Interim Management Statement - Q3 2020 Update

Wednesday, 28th October 2020

This transcript contains forward-looking statements with respect to certain of Bank of Ireland Group plc ('BOIG plc') and its subsidiaries' (collectively the '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, loan to deposit ratios, expected impairment losses, 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, 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.

Investors should read 'Principal Risks and Uncertainties' in the Group's Interim Report for the 6 months ended 30 June 2020 beginning on page 28 and also the discussion on risk in the Group's Annual Report for the year ended 31 December 2019.

Nothing in this transcript 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 transcript 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, being the date of the transcript.

Operator: Good morning ladies and gentlemen. We are joined on the line today by Bank of Ireland CEO, Francesca McDonagh, and CFO, Myles O'Grady. If you would like to ask Francesca and Myles a question this morning, please press star one. Myles, I'll now hand over to you.

Introduction

Myles O'Grady

Group CFO, Bank of Ireland Plc

Agenda

Thank you, Nicole, and good morning to everyone. And thank you for joining us on our trading update call this morning.

We're going to try to keep as much of the time available over the next hour or two to respond to the questions you may have. But just in advance of that, I'm going to hand over to Francesca just to provide some introductory remarks in relation to overall market sentiment, progress with strategic objectives, and, indeed, transformation.

Francesca, over to you.

Market Sentiment, Strategic Objectives, and Transformation

Francesca McDonagh

Group CEO, Bank of Ireland Plc

Main areas of focus

Great. Thanks, Myles. And good morning, everyone. And thank you for joining us. So yes, we'll just spend a couple of minutes outlining our third quarter IMS and then we'll go straight to Q&A.

Supporting customers

Bank of Ireland have three really important areas of focus. One is supporting customers at each stage of the pandemic. And that may be in the form of helping customers come off payment breaks, which we will talk about, but also new business. And we're seeing, you know, better than we would have expected pipelines of business, particularly in our mortgage business in Ireland and in the UK.

Rebooting the economy

Our second area of focus is playing our part in the reboot of the economy. You'll see we're the leading lender to the Irish economy. There's been a significant stimulus by the Irish Government and that's been increased, since we last spoke, around interims to equate to about 21% of gross national income. And obviously, given our role with SMEs, you know, helping them navigate through varying degrees of restrictions that have been happening in the third quarter and as we enter the fourth quarter.

Keeping a disciplined eye on our strategic objectives

And the third area of focus is keeping a really disciplined eye on our strategic objectives. So no kind of 'cat ate my homework' excuses for not delivering on what we said we were going to do. And if anything, they're more important now than ever.

And a couple of areas of strategic progress that we're particularly pleased to be reporting today. One is on our systems transformation. So there have been a number of milestones that we've delivered for our customers in the third quarter, which we can talk about in Q&A.

Rollout of new app

But most notably, the rollout of our new app and now new fully digitised processes for key journeys such as current account opening and also mortgages, which have been well-received. And the current account journey, in particular, is now the single largest channel we have for account origination.

Voluntary redundancy programme

The other key strategic area of progress that we're reporting today is on cost reduction. In particular, the successful closing of our voluntary redundancy programme, which is now complete, in terms of the window of applications and everyone who has been accepted on the voluntary redundancy knows about it.

We would have had 2,000 applicants; we accepted 80% of them. That's 1,700 individuals in FTE terms, but because some of them are part-time, that's a reduction of 1,450 FTE. And which, for us, represents a really clear step change in our cost reduction and our improvement in efficiency.

It's equal to 14% of annualised staff costs. It will be gradual. It's not all in one go. And people will be leaving, whether it's this year or going into 2021. And we've done that in a very considered way. We've avoided disruption for customers. We've worked with a range of stakeholders as well within our often quite interesting environments here in Ireland to ensure that – has been well-delivered.

Trading update

And from a trading perspective, third quarter results. Our trading environment was generally better than the second quarter. We would have seen a 30% increase in Irish mortgage drawdowns, quarter on quarter. We would have seen improved activity in the UK. For example, our bespoke drawdowns doubled, quarter on quarter.

Although, as we enter the fourth quarter of 2020, a note of caution, given that the Irish and UK Government restrictions have increased and Ireland is in the second week of a six-week Level Five restriction. It's not a full lockdown, but it is certainly impacting some of the consumer and business sentiment, which we can talk on.

Key highlights

A strong capital position with a FL CET1 capital ratio of 13.5%

Key highlights: So obviously, strong capital position with our fully loaded CET1 capital ratio of 13.5%. Higher activity levels in Q3 compared to the prior quarter. Quarter on quarter, our new lending was up 59% and business income increased by 25%. Year-to-date, for the nine months of September, we saw our net interest income 2% lower, with NIM at 2%. And our new lending, year-to-date, of €9 billion, which is 25% lower compared to this time last year. And business income is 19% lower versus this time last year.

Strong cost discipline continues

The strong cost discipline continues. We've seen a net reduction of 4%, year-to-date. We took a restructuring charge, which reflects the successful outcome of the Group's voluntary redundancy scheme and that will support the step change in cost I mentioned. And importantly, no material increase in actual Stage 3 loan losses in these three months since we last reported.

Payment breaks

We've provided quite a bit of detail on payment breaks. Key headline there is we would have started with 106,000 payment break one customers, of which 27,000 took a second payment break. As of the middle of October, we would have had 20,000 payment breaks outstanding. And as peoples payment breaks expires, the vast majority are resuming capital and interest payments.

The number of customers who're actually saying, 'Look, you know, I do require additional support', is very much in line with our expectations. And we've resourced heavily in this area and the behaviour that we're seeing is very much in line with what we would have expected. And that's reflected in the fact that our NPEs are stable since June at €4.5 billion or an NPE ratio of 5.8%. And obviously, we think of our credit risk management track record and capabilities are a competitive advantage amongst Irish banks.

I am going to pause there and hand back to Myles and we go straight into Q&A. Thanks, Myles.

Myles O'Grady: Thank you, Francesca. I'm going to go back to Nicole to start feeding through questions from those on the call. Thanks, Nicole.

Q&A

Operator: Thank you. So ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad and wait for your name to be announced. And if you wish to cancel that request, please press the hash key.

And your first question comes from the line of Diarmaid Sheridan at Davy. Please go ahead. Your line is open.

Diarmaid Sheridan (Davy): Good morning, Myles. Good morning, Francesca. Thank you for the call and the trading update this morning. Two questions, if I may.

Firstly, just looking at the outlook for 2020 and that remaining unchanged, if I could just get some comments around Q3 being better than expected and balancing that with the uncertainties that you've called it this morning, that would be great, please.

And then, secondly, obviously, capital looks like its running maybe slightly ahead of expectations into year-end. Just wondering around that, how you would look at areas like dividends as we move into 2021? Thank you.

Myles O'Grady: Thank you very much, Diarmaid. So let me take the question on the outlook for 2020. And then, I'll ask Francesca to comment on dividends in the context of our capital evolution.

So I think the outlook is clearly an important topic and I will take a couple of minutes just to work through the detail. As a starting point, the components of the external macro environment are performing better than anticipated. GDP in Ireland is more likely to experience a shallower fall in output during 2020 than might have been expected earlier this year.

Irish house prices are also proving more resilient, supported by strong demand for housing. And while unemployment is taking longer to recover, it is supported by Government interventions. And in particular, what I would describe as a pro-business budget announced by the Irish Government recently. And so, this backdrop has contributed to a stronger Quarter Three performance for the Group. And we see this in our trading with significant recovery in lending and business income compared to Quarter Two.

And if I, just for the moment, park the increased pandemic restrictions in both Ireland and the UK and also the threat of the EU and UK not agreeing a post-Brexit trading relationship, I see the following trends, regarding the guidance we provided at H1. So new lending is more likely to be down 25%, in that region, compared to the 30% guidance provided at H1.

Some of the moving parts include, we now see the mortgage market to be close to the €7 billion for this year compared to original forecasts of between €5.5 billion and €6 billion. Revolver credit facilities activities are holding up. It's at €0.9 billion and we did expect this to reduce as the pandemic abated, but those balances are still on balance sheet. And in the UK, we've had a positive Quarter Three there as well, where activity has been strong, particularly in the mortgage market where volumes and margin were strong, in some ways reflecting reduced activity from competitors in that market.

On business income, we remain comfortable with our overall guidance of it being between 20% and 30% lower in 2020 compared to 2019. And just to remind everyone, that guidance includes our UK FX business, which is reported on the share of associates JV line in the P&L. And when I look to activity, so far in Quarter Four, I'm hopeful that the full-year performance for business income will be closer to the tight end of that range.

On net interest income, which has been supported by the lending performance that I've just outlined, while it will be down, year-on-year, and it stands at 2% down to the end of Quarter

Three, it will be less than the circa 5% guidance provided at H1. On net interest margin, with those higher levels of lending, rather than that surplus liquidity going to essentially low to negative-yielding liquid assets, now liquidity going into customer loans also means that NIM will be above the previous guidance of 1.95%.

On costs, we remain comfortable with our guidance and track record, and we expect to maintain a similar level of performance for 2020.

Our capital position remains strong with a fully-loaded CET1 ratio of 13.5%, which is after taking 30 basis points in Quarter Three for the voluntary redundancy scheme. And looking to the full-year capital outcome, you know, there are a number of moving parts, aside from the kind of business-as-usual organic profit. I'm thinking about credit impairment levels, calendar provisioning, software release, and also the potential for some pension volatility. And therefore, I expect our fully-loaded CET1 ratio to be closer to 13.5% than 13%.

Now, while considering all of the positive aspects that I've just outlined, I'm mindful of the downside risks and uncertainties from pandemic restrictions and Brexit. The recent announced restrictions, which are different to those announced earlier this year – for example, construction, schools, and childcare remaining open – combined with where we are at this stage in the year – you know, we're in the homestretch of 2020 – I don't expect either Brexit or the increased restrictions to have a material impact on top line. However, there remain vulnerable factors to COVID, such as hospitality and retail. And Brexit concerns could impact macroeconomic forecasts underpinning the impairment charge for the year.

So taking account of all of these factors, I expect operating profit pre-impairment will perform better than guidance and consensus. And overall, I remain comfortable with impairment guidance, possibly at the wider end of our guidance for 2020 of €1.1 billion to €1.3 billion, acknowledging that a disorderly Brexit outcome could increase impairments.

And therefore, in that context of overall performance, I'm comfortable we will deliver 2020 guidance with upside from trading and some risk due to increased pandemic restrictions and Brexit. Diarmaid, I hope that gives you as much of the moving parts that I think are helpful. And I'll just pass over to Francesca to comment on future dividend distributions.

Francesca McDonagh: Thanks, Myles. So as a response to your question, Diarmaid, on dividends. The Management, the Board – we obviously all recognise the importance of paying dividends to our shareholders. Our focus is on a return to profitability and our objective is to return to capital distribution as soon as it's possible.

And our approach to dividends remains unchanged. When we do restart dividends, we'll do so on a prudent and progressive basis as a proportion of sustainable earnings. And our distribution policy facilitates the ability to distribute excess capital in a range of ways. Thank you.

Myles O'Grady: Thanks, Francesca.

Diarmaid Sheridan: That's great. Thank you.

Operator: Your next question comes from the line of Eamonn Hughes at Goodbody. Please go ahead. Your line is open.

Eamonn Hughes (Goodbody): Hi, Francesca. Hi, Myles. Maybe just if I can ask three, if that's okay?

Just it seems like in the Q3 numbers, there seems to be a good performance in the UK market. And I suppose just in the context of some of the commentary on the year about kind of leasing backs and some of the more unprofitable parts of that business that, actually, it turns out it was probably a little bit better. So could it be the case that you're a little bit more open to doing business in the UK side? That's the first one.

Kind of comments, Myles, in relation to your views around the impairment number and as well as residual conservatism still as we're in the middle of lockdowns here and in the UK, and them rising in Germany and all of that. But we had a very expansionary budget, as you called it yourself, in relation to support for SMEs: a new recovery fund, new contingency fund, the new COVID restriction support fund, extension of wage subsidies, etc., etc. So presumably, that does give a little bit of comfort around the impairment number, not just in this year, but for next year.

And then, maybe just finally, on the deposit side. You know, some growth in Q3, but given the liquidity that's there, does that maybe temper expectations in relation to requirement for credit formation for next year?

And actually, if I could just ask a question – a final question while I'm on the line? Just in relation to capital, Francesca, can I just pick up on that comment you made in relation to distribution there on dividends? Would buybacks be a consideration as well, just given where multiples are on the stock as well? So just that one in there, too. So that's me.

Myles O'Grady: Super. Thank you very much, Eamonn, for that. And I'm going to ask Francesca to provide comments on the UK market and, indeed, the buyback question. But let me deal with the impairment and the deposit, first of all.

So I guess, Eamonn, the point about this particular pandemic and economic, you know, lockdown and crisis that we're in is that whilst credit formation is most definitely subdued for the reasons that we know, liquidity continues to build up in the system and has done so for, for the last number of years. And I think that is going to be a feature.

And so, as I think about beyond 2020 and the impact of that build-up of liquidity, I'm mindful of the low rate environment. Whilst we are seeing, positivity and performance, overall, I do think that the build-up of deposits, against the context that it will take a couple of years to get back to 2019 level to a kind of credit formation perspective, does have the ability to be a headwind on interest rate income. I think that will be a feature for 2021.

On impairments, I mean, absolutely. I think, we know that the economic outlook is better than we thought earlier this year. Property prices we assumed would be down 10%. Likely, that will be flat or possibly some small decline. And from an impairment perspective, we also know that every 10% move in property prices has about a €50 million impact on our impairment charge. But I am mindful that unemployment is probably the single biggest macro factor to impact impairment. And those levels look like they are pretty much where we thought they would be, mindful, of course, that the Government intervention with the budget is also helpful.

And so, for those reasons, overall, I'm comfortable that we will be within the €1.1 billion to €1.3 billion range for this year. And I suppose what's interesting about this particular increased restriction is the six-week period, particularly in Ireland, it's almost a new data set for us. And we'll see how the books perform, how the credit quality performs, particularly for those coming off payment breaks. And for those reasons, you know, I'm pointing towards possibly the upper end of the impairment range for this year.

Now, beyond 2020, I said before that I believe in the post-COVID environment, that there's no reason why we shouldn't navigate back to that medium-term guidance of, the region of 30 basis points. I think because COVID is going to be a feature next year, it may take us just a little bit longer to get to that medium-term outlook and we'll see how that plays out.

Francesca, do you want to comment just on the overall UK markets and that particular question on buyback?

Francesca McDonagh: Sure.

I'll talk about UK, buybacks and also just sort of a couple of views on what we're seeing, in terms of the stimulus in the Irish economy and how that's impacting our outlook for trading.

So UK trends. We talked about having a smaller, but more profitable balance sheet. That doesn't mean that we have a philosophical opposition to writing new business that is profitable. And we've actually done that quite well in the third quarter.

If I focus on mortgages, our third quarter applications were actually up 12%, year-on-year, and that's 83% up, quarter-on-quarter. And our drawdowns in the third quarter mortgages, they were 30% down, year-on-year, which was not surprising, but 74% up, quarter-on-quarter. And what is interesting is we saw more business coming from Bespoke so that the drawdown volume has doubled, quarter-on-quarter. But also, we're doing new business at a better margin.

And you would we have heard this from other mortgage providers in the UK that there's been a shift, potentially temporarily, in pricing dynamics. Our margins on new mortgage completions in the third quarter were about 96 basis points. And that compares to 79 basis points this time last year. So that sort of tells you that we continue to grow, but only where it is profitable and, contributing to the strategic objective of increasing returns in the UK. So that's sort of UK, specifically mortgages.

If I go to the question on capital distribution and buybacks, given the share price evaluation, I totally understand why you would ask that question. Our distribution policy doesn't prohibit share buybacks. So our focus, like I said to the previous question, is on a return to profitability. And our objective is to return to capital distribution as soon as possible. And when we do that, we will do, as per our policy, it on a prudent and progressive basis.

If I can just comment on the stimulus. There's been a significant – since we would have released our interim results, we would have seen in the October the Irish Government budget provide further stimulus around supporting all parts of the economy, but very much focussed on businesses as well. And that brings, like I mentioned in my opening comments, the total stimulus in Ireland to 21% of GNI, or over €4000 per capita, which is higher than most of our European comparisons. It's slightly higher than the UK. So it's a very positive stimulus.

But two things that we just need to be mindful of and we're seeing this evidenced in the third quarter. One is around housing supply in Ireland. Even though we are seeing applications be very high and sort of record-breaking periods in new mortgage applications, the drawdowns, while improving, quarter-on-quarter, is still quite a bit below, year-on-year. And a lot of that is because of the supply of housing.

And obviously, with the stimulus that's been provided by the Government for businesses, SMEs in Ireland, we're seeing some continued reticence for credit formation. Your question namely about credit formation going into 2021 for SMEs, particularly the smaller business and agri sector, the uncertainties around further restrictions and Brexit are all informing just a lot of caution, in terms of taking on new debt. Thank you.

Eamonn Hughes (Goodbody): Thank you.

Myles O'Grady: Thanks, Eamonn.

Operator: The next question comes from the line of Jason Napier at UBS. Please go ahead. Your line is now open.

Jason Napier (UBS): Good morning. Thank you for hosting the call and for taking my questions. The first one is just around margin. Thank you, Francesca for the margin figures for the UK. I wondered whether you could talk to two issues.

Firstly, on the Irish side, we've been receiving more incoming calls from investors around potential changes to the competitive set in domestic lending in Ireland of late.

And then, secondly, on the UK piece. I don't know whether you've got any statistics around capacity constraints in the system and the extent to which the sort of application volumes are somewhat constrained by working from home, and perhaps not just within the Bank but other parts of the mortgage system law is and the like, and to what extent that might be a sort of temporary factor, if you like, in the wider spreads we're seeing? So that was the first one.

And then, secondly, on the redundancy programme. You know, material cost reduction there, which has got to significantly improve confidence in achieving that outer year kind of cost objectives. And would you mind adding a little bit of colour, please, on the areas in which you've been able to achieve this?

Presumably, some of the IT rollouts have helped. But, you know, productivity, with working from home, is probably not as good as it might have been planned to be. And of course, one would be thinking that you'd need more credit capacity for dealing with troubled credits and so on. So I wonder whether you could talk about, you know, where that headcount has been withdrawn from? Thank you.

Francesca McDonagh: Okay. Thank you, Jason. Thanks for your questions. So a changing competitive environment, specifically for mortgages in Ireland. So we would have seen some movements by Avant a new entrant, but very much focussed on the lower loan to value sector. So that's the sort of re-mortgage market as opposed to where we've evidenced most of the growth is from first-time buyers.

So first-time buyers, as you expect, higher loan to values, within macro prudential rules. And in that space, we continue to be very competitive. We would be sub-3% with cashback and be able to compete very effectively.

And that is evidenced by the fact that we haven't changed our pricing this year. We've been very disciplined. And our market share has stayed constant at 25% during that period, despite new entrants. And that's 25% of drawdowns. But our market share of approvals is at 26% and our market share of applications is 21%. And that has stayed constant.

Our focus has been less on price and much more on distribution, and process, and service. We have obviously, at least in the broker market, which has served us well. We've made improvements, I mentioned in my opening comments, on digitising the mortgage application process.

And what is interesting in Ireland, when you ask a customer, 'Where do you, how do you choose your mortgage provider?' the vast majority will say they'll go to the bank where they have their current accounts. And we would have over 35% market share of current account market in Ireland. We are the first port of call. And we are price-competitive. And like I said, our process and service, and we've certainly made investments in that, is creating that competitive resilience despite some changes in other parts of the market.

I would just also add the low LTV is very attractive – is probably a threat, if you have a lot of customers sitting on SVR who, you know, why wouldn't they? And our SVR book is a very, very small part of our total book because we've been focussed on fixed rate mortgages for so long. We know when people are about to come off their fixed rate and we're very proactive in getting them locked into a new mortgage in line with their needs.

Capacity constraints. I think that question is more in the UK. The short answer to the question is no. We are a smaller player in a bigger market. We don't have the millions of customers in the UK who, with payment breaks to process, that maybe some of the larger banks have.

And I think this is where our size in the UK has been an advantage. We've obviously got operational support from the Republic of Ireland, where appropriate, for the UK. But we've not had capacity constraints, in terms of originating new business. And the vast majority of our mortgage origination in the UK is through brokers as opposed to our own salespeople or branches other than in Northern Ireland. So the capacity constraints, no. And the working from home, I think has worked well, both from a technology perspective, but also just culturally. So less of an issue.

In terms of redundancy, the 1,450 FTE reduction, most of that would have come –across a quite broad range of the Bank. But a lot of it would have come from improvements in our end-to-end journey. We've mentioned this in previous results. We've looked at 15 of the most important customer journeys end-to-end with a mixture of technology, but also just changing our policies and approach. How can we make that better for the customer, and lower risk for the Bank, and more efficient for the shareholder?

We would have seen a lot of capacity being created as a result of the changes we've made, for example, to our current account opening or mortgages. We would have also just challenged ourselves using benchmarks on what is the right size of team for the Bank that we are and challenge ourselves on efficiency and also increasing our talent cluster, if you like, in the Collections area or the Loans Solutions team. That isn't an area that we would anticipate a reduction in headcount in the near term as you'd expect. And we've increased our resourcing there by 40%.

We've also automated some of the processes that we have in place for customers to fill out financial statements and documents that are no longer paper-based. They're all straight through online. And that helps the customer. It also reduces the headcount need.

Myles O'Grady: And Francesca, maybe just to add some comments in relation to cost overall. And you'll know from our track record, costs down, 10%, since H2 2017. And the feature of that reduction has been broad-based and that's really important. Split between staff cost reductions and non-staff, but also split across all parts of the Bank.

And secondly, in delivering those cost reductions, we continue to create capacity and efficiency to absorb things like wage inflation and to fund our transformation programme. And that will continue as we progress with cost reductions. And our redundancy programme, which, accounts for 14% of our current staff cost base today. And, of course, we'll get that benefit over the course of the next 12 to 15 months or thereabouts. And that translates into about 7% of our total cost base. So that's a significant step-down.

And again, as Francesca said, that is going to come from all parts of the Bank. And that's an important point, making sure we have the right capacity of our loan workers as well. And we have, without getting into too much detail, we have in the region of 50 specific initiatives across the Bank that are targeting cost reduction for both cost – for both staff cost and non-staff.

And it relates to potential to do outsourcing, to do partnerships, lower third-party vendor costs, re-evaluating our property footprint in the context of COVID, and efficiency and automation across back-office and control functions. Every part of the Bank is contributing to those targets. And we talked about getting to below €1.65 billion next year. We look forward to updating the market in February, where we'll demonstrate a target that goes beyond that beyond 2021.

Jason Napier: Thanks very much.

Myles O'Grady: Thanks, Jason.

Operator: Your next question comes from the line of Chris Cant at Autonomous. Please go ahead. Your line is open.

Christopher Cant (Autonomous Research): Good morning, both. Thanks for taking my questions. I had a phone issue. So I apologise if I ask a question which has already been addressed.

But if I could come back to your remarks earlier on the call, Myles, on the 5% down NII guidance for 2020 and the fact you now expect to be less than 5%. I mean, based on where we are at the nine months, it feels like that's really at down 3%. Is that the right way to think about what you're saying there?

And in light of that, could I ask you to comment on the 2021 consensus for NII, which is down 9.5% on 2019 levels. And that would appear to imply a further big step lower, given where we are today.

Given the NII picture and given the better business income, can I also ask you to comment on the 2021 pre-prov consensus? At the Q2 stage, you said you were comfortable with consensus pre-prov in the €mid-700 million territory. Now, that feels too bearish, given the – that kind of top line trends and your action on costs. So if you could revisit that remark? If there is an update, that would be really helpful. Thank you.

Myles O'Grady: Okay, Chris. Thank you very much for that. And I think your estimates for interest income, I will be broadly comfortable with that. And it is driven by just the realities of, I suppose, my point around lending being stronger in Quarter Three, including, you know, the mortgage market, more RCFs and, indeed, the UK business as well.

And so – and I did say that would result in a, better operating profit this year compared to guidance and, indeed, consensus. And therefore, it is reasonable, overall, to assume that we will start the year in a better position than we may have thought a number of months ago. But let me just get some overarching comments on our 2020 guidance. And I'll try and be as helpful as I can be.

So as we're sitting here today. There are two material factors that will determine a lot of the trading performance in 2021. The first is that point about if the EU and the UK can agree a productive trading relationship. And second is COVID-19. And so, earlier this year, we were all working on the assumption of a steep decline in 2020 with the recovery next year. And it's clear this pandemic will continue to impact next year and it's also possible that we'll see more rolling restrictions to curb the transmission of the virus.

Now, right now, it's not possible to accurately opine on the impact of those two factors. But, having said that, I think we hope and we can possibly expect an EU-UK deal on Brexit will be reached. I think what is interesting about the particular increased pandemic restrictions right now – let's take the example in Ireland.

It's for six weeks and just into one week of that. When we get through that, we will have a day with that that will allow us to assess now how, what is the impact on trading as a result of this new type of restrictions, which, back to what I said earlier, are quite different to the lockdown from earlier this year.

So basically, I think we'll know more about all of this by the end of the year, both in terms of Brexit and, indeed, the impact of increased restrictions. What we can say, back to one of my earlier comments, is we have seen a significant improvement in trading performance in Quarter Three relative to Quarter Two, which I think is a strong endorsement of our franchise and sets out our ability to build revenues back to pre-COVID levels over time.

Now, let me share some of the moving parts. We expect the mortgage market to be in the region of €7 billion for this year. And based on supply and demand factors, obviously, at the moment, the market could grow by 20% next year. The demand for business and SME credit will be influenced by the outcome of those EU and UK trade talks. And yeah, we keep a careful eye on that and how that plays out into sentiment from our business customers and their willingness to make investment decisions.

Net interest income will be supported by new lending and also the increased application of negative rates. By the end of this year, we expect to have negative rates applying to about €8 billion of our deposit base and that's up from €3 billion. And that's going to have – this year, that will boost revenues estimated by about €30 million on an annualised basis next year. That's a €50 million benefit. That's a positive point.

But back to the liquidity point. The build-up of liquidity combined with the potential impact of Brexit and the low-rate environment will impact NIM. I do think that we will start the year in a better place than we might have thought a number of months ago. So that's a positive factor.

I do think we will see the benefit of lending next year. But that rate environment and the liquidity factor will play out as well. So, the decline in net interest income may not be as severe as well this year or what we thought it will be this year, but it will feature to some extent next year. And I look forward to being able to give you a better guidance on that as part of the full-year results in February.

Christopher Cant: Thank you.

Operator: Thank you. Your next question comes from the line of Marta Romero at Bank of America. Please go ahead. Your line is now open.

Marta Sanchez Romero (Bank of America Merrill Lynch): Thank you. Good morning. Thank you very much for taking my questions. I've got three follow-ups on UK margin.

The first one is, would you agree with some central bank commentators that suggest that increasing mortgage prices is just a reflection of the credit crunch or do you think this is just more rational behaviour in the market and has – and, hence, sustainable in the coming quarters?

The second question is, you've mentioned the spread at 96 basis points. Is that the spread that you have today? Because when I look at the Post Office offer, it suggests that it may be even higher than that.

And the third one is, how fast and how low can you go in your deposit base in the UK? You reported 97 basis points in the first half. Where are we today and where do you think we can get? Thank you.

Myles O'Grady: Thank you very much, Marta. Francesca, do you want to comment on the UK

Francesca McDonagh: Yeah, I'll give a few comments, it's just a little bit hard to put your finger on what's going to happen with UK mortgage margins definitively. But – and then, I'll leave the next two questions to Myles.

So is there a credit crunch? I think there's a variety of factors there. Some providers would have priced up some parts of their offering to manage volumes as well. We don't assume that the increase in margins or new mortgage business in the UK is a permanent shift in pricing discipline. It would be great – it would be good if it was, from a shareholder perspective, but we don't.

But that doesn't change our strategy that we've articulated for the UK, which is to focus more on more specialist lending where the returns are higher. Our view is that it's like – it's more likely to be temporary than a permanent shift in pricing dynamics, but we'll see.

I'll hand back to Myles maybe on the Post Office – the specifics of Post Office margin and also deposits.

Myles O'Grady: Great. Thank you, Francesca. And so, just to clarify, the – overall, for the UK mortgage market business, we've seen completions in Quarter Three of €708 million, which compares to, you know, €405 million at Quarter Two and also corresponding, year-on-year, where it was €1 billion.

And in that context, the Quarter Three margin was at 0.96% versus a Quarter Two completion margin of 0.78%, which compares to a margin of 0.79% for the corresponding Q3 period. So the key – I guess the way I think about it as well, in Quarter Three, we delivered 0.96% against the prior year of 0.79%.

And in relation to the UK funding costs. One overarching comment, just to link it back to our strategy for the UK in the context of being, you know, less active in less profitable mortgage businesses and a greater reliance on funding from the Group.

Overall, you know, our expectation is, over time, to rely less on deposit gathering in the UK, in line with a balance sheet which could be smaller. And specifically to your question, as deposits have rolled off and reflecting the lower rate environment, we have seen an improvement in deposit pricing for the UK.

Operator: Your next question comes from the line of Aman Rakkar at Barclays. Please go ahead. Your line is open.

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

Francesca McDonagh: Hi, Aman.

Aman Rakkar: So just a quick one on costs, if I may. I just want to tease out whether there was any underlying cost pressure that you guys are experiencing. You kind of briefly intimated in your release that your cost reduction so far includes COVID-related costs incurred during the year. Are you able to help us quantify what kind of temporary cost inflation you're incurring now and to what extent that might come out?

And I guess a bit more broadly, you know, you kind of indicated that you'd be looking to come in below €1.65 billion at H1. By all accounts, your redundancy programme has gone ahead of expectations. I'm just trying to reconcile why you've perhaps resisted the temptation to meaningly – meaningfully improve that €1.65 billion. Is it a case of timing on that headcount reduction and then not really kind of coming through until 2022 or is there, as I suspect, a conservatism that's kind of built-in in a lot of the kind of outlook commentary?

Myles O'Grady: Thanks.

Francesca McDonagh: Maybe I'll just – oh, sorry, Myles. **Myles O'Grady:** No. Please go ahead, Francesca.

Francesca McDonagh: I wanted to talk about costs. There isn't any sort of huge mystery around COVID-19-related costs and Myles can give the precise number. It is just earlier in the year, particularly; we were paying or supporting some of our frontline colleagues that were working when we were deep in lockdown, you know, additional PPE, cleaning, and bits and pieces like that. It's not necessarily a material amount. There's nothing sort of overly clandestine or mysterious about that, but Myles can demystify it by sharing the number.

In terms of the progress on the voluntary redundancy, it is a matter of timing. It's gradual. The 1,450, most of the headcount will come out during the course of 2021. Some – a little bit in 2022, but mainly in 2021 and the fourth quarter of this year. And it really is just a matter of timing. We'll provide an update, in terms of our more medium-term cost ambitions, as part of the full-year results. And we've always said that getting to sub-€1.65 billion wasn't an end state. It was maybe a resting post or a point in time and we'll continue to be more efficient beyond 2021.

Myles O'Grady: Thanks, Francesca. And just to go back on the cost inflation point, I just would reiterate my earlier response, which is what is interesting about the Bank of Ireland cost profile is that while we continue to reduce costs, we do so while absorbing a cost inflation, whether that's COVID on a temporary basis or whether that's, you know, the salary increases. And also, of course, continue to invest in transformation, which is clearly very important.

So specifically, there's nothing, there are no surprises here. First of all, at the half-year, we absorbed wage inflation of 2.6%. And on COVID, the COVID-19 costs for H1 were €12 million. There was, year-to-date, just about €17 million and expect the full year to be about €28 million.

And so, in the context of maintaining that track record of, costs down at the Quarter Three down 4%, we expect that to be in that range for the full year or thereabouts, having absorbed about €28 million of COVID costs. And so, we're very comfortable, I believe, to do that.

And just to reiterate the point about the timing. You're taking about 14% of our headcount. It's important that we do that safely. I wouldn't describe it as being conservative. I think we're just being careful that we have those exits occurring over a period of timeframe that allows the business initiatives that frees up that capacity to be delivered on. And again, back to the point of being below €1.65 billion next year and, of course, giving a new updated target for 2022 and beyond, as part of the February results.

Aman Rakkar: Okay. Thank you. Thank you so much.

Francesca McDonagh: Thank you.

Operator: Your next question comes from the line of Guy Stebbings at Exane. Please go ahead. Your line is open.

Guy Stebbings (Exane BNP Paribas): Good morning, Francesca and Myles. Thanks for taking questions.

Can I firstly just come back to NIM guidance this year? It looks like NIM, in the third quarter, was pretty much flat, maybe down a basis point or so versus the exit rate in Q2. But the full-year guidance suggests quite a big step-down in in the fourth quarter, if you're going to hit your sort of spot on 1.95%. It's like a very big step-down.

I just want to check that the extent of decline we should be expecting isn't too dramatic, especially given the comments around the wider application of negative deposit rates. And you being comfortable with NII down around 3% this year obviously helped, as we think about x rate into next year.

And then, the second question was just on payment breaks. And thanks for the health disclosure. It's just interesting to see that since Q2, payment breaks have fallen considerably more rapidly in the UK, but albeit from a higher base versus the Irish book. I appreciate there's some differences on timing of schemes, etc. But are you seeing any notable differences in customer behaviour between the UK book and the Irish book at all? So any colour there would be very helpful. Thank you.

Myles O'Grady: Thank you, Guy. Let me take the NIM question, first of all, and Francesca can then comment on the payment breaks.

So overall, back to my earlier points around the fact that we have been able to see an improvement in lending in Quarter Three. Our guidance that we expect it to be down by about 25% rather than 30%. The implication there is that we will have less surplus liquidity going into low/negative-yielding liquid assets, Government bonds because they're now going into loans.

And that's going to be helpful, back to the point about interest income, but clearly also for NIM. And so, the guidance of 1.95% premise on that 30% decline in lending, it won't be as severe a drop as that and probably closer to between 1.98% or thereabouts for the full year.

Francesca, on payment breaks?

Francesca McDonagh: Yes, sure thanks for the question, Guy. In short, no, we're not seeing a significant difference in customer behaviour in Ireland versus the UK. What we talked about at the interims is the reason why the take-up was higher and that also in different forms, why there are still more people on them. And the payment rate too in Ireland came sooner than in the UK and before Government stimulus packages were rolled out as the Irish government was being formed. So, no.

And when you look at the overall book, the 20,000. It's – you've got it there: 11,000 for Ireland; and 9,000, UK. A bit higher, in terms of percentage to portfolio in Ireland primarily because just SMEs and average exposures being higher.

And not wanting to repeat what Myles said in the opening around just macroeconomic trends, I think that the shallower contraction in GDP in 2020 labour market data was generally positive since the interims. Obviously, now, with the increased restrictions, particularly hospitality and retail, we may see that improvement slow a bit. And obviously, we have the consumer sentiment and business sentiment a little bit less positive than we would have seen in sort of September.

All of those informed people's ability or readiness to come off a payment break, but we're seeing the vast majority across all of our portfolios reverting to capital and interest. And in cases where they're not able to revert and resume back to their normal payments, we've got a variety of forbearance measures that we can agree with customers. But no, we're not seeing anything that really distinct to call out, in terms of Irish versus UK consumer or customer behaviour.

Guy Stebbings: Okay, brilliant. Thank you very much.

Francesca McDonagh: Thanks, Guy.

Myles O'Grady: Thanks, Guy.

Operator: The next question comes from the line of Andrew Coombs at Citi. Please go ahead. Your line is open.

Andrew Coombs (Citi): Yeah. 'Morning. A couple of follow-ups from me.

Just firstly, on the point on payment holiday. Your Irish SME data, I noticed that's a relatively small percentage by accounts that is still on payment holiday, but a bigger proportion, in terms of the portfolio, which would seem to suggest that the larger SMEs were taking payment breaks. So just intrigued if you could just comment a bit more on the dynamics there.

And the second one, a much broader question, and you have addressed this to some extent. But if we think about business income, going forward, if we do compare it to the second quarter period, you know, really, the business income will weaken in Wealth, in Insurance, and lower sales; and then, in Retail Ireland, because of the current account fees, the card fees, the FX.

You've already talked about the extent to which the lockdown has different restrictions why – this time round versus the first time. But any thoughts on the implications that has on both Wealth and Insurance and on Retail Ireland business income? Thank you.

Francesca McDonagh: Okay. Shall I answer on the payment break piece?

Myles O'Grady: Sure.

Francesca McDonagh: – you're right. You're seeing it as a percentage. In terms of total active payment breaks in Ireland for SMEs, you would have just shy of 2,800, which is 2% of accounts, but 9% of portfolio. And that's mainly because the sectors that have been most impacted by restrictions around lockdown do tend to be more capital-intensive sectors such as, in particular, I would say, hospitality, and then elements of retail and they've got particular challenges. So that is the main reason for that. And we considered that when we would have taken the impairment charge that we did in the first half.

And just something just to mention. I think maybe in my response to Guy, but also Andrew, it's relevant, just on payment breaks. And we're seeing two-thirds of payment breaks in Ireland and the UK across all the different segments kind of mature or expire in October and then a third in November and December. That's 20% in November and 10% in December for people that got a payment break sort of very late in the process.

And I think that, we will provide us with more insights into customers' ability to continue to come off the payment breaks. But everything we're seeing until the latest data in October is showing customer behaviour being very much in line with the expectations and assumptions that we would have made that informed our full-year impairment and guidance.

Myles O'Grady: Thanks, Francesca. And just to comment on, Andrew, the business income point. And so, you know, for sure, in Quarter Two, we have a 32% decline in business income, with declines across all our businesses as well as Insurance, Retail Ireland and, indeed, Corporate and Treasury.

In Quarter Three, we have seen a recovery in that, up 25%. And overall, for the nine months, down 19%, and the guidance of between 20% and 30% for the full year. And I said before we hope to be at the tight end of that range.

Now, particularly in relation to Wealth and Insurance, one of the items that we would have spoken before about how does Bank of Ireland improve its return on equity over time. We talked about three components: credit formation, cost reduction, and Wealth and Insurance. And that opportunity of Wealth and Insurance hasn't changed. It's still there. We've seen, sales so far in Quarter Three, and into Quarter Four continue to outperform our expectations and the pipeline remains strong.

One of the metrics we use is the bank channel customer penetration. That was at 34% at the end of Quarter Two. It's a semi-annual calculation. But, it's most likely to be closer to 35% or above. That's very, very positive. The outlook in the medium term is strong. Increased funds on deposits, growing pension savings and, indeed, the low-rate environment, and the negative rates that we apply to business customers also provides an opportunity for Wealth and Insurance.

That combined with really commercialising or getting the return on our technology investment and thinking about our group pensions that we offer through MyPension365. Also, the broker channels. They offer opportunities for us to grow that part of our business. Most definitely, there's no structural reasons why we can't see our business income return to pre-COVID levels supported by that opportunity within the Wealth and Insurance.

Andrew Coombs: Great. Thank you.

Operator: Your next question –

Francesca McDonagh: Thank you.

Operator: – comes from the line of Jean-François Neuez at Goldman Sachs. Please go ahead. Your line is open.

Jean-François Neuez (Goldman Sachs): Hi. Good morning. I just wanted to ask a couple of follow-up questions on the cost base.

Firstly, I wanted to understand, with regards to the reduction in FTE number, which was quoted, a bit over 1,400. And I just wanted to understand what you expect the net reduction of staff number to be over the same period as these exits are taking place, meaning how much of these exits do you expect to actually hit the headcount – the total final headcount at the end of the programme?

And secondly, I wanted to understand whether you expect, you know, branch network footprint to be, you know, impacting in the same – impacted in the same way or do you expect just to keep a similar amount of branches with fewer staff count maybe replaced by, I don't know, some IT, you know, generally appliances or anything like that?

Francesca McDonagh: Okay. Shall I call out on this one, Myles? We have the reduction of 1,450, like you've mentioned, over the next year or so. Our starting position was 10,400. So if you just absolutely extract that headcount, we get to sub just sub-9,000. We've not been more explicit, in terms of a specific number for headcount. Obviously, we're going through what is, disruptive, but not - you know, we've invested in a voluntary redundancy programme. We're not going to then go and recruit people to fill those roles.

There's a huge amount of discipline, in general, around cost management which we've established over the last two years plus. We would see that as a net reduction that we would be challenging ourselves when there's normal labour markets, natural attrition management, but, not backfilling our vacancies, an opportunity to keep being more efficient. But our guidance has been that we would be sub-9,000 FTE in the medium term. So you can see that that will help us get there. But there are also other initiatives that we'll continue to challenge ourselves on to be more efficient.

In terms of branch networks, so we don't – in accepting these applications, we didn't make an assumption of a large or material branch closure programme. We do – as with any channel, we keep our branches under review. And it's interesting, some consumer behaviour has shifted because of COVID and more customers, including some of our older customers who were maybe more reluctant to take on new technology are now, using Zoom for the grandkids and are absolutely engaging and increasing their activation with us, plus our position is much better than it was a year ago.

So we keep it under review. But this isn't – the voluntary redundancy scheme– isn't predicated on a material branch closure programme. It's something that we just keep under review.

Jean-François Neuez: Okay. Very clear. Thank you.

Francesca McDonagh: Thank you.

Operator: Your next question comes from the line of Robin Down at HSBC. Please go ahead. Your line is open.

Robin Down (HSBC): Good morning, guys. Just a couple from me.

One quick point of detail. The software intangible sort of capital benefit, we saw the RTS come out from the EBA and they've extended it from a two-year amortisation to three years. So I just wondered if you could quantify what benefit you expect to come through from that in the fourth quarter?

The second question. I hope – sorry to label the point on impairment. So this was the guidance for this year. I think it sounds like you're, you know, pointing towards the sort of €1.3 billion end of the – at that range. I was just trying to get a little bit of colour as to account what assumptions you're making with that.

And in particular, on the IFRS 9 side, it sounds like with where house prices are going, unemployment, etc., that you could actually be looking at releases when you update your macro scenarios at kind of year-end. Are you assuming that that those come into the number and you still end up with those kind of €1.3 billion end or are you assuming those get kind of sorted back into the current Stage 1, Stage 2 ECLs? Just trying to get your thinking as to exactly how you get to that kind of top end. Thanks.

Myles O'Grady: Sure, Robin. Thank you very much. And in relation to the first question on the software. So at H1, I guess our expectation was that the upside to this could be in the region of 20 basis points. Based on the most recent announcement that you referred to, it looks like that could be closer to 30 basis points. And, we hope to be able to book that as part of our Quarter Four and, therefore, full-year capital position. And that's part of the reason why I talked about capital being closer to 13.5%, rather than 13%.

On impairment, I think we talked about the range being between €1.1 billion to €1.3 billion and we also spoke about the positivity in the macro backdrop. And so, if I just park for a second the potential impact of the increased restrictions and the risk of a Brexit no-trade deal, if that wasn't to occur, I would – I thought we were going to be most definitely within the range or probably closer to the lower end because of those macro factors being more positive and also what we're seeing in relation to payment breaks as it's evolving over the course of Quarter Three and Quarter Four.

On property prices, again, that point is that – so we assumed a 10% decline in our models. It looks like now it's flat to some small decline. A 10% improvement would result in about a €50 million shift in the impairment number. So you can think about that in the context of a model. And I should say as well that even if it is positive, with relation to the GDP and in relation to property prices, but unemployment is probably the biggest factor in our models. And that's the one that we need to keep a careful eye on.

So it is really about being comfortable within the range, but mindful of those risks that could materialise as a consequence of those two items, being restrictions and Brexit.

Robin Down: So just to be clear, if we end up with a Brexit deal, fingers crossed, and there's no significant change to unemployment between now and kind of year-end, would you then be expecting to be towards the narrow end of the €1.1 billion to €1.3 billion range?

Myles O'Grady: Yeah. Well, I think the – we certainly expect to be within the range, Robin. And if the markets play out, that that does offer some upside, yeah.

Robin Down: Yeah, okay. Brilliant. Thank you.

Myles O'Grady: Thanks, Rob.

Operator: And the last question on the line comes from the line of Rob Noble at Deutsche Bank. Please go ahead. Your line is open.

Robert Noble (Deutsche Bank): 'Morning. Thanks. Thanks for taking my questions.

You've talked about this quite a lot already, but what's the wage inflation that you assume in your forward cost target? And what's the process and how do you decide wage inflation from a Group level?

And then, going forward, once you get beyond 2020, I appreciate 2022 costs will be lower because of the averaging effect of lower employees. But is your employee base right-sized at that point or – so are all of the cost cuts from then on going to be non-staff or is it going to be kind of a combination of both, do you think?

And then, just a follow-up on the negative deposit balance. What interest rates are these, on average, and who do they apply to? Thanks.

Myles O'Grady: Thanks, Rob. So let me just deal with the inflation question, first of all.

So for 2020, the wage inflation assumption is 2.6% or thereabouts. Okay? And that's calculated from a number of different perspectives. Elements of our workforce are governed by agreements with the banking representative bodies and that's done on an annual basis. And then, of course, other parts of our population. Clearly, it's based on a combination of performance and other factors as well. So the key observation here, really, is that as we have done in previous years, this year, we're – we will absorb the cost of that wage inflation.

Now, it's not possible to give you a steer on this sort of forward-looking perspective because this is an annual discussion we have, both at the Management team level and then, as we think about that population also to our unions. We're not going to give you guidance on that at this point other than to reaffirm that our costs will be down this year in line with guidance below €1.65 billion in next year and lower again.

And I don't think you can make an assumption. So Francesca has called out the point around getting our headcount to below 9,000. I don't think you can say that the voluntary severance fee, you know, is the only method by which costs could reduce, including the staff costs. Reductions will come across a range of areas that I've talked about before from staff, from lower FTE, and from non-staff costs.

I'm sorry, I missed your last question, Rob. I'm sorry, I couldn't hear it come across the line properly.

Robert Noble: Yeah. It's just the – just on the negative deposit balances. What interest rates are they, on average, and who they apply to? What's the criteria to be on the negative rate?

Myles O'Grady: Yeah. So the rate is between – we applied through 65 and 85 basis points and it's applied to large corporates and business banking customers. And it's based on a balanced threshold. And that balanced threshold is under review, which gives rise to the reason why we're able to expand it from that €3.5 billion at H1 to more like €8 billion for the full year.

Robin Noble: So where does the SME – I mean, there's a line, I guess, between a small customer, you know, not charged negative. How small do you think it could be?

Myles O'Grady: Yeah. So it's not entirely rules-based. It's guided by rules, but it also depends on something that – there's a contract length so that it depends on the application of loan rates and lending facilities. So, for example, if there's a loan facility which has a floor, which means that customer isn't getting the benefit of the negative rate in their loan rate the way we apply, we've got to be careful on that.

So I can't give you a precise answer. What I can say is that directionally, our ambition is to lower the threshold that we apply negative rates to, although at this stage, I'm not suggesting that that will apply into personal consumers.

Robin Noble: All right, great. Thanks very much.

Myles O'Grady: Okay. Thanks, Rob.

Francesca McDonagh: Thank you.

Operator: Thank you. And no further questions on the lines this morning.

Myles O'Grady: Okay. Well, thank you very much, everyone, for participating and thank you for your questions. And also, thank you to Nicole for moderating. And we look forward to catching up with you over the coming months in advance of our results presentation in February. Thank you very much.

Francesca McDonagh: Thank you, everyone.

Operator: And that does conclude the conference for today. Thank you for participating. You may all disconnect.

[END OF TRANSCRIPT]