

Bank of Ireland Group plc (together with its subsidiaries, the "Group")

Investor Day 2018 transcript

13 June 2018

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### **Francesca McDonagh – Group CEO**

Good morning everyone. Today I am setting out my vision for Bank of Ireland. I will share my insights into what we do well and where we can build on our strengths, our history, our heritage and our well proven capabilities.

I will also be frank about where we must improve so we can do a better job for all our stakeholders. This includes how we create and leverage opportunities to drive growth and efficiency in our business and achieve our strategic ambition over the coming years. That ambition is crystal clear to be the National Champion Bank in Ireland complemented by select and profitable diversification in the UK and internationally.

You'll also meet members of my senior team who will set out the actions we are taking to achieve this ambition. Put simply, today is about Bank of Ireland's next chapter a chapter of growth and transformation and how we will write it.

There are some key areas I want to focus on: Firstly, growth, unlocking growth in our Irish business will drive expansion in lending volumes and fee income. This will increase our revenue. We expect loan book volumes to grow by 20% by 2021, in large part driven by expanding our mortgage, SME and corporate lending businesses in Ireland. We are also building out our wealth and insurance business.

Secondly, transformation I've decided to accelerate and broaden our multi-year transformation program. This will fundamentally change our culture, our systems and our business model to support growth, improve customer experience, and drive efficiency. This decision will expedite our delivery of restructuring benefits and cost saves. We are, going to invest more to accelerate delivery of the benefits, and we are committed to reducing our costs every year to achieve a reduction in our total cost base to 1.7 billion euros in 2021.

Thirdly, the UK, Bank of Ireland is committed to the UK market but our strategy is focused on increasing returns. This means: investing in the growth of our more profitable businesses in the UK; improving as quickly as possible those businesses that have potential but need to deliver better returns and greater efficiency; and re-positioning those parts of the UK business where we have less certainty about achieving our expectations.

And finally, our financial targets. We will generate returns above our cost of capital, delivering a Return on Tangible Equity, or ROTE, in excess of 10% and a reduction in our cost income ratio to 50% by 2021.

Before I expand on these four areas I want to take a step back and look at the bigger picture of the economies in which we operate and the environments in which we compete.

Let's start at home. Ireland is an attractive market, modern, outward looking, and undergoing its own transformation. Looking at Ireland today and the country's National Development Plan, Ireland 2040, we see a population growing by over 1 million people up 50% in cities beyond Dublin a one third increase in job creation and people living in half a million new homes.

When I look at this positive future for our home market, I see our role (as the National Champion Bank), as enabling this growth, investment and prosperity in Ireland. For that reason, our key initiatives will centre on becoming the leading supporter of house building and home buying in Ireland.

This will also support the growth and expansion of our SME sector. And with increasing prosperity and a demographic shift in age profiles we'll also build out our wealth management and insurance business to support our customers at key moments in their lives. Ireland has already started this journey.

The Irish economy is expanding and in line with broad consensus we expect it will continue to do so GDP growth has been well above the Euro Area average since 2011 and we expect this to be the case in the coming years.

This strong performance is translating into job gains and falling unemployment. Over 2 million people are now at work in Ireland. The unemployment rate is under 6% (that's from a peak of 16% just a few years ago). Bank of Ireland's own customer research shows that households are spending and are in a positive frame of mind. In the business sector, Brexit remains a concern but the mood among firms has become more upbeat.

Last month, for example, our business sentiment research posted a 23 month high. This growing confidence is coming through in the increased pace of credit formation after many years of deleveraging. Significant investment is being made in Ireland's property market and infrastructure where we see material opportunities for retail, SME and corporate banking.

We expect new mortgage lending in Ireland to double by 2021 and new SME lending to grow. Our aim is to at least maintain our overall market share taking share where we can within our proven risk and price discipline.

Importantly, we've learnt the lessons from the past. We've strengthened our credit risk management frameworks. We operate within clear lending regulations. Both of these underpin the stability and sustainability of Ireland's economic expansion and of our sector.

In the UK, the economy has been expanding at a moderate pace, despite Brexit uncertainty and steady growth is forecast to continue. The labour market is performing well and the unemployment rate is currently at a 42 year low of 4.2%.

Wage growth is picking up. Inflation is falling as the effects of sterling's past depreciation wane both of which should provide some welcome support to consumer spending. We expect the UK mortgage market will continue to grow but that competition in mainstream lending will remain high, and we see further growth in switching activity.

However specialist segments, such as self-employed and 'later in life' are under-served, and this provides us with attractive opportunities that we'll be discussing later. This is our view of the economy in both Ireland and the UK and we see change and opportunity in both. But of course our sector is also changing, and rapidly.

The team will cover what this change means for their businesses in more detail but I want to make a couple of important points on technology and on regulation.

Firstly, I regard technology as an opportunity for our bank, It will not only enable our transformation and drive efficiency it will significantly improve service to customers who increasingly demand 24/7 banking on the move and on their phone. But I want to ensure technology and automation is balanced with personal experience with engaging relationships both with our customers and our colleagues. This is particularly true for Bank of Ireland where we are committed to maintaining an extensive distribution

network. That's why I want digital service to be combined with a physical presence and personal touch. That's especially true for the important events in our customers' lives.

Secondly, the regulatory framework continues to be demanding, with capital and investment requirements impacting returns. This evolving framework is a challenge that we must navigate carefully and effectively to ensure we meet both shareholders' and regulators' expectations. I've set out our economic assessment. I've talked about how our sector is changing. Now I want to look at Bank of Ireland's most recent history because the strategy we are setting out for the future is also informed by our experience. In the past decade, the bank has moved from restructuring and risk reduction after the financial crisis, to greater stability in recent years and we now see growth and transformation opportunities as key features of our next chapter.

We've a clear recovery story: The Bank's capital and funding base has been restructured. We are operating on a sound financial footing. We've fully repaid the Irish taxpayer, executing in full our EU restructuring plan, and we've returned to sustainable profitability, making our first dividend payment in 10 years to our shareholders last month. We've also substantially improved our asset quality. This is particularly relevant for the strategy we are sharing with you today. Since their peak in June 2013, we've reduced impaired loans by 73%. Our non performing exposures ratio is the lowest in Ireland.

Our mortgage arrears are also the lowest in the country less than a third of the industry average. This level of out-performance to the industry has been the case every single year since the data was first published by the Central Bank of Ireland.

Now this wasn't by chance or by luck I see our approach to credit risk management to be a major competitive edge for us. It underpins the sustainability of our support for house building and home buying in Ireland. This is a key element of our growth strategy in Ireland, where house and home occupies a particularly special place in the lives and psyche of our customers.

When I took over as CEO, I talked about my first impressions of the Bank 9 months in; I know these to be true. Our history and heritage is unique. We have incredibly strong customer franchises and very talented colleagues and we operate in growing economies in Ireland and the UK.

We have strong businesses. We are Ireland's leading retail and commercial bank. The largest lender to the Irish economy, with the number one or number two positions in every segment. We have select and profitable diversification in the UK and internationally. And a Markets and Treasury business that has a proven track record.

But there are also some challenges I have become more familiar with. During Bank of Ireland's chapter of capital restructuring and risk stabilization in the past decade the team dedicated their focus on one overriding objective. Save the bank, to avoid full scale nationalisation.

I understand that focus, it achieved the goal. We remain the only bank in Ireland to have fully repaid the Irish taxpayer. However, it is clear to me now as CEO that this prudential success restricted capital for investment in the business during the past ten years. As a result, Bank of Ireland underinvested in its technology and its processes. We have to fix that now.

In addition, the UK business was used for critical funding when we needed it most. Liabilities have been priced primarily to secure liquidity rather than for profitability. This has all led to fundamental inefficiencies in Bank of Ireland's functions and processes. It has left us with complex and poor performing legacy technology.

This challenges us to improve the service we offer customers and the experience we provide to our own people. By the same token, it is clear today that: Our core market of Ireland now has strong GDP growth

providing attractive opportunities to invest capital and generate returns, so we have rightly prioritised the transformation of our culture, our systems and our business models. This requires capital investment.

I have therefore decided to pivot the bank to capture these growth opportunities and to broaden and accelerate our transformation.

So, let's look to the future. Our vision, our strategic priorities, and the key actions we are taking the next chapter of Bank of Ireland's story.

I set out our strategic priorities soon after I arrived: To transform the bank, to serve customers brilliantly and grow sustainable profitability. Delivering on these priorities is key to achieve our ambition. We are the bank of Ireland, but we aren't going to evolve into the National Champion if we don't fundamentally change.

The bank must unshackle itself from the past, yes, lessons have been learnt in Ireland and the sector but our customers, colleagues and shareholders have expectations today that we must meet and that we must strive to exceed.

When I think about standing here at the end of 2021 and I envisage what Bank of Ireland will look like then I see: A trusted brand that has retained customer loyalty and acquired new business. A bank that has enabled the success of the fastest growing economy in Europe. An organisation that's taken some tough calls to be efficient and fulfil its potential. A progressive employer of choice. A talented team that has been courageous and robust in its execution. All of which will be shown by a track record of delivering attractive and sustainable returns to our shareholders.

The team will talk in more detail about the actions we are taking to enable this vision. I want to focus on three. Transformation, service, and growth.

We are committed to accelerating and broadening our multi-year transformation program. This will change our culture, our systems and our business model to support our growth ambitions, improve customer service, and drive efficiency.

I'll start with culture. A healthy internal culture in any organisation drives staff engagement and becomes a magnet for talent. But it's the external tangible proof of this culture that gets most attention. A good culture creates great customer outcomes. This is particularly relevant in an industry that is highly regulated, with the one of the lowest trust levels of any sector. In Ireland, cultural issues within the banking industry have led to notable state intervention. This includes an ongoing, decade long restriction on how bankers are paid. More recently, it contributed to what turned out to be the largest redress incident in Ireland's banking history.

In becoming the National Champion Bank we have the opportunity to take the lead here building a great culture is an important part of our business strategy. Culture enables long term customer relationships, a reduced cost of risk, and growth in sustainable revenue. So we've launched a major re-set of our culture setting out our purpose 'to enable our customers, colleagues and communities to thrive' and embedding our values with every colleague in the bank.

Turning now to our systems and business model. We start from a position of historical under investment and poor customer experience. Our legacy systems and processes just have to fundamentally change. Core banking will remain a key deliverable. This is absolutely the right thing to do. And, it is progressing well. I'm pleased to announce that Phase 1 of our core banking system was completed in April of this year. This has delivered a single customer record a snapshot view of over 2 million customers across all products. I have been encouraged by our progress and the potential to do more. We need to go further to support our growth plans, to better serve our customers and to drive efficiency.

For this reason, we are increasing investment in front end systems. In particular, for our Irish mortgage and wealth business. And, in transforming our business model and culture we will need to invest further to accelerate delivery of the benefits.

Previously, the bank guided that core banking would cost 900 million euros of capital from the second half of 2016 until the end of 2020. A broader and accelerated transformation means we will spend a further EUR 250m to deepen investment in our IT systems to enable business growth.

And independently of investing in our systems, we will also spend EUR 250m to restructure our business model to improve efficiency. This broadening and accelerating of our transformation will enable our costs to reduce every year between now and 2021, delivering a total cost base of 1.7 billion euros. Combined with growth, this will lead to an improvement in our cost income ratio from 65% today to 50% in 2021.

We have reviewed our current business model how we are organised and resourced, and there are some really clear opportunities to further increase value, and reduce costs, to improve overall efficiency. Put simply we are getting better at who we pay to do what. We implemented a recruitment freeze for non-customer facing roles in January giving ourselves a head start in delivering the benefits of a more strategic approach to headcount management. In May we announced the closure of 28 operational centres. We've renegotiated outsourcing arrangements with third parties, consultants and contractors.

And...we've looked at how we are organised. Typically, there are 10 layers between me and, say, a colleague in the frontline. And many managers only had 1 or 2 people reporting to them.... You can imagine how difficult such a structure makes it to communicate with our colleagues, or connect with our customers. And getting things done can be a challenge. We're changing this. Starting this month, we've been reducing these layers, making teams more effective, becoming a flatter, less silo'd organisation that's closer to our customers.

These changes mean we will have fewer people in the future than we've had in the past. This will make us more efficient and effective for all our stakeholders, but we will work with our people through this change.

Looking at service, the simple question is this, how are we doing for our customers? Frankly, right now our service levels and customer propositions aren't where I want them to be. That's got to change.

We are taking action. We're investing in our channels including an upgrade to our branch network and deepening our intermediary relationships. And we're focused on what matters most to our customers. Those big decisions that punctuate their lives, buying a home, growing a business, protecting their family.

Now I want to focus on growth. We see opportunities that we will share with you today. These are primarily in Ireland. Unlocking growth in our Irish business will drive expansion in lending volumes and fee income, and increase our revenue. We will enable this by reallocating capital and resources to be the leading supporter of house building and home buying in Ireland and by maximising our wealth management and insurance business.

We are already the largest lender in Ireland and the only bancassurer in the market, so we are very much building on our strengths, supported by the strong fundamentals that we see. These are, in particular, the demand for housing and the changing demographics in Ireland that I've already discussed.

We expect to see modest expansion in our net loan book this year as credit formation has only just recently turned positive. We expect this to accelerate in subsequent years and for the Irish loan book to grow by 9 billion euros by 2021.

Following my arrival, we reviewed our UK business in detail and looked at how we can improve its profitability. And I want to provide clarity today.

Bank of Ireland is committed to the UK market. But we're focussed on increasing returns. The UK is strategically important to Bank of Ireland. We see the market as a large, attractive and adjacent market offering growth and diversification benefits beyond Ireland. But while our current portfolio of businesses are profitable overall returns are below the cost of capital, generating low single digit ROTE. So, our focus is on increasing returns in the UK taking actions to improve margins and efficiency.

I view the UK business essentially in three ways: Firstly, investment: There are some profitable parts of the UK portfolio. We will invest in them and support their growth. This includes, for example, Northridge our car leasing and finance business.

Secondly, improvement: There are parts of our businesses we must improve as quickly as possible, to reduce costs of funding, acquisition and service. These businesses have good potential but are currently below our return or efficiency hurdles For example, lower LTV mainstream mortgages.

Finally, repositioning: There are parts of our business that we need to re-position where we have less certainty about achieving our hurdle expectations within a reasonable timeframe. Therefore today we announce a strategic review of our UK cards business including front and back book options. This will enable us to focus solely on the continued distribution of cards through Bank of Ireland, or partners in the UK. We will also continue to rundown our legacy portfolios such as UK Business Banking.

As a result of these actions in the UK, we expect ROTE to increase from low single digit to high single digit by 2021 and, of course we won't stop there.

Before I finish, I want to outline what this all means for our financial outcomes. Firstly, ROTE. Our 2017 headline ROTE was 10.6% however this was favourably impacted by additional gains and impairment write backs. Adjusting for this, ROTE (last year) was 6.9%. Our overall target for Bank of Ireland is to exceed 10% ROTE in 2021. We expect the increase in customer lending, and reduction in absolute costs that I've shared this morning to be the main drivers of this improvement.

We have confidence in exceeding this ROTE target on the following basis: Our financial plan does not depend on any heroic increase in market share. We expect margin competitive pressures to be manageable and to be offset by modest interest rate increases from 2019 onwards. And we assume impairments to normalise to a 20 to 30 basis points range.

Secondly, our efficiency target Core Banking and the broader transformation of our cost base will enable us to reduce costs each and every year in the next three years. By 2021: We expect our cost base, (including transformation), to reduce to 1.7 billion euros. Combined with top line growth we expect our cost income ratio to reduce to 50%. And our return to growth means we now have more attractive places to deploy our capital. We expect to continue generating significant capital organically building on the 140 basis points we generated in 2017.

Capital will be deployed to: Support loan growth opportunities primarily in our Irish business but with some select international diversification. We anticipate we'll invest around 250 basis points of capital to support RWA growth. Accelerate and broaden investment in our transformation. And, we'll also use the capital to meet evolving, and at times uncertain, regulatory capital requirements. We are mindful that our shareholders have been patient and we intend to reward them with a growing dividend and remain committed to increasing our dividend payout to 50% over time.

To the extent, we have excess capital, my philosophy and the Board's philosophy is clear, we will distribute excess capital by other means.

So in conclusion, this is Bank of Ireland's next chapter it's one of business growth transformation reshaping the UK and increased profitability.

We will be the National Champion, The bank of Ireland. The takeaways for today are:

Firstly, growth. Unlocking growth in our Irish business will drive expansion in lending volumes and increase in revenue. We expect loan book volumes to grow by 20% to 90 billion euros.

Secondly, transformation. We have accelerated and broadened our multi-year transformation to support growth, improve customer service and drive efficiency, spending more in order to reduce our cost base each and every year down to 1.7 billion euros.

Thirdly, reshaping the UK. We are committed to the UK market but our strategy is focused on increasing returns. We will invest in, improve on or re-position each business to significantly increase returns.

And, finally, profitability. We will generate returns in excess of 10%. I am excited about the opportunity we are sharing today. We have proven, stable and high quality foundations. But our next chapter is about growth and transformation. It's about Bank of Ireland's potential to transform. Our commitment to innovate for our customers and colleagues. And our drive to further improve our profitability for our shareholders.

### **Gavin Kelly – CEO, Retail Ireland**

Good morning. I'm Gavin Kelly and I'm delighted to be here to share with you the Retail Ireland story. I've spent over 20 years in Retail Banking in a variety of roles across front-line and head office teams. Most recently I worked as Group CIO, leading our technology teams. This experience gives me a unique insight into what we do well in Retail and what we need to do better as we enter our new exciting chapter. And exciting is the right word, as our new chapter is about becoming Ireland's National Champion Bank. Today I want to give you a deep sense of the potential of the retail business in Ireland in both the personal and SME markets. Our unique position as Ireland's only Bancassurer also presents significant opportunities to rapidly grow our Wealth and Insurance business over the next 3 years. Michael Murphy, Managing Director of our Wealth and Insurance business, has joined me today to share this ambitious story.

Bank of Ireland is Ireland's leading retail and business bank. We're the largest lender in Ireland, one of the fastest growing European economies. We're number 1 or 2 in all of our principal product lines. With Ireland's largest branch network, we're active in local communities across the country. And as Ireland's only bancassurer, we uniquely meet the full breadth of all of our customers' needs, under one roof. Francesca described the Irish economy's strength; the growth outlook is very positive. Confidence is back. Our customers are borrowing again and Personal wealth is recovering. Ireland's young demographics mean a robust future. We'll grow lock-step with the Irish economy. And we're best positioned to capitalise on its strengths and potential.

We have been building deep national connections for over 235 years. Today, over 40% of the Irish population has a relationship with us. 1 in every 3 payments go through the bank every day. Key to this is powerful distribution the trust we have in our communities and a strong brand.

We have the most extensive owned branch network in Ireland. 40% of our front-line staff are now mobile and on the road this means we're out in our local communities. We're close to our customers. We're there, helping customers to grow. Last year we hosted more than 3,000 events across Ireland's communities. Events like Enterprise towns where local businesses and communities get together to showcase enterprise in their area. These events are energising local economies, connecting them, enabling them to grow. While community remains at the heart of the Irish economy, we're also one of the most digitally enabled economies in Europe. At Bank of Ireland, almost 80% of our customer base is

digitally active. Usage is growing rapidly. We now have over 15 million interactions in our digital channels every month. That's double the levels we saw in 2014.

In financial terms, our business fundamentals remain strong with a combined underlying PBT of €818m in 2017. This is driven by a well-diversified loan book of €35bn euro; funded by Ireland's strongest and largest retail deposit book. Fee income continues to grow; driven primarily by growth in our wealth and insurance businesses. Finally, we continue to maintain pricing discipline across all products.

I'm now going to talk a little more about our consumer business. For personal customers, we're number 1 or number 2 for market share across every age segment. Our customers' behaviours and preferences are continuing to change. They've less time on their hands. They're increasingly using our digital and self-serve channels. Our mobile app has become the most important channel for our customers. For the majority, this is now the main way they bank with us. Today we sell 80% of all consumer products on the phone or online. More than half of these sales are completed entirely digitally, without support from our advisors. So our customers want control. This shift in preference allows us to cater for their day-to-day transactions online. This means our teams are spending more time developing relationships and business in communities. For these reasons, we continue to be number 1 or number 2 for market share in all our principal personal product lines. Lending to consumers has grown by 21% annually between 2013 and 2017.

We increased our share of new mortgages to 27% in 2017 while maintaining strong pricing discipline. And, we're generating 3 out of 4 new mortgages from our existing customer base. This is testament to the strength of our franchise. So now that we've talked about how we have grown in the consumer market, let's look at the market itself.

The outlook for our Consumer business is very positive. The Irish economy is now almost at full employment. Wages are growing again. Increases are expected to be 3% in 2018 and 2019, with inflation running at about 1%. Net income and spending power are growing. And Personal wealth is recovering post-crisis. In other words, Confidence is back. And Ireland is a young country. With 4 out of 10 Irish people less than 30 years old. Let's take a look at the housing market in this context. Annual demand is estimated at 40,000 units over the next 5 years. New home completions are accelerating to meet this demand with over 19,000 homes built in 2017. And while the second-hand market is recovering it still has a distance to go until it returns to normal levels. Only 3% of housing stock turned over in 2017; compared to almost 4.5% in other European Countries. For these reasons, we anticipate significant growth in the Irish mortgage market over the coming years. We estimate that it will grow from €7bn last year to €14bn by 2021.

A strong consumer market means a strong SME market, and visa-versa. They move together. We're Ireland's leading bank for business and enterprise the largest lender to the economy. Our SME customers are very loyal to us. We have been supporting them for an average of 17 years. They are highly digital by international measures, with 79% actively using our online banking services. These factors help us understand that SME behaviours and preferences are changing. Ireland's small businesses are time-pressed. So we're building better direct services to meet their changing needs. Over the last 5 years, we have developed small business lending through direct channels. We now fulfil 95% on the phone or online. This is supplemented by a nationwide team of mobile business advisors and credit specialists supporting and advising customers on the ground.

We also have Ireland's most comprehensive team of sectoral specialists, recruited directly from key business sectors. Specialists like Hilary Coates, who looks after our Healthcare and Life Sciences sector. Hilary started her career in nursing and had built-up over 30 years' extensive management and advisory experience across a range of healthcare disciplines before joining the bank in 2014. Hilary has consistently challenged the banks thinking with her in-depth understanding. She has evolved our approach to the Healthcare sector. And, of course, she also provides invaluable insight and assistance to customers. We have specialists like Hilary across a comprehensive range of key sectors, such as

manufacturing, agriculture, hospitality and technology all helping to ensure we're really delivering for customers while growing our business in a sustainable way. That's real, deep expertise - helping our customers, day-in, day-out.

We have to continue to evolve how we support Ireland's modern SMEs. For example, we've thrown open the doors of a number of our branches to give start-ups access to offices and meeting rooms. We call them Workbenches. Ireland's future businesses are now able to use our space for their business where they have access to mentors and work collaboratively to develop and refine their business models. And we're incubating high potential start-ups to scale their business in our dedicated Startlabs. Our Workbenches and Startlabs are based in prime locations nationwide with our first international Startlab opening last year in New York! Let me tell you about one of these companies a rapidly growing Irish Start-up called 'XtremePush'. They've built a digital marketing platform for mobile and web. They started out, co-developing their product with us at one of our workbenches in Dublin. We've integrated their product into our own mobile app but they've gone further. Today, 'XtremePush' are operating in a large number of countries globally and across multiple sectors. They're a great Irish success story.

Over the last 4 or 5 years we have also built, from scratch, Ireland's leading business support website, thinkbusiness.ie. Thinkbusiness provides Ireland's SMEs with a range of insights and tools. It connects Ireland's digital community with more traffic than any other comparable site. That's more than 50,000 active users every month. All of this means we know Irish business. We're more connected with them than any other bank. We're continuously evolving to improve our supports for them. This is why we're the number 1 business bank in Ireland. These strengths leave us very well positioned to capitalise on the positive economic environment and outlook for SMEs where 2 out of 3 businesses are now on a growth trajectory. Business lending demand will grow by a further 40% to €7 billion by 2021. Yes, Brexit has, naturally, dampened some demand with confidence fragile in a number of sectors. They have been holding back with some businesses using cashflow rather than lending for investment. However, this won't be enough. There's an investment gap of up to 30% for Irish business emerging. Irish SMEs need to invest in order to remain competitive. Underlying sectoral insights give us some important indicators of market growth: In Retail, store re-vamps are delivering 5%-10% growth per annum. A recent loan application comes to mind. A leading retailer in Dublin needed to upgrade two of her stores she was cautious and only borrowed for one.

This store saw an immediate uplift of 15% of sales, while the other remained flat. She's now actively engaging with us on plans to upgrade the other store. Demand for agri products, at home and abroad, is also growing. Irish milk production grew by 9% in 2017. We expect expansion will continue. Hospitality has recovered significantly post the crisis with a 50% increase in revenue per room in the 3 years to 2016. Investment is set to continue as more visitors come to Ireland. Manufacturing has seen 55 consecutive months of growth with lending to the sector increasing by 10% in 2017.

The outlook is favourable for the SME market over the next 3 years. And with our diversified portfolio of customers we're perfectly positioned to capitalise on the opportunity. One of the most significant growth areas that will benefit from the strong economy is our Wealth business. We're uniquely placed through the strength of our market positions our distribution infrastructure and our connections to Ireland's consumers and SME's.

It's going to be an exciting few years for Wealth and Insurance and Michael Murphy, Managing Director of our Wealth and Insurance business, is now going to talk about this. Michael has deep expertise in running insurance and wealth businesses, both in Ireland and internationally. Most recently, he was Global Leader of insurance consulting and technology at Willis Towers Watson.

I'm delighted that he joined Bank of Ireland in 2017 with a clear mandate to transform and grow the wealth and insurance business.

## **Michael Murphy - Managing Director, New Ireland**

The wealth and insurance business is a significant contributor to the Group. It has delivered over €100 million annually in PBT, for the last five years; and assets under management have grown by around 35% since 2012, to nearly €18 billion today. However, there is still so much more to go for. To get us all on the same page, let's define what we mean by Wealth and Insurance at Bank of Ireland it essentially has three parts. New Ireland Assurance manufactures and distributes life and pensions products. New Ireland has been serving Irish customers for over 100 years. Bank of Ireland Investment Markets manages wealth assets and manufactures MIFID and other non-life wealth products; and Bank of Ireland Insurance Services distributes general insurance products manufactured by general insurance partners.

We have the country's only proprietary bancassurer. New Ireland Assurance. This means that customers and the bank benefit from having the full range of products and services under one roof. New Ireland accounts for more than 80% of the total assets under management of the wealth business. It has an embedded value of more than €850M; and Bank of Ireland Group, through New Ireland, holds around a 20% share of the life and pensions market.

The business has built broad distribution capabilities. In our Bank of Ireland sales channel: Our national team of advisors is deeply experienced, with an average of 14 years advising customers. This creates confidence and builds trusted relationships with customers. We're developing digital capability to meet changing customer needs and behaviours. Digital wealth sales have gone from zero to 30% in the last 18 months. We also have relationships with more than 750 brokers and strategic distribution partnerships with strong Irish brands like FBD. These relationships allow us to reach significantly more customers outside of our Bank of Ireland base, in an efficient and scalable way. The Wealth and Insurance business comprises three successful individual businesses today it's a really exciting platform for growth. By pulling them together, we will take advantage of a strong and growing market and will be a core driver of growth for the retail business in Ireland.

As we turn to the market, the outlook for wealth and insurance presents considerable growth opportunities. Positive Irish economic trends of rising incomes and employment support growing household net worth as well as growth in business assets. Low interest rates, and rise in consumer and business sentiment is boosting appetite for risk particularly in the affluent segments.

We expect the life and pensions market to grow by an average of 10% per annum from €1.4 billion APE today to €2 billion by 2021. We see strong growth in pension demand. This will be driven by the shift from defined benefit to defined contribution, changing work and retirement practices and potential future auto-enrolment. The scale of growth will be considerable. The combined defined benefit and defined contribution market is forecast to grow by one third between now and 2021. By any measure, this is substantial and, with the changes we're implementing, we'll be very well positioned to take advantage. Historically there's a low take-up of wealth products in Ireland, mainly due to lack of awareness, education and, to a lesser extent, risk appetite.

This is reflected in the bank's customer base. Just 23% of the qualifying customer base holds a wealth or insurance product today. Wealth and insurance product holding is significantly under-weight. This is even more pronounced with our SME customer base. SME offers material growth potential in both pensions and insurance. We haven't capitalised on this historically due to an under-investment in digital and technology in wealth.

But we're changing that. Let me give you a few examples: Firstly, technology investment is the critical enabler. Digital advice, fulfilment and self-service will transform user experience, improve agility and increase efficiency. This will improve conversion rates, increase share of wallet and enable other growth opportunities. Secondly we'll unlock the wealth and insurance opportunity in the bank's customer base particularly among SME's and affluent customers. One specific example is the sizable insurance

opportunity. We'll optimize our existing home and motor business. We'll introduce new partners to improve conversion and widen our product offering.

This will drive strong growth in insurance, on a capital-efficient basis as a distributor rather than manufacturer. Thirdly we'll expand distribution with our existing broker base. We'll build scale partnerships and deeper relationships with the larger brokers and corporates. This will open up the Group Pensions and Retirement opportunity. The scale of the wealth and insurance opportunity for Bank of Ireland is obvious and significant. I'm really excited about what we're doing in this business to take advantage and to build a national champion. So back to Gavin now to talk about how we're going to take advantage of these opportunities.

### **Gavin Kelly - CEO, Retail Ireland**

The backdrop is a compelling one. The Irish economy is robust and growing. We have an enviable market position. From this platform, we'll become Ireland's National Champion Bank. Our transformation strategy and investments are core to this ambition. My colleague Steve Collier will tell you how later this morning. Let me tell you why. Transforming the bank will enable us to leverage our strengths and defend against new forms of competition. It will deliver on our customer's appetite for better digital services. That includes new channels and features that are intuitive and offer our full range of services. We'll make further significant progress on automating and digitising processes through robotics. This reduces costs and makes everything faster and easier for customers. Over the next 3 years we'll invest in our colleagues. We'll set the benchmark in banking for serving customers brilliantly in Ireland. We'll invest in providing our staff with better digital tools to do their jobs. Today, we're product-focused. Our systems are built that way. But we have begun the shift to being truly customer-focused. That means making Bank of Ireland easier to deal with at the most important moments in our customers' life. Bringing our products, data and services on to a Single platform, is therefore critical. This will deliver for our customers, and for Bank of Ireland...We'll deepen customer relationships, and increase product holdings. We'll continue our presence in communities across Ireland. Our advisors will meet customer in our branches, at their offices or in their homes. Our digital platform will enable them to have a richer conversation and make better decisions. This unrivalled combination of digital and community presence will continue to differentiate us into the future. I want to give you a little more flavour for some of these initiatives.

Under our transform the bank pillar, we're focusing on 3 priorities: Customer journeys; Investing in our branches and contact centres; and Investing in our people. Firstly, our day-to-day service and product journeys have not been simple. We're making them easier and more efficient by taking-out the pain points. Some of these changes are small, continuous improvements we've already reduced our turnaround times on a number of high volume, everyday customer processes. We've also made big improvements to our application journeys. In mortgages, we've cut the time to drawdown and increased conversion rates. We are now significantly better than the industry average, currently trending 20% better. But there is more to be done.

These customer journeys will benefit from more substantial re-engineering. Working with our technology colleagues, we'll systematically tackle these big journeys over the next 3 years. We'll initially focus on our priority business areas: business lending, wealth advice and further enhancements in mortgages. These initiatives will make banking easier for our customers and also make our business more efficient. Secondly, we're going to continue to invest in our branches and contact centres. A sizeable upgrade to the look and feel of the majority of our branches is underway. We're reallocating staff to the front-line, increasing customer facing roles by more than 16%. This will allow us to increase the services available in 40% of our branches without adding cost. That's customer focus in action.

We're upgrading our contact centre platform. This will help us to automate the handling of up to 30% of our calls. It will allow us to make better use of our data in predicting why customers are calling us... and

route them efficiently to the right person. So less hand offs and more right first time. This means more staff available to handle high-value calls, which will lead to increased cross-sales. Finally, banking is a digitally-enabled... people business. Our front-line staff support and deliver for our customers. We're going to continue to invest in them. We're creating the right attitudes, behaviours and aptitudes in our people. We're doing this because we want to set the benchmark for customer service in banking. And to make sure we're progressing, we'll measure closely how our team feels about the bank. This is important for productivity. These changes will play a role in significantly increasing our retail employee engagement score. The good news is we've already seen a positive shift over the last 6 months.

Serving customers brilliantly means perfecting the most essential and significant things they need us for. Again, we've identified 3 initiatives: Leveraging technology transformation; Life moment propositions; and Championing Enterprise and Financial Wellness

Our first priority is to leverage our technology transformation and launch a new mobile banking app in the first half of 2019. This will uplift functionality by 50%. It will improve user experience with better in-app journeys and a fresh new design. The new app will service both personal and small business customers.

Critically, our digital channels will be built on new API foundations. These position us for the opportunities that PSD2 and Open Banking will bring. Let's talk about Open Banking for a moment. Open Banking brings new and exciting opportunities to banks and our customers'. The opportunity to expand both distribution, and the services that banks can offer, is exciting but uncharted. Trust in how we open our data, and deal with data from other banks, is top of our customers' minds. As we develop our new mobile app, it will be on a platform that makes sure safe data management is a priority. But it is also on a platform to help us rapidly develop and deliver innovative new products, services and partnerships to our customer base. For these reasons Steve and I are also changing the way we deliver these technology improvements. We're integrating business and technology teams. We're driving regular release programmes. Delivery times will be substantially faster than they are today. For our second initiative, we're looking at our personal and business customers in new ways through their view of life's events and big moments. We're using deep customer insights, to build great experiences for the moments that matter most.

Moments like: When you get your first salary Making that decision to set-up home or buying your first car. We know that our customer's journey to their first car purchase takes 2 months. In this time our customers will make: 139 Google searches watch 14 You Tube videos interact with 8 related Facebook posts seek the advice of 4-5 peers read 12 reviews and consider 14 brands across 2-3 devices. This is the level of deep customer understanding we are talking about. In the last few years we've focused on doing this with our young customers. And in our Youth segment, we've seen tangible results, with our share growing from 36% to 44%.

Finally, we're going to champion the financial wellness of our customers. We're going to help them better understand and plan their finances we'll do this so they can make better decisions. Looking after our customers' well-being and providing unrivalled support to enterprise will become core to serving customers brilliantly. We will do these things well. They will be differentiating. And they will support our growth agenda.

We'll focus our growth initiatives on three areas. Consumer Lending Maintaining our leading business banking position Growing our Wealth and Insurance Business Firstly: growing our lending to consumers. In Q4 this year, we'll re-enter the mortgage broker market, selectively. We'll deliver an exclusive proposition to up to 15 brokers in 2018, growing thereafter. We'll deliver Ireland's first mainstream digital origination platform for brokers by leveraging our award-winning UK platform. This will expand our distribution, enabling us to grow our share of the mortgage market from 27% to over 30% by 2021, while maintaining our pricing discipline. We've under-achieved in personal lending historically. To address this,

we have been working on revamping our personal lending journey and will launch a new fully digital personal loan via our new mobile app in 2019.

Secondly, we'll selectively grow Business lending in sectors where we see sustainable expansion. This will be done by: scaling our distinctive sector expertise and through our teams on the ground delivering advice and insights to business. We currently see some of the biggest opportunities in Manufacturing, Property, Agriculture and Food. Our diversified portfolio, market insight and national presence give us a unique position to deliver on these opportunities. It also positions us to adjust our approach as the market develops. We are developing new working capital products to help our business customers scale their business. We're also enhancing our motor finance offers, reflecting the changing buying behaviour of consumer car purchasers. For example, we're working with Hyundai, one of Ireland's largest car brands to integrate our car finance application with their online car purchasing service. This means a customer can order a car and get their finance all from the one webpage. We'll also lead a set of support initiatives to stimulate growth of enterprise and the economy in Ireland. We'll work with local and national business organisations to promote awareness and education, helping businesses to scale and increase competitiveness. Our business propositions will be built around 'business moments' – helping enterprises to start, scale, succeed and transition. These initiatives will maintain our number 1 position, and unlock growth where and when it happens. And thirdly, Michael shared some great plans for our Wealth and Insurance business earlier.

For me, we're really only 'scratching the surface' of the opportunities that are: the dynamic Irish economy and emerging wealth; the scale of growth in pensions and retirement; and the opportunity within the bank's personal, business and corporate customer bases. We will deliver on these opportunities by focusing on a new digital advice platform which will transform the customer experience and improve efficiency. We'll continue to grow our broker and partnership channels, particularly among larger brokers and corporates. And we will enhance our product range to meet these new demands, widening our range of insurance and pensions propositions. The combination of these will deliver on the unique opportunity for growth in Bank of Ireland in Wealth and Insurance.

In Summary, we have a unique, well diversified franchise with ambitious plans to grow. The Irish economy is young, vibrant and growing. We're clear in how we're going to deliver. We will transform our customer journeys, channels and invest in our people. We will serve customers brilliantly, deepening relationships among consumers and SME's. We will grow our loan book by 20% or €7bn by 2021 and significantly increase assets under management in our wealth business. Conditions are supportive and the opportunity is present to deliver a continued strong performance for the Group.

### **Tom Hayes – CEO, Corporate Banking**

Good morning everyone. I'm Tom Hayes, Chief Executive of the Corporate Banking division. I've been around a little longer than some of my colleagues. I'm nearly 30 years in this business I know it intimately. And I'm very proud of the contribution it has made to the Group's performance over the last 10 years. My personal experience is mirrored across the wider senior management team. We have a depth of experience not matched by any other lender in Ireland. Our clients value the access they get to that senior management team. They recognise that it provides a high degree of certainty. And, they know we'll be there to meet their financing needs as they arise. Our customers consistently tell us that we are the best at what we do. That we know their business intimately. That we understand their ambitions. And that they can pick up the phone to us at any time. That's why I'm very confident about our growth ambition and I'm excited about the future prospects for the business.

Corporate Banking consists of 4 distinct but complementary businesses; Corporate Banking Ireland; Property Finance; Leverage Acquisition Finance; And Corporate UK. At December 2017 we had a balance sheet of €13 billion generating income of €500m for the Group. That doesn't include income earned by our Retail Ireland and Global Markets businesses from corporate relationships. We've a team of 400

across a network of offices in Ireland and internationally in London, Paris, Frankfurt, New York, Chicago and Los Angeles. There are a number of characteristics that are common to each of the four businesses. We have highly experienced management teams with deep enduring relationships with customers and deal introducers. That means there are very few deals that hit our sweet spot that we don't get to see. We are really disciplined on risk and pricing. And we don't chase market share just for the sake of it.

The fundamentals in each of the markets we operate in are positive. In Ireland, we've seen 6% growth in M & A activity and continued strong Foreign Direct Investment inflows. In our Property Finance business we're experiencing strong demand for new office space and residential accommodation. In Leveraged Finance volumes in both the US and Europe have shown record growth over the last 3 years. And the economic outlook in both markets is favourable. And finally in the UK: Brexit could create some headwinds. But we are a niche player in a large and mature market with good growth prospects. Now, I'm going to walk you through each of our business segments in more detail. First of all, let's take a closer look at our Corporate Ireland business.

We're the Number 1 Bank to Irish Corporates. We have relationships with 60% of Ireland's top companies. We're THE leading Bank for Foreign Direct Investment in Ireland. Our share of new investment into Ireland in 2017 was in excess of 60%. In Ireland we provide a full service offering to our customers. Product penetration is high with an average of 5 products per customer. In addition, we maximise opportunities for the Group as a whole. For example, we work closely with Gavin and his team to create opportunities for our Retail customer business. We use our relationship with corporates to offer a range of banking services to their employees. We have specialist sector teams covering; Food & Agri; Manufacturing; Services; Pharma; Healthcare; And Hotels While the Food and Agri segment is an important focus the business is well diversified by industry segment. Our hubs in Cork and Galway established over the last two years have allowed us to achieve greater regional penetration. I'm going to touch briefly on two deals that really highlight the strength of our corporate franchise in Ireland.

Firstly, Netwatch: They're a leading provider of video monitoring security equipment. They have been a client of the Bank since 2003. They started with Gavin's Business Banking Division. Then as their ambitions grew, we took over responsibility in Corporate Banking. Recently the private equity sponsor Riverside acquired a majority stake in the business. We won the sole mandate to fund this acquisition, thanks to our long-standing relationship with the customer... and the ability to draw on the expertise within our Leveraged Acquisition Finance business. When the deal closed last month, the Netwatch CEO praised the role the Bank played in supporting the business. He described Bank of Ireland as an instrumental part of their success.

Secondly, the recent Dawn Meats acquisition of its UK competitor Dunbia. This deal highlights the strength of our relationship management model and it also underlines our expertise and capability in the Food & Agri sector. Dawn have been a customer for over 35 years. The acquisition was completed with facilities arranged and led by Bank of Ireland. This was one of the largest agri deals in the country in the last 12 months. Both deals demonstrate our ability to enable our customers to grow and fulfil their ambitions. We are THE National Champion in the Irish Corporate market and we are well-positioned to take advantage of opportunities like these that a growing economy will provide.

Now let's take a look at our Property Finance business. We're recognised as one of leading players in Ireland with relationships across 175 customers. While there is a commercial bias to our book today, our Development business has delivered strong growth, particularly over the last 2 years. This reflects the continued recovery in the housing market and the significant demand that exists across all segments of the market today. We believe the supply demand imbalance will continue well into the future. We are currently funding the construction of 3,600 residential units and 1,700 student accommodation beds. Like the Corporate Ireland business, the model is supported by a hugely experienced senior management team. That team has an average of 15 years plus in-depth sector experience. That's a critically important competitive advantage and it's not matched by any other lender in the Irish market today. Given the

impact of the Property crash on the Banking sector in Ireland. I think it's reasonable for you to ask what's different about our approach to the business today.

We've a much more centralised approach to Property lending. Now... all new large ticket Property financing is managed within Corporate Banking. When structuring customer loans – we have a heightened focus on cashflows and gearing. In addition we have a very strong due diligence process supported by our specialist Real Estate Advisory Unit. Our focus has been and will continue to be on supporting developers that have sites with planning permission and are ready to commence construction in the near future. To give you a flavour, today we are supporting developers on 160 sites across the country delivering much needed new homes, apartments and student accommodation. A recent transaction we completed with GSA highlights our capability. GSA is a leading global provider of student accommodation. They're active across 9 countries. Over the last 18 months we've supported GSA in the construction and development of over 1,400 beds, providing much needed supply in Dublin and in Cork. We are THE Number 1 funder of student accommodation in the country.

Next up is our Leveraged Acquisition Finance business. This IS one of the Jewels in the crown. We've been in the leveraged finance business for over 20 years. It has delivered consistently strong returns with low loan losses, over that period, and through various cycles. Our primary focus has been on private equity sponsors that target the mid-market and whose investment thesis is concentrated on underlying businesses with EBITDA generally between 10 and 50 million euros. We focus on this end of the market for two key reasons. There is less competition from the Investment banks. And we can do more comprehensive due diligence on every deal. When the Investment banks move into the mid-market as they do from time to time we remain disciplined. If necessary, we step back if we believe markets are too aggressive.

We've 3.3 billion euros of lending volumes on our balance sheet, broadly split 60/40 between Europe and the US. In addition our underwriting activities mean that this business is a strong contributor to non-interest income. Our book is very diversified, with no material geographic or sectoral concentrations and less than 20% of the book is covenant lite. Senior management average tenure is greater than 15 years. This brings significant market knowledge and consistency to our sponsor relationships. These sponsors know that when they have a funding need, we will deliver. Let me touch briefly on a recent deal that demonstrates very clearly the value of this business. Audiotonix is a UK-based designer and developer of audio-mixing consoles. They operate at the premium end of the market. They supply equipment for artists, like U2, who have used it on world tours. We backed the business initially in 2014 under Electra's ownership. We were subsequently mandated as sole underwriter and book-runner when the business was acquired by Astorg in 2017 in a 172 million pound deal. We've since completed a refinancing of the business to simplify its capital structure. That's 3 valuable funding opportunities from 1 connection in 4 years.

Finally, looking at our Corporate UK business, this is a market we recently re-entered. Our approach to Corporate UK is on a niche sector basis. We're currently targeting 5 sectors with specialist teams in: Industrials & Manufacturing; Consumer & Hospitality; Media; Business Services; And Technology as I told you, we re-entered this market in 2016 and grew commitments to 1 billion euros during 2017. Our solid foundation is built on a scalable but disciplined platform to position us for growth opportunities. Currently, we've about 58 lending customer relationships. 42 of these were new in 2017.

Again, we built this with an experienced team. We have 32 colleagues including 12 senior industry specialists. Altogether, that's 150 years of sector experience in the UK. This team has proven ability to originate quality assets based on long-term relationships with customers and deal introducers. The recent establishment of a presence in Manchester provides us with an important platform to source deals in the North of England. While our primary product offering is senior debt... our Global Markets and Fleet Financing capability through Northridge, provide valuable ancillary business opportunities.

Across the four business segments we have a number of clear competitive strengths that underpin our excellent financial performance and provide an ideal platform for continued growth. We expect to grow our loan book by 4 billion euros between now and the end of 2021. That growth is likely to be split fairly evenly between Ireland and our international businesses. In Ireland we will maintain our position as the Number 1 Corporate Bank. We'll leverage off our dedicated origination capability and our expanded regional footprint to drive new lending growth. We'll increase our capacity to serve our customers brilliantly by freeing up relationship managers from activities that don't add value to the customer.

We'll maintain our leading position in Property Finance by leveraging the strong relationships we have with key property developers. We'll provide them with the funding they need to execute on their strong development pipelines. In that context, a key priority will be supporting the significant pent-up demand for all forms of housing.

We will also continue to maintain a focused and selective approach to international expansion. Our capability and track record in Leveraged Finance is exceptionally strong. It provides us with a great platform to build on. And we will do so by leveraging off our existing strong sponsor relationships, building new ones and expanding our geographic footprint. For example, many of our existing sponsor relationships are active in Spain. The market fundamentals there are positive and a presence there will deliver attractive underwriting opportunities. In Corporate UK... we'll drive growth through our dedicated sector teams, keeping a close eye on Brexit. And we'll utilise our newly established Manchester presence to drive growth in the important North of England market.

To conclude, this is a great business, with: Diversified sources of income; a highly experienced team with enduring customer relationships; Leading market positions; and a disciplined approach to risk taking. I'm confident that we'll deliver high quality revenue growth at attractive margins within an appropriate risk appetite. Many thanks for your time this morning.

### **Sean Crowe – CEO, Markets & Treasury**

Thank you Tom and good morning everyone.

My name is Sean Crowe and I am the Chief Executive of the Markets and Treasury Division. This is a new business area. It was formed from the merger of our central treasury function with our customer treasury service provider, Bank of Ireland Global Markets. These are two businesses that I know extremely well. I joined Global Markets from the asset management industry in 1993 and for a number of years I ran our trading floors in Dublin, London and New York. Then, after a brief return to asset management, I took over as Group Treasurer for the Bank at the start of the financial crisis in late 2008. My mandate was to establish a new, centralised treasury function to bring enhanced top-down control to the Group balance sheet. Over the following years, and operating in an extremely stressed market environment, the treasury team established new and now very well-embedded risk processes within the Bank. Simultaneously, we right-sized the balance sheet and optimised the Bank's capital, often doing this in very innovative ways.

Now, I am delighted to be in a position to combine the strengths of this central treasury team with the proven capabilities of our customer treasury service provider, Bank of Ireland Global Markets. Global Markets offers a range of foreign exchange, interest rate hedging, trade finance and treasury solutions. In 2017 we executed almost €50bn of transactions for our customers. We have long-standing and deep customer relationships.

These are built on strong customer service and the capabilities of our stable and experienced team. Today, we provide treasury services to 85 of the top 150 Irish exporting companies. We work hand-in-hand with the Retail division and are co-located with Corporate Banking so that we can provide an integrated service offering to our customers. Integration is crucial. Our role is to support the Retail and

Corporate Divisions in providing brilliant service to their customers, while leveraging those franchises to generate additional revenue. In doing this, Global Markets represents an important source of capital-light, non-funds based income for the Group.

Global Markets serve almost 100k personal customers, 30k business customers and more than 700 corporate customers. These are typically deep and long-standing relationships with our coverage of the Irish market-place, in particular, being extensive. The strength and sustainability of these relationships is a key asset for us. We are conscious that our customers' needs are changing. That is reflected in our competition.

A number of years ago there were more banks competing for business in the Irish market than today. Now there are fewer banks but more Fintech challengers. We have responded by enhancing our own digital offerings and, when appropriate, partnering with external technology providers. Our multi-channel approach, combined with strong customer service, has enabled us to maintain customer foreign exchange volumes and margins in spite of the changing competitive landscape. Our foreign exchange platform for SME business in Ireland, FXPAY, is a good example of an effective partnership with a technology provider.

FXPAY enables us to provide an excellent digital service to the Irish SME customer in a simple and cost-effective way. More than 60% of our Irish foreign exchange business is now generated through this and other digital means.

We've also been exploring the use of technology in international markets. We've recently partnered with Worldfirst, an international payments company, to reach new customers in the US via a simple and easy digital offering. Digital channels are clearly important for vanilla products. However, we continue to recognise the significance of providing key treasury insights and tailored solutions for our customers' more complex needs.

Our customers face new challenges, for example, one of these being Brexit. We are reaching out to assist them and have presented directly to 1,500 customers on the topic. We've also just launched a €20m unsecured FX facility to support Irish SME's potentially impacted by Brexit.

Another example is in the interest rate space. Our customers face the new challenges associated with a changing interest rate environment. This is an ideal opportunity for us to share our expertise and experience in interest rate risk management.

Putting this together, our Global Markets business has the expertise, the multi-channel offering and the commitment to service to support our customers' growth ambitions in a changing market environment.

Turning now to our management of treasury risks. Treasury risks are managed centrally in BOI with, for example, all fixed rate risk being swapped into the treasury function, the customer division being left with floating margin returns. In treasury, the risks are then managed using simple and liquid products, typically interest rate swaps, government bonds or foreign exchange instruments.

We know our strengths. We have a well-developed risk culture, a strong research focus and an ability to leverage information flows from our extensive international counterpart base. We are not trying to be an investment bank. We do not run risk in products that are not readily understood or that cannot be easily exited.

That is not to say that we are not putting the skills and capabilities of the team to use in clever ways, BOI has a track record of innovation in the financial markets. For example, we are a market leader in synthetic risk transfer technologies, we were the winner of the IFR European financial bond of the year award in 2017 and we have consistently found ways to optimise our capital in the banc-assurance space. The stability, experience and expertise of our team is our key differentiator. The team has demonstrated its

capability to manage treasury risks safely during the financial crisis. This is augmented by a proven capacity to serve customers well and to leverage flows to generate additional risk income.

We would typically expect to generate around 60% of our income from customer business, 10-15% from leveraging those flows and 25% from safely managing the Group balance sheet. The focus on managing risk safely is critical.

As I look forward, a key consideration for me is to ensure that the expected growth in the Group balance sheet that my colleagues have spoken about is funded in a safe, prudent and cost-effective way. Let's look at this in a little more detail.

The Group's funding base has been transformed over the last 10 years. The Loan to Deposit ratio now stands at 100% as at the last reporting date. The net stable funding ratio and the liquidity coverage ratios remain robust. We are predominantly a deposit-funded institution with stable deposits in Ireland gathered primarily across Retail distribution channels, including our 265-strong branch network.

In recent years, we have grown our market share to around 29% of the Irish deposit market, while retaining strong discipline on pricing. In the UK, we have approximately £19bn of Retail-sourced deposits originated via our branch network in Northern Ireland and from our Post Office and AA partnership channels. These are typically low-volume granular deposits, with around 90% covered by the UK's statutory deposit guarantee scheme.

The Group has a modest wholesale funding requirement of the order of €13bn, down from a peak of more than €80bn pre-financial crisis. Despite the reduction in requirements, we continue to prioritise the retention and development of our wholesale relationships, having directly engaged with 250 investors in 2017. Approximately €5bn of our wholesale requirement is generated from cost-efficient, long-term funding from the Monetary Authorities, with the rest coming from senior debt, Irish Mortgage Covered Bonds and UK Mortgage Securitisations.

We do not rely on short-term, money market-funding. Our balance sheet position has been transformed and is now very robust. We have strong franchises and additional capacity to grow customer deposits in both the Irish and UK markets. We have a well-developed wholesale funding capacity that we have kept current by engaging with our customers regularly and keeping our product range fresh. We are strongly positioned to safely fund the future growth in the Group balance sheet.

To summarise: We have an extremely strong customer franchise built on a long history of delivery of expert advice and quality service to customers. We are operating in a favourable environment, evolving in line with our customers' needs and leveraging the growth in our core economies. We have a consistent record of managing treasury risks safely and we have the capacity to fund expected balance sheet growth. And Markets and Treasury is well placed to support growth in the Group's customer business and to leverage that growth to generate additional non-capital intensive income.

Thank you, I'll now hand to Des Crowley, CEO of Bank of Ireland UK.

### **Des Crowley – CEO, Retail UK**

Good morning, my name is Des Crowley and I'm Chief Executive Officer of Retail UK and Bank of Ireland UK PLC. I've been with Bank of Ireland for almost 30 years, leading Business Units in both Ireland and the UK and most recently leading the UK PLC since 2012.

As Francesca said, Bank of Ireland is committed to the UK market and our strategy is to focus on increasing our returns. We have been in this market for a long time and we have considerable strengths. But as you've heard, Retail UK has a number of strategic challenges leading to our current low single digit

Return On Tangible Equity [ROTE]. My objective today is to outline the nature of those challenges and precisely how we are going to tackle them under three headings; Investing in growth in attractive segments; Improving the position of certain businesses through cost efficiency; and repositioning other portfolios

Before I look at these initiatives in detail, I want to ensure full clarity of the heritage and composition of our UK Business. We see the UK as a large, adjacent market that offers the Group growth, diversification and synergies. The UK is a competitive market. It is a market we can compete in successfully, due to our flexible business model, our partnerships with distinctive trusted brands and our capabilities. Bank of Ireland has been operating in the UK for over 40 years.

We have built a franchise with 3 million customers. We have an 18 billion euro retail deposit book, over 21 billion including Current Account balances and a 22.6 billion total mortgage book. We organise ourselves around our partnerships, Northern Ireland and our product businesses.

A key milestone in the development of our franchise was the acquisition of Bristol and West Building Society in 1997; that gave us significant and deep expertise in mortgages. Second was the start of our relationship with the Post Office in 1994. This led to us establishing our Foreign Exchange Joint Venture, FRES, in 2002 and that was followed in 2004 by us winning a competitive tender to partner with the Post Office in broader financial services. The third significant milestone followed the EU state aid plan agreed by Bank of Ireland Group in 2010, when we established a fully separate legal subsidiary in the UK called Bank of Ireland UK Plc that same year.

Since this date, we have developed our UK subsidiary in a number of important ways; Our re-entry to the mortgage intermediary market in 2014; The establishment of an additional, and complementary, partnership with the AA in 2015; And two bolt-on acquisitions in 2017. One in the foreign currency area and one in contract hire

Through the Post Office, we provide banking and investment products. This is our most strategic and important partnership. The business currently has a 16 billion euro deposit book and a 6 billion lending book with 1.6 million customers. Its key strength is its presence across the UK in its communities with 93% of the UK population living within 1 mile of a Post Office branch.

The Post Office is investing with us in its digital customer experience to further enhance our financial services proposition. FRES is the Number 1 travel money business for retail customers, with 24% market share. It's a perpetual Joint Venture with the Post Office, with a 50:50 share of profitability. It's moving quickly to diversify its product offering by providing pre-paid debit cards, same day online currency collection and continuing to evolve its presence in mobile channels.

As you can see, our Financial Services partnership with The Post Office began in 2004 with the formation of our 50/50 joint venture, which was originally a 10 year deal. This established exclusivity for a range of products. Our partnership was renewed and extended twice, and currently runs to a minimum 2023. The partnership is focused on meeting customer needs, existing and evolving, being accessible and generating value.

Our other significant partnership is with the AA, this is 2 years up and running. It's a multi-product distribution deal, committed to until 2025. It has 130,000 active customers after the first 2 years, and a balanced deposits and lending book of 400 million euro. The focus of the partnership is to target the members of the AA, of which there are 3.3 million. And to use the propositions to increase cross sales within the member base, creating value for both partners.

Our bank in Northern Ireland is a full service retail and business bank, with 300,000 customers. Northern Ireland is a small market; we have a long-standing presence there. Our strengths are the strong business

franchise where we have a 15% share of the Business Current Account market and a 22% share of business lending.

In 2016/17 we carried out a rationalisation programme to reduce our branch footprint and that has significantly enhanced the efficiency of our business model. Northridge, our auto-finance business is also long established. It has a book size of 1.6 billion euro with 150,000 customers and it did 900 million of new lending in 2017 through a well-established network of 1,500 car dealer sites and brokers.

Lastly, our Mortgages business is built from the 1997 acquisition of Bristol & West, its distribution through both the Post Office and AA brands and our own brand. It has 85% coverage of the intermediary market and the current mortgage book stands at 22.6 billion euro. Its key strength is its mortgage origination platform, called ROME, which is operating in all channels, and is now being deployed into Ireland. That's the make-up of the Retail UK franchise.

Lastly, for the sake of clarity, I should highlight how the accounts for the franchise are reported. We have two entities; One is Bank of Ireland UK Plc which was incorporated in 2010 and has a balance sheet of 22.7 billion euro – this is the go forward business; The other is GovCo branch which is funded by the Group and is in wind down.

I now want to look at the strategic challenges in our UK business, current returns are not satisfactory. Within interest income we see challenging returns within some mortgage segments and weak revenues in the credit card business. We have historically higher funding costs than High Street banks. In common with the Group, we have a high operational cost base. That reflects the scale of our business and our investments in partnerships and propositions. But it is impacting our current returns.

And finally, the UK results are significantly impacted by the wind down of the legacy portfolio. These are the precise challenges that need to be addressed to improve performance in our business.

I'm going to look at each of these challenges in turn. First, the credit card market. This has become a less profitable market due to falls in Interchange fees and intense competition, and is dominated by large banks and by supermarket loyalty programmes. We've seen significant, aggressive pricing behaviour and also predominant usage of zero percent balance transfers to attract customers. For us, we are relatively disadvantaged by our small scale in manufacturing. We would have approximately 700,000 cards in issue against a market average of 2.5 million, and scale players with greater than 5 million.

We also do not have an appetite for near prime business. With a need to invest in order to compete, we are now conducting a strategic review of the front and back book options in the credit card market to deliver improved returns and cost performance.

Now the second challenge the cost of funds. The Deposits market continues to grow, albeit slowly at a size of 1.3 trillion sterling. In Deposits, Bank of Ireland has made strong progress in terms of managing our margins over the last two years. Net margin has reduced from 76bps to 48bps. We have a diversified and maturing deposit book, with strong and trusted partner brands for distribution which gives us flexibility.

We are expecting to see a gradual rise in interest rates in the coming years which will continue to help us to manage margins. We are also working on proposition development, particularly in the expectation of an open banking environment. Our emphasis is on optimisation of our cost of funds, supported by a rising Base Rate environment.

Third, the mortgage market. The overall market is in the region 0.5 trillion sterling, of which 265 billion of new lending is expected in 2018, a scale market nearly 40 times the size of the Republic of Ireland market. Housing supply is not meeting demand but we do expect government policy support to improve supply in the medium term. We are seeing a growing proportion of mortgage market transactions being represented by re-mortgage and First Time Buyer transactions. There has been significant pressure on

margins, particularly in the mainstream re-mortgage market. As a consequence today, I want to confirm that we intend to reposition away from the mainstream re-mortgage market. I also want to confirm we have developed retention propositions to ensure we protect our own book.

For Bank of Ireland, we see opportunities we can exploit, given the scale of the market specifically in First Time Buyer and other growth segments, which we believe are under-served in the current market and provide scope for us to drive revenue growth. These include 'Later In Life' lending and self-employed. We have propositions in these markets; 'Family First' and 'First Start' in the First-Time Buyer market and Retirement Link in the 'Later In Life' segment. These propositions are distributed through the Post Office brand and through intermediaries. These provide an exciting opportunity for the bank, given our distribution and our capability and is within our Risk Appetite.

Bank of Ireland sees growth potential in segments of the mortgage market. But we also see other key markets providing opportunities for us in the UK. We see growth emerging in the Auto Finance market and an evolution away from ownership to contract purchase and rental. New business volumes in the Point Of Sale consumer used car market increased by 7% YoY in Quarter 1 2018. The Personal Contract Purchase market is currently the dominant and growing segment. We have good propositions and we see emerging growth in Personal Contract Hire market. We are a key participant in these segments.

We have an arrears history that's over four times better than the industry average. A strong track record over many years. Our plans are to exploit the full product manufacturing capability we now have in that business and leverage our distribution base. And we see a strong opportunity to expand in the Contract Hire market through our AA base and through leveraging our business and corporate customer base.

The unsecured lending market continues to grow, but at a slower pace. Successful business models are focussed on digitisation, customer insight and straight through processing. We see low loan loss rates for Personal Loans, although we expect to see upward pressure from a low base. And loan portfolios are low cost to serve, provided you have sufficient scale.

For Bank of Ireland, we have strong propositions through our partners and an efficient platform. We see an opportunity to grow our UK unsecured lending book to 1 billion by 2021 with acceptable returns.

Let me summarise the strategic initiatives that we are committed to implement. These are the initiatives that will both address our challenges and grip the market opportunities, leading to a doubling of our ROTe. Starting with repositioning. We are conducting a strategic review of the front and back book options in the credit card market to deliver improved returns and cost performance. We are looking at options to accelerate the wind down of legacy commercial lending portfolios.

Secondly, to improve our returns, we are undertaking 4 strategic initiatives: We will reduce the cost of funds, as base rates rise and our deposit book matures; We will reduce the cost of origination and cost to serve across all of our products, by investing in digitisation and benefit from Group Transformation Programme; We will continue to engage with our partners to drive increased value; And in Northern Ireland we will improve returns by driving net loan book growth, further digitisation and cost management

As I said, we are aiming to double the ROTe. Two-thirds of that improvement will come from the initiatives I have outlined under repositioning and improving.

Thirdly, under Invest for growth, we are targeting a 10% growth in our loan book. We are aiming for growth in the mortgage business: This will include delivering enhanced propositions into the market and continuing to invest in digitisation and automation. We will broaden Northridge's distribution beyond the 1,500 sites we have today, including capturing the benefits of the AA and Marshalls. We are targeting to grow our Unsecured Personal Lending to in excess of 1 billion sterling. And we will continue to invest in further digitisation and enhanced propositions in FRES to maintain our market leading position.

The remaining third of the ROTE improvement will come from these 4 initiatives.

So to summarise, our strategy is focused on increasing returns through a combined set of initiatives to reshape our business portfolio. The successful execution of these strategic initiatives will result in Loan Book Growth of 10% and a doubling of our ROTE by 2021. Bank of Ireland is committed to the UK market, a market which offers growth, diversification and Group synergies.

I am confident we will deliver. We are now going to take a short break, we'll be gathering back here in ten minutes for presentations on 'Transformation' across the Group and 'Financial Outlook' through 2021.

Thank you for your attention.

### **Steve Collier – Transformation Programme Director**

Good morning everyone. I'm Steve Collier, Transformation Programme Director and for the next 20 minutes or so I will provide an overview of our "Transform the Bank" Programme.

Before I get into the detail, let me share a bit about me. I have been in banking for over 35 years. During that time I have had roles in just about everything: Retail & Business Distribution, Operations, Digital and Direct Banking. In each of those positions, I have had responsibility for both running the business day to day and for changing the business over time. The most significant of these transformations was at National Australia Bank where I led the "NextGen" Core Banking Programme. At NAB, "NextGen" was the biggest technology overhaul in the bank's history and one of the largest in AsiaPacific. The transformation was broad and deep. We built and launched an entirely new online challenger bank – Ubank. We touched everything from Originations & Credit, Account Servicing & CRM, through to Finance, Risk & Treasury.

You won't be surprised to learn that there are many parallels with what we are doing here at Bank of Ireland. Whilst no two banking transformations are ever the same, I've certainly picked up some key insights along the way. First, transformations are just hard work. They require access to the right people. They require a mix of regular, incremental improvements, as well as a focus on the big picture. They require a commitment to persistent investment and the resolve to stay the course. Transformation requires executive sponsorship at the top table and clear alignment across the whole organisation. From the Board, to the CEO, right down to the frontline, everyone needs to drive towards the same goal. At Bank of Ireland, we have this alignment. I report directly to the CEO. And my Group Executive colleagues are deeply involved in the transformation work. Now, we all know that change is hard and it's often resisted. Therefore, it is critical that Transformation is business led. Change has to be driven by the business not done to the business! In fact Gavin, our CEO of Retail Ireland, chairs the Core Banking Systems Transformation Board and keeps me and the team on our toes and customer focussed, every day. But all of that is still not enough. Simplification of the technology must go hand in hand with simplification of our business model, our processes and ways of working. Constraining new systems with old behaviours just leads to a really expensive new system. To achieve this simplification, we must work with trusted partners. Partners like Temenos. They invest significantly in Research & Development work with more than 1,500 firms around the world and they're constantly innovating. As one of their key customers we benefit from that innovation.

Finally, our programme portfolio must be carefully balanced. We do have risks, we need to anticipate them and manage them appropriately. At Bank of Ireland, we are doing this deliberately. We have the right level of governance, stage gates to ensure our programme is reviewed and approved by senior stakeholders and rigorous planning and tracking in place.

Now, there are three key points I want to focus on today. First, we have broadened the scope of our transformation. Historically, we have talked about Transformation in relatively narrow terms and

focused purely on changes to our Core Banking Systems. But to achieve our ambition we need much more than just technology. We are broadening, deepening and accelerating our transformation programme. It now covers Culture and Business Model as well as our work on Customer Channels and the Core bank. The focus of my presentation is on our Systems and Business Model Transformation, but these initiatives also support the cultural change we are looking to achieve. Second, we are increasing our investment. Clearly doing more means spending more. Finally, we are accelerating the benefits. So, let's get into this meat of this.

To "Transform the Bank" we will of course need to be disciplined and systematic with our investment spend. We have indicated previously that we will spend about 900 Million euros on our Core Banking transformation. This investment will ensure we get the right technology in place to improve our cost and competitive position in the long term. On top of that we will spend another 500 Million euros to deepen, broaden and accelerate our transformation. Now, roughly half of that investment will go into deepening our IT work and bringing forward a range of customer initiatives. This includes improvements to our channels, digital advice for wealth and replacing our mortgage platform. The other half will go into broadening the scope of our transformation to support vital changes to our business model. We are investing to simplify our organisation and further reduce our structural costs. Overall, this extra investment means our annual spending on transformation will increase from about 200 Million euros to about 275 Million euros per year.

Andrew will talk you through our detailed financials next. But at a high level, those additional investments also mean we see more benefits, earlier than previously expected. On the revenue side, you've heard how our work will help the bank grow our group loan book by 20% by 2021. This is across business and retail segments in the UK and Ireland. It will also generate increased income from our wealth and insurance business lines. On the cost side, transformation will ensure that our costs fall every year in absolute terms through 2021. That means in three years' time our total costs will fall to around 1.7 Billion euros from 1.9 Billion euros today. In turn, we expect our cost to income ratio to reduce to around 50%.

Now, turning to the work we're doing in Systems to transform the core and our customer facing technology.

At Bank of Ireland we are proud of our heritage. However, as the Bank has evolved, so has the complexity in our business processes and IT systems. These need to be modernised. To give you an example, we have over 1,000 key business applications. Many of these are sitting on legacy platforms running on Cobol. These systems were designed for 10am-3pm branch banking 30 years ago! I don't think I need tell you that today they are no longer fit for purpose. Of course we are not alone. Incumbent banks of our age and scale all over the world are in a very similar position. At Bank of Ireland we are undertaking a once in a generation investment programme. We are replacing a myriad of systems with simpler, state of the art technology designed for the future. Temenos T24 is at the core of this but we are making improvements in every layer including channels, information, services and security. Taken together we believe these changes will create a sustainable competitive advantage for us.

So, what will that competitive advantage look like? When it comes to Simplification and Automation, our Robotics Centre is one of the largest and most mature robotics innovators in Ireland. This is transforming areas of our business such as fraud prevention and detection. Today our robots scan and flag high-risk card transactions. If a potential fraud is detected the system holds the transaction, triggers restrictions on use of the card. Our customer is then automatically notified. This is a wonderful example of how we are protecting our customers and reducing business costs. Our systems need to be resilient and stable. Our infrastructure and software investments will ensure that we are "Always On" and clearly that's what our customers expect. At the same time our payments systems are a crucial enabler of the Irish economy. A role we take very seriously. Overall - we are improving the stability and speed of our payments services by investing in best in class payments systems from Finastra. As an example, Business customers making

ROI to UK payments used to have to submit their orders by 10am for next day completion. Today, we've pushed this out to 4pm giving businesses greater flexibility, control and peace of mind.

To deliver on these opportunities, we are actively managing our roadmap. To date, we have focused on getting the foundations right. We have done things like upgrading our infrastructure, our test environments and our payments engines. We have taken steps to simplify our processes. We've freed our people up to focus on higher value work by automating low value, high volume tasks like data entry. Or as we like to describe it, "Taking the robot out of the human". Since I joined earlier this year, we've made a big effort to accelerate benefits for customers so they can touch and feel the transformation as it progresses. In particular, we're now turning our attention to the shop front and our largest branch – the Mobile App. We will launch a new mobile app in the first half of 2019 and regular updates thereafter. I will talk about that more in a minute. On the product side, this year we will deliver our first end-to-end use of the Temenos platform with our personal loan and deposit origination pilot. In our test phase we will limit this to friends and family. But it is a key milestone for us and will allow us to prove that our end-state technology works as expected. It will prove that we are ready to move on to more complex products, with greater volumes, like current accounts. It is worth calling out that our delivery roadmap is not static. It is dynamic and will evolve. We must balance between meeting our customers' needs, our regulatory obligations and the capacity of the Bank to deliver change. We will work closely with Temenos and our other partners to understand and influence their development roadmaps. That way we'll be well placed to take advantage of their new developments. I'd like to share with you some highlights of what we've already delivered and what's coming very soon.

One of our most important achievements so far has been our Single Customer Record. This means we have a single, consolidated view of our customers' core data for the first time. That is quite unique and few banks can match it. By removing duplicates and errors we have successfully loaded in excess of 2 million, clean customer records onto our Temenos platform. In practice, this means our colleagues will be able to see a customer's product holdings and their basic data in a single location. Over time this work will let us build up a comprehensive view of the customer, covering their full transaction history. When combined with the new analytics and CRM capabilities we are developing, we'll be able to anticipate what our customers need and when they need it. Take a typical customer – Anne from Dublin who's banked with us for 20 years. She has a current account, savings account and maybe even a mortgage. In the past these records will have been held in many disparate systems. But now all of Anne's data, product holdings, date of birth, address, recent purchases and re-payment history, sit in one place. On one screen. Ready for our customer service and advice teams to support her. So, when Anne gets a pay rise this might be the right moment for her to extend her credit limit. Or if she builds up a large cash balance that might be a great moment for her to consider a product from our New Ireland portfolio. That is the power of the Single View of the Customer.

We are continuing the digitisation of our UK Mortgage business. We can't overstate the importance of home ownership in the lives of our customers. Whether it's buying a first home, or downsizing in retirement. Today through our ROME platform, 100% of mortgage applications in the UK are digital. No time is wasted on paperform-filling. Automated online processes make assessment and approval of applications much faster and customer-friendly. We did this by redesigning the process from end to end – from application through to refinancing and renewal. These changes are driving real benefits for both our customers and the Bank. We have nearly halved the "application to offer" time from 18 to 10 days. This has resulted in significant improvements in customer promotion which has more than doubled from 31 to 79. Moreover, these changes have brought cost per application down by 35%. As Gavin mentioned earlier, our re-entry into the broker market is a driver of our growth. This is the platform we're using to deliver it.

Looking ahead into 2019, we will be launching a new consumer mobile banking app. This is something I am really excited about. The app design and functionality is directly informed by our customers' feedback on problems they encounter. The first release will include new features such as managing direct debits and setting up standing orders. It will allow customers to notify us about their travel plans to prevent

unnecessary fraud alerts. The new app is a milestone for two other reasons. It will leverage Temenos Edge Channels capability and it will be the first concrete output of our new agile, DevOps delivery model. That's a big deal. Agile DevOps is an approach to technology delivery that focuses on regular updates to meet user needs. This is in stark contrast to more traditional waterfall approaches where customers had to wait a very long time for updates. All of us have one of these in our pocket. No matter who we do business with, they're likely to have an app on our phone. It will be updated regularly, and we will only use it if it has the functionality we need. Bank of Ireland will be no different. We see this type of development as proof that we are building real "transformation muscle."

Now, Systems transformation can't be done in isolation. It is best done in conjunction with changes to your Business Model and ways of working. And together this will help us achieve our 50% CIR by 2021. Here we're driving two main initiatives: Simplifying our Organisation and Strategic Sourcing.

By simplifying our organisation, we will become leaner and more agile so we get closer to the customer. To achieve this, we are making changes on multiple fronts. We are significantly reducing the number of layers between head office and the branch. By flattening the organisation and getting our senior managers closer to the front-lines we are empowering our people. We're also speeding up decision making. Critically, it will make us more responsive to customer needs while reducing costs. We're making further changes as well. We plan to increase our customer facing staff from 40% to 60% of the total. And as previously announced we plan to close 28 back office service centres this year. These centres were set up to provide operational support for the Bank and temporary project management. They were engaged in activities we are able to absorb in other locations or do without entirely. Actions like this are never easy but this move reflects our commitment to refocus our resources on staff who directly work with our customers. We have tidied up our legal structure. Reducing the number of legal entities from over 200 to under 70 has reduced cost and complexity. Finally, we will make important decisions on whether to exit or restructure expensive-to-run business units that have limited revenues and growth prospects. This will free up capacity to invest in our core franchises.

We're putting procurement under the microscope to make sure we are getting maximum value from our partners. We've already reduced day contractor fees by about 70% and our spend on professional services and travel by about 20%. Our footprint is another area of focus. We are rationalising our commercial office footprint and have already exited a number of locations such as Grand Canal Quay in Dublin and are actively looking at further consolidation opportunities. At our showcase office in Baggot Plaza in Dublin, we are experimenting with an entirely new, agile working environment. We are piloting flexible, digital working practices meaning many of our colleagues can choose to work remotely or hot-desk. As we roll out these initiatives, our people become more productive. And crucially we will reduce our office space, bringing down our costs. We have also put in place robust measures to make sure these costs don't creep back. Our new Advisory Review Board scrutinises all our third party spend and ensures we are only using third parties when it is absolutely critical.

I started the presentation today by talking about my background and experience. But I want to wrap up by telling you why I joined Bank of Ireland. I have moved here because I am excited about the opportunity to transform a bank with such a rich heritage. I am inspired by the idea of creating a National Champion Bank. Our work, across all three dimensions of Transformation Culture, Systems and Business Model - is absolutely crucial to making that happen. We have the right investment to get the job done. We have the leadership and the infrastructure in place to make sure we deliver. And we are building great momentum on our journey to grow the business, improve customer service and significantly improve our efficiency. The team here today, and I are excited to be working on this. I'm now going to hand over to Andrew Keating, our CFO, to share our financials.

## **Andrew Keating – Group CFO**

Good morning everyone.

Over the course of this morning my colleagues have taken you through a very comprehensive set of presentations where they have set out our clear business strategy. I'll now translate this strategy into our financial targets. These are the targets that we, the leadership team of Bank of Ireland, will deliver in the coming years.

Firstly, it's important to reflect on the progress that we've made over the last few years. Since the financial crisis we've successfully navigated a period of significant restructuring and we've a proven track record in the delivery of our targets. During that time we radically transformed the profile and cost of our funding base. Wholesale funding is at historically low levels. Our loan to deposit ratio is now at 100% and we reduced the cost of our funding to 40 basis points.

Our improvement in asset quality since the crisis has also been substantial. Over that time we reduced the level of impaired loans by almost 75% and the outlook is for that trend to continue. These reductions were achieved without triggering any spike in our impairment charge which has now reduced to extremely low levels.

The Bank is generating significant profits, an average of over 1 billion euro in each of the last 4 years. As a consequence we're generating capital on a rapid basis. Our fully loaded CET1 ratio has more than doubled in the last 4 years. At 13.8%, it's now in excess of our target capital level.

Our trading in 2018 is also on track and it's in line with the guidance I gave you at our full year results. Specifically, after many years of deleveraging we expect the loan book to grow this year, albeit modestly and weighted towards the second half. Our NIM is in line with our expectations, our costs will be lower this year than last year, our asset quality continues to improve, NPEs will trend lower and our impairment charges will be consistent with our guidance of up to 20 basis points.

Last month we paid our first dividend in 10 years and we look forward to increasing that dividend on a prudent and progressive basis. It's clear that we're in a strong position to generate attractive and sustainable returns for our shareholders.

Turning to the next chapter and to the key areas of opportunity as we progress towards 2021. We have a very clear strategy to: grow our loan book by 20% and increase our Wealth Management and Insurance business, to transform our culture, systems and business models and to reduce our costs to 1.7 billion euro. These strategies will generate the capital to enable us to: grow and transform the Group and to progressively increase the dividends that we pay to our shareholders.

Looking firstly at income growth and there are 3 elements to our strategy: volume, margin and fee income. Starting with loan volumes. We expect loan volumes to grow by 20% between now and 2021. That's an increase of 14 billion euro, up to 90 billion euro over the next few years. In terms of geographic split I expect about 65% of that growth will be in Ireland and about 35% here in the UK and international.

On a Divisional basis, in Retail Ireland we expect loan growth of 20% or 7 billion euros. That is going to come particularly from mortgage and SME customers. Here in the Retail UK division we expect loan volumes to grow by about 10% or 3 billion euro equivalent. Again mortgages will be the key driver of this growth.

In Corporate Banking we expect loan volumes to grow by 4 billion euro, half in Ireland and half internationally.

Our strategy to grow our balance sheet by 20% will increase our risk weighted assets. In that regard our capital plans accommodate an investment of between 200 and 250 basis points of capital over the next 4 years.

All of this growth will be originated within our disciplined risk appetite. Our commercial approach to pricing will continue and this new lending will increase our Return On Equity.

Turning to Net Interest Margin. We've increased our net interest margin in each of the last 5 years. That's a result of the actions we took to reduce our cost of funds and our commercial approach to loan pricing. As we look forward, our margin will continue to benefit from: our strong commercial discipline, front book margins are higher on average than in the back book, the 20% growth in our loan book and, from 2019 onwards, a modest increase in interest rates.

We operate in competitive markets both in Ireland and here in the UK. As a consequence we've prudently assumed that any of these margin benefits will be offset by competitive pressures. As such our projections and targets assume that our net interest margins during the coming years will be broadly in line with the 2017 exit level.

Moving on to fees and other income. Last year our business income was 662 million euro and represented around 20% of our total income. This income is sustainable and includes revenue from: our payments business, foreign exchange and our life assurance business. We expect to grow our Business Income during this plan and it will continue to represent between 20% and 25% of our total income. Specifically Michael and Gavin set out earlier the attractive opportunities we have to increase the fee income in our Wealth management and insurance business particularly by unlocking the opportunities for our existing SME and affluent customers.

Separately and prudently, while additional gains and valuation impacts do arise in the normal course of business, nothing is factored into our forward looking projections.

Turning now to the transformation of our cost base. Previously we guided that the investment to replace our core banking systems would amount to 900 million euro in total. As Steve and Francesca outlined earlier we're going to deepen our investment in the transformation of our IT systems to cover certain aspects of our business that were not included in the original scope such as mortgages and wealth management. That deepening of the scope of our IT systems will require an extra investment of 250 million euro.

Separately, and in addition, we're going to broaden our Transformation Programme to include the transformation of business model. For this we've indented a separate investment of 250 million euro. As a result the total investment in transformation will increase from 0.9 billion euro to 1.4 billion euro. In terms of timing we expect that the rate of investment over each of the next 4 years will average 275 million euro per annum. An increase of 75 million on the current pace. In capital terms the 275 million euro will equate to an investment of around 50 - 60 basis points per annum. In accounting terms around 40%, or 110 million per annum, will be capitalized as an intangible asset, around 40% will be charged directly to the income statement as a Transformation Investment cost and around 20%, or 55 million euro, will be a non-core restructuring cost below the line in the Income Statement.

These investments are significant but we'll generate a positive return on them. The investments will support the 20% growth in our balance sheet and the expansion of our Wealth Management and Insurance business.

The investments will also support a reduction in our cost base. We will deliver on a number of very clear cost targets during our planning period. We will do this by focusing on 4 key areas: delivering the digital bank, serving our customers brilliantly, simplifying our organization and strategic sourcing

Firstly, we have our absolute cost target. By 2021 we will reduce our costs to 1.7 billion euro. I would note that the 1.7 billion includes approximately 110 million of Transformation Investment cost in 2021. Our second cost target relates to the period between now and 2021. Over this period we do expect certain cost inflation, principally from: wage inflation, higher depreciation from tech investments and some additional running costs from these new platforms. However we're absorbing that cost inflation within our cost guidance. Our absolute costs will be lower in each of 2018, 2019, 2020 and 2021. This delivery of our income and cost targets will improve our cost income ratio by 15 percentage points, from 65% last year to around 50% in 2021.

Turning now to the cost of risk. We've a proven track record of strong risk discipline and that's quite clear from the pace of reduction in our impaired loans. Our NPE ratio is the lowest in Ireland. Our arrears performance in Irish mortgages is 3 to 4 times better than the industry average. Under the new accounting rules, we expect the cost of risk to be in the range of 20 to 30 basis points. We expect it to be closer to 20 basis points in the early years and closer to 30 basis points in the later years.

Moving now to capital. We'll continue to generate significant capital on a rapid basis. The key driver will be our sustainable profitability. Earlier this year we updated our capital guidance. The Group expects to maintain a CET 1 ratio in excess of 13 per cent on a regulatory basis, and on a fully loaded basis by the end of the O-SII phase-in period in 2021. This guidance includes: meeting applicable regulatory requirements, plus an appropriate management buffer.

Today our capital is robust and it's above our target level. In recent years about 90% of the capital that we generated was prioritised towards increasing our capital ratio and about 10% was available to invest in the business or return to shareholders via dividends. Over the next number of years we'll continue to generate capital at a rapid pace. We'll rigorously manage the allocation and strategic investment of our capital.

We'll support the profitable growth and development of our franchises in order to deliver attractive and sustainable returns to our shareholders. Firstly, to enable the 20% growth in our loan book, we expect to invest between 200 and 250 basis points of capital in supporting the associated RWAs. Secondly, we'll invest between 50 and 60 basis points of capital each year: to ensure the success of the transformation of our IT systems and the delivery of our cost targets.

On the regulatory side, increasing capital requirements has been a dominant theme of recent years. While we continue to engage on matters such as TRIM, we expect the regulatory environment to be more stable over the period of the plan.

On dividends and distributions, our policy is very clear. We expect our dividend per share to increase from the 11.5 cent we paid last month. The increases will be on a prudent and progressive basis and, over time, the pay-out ratio will build to around 50%. The board's philosophy around excess capital is also clear. It belongs to the owners of the company, our shareholders. To the extent that we have excess capital we will not retain it. Other means of capital distribution will be used to return that capital to shareholders.

We're focused on delivering attractive and sustainable returns. We'll increase our Return On Tangible Equity to in excess of 10% by 2021. The growth in interest income, and our reduction in costs, will be the main drivers of this increase. We've a simple and straight forward methodology for calculating RoTE which is set out in the appendix. In calculating our Tangible Equity, we have deducted the Intangible Assets. In calculating our "Returns" the only adjustment we have made relates to the usual exclusion of non-core restructuring charges. To be clear we don't make any adjustment either for the transformation investment costs or for any depreciation charge on the capitalised intangible assets.

Potential risks to our returns could result from: weaker economic activity, slower than expected credit formation in Ireland or if there was any unexpected regulatory capital demand. On the other hand

opportunities for upside include: higher than expected interest rates, faster credit formation, higher market shares or lower impairment charges.

I'll now conclude by summarising our financial targets as we look towards 2021. Firstly we'll deliver growth in our profitability. Our target is to increase RoTE to a level that's in excess of 10% by 2021.

Secondly, we'll become a more efficient business and this is reflected in our clear commitments: we have an absolute cost target of 1.7 billion euro in 2021, we will reduce absolute costs every year from 2018 to 2021 and our cost income ratio will improve from 65% to around 50% in 2021

Thirdly we'll maintain a robust capital position: our CET1 ratio will be in excess of 13% noting we're already above our capital target.

Finally dividends and distributions: we'll prudently and progressively increase our dividend per share. Over time we'll build to a payout ratio of around 50% of sustainable earnings and we'll distribute any excess capital that arises.

### **Francesca McDonagh – Group CEO**

Many thanks for your questions and for joining us today.

Bank of Ireland's ambition is to be the National Champion bank in Ireland with select and profitable diversification in the UK and internationally. Today is about Bank of Ireland's next chapter. It's one of: growth in Ireland, accelerated and broadened transformation, a reshaped UK business, and increased profitability.

Unlocking growth in our Irish business will drive expansion in lending volumes and revenue. Accelerating and broadening our multi-year transformation will improve customer service, drive efficiency and support growth. We are committed to the UK but we will reshape it. Our strategy is to invest in, improve on, or structurally re-position each business to double returns.

And in all this we will generate returns above our cost of capital, targeting a ROTE in excess of 10% by 2021. This strategic direction will transform the Bank for our customers making it easier for them to bank with us: in the right way, in the right place and at the right time.

It will transform the Bank for our colleagues: working in a great culture that's closer to the customer and it will transform the Bank for our shareholders, unlocking our real potential delivering attractive and sustainable returns for our investors.

This is what we, as a team, are working towards. And I'm excited, and honoured, to lead the bank as we write Bank of Ireland's next chapter in the coming years.

Thank you.