

Bank of Ireland Group plc

Update

Key Rating Drivers

Leading Domestic Bank; Diversified Business: Bank of Ireland Group Public Limited Company's (BOIG) ratings are driven by the group's diversified business model; a strong retail and corporate-banking franchise primarily focused on the small Irish market; sound regulatory capitalisation; and a stable funding and liquidity profile. The ratings also consider the group's asset quality, which is weaker than that of international peers, driven predominantly by impaired loans underwritten before the global financial crisis.

Above-Average, but Stable, Impaired Loans: BOIG has been reducing its stock of impaired loans in recent years through workouts and portfolio sales. Its Stage 3 loans ratio decreased to 5.3% at end-2021 from 5.6% at end-2020. Asset quality ratios were stable in 1Q22.

Diversified Earnings; Variability Reducing: BOIG's profitability is supported by a diversified business model and a leading market position in Ireland, which should benefit from the acquisitions of Davy's stockbrokers and KBC Ireland's performing loans and deposits, which are progressing. The acquisition of Davy's stockbrokers will also support diversification towards non-interest revenue, which is already a strength relative to domestic peers, due to BOIG's large wealth management and insurance activities.

Adequate Capitalisation: The group's regulatory capital and leverage ratios remain sound. Its transitional common equity Tier 1 (CET1) ratio of 17% at end-1Q22 (16% fully-loaded) was around 700bp above the 2022 minimum regulatory requirements of 10.07% (excluding Pillar 2 Guidance). BOIG's end-2021 leverage ratio of 6.6% was comfortable. Capital encumbrance by unreserved impaired loans, at 28% of CET1 capital at end-2021, was fairly high compared with peers.

Fairly Stable Funding, Rating Strength: The group benefits from a strong retail-banking franchise and access to a stable and granular deposit base. Non-interest-bearing current account balances make up a large proportion of total customer deposits. In addition, the group has proven and diversified access to the secured and unsecured wholesale markets. 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.

Rating Sensitivities

Execution of Strategy: An upgrade would require the group to successfully execute its strategy to improve cost efficiency and profitability, resulting in a clear path towards generating an operating profit/risk-weighted assets (RWAs) of above 2%, reducing impaired loans to about 3% of gross loans, and significantly reducing capital encumbrance.

Weaker Economic Performance: The ratings would likely be downgraded if, as opposed to our baseline scenario, a deterioration of economic performance and the operating environment for banks in Ireland increases the group's impaired loans ratio towards 10%, and BOIG is unable to reduce its stock of impaired loans fairly quickly, or if encumbrance by impaired loans increases significantly without prospects of recovering within a reasonable timeframe.

Weaker Capitalisation: The ratings would also be downgraded if the group's CET1 ratio fell below 13%, following losses or RWAs increased without prospects of sufficient internal capital generation.

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Viability Rating	bbb
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Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(November 2021\)](#)

Related Research

[DM100 Banks Tracker - 1H22 \(April 2022\)](#)

[Fitch Upgrades Ireland to 'AA-'; Outlook Stable \(January 2022\)](#)

[Fitch Ratings 2022 Outlook: Western European Banks \(December 2021\)](#)

[Fitch Revises Bank of Ireland Group's Outlook to Stable: Affirms Ratings \(October 2021\)](#)

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Issuer Ratings

Rating Level	Bank of Ireland (BOI)	Bank of Ireland (UK) Plc
Long-Term IDR	BBB+/Stable	BBB+/Stable
Short-Term IDR	F2	F2
Viability Rating (VR)	bbb	bbb
Support Rating	5	2
Support Rating Floor	No Floor	
Derivative Counterparty Rating (DCR)	BBB+(dcr)	BBB+(dcr)

Source: Fitch Ratings

Consolidated Assessment

Fitch Ratings assesses BOIG on a consolidated basis. BOIG's VR reflects its role as the group holding company and is aligned with that of its main operating subsidiary, Bank of Ireland (BOI). The equalisation of the VRs reflects the continued absence of double leverage at the holding company level, and the absence of material restrictions to the transfer of capital and liquidity across the group, subject to the operating companies meeting regulatory capital and liquidity requirements.

BOI's Long-Term Issuer Default Rating (IDR) and DCR are one notch above the bank's VR to reflect the protection of BOI's senior third-party creditors by resolution funds ultimately raised by BOIG, down-streamed to BOI and designed to protect the operating company's external senior creditors in a group failure. The buffers of junior and down-streamed holding company senior debt are built to comply with minimum requirement for own funds and eligible liabilities (MREL).

The IDRs of BOI's fully-owned UK subsidiary, Bank of Ireland (UK) Plc (BOI UK), are equalised with BOI's. Our support assessment of BOI UK reflects our view that the probability of support from BOI is high. This is underpinned by a record of unquestioned support from the parent, strong integration into the group, high fungibility of capital and funding between BOI UK and the group, and the high reputational risk the group would face in the event 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.

Debt Rating Classes

Rating Level	BOIG	BOI
Senior unsecured	BBB	BBB+
Tier 2 subordinated debt	BB+	BB+
Additional Tier 1 (AT1)	BB-	

Source: Fitch Ratings

Senior debt ratings are in line with the banks' Long-Term IDRs.

Subordinated Tier 2 debt ratings are notched down twice from the banks' VRs, reflecting the likelihood of poor recovery prospects for the notes arising from subordination in the event of a non-viability event. 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.

AT1 notes are rated four notches below BOIG's VR, two notches for loss severity relative to senior unsecured creditors and two notches for incremental non-performance risk.

Ratings Navigator

Bank of Ireland Group Public Limited Company



Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB Stable
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Last Rating Navigator dated 4 October 2021

Significant Changes

Downward Revision to Growth; Operating Environment Still Supportive for Banks

Fitch expects strong economic performance to continue in Ireland, although the agency cut its growth forecast to 4.9% in 2022 and 2.8% in 2023 for real Modified Domestic Demand. This measure excludes the effects of multinational enterprises on Irish GDP and is a better measure of true domestic economic performance. The growth forecast revision was to reflect the impact of the war in Ukraine.

Fitch upgraded Ireland's sovereign rating to 'AA-/Stable' from 'A+/Stable' in January 2022 to reflect the expectation of a continued improvement in fiscal metrics and debt reduction, supported by strong economic performance despite the recent downward revision of growth.

Direct exposure to Russia, Belarus and Ukraine through trade, energy and financial channels in Ireland is negligible, but soaring inflation will limit household disposable income and reduce consumption. We also expect the crisis to reduce consumer confidence and weigh on the growth of Ireland's main trading partners. The Irish economy is entering this period of uncertainty, caused by the war but also Brexit and global tax reform risks, with strong buffers.

For the large Irish banks, direct exposure to Russia, Belarus and Ukraine is also almost non-existent, but the indirect effects of soaring inflation, slower-than-anticipated GDP growth in combination with the withdrawal of pandemic support schemes, could result in higher than anticipated borrower default rates. We expect the Irish economy will continue to perform strongly, which should continue to support the banks' performance and legacy risk reduction. The large Irish banks' capital ratios are stronger than those of their European peers and funding and liquidity profiles are robust, which mitigate concerns over emerging credit risks.

Our assessment of BOIG's operating environment also considers its material operations in the UK. As the group reduces the balance sheet of its UK subsidiary in line with its plan and expands its Irish loan book through the announced acquisitions, our assessment of the Irish operating environment might become more relevant for the overall VR.

Bar Chart Legend	
Vertical bars – VR range of Rating Factor	
Bar Colours – Influence on final VR	
	Higher influence
	Moderate influence
	Lower influence
Bar Arrows – Rating Factor Outlook	
	Positive
	Negative
	Evolving
	Stable

Return to Profitability in 2021; Positive Start to 2022

BOIG returned to profitability in 2021 after releasing EUR194 million of loan and other credit impairment charges. Net interest income increased from a combination of higher interest income on loans and charging negative rates on deposits.

Non-interest income increased supported by an increase in net fees and commissions (although still below pre-pandemic levels) and an increase in wealth and insurance income. Cost discipline has been maintained. Fitch cost/income ratio decreased to 62% in 2021 against 71% in 2020, due to combination of stable costs and increased operating income. In 1Q22 costs have been controlled and were 1% lower than 1Q21, whilst absorbing cost inflation and increased investment spend.

Stable Asset Quality

BOIG's asset quality has not deteriorated in 2021, with a decrease in both stage 3 and stage 2 loans driven by increased repayments and IFRS 9 model improvements. Asset quality in 2021 was aided by EUR344 million of non-performing loan disposals, which we expect the bank to continue to do in 2022 to reduce its stock of legacy impaired loans.

The bank reported impaired loans of EUR4.1 billion at end-1Q22 (broadly in line with end-2021) equivalent to a 5.3% non-performing exposure ratio according to its own calculations.

Stable Capital, Buyback Programme

At end-March 2022 BOIG's CET1 ratio remained stable at 17% compared with end-2021. The EUR50 million buyback programme was completed in May 2022. BOIG's two main acquisitions, Davy's Stockbrokers and KBC Bank Ireland's performing mortgage loan book, are expected to be completed following receipt of regulatory and competition authority approvals. The CET1 impact of the acquisitions is expected to be around 200bp. The sell-down of BOIG's government ownership share has continued in 2021 and in 2022, and is now below 4%. BOIG is expecting return to full private ownership this year.

Senior Management Changes Not Expected to Alter Strategic Direction

In 2021 BOIG's CFO resigned and was replaced by BOIG's former Chief Strategy Officer. In April 2022 BOIG's CEO also announced she will leave the bank in September. We do not expect these changes in management to materially alter the bank's strategic direction. We believe there is enough depth of management and the bank has taken certain strategic steps which require continued focus and progress, primarily the integration of the inorganic acquisitions. BOIG was expected to release a fully updated strategic plan later in 2022, however the timing of the update may be impacted by the recently announced departure of the CEO.

Summary Financials and Key Ratios

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end (USDm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	2,522	2,230.0	2,090.0	2,156.0	2,136.0
Net fees and commissions	304	269.0	256.0	305.0	297.0
Other operating income	560	495.0	295.0	488.0	400.0
Total operating income	3,386	2,994.0	2,641.0	2,949.0	2,833.0
Operating costs	2,103	1,859.0	1,888.0	1,949.0	1,945.0
Pre-impairment operating profit	1,284	1,135.0	753.0	1,000.0	888.0
Loan and other impairment charges	-219	-194.0	1,133.0	214.0	-42.0
Operating profit	1,503	1,329.0	-380.0	786.0	930.0
Other non-operating items (net)	-122	-108.0	-380.0	-141.0	-95.0
Tax	188	166.0	-53.0	197.0	160.0
Net income	1,193	1,055.0	-707.0	448.0	675.0
Other comprehensive income	828	732.0	-266.0	175.0	-19.0
Fitch comprehensive income	2,021	1,787.0	-973.0	623.0	656.0
Summary balance sheet					
Assets					
Gross loans	88,562	78,304.0	78,823.0	80,795.0	78,693.0
- Of which impaired	4,733	4,185.0	4,376.0	3,099.0	4,483.0
Loan loss allowances	2,214	1,958.0	2,242.0	1,308.0	1,728.0
Net loans	86,347	76,346.0	76,581.0	79,487.0	76,965.0
Interbank	3,110	2,750.0	2,453.0	3,328.0	2,625.0
Derivatives	1,777	1,571.0	2,217.0	1,999.0	1,724.0
Other securities and earning assets	43,739	38,673.0	37,518.0	34,663.0	32,812.0
Total earning assets	134,974	119,340.0	118,769.0	119,477.0	114,126.0
Cash and due from banks	35,468	31,360.0	10,953.0	8,325.0	6,033.0
Other assets	5,166	4,568.0	4,032.0	4,081.0	3,510.0
Total assets	175,608	155,268.0	133,754.0	131,883.0	123,669.0
Liabilities					
Customer deposits	104,905	92,754.0	88,519.0	83,933.0	78,832.0
Interbank and other short-term funding	14,642	12,946.0	2,506.0	2,214.0	2,549.0
Other long-term funding	11,689	10,335.0	7,681.0	10,372.0	10,887.0
Trading liabilities and derivatives	2,539	2,245.0	2,257.0	2,478.0	1,835.0
Total funding and derivatives	133,775	118,280.0	100,963.0	98,997.0	94,103.0
Other liabilities	28,864	25,521.0	23,050.0	22,326.0	19,394.0
Preference shares and hybrid capital	1,238	1,095.0	1,086.0	127.0	121.0
Total equity	11,731	10,372.0	8,655.0	10,433.0	10,051.0
Total liabilities and equity	175,608	155,268.0	133,754.0	131,883.0	123,669.0
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, BOIG

Summary Financials and Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.9	-0.8	1.6	2.0
Net interest income/average earning assets	1.9	1.8	1.8	1.9
Non-interest expense/gross revenue	62.2	71.4	67.0	69.7
Net income/average equity	11.2	-7.5	4.4	6.8
Asset quality				
Impaired loans ratio	5.3	5.6	3.8	5.7
Growth in gross loans	-0.7	-2.4	2.7	0.3
Loan loss allowances/impaired loans	46.8	51.2	42.2	38.6
Loan impairment charges/average gross loans	-0.2	1.3	0.3	-0.1
Capitalisation				
Common equity Tier 1 ratio	17.0	14.9	15.0	15.0
Fully loaded common equity Tier 1 ratio	16.0	13.4	13.8	13.4
Tangible common equity/tangible assets	5.6	5.1	6.6	6.6
Basel leverage ratio	6.6	7.1	7.1	7.0
Net impaired loans/common equity Tier 1	28.2	29.6	23.8	38.5
Funding and liquidity				
Gross loans/customer deposits	84.4	89.1	96.3	99.8
Liquidity coverage ratio	181.4	153.0	138.0	136.0
Customer deposits/total non-equity funding	79.2	88.7	86.9	85.3
Net stable funding ratio	143.8	138.0	131.0	130.0

Source: Fitch Ratings, Fitch Solutions, BOIG

Sovereign Support Assessment

No Sovereign Support Factored into Ratings

We believe senior creditors of BOIG and BOI cannot rely on extraordinary support from the Irish authorities if the bank is declared non-viable. This is in line with other Irish and eurozone banks. It reflects our belief that the authorities' propensity to support the banking system, and their ability to do so ahead of senior bondholders participating in losses, has decreased materially following the implementation of recovery and resolution legislation.

Support Rating Floor		Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)		A or A-		
Actual country D-SIB SRF		NF		
Support Rating Floor:		NF		
Support Factors	Positive	Neutral	Negative	
Sovereign ability to support system				
Size of banking system relative to economy			✓	
Size of potential problem			✓	
Structure of banking system			✓	
Liability structure of banking system		✓		
Sovereign financial flexibility (for rating level)		✓		
Sovereign propensity to support system				
Resolution legislation with senior debt bail-in			✓	
Track record of banking sector support		✓		
Government statements of support			✓	
Sovereign propensity to support bank				
Systemic importance		✓		
Liability structure of bank		✓		
Ownership		✓		
Specifics of bank failure		✓		

The colours indicate the weighting of each KRD in the assessment.

■ Higher influence
 ■ Moderate influence
 ■ Lower influence

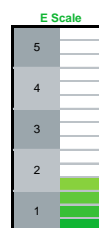
Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Bank of Ireland Group Public Limited Company has 5 ESG potential rating drivers			Overall ESG Scale	
<ul style="list-style-type: none"> Bank of Ireland Group Public Limited Company 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)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

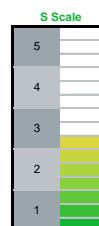
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with 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) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

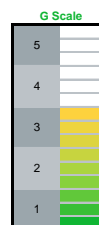
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
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; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity, intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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