S&P Global Ratings

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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:

- Strong franchise in Ireland, with a high market share across business lines and better diversity than Irish peers'.
- Stable deposit base characterized by very low concentration risks and a low proportion of more volatile corporate deposits.
- Significant buildup of additional loss-absorbing capacity (ALAC) with the continuous issuance of bail-inable debt.

Weaknesses:

- Continued strain on earnings due to low interest rates, stiff competition, and necessary digital investments.
- Elevated credit loss charges as a result of the COVID-19 pandemic, putting additional pressure on profitability.
- Geographic concentration in Ireland and the U.K.

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 the COVID-19 pandemic 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, in our view, an extended unfavorable operating environment is likely to put pre-provision income under heightened pressure, with envisaged costs reduction being insufficient to compensate revenue decline due to intensifying margin pressure or weak business volumes. Downward rating pressure could also materialize 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 we lower the ratings on BOI Group. We could also 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 (RWAs) and is no longer commensurate with a two-notch uplift. This could happen because of a less conservative capital policy than we currently expect, an inflation of the risk-asset base, or 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's robust domestic banking franchise is comparable to that of its close peer, AIB Group PLC (AIB). Unlike AIB, however, BOI Group has an Irish bancassurance franchise and a larger U.K. business.

There has been a sharp economic slowdown over 2020 in Ireland and the U.K., where the bank also runs commercial operations, on the back of the COVID-19 pandemic. This has taken a toll on Irish banks' operating environment and could lead to weaker business prospects and profitability, both of which were already under pressure before the outbreak of COVID-19. BOI Group's profitability is under increasing pressure due to compressing interest margins and a high cost base. Its cost-to-income ratio will increase to above 70% over the next two years as the group continues investing in business transformation and digital capability, while its topline result will shrink on the back of muted business volumes.

BOI Group entered the COVID-19 crisis with good capital buffers that allowed it to absorb significantly increased loan impairments, forecasted at 160 basis points (bps)-170bps in 2020 versus just 27bps in 2019. We also forecast elevated impairment charges over 2021 that will continue putting additional pressure on the group's profitability. We expect BOI Group to be loss making in 2020 and moderately breakeven in 2021. However, our forecasted risk-adjusted capital (RAC) will remain 11.0%-11.5%, largely thanks to muted credit demand and respective RWA reduction. We are likely to have better visibility on the quality of group's loan book and its impact on bank performance in 2021, when support measures from the government to the local economy wane. That said, in our view, the major risks to asset quality come from exposures to domestic midsize enterprises and corporates rather than from the mortgage book representing a substantial part of the loan portfolio.

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. While the early approval of a number of vaccines is a positive development, countries' approval of vaccines is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by mid-2021. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

We compare BOI Group to the other rated Irish banking groups and a range of regional banks with 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: The 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 60% exposure to Ireland, 35% to the U.K., and 5% to the rest of the world. In its loan book growth strategy, BOI assumes that about 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 6.5% gross national income contraction in 2020, there will be recovery in 2021-2022. This will stem from the government's package of emergency measures to safeguard incomes and prevent business closures, Ireland's productive human and physical capital, and flexible labor and product market regulations. However, the Irish economy and banks remain susceptible to external risks such as the escalation of global protectionism . Irish banks entered the COVID-19 crisis with good capital buffers and ample liquidity thanks to years of leverage reduction, cleaning up their balance sheets, and their focus on risk management improvements. 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 the COVID-19 pandemic. 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 has been high historically and will remain so over the forecasted period, higher than that in other European banking systems. Cost reduction remains a priority and a challenge for Irish banks, which are continuing to invest in business transformation and digital capabilities amid compressing interest margins and a lack of business diversity. We expect weaker revenue generation on the back of business slowdown and stiff competition to be in place due to high industry concentration and the relatively small size of the domestic economy and bankable population. We note positively that Irish banks continue to have good access to capital markets and keep building up loss-absorption capacity with planned issuances of bail-inable instruments, despite market turbulence. 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 Metrics

	--Fiscal year end Dec. 31--				
(Mil. €)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	115,292.0	113,484.0	108,732.0	107,354.0	108,783.0
Customer loans (gross)	78,870.0	80,795.0	78,061.0	78,487.0	82,362.0
Adjusted common equity	7,136.0	6,808.0	6,326.0	5,749.0	5,627.0
Operating revenues	1,250.0	2,949.0	2,833.0	3,007.0	3,169.0
Noninterest expenses	972.0	2,006.0	1,945.0	2,084.0	1,902.0
Core earnings	N/A	499.3	744.8	734.1	833.3

*Data as of June 2020. N/A--Not applicable.

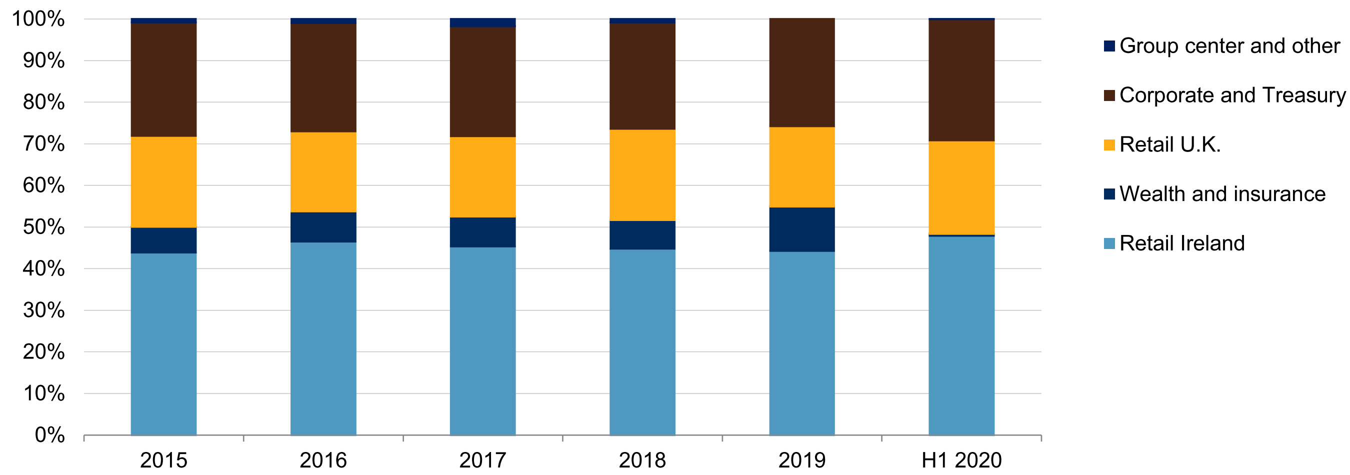
Business position: Investing for long-term growth

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 and midsize enterprise (SME) lending exceed 40%. We expect this to remain the case, leading to predictable revenue 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 (62% of the total loan book) is split almost evenly between retail (predominantly mortgages) and corporate loans. BOI Group has had historically better diversification than other domestic players in terms of geographies and business lines, due to its large scale of operations in the U.K. (36% of the loan book) and its established domestic wealth and insurance franchise. However, in the current environment, BOI Group may not benefit that much from this diversification since the pandemic is harming almost all sectors and we foresee declining interest-related revenue and weaker fees from asset gathering businesses (wealth and insurance brought 11% of operating revenue at end-2019 and only 0.5% at mid-2020). Moreover, the U.K. business could further constrain BOI Group's future performance at the end of the U.K.'s post-Brexit transition period, which also carries a further risk of weaker economic conditions.

Chart 1

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

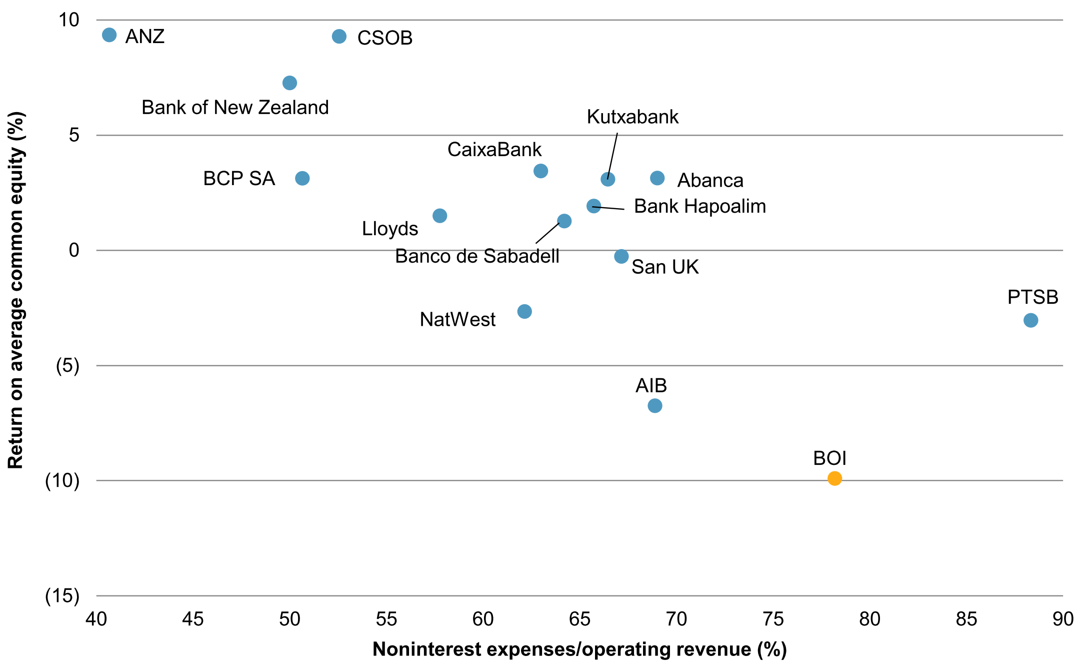


N.M.--Not meaningful. Source: BOIG's accounts. *As reported. Net of insurance claims.

We consider that BOI Group's profitability is under increasing pressure due to compressing interest margins and a persistently high cost base--increasing to above 70% over the next two years--as the group continues investing in business transformation and digital capability while topline results shrink on the back of muted business volumes. BOI Group remains focused on improvements to systems, customer experience (notably digital), and efficiency, trying to address the need for banks to adapt to rapidly changing customer preferences. However, the changes underway will take time to translate into stronger profitability.

Chart 2

Cost Efficiency Is Needed To Support Earnings
Estimated as of Dec. 31, 2020



Source: S&P Global Ratings.

The Irish government has broadly maintained its 14% equity stake in BOI Group since the bank's recapitalization in 2011. We assume the government will sell this stake more quickly than its 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.

Table 2

Bank of Ireland Group PLC--Business Position

	--Fiscal year end Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	1,259.0	2,949.0	2,849.0	3,011.0	3,179.0
Commercial banking/total revenues from business line	28.2	24.8	26.6	26.8	25.6
Insurance activities/total revenues from business line	0.5	10.3	6.8	7.3	7.1
Other revenues/total revenues from business line	3.3	2.3	0.4	0.5	2.6
Return on average common equity	(15.6)	4.0	6.8	7.5	N/A

*Data as of June 2020. N/A--Not applicable.

Capital and earnings: Although the COVID-19 pandemic will weigh on future profitability, capitalization will likely remain robust.

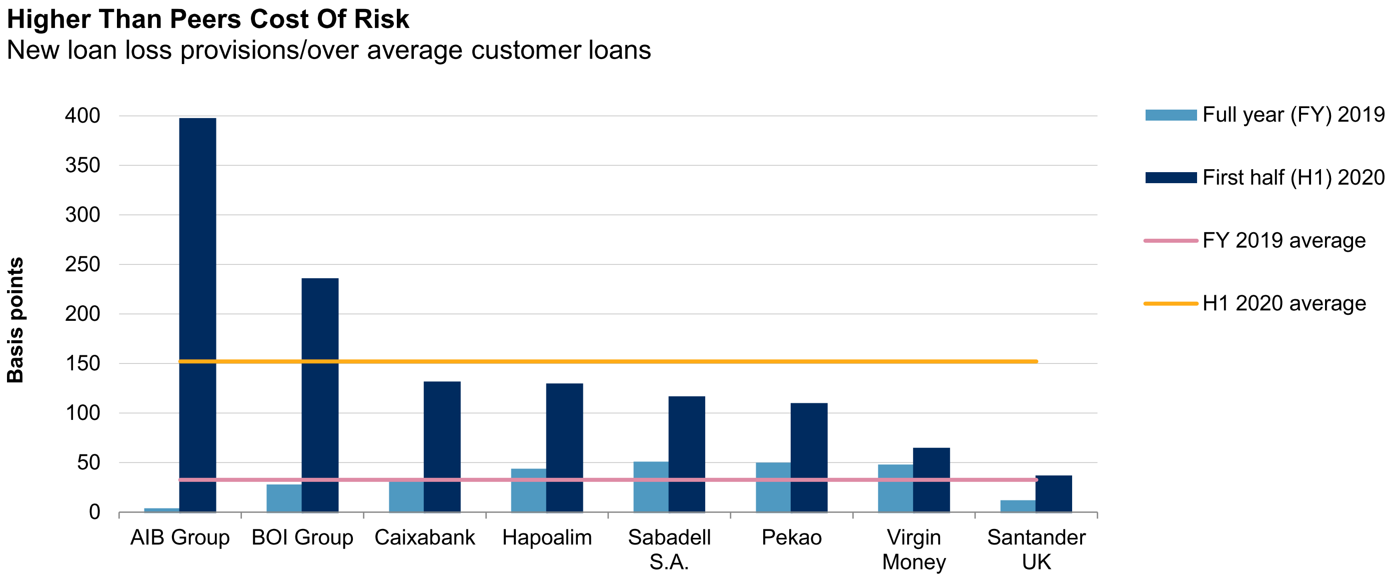
After several years of balance sheet clean-up and risk management improvement, BOI Group entered the COVID-19 crisis with good capital buffers, allowing it to absorb unexpected credit losses. We view BOI's capital position as a rating strength and expect our RAC ratio to remain in the 11.0%-11.5% range 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 2.0% over the next two years from 2.19% at June 2020 and 2.23% in 2019.
- 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 78% in 2020, as revenue declines faster than costs. We expect BOI's cost-to-income ratio to improve to about 71%-73% in 2021 as revenue growth picks up.
- Rising cost of credit risk due to tough economic conditions, reaching about 160bps in 2020, toward the higher end of BOI's estimate of €1.1 billion-€1.3 billion. Cost of credit risk to decline to about 65bps in 2021, which is still about 2.5x the 27bps posted in 2019.
- Intensifying pressure on the bank's earnings capacity will constrain internal capital generation.

Before the outbreak of COVID-19, BOI Group was already struggling to meet its profitability targets. The group continues to focus on reducing its operating expenses; over the first half of 2020, it achieved a further 3% reduction compared to the first half of 2019. Moreover, BOI Group updated its absolute cost target to below €1.65 billion in 2021. We view this focus on costs as a positive and think the bank could achieve this ambitious target. However, there remain difficulties regarding offsetting pressure from low interest rates on income and investment in digitalization with equivalent cost savings. Indeed, despite the anticipated reduction in costs, we expect revenue to decline further, leading to a deterioration in cost to income toward 78% in 2020 from 65% at year-end 2019. We also expect this revenue decline to result in weaker preprovision income, leaving little room to absorb higher loan impairments due to the pandemic.

Chart 3



Source: S&P Global Ratings.

BOI Group's was proactive in recognizing expected losses on its loan portfolio and reclassifying the stages of its credit exposures. At end-June 2020, impairment charges amounted to €937 million, of which about 60% was in the form of management overlay for the consequences of COVID-19 and related mostly to performing loans in Stage 1 and Stage 2. This was main reason why the bank was loss making in the first six months of 2020. We think impairment charges will likely moderate when economic activity rebounds, but a deeper recession or delayed recovery, could prompt further material provisioning. Under the current challenging operating environment, the group's profitability will remain under significant pressure and we are likely to see material deterioration in BOI Group's return on equity of about 10% in 2020, returning to about break-even for 2021. Our forecasted risk-adjusted capital (RAC) will remain between 11.0% and 11.5%, thanks largely to muted credit demand and respective RWA reduction.

We see the quality of capital as satisfactory because it largely comprises core equity. The amount of hybrid capital instruments included into our total adjusted capital (TAC)--the numerator of the RAC ratio--was less than 9% at year-end 2019. This figure increased to about 13% over 2020 after BOI Group issued new contingent Additional Tier 1 (AT1) high-trigger instruments for a total of €975 million. The group's fully loaded Common Equity Tier 1 (CET1) ratio was 13.5% at end-September 2020, well above the 9.27% requirement. We note that the decision to cancel the dividends was beneficial to the RAC ratio, bringing it up by 30bps 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 think 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 about 30bps-35bps of S&P Global Ratings' RWAs by 2021 from 69bps at end-2019.

Table 3

Bank of Ireland Group PLC--Capital And Earnings

	--Fiscal year end Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	16.3	16.3	16.0	17.0	15.7
S&P Global Ratings' RAC ratio before diversification	N/A	11.2	11.2	10.2	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	11.4	11.4	10.1	N/A
Adjusted common equity/total adjusted capital	91.3	91.7	92.6	92.2	88.0
Double leverage	N.M.	90.9	88.9	87.6	N.M.
Net interest income/operating revenues	86.2	73.1	75.3	71.6	71.4
Fee income/operating revenues	10.6	10.3	10.5	10.8	10.6
Market-sensitive income/operating revenues	(2.6)	4.8	2.0	7.8	8.9
Cost to income ratio	77.8	68.0	68.7	69.3	60.0
Preprovision operating income/average assets	0.4	0.7	0.7	0.8	N/A
Core earnings/average managed assets	N/A	0.4	0.6	0.6	N/A

*Data as of June 2020. N.M.--Not meaningful. N/A--Not applicable.

Table 4

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	20,819.6	257.0	1.2	734.3	3.5
Of which regional governments and local authorities	510.3	39.0	7.6	18.4	3.6
Institutions and CCPs	6,592.3	689.0	10.5	1,325.7	20.1
Corporate	25,322.4	21,644.0	85.5	21,750.3	85.9
Retail	56,401.9	17,669.0	31.3	30,799.7	54.6
Of which mortgage	47,001.4	11,476.0	24.4	22,155.5	47.1
Securitization§	3,151.0	563.0	17.9	1,468.1	46.6
Other assets†	2,398.9	1,815.0	75.7	3,706.5	154.5
Total credit risk	114,686.2	42,637.0	37.2	59,784.8	52.1
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	--	589.5	--
Total market risk	--	393.0	--	589.5	--
Operational risk					
Total operational risk	--	4,387.0	--	5,929.4	--

Table 4

Bank of Ireland Group PLC--Risk-Adjusted Capital Framework Data (cont.)	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	--	66,303.7	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(1,125.4)	(1.7)
RWA after diversification	--	50,114.0	--	65,178.3	98.3
		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	7,425.0	11.2
Capital ratio after adjustments‡		8,153.0	16.3	7,425.0	11.4

*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: Under pressure from exposure to domestic midsize enterprises and corporates, which are sensitive to the current economic downturn

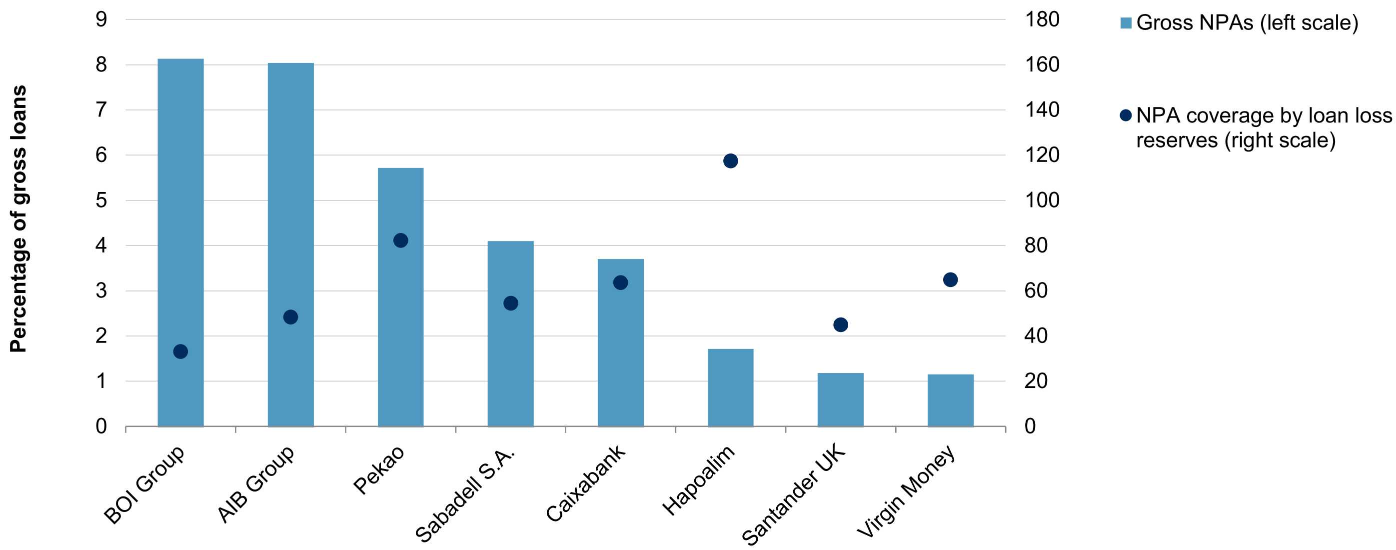
BOI Group was the first among domestic players to reduce its nonperforming exposure (NPE) ratio to below its target of 5% and reported 4.4% as of end-2019 (under the European Banking Authority's regulatory definition). BOI Group primarily achieved this thanks to the sale and securitization of legacy problem exposures. The favorable macroeconomic environment in Ireland and investor appetite over the past few years were also supportive factors. However, the trend reversed in the first six months of 2020, with the group's NPE ratio increasing to 5.8% at end-June 2020. This mainly stemmed from net new additions, with deleveraging paused amid unfavorable market conditions, as well as the group's adoption of a new definition of default. BOI Group had granted moratoria for total of €10.1 billion (13.2% of loan book) at mid-2020, a major part of which reverted to a normal payment pattern with only €2.7 billion (3.5% of the loan portfolio) outstanding with payment breaks as of end September-2020.

Domestic peers followed a similar trajectory: AIB's NPE ratio increased to 6.3% at end-June 2020 from 5.4% at end-2019, while PTSB's ratio increased to 6.8% from 6.4% over the same period.

BOI Group's asset quality remains weaker than international peers'. We expect nonperforming assets to increase further in 2021, converging toward 9.5% at end-2021 from 8.1% as of mid-2020, mainly led by exposure to domestic midsize enterprises and corporates.

Chart 4

BOI's Asset Quality Metrics Versus Peers
As of June 30, 2020

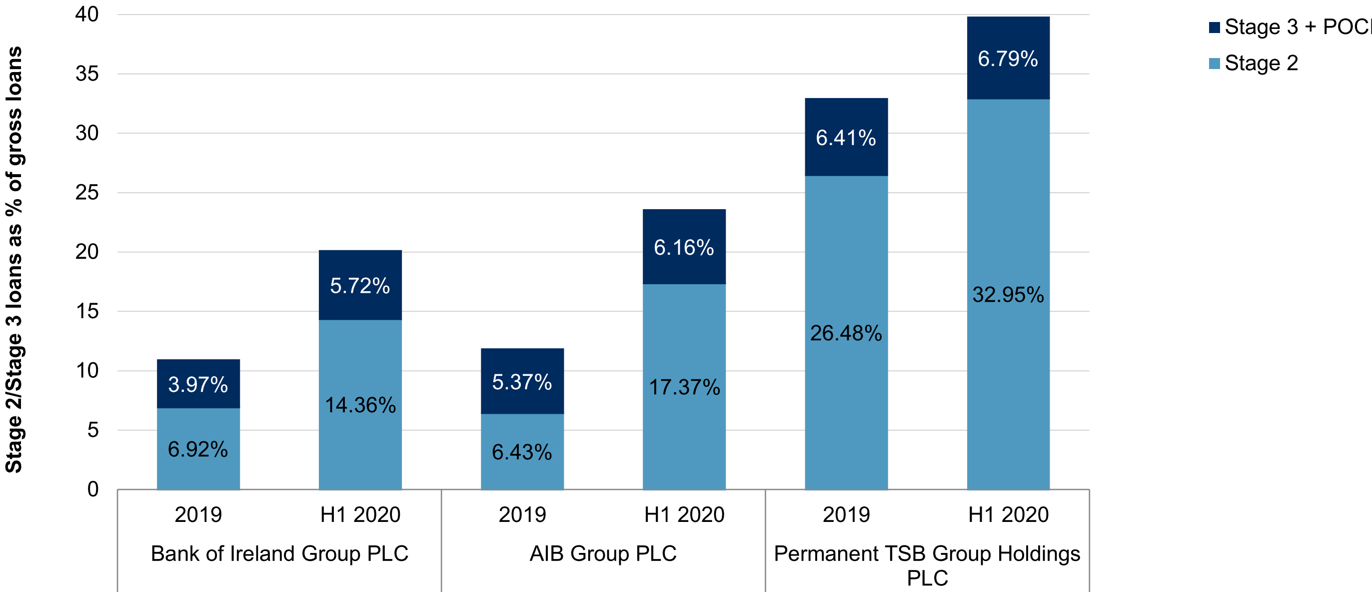


Source: S&P Global Ratings.

BOI Group has stated that Stage 3 loans (including purchased/originated credit-impaired loans) were €4.5 billion or 5.7% of gross loans on June 30, 2020, up from €3.2 billion or 4.0% as of end-2019. The increase in Stage 3 loans was largely due to the implementation of a new definition of default, and the inflow of the new problem loans was minimal. Credit loss coverage of Stage 3 loans was 29.4% and we expect it to remain at approximately the same level in 2021. A broader analysis of asset quality also captures Stage 2 loans. For BOI, total Stage 2 loans increased sharply to 14.4% of gross loans on June 30, 2020, from 6.9% as of end-2019.

Chart 5

NPL Composition For Bank of Ireland Group Versus Other Irish Banks
As of June 30, 2020



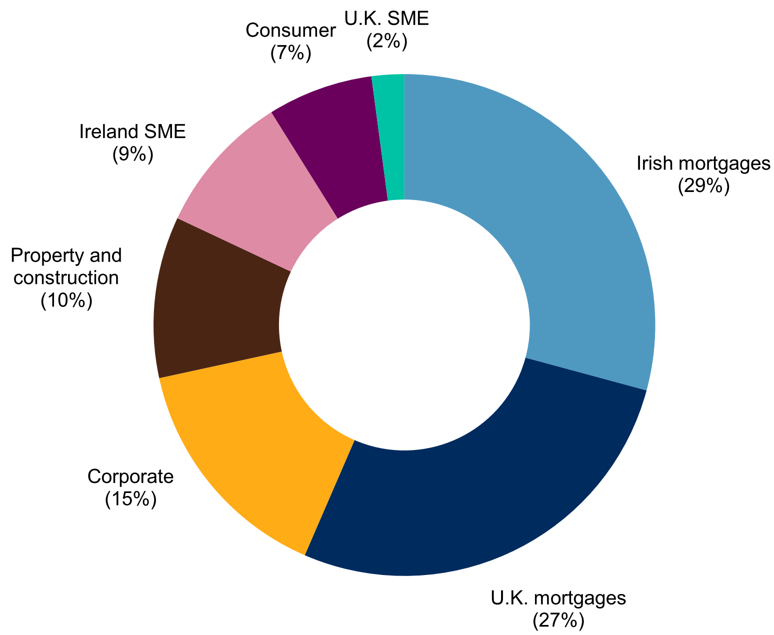
POCI--Purchased or originated credit impaired. Source: Company accounts.

The increase in Stage 2 loans as of end-June 2020 mainly stemmed from the property and construction book and the nonproperty SME and corporate book. Exposure to domestic midsize enterprises and corporates could represent significant asset quality risks, while the performance of the mortgage book--which represents the majority of BOI Group's loan exposure (56% of gross loans on end-June 2020) and is almost equally split between Ireland and U.K.--would be more stable. Overall, we expect stage 3 and past-due stage 2 balances will increase as borrowers' cash flows remain under pressure and governments begin to taper fiscal measures.

Credit risks are by far the largest risks for BOI Group; market risks are marginal. Nonfinancial risks, such as those related to compliance or conduct, are rising, as for the industry as a whole (see Environmental, Social, and Governance section below).

Chart 6

Gross Loan Book Composition For Bank Of Ireland Group



Data as of June 30, 2020. Source: BOIG's accounts.

Table 5

Bank of Ireland Group PLC--Risk Position

	--Fiscal year end Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	(4.8)	3.5	(0.5)	(4.7)	N.M.
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(1.7)	(1.1)	0.7	N/A
Total managed assets/adjusted common equity (x)	18.4	19.4	19.5	21.3	21.8
New loan loss provisions/average customer loans	2.3	0.3	(0.1)	0.0	N/A
Net charge-offs/average customer loans	0.2	0.8	0.9	2.0	N/A
Gross nonperforming assets/customer loans + other real estate owned	8.1	7.2	9.5	10.9	15.2
Loan loss reserves/gross nonperforming assets	33.2	22.4	23.0	27.6	31.0

*Data as of June 2020. N/A--Not applicable. N.M.--Not meaningful.

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 117% on June 30, 2020, supports this view. We do not expect a material change in this metric over 2020-2021.

BOI's loan-to-deposit ratio improved to 89% on June 30, 2020 from 95% on Dec. 31, 2020, following muted credit demand and higher current account balance in Irish retail portfolio as consumer spending decreased in light of COVID-19 restrictions. The loan-to-deposit ratio should remain at or below 90% in 2021, demonstrating a healthy funding position. 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 64% of total customer deposits on June 30, 2020. As of end-June 2020, BOI reported adequate liquidity coverage (149%) and net stable funding (135%) ratios. The bank has a sizable deposit base. With the current low offtake in new lending, the share of wholesale funding should remain minimal, and essentially for minimum requirement for own funds and eligible liabilities (MREL) purposes.

Our metric of broad liquid assets to short-term wholesale funding was a relatively high 6x on June 30, 2020. This partly reflects a low level of wholesale funding, given BOI's multi-year leverage reduction. However, the group continues to build up its loss-absorption cushion, and over the first nine months of 2020, issued €1.1 billion of debt, mostly comprising about €1.0 billion of AT1 notes.

Table 6

Bank of Ireland Group PLC--Funding And Liquidity					
	--Fiscal year end Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	88.2	86.3	85.3	83.5	82.6
Customer loans (net)/customer deposits	88.8	94.7	96.9	100.5	104.5
Long-term funding ratio	96.3	96.5	97.9	93.3	92.7
Stable funding ratio	117.0	114.8	112.8	109.4	106.8
Short-term wholesale funding/funding base	4.1	3.8	2.3	7.3	8.1

*Data as of June 2020

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. We think 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. Its MREL ratio stood at 24.4% of RWAs as of June 30, 2020. Management has plans for further issuances in order to meet its 27.09% MREL ratio. 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.

Table 7

ALAC Estimation As Of Dec. 31, 2020			
		€ mil	**% of S&P Global Ratings' RWAs**
A	Adjusted common equity*	6253	

Table 7

ALAC Estimation As Of Dec. 31, 2020 (cont.)

		€ mil	% of S&P Global Ratings' RWAs
B	Hybrids in TAC*	975	
C (=A+B)	Total adjusted capital*	7228	11.4%
D	TAC in excess of our 10% threshold*	888	1.4%
E	ALAC-elegible instruments	4218	
	of which NOHC senior	2518	
	of which dated subordinated	1748	
	of which minimal equity content hybrids	92	
	of which other	(140)	
F (=D+E)	ALAC buffer	5106	8.1%
	S&P RWA*	63403	

*Source: S&P Global Ratings db., estimate

Additional rating factors:None

No other factors affect the ratings.

Environmental, Social, and Governance

Overall, we do not think environmental, social, and governance (ESG) credit factors have much of an effect on BOI Group's credit quality, compared with the rest of the industry. That said, social factors are relevant due to changing customer preferences and an increased regulatory focus on banks' business conduct and consumer protection. This is particularly pertinent 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.

Cases of unfair customer treatment, such as misconduct or misselling, are particularly relevant given that BOI Group has the largest domestic retail franchise. An examination of tracker mortgages by the Central Bank of Ireland ensured that customers affected by mistreatment by Irish banks received appropriate redress. The enforcement phase is ongoing and the final cost for BOI Group remains uncertain. Even if the amount remains manageable, we expect to see stronger oversight of the board on such consumer protection-related topics in the future.

We do not see more elevated environmental risks for BOI Group than for most peers. However, the bank is exposed to risks related to a transition to greener energy, especially via the large share of SME or agriculture-financed exposures, which may have more difficulties in rapidly adjusting to the energy transition than larger counterparties. We note that the group is continuously addressing climate risks and improving its responsible and sustainable business profile. To support the transition in the lending portfolio, the group launched:

- Its Sustainable Finance Fund in 2019, which has already provided about 600 million green loans to home-owners and businesses; and
- A Green Bond framework in September 2020, through which BOI Group aims to further help its clients with sustainability ambitions and reduce its own carbon footprint by 50% for 2030 (on a 2011 baseline).

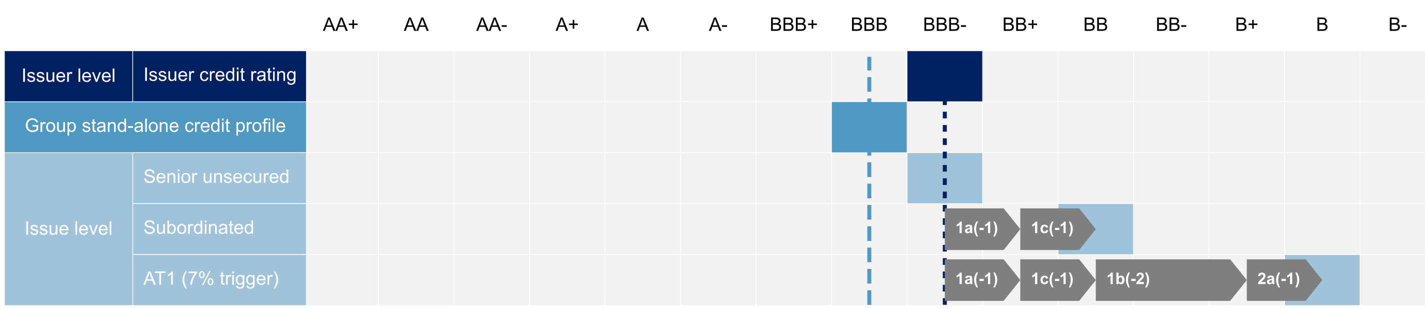
Group structure, rated subsidiaries, and hybrids

We do not incorporate notches for ALAC support into our ratings on BOI Group, the NOHC, because 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

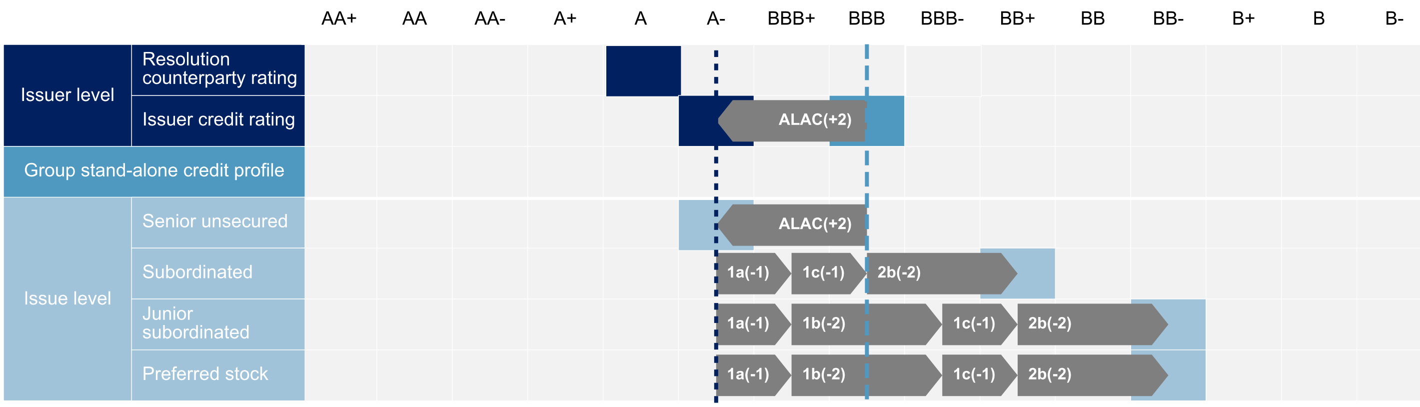
- ----- Group stand-alone credit profile
- ------ Issuer credit rating

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: 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
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Credit Outlook 2021: Back On Track?, Dec. 3, 2020
- Ireland 'AA-/A-1+' Ratings Affirmed; Outlook Stable, Nov. 27, 2020
- Pandemic Won’t Derail European Housing Price Rises, Oct. 20, 2020
- COVID-19 Drives Bank of Ireland Group's Half-Year Loss, Aug. 6, 2020
- Bank of Ireland Group PLC, June 30, 2020
- Bank of Ireland Group PLC Outlook Revised To Negative On Sharp Economic Contraction; Ratings Affirmed, April 28, 2020

Ratings Detail (As Of January 11, 2021)*	
Bank of Ireland Group PLC	
Issuer Credit Rating	BBB-/Negative/A-3
Junior Subordinated	B
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

Ratings Detail (As Of January 11, 2021)*(cont.)	
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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