

## **Interim results – 6 months to 30 June 2012**

**Presentation 10 August 2012**

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**Slide 1: Forward Looking Statement**

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Good morning everyone and welcome to our Interim Results presentation for the 6 months to 30 June 2012 and thank-you to those of you who have joined us here in Dublin and those who are joining us by way of conference call and webcast.

I will do a short presentation following which Andrew Keating will do a more detailed run through of the numbers and we will then move to Q & A.

<b>Group Chief Executive's Review:</b>
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<b>Richie Boucher - Group Chief Executive Officer</b>
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**Slide 5: Overview**

The operating environment in the first half of 2012 was characterised by considerable uncertainties in the Eurozone, and very low official interest rates. Although the Irish economy returned to growth, driven by the export sector, demand in the domestic economy has been sluggish.

The external economic and interest rate environment remains challenging. However, Ireland is achieving considerable progress in the adjustments necessary to realign the Irish economy for sustainable economic recovery. Ireland continues to meet its commitments under the EU/IMF programme of support and in July returned to international bond markets.

The regulatory environment is also subject to a broad range of changes from both domestic and international regulators.

Against this backdrop, we continued to make progress in strengthening the Group's balance sheet with robust Core Tier 1 capital ratios and improving liquidity metrics.

We exceeded our asset disposal target of €10 billion ahead of schedule and well within the discounts assumed as part of the 2011 PCAR. In addition, redemptions and repayments remain in line with our expectation. As a result, our loan to deposit ratio further improved to 136%. Our deleveraging initiatives have lowered the Group's requirement for wholesale funding, and we have no requirement to raise term funding this year, with unsecured term maturities of just €0.4bn for the remainder of the year. Our unsecured term maturities for 2013 and 2014 are also low and manageable.

Our operating performance in the first half of 2012 has been impacted by the interest rate environment, guarantee fees, and the economic environment. Operating profit before impairments reduced from €164 million in H1 2011 to €58 million for the first half of 2012. This partially reflected a reduction in the level of our average earning assets as we deleverage the balance sheet and particularly the sharp reduction in official interest rates which impacted on our earnings rates. This together with the continued elevated cost of funding and deposits impacted our Net Interest Margin which was 1.20% for the half year.

Rebuilding Net Interest Margin is one of our key priorities and we have taken a range of actions to help rebuild our Net Interest Margin. We have taken a leadership position endeavouring to bring pricing discipline into an intensely competitive market in Ireland. We have also continued to reduce the quantum of our deposits and wholesale funding on which we are charged ELG fees. These pricing and ELG actions have not adversely impacted on our deposit franchises or volumes which proved resilient. In addition, we have taken measured actions to reprice loan assets including our Irish SME loan portfolios to reflect the actual cost of funds, and increasing our SVR rate in the UK – 100 bps in June and a further 50 bps in September. We expect that these and other varied initiatives will strengthen our Net Interest Margin.

Our operating costs remained in line with the first half of 2011. Lower staff costs were offset by investments in our core franchises and in processes and systems aimed at improving customer service and bringing cost efficiencies.

As we restructure the Group to further improve efficiencies, regrettably the number of people that we employ will reduce. Revised redundancy terms have been agreed with key stakeholders and our voluntary redundancy programmes to facilitate the controlled departure of staff in line with the Group's revised requirements has recommenced.

Impairment charges on loans and advances to customers were €941 million, this was higher than the first half of 2011 but below the level incurred in the second half of 2011.

We remain focused on proactively managing the credit quality of our portfolios without being complacent. We are becoming more comfortable with the performance of our corporate and unsecured consumer loan books and our UK mortgage books. We are seeing some stabilisation in Irish commercial real estate and in the Irish SME sector albeit that very challenging conditions remain.

The management of arrears in our Irish mortgage book is a critical priority. We have made significant investments in people, processes and systems in order to help us support customers in difficulty through engagement, and restructures where they are sustainable and appropriate.

While the number of customers moving into arrears has increased reflecting both the economic environment and a considerable number of our buy to let customers moving from interest only to a full capital and interest repayment basis, the rate of migration into early arrears and default categories has begun to reduce.

We still anticipate that impairment charges will reduce from this level, trending to a more normalised level as the Irish economy recovers. However, the pace of the reduction in impairment charges will be particularly dependent on the future performance of our Irish residential mortgage book and commercial property markets, as well as our own credit management initiatives.

## **Slide 6: Focus on Our Key Priorities**

### **Restructuring the Balance Sheet**

We have continued to make positive progress in restructuring the Group's balance sheet following the completion of our targeted €10 billion in asset disposals ahead of the schedule and below the cost assumed in the 2011 PCAR. Loan redemptions and repayments are on target.

Our deposit franchises remain resilient with deposit of €72 billion which is in line with our expectations.

Reflecting the foregoing we have further reduced our loan to deposit ratio from 144% in December 2011 to 136% at June 2012.

We maintained a robust Core Tier 1 ratio at June 2012 of 14.9%.

### **Enhancing our core Franchise**

We continue to focus on enhancing our franchises to benefit our customers as we become the leading bank in a consolidating Irish market and as we strengthen our strategically important and mutually beneficial relationship with the UK Post Office. In this regard, we were pleased to announce a 3 year extension of our main contract with the UK Post Office to a minimum of 2023.

We continue to provide capital and funding to the Irish mortgage market and to the SME and corporate sectors. Although demand is muted, we are rolling out new products and services and continuously seeking new business opportunities. Announcements over the past couple of weeks regarding new products for the student market and contactless cards being cases in point.

Driving increased revenues from within our restructured balance sheet and restructured cost base on a basis which supports the provision of liquidity and capital is critical to our strategy and the delivery of sustainable profitability over the medium term.

The management of our Irish Mortgage book remains a critical priority. The vast majority of our customers continue to meet their mortgage repayments in full. However, the difficult economic environment has meant that a number of customers have encountered changed circumstances which have negatively impacted on their income. We have made further significant investments in people, in processes, in systems and in procedures to help us support such customers through engagement, modifications and restructures where they are willing and able to co-operate with the Bank. In doing so we are mindful of our responsibilities to all of our stakeholders in seeking to maximise the repayment of monies owed.

## **Slide 7: Focus on Our Key Priorities**

### **Delivering Sustainable Operational Efficiencies off a lower cost base**

In terms of efficiencies, we are continuing to centralise and streamline support functions which also contribute to the reduction in our office footprint as we reshape the Group. We are continuing to invest in technology, and in particular leveraging low cost channels to migrate routine transactions from branches and to improve customer service and convenience.

As we restructure and reshape the Group and drive efficiencies, the number of people we will need to employ is regrettably reducing. Our redundancy programmes have recommenced to facilitate this.

### **Rebuilding Profitability**

The current difficult economic environment and the impact of policy measures does not deflect us from our focus on reducing the cost of money to the Group through initiatives we can take ourselves. This includes deposit repricing and disengagement from the ELG scheme which is of critical importance. We believe that a system-wide withdrawal of the exceptional deposit guarantee is supported by the renewed financial stability in Ireland.

Loan book repricing has taken place and will continue to take place.

We have a heavy focus on credit management which continues to require considerable attention.

All of these initiatives in themselves cannot restore profitability without our generating revenues from the restructured balance sheet in a sensible way. Our attention is very focussed on this.

### **Slide 8: Ireland – a 15% stockholder in Bank of Ireland**

The Irish State is an important stakeholder and 15% stockholder in Bank of Ireland.

Since 1 January 2009, the State has invested €4.8 billion in Bank of Ireland through €3.5 billion in Preference shares, of which €1.7 billion converted to equity in 2010, and through a Contingent Capital instrument of €1.0 billion and a net investment in ordinary stock of €0.3 billion in 2011.

Since September 2008, Bank of Ireland has paid €2.5 billion in cash to the State in respect of exceptional guarantee fees, transaction fees and repurchasing warrants, and coupons on the contingent capital instrument and preference shares.

In addition, the State continues to hold €1.8 billion Preference shares in the Bank, the €1.0 billion Contingent Capital instrument together with a 15% stockholding.

To reduce the risk to the State, we've been implementing targeted initiatives to reduce the level of liabilities covered by the exceptional State guarantee. The volume of liabilities covered by the exceptional guarantee has reduced from circa €136 billion in September 2008 to €36 billion at June 2012, a reduction of 74%.

As an important customer and stakeholder we were pleased to be able to facilitate the IBRC repo transaction on commercial terms.

We believe that Ireland is positioned to benefit from economic recovery given the progress made in rebalancing the economy. Bank of Ireland is supporting this recovery by investing in our franchises and actively seeking new customers and business opportunities. With the credit that we are providing to the Irish market, we are growing our share of the mortgage and SME markets.

**Slide 9: Remain focused on Medium Term Targets**

The first half of 2012 has been a very difficult environment in which to operate. Low official interest rates which are not reflected in our funding costs are somewhat offsetting the progress that we are making to reduce the cost of money to the Group. Whilst the Irish economy has begun to stabilise it remains a challenging environment in which to manage credit costs and sell new products.

Nevertheless, we have continued to have a strong focus on the key priorities within our control and against which we have continued to make progress. We must and will continue to work very hard on delivering against those things we can influence or which we can control.

We have made a lot of progress on balance sheet restructuring and in strengthening our core franchises. We expect to continue to make progress on credit management and cost programmes. We are placing even more focus on trying to progressively reduce the cost of money to us and increasing our revenue generating capacity through doing more business with our existing customers and winning new customers, thereby returning to sustainable profitability.

May I now turn over to Andrew Keating who will review our preliminary results in more detail.

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<b>Group Income Statement:</b>	<b>Andrew Keating - Group Chief Financial Officer</b>
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Thank you Richie.

Good morning everyone.

I will cover the Group's financial performance for the first half of 2012 and will also expand on some of the key areas of focus for our stakeholders.

**Slide 11: Group Income Statement**

The Group made an operating profit on a pre-impairment basis of €58 million for the six months ended 30 June 2012.

After taking account of impairment charges of €978 million, the Group made an Underlying loss before tax of €907 million in the first half of 2012 which compares to €722 million in 2011.

The underlying loss reflects a range of factors and is impacted by the interest rate environment, government guarantee costs and economic conditions:

Net interest income was €857 million, a reduction of €177 million over 2011 which reflects:

- a reduction of €14 billion in our average interest earning assets due mainly to the progress we have made on our balance sheet deleveraging; and
- a 13 basis point reduction in our Net interest margin to 1.20%

ELG fees were €212m for the first half of 2012 which was €27 million lower than in 2011.

A number of one-off items meant that Other income this year was higher than in 2011. Recurring fee income in 2012 was broadly in line with the first half of 2011

Overall Operating Expenses were in line with 2011. Lower staff costs in 2012 were offset by investments in our franchises, customer service and efficiencies.

Total impairment charges remain elevated and reflect the current economic conditions. They amounted to €978 million in the first six months of 2012 and the increase of €77 million over 2011 is primarily due to ROI mortgage loans.

Non-core charges in 2012 reflect the cost of deleveraging and the impact of a tightening of BOI credit spreads. In addition, we have set aside a redundancy provision of €66 million reflecting the range of restructuring initiatives that are underway.

#### **Slide 12: Net interest margin**

Turning to the Net Interest Margin

Before taking account of the cost of the ELG, our Net Interest Margin for the first half of 2012 was 1.20% compared with 1.33% for 2011.

We now operate in a historically low interest rate environment and the outlook for official interest rates is to remain lower for longer.

In the last 9 months in particular, official rates have fallen sharply. In that time the ECB rate has fallen by 75 basis points and the 3 month euribor rate has fallen by 120 basis points to a rate of less than 40 bps today.

These reductions impact on the income that we earn on certain of our loans and consequently on our margin particularly as the price that we pay for deposits, which is not linked to official rates, has not fallen as quickly.

Rebuilding our Net Interest Margin is a key priority for the Group, and we have already executed a range of actions in this regard.

Bank of Ireland continues to lead the reduction in pricing for deposits in the Irish market.

For example in the highly competitive market for 1 year term deposits, we have reduced our rates by 120bps since last December with other reductions across our range of products.

We would expect to make further reductions in the second half of the year.

As the overall cost of funds to Bank of Ireland is expected to remain at an elevated level we must recover this cost in the rate we charge on our loans.

As a result we have had to reset the price on our SME loans with reference to the Bank's actual cost of funds.

In the UK, we increased the standard variable rate on our mortgages by 100bps on 1<sup>st</sup> June last and a further increase of 50 bps is scheduled for September.

We have also increased the rate on all new loans, but, as demand is currently muted, it will take time for this to flow through to the Group's Net Interest Margin.

Together with the benefits of some structural transactions, we expect that these actions will strengthen the Group's Net Interest Margin in the second half of 2012.

### **Slide 13: ELG / CIFS Fees**

The cost to the Group of the ELG guarantee was €0.2 billion in the first six months of 2012 which emphasises the commercial necessity to safely disengage from it.

We have already made significant progress in reducing liabilities covered by the guarantee from €136 billion in September 2008.

In the first half of 2012, we reduced the level of liabilities guaranteed by €6 billion to €36 billion at June.

This was achieved through a range of initiatives including:

- Withdrawing our UK subsidiary from the scheme last April;
- Our Isle of Man deposits are no longer guaranteed with effect from today;
- Wholesale funding has been repaid at maturity from the proceeds of the deleveraging initiatives and
- We have also generated non-ELG deposits from our Corporate and Business customers.

With all of the progress that we have made, less than 30% of all of our funding is now covered by this guarantee.

Very substantial progress has been made in stabilising the wider Irish banking system and these achievements should support the system wide withdrawal of the ELG guarantee.

### **Slide 14: Operating expenses**

For the first half of 2012 operating expenses were €0.8 billion which was broadly in line with 2011.

Our cost base is tightly managed and we are taking ongoing actions to reduce costs further:

- Voluntary parting terms have recently been agreed with all stakeholders and we have recommenced a range of redundancy programmes that are expected to lead to a further reduction in headcount in the second half of this year.

- The Government introduced a levy on Irish pension funds in 2011 and the cost of this levy will have to be borne by the members of the Bank's Pension schemes.
- The cost savings expected from the renegotiation of our outsource contracts are also being realised.

At the same time we are making investments in our branch, mobile and online channels, in our UK Post Office relationship and in efficiency and customer service initiatives.

<b>Asset Quality</b>
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#### **Slide 15: Balance Sheet Deleveraging**

Turning to Asset quality and related matters.

Since September 2008 we have already reduced our loan portfolios by €46 billion or 32%.

We have at this stage completed our target of €10 billion of loan sales and our repayments and redemptions continue to be in line with our expectations.

We are on track to meet our target of €90 billion of loans by December 2014.

#### **Slide 16: Loans and Advances to Customers**

Total loans at June 2012 were €105 billion (before impairment provisions of €7 billion).

54% of our loans are Mortgages split evenly between Ireland and the UK.

50% of our loans are in the Republic of Ireland with 50% outside Ireland - predominantly in the UK.

#### **Slide 17: Impairment charges**

Impairment charges on Loans and advances to customers were €0.9 billion for the first half of 2012 which compares to a charge of €0.8 billion for the same period last year and a charge of €1.1 billion in the second half of 2011.

We continue to expect impairment charges to reduce from the current elevated levels trending over time to a more normalised impairment charge as the economy recovers.

The pace of reduction will depend on the future performance of Irish mortgages and commercial property markets.

#### **Slide 18: ROI Owner occupied Mortgages**

The analysis of the ROI Mortgage book is presented separately for each of the "Owner occupied" book and the "Buy to let" book.



Our “Owner occupied” Residential mortgage book was €21 billion at June.

The repayment basis of this book is substantially full capital and interest and 57% of the loans are ECB tracker products.

The vast majority of our customers continue to meet their mortgage repayments.

93% of the Group’s Owner occupied mortgage loans were neither “90 days past due” nor impaired.

The arrears level of 7% at June 2012 represents an increase of 143 basis points since December 2011 and compares favourably to the industry statistics published by the Central Bank of Ireland.

Unemployment and affordability issues are the principal drivers of arrears.

We have fully implemented the Code of Conduct for Mortgage Arrears and continue to work proactively with those customers in financial difficulty on a case by case basis.

We are enhancing the solutions available to support those customers, and have recently introduced new products such as spilt mortgages, trade up and trade down mortgages.

At June 2012, we had restructuring arrangements in place for loans of €1.8 billion.

Longer term arrangements will continue to be rolled out during the second half of 2012.

The impairment charge on Owner occupied mortgages amounted to €0.2 billion or 174 basis points for the first half of 2012. We had a stock of impairment provisions of €0.7 billion at June, with a coverage ratio of 35%.

In terms of residential property prices, the CSO index at June 2012 indicated that values had fallen by an average of 50% from their peak level – the average fall in the Dublin area was 57% while the average fall outside of Dublin was 47%.

Recent data is suggesting a stabilisation of values for traditional family type properties in the main cities particularly Dublin.

While we anticipate regional variations, it is our expectation that the ultimate peak to trough fall in residential property values will average 55%.

We estimate that negative equity in our owner occupied book at June was €2.9 billion. 15% or €0.4 billion of this negative equity relates to the default book.

#### **Slide 19: ROI Buy to let mortgages**

At June 2012, our Buy to Let mortgages amounted to €7 billion of which ECB tracker loans account for 81%.

A significant majority of our buy to let customers continue to meet their mortgage payments.

At June 2012 86% of the buy to let accounts were neither “90 days past due” nor impaired.

The arrears level of 14% represents an increase of 3 percentage points over December 2011.

Arrears are partially due to economic conditions and affordability issues but also reflect the impact of rising repayments when interest only periods come to an end and customers move to capital and interest repayments.

At June 2012 we had restructured 3,700 accounts or loans with a value of €0.75 billion.

The Group’s impairment charge on its Buy to Let portfolio for the six months to June 2012 was €0.1 billion or 3.2%.

The stock of impairment provisions at June 2012 was €0.7 billion equating to a coverage ratio of 46%.

We have appointed rent receivers to over 500 properties and the Group had 85 buy to let properties in possession at June 2012. This number is expected to increase in the second half of 2012.

We estimate that there was €1.4 billion of negative equity in our Buy to Let portfolio at June 2012. 26% or €0.4 of this negative equity relates to the default book.

#### **Slide 20: UK Residential Mortgages**

The UK Mortgage portfolio at June 2012 was £23 billion pounds.

During the first six months of 2012, this book reduced by £1.4 billion pounds due to the sale of a portfolio of loans and due to ongoing repayments which continue to be in line with our expectations.

This portfolio continues to perform very well.

At June 2012, the number of loans that were “greater than 3 months in arrears” equated to 151 basis points which was a reduction of 27 basis points since December 2011.

The impairment charge for the six months to June 2012 was £15 million pounds and the stock of impairment provisions was £110 million pounds.

Negative equity is not a significant feature of this book.

#### **Slide 21: Non-property SME and corporate loans**

Turning to Non-property Corporate and SME loans.

This loan book has reduced by 7% from €27 billion at December 2011 to €25 billion at June 2012 reflecting the divestment of project finance and other international corporate loans.

This book is diversified across geographies with 55% of the loans in the Republic of Ireland and 45% of the loans outside ROI.

Regarding Corporate Banking portfolios:

- The level of impaired loans at June 2012 was €1.1 billion which was in line with December 2011.
- The impairment charge for the six months ended June 2012 was €0.1 billion which was in line with the first six months of 2011.

In relation to SME loans in the Republic of Ireland:

- Ongoing pressure remains due to the current economic environment, subdued consumer spending and the current level of business insolvencies.
- Those sectors that are correlated with consumer spending or the property markets remain particularly impacted.
- As a consequence, the level of impaired loans increased from €2.3 billion at December 2011 to €2.5 billion at June 2012. However the pace of formation of impaired loans appears to have slowed in 2012.
- The impairment charge of €0.1 billion in 2012 was lower than in the first half of 2011.

Turning finally to SME loans in the UK.

Economic conditions remain subdued and the level of impaired loans remained stable at €0.6 billion.

The impairment charge for the six months ended June 2012 was €16 million and the reduction from the second half of 2011 primarily reflects the non-recurrence of impairment charges on a small number of individual cases.

#### **Slide 22: Investment property loans**

The Investment property loan book was €16 billion at June 2012 which is a reduction of 3% from December 2011.

Our portfolio is well diversified geographically with 45% of exposures in the Republic of Ireland and 55% outside of Ireland.

The portfolio is also diversified across sectors albeit with a bias towards the Retail sector.

Ongoing difficult economic conditions have led to an increase in the level of impaired loans from €4.5 billion at December 2011 to €5.3 billion at June 2012.

The impairment charge for the first half of 2012 was €0.2 billion.

At June 2012, the Group's stock of impairment provisions was €1.7 billion equating to a coverage ratio of 32%.

#### **Slide 23: Land and development loans**

Our Land and development portfolio continues to reduce.

88% of the portfolio is impaired with a coverage ratio of 58% at June 2012.

**Slide 24: Consumer loans**

The portfolio of consumer loans was €3.2 billion at June 2012.

The portfolio is diversified geographically and by product type.

Our consumer loan portfolio continues to perform within our expectations.

10% of the portfolio is impaired with a coverage ratio of 82%.

**Slide 25: Available for Sale Financial Assets**

Our Available for Sale financial assets (including Sovereign exposures) at June 2012 was €11.3 billion compared to €10.3 billion at December 2011.

The increase substantially reflects the net incremental investment in Irish Sovereign and ELG covered Bank bonds of €1.5 billion funded by the 3 year LTRO facility.

Our exposures to Spain and Portugal are substantially covered bonds all of which are investment grade.

We have a small Italian exposure of €0.3 billion and no exposure to Greek bonds.

Our AFS reserve improved by €0.3 billion to €0.4 billion at June 2012 primarily due to the strong performance of Irish Sovereign bonds .

Separately, our portfolio of NAMA senior bonds amounted to €4.7 billion at June 2012 and the IBRC Repo transaction was €2.8 billion.

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<b>Funding &amp; Capital</b>
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**Slide 27: Balance Sheet funding**

Turning to funding and capital

At June 2012, total liabilities (excluding BOI Life funds held on behalf of policyholders) were €145 billion.

Our funding strategy envisages that we will fund our loans substantially through customer deposits and term funding.

In this regard our key objectives are:

- to attract stable deposits at an appropriate price,
- to reduce the quantum of deposits that are covered by the ELG; and
- to maintain prudent capital and liquidity ratios.

Our funding strategy is being achieved by:

- driving deposit growth through the strength of our franchises and the scale of our distribution; and
- by deleveraging international loan books which reduce our reliance on wholesale funding

#### **Slide 28: Customer deposits**

At June 2012 customer deposits were €72 billion, and the increase of €1 billion since December partly reflects the positive impact from foreign exchange rates.

The profile of our deposit books is highly granular and retail oriented which enhances its stability.

Despite the continuing competition in our home market, we have taken a leadership position on deposit pricing and we implemented a range of significant repricing initiatives during the first six months of 2012.

Our deposit volumes remain in line with our expectations.

We have also significantly reduced the rates paid on Corporate deposits with volumes remaining stable.

Our joint venture with the UK Post Office continues to perform ahead of expectation with deposits up £1 billion pounds since December.

The growth in the Group's deposits together with the significant progress made in reducing the asset side of our balance sheet has resulted in an 8 percentage points improvement in the Loan to deposit ratio from 144% at December to 136% at June.

Further improvements are expected in this ratio.

#### **Slide 29: Wholesale Funding**

Wholesale funding has increased by €2 billion from €51 billion at December to €53 billion at June 2012. However, this increase primarily reflects the funding for the IBRC Repo transaction.

We also made a net incremental investment in Irish Sovereign and ELG covered Bank bonds of €1.5 billion funded by the 3 year LTRO.

Our wholesale refinancing requirement is both low and manageable with just €0.4 billion in unsecured term maturities for the remainder of 2012 and €2.6 billion 2013.

#### **Slide 30: Capital**

Turning finally to Capital

Our Risk Weighted Assets reduced by €5 billion to €62 billion at June 2012 primarily due to:

- the reduction in our Loans and advances to customers;

- the impact of a higher level of impaired loans;
- partly offset by the impact of movements in foreign exchange rates.

Our Core tier 1 ratio at June 2012 was 14.0% compared with the regulatory requirement of 10.5%.

### **Slide 31: Summary and Outlook**

To wrap up, I would summarise our position as follows:

The Operating performance in the current period has been impacted by the interest rate environment, the cost of the government guarantee and the current economic conditions.

Against this background we continue to deliver on each of our strategic objectives:

- We are leading a significant reduction in deposit pricing
- We completed our asset disposal target of €10 billion ahead of schedule and below the assumed cost
- We further reduced the liabilities covered by the ELG – less than 30% of our funding is now covered by this guarantee
- We are continuing to invest in our core franchises, in enhancing customer service and in further efficiencies
- Our businesses are strong and very well positioned to benefit from economic recovery

Thank you - we are now happy to take your questions.