Bank of Ireland Full Year Results Presentation

Monday, 1st March 2021

Introduction

Francesca McDonagh

CEO

Good morning. And you're very welcome to our results presentation. 2020 was an exceptional year with myriad challenges for the people and communities we serve, and indeed, for all businesses, including banks.

This morning, we'll set out our full year performance. We'll also update on a number of strategic areas, including: our new cost target; further restructuring of our business model; and the tipping point between branch and digital banking that we have reached.

At Bank of Ireland, from the start of the COVID-19 pandemic, we immediately focused our efforts on protecting and supporting our customers, colleagues and communities. Our previous investment in transforming our culture, systems and our business model meant that we could adapt to the pandemic very quickly. At the same time, we've remained focused on our strategic priorities. Our results reflect this.

In summary, they show a return to profitability in the second half of the year, with H2 underlying profits of €295 million. We maintained our track record on cost management for a sixth reporting period in a row. We achieved a 2% uplift in our Irish mortgage market share, growing to over 25%, whilst maintaining discipline on pricing.

In the UK, we made further progress in repositioning our business and we concluded our review of our Northern Ireland business.

2020 was also a year of strong delivery on our digital strategy. We've seen a multi-year trend in digital engagement by our customers. In 2020, this was clearly accelerated by COVID-19. We now have reached a tipping point between online and offline banking. Reflecting this permanent shift in customer behaviour, we are today announcing a new branch strategy: we will reduce our branch network by around one-third whilst ensuring customers still have a wide range of choices in how they engage with us digitally and offline.

Our asset quality metrics reflect the comprehensive approach we've taken during COVID-19. We took a substantial €1.1 billion impairment charge for the year. Importantly, the experience with customers coming off payment breaks has been more positive than expected. Driven largely by regulatory change, the Group's NPE ratio increased to 5.7% in 2020. Myles will provide more information on these items shortly.

Despite this large impairment charge, we have maintained our strong capital position. Our regulatory CET1 ratio is 14.9%, down just ten bps in the year.

On slide 6, you can see the outcomes from our customer focused response to COVID-19. Our net promoter score improved by five points last year, our highest to-date, and customer complaints in Ireland fell by 22%.

We played an active role in supporting government-backed lending schemes both in Ireland and the UK, and we're making banking simpler and more transparent for our customers. For example, we replaced 26 separate charges for our personal current accounts with a single monthly flat fee.

Around 100,000 payment breaks were agreed with customers, the vast majority of which have now concluded. More than nine in every ten of these customers have returned to their pre-COVID-19 terms, and we are dealing constructively with the 3% of payment break customers who have required further support. Our approach is based on more than a decade of market-leading experience in finding sustainable solutions for our customers and maintaining credit discipline in our origination of new business.

Turning to the next slide. The response of our colleagues to the challenges of the pandemic has been outstanding. This morning, I want to reiterate my pride in them and appreciation for all that they have done. Our agile ways of working have enabled over 75% of colleagues to work from home. We've delivered physical and mental health initiatives to promote colleague well-being during this time.

Our colleagues recognise this. Since 2019, engagement has risen by five points. Culture embedding has also climbed by 11 points, three points ahead of the Global Financial Services benchmark.

As a leading lender to the Irish economy, we're playing a vital role in economic recovery and reboot in the communities that we serve. Across our portfolios, the Group's new lending increased by 30% in H2. Bank of Ireland also announced €4 million in a wide range of community supports. This included emergency funding for a range of charitable groups working with those most impacted by COVID-19 and funding for some of the hardest hit sectors. Combined, this hard work is reflected in Bank of Ireland having been recognised as the best bank in Ireland by Euromoney.

Turning now to the macroeconomic outlook: we expect to see a strengthening and recovery across Ireland and the UK this year. Ireland was one of a small number of countries globally that saw its GDP grow in 2020. This performance reflected strong and ongoing fiscal support by the Irish government. It was also enabled by the presence of multinationals operating in pandemic-resilient sectors such as technology and pharmaceuticals.

This growth was not enough to prevent a sharp rise in unemployment in Ireland. However, we forecast much improved labour market dynamics after the economy reopens during 2021. In the UK, the economy is expected to return to growth following a sharp contraction in 2020. We welcomed the conclusion of Brexit trade negotiations between the European Union and the UK in late December. This has provided greater certainty to support investment on both sides of the Irish Sea.

On slide 9, we highlight the factors that lead us to believe that the current K-shaped economic recovery in Ireland will become more broad-based in the year ahead. We are hopefully coming towards the end of the third lockdown in Ireland. When the economy reopened previously, we saw a rapid fall in recipients of the government's pandemic unemployment payment. As of last week, some 470,000 people were in receipt of this payment. This is close to one-fifth of the labour force in Ireland.

Of those, just over half worked in retail, hospitality or construction before activity in those sectors was restricted. As these sectors reopen, we should see a step-change improvement to the numbers at work. And we expect this to support growth across other segments of the Irish economy. Reopening will provide more opportunities for people to spend and give businesses the confidence to invest.

The resources are there to support this. Irish private sector deposits have increased by 15% since 2019. This mirrors the trends in other countries, including the UK where household and corporate deposits grew 14% last year. And we see clear pent-up demand from surveys such as our Housing Pulse, which rose to a 20-month high in February.

Of course, recovery is conditional on the effective delivery of the COVID-19 vaccine programme. We're all aware of the UK's progress in vaccination rollouts. In Ireland, as of last week, around 7% of the population had received doses, slightly ahead of the European Union average of 6%.

COVID-19 has accelerated the multi-year trend towards digital engagement by our customers. In 2019, six out of ten of our everyday banking products such as current accounts or personal loans were delivered entirely digitally. In 2020, this increased to seven out of ten. And, in 2021, we expect it to increase to more than eight out of ten.

Another example of our digital progress is the 26% increase in registered users of our new mobile app since its launch in 2020. The app has driven increased customer satisfaction, including in the 18 to 30 age group, where we have recorded a remarkable 50-point increase in our customer effort score during 2020.

Digital adoption has clearly reached a tipping point. This underlines the importance of our own systems transformation. It also reinforces the need to continue to evolve how we serve our customers, and that's why we've taken the decision to close 88 branches or around one third of our physical network in Ireland.

Importantly, in taking this step, we've entered into a new partnership with the Irish Postal Service, An Post. This will allow all of our customers access to banking services at local post offices. With Bank of Ireland's and An Post's footprint combined, our customers will have access to more than 1,000 places to bank nationwide.

As we set out on slide 11, our systems transformation is delivering both customer and cost benefits, and we'll continue delivering in 2021. We're making strong progress in digitising everyday banking. This is enabling tangible, commercial benefits, increasing revenue, reducing costs, and improving customer satisfaction. For example, our digitisation of sales and servicing journeys has delivered more than €21 million of cost savings.

We introduced a fully digital mortgage journey for first-time buyers in Ireland, which has supported our increase in market share. 38% of our general insurance sales now come via our digital insurance wallet reducing our cost to serve, and we launched a new digitised small business lending proposition in 2020 where two out of three customers that apply for a loan can now do so digitally in less than ten minutes.

As we look ahead, we feel positive about our digital road map for 2021, which includes a range of new initiatives across payments, wealth, security and customer engagement.

As you can see on slide 12, costs have reduced consistently in the last six reporting periods. Since 2017, we've reduced our gross costs by over €300 million, creating capacity to invest in our people and our technology. We've achieved our original target of a €1.7 billion cost base one year early, and building on this track record, we plan to do more.

Today, we've announced a new €1.5 billion cost target for 2023. And we will deliver this new ambition in five ways: by simplifying and automating more of our customer journeys; by concluding the voluntary redundancy scheme; by restructuring our UK business; by continuing to reduce our head office property footprint to reflect new ways of working; and by changing the scale of our branch network.

Turning to slide 13. We delivered further strategic progress in the UK in 2020. We grew our operating profits with jaws of 12%. Our exit margin of 1.82% was well ahead of the full year average of 1.73%. This was supported by our ongoing pivot to higher margin products. We grew our bespoke mortgage proposition, and we reduced our more expensive deposits.

In terms of the outlook for our UK business, our financial performance in 2021 will see more evidence of implementing our strategy. In line with our aspiration for a smaller but more profitable business, we expect to see our UK loan book contract by around 10% this year. Margins are expected to be in-line with the 2020 exit NIM. We expect to deliver a further 3% reduction in costs and impairment charges should see a material reduction, reflecting the improving economic backdrop.

As we look forward, we believe that the building blocks are in place to deliver higher returns for our UK business. We have today announced the results of our Northern Ireland strategic review. Acknowledging the dynamics of the local market, we've taken the decision to materially restructure our business there. We will reduce our cost base by over 15% in the medium-term, supported by the closure about half of our 28 branches, and in line with our strategy for Britain, we will simplify our product offering in Northern Ireland, leveraging our expertise in mortgages and car finance.

Moving now to the next slide, I'd like to focus on Wealth and Insurance business. We are Ireland's only universal bancassurer. This is a unique competitive position, enabling us to capture the full value of a manufacturing and distribution business. This contributes 38% of Group business income, and has assets under management of around €20 billion, up 3% last year.

Wealth and Insurance's contribution to business income rose 14% in H2 and we've made significant progress in recent years. The penetration of our customer base, at 35%, has grown by nine percentage points since 2018. With €33 billion of personal deposits in our Retail Ireland division, we see clear opportunities to do more, supported by the rollout of our digital Wealth and Insurance platforms.

On slide 15, we cover our Responsible and Sustainable Business strategy, which is a focus for the Group. Our new strategy, 'Investing in Tomorrow', has three key pillars: enabling all colleagues to thrive; financial wellbeing for our customers; and supporting the green transition.

On this slide, you can see some examples of the progress made during 2020. These include our launch of a green bond framework, the expansion of our sustainable finance fund and the integration of climate risk into our frameworks and policies. In terms of our own operations, 100% of our electricity consumption is from renewable sources, and we're committed to making our operations net zero by 2030.

As we come towards the end of our 2018 to 2021 strategic cycle, we will share more detail on our strategy refresh and new medium-term targets at an update later this year.

I'll now pass you over to Myles to take you through our financial performance in more detail.

Financial Review

Myles O'Grady

CFO

Thank you, Francesca, and good morning, everyone. Today, we report an underlying loss for the year of €374 million with a return to profitability in H2 of €295 million. This performance represents good underlying momentum in the second half of the year, and it is ahead of expectations for three key reasons: first, the credit impairment of €1.1 billion is at the lower end of our guidance range; second, total income reduced by 8%; and third, we continue to deliver on costs with operating expenses reducing by 4%.

We also finished the year with a strong capital position, 14.9% on a regulatory basis, and a 13.4% fully loaded CET1 capital ratio. Our income is in-line with guidance. Net interest income declined 2% and business income fell by 21%. We took our usual comprehensive approach to impairment with 60% of the charge relating to performing assets. Non-core items of €386 million include the voluntary redundancy scheme that we announced in Q3 and the impairment of software assets taken in H1.

As you can see on slide 20, we continue to maintain pricing discipline across our lending portfolios as reflected in stable loan asset spreads. Overall, reducing yields on liquid assets and hedging income were the primary drivers of the decline in interest income and margin. Customer deposits increased by €4.6 billion in 2020. Against the backdrop of subdued credit demand, liquid assets increased by €3.6 billion.

In addition to pricing discipline, we took action to address the build-up of the liquidity, including the expansion of negative rates to deposits of €8.5 billion with further expansion planned in 2021.

Turning to the next slide, net lending growth was stable last year, supported by €0.7 billion of revolving credit facilities. Excluding these RCFs, new lending declined 19% while impairments and FX were further drags on net loans. However, new lending recovered significantly in the second half of the year, increasing by 30% compared to H1. The primary driver for this was a strong recovery in mortgages in both Ireland and the UK.

COVID-19's impact on economic activity weighed on business income, contracting by 21% for the year. We experienced this contraction in a range of divisions. Wealth and Insurance income fell by 23% from lower sales and existing book experience; Retail Ireland saw an 18% decline in transaction fees and FX revenue; Corporate and Treasury fee income fell by 10% due to lower underwriting income; and in the UK, travel restrictions impacted our joint-venture FX business, but once again, H2 demonstrated a good recovery, up 12% on H1. In addition, recovery in financial markets boosted valuation items.

As Francesca noted, this is the sixth consecutive period to report lower costs. Last year's 4% net reduction included absorbing unplanned COVID-19-related costs of €25 million and wage inflation of 2.6%. Importantly, we achieved our Investor Day target of a €1.7 billion cost base one year early.

Today, we're announcing that we're going further with a new €1.5 billion cost target for 2023. This will see us deliver a net reduction of 20% since 2017. A range of actions across all divisions underpin this target. These include the €114 million expected reduction in annualised staff costs from the voluntary redundancy scheme; a smaller property footprint; and lower third-party costs.

And while costs reduce, we will continue to invest in our transformation and business model restructuring. We expect to remain materially within the €1.4 billion transformation budget, and that investment will help us to meet our target of operating expenses to be below €1.65 billion by the end of this year.

As you can see on slide 24, our impairment charge of €1.1 billion has three key elements. The first is the update to our IFRS 9 models, incorporating the latest economic conditions and outlook. This accounts for €515 million, an increase of €83 million since H1 from elevated unemployment levels partly offset by the improved outlook for house price inflation.

The second element is a Group management adjustment totalling €181 million. On a net basis, this is broadly unchanged compared to H1. Less customers than unexpected requesting forbearance was offset by increased risk associated with sectors more vulnerable to COVID-19.

And the final element is €437 million of actual loan losses. The increase in H2 of €116 million, this is primarily from increased impairments on a number of large legacy property exposures. Based on current macroeconomic indicators, we believe the majority of the credit impairment risk associated with COVID-19 has been captured. And while the 2021 charge is likely to be higher than pre-COVID-19 levels, it is expected to be materially lower than 2020.

Slide 25 provides an overview of coverage across our loan book. Taking account of the charge for the year, balance sheet stock increased by 71% to €2.2 billion, in percentage terms, with coverage increasing from 1.6% to 2.9%. The biggest increases in coverage are property and construction from 2.8% to 6.9% and SME and corporate nearly doubling from 2.4% to 4.7%. There were minimal movements on mortgage coverage because of less than expected payment break forbearance and a positive outlook on property prices beyond this year.

Moving to the next slide, we set out stage migration detail. 2020 resulted in a significant deterioration in credit quality driven by the economic environment, actual loan loss experience and outlook. Stage 2 loans increased by €10.2 billion, €6 billion of this increase relates to SME and corporate, including sectors more vulnerable to COVID-19, with the balance primarily relating to property and construction. Stage 3 loans increased by €1.3 billion, of which €0.9 billion is from the regulatory implementation of the new Definition of Default. 74% of the loan portfolio remains within Stage 1, where credit risk has not increased significantly.

Turning to NPEs, the ratio increased from 4.4% to 5.7%. Again, the performance in the second half of the year was materially better with the ratio flat for H2. The €1 billion increase includes €0.6 billion from the Definition of Default referred to previously.

We expect NPEs to increase in 2021. We will recommence NPE transactions this year starting with an Irish mortgage portfolio. Meanwhile, we continue to have active and early interaction with customers in difficulty to ensure organic NPE reductions.

As you can see from slide 28, our capital ratios have remained resilient throughout 2020. The fully loaded CET1 ratio declined by 40 bps to 13.4%, with much of the capital shielded from a combination of regulatory interventions, including the SME Support Factor and software relief, while the Expected Loss offset absorbed some of the credit impairment charge.

On a regulatory basis, the CET1 ratio was 14.9%, providing significant headroom to regulatory requirements. Risk weights reduced by €1.9 billion, while density also reduced by 2%, reflecting an ongoing reduction in mortgage risk weights and the impact of the SME Support Factor. I'd like to call out in this slide that the previously guided 80 basis point impact of regulatory capital demand is now materially complete.

And so to finish on 2021 outlook. COVID-19 will impact H1 with some form of lockdown or restrictions to continue into Q2 at least followed, we hope, by a return to more normalised activity in H2. With this as a backdrop we expect total income this year to remain broadly in-line with 2020.

Our assessment is being formed by the following considerations. While we continue to take actions to minimise the impact of the rate environment, net interest income and margin are expected to fall due to reduced lending volumes, surplus liquidity, and negative yields on liquid assets. Offsetting that, business income is expected to improve in 2021, with Wealth and Insurance as a significant contributor. At the same time, recovery in financial markets support a lower charge for valuation items.

As previously set out, costs are expected to be sub-€1.65 billion, while we anticipate the credit impairment charge to be materially lower than 2020. Taking account of our organic capital generation, credit impairment, transformation and other items, capital levels are expected to remain stable.

We recognise the importance of distributions to shareholders. Our policy of approving distributions on a prudent and progressive basis remains unchanged. Our focus is on a return to profitability in 2021, and our intention is for distributions to recommence based on performance and capital position. It is also likely that future distributions will include share buybacks. We will refresh our medium-term targets at our strategy update later this year.

In conclusion, while 2020 was clearly a challenging year, good momentum and profitability in H2 last year provides comfort that 2021 is expected to be a year of recovery and a return to sustainable profitability.

Thank you, and I will now pass you over to Francesca for concluding remarks.

Conclusion

Francesca McDonagh

CEO

Thank you, Myles. So in summary, before we open for Q&A, we expect to see recovery this year; our capital position is strong; we're working with our customers in need of support to find sustainable solutions; we're continuing to transform; we're laser-focused on costs; and the continued implementation of our UK strategy remains a priority.

Thank you. And we'll now go to questions.

Q&A

Operator: Ladies and gentlemen, we'll now begin the question-and-answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press hash key. Once again, please press star one if you wish to ask a question. We have the first question from the line of Diarmaid Sheridan from Davy. Please go ahead. Your line is open.

Diarmaid Sheridan (Davy): Good morning. Thank you for the presentation. I hope you're both well. A couple of questions, if I may. Firstly, if we start on your income guidance for 2021. I think if we look at the second half of the year, it would indicate perhaps a higher run rate into 2021 versus flat. And I appreciate your comments around the interest rate environment. Just curious as to what other factors you're thinking about there.

Secondly, if we take the distribution guidance that you've provided this morning, and in particular as we take it within the context of flat capital guidance, should we think of that as being the residual once your investment and your loan growth are factored in for 2021?

And thirdly, on Ulster Bank. Just firstly perhaps your thoughts on – you're not participating in the back-book acquisitions, so just interested in your thoughts on that process. And then secondly, just would be very interested in any thoughts that you have in terms of what the exit might mean more generally in the market? Thank you.

Francesca McDonagh: Sure. Thank you very much, Diarmaid. Maybe I will go straight into the second and third questions on distribution and consolidation effects, and then I'll invite Myles to comment on income and capital more broadly.

So obviously, we recognise the importance of distribution to our shareholders and our policy of approving distributions in a prudent and progressive basis is unchanged. As a team, we're absolutely focused on our return to profitability and also returning to capital distribution as soon as possible. And based on the guidance that we're providing today on 2021 performance that would support the restart of distributions in relation to 2021 full year performance. And, of course, the eventual actual decision, is taken by the Board, depends on actual performance and obviously our capital position at the year-end.

And I think just flagging our reference to distribution rather than dividend is designed to give more flexibility in how excess capital is returned. So, I think, very similar to what Myles said in his presentation, given the bank's share price, it's likely that future distributions will include share buybacks.

Just to answer the other question on consolidation and NatWest's news the other week. Obviously, it's not appropriate for us to comment on an ongoing transaction. But maybe let me share how we think more broadly about M&A.

So we look at all opportunities. It's interesting to note that Bank of Ireland was the only bank that has done a high level of portfolio deals. We've done eight in the past five years. But we won't do a deal that doesn't create value for our shareholders, and our thinking around M&A is as simple and clear as that.

In terms of what the announced exit of Ulster Bank means for the market, so Ulster Bank would be a core banking SME lender and active in mortgages, particularly fixed rates. And, you know, in comparison, Bank of Ireland is the largest domestic lender to corporate Ireland.

We're the number one lender to SMEs, and our market share of new business SMEs has been over 50% for each of the past seven years. In our results today, we show that we're increasing our market share in mortgages and an important component of that is our strength around fixed-rate mortgages.

So that puts us in a podium position, and I feel good about our ability to win new business organically and the opportunity to compete for new business flows that we already see now, given Ulster Bank's news. And separately, we are just keeping an approach on negative interest rates under regular review given that there is a potential for more surplus liquidity in the market. We keep our negative interest rate approach under constant review.

But I'll go to Myles on maybe anything else also on capital and also income guidance.

Myles O'Grady: Sure. Thanks, Francesca. And good morning Diarmaid, hope you're well. Let me comment on income guidance first of all. So as an overarching point, when I look at consensus, the market is broadly in-line with my expectations on income for 2021. Now, in a very challenging rate environment that we're all aware of, we are taking action to minimise the impact on bottom line. And so, overall, at the highest level, I expect interest income to reduce from lower average loans while the rate environment continues to impact margins.

So, some of the moving parts. So with the build-up of liquidity and negative yields continuing to impact, our decision to expand the application of negative rates from €8.5 billion last year, getting closer to €15 billion this year, that's expected to improve income. It benefited last year by €31 million and will get closer to €80 million this year. So, essentially, applying a negative rate to large deposits is offsetting the impact of negative yields on liquid assets and structural hedges. So, we're successfully managing the rate environment.

However, average loans will be lower. In 2021, we enter the year with lower loan assets. In 2020 H2, last year, balances were €2 billion lower than H1. That flows into 2021. And additionally, in line with strategy, while we protect margin, UK mortgages are forecast to reduce 10% over the year, which will pull down interest income a little bit.

Moving to business income, which I expect to grow this year, and essentially offsetting the impact on interest income, that growth will primarily come from wealth and insurance business lines, while banking fees are expected to remain broadly stable, supported by the flat fees for current accounts that we introduced last year.

So again, in summary, stable total income broadly in line with consensus. And as a follow-on comment on capital, just to put the guidance for 2021 into context, and 2021 being a year of recovery with a return to profitability. We're generating sufficient organic capital to support elevated credit impairment, transformation, business restructuring to meet cost targets, and as Francesca said, a recommencement of distributions. I should also say that in any year, items such as expected loss, pension volatility and NPE transactions can impact capital and overall this will result in capital levels remaining stable and in-line with the December 2020 levels.

Hope that's clear, Diarmaid.

Diarmaid Sheridan: That's great, thank you.

Francesca McDonagh: Thank you, Diarmaid.

Operator: Thank you for your question. We have the next question from the line of Eamonn Hughes from Goodbody. Please, go ahead, your line is open.

Eamonn Hughes (Goodbody): Thank you. Hello, Francesca. Hello, Myles. Maybe one on costs, one on impairments, and one just in relation to maybe valuation items and maybe a smaller one. Just in relation to the cost side, you talk about your new target of a cost base of €1.5 billion for FY23. I also note that there is quite a significant decline in the number of staff year-on-year at the end arising from the voluntary redundancy scheme announced in Q3 2020, so that's clearly helpful in terms of the trajectory for 2021. But just maybe wanted to get your thoughts about the cost trajectory into 2022 and 2023. Should we think about it more linearly or kind of back end-loaded into 2023, and will there be associated costs involved with that? I mean, you've talked about certainly there would be an existing programme within the €1.4 billion for 2021, but will there be more in 2022 and 2023? So that's the first one.

Secondly, just in relation to the impairment charge, I just noticed in your disclosure you have in terms of your central case declines in HPI in Ireland and the UK, so directionally the trend seems to be a little firmer than that. And just wondering what was the thought process on that, and could that augur for the impairment number maybe being a little bit better than the guidance if it was to pass?

And then finally, just in relation to valuation items, maybe Myles, you broke down, and thankfully, in terms of the revenue guidance, but just want to get my head around what you were saying in relation to why there would still be, it looks like, a deduction in relation to valuation items for 2021? That's it.

Francesca McDonagh: Thank you, Eamonn, I will cover costs and then pass to Myles on impairment and valuation.

So, obviously, we've now demonstrated, you know, a really consistent track record in our delivery today, and that reinforces our confidence in going beyond the target that we had previously set. So, we achieved the €1.7 billion one year early. And we're guiding to less than €1.65 billion 2021, and we're doing that in a number of ways. It's very broad-based around simplification of the organisation, sourcing strategically, the sort of dividends, the cost benefits of our IT, digitalisation, also ways of working. And you mentioned the reduction in headcount. So, we would have concluded our – we closed the voluntary redundancy scheme in September 2020. That's going to result in 1,450 FTE leaving the organisation. The majority of that will happen during 2021, so the full-year benefit of that will – is more likely we'll see more of that in 2022. And obviously, we're staggering those exits from an operational perspective.

In terms of the 2021 to 2023, kind of, glide path to €1.5 billion – and because it is broad-based and it's across a number of areas – you could expect that to be, sort of, broadly linear as opposed to particularly front- or back-loaded. And yeah, we feel confident about the progress we've made and the strategic decisions we're making to execute beyond this year.

I'll hand over to Myles for number two.

Myles O'Grady: Sure. Good morning, Eamonn. So let me just deal with the impairment guidance and then I'll come on to the valuation items. And so just in broad terms, there is a central scenario. Quite correct, we do apply five scenarios overall which capture essentially upside, base-case and downside as well. And as an overarching point in relation to impairments, I have previously said our objective for the 2020 impairment provisioning aligned to IFRS 9 was to capture the majority of the risk associated with this pandemic, and at a charge of €1.1bn, I think we've done that. And I'm also encouraged that we've increased our coverage of performing loans. Having done that, we've actually experienced minimal deterioration in credit arrears in H2 and indeed no increase in NPEs in the second half of the year, so that's a positive point.

However, given the continued lockdown this year and the continuation of government supports, we can expect the impairment charge to be elevated this year, but materially below last year, but above our pre-COVID medium-term guidance of 30bps. And yes, we will update our macro forecast throughout the year. Property prices are holding up quite well. I would say that, plus unemployment, are probably two of the larger macro factors which impact credit impairment provisioning.

On valuation items, there's a couple of subtleties here. Overall, what I'm saying is that I expect 2021 to benefit from a lower valuation charge, having taken an overall charge of €56 million last year. And I say that because I think we can expect to see a level of stability in the financial markets both on the equity side and indeed on credit spreads as we begin to come out of COVID. That underpins that guidance. But there's a particular point that, in the second half of the year, valuations had a positive of €67 million because we recovered from the half-year. My only point is don't extrapolate that as a number for the full year. But the broader point is that valuations should be a positive factor for 2021.

Eamonn Hughes: Thank you. Just actually if you don't mind, there's a follow-up. Just the loan book looks like, in terms of certainly gross loans, you were stable into Q4 on certainly H1; I suspect close enough in terms of Q3 as well. And just in terms of momentum improving, and I'm conscious you kind of flagged earlier on in terms of maybe some NPE disposals, but could we see the loan book actually grow this year?

Myles O'Grady: Yes. I think our objective, I mean, when thinking about that in H1, that is for the most of it will be in lockdown, and also mindful that parts of the economy, such as construction, and house building, has been essentially closed for a third of the year to April, that's going to have an impact. But equally, we believe that the second half of the year is going to be more normalised and there will be a level of recovery there.

The other point to make, and just to remind you that as part of our strategy we do expect the UK book to decline by about 10% over the course of the year. Whilst margins remain strong, that planned reduction will also play out.

So, I think in terms of new lending, I expect overall for it to be stable, but you've got those overall factors playing out on the total loan book.

Eamonn Hughes: Okay. Thanks very much, that's great. Thanks, both.

Francesca McDonagh: Thank you. Thanks, Eamonn.

Operator: Thank you for your question. The next question comes from the line of Chris Cant from Autonomous. Please, go ahead, your line is open.

Chris Cant (Autonomous): Good morning both, thank you for taking my questions. Two if I can, one on capital generation, one on accounting.

So in respect of your stable capital guidance, am I correct in thinking that is after any distributions or foreseeable dividends that might be in the mix at the year-end? Obviously, you're talking about buy-backs as a potential option as part of your distribution and they would not be considered foreseeable at the year-end. So the guidance is a little bit, I mean, it really depends on what assumption you are making in respect of the mix of dividends and buy-backs.

If I could ask for, and related to that, colour on your organic capital generation, are you expecting that to be, up presumably on the 2020 performance, and could you give us some guidance on below-the-line charges? I'm just wondering whether there's anything in there that is, sort of, bringing the capital back down again?

And then on accounting, just in terms of your comments around the strength of the insurance and wealth business as a contributor to other income, could you give us any colour on how you expect IFRS 17 to impact elements of your business income from 2023, please? Thank you.

Francesca McDonagh: Thank you very much, Chris. Before I hand over to Myles on both actually, I'm happy to talk about wealth and insurance more broadly, but I'll leave the IFRS 17 to Myles. What I would say is that on distribution we're not being – it's too early to be - definitive on the combination, but our reference to distribution is to maximise the flexibility in how we return excess capital, so that's well understood. Myles.

Myles O'Grady: Sure. Good morning, Chris. So, first of all, to be clear, the capital guidance to be flat in 2021 is after setting aside an assumption on distributions. On your point on the below the line impact, so a couple of points to make. Firstly, we expect to remain materially within the €1.4 billion transformation budget to get to our cost base of below €1.65 billion. But in the context of setting a new cost target of €1.5 billion by 2023, we can expect a level of investment required over the next number of years, and we'll give you more detail on that as part of the strategy update later this year. But there is an assumption in that when we call out capital levels being flat.

On IFRS 17, I mean, it is an interesting accounting standard, as you say, to be brought in by 2023. And, you know, it's interesting in the context that it is truly an accounting standard, meaning that it doesn't actually change the underlying economics of an insurance business or indeed our wealth and insurance. It does impact the timing of when income gets recognised. And so, when I think about IFRS 17, not just for Bank of Ireland, but generally for banks that have the bancassurance model or indeed standalone insurance companies, there's going to be a communications exercise to explain the underlying economic value that’s created aside from the accounting impact in a given year. And also, particularly from a bancassurance point, what is the value that is being created for the Group, whether that's the embedded value of the entity or its overall contribution. So, I think it doesn't impact the business model or economics of our business, but it does require a better explanation of how those numbers are arrived at and somehow it gets reconciled between economics and accounting outcomes.

Chris Cant: Okay, thank you.

Francesca McDonagh: Thanks, Chris.

Operator: Thank you for your question. We have the next question from the line of Aman Rakkar from Barclays. Please, go ahead.

Aman Rakkar (Barclays): Good morning, Francesca. Good morning, Myles.

Francesca McDonagh: Good morning.

Myles O'Grady: Hi.

Aman Rakkar: I have a couple of questions on income and then capital. So just around the 2021 guidance on NII, could you help us on just a couple of things. Have you made any assumptions around TLTRO, or could you help us think about, you know, your appetite for drawing on that and is that a potential positive that you might want to call out? Also, on the UK business, kind of, can you help us understand the pace of reduction there and when you would expect the loans to fall away? Basically, I'm thinking – I think you're calling out something like €40-50 million of less NII from that business. Should we straight line that through the course of next year or can you help us kind of understand the shape? That would be really helpful.

I guess a second one on capital, I mean, just thinking about how you guys are thinking about your medium-term capital ratio. I mean, you had a pretty material reduction in your P2R through the course of the year. Presumably, you've got some issuance to do to, to kind of fill your buckets, etc., but the kind of 13.5% CET1 target level that you guys were hovering around before, or at least targeting, probably seems a bit too high now. And I guess the reason why that's relevant is if we're now starting to think about, you know, the possibility of buy-backs and, you know, sweeping away additional capital, I guess, that is something that could just kind of help us in the medium-term. I would be really interested to hear your views on both of those, please.

Myles O'Grady: Sure, happy to. So let me take the TLTRO question first of all. So we haven't drawn down TLTRO to date. And just important to highlight, and this is probably very obvious, we don't need TLTRO for liquidity purposes. We have plenty of liquidity. And I think in the context of COVID and its impact on overall balance sheet progression over the course, particularly of this year, it's too early to conclude whether we will draw down or not. The next decision point actually is in March, this month, and we will give it careful consideration. But it does, if we were to, it would represent a level of upside. But I would caution a little bit on that, just given the progression of the balance sheet this year.

On the UK, directionally you're right. But I would say to you just that 10% reduction in lending in the UK will be graduated over the course of the year and actually probably a bit more biased towards the second half of the year. So, I wouldn't have the hit quite as severe, Aman, as you have called out. And actually just as a broad point, how to think about the UK dynamics of the financials, if you think of a balance sheet falling by 10% this year, margin improving by 5%, operating cost down by 3%, you're beginning to get a sense of what the model looks like. And that general shape, I mean, not that perfectly – that general shape will continue out beyond 2021.

And on capital, you're right, 13.5% pre-COVID-19 capital target. And just to put that into context, that was against, at that point in time, a capital requirement of just under – of 12%

when everything, all of those buffers came in. So a buffer of about 150 bps, including P2G. Now, we are in an evolving environment, where 1.2% of regulatory buffers were removed because of COVID, and just under 1% of P2R requirement is now from non-CET1 capital, you know, mindful we did €975 million of AT1 transactions last year.

So our capital planning assumptions, we assume that the eventual reintroduction of the 1.2% will happen over time, which will take the regulatory requirements to about 11% based on what we know today. And so I think post-COVID it's appropriate to maintain a management buffer in the region of about 200 bps including P2G. So taking all of that into the mix, I think your view or your approach is about right.

Aman Rakkar: Perfect. Can I just ask one additional question, actually, it's a bit tangential? But on associate income, I mean, that's a bit softer in H2 compared to what you were hoping for. I mean, I guess, what are your expectations for that revenue line next year? I mean, you know, at first glance it looks like that's probably a touch below where the Street is. And then, secondly, you know your income guidance – flat year-on-year in 2021 – can I just be clear, does that include associate income – because you typically do include that in business income – or is that a separate line?

Myles O'Grady: No, it is included. And that, yeah, it is included, to answer that question. And, I mean, that associate income essentially is our UK joint venture in retail FX. So, people going on holidays, you know, that type of consumer activity. Now, that was clearly heavily impacted because no-one was travelling. And we do think it's an area that could take longer to recover. But I, if you presume that eventually, people will begin travelling again, will go on holidays, we can expect to see a recovery in that line. The timing of course will be dependent on lockdowns and getting people back onto aeroplanes again.

Aman Rakkar: Thank you so much.

Francesca McDonagh: Thank you, Aman.

Myles O'Grady: Thank you.

Operator: Thank you for your question. We have the next question from the line of Andrew Coombs from Citi. Please, go ahead, your line is open.

Andrew Coombs (Citi): Hi, good morning, three questions for me, please. Firstly, the cost guidance, the outlook stated on slide 29, can you just confirm the basis of the cost guidance, the sub €1.65 billion for 2021 and €1.5 billion for 2023. Is that all in costs or is that excluding regulatory charges and levies? Just first if you could clarify that, please.

Second question would then be on that point, or I guess, an extension of the first question. I see there's €125 million for regulatory charges and levies for 2020. Can you just confirm what consensus has in future years? Are you going to put that in any consensus you provide to us? That's the first question.

Second question, non-core charges elevated this half, driven by the voluntary redundancies, the software impairment. Given your guidance for the cost save going out, because you made that non-core charge below the line is also going to remain elevated, so any guidance you can give on that, please.

And then the final one is coming back to TLTRO. Appreciate your comment about group-wide lending and the trigger points and why it might not be attractive. Obviously, that's impacted by your decision on what you're doing on the UK. So is there any way you can structure TLTRO to be based purely on the Irish business and on the Irish loan growth or is that an impossibility given the way the legal structure works? Thank you.

Francesca McDonagh: Thank you, Andrew. Before I pass to Myles, our cost guidance consistently excludes regulatory charges and levies just for clarity. But over to Myles and a bit more on that.

Myles O'Grady: Yeah, sure. So, I – so the levies, I think about that as a pretty consistent number within the €115-120 million range being driven by essentially the shape of the balance sheet at the point in time when the charges are calculated for the different elements. However, about €115-120 million is about right. There will be – I understood the related question, we talked about remaining within the €1.4 billion transformation spend to deliver on the cost base of below €1.65 billion. To get to €1.5 billion, within that is a level of ongoing investment, which you would expect us to have – when we cut costs we continue to invest. But also, I would expect there to be some element of non-core out over the next number of years as we invest in essentially one-off costs to deliver on that cost target. But again, we will be in a position to give more detail on that as part of our strategy update.

On the TLTRO, it is pretty formula-driven. And it really comes down to the level of, I mean the UK is not a major impact on it because the rules relate to business lending, not to consumer loans. And so, we will be looking at that in the context of our business portfolio evolution over the course of this year. Hope that's clear.

Andrew Coombs: Thank you.

Francesca McDonagh: Thank you, Andrew.

Operator: Thank you for your question. I would like to remind the participants if they would wish to ask a question they have to press * and 1 on their telephone keypad. The next question, it came from the line of Diarmaid Sheridan from Davy. Please, go ahead.

Diarmaid Sheridan (Davy): Good morning, again, and thank you. Just a follow-up question, if I can around asset quality, please. So accepting the bulk of charges that you've taken for the, kind of, the legacy loans and excluding those, over what time-period do think that we should start to see the other two buckets of the charge for 2020, kind of, transferring from, kind of, stage 1, stage 2 into stage 3, or how should we think about the development of that build up in charge that has happened?

And maybe just in terms of your guidance of materially lower charge for 2021, just in terms of what you have assumed there, vis-à-vis the economy reopening for this year, please. Thank you.

Myles O'Grady: Okay. Hi Diarmaid, again. So if you think about where we've got to on our €1.1 billion, which is underpinned by the macroeconomic forecast that we set out in the presentation, now essentially what happened this year in 2021 is that as some of those portfolios go from performing, where we've put aside a provision on impairment to be an actual loan loss, at the risk of getting technical here, essentially your probability of default on those loans goes from being less than one to one.

So essentially, you assume a stable macroeconomic outcome, some of those loans that we've put aside risk for turns into actual loan losses, driving the PD of one. So that's kind of the maths behind it. And again, I have said that I expect the charge to be elevated relative to a medium-term normalised credit charge of about 30 bps but materially below the 134 bps that we had last year.

And maybe just to give a little bit more colour on that, based on the macroeconomic outlook, and when I look at the low-to-high range that was within consensus, and clearly there's a level of uncertainty given the current lockdown, I don't feel the need to move off consensus materially. And just to link that back to capital, clearly, we've captured that risk when we say our capital levels remain stable in 2021.

Diarmaid Sheridan: Great. Thank you.

Myles O'Grady: Thanks, Diarmaid.

Operator: That concludes the Q&A session.

Francesca McDonagh: Okay. Thank you very much, everyone. Appreciate your time and have a good day.

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

Francesca McDonagh: Thank you.

[END OF TRANSCRIPT]