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

Announcement of Further Details of Capital Raising
8 June 2011

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The Governor and Company of the Bank of Ireland ("the Bank" or "Bank of Ireland") today announces further details on proposals intended to meet the incremental capital requirement arising as a result of the Central Bank of Ireland ("CBI") 2011 Prudential Capital Assessment Review ("PCAR").

Meeting the incremental capital requirement arising from the 2011 PCAR together with the capital raised and generated by the Bank over the past two years should ensure a sustainable, robust future for the Bank as a systematically important Pillar bank, continuing to support our customers and contributing to economic growth.

1. 2011 PCAR – Key Highlights

- A requirement to generate incremental equity capital of €4.2bn (including a regulatory buffer of €0.5bn), leading to a very strongly capitalised bank with a pro forma Core Tier 1 ratio of 15.0% at 31 December 2010
- The equity capital requirement was set to cover:
  - the higher target capital ratios set by the CBI of a minimum Core Tier 1 ratio of 10.5% on an ongoing basis and a Core Tier 1 ratio of 6% under the CBI's adverse stress scenario;
  - a regulatory buffer of €0.5bn for additional conservatism set by the CBI;
  - CBI's adverse stress scenario loan loss estimates based on BlackRock Solutions ("Blackrock") methodology;
  - the potential transfer of further loans to NAMA of less than €20 million (which is no longer occurring), using conservative loss on disposal assumptions; and
  - a conservative estimate of losses arising from deleveraging under an adverse stress scenario;
- €1.0bn contingent capital is also required to be raised by the issue of a debt instrument to the Irish State, which under certain circumstances would convert into ordinary stock
- If the outcomes of the adverse stress scenario using the BlackRock methodology do not materialise, the Bank should significantly exceed the ongoing 10.5% minimum Core Tier 1 capital required by the CBI

2. Capital Raising Proposals - Key Highlights

Capital raising proposals comprise 4 elements:

(i) Liability Management Exercise ("LME") launched today with regard to nominal amount of 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 2011 and will be in range of €0.1130 to €0.1176. Stock will be issued to bondholders on an ex rights basis

- 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
- Expected key dates: announcement of early participation results 23 June 2011 (cash offer and equity offer prices above relate to early participation); announcement of full LME results 8 July 2011

(ii) Further Bondholder Burden Sharing

- Steps taken by the Minister for Finance (the "Minister") under the Stabilisation Act or otherwise to ensure burden sharing with subordinated bondholders is achieved
- 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 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 action, 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

- The Rights Issue is to be underwritten by the State at a price of 10c. The Bank, the Minister and the NPRFC intend to enter into an underwriting agreement prior to publication of the prospectus in relation to the Rights Issue
- The maximum Rights Issue size is €4.35 billion (including estimated expenses of €0.15 billion)[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 with any subordinated debt which remains outstanding after the LME.
- The Bank expects the maximum size of the Rights Issue to be €2.23 billion, on the basis that a minimum of €2.12 billion of Core Tier 1 capital will be raised from a combination of (i) the LME (including any approved call options); and (ii) the exercise of the Minister's powers 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

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[1] The actual expenses of the proposals could be greater or less than €150 million 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, action 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.

- The precise size of the 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%; will convert into ordinary stock if 8.25% Core Tier 1 ratio breached (subject to a period allowed for remediation); conversion price – higher of 30 day volume weighted average market price per unit of ordinary stock at date of conversion or 5c

The Bank continues to have active discussions with other sources of private capital and the State, concerning the terms and form in which they may participate in the proposals, which may result in changes to the proposals including the possibility of a firm placing of ordinary stock.

All proposals will be subject to stockholder approval.

A detailed summary of the proposals, background and other matters is set out at Appendix III below.

3. Rights Issue Illustrative Scenarios

The table below sets out for illustrative purposes only a range of potential outcomes ofownership of the Bank based on certain illustrative assumptions including LME and Rights Issue take up, foreign exchange assumptions together with assumptions concerning the application of the Minister for Finance's powers under the Stabilisation Act or otherwise:

Scenario	**100% Equity Take-up Under LME**		**100% Cash Take-up Under LME**		**0% LME Take Up**	
CT1 requirement (incl. Costs)	€4.35bn		€4.35bn		€4.35bn	
LME						
CT1 generated	€(1.66)bn		€(2.12)bn		NIL	
Equity issued	€(0.92)bn		NIL		NIL	
CT1 to be generated from subordinated liabilities order pursuant to the Stabilisation Act or other action	NIL		NIL		€(2.28)bn[1]	
Rights Issue	€1.77bn		€2.23bn		€2.07bn[2]	
Rights Issue Terms	3.3 for 1		4.2 for 1		3.9 for 1	
Rights Issue Stock	17.7bn		22.3bn		20.7bn	
Bondholder Stock[3]	8.1bn		NIL		NIL	
Total Stock to be issued	25.8bn		22.3bn		20.7bn	
Pro forma shareholdings						
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 stockholders	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 as of 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.

Depending on participation in the LME and the Rights Issue and the extent to which any other private capital is available, there is a risk that the free float requirements of the Irish Stock Exchange and London Stock Exchange, which require 25% of a listed company's shares to be held in public hands, will not be satisfied. This in turn may result in the Bank being delisted from these exchanges on completion of the proposals. In this instance, the Bank will examine the possibility of obtaining a stock market quotation on a junior market such as the Enterprise Securities Market of the Irish Stock Exchange, which does not have a minimum shares in public hands requirement.

4. Timetable of Principal Events

An expected timetable of principal events is set out in Appendix I.

5. Group Strategy and Financial Targets

Appendix II sets out details of the Bank's strategy and financial targets, which have been updated to reflect the outcome of the 2011 PCAR and PLAR exercises.

6. Advisers, Bookrunners, Sponsors and Brokers

IBI Corporate Finance ("IBI") and Credit Suisse Securities (Europe) Limited ("Credit Suisse") are acting as joint financial advisers and transaction co-ordinators. Credit Suisse, Davy, Deutsche Bank AG and UBS Investment Bank ("UBS") are acting as joint bookrunners. Davy and UBS are acting as joint sponsors and brokers.

7. Other

This announcement is not and should not be read as an offer to acquire or sell or exchange securities in connection with the LME, the Rights Issue or otherwise. It is not a prospectus or a prospectus "equivalent" document. Any investment decision by a bondholder eligible to participate in the LME must only be made on the basis of information contained in or incorporated by reference in the Consent and Exchange Offer Memorandum. Any investment in respect of the Rights Issue by a qualifying shareholder should only be made on the basis of information contained in or incorporated by reference in the prospectus when published. Qualifying stockholders should also read, in full, the risk factors set out in the prospectus published by the Bank relating to the proposals, when published.

The securities that may be offered in the LME or the Rights Issue have not been and will not be registered under the US Securities Act of 1933 and may not be offered or sold in the United States or to US persons absent registration or an applicable exemption from registration requirements.

This announcement is not for distribution, directly or indirectly, in or into Australia, New Zealand, South Africa, Japan, Canada or Switzerland or any other state or jurisdiction in which it would be unlawful to do so.

Neither the content of Bank of Ireland's website nor any website accessible by hyperlinks on Bank of Ireland's website is incorporated in, or forms part of, this announcement.

The distribution of this announcement and/or any other documents related to any offering of securities or the transfer or offering of securities into jurisdictions other than Ireland and the United Kingdom may be restricted by law. Persons into whose possession this announcement comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This announcement contains or incorporates by reference certain "forward-looking statements" regarding the belief or current expectations of the Group, the Directors and other members of its senior management about the Bank's financial condition, results of operations and business and the transactions described in this Circular. 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. Such forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Bank and are difficult to predict, that may cause the actual results, performance, achievements or developments of the Group or the industries in which it operates to differ materially from any future results, performance, achievements or developments expressed or implied from the forward-looking statements. A number of material factors could cause actual results to differ materially from those contemplated by the forward-looking statements.

None of the Minister for Finance, the Department of Finance, the Irish Government, the National Pensions Reserve Fund Commission, the National Treasury Management Agency or any person controlled by or controlling any such person, or any entity or agency of or related to the Irish State, or any director, officer, official, employee or adviser (including without limitation legal and financial advisors) of any such person (each such person, a "Relevant Person") accepts any responsibility for the contents of, or makes any representation or warranty as to the accuracy, completeness or fairness of any information in, this announcement or any document referred to in this announcement or any supplement or amendment thereto (each a "Transaction Document"). Each Relevant Person expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of any Transaction Document. No Relevant Person has authorised or will authorise the contents of any Transaction Document, or has recommended or endorsed the merits of the offering of securities or any other course of action contemplated by any Transaction Document.

The estimated Rights Issue sizes set out in this document 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.

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APPENDIX I : EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.

Launch of LME	8 June 2011
Posting of the Circular	17 June 2011
Publication of Prospectus	17 June 2011
Announcement of LME early bird results and announcement of equity conversion price for bondholders opting for equity alternative under LME	23 June 2011
Latest date for receipt of acceptances under LME	7 July 2011
Bondholder meetings for holders of eligible debt securities	7 July 2011
Expected announcement of the final results of the LME	8 July 2011
Announcement of Rights Issue size	8 July 2011
Extraordinary General Court	11 July 2011
Dealings in the Nil Paid Rights and the Fully Paid Rights commence	12 July 2011
Settlement for cash payments for LME	12 July 2011
Latest time and date for acceptance, payment in full and registration or renunciation of Provisional Allotment Letters	25 July 2011
Announcements of results of Rights Issue	26 July 2011
Issue of ordinary stock to bondholders who have elected for equity alternative under LME	By 12 August 2011

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(1) The above times and dates are indicative only. The times and dates set out in the expected timetable of principal events above may be adjusted by the Bank, in which event details of the new times and dates will be notified to the CBI, the Irish Stock Exchange, the FSA, the London Stock Exchange and, where appropriate, Qualifying Stockholders.

APPENDIX II : GROUP STRATEGY AND FINANCIAL TARGETS

The Bank believes that the combination of a strong capital base following the implementation of the proposals and a deleveraging plan, which will deliver a more conservative funding profile, and core businesses with strong brands, distribution and market positioning supporting the Group's customers and contributing to economic recovery, will assist in contributing to a sustainable future for the Group.

Key Strategic Goals

The Group's key strategic goals are:

- to be the leading bank in Ireland, well positioned in the Group's core markets with strong customer franchises and market positions capable of supporting future economic recovery;
- to be strongly capitalised and to have appropriate returns on services and products to ensure that costs are covered, risk is appropriately priced and capital is rewarded;
- to be funded on a sustainable basis with low reliance on short-term wholesale funding and avoiding reliance on exceptional Monetary Authority support or Government guarantees;
- to be effective at managing its credit and other risks;
- to be efficient with sustainable reduced cost structures; and
- to achieve returns for stockholders through strong operational performance and return of surplus capital.

To achieve these strategic goals, the Group:

- is focusing its capital and funding on its core businesses, as described below, where it has strong market positions and clear competitive strengths and capabilities;
- is also managing its non-core loan portfolios, that are being wound down or sold, on a basis that optimises the value from the disposals having due regard to the requirement to deleverage the balance sheet within appropriate timescales;
- is enhancing its capital ratios by increasing the quantum of Core Tier 1 Capital in its capital structure through the LME, through the Rights Issue, the exercise of the call options under the amended terms of the Existing Securities, an application by the Minister to the Irish High Court for a subordinated liabilities order pursuant to the Stabilisation Act should the LME fail to generate the expected capital levels and by managing Risk Weighted Assets in line with the Deleveraging Plan;
- is pursuing a banking model where its core loan portfolios will be substantially funded by customer deposits and Term Wholesale Funding and position the Group to prudently disengage within acceptable timescales from the State Guarantee Schemes and exceptional Monetary Authority support as market conditions allow;
- has enhanced its risk management governance. Following a detailed review of risk governance the recommendations are being implemented by the Group. The key recommendation resulted in the formation of a Court Risk Committee in 2009. The Committee comprises Non-Executive Directors of the Court exclusively and its primary responsibilities are to monitor risks arising in the Group and to assist the Court in discharging its responsibilities in ensuring that risks are properly identified, reported and assessed; that risks are properly controlled and that strategy is informed by and aligned with the Group's risk appetite;
- is continuing to focus on rebuilding the Group's net interest margin through appropriate pricing for new business and, where possible, an appropriate, measured re-pricing of existing deposits and customer loan books and adjusting, on a measured basis, the fees and commissions it earns from customers for services and products provided; and
- is further reducing its cost base to align it to meet the needs of the Group for the future. Cost reductions are expected to be achieved through ongoing deleveraging, asset disposals and further efficiencies from non-staff costs, savings from the renegotiation of certain major outsourcing contracts and investments in processes and systems to enhance efficiencies.

The Directors believe that the Group has the appropriate strategy to rebuild and grow the Group in its core markets in Ireland and the UK and, consequently, deliver value for stockholders.

Strategic Shape

In overall terms, the strategic shape and direction of the Group in the future will be as follows:

Ireland

The Group's vision is to be recognised as the leading financial services organisation in Ireland by customers, employees and stockholders. The Group's plan envisages it being the number one consumer, business and corporate bank in Ireland (currently number one or number two market share positions in each of those areas, as set out below).

The strategy for the Group remains to grow the business through developing long-term relationships and building its customer franchises. All the Group's businesses are focused on extending the reach and depth of their customer relationships, whilst enhancing product capabilities to build competitive advantage.

In Ireland, the Group has a leading core franchise incorporating:

- a broad product offering including consumer and business banking products, corporate banking, private banking and life and pensions;
- a leading distribution network including 254 full service branches, 22 outlets, supported by approximately 1,300 ATMs; and
- strong direct banking capabilities including online banking and contact centres servicing over one-third of the Group's customers in Ireland.

The Group is a leading provider in Ireland of: residential mortgages, in which it had a mortgage portfolio of €28 billion at 31 March 2011 and a market share of 20.3% of residential mortgage balances (Source: unaudited internal Bank of Ireland market analysis and Central Bank monthly residential mortgage statistics, March 2011); main personal current accounts, in which the Bank has an estimated 35% share of the market (Source: Ipsos MRBI Omnipoll research, December 2010 and February 2011); credit cards, in respect of which the Group has an estimated 34.3% share of credit cards in issue at 31 March 2011 (Source: unaudited internal Bank of Ireland market analysis and Central Bank monthly credit card statistics, 31 March 2011). In Business Banking, the Group had 36% of main business current accounts at 9 April 2009 and 30% of main business loan accounts at 7 March 2008 (Source: Ipsos MRBI Business Banking Surveys 2008 and 2009). The Group is also a leading provider of corporate banking products to larger Irish companies and to multi-national companies operating in or from Ireland (Source: unaudited internal Bank of Ireland market analysis) including being a leading provider of foreign exchange and interest rate hedging services. While the Group is required to dispose of New Ireland Assurance plc under the Revised 2011 EU Restructuring Plan, the Group, through New Ireland Assurance plc is ranked number two in life and pensions in Ireland with an estimated 21% market share of new business as at 31 December 2010 (Source: Milliman Ireland, statistical data 25 January 2011 (for fourth quarter 2010), Irish Insurance Federation, New Business figures 8 April 2011) and unaudited Bank of Ireland market analysis).

The key business objectives for the Group's business in Ireland are aligned with the overall key strategic goals noted above and it will seek to achieve these by:

- leveraging the Group's distribution capabilities including the branch network in order to acquire and retain profitable customer relationships;
- developing and communicating a differentiated brand positioning that engages the Group's customers;
- achieving appropriate returns on products and services;
- making further investments in the Group's systems and processes in order to deliver an efficient operational platform from a reduced and sustainable cost base;
- effectively controlling all other costs including those related to staff to ensure the Bank has a sustainable cost base;
- improving service quality;
- managing credit and other risks effectively; and
- supporting customers including through appropriate forbearance (loan modifications and restructuring subject to periodic review).

United Kingdom

The Group's positioning in the UK market has been significantly enhanced through the establishment of its UK licensed banking subsidiary. The Group transferred a considerable proportion of its UK business into a new UK licensed banking subsidiary, Bank of Ireland (UK) plc, with effect from 1 November 2010 which encompasses the Group's successful joint ventures with the UK Post Office, the Group's Northern Ireland branch network and its UK business banking and certain other lending activities.

The establishment of this UK licensed banking subsidiary, directly regulated by the FSA, enables the Group to offer products in the UK market that are directly comparable, from a risk and protection standpoint, with those offered by existing UK mainstream providers and is a very important part of the Group's long-term strategy.

The Group's objective is to continue to grow its consumer banking franchise through its partnership with the UK Post Office. This franchise has in excess of two million customers accessing a comprehensive range of the Group's and other financial products including banking and insurance products and foreign exchange services through the 11,500 Post Office branches. In addition, the Group will also continue to develop its Northern Ireland business through its full service retail bank network with 44 branches, complemented by approximately 300 ATMs together with telephone and online services.

International

While many of the corporate banking specialist lending businesses in the areas of project finance, asset based lending and certain international property lending will be in controlled rundown, discontinued or disposed of as part of the Group's deleveraging plan, the Group will continue to engage in internationally based treasury and corporate lending activities. These include the Group's acquisition finance business, continuing support for major corporates operating internationally, financial institutions and multi-national corporations operating into or out of Ireland.

Non-Core Businesses

The deleveraging plan as agreed with the Central Bank augments the asset reductions contained in the Group's approved 2010 EU Restructuring Plan which are underway, ahead of plan and on track to meet their targets. The deleveraging plan envisages certain loan portfolios/lending businesses of the Group continuing to be in managed run down or disposed of on an orderly basis resulting in an expected reduction in the Group's total loans and advances to customers (net of impairment provisions) from €114 billion at 31 December 2010 to approximately €90 billion by 31 December 2013. This will be achieved through an approximately €30 billion reduction in the Group's non-core loan portfolios of which approximately €10 billion will be in the form of asset disposals. This will equate to a €24 billion reduction net of approximately €6 billion net of new lending. Incorporated within the Core Tier 1 Capital requirement of €4.2 billion is what the Central Bank described as a "prudent" estimate of losses arising on the approximately €10 billion asset disposal under an adverse stress scenario.

The loan portfolios / lending businesses of the Group, that are being/will be run down or disposed of over time, include:

- Portfolios of UK mortgages that were sourced from brokers and other intermediaries;
- Selected international niche businesses such as project finance, asset based lending and certain previously identified international corporate banking portfolios; and
- Certain international commercial investment property loan portfolios.

The Group envisages that the international portfolios will be significantly wound down or sold in the period to 31 December 2013 on a basis that will balance the advantage of stronger liquidity ratios with the need to maximise the value of the disposal of such assets without pressure to concede to the risk of the sale of assets in a rapid manner that would result in a lower price being obtained compared to a more orderly sale process.

Financial Targets

Margin recovery from current depressed levels is a key management priority. The Group continues to experience net interest margin attrition primarily as a result of the low interest rate environment, higher cost of wholesale funding, intense competition on deposit pricing and the quantum of residential tracker mortgages in Ireland. From 31 March 2009 to 31 December 2010, the Group's net interest margin reduced by 28 basis points. Continued elevated deposit pricing which is due to intense competition for deposits has resulted in 24 basis points of margin attrition. High wholesale funding costs and lower treasury income have resulted in further attrition of 16 basis points. These factors were partially offset by improved lending margins which resulted in 34 basis points of margin improvement. The expected impact of increased lending margins on new business is muted due to the currently constrained levels of demand for new lending in Ireland. However, the Directors anticipate increased demand for lending arising from economic recovery, increases in base interest rates, reduced deposit pricing as a more normalised market returns and particularly reflecting lower wholesale funding costs through deleveraging are all anticipated in the future to be positive for the Group's net interest margin in the period to 31 December 2014. In addition, by actively re-pricing the existing loan book, by maximising the margin from non-core portfolios through re-pricing and by re-pricing deposits to more sustainable levels, the Group is seeking to achieve a target net interest margin in excess of 200 basis points in the year ending 31 December 2014.

Since March 2008, the Group has demonstrated the scalable nature of its **cost base** as it re-focused on its core portfolios. In the twelve month period to 31 December 2010, the Group reduced its operating costs by 6%. This was achieved through a 4% reduction in staff numbers, an 11% decrease in pension costs following the implementation of changes to pension benefits, and an ongoing focus on cost management across the Group's cost base. Over the period from March 2008 to December 2010, the Group has reduced its workforce by approximately 2,400 staff (approximately 14% reduction) and there has been ongoing restraint on remuneration. The implementation of changes to pension benefits, renegotiation of major outsourcing contracts, reconfiguration of premises requirements and other cost savings have reduced the Group's underlying cost base by 17% in the year to 31 December 2010 when compared to the year ended 31 March 2008 and should provide further cost reduction. In addition to eliminating expenses associated with the non-core businesses and portfolios, the Group is continuing to maintain its rigorous approach to cost management and is implementing a range of initiatives to further reduce costs including investments in, and changes to, systems and processes and ongoing reviews, savings from the renegotiation of certain major outsourcing contracts and increasing the levels of consolidation, standardisation and simplification of its operations. The Directors expect these initiatives, together with the expected margin expansion referred to above, should lower the Group's cost income ratio to below 50% in the year ending 31 December 2014.

The Group has enhanced its approach to **credit management** during the recent challenging economic environment and it is rigorously managing its credit risks. The Group previously stated that it believed that the impairment charge on non-NAMA loans had peaked in 2009 and that the Group expected the charge to reduce in each of 2010, 2011 and 2012. The Group maintains its expectation that impairment charges will progressively reduce in the period from 2011 – 2013 in line with the March 2011 PCAR base case scenario, leading to a more normalised impairment charge in 2014 of approximately 55 – 65 points of average loans and advances to customers.

The Group is pursuing a banking model with a more sustainable **funding strategy**. The Group will aim to substantially fund its core loan portfolios through customer deposits and term wholesale funding. Asset growth in the future will be more dependent on the Group's ability to attract deposits. In this regard, the Group will leverage the potential of its extensive retail distribution platforms, both in Ireland through its branch network and outside of Ireland through its UK licensed banking subsidiary incorporating its joint ventures with the UK Post Office, its Business and Corporate Banking relationship management teams and its network of treasury offices in Dublin, the UK and the US. This more sustainable funding strategy, together with the initiatives to de-lever the Group's balance sheet, until total loans and advances to customers reducing from €114 billion at 31 December 2010 to approximately €90 billion by 31 December 2014, are expected to reduce the Group's loan to deposit ratio to below 120% at 31 December 2014 which is in line with the key funding ratio set by the recent PLAR carried out by the Central Bank.

The proposals, if implemented, are expected to fully address, for the three year period to 2013, the Group's capital requirements as set out by the Central Bank on 31 March 2011 as a result of the March 2011 PCAR and PLAR. The Rights Issue, the LME, the compulsory acquisition of Existing Securities and the further burden sharing with subordinated bondholders anticipated by the Minister in his statement on 31 May 2011, together with the issue of the Contingent Capital Instrument will strengthen the Group's capital position and are expected to enable it to maintain an Core Tier 1 Capital Ratio in excess of 10.5% under Basel II as required by the Central Bank, and achieve a Core Tier 1 Capital Ratio in excess of 15% prior to any distribution of surplus capital, subject to regulatory, legal and other approvals by 31 December 2014 on a Basel III transitional basis.

The Group's strategy is to disengage from the ELG Scheme in a prudent manner as market conditions allow, including the completion of the capital proposals, material progress on the achievement of the deleveraging targets as set out in the PLAR resulting in a significant reduction in the Group's loan to deposit ratio, supported by a sustainable improvement in the economic outlook for Ireland. Significant progress on the disengagement from the ELG Scheme is expected by 31 December 2012. If this is not the case, the Group's financial performance is likely to be weaker than the target performance.

These statements do not constitute a profit forecast and should not be interpreted to mean that earnings per share in any financial period will necessarily match or be lesser or greater than those for the relevant preceding period.

Dividend Policy

On 13 November 2008, in light of the deteriorating economic conditions and the determination to preserve capital, the Bank announced its decision to cancel dividend payments on Ordinary Stock for the financial year ending 31 March 2009 and stated that it did not expect to resume paying dividends on Ordinary Stock until more favourable economic and financial conditions returned. This remains the Bank's policy and the Bank stated in the 2010 Annual Report that it did not propose to issue any dividend in respect of the year ending 31 December 2010.

In addition, under the Approved 2010 EU Restructuring Plan, the Group has committed not to pay dividends on the Ordinary Stock until the earlier of (i) 30 September 2012; or (ii) such time that the 2009 Preference Stock is redeemed or no longer owned by the State, through the NPRFC or otherwise. Under the Revised 2011 EU Restructuring Plan, the 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 time as the 2009 Preference Stock is redeemed or no longer owned by the State, through the NPRFC or otherwise.

1. Introduction

On 31 March 2011, Bank of Ireland announced that, as a result of the 2011 Prudential Capital Assessment Review ("March 2011 PCAR") carried out by the Central Bank, it would be required to generate incremental Core Tier 1 capital of €4.2 billion (after expenses) which includes a regulatory buffer of €0.5 billion for additional conservatism and €1.0 billion of contingent capital through the issue of a debt instrument which, under certain circumstances, would convert in its entirety to units of ordinary stock (known as the "Contingent Capital Instrument"). The Central Bank requires that the additional capital must be raised by 31 July 2011.

The Court has considered a number of options for raising the Core Tier 1 capital required by the March 2011 PCAR, including the possibility of private equity investment and alternative forms of bondholder contribution. Any such alternatives would have required to be completed by 31 July 2011, which is the date set under the EU/IMF Programme for the Group to raise the requisite Core Tier 1 capital. The proposals (set out below) represent the basis as of 8 June 2011 on which the NPRFC is prepared to underwrite a Rights Issue to enable the Group to raise the required levels of Core Tier 1 capital by 31 July 2011. The Group continues to explore other options of raising the Core Tier 1 capital required but, as of 8 June 2011, certainty of underwriting in the required quantum is only available from the State.

This appendix describes how the Group proposes to generate the €4.2 billion Core Tier 1 capital (after estimated expenses of €150 million) and €1.0 billion of contingent capital required to meet regulatory requirements by 31 July 2011. The €4.35 billion (before expenses) will be raised by a combination of:

- the Liability Management Exercise (including a cash option) ("LME");
- the compulsory acquisition of subordinated debt, to the extent bondholder approval is received at a series of bondholder meetings to grant an issuer call option in respect of the nominal amount of relevant subordinated debt securities;
- the further burden sharing with subordinated bondholders anticipated by the Minister for Finance as set out in his statement on 31 May 2011; and
- a Rights Issue fully underwritten by the NPRFC.

LME

Pursuant to the LME, the holders of approximately €2.6 billion in nominal amount of existing securities are being provided the opportunity to exchange these securities either for cash or for allotment instruments which are convertible into new units of ordinary stock. The deadline for receipt of tenders in the LME is, for the vast majority of existing securities, expected to be 7 July 2011, with the results of the LME as at that date (including the expected incremental Core Tier 1 capital generated) expected to be announced on 8 July 2011.

Compulsory acquisition of existing securities

In addition, at a series of bondholder meetings for the holders of the existing securities, the Group will seek to have the terms of the existing securities amended to grant the Group a call option to compulsorily acquire existing securities for cash at 0.001% of their nominal value. The Group intends to exercise these call options in respect of any existing securities remaining outstanding following settlement of the relevant LME offer (including the cash offer component) for that class of existing securities. The nominal amount of existing securities which are subject to these call options and any incremental Core Tier 1 capital consequently generated, is expected to be announced on 8 July 2011.

Further burden sharing with subordinated bondholders

To the extent that existing securities are not acquired or exchanged pursuant to the LME or acquired pursuant to the exercise of the call options under the amended terms of the existing securities, the Minister for Finance stated on 31 May 2011, *"The levels of burden-sharing in these LMEs [liability management exercises] 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 action, 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 Directors believe the level of return to the holders of outstanding existing securities may be materially below that available pursuant to the cash alternative under the LME.

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 for Finance would result in the generation of Core Tier 1 capital of approximately €2.3 billion, after taking account of the associated estimated tax costs to the Bank of approximately €0.3 billion.

Rights Issue underwritten by the NPRFC

It is expected that under the terms of the transaction agreement, the NPRFC will agree to fully underwrite the Rights Issue up to a maximum size of €4.35 billion (before estimated expenses of €150 million). The actual expenses of the proposals could be greater or less than €150 million, depending on various factors, including the results of the LME. The issue price of the Rights Issue will be €0.10 per unit of ordinary stock.

The actual size and terms of the fully underwritten Rights Issue are expected to be announced on 8 July 2011, following the deadline of 7 July 2011 for receipt of tenders under the LME, completion of the bondholder meetings, confirmation of the actual expenses of the proposals and certainty as to the amount of Core Tier 1 capital that is capable of being generated by the further burden sharing measures anticipated by the Minister's statement of 31 May 2011 to satisfy the Group's obligations to raise Core Tier 1 capital.

The Directors expect that the full €4.35 billion of required Core Tier 1 capital will therefore be generated pursuant to the proposals as follows:

- a minimum of €2.12 billion to be raised from a combination of the LME (including the cash offer component), the compulsory acquisition of existing securities pursuant to the exercise of the call options under the amended terms of the existing securities and the further burden sharing with subordinated bondholders anticipated by the Minister for Finance in his statement on 31 May 2011; and

- a maximum of €2.23 billion to be raised from the Rights Issue.

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 full burden sharing with subordinated bondholders through the LME (whether under the cash tender or equity exchange options) and, if necessary, action by the Minister under the Stabilisation Act or otherwise. The Directors' expectation is that the Minister, in consultation with the Central Bank, will take the necessary steps to ensure that the Group satisfies its obligations to raise Core Tier 1 capital through the full burden sharing with subordinated bondholders required by the Minister.

If the LME generates the maximum incremental capital through all bondholders electing to accept the allotment instrument exchange option under the LME, the maximum size of the Rights Issue would be €1.77 billion. Assuming no capital is generated through the LME or through the proposed amendments to the terms of existing securities 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.

Contingent Capital Instrument

The State has also confirmed that it will subscribe for €1.0 billion of contingent capital required to meet regulatory requirements pursuant to the Contingent Capital Instrument (subject to the satisfaction of the conditions in the transaction agreement), further details of which are set out in paragraph 5 below.

Key implications of the proposals for stockholders

If stockholders approve the proposals, the combination of the proceeds of the Rights Issue, together with any Core Tier 1 capital raised through the LME, the exercise of the call options under any amended terms of the existing securities, the further burden sharing with subordinated bondholders anticipated by the Minister in his statement on 31 May 2011 and the issue of the Contingent Capital Instrument will be sufficient for the Group to meet the regulatory requirements established by the Central Bank under the March 2011 PCAR.

The proposals could, if implemented, result in the Government, through the NPRFC, holding up to a maximum of 93.1% of the enlarged capital stock on the basis of a maximum Rights Issue of €4.35 billion (or 87.7% based on the expected maximum Rights Issue of €2.23 billion). As such, the proposals could result in the NPRFC obtaining a majority stake in the Bank and result in an insufficient number of units of ordinary stock being in public hands, which would result in the Bank ceasing to be eligible for listing on the Official Lists. Ineligibility for listing would adversely impact the marketability and liquidity of the units of ordinary stock and may adversely impact their value. If qualifying stockholders subscribe for their Rights Issue entitlements in sufficient numbers the Bank would continue to satisfy the requirement that at least 25% of shares remain in public hands. The Bank has agreed with the Irish Stock Exchange and the UKLA that in the event that less than 25% of the Bank's issued capital stock is in public hands following completion of the proposals, the Bank will, on 31 July 2011, serve notice of its intention to cancel its listing on the Official Lists and to cancel its trading on the main market of the Irish Stock Exchange and the London Stock Exchange, with the twenty business day notice period for such cancellations to commence on that date.

Even if the proposals are implemented, (i) if the taking by the Government of whatever steps are deemed necessary by the Minister for Finance, as referred to in the Minister's statement on 31 May 2011 in respect of any existing securities not acquired or exchanged under the LME or acquired pursuant to the exercise of the call options under the amended terms of the existing securities is unsuccessful, or (ii) if the Minister seeks or obtains an order under the Stabilisation Act or otherwise, such an order is subsequently successfully challenged (whether in Ireland or in another jurisdiction) or the implementation of such an order is otherwise delayed, or (iii) if such an order generates less Core Tier 1 capital than has been assumed, the Group would be unable to meet the capital requirements set by the Central Bank by 31 July 2011 without further intervention from the State. In these circumstances, the Minister would have a number of options to ensure that the requisite Core Tier 1 capital is generated by 31 July 2011, including alternative measures for burden sharing with bondholders through the introduction of new or amending legislation or (subject to the statutory requirements being satisfied) otherwise or the making of an application pursuant to the Stabilisation Act for a direction order requiring a mandatory capital injection into the Bank by the State, which could result in significant dilution of stockholders' proportionate holdings in the Bank. Such eventualities may also result in an insufficient number of units of ordinary stock being in public hands in addition to other potential breaches of the Bank's continuing obligations under the Listing Rules. De-listing would adversely impact the marketability and liquidity of the units of ordinary stock and may adversely impact their value.

2. Background to the proposals

March 2010 PCAR and EU/IMF Programme

On 30 March 2010, the Central Bank completed a PCAR exercise on the Bank and informed the Bank that it was required to generate €2.66 billion of Equity Tier 1 Capital in order to meet minimum Equity and Core Tier 1 capital ratios of 7% and 8%, respectively, by 31 December 2010. During 2010, the Group made significant progress in strengthening its capital ratios. The Group exceeded the capital requirement set in March 2010 through its 2010 Capital Raising, balance sheet liability management exercises and other actions. The Group's Equity and Core Tier 1 capital ratios at 31 December 2010 were 7.3% and 9.7%, respectively.

Despite the progress in strengthening the Group's capital ratios from June 2010, heightened concerns regarding the level of fiscal deficits and sovereign debt levels for peripheral Eurozone countries, including Ireland, and the potential impact of these deficits on their economies resulted in renewed instability in financial markets causing bond yields to increase significantly for these countries. Measures taken to alleviate market tension included the establishment of the European Financial Stability Fund ("EFSF") and the ECB's Securities Market Programme to facilitate the normal functioning of public and private European debt markets together with the publication of the CEBS stress test results in July 2010. In the case of Ireland, there was a significant increase in bond yields and several downgrades of the Irish sovereign credit rating by several rating agencies from August 2010 which led to corresponding downgrades for the senior bond ratings of domestic financial institutions, including the Group. These concerns were exacerbated by, amongst other things, the impact of higher than expected discounts applied to assets transferring to NAMA, the cost to the State of supporting the Irish banking system, the projected debt levels of the State, uncertainties in relation to whether the ELG Scheme, which was due to expire by the end of September 2010, would be extended and subsequent market speculation about the eventual outcomes for bondholders in Eurozone banks. On 1 June 2011, the EU granted State aid approval for the extension of the ELG Scheme to 31 December 2011.

The combination of the substantial rise in Irish sovereign bond yields and the overall need for stability in the Eurozone resulted in an EU/IMF/ECB delegation entering discussions with the Government in late November 2010. On 28 November 2010, it was announced that these discussions had culminated in the Government's agreement, in principle, to the provision of (i) €67.5 billion of financial support to Ireland by the Member States of the European Union through the EFSF and the European Financial Stability Mechanism, bilateral loans from the UK, Sweden and Denmark and the IMF's Extended Fund Facility and (ii) a commitment of €17.5 billion from the NPRFC and other domestic cash resources. This agreement was subsequently formalised in the Programme Documents, announced on 1 December 2010. The overall EU/IMF Programme included up to €35 billion to support the banking system, including the Group, with €10 billion set aside for immediate recapitalisation, in line with the revised capital requirements and up to €25 billion available on a contingency basis. It also set out a programme which provides for a fundamental downsizing and reorganisation of the banking sector and provides for new regulatory capital requirements for the Irish banking system so that it is capitalised at a level which is among the highest international standards.

In tandem with the announcement of the EU/IMF Programme, the Central Bank announced on 28 November 2010 that it had set a new minimum capital requirement for the Irish banking system. Under that requirement, the Group was required to maintain a minimum 10.5% Core Tier 1 capital ratio (previously 8%) and also to generate €2.199 billion of Core Tier 1 capital by 28 February 2011, being the Central Bank's estimate, at that time, of the amount needed to achieve a minimum Core Tier 1 capital ratio of 12% (calculated by reference to the position as at 31 December 2010) and maintain a Core Tier 1 capital ratio of greater than 10.5%. This deadline was postponed on 9 February 2011 pending the outcome of the Irish general election on 25 February 2011 and the outcome of the March 2011 PCAR and the Prudential Liquidity Assessment Review ("PLAR") results on 31 March 2011.

Capital raising measures since 28 November 2010

Since the announcement of the additional capital requirements on 28 November 2010, the Group has generated €806 million of Core Tier 1 capital after taking the following measures:

- On 17 December 2010, the Group completed the exchange of €1.4 billion nominal value of certain Lower Tier 2 securities for approximately €0.7 billion of euro and Sterling Medium Term Notes due in 2012. This generated Core Tier 1 capital of approximately €0.7 billion whilst reducing Total Capital by approximately €0.7 billion.

- On 10 January 2011, the Group completed the sale of Bank of Ireland Asset Management ("BIAM") to State Street Global Advisors for a total consideration of €57 million. This generated Core Tier 1 capital of approximately €40 million.

- On 10 February 2011, the Group announced the exchange of €102 million nominal value of certain Canadian Dollar Lower Tier 2 securities for euro and Canadian Dollar Medium Term Notes due in 2012. This generated Core Tier 1 capital of €46 million whilst reducing Total Capital by €56 million.

- On 1 June 2011, the Group completed the sale of BOISS to Northern Trust Corporation for a total consideration of up to €60 million. This generated Core Tier 1 capital of approximately €40 million.

March 2011 PCAR

The March 2011 PCAR undertaken by the Central Bank was a stress test of the capital resources of the Group under an adverse stress scenario, undertaken in order to calculate the capital required to meet the Central Bank's minimum regulatory capital requirements. It included an assessment of potential loan losses over a three year (2011-2013) time horizon under base case and stress scenarios using external assumptions and methodologies.

The Central Bank engaged external consultants, BlackRock Solutions ("BlackRock"), to carry out the loan loss assessment used to calculate the capital requirements for the March 2011 PCAR, with Boston Consulting Group (BCG) providing an independent assessment on the work performed by BlackRock to assess, among other things, that they were sufficiently conservative in output.

The March 2011 PCAR Core Tier 1 capital requirement has been set with the objective of addressing the following:

- the higher capital ratios required by the Central Bank of a minimum Core Tier 1 capital ratio of 10.5% on an ongoing basis and a minimum Core Tier 1 capital ratio of 6% under the adverse stress scenario;
- an additional Core Tier 1 capital regulatory buffer of €0.5 billion reflecting additional conservatism;
- the adverse stress scenario loan loss estimates based on BlackRock's methodology;
- the potential transfer of further loans to NAMA(1) applying what the Central Bank described as haircuts (discounts) "in line with the haircuts applied under NAMA transfers during 2010"; and
- what the Central Bank described as a "prudent" estimate of losses arising from deleveraging under an adverse stress scenario.

(1) This included loans eligible to transfer to NAMA where the Group has an individual customer/sponsor of greater than €20 million expected to transfer in 2011 and land and development loans of less than €20 million not now expected to transfer to NAMA. .

Capital Requirement

The result of the March 2011 PCAR is that the Group is required to generate additional Core Tier 1 capital of €4.2 billion (including a regulatory buffer of €0.5 billion) and €1.0 billion in contingent capital. This supersedes the additional required capital announced by the Central Bank on 28 November 2010. Following the March 2011 PCAR, the Group's incremental Core Tier 1 capital requirement comprises of the following:

Factors driving the additional Core Tier 1 capital requirement for the Group	**€ billion**
Higher minimum Core Tier 1 capital ratio requirements of 10.5% (previously 8%) announced on 28 November 2010 to include the transfer of further loans to NAMA and deleveraging impacts	2.2
Additional losses on sales of assets to NAMA, and subordinated debt impairment	0.2
Offset by capital generated by the Group from liability management initiatives and business disposals between 28 November 2010 and 31 March 2011	(0.8)
March 2011 PCAR	2.2
Other items (net)	(0.1)
Sub-total	3.7
Regulatory Buffer	0.5
Total Core Tier 1 capital Requirement	**4.2**

When generated, the additional Core Tier 1 capital required by the March 2011 PCAR will lead to the Group being strongly capitalised with a pro forma Core Tier 1 ratio of 15% at 31 December 2010.

The €1.0 billion of contingent capital required will be raised via the issue to the State of the Contingent Capital Instrument and which, under certain circumstances, would convert in its entirety to Core Tier 1 capital in the form of ordinary stock. The Contingent Capital Instrument is described in detail in paragraph 5 below .

Loan Loss Estimates

The following table sets out the Group's base case future loan loss estimates compared to the estimates under the March 2011 PCAR BlackRock/Central Bank methodology for the Group's loan portfolios (excluding land and development assets and assets potentially eligible for transfer to NAMA which were not reviewed by BlackRock) for the three year period 2011 - 2013 (based on Central Bank prescribed macroeconomic variables and property value assumptions for the period 2011 - 2013).

Base Case Loan Loss Estimates 2011 - 2013				
	Loan Portfolio Volumes 31/12/2010 (audited)	BlackRock methodology including stock of provisions (unaudited)	Bank of Ireland including stock of provisions (unaudited)	Variance BlackRock Vs Bank Loan Loss Estimates 2011-2013 (unaudited)
	A	B	C	B-C
	€bn	€bn	€bn	€bn
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**

[A] Source: Gross before balance sheet impairment provisions of €3.5 billion at 31 December 2010 and excluding those assets potentially held for sale to NAMA, which at the time of the March 2011 PCAR included land and development loans less than €20 million to be potentially transferred to NAMA.
[B] Source: Table 8, Financial Measures Programme.
[C] Source: Table 8, Financial Measures Programme.

The following table sets out the Group's adverse stress case future loan loss estimates compared to the estimates under the March 2011 PCAR BlackRock/Central Bank methodology for the Group's loan portfolios (excluding land and development assets and assets potentially eligible for transfer to NAMA) for the three year period 2011 - 2013 (based on Central Bank prescribed adverse stress macroeconomic variables and property value assumptions for the period 2011 - 2013).

Adverse Stress Scenario Loan Loss Estimates 2011-2013				
	Loan Portfolio Volumes 31/12/2010 (audited)	BlackRock methodology including stock of provisions (unaudited)	Bank of Ireland including stock of provisions (unaudited)	Variance BlackRock Vs Bank Loan Loss Estimates 2011-2013 (unaudited)
	A	B	C	B-C
	€bn	€bn	€bn	€bn
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**

[A] Source: Gross before balance sheet impairment provisions of €3.5 billion at 31 December 2010 and excluding those assets potentially held for sale to NAMA, which at the time of the March 2011 PCAR included land and development loans less than €20 million to be potentially transferred to NAMA.

[B] Source: Table 8, Financial Measures Programme.

[C] Source: Table 8, Financial Measures Programme.

The outcome of the March 2011 PCAR was based on future loan loss estimates undertaken by BlackRock on behalf of the Central Bank with, in the Directors' view, conservative assumptions on the performance of the Group's loan portfolios (excluding land and development assets and assets potentially eligible for transfer to NAMA) under the adverse stressed conditions. The resulting incremental capital requirement was primarily driven by the methodology applied by BlackRock to the Group's residential and commercial mortgage books in the adverse stress scenario. This resulted in a variance between the Group's and BlackRock's loan loss estimates of €2.2 billion in the adverse stress case as set out in the table above. The BlackRock methodology applies, in the Directors' view, a "repossess and sale" approach whereby conservative residential and commercial property values and resulting negative equity are the primary driver of loan losses in both mortgage and investment property portfolios. Such an approach, in the Directors' view, assumes a materially higher level of immediate repossession and sale of properties at distressed prices, placing less emphasis on customers' long-term repayment capacity, including contracted income streams and is therefore materially different to, and more conservative than, the methodology used in previous reviews of potential future loan losses by the Group and leading international risk consultants.

As with any stress test, the adverse stress scenario is designed to cover "what-if" situations reflecting even more stressed macroeconomic conditions than might reasonably be expected to prevail. If the additional potential loan losses in the adverse stress scenario do not materialise, the Group should significantly exceed the 10.5% minimum Core Tier 1 capital ratio as required by the Central Bank.

Oliver Wyman Reviews

In advance of the March 2011 PCAR process, the Group commissioned Oliver Wyman, leading international risk consultants, to provide an independent review and challenge of the Group's base case future loan loss estimates through a detailed granular review of its customer loan book (excluding land and development assets and assets potentially eligible for transfer to NAMA). Oliver Wyman was previously commissioned to independently review and challenge the Group's future loan loss estimates in 2009 and 2010. The most recent review, as detailed in the Oliver Wyman report for the Group, was based on updated economic assumptions for Ireland and the UK that were consistent with the economic assumptions used in the March 2011 PCAR process. In respect of Ireland, these updated economic assumptions included slower economic growth and elevated unemployment for a more prolonged period of time compared to equivalent assumptions in the Oliver Wyman review of April 2010 and a peak to trough decline in residential house prices of 55% as against a 45% decline in the assumptions used in the Oliver Wyman review of April 2010. Arising from this review the Group’s expectation for impairment charges on Irish mortgages and business banking has increased somewhat, although this is expected to be offset by improved impairment experience in the Group's consumer, corporate loan and UK mortgage portfolios.

Oliver Wyman has confirmed in its report for the Group that, on the basis of work it has performed and subject to the limitations and qualifications set out in the Oliver Wyman report, it believed the Group’s base case loan loss estimates (excluding land and development assets and assets potentially eligible for transfer to NAMA which were not reviewed by Oliver Wyman) for the three year period 2011 - 2013 to be reasonable for the assumed base case scenarios. The results of this review were consistent with previous guidance to the market that loan losses (excluding assets sold or held for sale to NAMA) peaked in 2009 and reduced in 2010, with anticipated further reductions in subsequent years.

Future loan loss estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances. Actual results may differ from these estimates due to the inherent uncertainty around future events, values and timing issues.

March 2011 PLAR

The PLAR, undertaken by the Central Bank together with the EU, IMF and ECB, was an assessment of measures to be implemented with a view to steadily deleveraging the banking system and reducing reliance on short term wholesale funding and liquidity support from Monetary Authorities. The PLAR has set specific funding targets for the Group consistent with the proposals developed by the Basel Committee on Banking Supervision, a forum for regular co-operation on banking supervisory matters (known as “Basel III”), and other international measures to improve the stability and quality of bank funding structures. The PLAR incorporates the deleveraging plan which requires a loan to deposit ratio of 122.5% for the Group by 31 December 2013. The Group’s loan to deposit ratio at 31 December 2010 was 175% having increased from 143% at 30 June 2010. The PLAR also requires a net stable funding ratio for the Group of 86% by 31 December 2013 and a Liquidity Coverage Ratio for the Group of 75% by 31 December 2013.

The deleveraging plan envisages certain loan portfolios / lending businesses of the Group continuing to be in managed run down or disposed of on an orderly basis resulting in an expected reduction in the Group’s total loans and advances to customers (net of impairment provisions) from €114 billion at 31 December 2010 to approximately €90 billion by 31 December 2013. This will be achieved through an approximately €30 billion reduction in the Group’s non-core loan portfolios of which approximately €10 billion will be in the form of asset disposals. Incorporated within the Core Tier 1 capital requirement of €4.2 billion is what the Central Bank described as a “prudent” estimate of losses arising on the approximately €10 billion asset disposal under an adverse stress scenario.

The loan portfolios / lending businesses of the Group, that are being/will be run down or disposed of over time, include:

- Portfolios of UK mortgages that were sourced from brokers and other intermediaries;
- Selected international niche businesses such as project finance, asset based lending and certain previously identified international corporate banking portfolios; and
- Certain international commercial investment property loan portfolios.

The above portfolios are diversified in terms of asset class and geography, and this diversification provides the Group with options as to how it achieves the €10 billion disposal target. Consequently the Group can undertake a disposal process without pressure to concede to the risk of the sale of assets in a rapid manner that would result in a lower price being obtained compared to a more orderly process.

Funding

Despite the positive actions that the Group had undertaken in the first half of 2010 to improve the Group's funding position through its deleveraging initiatives, deposit gathering and extending the maturity profile of wholesale funding, the Group's funding plans and position were severely impacted by the sovereign debt concerns which arose in the second half of 2010 culminating in the announcement by the Government of the EU/IMF Programme on 28 November 2010.

Throughout 2010 and despite intense competition, the Group's retail customer deposit base in Ireland remained stable. The Group's UK business and UK deposit gathering have been enhanced by the incorporation of a UK licensed banking subsidiary (which was approved by the FSA in October 2010), the deposits of which are covered under the terms of the Financial Services Compensation Scheme, which should enable the Group to grow its business and continue to support its customers in the UK, including those of the successful joint ventures with the Post Office, which has over 2.3 million customers.

Following a number of downgrades of the sovereign's credit ratings and the Group since August 2010, the Group experienced a €19 billion decrease in ratings sensitive deposits, primarily from the Group's capital markets division. The maturity profile of wholesale funding has shortened due to very limited access to market sources of wholesale funding. As a result the Group is currently dependent on secured funding from the ECB (€23 billion (net) at 31 December 2010 an increase of €15 billion from 31 December 2009) and emergency liquidity assistance from the Central Bank (€8 billion at 31 December 2010 and nil at 31 December 2009).

As at 31 December 2010, the Group's loans and advances to customers (excluding assets held for sale to NAMA and net of impairment provisions) have reduced by 4% since 31 December 2009, reflecting customer repayments, redemptions and the Group's deleveraging initiatives. However, notwithstanding the reduction in loans and advances to customers, the impact of the outflow of ratings sensitive deposits has resulted in a significant increase in the Group's loan to deposit ratio to 175% at 31 December 2010 from 143% at 30 June 2010.

Since December 2010, the overall volume of loans and advances to customers (excluding assets held for sale to NAMA and impairment provisions) has reduced from €114 billion at 31 December 2010 reflecting foreign exchange movements, loan redemptions and repayments, certain portfolios being closed for new business and generally muted demand for new loans, notwithstanding the Group's efforts to generate new business opportunities from the Group's core franchises. While competition for deposits has persisted, customer deposits are marginally higher compared to 31 December 2010. As a result, the Group's loan to deposit ratio has improved by approximately 10 percentage points from 175% at 31 December 2010, and wholesale funding has reduced from the €70 billion at 31 December 2010 with net drawings from Monetary Authorities and other liquidity facilities provided by the Central Bank also reducing.

Stabilisation Act

As a further measure to expand the financial stability tools available to the Government in respect of the Irish banking sector, on 21 December 2010, the Stabilisation Act was signed into law. The Stabilisation Act provides for significant powers to recapitalise and restructure the Irish banking industry in the period up to 31 December 2012. The powers of the Minister under the Stabilisation Act are significant and include the power to apply to the High Court for formal orders and directions to impose onerous requirements on relevant institutions and the holders of securities issued by the relevant institutions.

On 31 May 2011, the Minister for Finance announced 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 action, 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*". 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 for Finance would result in the generation of Core Tier 1 capital of approximately €2.3 billion, after taking account of the associated estimated tax costs to the Bank of approximately €0.3 billion.

3. Debt for Equity Offers

On 8 June 2011, the Bank launched the LME pursuant to which the holders of certain of the Group's Tier 1 securities and Tier 2 securities are being provided the opportunity to exchange their securities either for cash or for allotment instruments convertible into new units of ordinary stock. The full terms of the LME are set out in a Consent and Exchange Offer Memorandum dated 8 June 2011, prepared by the Bank. The securities that are the subject of the LME (the "Eligible Debt Securities") are as follows:

Issuer	Description	Outstanding amount *
Tier 1 Existing Securities:		
BOI Capital Funding (No.1) LP	Fixed Rate/Variable Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (ISIN: XS0213178295)	€215,866,000
BOI Capital Funding (No.2) LP	Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (ISIN: USG12255AA64 / CUSIP: US055967AA11)	U.S.$61,271,000
BOI Capital Funding (No.3) LP	Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (ISIN: USG12250AA77 / CUSIP: US05568AAA88)	U.S.$19,797,000
BOI Capital Funding (No.4) LP	Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (ISIN: XS0268599999)	£5,070,000
Bank of Ireland UK Holdings plc	6.25 per cent. Guaranteed Callable Perpetual Preferred Securities (ISIN: XS0165122655)	£40,146,000
Bank of Ireland UK Holdings plc	7.40 per cent. Guaranteed Step-up Callable Perpetual Preferred Securities (ISIN: XS0125611482)	€253,335,000
Upper Tier 2 Existing Securities:		
The Governor and Company of the Bank of Ireland (in substitution for Bristol & West plc)	13.375 per cent. Unsecured Perpetual Subordinated Bonds (ISIN: GB0000510312)	£75,000,000
The Governor and Company of the Bank of Ireland	Undated Floating Rate Primary Capital Notes (ISIN: IE0000750319)	U.S.$75,140,000
Lower Tier 2 Existing Securities:		
The Governor and Company of the Bank of Ireland	Fixed/Floating Dated Subordinated Notes due September 2015 (ISIN: CA062786AA67)	CAD138,721,000
The Governor and Company of the Bank of Ireland	Fixed/Floating Dated Subordinated Notes due September 2018 (ISIN: CA062786AD07)	CAD89,733,000
The Governor and Company of the Bank of Ireland	Callable Step-up Floating Rate Subordinated Notes due January 2017 (ISIN: XS0283474483)	€91,100,000
The Governor and Company of the Bank of Ireland	Callable Step-up Floating Rate Subordinated Notes due 2017 (ISIN: XS0223310862)	€48,100,000

Issuer	Description	Outstanding amount *
The Governor and Company of the Bank of Ireland	Callable Fixed/Floating Dated Subordinated Notes due January 2018 (ISIN: XS0238792393)	£57,736,000
The Governor and Company of the Bank of Ireland	10.75 per cent. Subordinated Bonds due 2018 (ISIN: XS0044196425)	£27,117,000
The Governor and Company of the Bank of Ireland	Callable Step-up Floating Rate Subordinated Notes due July 2018 (ISIN: XS0309177318)	U.S.$184,241,000
The Governor and Company of the Bank of Ireland	Fixed/Floating Rate Subordinated Notes due 2019 (ISIN: XS0186652557)	€201,487,000
The Governor and Company of the Bank of Ireland	10 per cent. Subordinated Notes due 2020 (ISIN: XS0487711656)	£87,147,000
The Governor and Company of the Bank of Ireland	10 per cent. Subordinated Notes due 2020 (ISIN: XS0487711573)	€747,056,000
The Governor and Company of the Bank of Ireland	Callable Subordinated Step-up Notes due September 2020 (ISIN: XS0381705549)	£272,128,000

* Figures do not include accrued interest.

The deadline for receipt of tenders in the LME is, for the vast majority of Eligible Debt Securities, expected to be 7 July 2011.

The LME offers are being made to certain US bondholders as well as to bondholders outside the US. As a result of US tender offer rules, bondholders who elect to exchange Eligible Debt Securities for equity (rather than cash) will initially receive allotment instruments, which will automatically convert into ordinary stock of the Bank shortly following completion of the proposals. It is expected that bondholders will receive their allotment instruments on or around the date that trading in the nil paid rights in respect of the Rights Issue commences.

The issuance of the allotment instruments pursuant to the LME is conditional on stockholder approval at the extraordinary general court being obtained as the issue of those instruments and the new ordinary stock into which such instruments will convert is a non-pre-emptive offer of ordinary stock requiring Stockholder approval under the Listing Rules.

The minimum denomination per unit of the allotment instruments offered is €50,000 and the allotment instruments will not be admitted to trading on any exchange. As such, a prospectus is not required in respect of the issue of the allotment instruments.

Bondholders who elect to exchange all of their Eligible Debt Securities for allotment instruments will receive allotment instruments with a nominal amount equal to 20% (or, if tendered after the early participation deadline, 16%) of the nominal amount of the Eligible Debt Securities where such Eligible Debt Securities are Tier 1 securities, and 40% (or, if tendered after the early participation deadline, 32%) of the nominal value of the Eligible Debt Securities where such Eligible Debt Securities are Tier 2 securities. Bondholders will also be eligible to receive accrued interest in respect of their securities exchanged for allotment instruments. The allotment instruments will not be admitted to listing or trading on any stock exchange, but may be traded within certain clearing systems up to a record date falling before the conversion date. The allotment instruments will automatically convert into units of ordinary stock on a conversion date, expected to be 12 August 2011. The number of units of ordinary stock to be issued on conversion of the allotment instruments will be calculated by dividing the nominal value of the allotment instrument by the conversion price which will be within the range announced today, being €0.1130 to €0.1176 per unit of ordinary stock. The ordinary stock issued pursuant to the conversion of the allotment instruments (known as “Debt for Equity Stock”) will rank pari passu in all respects with the units of existing ordinary stock, including the right to receive dividends made, paid or declared (if any) after the admission of such Debt for Equity Stock.

Under the cash option of the LME, bondholders who elect to exchange their Eligible Debt Securities for cash will receive cash equal to 10% (or, if tendered after the early participation deadline, 8%) of the nominal amount of Eligible Debt Securities which are Tier 1 securities, and 20% (or, if tendered after the early participation deadline, 16%) of the nominal amount of Eligible Debt Securities which are Tier 2 securities. Bondholders will not be eligible to receive any accrued interest in respect of their securities exchanged for cash.

It is proposed that, at a series of bondholder meetings for the holders of the Eligible Debt Securities (the vast majority of such meetings having been convened for 7 July 2011), holders will be invited to consent to amendments to the terms of the Eligible Debt Securities to grant the Group call options to compulsorily acquire any Eligible Debt Securities which remain outstanding following settlement of the LME for cash at a price of 0.001% of the nominal amount of such securities, without accrued interest. The amendment of the terms of each class of Eligible Debt Securities to create the call options will depend on the bondholders of that class approving the amendment at the bondholder meeting for that class by the requisite majority set out in the relevant debt instrument. The objective of the call options is to enable the Group to compulsorily acquire Eligible Debt Securities not tendered in the LME in order to generate additional Core Tier 1 capital. To the extent a call option is granted in respect of a class of Eligible Debt Securities, the Group intends to exercise such call option following the settlement of the offer in respect of that class of Eligible Debt Securities.

If the bondholders of a particular class of Eligible Debt Securities do not approve the amendment of the terms of that class, then the Group will not obtain a call option over Eligible Debt Securities not exchanged under the LME and such Eligible Debt Securities will remain outstanding. Such a rejection will not otherwise impact on the implementation of the Proposals. In the event that any Eligible Debt Securities remain outstanding following conclusion of the LME, the Group expects that the Minister would proceed with an application to the High Court for a subordinated liabilities order under the Stabilisation Act, or take other steps available to him under the Stabilisation Act or otherwise, in respect of any such outstanding Eligible Debt Securities to generate a higher level of Core Tier 1 capital than would be achieved by the acceptance of the cash alternative under the LME had such outstanding Eligible Debt Securities been tendered in the LME (and the level of return to bondholders in these circumstances may be materially below that available pursuant to the cash option in the LME).

If the resolutions are not approved, the issue of the allotment instruments under the LME will not occur and those holders of Eligible Debt Securities who elected to receive allotment instruments will instead be deemed to have elected to receive cash, (unless they have indicated when tendering their securities that they would prefer to receive their securities back should the resolutions not be approved). Since stockholder approval is not required to complete the cash component of the LME, the completion of this aspect of the LME will proceed even if the resolutions are not approved.

The amount of Core Tier 1 capital that could be generated under the LME will vary depending on a number of circumstances.

It is expected that settlement under the LME in respect of the vast majority of Eligible Debt Securities tendered and accepted will occur by mid July 2011 (although if any bondholder meetings are adjourned, settlement of the affected classes of Eligible Debt Securities may be postponed by approximately two weeks). If Stockholders do not approve the resolutions, the LME could only proceed in respect of the cash option and, accordingly, Eligible Debt Securities will either be exchanged for cash or remain outstanding. No Core Tier 1 capital will be generated for the Group in respect of the Eligible Debt Securities that remain outstanding (although, as noted above, the Bank anticipates that the Minister will take steps available to him under the Stabilisation Act or otherwise to generate further Core Tier 1 capital from such Eligible Debt Securities). The completion of the cash option under the LME will proceed even if the resolutions are not approved by stockholders.

As a result of US "prompt settlement" securities laws, those bondholders who elect to exchange their bonds for equity (as opposed to cash) will, subject to Stockholder approval, be issued with tradeable securities ("allotment instruments") which will convert mandatorily into units of new ordinary stock (ranking pari passu with existing ordinary stock) in mid August 2011.

The number of units of ordinary stock to be issued upon such conversion will be calculated by dividing the aggregate principal amount of allotment instruments by a conversion price to be set by reference to a formula reflecting a market price adjusted for the capital expected to be generated from the proposals. The equity conversion price will be in the range of €0.113 to €0.1176 per unit of ordinary stock. Allotment instruments will not be admitted to listing and will not carry any voting rights.

4. Rights Issue and Admission

Qualifying stockholders will be invited to take part in the Rights Issue pursuant to which the Bank will issue up to 43,500,000,000 units of new ordinary stock to raise up to €4.35 billion (€4.2 billion after estimated expenses).

The Directors expect that the full €4.35 billion of required Core Tier 1 capital will be generated pursuant to the proposals as follows:

- a minimum of €2.12 billion to be raised from a combination of the LME (including the cash offer component), the compulsory acquisition of existing securities pursuant to the exercise of the call options under the amended terms of the existing securities and the further burden sharing with subordinated bondholders anticipated by the Minister for Finance in his statement on 31 May 2011; and

- a maximum of €2.23 billion to be raised from the Rights Issue.

The expected maximum size of the Rights Issue of €2.23 billion is based on the Minister's stated policy that there will be full burden sharing with subordinated bondholders through the LME and, if necessary, action by the Minister under the Stabilisation Act or otherwise. The Directors' expectation is that the Minister, in consultation with the Central Bank, will take the necessary steps to ensure that the Bank is permitted to satisfy its obligations to raise Core Tier 1 capital through the full burden sharing with subordinated bondholders required by the Minister.

If this level of burden sharing is not achieved, the maximum size of the Rights Issue would be €4.35 billion (after expenses) (assuming no capital is generated through the LME or through the proposed amendments to the terms of existing securities).

The final size and terms of the Rights Issue are expected to be announced on 8 July 2011 once the results of the LME are known.

The NPRFC has confirmed that it will underwrite the Rights Issue in full. This means that any units of new ordinary stock not taken up by existing ordinary stockholders in the Rights Issue or not placed with placees under the rump placing (the proposed placing by the Joint Bookrunners of Rights Issue stock not taken up under the Rights Issue expected to take place between 26 and 29 July 2011) will be purchased by the NPRFC at the Rights Issue price thereby guaranteeing that the capital in the Rights Issue will be raised. It is expected that the Joint Bookrunners will use reasonable endeavours to procure placees for all new ordinary stock representing Rights not taken up at a price per unit of ordinary stock which is at least equal to the aggregate of the Rights Issue price and the expenses of procuring such subscribers (including any applicable brokerage and commissions and amounts in respect of value added tax).

The units of the new ordinary stock and conversion ordinary stock, when issued and fully paid under the rights Issue and the LME, will rank pari passu in all respects with the units of the existing ordinary stock, including the right to receive dividends or distributions made, paid or declared (if any) after the issue of such new ordinary stock and the conversion ordinary stock. The conversion ordinary stock will be ex-rights for the purposes of the Rights Issue.

Admission to Listing and Trading

An application will be made to the Irish Stock Exchange and to the UK Listing Authority for the new ordinary stock and the conversion ordinary stock to be admitted to listing on the Official Lists and an application will be made to the Irish Stock Exchange and the London Stock Exchange for the new ordinary stock and the conversion ordinary stock to be admitted to trading on the main markets for listed securities of each of the Irish Stock Exchange and the London Stock Exchange.

There can be no guarantee that the Bank will continue to satisfy the free float eligibility criteria of the Listing Rules of the Irish Stock Exchange and UKLA (a minimum of 25% of shares in public hands) following completion of the proposals. If qualifying stockholders subscribe for their entitlements in sufficient numbers and if the profile of the participants in the Rights Issue and the rump placing is such that their holding qualifies as being in public hands, the Bank will continue to satisfy the free float criteria. The Bank has agreed with the Irish Stock Exchange and the UKLA that in the event that the free float of the Bank is less than 25% following completion of the proposals, the Bank will, on 31 July 2011, serve notice of its intention to cancel its listing on the Official Lists and to cancel its trading on the main market of the Irish Stock Exchange and the London Stock Exchange, with the twenty business day notice period for such cancellations to commence on that date. It is accordingly emphasised that there is currently no assurance that application will be made or permission obtained for the new ordinary stock to be admitted to any stock exchange or regulated market. In the event that the Irish Stock Exchange and/or the UKLA would consent to the continuation of the listing of the new ordinary stock on one or both of the respective Official Lists on completion of the proposals, application will be made to the Irish Stock Exchange and/or the UKLA for up to 43,500,000,000 new ordinary stock units to be admitted to either/or both of the Official Lists and for such shares to be admitted to trading on the main markets for listed securities of the Irish Stock Exchange and/or the London Stock Exchange.

Stockholders and prospective investors should be aware that the ordinary stock in issue and the new ordinary stock to be issued under the proposals may, in certain circumstances, cease to be listed on the Official Lists (or any other market) and cease to be admitted to trading on the Irish Stock Exchange and/or the London Stock Exchange. In addition, stockholders and investors should note that the admission to either or both of the Official Lists of the new ordinary stock or admission to trading on the regulated markets for listed securities of the Irish Stock Exchange and/or the London Stock Exchange of the new ordinary stock is not a condition to the acceptance of any offer for nil paid rights, fully paid rights or new ordinary stock.

5. Contingent Capital Instrument

Subject to Stockholder approval, the Contingent Capital Instrument to be issued to the State by the Bank by 31 July 2011, will be a €1 billion subordinated Tier 2 debt instrument with a five year maturity denominated in units of €1,000, which will convert or be exchanged immediately and mandatorily in its entirety into units of ordinary stock of the Bank in the event that a capital deficiency event occurs. A capital deficiency event will occur where the Group’s Adjusted Core Tier 1 capital ratio falls below 8.25% or, following the implementation of the Capital Requirements Directive IV in Ireland, the Group’s Common Equity Tier 1 ratio falls below 8.25% or, if the Central Bank, in its sole discretion, notifies the Bank that it has determined that the Group’s financial and solvency condition is deteriorating in such a way that a fall below the ratios described above is likely to occur in the short term. No conversion will occur following one of the events above if, notwithstanding the Group's Adjusted Core Tier Capital 1 ratio or Common Equity Tier 1 ratio being below 8.25% the Central Bank, at the request of the Bank, has agreed, in its absolute discretion, that a conversion shall not occur because it is satisfied that actions, circumstances or events have had, or imminently will have during the next 90 days, the effect of restoring the Group's Adjusted Core Tier 1 capital ratio or Common Equity Tier 1 ratio to a level above 8.25% that the Central Bank deems to be adequate at such time.

The Contingent Capital Instrument will also convert immediately and mandatorily into units of ordinary stock of the Bank in the event that a non-viability event occurs which shall be deemed to occur at the earliest of the following events:

(i) the Central Bank in its sole discretion determines that a conversion of the Contingent Capital Instrument, together with the conversion or write off of holders’ claims in respect of any Tier 1 securities or Tier 2 securities of the Group that, pursuant to their terms or by operation of laws are capable of being converted into equity or written off at that time, is required because customary measures to improve the Group’s capital adequacy are at the time inadequate or unfeasible, an essential requirement to prevent the Group from becoming insolvent, bankrupt, unable to pay its debt as they fall due, from ceasing to carry on its business or from failing to meet its minimum capital adequacy requirements; or

(ii) customary measures to improve the Group's capital adequacy being at the time inadequate or unfeasible, the Group has received an irrevocable commitment of extraordinary support from the public sector (beyond customary transactions and arrangements in the ordinary course) that has, or imminently will have, the effect of improving the Group's capital adequacy and, without which, in the determination of the Central Bank, the Group would have become insolvent, bankrupt, unable to pay its debts as they fall due, ceased to carry on its business or failed to meet its minimum capital adequacy requirements.

The completion of the LME and any action resulting from any subordinated liabilities order/direction order to be issued by the Irish High Court under the Stabilisation Act will not result in the conversion of the Contingent Capital Instrument into units of ordinary stock. The provisions of the Master Loan Repurchase Deed, the Special Master Repurchase Agreement, the Facility Deed and the Counter-Indemnity Agreement entered into by the Bank will also not trigger the conversion of the Contingent Capital Instrument into units of ordinary stock.

In the context of the Central Bank's ongoing March 2011 PCAR framework, the Contingent Capital Instrument can count, upon conversion, as Core Tier 1 capital for the purposes of the March 2011 PCAR stress testing when the stressed projection shows an Adjusted Core Tier 1 capital ratio below 8.25%, which is the trigger for conversion from the Contingent Capital Instrument into ordinary stock units. Therefore, while the Contingent Capital Instrument is not treated as Core Tier 1 capital prior to conversion, it will count as Core Tier 1 capital upon conversion.

Following a conversion event, the Contingent Capital Instrument will be immediately converted into a variable number of units of ordinary stock of the Bank determined by dividing the principal amount of the Contingent Capital Instrument by the conversion price. The conversion price for the conversion of the Contingent Capital Instrument into ordinary stock will be the greater of:

(i) the volume-weighted average market price of a unit of ordinary stock of the Bank over the thirty business days prior to the date of an event triggering the conversion; or

(ii) the nominal value per unit of ordinary stock of the Bank. At any time when the Bank's ordinary stock is not admitted to trading on a recognised stock exchange the conversion price will be the nominal value per unit of ordinary stock of the Bank.

It is expected that the Contingent Capital Instrument will be subject to standard anti-dilution adjustments.

Ordinary stock issued pursuant to the conversion of the Contingent Capital Instrument will be issued directly to the holder of the Contingent Capital Instrument and the ordinary stockholders will not have pre-emption rights or the opportunity to subscribe for any such issue of ordinary stock.

The Contingent Capital Instrument carries a fixed mandatory interest rate of 10% of the issue price per annum, payable annually. The State may, where it remains the holder of 100% of the Contingent Capital Instrument, in order to facilitate the sale of the Contingent Capital Instrument to third party investors, at any time (but becoming effective only from the date of such sale being completed and settled) increase the interest rate to a new level determined by an independent remarketing agent nominated by the State, not exceeding 18% per annum. In addition, the Bank shall provide at the request of the initial holder of the Contingent Capital Instrument, sufficient disclosure to allow for the Contingent Capital Instrument to be listed and to be sold to third party investors. The Bank will have the option prior to any such sale of the Contingent Capital Instrument being completed and settled to source third party investors at a potentially lower interest rate, but only if it has sourced sufficient investors for an amount equal to the principal amount paid by the State for the Contingent Capital Instrument. It is expected that the Bank will seek to obtain a listing on the Irish Stock Exchange for the Contingent Capital Instrument in due course.

Other than the coupon, there are no associated fees payable by the Group in respect of the Contingent Capital Instrument, but the Group will be required to pay any debts and expenses associated with the issuance of the Contingent Capital Instrument or its admission to listing.

The Contingent Capital Instrument will rank junior to unsubordinated obligations of the Group and pari passu with all other dated subordinated obligations of the Group which qualify as Tier 2 Capital for regulatory purposes (if any).

The Bank has agreed with the Irish Stock Exchange and the UKLA that in the event that the conversion of the Contingent Capital Instrument results in the Bank being unable to satisfy the free float criteria of the Official List (a minimum of 25% of shares in public hands) it would seek ordinary stockholder approval for the cancellation of its listing on the Official Lists and to cancel its trading on the main market of the Irish Stock Exchange and the London Stock Exchange.

6. Expected terms of the proposed transaction agreement

It is expected that the NPRFC and the Bank will enter into a transaction agreement pursuant to which:

- the NPRFC will agree to subscribe for all units of new ordinary stock which are not (or are deemed not to have been or are otherwise treated as not having been) taken up pursuant to the Rights Issue or rump placing; and

- the State will agree to subscribe for, and the Bank will agree to issue, the Contingent Capital Instrument.

The transaction agreement will be conditional on the passing, without amendment, of the resolutions and on the receipt of certain regulatory approvals or consents.

The Bank will give certain representations, warranties, undertakings and indemnities to the NPRFC, the NTMA and the Minister in the transaction agreement. The liability of the Bank in respect of such representations, warranties, undertakings and indemnities will be unlimited as to time and amount.

The Bank will also give certain covenants to the Minister, the NTMA and the NPRFC pursuant to the transaction agreement in relation to the business of the Bank, in particular commitments in relation to measures to promote the availability of credit, corporate governance matters and remuneration.

In addition, it is expected that the Joint Bookrunners will severally use reasonable endeavours to procure subscribers for new ordinary stock under the rump placing. This rump placing will be used to procure subscribers for units of ordinary stock not taken up by existing ordinary stockholders under the Rights Issue. The ordinary stock under the rump placing will be placed at a price per unit of ordinary stock which is at least equal to the aggregate of the Rights Issue price and the expenses of procuring such subscribers (including any applicable brokerage and commissions and amounts in respect of value added tax).

7. Key benefits of the Proposals

The Directors believe that the proposals provide the following key benefits:

- *Satisfy Regulatory Requirements:* Core Tier 1 capital generated by the Rights Issue, LME, the compulsory acquisition of existing securities and the further burden sharing anticipated by the Minister and the issue of the Contingent Capital Instrument are expected to permit the Group to meet the capital requirements imposed by the Central Bank as part of the Financial Measures Programme;

- *Substantially increase Core Tier 1 capital:* the proposals are expected to increase Core Tier 1 capital by not less than €4.2 billion (after expenses). Had the proposals been implemented as at 31 December 2010 the Group would have had on a pro forma basis a Basel II pro forma Equity Tier 1 Capital ratio of 12.7% and a Core Tier 1 capital ratio of 15.0%. This compares with a reported Equity Tier 1 Capital ratio of 7.3% and a Core Tier 1 capital ratio of 9.7%, at 31 December 2010. The Directors consider that these increased pro forma levels of capital represent a strong capital foundation which will support the future stability of the Group, benefit stockholders, customers and counterparties and provide a platform for growth and delivery of long term value;

- *Strengthen funding capability:* a stronger capital position is expected to provide wholesale funding markets and depositors with increased confidence in the Group and support a prudent disengagement from the State guarantee schemes as market conditions allow; and

- *Facilitate the Group in seeking to achieve its strategic objectives:* by strengthening the Group's capital position, the Directors believe that the proposals together with the capital raised and generated by the Group over the past two years should facilitate the Group's objective of providing for a sustainable future as a systemically important bank, continuing to support the Group's customers, and contributing to economic recovery. The Directors also consider that the implementation of the proposals will facilitate the Group in seeking to achieve its business objectives to service customers and achieve profitable growth in those areas where the Group has competitive strengths and capabilities in its chosen core markets of Ireland and the UK and selected international market segments.

8. Current trading, trends and prospects

While trading conditions in the first quarter of 2011 continue to remain challenging, the Group believes that there are indications that the Irish economy may have begun to stabilise. The domestic economy remains weak with low levels of domestic investment, weak consumer sentiment, and elevated levels of unemployment. However, GDP in Ireland is expected to gradually recover in 2011 due to the strong performance of the export sector. The growth in the export sector has led to a rebalancing of the economy resulting in a positive balance of payments surplus in the second half of 2010 with this situation expected to prevail for 2011. In the United Kingdom, despite concerns regarding inflation and the impact of fiscal austerity, modest GDP growth is expected for 2011.

Notwithstanding the expected stabilisation of the Irish economy, the Group's total operating income faces material adverse impacts due to a range of factors including:

- the continuing competition for customer deposits and elevated deposit pricing;
- higher costs of wholesale funding reflecting the impact of term issuance in the second half of 2010 at elevated pricing; and
- higher systemic guarantee fees which increased by €70 million for the five months to May 2011 to €195 million, compared to €120 million for the comparable five month period in 2010.

Although these factors are being partially offset by improved lending pricing, demand for new lending remains muted. Accordingly, the Group expects these factors will continue to impact on its net interest margin for 2011. Operating costs remain under strict control and the Group expects to see some benefits from lower staff (including pension) costs, the impact of business disposals announced since December 2010, infrastructural cost efficiencies beginning to come through and tight control of all variable costs.

The Group maintains its previous guidance that the impairment charge on its non-NAMA designated loans and advances to customers peaked in 2009, reduced in 2010 with anticipated further reductions in subsequent years. The Group's experience in the first four months of the year supports this view.

Over this period, the overall volume of loans and advances to customers (excluding assets held for sale to NAMA and impairment provisions) has reduced from €114 billion at 31 December 2010 reflecting foreign exchange movements, loan redemptions and repayments, certain portfolios being closed for new business and generally muted demand for new loans, notwithstanding the Group's efforts to generate new business opportunities from the Group's core franchises. While competition for deposits has persisted, the Group's customer deposits are marginally higher compared to €65 billion at 31 December 2010. As a result of these factors, the Group's loan to deposit ratio has improved by approximately 10 percentage points from 175% at 31 December 2010 and wholesale funding reduced from the €70 billion at 31 December 2010 with net drawings from Monetary Authorities and other liquidity facilities provided by the Central Bank also reducing. The Group's capital ratios have also remained broadly stable compared to December 2010.

The Group is also continuing to progress initiatives to prudently deleverage its balance sheet and further reduce its costs whilst actively managing its credit portfolios.

9. Economic Outlook

Ireland

Ireland is currently experiencing an extremely challenging recessionary environment and period of fiscal adjustment following a prolonged period of over-reliance on construction and property-related activity for the funding of increased Government expenditure and the generation of economic growth. The challenges facing Ireland are exacerbated by the level of State support required by the banking sector. Irish GDP has experienced a severe contraction in recent years and fell by 1.0% in 2010, after declining by 7.6% in 2009 and 3.5% in 2008 (Source: Central Statistics Office (CSO) Quarterly National Accounts Q4 2010). The consensus forecast is for Irish GDP to increase by 0.5% in 2011 (Source: Reuters Poll, 4 May 2011). Unemployment has increased with the unemployment rate standing at 14.8% in May 2011 (Source: CSO, Live Register May 2011) and the consensus forecasts a rate of 14.2% by the end of 2011 (Source: Reuters Poll, 4 May 2011). Notwithstanding the further contraction in the overall economy in 2010, the export sector performed strongly, helping to limit the decline in GDP. The volume of goods and services exports rose by 9.4% in 2010 (Source: CSO, Quarterly National Accounts Q4 2010), boosted by global economic growth of 5% (Source: IMF World Economic Outlook, April 2011) and recent substantial gains in competiveness (the EU Commission estimates Ireland's unit labour costs fell by 4.9% in 2010 compared to an average decline of 0.5% for the euro area (Source: European Commission Spring Economic Forecast, May 2011)).

The residential property market has suffered a very significant decline, with average national house prices in Ireland, as at March 2011, estimated to be 39.5% below the peak in September 2007 (Source: CSO Residential Property Price Index). Commercial property prices have fallen by 61% between the third quarter of 2007 and the first quarter of 2011 (Source: IPD, Irish Commercial Property Index). The Government finances show a significant deficit with an estimated underlying[3] general Government deficit of 12% of GDP in 2010 (Source: Department of Finance, Stability Programme Update, April 2011), following a deficit of 14.3% of GDP in 2009 and 7.3% in 2008 (Source: Department of Finance, Maastricht Returns, March 2011). Between July 2008 and December 2010, the Government implemented significant fiscal adjustments amounting to €14.6 billion, equivalent to 9.5% of the estimated GDP for 2010, with a further adjustment of €6 billion to be implemented in 2011 through a combination of increased taxes and a reduction in Government spending (Source: Department of Finance, Budget 2011).

The heightened concerns relating to the Irish public finances have, amongst other factors, affected the liquidity and profitability of the financial system in Ireland and have resulted in:

- Higher yields for Government debt;
- Limited liquidity to the Irish banking system and a consequential increase in the reliance by Irish financial institutions on the liquidity provision operations offered by Monetary Authorities; and
- Increased competition among banks to attract customer deposits, resulting in an increased cost of customer deposits.

The planned adjustment to the Irish public finances over the period 2011-2015 (under the EU/IMF Programme) is expected to have a dampening effect on household incomes and consumer spending. As a result, the Government expects consumer spending to fall by 1.8% in real terms in 2011 (after a fall of 1.2% in 2010) and to remain flat in 2012 (Source: Department of Finance, Stability Programme Update, April 2011). The negative impact on consumer spending of the recent budget measures (including an increase in income taxes and a reduction in social welfare payments (amounting to almost €2 billion in 2011)) and contractions in numbers employed could be greater than the Government expects, which could also result in lower than forecast GDP growth with negative implications for unemployment and the public finances. The Department of Finance is currently forecasting the economy to grow by 0.8% in 2011 and by 2.5% in 2012 and the unemployment rate to be 14.4% in 2011 and 13.7% in 2012 (Source: Department of Finance, Stability Programme Update, April 2011).

The market perception of Irish sovereign risk deteriorated significantly between September and November 2010, with the yield on Irish Government 10-year bonds rising to over 9%. Because of the high yields on Irish

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[3] Underlying excludes the amounts relating to the recapitalisation of Anglo Irish Bank and Irish Nationwide Building Society.

bonds, which curtailed the State's ability to borrow on the international markets, the then Irish Government agreed on 28 November 2010 to the EU/IMF Programme. As part of the EU/IMF Programme, the Government committed to a four year (2011-2014) €15 billion fiscal adjustment (including €6 billion in 2011) which comprises public expenditure reductions and tax increases to cut the budget deficit to below 3% by 2014. The new Government, which took office on 9 March 2011, has (with the agreement of the EU/IMF) extended the deadline to reach the target to 2015. Ireland's general Government debt, which includes the cost of the State support to the banking sector, is projected to rise to a peak of 118% of GDP in 2013, from 96% in 2010, before falling back to 111% of GDP in 2015 (Source: Department of Finance, Stability Programme Update, April 2011). The March 2011 PCAR/PLAR review, part of the EU/IMF Programme, was completed in March 2011 and concluded that €24 billion in additional recapitalisation is required by the banking sector. The Department of Finance has assumed that additional borrowing of €10 billion will be required to meet the cost of the recapitalisation and this has been incorporated into the projections for the general Government debt (Source: Department of Finance, Stability Programme Update, April 2011). The cost of servicing the Government debt is expected to rise with debt interest payments projected to amount to 20.8% of the State's tax revenues in 2015, although this is below the level in the mid-1980s when interest payments on Government debt amounted to around 33% of the State's tax revenues (Source: Department of Finance, Stability Programme Update, April 2011).

The EU/IMF Programme also contains structural measures and policy guidelines designed to boost the country's competitiveness and improve Ireland's growth rate in the medium term to facilitate the servicing and repayment of the Government debts. Specifically, the EU/IMF Programme includes:

- Fiscal consolidation and structural fiscal reforms to achieve a sustainable fiscal position;
- Financial sector reforms including recapitalisation, reorganisation and deleveraging to achieve a robust, smaller and better capitalised banking system that will effectively serve the needs of the economy; and
- Structural reforms to underpin economic stability and enhance growth and job creation.

The magnitude of the fiscal adjustment agreed under the EU/IMF Programme, in addition to the low level of consumer and business confidence resulting from the economic crisis and ongoing sizeable difficulties with the Irish public finances, elevated levels of unemployment, decreases in asset values and declining business activity, is likely to have a significant effect on economic activity in Ireland.

In its Programme for Government, the Government that took office on 9 March 2011 confirmed its commitment to the EU/IMF Programme and announced a number of new initiatives and policies. The following are particularly relevant to the Group and the banking sector:

- While the Government notes that a smaller banking system is required for the size of the Irish economy, and that banks must reduce their reliance on the ECB and Irish Central Bank for funding, bank deleveraging must be paced to match the return of more normal market conditions and demand for bank assets;
- The Government aims to dispose of public stakes in banks at maximum value to the taxpayer and return the banks to private ownership as soon as the conditions permit it to do so; and
- Once the banking sector has been restored and working effectively, a bank levy will be introduced based on the size of each institution's liabilities (excluding stockholder capital).

Despite the Irish economy's current difficulties, the Group believes that Ireland's core strengths of a strong export sector, favourable demographics with a well educated, skilled workforce together with its pro-business environment should underpin a return to economic growth.

United Kingdom

Having returned to growth in the fourth quarter of 2009, GDP grew by 1.3% in the United Kingdom in 2010 (Source: Office for National Statistics, Quarterly National Accounts, Q4 2010) after declining by 4.9% in 2009 (Source: Office for National Statistics, Output, Income and Expenditure, Quarter 4 2009). The latest data shows that the economy expanded by 0.5% in the first quarter of 2011. The consensus view is that the economy will grow by 1.5% in 2011 and 2.2% in 2012 (Source: Reuters Consensus Forecast, May 2011). In spite of the economy's improvement during 2010, the impact of austerity measures introduced in the national budget may dampen the recovery leading to an increase in the unemployment rate. Unemployment in the United Kingdom stood at 7.7% at the end of March 2011 (Source: Office for National Statistics) and the consensus forecast is for an 8.0% unemployment rate in 2011 and 8.1% in 2012 (Source: Reuters April 2011).

The UK property sectors have shown some signs of recovery although some uncertainty remains around the pace and scale of future recovery. At April 2011 residential house prices had increased by 12% from the trough in February 2009, while commercial property capital values rose by 21% from the trough in the second quarter of 2009 to the end of the second quarter of 2011 (residential house prices fell 20.6% and the commercial property market experienced a 42% fall in capital values from their peak to trough cycle (from the second quarter of 2007 to the second quarter of 2009)) (Source: Nationwide Index, IPD Commercial Property Index). Significant uncertainty remains around the pace and scale of recovery (as residential property prices have softened over the second half of 2010). This reduction in the value of residential and commercial property has reduced the value of collateral on many of the Group's loans.

Though domestic demand is weak, exports have picked up, helped by the fall in the value of sterling. This rebalancing of the economy, away from an over-reliance on consumption towards external demand, should facilitate more sustainable growth over the medium term.

10. Use of Proceeds

The purpose of the Rights Issue and the Contingent Capital Instrument is to strengthen the Group's capital base. The proceeds will be used in the day-to-day operations of the Bank. Over the medium term, and subject to requisite regulatory approval applicable at the relevant time, the Directors may seek to apply a portion of the proceeds of the Rights Issue and the Contingent Capital Instrument to redeem or repurchase some, or all, of the outstanding 2009 Preference Stock and/or to acquire the 1992 Preference Stock provided they are satisfied that the Group can maintain appropriate capital ratios and they deem such action to be in stockholders' interests as a whole. Any such redemption or repurchase would also be subject to such other approvals required under the Bye-Laws of the Bank or the Companies Acts (as they apply to the Group) at the relevant time. The proceeds raised and/or capital generated from the proposals are expected, in aggregate, to increase the Group's Core Tier 1 capital ratio by 5.3% to 15% on a pro forma basis as at 31 December 2010, taking into account the costs and expenses of the proposals.

11. EU Notification and approval and Financial Measures

The State Guarantee Schemes, the NPRFC Investment and the transfer of bank assets from the Group to NAMA under the NAMA Act were considered by the European Commission to involve the provision of State aid within the meaning of Article 107 TFEU to the Group, which resulted in the requirement for the submission of an EU Restructuring Plan to the European Commission for approval under EU State aid rules. The Group submitted an EU Restructuring Plan to the European Commission on 30 September 2009. On 15 July 2010, the European Commission approved the State aid received by the Group as restructuring aid under EU State aid rules on the basis of the Approved 2010 EU Restructuring Plan submitted to the European Commission. The Approved 2010 EU Restructuring Plan contained certain measures to address the appropriate level of burden-sharing and to limit any competition distortions resulting from the State aid received by the Group as well as an assessment of the long-term viability of the Group. These measures require the Group to effect certain structural and behavioural measures. A Monitoring Trustee was approved by the European Commission on 25 October 2010 to report to the European Commission on the Group's adherence to the Approved 2010 EU Restructuring Plan commitments. The Monitoring Trustee has reported to the European Commission that the Group is complying with all of its commitments under the Approved 2010 EU Restructuring Plan.

Although the Group continues to proactively implement its Approved 2010 EU Restructuring Plan and is ahead of plan and on track to meet its targets on business disposals and asset deleveraging, the Group's funding objectives were severely impacted by the sovereign debt concerns which arose in the second half of 2010 and culminated in the announcement by the Government of the EU/IMF Programme on 28 November 2010. The Group's funding position has been adversely impacted by systemic issues, sovereign downgrades and reaction to the EU/IMF Programme which together negatively impacted deposits in the period from June 2010 to

December 2010 and the ability to raise unsecured wholesale funding. While this impact has been partly mitigated by accelerated deleveraging, funding from Monetary Authorities has materially increased. The Central Bank requested that the Group submit a Deleveraging, Restructuring and Balance Sheet Growth Plan ("deleveraging plan") as part of the March 2011 PCAR/PLAR review, which reflected the measures set out in the EU/IMF Programme, i.e. downsizing and reorganising the banking system to reach a more viable loan to deposit ratio of 122.5%, raising capital standards and reducing risk and increasing shock absorption capacity, together with systemic issues, higher discounts on the loans transferred to NAMA and certain conservative assumptions as provided by the Central Bank.

The Group's deleveraging plan commits the Group to significantly further deleverage the balance sheet, requiring a loan to deposit ratio of 122.5% by 31 December 2013, as required pursuant to the Financial Measures Programme announced by the Central Bank on 31 March 2011. The Financial Measures Programme sets out the outcome of the March 2011 PCAR together with an assessment of measures, including a combination of run-off and disposals of non-core assets, to be implemented with a view to steadily deleverage the banking sector and reduce reliance on short term wholesale funding and liquidity support from Monetary Authorities. In the case of the Group, the loan portfolios / lending businesses that are being/will be in managed run down or disposed over time include portfolios of UK mortgages that were sourced through brokers and other intermediaries, selected international niche businesses such as project finance, asset based lending and certain previously identified international corporate banking portfolios and certain international commercial investment property loan portfolios.

Following the March 2011 PCAR/PLAR review, the Minister for Finance, in his statement on banking matters on 31 March 2011, stated that the State will be submitting new restructuring plans for the banks to the European Commission for approval under EU State aid rules in respect of the implications of the changes necessary for the future banking landscape in Ireland. As part of the European Commission State aid review, a Revised 2011 EU Restructuring Plan for the period to 31 December 2015 was prepared by the Group and submitted by the Department of Finance to the European Commission on 29 April 2011. This Revised 2011 EU Restructuring Plan includes the additional deleveraging of assets included in the deleveraging plan, together with the measures already agreed in the Approved 2010 EU Restructuring Plan and the amendments outlined in paragraph "Revised 2011 EU Restructuring Plan", below. However, following the statement on banking matters by the Minister for Finance and the joint statement by the EU/IMF on 31 March 2011 and based on the current status of negotiations with the European Commission through the Department of Finance, the Group expects that the Revised 2011 EU Restructuring Plan will not be materially different to the Group's deleveraging plan.

Revised 2011 EU Restructuring Plan

Following the March 2011 PCAR/PLAR review, the Minister for Finance, in his statement on banking matters on 31 March 2011 stated that the State will be submitting new restructuring plans for the banks to the European Commission for approval under EU State aid rules in respect of the implications of the changes necessary for the future banking landscape in Ireland.

The Revised 2011 EU Restructuring Plan, submitted to the European Commission on 29 April 2010, includes the following key amendments to the Approved 2010 EU Restructuring Plan:

Business Disposals

New Ireland Assurance Company plc ("New Ireland")

The divestment period for this business will be extended by 12 months from the original agreed date.

ICS Building Society

The commitment to divest of ICS Building Society is cancelled. ICS Building Society will be retained by the Group**.**

Behavioural Commitments

Certain amendments were made to the behavioural commitments, including:

- The market opening measures will now apply from 1 January 2013 to 31 December 2015 and may involve broadening of the Relevant Product scope;
- The 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;
- The commitment from the Group with respect to restrictions on acquisitions will be extended to the earlier of (i) 31 December 2015; or (ii) such date as the 2009 Preference Stock, ordinary stock and Contingent Capital Instrument are redeemed / repaid or no longer owned by the State; and
- The commitment from the Group with respect to restrictions on marketing spend will be extended by approximately 12 months.

Loan Portfolios Wind-down/Sale

The Revised 2011 EU Restructuring Plan includes incremental deleveraging in the deleveraging plan as agreed as part of the PLAR process and set out below, which requires a loan to deposit ratio of 122.5% for the Group by 31 December 2013 (comprising approximately 26% of loans and advances to customers at 31 December 2010).

The loan portfolios / lending businesses of the Group, that are being/will be run down or disposed of over time, include:

- Portfolios of UK mortgages that were sourced from brokers and other intermediaries and reported in the UK Financial Services segment;
- Selected international niche businesses such as project finance, asset based lending and certain previously identified international corporate banking portfolios and reported in the Capital Markets segment; and
- Certain international commercial investment property loan portfolios and reported in the Capital Markets and UK Financial Services segments.

These portfolios / lending businesses will continue to be run down until the end of the Revised 2011 EU Restructuring Plan, being 31 December 2015.

The Group will also attempt to accelerate the wind-down of these portfolios by way of sale, but will not have an obligation to sell these portfolios at disposal discounts greater than those agreed with the Central Bank under the March 2011 PCAR/PLAR procedures or as agreed with the European Commission.

Implementation

The Revised 2011 Restructuring Plan remains subject to approval by the European Commission under EU State aid rules and the terms of any such approval may differ from the terms of the Revised 2011 Restructuring Plan.

These measures will be required to be implemented over various time frames between the date of the European Commission's final decision and December 2015.

Historical financial impact on the Group — business disposals and loan portfolios wind down/sale

The assets and liabilities, and the associated income and expenses, of the businesses to be divested cannot be determined with precision until nearer the date of sale. However, the Group estimates that, as at 31 December 2010, the businesses to be divested and the loan portfolio to be wound down/sold comprised approximately €37 billion of lending and approximately €20 billion of Risk Weighted Assets. For the 12 month period ended 31 December 2010, the Group estimates that the businesses to be divested and the loan portfolio to be wound down/sold generated underlying total income of approximately €0.5 billion, generated underlying operating profit (before impairment charges) of approximately €0.3 billion, and contributed approximately €0.1 billion of underlying profit before tax to the Group.

* Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core: gain on liability management exercises, impact of changes in pension benefits, gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at "fair value through profit or loss", impact of "coupon stopper" on subordinated debt, gross-up for policyholder tax in the life business, investment return on treasury stock held for policyholders, cost of restructuring programmes and gain / (loss) on disposal of business activities.

Implementation

The measures included in the Revised 2011 EU Restructuring Plan will be required to be implemented based on the timetable agreed with the European Commission between now and 31 December 2015 or as otherwise may be agreed with the State or the European Commission. A Monitoring Trustee was approved by the European Commission on 25 October 2010 to report to the European Commission on the Group's adherence to the Approved 2010 EU Restructuring Plan commitments. The Monitoring Trustee has reported to the European Commission that the Group is complying with all of its commitments. A Monitoring Trustee may also be appointed in respect of the Revised 2011 EU Restructuring Plan.

The implementation of certain agreed actions of the Revised 2011 EU Restructuring Plan may also require various external approvals from financial regulators (including financial regulators in jurisdictions where the Group operates and/or the purchasers of the Group's divestment businesses), stockholders pursuant to the Listing Rules, or other approvals required under competition law.

Conclusion

The Directors believe that the Revised 2011 EU Restructuring Plan is sufficient to obtain approval from the European Commission for all State aid that the Group has received including as a result of: (i) the NPRFC Investment; (ii) the Group's participation in NAMA; (iii) the State Guarantee Schemes; (iv) the 2010 Capital Raising; and (v) any State aid arising under the proposals.

On the basis of the historical financial information as set out above, the Directors do not expect that the Revised 2011 EU Restructuring Plan would be materially detrimental to the long term interests of the Group as it is expected to continue to leave the Group's core businesses intact.

12. NAMA

At the Extraordinary General Court on 12 January 2010, ordinary stockholders voted in favour of the Group's application to participate in NAMA and in February 2010, the Minister for Finance confirmed the Group's designation as a Participating Institution. Performing and non-performing land and development loans, together with associated loans (primarily investment property loans), are being acquired by NAMA on a phased basis which started on 2 April 2010, with the largest systemic exposures to the Irish banking system being acquired first.

During the 12 month period ended 31 December 2010, the Group sold €9.4 billion of gross assets (before impairment provisions) to NAMA. The nominal consideration receivable for these assets amounted to €5.2 billion resulting in a gross discount of 44%. The gross discount on assets sold to NAMA exceeded the estimate as outlined in the Minister for Finance's Statement on Banking issued on 30 September 2010, which was based on a forecast provided to the Minister by NAMA at that time. At 31 December 2010, the Group held €0.9 billion of assets (before impairment provisions) eligible for transfer to NAMA, where an individual customer/sponsor has an exposure of greater than €20 million. As at 30 April 2011, the Group held €1.0 billion of assets (before impairment provisions) expected to transfer to NAMA, representing an increase of €0.1 billion from 31 December 2010 attributable to the identification by NAMA of additional assets required to transfer (Source: unaudited internal management information). Due to the preponderance of investment property loans in this sub-portfolio, the Group expects that the final discount on the transfer of these assets to NAMA will be less than the average on assets sold prior to 31 December 2010.

In the updated EU/IMF Programme announced on 28 April 2011, the Government stated that if it believes that the Group requires alternative methods to meet the deleveraging targets under the PLAR, it may reconsider the possibility of transferring the land and development loans with a value of less than €20 million to NAMA

(Source: EU/IMF Programme: Memorandum of Economic and Financial Policies, Department of Finance, 28 April 2011). The Government requires the Group to provide contingency plans to meet the deleveraging targets. Where the Government believes the contingency plans are not feasible, the Government will find and implement alternate ways of meeting the deleveraging goals and may reconsider the possibility of transferring the land and development loans of less than €20 million to NAMA. Consequently, there is uncertainty in the medium term around the final scope of the Group's loans transferring to NAMA and the potential final consideration to be paid by NAMA for these loans and the related loss to the Group.

As at 7 June 2011, NAMA due diligence is still in progress on approximately €1.9 billion of loans (Source: internal unaudited financial information), that have already been sold to NAMA. As a result, there is continuing uncertainty around the final consideration to be paid by NAMA for these loans.

13. Renominalisation

Pursuant to the Bye-Laws, the Bank is not permitted to issue units of ordinary stock at a discount to their nominal value, which is currently €0.10 per unit of ordinary stock. It is proposed that the Bank carries out the renominalisation, which will reduce the nominal value to €0.05 per unit of ordinary stock. As the minimum conversion price of the Contingent Capital Instrument is €0.05, this provides the Bank and the holder of the Contingent Capital Instrument with certainty that the Contingent Capital Instrument will convert into units of ordinary stock in the circumstances where such a conversion is required under the terms of the Contingent Capital Instrument. The proposals are conditional on, amongst other things, the completion of the renominalisation of units of ordinary stock.

It is proposed that, pursuant to the renominalisation, (i) each existing unit of deferred stock of €0.54 will be subdivided into 54 units of €0.01 each; and (ii) each existing unit of ordinary stock in issue at the close of business on the date of the EGC will be subdivided into one unit of ordinary stock of €0.05 in the capital of the Bank ("€0.05 ordinary stock") and converted into five units of deferred stock of €0.01 in the capital of the Bank. The purpose of the issue of deferred stock is to ensure that the reduction in the nominal value of the ordinary stock does not result in a reduction in the capital of the Bank.

Each ordinary stockholder's proportionate interest in the issued ordinary stock of the Bank will remain unchanged as a result of the renominalisation. Aside from the change in nominal value, the rights attaching to €0.05 ordinary stock (including voting and dividend rights and rights on a return of capital) will be identical in all respects to those of Existing ordinary stock. No new stock certificates will be issued in respect of the €0.05 ordinary stock as existing stock certificates for Existing ordinary stock will remain valid in respect of the same number of €0.05 ordinary stock arising from the renominalisation. The renominalisation will not affect the Bank's net assets. Consequently, the market price of a unit of ordinary stock should not be impacted by the renominalisation.

The deferred stock created on the renominalisation becoming effective will have no voting or dividend rights and, on a return of capital on a winding up of the Bank, will have the right to receive the amount paid up thereon only after stockholders have received, in aggregate, any amounts paid up thereon plus €10 million per unit of ordinary stock, the purpose of which is to ensure that the units of deferred stock have no economic value.

No stock certificates or documents of title will be issued in respect of the deferred stock, nor will CREST accounts of stockholders be credited in respect of any entitlement to deferred stock, nor will they be admitted to the Official Lists or to trading on the Irish Stock Exchange, the London Stock Exchange or any other investment exchange. The deferred stock shall not be transferable at any time, other than with the prior written consent of the Directors.

At the appropriate time, the Bank may redeem or repurchase the deferred stock, make an application to the High Court of Ireland for the deferred stock to be cancelled, or acquire or cancel or seek the surrender of the deferred stock (in each case for no consideration) using such other lawful means as the Directors may determine.