Bank of Ireland

BREXIT

International Financial Services

October 2017

accenture

BREXIT CURRENT POSITION

The UK's departure from the EU is unprecedented in scale and complexity. Having triggered Article 50 in March, the two year Brexit negotiation process has formally begun.

Brexit has created uncertainty in every sector of the economy including International Financial Services (IFS) which have a large share of cross border business.

The recent result of the UK election has cast further complexity into what was already a difficult situation.

EU Institutions have stated the principle that nothing is agreed until everything is agreed and that "a non-member of the Union, which does not have the same obligations as a Member, cannot have the same rights and enjoy the same benefits as a Member."

Challenges exist during the Brexit process to continue to provide services to clients and maintain well functioning IFS markets.

Negotiations have commenced with a focus on providing as much clarity and legal certainty as possible to citizens, businesses, stakeholders and international partners on the immediate effects of the United Kingdom's withdrawal.

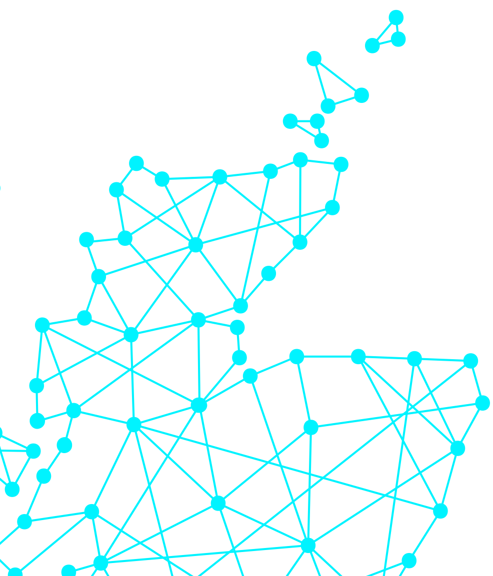
The European Council will monitor progress on the negotiations closely and determine when sufficient progress has been achieved to allow negotiations to proceed to the next phase.

The many potential outcomes of the current Brexit negotiations and the future relationship between the EU and UK are, at this stage, unknown. Therefore, planning for a hard Brexit, we believe, is the most prudent approach.

EXECUTIVE SUMMARY

Brexit has been a trigger or accelerator, for many International Financial Services firms, of a wider strategic reflection about their optimal geographic distribution. Despite uncertainty, they should consider some *no regret actions*, starting from an assessment of their current location strategy and its alignment to the business.

While the Brexit vote has brought on new uncertainty around access to markets, it has also added weight to questions that International Financial Services firms had already started asking themselves around operational effectiveness and control. A major shift in focus from revenue generation to profitability and risk management, which has characterised the industry since the financial crisis, had already highlighted the cost of maintaining centralised business and operating models out of global Financial Services hubs such as London. With the triggering of Article 50, the result of the UK elections and ongoing uncertainty over EU/UK market access, the probability of a hard Brexit remains elevated. The IFS industry is planning for a hard Brexit.



1. IFS firms must ensure contingency and execution plans are in place to deal with any Brexit outcome. Scenarios are likely to impact these firms in five core areas and any planning should seek to address these: i) access to markets; ii) access to talent & skills; iii) access to market infrastructure; iv) applicable rules; and v) access to funding & capital.
2. Several challenges, responses and decisions have been observed around location strategy, restructuring options, regulatory approvals and contingency planning, all forcing key decisions to be taken.
3. As such Brexit programmes are now largely set up, focused on impact assessment, license application, scenario modelling and design and execution preparations. Front Office, Finance, Operations and Technology teams also stood up in earnest.
4. Amsterdam, Dublin, Frankfurt, Luxembourg, Madrid and Paris dominate as target locations. From publicly available information, Dublin and Frankfurt seem the two locations most mentioned. EU banks are less vocal and US banks apply global diversification. Single and multiple location strategies are being explored with key aspects to consider.
5. Reports cannot agree on how many jobs will be impacted. This will become apparent as more firms announce definitive plans. Moves are expected to occur through a phased approach as cities prepare for readiness.
6. European Securities and Markets Authority (ESMA) has issued guidelines to avoid Regulatory Arbitrage across jurisdictions.

OBSERVATIONS, RESPONSES AND DECISIONS- BANKING

A number of observations, responses and decisions have been seen across the banking industry.

OBSERVATIONS	• Most peer banks with operations in the UK, also benefit from globally diverse legal entities structures. However similarly they will also need to apply for new or amended banking and/or broker dealer licences – these applications are now far more complex. • Banks are not relying on political or regulatory alternatives to circumvent a hard Brexit (equivalence or free-trade agreements). • Uncertainty prevails. Political instability, potential US de-regulation and regulatory convergence are being watched closely as these may alter strategies. Regulators have also asked that banks conduct detailed analysis to ensure contingency plans are in place. • Understanding the impact from a client perspective is key. This analysis must be conducted under sensitive conditions to cater for all client types and make key decisions. • Plans need to be robust, yet contingent for various unknown scenarios. This is a costly and lengthy exercise. Equally, timing will be key, moving too early (or late) will likely come at a significant cost.
RESPONSES AND OUTLOOK	• Although initially, some banks appeared to be taking a wait and see approach to their location choice, more banks have now made announcements regarding their plans. • Strategic response: Some are continuing to diversify their business and product mix globally and are looking for supporting business models post-Brexit, for example use of more than one new banking licence across key EU cities (Dublin, Frankfurt, Paris, Amsterdam, Luxembourg, Madrid).
EXAMPLE BREXIT PROGRAMMES	• Initiation of central Brexit Programme Teams, largely focused on impact assessment, licence application, scenario modelling and design and execution preparations. Front Office, Finance, Operations and Technology teams also stood up in interest. • Banks are not relying on political or regulatory alternatives to circumvent a hard Brexit (equivalence or free-trade agreements) acknowledging 'Brexit means Brexit'. • Estimated budgets being set aside across Tier 1 Banks could reach €100m* (and higher in some cases) to handle real estate, client, employee, regulatory, legal and 3rd party costs. (* source FT)

OBSERVATIONS, RESPONSES AND DECISIONS- FUNDS AND INSURANCE

A number of observations have also been observed across the funds and insurance industries.

FUNDS

- Loss of passporting is a key concern. Most UK based fund managers use their EU branches as a means to distribute/passport funds, so losing those passporting rights would most likely mean them having to comply with local licensing requirements given they would then be a branch of a non EU entity. Should they wish to continue distributing their products across the EU, it would most likely mean establishing a subsidiary.
- Post Brexit, existing UK UCITS* management companies may need to establish an EU domiciled ManCo entity to ensure continued access to the EU market. UK AIFMs** are also looking at establishing EU AIFMs to preserve EU marketing access.
- Regulation requires that the depositary of a UCITS is established in the UCITS' home member country and that the UCITS also has an EU management company. UK entities would not be able to act as depositaries for EU UCITS or AIFs (Alternative Investment Fund) post Brexit.

(*Undertakings for Collective Investment in Transferable Securities. **Alternative Investment Fund Managers)

INSURANCE

- One of the main areas of concern for UK based insurers is the loss of passporting. UK insurers are continuing to look at ways of ensuring access to the EU market which will most likely lead to a restructuring of their activities.
- UK insurers which currently passport into other EEA states* will need to obtain additional licences to carry on business in those states. They may also consider establishing new licensed companies instead, or combine existing UK operations with a regulated entity in a continuing EEA state. Capital for these entities will need to be posted in the relevant EEA state.
- Business that is currently underwritten may need to wind down or move.
- There are also considerations for EEA insurers which currently passport into the UK and how they will operate in the UK going forward. They may also need to set up separate insurance companies in the UK.

*EEA includes Iceland, Lichtenstein and Norway plus EU states.

LOCATION CONSIDERATION BY FINANCIAL SERVICES FIRMS

BANK	EU CITY ANNOUNCED
Citibank	Dublin, Amsterdam, Frankfurt
Bank of America Merrill Lynch	Dublin
Goldman Sachs	Frankfurt
JP Morgan	Dublin, Frankfurt & Luxembourg
Morgan Stanley	Frankfurt
Nomura	Frankfurt
Sumitomo Mitsui	Frankfurt
Daiwa Securities	Frankfurt
Bank of China	Dublin
Shanghai Pudong Bank	Luxembourg
Mizuho	Frankfurt
Mitsubishi	Amsterdam

BANK	EU CITY ANNOUNCED
Barclays	Dublin
HSBC	Paris
RBS	Amsterdam
Stanchart	Frankfurt
Credit Suisse	TBC
UBS	Frankfurt
BNP	Paris
Deutsche Bank	Frankfurt
Rakuten Europe	Luxembourg
Lloyds Banking Group	Berlin

INSURER	EU CITY ANNOUNCED
AIG	Luxembourg
Chaucer	Dublin
FM Global	Luxembourg
Admiral Group	Dublin
Berkshire Hathaway	Dublin
Equitable Life	Dublin
Royal London	Dublin
Aviva	Dublin
Lloyds of London	Brussels
RSA	Luxembourg
Hiscox	Luxembourg
XL Group	Dublin

FUND MANAGER	EU CITY ANNOUNCED
LGIM	Dublin
Columbia Threadneedle	Luxembourg
Carlyle	Luxembourg
Intermediate Capital Group	Luxembourg
MG& Inv	Luxembourg
Fidelity Int	Dublin
Legg Mason	Dublin
TOBAM	Dublin
FundRock	Dublin
Willis Towers Watson	Cork
Kroll	Dublin

ANALYSIS OF SIX POTENTIAL LOCATION HUBS AND THE UK

The geo-political and macro-economic environment is not easy to navigate, but some reliable measures may be used to determine the correct strategy. The table below looks to compare a number of the potential relocation hubs on the identified measures, with a comparison to how the UK currently looks today.

TAX	UNITED KINGDOM	GERMANY	IRELAND	LUXEMBOURG	NETHERLANDS	SPAIN	FRANCE
Corporate	19%	30%	12.50%	27%	25%	25%	33%
Value Added	20%	19%	23%	17%	21%	21%	20%
Real Estate transfer	<5%	3.5% - 6.55%	2%	N/A	6%	1.2% -1 .5%	Unspecified
Insurance	12%	19%	3%	N/A	0-21%	0-6%	0-30%
Personal (up to)	45%	42%	40%	42%	52%	45%	45%
SOCIO-ECONOMIC	**UNITED KINGDOM**	**GERMANY**	**IRELAND**	**LUXEMBOURG**	**NETHERLANDS**	**SPAIN**	**FRANCE**
Political Stability 2015: -2.5 weak: 2.5 strong	0.56	0.72	0.93	1.41	0.93	0.29	0.27
Better life index	19th	16th	15th	18th	6th	34th	31st
Global peace index	41st	16th	10th	N/A	19th	23rd	51st
Health index	82.28	84.78	82.52	87.87	85.83	89.9	85.59
EMPLOYMENT & TALENT	**UNITED KINGDOM**	**GERMANY**	**IRELAND**	**LUXEMBOURG**	**NETHERLANDS**	**SPAIN**	**FRANCE**
Min wage	£7.50 p/h (€8.80 eqv)	€8.84 per hour	€9.25 per hour	€11.12 per hour	€8.87 per hour	€21.84 per day	€9.67 per hour
Min annual leave	28 days incl. B.H.	20 days	20 days	25 days	20 days	22 days	25 days
Min. Maternity Leave / Pay	6 weeks @ 100% 33 weeks @ 90%	14 weeks @ 100%	26 weeks @ 100%, 14 weeks unpaid	16 weeks @ 100%	16 weeks @ 100%	16 weeks @ 100%	16-24 weeks @ 0%
Min. Paternity Leave / Pay	2 weeks @ 90%	n/a	2 weeks @ 100%	2 days @ 100%	2 days @ 100%	4 weeks @ 100%	14 days @ 100%
Parental Leave	4 weeks p/y - Unpaid	10 days per year	18 weeks full time - unpaid	6 months full time	6 months full time	Unpaid	Unpaid
Max. Weekly (5 days) Hours	48 hours	40 hours	48 hours	40 hours	45 hours	40 hours	35 hours
English Literacy	Native	High	Native	Very High	Very High	Moderate	Moderate

Sources: World Data Bank, World Bank, OECD, Institute for Economics & Peace, Bloomberg World Health Index, Eurofound, WTW, KPMG, Insurance Europe

CORE CONSIDERATIONS FOR YOUR BUSINESS

BUSINESS STRATEGY

- Redesign of the business models.
- Innovative solutions may be required and Regulators may need to sign off.

PRODUCTS AND SERVICES

- Re-evaluation of services and products offered across business lines, as some may no longer make viable sense to operate.
- An opportunity to ensure profitable products/services continue and new products introduced.

3RD PARTY LICENCES, OUTSOURCING

- Additional 3rd party counterparties may require consent.
- Need to revisit due diligence on all internal and external outsourcing arrangements.

CLIENTS

- Drafting of new legal docs, contract repapering, terms of business.
- Fully understanding the impact from a client's perspective.

PEOPLE

- When considering a move to a different location, it is worth remembering that employees may have priorities above those of their employer.
- Opening a bank account might seem quite difficult to some but can be made simple.
- How do you produce proof of residency if you have only just arrived in the location? There are solutions.
- How do you get a mortgage without any previous credit history in that location?
- How do you pay bills?
- You also need to consider availability of the appropriate skill set and talent.
- Will mobility of staff between entities be an issue.
- We have listed some of the employee's priorities in the chart opposite that we have encountered over the years in dealing with overseas arrivals.

EMPLOYER	EMPLOYEE
Regulatory environment	Quality of life
Real estate	Housing
Access to funding	Schooling
Operational effectiveness	Cost of living
Resourcing	Access to bank account
Access to clients	Access to mortgage
Business taxes	Personal Taxes

WHY IRELAND?

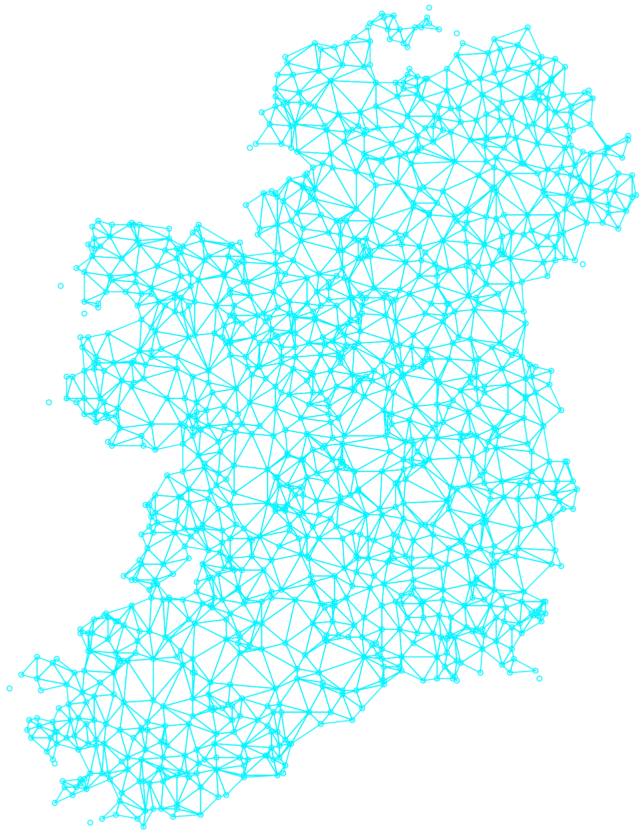
ECONOMY	• Ireland continues to be one of the fastest growing economies in the EU. • Irish economy to continue to expand on the back of domestic demand, strong employment and wage growth.
FISCAL AND TAX	• 12.5% company tax. • On track to attaining medium-term goal of a balanced budget. • Six-year plan on infrastructure investment for 2016-21 to raise public investment back towards its pre-crisis level. • Public investment low and direct taxes on the up, following the crisis, through strong growth and low interest costs. • Structural reforms focussing on getting people back into work and revamping the tax and benefit system.
WORKFORCE & EMPLOYMENT LAW	• Salaries lower by ~20% vs UK. • OECD rating the workface as 3rd most productive in the world. • Fast track for Visa and Work permits. • Employment laws relatively similar to the UK. • Labour market insecurity lies below the OECD average.
TECHNOLOGY & INFRASTRUCTURE	• Investment in commercial real estate: ~1.8m sq feet of new office space in 30 developments due soon. • Advanced communications infrastructure with fibre-optic connections in cities throughout the country. • Proximity and routes to other financial centres in Europe.
POPULATION & EDUCATION	• Young population (40% of the population under 29 years of age). • Educational achievements rates significantly higher than the OECD average for 25-34 year olds. • Educational attainment and students' cognitive skills above the OECD average. • 30% of University students enrolled in STEM courses and + 20% in Social Sciences, Business and Law courses.
LIFE	• English speaking. • Ireland ranked 6th in the UN's global Human Development Index 2015. • Housing conditions better than OECD average. Good environment, good schools, good travel. • Free means tested health care system.

IRELAND HAS A WELL ESTABLISHED FINANCIAL SERVICES SECTOR

FINANCIAL SERVICES SPECIALISM	• Global hub for administration and management of funds/asset services; re-insurance; cross border insurance, Corporate/Wholesale and specialist finance e.g. aviation leasing and asset finance. • 4th Largest Exporter of Financial Services in EU. No. 1 Location worldwide for Alternative Investment.* • 400 + IFS Companies (200 Irish owned). 250 of the world's leading FS firms – incl. half of the world's top 50 banks.* • Over €1.8 trillion of funds administered. €3.8 trillion of Assets under Administration. 8 of the top 10 Global Aviation lessors by fleet size based in Ireland, equating to over 60% of the world's leased commercial aircraft.* • 25 payment companies including Fintech.* • Over 230 insurance businesses operating in Ireland. *(source IDA)
LEGAL & REGULATOR	• Top 10% of countries across the world for ease of doing business. (World Bank) • Regulator looking at processing license applications in a prompt manner. Publishes quarterly scorecard. • Common law country. English law is commonly adopted internationally as the governing law for banking and commercial contracts. In common with English contract law, Irish contract law is derived from common law. If firms choose to move to Ireland, the "jump-across" to Irish law should therefore not raise many concerns. Ireland has a well-established and well regarded commercial division of the High Court, while decisions of the ECJ will be applied to Irish law-governed contracts giving certainty to operations based in Ireland but carrying on EU-wide business. • Experienced local law firms presence. Growing international law firm presence in anticipation of Brexit.
FS INNOVATION & FINTECH	• Recognised as a key hub. World's top 10 global software companies presence in Ireland, alongside all of the top 10 'Born-on-the-internet' companies centred ecosystem. • Several Irish companies that grew up in Ireland and continue to create waves in the global FinTech sector. • Government policy has identified FinTech as a key strategic area.
FS TALENT	• Ireland ranks 1st in the world for the availability of Finance Skills. (IMD World Competitiveness Yearbook 2016) • ~40k talented people directly employed with Government plans to add a further 10,000 by 2020. (IFS 2020) • Highly educated workforce with more than eight out of 10 of those employed in the sector with at least a bachelor's degree. Most work in insurance, banking and fund management. • Supported by a multitude of operations in Ireland, ranging from lawyers and accountants to IT providers.

BANK OF IRELAND

BANK OF IRELAND PRODUCT AND SERVICES OFFERING



Bank of Ireland provides a full banking service to both domestic and international companies, operating across a wide range of sectors. Our dedicated Foreign Direct Investment (FDI) Team will work with you to deliver a package to suit your needs. We have strong distribution capabilities with 250 branches in Ireland, c.1,700 self-service devices, online, phone and mobile banking. We also provide a Start-up Package for new Foreign Direct Investment companies setting up in Ireland, including our employees banking offering, 'Bank at Work'.

EXECUTIVES/ EMPLOYEES	• Fast-track account opening process* • Workplace Banking • Account opening prior to/post arrival in Ireland • Checking and Deposit Accounts • Debit and Credit Cards • Mortgages and Personal Loans • Pensions, Investments, Life and Protection
CORPORATES	• Fast-track account opening process* • Checking and Deposit Accounts • Electronic Banking • Payroll Facilities • Business Credit Card pre-approved limit • FDI Business Package to minimise banking fees • Foreign Exchange and Treasury Services

*Subject to account opening documentation requirements being met.

CONCLUSION

We at Bank of Ireland have acquired deep experience over many years in dealing with International Companies locating to Ireland.

If you are an International Services Business considering locating part or all of your business in Ireland, you may be considering a local banking partner.

Bank of Ireland is Ireland's leading retail and business bank, offering the widest range of banking advice and services to in-bound financial services companies.

Bank of Ireland will support you at every step of your journey– supporting your firm, staff and their families. We will give you practical and honest insights and advice to help you achieve your goals.

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