

The Governor and Company of the Bank of Ireland (the "Group")

Interim Management Statement – Q1 2017 update

28 April 2017

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## **Trading**

The Group continues to trade in line with expectations.

Economic developments in our core markets of Ireland and the UK remained positive notwithstanding ongoing uncertainties following the UK's decision to leave the European Union.

Net interest income was in line with the second half of 2016. Our net interest margin increased by 3bps from 2.27% in H2 2016 to 2.30% for the first three months of 2017, primarily reflecting further reductions in the cost of funding and our evolving asset mix, partially offset by the impact of an increase in the quantum of liquid assets and the credit risk transfer transaction executed at the end of December 2016.

Business income has remained in line with the second half of 2016.

The Group has continued to maintain tight control over our cost base, while making appropriate investments in our businesses, infrastructure and people. Our multi-year investment programme to replace our Core Banking Platforms is progressing in line with our expectations.

## **Balance Sheet**

Customer loan volumes were €78 billion at the end of March 2017. New lending in Q1 2017 was in line with our expectations and included a c.30% increase in ROI mortgage volumes relative to Q1 2016. Redemptions during the period included cash repayments on defaulted loans, Irish tracker mortgages and legacy run-down books and somewhat higher than expected redemptions in our corporate businesses.

Customer deposits were €75 billion at the end of March 2017, in line with the end of December 2016. Wholesale funding was €16 billion at the end of March 2017.

Asset quality across our loan portfolios has continued to improve during Q1 2017 in line with our expectations.

## **Capital**

At the end of March 2017, the Group's fully loaded CET 1 ratio was 12.0%, compared to 12.3% at the end of December 2016. The Group's organic capital generation of c.30bps during the quarter was offset by an increase of c.€0.2 billion in the IAS 19 accounting standard defined benefit pension deficit to €0.65 billion (largely due to a decrease in the credit spread over risk-free rates on long-dated AA Euro corporate bond yields used by the Group in the valuation of DB pension liabilities), and by the investment in our programme to replace our Core Banking Platforms.

At the end of March 2017, the Group's transitional CET 1 ratio and Total Capital ratio were 13.8% and 18.1% respectively and reflect the further phase in of CRD IV items since 1 January 2017.

Ends

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#### Forward-Looking Statement

This document contains certain forward-looking statements with respect to certain of the Bank of Ireland Group's (the 'Group') plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates, and its future capital requirements. These forward-looking statements often can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would,' or their negative variations or similar expressions identify forward-looking statements, but their absence does not mean that a statement is not forward-looking. Examples of forward-looking statements include among others, statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, United Kingdom, European and other regulators and plans and objectives for future operations.

Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, the following: geopolitical risks which could potentially adversely impact the markets in which the Group operates; uncertainty following the UK vote to exit the EU as to the nature, timing and impact of a UK exit, could impact the markets in which the Group operates including pricing, partner appetite, customer confidence and demand, and customers' ability to meet their financial obligations and consequently the Group's financial performance, balance sheet, capital and dividend capacity; concerns on sovereign debt and financial uncertainties in the EU and the potential effects of those uncertainties on the financial services industry and on the Group; general and sector specific economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates; the ability of the Group to generate additional liquidity and capital as required; property market conditions in Ireland and the United Kingdom; the potential exposure of the Group to credit risk and to various types of market risks, such as interest rate risk and foreign exchange rate risk; the impact on lending and other activity arising from the emerging macro prudential policies; the performance and volatility of international capital markets; the Group's ability to address weaknesses or failures in its internal processes and procedures including information technology issues, cyber-crime risk, equipment failures and other operational risk; the effects of the Irish Government's stockholding in the Group (through the Ireland Strategic Investment Fund) and possible changes in the level of such stockholding; changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish and United Kingdom Governments together with the operation of the Single Supervisory Mechanism and the Single Resolution Mechanism; the impact of the continuing implementation of significant regulatory and accounting developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II, the Recovery and Resolution Directive and IFRS 9; the potential impact of certain ECB initiatives including its thematic review of internal models termed Targeted Review of Internal Models (TRIM); the exercise by regulators of powers of regulation and oversight in Ireland and the United Kingdom; the exposure of the Group to conduct risk such as staff members conducting business in an inappropriate or negligent manner; the introduction of new government policies or the amendment of existing policies in Ireland or the United Kingdom; the outcome of any legal claims brought against the Group by third parties or legal or regulatory proceedings more generally, that may have implications for the Group; the development and implementation of the Group's strategy, including the Group's ability to achieve its targets and ambitions on net interest margins and total operating expenses; the inherent risk within the Group's life assurance business involving claims, as well as market conditions generally; potential further contributions to the Group sponsored pension schemes if the value of pension fund assets is not sufficient to cover potential obligations; the Group's ability to meet customers' expectations in mobile, social, analytics and cloud technologies which have enabled a new breed of 'digital first' propositions, business models and competitors; failure to establish availability of future taxable profits, or a legislative change in quantum of deferred tax assets currently recognised; and difficulties in recruiting and retaining appropriate numbers and calibre of staff.

Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is or is intended to be a profit forecast or profit estimate. Any forward-looking statement speaks only as at the date it is made. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.