Interim 2014 RESULTS PRESENTATION

1 August 2014

Group Chief Executive's Review: Richie Boucher - Group CEO

Good morning everyone, and welcome to our Interim Results for the 6 months to the 30th of June 2014.

Thank you to those who have joined us here in Dublin, and to those who are joining us by conference call and webcast.

I will give a short presentation after which Andrew Keating, our Group CFO, will provide a more detailed review of our performance and we will then move to Questions and Answers.

Slide 2: Business Highlights H1 2014

As you know, we have been on a journey from recovery to profitability and we're obviously pleased to report a profit for the first half of 2014. We have also made strong progress on our capital position and increased our tangible net asset value.

Our financial performance is a function of the actions we have taken and are continuing to take as well as the improving macro-economic environment.

In Ireland, we continue to support and benefit from the accelerating economic recovery; our new lending in 2014 makes us the largest lender to the Irish economy.

We are seeing positive momentum across our Irish and international businesses.

Slide 3: H1 Income Statement Highlights

Turning to the income statement:

Overall, we generated an underlying PBT of €327 million in the first half of 2014. That's an increase of over €700 million against the same period last year.

We have grown our total income by €290 million, which is 24% up year on year. Higher net interest income and lower ELG fees both contributed to this growth.

As we said in March, we have significant operating leverage. This is demonstrated in our first half performance. Our costs are flat and the higher income has gone through to the bottom line.

Our loan impairment charges have reduced by over €300 million in the first half of 2014, reflecting our improved asset quality, while maintaining prudent coverage ratios.

Our performance in the first half also reflects additional gains of c. €140 million.

Slide 4: Accreting capital and increasing TNAV

Turning to the Balance Sheet:

Our customer loans declined by €1.1 billion in the first half, and were €83.4 billion at June 2014 - although our UK business benefitted somewhat from the strength of sterling.

Redemptions continue to exceed new lending. However, the pace of reduction in our loan book is slowing. Both new lending, which has increased significantly to €4.3 billion, and redemptions have been broadly in line with our expectations in the period.
Looking forward, the momentum we are seeing in our business gives us confidence that the pace of reduction will continue to slow.

Our defaulted loan volumes continued to fall, reducing by a further €0.4 billion since December 2013.

This reduction reflects:
- our ability to appropriately and sustainably support viable customers in financial difficulty,
- the improvement in the economic environment; and
- the recovery in collateral values.

We are generating capital and continue to strengthen our capital ratios.

Our Basel III Common equity tier 1 ratio increased by 90 basis points during the first half - to 13.2%, on a transitional basis.

As we have previously stated, we are prioritising the capital we are generating towards facilitating the de-recognition of our preference shares in 2016.

The ECB's Comprehensive Assessment is ongoing and we expect the results will be published in the latter part of this year.

We are fully engaged with the ECB. We have a more developed understanding of this process and the methodologies being applied and we are meeting all information requirements by the required deadlines.

We continue to expect to maintain a buffer above a common equity tier 1 ratio of 10%, on a transitional basis.

As a result of our improving financial performance, our Tangible Net Asset Value per share has increased by 5% in the first half of 2014.

Slide 5: Macroeconomic environment

The macroeconomic environment and outlook is continuing to improve in our main markets.

In Ireland, we forecast GDP to grow by 2.8% in 2014, and this growth is becoming more broadly based.

Employment continues to increase and over 40 thousand more people are employed now than was the case a year ago. Commercial and residential property prices continue to recover, with residential prices now 43% lower than peak values.

In the UK where we have 45% of our assets, the recovery is further advanced. Key indicators such as unemployment and activity levels in the residential property market are continuing to trend positively.

Slide 6: Strong franchise positions – Ireland

Our Irish businesses performed in line with our expectations in the first six months of 2014 and have improving momentum.

We are continuing to innovate our mortgage offering and enhance our customer propositions. As a result, we're providing 1 out of every 3 new mortgages in Ireland. New mortgage lending for the 6 months was approximately €400 million, representing an increase of 40% on 2013.

It is worth noting that our tracker mortgage book reduced by €1.4 billion in the past 12 months.

Our retail franchises continue to attract new customers and we have also benefitted as other banks with challenged business models exit the market.

In savings where we have a market share of 25%, we have simplified our products and enhanced our digital propositions.

Our life business, New Ireland, is the clear number 2 player with a 24% market share. We are the only banc-assurer in Ireland, and our integrated distribution creates added value for both our customers and the Bank. The strength of our model is demonstrated by the strong performance of the bank channel in the first half, where new business sales were up 14% versus the prior period.

We are the number 1 bank for SMEs in Ireland. We are providing over 50% of new lending in 2014 across all sectors of the economy.

We continue to provide more than 50% of new agricultural lending and have also had equally strong performances in our motor finance and commercial finance businesses.

We are also seeing an increase in opportunities to build new relationships with SMEs who are refinancing from exiting financial institutions, or where customers have questions about their existing banks' commitment to the Irish market.

Our corporate business had a good start to the year and we have dedicated teams focussed on larger refinancing opportunities arising as the market consolidates.

We continue to have the leading share of the Foreign Direct Investment market, and we have maintained our number 1 position in the Irish corporate banking sector.

In total, new lending volumes in our Irish businesses were over €2.5 billion in the first half of 2014, which is in excess of redemptions and repayments, excluding the tracker book.

These new lending volumes make us the largest lender to the Irish economy during this period.

Slide 7 – Strong franchise positions – International

In the UK, through our partnership with the Post Office, we are one of the largest challenger consumer banking franchises.

A key priority for this business in 2014 is to significantly grow our new mortgage lending. We were well positioned for the introduction of MMR and the dedicated mortgage specialists based in the Post Offices are gaining traction.

In June, we launched our distribution partnership with Legal & General, under the Post Office brand. This is a material development for our UK business which is already delivering encouraging business flows.

These developments have allowed us to achieve our new mortgage lending expectations in the first half. They also give us confidence that we can significantly grow new mortgage lending in the second half.

New lending in our core UK businesses was over €1.3 billion in the period.

Our corporate and business banking activities in Great Britain, which we are required to run down under our EU-approved restructuring plan, have deleveraged more quickly than expected in the first half. However, we expect that pace to slow.

Our international acquisition finance business has performed well. While we have adopted a cautious stance to certain segments of this market, overall we have increased our loan volumes, with new lending volumes being ahead of redemptions and repayments.

Slide 8 - Summary

I want to put our first half performance into context.

We continue on our journey from recovery to growth.

During the recovery phase, we successfully restructured our balance sheet. Within that restructured balance sheet, we significantly increased our pre-provision profitability by

- re-building our net interest margin to over 2%,
- exiting the ELG scheme and
- reducing our operating costs by over 25%, with strong momentum towards a 50% target cost/ income ratio.

And as I noted earlier, our ongoing investment in our franchises means that we have significant operating leverage when our balance sheet starts to grow.

Lower loan impairment charges are an key factor in our return to profitability. You can see this in our first half performance where impairment charges have fallen by over 40%. While the charge of 97bps is still elevated, we expect it to return to normalised levels, over time.

While, at an overall level, the loan book is reducing, we expect to see that pace of reduction continue to slow, with our loan books demonstrating momentum broadly in line with our expectations.

Our leading position in a consolidating Irish market, together with the strength and potential of our international businesses, supported by the improving economic outlook ,

gives us confidence that we can grow our balance sheet to our target level over time.

We have the capital, liquidity and infrastructure to support our growth ambitions.

In summary, we are on track to deliver attractive and sustainable returns to our shareholders and my colleagues and I remain totally focussed on delivering our objectives.

I will now hand over to Andrew who will take you through our financial results.

Thank you.

Group Income Statement: Andrew Keating - Group Chief Financial Officer

Thank you Richie. Good morning everyone. It's great to see so many familiar faces, and I look forward to chatting over the course of the day.

Slide 10: Group Income Statement

I will now take you through some of our financial highlights, starting with the Group's Income Statement.

As you can see, we've maintained our strong momentum in the first half of this year. Bank of Ireland is now profitable and generating capital.

To deliver this result, we increased our Total Income by 24% to €1.5 billion. Our Net Interest Income of about €1.2 billion reflects an expansion in our Net Interest Margin by 40 basis points, partly offset by lower Average Interest Earning Assets. As expected, ELG fees reduced from €99 million last year to €21 million in 2014 and these fees will be eliminated over the next couple of years.

While we grew Total Income by 24%, our operating expenses were broadly flat when compared with the same period last year.

In the first half of this year, Impairment Charges on customer loans were substantially lower. The charge has reduced by over 40% when compared with the same period last year. Separately, our first half performance includes gains of €140 million reflecting the write back on the NAMA subordinated debt and the gains arising on the rebalancing of our liquid assets. Overall, we generated an underlying profit of €327 million. That's an improvement of more than €700 million on the same period last year.

I'll now provide more details on the key components of our Income Statement, starting with our Net Interest Income.

Slide 11: Net Interest Income

Our Net Interest Margin increased to 2.05% in the first half. This improvement reflects lower funding costs. As you know we have consistently led the re-pricing of the Irish deposit market over the last number of years. The improvement also reflects the impact of new lending volumes, which I'll give you more detail on shortly, partly offset by two ECB rate cuts and the expiry of certain capital hedges.

From here, Net Interest Margin expansion will primarily be driven by the impact of lower funding costs, the volume of new lending and, over the medium term, by any increases in official interest rates.

As you can see our Average interest earning assets were a little over €110 billion in the first half of this year, compared with €112 billion in the second half of last year.

I'll now give you more detail on our customer loans.

Slide 12: Net customer loans and advances

While customer loans are declining, the pace of reduction is slowing, and we expect this pace to continue to slow further as new lending increases. Our new lending volumes were €4.3 billion in the first half of 2014. That's an increase of over 50% compared with the corresponding period last year.

We have had strong new lending performances across our portfolios and a number of loan books are now growing in absolute terms. Our lending volumes are up over 40% in our Irish mortgage business and this book is growing, when we exclude the low yielding trackers.

We are also seeing good momentum in our Irish SME business - overall loan volumes were stable over the period. Our Corporate business is growing, benefitting in part, from refinancing opportunities as the Irish market consolidates.

New lending in our UK mortgage business increased by over 100% compared to the first half of last year.

Our UK business is benefitting from the positive impact of the mortgage advisors recently appointed by the Post Office, together with the recent launch of our partnership with Legal & General.

These developments give us confidence of further significant growth in UK lending in the second half of the year.

Redemptions in the first half were €6.4 billion, and are broadly in line with our expectations.

I would also note that redemptions include deleveraging in the low yielding Irish Tracker portfolio and in the EU mandated books in Great Britain. While redemptions in the EU mandated books were higher than expected in the first half, we expect these redemptions to slow from here.

Stepping back, we are encouraged by the new lending momentum in our businesses and by the level of economic recovery. We remain confident that with our strong market positions in the consolidating Irish market, together with our attractive overseas franchises that we will achieve our balance sheet target over time.

Turning to Operating Expenses.

Slide 13: Operating expenses

We remain focused on controlling our costs and driving efficiencies while continuing to invest in our businesses. Staff costs are in-line with the second half of last year. Underlying pension costs have reduced by €8 million, reflecting the impact of the benefit restructuring in 2013. The increase in Other Costs reflects investments in our digital and other infrastructure, together with the increased cost of regulation. We have significant operating leverage and our cost income ratio was 55% in the first half. As a result, the increase in our Total Income has flowed straight to our bottom line.

Moving to Asset Quality.

Slide 15: Defaulted loans and impairment charges

Defaulted loan volumes continue to fall, reducing by €400 million in the first half of this year. These reductions reflect our ongoing work supporting customers in financial difficulty, the improving economic climate, and the recovery in collateral values. Our portfolios continue to perform in line with our expectations and we expect further reductions in the level of defaulted loans in the second half of this year.

Our loan impairment charges have fallen by over 40% compared with the second half of last year and these reductions occurred across all of our portfolios. However, Impairment charges remain elevated at 97 basis points, but we expect that they will continue to reduce to normalised levels over time.

Slide 16: ROI Owner Occupied mortgages

I'll now give you some highlights on each portfolio, starting with our ROI Owner Occupied Mortgages.

9 out of 10 of our accounts are up to date, and our level of default arrears is less than half of the Irish industry. 94% of our loans are on a capital and interest repayment profile. Defaulted loans reduced by a further €140 million over the past 6 months. They are now down 13% from peak.

Impairment Charges reduced to €11 million. House prices continue to recover with average values increasing by 12% over the last 12 months. Based on the latest CSO estimates, house prices are now 43% lower than their peak value in 2007.

Our provisioning assumptions remain unchanged and continue to accommodate a 55% fall from peak.

Slide 17: ROI Buy to Let Mortgages

Moving to the Irish Buy-to-Let book. The improvements in the macro-economy and in collateral values are also relevant for this portfolio. In addition, private sector rents continue to increase. Nationally, they were up 9% in the last 12 months. Impairment Charges have reduced to €81 million, reflecting the improving economic conditions, arrears trends, and the actions that we are taking to support our customers.

Moving to the UK.

Slide 18: UK Residential Mortgages

At June, our UK Residential Mortgage portfolio was 20 billion pounds, representing about 25% of our total loan book. The book continues to perform well and our arrears levels are less than the industry average.

Slide 19: SME & Corporate loans

Moving to our SME and Corporate book. While challenges remain in our Irish SME book, we are seeing signs of improvement across a range of sectors. We have agreed resolution strategies with more than 9 out of 10 of our challenged customers, and more than 90% of these restructured customers are meeting the terms of their new arrangement. Impairment Charges fell by 50% relative to the second half of last year.

In the UK, our SME portfolio amounts to 2 billion pounds, and the level of defaulted loans continues to fall. Our Impairment Charge reduced to 17 million pounds in the first half of this year.

In our Corporate Loan portfolio, defaulted loans are down by nearly €400 million over the past 12 months. The increase of circa €100 million since December partly reflects a small number of individual case specific factors. Impairment Charges fell to €44 million in the first half of this year.

Turning to Property and Construction.

Slide 20: Property & Construction

In terms of our Investment book, about half of the loans are in the Republic of Ireland and about half are outside ROI. Our loans are diversified across sectors, albeit with a Retail focus.

In Ireland, we are seeing the improved investor sentiment in commercial property markets**,** starting to expand from Dublin to the other urban areas, reflecting the ongoing international and domestic demand for assets. We are also seeing positive trends in rents, especially in Dublin where vacancy rates are low.

UK commercial property values are also continuing to rise including some improvement in regional locations. The Land and Development portfolio was €3 billion at June, and we have a coverage ratio of 73%.

Slide 21: Asset quality summary

Before I move on, I will summarise the key aspects of asset quality. We reduced the level of defaulted loans by a further €400 million over the past six months, and the loan Impairment Charges have reduced by over 40%.

Going forward, we expect defaulted loans to continue to reduce, and the Impairment Charges to continue to fall to normalised levels.

Turning to Funding and Capital.

Slide 23: Balance Sheet

We have a strong and stable balance sheet with the capital and liquidity to support future profitable growth.

Customer deposits account for more than 75% of the Group's funding, and these are predominantly retail oriented. We repaid a further €2 billion of ECB funding in 2014 and we continue to access wholesale funding markets at reducing costs.

All of our liquidity ratios are robust.

Slide 24: Capital

Our capital ratios are also strong. Over the last 6 months we increased our Common Equity Tier 1 ratio by 90 basis points. At June it was 13.2%. Our Total Capital Ratio increased to 16.4%, reflecting our successful Tier 2 issuance in June. As you know we are prioritising the capital we are generating towards the de-recognition of the Preference shares in 2016. In that regard, on a proforma basis at the end of June, our CET1 ratio was 10%.

That ratio of 10% takes account of the phase in adjustments between now and 2016, and it excludes the Preference shares. Future profits will further strengthen this capital ratio.

Slide 25: 2014 Summary Financial Highlights

I will now summarise the key financial highlights of our first half performance. We increased our Total Income by 24%. Our Impairment Charges reduced by over 40%. We increased our capital ratio by 90 basis points. We delivered an Underlying Profit of €327 million - that's an increase of more than €700 million on the same period last year.

We are on track to deliver attractive and sustainable returns for our shareholders.

Thank you. We will now take your questions.