FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Frankfurt am Main - 09 Jul 2024: Fitch Ratings has revised the Outlooks on Bank of Ireland Group plc's (BOIG) Long-Term Issuer Default Rating (IDR) and its main operating subsidiary, Bank of Ireland (BOI), to Positive from Stable and affirmed the IDRs at 'BBB+' and 'A-', respectively. Fitch has affirmed their Viability Ratings (VRs) at 'bbb+'.

The Positive Outlooks reflect 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.

KEY RATING DRIVERS

Leading Domestic Bank: BOIG's ratings are driven by the group's leading retail and corporate banking franchise, primarily focused on the small and concentrated Irish market, and by a reasonably diversified business model, sound profitability, solid regulatory capitalisation, and stable funding and liquidity profiles, which Fitch 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.

Sound Underwriting: We consider underwriting standards to be broadly in line with 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 relatively 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 2.9% at end-2023 (end-2022: 3.4%). 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 an exceptionally high level in 2023 as interest rates fall but it will stabilise comfortably above 3% of risk-weighted assets (RWA) in 2024-2025 (2023: 3.9%), supported by 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 14.7% at end-March 2024 was above its minimum regulatory requirement of 11.3% and the group's mid-term target of above 14%. Leverage is comfortable. Capital encumbrance by unreserved impaired loans, at about 15% of CET1 capital at end-2023, has significantly reduced (end-2021: 28%) as impaired loans have decreased, although it remains higher than that of European peers.

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

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

Holdco VR Equalised with Opco: Fitch assesses BOIG on a consolidated basis. The group's holding company's VR is aligned with that of its main operating subsidiary, BOI, to reflect 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.

RATING SENSITIVITIES

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

We would revise the Outlook on BOIG's Long-Term 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, while keeping a fully-loaded CET1 ratio consistently above 14%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

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 and short-term senior debt ratings are the lower of two options corresponding to the group's 'BBB+' Long-Term IDR and long-term senior debt ratings. 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 and BOI'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.

No Support: BOIG's and BOI's Government Support Ratings (GSRs) of no support ('ns') reflect 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.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The IDRs, senior debt ratings and DCR of BOI and BOIG are sensitive to changes in their respective VRs and changes in our expectations that the resolution buffer provides BOI's senior creditors and derivative counterparties with additional protection.

The ratings of all subordinated instruments are primarily sensitive to a change in the VRs, or to changes in their notching should Fitch change its assessment of loss severity or relative non-performance risk.

An upgrade of the GSR would be contingent on a positive change in the Irish authorities' propensity to support its banks. While not impossible, this is highly unlikely, in Fitch's view.

VR ADJUSTMENTS

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).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

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.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Bank of Ireland Group plc	LT IDR	BBB+ Rating Outlook Positive	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
	Viability	bbb+	Affirmed	bbb+
	Government Support	ns	Affirmed	ns
subordinated	LT	BBB-	Affirmed	BBB-
senior unsecured	LT	BBB+	Affirmed	BBB+

subordinated	LT BB Affirmed	BB
Bank of Ireland	LT IDR A- Rating Outlook Positive Affirmed	A- Rating Outlook Stable
	ST IDR F2 Affirmed	F2
	Viability bbb+ Affirmed	bbb+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bank of Ireland	EU Issued, UK Endorsed
Bank of Ireland Group plc	EU Issued, UK Endorsed

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