Interim Results Presentation

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Interim Results Announcement

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Strong Performance in H1

Good morning, and you're very welcome to our results presentation. In the first half of 2021, we've seen a strong recovery in our performance. We've continued to deliver our strategy, we've maintained a laser-like focus on costs, our economic outlook is increasingly positive, with sentiment back to pre-pandemic levels and we've announced two significant acquisitions.

This progress is reflected in our results. Group operating profit of €465 million is up 72% compared with the same period last year. If we leave aside the turbulent year of 2020 and compare our results to the same period in 2019, our underlying operating profit pre-impairment is up 7%.

Our asset quality remains strong, supported by the improving economic backdrop, and our net impairment charge of just €1 million reflects this, with the Group's NPE ratio improving by 20 basis points to 5.5%. Myles will give further detail on these points shortly.

We've also maintained a crystal-clear focus on delivering our multi-year strategy, and that includes in the following five key areas:

- Our discipline regarding cost improvement is well established. Today we are announcing a further reduction in costs for the seventh consecutive reporting period.
- We have continued to invest in our digital capabilities and product journeys, which is driving improved customer satisfaction.
- In the UK our transformation of our business model has delivered a turnaround in financial performance, reporting a 52% increase in operating profit.
- Our planned acquisitions of Davy and KBC Bank Ireland further strengthen our growth outlook and support our national champion ambition.
- And we've strengthened our capital position with our fully-loaded CET1 ratio increasing by 70 basis points to 14.1%.

Customers, Colleagues and Communities

Our purpose is to enable our customers, colleagues and communities to thrive. Slide 6 shows some examples of how we've been living that purpose this year. To mention just a few: new customer lending is up 12%. 99% of all payment breaks have now concluded, and very positively, we've seen minimal impact on asset quality. And, our financial wellbeing programme continues to grow, with a circa 140% increase in customer financial health checks. In recognition of the Group's progress, Euromoney recently named Bank of Ireland the 'Best Bank in Ireland' for a second successive year.

Irish Economic Data Supports Improved Outlook

Slide 7 sets out an increasingly positive macroeconomic outlook. The Bank of Ireland Economic Pulse stood at 89.3 in July, above its pre-pandemic level. We've seen a marked improvement in labour market conditions. Consumer spending is rebounding as the economy reopens. Latest data shows that in volume terms, retail sales in Ireland in June 2021 were up over 13% when compared with June 2019. And the multinational exporting sector also continue to be very resilient.

Strong Outlook as Economic Activity Broadens

All this contributes to a strong outlook for the Irish economy. We expect a strengthening in GDP growth in Ireland to 9% this year. This will be supported by increased household spending, as some of the 17% growth in household deposits since the start of the pandemic is tapped into. These factors are expected to reduce unemployment further. Our positive economic outlook is also supported by Ireland's vaccine rollout, now amongst the highest in the world.

In the UK we expect strong GDP growth of 6.8% this year, with another solid increase in 2022. And in terms of Brexit, while there are ongoing challenges following last December's deal, we see indications that businesses are increasingly adjusting to the new trading arrangements.

Prioritising the Digital Experience for Customers

Slide 9 shows how customer engagement continues to shift to digital. We recorded almost 22 million visits per month to our digital channels. That's up 8% on the same period last year, continuing a long-established trend. Today, 75% of all our product applications are fulfilled digitally, up from 69% last year. Our investments in digital also supports our strategic priority to drive improved customer satisfaction. Complaints have fallen 54% from H1 2019, and our mobile app customer-efforts score has more than doubled, improving from 24 points a year ago to 49 today.

Transformation is Delivering Benefits

As set out on slide 10, our transformation is clearly delivering customer benefits and improved business outcomes. For example, this year we launched a seamless digital journey for our Irish mortgage customers. We've also overhauled the digital process for Small Business & Agriculture loan applications. Nearly three in four applications are now digital compared to just one in four before the journey was enhanced.

And there's more to come. In the second half of this year, we'll introduce new customer engagement tools and enhance our mobile app with spending insights, nudges and card management capabilities.

13% Reduction in Cost Base Since 2017

As part of our strategy, cost reduction has remained firmly in our sights. On slide 11 you'll see that we have reduced costs consistently in the last seven reporting periods. Since 2017, we've decreased gross costs by over €300 million, or 17%. This reduction in costs has given us the capacity to invest in our people and in our technology. Overall, net costs are down by 13% during this period.

We are on track to deliver a cost base of below €1.65 billion this year, and the building blocks are in place to reduce this to €1.5 billion by 2023 based on our current business model. These building blocks include:

- Completing the voluntary redundancy scheme that we launched in 2020;
- Delivering more digital journeys for our customers;
- Completing the restructuring of our UK business; and
- Reducing our property footprint.

Significant Improvement in the UK

Transformation of our UK business model continues, as highlighted in the next slide. Today we're reporting that our UK performance is significantly improved. In the first half, we delivered a 52% increase in operating profit. Net interest income grew 12%. Costs reduced 11% and we're growing in Bespoke mortgages, which now account for more than one fifth of our new UK mortgage lending.

We are delivering these improved returns in the UK through:

- Higher new lending margins, within clearly-defined and disciplined commercial risk appetite;
- Reduced funding costs;
- Lower operating costs; and
- A smaller, more profitable, balance sheet.

Wealth & Insurance

Growing our Wealth & Insurance business has been a core element of the strategy we set out in 2018. Slide 13 details the organic growth we have delivered over the first half, including:

- An increase in operating profits of 27%;
- New premium sales up 34%; and
- Assets Under Management growth of 17%.

The digital platforms that we launched in our Wealth & Insurance business last year are also giving us the ability to scale. Today, over two thirds of new individual pension business arrives digitally following the launch of our broker portal. Our wealth advice platform has seen 60% of applications on a straight through process, with sign-up time cut by two-thirds. And nearly 40% of all general insurance policies are now generated via our Digital Wallet.

Strategy Supported by Two Significant Acquisition Opportunities

We have recently announced two significant inorganic opportunities which are highly complementary to our strategy. Whenever it comes to potential acquisitions, we always ask ourselves two key questions: does it offer value to our shareholders? And is it a good fit for our business?

The acquisitions of Davy and KBC Bank Ireland tick both boxes.

Davy

Davy is the number one provider of wealth management and capital markets services in Ireland. It is several times larger than its nearest Irish competitor and will bring about €16 billion of Assets Under Management to the Bank of Ireland Group. While we've grown our own Wealth & Insurance business organically by around a quarter since 2018, the Davy acquisition strongly supports our ambitions for further business growth, and it comes at a time when the demand for wealth products and services is increasing in Ireland. We have agreed to acquire Davy – which had an adjusted PBT of circa €33 million in 2020 – for an enterprise value of €440 million.

KBC Bank Ireland

The next significant inorganic opportunity is the KBC Bank Ireland transaction, for which we entered into a Memorandum of Understanding in April. This is on a portfolio basis, and our interest is focused on circa €9 billion of performing mortgage loans. KBC Bank Ireland has around 300,000 customers, who we look forward to welcoming to the Group.

These transactions, which will be financed from internal resources, are important contributors to our mission to achieve sustainable returns above our cost of capital. Both are subject to standard regulatory and competition authority approvals.

Our Responsible and Sustainable Business Strategy

Turning now to Slide 15, we have made good progress since the launch of our Responsible and Sustainable Business strategy. There are three pillars to this strategy, and we are delivering under each. Highlights include our progress on gender diversity. We also launched a national campaign, the F Word – the F stands for Finance – and challenged the taboo about talking about money. This campaign has contributed to Bank of Ireland being ranked first place amongst all brands in the latest IPSOS Brand Shout. And in the first half of 2021, we committed to expanding our Sustainable Finance Fund by 250%, from €2 billion to €5 billion. We also raised €1.25 billion from the launch of two green bonds.

Looking Forward

Before I conclude, I want to look ahead. We will refresh our medium-term targets at a strategy update which is expected in 2022. We see clear growth opportunities for the Group, as economies recover from COVID-19, from changes to market dynamics in Ireland and from the turnaround of our UK business. Given our strategic delivery in recent years – including on cost, Wealth & Insurance, digital transformation, and culture – these are all opportunities that we are very well placed to take advantage of.

The KBC and Davy acquisitions will further our ambition to be the National Champion Bank in Ireland. In addition, the Irish government's decision to sell down its 14% ownership in Bank of Ireland is a milestone moment. This further normalises the State's relationship with the Group. Having been the first – and only – Irish bank to fully repay the taxpayer, Bank of Ireland will now be the first Irish bank to return to full private ownership. This is an important validation of our team and of our strategic direction.

I will now pass you over to Myles to take you through our financial performance in more detail before we move to Q&A.

H1 2021 Financial Performance

Myles O'Grady

Group CFO, Bank of Ireland Plc

Introductory Remarks

Thank you Francesca, and good morning. I hope everyone is well. Today we are pleased to report an underlying profit of €465 million, representing a strong recovery in performance and improved outlook; a €1 million net impairment charge with macro conditions benign; net lending growth; and an NPE ratio of 5.5%, down 20 basis points since the start of the year. Our capital position also strengthened in the period, reporting a regulatory CET1 of 15.3%. That's 14.1% on a fully-loaded basis.

Strong Recovery in H1 2021

We have seen increasingly positive economic conditions, supporting increased trading activity, and minimal credit impairments. As set out on slide 20, total income increased by 14% in H1, with all businesses contributing to the strong performance.

Net interest income was 2% higher – and I'll return to this in a few moments. Business income increased by 8%. Valuation items made a positive contribution, while operating expenses reduced by 4%, and non-core items of €59 million were driven by planned restructuring costs.

Net Interest Income

Slide 21 covers net interest income in detail. Our 2% increase in NII reflects tailwinds including reduced funding costs and the application of negative interest rates to corporate deposits. Both of these factors were more than sufficient to offset headwinds, and these were from negative yields from liquid assets and reducing structural hedge income.

The Group has maintained its pricing discipline, with the loan asset spread 16 basis points above the same period last year. We also participated in the TLTRO in March, which benefits interest income, with further potential income upside to come in H2.

New Customer Lending Up 12%

Turning now to Slide 22, overall the net lending book was higher at €77.2 billion. On a constant currency basis, and adjusting for planned UK deleveraging and the successful NPE transaction, the book grew by €0.3 billion in H1. All divisions are demonstrating solid recovery with new lending up 12%. That includes new lending growth of 38% in Corporate and 15% in Retail Ireland. And as Francesca referenced, in the UK we saw strong growth in Bespoke mortgages. These grew by 170% while retaining a disciplined approach to pricing and risk, which is a good demonstration of our strategy execution.

Group's Business Income Up 8%

The Group's business income increased by 8%. The 5% increase in Wealth & Insurance reflects higher new sales activity and existing book income. Retail Ireland posted a modest decline as a result of lower card fee income, while growth in Corporate and Markets reflects higher underwriting fee income on the back of strong new lending in H1 and stable FX income. The contribution from valuation items is as a result of improved equity and financial markets, and the outlook for Business Income is positive and expected to grow in H2, supported by continued reopening of the economy.

Operating Expenses Down 4%

As mentioned earlier, this is the seventh consecutive period in which we have reported lower costs, and the €35 million reduction we are announcing today is after absorbing wage inflation and higher pension costs of €11 million. Our non-core charge is chiefly driven by ongoing business model restructuring. And for this year, we reaffirm our target for operating expenses to be below €1.65 billion, and we have the building blocks in place to reach that target.

€1 Million Impairment

For H1 we are reporting a €1 million net impairment charge from improved economic conditions and minimal loss experience, while maintaining coverage to address credit risk from the removal of COVID-19 government supports. I would like to spend a few moments on the individual components of this charge. There are 4 key points to highlight.

Firstly, improved macroeconomic forecasts resulted in a requirement to hold lower allowances and therefore an impairment write-back of €163 million. Secondly, this was broadly offset by model changes resulting in a charge of €172 million, predominantly a prudent decision to change mortgage LGD assumptions, and maintaining adequate coverage levels, including the application of LGD floors. Thirdly, there was minimal loan loss experience in H1. And finally, to capture the potential credit risk arising from customers who may experience credit difficulty after the removal of COVID-19 government supports, a release of €8 million to P&L while maintaining €229 million stock of management adjustments held on balance sheet for this latent risk.

In terms of outlook, we expect the H2 impairment charge to be broadly similar to H1.

NPEs

Slide 26 updates on our NPE position. Overall, NPEs fell marginally in the period. We have a long track record of market leadership in the management of NPEs in Ireland. In the first half, NPEs reduced by 20 basis points to 5.5%, driven by an Irish residential mortgage transaction. In terms of our approach to NPEs, we will continue our successful dual track approach, combining working with customers to find sustainable solutions and transactions.

Asset Quality Remains Strong

Turning to Slide 27, we have a diversified balance sheet with strong credit quality. On stage migration, stage 2 loans increased by a net €2 billion in H1, primarily reflecting a reclassification of loans underpinning the post-model adjustment for business banking and mortgage portfolios. This has minimal P&L impact in H1 as the charge was taken in 2020.

Strong Accretion in Capital

Our capital performance was very strong in H1. Our fully-loaded CET1 ratio increased by 70 basis points, helped by 90 basis points of organic capital accretion, a minimal impairment charge and the NPE transaction. Our regulatory CET1 ratio of 15.3% provides circa 550 basis points of headroom to our minimum regulatory capital requirements, excluding P2G.

Outlook

And moving now to outlook. We are guiding for H2 2021 total income to be circa 5% higher versus H1. This guidance reflects three key points:

- Higher net interest income, including the TLTRO upside if the second benchmark is achieved in December;
- Higher business income; and
- Broadly unchanged valuation items vs H1.

And as Francesca set out, we reiterate our guidance on costs – that is 2021 costs to be less than €1.65 billion and 2023 costs of €1.5 billion, based on current business model.

On asset quality, subject to no material change in the economic conditions or outlook, we expect the H2 impairment charge to be broadly similar to H1.

On capital, our end-2021 CET1 ratios are expected to increase by circa 30-50 basis points above June levels, which captures a range of assumptions including loan growth, transformation and distributions. Additional balance sheet optimisation initiatives are being progressed during H2, which will be incremental to this capital guidance.

In relation to the important inorganic opportunities we have discussed this morning, the Group has sufficient capital resources to support their execution. And distributions are to recommence on a prudent and progressive basis, based on performance and capital outlook.

Thank you very much for your attention this morning, and we will now go to questions.

Q&A

Diarmaid Sheridan (Davy): Good morning, Francesca and Myles. I hope you're both well, and thank you for your presentation. Three questions, if I may. Firstly on your guidance, and specifically on the income side. If you could provide a sense of the key moving parts on both net interest income and fee and commission income, please?

Secondly – and mindful of your comments, Myles – I just wonder if we could understand the variables and probabilities associated with the dividend and capital distributions?

And finally, just looking into 2022 and beyond, I wonder if we could get a comment on how inorganic opportunities might impact on earnings and Return on Tangible Equity. Thank you.

Francesca McDonagh: Thank you, Diarmaid, and good to have you on the call. There are a few questions there. I'll go to the second first, the capital distribution and the outlook for 2022 and beyond given the M&A, then Myles will look back on guidance for revenue.

So, in terms of capital distribution, we absolutely understand and support the importance of distributions to our shareholders, and the strong capital position that we are reporting today and guidance about future capital accretion obviously support recommencement of distributions. As we've said, it is our intension to do so on a prudent, progressive basis based on performance and outlook. And it's also noteworthy that the strong capital position that we have today coincides with two fantastic and significant acquisition opportunities, and our belief is that allocating surplus capital to these transactions is the right decision. That in turn will clearly enhance future returns. So as these two acquisitions play out over the second half, Myles, myself and the board will discuss distributions at the full-year, and we'll make the appropriate decision at that time.

In terms of M&A and the future, obviously we've got two opportunities here, both of which create value for shareholders, they're both good strategic fits. Let me just briefly talk about each in turn and what that means in terms of a return outlook over time.

So for Davy, Irish market leader in wealth management and capital markets. The business is 75% wealth management, 25% capital markets that we're acquiring. It is a multiple of the size of its nearest Irish competitor. It brings with it €16 billion of AUM, and that just compares to our own organically-grown wealth insurance AUM of about €21 billion, so this is a good increase. Very nice strategic fit. It gives us an opportunity to diversify revenue to include more business income, and also to capture growth in the Irish demographics, and the macro backdrop.

On KBC, the focus there is on the acquisition of the portfolios. It's a back-book acquisition and we're focused on the €9 billion performing mortgage book, and about €5 billion of savings. We've entered into an MOU and we're looking to complete both transactions, subject to approvals, and final agreement in the case of KBC, in 2022.

In terms of what that means for returns, so our North Star focus in terms of our Return on Tangible Equity continues to be in excess of 10% in the longer term. And that's unchanged. That hasn't been diluted by COVID, and actually that North Star and that target is independent of M&A. Obviously these two acquisitions will get us beyond the 10% ROCE and we'll get there sooner. We're not being explicit in terms of timing. We've guided that we'll do a strategy refresh in 2022, and even then we'd have love to have done that this year. We want to get the conclusion of those two acquisitions to be able to be more explicit in terms of timing and medium-term guidance.

I'm hoping that answers two of your questions. I'll go to Myles on the first.

Myles O'Grady: Thanks, Francesca, and good morning, Diarmaid. Hope you're well. So on guidance, we are guiding that the second half of the year, income will be 5% higher than H1, which essentially equates to the full year income being about 9% above 2020. And that's a better-than-expected outcome to where we thought it would have been, say, six months ago. That's driven by strong performance from our Corporate business, but also stability in Retail Ireland despite the lockdown and better margin – overall margin experienced in the UK. And that lending performance has also supported our participation in TLTRO, which is enhancing income.

So they're the broad moving parts. If we delve into it, within that 5% overall, if we go to net interest income, we expect the second half of the year to be higher by about 5%. It was up 2% in the first half of the year. And the major moving parts for interest income in the second half of the year are that dynamic of the application of negative rates and lower funding costs generally offsetting the impact of negative yields on liquid assets and lower structural hedging income. But also, importantly, the guidance on interest income is supported by meeting the lending benchmark for TLTRO at December 2021.

In relation to business income, fee and commission income up 8% in the first half of the year, and underpinning that overall 5% growth in income is an assumption that business income will be up by about 20% in the second half of the year. And much of that is coming from our Wealth & Insurance business. We have talked before about the opportunity for Wealth & Insurance aside from the opportunity from Davy, the organic growth in that business, and much of that 20% uplift is going to come from the Wealth & Insurance busines. And overall we assume no major movement on valuation. They're the major moving items, Diarmaid, on guidance.

Diarmaid Sheridan: That's great. Thank you very much.

Francesca McDonagh: Thanks, Diarmaid.

Eamonn Hughes (Goodbody): Hi, Francesca. Hi, Myles.

Francesca McDonagh: Morning, Eamonn.

Eamonn Hughes: Actually I might sneak one or two more questions than just the usual one or two. Maybe just in the UK, clearly amount of reversal there in terms of fortunes, and a lot of it's got to be dealing with the work you've been doing yourselves in relation to the business, but just trying to get a sense around margin progression into H2. Do you expect the market there to become a little bit more competitive, certainly, than – or it's better in H1 than prior guidance? So maybe that's the just first question.

Secondly, maybe just staying on the Irish mortgage market share at 23% – it was probably a little bit lower than expected. Maybe thoughts around H2, what you're seeing in terms of applications?

Myles specifically, maybe on flows into NPE. Any particular parts of the book that we may start to see a deterioration?

And then maybe Francesca, if I can maybe come back to the ROTE point. I mean, you talked about greater than 10% long-term – and I know you haven't kind of said anything specifically in relation to the acquisitions in terms of contribution, but you know, pretty material upgrades today, acquisitions flow-through. Could we conceptually see that number in 2023?

Francesca McDonagh: Okay, thank you Eamonn. I'll have the first couple and I'll give you a short comment on the ROTE and go to Myles to speak to the NPE flows.

So in terms of the UK, the progress that we're seeing with the 51% increase in operating profit pre-impairment is a reflection of the last three years of transformation of that business model. It is a turnaround for us. We see revenue improving, costs down, and the shift in lending supporting that. And we're delighted with the results that we're seeing in the UK. We are driving value as opposed to volume as a result of reducing funding cost and operating cost.

Specifically to your question on NIM, so NIM is up 29 basis points year on year, so 1.95% overall. There are a few moving parts in there. Some of that is improved product margin and mix. So a step away from the sort of very low LTV, very highly competitive remortgage market, and obviously an increase in our new origination of Bespoke. We've also lowered our deposit pricing as we need less of it, and we see obviously base rates flat at 10 basis points. And margin is up across all of our product lines.

In terms of the outlook and going into the second half of the year, obviously we would expect increased competition in the mortgage market – I think we're seeing that with other UK banks as well and our NIM improvement is expected to continue in the second half, but not necessarily at the same rate. So we're guiding for an exit NIM of circa 2% for the UK overall. That's the first question.

The second one on ROI mortgages. Yeah, so our market share for the first half in drawdowns was 23%, and that compares to just over 25% for 2020, so there is a reduction. Let me just explain two reasons for that. One is there is a different approach towards how the macro prudential rules are used by competitors. So we all have a level of exemption; we spread that over the course of the year. We will see some other competitors use more of their full-year exemption in the first quarter and that's one of the factors; we would think that accounts for, sort of, +1% or -1% of the market share reduction that we've seen. We expect that to be better in the second half, and our second half traditionally always is stronger than the first half in the mortgage business.

And the second element is just the growth in the broker market, especially in the switcher base, the switcher segment. So broker market, really important, has become increasingly relevant in the Irish market. They're up from 30% participation last year to 40%, and we just see, you know, the price competition in that space, we've applied a very disciplined approach. An element of that is the switcher market, which we – is relatively small for us, but is more active for the broker market. The second half, I'm obviously not going to give guidance on market share per se, but we are investing in our digital platform for mortgages, that's really great non-price differentiation. Continue to do product innovation and we typically always have a stronger second half of the year, so we would feel good about the pipeline of business.

Just on the third point, very briefly, on ROTE. I mean it is – I'm not giving explicit guidance on when we would be in excess of 10%. Obviously, the two acquisitions are both materially accretive to ROTE, and we look forward to those completing and giving an update at our strategy refresh in 2022.

Myles O'Grady: Great, thanks Francesca. Good morning Eamonn. On the question for the overall NPE movement, that fell from €4.5 billion at December 2020 down to €4.4bn, with the percentage falling 5.7% to 5.5%. Two major moving parts. The €0.3bn reduction as a consequence of successfully executing that Irish residential mortgage transaction and some net inflows of €0.2 billion, predominantly in the corporate space, but nothing really material in relation to those inflows. And, look, overall we are generally encouraged by the relatively low level of our actual loss experienced. We saw that throughout the second half of last year and we've seen it again in the first half of this year.

In terms of where NPEs gravitate to, obviously, you know, we continue to apply our successful approach of executing transactions combined with working with our customers for sustainable solutions. And as I am sitting here today, thinking about the second half of the year, the area where our focus clearly is those customers right now who continue to avail of government supports, and really a careful eye on them, whether they're mortgage customers or whether they are SME customers receiving support from the government, that's our area of focus from an NPE perspective. And, of course, mindful that we are holding, from a stock of provision perspective, €229 million at the half year to cover that latent risk. That will be our NPE focus as we progress through H2, Eamonn.

Eamonn Hughes: And Myles, actually, if you don't mind just a quick follow up. Just when you mentioned that, I suppose the €229m sitting there presumably gives a good bit of comfort. And I know you've, kind of, talked about a reasonably negligible charge for H2, but also as we think about, kind of, 2022 as well, I mean the traditional, normalised impairment number is in and around 30 basis points, so it sounds like you're feeling reasonably good about that print as well possibly?

Myles O'Grady: Yeah. So I mean we've – I think we've been clear throughout the COVID crisis to get our arms around the credit risk horizon can cope, and I think we did that successfully last year. And we are in a relatively benign economic environment and we are hoping that provision, as I say, to protect us against the latent risk from COVID. We'll assess it at the end of the year. There is some sense that possibly, as customers come off government support, we might not see the impact until quarter one or possibly quarter two of next year, but we'll certainly make that assessment as part of the year-end process and into 2022, Eamonn.

Eamonn Hughes: Okay, Myles, thanks a million. Thanks Francesca.

Francesca McDonagh: Thank you, Eamonn.

Chris Cant (Autonomous): Good morning both, thanks for taking my questions. Two please, if I could? The first on costs. So obviously you've reiterated the €1.5bn, circa €1.5bn for 2023. But just thinking about your 1H print and the €1.65bn for this year, I think that implies €800m-ish, maybe a touch above that, in the second half, which I guess, looking into 2022, just annualising and allowing for that momentum that you've been building up on cost, I guess your operating cost number ex-levies for 2022 is sub-€1.6bn, is that fair? Accepting that, you know, M&A will then have an impact as and when those transactions close. But pre-that, is that how we should be thinking about 2022? I think consensus is at more like €1.65bn for next year, ex-levies.

And then the second on provisions, please. So just thinking about your opening remarks about the strength of the macro recovery, it looks to me like the macro input to your IFRS 9 models are lagging quite a bit where consensus macro expectations would be for 2021 in particular, thinking about, you know, GDP is better than you have in, unemployment would be better than you have in on a weighted basis. I think house price inflation is already running ahead of what you've got in for this year on a weighted basis. If you were to mark to market now, what would that do to your provision position, please? Because I'm guessing your second-half guidance, when you said 'broadly stable,' that's predicated on no change to your macro inputs, I presume? But if you were to change your macro inputs to align with consensus, how should we think about the scale of the release there, please? Thank you.

Francesca McDonagh: Thank you, Chris. I'll answer the cost question. So, yeah, made very good progress; we're happy with where we're going. Our guidance is unchanged, as you know, for 2021 to be sub-€1.65 billion. In terms of your extrapolation into 2022, I would just encourage you to assume a, sort of, linear run-rate in terms of that continued cost reduction, and our guidance to be at a cost base of €1.5 billion by 2023, we reiterate. Obviously, that target and those numbers are based on the existing business model, so we set them before we would have been in the process of the acquisitions of Davy and KBC. What is good about that is the KBC portfolio is a back-book portfolio with marginal additional costs coming with the portfolio for when we do complete, and obviously Davy is a revenue acquisition but has a relatively smaller cost base, very much people-driven and very much a people business, and that's what we're acquiring. So that's just, sort of, an extra element there. I know you were asking more for guidance on 2022, but just wanted to give that context also.

I'll pass to Myles on IFRS 9.

Myles O'Grady: Sure. Good morning, Chris. And you are right, a range of new forecasts on the macroeconomic assumptions has come out, and you'll appreciate, as part of our, you know, H1 process, we go to print at a certain point in time to deploy those assumptions into our credit models.

I suppose, as I think about it, a couple of thoughts. One is when we use macroeconomic forecasts to drive the EL charge, we do so over a multiyear basis. So even though, you know, the in-year forecast may be more optimistic, it may not be as pronounced as you would think in terms of the EL charge because we forecast over three years. But having said that, it is fair to say that the outlook is improving, and in particular for Bank of Ireland's balance sheet. I mean GDP is a good headline indicator, but the two that really, I suppose, influence our EL charge are unemployment and property prices, and certainly I take your point that property prices are looking more favourable than, say, they would have been, you know, four to six weeks ago.

In terms of the impact, we do make some helpful disclosures, I think, on – as part of an appendix slide, 44 and 45, and they set out some decent parameters to work out how the EL charge could move as a consequence of different economic scenarios. And maybe just to give you some example of that, you know, for example, if we were to gravitate a charge to our upside scenario, which accounts for 20% of our overall weighting, that would improve the loan loss allowance by €222 million. And, to take your point on residential property prices, if the property price is increased, is, say, 10% above our forecast, that would improve the loss experienced by €23 million, about an 8% impact.

Hopefully, that gives you a sense of the ranges, but I'd say those disclosures do give helpful parameters to plot the EL charge across a range of different scenarios.

Chris Cant: Thanks, that's really helpful. If I could just clarify on the cost question, I think you were in agreement there in terms of the momentum. Did you say, Francesca, that you'd expect to be, kind of, straightlining the cost progress, lineally running that cost progress down to the €1.5bn in 2023, as we look through 2022, which, I think, would get you to the same conclusion, sub-€1.6bn –

Francesca McDonagh: Yes.

Chris Cant: – excluding regulatory charges and levies next year?

Francesca McDonagh: Yeah. Sorry, Chris, to cut across you. Yes. Year-on-year, yes.

Chris Cant: Okay, that's clear. Thank you.

Singhana Babwala (UBS): Good morning. Thank you for taking my question. I wanted to ask about the additional balance sheet optimisation initiatives you've mentioned for the second half. Could you please provide more detail on those? Thank you.

Francesca McDonagh: Sure. Thank you, Singhana. I'll go to Myles on additional balance sheet optimisation for the second half.

Myles O'Grady: Yes, happy to. Good morning. So there's a range of optimisation initiatives that we have a good track record in executing and underpinning that activity in the second half of the year. The first is in relation to a credit risk transfer, we've done a few of those. You'll appreciate I won't share the commercial elements of that today, but they do offer an ability to share some of the risk on our balance sheet, which offers release on capital. And also, just generally, with the benefit of having New Ireland Assurance as a subsidiary, there's an ability for us to optimise our capital position between the subsidiary and the Group. And they will be the two main interventions that I expect will have a material impact on capital in the second half of the year, and in particular support the execution of the two inorganic opportunities which we have at the moment.

Singhana Babwala: Sure. And just a clarification, these measures are inbuilt in the tactic of those three basis points incremental ratio number?

Myles O'Grady: No, they are not. They are incremental to the 30 to 50 basis points.

Singhana Babwala: Understood. Thank you.

Myles O'Grady: Thank you.

Francesca McDonagh: Thank you, Singhana.

Eamonn Hughes (Goodbody): Sorry to jump in again Francesca, Myles. Maybe just two things. Myles, can I pick up on – just back to the slide around the IFRS 9 adjustments, the €172m from the model parameters. Can you just go, again, through the reasoning behind that for me?

And then, secondly, just in terms of new business flow. I mean I know I, kind of, asked a question around mortgage activity, but just what are you seeing on the ground on the SME side in particular? I mean we know, like, the drawdowns from the COVID credit guarantee scheme are pretty weak still, but I suppose what you are seeing, yourselves, over the summer in terms of applications and interest and activity, and, I suppose, is that giving you a little bit more hope in relation to, and supportive of, your more optimistic stance around H2?

Francesca McDonagh: Thanks Eamonn. I'll talk about on the ground business banking and then Myles will respond on the impairment question. So new term lending in the first half was €1.2 billion to the Irish business banking sector, so that's 8% up year-on-year, but it is 5% below where we were in the first half of 2019. We had a strong finish in the fourth quarter of last year, but we've just seen some – a slight slowdown in appetite to drawdown at the beginning of the first half, particularly just because restrictions came back in.

I would say three key, sort of, broad themes here. One is we're seeing a lot of SMEs notice, obviously, rising costs; that's a reality for three out of the five firms that we would survey. Some of that's pent-up demand, some of it is supply chain disruption, but it is a reality that is impacting on some sectors' appetite for new borrowing. Second is Brexit disruption still exists, but most firms are increasingly adapting to that change, which is positive. And the third is that sentiment and appetite to borrow really varies by sector.

So it's worthwhile – well, you know that 58% of SMEs came into COVID debt free, and in terms of sectors that we are seeing with appetite, so obviously Tech, Media, Telco appetite remains high; we see good volumes and good pipelines for the second half. In contrast, you know, hospitality has been low the first half and we see limited opportunities in the second half, just because of the sector's risk profile, but also uncertainty. And one sector that, you know, has been underleveraged, but we're just seeing improvement is on agriculture. So we're seeing, now, just very, very recently a notable increase, so the last month is 5% up year-on-year, drawdowns up 23% of previously approved, and we'd expect growth in that part of the SME market in the second half.

So hopefully that's given you a bit of a flavour of what we're hearing and seeing on the ground.

Myles O'Grady: And, Eamonn, on the follow-up question relating to the IFRS 9 charge. So just a frame that responds to an overall charge of €1 million at the highest level, a model charge of €9 million and €8 million write back on the Group management adjustment, and an overall net zero actual loan loss experience. And within that €9 million model charge, there are two major components.

The first is recognising the improved economic outlook; there's a write-back of €163 million. And then, offsetting that, we have applied what I would describe as a model P&L charge of €172 million in H1, primarily through increasing our coverage on non-performing Irish and UK mortgages, and that has the impact of increasing the NPE coverage on mortgages from 22% to 27%. And I would describe that intervention as, really, not being reflective of any actual experience on the ground, but it is a prudent intervention, which includes the application of LGD floors and a more cautious assumption on long-dated arrears. And all of that, of course, is in the context – if you look at our mortgage portfolio, we have €2 billion sitting in the NPE portfolio, and back to that point around the dual-track approach of progressing with that transaction, but also working on sustainable solutions.

So it's a conscious intervention just to protect against any future downside that may arise from that portfolio, no more than that.

Eamonn Hughes: That's great, that's very helpful. Thank you both.

Francesca McDonagh: Thank you, Eamonn.

Diarmaid Sheridan (Davy): Thank you, and apologies for following up. And maybe I just missed this, so apologies. Just in terms of the cost piece and your guidance, I just wonder around the cost to achieve that? I think consensus is just maybe slightly short of €160 million of exceptional items for this year. Is that, kind of, appropriate, and should we see that then decrease beyond that in the coming years?

And then, just secondly, just around risk-weighted assets, and mindful, Myles, of the comments that you made about credit risk transfers, but just around the organic side, how should we look at, kind of, migration of risk-weighted assets? Obviously, the mortgage portfolio has decreased in Ireland somewhat, but, you know, if we look at the general credit risk-weighted asset, how should we think about that going forward? Thank you.

Myles O'Grady: Yes, very happy to go over it. So in relation to the risk-weighted asset profile, overall the density has unchanged, with a reduction in the mortgage portfolio, down

1%, and that's predominantly as a consequence of the NPE transaction. But also, you've heard me say this before, you know, every year we do front-book lending on mortgages and the overall risk weight profile improves as a consequence of writing new business at lower risk weights. And linked to the – my comments earlier, from having a strong performance in the corporate book, by their nature, they come with higher risk weight. So that's been a factor, overall, to result in a stable risk-weighted asset profile.

And when I gave the guidance, in relation to capital being between 30 and 50 basis points higher in the second half of the year compared to H1, you know, I've captured what I see as being the loan investment, if I can call it that – the increase in risk weights or increase in lending – should accommodate that profile.

In relation to cost, so I think the point really is that we remain within our €1.4 billion transformation budget to deliver on taking the cost base to below €1.65 billion. And of course, that's incremental to the other benefits from the transformation programme that Francesca has spoken about, and to take the cost base to €1.5 billion does require further investment. And there will be an element of that this year and, indeed, some more as we've worked our way towards 2023 to get to that lower run rate cost of €1.5 billion. We're not giving precise guidance on that today, Diarmaid, but we will update the market of that in due course, in particular, in part as our – as part of our strategy update expected in 2022.

Diarmaid Sheridan: That's great. Thank you.

Francesca McDonagh: Thanks very much.

Marta Romero (Bank of America Merrill Lynch): Thank you very much. Good morning. Most of my questions have been answered.

So I just want to understand your views on whether you have any hope about the Central Bank recalibrating the LTI limits and whether that is a bit constrained on your lending capability. And if you can share, yeah, how much demand you're not being able to meet on the basis of LTI restrictions? Thank you.

Francesca McDonagh: Thank you, Marta, for the question. So I'm not – we're not breaking into our guidance or our outlook any change in the macro prudential rules that exist in Ireland. We operate, obviously, within them. We spread out the – any of the exemption limit that we would have, the exceptions limit through the course of the year, which, obviously, does impact some of our relative trading in the first half versus the second half.

Anyhow, could we do more mortgage business if those rules were lifted? I think the entire market could. The sense of which that would be necessarily sustainable or be challenging some of the price inflation that we see is quite high in Ireland, I think, is where the debate is. I'm not working on the basis that's going to change anytime soon.

I mean, our focus is on increasing the supply of home building as well as buying. And that whole supply and demand issue continues to put pressure on prices, but also gives opportunity, over time, for increased mortgage lending, and that's where our focus is. But I wouldn't bake that into your outlook.

Myles O'Grady: Yeah. I mean, I'll just add to that. The single biggest driver for the mortgage balance sheet for Bank of Ireland will be the growing mortgage market driven by increased housing efforts. And yeah, we're clearly conscious of house price increases and the impact that may have on affordability. It is good to see that much of the new homes that have been built are biased towards affordability. But that growth in the mortgage market will continue to be a positive for the Bank of Ireland balance sheet.

Marta Romero: Thank you very much.

Francesca McDonagh: Thanks, Marta.

Aman Rakkar (Barclays): Morning, Francesca. Morning, Myles.

Francesca McDonagh: Hi, Aman.

Myles O'Grady: Good morning, Aman.

Aman Rakkar: Morning. I – yeah, I guess most of the questions seem to have been answered. Sorry, I've come into this call a touch late, so forgive me if I'm asking something that's already been addressed.

Myles O'Grady: No problem.

Aman Rakkar: Could I just then get the sense around capital distribution potential at full year and the mix between buyback and ordinary? I guess, you know, when you're trading below, the buyback kind of is perhaps a bit more attractive at these levels. So I know the quantum of capital return is dependent on a few bits and pieces, but is there a higher propensity to do a buyback now versus ordinary and kind of how do you manage that balance between the two?

And the second question was around the regulators, the authorities more broadly. To the extent that you're able to comment, have you noticed any kind of change in the rhetoric or tone, in regards to the kind of conversations that you're having with various authorities? I guess I'm thinking particularly in light of the various exits in the system. And hopefully, is there a sense of pragmatism, perhaps, that we're sensing now that perhaps wasn't there before?

Francesca McDonagh: Okay. So in terms of capital distribution, obviously, I don't know if you heard the response at the beginning, just reiterating our understanding and support of the importance of distributions to shareholders. We've obviously got a strong capital position today, and we've given guidance on positive future accretion that will recommencement of distribution. We'll do that on a progressive basis, based on performance and outlook.

In terms of the mix between – in the future share buybacks or dividends, I mean, we're not being explicit, in terms of timing or amounts or constructs of distribution. Obviously, our strong capital position coincides with two exceptional and rare acquisition opportunities. We'll provide more clarity, as part of the year-end process, in terms of distribution and how they could look.

In terms of the second question just on the regulatory authorities, we continue to have a constructive, professional level of engagement. Has there been a total change or even a material change, given news of NatWest and KBC? No.

When we think about the regulatory agenda more medium-term, obviously, it continues to evolve. It's very much focussed on business model sustainability. I think that's not specific to Ireland. It is a European regulatory focus. And obviously, you've got emerging risks that

– around with that climate and cyber becoming key – more relevant parts or more important parts of the regulatory agenda. But in terms of immediate reaction, no.

Aman Rakkar: Okay. Thank you very much.

Francesca McDonagh: Thanks, Aman.

Myles O'Grady: Thanks, Aman.

Guy Stebbings (Exane BNP Paribas): Thanks. Morning. A bit like Aman, I joined the call quite late. So hopefully, I'm not being too repetitive with my questions.

But firstly, just one sort of briefly back on capital and distribution, then one on margins. So on capital, obviously, strategically, there's a lot of actions going on, which is going to absorb capital. I'm just wondering if you could talk about the trade-off there between those actions and restart the distributions.

I mean, I guess the capital elements have given a lot more headroom than we might have expected. But just in terms of sizing any sort of capacity thereafter the distribution, should we be thinking kind of pro-forma for those acquisitions, you might want to run with a bit of extra headroom because of executional risk around them? Or is that not really a concern and actually, you know, quote – pro forma for those actions, you're going to be more capital-generative so, if anything, you'd be more happy to operate with lower capital headroom?

And then, on margin, some quite favourable dynamics in the period helping to offset some of the headwinds. Could you remind us where we are on the application of negative rates and sort of how much further support that could provide, going forward? Thank you.

Francesca McDonagh: Sure. Thank you, Guy. And those questions haven't been asked before, so it's not too repetitive.

So just on the capital distribution, let me just say a few words, and Myles may well add, before we get on to margin and negative interest rates. So, you know, in ordinary times, kind of any capital in excess of our requirements would be prioritised for distribution back to shareholders, as I said to Aman's question, in the form of a dividend or in a share buyback.

Obviously, you know, our strong capital position today coincides with two exceptional and rare acquisition opportunities where we feel that we will create more value for our shareholders and, in turn, the ability to increase distribution over time because they are accretive to ROCE.

It's not binary. It's not as if we do distribute – we distribute or we do M&A, it's not a binary choice of one or the other. But we do just obviously prioritise where we will see the maximum optimisation of shareholder returns, which, sitting here today, those two M&A opportunities, we see – which we see as very accretive.

Myles may want to add.

Myles O'Grady: No, just to that point, really, is that – I mean, we're – we've said it before, we really understand the importance of distributions to our shareholders. We're very comfortable with the statement that we want to recommence distributions. And right now, you know, sitting here today, our focus clearly is on these two very important inorganic opportunities that represent, to my mind, a step change in performance and return and, therefore, you know, by definition, value to shareholders. But we do look forward to having that discussion with the Board, in relation to the recommencement of distributions at the right time.

In relation to margins and negative rates, so first, the factors that determine our margins are really unchanged: maintaining strong pricing discipline in Ireland, improving margins in the UK through examples of the Bespoke mortgage but also, importantly, lower split funding costs, but also the management actions and your point on negative rates that we're taking. So the interventions on lower funding costs and applying negative rates to corporate customers is essentially offsetting the impact of negative yielding liquid assets and lower income from structural hedging. And I see that dynamic continuing.

But if I think about to your precise question on negative rates, we applied negative rates to €8.5 billion of deposits at the half year, which generated income of €30 million. I expect that application to increase to about €15 billion of deposits. And when you annualise the €30 million plus that additional expansion, we're looking at income in the region of €70 million to €80 million for the full year.

So, very positive and material intervention. And that's driven by, essentially, reducing the threshold from in the region of €2.5 million down to €1 million and that will play out over the course of the second half of the year.

Guy Stebbings: Okay. Thank you very much. Very helpful.

Francesca McDonagh: Thanks, Guy.

Myles O'Grady: Thanks, Guy.

Operator: Thank you. As a reminder, ladies and gentlemen, if you wish to ask a question, press the star and one on your telephone keypad.

The next question comes from the line of Chris Cant from Autonomous.

Christopher Cant (Autonomous): Hello, again. I thought I'd ask one more, if that's okay? I understand you don't want to talk about the sort of expected financial impact of the M&A transactions, but just in terms of helping us think about a couple of points.

I guess, firstly, on the KBC transaction, when I look at KBC's risk-weighted asset disclosure for KBC Ireland, they appear to have quite a large add-on, in terms of the mortgage risk weights. You know, it looks to be a very risk-heavy book on KBC's balance sheet.

Can I just check – I don't think you're assuming that that's going to come across, but should we be thinking about something of the order of €4 billion to €4.5 billion of RWAs for that book on your balance sheet?

And secondly, on Davy. I guess one of the concerns people might have with this transaction, given the events which sort of preceded Davy being up for sale, what – how are you thinking about any legal risk that you're taking on with that business? Are you indemnified against that? Is that part of the contingent consideration?

Have you reached agreement or will you seek to reach agreement with regulators, in relation to historical conduct matters? Just because the multiple does look quite high to me. I understand why you view it as strategically attractive, but it does look like quite a high multiple that you're paying. And I guess if you're paying that and taking on legal risk, that would be a further negative in my mind. Thanks.

Francesca McDonagh: Thanks, Chris. I'll answer Davy, then go to – Myles will take KBC RWAs.

So obviously, the – by virtue of the fact that we have reached the decision to acquire Davy kind of reflects the level of comfort we've got around both the risks and opportunities. And obviously, there was a very specific incident that resulted in the regulatory finding. As you'd imagine, we've undertaken robust due diligence as part of the process. We're satisfied with our assessment of the business. And we have a good understanding of the risk and opportunities, and it's a business that we know well.

I'm not going to go through sort of the details of the constructs or the consideration other than what we put in the RNS. But we feel it strikes the right balance between creating value and also protecting and having conditions, going forward, that will make, you know – make it a successful acquisition, in addition to the bank filing group. So that has been well-considered within our consideration structure.

I'll go to Myles on RWAs.

Myles O'Grady: Yes. Chris, I think your maths is about right, in relation to the risk weights for KBC. So we don't assume – while we assume that they come across, essentially, at standardised risk weights plus, of course, I'm going to answer op risks, I think where you've got to is about right. And I should say as well, taking them in at standardised does offer the opportunity, over time, to migrate those mortgages to IRB, which would represent further upside down the line.

Christopher Cant: Thank you. Very clear.

Francesca McDonagh: Thanks, Chris. Okay. I think we've answered the questions. I know the Investor Relations team will be in touch if there are any further queries, and we have a call later in the week.

So thank you very much for your time and attention this morning, and appreciate the engagement. Thank you.

Myles O'Grady: Thank you very much. Have a good morning. Thank you.

Francesca McDonagh: Thank you.

[END OF TRANSCRIPT]