



Date of Release: August 5, 2015

DBRS: Bank of Ireland's 1H15 Results Show Further Progress; New Lending up 50%

Industry: Fin.Svc.--Banks & Trusts

Summary:

- Underlying profit before tax of EUR 743 million in 1H15, up 127% year-on-year (YoY).
- New lending up 50% on 1H14.
- Total defaulted loans reduced by EUR 1 billion in 1H15 to EUR 13.3 billion with reductions in all asset classes.
- Further improvement in capital ratios with the fully-loaded CET1 ratio (excl. 2009 Prefs) now 11.1%.
- DBRS rates Bank of Ireland at BBB (high), Under Review with Negative Implications, for Non-Guaranteed Long-Term Debt & Deposits.

DBRS Ratings Limited (DBRS) views Bank of Ireland's (BoI or the Bank) 1H15 results positively as they demonstrate the further progress made by the Bank. Underlying profit before tax (PBT) increased 127% YoY to EUR 743 million, driven by higher net interest income, as well as EUR 228 million of additional gains, mainly from the sale of sovereign bonds (as part of a rebalancing of the liquid asset portfolio) and the sale of investment properties. Net interest income was up EUR 58 million YoY helped by an increase in the net interest margin (NIM) to 2.21% (1H14: 2.05%). DBRS notes that as a result of the rebalancing of the liquid asset portfolio the NIM in 2Q15 was slightly lower at 2.17%, however the Bank expects modest growth in the NIM in 2H15. The cost-income ratio improved to 50%, from 55% in 1H14, due to the improvement in income generation, however total operating expenses increased by 8% YoY as a result of pay increases, the strength of sterling, higher pension costs and ongoing investment in infrastructure and technology. DBRS notes that the Irish bank levy charge (EUR 38 million) will be accounted for in the second half of 2015. In 1H15 the statutory profit before tax was EUR 624 million, up from EUR 344 million in 1H14.

The Bank's new lending was up 50% on 1H14. The largest part of this was in the UK (up 84%), reflecting a focus on mortgages, however the Bank also saw loan growth of 36% in Ireland as credit appetite begins to grow again. Given the strength of the franchise in Ireland DBRS believes that BoI is well placed to benefit from the recovery in its domestic market.

The Bank's defaulted loans (defined as impaired loans plus residential mortgages greater than 90 days



in arrears) reduced further to EUR 13.3 billion at end-1H15, down from EUR 14.3 billion at end-2014 and from a peak of EUR 18.3 billion at end-1H13, with the improvement seen across all portfolios. Reflecting the improved asset quality and outlook the impairment charge was significantly lower than in the same period of 2014, reducing to EUR 168 million, from EUR 444 million. Although overall asset quality remains relatively weak, with the defaulted loans accounting for 14.4% of total loans, DBRS views positively the improvement and expects further improvement, given the positive momentum in the RoI and UK economies.

The Bank's capital ratios continued to strengthen and at end-1H15, the Common Equity Tier 1 (CET1) ratio was 15.9% on a transitional basis, and 11.1% on a fully-loaded basis (excluding the EUR 1.3 billion of remaining 2009 Preference Shares), which the Bank intends to de-recognise between January and July 2016. The Bank also issued an Additional Tier 1 instrument of EUR 750 million in June 2015 which further boosts the Group's capital base. DBRS views positively the improvement in capital levels achieved through earnings retention and anticipates a further strengthening of the capital ratios, given the Bank's return to profitability.

DBRS rates Bank of Ireland at BBB (high), Under Review with Negative Implications, for Non-Guaranteed Long-Term Debt & Deposits, with the review reflecting the action taken on 20th May 2015 to review the systemic support assumptions of 38 European Banking Groups.

Notes:

All figures are in Euros (EUR) unless otherwise noted.

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

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