FitchRatings

Banks
Universal Commercial Banks
Ireland

Bank of Ireland Group plc

Update

Key Rating Drivers

Leading Domestic Bank: Bank of Ireland Group plc's (BOIG) ratings are driven by the group's leading retail and corporate banking franchise, primarily focused on the small and concentrated Irish market. They also reflect a reasonably diversified business model, sound profitability, solid regulatory capitalisation, and stable funding and liquidity profiles, which Fitch Ratings considers a rating strength. The ratings also consider the group's asset quality, which has substantially improved in recent years, but is still a rating weakness.

Positive Outlook: The Positive Outlook reflects Fitch's view that the improvement in the operating environment is strengthening BOIG's business profile, and that the bank's strong franchise will lead to sustainably better earnings prospects in the medium term. The ratings could also be upgraded if the bank can sustain asset quality improvement.

Sound Underwriting: We consider underwriting standards to be broadly in line with those of international peers. BOIG's risk profile benefits from the improved operating environment. Its loan book is skewed towards loans to households (about 60% of total loans; mainly lower-risk residential mortgage loans). Higher-risk exposures, such as commercial real estate and residential property development (about 10%), should remain a fairly small proportion of the overall loan book.

Continued Asset Quality Improvement: 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 about 2.7% at end-September 2024 (end-2023: 2.9%). We expect the ratio to be maintained below 3% in the near term due to controlled inflows of new impaired loans and the bank's active management of the stock.

Sound Profitability: BOIG's profitability is supported by its reasonably diversified business model and leading market position in Ireland. We expect operating profit to decline from the exceptionally high level in 2023 as interest rates fall but that it will stabilise at comfortably above 3% of risk-weighted assets (RWAs) in 2024 and 2025 (2023: 3.9%), supported by a still-high interest margin and contained operating costs.

Solid Capitalisation: The group's regulatory capital and leverage ratios are sound. Its fully loaded common equity Tier 1 (CET1) ratio of 15.6% at end-September 2024 was above its minimum regulatory requirement of 11.3%, and the group's medium-term target of above 14%. Capital encumbrance by unreserved impaired loans, at about 14% of CET1 capital at end-June 2024, has significantly reduced (end-2021: 28%) as impaired loans have decreased.

Stable Funding Rating Strength: The group has 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 the abundant customer deposits. Liquidity is sound and supported by contingent access to liquidity through various central bank facilities.

Holdco VR Equalised with Opco: Fitch assesses BOIG on a consolidated basis. The group's holding company's Viability Rating (VR) is aligned with that of its main operating subsidiary, Bank of Ireland (BOI), also based in Ireland. This alignment reflects low 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	Positive
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Western European Banks Outlook 2025 (December 2024)

UK Bank Motor Finance Lenders May Face Significant Risks from Court Ruling (November 2024)

Global Economic Outlook (September 2024)

Fitch Revises Bank of Ireland Group plc's Outlook to Positive, Affirms at 'BBB+' (July 2024)

Fitch Upgrades Ireland to 'AA'; Outlook Stable (May 2024)

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Rating Sensitivities

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

We would revise the Outlook on BOIG's Long-Term Issuer Default Rating (IDR) to Stable if the group failed to maintain its impaired loans ratio consistently below 3% or if we perceived an increase in its risk appetite.

Fitch views a downgrade of BOIG's ratings as unlikely, as reflected in the Positive Outlook. However, the ratings would likely be downgraded if a deterioration of the operating environment for banks in Ireland and the UK increased the group's impaired loans ratio above 5%, 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.

BOIG's ratings 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

An upgrade would result from a sustained record of improvement in BOIG's asset quality metrics, with the impaired loans ratio durably below 3%, and a longer record of better business prospects for Irish banks that leads to further strengthening of BOIG's business profile. It would also require BOIG to maintain its operating profit/RWAs ratio sustainably above 3%, without a material increase in risk appetite, and whilst keeping a fully-loaded CET1 ratio consistently above 14%.

Other Debt and Issuer Ratings

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

Source: Fitch Ratings

Senior Unsecured

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

Debt Buffers Drive BOI IDR Uplift

BOI's Long-Term IDR, Derivative Counterparty Rating (DCR) and long-term senior debt are one notch above the bank's VR to reflect the protection of BOI's senior third-party creditors by resolution funds that are ultimately raised by BOIG, channelled to BOI and designed to protect the operating company's external senior creditors in a group failure. The buffers of junior and holding-company senior debt are built to comply with MREL. BOI's DCR is aligned with the bank's Long-Term IDR because, under Irish legislation, derivative counterparties have no preferential status over other senior obligations in a resolution.

Short-Term Ratings

BOIG's Short-Term IDR is the lower of two options corresponding to the group's 'BBB+' Long-Term IDR. BOI's Short-Term IDR and short-term senior debt ratings are the lower of two options corresponding to the bank's Long-Term IDR and long-term senior debt ratings of 'A-'. This is based on our assessment of the group's funding and liquidity, which at 'a-' warrants 'F2' short-term ratings.

Subordinated Debt

The rating of BOIG's Tier 2 debt is notched down twice from its VR. 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.

Significant Changes from Last Review

UK Bank Motor Finance Lenders May Face Significant Risks from Court Ruling

UK bank motor finance lenders, including BOI UK through its motor finance subsidiary Northridge Finance, face considerable uncertainty and potentially significant implications due to the Court of Appeal ruling in favour of customers regarding commissions that two lenders paid to car dealerships for arranging loans. The Court determined that commissions were not adequately disclosed to customers, resulting in a lack of informed consent. The ruling, which follows the Financial Conduct Authority announcement of an investigation into historical discretionary commissions earlier this year, could set a precedent and materially increases the likelihood of a redress scheme to compensate customers, which could have large financial implications.

Northridge's loan book was about EUR3 billion at end-September 2024 and its market share of new lending was around 2%. The ultimate impact is difficult to gauge at the moment, but we expect that the financial impact on BOIG should be manageable given its strong earnings and capitalisation.

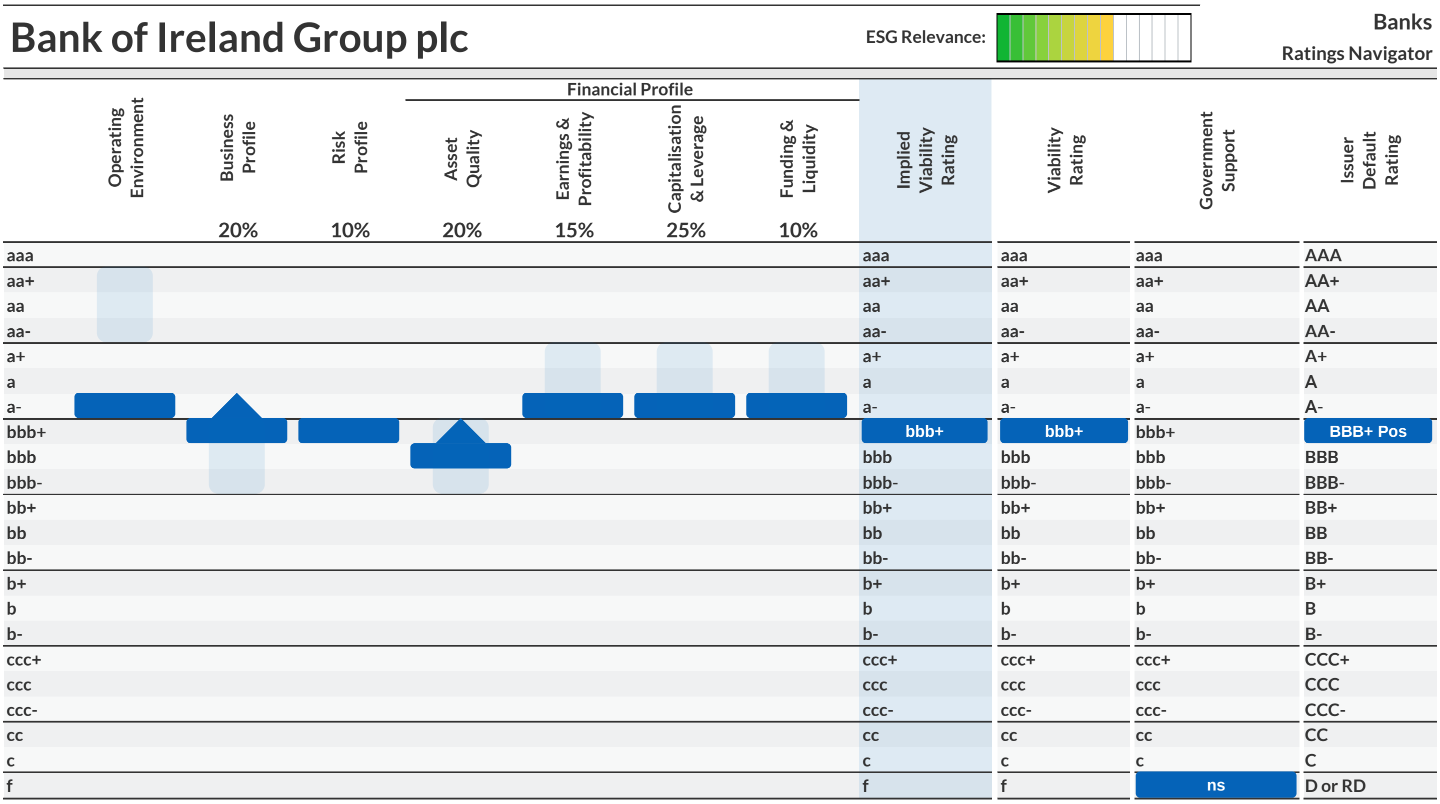
Strong 9M24 Performance

BOIG's 9M24 revenue benefitted from still-high net interest income (NII), fuelled by robust mortgage lending activity in Ireland, although it declined by 3% yoy due to lower interest rates. We expect strong residential mortgage lending growth in 2025, underpinned by rising house prices and gradually improving supply to meet the structural housing deficit. Non-NII growth was also satisfactory, driven by sound commercial momentum in asset-gathering activities, with assets under management having grown by 15% in 9M24.

Operating expenses increased significantly in 9M24 (+6%) due to continuing investments in growth and efficiency initiatives. Nevertheless, the cost/income was solid at 45% in 9M24, as per the bank's calculation. We expect the ratio as calculated by Fitch to be maintained at 50%–55% over 2024–2025. Asset quality was supported by a strong domestic economy, and we expect LICs to stabilise at a lower 20bp–30bp of gross loans over 2024–2025, broadly in line with the bank's guidance (low 20bps in 2024).

BOIG's fully-loaded CET1 ratio was a sound 15.6% at end-September 2024, reflecting strong organic capital generation partly offset by dividend distribution. The bank targets a dividend pay-out ratio of 40%–60%, supplemented by share buy-backs to steer its CET1 ratio close to its medium-term target of above 14% and we expect the ratio to be maintained around 14.5% in 2024 and 2025.

Ratings Navigator



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' implied category score due to the following adjustment reasons: size and structure of economy (negative), reported and future metrics (negative).

Financials

Financial Statements

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,968	1,832	3,709	2,487	2,230
Net fees and commissions	260	242	443	311	269
Other operating income	193	180	333	473	495
Total operating income	2,422	2,254	4,485	3,271	2,994
Operating costs	1,182	1,100	2,033	1,929	1,859
Pre-impairment operating profit	1,240	1,154	2,452	1,342	1,135
Loan and other impairment charges	53	49	425	187	-194
Operating profit	1,187	1,105	2,027	1,155	1,329
Other non-operating items (net)	-27	-25	-89	-99	-108
Tax	218	203	337	159	166
Net income	942	877	1,601	897	1,055
Other comprehensive income	197	183	-36	-131	732
Fitch comprehensive income	1,139	1,060	1,565	766	1,787
Summary balance sheet					
Assets					
Gross loans	88,848	82,688	80,951	73,256	78,304
- Of which impaired	2,419	2,251	2,349	2,485	4,185
Loan loss allowances	1,351	1,257	1,222	1,295	1,958
Net loans	87,498	81,431	79,729	71,961	76,346
Interbank	2,427	2,259	1,872	3,044	2,750
Derivatives	3,633	3,381	4,217	4,400	1,571
Other securities and earning assets	37,299	34,713	33,083	30,155	38,673
Total earning assets	130,857	121,784	118,901	109,560	119,340
Cash and due from banks	34,539	32,144	31,843	36,855	31,360
Other assets	5,594	5,206	4,964	4,909	4,568
Total assets	170,990	159,134	155,708	151,324	155,268
Liabilities					
Customer deposits	108,304	100,795	100,183	99,200	92,754
Interbank and other short-term funding	2,813	2,618	3,095	3,445	12,946
Other long-term funding	12,577	11,705	10,270	9,308	10,335
Trading liabilities and derivatives	3,215	2,992	3,480	3,705	2,245
Total funding and derivatives	126,909	118,110	117,028	115,658	118,280
Other liabilities	30,532	28,415	26,119	23,612	25,521
Preference shares and hybrid capital	1,038	966	966	1,088	1,095
Total equity	12,510	11,643	11,595	10,966	10,372
Total liabilities and equity	170,990	159,134	155,708	151,324	155,268
Exchange rate		USD1 = EUR0.930665	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

Source: Fitch Ratings, Fitch Solutions, BOIG

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	4.3	3.9	2.4	2.9
Net interest income/average earning assets	3.1	3.2	2.2	1.9
Non-interest expense/gross revenue	49.2	45.6	59.7	62.2
Net income/average equity	15.2	14.2	8.3	11.2
Asset quality				
Impaired loans ratio	2.8	2.9	3.4	5.3
Growth in gross loans	2.2	10.5	-6.5	-0.7
Loan loss allowances/impaired loans	55.8	52.0	52.1	46.8
Loan impairment charges/average gross loans	0.1	0.5	0.3	-0.2
Capitalisation				
Common equity Tier 1 ratio	14.4[1]	14.5	15.9	17.0
Fully loaded common equity Tier 1 ratio	14.4	14.3	15.4	16.0
Tangible common equity/tangible assets	6.0	6.1	5.9	5.6
Basel leverage ratio	6.3	6.4	6.5	6.6
Net impaired loans/common equity Tier 1 capital	14.0	14.8	15.8	28.2
Funding and liquidity				
Gross loans/customer deposits	82.0	80.8	73.9	84.4
Liquidity coverage ratio	199.0	187.4	221.0	181.4
Customer deposits/total non-equity funding	86.8	87.4	87.8	79.2
Net stable funding ratio	153.0	157.2	163.0	143.8

Note: excluding 1H24 net income (15.4% including 1H24 net income).
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 IDR	A-/Positive
Short-Term IDR	F2
Viability Rating (VR)	bbb
Shareholder Support Rating	a-
DCR	A-(dcr)

Source: Fitch Ratings

BOI UK is fully owned by BOI, and its IDRs are equalised with BOI's. BOI UK's 'a-' Shareholder Support Rating reflects our view that the probability of support from BOI is very 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

				ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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 relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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

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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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