FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Bank of Ireland Group plc to 'A-'; Outlook Stable

Tue 20 May, 2025 - 09:47 ET

Fitch Ratings - Frankfurt am Main - 20 May 2025: Fitch Ratings has upgraded Bank of Ireland Group plc's (BOIG) Long-Term Issuer Default Rating (IDR) to 'A-' from 'BBB+'. It has also upgraded the Long-Term IDR of the group's main operating bank, Bank of Ireland (BOI), to 'A' from 'A-'. The Outlooks are Stable. Fitch has also upgraded the two entities' Viability Ratings (VRs), to 'a-' from 'bbb+'.

The upgrades reflect the group's strengthened business profile leveraging on its dominant domestic market position to grow profitable business in the context of our expectation that Ireland's operating environment will prove resilient to current uncertainty. The upgrades are also underpinned by asset-quality improvements, which we believe are structural, stemming from its improved risk profile.

KEY RATING DRIVERS

Leading Domestic Bank: BOIG's ratings are driven by its 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 capitalisation, and stable funding and liquidity profiles. The ratings also consider the group's asset quality, which has substantially improved in recent years.

Sound Underwriting: BOIG's risk profile benefits from improved underwriting standards that are broadly in line with international peers, and risk granularity from a high share of loans to households (about 60% of total loans at end-2024; mainly lower-risk residential mortgage loans). Higher-risk exposures such as commercial real estate and residential property development (less than 10% of total loans) and acquisition finance should remain a 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 2.1% at end-2024 (end-2023: 2.9%). We expect the ratio to be maintained comfortably 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 and 2024 as interest rates fall. However, it should stabilise at around 3% of risk-weighted assets (RWAs) in 2025 (2024: 3.8%), supported by a still positive rate environment and contained operating costs and loan impairment charges.

Solid Capitalisation: We expect the group's fully loaded common equity Tier 1 (CET1) ratio to be maintained around 14.5% in 2025 and 2026, comfortably above its regulatory requirement of 11.4%, and in line with its medium-term target of above 14%, helped by sustained sound internal capital generation and despite potentially higher capital distribution. Capital encumbrance by unreserved impaired loans (9% of CET1 capital at end-2024) is low and has significantly reduced (end-2021: 28%) as impaired loans have decreased.

Stable Funding: 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 wholesale markets, which it regularly taps, principally for minimum requirement for own funds and eligible liabilities purposes, given abundant customer deposits. Liquidity buffer is sound.

Holdco and Opco VRs Equalised: We analyse BOIG and BOI on a consolidated basis and equalise their VRs. This reflects the very close correlation of failure risk between both entities because BOI is BOIG's only operating bank and represents almost 100% of group assets. The equalisation also reflects moderate double leverage at the holding company (about 110% at end-2024), and high fungibility of capital between the two entities.

RATING SENSITIVITIES

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

The ratings are primarily sensitive to a material and prolonged weakening of the Irish operating environment that structurally reduces business opportunities for banks and results in higher risks in the economy.

Negative rating pressure could also arise if the bank's operating profit falls below 2% of RWAs for an extended period and the CET1 ratio decreases below 14% on a sustained basis, while the impaired loans ratio increases durably above 5%.

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 require a better assessment of the Irish operating environment score. An upgrade would also result from a significant improvement in the group's business profile, in particular from greater revenue diversification, for instance through a record of material net new inflows in its wealth and insurance division, while keeping a moderate risk appetite.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

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, channeled 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 minimum requirement for own funds and eligible liabilities. 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 'A-' Long-Term IDR, based on our assessment of the group's 'a-' funding and liquidity. BOI's Short-Term IDR and short-term senior debt ratings of 'F1' are the lower of two options corresponding to the bank's Long-Term IDR and long-term senior debt ratings of 'A'.

Tier 2 Subordinated Debt

The rating of BOIG's Tier 2 subordinated debt is notched down twice from the group's VR to reflect loss severity.

Additional Tier 1 Instruments

BOIG's additional Tier 1 (AT1) notes are rated four notches below the group's VR. This reflects the loss severity of these securities (two notches) and 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' reflect Fitch's view that senior creditors cannot rely on extraordinary support from the Irish authorities if 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. They are also sensitive to changes in our expectations regarding the resolution buffer providing BOI's senior creditors and derivative counterparties with additional protection.

The ratings of Tier 2 subordinated debt and AT1 notes are primarily sensitive to a change in the group's VR. The ratings of AT1 securities are also sensitive to Fitch's assessment of their incremental non-performance risk relative to the risk captured in the group's VR.

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 is below the 'aa' implied category score due to the following adjustment reason: size and structure of economy (negative).

The 'a-' business profile score is above the 'bbb' implied category score due to the following adjustment reason: market position (positive).

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	A-	Upgrade	BBB+
	ST IDR	F2	Affirmed	F2
	Viability	a-	Upgrade	bbb+
	Government Support	ns	Affirmed	ns
subordinated	LT	BBB	Upgrade	BBB-
senior unsecured	LT	A-	Upgrade	BBB+
subordinated	LT	BB+	Upgrade	BB
Bank of Ireland	LT IDR	A	Upgrade	A-
	ST IDR	F1	Upgrade	F2

Viability	a-	Upgrade	bbb+

PREVIOUS Page 1 of 2 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Bank Rating Criteria (pub. 21 Mar 2025) (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

DISCLAIMER & DISCLOSURES

SOLICITATION STATUS

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

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.