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Bank of Ireland Group PLC

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Bank of Ireland Group PLC

Group SACP	bbb
Anchor	bbb	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

\+

Support	+2
ALAC Support	+2
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
A-/Negative/A-2
Resolution Counterparty Rating
A/--/A-1
Holding Company ICR
BBB-/Negative/A-3

Group SACP--The group stand-alone credit profile of the Bank of Ireland group. The bank holding company rating shown applies to Bank of Ireland Group PLC, and is one notch below the group SACP. The issuer credit rating shown applies to the operating company, Bank of Ireland.

Major Rating Factors

Issuer Credit Rating
BBB-/Negative/A-3

Strengths:	Weaknesses:
• Strong franchise in Ireland, with a high market share across business lines and better international diversity than Irish peers. • Stable deposit base characterized by very low concentration risks and a low proportion of more volatile corporate deposits. • Significant build up of loss absorption capacity with the continuous issuance of bail-inable debt.	• Increasing strain on earnings due to low interest rates, stiff competition, and necessary digital investments. • Credit losses to deteriorate sharply in 2020 amid the COVID-19 pandemic, putting additional pressure on profitability. • Medium-term exposure to macroeconomic uncertainty in both the U.K. and Ireland, mostly linked to post-Brexit trade agreement discussions.

Outlook

BANK OF IRELAND GROUP PLC--nonoperating holding company (NOHC)

The negative outlook on Bank of Ireland Group PLC (BOI Group) primarily reflects our view that the economic contraction in Ireland associated with COVID-19 will make the operating environment more challenging, leading to weaker business and profitability prospects.

Downside scenario

We would most likely lower the ratings over the next 18-24 months if pre-provision income were under heightened pressure, with growth of costs outpacing that of revenues in 2021, due to intensifying margin pressure or weak business volumes. Downward rating pressure could also crystallize if the recession weakens BOI Group's asset quality and credit costs also increase in 2021, on the back of a more prolonged and deeper crisis than we currently envisage.

Upside scenario

We could revise the outlook back to stable if economic and operating conditions stabilize and cost discipline allows the bank to sustain pre-provision income.

BANK OF IRELAND—bank operating company

The negative outlook on Bank of Ireland (BOI) mirrors that on BOI Group.

Downside scenario

We could lower the ratings on BOI if the buffer of bail-inable debt protecting senior creditors does not stay at or above 8.0% of S&P Global Ratings' risk-weighted assets in 2020--and is no longer commensurate with a two-notch uplift. This could happen because of a less conservative capital policy than we currently expect, a widening risk-asset base, or due to impaired access to capital markets, which would prevent the group from ongoing issuance of bail-inable debt instruments.

Upside scenario

We could revise the outlook to stable if the operating environment normalizes and we revise the outlook on BOI Group to stable.

Rationale

BOI Group benefits from its robust domestic banking franchise, which is comparable to its close peer, AIB Group PLC (AIB). Unlike AIB, however, BOI Group has an Irish bancassurance franchise and a larger U.K. business.

The sharp economic slowdown we anticipate in 2020 for Ireland and the U.K., where the bank also runs commercial operations, on the back of the COVID-19 pandemic represents substantial downside risks to Irish banks' operating environment, leading to weaker business and profitability prospects. We think BOI Group's profitability is under increasing pressure due to compressing interest margins and a persistently high cost base--with a cost-to-income ratio remaining well above 60% over the next two years--as the group continues investing in business transformation and digital capability.

BOI Group has entered this crisis with good capital buffers allowing it to absorb unexpected credit losses, which will inevitably rise in 2020. We expect the performance of the mortgage book to worsen slightly, while domestic midsize enterprises and corporates could represent more significant asset quality risks. Therefore, we forecast elevated credit losses in 2020 and 2021 that will put additional pressure on the group's profitability and we are likely to see deterioration in BOIG's return on equity, well below 5% in 2020, and a decline on our forecasted risk-adjusted capital (RAC), although we still expect it to remain above 10% over the next two years.

We compare BOI Group to the other rated Irish banking groups and a range of regional banks with a similar or stronger economic and industry risk profiles. These include Bank Hapoalim B.M. (group SACP of 'a-'); Ceskoslovenska Obchodni Banka A.S. ('a-'); Banco de Sabadell S.A. ('bbb'); Caixabank S.A. ('bbb+'); Virgin Money PLC ('bbb'); and Santander UK Group Holdings PLC ('bbb+').

Anchor: COVID-19 pandemic adds to longstanding profitability pressure for Irish banks

The starting point for our ratings on BOI Group is its 'bbb' anchor, including our view of the economic risks in Ireland and the U.K., where BOI Group predominantly operates. We estimate BOI's weighted-average economic risk based on the geographic distribution of its customer loan exposures. The distribution is roughly 50% exposure to Ireland, 40% to the U.K., and 10% to the rest of the world. In its loan book growth strategy, BOI assumes that around two-thirds of growth will come from its home market, Ireland. The industry risk score of '4' is solely based on BOI's domicile of Ireland.

We view the economic risk trend in Ireland as stable. This reflects our assumption that, despite a sharp 10% GDP contraction in 2020, Ireland's GDP growth will be followed by a strong recovery in 2021-2022, supported by the government's package of emergency measures to safeguard incomes and prevent business closures as well as Ireland's productive human and physical capital, and flexible labor and product market regulations. However, medium-term risks linked to uncertainties from a disruptive Brexit and the escalation of global protectionism remain in place for the Irish economy and banks. Thanks to years of deleveraging, cleaning up their balance sheets, and their focus on risk management improvements, Irish banks have entered this crisis with good capital buffers and ample liquidity. We expect the robust capital level will allow Irish banks to withstand the drop in profitability and absorb rising unexpected credit losses.

The industry risk trend is negative. We see a deterioration of the operating environment in Ireland on the back of COVID-19. Irish banks' profitability was not prominent pre-COVID-19 and banks continuously missed their profitability targets due to their high cost bases. The sector average cost-to-income ratio of about 70% is higher than that in other European banking systems. Cost reduction remains a challenge. We expect weaker revenue generation on the back of business slowdown and stiff competition to be in place due to high industry concentration as well as the relatively small size of the domestic economy and bankable population. On a positive note, we believe that despite market turbulence Irish banks will continue to have good access to capital markets, and will keep building up loss-absorption capacity with planned issuances of bail-inable instruments. Finally, we also assume that the government's longstanding stakes in a large part of the banking system will reduce over the coming decade, but this is not a source of market distortion.

Table 1

Bank of Ireland Group PLC--Key Figures					
Reporting period	**2019**	**2018**	**2017**	**2016**	**2015**
(Mil. €)					
Adjusted assets	113,484	108,732	107,354	108,783	118,154
Customer loans (gross)	80,795	78,061	78,487	82,362	90,575
Adjusted common equity	6,685	6,284	5,749	5,627	5,709
Operating revenues	2,949	2,833	3,007	3,169	3,299
Noninterest expenses	2,006	1,945	2,084	1,902	1,829
Reported net income	448	675	692	799	947

Source: S&P Global Ratings' database.

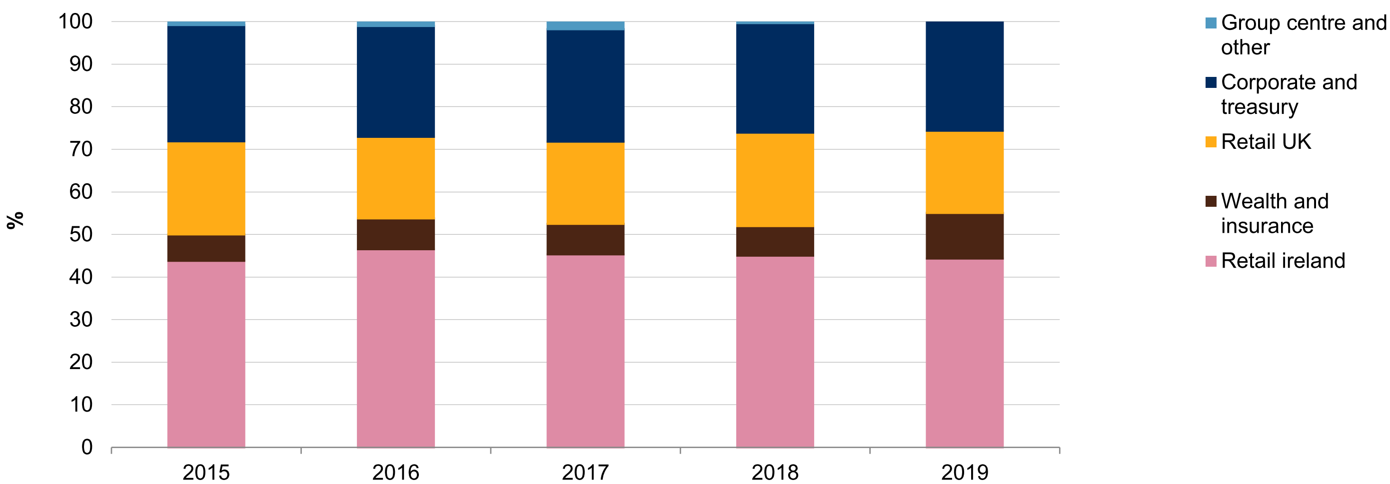
Business position: Investing for long-term growth

BOI Group benefits from resilient domestic franchises and high market shares, typically exceeding 20%, across all retail and commercial banking lines in Ireland. Market shares in credit cards exceed 35% and those in small-to-midsize enterprise lending exceed 40%. We expect this to remain the case, leading to predictable revenues generation.

We consider that BOI Group demonstrates good business and geographic diversity for a bank with about €132 billion of assets. The Irish loan book (51% of the total loan book) is split almost evenly between retail (predominantly mortgages) and corporate loans. BOI Group has better diversification than other domestic players in terms of geographies and business lines, due to its large scale of operations in the U.K. (42% of the loan book) and its established domestic wealth and insurance franchise (11% of operating revenues at end-2019). However, in the current environment, BOI Group may not benefit that much from this diversification since the pandemic is harming almost all the sectors and we foresee declining interest-related revenue and weaker fees from asset gathering businesses. Moreover, the U.K. business could further constrain BOI Group's future performance due to uncertainty linked to post-Brexit trade agreement discussions between the U.K. and the EU, which also carry a further risk of weaker economic conditions.

Chart 1

Bank Of Ireland Group's Total Operating Income By Division Shows Relative Stability

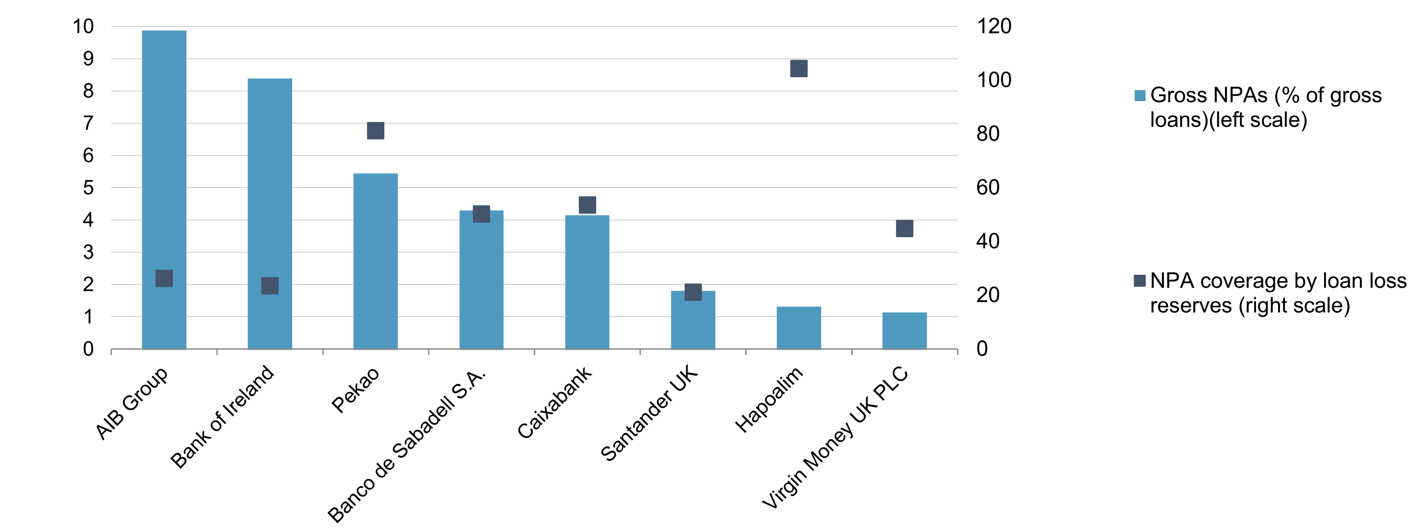


N.M.--Not meaningful. Source: BOIG's accounts. *As reported. Net of insurance claims.

Chart 2

BOI's Asset Quality Metrics Versus Peers

As of Dec. 31, 2019



Source: S&P Global Ratings.

We consider that BOI Group's profitability is under increasing pressure due to compressing interest margins and a persistently high cost base--with a cost-to-income ratio remaining well above 60% over the next two years--as the group continues investing in business transformation and digital capability. BOI Group remains focused on improvements to systems, customer experience, and efficiency, trying to address the need for banks to adapt to rapidly changing customer preferences. However, the changes under way will take time to translate into stronger profitability.

The Irish government has broadly maintained its 14% equity stake in BOI Group since the bank's recapitalization in 2011. We assume that this stake will disappear more quickly than the government's 71% stake in BOI Group's close peer, AIB. Existing state ownership is neutral for the ratings since we consider that the bank operates at arm's length.

Capital and earnings: Capitalization will likely remain robust; COVID-19 pandemic will weigh on future profitability

After several years of balance sheet clean-up and risk management improvement, BOI Group has entered this crisis with good capital buffers, allowing it to absorb unexpected credit losses. We view BOI's capital position as a rating strength and expect our RAC ratio to remain well above 10% over the next two years.

We base our capital projection on the following assumptions:

- Declining net interest margin (NIM) over the next two years, due to the prolonged low interest rates and stiff competition in Ireland. We expect NIM to decline below 2% in 2020 from 2.07% at March 2020, 2.14% in 2019, and 2.20% in 2018.
- Continuous focus on cost-cutting efforts despite ongoing investments in digitalization and business transformation. However, the cost-to-income ratio should deteriorate to close to 70% in 2020, as revenues should slow down quicker than costs.
- Rising cost of credit risk in 2020 and 2021 due to tough economic conditions, above 60 basis points (bps) in 2020 and still close to 50 bps in 2021, more than 2.5x higher than the 27 bps posted in 2019.
- Internal capital generation will be constrained by the intensifying pressure on the bank's earnings capacity.

Before the emergence of the pandemic, BOI Group was already struggling to meet its profitability targets. The bank has been targeting €250 million of cost reduction in the 2017-2021 period, with absolute costs being close to €1.65 billion in 2021, from €1.9 billion in 2017. We view this focus on costs positively and believe that the bank could achieve this ambitious target. However, difficulties in offsetting pressure from low interest rates on income and investment in digitalization with equivalent cost savings persist. Indeed, despite the anticipated reduction in costs, we expect revenues to decline further, leading to negative jaws (that is, where expenses rise faster than income) and a deterioration in cost to income, converging toward 70%.

At end-March 2020, impairment charges amounted to €266 million, including a €250 million management overlay for the consequences of COVID-19, which corresponds to 133 bps on an annualized basis. This is main reason why the bank was loss making in the first quarter. This elevated impairment charge reflects the impact of IFRS 9 and its "forward looking" approach. We do not expect such an annualized cost of risk in the coming quarters, as so far the real losses on exposures have been minimal, but rather a cost of risk in the range of 60-70 bps in 2020. Under the current challenging operating environment, the group's profitability will remain under pressure and we are likely to see deterioration in BOI Group's return on equity, well below 5% in the next two years. We also expect some decline in our forecasted RAC ratio, although we still expect it to remain above 10% over the next two years, from about 11% in 2019.

We see the quality of capital as satisfactory because it largely consists of core equity. The amount of hybrid capital instruments included into our total adjusted capital--the numerator of the RAC ratio--was less than 9% at year-end 2019. It incorporates an amount of contingent Additional Tier 1 (AT1) instruments recognized by the regulator. The group's CET1 ratio was 13.5% at end-March 2020 and the regulatory leverage ratio at end-2019 stood at a comfortable 7.1%. We note BOI Group issued a €675 million high-trigger AT1 note in May 2020 and announced in March 2020 the cancellation of the dividend to be paid out of 2019 results, evidencing management's focus to absolutely preserve capital strength during those times. We note that the decision to cancel the dividend was beneficial to the RAC ratio, bringing it up by 30 bps as of end-2019.

In our assessment of capital and earnings, we also look beyond the capital analysis and consider both the quality of earnings and earnings capacity. We do not believe that management's risk appetite is aggressive in the context of its current strategy. We expect our calculation of BOI's earnings buffer--which measures the capacity for pre-provision income to cover our estimate of normalized credit losses through the credit cycle--to deteriorate to around 50 bps of S&P Global Ratings' RWAs over the next two years from 100 bps at end-2019.

Table 2

Bank of Ireland Group PLC--Capital And Earnings

Reporting period	2019	2018	2017	2016	2015
(%)					
Criteria reflected in RAC ratios	2017 RAC Criteria	2017 RAC Criteria	2017 RAC Criteria	2017 RAC Criteria	2010 RAC Criteria
Tier 1 capital ratio	16.3	16	17	15.7	14.8
S&P RAC ratio before diversification	11.0	11.2	10.2	N/A	7.3
S&P RAC ratio after diversification	11.2	11.4	10.1	N/A	7.6
Adjusted common equity/total adjusted capital	91.6	92.6	92.2	88.0	87.9
Net interest income/operating revenues	73.1	75.3	71.6	71.4	74.1
Fee income/operating revenues	10.3	10.5	10.8	10.6	9.7
Noninterest expenses/operating revenues	68.0	68.7	69.3	60.0	55.4
Preprovision operating income/average assets	0.7	0.7	0.8	N/A	1.1
Core earnings/average managed assets	0.4	0.6	0.6	N/A	0.6

RAC--Risk-adjusted capital. Source: S&P Global Ratings' database.

Table 3

Bank of Ireland Group PLC--Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	20,820.0	257.0	1.0	734.0	4.0

Table 3

Bank of Ireland Group PLC--Risk-Adjusted Capital Framework Data (cont.)					
Of which regional governments and local authorities	510.0	39.0	8.0	18.0	4.0
Institutions and CCPs	6,592.0	689.0	10.0	1,326.0	20.0
Corporate	25,322.0	21,644.0	85.0	21,750.0	86.0
Retail	56,402.0	17,669.0	31.0	30,800.0	55.0
Of which mortgage	47,001.0	11,476.0	24.0	22,155.0	47.0
Securitization§	3,151.0	563.0	18.0	1,468.0	47.0
Other assets†	2,399.0	1,815.0	76.0	3,707.0	155.0
Total credit risk	114,686.0	42,637.0	37.0	59,785.0	52.0
Credit valuation adjustment					
Total credit valuation adjustment	--	649.0	--	0.0	--
Market risk					
Equity in the banking book	0.0	0.0	0.0	0.0	0.0
Trading book market risk	--	393.0	--	590.0	--
Total market risk	--	393.0	--	590.0	--
Operational risk					
Total operational risk	--	4,387.0	--	5,929.0	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	50,114.0	--	66,304.0	100.0
Total Diversification/ concentration adjustments	--	--	--	(1,125.0)	(2.0)
RWA after diversification	--	50,114.0	--	65,178.0	98.0
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments	--	8,153.0	16.3	7,302.0	11.0
Capital ratio after adjustments‡	--	8,153.0	16.3	7,302.0	11.2

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2019, S&P Global Ratings.

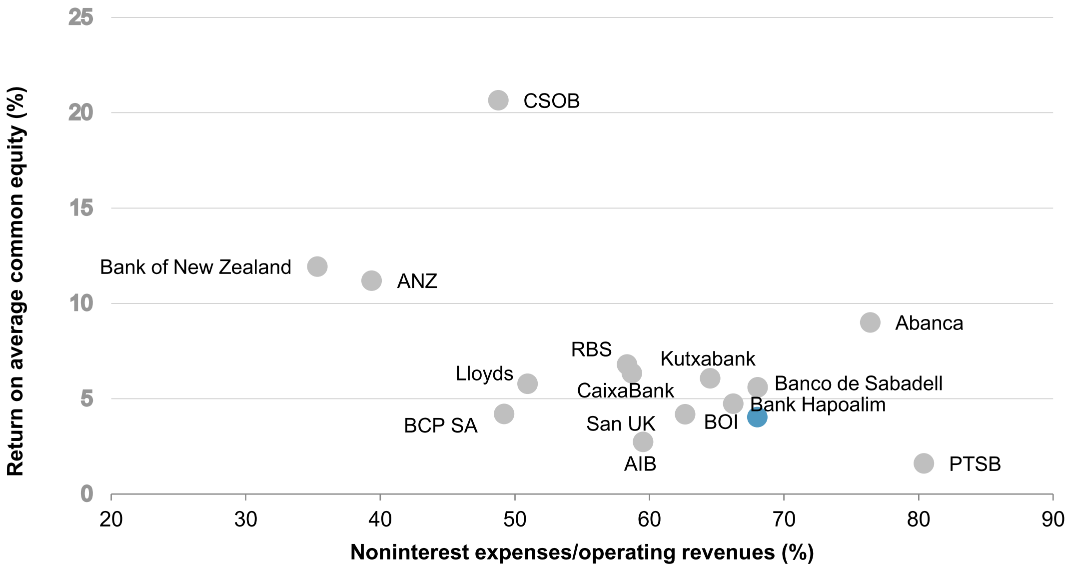
Risk position: Despite a significant improvement, asset quality lags behind that of international peers

BOI Group was the first among domestic players to reduce its NPE ratio to below its target of 5% and reported 4.2% as of end-March 2020 (under the European Banking Authority's regulatory definition). That was largely achieved through the sale and securitization of legacy problem exposures, and the favorable macroeconomic environment in Ireland and investor appetite over the past few years helped a lot. Domestic peers also benefitted from the environment and also reduced their problem exposures (AIB reported 5.4% and PTSB -6% as of end-2019).

Compared to its international peers, BOI Group's asset quality remains weaker, though. We expect NPE to again move closer to, or above, 5% in 2020.

Chart 3

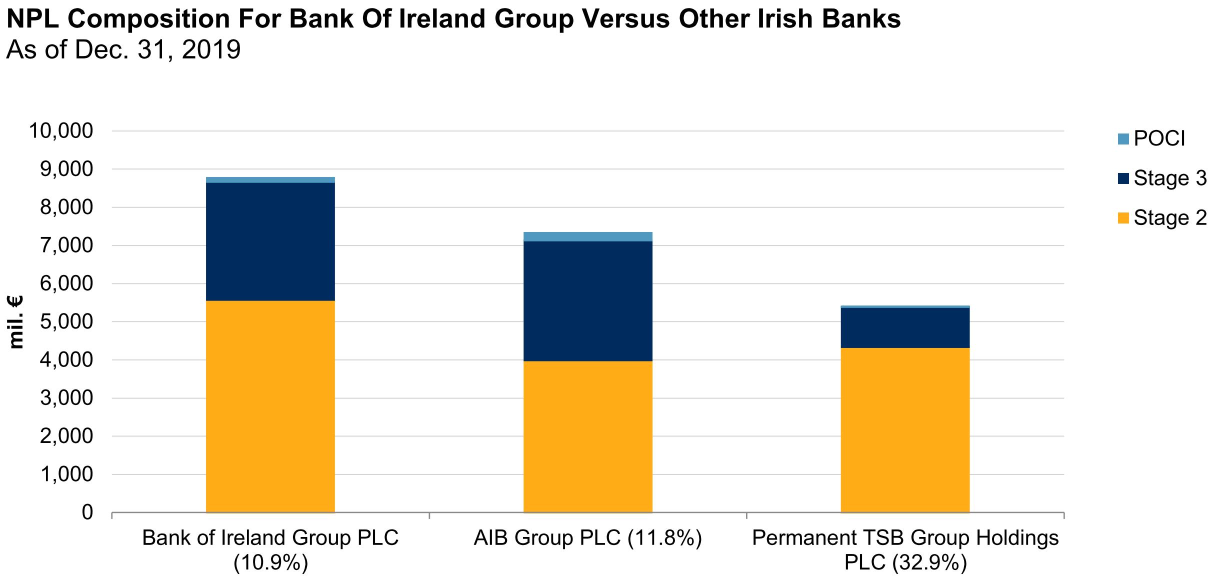
Cost Efficiency Is Needed To Support Earnings
As of Dec. 31, 2019



Source: S&P Global Ratings.

BOI Group has stated that Stage 3 loans were €3.0 billion or 3.7% of gross loans on March 31, 2020, down from €4.6 billion or 5.8% as of end-2018. Credit-loss coverage of Stage 3 loans was 33.3% and we expect it to remain at approximately the same level. A broader analysis of asset quality also captures Stage 2 loans. For BOI, total Stage 2 loans were €5.8 billion or 7.2% of gross loans on the same date. These metrics are stronger than those at AIB and PTSB. The Group stated in its first-quarter communication that so far migrations from Stage 1 to Stage 2 have been marginal, but we expect it to change in the next two quarters.

Chart 4



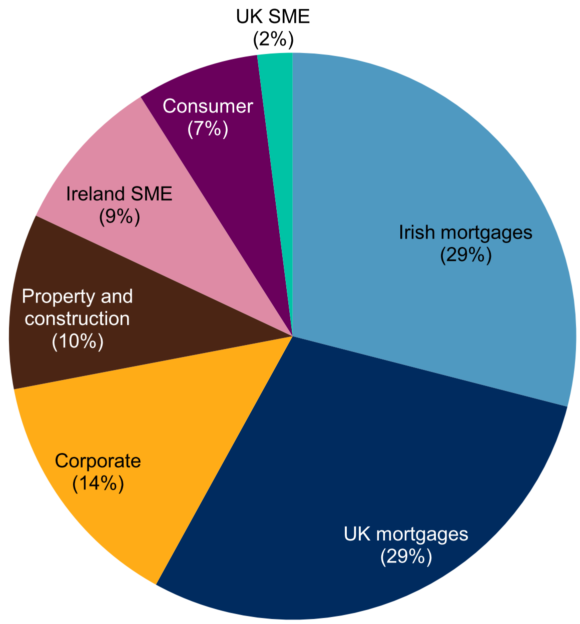
Ratio in brackets is Stage 2 + Stage 3 + POCI to Gross customer loans. Source: Company accounts.

We expect the performance of the mortgage book, which represents the majority of BOI Group's loan exposure (56% of gross loans on end-March 2020)--almost equally split between Ireland and U.K.--could slightly worsen. Exposure to domestic midsize enterprises and corporates could represent more significant asset quality risks and we forecast a rise in credit losses in 2020 and 2021 that will put additional pressure on the group's profitability.

Credit risks are by far the major ones for BOI Group. Market risks are marginal. Non-financial risks, such as those related to compliance or conduct are rising, though, as for the industry as a whole (see below in the ESG section).

Chart 5

Gross Loan Book Composition For Bank Of Ireland Group
As of Dec. 31, 2019



Source: BOIG's accounts.

Table 4

Bank Of Ireland Group PLC--Risk Position					
Reporting period	**2019**	**2018**	**2017**	**2016**	**2015**
(%)					
Growth in customer loans	3.5	-0.5	-4.7	N.M.	1.2
Total diversification adjustment / S&P RWA before diversification	-1.7	-1.1	0.7	N/A	-3.8
Total managed assets/adjusted common equity (x)	19.7	19.7	21.3	21.8	22.9
New loan loss provisions/average customer loans	0.3	-0.1	0.0	N/A	0.3
Net charge-offs/average customer loans	0.8	0.9	2.0	N/A	2.3
Gross nonperforming assets§/customer loans + other real estate owned	7.2	9.5	10.9	15.2	20.4
Loan loss reserves/gross nonperforming assets§	22.4	23.0	27.6	31.0	31.8

Source: S&P Global Ratings database. §Gross nonperforming loans prior to 2018 - plus 90 days past due loans and renegotiated loans starting from 2018 - Stage 3 + POCI loans.

Funding and liquidity: Balanced profiles.

BOI Group's funding profile benefits from its strong domestic franchise, especially granular retail deposits, and it has limited reliance on short-term wholesale funding. Our calculation of BOI Group's stable funding metric of 115% on Dec. 31, 2019, supports this view. We do not expect a material change in this metric over 2020.

Consistent with levels reported in recent years, BOI's loan-to-deposit ratio stood at 95% on Dec. 31, 2019. Deposits are largely sourced from retail customers, and are granular in nature. Reflecting the strength of its domestic franchise, BOI's reported Irish retail deposits represented about 62% of total customer deposits on Dec. 31, 2019. As of end-2019, BOI reported adequate liquidity coverage (138%) and net stable funding (131%) ratios. We expect the bank to use the financial resources offered by the European Central Bank via the 2020 TLTRO mechanism opportunistically. The share of wholesale funding should remain minimal, and essentially for MREL purposes.

Our metric of broad liquid assets to short-term wholesale funding was a relatively high 6x on Dec. 31, 2019. This partly reflects a low level of wholesale funding, given BOI's multi-year deleveraging. However, the group continues to build up its loss-absorption cushion, and over the second half of 2019, issued €1.55 billion of debt, consisting of €1.25 billion of senior debt and €300 million of Tier 2 securities.

Table 5

Bank Of Ireland Group PLC--Funding And Liquidity

Reporting period	2019	2018	2017	2016	2015
(%)					
Core deposits/funding base	86.3	85.3	83.5	82.6	82.8
Customer loans (net)/customer deposits	94.7	96.9	100.5	104.5	105.7
Long term funding ratio	96.5	97.9	93.3	92.7	94.6
Stable funding ratio	114.8	112.8	109.4	106.8	106.2
Short-term wholesale funding/funding base	3.8	2.3	7.3	8.1	5.9
Broad liquid assets/short-term wholesale funding (x)	6.1	9.3	3.2	2.6	3.9
Net broad liquid assets/short-term customer deposits	23.1	23.4	19.7	16.7	21.5
Short-term wholesale funding/total wholesale funding	26.7	15.2	43.0	44.1	32.6
Narrow liquid assets/three-month wholesale funding (x)	13.7	12.2	13.8	9.1	12.0

Source: S&P Global Ratings' database.

Support: Large, bail-inable debt cushion

In our view, BOI has high systemic importance in Ireland, given its significant retail and wholesale banking franchise. However, systemic banks are not eligible for rating uplift for possible future Irish government support. This is because we view the Irish resolution regime as effective under our ALAC criteria. Among other factors, we believe it contains a well-defined bail-in process under which the authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

BOI Group, the NOHC, has made significant progress in building a substantial buffer of loss-absorbing instruments to protect the senior creditors of the operating bank, BOI. Over the second half of 2019, the NOHC issued a total €1.55 billion of bail-inable instruments and, in May 2020, also placed a new AT1 instrument for €675 million, replacing the old one issued at the OpCo level.

Management has plans for further issuances in order to meet its 27.09% minimum requirement for own funds and eligible liabilities. We incorporate this plan into our forecast and envisage that the ALAC ratio will improve further, remaining closer to 9%, sufficiently above our 8% threshold to qualify for two notches of uplift in the ratings on the main operating bank.

Additional rating factors:None

No other factors affect the ratings.

Environmental, Social, and Governance

Our analysis also captures potential nonfinancial vulnerabilities and opportunities, stemming from environmental, social, and governance (ESG) factors. Overall, we do not believe that ESG credit factors are much distinctive for BOI Group's credit quality, compared with the rest of the industry. Still, social factors are important due to changing customer preferences and an increased regulatory focus on banks' business conduct and consumer protection, especially in Ireland, which suffered a severe banking crisis a decade ago and where regulators are more focused on consumer-protection than in most European countries (with the exception of the U.K.).

Misconduct or misselling issues are particularly relevant given that BOI Group has the largest domestic retail franchise. An examination of tracker mortgages by the Central Bank of Ireland has ensured that customers affected by mistreatment by Irish banks will receive appropriate redress. In 2019, BOI booked an extra €67 million charge associated with customer redress. The enforcement phase is ongoing, with uncertainties over the final cost for BOI Group, but we expect the amount to remain manageable.

The bank's governance standards are consistent with industry norms in Ireland. There is a government-imposed cap on senior management remuneration in Ireland, which is rare in Europe. We understand that this cap is one of the reasons for the departure of some top managers from some Irish banks. However, BOI has a relatively stable senior management team and a consistent strategy, and exhibits disciplined execution and operational control.

We do not see more elevated environmental risks for BOI Group than most peers. However, the bank is exposed to risks related to a transition to greener energy, especially via the large share of small and midsize business or agriculture exposures in the book, which may have more difficulties in rapidly adjusting to the energy transition than larger counterparties.

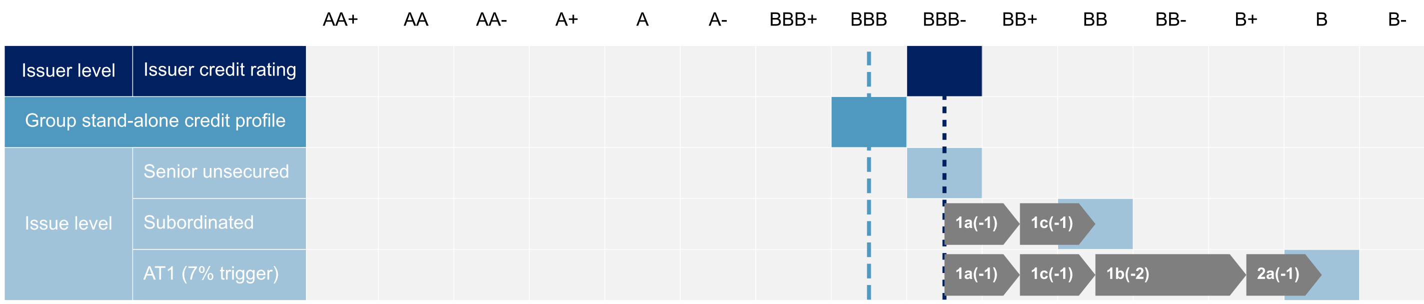
Group structure, rated subsidiaries, and hybrids

We do not incorporate notches for ALAC support into our ratings on BOI Group, the NOHC, as the build-up of bail-in buffers only benefits the creditors of the operating entity. The long-term rating on the NOHC is 'BBB-', one notch below the 'bbb' group SACP to reflect structural subordination.

We rate the nondeferrable subordinated debt issued by BOI two notches below the group SACP, reflecting the debt's contractual subordination as a Tier 2 instrument and our view that the Bank Recovery and Resolution Directive creates the equivalent of a contractual write-down clause. We rate similar issuances by the NOHC one notch lower, reflecting our view of structural subordination.

We rate the AT1 instrument issued by the BOI Group five notches below the issuer credit rating. This reflects the debt's contractual subordination and some instrument-specific features, such as discretional coupon payments, write-down clause, and the 7% CET1 mandatory conversion trigger level.

Bank of Ireland Group PLC: NOHC Notching



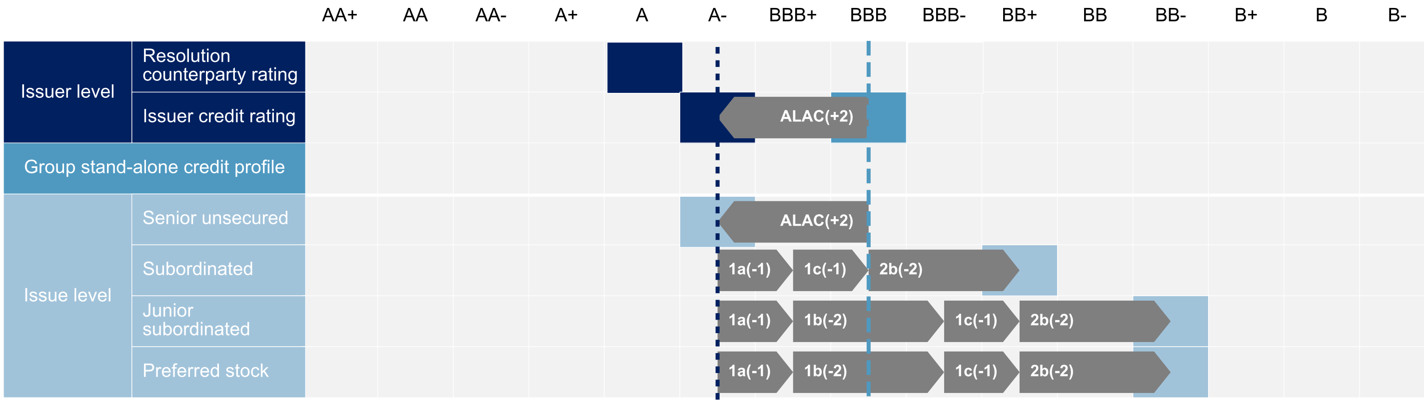
Key to notching

-----	Group stand-alone credit profile
------	Issuer credit rating
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent
2a	Mandatory going-concern, regulatory capital-based trigger (either statutory or contractual)

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
The nonoperating holding company (NOHC) issuer credit rating and senior unsecured debt ratings are notched from the group stand-alone credit profile (SACP) under our criteria. Since ALAC notching does not benefit NOHCs, for simplicity the diagram above is stylized to show the positioning of these ratings with reference to the group SACP.
AT1--Additional Tier 1.

The below table refers to the notching of instruments issued by Bank of Ireland, operating bank of the BOI Group.

Bank of Ireland Group PLC: Notching



Key to notching

-----	Group stand-alone credit profile
-----	Issuer credit rating
ALAC	Additional loss-absorbing capacity buffer
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent
2b	Other nonpayment or default risk not captured already

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.

Resolution counterparty ratings

We set the 'A/A-1' resolution counterparty ratings (RCRs) on BOI one notch above the long-term issuer credit rating on the bank. The RCRs also reflect our jurisdiction assessment for Ireland.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Bank of Ireland Upgraded To 'A-' On Stronger Bail-Inable Debt Cushion; Holding Company Rating Affirmed; Outlook Stable, Dec. 24, 2019

Ratings Detail (As Of June 30, 2020)*	
Bank of Ireland Group PLC	
Issuer Credit Rating	BBB-/Negative/A-3
Senior Unsecured	A-3
Senior Unsecured	BBB-
Subordinated	BB
Issuer Credit Ratings History	
28-Apr-2020	BBB-/Negative/A-3
24-Dec-2019	BBB-/Stable/A-3
12-Dec-2017	BBB-/Positive/A-3
14-Jul-2017	BBB-/Stable/A-3
Sovereign Rating	
Ireland	AA-/Stable/A-1+
Related Entities	
Bank of Ireland	
Issuer Credit Rating	A-/Negative/A-2
Resolution Counterparty Rating	A/--/A-1
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BB-
Preference Stock	BB-
Senior Unsecured	A-
Senior Unsecured	A-2
Subordinated	BB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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