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The Governor and Company of the Bank of Ireland

Update on the resolution strategy for the Group

31 March 2017

Further to the Group's announcement on 3 February 2017, the Group has today filed an application with the High Court of Ireland to commence the process for ordinary stockholder and High Court approval regarding the establishment of a new Irish-incorporated Group holding company.

The Group intends to implement a corporate reorganisation which would result in Bank of Ireland Group plc ("BOIG plc"), being introduced as the listed holding company of the Group. The reorganisation will be implemented by a scheme of arrangement under the Companies Act 2014 (the "Scheme"). The Scheme requires the approval of ordinary stockholders and the High Court.

It is also proposed to implement a share consolidation as part of the Scheme with ordinary stockholders receiving one BOIG plc Share for every 30 units of ordinary stock in The Governor and Company of the Bank of Ireland. Ordinary stockholders' ownership in the Group will not change under the reorganisation.

Subject to High Court approval for this application, a High Court Convened Stockholder Meeting and an Extraordinary General Court are expected to be convened and further information will be made available through the publication of a circular and a prospectus.

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1. Introduction

The Group intends to implement a corporate reorganisation which would result in Bank of Ireland Group plc (“BOIG plc”) being introduced as the listed holding company of the Group. Under the reorganisation, BOIG plc will become the 100% owner of the ordinary stock in The Governor and Company of the Bank of Ireland (the “Bank”), and ordinary stockholders in the Bank will receive new ordinary shares in BOIG plc (“BOIG plc Shares”) in proportion to their current holding of ordinary stock in the Bank.

The reorganisation will be implemented by a scheme of arrangement under the Companies Act 2014 (the “Scheme”), with ordinary stockholders receiving one BOIG plc Share for every 30 units of ordinary stock. Ordinary stockholders’ ownership in the Group will not change under the reorganisation. The Scheme requires the approval of ordinary stockholders and the High Court of Ireland, and the Group has today filed an application with the High Court to commence this process.

In addition, applications will be made by BOIG plc for admission of the entire issued ordinary share capital of BOIG plc to the primary listing segment of the Official List of the Irish Stock Exchange and to the premium listing segment of the Official List of the Financial Conduct Authority (the “FCA”) and to trading on the Irish Stock Exchange’s Main Securities Market and the London Stock Exchange’s main market for listed securities.

2. Background

The Group announced on 3 February 2017 that it had been notified by the Single Resolution Board (“SRB”) (in the context of its assessment of the resolvability of the Group) that the resolution authorities (being the SRB and the Bank Of England (“BOE”) working together within the Resolution College) had reached a joint decision on the group resolution plan for the Group and in that context had settled on a single point of entry (“SPE”) bail-in strategy at a holding company level as the preferred resolution strategy (the “**Regulators’ Preferred Resolution Strategy**” or “RPRS”). This form of SPE strategy means that a holding company, which itself does not carry on any banking business would become the listed parent company of the Group. The holding company would be the primary issuer of the Group’s capital instruments, including shares, equity instruments and debt instruments. It would in turn own subsidiaries (directly or indirectly) that would carry out the banking business of the Group, including lending and taking deposits. Under the SPE strategy, if the Group were to be recapitalised as part of a resolution event, it is expected that this would initially involve the restructuring of the capital at the holding company level (including the bail-in of holders of instruments issued by the holding company).

3. Reasons for the Scheme

The purpose of the Scheme is to implement the RPRS by introducing a new Irish-incorporated company, BOIG plc, as the listed holding company of the Group. In the event of a resolution of the Group pursuant to an SPE bail-in strategy, BOIG plc would become the entity at which any bail-in would primarily be carried out, while the Bank, and its other subsidiaries, would, if the resolution strategy is successful, retain their current role as operational and retail deposit holding entities.

In making the decision to recommend that ordinary stockholders approve the Scheme in 2017, the Court of Directors of the Group (“the Directors”) have considered, among other things, the following factors:

- *compliance with regulatory strategy*: it is in the interests of the Group that it is compliant with the RPRS, particularly taking into account the powers of enforcement that the resolution authorities have, including but not limited to, imposing their preferred resolution strategy on the Group;
- *enhanced ability to meet minimum requirement for own funds and eligible liabilities (MREL) targets*: implementing the Scheme in 2017 gives BOIG plc a longer period in which to issue MREL eligible debt to achieve MREL targets to be set by the SRB, thereby maximising the opportunity for the Group to meet those targets as efficiently and as soon as possible;
- *market clarity*: the Scheme will give participants in the capital markets clarity at an early stage as to the RPRS and how it will be implemented by the Group;

- *improved resolvability*: implementation of the Scheme is intended to substantially improve the resolvability of the Group in a manner compatible with the RPRS for the Group and in accordance with the regulatory requirements of the jurisdictions in which the Group operates; and
- *enhanced flexibility in debt issuances and "bail-in"*: inserting the new holding company is expected to facilitate the issue of debt by the holding company that can be "bailed-in" in a resolution while limiting the consequences of the bail-in on the operating entities of the Group and the creditors of those entities.

In the course of their deliberations, the Directors also considered the risks and consequences if the Scheme is not implemented, the expected initial negative impact of the Scheme on the Group's regulatory capital and the requirement to take further steps to create distributable reserves in BOIG plc following the implementation of the Scheme.

Taking these factors into account, the Directors believe that timely establishment of a holding company is the most prudent course of action for the Group and its stockholders.

4. Principal features of the Scheme

4a. Implementation of the Scheme

Subject to approval from the High Court, the reorganisation will be implemented by way of a High Court-sanctioned scheme of arrangement under Part 9 of the Companies Act 2014. Under the Scheme, BOIG plc will become the holder of the entire issued and to be issued ordinary stock of the Bank. This is to be achieved by the cancellation or transfer of the ordinary stock in consideration for which ordinary stockholders will receive BOIG plc Shares.

4b. Share Consolidation

It is proposed to implement a share consolidation as part of the Scheme. The Directors believe that a consolidation of the issued share capital of the Bank would position the share price in a range that is more appropriate to the size of the Group and may assist in reducing share price volatility. The Scheme has been structured to include a round up mechanism such that fractional entitlements to BOIG plc Shares which would otherwise arise as a result of the consolidation will be rounded up and all ordinary stockholders subject to the Scheme (i.e. holders of ordinary stock entered as members on the register of members at the Scheme Record Time (6.00 p.m. (Irish time) on the date the Scheme becomes effective (the "Effective Date"))) will have an entitlement to at least one BOIG plc Share upon implementation of the Scheme. The expected exchange ratio will entitle ordinary stockholders to receive one BOIG plc Share for each individual holding of 30 units of ordinary stock held by them at the Scheme Record Time.

4c. Expected Timeline

The Group is applying to the High Court, to request that the High Court convene a Stockholder Meeting to consider the proposed Group reorganisation. The Scheme will require approval by ordinary stockholders at a High Court Convened Stockholder Meeting and the ordinary stockholders at an Extraordinary General Court. The sole purpose of the High Court Convened Stockholder Meeting is to seek approval for the Scheme. A subsequent Extraordinary General Court, which will be held immediately after the High Court Convened Stockholder Meeting, will be called to enable ordinary stockholders to approve elements of the Scheme and various matters in connection with the Scheme, including the Scheme Resolutions. These meetings will be convened by a circular to ordinary stockholders as soon as High Court approval is received. It is also expected that on or around the time of the circular to stockholders a prospectus prepared in accordance with the Prospectus Directive (Directive 2003/71/EC) (as amended) will be published, subject to the approval of the Central Bank of Ireland. A separate announcement will be made upon the issue of the circular and the publication of the prospectus.

If the Scheme is sanctioned by the High Court and the other conditions to the Scheme are satisfied (or waived), the Scheme is expected to become effective in July 2017 and dealings in BOIG plc Shares to be issued pursuant to the Scheme are expected to commence on or around the business day following the Effective Date.

5. Corporate Governance and Board of Directors

On the Effective Date, BOIG plc will have the same Board of Directors, committee structures and management as the Bank. All non-executive Directors of the Bank will be appointed to the Board of BOIG plc on similar terms as those which are currently in place with respect to their appointments to the Board of Directors of the Bank. There will be no changes to the remuneration or benefits of non-executive Directors appointed to the Board of BOIG plc. Executive Directors will continue to have service contracts with the Bank and their terms will be unchanged, other than to acknowledge that, with effect from the Effective Date, their role will include the same executive functions in respect of BOIG plc.

6. Impact of the Scheme on Regulatory Capital

While it is not expected to impact on the Group's reported CET 1 ratios, a holding company structure may adversely impact the consolidated Group's reported Total Tier 1, Total Capital and leverage ratios. The impact will depend on the timing of the holding company establishment, absolute capital levels and capital structure at the time of establishment, and any mitigating actions the Group may take. Had the scheme been implemented as of 1 January 2017, it is estimated that the Group's transitional Tier 1 Capital ratio would reduce by approximately 0.7%, transitional Total Capital ratio by approximately 1.8%, and transitional leverage ratio by approximately 0.3%. These reductions arise as a consequence of the regulatory application of Articles 85 and 87 of the Capital Requirements Regulation. Whilst a certain amount of these capital instruments will not count towards the calculation of the Group's regulatory capital going forward, the instruments remain available to absorb losses and are expected to count as MREL.

7. Distributable reserves and dividend policy

The Group's aim is to have a sustainable dividend. The Group expects dividend payments to recommence at a modest level, prudently and progressively building over time, towards a payout ratio of around 50% of sustainable earnings. The dividend level and the rate of progression will reflect, amongst other things, the strength of the Group's capital and capital generation, the Group's assessment of the growth and investment opportunities available, any capital the Group retains to cover uncertainties and any impact from the evolving regulatory and accounting environments. As additional clarity emerges on the impact of the UK's decision to leave the European Union, and as the more recent improvement in the IAS 19 accounting pension deficit is sustained, the Group expects to recommence dividend payments in respect of financial year 2017, with the initial payment being made in the first half of 2018.

Since BOIG plc would be a newly incorporated company, it will not initially have distributable reserves. It is proposed that following implementation of the Scheme, BOIG plc will create distributable reserves by way of a High Court approved capital reduction of BOIG plc.

In the event distributable reserves of BOIG plc are not created pursuant to the capital reduction process, BOIG plc would have to generate distributable reserves from realised profits earned after the Scheme before making distributions by way of dividends, share repurchases or otherwise. Although the Group is not aware of any reason why the High Court would not approve the creation of the distributable reserves, the issuance of the required order is ultimately a matter for the discretion of the High Court.

Implementing the Scheme in 2017 should allow the Group to maintain control over the timing of the implementation of the RPRS so that there should, the Group believes, be sufficient time for BOIG plc to apply to the High Court for approval of a capital reduction to create distributable reserves which would be available for 2018.

8. Risks and consequences if the Scheme is not implemented

If the Group does not comply with the RPRS in a timely manner and fails to implement a holding company structure (whether through failure to obtain the required level of stockholder approval for the Scheme Resolutions or High Court approval of the Scheme), the Group could ultimately face a number of adverse consequences, including the following:

- the Group may not have in place a structure to enable orderly resolution in a distressed scenario;

- the regulatory authorities relevant to the Group, including the European Central Bank and the BOE (the “Regulatory Authorities”) could impose obligations on the Group, including but not limited to, imposing the RPRS in a manner that is not optimal for the Group’s interests, either in terms of structure or timing, or which could otherwise have uncertain outcomes for the Group;
- the Group may have difficulty in meeting MREL requirements in a timely manner;
- in the absence of an implemented SPE strategy, the Regulatory Authorities could exercise other regulatory powers in relation to the Group, including imposing increased capital requirements; and
- enforcement action could be taken against the Group by the Regulatory Authorities (including ultimately the risk of sanctions, fines or penalties) and/or, ultimately, it may result in a withdrawal of the Group’s relevant banking licences in Ireland and/or the UK which it requires to continue in business.

Such consequences could adversely affect the reputation, business and financial condition of the Group and/or the value of the ordinary stock and, ultimately, threaten the ability of the Group to continue its operations.

Ends.

Forward Looking Statement

This document contains certain forward-looking statements with respect to certain of the Group's 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.

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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EXEMPTION FROM REGISTRATION UNDER THE US SECURITIES ACT

For the purposes of qualifying for the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof with respect to the BOIG plc Shares to be issued pursuant to the Scheme, the Bank will apprise the High Court that, if sanctioned, its sanctioning of the Scheme will be relied upon by the Bank and BOIG plc as an approval of the Scheme following a High Court Hearing on its fairness to the Ordinary Stockholders at which High Court Hearing all Ordinary Stockholders will be entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all Ordinary Stockholders. Ordinary Stockholders (whether or not US persons (as defined in the Securities Act)) who are affiliates of the Bank or will be affiliates of BOIG plc at the Effective Date will be subject to certain US resale restrictions relating to the BOIG plc Shares received pursuant to the Scheme.

None of the US Securities and Exchange Commission, any other US federal or US State securities commission or any US regulatory authority has approved or disapproved of the BOIG plc Shares offered by the Prospectus nor have such authorities reviewed or passed upon the accuracy or adequacy of the Prospectus or any accompanying documents. Any representation to the contrary is a criminal offence in the United States.

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This document is not a prospectus, product disclosure statement or any other form of “disclosure document” for the purposes of the Corporations Act and is not required to, and does not contain all the information which would be required in a disclosure document under the Corporations Act.

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