

FITCH RATES BANK OF IRELAND GROUP PLC 'BBB-'; OUTLOOK POSITIVE

Fitch Ratings-London-10 July 2017: Fitch Ratings has assigned Bank of Ireland Group plc (BOIG) a Long-Term Issuer Default Rating (IDR) of 'BBB-', a Viability Rating (VR) of 'bbb-' and a Short-Term IDR of 'F3'. The Outlook on the Long-Term IDR is Positive. A full list of rating actions is at the end of this commentary.

BOIG is the newly established holding company and ultimate parent of the Bank of Ireland group and its ratings are equalised with those of its wholly-owned subsidiary, Bank of Ireland (BOI; BBB-/Positive/bbb-), the group's main operating subsidiary.

The establishment of BOIG as a holding company is part of a reorganisation aimed at improving the ability to resolve the group in line with the Single Resolution Board and Bank of England's preference for a single point of entry approach to bank resolution once there is sufficient bail-in debt issued by the holding company. The single point of entry approach should allow for a bail-in of holding company debt without causing a default of the main operating subsidiaries.

KEY RATING DRIVERS

VR AND IDRS

The ratings reflect the role of BOIG as the holding company of the Bank of Ireland group and are aligned with those of its main operating subsidiary, BOI. As a result, BOIG's ratings are driven by the same considerations that affect BOI's ratings. BOI's VR and IDRs' are primarily based on the bank's strong domestic franchise, strengthened capitalisation, normalised funding profile, sound liquidity, diversified revenue streams, and improving, albeit still weak, asset quality. (see 'Fitch Affirms Bank of Ireland and Allied Irish Banks; Outlooks Positive', dated 5 December 2016 and available on www.fitchratings.com).

We expect BOIG to become the main debt-issuing entity of the group, issuing an increasing proportion of debt, including additional Tier 1 (AT1) and other hybrid instruments and senior debt. Fitch believes that double leverage is unlikely to increase above 120%, a level at which we would consider notching the holding company's VR and Long-Term IDR below the bank's ratings. This is based on our expectation that the proceeds of any future debt issued at the holding company level will be down-streamed to its operating subsidiaries in the form of internal notes with identical subordination and maturity, therefore avoiding the build-up of additional double leverage at the holding company level.

The equalisation of BOIG's VR and IDRs with BOI's also reflects our expectation of no material restrictions to the transfer of capital and liquidity across the group subject to the operating companies meeting regulatory capital and liquidity requirements.

SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

BOIG's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on extraordinary support from the Irish authorities in the event that the group becomes non-viable. In our opinion, the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) provide a framework that is likely to require senior creditors to participate in losses for resolving the group.

RATING SENSITIVITIES

VR AND IDRS

As BOIG's VR and IDRs are equalised with BOI's, they are sensitive to the same factors as BOI's. The Positive Outlook mirrors that on BOI's Long-Term IDR and reflects the potential for upgrading BOI's VRs and IDRs, should the bank continue to further improve its asset quality and strengthen its capitalisation, while continuing to generate satisfactory profits and maintain its sound funding and liquidity.

BOIG's VR and IDRs could be notched down from BOI's ratings if double leverage at the holding company increases above 120% or if changing regulatory requirements materially restrict the ability to transfer capital across the group.

SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade to the SR and upward revision to the SRF would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

The rating actions are as follows:

Bank of Ireland Group plc
Long-term IDR assigned at 'BBB-'; Outlook Positive
Short-Term IDR assigned at 'F3'
Viability Rating assigned at 'bbb-'
Support Rating assigned at '5'
Support Rating Floor assigned at 'No Floor'

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Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
<https://www.fitchratings.com/site/re/891051>

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