FitchRatings

Banks
Universal Commercial Banks
Ireland

Bank of Ireland Group plc

Update

Key Rating Drivers

Leading Domestic Bank; Diversified Business: Bank of Ireland Group plc's (BOIG) ratings are driven by: the group's reasonably diversified business model; a leading retail and corporate-banking franchise primarily focused on the small and concentrated Irish market; sound regulatory capitalisation; and a stable funding and liquidity profile. The ratings also consider the group's asset quality, which is weaker than that of international peers, still influenced to some extent by impaired loans underwritten before the global financial crisis.

Stable Impaired Loans Expected: BOIG has been reducing its stock of impaired loans (Stage 3) in recent years through workouts and portfolio sales. Its impaired loans ratio reduced to 3.4% at end-2022 from 5.3% at end-2021. The underlying stock of Stage 2 gross loans was relatively unchanged. We expect the impaired loans ratio to remain stable from new inflows, despite loan acquisitions.

Prospects of Increasing Earnings Diversification: BOIG's profitability is supported by its reasonably diversified business model and a leading market position in Ireland, which will benefit from the acquisitions of Davy's stockbrokers and KBC Ireland's performing loans and deposits. The acquisition of Davy's stockbrokers will support diversification towards non-interest revenue, which is already a strength relative to domestic peers, due to BOIG's larger wealth management and insurance activities.

Adequate Capitalisation: The group's regulatory capital and leverage ratios are sound. Its transitional common equity Tier 1 (CET1) ratio of 15.9% at end-2022 (15.4% fully loaded) was well above the 2022 minimum regulatory requirements of 10.04% (excluding Pillar 2 Guidance). BOIG's end-2022 leverage ratio of 6.5% was comfortable. Capital encumbrance by unreserved impaired loans, at 16% of CET1 capital at end-2022 remains fairly high compared with peers, although down from 28% at end-2021 as impaired loans have decreased.

Stable Funding, Rating Strength: The group benefits from a strong retail-banking franchise and access to a stable and granular deposit base, particularly in its home market. Non-interest-bearing current account balances make up a large proportion of total customer deposits.

The group has proven and diversified access to the wholesale markets, which it regularly taps principally for minimum requirement for own funds and eligible liabilities (MREL) purposes, given abundant customer deposits. Liquidity is sound and largely in the form of cash and cash equivalents and high-quality liquid assets, supported by contingent access to liquidity through various central bank facilities.

Holdco VR Equalised with Opco: Fitch Ratings assesses BOIG (the group's holding company) on a consolidated basis. Its Viability Rating (VR) is aligned with that of its main operating subsidiary, Bank of Ireland (BOI), also based in Ireland. This alignment is to reflect the absence of material double leverage at the holding company, prudent liquidity management with contingency plans in place, and the fungibility of capital and liquidity across the group, subject to its operating companies fulfilling their regulatory requirements.

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2
Viability Rating	bbb
Government Support Rating	ns

Sovereign Risk (Ireland)

Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Global Economic Outlook (March 2023)
Fitch Affirms Ireland at 'AA-'; Outlook Stable (January 2023)
Bank of Ireland Group plc (October 2022)
Fitch Affirms Bank of Ireland Group plc at 'BBB'; Outlook Stable (September 2022)
Fitch Affirms Bank of Ireland UK at 'BBB+'; Outlook Stable (September 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Deteriorating Operating Environment, Asset Quality: The ratings would likely be downgraded if a deterioration in economic performance and the operating environment for banks in Ireland and the UK increase the group's impaired loans ratio towards 10%, and BOIG was unable to reduce its stock of impaired loans fairly quickly, or if capital encumbrance by impaired loans increased significantly without prospects of recovering within a reasonable timeframe. This is not our baseline scenario.

The ratings would also be downgraded if the group's fully loaded CET1 ratio fell below 13%, following losses or risk-weighted assets (RWAs) increased without prospects of sufficient internal capital generation.

BOIG's VR would also be downgraded if the holding company's double leverage durably increases to above 120%, which we do not expect.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Improved Asset Quality and Profitability: An upgrade would require the group to generate operating profit/RWAs sustainably above 2%, reduce impaired loans to about 3% of gross loans, and significantly reduce capital encumbrance.

Other Debt and Issuer Ratings

Debt Rating Classes

Rating level	BOIG	BOI
Senior unsecured	BBB	BBB+/F2
Tier 2 subordinated debt	BB+	BB+
Additional Tier 1 (AT1)	BB-	

Source: Fitch Ratings

Senior Unsecured: BOIG's Long-Term IDR and long-term senior debt rating are in line with the group's VR.

Subordinated Debt: The rating of BOIG's and BOI's subordinated Tier 2 debt is notched down twice from the respective VRs. This reflects the notes' poor recovery prospects arising from their subordinated status in a resolution. We do not notch for non-performance risk because the terms of the notes do not provide for loss absorption on a going-concern basis.

Additional Tier 1 Instruments: BOIG's additional Tier 1 notes are rated four notches below the group's VR. This reflects poor recovery prospects arising from their subordinated status (two notches) as well as incremental non-performance risk relative to the VR (two notches), given fully discretionary coupon payments and mandatory coupon restriction features.

Debt Buffers Drive BOI IDR Uplift: BOI's Long-Term IDR, Derivative Counterparty Rating and long-term senior debt rating are one notch above the bank's VR to reflect the protection of BOI's senior third-party creditors by resolution funds ultimately raised by BOIG, down-streamed to BOI and designed to protect the operating company's external senior creditors in a group failure. The buffers of junior and down-streamed holding-company senior debt were built to comply with MREL.

Significant Changes from Last Review

Moderating Growth, Operating Environment Still Supportive for Banks

We still expect Ireland's economy to grow near its potential rate, despite downward revisions to our growth forecasts. We forecast modified domestic demand, which excludes the effects of multinational enterprises (MNE) activity on Irish GDP and is a better measure of domestic economic performance, to expand on average 2.8% between 2023 and 2024, much stronger than the eurozone's weighted average at about 1.2%. Spillovers from the strong MNE sector, tight labour market and increased government spending are key factors explaining Ireland's relative economic strength.

Fitch has a neutral outlook for the banking sector for 2023 as GDP growth should provide business growth opportunities for banks and result in controlled default rates, while balance sheets are positioned to benefit from rising interest rates. We anticipate growth in headline operating profitability, with loan impairment charges likely to increase over 2022 but remain low, and asset quality ratios to remain flat, assisted by legacy loan sales. The Irish banks' capital ratios are stronger than those of their European peers, funding and liquidity profiles are robust and the banks are positioned to benefit from recent interest-rate increases through stronger interest income. These factors mitigate concerns over emerging credit risks.

At the same time, the Irish economy enters this period of uncertainty with strong buffers. Fitch affirmed Ireland's sovereign rating at 'AA-'/Stable in January 2023, reflecting its strong credit fundamentals and economic performance that should support continued improvement in fiscal metrics and debt reduction.

Rising Interest Rates Positively Affecting Net Interest Margins

Irish domestic banks have a high proportion of tracker and variable rate mortgage loans (61%) which, compared to other countries in Europe with more fixed rate mortgage loans, has led to rapid transmission of base rate increases to existing mortgage loans. This has benefited Irish banks' net interest margins and will continue to do so if there are further increases in interest rates. Pass-through rates on deposits have been more limited, anecdotally between 4% and 5% as base rates have risen in 2022 and early 2023, with consolidation in the banking sector helping to support deposit inflows at incumbent banks. Nevertheless, we expect deposit pass-through rates to increase in 2023, as deposits built up over the pandemic assisted by government support schemes start to be used and banks have to compete more for funding.

Updated Strategy and Targets

BOIG unveiled its updated medium term 2023-2025 strategic targets in March 2023 under its new CEO, who was previously CFO before leaving and returning to the bank in November 2022. BOIG's updated targets include a return of tangible equity around 15%, a cost/income ratio of less than 50% (54% in 2022, according to BOIG) and increased shareholder distributions, underpinned by an updated above 14% CET1 target ratio (previously 13.5%). The higher profitability targets reflect a different interest rate scenario as well as recent acquisitions.

As part of the recent acquisitions, including KBC Ireland's performing loans and deposits, and Davy, BOIG plans to further increase its market share in retail mortgage lending (end-2022: 28%), deposits and wealth management. Assets under management increased 75% in 2022 to EUR39 billion, of which EUR18.4 billion were Davy's assets. We believe these acquisitions will support BOIG's franchise and cross-selling opportunities, helping support non-interest income in addition to net interest income.

Strong 2022 Performance

BOIG reported a strong performance in 2022, with increased operating income (+8% yoy) helped by higher interest rates and greater net fee and commission income. Fitch calculated operating expenses grew by 4%, below inflation in 2022. BOIG's operating profit/RWAs ratio declined yoy to a still strong 2.4% in 2022 (2021: 2.9%), with the reduction driven mainly by a normalisation of loan impairment charges (LICs, 2022: 30bp LICs/average gross loans) against net releases in 2021, when economic conditions had improved. BOIG guides to LICs in the mid-30bp in 2023.

The capital ratios declined 110bp yoy to 15.9% at end-2022, primarily driven by the Davy's acquisition (minus 80bp impact), distributions (minus 75bp), increase in impairments and reduction in IFRS9 addbacks (minus 50bp), and RWAs growth (minus 45bp), partly offset by internal capital generation (+165bp).

Strong deposit inflows in 2022, including from banks exiting Ireland, have helped BOIG's funding and liquidity metrics, with the gross loans/customer deposits ratio improving to 74% at end-2022 from 84% at end-2021. In 2022 EUR11 billion of targeted longer-term refinancing operations (TLTROs) were fully repaid.

Ratings Navigator

Bank of Ireland Group plc

ESG Relevance:

Banks
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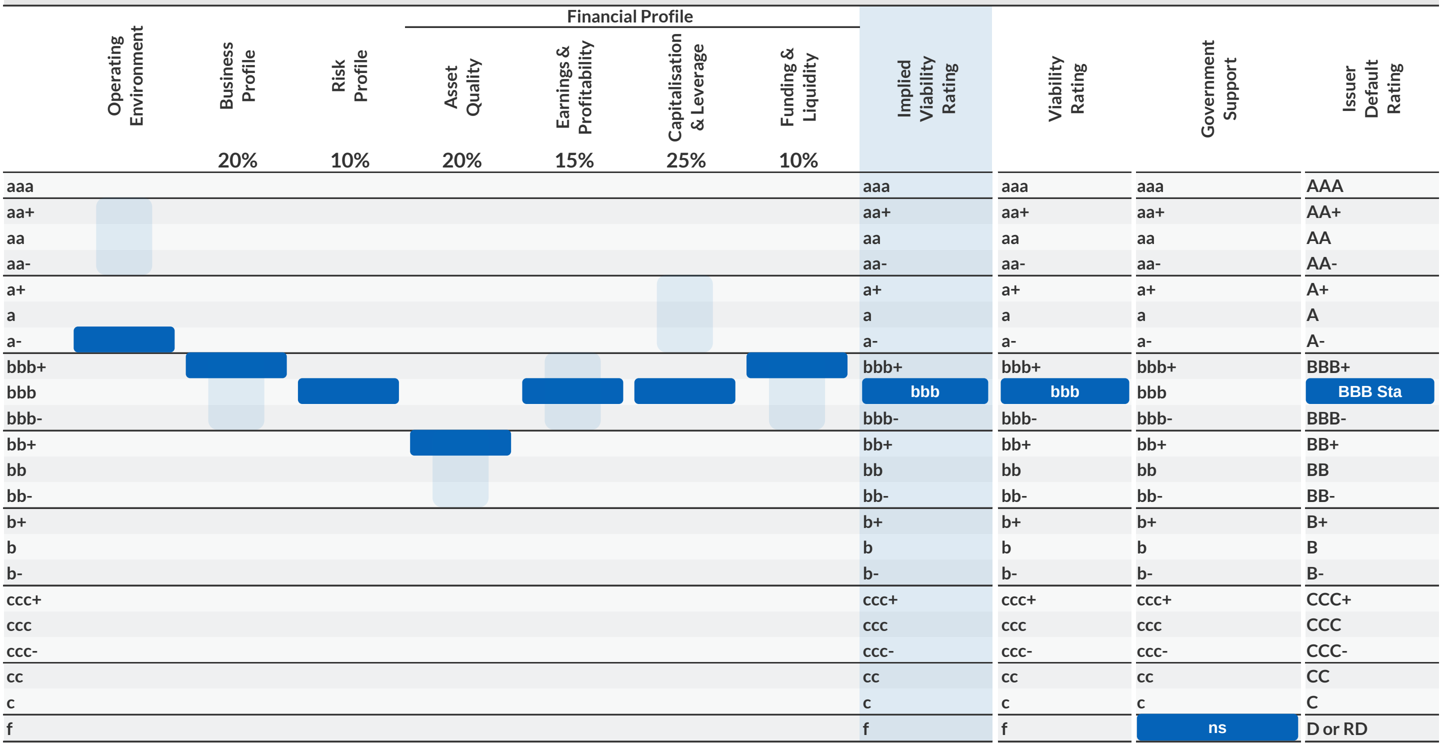

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The 'a-' operating environment score has been assigned below the 'aa' category implied score due to the following adjustment reasons: size and structure of economy (negative) and level and growth of credit (negative), reported and future metrics (negative). The operating environment score is one notch higher than that applied to overwhelmingly domestic banks to reflect BOIG's international diversification in the UK.

The 'bbb' capitalisation & leverage score has been assigned below the 'a' category implied score due to the following adjustment reason: reserve coverage and asset valuation (negative).

Financials

Financial Statements

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	Year end (USDm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement					
Net interest and dividend income	2,653	2,487.0	2,230.0	2,090.0	2,156.0
Net fees and commissions	332	311.0	269.0	256.0	305.0
Other operating income	505	473.0	495.0	295.0	488.0
Total operating income	3,489	3,271.0	2,994.0	2,641.0	2,949.0
Operating costs	2,057	1,929.0	1,859.0	1,888.0	1,949.0
Pre-impairment operating profit	1,431	1,342.0	1,135.0	753.0	1,000.0
Loan and other impairment charges	199	187.0	-194.0	1,133.0	214.0
Operating profit	1,232	1,155.0	1,329.0	-380.0	786.0
Other non-operating items (net)	-106	-99.0	-108.0	-380.0	-141.0
Tax	170	159.0	166.0	-53.0	197.0
Net income	957	897.0	1,055.0	-707.0	448.0
Other comprehensive income	-140	-131.0	732.0	-266.0	175.0
Fitch comprehensive income	817	766.0	1,787.0	-973.0	623.0
Summary balance sheet					
Assets					
Gross loans	78,135	73,256.0	78,304.0	78,823.0	80,795.0
- Of which impaired	2,650	2,485.0	4,185.0	4,376.0	3,099.0
Loan loss allowances	1,381	1,295.0	1,958.0	2,242.0	1,308.0
Net loans	76,753	71,961.0	76,346.0	76,581.0	79,487.0
Interbank	3,247	3,044.0	2,750.0	2,453.0	3,328.0
Derivatives	4,693	4,400.0	1,571.0	2,217.0	1,999.0
Other securities and earning assets	32,163	30,155.0	38,673.0	37,518.0	34,663.0
Total earning assets	116,857	109,560.0	119,340.0	118,769.0	119,477.0
Cash and due from banks	39,309	36,855.0	31,360.0	10,953.0	8,325.0
Other assets	5,236	4,909.0	4,568.0	4,032.0	4,081.0
Total assets	161,402	151,324.0	155,268.0	133,754.0	131,883.0
Liabilities					
Customer deposits	105,807	99,200.0	92,754.0	88,519.0	83,933.0
Interbank and other short-term funding	3,674	3,445.0	12,946.0	2,506.0	2,214.0
Other long-term funding	9,928	9,308.0	10,335.0	7,681.0	10,372.0
Trading liabilities and derivatives	3,952	3,705.0	2,245.0	2,257.0	2,478.0
Total funding and derivatives	123,361	115,658.0	118,280.0	100,963.0	98,997.0
Other liabilities	25,185	23,612.0	25,521.0	23,050.0	22,326.0
Preference shares and hybrid capital	1,160	1,088.0	1,095.0	1,086.0	127.0
Total equity	11,696	10,966.0	10,372.0	8,655.0	10,433.0
Total liabilities and equity	161,402	151,324.0	155,268.0	133,754.0	131,883.0
Exchange rate		USD1 = EUR0.93756	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, BOIG

Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.4	2.9	-0.8	1.6
Net interest income/average earning assets	2.2	1.9	1.8	1.8
Non-interest expense/gross revenue	59.7	62.2	71.4	67.0
Net income/average equity	8.3	11.2	-7.5	4.4
Asset quality				
Impaired loans ratio	3.4	5.3	5.6	3.8
Growth in gross loans	-6.5	-0.7	-2.4	2.7
Loan loss allowances/impaired loans	52.1	46.8	51.2	42.2
Loan impairment charges/average gross loans	0.3	-0.2	1.3	0.3
Capitalisation				
Common equity Tier 1 ratio	15.9	17.0	14.9	15.0
Fully loaded common equity Tier 1 ratio	15.4	16.7	13.4	13.8
Tangible common equity/tangible assets	5.9	5.6	5.1	6.6
Basel leverage ratio	6.5	6.6	7.1	7.1
Net impaired loans/common equity Tier 1	15.8	28.2	29.6	23.8
Funding and liquidity				
Gross loans/customer deposits	73.9	84.4	89.1	96.3
Liquidity coverage ratio	221.0	181.4	153.0	138.0
Customer deposits/total non-equity funding	87.8	79.2	88.7	86.9
Net stable funding ratio	163.0	143.8	138.0	131.0

Source: Fitch Ratings, Fitch Solutions, BOIG

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A or A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.

Higher influence | Moderate influence | Lower influence

BOIG's and BOI's Government Support Ratings of 'No Support' reflects Fitch's view that senior creditors cannot rely on extraordinary support from the Irish authorities in the event that the bank becomes non-viable. In our opinion, the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism provide a framework that is likely to require senior creditors to participate in losses for resolving the bank.

Subsidiaries and Affiliates

Issuer Ratings

Rating level	Bank of Ireland (UK) Plc (BOI UK)
Long-Term Issuer Default Rating (IDR)	BBB+/Stable
Short-Term IDR	F2
Viability Rating (VR)	bbb
Government Support Rating (GSR)	
Shareholder Support Rating (SSR)	bbb+
Derivative Counterparty Rating (DCR)	BBB+(dcr)

[a] ns = 'no support'
Source: Fitch Ratings

BOI UK is fully owned by Bank of Ireland (BOI), and its IDRs are equalised with BOI's. Our support assessment of BOI UK's SSR at 'bbb+' reflects our view that the probability of support from BOI is high. This is underpinned by a record of unquestioned support from the parent, strong integration within the group, high fungibility of capital and funding between BOI UK and the group, and the high reputational risk the group would face in case of BOI UK's default. The IDRs also reflect the protection of its third-party senior liabilities provided by the group's buffers of junior and senior debt.

BOI UK's DCR is aligned its Long-Term IDR because under UK legislation, derivative counterparties have no preferential status over other senior obligations in a resolution.

Environmental, Social and Governance Considerations

FitchRatings **Bank of Ireland Group plc**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				Overall ESG Scale
Bank of Ireland Group plc has 5 ESG potential rating drivers ➡ Bank of Ireland Group plc has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. ➡ Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5
	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.