



Date of Release: April 22, 2016

DBRS Confirms Bank of Ireland at BBB (high), Trend Changed to Positive on LT Ratings

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 R-1 (low) Non-Guaranteed Short-Term Debt and Deposits ratings, the 'A' long-term Critical Obligations Rating (COR), the R-1 (low) short-term COR, the BBB Dated Subordinated Debt and the BB (high) Perpetual Preferred Securities (issued by Bank of Ireland UK Holdings plc) were all also confirmed. The trend on all of the ratings, with the exception of the non-guaranteed short-term debt and deposit ratings has been changed to Positive from Stable. The trend on the non-guaranteed short-term debt and deposit ratings remains Stable. The Bank's intrinsic assessment (IA) was maintained at BBB (high) and the Support Assessment at SA3. The Bank's Irish Government guaranteed long-term deposit rating was also confirmed at A (high), with a Stable trend, reflecting DBRS's rating of the Republic of Ireland.

The change in the trend to Positive reflects the continued improvement made by the Bank in terms of profitability, asset quality, and capital, and our expectation that these trends will continue over the next year. Further evidence of improved core profitability and a continuation of the positive asset quality trends could have positive rating implications, while a substantial deterioration in core profitability or a deterioration in the Bank's risk profile could have negative implications.

Bank of Ireland is the largest Irish bank with total assets of EUR 130 billion as of end-2015. The Group has a diverse domestic franchise that combines retail banking, commercial banking, asset management and life insurance. In Northern Ireland, it is a full service bank with a strong business franchise, while in the UK it is focused on consumer banking. DBRS views Bank of Ireland's strong domestic franchise combined with its solid position in the UK as a key rating driver.

Bank of Ireland's profitability further strengthened in 2015, reflecting both the strong momentum in the Irish economy and the progress the Bank has made in its restructuring and in dealing with arrears management. Underlying profit for 2015 was EUR 1,201 million, up from EUR 921 million in 2014 and the EUR 564 million underlying loss recorded in 2013. The increase was driven by higher net interest income (before ELG fees), increased fee income, and reduced impairment charges, as well as



additional gains of EUR 237 million due to the rebalancing of the liquid asset portfolio. On a statutory basis, the Group reported a profit before tax of EUR 1,232 million. In 2015, the Bank's net interest margin (NIM) increased to 2.19%, primarily reflecting lower funding costs, relatively stable loan assets yields and lower yields on liquid assets. The 2H15 NIM was 2.17% and the Bank's expectation is for the 2016 NIM to be at a similar level.

The strengthened underlying performance in 2015 was further supported by the reduced levels of impairment charges. These amounted to EUR 296 million, significantly lower than the EUR 542 million net charge recorded in 2014 and the substantial charge of EUR 1,665 million in 2013. The improvement was evident across all portfolios. DBRS notes that the figure incorporates a EUR 96 million reversal on the residential mortgage portfolio.

Bank of Ireland's asset quality indicators have been steadily improving over the last three years, supported by the strong positive momentum in the macroeconomic environment in Ireland and the Bank's success in dealing with problematic loans. At end-2015, defaulted loans (defined as impaired loans plus residential mortgages which are greater than 90 days in arrears) totalled EUR 10.5 billion, significantly down on the EUR 14.3 billion reported at end-2014 and the EUR 17.1 billion reported at end-2013. The reduction in the level of defaulted loans has resulted in the coverage ratio improving to 56%, up from 52% at end-2014. Given the ongoing improvement in the economic environment in Ireland, DBRS expects this improving trend to continue.

During 2015, Bank of Ireland's funding and liquidity profile further strengthened as a result of increased customer deposits, selective usage of the wholesale market and reduced monetary authority funding. Customer deposits increased by EUR 5.3 billion to EUR 80.2 billion mainly attributable to growth in the Retail UK and Retail Ireland segments. As a result, and despite the increase in customer loans as new lending exceeded redemptions, the loan-to-deposit ratio improved further to 106%. Liquidity management remains prudent. At end-2015, Bank of Ireland had liquid assets of EUR 24 billion, of which EUR 6 billion were Irish government debt or NAMA senior bonds. This compares to EUR 2 billion of wholesale funding with a maturity of less than a year. At end-2015, Bank of Ireland reported a Liquidity Coverage Ratio of 108% and a Net Stable Funding Ratio of 120%, up from 103% and 114%, respectively, at end-2014.

Bank of Ireland's capital position further improved in 2015. At end-2015, the Basel III fully loaded Common Equity Tier 1 (CET1) ratio stood at 11.3%, up from 9.3% at end-2014. The increase was mainly due to the improved profitability in 2015. DBRS views positively that the Bank has now redeemed the EUR 1.3 billion 2009 Preference Shares. The transitional basis CET1 ratio of 13.3% is well above the 10.25% requirement for 2016, set by the Single Supervisory Mechanism, following



the Bank's Supervisory Review and Evaluation Process (SREP). The Bank's leverage ratio, also excluding the 2009 Preference Shares, was 6.6% on a transitional basis and 5.7% on a fully loaded basis at end-2015. The Bank plans to re-commence dividend payments in the first half of 2017, reflecting the full year 2016 results. DBRS would expect any dividend payments to be at a low level to begin with, only increasing to the 50% of sustainable earnings target level over time.

Notes:

All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (December 2015). Other applicable methodologies include the DBRS Criteria: Support Assessments for Banks and Banking Organisations (March 2016), DBRS Criteria: Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities (February 2016) and Critical Obligations Rating Criteria (February 2016). These can be found can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include company documents, the NTMA, the Central Bank of Ireland and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

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

For further information on DBRS historic default rates published by the European Securities and Markets Administration ("ESMA") in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

Ratings assigned by DBRS Ratings Limited are subject to EU regulations only.

Lead Analyst: Ross Abercromby

Rating Committee Chair: Roger Lister

Initial Rating Date: September 6, 2005

Most Recent Rating Update: September 29, 2015

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DBRS Ratings Limited
 20 Fenchurch Street, 31st Floor
 London,
 EC3M 3BY
 United Kingdom
 Registered in England and Wales: No. 7139960

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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)	Pos	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Long-Term Debt	Trend Change	BBB (high)	Pos	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Long-Term Deposits	Trend Change	BBB (high)	Pos	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Short-Term Debt	Confirmed	R-1 (low)	Stb	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Short-Term Deposits	Confirmed	R-1 (low)	Stb	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Long Term Critical Obligations Rating	Trend Change	A	Pos	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Short Term Critical Obligations Rating	Trend Change	R-1 (low)	Pos	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Long-Term Deposits Guaranteed by the Irish Government	Confirmed	A (high)	Stb	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Dated Subordinated Debt (Issued After-2011)	Trend Change	BBB	Pos	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Dated Subordinated Notes due Sept. 2018 (ISIN CA062786AD07)	Trend Change	BBB	Pos	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Floating Rate Subordinated Notes due 2017 (ISIN XS0223310862)	Trend Change	BBB	Pos	Apr 22, 2016

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Governor and Company of the Bank of Ireland, The	Subordinated Notes due 2020 (ISIN XS0487711573)	Trend Change	BBB	Pos	Apr 22, 2016
Governor and Company of the Bank of Ireland, The	Subordinated Notes due 2020 (ISIN XS0487711656)	Trend Change	BBB	Pos	Apr 22, 2016
Bank of Ireland UK Holdings plc	Perpetual Preferred Securities (ISIN XS0125611482)	Trend Change	BB (high)	Pos	Apr 22, 2016

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Ross Abercromby
Senior Vice President - Global FIG
+44 20 7855 6657
rabcromby@dbrs.com

Maria Rivas
Vice President - Global FIG
+44 20 7855 6656
Mrivas@dbrs.com

Elisabeth Rudman
Managing Director, Head of EU FIG, Global FIG
+44 20 7855 6655
erudman@dbrs.com

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