MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on Bank of Ireland deposits and senior unsecured ratings to positive

Global Credit Research - 13 Nov 2015

Outlook change reflects improvement in the bank's credit fundamentals

London, 13 November 2015 -- Moody's Investors Service (Moody's) today affirmed Bank of Ireland's (BoI) Baa2 long-term issuer, senior debt and deposit ratings and changed its outlook on the ratings to positive from stable. The rating affirmation is supported by achievement of expected improvements in the bank's credit fundamentals. The positive outlook reflects Moody's expectation that the favourable operating environment in Ireland and the UK will help the bank to continue strengthening its financial fundamentals.

Moody's has affirmed Bank of Ireland's baseline credit assessment (BCA) and adjusted BCA at ba2, its counterparty risk assessment (CRA) at Baa1(cr)/Prime-2(cr) and all other ratings of the bank. A full list of affected ratings can be found at the end of this press release.

"The positive outlook reflects our expectations that asset quality and profitability metrics will continue to improve, driven by the favourable operating environment in the bank's two main operating markets. It also reflects Bank of Ireland's renewed ability to generate capital organically, which largely offsets the uncertainty caused by the volatility of the bank's regulatory capital ratio arising from the defined pension scheme deficit. " says Carlos Suarez Duarte, a Moody's Vice President -- Senior Analyst.

RATINGS RATIONALE

AFFIRMATION OF THE BANK'S BCA REFLECTS IMPROVEMENTS IN FINANCIAL FUNDAMENTALS

Moody's affirmation of Bank of Ireland's ba2 BCA and adjusted BCA reflects the improvement in asset quality ratios driven following a decline in the bank's impaired loan ratio to 13.6% as of June 2015 from 15.0% as of December 2014. The improvement in the ratio has been driven by a decline in the amount of impaired loans across all categories. Moody's expects Bank of Ireland's asset quality to continue improving, driven by reduced levels of new arrears formation and a gradual reduction in the stock of problem loans. However we expect that the recovery process will be slow given the industry wide reluctance to repossess properties in Ireland. Moody's notes that despite the economic recovery in Ireland, the bank's problem loan ratio remains elevated.

Moody's also expects profitability to improve and to stabilise gradually. During the first half of 2015, the bank reported a significant increase in profitability, with net income increasing to EUR624 million compared to EUR344 million for the same period in 2014. Although the increase was partly driven by a one-off gain due to the sale of assets, the decline in impairment charges, which Moody's considers sustainable, has also contributed positively to the results. Despite some further upside potential due to lower cost of funds and increased net lending, Moody's expects the bank's profitability to stabilise reflecting the challenges BoI will face in its core markets including potential reduction in lending rates in Ireland and increased competition in the UK.

Capital has also continued to strengthen with a tangible common equity-to-risk weighted assets (TCE/RWA) ratio, excluding the high trigger contingent convertible capital notes maturing in July 2016, increasing to 11.4% as of June 2015 from 9.3% as of December 2014. In line with Moody's capital ratio, the bank reported an increase in the regulatory "fully loaded" common equity tier 1 ratio (CET1) ratio to 11.1% from 9.3% during the same period. However, the CET1 ratio declined to 10.6% as of September 2015 driven by an increase in the defined pension deficit. While Moody's believes that the bank's regulatory metrics will remain volatile, its improved ability to generate capital organically will largely offset the uncertainty caused by the periodic movements arising from changes in its pension deficit.

Bank of Ireland's use of wholesale funding also declined and Moody's expects more stability over the upcoming periods. According to Moody's calculations the bank's market funds-to-tangible banking assets ratio declined to 11.5% at the end of June 2015 from 15.4% at end-2014. This compares favourably with similarly rated peers. The bank liquidity ratios remained relatively stable with liquid assets-to-tangible banking assets declining slightly to 19.4% from 20.1% during the same period, according to Moody's calculations.

AFFIRMATION OF DEPOSITS AND SENIOR UNSECURED RATINGS INCORPORATES REDEMPTIONS AND ISSUANCE PLANS

The Baa2 deposits and senior unsecured ratings incorporate two notches of uplift from our Advanced LGF analysis. Moody's analysis is forward looking and incorporates the bank's public plans to repurchase EUR1.3 billion of preference shares during the first half of next year as well as the future issuance of subordinated debt.

RATIONALE FOR THE POSITIVE OUTLOOK

The positive outlook on Bank of Ireland's long-term senior deposit and debt ratings reflects the improving trends in asset quality, profitability and funding. It also reflects Moody's expectation that the bank's organic capital generation will mainly offset the expected decline in the TCE/RWA ratio due to the maturity of the bank's high trigger contingent capital instruments and the potential volatility arising from an unexpected increase in its pension deficit. An upgrade could be prompted should Bank of Ireland sustain and further improve its current credit metrics.

WHAT WOULD MOVE THE RATING UP / DOWN

Bank of Ireland's long-term debt and deposit ratings could be upgraded as a result of (1) an increase of its standalone ba2 BCA; or (2) a significant increase in the bank's bail-in-able debt.

Bank of Ireland's ba2 standalone BCA could be upgraded following (1) a further reduction in non-performing loans; (2) an additional increase in capital ratios to offset the volatility arising from the pension deficit; (3) sustained improvement in the bank's profitability and efficiency; and (4) maintenance of adequate funding and liquidity metrics.

Upward rating pressure on the bank's deposit and senior unsecured ratings would also develop if the bank significantly increased the amount of subordinated debt which could be bailed-in.

Bank of Ireland's ratings could be downgraded as a result of (1) a lowering of its standalone ba2 BCA; or (2) redemption of maturing subordinated instruments without their replacement.

Downward pressure could be exerted on Bank of Ireland's ba2 standalone BCA following (1) a deterioration in the bank's asset quality metrics; (2) a significant deterioration in the bank's regulatory capital metrics; (3) a decline in profitability metrics and (4) a significant deterioration in the bank's funding or liquidity metrics.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Bank of Ireland

....LT Issuer Rating, Affirmed Baa2 Positive

....LT Deposit Rating (Foreign Currency and Local Currency), Affirmed Baa2 Positive

....ST Deposit Rating (Foreign Currency and Local Currency), Affirmed P-2

....Adjusted Baseline Credit Assessment, Affirmed ba2

....Baseline Credit Assessment, Affirmed ba2

....Counterparty Risk Assessment, Affirmed P-2(cr)

....Counterparty Risk Assessment, Affirmed Baa1(cr)

....Senior Unsecured Regular Bond/Debenture (Foreign Currency and Local Currency), Affirmed Baa2 Positive

....Junior Subordinated Regular Bond/Debenture (Foreign Currency), Affirmed B1 (hyb)

....Other Short Term (Foreign), Affirmed (P)P-2

....Subordinate MTN (Local Currency), Affirmed (P)Ba3

....Senior Unsecured MTN (Local Currency), Affirmed (P)Baa2

....Pref. Stock (Local Currency), Affirmed B2 (hyb)

....Pref. Stock Non-cumulative (Foreign Currency and Local Currency), Affirmed B3 (hyb)

....Subordinate Regular Bond/Debenture (Foreign Currency and Local Currency), Affirmed Ba3

....ST Deposit Note/CD Program (Local Currency), Affirmed P-2

....Commercial Paper (Foreign Currency and Local Currency), Affirmed P-2

Outlook Actions:

....Outlook, Changed To Positive From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in March 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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