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## **DBRS Confirms Bank of Ireland at BBB (high), Trend Changed to Stable, IA revised up to BBB**

**Industry: Fin.Svc.--Banks & Trusts**

DBRS Ratings Limited (DBRS) has today confirmed the non-guaranteed senior ratings of The Governor and Company of the Bank of Ireland (BoI, the Bank or the Group), including its BBB (high) Non-Guaranteed Long-Term Debt and Non-Guaranteed Long-Term Deposit ratings. The Bank's Non-Guaranteed Short-Term Debt and Deposits ratings were upgraded to R-1 (low) from R-2 (high). The trend on all non-guaranteed ratings was revised to Stable from Negative. The Bank's intrinsic assessment (IA) was revised to BBB from BBB (low). DBRS maintains a Support Assessment of SA-2 for BoI, as a result the ratings incorporate one notch of uplift from the IA for systemic support. The Bank's Irish Government guaranteed long-term debt ratings are also confirmed at 'A', with a Stable trend, reflecting DBRS's rating of the Republic of Ireland.

The change in the IA reflects the progress that BoI has continued to make in 2014, most clearly evidenced by the return to net profitability, the steady improvement in the Bank's asset quality, and the increasingly solid capital levels. The change in the trend to Stable reflects the progress the Bank has made, as well as that the Bank comfortably passed the ECB's Comprehensive Assessment in 2014, on both a static and dynamic balance sheet approach. As a result of the confirmation of the Bank's non-guaranteed senior ratings, and the change in the IA, BoI's final ratings now incorporates only one notch of uplift from systemic support. This reflects the Bank's gradual progression to a more normalised state, therefore reducing the necessity of potential further systemic support. The upgrade of the Bank's short-term ratings to R-1 (low) reflects the improvements in BOI's funding and liquidity profile.

Further upward pressure on the ratings would require continued improvement in profitability metrics and asset quality indicators. Downward pressure would be most likely to arise if the Bank were unable to improve its asset quality or if the recent improvements in profitability do not prove to be sustainable.

Bank of Ireland returned to profitability in 2014, reflecting both the Bank's progress and the improving macro-economic environment in its core markets of Ireland and the UK. In 2014 the Bank reported underlying profit of EUR 921 million, a significant improvement from the loss of EUR 564 million in 2013 (restated) and the loss of nearly EUR 1.5 billion in 2012 (restated). The increase was

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driven by higher net interest income, lower ELG fees and reduced impairment charges. The Bank's net interest margin (NIM), before ELG fees, was 2.11%, up from 1.84% in 2013, reflecting reduced funding costs and expansion in lending volumes. DBRS views the potential for further improvement given that the NIM was 2.22% in 4Q14. The improved underlying performance of the Bank's results in 2014 also benefitted from a substantial reduction in impairment charges which totalled EUR 472 million, down from EUR 1,665 million in 2013. These incorporated a provision reversal of EUR 280 million on the Irish mortgage portfolio and a EUR 70 million reversal on a charge taken previously on NAMA subordinated debt. DBRS acknowledges that these one-off items supported the Bank's 2014 results, however, given the ongoing improvement in asset quality and the positive momentum in the macroeconomic environments in Ireland and the UK, DBRS anticipates the levels of impairment charges will continue to reduce.

Bank of Ireland continues to make progress in strengthening its funding profile by increasing customer deposits and reducing the use of monetary authority funding. Customer deposits increased by EUR 0.9 billion during 2014 and accounted for 77% of total funding at end-2014. The stable level of customer deposits, combined with a further decrease in the loan book due to lower net new lending and ongoing repayments and redemptions, has brought the loan-to deposit ratio down to 110% at end-2014, from 123% at end-2012 and 175% at end-2010. DBRS notes positively that the Bank is well within its targeted loan-to-deposit ratio of less than 120%. Liquidity remains satisfactory and at year end-2014 Bank of Ireland reported a Liquidity Coverage Ratio (LCR) of 98% and a Net Stable Funding Ratio of 114%, both above future regulatory requirements.

Bank of Ireland's asset quality metrics continue to improve, reflecting the ongoing recovery in the macroeconomic environment in the Republic of Ireland, and the success the Bank has had in restructuring and working out problematic loans. At end-2014 defaulted loans (defined as impaired loans plus residential mortgages greater than 90 days in arrears) reduced to EUR 14.3 billion, or 16% of gross loans. Although the nominal level of defaulted loans is down 16% on 2013, DBRS continues to view asset quality as relatively weak. However, DBRS views positively that asset quality metrics are now improving and that the reported coverage ratio (impairment provisions as % of defaulted loans) increased by 4 percentage points in 2014 to 52%, mainly reflecting the reduction in the levels of defaulted loans.

Bank of Ireland's capital position strengthened in 2014, reflecting the Bank's accumulated profit for the period, a small reduction in risk weighted assets and an improved capital structure in the its life assurance subsidiary. In 2014 the transitional Basel III Common Equity Tier 1 (CET1) ratio increased by circa 250 bps yoy to 14.8%, whilst the fully loaded ratio increased to 11.9%, from 9.0% at end-2013. Bank of Ireland also reported a fully loaded leverage ratio of 5.1%. As a result of the



current grandfathering, DBRS notes that the Bank's current fully loaded and transitional Basel III CET1 ratios include the EUR 1.3 billion of remaining 2009 Preference Shares. Excluding these instruments, which the Bank intends to do by July 2016, the pro-forma fully loaded CET1 ratio would have been 9.3% at end-2014 and the leverage ratio at 4.0%. DBRS expects, that as a result of the improved profitability, the Bank will be able to maintain robust capital ratios post the 1H16 de-recognition of the preference shares. DBRS also notes that the Bank comfortably passed the ECB's Comprehensive Assessment with the transitional CET1 ratio being, at its lowest point in the 2014-2016 time period, 12.4% in the baseline scenario and 9.3% in the adverse scenario.

#### Notes:

All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2014). Other applicable methodologies include the DBRS Criteria: Support Assessments for Banks and Banking Organisations (March 2015) and DBRS Criteria: Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities (February 2015). These can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include SNL Financial. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

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Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period. DBRS's outlooks and ratings are under regular surveillance

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Initial Rating Date: September 6, 2005

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Governor and Company of the Bank of Ireland, The	Issuer Rating	Trend Change	BBB (high)	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Long-Term Debt	Trend Change	BBB (high)	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Long-Term Deposits	Trend Change	BBB (high)	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Short-Term Debt	Upgraded	R-1 (low)	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Short-Term Deposits	Upgraded	R-1 (low)	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Long-Term Debt Guaranteed by the Irish Government	Confirmed	A	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Long-Term Deposits Guaranteed by the Irish Government	Confirmed	A	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Dated Subordinated Debt (Issued After-2011)	Upgraded	BB (high)	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Dated Subordinated Notes due Sept 2015 (ISIN CA062786AA67)	Upgraded	BB (high)	Stb	Apr 23, 2015

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Governor and Company of the Bank of Ireland, The	Floating Rate Subordinated Notes due 2017 (ISIN XS0223310862)	Upgraded	BB (high)	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Dated Subordinated Notes due Sept. 2018 (ISIN CA062786AD07)	Upgraded	BB (high)	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Subordinated Notes due 2020 (ISIN XS0487711573)	Upgraded	BB (high)	Stb	Apr 23, 2015
Governor and Company of the Bank of Ireland, The	Subordinated Notes due 2020 (ISIN XS0487711656)	Upgraded	BB (high)	Stb	Apr 23, 2015
Bank of Ireland UK Holdings plc	Perpetual Preferred Securities (ISIN XS0125611482)	Upgraded	BB (low)	Stb	Apr 23, 2015

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