

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

Capital Developments

23 December 2016

The Group has executed a credit risk transfer transaction on a portfolio of business banking and corporate loan assets effective 29 December 2016. Separately, the Group is revising its calculation of capital requirements under the Internal Ratings Based ("IRB") approach on its Republic of Ireland ("ROI") mortgage portfolio.

On a pro-forma basis, the Group expects the combined net impact from these capital developments on the Group's transitional CET1 ratio to be a reduction of c.15bps (fully loaded CET1 ratio: c.20bps).

Credit risk transfer transaction

The Group has executed a credit risk transfer transaction effective 29 December 2016 on a reference portfolio of c.€3 billion of loan assets originated by the Group's Business Banking and Corporate Banking divisions in the Republic of Ireland. On a pro-forma basis, the transaction is expected to benefit the Group's transitional CET1 ratio by c.50bps, the Group's fully loaded CET1 ratio by c.40bps and the Group's transitional Total Capital ratio by c.65bps.

The transaction involves the execution of a credit default swap backed by c.€185 million of credit linked notes issued by Grattan Securities DAC to a small group of international investors. The transaction reduces the Group's credit risk exposure, and consequently the risk weighted assets on the reference portfolio of loan assets, through a risk sharing structure whereby the buyers of the notes assume the credit risk for c.€185 million of potential credit losses on the reference portfolio of loan assets in return for an initial annual coupon (interest expense) of c.€21 million.

No assets will be derecognised from the Group's balance sheet. The reference portfolio of loan assets and related customer relationships will continue to be maintained by the Group.

Revision of calculation of capital requirements on the Group's ROI mortgage portfolio

The Group is revising its calculation of capital requirements under the IRB approach on its ROI mortgage non-defaulted loan portfolio. The revision is in advance of the ECB's targeted review of internal models (TRIM) due to commence early next year and increases the pro-forma average credit risk weighting on ROI mortgages to 34%.

On a pro-forma basis, the revision is expected to reduce the Group's transitional CET1 ratio by c.65bps, the Group's fully loaded CET1 ratio by c.60bps and the Group's transitional Total Capital ratio by c.85bps.

Ends

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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.