Bank of Ireland Group plc (the "Group")

Interim Management Statement – Q3 2022 update

9 November 2022

Comment: Gavin Kelly, Bank of Ireland Group Interim CEO:

"We delivered a strong business performance in the third quarter. Underpinning this were strong capital and funding positions, focussed cost discipline, and growing income.

"All of this has allowed us to continue to deliver on our strategic priorities. We grew lending in our Retail Ireland and Corporate and Markets divisions. We continued to execute our strategy of value over volume in the UK. And the KBC transaction is going through final approvals and expected to close by end Q1 2023.

"We also grew our customer base in Ireland, taking a wide range of actions to reach and support those moving bank and deliver on this once-in-a-generation commercial opportunity. In the first nine months of the year we've opened c.245,000 new current and deposit accounts, up c.90% compared to the same period in 2021.

"The Irish economy continued to perform well, notwithstanding an increasingly uncertain environment and increasing inflationary pressures. We're keenly aware of the impact of higher inflation on our customers, who we will continue to support over a challenging winter. Despite this, our asset quality remains strong and we have taken steps to materially reduce our NPE ratio.

"Overall business momentum is positive. We are upgrading our net interest income guidance for 2022 to reflect the interest rate outlook. The strength of our business model means we are firmly on track to deliver sustainable RoTE of greater than 10% in the near term."

Key highlights:

- Strong capital position; fully loaded CET1 capital ratio 15.7%, regulatory CET1 capital ratio 16.2%
- Net interest income in the period ahead of prior expectations, supported by rising interest rates. We now expect 2022 net interest income to increase by c.6-7% vs 2021
- Net lending in the 9 months to September of €1.9 billion in Retail Ireland and Corporate & Markets; €3 billion of Retail UK deleveraging in line with our strategy focused on value over volume. Green mortgages account for c.50% of Irish mortgage volumes during the period
- Business income* growth in line with expectations
- Positive contribution from gains on bond sales in H1, more than offset by negative impact from valuation and other items
- Continued strong cost discipline despite increasing inflationary pressures; operating expenses 1% lower in the 9 months to September vs prior year, excluding Davy and one-off investment to capture opportunities from exiting banks
- Asset quality in Q3 2022 in line with expectations; non-performing exposures (NPE) ratio will reduce to 3.7% on completion of the NPE transactions
- Strong new customer acquisition in Ireland from exiting banks
- Application submitted to the Science Based Targets Initiative to have the Group's Science Based Targets validated
- State completed the sale of their shareholding, a milestone moment for the Group

Income
Net interest income is 3% higher in the 9 months to September 2022 when compared to the same period in 2021. This performance is ahead of prior expectations and reflects the Group's positive gearing to higher interest rates. The Group continues to maintain strong commercial pricing discipline with higher loan asset spreads in the 9 months to September 2022 compared to the same period in 2021.

Business income (including share of associates and JVs, and excluding Davy) is 14% higher in the 9 months to September 2022, when compared to the same period in 2021. This performance is in line with expectations and is supported by growth across our businesses. Davy has continued to attract net new funds during the period, reflecting the quality of its franchise; overall funds under management and capital markets activity have been impacted by external market conditions.

Additional gains on bond sales in H1 2022 have been more than offset by a negative impact from valuation and other items in the 9 months to end-September 2022. The net position of additional gains and valuation items at end September 2022 is negative c.€30 million.

Costs
The Group continues to maintain rigorous cost discipline while absorbing inflation and continuing to invest in the attractive growth opportunities in the Irish market. Operating expenses (excluding levies and regulatory charges) are 1% lower in the 9 months to September 2022 compared to the same period in 2021, excluding Davy and one-off investment to capture growth opportunities from exiting banks. Reported costs are 5% higher in the 9 months to September compared to the same period in 2021. In October, the Group announced a once off cost-of-living payment for colleagues, which will be absorbed within existing cost guidance.

Balance Sheet
Customer loan volumes were €73.5 billion at end September 2022, €2.8 billion lower vs December 2021. Net lending of €1.9 billion was recorded in Retail Ireland and Corporate & Markets. In the UK, in line with the Group's strategy of value over volume, net loans reduced by €3 billion in the 9 months to September 2022. Other movements included the NPE transaction in Q1 of €0.1 billion, net impairments of €0.1 billion and FX/other impacts of €1.5 billion.

New lending increased 13% in the 9 months to September compared with the same period in 2021. Retail Ireland increased by 30% with strong growth across mortgage, business banking and consumer portfolios and growth of c.40% in Q3 22 vs Q3 21. Corporate & Markets increased 23% with growth diversified across all portfolios. Retail UK decreased 19%, primarily driven by a reduction in mortgages, reflecting pricing discipline and our strategic focus on value over volume.

The Group's liquid assets of €55.2 billion have increased by €5.5 billion since December 2021, primarily reflecting an increase in customer deposits. Wholesale funding of €22.4 billion has increased by €1 billion since December 2021.

Customer deposits (excluding fair value hedge adjustment) were €96.7 billion at end September 2022, €3.9 billion higher compared to December 2021, comprising higher Retail Ireland deposits (€7.8 billion) and Corporate & Markets deposits (€0.3 billion), partially offset by lower Retail UK deposits (€4.2 billion) in line with strategy. The Group's loan to deposit ratio was 78% at end September 2022 vs 82% December 2021.

Asset Quality
The Group's asset quality in Q3 2022 was in line with expectations. Macroeconomic scenarios impacting credit impairment are updated twice yearly and the next update will be captured as part of the Group's end-year credit impairment process.

The Group's non-performing exposures have decreased by €0.2 billion since December 2021 to €4.1 billion, equating to an NPE ratio of 5.4% of gross customer loans at end September 2022 (December 2021 NPE ratio: 5.5%). On 8 November 2022, the Group announced the disposal of Irish and UK NPE portfolios in two separate transactions, with gross values of €0.8bn and €0.6 bn respectively. On a pro-forma basis, completion of both transactions will reduce the Group's September 2022 NPE ratio to 3.7%. The Group continues to focus on further reductions through a combination of organic and inorganic activity.

Capital Position

The Group's fully loaded CET1 ratio at end September 2022 was 15.7% (15.5% at end-June 2022). The movement in the period reflects the benefits from organic capital generation, partially offset by the mix of investment in customer lending. The Group's regulatory CET1 and total capital ratios were 16.2% and 20.3% respectively at end September 2022, with the total capital ratio benefiting from the Group's £300 million Tier 2 transaction issued in September 2022.

Updated net interest income guidance for 2022

The Group now expects 2022 net interest income to increase by c.6-7% vs 2021. This stronger outlook reflects the Group's positive gearing to higher interest rates and a faster interest rate hiking cycle in H2 2022 vs. expectations earlier in the year. Following the recent announcement by the ECB, the Group expects to repay its TLTRO drawings in November 2022 and recognise net interest income from TLTRO participation in FY 22 of c.€30 million.

** (including share of associates/JVs and excluding Davy)*

Ends

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Forward Looking Statement

This announcement contains forward-looking statements with respect to certain of the Bank of Ireland Group plc (the 'Company' or 'BOIG plc') and its subsidiaries' (collectively the 'Group' or 'BOIG plc Group') 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, LDRs, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, UK, European and other regulators, plans and objectives for future operations, and the impact of the COVID-19 pandemic particularly on certain of the above issues and generally on the global and domestic economies. 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.

Such risks and uncertainties include, but are not limited to, those as set out in the Risk Management Report in the Group's Annual Report for the year ended 31 December 2021. Investors should also read 'Principal Risks and Uncertainties' in the Group's Annual Report for the year ended 31 December 2021 beginning on p 138.

Nothing in this announcement should be considered to be a forecast of future profitability, dividend forecast 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.