# Bank of Ireland Interim Results for 2022 Presentation

Wednesday, 3rd August 2022

**Operator:** Good morning, ladies and gentlemen. We will now listen to Bank of Ireland's Interim Results announcement for 2022, presented by CEO Francesca McDonagh, and CFO Mark Spain, followed by the Q&A. Please go ahead.

## Business Performance

Francesca McDonagh

*CEO, Bank of Ireland*

**Strong business performance and strategic progress in H1 22**

Good morning everyone and welcome to Bank of Ireland's Interim Results for 2022. Today, we are announcing a strong business performance, continued progress in the delivery of our strategy, and a step change in our business model, supported by organic and inorganic growth opportunities.

*H1 22 Performance*

The key highlights from our H1 results as set out on Slide Five. We delivered underlying profit before tax, of €419 million. Total income was modestly higher. We maintained our cost discipline, our H1 return on tangible equity was 8.1% and we remain on track to deliver sustainable ROTE, in excess of 10% in the near term.

The Irish state has continued to reduce its shareholding in the Group. This holding is now below 3%. And we expect this to fall to zero this year, making us the first Irish bank to return to full private ownership.

*Strategic Progress*

With Ulster Bank and KBC leaving Ireland, we are seeing unprecedented structural change in the banking landscape. We have moved swiftly in response, opening 145,000 new current and deposit accounts during H1, with more expected over the coming months.

Another key highlight was the completion of the Davy acquisition in June. This is one of two transformative acquisitions underway this year. Acquiring Davy significantly increases our exposure to Ireland's attractive wealth sector. We also received clearance from the Irish competition authority to purchase KBC's loan and deposit portfolios, and are well on our way to satisfying the remaining completion conditions.

We are of course mindful of the heightened risks to the global economy since we reported our full year results in February. Despite macroeconomic uncertainty, our asset quality remains reassuringly strong.

*Asset Quality*

Our NPE ratio has improved since the start of the year, and coverage levels are elevated at 2.5%, remaining above pre COVID levels.

*Capital & Distributions*

Turning to capital, during H1, the Group generated 60 basis points of organic capital. At the end of June, our fully loaded CET1 ratio stood at 15.5%. This is 50 basis points lower than our year end position, and reflects the guided investment of 80 basis points of capital to acquire Davy.

Our refreshed CET1 capital target of in excess of 13.5%, accommodates announced increases in counter cyclical buffers. We paid a distribution of €104 million, in respect of full year 2021 performance, including our first buyback in almost two decades. Today, we reaffirm our guidance that distributions will grow, from that starting position, on a prudent and progressive basis, underpinned by the profitability of our improved business model. We will continue to support economic growth across our markets and to invest in our business.

**Irish economy resilient despite external pressures**

Slide Six sets out our perspectives on the Irish economy. Ireland has several characteristics that should help mitigate the impacts of any potential global slowdown. These include household and business debts remaining at multi year lows, a continued build up in deposits since the pandemic, a buoyant labour market which is essentially at full employment, and a business-friendly environment that acts as a magnet for foreign direct investment.

Ireland is forecast to be the EU's fastest growing economy for a third successive year in 2022. And as Mark will speak to later, the Group is also positively geared to the rising interest rate environment.

**Transformation investment achieving higher customer satisfaction, digital adoption and low-cost acquisition**

Slide Seven provides an update on our digital transformation. We have seen a 15% increase in our online banking customer base, and 88% of our digital traffic is now originated via our mobile app, compared to just 62% in 2020. And further enhancements to our app, including the launch of card controls early this year, have contributed to improvements in our net promoter score, with overall NPS the highest on record.

**Responsible and Sustainable Business (RSB) strategy supports our purpose to enable our Customers, Colleagues and Communities to thrive**

Turning to the next slide, we are making good progress on the execution of our Responsible and Sustainable Business or RSB strategy. The publication of our inaugural standalone RSB report in June significantly enhanced our ESG disclosures. Investors will see from the report the progress we are making across our three core pillars. These are enabling all colleagues to thrive, enhancing financial well-being and supporting the green transition.

Our RSB strategy is also delivering commercial outcomes. In Ireland, we are the leading provider of green mortgages, a product we introduced to this market. Green accounted for 48% of our Irish mortgage lending in H1. We have agreed €1.6 billion of sustainability-linked pricing in our corporate lending commitments, a 14% increase year-to-date, and we are the leading provider of wholesale funding for electric vehicles in the Irish market.

**Continued strategic progress in the UK**

Slide Nine covers our improved UK performance. Our UK strategy focuses on value over volume, driving a smaller, more profitable balance sheet. At 2.29%, net interest margin was up 34 basis points year-on-year as result of this strategic pivot. The UK's pre impairment operating contribution increased by around 25% in H1, compared to the same period last year, and our Bespoke proposition represented 53% of new mortgage lending, more than double the share it accounted for this time last year.

While we still expect further deleveraging of our UK balance sheet in H2, the pace will reflect ongoing pricing discipline.

**Irish market leader in Wealth**

The next slide looks at the significant opportunity we see in wealth and insurance. With a young, affluent and growing population, Ireland is a very attractive market. Through our Bank of Ireland wealth offering, our unique new Ireland's bancassurance business, and now Davy, we offer solutions across the full spectrum of retail, mass affluent, and high net worth segments.

The Davy acquisition has essentially doubled the Group's assets under management, to nearly €40 billion, making us the number one provider of wealth management services in Ireland. We see scope for further growth in earnings from this business in the coming years, diversifying our income, and supporting our ROTE ambitions.

**Retail Ireland franchise will be enhanced by KBC acquisition**

In Slide 11, we profile our Retail Ireland franchise, and the benefits of the KBC transaction. We have seen strong lending trends in H1. New mortgage lending grew by a third, and we recorded our first period of organic net growth in SME lending, since 2015. The acquisition of the KBC portfolios, will further enhance our franchise. Pro forma KBC will increase our total Irish mortgage book, by more than one-third. The low marginal cost of managing these loans and the use of some of our excess liquidity, makes the acquisition materially accretive to earnings. We look forward to welcoming these new customers to Bank of Ireland in early 2023.

**Unique growth opportunity from structural change in Irish retail banking market**

Finally, Slide 12, sets out the exceptional change occurring in Irish banking, and the opportunities we see emerging for Bank of Ireland. More than half a million accounts will need a new banking provider as Ulster Bank and KBC exits the market. This provides us with a once-in-a-generation customer acquisition opportunity.

In response, we are adding over 650 people to help customers open accounts in a safe and efficient way. We have put in place a wide range of first-to-market supports to attract new customers to Bank of Ireland. This includes leading the market with a national campaign, The Big Move, to help customers switch current accounts.

As mentioned earlier, this effort is delivering results with 145,000 new current and deposit accounts opened in H1, an increase of around 80% year-on-year. Including all products, we have opened up 235,000 accounts in the year-to-date. On-boarding these customers has been greatly enabled by the investments we made in our digital capabilities in recent years.

70% of new current account applications have been made digitally, completing the application in less than six minutes. We expect to see ongoing high demand for new account openings in the months ahead.

Since our Investor Day in 2018, we have maintained a laser-like focus on delivering our strategy. Our strategic execution has helped the Group to navigate challenges such as

COVID-19 and Brexit, and maximise opportunities, including two transformative acquisitions and those arising from structural change in Irish banking. Our cost base is leaner, the performance of the UK business has been transformed, our overall returns outlook is positive, supported by our acquisitions and the higher interest rates outlook, and we have made significant improvements to the sustainability and profitability of our overall business model, to deliver ROTE above 10% in the near term

This is my final results announcements as Group CEO of Bank of Ireland. Bank of Ireland has been in business since 1783. It has been a professional honour, and a personal privilege, to lead it for the last five years. I would like to thank my colleagues, our customers and investors, for their trust and support, and I wish everyone in the Bank of Ireland family the very best for the future.

I will now hand over to Mark to take you through our financial performance in more detail.

## H1 2022 Financial Summary

Mark Spain

*CFO, Bank of Ireland*

Thank you, Francesca, and good morning everyone. As Francesca set out, the Group has delivered a strong set of results for H1. This includes underlying profit of €419 million, modest growth in total income, excluding valuation items, additional gains and acquisitions.

Net lending in Corporate and Retail Ireland of €1 billion, with further UK deleveraging as planned; a reduction in our like-for-like costs; a lower NPE ratio 5.4%; and a net credit impairment charge of €47 million, incorporating our consideration of the macro uncertainties; a strong capital position; and an adjusted ROTE of 8.1%.

**Strong business performance in H1 2022**

Slide 16 sets out our P&L and key performance metrics. The key takeaway from this slide is the Group's strong business performance in H1. Net interest income was modestly higher, excluding TLTRO impacts.

Businesses income increased by 16%, reflecting increased customer activity and recovery from COVID-19 impacts in 2021. This includes an increased contribution from the associates and JV line, helped by the easing of UK travel restrictions. And we continue to maintain cost discipline with like-for-like costs 1% lower versus last year.

Additional gains from bond sales and valuation items were broadly neutral, but were a drag on performance versus last year.

**Net interest income modestly higher excluding TLTRO impacts**

Slide 17 covers net interest income. As you can see from the walk, our NII in H1 was supported by lower deposit funding costs and FX, with TLTRO and higher wholesale funding costs a drag. The bond sales I mentioned, will reduce 2022 net interest income by circa €20 million, with the impact skewed to the second half of the year.

TLTRO had a negative accounting impact in H1, but this will more than reverse in H2, producing an expected full year net benefit of circa €19 million.

The slide also highlights our maintained pricing discipline, with the loan asset spread widening 11 basis points during H1, to 3.04%. In terms of the outlook for the full year, we've updated our guidance. We now expect net interest income to be modestly higher than in 2021.

**Net interest income positively geared to higher interest rates**

Slide 18 provides an update on the Group's sensitivity to rising interest rates. We estimate that a 100 basis point parallel increase in rates, would, all else being equal, add €435 million to annualised net interest income.

This is significantly higher than the €275 million sensitivity to a 100 basis point move that we outlined at our full year results in February. That variance is mainly down to two key factors. In February, our sensitivity started at a negative deposit rate of minus 50 basis points; today, our sensitivity starts at zero.

On top of this, we also have higher central bank balances on our balance sheet. The slide provides a little more colour on some of our underlying assumptions, bearing in mind the terminal ECB rate now looks closer to 1.25%.

To note, we are excluding any additional benefit from TLTRO in the sensitivity. We estimate this could add circa €100 million in aggregate, to our net interest income in 2023 and 2024.

**Net lending of €1.0bn in Corporate and Retail Ireland; UK deleveraging of €2.0bn in line with strategy**

Turning now to slide 19 on lending trends. We saw strong growth in new lending during H1 with Retail Ireland up 25%, and Corporate up 12%.

Across both divisions, net lending was 1 billion higher since December, with good momentum in our Irish mortgage and SME loan books. In the UK, and in line with our strategy, new lending fell 19% in H1, primarily due to mortgages. Performance also reflected our pricing discipline in volatile market conditions. Overall, the UK net loan book deleveraged by €2 billion in H1.

**Business income1 +16% reflecting improving momentum**

Slide 20 summarises the drivers of growth in business income. Wealth and insurance income grew 9%, supported by higher new life business and improved performance on the existing book. Retail Ireland income increased by 30%, reflecting higher current account, card fee and FX income, and the disruption to activity that was caused by COVID-19 last year.

The Retail UK fee expense primarily reflects our profit sharing agreement with our key partner in the UK, with the benefits reflected in net interest income.

And Davy, which is shown separately here, contributed income of €13 million since its acquisition completed at the start of June.

**Costs 1% higher; 1% lower ex Davy and one-off investment**

Turning now to costs, which is a critical focus for the Group. On a like-for-like basis, costs are down 1%. The bridge in slide 21, shows the €8 million investment we have made as part of our ambition to capture opportunities from the exiting banks in Ireland. We expect further investment of circa €20 million in the second half.

And on the outlook, we expect like-for-like cost to be lower in 2022 than 2021, with a further reduction in the cost base in 2023. Clearly, our reported cost base will reflect the incorporation of Davy and the plan KBC loan books.

**Non-core costs**

As set out in slide 22, we've booked non-core charges of €84 million. These mainly reflect UK restructuring, a further tracker mortgage examination charge and acquisition costs.

**H1 2022 net impairment charge of €47m**

Turning to asset quality. Slide 23 shows that there was a net impairment charge of €47 million in H1. This charge reflects loan loss emergence of €106 million, largely in our corporate book.

This charge is partly offset by IFRS9 model updates, and changes to management adjustments, which amounts to €59 million. Our stock of COVID-19 management adjustment, has reduced by €70 million, to €62 million.

We have made an additional post model adjustment of €32 million, relating to the uncertain economic environment, as we bring an element of caution to our assessment of recent global economic trends. And we've increased the weighting to downside scenarios in our IFRS9 models.

**Well diversified loan book with progress on NPEs**

Slide 24 provides an overview of our loan book. The book is well diversified by both sector and geography, and it's predominantly secured and strongly collateralised. More than half our loan book is accounted for by mortgages in Ireland in the UK. And the characteristics of these books are very strong. Indeed, more than half of our Irish mortgages were originated since the start of 2015, when the Central Bank's macroprudential mortgage rules were introduced.

The weighted average LTVs for Irish and UK mortgage books, are 53% and 55%, respectively, and the average LTV on our commercial property investment portfolio is 60%. We've reduced the risk on our acquisition finance book through the 2021 credit risk transfer transaction.

The NPE ratio at the end of June was 5.4%. We expect a meaningful pickup in the pace of reduction in the Group's NPE ratio in H2. That will be through a combination of organic and inorganic activity.

**Prudent asset quality coverage levels in face of economic uncertainty**

On slide 25, it is worth highlighting the strong impairment loss allowance coverage of 2.5% at the end of June. This is unchanged from December, and compares to the 1.6% coverage we had at the end of 2019, pre-COVID.

The charts at the bottom, highlight the main deltas in coverage levels since the end of 2019. Within our coverage, total management adjustments of €352 million remain on the balance sheet, equivalent to 19% of total provisions.

We believe we have prudent asset quality coverage in the face of ongoing economic uncertainty.

**Capital ratios remain strong**

Slide 26 shows the group has a strong capital position held by solid organic capital generation during the first half. Our fully loaded CET1 ratio is 15.5%. And this includes the acquisition of Davy, which had an impact of 80 basis points in our CET1 ratio as guided.

RWAs grew by €1 billion during the first half of the year, as a consequence of the evolving loan mix, and our target CET1 ratio of greater than 13.5% accommodates recently announced increases in countercyclical buffers in our key markets.

We've also accrued for distribution during H1, at 50% of 2021 distribution levels. The final decision on the magnitude and composition, will be taken, ahead of the release of our full year results.

**Financial benefits of acquisitions**

Turning now to slide 27. The transformative acquisitions of Davy and the planned KBC portfolios, have clear financial benefits for the Group. Following completion of the acquisition in June, Davy will make seven months contribution to the Group this year.

In the first six months of this calendar year, the overall Davy underlying profit, was €12 million, and a similar performance is expected in H2.

The strength of the Davy franchise is reflected in its strong track record of net wealth inflows, which is set out on the slide. This record continued in the first half, notwithstanding difficult market conditions.

And in respect to KBC, this acquisition will transform the scale of our Irish retail banking business. Our expectations on the financial impacts of KBC remain in line with our previous guidance. That guidance is: capital investment of circa 120 basis points, an annualised 2023 benefits to net interest income of circa €160 million, operating costs of circa €25 million, and a pro-forma reduction to our reported June 2022 NPE ratio of circa 30 basis points.

The financial benefits will reduce over time as the loan portfolios amortise.

**2022 outlook**

*Profitability*

And now turning to the 2022 outlook. On income, excluding acquisitions, we expect to see modestly higher net interest income, higher business income, and we assume unchanged additional gains and valuation items versus H1.

While reported costs will reflect the inclusion of Davy from the start of June, and one-off investments in new customer acquisition, like-for-like costs will continue to reduce.

*Asset Quality*

Turning to asset quality, subject to no material change in the economic conditions or outlook, we retain our prior guidance that we expect the 2022 impairment charge, to be lower than 20 basis points, and we expect NPEs to continue to reduce.

*Capital*

On capital, we see strong organic capital generation which supports our growth and investment plans. And, as before, distributions are expected to increase on a prudent and progressive basis.

**Summary**

In conclusion, Slide 29 provides a recap on the update we are providing to the market today. H1 has seen a strong business performance, our net interest income is positively geared to higher interest rates, we are maintaining our rigorous cost discipline, and we are vigilant to credit quality risks, as reflected in our provisioning approach.

The Davy acquisition completed during H1 materially increases our share of the attractive Irish Wealth Market. The KBC portfolios acquisition, which we expect to close in Q1 2023, will add meaningful scale to our Irish retail franchise and we are well positioned to welcome new customers from exiting banks in Ireland.

And finally, the state shareholding is down to less than 3% with full private ownership in sight. All of this leaves the Group very much on track to deliver sustainable ROTE of greater than 10% in the near term.

Before we turn to questions, I'd like to thank Francesca for the outstanding contribution she has made in Bank of Ireland over the last five years. All of us wish you the very best for the future.

We now invite any questions that you may have.

## Q&A

**Operator:** Thank you. We will now move to Q&A. As a reminder, to ask a question, you will need to press star one one, on your telephone, and wait for your name to be announced. Please stand by while we compile the Q&A roster. This will take a few moments.

Now, we're going to take our first question. Please stand by. And the first question comes from the line of Diarmaid Sheridan, from Davy. Your line is open. Please ask your question.

**Diarmaid Sheridan (Davy):** Good morning, Francesca, good morning, Mark. Thank you for the presentation and taking my questions. Three, if I may, please. Firstly, around the return on tangible equity trajectory. When we look at acquisitions, you know, the changing market dynamics and the rates upside, which you've alluded to, I just wonder if you could provide us maybe with a sense of what you think may be possible in 2023.

Secondly, Mark, maybe just around net interest income guidance. Clearly, the modest upside year-on-year in 2022 would indicate relatively strong growth in the second half of the year, versus the first half. I just wonder then when we look into 2023, how we should think about annualising that, factoring in some of the updated sensitivities that clearly you've provided us with this morning also.

And finally, around the cost of risk, and in particular, related to the portfolio charge of € 106 million, just wondering, in terms of guidance, how we should think about us looking beyond

2022, you know, clearly there's uncertainty there at this point in time, if there's anything that you could help us with on that front. That will be great. Thank you.

**Francesca McDonagh:** Thanks for the three questions. I'll comment on the first and the third, and then hand over to Mark, for a bit more detail. So, as we expected – the first half 8.1% ROTE, we previously said that we would get to in excess of 10%, and we had that target, without any assumption of acquisitions or a change in interest rates, but principally due to the strength of our business model and the actions that we've taken in recent years, and we've pulled the levers of cost reduction, we've grown our wealth and insurance business, we've turned around the UK, we've improved asset quality.

Standing back today, what's changed? So we have two transformative acquisitions; Davy completed, green light from a competition perspective for KBC next year. We've also seen a once in a generation growth in our customer base from all the structural change we're seeing in the sector, plus we have got the income upside from an increasing rate environment. So that's really informed our confidence about the near term guidance with regards to achieving in excess of 10%. And Mark will provide more details.

Just on the third question, about cost of risk. So, just more broadly, we are not seeing anything in terms of early warning indicators, or credit deterioration in any parts of our portfolio that would give us undue cause for concern, but Mark will provide a bit more granularity.

**Mark Spain:** Thanks, Francesca. Good morning, Diarmaid, and maybe just on the first question, then, on the ROTE piece, I suppose maybe the decision to add the words, "in the near term", to our ROTE guidance, was clearly a deliberate one, and reflects our confidence and conviction.

I would expect our ROTE to improve in the second half, and I think this should leave us with a very strong position going into 2023, when many of the key items Francesca has spoken to, really begin to land. And I suppose standing back and I've worked in the bank for quite a long time, and I'm mindful of the evolving macro environment, obviously, and the interest rate expectations are volatile. But from my perspective, it's hard to think of a time when the bank was better positioned to deliver double digit ROTE.

So just on the NII guidance, Diarmaid, moving on to that, we have upgraded our NII guidance, to modestly ahead of 2021. At full year, we said we're going to be broadly in line. The updated guidance reflects the more positive interest rate environment compared to February, and also reflects the modest income benefit of circa €20 million from TLTRO, which we hadn't originally anticipated.

I would note that the 2022 NII is also impacted by the loss of circa €20 million of net interest income following the bond sales in H1, obviously, and those bond sales gave rise to the additional gains of €83 million euros. And just on the H2 versus H1 then, I mean, just joining all that up, if you think about the TLTRO effects: so there's a circa €20 million charge in the first half, that's a sort of €50 million swing half on half; interest rates, in the second half, versus the first half, probably of the order of €60 million; then you've got the bond sales impact, probably just above €10 million in the second half. So, those are probably the key moving parts when we look at the half on half.

In terms of cost of risk, maybe, Diarmaid, taking your specific question, but maybe just to stand back maybe for a second, and how we thought about the provision charge. And we have taken a cautious approach to provisioning, given the evolving macro environment, and recognising that, you know, we're facing elevated inflation levels, we haven't experienced these levels for quite some time, and also, we're exiting from a low interest rate environment. And those factors do present new dynamics. But as Francesca said, we're not seeing any evidence of stress in our books and as we talk to our customers, just bringing that cautious approach to life our overall provision coverage level, it remains at 2.5%, and that is elevated versus pre-COVID levels of 1.6%.

We have increased the weighting towards downside scenarios in our slide, they're at 45% now, versus 35% at the year end, I'll come back to that in a second, and we've also added a new PMA, to deal specifically with economic uncertainty. And also, finally, I'd note that we've retained a COVID-19 PMA of €62 million, and that reflects a latent risk primarily in our Irish SME book, after Irish government supports were withdrawn earlier this year.

But to the earlier point, we're not seeing, and we're now sort of one month after the reporting period, not seeing any evidence of that risk emerging, since the period end.

Just to go back on those downside scenarios in the slide, for a second, so the 45% versus 35%. So, there's obviously a delta between the assumptions we're using to set our provisions and our central scenario, which is basically a consensus as of the end of June. And you can see that in our slide, I think it’s slide 23, in our pack, you can see the weighted average macros that we're using.

And if you look at those weighted average macros, you'll see one of our key assumptions, which drives our provisions is the ROI unemployment rate, and the weighted average assumption that we use for setting our provisions at 6%, in 2022, and 5.9%, in 2023.

If I just maybe compare that to the Central Bank of Ireland, which has come out since our reporting period end, in early July, they are projecting unemployment to 5.2%, for 2022, and 4.8%, for 2023. So just to maybe bring that to light.

Just on the portfolio charge itself. So, hopefully, that's just a little bit of context around our thinking on provisioning. And the portfolio charge itself comes primarily in our corporate books, it reflects a small number of individual case impacts that I wouldn't necessarily expect to repeat. And, you know, reflecting that and the outlook, we are reiterating our guidance that we expect our impairment charge to be less than 20 basis points for the full year, assuming no material change in economic conditions or outlook.

I think your question did look forward, but obviously, we’re not giving guidance today into 2023. It's obviously a set of interim results. So, we're not giving that guidance at this point. But, I would say just more generally Diarmaid, if I stand back, I would say, as interest rates move, you know, up towards higher and towards more normalised levels, it is reasonable to expect the impairment charge also, to move up to more normalised levels. And we've spoken previously about a range of 25 to 30 basis points. So, you know, I think that's not an unreasonable sort of association to make.

**Diarmaid Sheridan:** That's great. Thank you. And may I just also wish Francesca, very best in your next role in the coming months and years. Thank you.

**Francesca McDonagh:** Thank you, Diarmaid.

**Operator:** Thank you, Diarmaid. Now, we're going to take our next question. Please stand by. And the next question comes from the line of John Cronin from Goodbody. Your land is open, please ask your question.

**John Cronin (Goodbody):** Good morning, Francesca, good morning, Mark, thanks for taking my questions. And just to say at the outset as well, Francesca, wishing you the very best in your new role. A few questions from me, please. One is on costs. So, that's clear in terms of the outlook for H2 22, but can you talk a little more about the cost trajectory into FY 23 and the levers you have to achieve further cost reduction as previously noted?

The second question I have is on the CET1 target. So, you've increased that by 50 basis points to greater than 13.5%. Just wondering how we should be thinking about distribution and potentially capital return in that context, and, you know, what should we be thinking about? Does that kind of temper your appetite to distribute in FY 22? Any kind of guidance or sense of what to expect in terms of numbers there, for 22 and beyond, would be helpful.

And then thirdly, just coming back to the rates uncertainty, noting the much improved rates disclosure, but if I were to just go back and with the view of trying to compare things on a like-for-like basis across the industry, if you had started from minus 50, would it be fair to kind of go back to the original, I think, €190m for a 100 basis points upward move in the Euro context, if you have any comments on that, that would be helpful. Thank you.

**Francesca McDonagh:** Thanks, John, thanks for the questions and your kind comments, always a pleasure to respond. So, I'll answer on the first two, and then Mark, on rate sensitivity and just more broadly, given my moving on, on the more forward looking perspectives.

So, from a cost perspective, so like-for-like, we're 1% down in the first half of this year, if you exclude acquisitions and the investments we're making in the new current account switching. This six-month period is our eighth reporting period of underlying cost reduction, and we would have taken €250 million out since the end of 2017. So in terms of the levers, they are the same levers that have served us well in the last few years, going forward. So that's the lever of simplifying our organisation, and we've seen our headcount reduce by about 10% since 2017, and that includes 2% year-on-year in H1.

Second key lever is digitisation of our business, and we can see that just in terms of well, satisfaction, but also we had a 15% increase in our active customer, digital base. And that's a lower cost, more effective, more scalable channel to serve our customers through.

And the third is strategic sourcing. So, that's about third parties, contracts, insourcing, outsourcing. And I think all of those three levers are increasingly relevant in an inflationary environment.

We do expect H2 costs to be reduced from H1, Mark would provide maybe a bit more forward looking focus in 2023 plus. In terms of capital and distribution, Mark may want to comment on capital, but on distribution, so we know, I always say it's good that we know how important our distributions are for our shareholders, we have made a technical accrual at mid-year, and that is simply based on 50% of 2021 actual; our guidance remains that distributions will increase on a prudent and progressive basis, based on performance and capital position. And let me just briefly break that down.

So, in terms of performance, today, we're showing a strong set of results, we have organic capital generation of 60 basis points, and a more positive outlook to 2H. And that is a result of the step change that we're delivering in our business model. Plus, we're seeing upside from the two acquisitions, structural change in the sector, and the increasing rate environment. And that also supports the progressiveness of our policy. But there is a prudence in there. And we're not changing guidance today. It is a decision that will be taken by the board based on full-year performance. It will also reflect the external market conditions where we know there's an element of uncertainty today. I'll hand over to Mark.

**Mark Spain:** Yes, thanks, Francesca, good morning, John. Just on the costs, maybe just a couple of other points, Francesca covered it obviously very well. But you know, from my perspective, and I'm conscious, I'm the new CFO here, know the bank very well, but the bank has built a reputation for cost discipline and strategic reduction over recent years. It's certainly very important to me, cost doesn't change during my stewardship as CFO. So, to say, that we've obviously given guidance in terms of 2022, that we're going to be down on a like-for-like basis versus 2021, and we've given that guidance in 2023, as well, on the same basis, we expect to be down again, it's the same levers, pulling the same levers, we've tried and trusted levers that we'll be using to deliver on that.

I think John, I think Francesca answered your question in relation to capital and distributions. So, there's nothing additional you have there. Just on the rate sensitivity, and maybe just coming back to that. And really maybe a couple of things, the short answer to your question is, if you go back to the previous sensitivity, if you started from a minus 50 basis points starting point, would you end up with a similar sensitivity?

I think the broad answer to that, is, yes, it's obviously influenced by the balance sheet makeup given the static balance sheet, and, for example, we've got higher cash on deposit with ECB. I think the key thing is, the really two key reasons why the sensitivity is so much more significantly higher.

So, one is the starting point, the sensitivity to show today, is basically a zero rate starting point, versus minus 50 in February, and as we have explained previously, that that first 50 basis points is different to subsequent legs. For example, there are deposits on negative interest rates, those negative interest rates have moved to zero, we've passed that benefit or reversed that charge that we've applied to our customers, that's already happened, so it's effectively 100% pass through on that. Also Euribor floored loans, that's another reason why, you know, the sensitivity changes as they alter the balance sheet, it's different. But the short answer to your question is, yes, if you go back, it would be directionally similar.

John, I don't know if you wanted to – sorry you had a question. I'm not sure if your question was around the company guidance as well, or was it only on the application?

**John Cronin:** Both, but like when talking about capital targets – anything on there obviously – ?

**Mark Spain:** Okay, why don't I just cover the capital target, because maybe if it was part of your question, maybe somebody else might have it later, so we can get through it. But we have increased our target CET1 from greater than 13% to greater than 13.5%. I think we explained at full year that we're keeping the CET1 target under review, in the context of both the PRA, and the CBI reviewing capital buffers. And we also explained that at that point, if there was any adjustment, it will be modest. And we're seeing that modest adjustment today. The adjustment really reflects two events in H1, firstly, the confirmation by the PRA on the UK countercyclical buffer, and secondly, the CBI review of the capital framework, with the, obviously, the focus there on the Irish countercyclical buffer, and that had that phased in.

So, we are changing our capital target now, and that accommodates changes out to 2024.

**John Cronin:** Thanks very much. I'll come back with one follow up later, if I can. Thank you.

**Mark Spain:** Sure. No problem.

**Operator:** Thank you, John. Now we're going to take our next question. Please stand by. And the next question comes from the line of Alastair Ryan from Bank of America. Your line is open. Please ask your question.

**Alastair Ryan (Bank of America):** Yeah, thank you. Good morning. And disappointed to remind Francesca, I look at Credit Suisse as well. But I just want to press on the numbers, because there's a lot flying around. So, consensus net interest income for next year, 2.48 billion, with a range of 2.3 to 2.7.

So, if I take your 2021 NII, grow it by 1%, which would be very modest, add your sensitivity for 1% rates, because rates are going up by more than one, add three quarters of KBC, I get at least 2.8 billion for next year. So, above the top of the range. Now, I appreciate not everybody had put in their numbers and what have you, and then you're hoping to grow the bank, so, what's wrong with that math please?

**Francesca McDonagh:** Okay.

**Mark Spain:** Okay, yeah, morning, Alastair. Good to talk to you. And I think, you know, we're not obviously – there's a set of interim results here, and we're not giving guidance at this stage, 2023. We will obviously give that guidance after full year. We have tried to be really as helpful as possible, and give the market all the information on the key moving parts as we see them.

And I think, Alistair, you've captured them well. So, we've got our 2022 guidance. I think you've called it out there. We've given the NII sensitivity, we've given updates in relation to both Davy and KBC, we've called out the TLTRO as a separate additional piece. And then I think there's the opportunity presented by the exiting banks as well, and Francesca spoke to that in the presentation. It's a material commercial opportunity.

So, you know, I think you have all the moving parts. The macro is evolving, the interest rate outlook remains volatile, and that obviously, that also ultimately will impact the outcome. But I think you have, hopefully the key building blocks to be able to make your own assessment.

**Alastair Ryan:** Thank you.

**Operator:** Thanks, Alastair. Now, we're going to take our next question. Please stand by. And the next question comes from the line of Grace Dargan from Barclays. Your line is open. Please ask your question.

**Grace Dargan (Barclays):** Hi, good morning. Thank you for taking my questions, and best of luck Francesca. A couple from me, please. Firstly, I think given the outlook, is there a particular reason why you wouldn't call out a higher ROTE ambition today?

And then secondly, on Davy, just asking for a little bit of colour, maybe how you're thinking about potential synergies going forward, both in terms of timing and amount. And appreciate you're not giving 23 guidance, but just thinking about going forward with Davy, should we be expecting significant growth from here, or would you expect it to be more stable, kind of, as you're suggesting into H2 as well? Thank you.

**Francesca McDonagh:** Thanks, Grace. I'll turn to Mark on sort of ROTE guidance, because it sort of goes beyond my tenure, I can talk to you about the Davy and just more broadly, wealth and insurance. So we've had a step change in our wealth and insurance business model, we've pulled a number of organic levers in the last few years, and the completion of the Davy acquisition puts us by far the market leader in wealth management in Ireland. And it's a market that is particularly attractive.

So the target market is typically under invested, it's under advised, and you've got a demographic trend in terms of a young and ageing, fully employed, affluent population. So that all points to very positive, sustainable growth for many years to come, it helps diversify our revenue streams, and strengthens our business model. And you've seen even without Davy, wealth and insurance is now 37% of business income, and was up 9% year-on-year.

In terms of synergies, so, when we looked at Davy, the focus has really been on revenue synergies as opposed to obvious cost synergies. So, together Bank of Ireland and Davy have an AUM of circa €40 billion, with 600,000 customers, we would look at offering the high-net-worth customers in the bank, access to Davy, because they will have a broader and deeper range of products and services; we would look to extend Davy Select, which is a self-service platform, to all of our mass affluent customers in the bank. And obviously, independently of Davy, we're the only bancassurer in Ireland, and we have a penetration rate of 35% of our customer base. And that customer base is growing, for all the reasons that we talked about, due to the structural change. So, we are very positive about the outlook and the future growth for wealth and insurance strategically, but Mark may want to cover both in a little bit more detail.

**Mark Spain:** Yes, thanks for Francesca, maybe just to add on Davy, Grace. And we've given, I think, on slide 27, we've given some of the key highlights, key pieces of financial information in relation to Davy. I think that the key thing I draw your attention to, the chart on the left hand side of the page, and that's showing the net funds inflows into Davy's wealth business, which is the larger business in Davy. And that's a really strong track record.

You can see there, there's 0.8 billion of net inflows in the first half of this year, and that's not withstanding obviously, very tough equity market conditions. That really demonstrates the strength of that wealth franchise, and that's before, you know, that was obviously all pre Bank of Ireland owning Davy, so this is on its own, we bring Bank of Ireland's distribution reach, that can only power that going forward over time, it doesn't happen overnight, but I think we're just, I think really excited about the opportunity with Davy, it’s just fantastic business.

So, just on the ROTE piece then, just going back to that. Again, I probably come back and maybe was asked this question previously - it is our interim results, so we're not giving guidance today beyond this year, but I think, as I said earlier, ROTE is 8.1% In the first half, we expect that to improve based on the guidance that we're giving today into H2. And that really leaves a strong position going into 2023. You know, our targets, and our ambition is to be above 10%, there’s no ceiling in that, and we've given I think, hopefully the key moving parts, which, you know, form our confidence and conviction that we can get there in the near term.

**Grace Dargan** Perfect, thank you.

**Operator:** Thank you, Grace. Now, we're going to take our next question. And the next question comes from the line of Chris Cant from Autonomous. Your line is open. Please ask your question.

**Chris Cant (Autonomous):** Good morning. Thanks for taking my questions. If I could just echo the sentiments of others and wish you all the best in your new role Francesca. I have questions, three, please. So, on capital, I think your MDA once the guided countercyclical buffers will be fully in place, will be around 11.25%, why do you feel the need to run with more than 225 basis points of headroom, to MDA on an ongoing basis, please? It seems very high versus many peer banks.

And then on revenues, we've obviously got quite a complex patchwork of qualitative M&A adjusted guidance at the minute. If I could just try to cut through some of that, please, say your ex-M&A, total revenue consensus for 2022 is 2.9 billion, am I right in thinking that by the time we crunch through modestly higher NII, higher business income, and then adjust for the fact that there's no expectation for a net positive notable revenue item, and the associates and JVs line has bounced back quite strongly, and that's not in consensus, if I think about that total revenue number of 2.9 billion, you'd be expecting consensus to be flat to slightly higher for 2022?

And then finally, on revenues, again, more looking into 2023, any colour on the expected impact of IFRS 17, please? And if not, when should we expect to get this, given the transition is in five months? Thanks.

**Francesca McDonagh:** Thanks, Chris. My only response to say thank you for your comments, and hand over to Mark on each of those three good questions.

**Mark Spain:** Yes. Hi, Chris. Good morning. And just on the capital piece, so that guidance of greater than 13.5%, clearly you think about the different building blocks that you've called out, obviously you got P2G, you got a margin buffer on top of that, which is an appropriate management buffer. So I think we've taken account of all that, obviously, we're 13%, greater than 13%, at the end of last year. And I think at that point, we flag that, you know, given that we knew what was coming on the horizon this year, with both the PRA and the CBI, both needing to make decisions that would inform where we go – so I think our guidance today is entirely – our update today is entirely consistent with the guidance that we gave for the full year.

And so on the revenues, and there are a number of moving parts, I'm trying to make it as straightforward as possible. Obviously, when we've got data coming in for one month, and then seven months, you know, I think we need to sort of look at the company, Davy, and, as I said earlier, we're really excited about what Davy brings.

And, you know, I think we talked about NII earlier on the call, so, our guidance there is that NII will be modesty ahead, and that is an upgrade in guidance relative to where we were at the full year, where we were broadly in line. And so that's on that piece.

On business income, maybe just go to that for a second. And business income, and we defined business income as including associates and JVs - it's effectively, ultimately fee income, its just a set of different lines of P&L account, that's why we do that. It is up 16%, in H1. There were very strong performances there in Retail Ireland, with customer activity, obviously increasing, but there were COVID-19 effects in the first half of last year. We also had a very good performance in our wealth and insurance businesses, typically more H2 weighted, and we have very strong performances as we said, in UK Retail FX JV, which is the number one player in that market as UK travel restrictions were lifted.

So, our guidance, it remains what it was at full year, so it's higher versus 2021, but we're more positive of that today than we were at the full year. And so on ROI, on the one hand won't necessarily have the same bounce in H2 versus H2 last year because we didn't have the COVID restrictions then, but as I said, wealth and insurance, that's more second half weighted, and that UK Retail FX JV, that has performed better than we originally planned at the beginning of the year. So, we're more positive in that regard. So, hopefully that gives you – and then the last piece is the additional gains and valuation items. And obviously there's a number of moving parts there with additional gains, we've talked about NII and the impact of that, then the valuation items which are really due to market movements.

We're basically minus 3 million at the half year. That's, you know, we always guide that that's impossible to project going forward, it depends on market movements. So we've just assumed that they'll be unchanged relative to the half year. So that hopefully gives you some sense on the revenues.

On IFRS 17, then, yes, so that is – that's obviously, Chris, you know, there's some very good research done by Autonomous but that's an accounting standard which impacts the phasing of profit, doesn't change the economic value of the insurance business or the benefit we have, being the only bancassurer in Ireland, but it's obviously, again the beginning of next year. It is a complex area. And we don't have quantitative guidance at this point. But we expect to have that by the full year, we were making good progress on our IFRS 17 program, and there are enhanced disclosures in our interim report in relation to that, but there's more to come on that as we work through it.

**Chris Cant:** Thank you. If I could just come back on the revenue piece then. In terms of the business income being high, you said 16% up, 1H versus 1H, but expecting less growth than that in 2H on 2H, so, year-over-year, are we talking about business income up high single digit or 10%? That kind of quantum? Is that what you're trying to convey by higher? Just trying to put the pieces together there.

**Mark Spain:** So, maybe to address the question maybe in a slightly different way, Chris, I mean, if I go back to pre-COVID, and I go back to 2019, I think we've always thought that this year would be a good year to get back to 2019 levels, across businesses. And I think that'd be very much our ambition.

**Chris Cant:** And that's pre M&A?

**Mark Spain:** That's pre M&A. Correct.

**Chris Cant:** Thank you.

**Operator:** Thank you, Chris. Dear participants, as a reminder, if you wish to ask a question, please press star one one on your telephone keypad. Now, we're going to take our next question. And the question comes from the line of Ali Woods from Morgan Stanley. Your line is open. Please ask your question.

**Ali Woods (Morgan Stanley):** Hi, good morning, and thanks for taking my question. You’ve kept your cost guidance as it was, though, adding an extra €30 million to bring in those customers from the departing banks, how have you been able to do this, given higher inflation, and I know you're not commenting on guidance really, for 2023, but are you able to give us a very high level impact of what you think inflation is going to – how it's going to impact your costs go forward.

**Francesca McDonagh:** Okay, thanks, Ali. I'll say a few words, and then maybe we’ll talk about the future, pass to Mark. So, we have toned this muscle over a number of years, as I mentioned before, it's our eighth reporting period, we have been very considered and strategic in how we've taken costs out, so I've always said it's very easy to take cost out badly, we've been strategic in changing our business model, to take out toil for customers in some of our more manual processes, digitise our business, and we have just become more efficient and more effective.

We've also done that, whilst managing our stakeholders, whether that's shareholders or customers or the state, well, and we have in terms of our pay outlook, we have secured an agreement with our employee representatives for a payroll award of 4% in 2022, and 3.5%, next year, we think that's appropriate, and that gives us an ability to plan ahead. Maybe Mark wants to comment a little bit more, but the discipline and focus on sort of taking out bad cost, so inefficiency, friction, toil, has become a mantra within the organisation. And I see that progresses continuing going forward.

**Mark Spain:** Yeah, thanks. Thanks, Francesca. I mean, just maybe a couple of small comments. I mean, firstly, just on the €30 million, I would say that is a one-off investment to on-board, you know, more than 10%, an opportunity ratio of more than 10% of Irish inhabitants that need to find a new bank. So, that's a really exciting opportunity from a commercial perspective. And so just to highlight that.

The second piece then is in relation to the cost guidance, that we are guiding obviously 2022 to be lower than 2021, on our like-for-like basis, excluding those costs, and obviously excluding the impact of acquisitions. We're also guiding 2023 to be lower than 2022, on the same basis.

And the levers, again, that we're pulling are the ones that we've pulled before. Francesca outlined them earlier on the call. We still think there's opportunity. We're constantly challenging ourselves. It's certainly something that's been really, as Francesca said, the muscle that we've well-honed and developed. It's personally important to me as well.

**Ali Woods:** Thanks.

**Francesca McDonagh:** Thank you.

**Operator:** Thank you, Ali. Now, we're going to take our next question. Please stand by. And the next question comes from the line of Guy Stebbings from Exane BNP Paribas. Your line is open. Please ask your question.

**Guy Stebbings (Exane BNP Paribas):** Hi, good morning, everyone. And if I can echo the warm words, Francesca, for your new role. One on capital, and one I might try again on costs.

So, on capital, really just interested, if you can give any more colour on the uplift in the period driven by mix and how we should be thinking about that going forward? I guess the starting point is fairly conservative risk weights, and we compare against peers and other jurisdictions so that one might be hopeful that you'll be insulated from further upwards move in risk weights, but any colour there would be useful.

And then on cost, I mean, I take note of all the comments you've made and declining costs next year on the clean basis, but I guess lower as a comment is quite open ended, so, not sure if you can help contextualise that a little bit more, is lower kind of, you know, trending like 1% this year, a sensible sort of base case assumption? I guess if I was to take that sort of run rate, take off the 30 million of investment costs, you're kind of in the ballpark of the 3% decline, including consensus on that basis, but any additional context there, would be very helpful. Thank you.

**Francesca McDonagh:** Thanks, Guy. I'll pass to Mark on both.

**Mark Spain:** Okay, yeah. Thanks, Francesca. Good morning, Guy. Yes, just on the RWA – so there's a 36 bps investment in H1, that reflects the evolving loan mix. If you think about the moving parts for the strong performance in our corporate and Irish SME books, also a little bit in mortgages as well, but those, the first few of those obviously, higher risk weights. We've had deleveraging in line with our strategy in the UK, that's lower risk weights, and that's what's driving that.

There's also some timing aspects, and I'd say, frontloading. So I wouldn't necessarily expect that sort of investment to repeat into H2. And maybe just turning back to the loan book, we may just dive in there for a second.

If I look at our loan book ex-UK in H2, I would say the weighting of growth, and we do expect growth in H2, would be more weighted towards our Irish retail business, and more towards mortgages. So just to give you a little bit of colour on that. Standing back, I would expect that our RWA density on a portfolio basis, to be broadly stable. Irish mortgages, we've spoken about previously, new lending RWAs are a little bit below stock. And obviously, when KBC comes in, again, the risk weighting from that, will help overall risk density, but on each individual portfolio, probably no material change. So, that's on that.

On the cost, just to be clear, so, on the costs, we're guiding to be lower, year-on-year, excluding acquisitions and excluding the one-off costs in relation to on-boarding customers. And on that basis in H1, we were down 1%, okay, so again, it stops the – it's from that base that you need to look.

And again, as I think about 2023, and we’re not providing guidance in 2023 today, but it's lower on that basis in 2023.

**Guy Stebbings:** Okay, thank you.

**Operator:** Thank you, Guy. There are no further questions. And I would like to hand the conference over, back to our speakers, for closing remarks.

**Francesca McDonagh**: Just very briefly, thank you, thanks for your time today, and from a personal perspective, thanks for your positive engagement and hard work during my five years. And I know that will continue well beyond me. I look forward to seeing many of you on the road, in the coming days. Thank you very much.

**Mark Spain:** Thanks, everyone. Good morning.

**Operator:** That does conclude our conference for today. Thank you for participating. You may all disconnect. Have a nice day.

[END OF TRANSCRIPT]