Bank of Ireland Group

# Bank of Ireland

## Proposed capital raising and investment proposition
June 2011

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# Today's presentation

Bank of Ireland Group

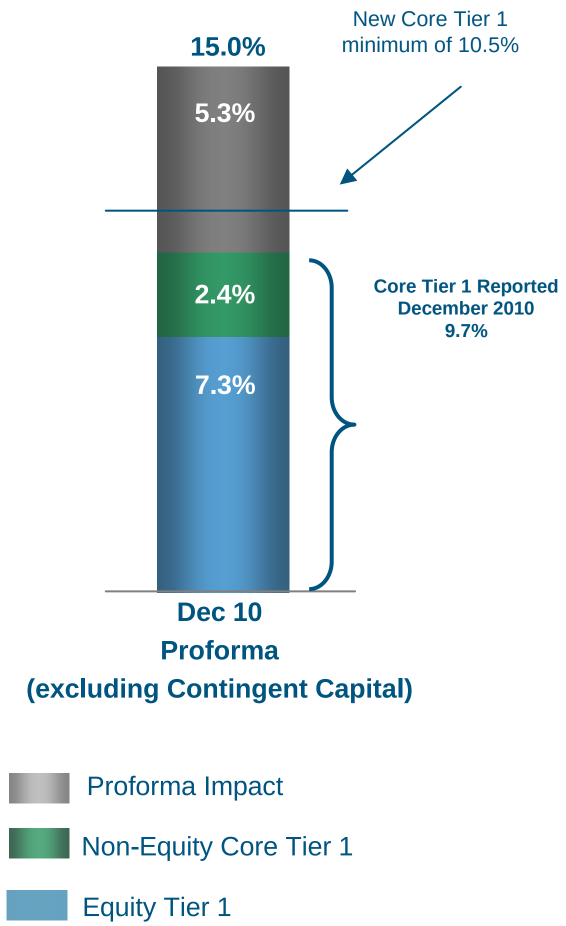
Slide No.

# Capital Raise: Summary and Objectives

# Capital Raising: Background and Objectives



**Core Tier 1 Capital Ratios**




- In tandem with the EU/IMF programme, CBI were required to conduct a Prudential Capital Assessment Review (PCAR) and Prudential Liquidity Assessment Review (PLAR) in March 2011 in respect of Irish banks
- As a result of the PCAR and PLAR the CBI requires the Group to:
  - Raise €4.2bn in new equity (of which €0.5bn has been determined to be a "buffer")
  - Raise €1.0bn contingent capital using a convertible debt instrument
- The Core Tier 1 capital requirement was set to meet higher CBI set capital ratios:
  - A minimum Core Tier 1 ratio of 10.5% based on the PCAR base case;
  - A Core Tier 1 ratio of 6% under the PCAR adverse stress scenario;
  - An equity buffer of €0.5bn for additional conservatism;
  - The PCAR adverse stress scenario loan loss estimates provided to the CBI by BlackRock Solutions ('BlackRock') methodology; and
  - A conservative estimate of losses arising from deleveraging under the adverse stress scenario, and potential transfers of further loans to NAMA (NAMA transfers <€20m no longer occurring).
- PCAR adverse stress scenario based on conservative assumptions on the performance of the Group's loan portfolios under more stressed macroeconomic conditions than might reasonably be expected to prevail
  - Repossess and sale approach adopted by BlackRock
  - Conservative property values used as the primary driver of default and loan losses
- PLAR outcome resulted in the Group augmenting its existing deleveraging plan to achieve a target loan to deposit ratio of 122.5% by December 2013
- If the adverse stress scenario does not materialise, the Group should significantly exceed the 10.5% minimum Core Tier 1 ratio

# Capital Raising:
## Understanding the €4.2bn equity capital requirement under the 2011 PCAR

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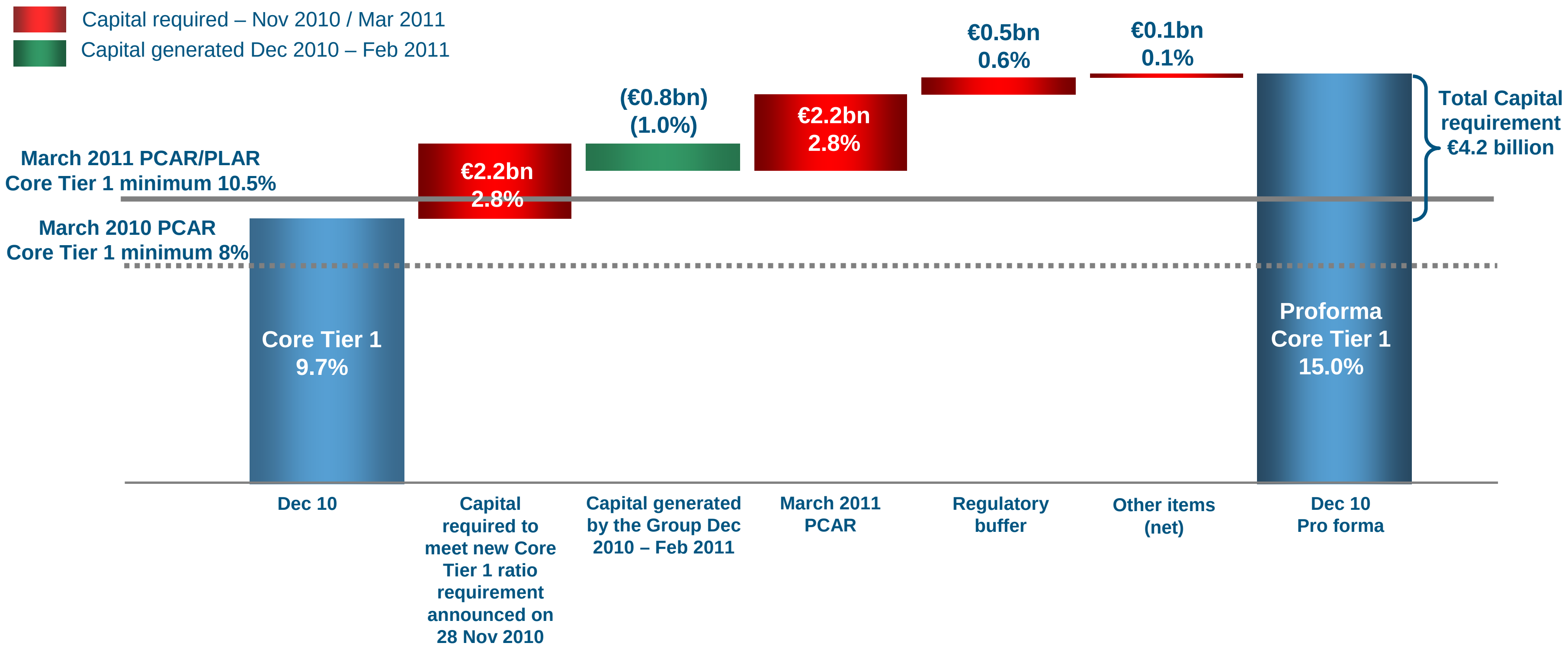
- The Group met the 2010 PCAR capital ratios of 7% Equity Tier 1 and 8% Core Tier 1 through its 2010 capital raise, liability management exercises and other initiatives




- Following the March 2011 PCAR, the Group's Core Tier 1 capital requirement comprises the following:
  - €2.2 billion as announced on 28 November to meet the new minimum Core Tier 1 ratio of 10.5% (previously 8%)
  - (€0.8 billion) capital generated by the Group from December 2010 to February 2011
  - €2.2 billion additional capital required under the March 2011 PCAR and PLAR process
  - €0.1 billion other items net (including additional losses on potential asset sales to NAMA, sub-debt impairments and other items)
  - €0.5 billion regulatory buffer for additional conservatism

# Overview of Capital raising proposals

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| | |
|---|---|
| •LME<br>•Stabilisation Act or other actions<br>•Rights Issue | €4.35bn |
| Capital raising costs | €0.15bn |
| CT1 Capital Required | €4.2bn |
| Contingent Capital | €1.0bn |
| Total[1]: | €5.2bn |

- Capital Raising proposals comprise 4 key elements:
  a. Liability Management Exercise (LME) for c.€2.6bn subordinated liabilities, incorporating equity and cash options
  b. Bondholder burden sharing – action by the Minister for Finance to ensure that burden sharing is achieved in respect of any subordinated debt outstanding post LME
  c. Rights Issue (RI) underwritten by NPRFC – RI will be for a maximum of €4.35bn less Core Tier 1 capital (a) generated from LME; and (b) estimated to be generated from steps taken by the Minister for Finance under the Stabilisation Act or other action to burden share any subordinated debt outstanding after LME
  d. Contingent Capital Instrument of €1bn issued to the NPRFC
- The Bank continues to have discussions with other sources of private capital concerning the terms and form upon which they may participate in the capital raising
- The proposals (excluding the contingent capital):
  - Would generate a proforma Core Tier 1 ratio of 15% at 31 December 2010
  - Meet the adverse stress scenario under the March 2011 PCAR
  - Result in a strongly capitalised Group capable of supporting future economic recovery
- Proposals are subject to shareholder approval

[1]Net of capital raising costs

# Bank of Ireland Investment Case

# Clarification of Key Issues

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| | |
|---|---|
| Capital requirements defined through 2011 PCAR | ✓ |
| Deleveraging requirements set by PLAR | ✓ |
| Strategic shape of the Group confirmed – EU Restructuring & Viability Plans of 2010 and 2011 | ✓ |
| Balance sheet de-risked e.g. NAMA, structural pension deficits being dealt with | ✓ |
| Asset quality – losses peaked and reducing | ✓ |
| Loan loss impairment within previous guidance | ✓ |
| Reducing operating costs on a sustainable basis | ✓ |
| Economic environment – ROI export led recovery / Government meeting terms of EU/IMF programme | ✓ |

# Key Strategic Goals

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- To be the leading Irish retail and commercial bank in a consolidating sector
- To be well positioned in our core markets with strong customer franchises and market positions capable of supporting future economic recovery
- To be strongly capitalised without reliance on exceptional Monetary Authority support and government guarantees
- To have a sustainable funding base with our core loan portfolios substantially funded by customer deposits and term wholesale funding
- To be operationally efficient with sustainable, lower cost structures
- To achieve appropriate returns on services and products to ensure that costs are covered, risk is appropriately priced and capital is remunerated and rewarded
- To achieve attractive returns for stockholders through strong operational performance and return of surplus capital

# Investment Case

Bank of Ireland Group

- Bank of Ireland confirmed as a Pillar bank in a consolidating sector
- Strategic shape of the Group established, with core franchises maintained
- Although our trading environment is currently challenging we believe:
  - There are indications that the Irish economy has begun to stabilise
  - Key fundamental strengths of Ireland's open economy should enable it to benefit from global economic recovery
- Opportunity to rebuild net interest margin through continued asset re-pricing and expected reduced funding costs, including deposits
- Strongly capitalised Group with potentially surplus capital in the medium term
- Achievable and independently reviewed deleveraging plan agreed as part of PLAR will:
  - reduce reliance on short term wholesale funding and exceptional Monetary Authority liquidity supports
  - fully disengage from the ELG Guarantee scheme in a prudent manner
- The Group believes that impairment charges have peaked in 2009 and will progressively reduce in 2011 – 2013 leading to a more normalised impairment charge
- Group continues to rigorously pursue further cost reductions
- Achieve potentially attractive medium term financial returns from a clearly defined lower risk profile strong operational performance and return of surplus capital

# Financial targets – 2014

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| Measure | Dec 2010 | Dec 14 Target |
|---|---|---|
| Loans and advances to customers (net of provisions) | €114bn | c.€90bn |
| Group loan / deposit ratio | 175% | < 120% |
| Government Guarantee | ELG scheme in place | Fully disengaged from ELG guarantee scheme for new issuance / rollovers |
| Net interest margin[1] | 1.46% | > 2.0% |
| Cost / income ratio | 63% | < 50% |
| Impairment Charge | €1.9bn (152bps) | 55bps – 65bps[2] |
| Core Tier 1 capital | 9.7%[3] / 15%[4] | Margin maintained over regulatory minimum |

***The achievement of each of the above targets would result in the Group achieving a Core Tier 1 ratio in excess of 15% calculated on a Basel III transitional basis, by December 2014, prior to any distribution of any surplus capital then available***

[1] Before the cost of the ELG Government Guarantee
[2] % of average annual loans and advances to customers
[3] Actual [4] Proforma including required €4.2bn equity raise (net of costs)

# Bank of Ireland

## Delivering the Investment Case

# Delivering the Investment Case

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| | |
|---|---|
| Economic Environment - ROI | • Exports leading the way to recovery<br>• Government meeting the terms of the EU/IMF programme<br>• Consumer demand currently muted |
| Market Position | • Strong support for customers, reinforcing and developing our core franchises where we have demonstrable strength and opportunities |
| Deleveraging | • Deleveraging to be achieved primarily by asset reductions<br>• Geographical and asset class diversification provides options |
| Funding & Capital | • Fund core lending portfolios substantially through deposits<br>• Strong capital position |
| Income | • Liability pricing and costs together with interest rate increases key to margin recovery<br>• Disengage from ELG Guarantee in a prudent manner |
| Impairment | • Rigorously manage credit risk<br>• Expect impairments to progressively reduce in 2011 – 2013 in line with the Group's impairment projections |
| Costs | • Continued rigorous management of costs<br>• Cost base being re-aligned to reflect revised structure and leverage ratios |

# Delivering the Investment Case: Macro-economic outlook

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## Economic outlook for Ireland

- GDP growth is expected to gradually recover during 2011
- Exports improving and expected to lead the way out of the recession
- Improving competitiveness due to continued wage restraint and lower infrastructure costs
- Government delivering on EU/IMF plan
- Current low levels of domestic investment are impacting on growth
- Unemployment is likely to lag the economic recovery and remain elevated
- Consumer demand is muted

## Economic outlook for the UK

- UK economy returned to growth in 2010
- Continued growth expected for 2011 but likely to be modest and uneven
- Manufacturing is proving resilient for the UK economy supported by a favourable exchange rate
- Unemployment rate appears to be stabilising
- Concerns remain that austerity measures may dampen domestic demand

| Ireland | 2011f | 2012f | 2013f |
|---|---|---|---|
| GDP growth | 0.9% | 1.9% | 2.5% |
| Unemployment (Avg) | 14.4% | 13.7% | 12.5% |
| House Prices | 55% peak to trough decline | | |
| Interest Rates ECB | 1.0% | 2.25% | 3.75% |

Source: Economic assumptions consistent with the PCAR base case (which were designed by the Central Bank in conjunction with EBA, ECB and European Commission) except for the ROI unemployment rate which has been increased by 1% in each year to reflect recent upward revisions of estimates

| UK | 2011f | 2012f | 2013f |
|---|---|---|---|
| GDP growth | 2.2% | 2.5% | 2.6% |
| Unemployment (Avg) | 7.9% | 7.8% | 7.1% |
| House Prices | 20% peak to trough decline | | |
| Interest Rates BOE | 0.5% | 2.5% | 3.75% |

Source: Economic assumptions consistent with the PCAR base case

# Delivering the Investment Case: Market Position - Core Bank

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## Retail Ireland & SME

- Leading retail bank
- Leading market positions – *#1 or 2 across principal product segments*
- Extensive distribution capability
- Continued improvements in customer service and operational efficiency

## UK Licensed Banking Subsidiary

- Continue to develop consumer banking franchise – partnership with UK Post Office
- Maximise opportunity in retail and SME banking activities through branch network in Northern Ireland

## Capital Markets

- Corporate banking and customer driven treasury management activities in Ireland
- Niche segments internationally

# Delivering the Investment Case:
## Market Position - Visibility on EU Restructuring Plan

- 2010 EU Restructuring Plan approved in July 2010
- Asset deleveraging and business sales ahead of Plan and on track to meet targets
- Revised 2011 EU Restructuring Plan submitted
- Based on status of negotiations, the following key amendments to the 2010 Plan are expected to be implemented over various timeframes between the date of the European Commission's final decision and December 2015:
  - Retention of ICS
  - Extension of the divestment period for New Ireland by one year
  - Additional divestments / loan portfolio deleveraging including:
    - International niche lending (Project Finance, asset based lending and certain international corporate banking portfolios)
    - Certain international CRE portfolios
  - Dividends: commitment from the Group not to pay dividends on Ordinary Stock will be extended to the earlier of (i) 31 December 2015; or (ii) such date as the 2009 Preference Stock is redeemed or no longer owned by the State
  - Certain behavioural commitments will now apply from 1 January 2013 to 31 December 2015

# Delivering the Investment Case: Asset Deleveraging

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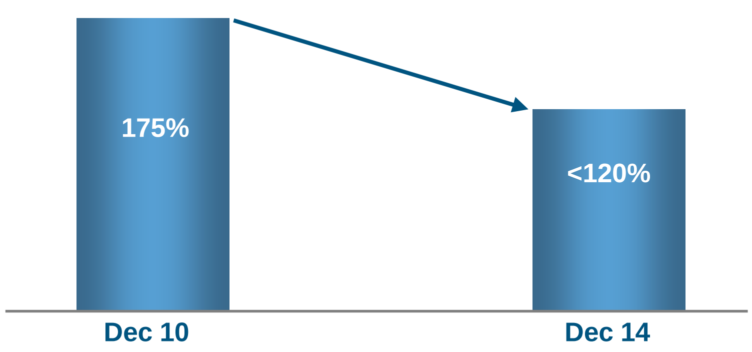
**Loans & Advances to Customers[1]**


**Loan to Deposit Ratio**




## Asset Deleveraging

- Continued organic deleveraging though customer repayments and redemptions
- Deleveraging supported by c.€10bn in asset disposals with sales processes underway
- Geographical and asset class diversification in the identified assets supports the Group's disposal objective
- Interest earning assets at 31 Dec 2010 were c.€150bn and are expected to reduce in tandem with balance sheet deleveraging
- Deleveraging primarily driven by asset reductions leading to reduced wholesale funding requirement
- Group loan to deposit target of < 120% by Dec 14

[1] Excluding Assets Held for Sale to NAMA and net of impairment provisions

# Delivering the Investment Case: Funding Strategy

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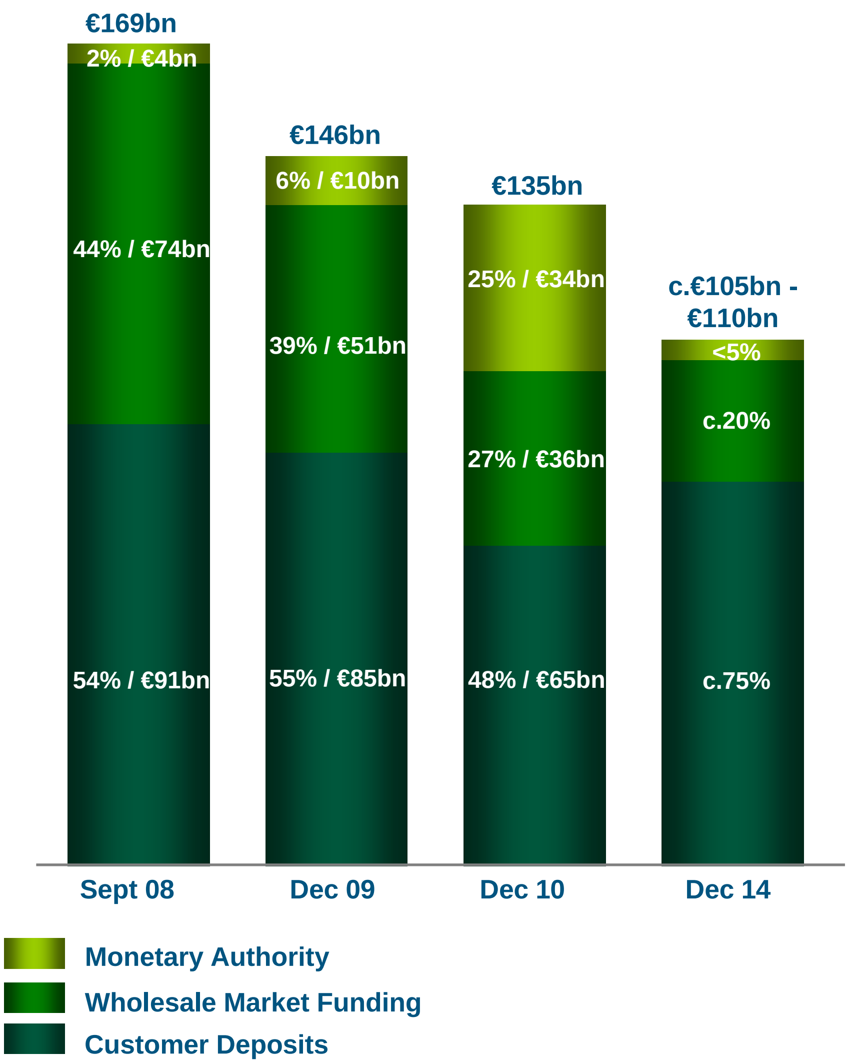


- Traditional banking model
  - Fund core lending portfolios substantially through deposits and term wholesale funding
  - Asset growth largely supported by ability to attract deposits
- Asset deleveraging of c.€24bn (net) to support substantial reduction in short term wholesale market funding
- Extend maturity profile of wholesale market funding and increased use of secured funding
- Reduced usage of Monetary Authority facilities – NAMA bonds and normal operational flows

Delivering the Investment Case:
Deposit Strategy

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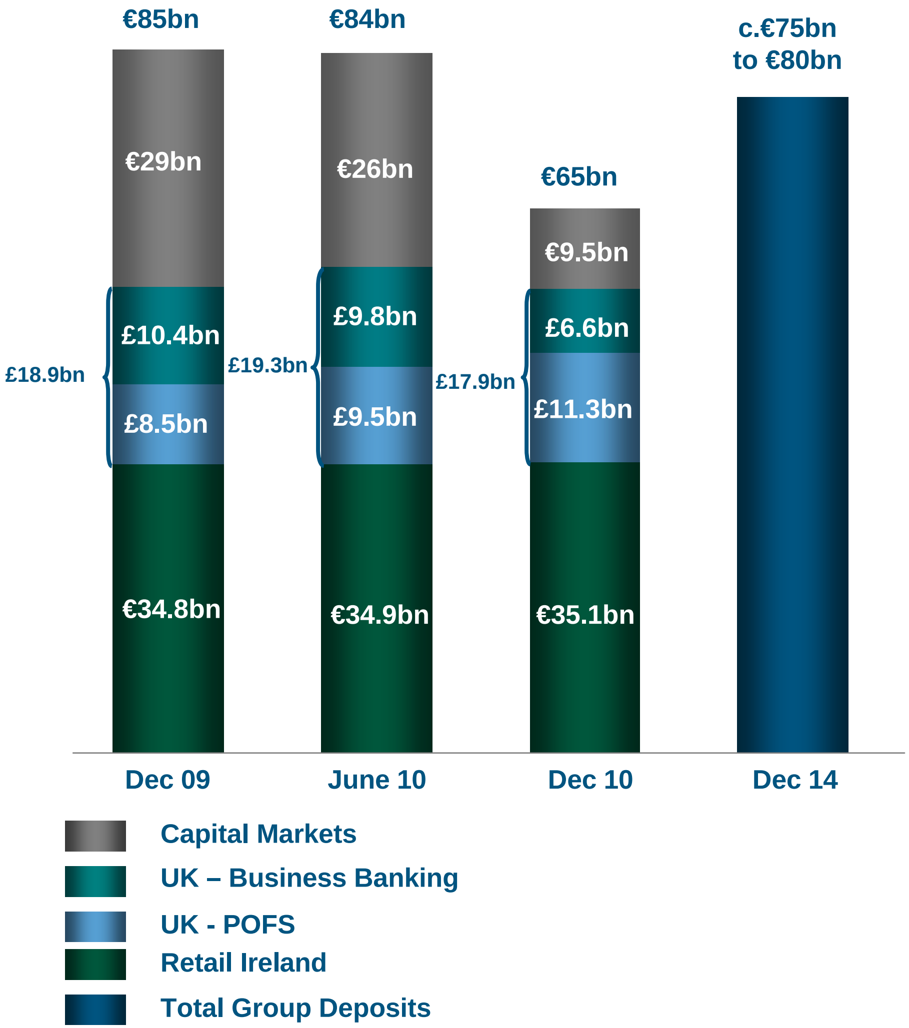
## Profile of customer deposits




- Sovereign ratings downgrades and uncertainties leading up to the announcement of the EU/IMF programme resulted in outflows of ratings sensitive deposits in H2 2010, primarily from the Group's Capital Markets business
- Despite intense competition, the Group's retail deposit base in Ireland remained stable
- Our joint venture with the UK Post Office continued to grow its deposit base in 2010
- Our UK deposit gathering business was enhanced by our incorporation of a UK banking subsidiary
- Our strength of franchise and scale of distribution provides opportunities to gather granular deposits in Ireland and UK
- Growth in customer deposits expected to be primarily driven by retail deposits

# Delivering the Investment Case:
## Disengage from ELG Government Guarantee Scheme

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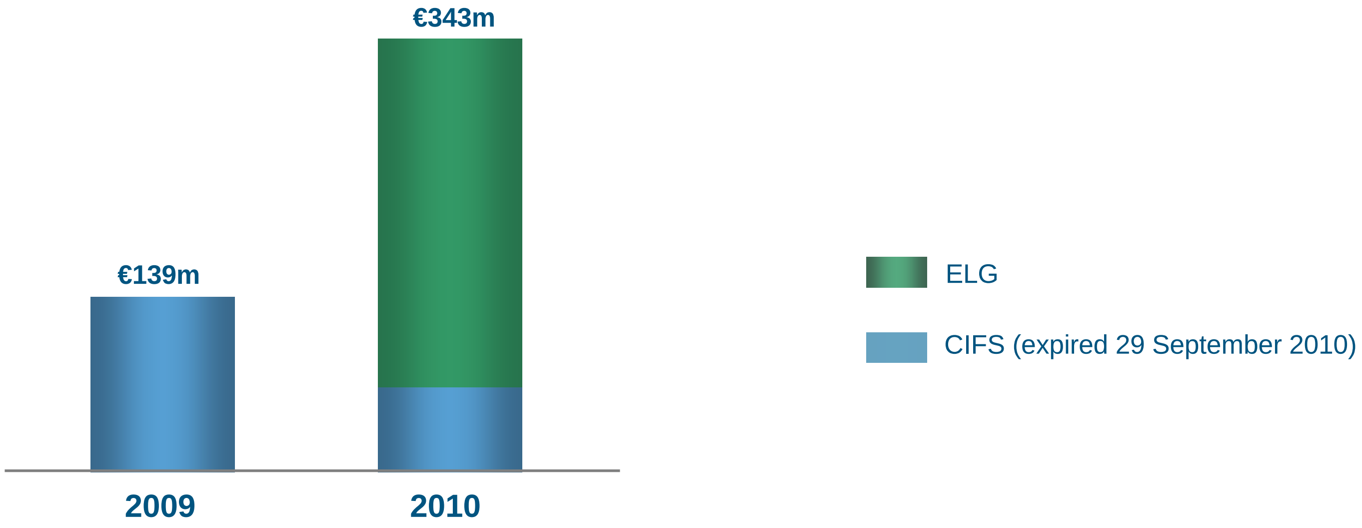
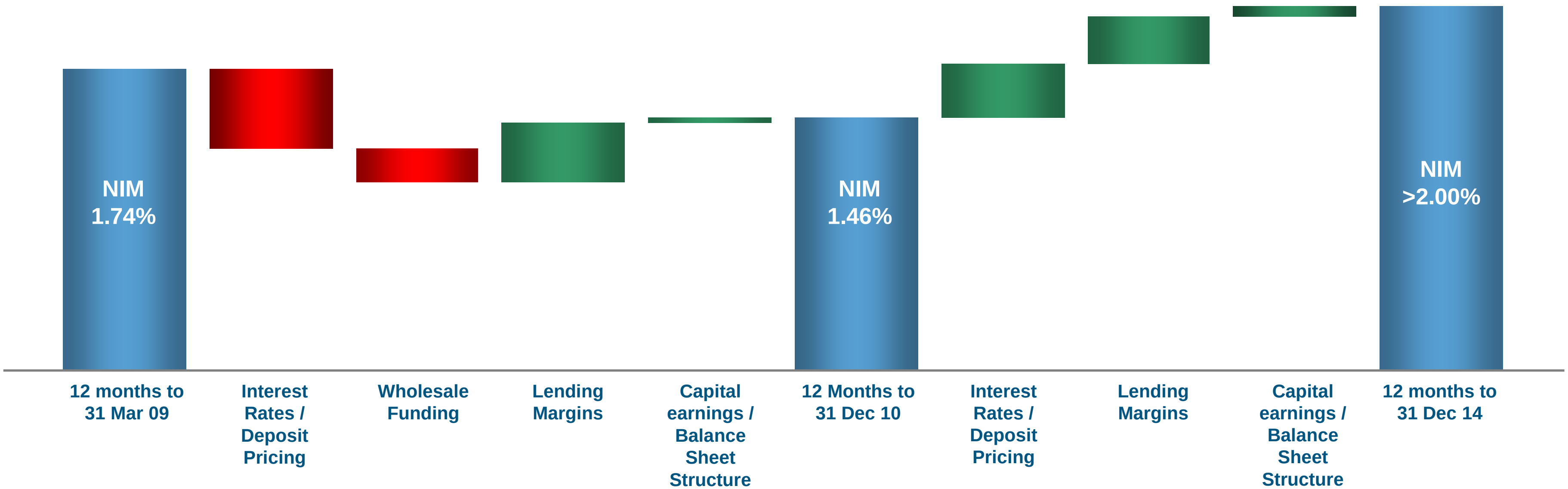
**Cost of Government Guarantee Schemes**




- Criteria to prudently disengage from the ELG Government Guarantee:
  - Strongly capitalised Group following completion of 2011 capital raising
  - Material progress towards the achievement of the Group's PLAR deleveraging target
  - Significant reduction in loan to deposit ratio and wholesale funding requirement by 2014
  - Sustainable improvement in Irish economic outlook and normalising market conditions for peripheral Europe in the medium term
- Expect considerable positive progress on these factors by December 2012

# Delivering the Investment Case: Net Interest Margin[1]

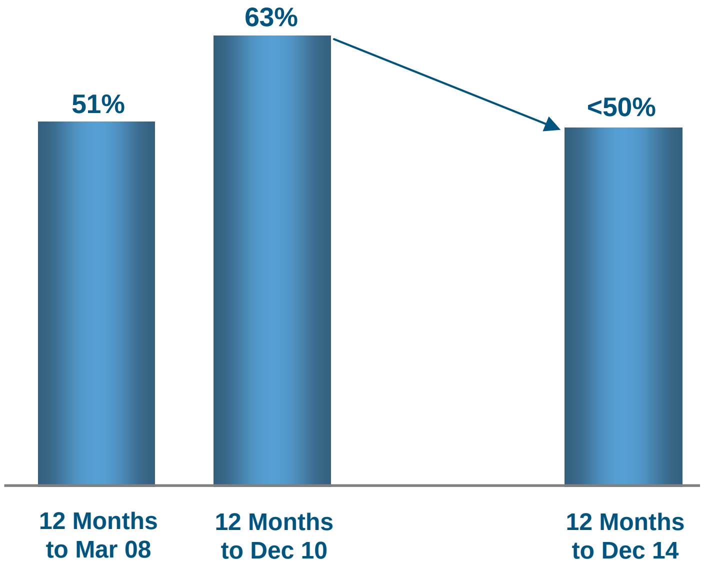



- Downward trend in net interest margin from March 2009 to December 2010 driven by:
  - Impact of low interest rate environment
  - Competition on deposit pricing
  - Higher cost of wholesale funding
  - Positive impact from higher lending margins muted due to currently constrained levels of new business
- Margin recovery to target net interest margin >2.00% by December 2014 driven by
  - Normalisation of deposit pricing supported by
    - Interest rate rises projected in line with PCAR base case macro-economic assumptions
    - Recapitalised banking system
    - Deleveraging
  - Continued re-pricing of new lending for risk and cost of funds
  - Back-book repricing as lending facilities renew
  - Maximise asset repricing in run-off portfolios

[1] Excluding the cost of the ELG

# Delivering the Investment Case: Reducing Operating Costs

**Cost Income Ratio**




- Cost base reduced by 17% (12 months to Mar 2008 to 12 months to Dec 2010)
- Continued rigorous management of all cost lines
- Staff reduction of c.2,400 (14%) Mar 2008 to Dec 2010. Further redundancy programmes underway
- Structural pension deficit being dealt with over time – ongoing cost benefits
- Changes to infrastructure and infrastructure out-source contracts being delivered
- Re-align the Group's cost base to reflect the Group's revised structure and strategy
- Cost reduction to be delivered through
  - ongoing deleveraging
  - business disposals
  - benefits arising from steps taken in 2009 and 2010
  - further consolidation and efficiency initiatives underway

# Delivering the Investment Case: Impairment Charges

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- **Bank of Ireland PCAR** base case future impairment estimates based on a detailed review of loan books and independently reviewed by Oliver Wyman (excluding land & development assets and assets potentially eligible for transfer to NAMA at Jan 2011)
- Bank of Ireland PCAR base case impairment charges of €2.5bn for the 3 years 2011-2013[1]. Oliver Wyman confirmed that it believes the Group's base case impairment estimates to be reasonable for the assumed base case scenario
- **2011 PCAR** based on future loan loss estimates[1] undertaken by BlackRock on behalf of the CBI
- Repossess and sale approach adopted by BlackRock whereby
  - Conservative residential and commercial property values and resulting negative equity are the primary driver of default and loan losses
  - Limited emphasis on customers' long term repayment capacity including contracted income streams

| | Loan Portfolio Volumes 31/12/2010[1,2] €bn | BlackRock methodology including stock of provisions €bn | Bank of Ireland including stock of provisions €bn | Variance BlackRock Vs BoI Loan Loss Estimates 2011- 2013 €bn |
|---|---|---|---|---|
| **Base Case Loan Loss Estimates 2011- 2013** | | | | |
| Mortgages | 60 | 1.4 | 1.4 | - |
| Consumer / Other | 4 | 0.6 | 0.6 | - |
| SME & Corporate | 31 | 2.2 | 2.3 | **(0.1)** |
| Property | 20 | 3.2 | 1.7 | **1.5** |
| Total | 115 | 7.4 | 6.0 | **1.4** |
| Stock of Provisions | | (3.5) | (3.5) | - |
| Base Case Loan Loss Estimates 2011 – 2013 | | **3.9** | **2.5** | **1.4** |
| **Adverse Stress Scenario Loan Loss Estimates 2011- 2013** | | | | |
| Mortgages | 60 | 2.4 | 2.0 | **0.4** |
| Consumer / Other | 4 | 0.9 | 0.7 | **0.2** |
| SME & Corporate | 31 | 3.0 | 3.0 | - |
| Property | 20 | 3.8 | 2.2 | **1.6** |
| Total | 115 | 10.1 | 7.9 | **2.2** |
| Stock of Provisions | | (3.5) | (3.5) | - |
| Adverse Stress Scenario Loan Loss Estimates 2011 – 2013 | | **6.6** | **4.4** | **2.2** |

*The Group believes that impairment charges have peaked in 2009 and will progressively reduce in 2011 – 2013 leading to a more normalised impairment charge*

[1] Excluding land and development assets and assets potentially eligible for transfer to NAMA at the time of PCAR exercise. The 2011 PCAR capital requirement also includes a conservative estimate of losses arising from potential transfers of further loans to NAMA (NAMA transfers <€20m, totalling €4.1bn, no longer occurring)

[2] Gross before balance sheet impairment provisions of €3.5bn at 31 Dec 2010

# Capital Proposals

# Overview of Capital raising proposals



| | |
|---|---|
| •LME<br>•Stabilisation Act or other actions<br>•Rights Issue | €4.35bn |
| Capital raising costs | €0.15bn |
| CT1 Capital Required[1] | €4.2bn |
| Contingent Capital | €1.0bn |
| Total[1]: | €5.2bn |

- Capital Raising proposals comprise 4 key elements:
  a. Liability Management Exercise (LME) for c.€2.6bn subordinated liabilities, incorporating equity and cash options
  b. Bondholder burden sharing – action by the Minister for Finance to ensure that burden sharing is achieved in respect of any subordinated debt outstanding post LME
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  d. Contingent Capital Instrument of €1bn issued to the NPRFC
- The Bank continues to have discussions with other sources of private capital concerning the terms and form upon which they may participate in the capital raising
- The proposals (excluding the contingent capital):
  - Would generate a proforma Core Tier 1 ratio of 15% at 31 December 2010
  - Meet the adverse stress scenario under the March 2011 PCAR
  - Result in a strongly capitalised Group capable of supporting future economic recovery
- Proposals are subject to shareholder approval

[1]Net of capital raising costs

# Capital Raising Proposals - Overview

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- Capital requirement: €4.2 billion Core Tier 1 + €1.0bn contingent capital by 31 July 2011
- Capital raising proposals comprise 4 elements:
  - (i) LME with regard to c.€2.6 billion tier 1 and tier 2 securities
    - Cash offer of 10 per cent of nominal for Tier 1 / 20 per cent of nominal for Tier 2 with no payment in respect of accrued interest
    - Equity offer of 20 per cent of nominal for Tier 1 / 40 per cent of nominal for Tier 2 with payment in respect of accrued interest
    - Equity conversion price to be announced on 23 June and will be in range of €0.1130 to €0.1176. Stock will be issued to bondholders ex-rights.
    - Bondholder approval to be sought at a series of bondholder meetings to amend bond terms to grant an issuer call option at a price equal to €0.01 per €1,000 (or equivalent) in respect of the nominal amount of relevant subordinated debt securities
    - Key dates: announcement of early bird results 23 June announcement of full LME results 8 July
  - (ii) Further Bondholder Burden Sharing
    - Steps taken under Stabilisation Act or otherwise to burden share with any subordinated debt outstanding post LME
    - To the extent that eligible subordinated debt securities are not acquired or exchanged pursuant to the LME (including those acquired pursuant to the exercise of the call options), the Minister for Finance stated on 31 May 2011 that "*The levels of burden-sharing in these LMEs are the minimum acceptable to the Government. If these LMEs fail to deliver the expected core tier 1 capital gains to each of the banks, the Government will take whatever steps are necessary under the Credit Institutions (Stabilisation) Act 2010 or otherwise to ensure that burden sharing is achieved. Any further actions, after investors have had an opportunity to take part in these LMEs, will result in severe measures being taken in respect of the subordinated liabilities*". In these circumstances, the Bank believes the level of return to the holders of the outstanding eligible subordinated debt securities may be materially below that available pursuant to the cash alternative under the LME
  - (iii) Rights Issue
    - Rights Issue to be underwritten by the State at a price of 10c. The Bank, the Minister for Finance and the NPRFC intend to enter into an underwriting agreement prior to publication of the prospectus in relation to the Rights Issue
    - Maximum Rights Issue of €4.35 billion (including estimated expenses)[1] less Core Tier 1 capital (a) generated from the LME (including the results of the exercise of approved call options); and (b) to be generated from any *"steps taken by the Minister under the Credit Institutions (Stabilisation) Act 2010 or otherwise"* to burden-share any subordinated debt which remains outstanding after the LME.
    - Bank expects maximum size of Rights Issue to be €2.23 billion, on the basis that minimum of €2.12 billion CT1 capital will be raised from a combination of (i) LME (including any approved call options); and (ii) steps taken under the Stabilisation Act or otherwise in relation to any subordinated debt outstanding after LME[2]
    - Should all eligible subordinated debt holders elect for equity, the maximum Rights Issue would be €1.77 billion, while, alternatively, should all eligible subordinated debt holders elect for cash, the maximum Rights Issue would be €2.23 billion
    - Precise size of Rights Issue will be announced shortly after completion of the LME
  - (iv) Contingent Capital instrument of €1 billion placed with the Irish State
    - Key features : term – 5 year Tier 2 dated subordinated instrument; coupon - 10%; capital deficiency event – 8.25% Core Tier 1 trigger; conversion price – higher of 30 day VWAP at date of conversion or 5c
- Proposals subject to shareholder approval

[1] The actual expenses of the proposals could be greater or less than €150m depending on various factors, including the results of the LME. The actual expenses will be reflected when the Rights Issue is sized on completion of the LME

[2] The expected maximum size of the Rights Issue of €2.23 billion as set out above is based on the Minister's stated policy that there will be burden sharing with subordinated debt holders through the LME and, if necessary, steps taken by the Minister under the Stabilisation Act or otherwise. The Directors' expectation is that the Minister, in consultation with the CBI, will take the necessary steps to ensure that the Bank is enabled to satisfy its obligations to raise Core Tier 1 capital through the burden sharing with subordinated debt holders required by the Minister. If no capital is generated through the LME or through the proposed amendments to the terms of subordinated bonds and the Core Tier 1 Capital to be raised by the further burden sharing cannot be taken into account for the purposes of calculating the final Rights Issue size, the maximum size of the Rights Issue would be €4.35 billion.

# Capital Raising Proposals – Illustrative Outcomes

Bank of Ireland Group

| Scenario | 100% Equity take-up under LME | | 100% Cash take-up under LME | | 0% Cash + 0% Equity take- up | |
|---|---|---|---|---|---|---|
| Core Tier 1 requirement (incl. Costs of c€150m) | €4.35bn | | €4.35bn | | €4.35bn | |
| Liability Management Exercise (LME) | | | | | | |
| Core Tier 1 generated | (€1.66bn) | | (€2.12bn) | | NIL | |
| Equity issued | (€0.92bn) | | NIL | | NIL | |
| Core Tier 1 to be generated from SLO or other action | NIL | | NIL | | (€2.28bn)[1] | |
| Rights Issue[6] | €1.77bn | | €2.23bn | | €2.07bn[2] | |
| Rights Issue Terms | 3.3 for 1 | | 4.2 for 1 | | 3.9 for 1 | |
| Rights Issue Shares | 17.7bn | | 22.3bn | | 20.7bn | |
| Bondholder Stock[3] | 8.0bn | | NIL | | NIL | |
| Total Shares to be Issued | 25.7bn | | 22.3bn | | 20.7bn | |
| Pro Forma Shareholdings[4] | | | | | | |
| *Rights Issue take up* | *100%* | *0%* | *100%* | *0%* | *100%* | *0%* |
| State | 26.6% | 63.0% | 36.0% | 87.7% | 36.0% | 87.0% |
| Bondholders | 26.1% | 26.1% | NIL | NIL | NIL | NIL |
| Existing Private Shareholders | 47.3% | 10.9% | 64.0% | 12.3% | 64.0% | 13.0% |

[1] Including estimated tax effects of €0.3 billion

[2] The size of the Rights Issue of €2.07 billion as set out above is based on the Minister's stated policy that there will be burden sharing with subordinated debt holders through the LME and, if necessary, action by the Minister under the Stabilisation Act or otherwise. The Directors believe that, in the event that there are no elections for cash or Allotment Instruments convertible into units of Ordinary Stock under the LME, the further burden sharing with bondholders anticipated by the Minister would result in the generation of Core Tier 1 Capital of approximately €2.28 billion, after taking account of the associated estimated tax costs to the Bank of approximately €0.3 billion.

[3] Based on an equity conversion price of €0.1130 being the minimum level of the range announced today [4] Based on 5.3 billion units of ordinary stock in issue on 7 June 2011 [5] The impact of accrued interest or the possibility of a firm placing of ordinary stock is not reflected in the illustrative scenarios

[6] The estimated Rights Issue sizes set out in the table above are based on the closing foreign exchange rates on 6 June 2011 which were €1.00 = USD 1.4596, €1.00 = CAD 1.4317 and €1.00 = GBP 0.8903. The actual size of the Rights Issue will be impacted to the extent the settlement foreign exchange rates for the LME are different to these rates.

# Indicative timetable key dates

| | |
|---|---|
| 8 June, Wednesday | - Formal launch, including investment case; issue of Exchange Offer Memorandum |
| 17 June, Friday | - Issue of Circular/Prospectus |
| 23 June, Thursday | - Announce “early bird” results and actual Debt for Equity conversion price |
| 7 July, Thursday | - Bondholder meetings<br>- Closing of LME |
| 8 July, Friday | - Announcement of LME results / Announcement of Rights Issue size |
| 9 July, Saturday | - Latest time for receipt of proxies |
| 11 July, Monday | - Extraordinary General Court<br>- Despatch of Provisional Allotment Letters |
| 12 July, Tuesday | - Issue of allotment instruments<br>- Dealings in nil paids commence |
| 25 July, Monday | - Latest time and date for acceptance and payment in full |
| 26 July, Tuesday | - Announcement of Rights Issue results<br>- Rump placing |
| 29 July, Friday | - Latest date for settlement |
| By 12 August, Friday | - Conversion of allotment instruments into ordinary stock |

# Conclusion

# Investment Case

Bank of Ireland Group

- Bank of Ireland confirmed as a Pillar bank in a consolidating sector
- Strategic shape of the Group established, with core franchises maintained
- Although our trading environment is currently challenging we believe:
  - There are indications that the Irish economy has begun to stabilise
  - Key fundamental strengths of Ireland's open economy should enable it to benefit from global economic recovery
- Opportunity to rebuild net interest margin through continued asset re-pricing and expected reduced funding costs, including deposits
- Strongly capitalised Group with potentially surplus capital in the medium term
- Achievable and independently reviewed deleveraging plan agreed as part of PLAR will:
  - reduce reliance on short term wholesale funding and exceptional Monetary Authority liquidity supports
  - fully disengage from the ELG Guarantee scheme in a prudent manner
- The Group believes that impairment charges have peaked in 2009 and will progressively reduce in 2011 – 2013 leading to a more normalised impairment charge
- Group continues to rigorously pursue further cost reductions
- Achieve potentially attractive medium term financial returns from a clearly defined lower risk profile strong operational performance and return of surplus capital

# Appendices

# Core businesses
## Retail Ireland

Bank of Ireland Group

Consumer Banking

Business Banking

Savings, pension and investment distribution

**Leading market position**
Bank of Ireland is no. 1 or no. 2 in all our principal product and market segments

**Extensive distribution capability**
254 branches; circa 1,300 ATMs; eBanking and Telebanking

**Broad product offering**
Consumer, Private Banking, Business, Corporate Banking and savings / pension / life assurance distribution

| Product | Market[1] Shares |
|---|---|
| Personal Current Accounts | 35% |
| Mortgages | 20% |
| Credit Cards | 34% |
| Business Current Accounts | 36% |
| Business Loan Accounts | 30% |
| Life and Pension | 21% |

[1] Latest data available

# Core businesses
## UK Financial Services

Bank of Ireland Group

### Post Office Financial Services JV

- Main Joint Venture commenced in 2004 – contract to 2020
- Distribution rights for consumer financial services throughout the UK Post Office's 11,500 strong branch network
- Over 2.3 million financial services customers
- 1.2 million Savings customers – balances of £11.3bn (Dec 10)
- 500,000 Insurance customers - insure 1 in 75 cars and 1 in 150 homes in UK
- 700,000 credit and travel money cards in issue
- Foreign Exchange - serve 1 in 4 customers in the UK with £2.5bn in foreign currency annually
- ATMs – 2,200 ATMs, 110m transactions annually

POST OFFICE

FIRST RATE

### Branch network Northern Ireland

- 44-strong branch network, 300 ATMs
- Full service retail and commercial bank offering
- Focus on mid-corporate/SME segment

### Business Banking – Great Britain

- Long established
- Focused on niche segments: leisure, healthcare, professional services

# Core businesses
## Capital Markets

Bank of Ireland Group

### Capital Markets – a relationship driven business

#### Corporate Banking

- Provision of corporate lending to:
  - Indigenous Irish corporations operating domestically and internationally
  - UK corporations
  - Multinational corporations and financial institutions operating into or out of Ireland
  - International mid-market acquisition finance

#### Corporate Finance

- Corporate finance advisory services across a wide range of industry sectors

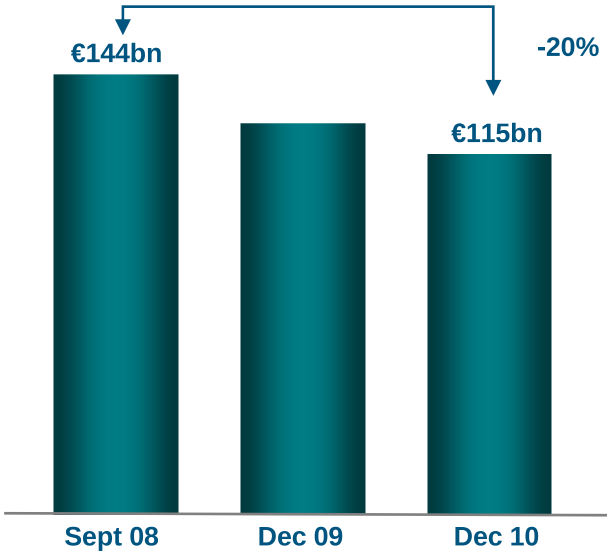
#### Global Markets

- Relationship-driven provider of treasury products and services to retail, corporate and institutional customers
- Leading position in Ireland and niche businesses in UK and US
- Comprehensive range of risk management solutions
  - Currency risk management
  - Interest rate risk management
  - Cash management
- Structured Products, launched Ireland's first and only Energy & Emissions desk
- Specialist Trade Finance team

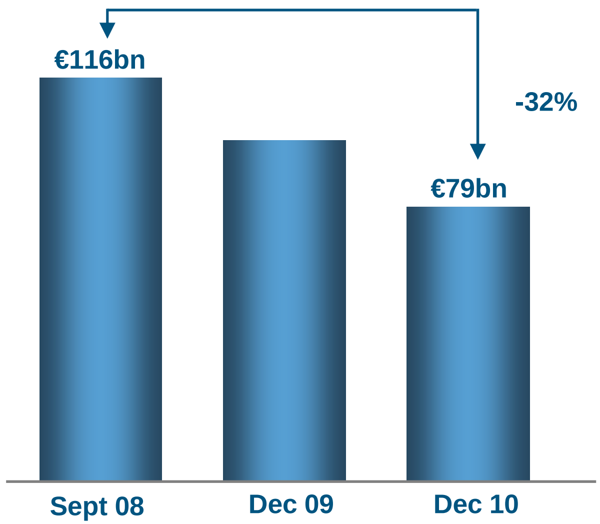
# Continuing progress on…
# Deleveraging and de-risking the Balance Sheet

**Bank of Ireland Group**

**Loans & Advances to Customers[1]**




**Risk Weighted Assets**




## Progress

- Loans and advances to customers have reduced by 20% and risk weighted assets have reduced by 32% since Sept 08
- Reductions in loans and risk weighted assets driven by
  - Asset transfers to NAMA
  - Deleveraging initiatives
  - Lending constrained outside core portfolios
  - Credit mitigation initiatives
- We continue to support our customers and are meeting our commitments to the Irish Government in respect of lending capacity to the SME and first-time buyer mortgage sectors. This is in line with our strategy

## Strategy

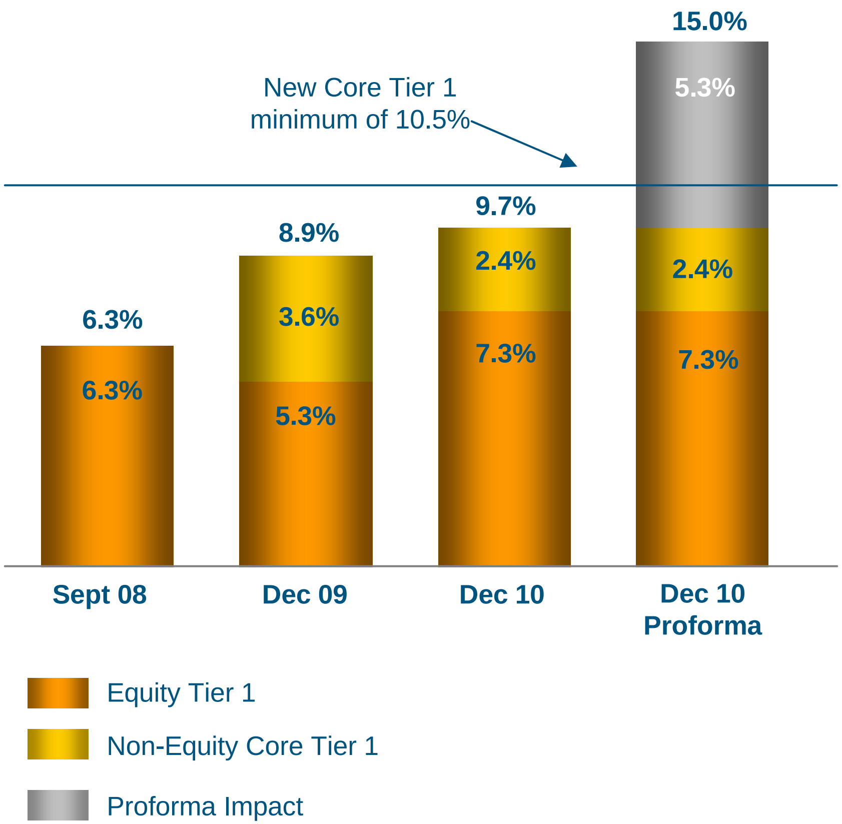
- Conservative funding of loan portfolios substantially from deposits and term wholesale funding
- Asset growth dependent on the ability to attract deposits
- Continued organic deleveraging supported by certain disposals that match liquidity benefits whilst avoiding fire sales. The geographical asset class diversification in the identified assets supports this objective

[1] Including loans held for sale to NAMA and net of impairment provisions

# Continuing progress on…
# Strengthening Capital Ratios

Bank of Ireland Group

**Core Tier 1 Capital Ratios**




**Progress**

- Capital ratios significantly strengthened since Sept 08
- The Group's capital raise of €3.6bn gross capital (€2.9bn net, after fees and buying back the warrants held by the Irish Government) completed in June 10 – exceeded the 2010 PCAR requirement
- Ongoing liability management exercises undertaken to swap subordinated bonds and generate additional equity (c.€5.8bn of sub-debt swapped to generate c.€2.6bn of equity in the period May 09 to Feb 11)

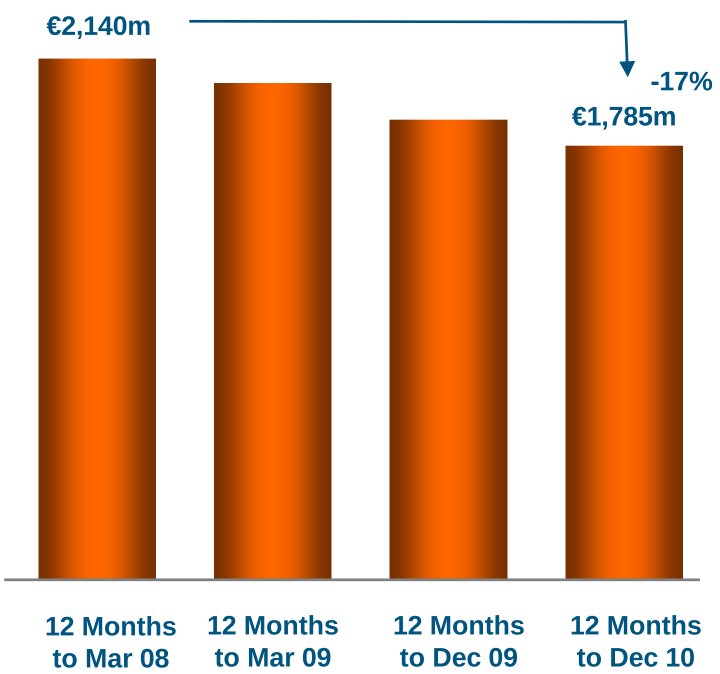
**2011 PCAR Capital Requirement**

- 2011 PCAR capital requirement set to meet a minimum Core Tier 1 ratio of 10.5% on an ongoing basis and a Core Tier 1 ratio of 6% under the adverse stress scenario
- Capital target set based on aggressively conservative assumptions for adverse stress scenario
- If the additional potential loan losses and losses on disposals in the adverse stress scenario do not materialise, the Group should significantly exceed the 10.5% minimum Core Tier 1 capital ratio

# Continuing progress on…
# Reducing Operating Costs

Bank of Ireland Group

**Operating Costs**




**Progress**

- Cost base reduced by 17% since 2008
- Staff reduction of c.2,400 (14%) since 2008. Further redundancy programmes underway
- Structural pension deficit being dealt with over time – ongoing cost benefits
- Continued rigorous management of all cost lines
- Renegotiation and changes to major outsourcing contracts, investments in and changes to processes / systems, premises exits / reconfigurations have begun to yield benefits which will be increasingly realised over the next few years

**Strategy**

- Cost reduction should be achieved through ongoing deleveraging, assets disposals, with benefits arising from steps taken in 2009 and 2010 and further consolidation and efficiency initiatives
- The Group's cost base is being re-aligned to reflect the Group's revised structure and strategy resulting in a sustainable reduced cost structure

# Basel III / CRD IV considerations

Bank of Ireland Group

## Capital

- Basel III rules will come into full effect on 1 January 2019, with transitional phase from 1 January 2013
- Capital Leverage Ratio
  - – Pillar I requirement from 2018
- Regulatory Capital buffers
- Tightening of Capital definitions impacting equity tier 1 (of relevance to Bank of Ireland)

| | |
|---|---|
| Pension Deficits | BoI plans in place to eliminate pension deficit |
| AFS Reserves | BoI negative reserves to reduce as bonds mature |
| Investments in Financials | BoI's intended sale of New Ireland Assurance will eliminate requirement for deduction |
| Deferred tax asset | Targeted future profits will reduce asset |
| Expected loss adjustment | Will reduce if economic conditions improve |

## Liquidity

- Net Stable Funding Ratio (NSFR) / Liquidity Coverage Ratio (LCR)
  - – Banks have until 2018 to meet the NSFR standard
  - – Banks have until 2015 to meet the LCR standard

# Abbreviations

Bank of Ireland Group

**Regulatory**

- **CBI** Central Bank of Ireland
- **PCAR** Prudential Capital Assessment Review
- **PLAR** Prudential Liquidity Assessment Review

**Institutions**

- **IMF** International Monetary Fund
- **EC** European Commission
- **ECB** European Central Bank
- **NAMA** National Asset Management Agency
- **NPRFC** National Pension Reserve Fund Commission

**Capital Raising Proposals**

- **LME** Liability Management Exercise
- **NAMA** National Asset Management Agency
- **RI** Rights Issue
- **SLO** Subordinated Liabilities Order

**Other**

- **ELG** Eligible Liabilities Guarantee Scheme

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# Bank of Ireland

Proposed capital raising and investment proposition