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Research Update:

Bank of Ireland Group PLC Assigned 'BBB-/A-3' Ratings; Outlook Stable

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Overview

- We are assigning our 'BBB-/A-3' long- and short-term issuer credit ratings to the newly established Bank of Ireland Group PLC, the Ireland-based nonoperating holding company (NOHC) of Bank of Ireland (BOI).
- The ratings are based on our view of BOI's intrinsic creditworthiness, constrained by the structural subordination of the NOHC's creditors.
- The stable outlook on the NOHC reflects our view that the group's capitalization and earnings capacity and asset quality trajectory will remain commensurate with our expectations at this rating level over the next 18-24 months.

Rating Action

On July 14, 2017, S&P Global Ratings assigned its 'BBB-/A-3' long- and short-term counterparty credit ratings to Ireland-based nonoperating holding company Bank of Ireland Group PLC (the NOHC). The outlook is stable.

Rationale

The NOHC is the immediate parent of Bank of Ireland (BOI), a leading Irish bank. The ratings are based on our view of the group's creditworthiness, constrained by the structural subordination of the NOHC's creditors.

BOI has recently completed a corporate reorganization that led to the creation of Bank of Ireland Group PLC as the listed holding company of the group. As the NOHC, it consolidates BOI, which is the principal operating subsidiary, representing 100% of the group's total assets. The group's only investment is its stake in BOI, and there is no double leverage at the level of the NOHC. We expect the NOHC to downstream issued debt and equity capital to its operating subsidiary and that, over time, it will become a key vehicle for the group's issuance of long-term instruments designed to absorb losses, whether on a going-concern or nonviability basis.

As we regard Bank of Ireland Group PLC as an NOHC, we do not assign a group status to the group, as we would for an operating subsidiary. Rather, the starting point for the issuer credit rating (ICR) on the NOHC is based on BOI's group credit profile (GCP), which we assess at 'bbb'. We set the ICR on the NOHC one notch below the GCP, reflecting the structural subordination of the NOHC's creditors--in other words, our view of incrementally higher credit

risk for the NOHC relative to principal operating bank, BOI.

The ratings on both the NOHC and BOI do not benefit from any external support, notably under our additional loss-absorbing capacity (ALAC) criteria. In time, it is possible that we could revise this stance—for example, if it becomes clear that the group will build a sizable buffer of loss-absorbing capacity designed to enable a recapitalization rather than a liquidation if it becomes nonviable. However, even if we included such uplift, this would benefit only the ratings on BOI (the operating company that undertakes the systemically important functions), not the NOHC (which could well default in such a scenario). This approach would be consistent with the one we take for other banking group NOHCs, for example in the U.K., the U.S., and Switzerland.

Outlook

The stable outlook on the NOHC mirrors that on BOI.

The stable outlook reflects our expectation that the group will continue to steadily reduce its nonperforming loan ratio over our two-year outlook timeframe, and that its relatively large U.K. business will not be a source of weakness for the group.

We might raise the ratings on BOI if the group establishes a track record of issuance and we deem that the group's subordinated buffers would exceed our 4.75% threshold for ALAC, in response to clear regulatory requirements.

We consider a downgrade to be relatively unlikely at this time, but we could consider lowering the ratings if the group's business and earnings predictability falters.

Ratings Score Snapshot

Bank of Ireland Group PLC: BBB-/Stable/A-3

Bank of Ireland: BBB/Stable/A-2

Group Credit Profile

Anchor	bbb-
Business Position	Strong (+1)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support*	0
ALAC Support	0
GRE Support	0
Group Support	0

Sovereign Support	0
Additional Factors	0

*We do not include any external support in our ratings on the NOHC or the operating subsidiary.

Related Criteria

- 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: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Irish Banks: Getting Back To Where They Once Belonged, March 20, 2017
- Bank of Ireland, Jan. 13, 2017
- Banking Industry Country Risk Assessment: Ireland, Jan. 13, 2017
- Various Positive Rating Actions Taken On Irish Banks On Reduced Economic Risk, Jan. 13, 2017

Ratings List

New Rating; CreditWatch/Outlook Action

Bank of Ireland Group PLC
Counterparty Credit Rating BBB-/Stable/A-3

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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.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the 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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