

# Outlook On Irish Banks AIB And BOI Revised To Positive On Better Risk-Adjusted Profitability; Ratings Affirmed

November 25, 2024

## Overview

- We expect the risk-adjusted profitability of AIB Group and Bank of Ireland (BOI) Group to remain solid despite the declining interest rates.
- We expect the banks' sound risk management, together with their stronger and more efficient franchises thanks to advancing digital capabilities, could help close the gap with higher rated peers.
- We therefore revised to positive from stable our outlooks on the holding and operating companies of the AIB and BOI groups and affirmed our ratings.

DUBLIN (S&P Global Ratings) Nov. 25, 2024--S&P Global said today that it took the following rating actions:

- We revised to positive from stable our outlook on holding company AIB Group PLC and on the operating company, Allied Irish Banks PLC. At the same time, we affirmed our 'BBB/A-2' long- and short-term issuer credit ratings (ICRs) on AIB Group PLC, and our 'A/A-1' ratings on Allied Irish Banks PLC (together AIB). We also affirmed our 'A+/A-1' long- and short-term resolution counterparty ratings (RCRs) on Allied Irish Banks PLC. We affirmed our issue ratings on all of AIB's subordinated and hybrid instruments, including its senior non-preferred debt and the legacy subordinated notes issued out of Allied Irish Banks PLC.
- We revised to positive from stable our outlook on holding company Bank of Ireland Group PLC and on the operating company Bank of Ireland. At the same time, we affirmed our 'BBB/A-2' long- and short-term ICRs on Bank of Ireland PLC, and our 'A/A-1' ratings on Bank of Ireland (together BOI). We also affirmed our 'A+/A-1' long- and short-term RCRs on Bank of Ireland. We affirmed our issue ratings on all of BOI's subordinated and hybrid instruments, including its senior non-preferred debt.

**The positive outlook reflects our view that after recording strong profitability over the past quarters, AIB and BOI should continue to post solid risk-adjusted returns over the next couple of years, despite declining interest rates.** We estimate that the banks' return-on-S&P Global

Ratings-adjusted risk-weighted assets will range between 1.8% and 2.0% at year-end 2026, above the historical level of 1.0%-1.2% over the past 10 years. These expected returns approach

### PRIMARY CREDIT ANALYST

**Anastasia Turdyeva**  
Dublin  
+ (353)1 568 0622  
anastasia.turdyeva  
@spglobal.com

### SECONDARY CONTACT

**Letizia Conversano**  
Paris  
+ 353 (0)1 568 0615  
letizia.conversano  
@spglobal.com

the average posted by better rated peers and reflect our view that AIB's and BOI's earnings profiles will become more resilient. This will provide the two banks with buffers to absorb risks and potential losses that could arise from their geographic and business concentration.

**We also anticipate that sound risk management, together with stronger and more efficient franchises thanks to improving digital capabilities, could help close the gap with higher rated peers.** We expect the two banks will continue to leverage on their dominant positions in the consolidated domestic market, as we expect the competitive environment to remain supportive. At the same time, we expect the banks will further advance their digital capabilities and propositions, ramp up efforts to contain costs, and focus on customer service and cross-selling activities. Furthermore, AIB's and BOI's diversification into insurance and wealth management business should support the banks' earnings capacity amid decreasing interest rates. In expanding their businesses--particularly into the domestic mortgage market, with growth of 4%-5% per year--we anticipate banks will maintain their sound risk management practices and balanced risk appetite.

**We expect AIB and BOI to maintain good asset quality and to manage other risks.** We forecast cost of risk to stay within the through-the-cycle level of 20-30 basis points over the next two years. This is because we expect that mortgage performance will remain healthy thanks to robust underwriting standards driven by macroprudential rules, and low average loan-to-value (LTV) ratios (49% for AIB and 53% for BOI, weighted-average LTV on the stock as of mid-2024; 71% for AIB and 76% for BOI on new mortgages in Ireland).

While the relatively low-risk domestic residential mortgages will remain the major driver for growth, we also expect these banks to expand into the small and midsize enterprise, corporate, and niche market segments. Specifically, AIB plans to expand in the field of renewable energy, both domestically and abroad. In this regard, we expect the banks to remain anchored to their solid lending and underwriting standards.

We anticipate the economic outlook for Ireland will remain supportive, characterized by domestic economic growth above the eurozone average, still-high employment, and falling inflation, benefiting households' disposable income.

We note that AIB and BOI have strengthened their compliance capabilities and framework over the past years, such that they should be able to address risks that could come from the complexities of a more digitalized and diversified business model. We expect that both groups will continue to prioritize further improvements in business policies and internal controls, as well as data management and cyber risk management.

**Capitalization will remain strong over the next two years.** We anticipate that Irish banks' capitalization will remain a rating strength by a comfortable margin. We forecast risk-adjusted capital ratios to remain flattish at about 14.0% in 2026 for AIB and about 13% for BOI, as potential large distributions (subject to banks and regulator's discretion) will offset solid earnings.

## Outlooks

### AIB Group PLC (holding company) and Allied Irish Banks (operating company)

Primary analyst: Anastasia Turdyeva

The positive outlook on AIB Group PLC and its operating company, Allied Irish Banks, factors in our expectation that the group's risk-adjusted profitability will remain solid, despite declining interest rates, while AIB implements its strategy, and expands and diversifies its businesses.

**Upside scenario:** We could raise our ratings on the group in the next two years if in our view AIB closes gaps with higher rated peers. AIB could achieve this if it continues to deliver on all aspects of its strategy; remains committed to sound risk management on all risk types, including emerging ones; and at the same time, maintains solid profitability metrics while attaining a stronger franchise and more efficient operations from advancing digital capabilities.

**Downside scenario:** We could revise the outlook to stable if we observe a set-back in the group's profitability or if we anticipate that risks will remain relevant.

### **AIB Group PLC --Ratings Score Snapshot**

	<b>To</b>	<b>From</b>
AIB Group PLC - Issuer credit rating	BBB/Positive/A-2	BBB/Stable/A-2
Allied Irish Banks - Issure credit rating	A/Positive/A-1	A/Stable/A-1
SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Moderate (-1)	Moderate (-1)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	+2	+2
ALAC support	+2	+2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

### **Bank of Ireland Group PLC (holding company) and Bank of Ireland (operating company)**

Primary – Letizia Conversano

The positive outlook on Bank of Ireland Group PLC and its operating company, Bank of Ireland, reflects our expectation that the group's risk-adjusted profitability will remain solid, despite declining rates, while BOI expands and diversifies its businesses.

**Upside scenario:** We could raise our ratings on the group in the next two years if, in our view, BOI closes the gaps with higher rated peers. BOI could achieve this if it continues to deliver on all aspects of its strategy; remains committed to sound risk management on all risk types, including emerging ones; and, at the same time, maintains solid profitability metrics while attaining a stronger franchise and more efficient operations from advancing digital capabilities.

**Downside scenario:** We could revise the outlook to stable if we observe a set-back in the group's profitability or if we anticipate that risks will remain relevant.

### Bank of Ireland Group PLC --Ratings Score Snapshot

	To	From
Bank of Ireland Group PLC - Issuer credit rating	BBB/Positive/A-2	BBB/Stable/A-2
Bank of Ireland - Issure credit rating	A/Positive/A-1	A/Stable/A-1
SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Moderate (-1)	Moderate (-1)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	+2	+2
ALAC support	+2	+2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

### Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Republic Of Ireland Outlook Revised To Positive On Extraordinary Fiscal Overperformance; 'AA/A-1+' Ratings Affirmed, Nov. 15, 2024
- Industry Risk Trend for BICRA On Ireland Revised To Positive On Stronger Profitability, July 23, 2024
- AIB Group PLC (Holding Company); Allied Irish Banks (Lead Bank), July 11, 2024
- Update: Bank of Ireland Group PLC (Holdco), Bank of Ireland (Lead Bank), Dec. 20, 2023

## Ratings List

\*\*\*\*\* AIB Group PLC \*\*\*\*\*

**Ratings Affirmed**

**Allied Irish Banks PLC**

Resolution Counterparty Rating A+/-/A-1

**Ratings Affirmed; Outlook Action**

	To	From
--	----	------

**AIB Group PLC**

Issuer Credit Rating	BBB/Positive/A-2	BBB/Stable/A-2
----------------------	------------------	----------------

**Allied Irish Banks PLC**

Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1
----------------------	----------------	--------------

\*\*\*\*\* Bank of Ireland Group PLC \*\*\*\*\*

**Ratings Affirmed**

**Bank of Ireland**

Resolution Counterparty Rating A+/-/A-1

**Ratings Affirmed; Outlook Action**

	To	From
--	----	------

**Bank of Ireland Group PLC**

Issuer Credit Rating	BBB/Positive/A-2	BBB/Stable/A-2
----------------------	------------------	----------------

**Bank of Ireland**

Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1
----------------------	----------------	--------------

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.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action

## Outlook On Irish Banks AIB And BOI Revised To Positive On Better Risk-Adjusted Profitability; Ratings Affirmed

can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.