more normalised impairment charges, which we expect to be at similar levels to 2023.

Reflecting on all of this, we are confident in our ability to generate ROTE of c.15% over the period. This is a material step up on 2022 levels.

Highly capital generative business supports attractive distributions

Slide 47 set outs how we think about capital over the life of the strategic plan. We expect to generate significant capital over the planning period. If I translate our 2023 guidance into capital terms, we could see our organic capital generation being double last year's 135 basis points.

We will invest some of that in growing our loan books and KBC, investing for the future, and on dividends.

Having allowed for these items, we believe there will still be a meaningful surplus over our capital guidance of >14%, and we will consider further distributions of this surplus capital on an annual basis.

I will now hand over to Myles for our concluding remarks.

Concluding Remarks

Myles O'Grady

CEO

Unique opportunity as the National Champion Bank

Thank you, Mark. No doubt you're keen to move to questions, we'll crack on and move there quickly. But first, let me briefly recap.

We have a track record of delivery. And this gives us a great place to build from.

We are heavily invested in, and excited by, the refreshed strategy we've set out today.

Our National Champion franchise in Ireland is strong and deep.

Classified as Public (Green)

Each of our two acquisitions are standout in their own right and truly transformational when combined.

The economy and demographics are supportive, there are very strong macro tailwinds and efficiency is central to what we do.

All of this translates to great, and growing, returns, and distributions.

Our purpose is to help customers, colleagues, shareholders, and society to thrive. Each group is front and centre in our strategy: our 4 million customers; our 10,000 colleagues, who I especially want to thank this morning; our more than 80,000 shareholders; and with a history and heritage spanning more than two centuries, our ambition is to make a positive contribution to society.

Thank you for your time so far this morning.

Q&A

Operator: Thank you. To ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. We will now go to our first question. One moment please. And your first question comes from the line of Diarmaid Sheridan from Davy. Please go ahead, your line is open.

Diarmaid Sheridan (Davy): Good morning, Myles, good morning Mark. Thank you for the presentation and taking my questions. Three questions if I may. Firstly, on capital generation. Mark, during the presentation you referenced the level of capital generation in 2023 is expected to be two times that of 2022 and you plan to build to a 40% payout ratio. Do you believe you could get to the 40% payout ratio in 2023 and should distributions not be materially higher than 40%, given the strong capital starting position and capital generation that you outlined?

Second question is on ROTE and specifically the c.15% target. Your plan includes interest rates rolling over with 100 basis points reduction equating to circa €300 million on the euro side. Therefore, is it fair to assume that the ROTE could be potentially a good bit higher than 15% in 2023?

And finally, third question, on costs please. Just based on my numbers you look to be quite a bit below 50% cost-income ratio in 2023. For 2023 you forecast mid-single digit percentage higher costs versus 2022. Do you forecast similar growth in 2024 and 2025? Thank you.

Myles O'Grady: Diarmaid, good morning and thank you very much indeed for your questions. I'll take the capital generation question. I'll also comment on the ROTE target more broadly, then I'll ask Mark to comment on interest rates and also costs.

So, on capital generation, Diarmaid, yes, we're targeting a return on tangible equity in the region of 15% and of course that's not a destination target, that's for each year of the three years to 2025. And underpinning that is the business model's ability to generate organic capital in excess of 250 basis points each year. And in that context, we have set out an updated distribution policy that includes achieving a 40% payout, that's a cash payout by 2024. But of course, on top of that, when I relate that back and when you do the maths, with

Classified as Public (Green)

that level of capital generation it's likely that our capital position will be very comfortably in excess of 14%. And in that regard, the policy, and what we've announced today, is a return of surplus capital by way of buyback. That's a firm commitment by the Group which we will consider on an annual basis.

I'll just comment briefly on the costs more broadly, Diarmaid. So, Bank of Ireland has a very strong track record of cost discipline. We surpassed our original cost target of €1.7 billion and we took out €250 million of costs over the last number of years. That equates to a 14% reduction. And as we look to the future, we are entering a growth phase, so there is an appropriate opportunity to invest. There is inflation as well. But underpinning all of that is the Group's firm commitment to maintain efficiency across our business platform and maintain that operating efficiency.

Mark, just to you on interest rates and also costs. Thank you.

Mark Spain: Yeah, great. And thanks Myles. Morning Diarmaid. Good to talk to you. And maybe just on the ROTE first then. So Diarmaid, as Myles said, the targets apply to each year, and that's really a reflection of our confidence in the prospects, our conviction in the business model. And as I called out in my presentation, our current assessment is that 2023 would be a little bit stronger than that. As we think about ROTE over the period, there are a couple of things maybe just to think about.

So one is those rate assumptions. So our assumptions are that the key ECB deposit rate gets to 3% in 2023 and then falls to 2.75% in 2024 and 2.5% in 2025. We've provided an illustrative interest rate sensitivity on that as part of our disclosures, so we can come and talk about that. Obviously, clearly current market rates are materially higher than that.

I think the other factors that you should think about are the business momentum, and we've talked about the momentum we've had in 2022, both on the asset side and on the liability side, and also through our wealth and our fee income businesses going forward as well.

RWA investment will be a piece over the period as well, we've got KBC coming on board in 2023. We expect loan growth. We have to think about op-risk for RWA as part of that. And finally there is some cost inflation and investment as well.

But all of those put together give us confidence in the c.15% over the period and with 2023 being a little bit stronger.

And just on costs then Diarmaid, maybe a couple of things on the costs. So, the cost-income ratio, that target of being less than 50%, that is a ceiling. We're very, very comfortable with that and we're obviously driving to get below that. We're not setting a floor on that, the 50% is very much a ceiling in that regard.

And there are some maybe specific pieces as you're thinking about 2023 into 2024 and 2025, there are some specific pieces in 2023 which I wouldn't extrapolate to future years. So for example you've got KBC, those portfolios coming on board in Q1, so there's an uplift in costs associated with those, as we've previously guided. We've also allowed for the lifting of variable pay restrictions, which is a real positive for the Group and removes some risks.

Myles O'Grady: Okay, thank you.

Diarmaid Sheridan: Thank you.

Classified as Public (Green)

Myles O'Grady: Thank you very much Diarmaid for that.

Operator: Thank you. We will now go to our next question. One moment, please. And the next question comes from the line of Grace Dargan from Barclays. Please go ahead please, your line is open.

Grace Dargan (Barclays): Hi, morning, thank you very much for taking my questions. A couple from me then. On your NII guidance and assumptions, it would be really interesting to hear kind of the key assumptions underpinning that. Your assumptions, for example, around deposit pass-through and mortgage spreads. I know you kind of call out the asset spread but thinking about mortgage pricing in particular and spreads there in Ireland.

And then secondly around distributions, how should we be thinking about the excess distribution each year in the context of that new CET1 target? And I guess what factors will you be considering regarding the magnitude of that surplus return? Thank you.

Myles O'Grady: Grace, thank you very much for that and good morning. Let me take the distribution question first of all, I'll also comment on net interest income, and then Mark, please feel free to comment on that as well.

Regarding distributions again, so just to recap on the comments from earlier, with an ability to generate organic capital in excess of 250 basis points, we're highly confident that our capital position is going to be comfortably above that 14% CET1 target. And therefore, that's why we're committing to the return of surplus capital. Now, we want to consider that on an annual basis, it's a firm commitment to do that and that's all around, at that point in time, we'll think about whatever the opportunities may be in the marketplace. We'll have an eye, certainly, on the risks that may relate at a point in time. But overall, the main message to share, Grace, is that we expect to be comfortably above 14% and the return of surplus capital by way of buyback is a firm part of our distribution policy.

Now, in relation to your comment on net interest income, I mean as a kind of broad response to that question, we're at a very strong position in the context of our balance sheet in particular. So I look at our mortgage portfolio with the addition of KBC in Ireland, we've got a €30 billion mortgage book. That is more than 70% in the fixed rate component. That means there's a lot of protection for customers, there's also a lot of protection for the Group as well.

And in relation to deposits, that's been a very strong part of our balance sheet. We grew deposits by €11 billion last year. That's an 18% increase and I expect deposits to grow over the life of our strategic period broadly in line with the economy.

So with that as a backdrop, you're aware we recently announced an increase in deposit rates, the 50-basis point increase. And certainly, we'll keep that under review as the rate environment unfolds. Mark?

Mark Spain: Yes, thanks Myles. Maybe just to add on net interest income, Grace. So just as we're thinking about 2023 in particular, we provided our Q4 annualised run rate of c.€3 billion. That's one key input.

A second is KBC coming on board in February. So we've previously disclosed an annualised benefit there of €150 million. So that's a factor. We've got that business momentum, as Myles said, both on the lending side, we see real strong momentum in our Irish mortgage business.

Classified as Public (Green)

We finished last year very strongly, and we've got a good pipeline coming into this year. And then that deposit momentum as well.

And again, those key interest rate assumptions then, to go back to those, in terms of 2023. So our assumption is that the ECB moves to 3% in March and remains there for the rest of the year. The market obviously is projecting something quite a bit different than that at the moment. That will be certainly a positive and a net positive for the Group. We've given an NII sensitivity as part of the disclosures to help you with that.

Grace Dargan: Perfect, thank you. Maybe if I could just follow up. I guess maybe within the NII, are you assuming any widening of spreads, either on the asset or liability side?

Myles O'Grady: Thanks Grace. Mark?

Mark Spain: Yes. So, Grace, what I would say there is I'd look to maybe 2022 on that and if you look at our loan asset and liquid asset spreads in 2022, you'll see both of those have widened over the course of the last year, reflecting movements in both obviously the asset and liability side of the balance sheet. So I think we've spoken previously and regularly about commercial discipline being a key part of our DNA, and that'll certainly remain part of our DNA going forward.

Grace Dargan: Perfect. Thank you very much.

Myles O'Grady: Thank you Grace.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Sanjena Dadawala from UBS. Please go ahead, your line is open.

Sanjena Dadawala (UBS): Good morning, thank you for taking my questions. I have two, please. The first one, if you could give a bit more detail on your expectations for movement of deposits during 2023, both Retail and Corporate, and then the mix change towards term deposits within those and how we expect those to impact your guidance.

And then perhaps if you could talk about your expectations from the hedge in 2023. The size, income contribution, anything else. Thank you.

Myles O'Grady: Okay Sanjena, thank you very much for those questions, and I'll comment on the deposit profile first of all and then Mark, please, on the hedge question as well. So, back to kind of recap from my point from earlier. Very strong position on deposits. We expect deposits to grow over the life of our strategic period broadly in line with the economy and that of course includes 2023 as well. And of course, in the context of the interest rate environment and as we reward deposit holders more, we can expect customer behaviour to certainly take some of the deposits from demand into term. That will be a feature of the profile. Mark?

Mark Spain: Yeah, absolutely, and Myles maybe just on the structural hedge then. So, we have – we've got a very passive strategy there. So we're hedging our free funds, about one seventh of that rolls over each year. We have seen a step up in that in H2. That's reflecting deposits coming off negative interest rates, also reflecting that €11 billion deposit growth that Myles referred to earlier as well. We've also made a conscious decision to add a portion of demand deposits to our hedge in the second half of the year as well, which really is just bringing us into line with peers.

Classified as Public (Green)

To your question then in terms of the expectations on that going forwards, I'd say it's more mechanical from here in terms of it'll reflect that growth on the liability side of the balance sheet. I'd point out that the average gross yield on the hedge was 45 basis points in 2022, but we'd expect that obviously to materially tick up as the hedge rolls over.

And you know, finally I'd say the hedge, what that's doing is it's locking in value. It's providing that NII resilience. You'll see that our sensitivity to interest rates has reduced relative to the half year and it’s lower than it otherwise would have been without the change in the hedge.

Sanjena Dadawala: Thank you.

Myles O'Grady: Thank you Sanjena.

Operator: Thank you. We will now go to your next question. And 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. If I could just ask on capital, please. I'd invite you to elaborate a little bit more on the thinking behind the >14% CET1 target. When I look at your slides, you're essentially guiding to close to 300 basis points of headroom to your expected future MDA, which is fairly lofty relative to what I see some other banks targeting, and obviously the risk density in Ireland is pretty high. And within that MDA expectation, you have a meaningful countercyclical buffer expectation, which we have seen in recent years regulators do cut countercyclical buffers during times of economic stress. When I think about the other developments in recent times, you haven't ended up with a second systemic buffer in Ireland. The political changes in recent years have been very favourable. I guess I'm struggling a little bit to understand why the CET1 target has to tick higher. But if you could just explain a little bit more why you think the Bank needs that level of headroom to MDA?

And I guess thinking prospectively, would you expect that capital level to behave countercyclically? So if countercyclical buffers went above through-the-cycle levels, would you expect to maintain that level of MDA headroom or are you essentially capitalising for a kind of peak countercyclical buffer there? Because it does seem to be quite a large quantum of headroom.

And then relatedly, on RWA investments. You talked about RWA investment within some of your kind of medium-term guidance. How much RWA growth should we be thinking about here and are you allowing anything within the plan for, sort of, underlying RWA model improvements, given that some of the legacy loss data is now pretty far in the rear-view mirror across many of your asset classes? Thank you.

Myles O'Grady: Chris, thank you very much for those questions. And I suppose just an overarching comment in the context of a ROTE target of c.15% and organic capital generation of more than 250 basis points. I said it earlier, but it is important to reiterate the point that we do expect our capital levels to be very comfortably above that new >14% CET1 target. I'll ask Mark to comment on the basis for that target.

Mark Spain: Yeah. Thanks, Myles. Morning, Chris. So, as we're launching the new strategy today for the next three years with an updated distribution policy, which is, you know, far more specific in terms of the ordinary dividend and also with that commitment on the excess

Classified as Public (Green)

capital which we expect to have over the period, we think it's the right time to look at the capital guidance in that context.

Chris, we've done some of the same analysis that you referred to. We've looked at peers across Europe in terms of capital guidance versus MDA. And what we see when we look, we've looked at sort of 25 or 30 different institutions there. What we see is that the gap is somewhere around close to 300 basis points. So in the high 270s, 280s. And our move to >14% really brings us into line with peers in that regard. And I'd come back to what Myles said, I think that this needs to be seen in the context of this significant capital generation that we expect and is implied by our model and targets over the period.

In terms of the RWA, and sorry, Chris, maybe just take up your other question then, as part of that, we believe that's the appropriate level knowing all we know over the three-year period. So, we've obviously taken into account the changes in the capital framework which the Regulator introduced in Ireland last year. So, it's guidance which applies for the three years.

In terms of RWA, Chris, maybe just a comment on that. So, probably the key elements as we think about our end 2022 level of €47.5 billion, we've got KBC coming on board, slightly more than €3 billion there. We will have op-risk RWA which is a function of higher income, and then we'll have loan growth, obviously, will be the third element there.

In terms of loan growth, obviously, ROI mortgages is a key part of that, where the risk rates are low and attractive. I would say sub-20% there. We'll also see some growth in our Irish SME and Corporate books. Again, where the risk weights are a little higher. And then that cautious approach Myles called out in the presentation on the International Corporate side, bearing in mind what we see in terms of the macro outlook as it stands today. So, those are all factored in.

Consensus RWA, we have at the moment about €55 billion at the end of 2024. That doesn't seem unreasonable to us, just maybe to help you in that context. And I don't think that model changes are a material factor in the RWA development, as we see it.

Chris Cant: Thank you.

Myles O'Grady: Thank you, Chris.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Ali Woods from Morgan Stanley. Please go ahead, your line is open.

Ali Woods (Morgan Stanley): Good morning and thanks for taking my question. When looking at Irish banks, we see excess liquidity, excess deposits, two banks leaving the market, which all points to a low deposit beta. Are you able to share a bit more about your deposit beta assumptions, and also just give us any more information when estimating it?

And then secondly, on CET1, you said you will be very comfortably above 14%. Are you able to give us – are you expecting to get down towards 14% over the course of the strategic plan? And if so, can you give us some sort of timeline, is it sort of bigger buybacks in future years? How do you expect that progression to be? Thank you.

Myles O'Grady: Okay. Ali, thank you very much for those two questions. And in relation to the deposit beta question – and, first of all, let me just reiterate the very strong levels of

Classified as Public (Green)

deposits in the Irish system and indeed on the Bank of Ireland balance sheet. That points to two things. One is a very stable funding base, but also a positive source of income. And in addition to balance sheet growth and indeed business income growth, interest income is also going to grow, supported by that profile of deposits as well. I am very mindful that Ireland is a small market. It's a little bit different to the UK. So, I'm not going to be definitive on deposit betas this morning for that reason because I don't want to signal to the market. But I think that we can say comfortably that it's reasonable to assume that deposit betas will increase as rates also rise as well.

In relation to the 14%, to be above that. I mean, that's a target that we have over the life of our strategic plan. And again, we expect to be comfortably above that. And it's in that context that in addition to achieving a 40% payout, a cash payout by 2024, that we'll also annually consider the return of surplus capital. And certainly, that we expect to be comfortably about 14% in that regard.

Ali Woods: Okay. Thank you.

Myles O'Grady: Thanks, Ali.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Robert Noble from Deutsche Bank. Please go ahead, your line is open.

Robert Noble (Deutsche Bank): Morning. Thanks for taking my questions. Just two, please. If we strip out Davy and IFRS 17 from your business income expectations, it kind of looks around about flat. Is there anything worth calling out on underlying business income, ex-acquisitions and accounting changes?

And secondly, now rates have gone up in the Euro-area, the UK, albeit restructured, will probably be a drag on the ROTE. So, at what point do you reconsider the strategy there, and perhaps get rid of the business quicker or sell it? Thank you.

Myles O'Grady: Okay. Robert, thanks very much for those two questions. I’ll comment on the UK, first of all, and then I'll also briefly comment on business income before handing over to Mark.

So we're very happy with our UK business. That strategy is playing out very well, and there's plenty of metrics that I can quote from, but the ones that come to mind is we've nearly trebled our PBT in the UK, whilst reducing our balance sheet by about a quarter. I referenced that earlier in my presentation, and that really does speak to our strategy. We surpassed that ambition to improve returns from a low-single digit percentage to a high-single digit percentage, that's been successful. So, we're very happy with that. It's an important part of our business. It contributes well, and we expect that to be a feature, a very strong contributor to our model as we go forward.

On business income, last year up 27%, and up 15% when you exclude Davy. I know Mark will talk about the numbers on an IFRS 17 basis, but growing business income, again, particularly in Wealth & Insurance and in Retail Ireland will be a feature of our model, which supports a cost-income ratio of below 50%, and therefore by default supports a 15% return on equity.

Mark Spain: Thanks, Myles. Morning, Robert. And maybe just to reflect back on the 2022 performance, and we include associates here in the business income as well, so that that's called out in the slides, but sometimes there's some confusion on that. So just to be clear on

Classified as Public (Green)

that. And if we look at that, in 2022, €734 million, if I exclude Davy. And I think at the half-year I said if we got back to 2019 levels, that would be good performance. 2019 levels were €705 million. So we've had actually a very strong performance in the second half of the year there. If I look at the individual drivers in that Retail Ireland, and that's benefiting from customer activity, but also winning those customers from exiting banks and fee income associated with that. Also in our Wealth and in our travel joint venture in the UK.

2023 is down, but the reason 2023 is down on a reported basis is because of that impact of IFRS 17, and we've given some additional disclosures in the appendix around IFRS 17. If I go underneath that a little bit then, again, we see that growth in Retail Ireland. We see that growth in Wealth and Davy coming through as key drivers. One other thing just to be conscious of, is you'll see Retail UK is an expense in our fee income. So what's happening there is that's reflecting partnership commissions. And the better that our business does in the UK, the higher those commissions are and the higher that expense is. So actually, that's something really positive that's happening there. We expect that expense to be a little bit higher in 2023, reflecting our confidence in the UK business. So that'll give you a sense of maybe the growth in the pieces I spoke about earlier.

Robert Noble: Great. Thanks very much.

Myles O'Grady: Thank you, Robert.

Operator: Thank you. We will now go to your next question. And your next question comes from the line of Alastair Ryan from Bank of America. Please go ahead, your line is open.

Alastair Ryan (Bank of America): Yeah, thanks very much. Good morning. And nice to have a reasonably straightforward outlook after all those years. So yeah, that's a pleasure. And my question I guess is, where are you going to find mid-30s basis points of bad debts from this year? It feels like your UK book is pretty resilient. The Irish economy is performing quite strongly. That feels like a very conservative number as things stand, given the high levels of provision coverage you've already got. So, I just invite you to comment on that, please.

Myles O'Grady: Alastair, good morning, I hope you're well. Mark will – I ask you to take that impairment question.

Mark Spain: Yeah. Thanks, Myles. And Alastair, I agree. I think we've taken a measured approach in our provisioning overall. If I look at our 2022 year-end levels, as you quite rightly point out, our coverage ratio is at 1.8%, so that's higher than pre-COVID. It's higher than last year on a like-for-like basis, when we adjust for those NPE sales during the year. We think that measured approach is appropriate. If we think about the mid-30s guidance into next year, then really what's happening there is we're emerging from ten-plus years of low or negative interest rates and moving to a more normalised interest rate environment. And the mid-30 basis points, our guidance there really reflects that. We've had a considered view right across our portfolios. So, we think that's good guidance.

Alastair Ryan: Got it. Thank you.

Myles O'Grady: Thanks, Alastair.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Robin Down from HSBC. Please go ahead, your line is open.

Classified as Public (Green)

Robin Down (HSBC): Good morning and welcome back, Myles. My questions are really probably more for Mark, I'm afraid. Can I come back to the structural hedge? You've obviously built it up quite dramatically in the second half of 2022, and that kind of makes it a little bit harder for us to work out what the yield is going to be on maturing swaps. Not that I go back kind of six, seven years and look at what we've done then. So, I don't know if you could give us some sort of indication as to what you think the average yield might be on maturing swaps. I'm guessing it might be kind of closer to zero than the 45 basis point number. And also just to confirm that the seven-year rollover that we should just assume, that's kind of a straight line through 2023, there's nothing peculiar in terms of the timing of when you've got redemptions coming through.

And then the second question, and I guess I may not get an answer to this, but if we come back to your interest rate sensitivity, historically, traditionally it's been, these things have been built on the basis of assumption, assuming a 100% pass-through of rate rises to the lending book and a 50% pass-through on the deposit betas. But I think you probably diverged from that. I just wonder if you could give us some sort of colour as to what you're assuming in terms of pass-through to the loan book, particularly the mortgage book, and what sort of deposit beta assumptions you've got to get to that interest rate sensitivity you've given us? Thank you.

Myles O'Grady: Robin, good morning, and thank you for your comments. Let me take some of that and then I'll also pass over to Mark. I'm a keen fan of the structural hedge myself.

I should say to you, that to my mind, the intervention last year on increasing the level of structural hedging is reflective of a growing liability base, but also locking in that value in the rate environment, that's really important, and link that right through to our guidance on a return on equity of 15%.

And we're not – I think the rate environment, the increase in rate environment is clearly going to have an impact on both assets and liabilities. There’s a reality that mortgage rates will be impacted by it. And, of course, we will continue to reward deposit holders as well.

Now, for competition reasons, we're not going to be too precise on that today, but I know that the disclosures that we've given in the context of the interest rate sensitivity are designed to allow the market to really work out where interest income overall is going to play out.

Mark, over to you.

Mark Spain: Yeah. Thanks, Myles. Morning, Robin. Good to talk to you, and particularly about the structural hedge, one of my favourite topics as well.

So on the hedge, so that's step up last year, particularly in H2. Again, that is largely mechanical because it's a passive strategy and just the three elements of that again.

So one is those deposits coming off negative interest rates, which weren't included in the hedge and now get included in the hedge. Secondly, we've got that deposit volume growth in Ireland that €11 billion, a lot of which was second half-weighted coming through, again, to extent that that's current accounts in particular.

Classified as Public (Green)

And then the third piece you've heard change there, which is more conscious, is including proportion of demand deposits in the structural hedge because we didn't do that before. That's just bringing us into line with peers.

Just, Robin, to give you a sense, you're correct in terms of the average rate to be 45 basis points, some of the maturities will be below that in terms of the rate at which the increased hedging took place in the second half of the year of the order of 2.5%. So just to give you a sense of some of the moving parts there.

Robin Down: Great. Thank you.

Myles O'Grady: Thanks, Robin.

Operator: Thank you. We will now go to our next question. One moment, please. And your next question comes from the line of Borja Ramirez from Citi. Please go ahead. Your line is open.

Borja Ramirez (Citi): Hello. Good morning. Thank you very much for taking my questions. I have two quick questions, if I may. The firstly is on capital return. I would like to ask how do you consider in the capital distribution between the dividends and share buybacks, also considering that the stock trades at around one times tangible book?

And then my second question would be, if you could provide some colour on the cost of risk guidance beyond 2023 and also expectations for asset quality? Thank you.

Myles O'Grady: Okay. Borja, thank you very much for those questions. And in relation to the capital return and the mix between cash and buybacks, I mean, when I look at our shareholder base, it's a broad church, and some of our shareholders have a leaning towards, they prefer cash, some also particularly like buybacks. So that's why the policy and the targets that we've announced today take account of both of those requirements. But then to be precise about it, we are committing to a target of a cash distribution of 40% payout and we expect to get there by 2024.

Back to that point from earlier regarding our capital levels likely to be comfortably above our CET1 target of 14%. It's that level of capital that we would expect. The return of surplus capital will be executed by way of buyback, and again, that's to accommodate the different type of shareholders we have.

Mark, would you like to comment on the cost of risk assumptions, please?

Mark Spain: Yeah, thanks. Morning. And just maybe couple of things. So our guidance for 2023 is mid 30s. We expect cost of risk to be at similar levels in 2024 and 2025, reflecting our overall macro-economic and rate assumptions.

Just maybe think about asset quality overall, then to pick that up. So we've had a really significant reduction in our NPE ratio during 2022, down from 5.5% to 3.6%. That's significantly de-risking the balance sheet. That pro-forma for KBC, that's somewhere around 3.4%. We've taken an additional PMA. as part of an impairment charge. of €60 million to cater for dealing with legacy SME NPEs. So again, that's again supporting our ambition of driving that NPE ratio lower over the course of the plan.

Myles O'Grady: Okay. Thank you, Borja for thosequestions

Classified as Public (Green)

Operator: Thank you. We will now go to our next question. And the question comes from the line of Omar Keenan from Credit Suisse. Please go ahead. Your line is open.

Omar Keenan (Credit Suisse): Good morning, everybody. Thank you very much for putting on the conference call. I've got one question, which is a little bit more strategic and linked to the capital planning. I'm afraid another structural hedge question and some annoying analyst NII questions.

So just, firstly, on the capital planning, and the strategy. So when you set out the deepening customer relationships over the next couple of years and you've flagged a couple of numbers for us, like an increase in financial needs of 5%, it makes complete sense. You have 2 million customers and enhanced product suite and scaling into that makes a lot of sense. Do you think you have everything that you need to maximise the potential there? And here, I'm thinking about anything else, particularly insurance products or any other adjacencies where either internal investment or external investments might be a competing priority with buybacks. So that was my first question.

And then my second question on the structural hedge. So I was wondering if you could give us an idea of the exit running gross income on the structural hedge. Compared to the interim level, the size has changed quite meaningfully, and how that looks like could quite meaningfully impact sort of sequential NII modelling going forward. So if you can't give specific numbers around the exit income versus interim, then maybe some timing of when that was put on, would be quite helpful.

And just my last NII question is, obviously given the shape of the yield curve, I guess we're looking at possibly, who knows what will happen, but the market currently looks rates will go higher this year and then come down in 2025. And appreciate, for competitive reasons, you don't want to talk about deposit betas in the near term. But is there anything you could say about cumulative deposit betas and what the landing zone could be a couple of years out? Thank you.

Myles O'Grady: Okay, Omar, thank you very much for those questions. And I'll take the strategy question and ask Mark to comment on the structural hedge and some of those exit income assumptions as well.

So when I think about back in 2018, my predecessor set out an ambition for Bank of Ireland to be the National Champion Bank, clearly complemented as well by international businesses. And we've made enormous progress in that regard as the National Champion Bank. And by that, we mean our ability to offer the full suite of banking services, and, of course, as being the only bancassurer in the country as well.

So let me expand on that a little bit. So the market right now is particularly attractive in Ireland. We expect the economy to be resilient, and in fact, we're growing as well. Demographics are also very supportive. We have one of the youngest populations in Ireland relative to European peers. That complements our business model very well.

So when we talk about Financial Wellbeing, that's offering the full suite of products right through from basic bank accounts - by the way, we opened up more than 5,000 accounts for Ukrainian refugees last year that's important - right through to Everyday Banking products, 90% of those products we do on a digitised basis, i.e., no paper, through to our lending. I

Classified as Public (Green)

think about the mortgage business with a €30 billion book post-KBC acquisition, that book is going to grow. And of course, also on Business Banking and Corporate when we saw a net loan growth last year, that's going to be a source of growth as well.

And then Wealth & Insurance, the combination of our existing New Ireland Assurance business, and I commented on this earlier in the slide script. That's a mature business that we wholly own, it's got an embedded value of €1.2 billion, and it's performing very well in terms of asset performance for our investors who take on those products. And, of course, also life and protection as well.

Now when we take that, and we combine it with the successful acquisition of Davy, and when I think about Davy, I think about in the region of about 900 colleagues who have come into the Group and we welcome them. I think about the 50,000 customers that are part of Davy as well and we welcome those customers. So that means we have a very strong position in Wealth & Insurance. And we have a very clear ambition to be the number one wealth partner for our customers in Ireland, whether that's in the mass market, whether that's in the mass affluent, or whether it's in the high-net-worth area as well. It's in that context that we think about being a National Champion Bank.

And the final point, Omar, is that when we set out our capital plans and our ability to achieve returns in the region of 15%, all of that is taken account of, as is the distribution policy. So we've got the capital to grow our business to invest for the future and of course to reward our shareholders as well. Mark, on the structural hedge please?

Mark Spain: Yeah. Maybe, Omar, just to help you there, so that step up in the structural hedge during the second half of last year is certainly much more Q4 weighted and that picks up sort of that average gross yield of 2.5% that I referenced earlier. So hopefully that helps you as you think about the modelling going forwards.

Myles O'Grady: Thank you Omar.

Operator: Thank you. We will now go to your next question. One moment please. And your next question comes from the line of John Cronin from Goodbody. Please go ahead, your line is open.

John Cronin (Goodbody): Morning both, thanks for taking my questions. A couple from me please. One is on rate sensitivity. So in terms of the €270 million for 100 bps upwards parallel shift you've given, you've noted that's from a base rate or deposit facility rate move from 2% to 3%. Just kind of looking at the structure of the hedge profile and how that rolls as well as the likelihood of pretty incredibly low deposit betas into the medium term, would you say that extrapolating that number would be conservative for moving from rates of 3% to 4%? Because it looks quite light to me.

And then second question, just on cost guidance. So if I just strip out some of the IFRS 17 stuff, but in 2024, consensus is looking for €1,872 million operating costs ex-levies and regulatory fees. What would you comment in relation to how comfortable you are with that number at this point? Thanks.

Myles O'Grady: Okay, John, good morning and thank you very much for those questions. I'll comment on cost and no doubt Mark will add to that as well and also the rate sensitivity question, Mark, please. I mean, just to reiterate some of the comments from earlier, but it is

Classified as Public (Green)

important to call it out, a strong cost discipline in the Bank of Ireland. Back to that €250 million cost reduction, 14%. And efficiency is very much part of our cost projections, even though we are in a growth environment as well.

And more broadly, when I think about our target of a return on equity of 15%, and that's off a cost-income ratio of below 50%, I mean, I'm very comfortable with that cost-income ratio assumption to be sub-50%. Mark, over to you.

Mark Spain: Yeah. So, John, maybe a couple of things. On the rate sensitivity then, that is as you've quite rightly said, 2% to 3%. The market obviously is ahead of that at the moment. As we go forwards, we've always said that the sensitivity is not linear and you can see that. You can see that even if you compare our full year disclosures to our half year disclosures, when we're at zero at the half year, we're at 2% now.

Picking up what Myles said earlier, in the context of a higher interest rate environment, in general, we expect deposit pass-throughs would increase as rates go higher. So I think that would be a factor so therefore I wouldn't necessarily extrapolate the 2-3% move into a 3-4% move.

On the cost guidance then, maybe just a couple of things on that. So, we've given very clear cost guidance for 2023 and obviously we've got that target of being less than 50% in each year going forwards. And we've said that's a ceiling and we continue to strive for those efficiencies. Like-for-like costs will be broadly in line in 2023, so we see again that continued emphasis on cost discipline, delivering those efficiencies and offsetting the headwinds which of course are there.

Just again, and I called this out earlier, but in that move from 2022 to 2023, we have some items which I'd say are not repeating. We've got KBC coming into the cost base. We've also got the re-introduction or the lifting of those variable pay restrictions, again which is a real positive for the group as it removes or mitigates a key risk. But those I wouldn't expect to continue in the same way in the year-on-year basis going forwards. Hopefully that's helpful.

Myles O'Grady: And actually, if I could just add, Mark, just one final point, John. I referenced on a couple of occasions our ROTE target of 15%. Just to remind everyone that that ROTE target includes non-core costs. So it's more aligned to a more typical statutory return on equity. And even though non-core costs are reducing, nonetheless it is within that return. John, thank you very much for those questions.

John Cronin: Thank you.

Operator: Thank you. Once again, if you would like to ask a question, please press star one and one on your telephone and wait for your name to be announced. That is star one and one to ask a question. We will now go to your next question. And your next question comes from the line of Seamus Murphy from Carraighill. Please go ahead, your line is open.

Seamus Murphy (Carraighill): Hi guys. Fantastic performance. Just a quick one. I know we obviously want to be conservative in terms of NII guidance; but when I put it all together, I look at €3 billion annualised Q4 exit rate. I add on KBC for €100-150 million. And then I know we've all talked about the structural hedge and when we add in the maturing swaps plus the growth in deposits, I'm getting at least kind of another couple of hundred million, plus the ECB deposit rate is obviously higher as we look into 2023. And also when we – even though

Classified as Public (Green)

you don't disclose it but when we look at the system data, ECB data, we can kind of work out the deposit betas in Ireland, which are roughly around 4-5% right now. It just looks like your guidance on NII is exceptionally conservative. So just some comment around that, please.

Myles O'Grady: Yeah, good morning, Seamus, and I'll ask Mark to comment on the NII guidance. I would frame the answer to that question in the context of a target of return on equity of 15%, which I wouldn't describe as conservative, and indeed our cost-income ratio of being sub-50%. Mark, over to you.

Mark Spain: Yeah, thanks Myles. Hi Seamus, good to talk to you. And no, I think the guidance is balanced, is measured, Seamus, that's how I'd characterise it. I think the key moving parts you've called out. We've got that exit rate, we've got KBC coming on board, we've got that deposit and loan growth coming through. We've obviously made appropriate assumptions in relation to changes in the asset and liability side. And we've got the rate assumption. And clearly the rate assumption, you can look at that rate assumption, the market's higher than that, but we've given the sensitivity to help you with that.

Seamus Murphy: Okay. And just one – just one follow-on. Just in terms of deposit betas, when I look at the Irish data on the ECB, using ECB, it's coming in around at a low single digit. Do you think that's where you guys are as well? I mean, on the basis that you're 30-40% of the market?

Myles O'Grady: Yes Seamus, thank you for that. And we are, I suppose, the market is responding to what is a very fast evolving rate environment going from a long period of negative rates right through to increasing rates now. So again, I really don't want – I am conscious that we're in a fairly consolidated market, Seamus, in Ireland, I don't want to comment specifically. But it is, I mean, rising rates will equate to rewarding deposit holders more. But thank you very much for the question.

Seamus Murphy: Okay. Thank you.

Myles O'Grady: Thanks Seamus.

Operator: Thank you. We will now go to your next question. Your next question comes from the line of Aman Rakkar from Barclays. Please go ahead, your line is open.

Aman Rakkar (Barclays): Morning, gents. So, I just wanted to probe you on the kind of commercial outlook – commercial pricing outlook for mortgages. I mean, look, it's a really positive update and I think there's conservatism embedded in some of your revenue guidance that we're kind of probing on the call. And I appreciate that you're looking to adopt a kind of disciplined approach to pricing and you've kind of indicated that deposit rates should be expect to rise from here. But I guess the one bit at a system level that there is no discipline on, on evidence right now, is on the asset side. Mortgage pricing I'd describe as close to very irrational, if you look at the kind of compression in spreads versus swap rates. So I guess that you're kind of banking the benefits of a deposit income tailwind and using that to kind of tolerate very, very narrow spreads on the asset side. I guess the risk longer term would be that if spreads were to kind of operate at this level longer term, it would be a kind of headwind to revenue.

So, what's your take on the outlook for mortgage pricing in a market that's consolidated, where presumably competition isn't an issue for you? Are you looking to introduce some kind

Classified as Public (Green)

of rationality back into asset pricing? If deposit rates go up, can we expect loan rates to go up as well?

Myles O'Grady: Good morning, Aman, and thank you very much for that question. I do think it's worth spending just a little bit of time on this, because it is really important. If I think about what Bank of Ireland has done over the last number of years, risk and commercial discipline very much part of our DNA. I mean, over the last few years when there were many other players were reducing rates on the mortgage side, we didn't do that. We maintained our discipline. And that means we enter into this rate environment from a strong position. That's the first thing.

Second of all, a little bit around just the composition for example of the mortgage book. Because this is really important. I referenced it earlier, but I will repeat it. In more than 95% of the business that we have done in mortgages over the last number of years has been a fixed product offering and now as a consequence of that, more than 70% of the book, or 70% or thereabouts, is fixed. So that means firstly our customers are protected from the rising rate environment and also we're protected from a hedging perspective. So that's – they're kind of some of the moving parts.

Now, back to that discipline point. It is absolutely fair and reasonable to say that as rates continue to increase, there will be an obvious impact both on mortgages and on deposits. And we think about both of those in the round. We don't think about them in isolation. It's the entire balance sheet, the strength of it, that's driving our discipline on commercial interventions. But we're very mindful of course that a rising rate environment ultimately does result in a combination of mortgage prices being higher and deposit holders being rewarded more.

Aman Rakkar: Thank you so much.

Myles O'Grady: Thank you Aman.

Operator: Thank you. That was our last question. I will now hand the call back for closing remarks.

Myles O'Grady: Okay. Well thank you very much this morning. I know it's a busy results season for everybody and I do want to thank you for taking the time. I know this was slightly longer because we did both results and also a strategy refresh, but thank you very much and certainly Mark and I look forward to meeting many of you face to face over the coming weeks. Thank you very much indeed.

Mark Spain: Thanks everyone.

[END OF TRANSCRIPT]

Classified as Public (Green)