26 JUL 2023

Fitch Upgrades Bank of Ireland Group plc to 'BBB+'; Outlook Stable

Fitch Ratings - Milan - 26 Jul 2023: Fitch Ratings has upgraded Bank of Ireland Group plc's (BOIG) Long-Term Issuer Default Ratings (IDRs) to 'BBB+' from 'BBB' and its main operating subsidiary, Bank of Ireland's (BOI) Long-Term IDR to 'A-' from 'BBB+'. The Outlooks are Stable. The Viability Ratings (VRs) have also been upgraded to 'bbb+' from 'bbb'.

The upgrades reflect the recent asset quality improvements, which we believe are structural, stronger capital due to the reduction in legacy impaired loans and better profitability prospects for BOIG's enhanced business model after recent strategic initiatives, also supported by a higher rate environment.

Key Rating Drivers

Leading Domestic Bank; Diversified Business: BOIG's ratings are driven by the group's leading retail and corporate banking franchise, primarily focused on the small and concentrated Irish market; a reasonably diversified business model; sound regulatory capitalisation; and stable funding and liquidity profiles, which we consider a rating strength. The ratings also consider the group's asset quality, which has substantially improved in recent years but remains a comparatively weaker key rating driver of the VR.

Stable Impaired Loans Expected: 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 3.4% at end-2022 from 5.3% at end-2021. The underlying stock of Stage 2 gross loans was largely unchanged. We expect the impaired loans ratio to remain broadly stable due to active management of the stock, and this could lead to a further improvement in our assessment of overall asset quality.

Profitability Supported by Diversified Earnings: BOIG's profitability is supported by its reasonably diversified business model and a leading market position in Ireland. The acquisition of Davy's stockbroker will support diversification towards non-interest revenue, which is already a strength relative to domestic peers, due to BOIG's larger wealth management and insurance activities. We expect profitability to stabilise at healthy levels, benefiting from the bolt-on acquisition of KBC Ireland's performing loans and deposits, higher rates, as well as controlled impairments and costs.

Adequate Capitalisation: The group's regulatory capital and leverage ratios are sound. Its transitional common equity Tier 1 (CET1) ratio of 15.9% at end-2022 (15.4% fully loaded) was well above the 2022 minimum regulatory requirements of 10.04% (excluding Pillar 2 Guidance). Leverage is comfortable. Capital encumbrance by unreserved impaired loans, at 16% of CET1 capital at end-2022 have reduced from 28% at end-2021 as impaired loans have decreased. The group's mid-term CET1 target has been increased further to over 14.0%, from 13.5% previously.

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 very 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

The ratings would likely be downgraded if a deterioration of economic performance and the operating environment for banks in Ireland and the UK doubles the group's impaired loans ratio from current levels, and BOIG is unable to reduce its stock of impaired loans fairly quickly, and capital encumbrance by impaired loans increases significantly without prospects of recovering within a reasonable timeframe.

The ratings would also be downgraded if the group's fully loaded CET1 ratio fell below its medium-term target, following losses or risk-weighted assets (RWA) increased without prospects of sufficient internal capital generation.

BOIG's VR 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 the group to generate operating profit/RWAs sustainably above 3%, operate consistently with an impaired loans ratio of below 3% of gross loans, and reduce capital encumbrance further from current levels.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

BOIG's Long-Term IDR and long-term senior debt rating have been upgraded in line with the group's

VR.

BOI's Long-Term IDR, Derivative Counterparty Rating (DCR) and long-term senior debt rating have been upgraded and 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, 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.

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.

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.

Subordinated Debt: The rating of BOIG's Tier 2 debt has been upgraded to 'BBB-' and 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 have been upgraded to 'BB' and 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 change 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 score due to the following adjustment reasons: size and structure of economy (negative) and level and growth of credit (negative), reported and future metrics (negative).

The operating environment score is one notch higher than that applied to overwhelmingly domestic banks to reflect BOIG's international diversification in the UK and therefore also has the following adjustment reason: international operations (positive).

The 'bbb+' capitalisation & leverage score has been assigned below the 'a' implied score due to the following adjustment reason: risk profile and business model (negative).

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

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

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

Fitch Ratings Analysts

Francesca Vasciminno
Senior Director
Primary Rating Analyst
+39 02 9475 7057
Fitch Ratings Ireland Limited Sede Secondaria Italiana Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8 Milan 20123

Adam Moncrieff-MacMillan

Senior Analyst
Secondary Rating Analyst
+44 20 3530 2614

Olivia Perney
Managing Director
Committee Chairperson
+33 1 44 29 91 74

Media Contacts

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Bank of Ireland Group plc	LT IDR	BBB+	Upgrade		BBB
	ST IDR	F2	Affirmed		F2
	Viability	bbb+	Upgrade		bbb
	Government Support	ns	Affirmed		ns
• subordinated	LT	BBB-	Upgrade		BB+
• senior unsecured	LT	BBB+	Upgrade		BBB
• subordinated	LT	BB	Upgrade		BB-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Bank of Ireland	LT IDR	A-	Upgrade		BBB+
	ST IDR	F2	Affirmed		F2
	Viability	bbb+	Upgrade		bbb
	DCR	A-(dcr)	Upgrade		BBB+(dcr)
	Government Support	ns	Affirmed		ns
• senior unsecured	LT	A-	Upgrade		BBB+
• senior unsecured	ST	F2	Affirmed		F2

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Bank Rating Criteria (pub.07 Sep 2022) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete.

Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

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.