

RELATIONSHIP FRAMEWORK

SPECIFIED BY

THE MINISTER FOR FINANCE

IN RESPECT OF

THE RELATIONSHIP BETWEEN

THE MINISTER FOR FINANCE

AND

THE GOVERNOR AND COMPANY OF THE BANK OF IRELAND

DATED 30 MARCH 2012

PREAMBLE

The Bank has received significant support from the State in the context of the financial crisis because of its systemic importance to the Irish financial system. This support has taken various forms including capital injections, asset relief and various guarantees.

Following an investment in the Bank by the Investors, which completed on 17 October 2011, the State, through the NPRF Commission, holds circa 15.13% of the ordinary stock in the Bank.

The Bank is considered to be one of two universal pillar banks in the Irish financial system. It is envisaged that the State's interest in the Bank will be divested as market conditions permit in a manner which protects and enhances value for the Exchequer, in so far as possible, in relation to the investment made by the State.

The legal basis for this Relationship Framework is set out in Appendix II.

The purpose of this Relationship Framework is to provide the basis on which the relationship between the Minister and the Bank shall be governed.

The Court has full responsibility and authority for all of the operations and business of the Bank in accordance with its legal and fiduciary duties and has responsibility and authority for ensuring compliance with the regulatory and legal obligations of the Bank.

It is recognised that the Bank is a licensed bank that is regulated by the Central Bank and this Relationship Framework will operate at all times in compliance with Regulatory Requirements.

It is further recognised that the Bank has shares and other instruments listed or traded on various exchanges and that the Bank must comply at all times with the requirements of Listing Rules and other applicable rules relating to securities and instruments.

This Relationship Framework provides for safeguards as to the separate management of each of the State's interests in Irish credit institutions (including in the Bank) in order to ensure that those interests, and the management of those interests, do not lead to a prevention, restriction or distortion of competition in contravention of merger control or competition law rules.

The Minister expects the Court and management team of the Bank to conduct the Bank's commercial operations in a prudent and sustainable manner which seeks to create a commercially oriented credit institution which recognises the need to encourage and enforce implementation of lessons learned from the financial crisis.

The Minister expects the Court and management team of the Bank to ensure that the Bank adheres to the State Agreements.

RELATIONSHIP BETWEEN THE MINISTER AND THE BANK

1. The meanings of defined terms used in this Relationship Framework are set out in Appendix I.
2. The Minister recognises that the Bank remains a separate economic unit with independent powers of decision and that its Court and management team retain responsibility and authority for determining the Bank's strategy and commercial policies (including business plans and budgets) and conducting its day-to-day operations. The Minister will ensure that the investment in the Bank is managed on a commercial basis and will not intervene in day-to-

day management decisions of the Bank (including with respect to pricing and lending decisions).

3. The Minister will engage with the Bank in accordance with best institutional shareholder practice in a manner proportionate to the shareholding interest of the State in the Bank.
4. The Minister expects the Bank to conduct its dealings with the State in a transparent, cooperative and proactive manner which fully recognises the significant level of support provided to the Bank since 2008. Any confidential, commercially sensitive or personal information provided to the Minister under this Relationship Framework shall be clearly marked as such and will be treated accordingly by the Minister in accordance with the applicable law.
5. The Minister may delegate the exercise of his functions, and his engagements with the Bank, under this Relationship Framework to a nominee to be appointed by the Minister for those purposes. The Minister shall notify the Bank in writing of any such delegation and appointment.
6. The views of the Minister and Department are expected to be appropriately considered by the Bank as part of any consultation process under this Relationship Framework. However, the Court and management team have full responsibility and authority for determining the Bank's strategy and commercial policies.

COMPETITION AND COMMERCIAL INFORMATION

7. The Minister will ensure that the State:
 - 7.1 manages and maintains its interest in each credit institution separately from the management of its interests in other credit institutions;
 - 7.2 does not exercise its rights in the Bank and any rights held by the State in any other credit institution, or otherwise manage the State's interests in credit institutions, in a manner which would result in a prevention, restriction, distortion or significant lessening or impediment of effective competition or an abuse of dominance;
 - 7.3 exercises its rights in the Bank and any rights held in other credit institutions to seek to ensure that there are no cross-directorships between such institutions; and
 - 7.4 puts in place effective barriers to prevent sensitive commercial information passing via the State between the Bank and any other credit institution in which the State has an interest as a result of State intervention.
8. For the avoidance of doubt, each credit institution in which the State has acquired an interest, including the Bank, continues to operate as an independent competitor in the market and sections 4 and 5 of the Competition Act 2002 and Articles 101 and 102 of the Treaty on the Functioning of the European Union continue to apply to each credit institution on that basis.

MINISTERIAL CONSENT OR CONSULTATION

9. Where the consent of, or where consultation with, the Minister is required by the Bank pursuant to any Consent/Consultation Document or otherwise, the Bank shall submit its Consent Request or Consultation Briefing as appropriate in accordance with the

Consent/Consultation Procedure. Only consent issued by or on behalf of the Minister in writing (including by email) pursuant to a Consent Request shall satisfy the requirement of the Bank to obtain a relevant consent under a Consent/Consultation Document.

10. If the Bank is unclear as to whether an action is subject to consent or consultation in accordance with the Consent/Consultation Procedure, the Bank may write to the Minister informally and outside of the Consent/Consultation Procedure to seek confirmation from the Minister in this regard. If the Minister does not respond within three Business Days, the Bank may assume that the action is not subject to consent or consultation in accordance with the Consent/Consultation Procedure. No guidance given by the Minister in relation to whether consent or consultation is required in respect of a matter shall constitute a precedent for, or restrict the Minister from taking a different view on, another matter.

COMPLIANCE WITH REQUIREMENTS, COMMITMENTS AND UNDERTAKINGS

11. The Court has responsibility and necessary authority for:
 - 11.1 all of the operations and business of the Bank in accordance with its legal, fiduciary and prudential duties; and
 - 11.2 ensuring strict compliance with the regulatory and legal obligations of the Bank, including any obligations arising under the CIFS Scheme, the ELG Scheme, the NAMA Act, CISA (including any orders or requirements thereunder), CIRA (including any orders or requirements thereunder), the Competition Act 2002 and Regulatory Requirements;
 - 11.3 ensuring that: (i) there are, at all times, a sufficient number of directors to convene and hold quorate Court meetings; and (ii) the Court includes a number of independent directors consistent with best practice in corporate governance; and (c) no director becomes or remains a director of any other credit institution with a significant retail customer presence in Ireland, except where such entities are within the Bank's group.
12. The Bank shall comply fully with all requirements, commitments and undertakings (including all commercial restrictions and obligations) under the State Agreements. In the event of a conflict between this Relationship Framework and any of the State Agreements, the latter shall prevail.

BUSINESS PLAN

13. The preparation of the Bank's Business Plan is a primary responsibility for the Court. The Business Plan, encompassing strategy (including the Bank's sectoral lending plan) and appropriate financial targets, will be prepared and updated at least annually having regard to the Restructuring Plan. A copy of the draft Business Plan will be sent to the Minister before it is finalised and adopted by the Court.
14. Senior management from the Bank will meet with Department officials on a monthly basis to discuss the achievement of the Business Plan, highlighting any material developments or trends.

RESTRUCTURING PLAN

15. Subject at all times to regulatory approvals and Regulatory Requirements, the Bank shall, insofar as it is within its power and control:
 - 15.1 implement the Restructuring Plan;
 - 15.2 ensure full compliance with the Commitments; and
 - 15.3 co-operate fully, and consult where required, with the Minister, the European Commission and any Monitoring Trustee in connection with the Restructuring Plan, the Approval Decision and the Commitments.
16. The Bank shall inform the Minister promptly of any failure, or anticipated failure to meet the Commitments.

APPENDIX I
INTERPRETATION

In this Relationship Framework:

“**2009 Act**” means the Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act 2009.

“**2009 Preference Stock**” means the 2009 Non-Cumulative Perpetual subject to the rights of redemption Redeemable Preference Stock in the Bank

“**2009 Subscription Agreement**” means a subscription agreement entered into on 31 March 2009 by the Minister, the NPRF Commission and the Bank in relation to the subscription of the 2009 Preference Stock.

“**2010 Capital Raising**” means proposals intended to meet the Bank’s current and long term capital requirements announced by the Bank on 26 April 2010.

“**2010 Transaction Agreement**” means a transaction agreement entered into by the Minister, the NPRF Commission and the Bank in relation to the State’s participation in the 2010 Capital Raising.

“**2011 Capital Raising**” means proposals intended to meet the incremental capital requirement arising as a result of the Central Bank’s 2011 Prudential Capital Assessment Review.

“**2011 Transaction and Underwriting Agreement**” means a transaction and underwriting agreement entered into on 18 June 2011 by the Minister, the NPRF Commission, the NTMA, the Bank, certain sponsors and certain joint bookrunners in relation to the State’s participation in the 2011 Capital Raising.

“**Approval Decision**” means the European Commission Decision dated 20 December 2011 and entitled “*State aid SA.33443 (2011/N) – second restructuring of Bank of Ireland – Ireland*”.

“**Bank**” means The Governor and Company of the Bank of Ireland including all direct and indirect subsidiaries of The Governor and Company of the Bank of Ireland.

“**Business Day**” means any day other than a Saturday, a Sunday or a public holiday in Ireland.

“**Business Plan**” means the business plan of the Bank encompassing the Bank’s strategy (including the Bank’s sectoral lending plan) and appropriate financial targets which will be prepared and updated at least annually having regard to the Restructuring Plan.

“**Central Bank**” means the Central Bank of Ireland.

“**CIFS Scheme**” means the Credit Institutions (Financial Support) Scheme 2008.

“**CIRA**” means the Central Bank and Credit Institutions (Resolution) Act 2011.

“**CISA**” means the Credit Institutions (Stabilisation) Act 2010.

“**Commitments**” means the commitments in Annex I to the Approval Decision.

“Consent/Consultation Documents” means this Relationship Framework, the Bye Laws of the Bank, any of the State Agreements, the CIFS Scheme, the ELG Scheme, the NAMA Act, CISA and CIRA, and **“Consent/Consultation Document”** shall be any one of them.

“Consent/Consultation Procedure” means the procedure set out in Appendix III.

“Consent Request” means a request for consent submitted in accordance with the Consent/Consultation Procedure pursuant to paragraph 9 of this Relationship Framework.

“Consultation Briefing” means a consultation briefing submitted in accordance with the Consent/Consultation Procedure pursuant to paragraph 9 of this Relationship Framework.

“Court” means the court of directors of the Bank.

“Department” means the Department of Finance of Ireland.

“Directed Investment” means an investment, underwriting or other support in relation to a listed credit institution made by the NPRF Commission pursuant to a direction from the Minister under section 19(A) of the NPRF Act.

“ELG Scheme” means the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009.

“Emergency Action” has the meaning given in paragraph 5 of Appendix III.

“EU” means the European Union.

“Investors” means a group of significant institutional investors and fund managers, led by Fairfax Financial Holdings and which includes WL Ross, Capital Research (part of The Capital Group), Fidelity Investments and Kennedy Wilson.

“Listing Rules” means listing, securities and other rules applicable to the Bank in relation to the listing or trading of the Bank’s shares or other instruments on various exchanges.

“Minister” means the Minister for Finance of Ireland and any nominee of the Minister.

“Monitoring Trustee” means any monitoring trustee appointed under the Approval Decision.

“NAMA Act” means the National Asset Management Agency Act 2009.

“NPRF” means the National Pensions Reserve Fund

“NPRF Act” means the National Pensions Reserve Fund Act 2000.

“NPRF Commission” means the National Pensions Reserve Fund Commission.

“NTMA” means the National Treasury Management Agency.

“Personnel Matters” means matters relating to remuneration arrangements, incentivisation arrangements, pension arrangements, redundancy arrangements or severance arrangements at the Bank.

“Regulatory Requirements” means applicable regulatory requirements and guidance as specified by the Central Bank or other relevant regulatory authorities as appropriate.

“Relationship Framework” means this relationship framework specified by the Minister.

“Relevant Information” means all information that in the reasonable opinion of the Minister is necessary and sufficient to permit the Minister to form an opinion on the Consent Request or a Consultation Briefing as appropriate.

“Restructuring Plan” means the restructuring plan for the Bank which has been approved by the European Commission under the Approval Decision and by the Minister and any amended version of same that is approved by the European Commission and the Minister.

“State” means Ireland.

“State Agreements” means the agreements and arrangements entered into between the Bank and the Minister and/or any other State agency or entity, including without limitation the 2009 Subscription Agreement, the 2010 Transaction Agreement, the 2011 Transaction and Underwriting Agreement and the Minister’s letter to the Court dated 8 July 2011 (and any amendments of those agreements or arrangements made in accordance with their terms).

In this Relationship Framework, any reference to a statute, statutory instrument or statutory provision shall be construed to include any statute, statutory instrument or statutory provision which modifies, consolidates, re-enacts or supersedes it.

APPENDIX II

LEGAL BASIS OF THIS RELATIONSHIP FRAMEWORK

1. Pursuant to section 5 of the NPRF Act, the NPRF Commission was established to perform the functions assigned to it under section 6 of the NPRF Act, including to control, manage and invest the assets of the NPRF. Section 18(7) of the NPRF Act provides that the ownership of the NPRF vests in the Minister.
2. The 2009 Act made the necessary legislative changes to the NPRF Act to empower the Minister to direct the NPRF Commission to make Directed Investments. Under the 2009 Act the Minister may give directions to the NPRF Commission with regard to the management and disposal of any Directed Investment.
3. On 31 March 2009, pursuant to a direction from the Minister under section 19(A) of the NPRF Act, the NPRF Commission subscribed EUR3.5 billion for 3,500,000,000 units of 2009 Preference Stock. On 31 March 2009, the Minister, the NPRF Commission and the Bank entered into the 2009 Subscription Agreement.
4. On 26 April 2010, the Bank announced the 210 Capital Raising and the Minister, the NPRF Commission and the Bank entered into the 2010 Transaction Agreement. Pursuant to a further direction from the Minister under section 19(A) of the NPRF Act, the NPRF Commission participated in the 2010 Capital Raising by converting some of its 2009 Preference Stock into ordinary stock in the Bank. Following the 2010 Capital Raising, the NPRF Commission held approximately 36% of the issued ordinary stock of the Bank.
5. Under Clause 9.1 of the 2010 Transaction Agreement, subject to the fiduciary duties of the directors of the Bank and to compliance with applicable law and regulation (including the Listing Rules), the Bank has agreed to be bound by and to comply in all respects with the terms of any relationship framework regulating the relationship between the Minister and the Bank specified by the Minister in the context of EU competition law matters.
6. On 18 June 2011, the Bank published a prospectus and a shareholder circular in relation to the 2011 Capital Raising. On 18 June 2011, the Minister, NPRF Commission, the NTMA, the Bank, certain sponsors and certain joint bookrunners entered into the 2011 Transaction and Underwriting Agreement.
7. Under Clause 22.1 of the 2011 Transaction and Underwriting Agreement, the Bank has undertaken to the Minister to comply with the covenants set out in Schedule 10 of the 2011 Transaction and Underwriting Agreement. Under Paragraph 5(a) of Schedule 10 of the 2011 Transaction and Underwriting Agreement, subject to compliance by the Bank with applicable law and regulation, the Bank has agreed to be bound by and to comply in all respects with the terms of any relationship framework regulating the relationship between the Minister and the Bank specified by the Minister in the context of EU competition law matters.
8. In accordance with Clause 9.1 of the 2010 Transaction Agreement and Paragraph 5(a) of Schedule 10 of the 2011 Transaction and Underwriting Agreement, in the context of EU competition law matters, the Minister specifies this Relationship Framework to govern the relationship between the Minister and the Bank.
9. In accordance with Clause 9.2 of the 2010 Transaction Agreement, the Minister may from time to time specify any amendments to, or revoke or replace, this Relationship Framework. Similarly, in accordance with Paragraph 5(b) of Schedule 10 of the 2011 Transaction and Underwriting Agreement, the Minister may from time to time specify any amendments to, or

revoke or replace, this Relationship Framework, on the instruction or with the agreement, following consultation, of the European Commission, and with notice to the Bank in writing.

10. This Relationship Framework is to be interpreted in accordance with Irish and European Union law. It is without prejudice to the statutory and other rights and obligations of the Minister and the Bank, including their contractual rights under any of the State Agreements. This Relationship Framework will be operated at all times in compliance with Regulatory Requirements. On an ongoing basis, the Bank will continue to comply with instructions issued by the Central Bank pursuant to Regulatory Requirements. The Bank shall not be regarded as in breach of this Relationship Framework in respect of actions taken by the Bank to comply with Regulatory Requirements.

APPENDIX III

CONSENT/CONSULTATION PROCEDURE

1. The Bank shall address a Consent Request or a Consultation Briefing in writing to the Minister clearly marked as a “Consent Request” or a “Consultation Briefing” as appropriate with a copy to the Shareholding Management Unit within the Department or as otherwise directed in writing by the Minister from time to time.
2. Consent Requests and Consultation Briefings shall be made by the Bank as soon as reasonably practicable by the Bank and an Emergency Action may not be taken if this obligation has not been complied with by the Bank in respect of the relevant Consent Request/Consultation Briefing. In its Consent Request or Consultation Briefing, or in any submission of further Relevant Information requested by the Minister, the Bank shall clearly state, in its opinion, the date by which the Minister is required to respond under the time-frame provisions set out in paragraph 4 of this Appendix.
3. The Bank shall furnish the Minister with all Relevant Information in the Bank's power or possession at the same time as it submits a Consent Request or Consultation Briefing. The Relevant Information to be furnished by the Bank shall not exceed the information that is available and used by the Court and/or senior management of the Bank to consider the matter that is the subject of the Consent Request/Consultation Briefing, including without limitation the minutes of any relevant discussion at Court level in relation to the matter. Any insufficiency in the information submitted by the Bank shall be notified to the Bank in writing by the Minister (or the Shareholding Management Unit) within five Business Days of receipt of the Consent Request, the Consultation Briefing or the submission of information as appropriate to the extent that this is reasonably practicable. Exceptionally, the Minister may require Relevant Information from a third party, such as the Central Bank, other State bodies or advisers. The Minister will notify the Bank in writing when he requires Relevant Information from a third party and indicate the expected time-frame for receipt of the Relevant Information from the third party.
4. The Minister shall respond in writing to a Consent Request or a Consultation Briefing as soon as reasonably practicable but in any event no later than:
 - 4.1 twenty Business Days following receipt of the Consent Request or the Consultation Briefing and all Relevant Information for Consent Requests/Consultation Briefings relating Personnel Matters; or
 - 4.2 ten Business Days following receipt of the Consent Request or the Consultation Briefing and all Relevant Information in all other cases.

If the Minister does not respond to a Consent Request within the applicable time-frame under this paragraph, consent will be deemed to have issued on the expiry of the applicable time-frame. If the Minister responds to a Consultation Briefing within the applicable time-frame under this paragraph, the Bank shall give due consideration to the Minister's response prior to taking any further action in relation to the matter. For the avoidance of doubt, in the case of a Consultation Briefing, the Bank is not obliged to act in accordance with the Minister's views. If the Minister does not respond to a Consultation Briefing within the applicable time-frame under this paragraph, the Bank may proceed on the basis that the Minister has no formal views on the matter.

5. Where exceptional emergency circumstances apply in which urgent action is required by the Bank in relation to the subject of a Consent Request/Consultation Briefing in order to meet the Bank's legal, regulatory or prudential requirements (“**Emergency Action**”), the Court shall inform the Minister immediately of the circumstances and provide the Minister with an opportunity to respond. If the Minister does not respond in a timely manner in the circumstances, the Bank may proceed with the Emergency Action provided the Court has:
 - 5.1 approved the Emergency Action;
 - 5.2 confirmed in writing to the Minister that in its opinion the Emergency Action is required by the Bank to meet the Bank's legal, regulatory or prudential requirements; and
 - 5.3 minuted the basis on which the Court satisfied itself that the relevant action was classified as an Emergency Action.
6. Any consent issued by or on behalf of the Minister pursuant to a Consent Request shall satisfy the requirement of the Bank to obtain a relevant consent under each Consent/Consultation Document.
7. Where consent or consultation is required by the Minister under a Consent/Consultation Document, it shall not be deemed to have been given merely by virtue of attendance by the Minister (or his nominee or representative, including any observer) at Court, committee or other meetings.