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Research Update:

Bank of Ireland Upgraded To 'BBB+' On Growing ALAC Buffer; Holding Company Ratings Affirmed; Outlook Remains Positive

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Overview

- We believe that the Bank of Ireland group is making proactive progress to grow its additional loss-absorbing buffers, which provides protection to the senior creditors of its operating bank in a resolution scenario.
- We are therefore raising our long-term rating on its operating bank, Bank of Ireland, to 'BBB+' from 'BBB'.
- We are affirming the 'BBB-/A-3' ratings on the nonoperating holding company (NOHC) Bank of Ireland Group PLC.
- The positive outlook on both legal entities reflects the possibility of an upgrade over our two-year outlook horizon if Irish banking industry risks ease, subject to our review of the group's creditworthiness relative to banking peers.

Rating Action

On Oct. 3, 2018, S&P Global Ratings raised its long-term issuer credit rating on Ireland-incorporated The Governor and Company of the Bank of Ireland (Bank of Ireland) to 'BBB+' from 'BBB'. We affirmed the 'A-2' short-term issuer credit rating. The outlook remains positive.

At the same time, we affirmed the 'BBB-/A-3' issuer credit ratings on the nonoperating holding company (NOHC) Bank of Ireland Group PLC. The outlook remains positive.

Furthermore, we raised the long-term resolution counterparty ratings (RCRs) on Bank of Ireland to 'A-' from 'BBB+' and affirmed the short-term RCR at 'A-2'.

Finally, we affirmed the ratings on the hybrid instruments issued by both Bank of Ireland Group and Bank of Ireland.

Rationale

We have raised the ratings on Bank of Ireland, the main operating bank of the Bank of Ireland group, to reflect our view of the proactive progress the group is making to build up its minimum requirement for own funds and eligible liabilities (MREL), which we reflect in our additional loss-absorbing capacity

(ALAC) analysis.

In recent weeks, the NOHC has issued two sets of senior unsecured notes (a €750 million issue and a \$500 million issue), which we include in ALAC. These issues build upon the NOHC's inaugural Tier 2 MREL issuance in 2017. Our updated assessment incorporates the full negative €120 million day-one impact of International Financial Reporting Standard (IFRS) 9 on our total-adjusted capital measure (TAC). We also take into account our exclusion from ALAC of a €750 million subordinated debt issue, which has a mid-2019 call date. As a result, we now expect our ALAC ratio, at end-2018, to be around the 5.5% mark, which is above our 5% threshold for one notch of uplift to the ratings on the main operating bank. Moreover, we now see a clearer line of sight for this metric to remain above 5%, and likely rise further, as we assume further net MREL issuance over the next two years.

We do not incorporate notches for ALAC support in the ratings on the NOHC as we do not believe that its senior obligations would continue to receive full and timely payment in a resolution scenario. As a result, we rate the NOHC one notch below the 'bbb' unsupported group credit profile (UGCP).

Our view of the group's underlying creditworthiness, as reflected in the UGCP, remains unchanged. The Bank of Ireland group reported a fully loaded regulatory common equity Tier 1 ratio of 14.1% at June 30, 2018, which is above its medium-term target of at least 13%. The group resumed dividend payments this year, but we do not anticipate any near-term excess capital return while it works through its multiyear transformation plan, as outlined in its June 2018 strategic update. We continue to expect our risk-adjusted capital (RAC) ratio to remain above our 10% threshold for a strong assessment; BOI's RAC ratio was 10.2% at Dec. 31, 2017. We now assume that this measure will be in the 11.0%-11.5% range through end-2020; we had previously assumed, conservatively, a range of 10.0%-10.5%. The excess above the 10% threshold is an important component of the ALAC ratio, as described above. We continue to consider our combined view of the group's capitalization and risk profile as credit neutral.

Outlook

Bank of Ireland Group PLC

The positive outlook reflects the possibility that we could raise the ratings on the group if, in the context of industry risks for the Irish banking system easing, we conclude that the group's geographic and business line diversity and earnings predictability remains a strength when compared to peers. We could also raise the ratings if the bank makes substantial progress in reducing its stock of legacy problematic assets, aligning its asset quality metrics with those of higher-rated peers. An upgrade could also be contingent on the bank's resilience to a disruptive Brexit scenario, if that were to occur.

The above could lead us to revise upward our assessment of the UGCP by one notch to 'bbb+' and therefore raise the ratings on Bank of Ireland Group, as well as on hybrids issued by the NOHC and the main operating bank.

We could revise the outlook to stable if we consider that the prospect of an improvement in Ireland's banking industry risk won't materialize, or if it does, we don't believe that the group's credit profile has improved relative to peers.

Bank of Ireland

The positive outlook reflects that on Bank of Ireland Group PLC.

A higher rating would principally depend on us revising upward the UGCP, as described above. In addition, if the group makes more substantial progress than expected in terms of MREL issuance, we could raise the ratings if its ALAC buffer sustainably exceeds our 8% threshold for two notches of ALAC support within the long-term rating.

We could consider revising the outlook to stable if we no longer anticipated revising the UGCP upward, or if the ALAC buffer falls below our 5% threshold for one notch of ALAC support, contrary to our expectations.

Ratings Score Snapshot

UGCP	bbb
Anchor	bbb-
Business Position	Strong (+1)
Capital and Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding	Average (0)
and Liquidity	Adequate (0)
Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria

- 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: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Credit Conditions EMEA: Looking Over The Edge On Trade And Brexit, Sept. 27, 2018
- Bank of Ireland Group PLC, July 6, 2018
- Merely A Win, No Grand Slam Glory For Irish Banks, March 26, 2018
- Banking Industry Country Risk Assessment: Ireland, Dec. 12, 2017
- Various Positive Rating Actions Taken On Irish Banks On Improving Industry Credit Profile, Dec. 12, 2017

Ratings List

Upgraded; Ratings Affirmed

	To	From
Bank of Ireland		
Issuer Credit Rating	BBB+/Positive/A-2	BBB/Positive/A-2
Resolution Counterparty Rating	A-/--/A-2	BBB+/--/A-2
Certificate Of Deposit		
Local Currency	BBB+/A-2	BBB/A-2
Foreign Currency	BBB+/A-2	BBB/A-2
Senior Unsecured	BBB+	BBB

Ratings Affirmed

Bank of Ireland Group PLC	
Issuer Credit Rating	BBB-/Positive/A-3

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Senior Unsecured	BBB-
Subordinated	BB
Bank of Ireland	
Subordinated	BB+
Junior Subordinated	BB-
Preference Stock	BB-
Commercial Paper	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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