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

Interim Management Statement – Q3 2016 update

28 October 2016

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.

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.

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%.

Ends

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Forward-Looking Statement

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

Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, the following: geopolitical risks which could potentially adversely impact the markets in which the Group operates; uncertainty following the UK vote to exit the EU as to the nature, timing and impact of a UK exit, could impact the markets in which the Group operates including pricing, partner appetite, customer confidence and demand, and customers' ability to meet their financial obligations and consequently the Group's financial performance, balance sheet 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.