Bank of Ireland

Joint Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach

17 November 2016

Bank of Ireland

For small steps, for big steps, for life

Forward- Looking statement

Bank of Ireland Group

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 and capital;
- 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 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 establishment of the Single Resolution Mechanism;
- the impact of the continuing implementation of significant regulatory developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II and the Recovery and Resolution Directive;
- the exercise by regulators of powers of regulation and oversight in Ireland and the United Kingdom;
- 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 net interest margin increases and cost reductions;
- 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 address weaknesses or failures in its internal processes and procedures including information technology issues and equipment failures and other operational risk;
- 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.

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Bank of Ireland Group

1. Executive Summary

Key highlights from H1 2016

BOI Overview: Business profile

Ireland: Leading bank in a growing economy with a well structured market

Bank of Ireland Group

Comprehensive multi-channel distribution platform	c.250 branches	c.1,770 - Self-service devices	71% of consumers are now digitally active	c.440k active mobile customers	830k service calls monthly / 24 x 7
Market leading positions	**Consumer Banking** **c.3 out of every 10 new mortgages in H1 2016**	**Wealth Management incl. New Ireland** **Life Assurance c.19% APE market share**	**Business Banking** **#1 Business Bank >50% of new SME / Agri lending**	**Corporate Banking** **#1 Corporate Bank >30% Corporate market share**	
Strong relationships with customers	**c.1.7m Customers**	**c.500k Customers**	**c.183k SME Customers**	**>60% FDI**	

BOI Overview: Business profile

Attractive international franchises provide further opportunities for growth

Bank of Ireland Group

Partnership based consumer banking franchise in UK

POST OFFICE Money

Trusted brands, established customer base and expanding product range

c.1.4m Savings Accounts	c.250k Mortgage customers	Retail FX	c.660k Cardholders	Current Accounts
Focus on pricing agility and customer experience	New origination platform in 2015 with further investment in rollout through 2016	Market leader with c.24% share c.950k Travel Money Cards sold	Investment in self-service solutions on mobile channel	Trial underway and new propositions being developed

More branches than other retail banks combined

11,600 Post Office branches	2,500 Post Office / BOI ATMs	Online	Mobile	Telephone	Strategic intermediaries

New partnership commenced in 2015

AA

Long term financial services partnership, focussing on credit cards, personal loans, savings and mortgages

Full service bank in Northern Ireland

Northridge: Specialist asset finance business

Acquisition Finance

- Well recognised lead arranger / underwriter
- European / US Business
- Focused on mid-market transactions
- Expertise developed over c.20 years
- Profitable with strong asset quality
- c.€3.9bn of loan volumes

H1 2016 - Business Highlights

Continuing to deliver on strategic priorities

Bank of Ireland Group

Customers

- Strength of our customer franchises reflected in our financial performance
- Continue to be the largest lender to the Irish economy in H1 2016
- Growth in core loan books of €1.1bn; new lending up 14% on H1 2015
- Reduced non-performing loans by €2.1bn in H1 2016 with defaulted loans now c.10% of customer loans

Profitability

- Underlying profit of €560m; loan asset spread in line with H2 2015; NIM of 2.11%
- Net impairment charge reduced to 21bps (28bps in H2 2015)
- All trading divisions contributing towards the Group's profitability
- Too early to fully assess the impact of UK's EU referendum result

Capital

- Fully loaded CET1 ratio of 10.7%; transitional CET1 ratio of 12.8%
- Strong discipline on pricing and risk; priority is to protect and generate capital
- Market reaction to UK's EU referendum result impacting IAS19 accounting valuation of pension deficit
- Aim is to have a sustainable dividend. External factors, including UK's EU referendum result, may impact timing of our ambition to recommence dividends

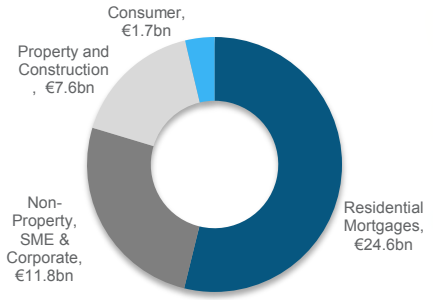
Benefitting from Irish growth with international diversification

Bank of Ireland Group

Ireland
(~70% of total income)

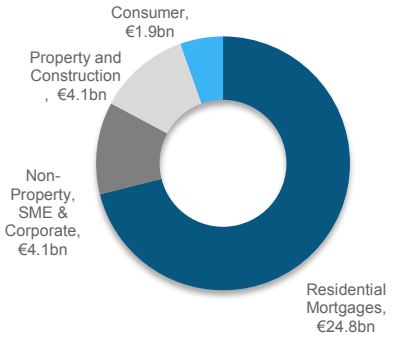
- Retail and commercial bank; Ireland's only bancassurer
- #1 or #2 market positions across all principal product lines
- Sustainable market structure
- Strong commercial discipline on lending and deposit margins
- Continuing to benefit from and support economic growth in Ireland

Gross Customer loans at June 2016



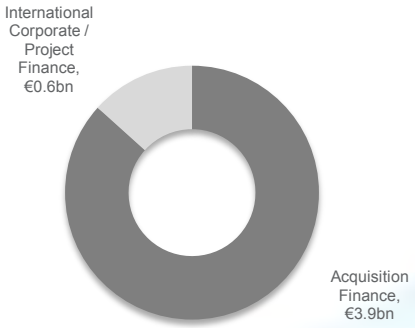
United Kingdom
(~25% of total income)

- BOI(UK) plc is a separately regulated, capitalised and self-funded business
- Universal banking offering in Northern Ireland
- Focused predominantly on consumer sector
- Attractive partnerships including the Post Office and AA
- Commission based business model provides flexibility to adapt quickly to market developments



International
(~5% of total income)

- Mid market US / European Acquisition Finance business; strong 20+ year track record
- Generates attractive margins and fee income within disciplined risk appetite
- Acquisition Finance represents c.5% of Group loan volumes at June 2016 – good geographic and sectoral diversification



Investing in technology and supporting our customers

Further developing our customer channels, propositions and partnerships

Bank of Ireland Group

Developing valuable customer relationships

Supporting Enterprise through our branch network

During National Enterprise Week in May 2016, we had 750 Events and c.2,900 participating businesses

500+ Start-ups have used our Workbench spaces

startlab powered by Bank of Ireland

The first bank incubator programme in Ireland

Serving customers in a way that suits them

Continuing to invest in meeting our customers changing needs

Simplifying and digitalising key customer journeys

Enhancing the mobile proposition to respond to increased customer usage

Over 59% of personal and 83% of small business loans delivered online and on the phone in H1 2016

Future focussed investment

- Continue to make banking more efficient, consistent and accessible
- Investing in adopting, integrating and, over time, moving to more scalable and modern platforms that position us for the future
- Actively working with our partners on solutions and implementation

2. Bank of Ireland Group

Interim Results 2016

Underlying PBT of €560m

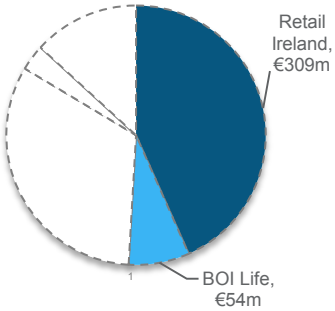
Bank of Ireland Group

	H1 2015	H2 2015	H1 2016
Total income	€1,759m	€1,513m	€1,587m
Net interest margin	2.21%	2.17%	2.11%
Operating expenses Levies and regulatory charges	(€848m) (€27m)	(€898m) (€48m)	(€890m) (€62m)
Impairment charges	(€168m)	(€128m)	(€95m)
Share of associates / JVs	€27m	€19m	€20m
Underlying profit before tax	**€743m**	**€458m**	**€560m**
Of which additional gains	*€228m*	*€9m*	*€157m*
Average € / Stg £ rates	*0.73*	*0.72*	*0.78*

- Total income of €1,587m
  - Net interest income of €1,135m, lower than H2 2015 due primarily to the impact of the low interest rate environment, lower liquid asset income and FX impact of c.€30m
  - Business income of €317m in line with H2 2015. Other income of €470m includes €157m of additional gains (H2 2015: €9m).
- NIM of 2.11% reflecting;
  - Strong commercial discipline on pricing; loan asset spread in line with H2 2015
  - Lower liquid asset spread due to the low interest rate environment and the impact of bond portfolio rebalancing
- Focussed on tight cost control whilst continuing to invest in our businesses, infrastructure and people
- Customer loan net impairment charge (net) continues to decline reflecting actions taken and ongoing improvements in asset quality

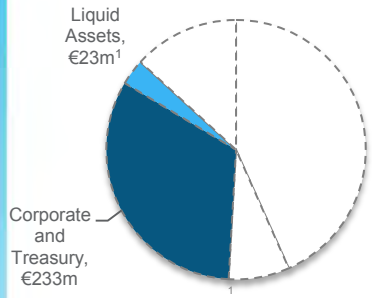
All trading divisions are contributing to the Group's profitability

Bank of Ireland Group



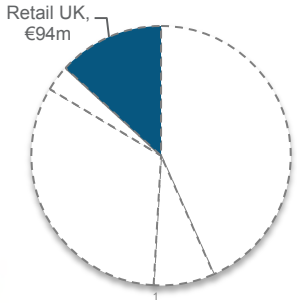
Retail Ireland

- Underlying PBT of €309m
- Market share of new mortgage lending of 28% in Q1 2016; fixed rate strategy providing value, certainty and stability to our customers and the Group
- Bank of Ireland Life underlying PBT of €54m reflecting lower levels of new business against a backdrop of volatile investment markets in H1 2016



Corporate and Treasury

- Underlying PBT of €256m
- Acquisition Finance continues to deliver strong income growth within a disciplined risk appetite
- Income on liquid assets reflects the low rate environment



Retail UK

- Underlying PBT of €94m
- New mortgage lending of £1.4bn in H1 2016
- Start-up partnership with AA has had a positive first 12 months

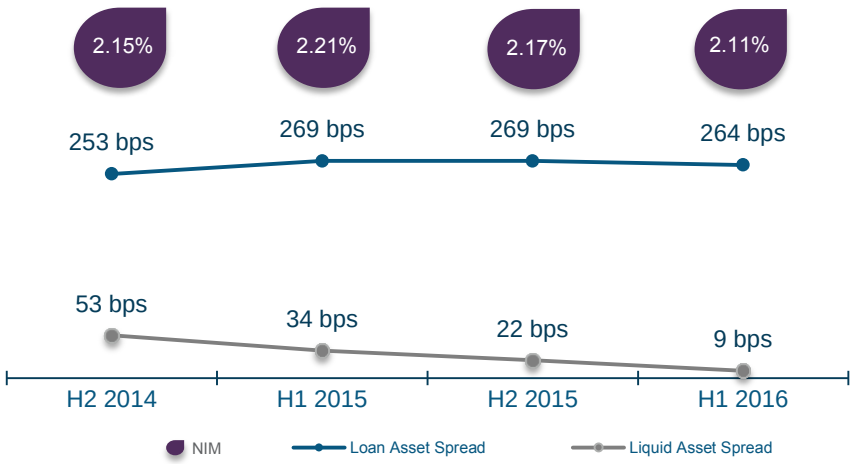
Note: Group Centre operating performance not included. The Group's central functions, through Group Centre, establish and oversee policies, and provide and manage certain processes and delivery platforms for the divisions

Net interest income

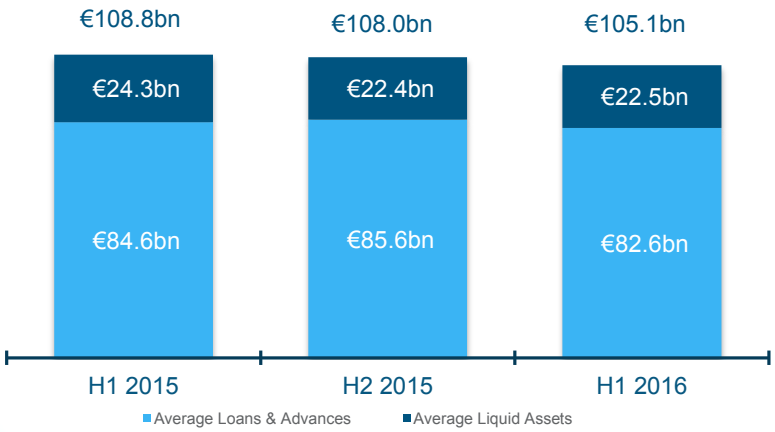
Impacted by lower liquid asset yields

Bank of Ireland Group

Net interest margin drivers



Average interest earning assets



Net interest income

- Net interest income of €1,135m; impacted in H1 2016 by the low interest rate environment, lower liquid asset yields and FX translation effects

Average interest earning assets

- Decreased by c.€2.9bn to €105.1bn primarily due to FX translation effects

NIM

- H1 2016 NIM of 2.11% reflects;
  - Commercial discipline maintained on lending and deposit margins
  - Stable loan asset spread[1] of 264 bps
  - Lower liquid asset spread[1] of 9 bps
- Maturity of expensive CoCo (€1bn; 10% fixed coupon) in July 2016 will positively impact NIM in H2 2016

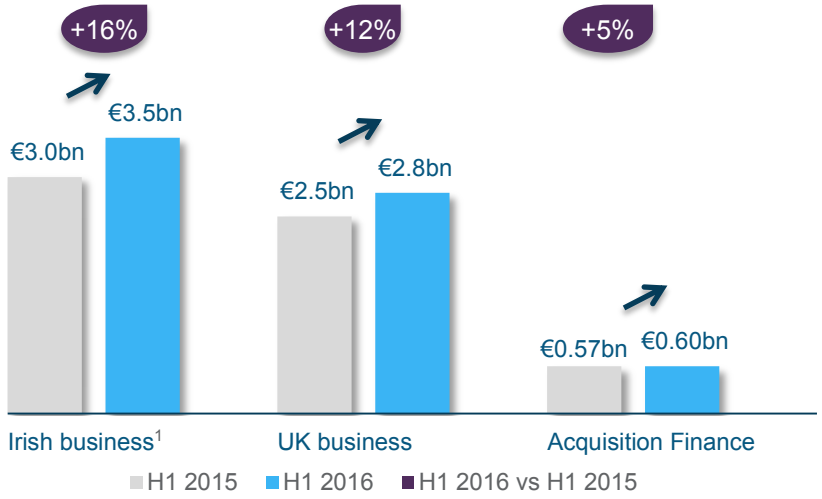
[1]Spread = Loan asset yield / Liquid asset yield less Group's cost of funds

Loans and advances to customers

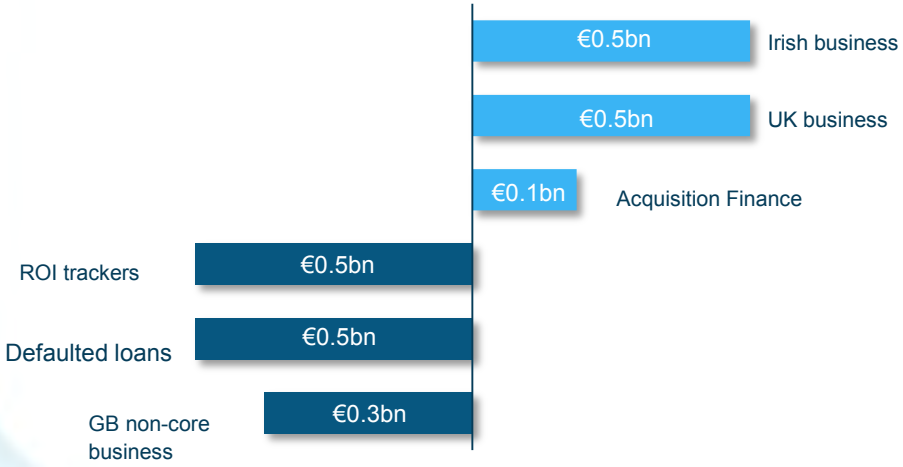
Continued growth in core loan books

Bank of Ireland Group

New lending volumes



Net lending growth



- Core loan books grew by €1.1bn in H1 2016
- New lending of €6.9bn during H1 2016; an increase of 14%[1] on H1 2015
- Redemptions of €7.1bn, of which €1.3bn related to;
  - Cash payments on defaulted loans of €0.5bn
  - Low yielding ROI mortgage trackers redemptions of €0.5bn
  - GB non-core business banking redemptions of €0.3bn
- Customer loans decreased by c.€4.5bn to €80.2bn (Primarily due to FX translation impact of €4.3bn)
- Good pipeline at end H1; we will maintain appropriate caution and focus on pricing

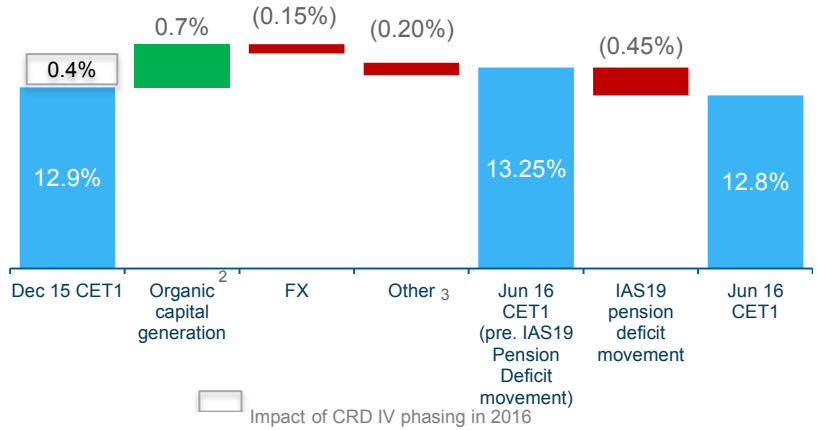
[1]Excludes portfolio acquisitions (H1 2015 - €0.5bn; H1 2016 - €0.1bn)

Capital[1]

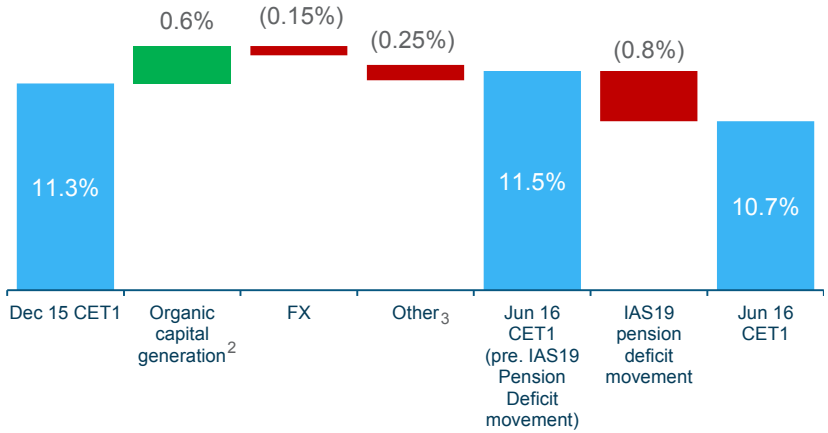
Continued organic capital generation offset by IAS19 pension deficit

Bank of Ireland Group

Transitional CET1 ratio movement



Fully loaded CET1 ratio movement



- Continued organic capital generation offset by IAS 19 accounting standard pension deficit;
  - Fully loaded CET1 ratio of 10.7%
  - Transitional CET1 ratio of 12.8%
  - Transitional Total Capital ratio of 17.2%
- Transitional leverage ratio of 6.6%; Fully loaded leverage ratio of 5.6%
- IAS19 accounting standard defined benefit pension deficit of €1.2bn (Dec 15: €0.74bn)
- Aim is to have a sustainable dividend
  - External factors, including UK's EU referendum result, may impact the timing of our ambition to recommence dividends

[1]Capital ratios have been presented including the benefit of the retained profit during the period

[2]Organic capital generation consists of attributable profit, AFS reserve movements and the reduction in the DTA deduction (DTAs that rely on future profitability). Transitional organic capital generation is 10bps higher due to the phasing impacts on AFS reserves and DTA deduction

[3]Other items relate primarily to 10%/15% threshold deduction and change in RWA on a constant currency basis

Operating Expenses, Levies and Regulatory charges

Focused on cost control; continue to invest

Bank of Ireland Group

	H1 2015 (€m)	H2 2015 (€m)	H1 2016 (€m)
Total staff costs	446	448	454
Staff costs	*365*	*371*	*376*
Pension costs	*81*	*77*	*78*
Other costs	341	389	371
Depreciation	61	61	65
Operating Expenses	**848**	**898**	**890**
Levies and regulatory charges	27	48	62
Levies and regulatory charges	*9*	*13*	*55*
FSCS levy	*18*	*(3)*	*7*
Irish bank levy	*-*	*38*	*-*
Total Operating Expenses	**875**	**946**	**952**
Cost / income ratio[1]	48%	59%	56%

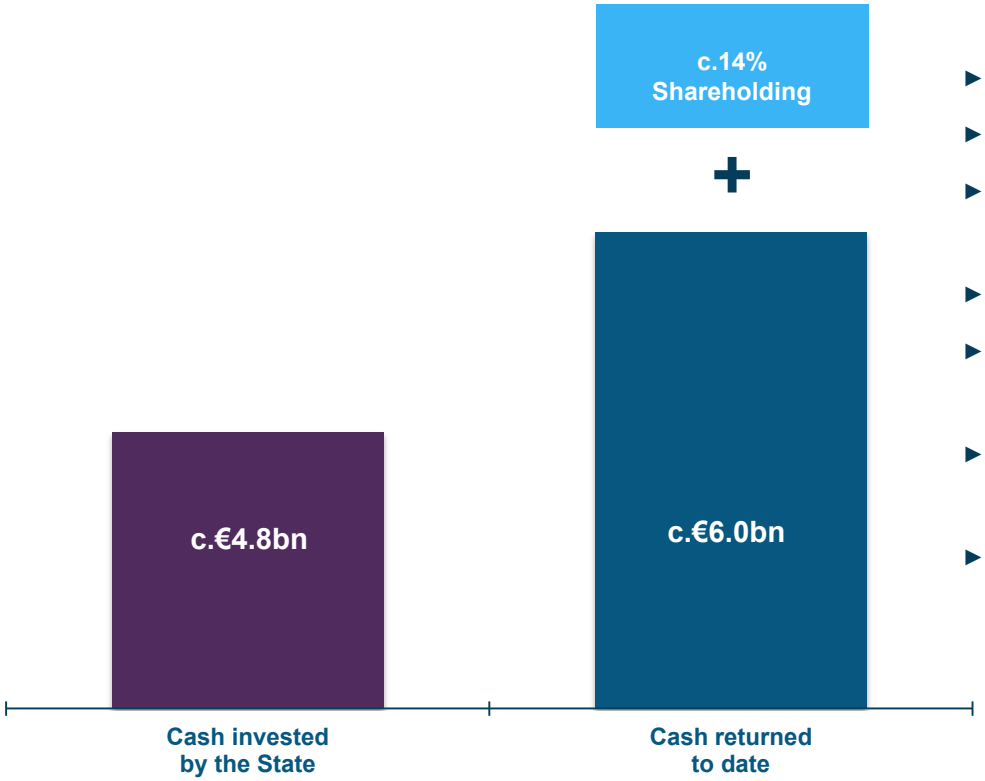
- Cost / income ratio of 56%
- Total staff costs of €454m in H1 2016; increase of vs. H2 2015, driven primarily by the impact of the Career and Reward framework
- Other costs of €371m reflect appropriate investments in our businesses, infrastructure and people
- FX translation benefit on operating expenses of c.€14m in H1 2016 vs. H2 2015
- **Levies and regulatory charges;**
  - **Levies and regulatory charges includes Single Resolution Fund, Deposit Guarantee Scheme and other regulatory related fees**
  - **Irish bank levy will be accounted for in H2 2016**
  - **Expect levies and regulatory charges to total €110m-€120m in full year 2016**

[1]Cost / income ratio is calculated as Operating expenses (excluding levies and regulatory charges) divided by Total income. Total income included additional gains of €157m in H1 2016 (H1 2015: €228m, H2 2015: €9m)

Reimbursing and rewarding taxpayers support

Bank of Ireland Group

Jan 2009 – September 2016



- State Aid repaid
- Risk to the State dealt with - ELG expired
- From 2009 - 2011, c.€4.8bn cash invested by the State
- Cumulative c.€6bn cash returned to the State
- State continues to hold valuable c.14% equity shareholding
- In H1 2016, BOI paid taxes of €94m and collected taxes of €487m on behalf of the Irish State
- No BOI Group liabilities are covered by the Irish Government's Eligible Liabilities Guarantee (effective October 2016)

3. Bank of Ireland Group

Interim Management Statement (October 28, 2016)

Interim Management Statement (October 28, 2016)

Bank of Ireland Group

Trading

The Group continues to trade in line with expectations.

Economic activity in Ireland has continued to expand while in the UK, where our businesses are primarily focussed on the domestic consumer sector, economic activity has thus far remained resilient post the result of the UK's EU referendum.

Sterling weakness vis a vis the euro impacts the Group's reported balance sheet assets and liabilities as well as the euro equivalent of our sterling profits. Our regulatory capital ratios continue to be substantially hedged from currency translation impacts. The actual and anticipated Monetary Authority response to the result of the UK's EU referendum has reduced swap rates and bond yields, impacting the IAS 19 accounting standard reporting of our defined benefit pension costs and deficit and certain elements of our earnings.

Our net interest income has performed in line with expectations. Our net interest margin for the 9 months to September 2016 was 2.15% compared to a net interest margin of 2.11% for the first half of 2016, reflecting the impact of a Convertible Contingent Capital Note maturity in early August as well as our management of funding costs and our evolving asset mix.

Business income has remained in line with the first 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. Following the publication of the 2016 Finance Bill, it is expected that the Group's annual banking levy will reduce from €38 million in 2016 to c.€30 million in 2017 and 2018.

Interim Management Statement (October 28, 2016)

Bank of Ireland Group

Asset Quality

Asset quality trends have continued to improve. Non-performing loan volumes have reduced by €0.8 billion since June 2016 to €9.1 billion at the end of September 2016. With reductions continuing across all asset classes, defaulted loans reduced by €0.6 billion during the same period to €8.1 billion. These reductions reflect our ongoing progress with resolution strategies that include appropriate and sustainable support to customers who are in financial difficulty, the economic environment and the ongoing recovery in collateral values. We expect the level of non-performing loans to continue to reduce.

Balance Sheet

New lending volumes for the 9 months to September 2016 were €10.0 billion compared to €9.0 billion for the same period in 2015 on a constant currency basis. We are maintaining appropriate caution on risk appetite and commercial discipline on pricing.

Sterling translation impacts during the quarter accounted for a €1.3 billion reduction in customer loan volumes to €78 billion at the end of September 2016, with our core loan books (i.e. excluding non-performing loans, Irish tracker mortgages and legacy run-down books) continuing to grow during the quarter. Customer deposits were €75 billion while wholesale funding was €13 billion at the end of September 2016.

Interim Management Statement (October 28, 2016)

Bank of Ireland Group

Capital

At 30 September 2016, the Group's fully loaded CET 1 ratio was 10.5%. The Group generated organic capital of c.30bps during the third quarter.

This was offset by an increase of c.€0.25 billion in the IAS 19 accounting standard defined benefit pension deficit from €1.2 billion at June 2016. The accounting deficit increase was primarily due to a decrease in the ROI and UK IAS 19 accounting required discount rates to 1.40% and 2.30% respectively, partly offset by a decrease in the ROI inflation rate assumption and an actual increase in asset valuations. During the month of October 2016 to date, the IAS 19 accounting standard required discount rates have increased from the levels at 30 September 2016.
The Group expects to receive a dividend from its New Ireland subsidiary during the fourth quarter of 2016 which will increase the Group's fully loaded CET1 ratio by c.20bps.

At the end of September 2016, the Group's transitional CET 1 ratio was 13.0% and the Group's Total Capital ratio was 17.4%.

4. Regulatory Environment

Regulatory Environment

Bank of Ireland Group

Bank of Ireland Group is a highly regulated entity

- Bank of Ireland is a diversified Financial Services Group which adheres to all applicable legislative and regulatory requirements in all countries in which it operates. This includes all requirements emanating from the European Union, HM Treasury, the United Nations and the US Department of the Treasury's Office of Foreign Assets Control.

- During 2015 the regulatory landscape saw significant change, with new policy developments coupled with the first full year of operation of the Single Supervisory Mechanism (SSM) and preparations undertaken by Competent Authorities in preparation for the Single Resolution Mechanism (SRM) which came fully into effect on 1 January 2016.

- Since 2015, programmes have been established in the Group to commence preparation for the significant regulatory change agenda over coming years, including the **Markets in Financial Instruments Directive / Markets in Financial Instruments Regulation (MiFID / MiFIR), the Market Abuse Directive / the Market Abuse Regulation (MAD / MAR), Recovery and Resolution Directive** and **the Mortgage Credit Directive (MCD)** among others.

- The heavy regulatory and compliance agenda is expected to continue in 2017 and beyond. The Group maintains its focus on continuing compliance with the existing regulatory requirements of the jurisdictions in which it operates including the requirements of the **European Central Bank (ECB), Central Bank of Ireland (CBI), the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) in the UK,** and **the Federal Reserve Bank of New York in the US.**

- Regulators conduct investigations and examinations on an industry wide basis from time to time, the durations and outcomes of which are currently unknown. Bank of Ireland is also working closely with the Central Bank to address matters raised by it, such as compliance with aspects of the various legislative and regulatory frameworks, for example the Criminal Justice Act 2010 and the Consumer Protection Code 2012. Significant progress has been made however, the potential for enforcement exists. More generally, given the extensive and ever-increasing nature of regulation and regulatory oversight, regulatory enquiry and potentially enforcement action and sanctions can and may arise on certain matters from time to time.

Regulatory Change – Banking Union

Bank of Ireland Group

Key components of Banking Union

I. **Single Supervisory Mechanism**
II. **Single Resolution Mechanism**

I. Single Supervisory Mechanism (SSM)

- ECB assumed banking supervision responsibilities for 130 banks (including Bank of Ireland) on 4 November 2014
- Under the Single Supervisory Mechanism, Bank of Ireland has been classified as a Domestic Systemically Important Bank (D-SIB) and as such is directly supervised by the ECB for prudential purposes in line with the ECB's supervisory powers.

II. Single Resolution Mechanism

- The Single Resolution Mechanism (SRM) came fully into effect on 1 January 2016, and is directly responsible for the resolution of entities and groups directly supervised by the European Central Bank.

Regulatory Environment

Bank of Ireland Group

EBA Stress Tests – July 2016

- The Group was subject to the 2016 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB).

- In the stress test two scenarios were run: a baseline scenario and an adverse scenario which assumes a severe economic downturn. The starting point in the stress test is the Common Equity Tier 1 (CET1) ratio for the Group as per 31 December 2015 (13.3% on a transitional basis and 11.3% on a fully loaded basis). In the baseline scenario the Group maintains a CET1 ratio of 16.1% (transitional) and 15.0% (fully loaded) in 2018. In the adverse scenario this ratio decreases to 7.7% (transitional) and 6.1% (fully loaded) in 2018.

- The Group's capital position is strong and the Group continues to organically generate capital, including 70bps on a transitional basis in the 6 months to June 2016. As at 30 June 2016, the Group's transitional CET 1 ratio was 12.8% and the Group's fully loaded CET 1 ratio was 10.7%. As previously stated, the Group expects to maintain sufficient capital to meet, at a minimum, applicable regulatory capital requirements plus a management buffer.

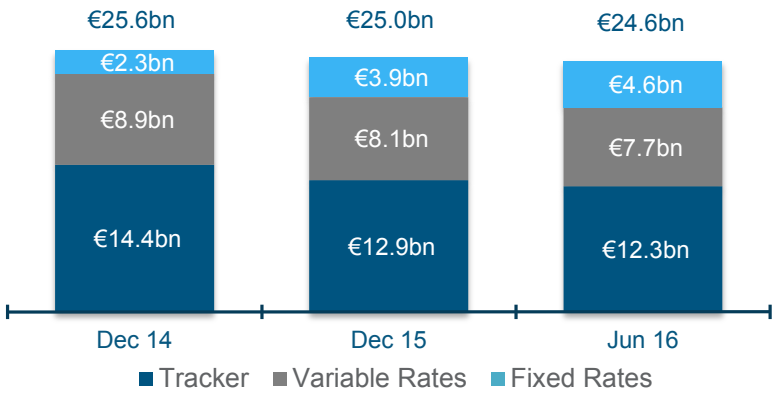
- The Bank of Ireland Group is rated Investment Grade by S&P, Moody's, and Fitch rating agencies with positive outlook.

5. Mortgages and Mortgage Pricing

ROI mortgages: €24.6bn

Bank of Ireland Group

ROI Mortgages (gross)



- Trackers reduced by €0.6bn since Dec 15; €2.1bn since Dec 14
- €11.3bn or 92% of trackers at Jun 16 are on a capital and interest repayment basis
- 75% of trackers are owner occupier mortgages; 25% of trackers are Buy to Let mortgages
- Loan asset spread on ECB tracker mortgages was c.37bps[2] in H1 2016, compared to Group net interest margin (including ECB trackers) of 211bps in H1 2016
- Average LTV of 74% on existing stock at June 2016 (Dec 15: 76%)
- Average LTV of 71% on new mortgages in H1 2016 (Dec 15: 66%)[3]

Market share

	H1-15	H2-15	H1-16
New Lending Volumes[1]	€0.5bn	€0.9bn	€0.6bn
Market share	26%	31%	28%[4]

- We have a fixed rate led mortgage pricing strategy which we believe provides value, certainty and stability to our customers and to the Group
- Fixed rate products accounted for c.75% of our new lending in H1 2016, up from c.30% in 2014
- BOI does not sell through broker channel
- c.70% of customers that take out a new mortgage take out a life assurance policy through BOI Group
- c.50% of customers that take out a new mortgage take out a general insurance policy through BOI Group with insurance partners

[1]Excludes €0.2bn in respect of IBRC mortgages portfolio acquisitions completed during H1 2015 and €0.1bn in respect of mortgage portfolio acquisitions completed during H1 2016
[2]Average customer pay rate of 110bps less Group average cost of funds in H1 2016 of 73bps
[3] Note that the LTV on new business includes the impact of the acquired portfolios
[4]ROI Mortgage market share for Q1 2016

Bank of Ireland Group

Return of competitive intensity across the mortgage market through 2016

Sustainable recovery with new lending market which is well-positioned for growth – normalised market size forecast in 2019

	2006	2011	2016
Mortgage Market Lending (all segments)	€39.9bn	€2.5bn	€5.3bn (f)
Ave. Loan Size FTB | Mover	€228k/€249k	€172k/€216k	€166k/€211k
BOI Share Stock | Flow	19% 19%	21% 47%	21% 27% (27% Q2)
Broker Share	42%	26%	17% 21%
Active Lenders	8	2 Active	5
FTB & Mover Share	50%	82%	92%

- **Broker Market:** Increase in the broker market share to 19% for H1 2016 (v's 17% for H1 2015). The growth relates to the First Time Buyer segment at 20% with Movers remaining static at 18%. (Source: BPFI)

The Factors that inform our Pricing Decisions

Bank of Ireland Group

We keep the pricing of all of our products under active review. Products – including mortgages – are priced to reflect:

- The cost of funds to the Group
- The estimated potential loan losses from the portfolio
- Recovering our costs including our staff and infrastructure costs
- The capital required to support the products

These are all factors that a bank – as a responsible lender – must consider.

In accordance with commercial realities and CBI/ SSM guidance, and CBI/ SSM macro prudential policy decisions, pricing is risk based using the LTV band as a proxy.

The Bank offers attractive fixed rate mortgages – which mitigate risk for both the customer and the bank – again in accordance with the CBI/ SSM guidance and international mortgage market characteristics. 75% of new business in 2016 has been fixed rate.

At each LTV band there is an attractive fixed rate equally available to both new and existing customers depending on LTV.

The selection of a fixed or variable product is ultimately a customer decision.

Bank of Ireland Mortgage Pricing – SVR/Variable Rate

Bank of Ireland Group

Bank of Ireland Owner Occupier average book yield: H1/2016 – SVR/Variable rate mortgages:

- UK – 4.49%
- Ireland – 4.25%

Bank of Ireland – Cost of Funds:

- H1 2015 – 0.89%
- H2 2015 – 0.80%
- H1 2016 – 0.73%

Movement -0.16%

- Bank of Ireland Owner Occupier – Average book yield SVR mortgages H1/2016 – 4.25% less the cost of funds (0.73%) = 3.52% gross margin before operating costs, cost of credit and contribution to capital.
- Bank of Ireland Group cost/income ratio H1 2016 = 56%.
- Bank of Ireland SVR gross margin = 3.41% X 44% = 1.55% before cost of credit and contribution to capital.

Bank of Ireland Mortgage Fixed Rate Offers

Lower rates available for all new and existing owner occupier customers

Bank of Ireland Group

Fig 1: Fixed rate reductions in 2015

Rates as at 31/12/15	1 year fixed	2 year fixed	3 year fixed	5 year fixed
LTV	3.60 – 3.70%	3.60 – 3.75%	3.60 – 3.80%	3.80 – 3.95%
LTV < or = 80% Reduction in fixed rate	-0.40%	-0.65%	-0.90%	-0.95%
LTV < or = 80% Difference from Variable LTV 61% - 80% rate (4.20%)	-0.60%	-0.60%	-0.60%	-0.40%
LTV > or = 80% Reduction in fixed rate	-0.40%	-0.60%	-0.80%	-0.90%
LTV > or = 80% Difference from Variable LTV > 80% rate (4.50%)	-0.80%	-0.75%	-0.70%	-0.55%

Fig 2: Fixed rate reductions in 2016 ytd.

Rates as at 01/11/16	1 year fixed	2 year fixed	3 year fixed	5 year fixed
LTV	3.40 – 3.55%	3.25 – 3.55%	3.10 – 3.45%	3.30 – 3.55%
LTV < or = 80% Reduction in fixed rate	-0.20%	-0.35%	-0.50%	-0.50%
LTV < or = 80% Difference from Variable LTV 61% - 80% rate (4.20%)	-0.80%	-0.95%	-1.10%	-0.90%
LTV > or = 80% Reduction in fixed rate	-0.15%	-0.20%	-0.35%	-0.40%
LTV > or = 80% Difference from Variable LTV > 80% rate (4.50%)	-0.95%	-0.95%	-1.05%	-0.95%

Fig 3: Cumulative Fixed rate reductions 2015 to 2016 ytd.

Rates as at 01/11/16	1 year fixed	2 year fixed	3 year fixed	5 year fixed
LTV	3.40 – 3.55%	3.25 – 3.55%	3.10 – 3.45%	3.30 – 3.55%
LTV < or = 80% Reduction in fixed rate	-0.60%	-1.00%	-1.40%	-1.45%
LTV < or = 80% Difference from Variable LTV 61% - 80% rate (4.20%)	-0.80%	-0.95%	-1.10%	-0.90%
LTV > or = 80% Reduction in fixed rate	-0.55%	-0.80%	-1.15%	-1.30%
LTV > or = 80% Difference from Variable LTV > 80% rate (4.50%)	-0.95%	-0.95%	-1.05%	-0.95%

6. Mortgage Arrears Update

Mortgage Arrears – Key Messages

Bank of Ireland Group

- **9 out of 10 Owner Occupier customers fully up to date on their mortgage**
- **9 out of 10 Owner Occupier customers who requested forbearance and through an SFS demonstrated they were in financial difficulty, were offered a sustainable solution**
- **9 out of 10 Owner Occupier customers are meeting the terms of their forbearance arrangement.**

The following principles summarise BoI's approach to helping our customers who may face difficulties with regard to their contracted mortgage repayments.

- All of our activities in, and approach to, this area recognise the fundamental importance of the family home.
- We are focussed on supporting customers with financial challenges, providing a comprehensive range of sustainable restructuring solutions – legal action is a last resort.
- We assess all forbearance requests on a case-by-case basis, taking due consideration of the personal circumstances of the borrower.
- We bear in mind our responsibilities to all of our stakeholders including customers fully meeting their contracted mortgage repayments, our depositors, our shareholders (which include the taxpayers), and the wider economy which requires viable banks able to support economic development.
- The forbearance strategies adopted by Bank of Ireland seek to maximise recoveries while providing suitable and sustainable solutions that are supportive of customers in challenged financial circumstances.
- Bank of Ireland is and will continue to be a very important part of the Irish mortgage market.

At June 2016, we had a restructured stock of 18,520 Owner Occupier mortgage accounts (up from 17,938 at December 2015) and our restructures are working with 9 out of 10 customers meeting the terms of their new arrangement. We seek to ensure that any forbearance measures on the part of the bank are balanced to assist continued responsible action on the part of our customers.

Our approach is informed by our management of mortgage arrears in Ireland and our extensive experience in the highly regulated UK market, both with respect to the housing market correction in the early 1990s and more recent experience.

Mortgage Arrears – Key Messages

Bank of Ireland Group

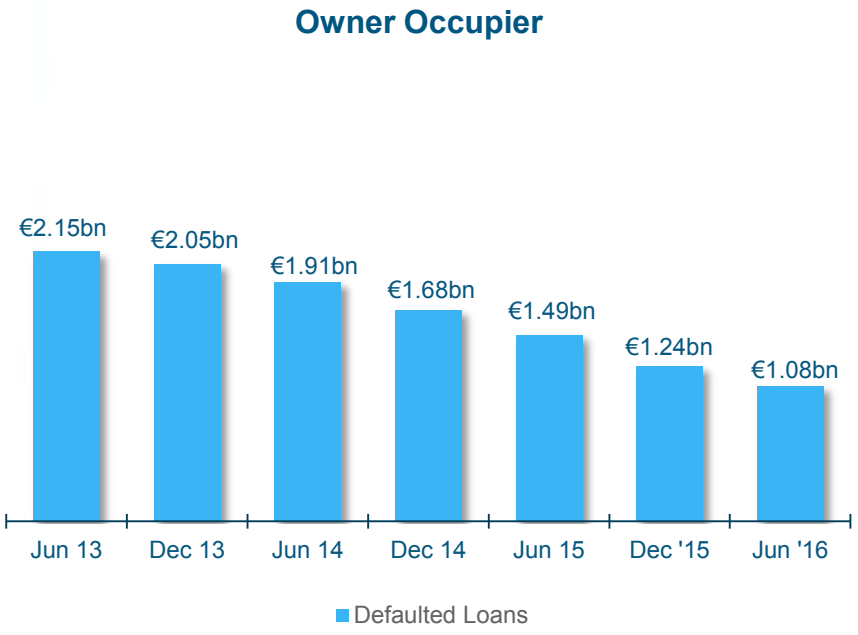
The management and resolution of mortgage arrears is a key priority for Bank of Ireland, and we continue to make very significant progress:

- At September 2016, Owner Occupier accounts[1] in arrears had reduced by 53% from peak levels in May 2013.
- At June 2016, 3.3% of Bank of Ireland Owner Occupier accounts were greater than 90 days in arrears, compared to an industry average (excluding BoI) of 9.0%.
- This means that the percentage of Bank of Ireland Owner Occupier accounts greater than 90 days in arrears is 36% of the industry average. Our performance against the industry average has improved each year since 2009.
- The Bank of Ireland number of Owner Occupier accounts in arrears greater than 720 days fell to 1.8% in Q2 2016. The industry (excluding BoI) reduced to 5.5%. On this basis, Bank of Ireland is at 32% of the industry average.
- Bank of Ireland had 46 Owner Occupier repossessions in H1 2016 the majority of which were voluntary. In Bank of Ireland we anticipate circa 100 repossessions in 2016 which, on a comparative basis, is circa 50% of the anticipated number of Owner Occupier possessions for 2016 in our high quality UK mortgage business.

[1] The number of accounts does not equate to either the number of customers or the number of properties.

Significant reduction in Bank of Ireland Owner Occupier defaulted loans

Bank of Ireland Group

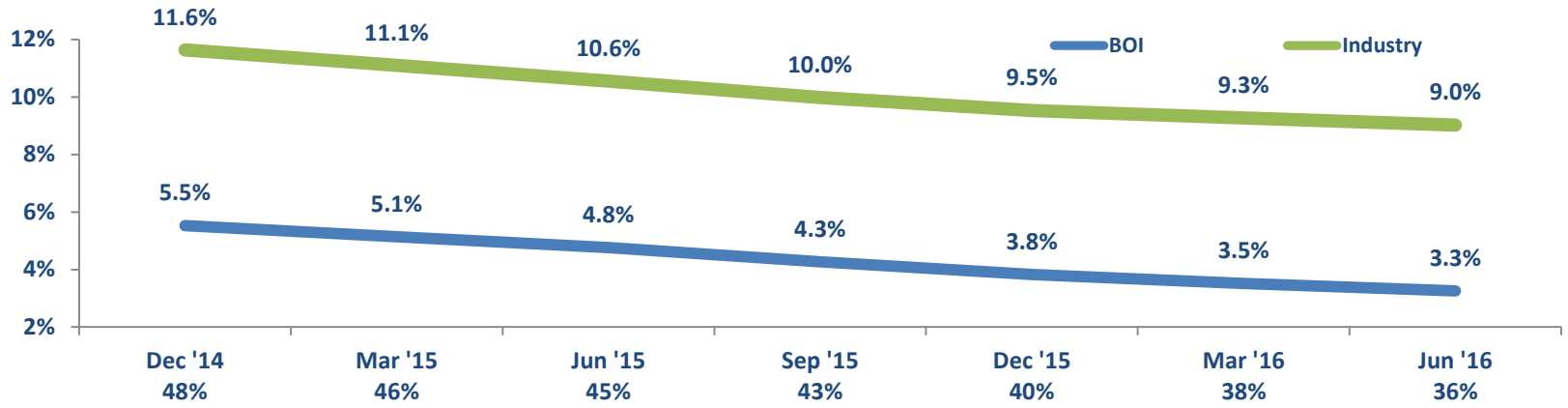


- Bank of Ireland Owner Occupier mortgage book was €19.6bn at June 2016.
- In H1 2016 defaulted loan balances fell by 13% to €1.1bn.
- Arrears accounts (90 days past due) are at circa one third of industry average[1]; 9 out of 10 accounts up to date.

1) At June 2016, BoI owner occupier arrears level (based on number of accounts >90 days in arrears) was 3.3% compared to 9.0% for industry excl BoI

BoI Owner Occupier accounts[1] >90 DPD[2] Arrears – consistent significant progress versus the industry[3]

Bank of Ireland Group



- At 30 June 2016, 3.3% of BoI Owner Occupier mortgage accounts were >90 DPD compared to 9.0% for the industry, i.e. BoI at 36% of the industry average.

BoI Owner Occupier default rate very materially lower than the industry on a consistent basis.

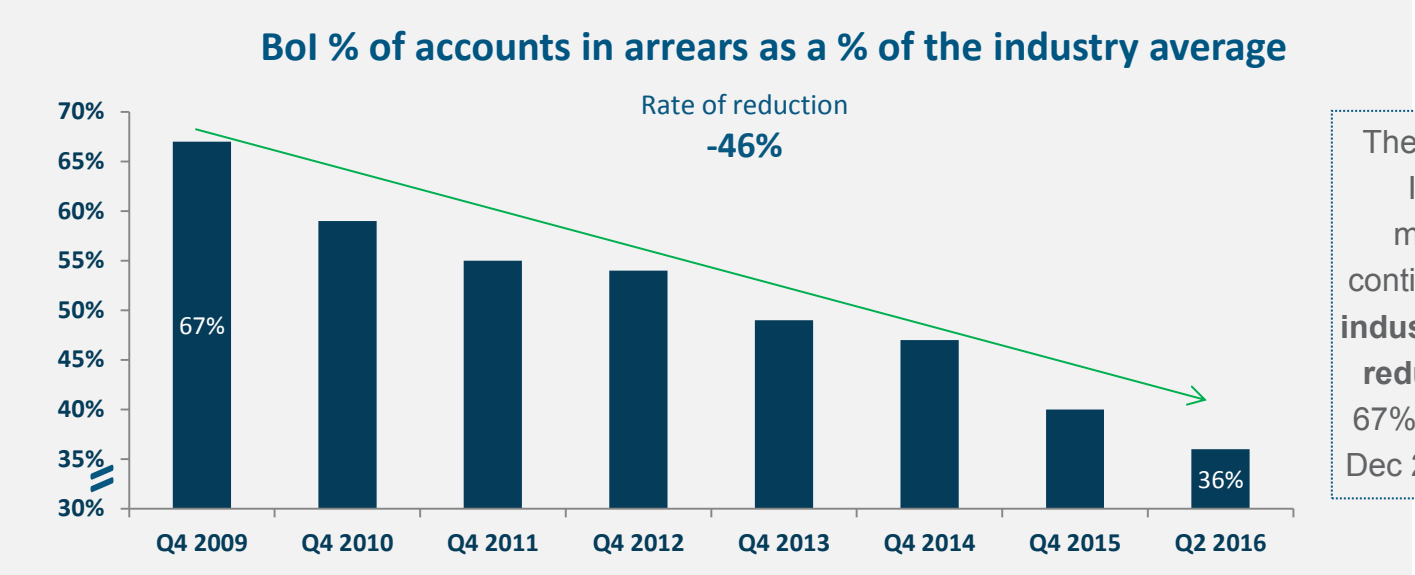
[1] The number of accounts does not equate to either the number of customers or the number of properties.
[2] Consistent with published quarterly CBI arrears statistics whereby impaired mortgages ≤ 90 DPD are excluded from the statistics.
[3] Based on published Q2 2016 CBI Mortgage Arrears Statistics, excluding Bank of Ireland.

As well as our significantly lower rate of owner occupier defaulted loans than the industry[2], the trend in Bank of Ireland share of industry defaults continues to reduce

Bank of Ireland Group

Bank of Ireland owner occupier arrears >90 DPD[1] are running significantly below the industry[2] average:

- **3.3%** of Bank of Ireland owner occupier mortgage accounts are >90 DPD compared to an average of 9.0% for the total industry at June 2016.
- This means that the % of Bank of Ireland owner occupier mortgage accounts >90 DPD was **36%** of the total industry average.

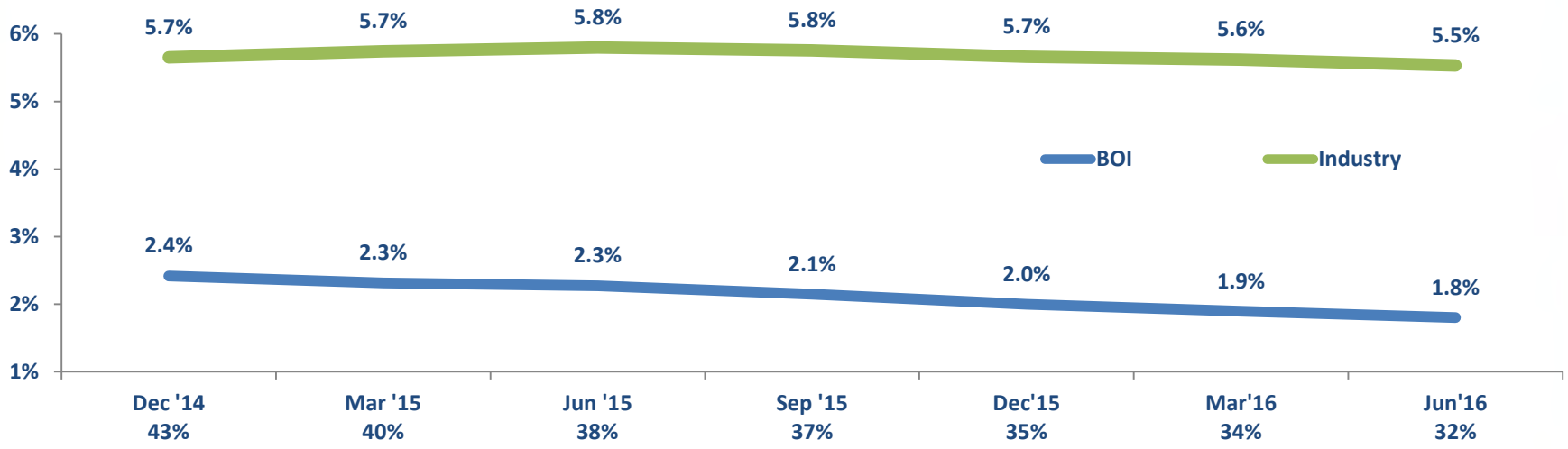


The proportion of the Bank of Ireland owner occupier mortgage book >90 DPD continues to **remain below the industry average** and has been **reducing consistently**, from 67% of the industry average at Dec 2009 to 36% at June 2016.

[1] Consistent with published quarterly CBI arrears statistics whereby impaired mortgages ≤ 90 DPD are excluded from the statistics.
[2] Based on published Q2 2016 CBI Mortgage Arrears Statistics, excluding Bank of Ireland. Industry statistics exclude impaired mortgages ≤ 90 DPD.

BoI Owner Occupier accounts[1] >720 DPD Arrears – reducing and significantly lower than the rest of the industry[2]

Bank of Ireland Group



- At 30 June 2016 **1.8%** of Bank of Ireland Owner Occupier mortgage accounts were >720 DPD compared to an average of 5.5% for the industry.
- On this basis, Bank of Ireland is at **32%** of the industry average (Q4 2015: BoI at 35% of the industry).

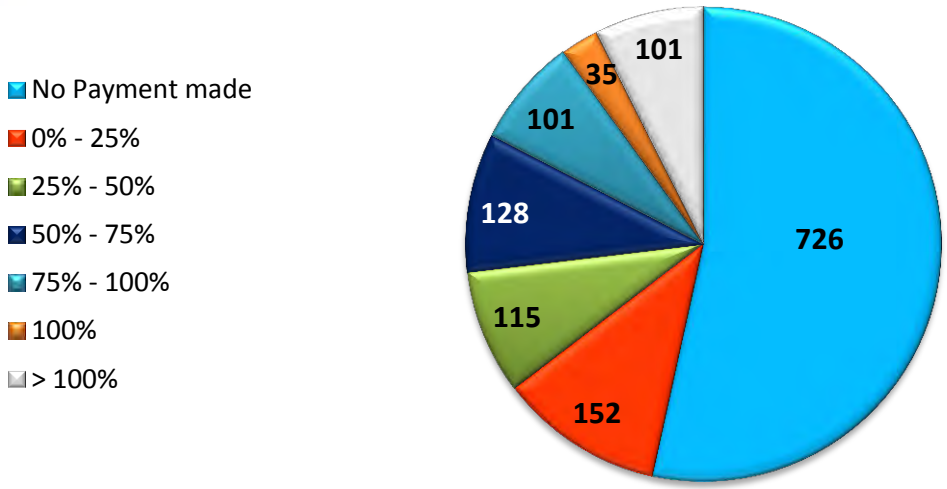
[1] The number of accounts does not equate to either the number of customers or the number of properties.
[2] Based on published Q2 2016 CBI Mortgage Arrears Statistics, excluding Bank of Ireland.

Payment Profile of BoI Owner Occupier Borrowers > 720 DPD

Bank of Ireland Group

1,358 Owner Occupier properties in legal process

Payment Profile in H1 2016



- 726 (53%) made no payment during H1 2016.
- A further 267 (20%) made less than 50% of the expected payment during H1 2016.
- BoI analysis of >720 DPD owner occupier mortgage arrears cases in the legal process identifies that the average contracted mortgage repayment from this cohort of c.€920 per month is less than the average monthly rental of c.€1,060 for the average residential property.

If the payment profile of this customer group represents repayment capacity, it is likely that a significant number of this population will require social housing.

Owner Occupied ROI Mortgages at 30 June 2016
BoI, AIB including EBS (AIB) and PTSB

Bank of Ireland Group

	BoI	AIB	PTSB
Gross Loans €bn	19.8	28.5	15.6
Weighted Average LTV %	71%	n/a	85%
Non Performing Loans €bn	1.4	3.4	4.2
Non Performing Loans % of Gross Loans €bn	7.2%	12.1%	27.0%
Provision Stock €bn	0.5	1.2	1.5
Impairment provision coverage %[1]	33%	36%	35%

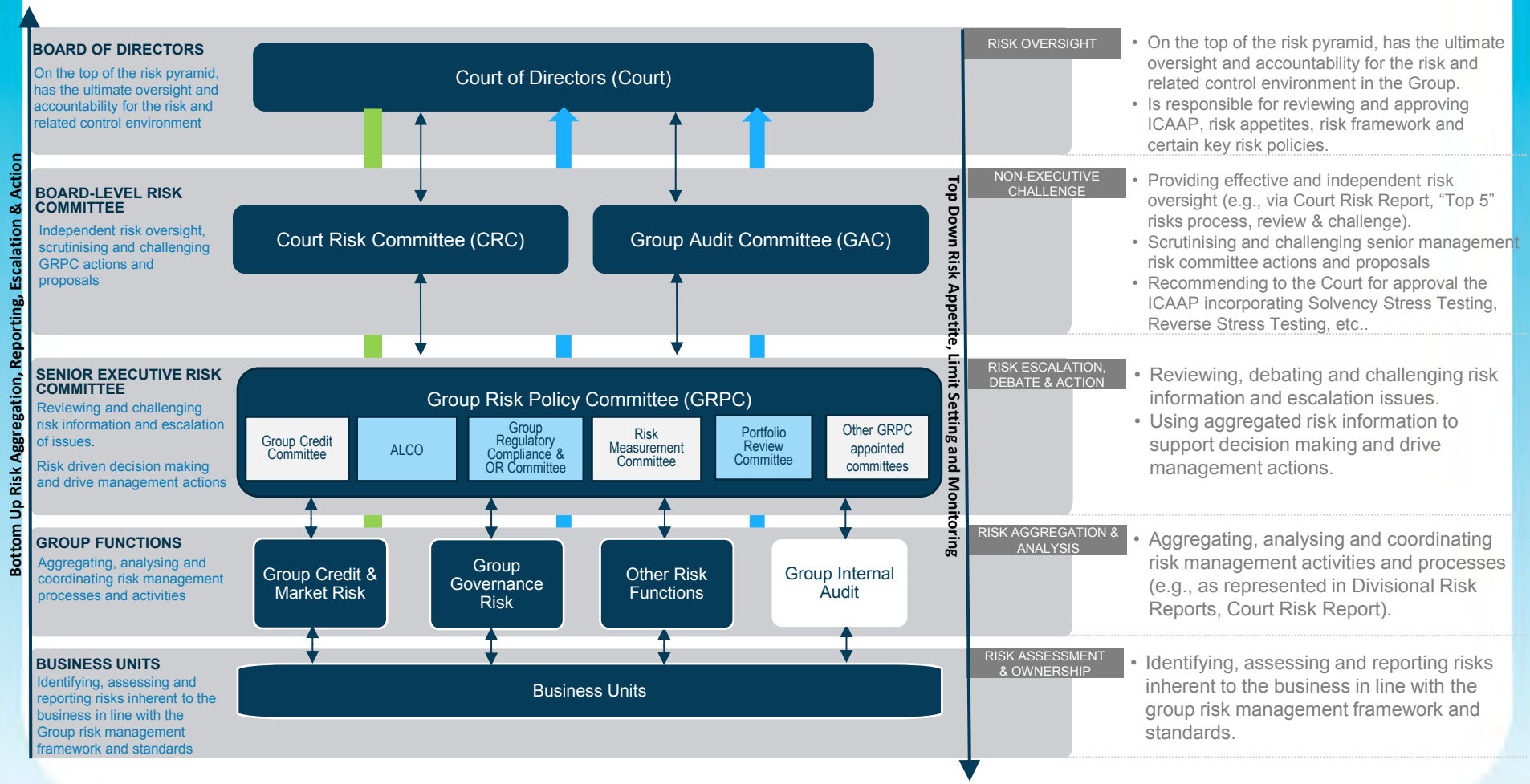
[1] Total provisions as a % of total non performing loans

7. Governance

Strong Risk Governance confirmed by Independent Reviews

Bank of Ireland Group

The Risk Governance enables and reconciles Top-down and Bottom-up Risk information flow and enhances strategy execution and decision-making by enabling the evaluation and challenge of Group risk appetite, the establishment and cascade of limits, the evaluation of activities creating or destroying value and optimising return versus risk throughout the business



Denotes GRPC delegated committees with a direct role in risk appetite governance

8. Responsible Business

Strong Responsible Business focus in the Group

Bank of Ireland Group

Responsible Business Report

- Two Responsible Business Reports published to date (2014 and 2015), providing a comprehensive account of all activities taking place across Bank of Ireland Group
- Highlights our business practices across the pillars of Customer, Community, Colleagues, Environment and Governance

Business Working Responsibly Accreditation

- The Bank of Ireland Group was accredited with the Business in the Community Ireland "Business Working Responsibly" Mark in 2016, and is now one of 23 companies to be certified to this international standard in Ireland.
- This accreditation was an important milestone for the Bank in 2016 and underlines our responsible business policies, practices and performance across 26 different indicators including Business Conduct, Change Management, and Customer Relationships.

BUSINESS WORKING RESPONSIBLY

FTSE4Good

Strong Responsible Business focus in the Group

Bank of Ireland Group

Customer and Community Focus

Bank of Ireland is the largest lender to the Irish economy. We are Ireland's number one Business Bank providing more than 50% of new lending to the SME and agriculture sectors.

We maintain a highly visible – and highly active – involvement in communities the length and breadth of the country. Our branch network is a core component of this involvement, and of the service we provide to our communities. Whilst some have significantly reduced their branch network, or withdrawn from the market entirely, we have maintained our strong countrywide presence, and continue to invest in our network. Bank of Ireland has the largest branch network of any bank in Ireland with over 250 branches nationwide.

Bank of Ireland has a very active enterprise development programme:

- Twice a year, in May and November, Bank of Ireland organises National Enterprise Week – during these weeks a range of activities focused on supporting SMEs and start-ups take place. During National Enterprise Week in May 2016 Bank of Ireland hosted 750 events countrywide with approximately 2,900 business taking part.

- This year Bank of Ireland will host up to 100 Enterprise Town events nationwide. Each Enterprise Town takes place over two days, and sees the local businesses community – along with sports, social and charitable organisations – hosting a major community event, supporting the local economy and connecting communities and businesses.

- Bank of Ireland has pioneered the development of spaces within branches which support start-ups and entrepreneurs. These spaces – referred to as 'workbenches' – offer working and meeting spaces for entrepreneurs free of charge.

- We support creative sponsorships in the fashion world with Junk Kouture, in the technology space with Coder Dojo, and with Bizworld which teaches children how to run a business and to bring a product to market.

9. Conclusion

Summary

Focussed on delivering strategic objectives

Bank of Ireland Group

Ireland / UK Economies	Track record of protecting capital	Business Model
▶ Core fundamentals of Irish and UK economies have been strong and both have proven resilience ▶ Too early to fully assess UK's EU referendum impacts on economic and customer activity and on actions by regulatory and monetary authorities ▶ Maintaining appropriate cautiousness on risk appetite	▶ Experienced senior leadership team ▶ Retaining strong commercial pricing discipline ▶ Experience to safely navigate impacts of UK's EU referendum result ▶ Consistent track record of delivery	▶ Strong retail & commercial franchises; diversified business model ▶ #1 or #2 market positions across all principal product lines in Ireland ▶ Flexibility within UK business model to adapt quickly to market developments

Protecting capital while focussing on sustainable returns for shareholders