

Rating Action: Moody's upgrades Bank of Ireland and changes Bank of Ireland UK's outlook to positive

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Outlook on the long-term senior unsecured debt rating is positive

Paris, December 11, 2018 -- Moody's Investors Service today upgraded the long-term issuer and senior unsecured ratings of Bank of Ireland (BOI) to A3 from Baa1, and the long-term deposit rating to A2 from A3. Moody's maintained the positive outlook on BOI's senior unsecured and issuer ratings, and changed the outlook on the long-term deposit rating to stable from positive. As part of the same action, Moody's affirmed the bank's standalone baseline credit assessment (BCA) of baa3 and the senior unsecured rating of BOI's holding company Bank of Ireland Group plc (BOIG) of Baa3, maintaining the positive outlook. Moody's also affirmed the Baa2 long-term deposit rating of BOI's fully-owned subsidiary in the United Kingdom, Bank of Ireland (UK) Plc (BOIUK) and changed the outlook to positive from stable, and affirmed its BCA.

The rating upgrades on BOI reflect the issuance of bail-in-able debt by BOIG, which increases the level of protection for BOI's senior unsecured debt and junior deposits, leading to greater protection for the bank's senior creditors according to Moody's Loss Given Failure analysis.

Moody's maintained a positive outlook on BOI and BOIG's long-term senior unsecured debt ratings, reflecting the agency's expectation that BOI's BCA could be upgraded if the bank continues to reduce its stock of problem loans, improves its profitability, and maintains adequate capital levels. The outlook on BOI's A2 long-term deposit rating was changed to stable from positive as the rating is currently at the same level of Ireland's sovereign bond rating (A2 stable), and an upgrade of the bank's BCA would be offset by the loss of one notch of government support currently included in the deposit rating.

The positive outlook on BOIUK's long-term deposit rating is driven by the potential for a higher BCA of BOI.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

BCA

The affirmation of BOI's BCA reflects: (1) improving asset quality, with the problem loan ratio standing at 6.6% at end-June 2018 and which the bank plans to reduce to below 5% by end-2019; (2) sound capital ratios, with the group's regulatory common equity tier 1 (CET1) ratio of 15.1% at end-September 2018 comfortably above the SREP requirement of 8.625%; (3) stable profitability and net interest margin, sustained in 1H18 by write-backs on impaired loans; and (4) a strong funding profile.

The affirmation of the BCA of BOIUK reflects its sound asset risk, strong capital position and solid funding profile. It also incorporates Moody's view that the standalone creditworthiness of the UK subsidiary remains tied to that of its parent, given common branding and operations.

LONG-TERM RATINGS

The long-term senior unsecured debt and deposit ratings were upgraded to A3 from Baa1 and to A2 from A3 respectively, reflecting the uplift resulting from Moody's Advanced Loss Given Failure (LGF) analysis. The senior unsecured debt rating benefits from two notches of uplift and bank deposit rating benefits from three notches of uplift under Moody's Advanced LGF analysis. In addition, the long-term ratings incorporate one notch of government support, which remains unchanged.

BOIG's long-term senior unsecured rating of Baa3 was affirmed, reflecting the affirmation of BOI's BCA and the result of the Loss Given Failure analysis on the at-failure balance sheet of the consolidated group in Ireland.

OUTLOOK

Moody's maintained a positive outlook on BOI's long-term senior unsecured debt and issuer ratings, reflecting the agency's expectation that BOI's BCA could be upgraded if the bank continues to reduce its stock of problem loans, improves its profitability, and maintains adequate capital levels.

Moody's changed the outlook on BOI's long-term deposit ratings to stable from positive. The rating currently includes one notch of government support, lifting it to A2, in line with the ratings of the Irish government (A2 stable). Should the BCA be upgraded, the deposit rating would likely be affirmed because this potential government support would no longer benefit these creditors.

The positive outlook on BOIG's senior unsecured rating also mirrors the potential for a higher BCA.

The positive outlook on BOIUK reflects the potential for a higher BCA of BOI, which would in turn lead to a higher BCA of BOIUK, provided that the latter's financial profile remained otherwise broadly unchanged.

WHAT COULD MOVE THE RATINGS UP/DOWN

BOI's long-term senior unsecured and issuer ratings could be upgraded as a result of an upgrade in its standalone BCA or following a significant increase in the bank's bail-in-able debt. The bank's BCA could be upgraded following (1) further significant reductions in non-performing loans and/or improving provisioning coverage; (2) improving capitalisation and risk absorption capacity, while maintaining (3) stable profitability, funding and liquidity metrics.

BOI's ratings could be downgraded as a result of (1) a downgrade of its standalone BCA; or (2) the redemption of maturing subordinated instruments without their replacement. BOI's BCA could be downgraded due to (1) a significant deterioration in the bank's asset quality; (2) a significant and sustained drop in the bank's capitalisation; (3) a deterioration in its core profitability metrics; or (4) a significant reduction in liquid assets.

BOIUK's ratings could be upgraded or downgraded in the event of an upgrade or downgrade of BOI's BCA. They could also be upgraded if the bank issued more loss-absorbing debt.

LIST OF AFFECTED RATINGS

Issuer: Bank of Ireland

..Upgrades:

....Long-term Bank Deposits, upgraded to A2 from A3, outlook changed to Stable from Positive

....Short-term Bank Deposit Ratings, upgraded to P-1 from P-2

....Short-term Deposit Note/CD Program, upgraded to P-1 from P-2

....Long-term Issuer Rating, upgraded to A3 from Baa1, outlook remains Positive

....Senior Unsecured Regular Bond/Debenture, upgraded to A3 from Baa1, outlook remains Positive

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A3 from (P)Baa1

....Commercial Paper, upgraded to P-1 from P-2

....Other Short Term, upgraded to (P)P-1 from (P)P-2

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed A2

....Short-term Counterparty Risk Ratings, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed A2(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Baseline Credit Assessment, affirmed baa3

....Adjusted Baseline Credit Assessment, affirmed baa3

...Subordinate Regular Bond/Debenture, affirmed Ba1
...Subordinate Medium-Term Note Program, affirmed (P)Ba1
...Junior Subordinated Regular Bond/Debenture, affirmed Ba2(hyb)
...Preferred Stock, affirmed Ba3(hyb)
...Preferred Stock Non-cumulative, affirmed Ba3(hyb)

..Outlook Action:

...Outlook changed to Stable(m) from Positive

Issuer: Bank of Ireland Group plc

..Affirmations:

...Long-term Issuer Ratings, affirmed Baa3, outlook remains Positive
...Senior Unsecured Regular Bond/Debenture, affirmed Baa3, outlook remains Positive
...Senior Unsecured Medium-Term Note Program, affirmed (P)Baa3
...Subordinate Regular Bond/Debenture, affirmed Ba1
...Subordinate Medium-Term Note Program, affirmed (P)Ba1

..Outlook Action:

...Outlook remains Positive

Issuer: Bank of Ireland (UK) Plc

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed A3
...Short-term Counterparty Risk Ratings, affirmed P-2
...Long-term Bank Deposits, affirmed Baa2, outlook changed to Positive from Stable
...Short-term Bank Deposits, affirmed P-2
...Long-term Counterparty Risk Assessment, affirmed A2(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Baseline Credit Assessment, affirmed baa2
...Adjusted Baseline Credit Assessment, affirmed baa2

..Outlook Action:

...Outlook changed to Positive from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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