Bank of Ireland Group plc (the "Group")

Interim Management Statement – Q3 2021 update

29 October 2021

Comment: Francesca McDonagh, Bank of Ireland Group CEO:

"During the third quarter of 2021, we have seen continued recovery of business activity, supported by a more positive economic environment and outlook. The continued improvement in our performance in the third quarter is reflected by higher income, lower costs and an increase in capital. Continued execution of our strategy has supported a 17% increase in operating profit pre-impairment to end-September 2021 compared to the same period in 2019, pre-COVID-19.

"We are progressing the two announced transactions with KBC and Davy, having reached a binding agreement with KBC earlier this month. Completion of both of these transactions is expected in 2022, subject to regulatory and competition authority approvals. Both transactions support our business growth strategy and are financially transformative, supporting our target to deliver a ROTE in excess of 10% in the medium term.

"Our ambition as a National Champion Bank is to continue to support the economic recovery in our home market through accessible, responsible and sustainable lending, and in particular to support an increase in home building and buying in Ireland over the coming years. In the 9 months to end-September 2021 our green mortgage lending in Ireland has increased nearly 30% vs the same period in 2020. We recently announced improvements to our green mortgage range and we will continue to focus on our ESG commitments and play our part in supporting the green transition.

"Q3 also marked an important moment in normalising the relationship between the Irish State and Bank of Ireland, with the Department of Finance progressing its sell down of the State shareholding in the Group, now down to less than 10%. This is a positive development – for Irish taxpayers, the Irish economy, and Bank of Ireland."

Key highlights:

- Strong capital position; regulatory CET1 capital ratio 15.7%, fully loaded CET1 capital ratio 14.6%
- Net interest income in line with expectations; +2% in the 9 months to end-September vs prior year; NIM to end-September of 1.84% (1.95% excluding TLTRO impact)
- New lending higher; excluding revolving credit facilities and on a constant currency basis, new lending is +7% in the 9 months to end-September vs prior year
- Business income (including share of associates/JVs) in-line with expectations; +8% in the 9 months to end-September, supported by growth in Wealth and Insurance income
- Positive contribution from additional gains, valuation and other items
- Continued strong cost discipline; net reduction of 4% in the 9 months to end-September vs prior year
- Asset quality remains strong with modest net writebacks in the third quarter
- Binding agreement reached with KBC Bank Ireland to acquire €9.2 billion of loans and €4.4 billion of deposits following completion of a due diligence process

Income

Net interest income is 2% higher in the 9 months to September 2021 when compared to the same period in 2020. This reflects reduced funding costs and the increased application of negative interest rates on certain deposits. The application of negative interest rates is helping to partially offset the low interest rate environment that continues to impact on liquid assets and structural hedges. The Group continues to maintain strong commercial pricing discipline with higher loan asset spreads in the 9 months to September 2021 compared to the same period in 2020.

Business income, including share of associates and JVs, is 8% higher in the 9 months to September 2021, when compared to the same period in 2020, supported by growth in Wealth and Insurance, and Corporate and Markets' fee income.

Additional gains, valuation and other items provided a positive contribution in the 9 months to end-September.

Costs

The Group continues to maintain tight control over the cost base while investing in transformation and absorbing cost inflation. Operating expenses (excluding levies and regulatory charges) are 4% lower in the 9 months to September 2021 compared to the same period in 2020. We continue to expect 2021 costs to be less than €1.65 billion.

Balance Sheet

Customer loan volumes were stable at €76.7 billion at end-September 2021 vs €76.6 billion at end-December 2020. Net lending growth of €0.7 billion in Retail Ireland and Corporate in the 9 months to end-September, UK deleveraging of €1.8 billion in line with strategy with this trend expected to continue. Other movements comprised the NPE transaction of €0.3 billion and positive FX / other benefits totalling €1.5 billion.

New lending, excluding revolving credit facilities and on a constant currency basis, increased 7% in the 9 months to end-September 2021 compared to the same period in 2020.

The Group's liquid assets of €47.7 billion increased by €17 billion since December 2020 primarily reflecting the Group's €10.8 billion participation in the ECB's TLTRO III in March and an increase in customer deposits.

Customer deposits were €91.3 billion at end-September 2021. Wholesale funding was €21.2 billion at end-September 2021, €12.4 billion higher than December 2020 primarily due to TLTRO participation.

Asset Quality

The Group experienced a modest net credit impairment writeback in the first 9 months to end-September 2021. The net writeback reflects positive loan loss experience and portfolio activity in the third quarter. Macroeconomic scenarios impacting credit impairment will be refreshed to reflect updated market forecasts and captured as part of the Group's year-end credit impairment process. In addition, the Group's stock of management adjustments for latent risk associated with COVID-19 will be assessed at FY 2021.

The Group's non-performing exposures (NPE) decreased by €0.3 billion since December 2020 to €4.2 billion, equating to an NPE ratio of 5.3% of gross customer loans.

Capital Position

Strong accretion of capital in the third quarter, with the Group's regulatory CET1 capital ratio of 15.7% and fully loaded CET1 capital ratio of 14.6% at September 2021 reflecting increases of 40 and 50 basis points respectively. The improvement in capital ratios from the end of June 2021 reflects organic capital generation, partly offset by the investment in transformation and new lending. The Group's regulatory CET1 ratio provides headroom of c.590 basis points over end-2021 regulatory requirements of 9.77% (excluding P2G).

The Group's regulatory Total Capital ratio was 21% at the end of September 2021.

Responsible and Sustainable Business (RSB)

The Group continues to make progress on delivering our RSB strategy under the three pillars of Enabling Colleagues to Thrive; Enhancing Financial Wellbeing; and Supporting the Green Transition. We are supporting the transition to a more sustainable economy with a significant increase in our green lending in the 9 months to end-September vs the same period in 2020 - c.+30% in mortgages, c.+65% in business banking term lending and a near doubling of non-property corporate commitments. In addition, we continue to progress our broader Financial Wellbeing initiative with the launch of the 'WTF? (Wanna Talk Finance?)' multi-platform campaign in Ireland.

Other Key Developments

On 19 October 2021, the Group completed a credit risk transfer transaction referencing a portfolio of Irish mortgages. The transaction will improve the Group's regulatory and fully loaded CET1 capital ratios by c.30 basis points and forms part of the range of balance sheet optimisation initiatives the Group previously indicated were being progressed during H2 2021. The transaction results in a pro-forma reduction in the average risk weight of the Group's Irish mortgage portfolio as at June 2021 from c.26% to c.22%.

On 22 October 2021, the Group entered into a binding agreement with KBC Bank Ireland and KBC Group for the acquisition of a portfolio of €9.2 billion of loans and €4.4 billion of deposits. The acquisition is expected to be earnings accretive, adding c.1.1% to Group RoTE in the first full financial year of ownership. Based on current portfolio size, the Group expects incremental customer net interest income of c.€160 million in 2023, which will reduce over time as the portfolios redeem. As required under IFRS 9, the Group is expected to report a day 1 Impairment Loss Allowance which will be booked on the Income Statement upon completion of the transaction, while the CET1 capital ratio impact is expected to be c.120 basis points financed through existing resources. The transaction is also expected to reduce the Group's June 2021 pro-forma non-performing exposure ratio by c.0.4%.

Ends

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Forward Looking Statement

This announcement contains forward-looking statements with respect to certain of Bank of Ireland Group plc ('BOIG plc') and its subsidiaries' (collectively the 'Group's') plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates and its future capital requirements. These forward-looking statements often can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would,' or their negative variations or similar expressions identify forward-looking statements, but their absence does not mean that a statement is not forward-looking.

Examples of forward-looking statements include, among others: statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, business model, projected costs, margins, future payment of dividends, estimates of capital expenditures, discussions with Irish, United Kingdom, European and other regulators, and plans and objectives for future operations. Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements.

Nothing in this announcement should be considered to be a forecast of future profitability, dividends or financial position of the Group and none of the information in this announcement is or is intended to be a profit forecast, dividend forecast or profit estimate. Any forward-looking statement speaks only as at the date it is made. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.