

RatingsDirect®

Bank of Ireland

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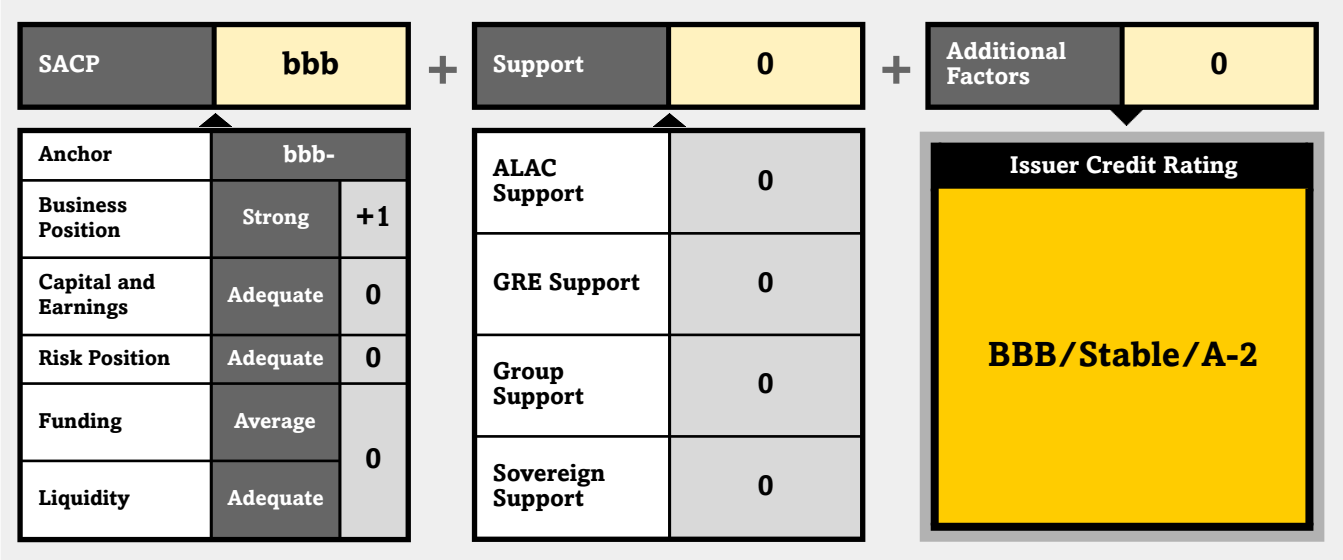
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Bank of Ireland



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Stable franchise in Ireland, with a high market share across business lines and better international diversity than Irish peers. • Better relative asset quality performance than Irish peers, which we expect to remain the case. • Stable deposit base characterized by very low concentration risks and a relatively low proportion of corporate deposits. 	<ul style="list-style-type: none"> • Muted growth in loan balances, which hinders future preprovision earnings performance. • Still-high stock of nonperforming assets relative to similarly rated peers in other countries. • Exposed to macroeconomic uncertainty in both the U.K. and Ireland following the U.K.'s referendum vote to leave the EU.

Outlook: Stable

S&P Global Ratings' stable outlook on BOI reflects our expectation that the bank will continue to steadily reduce its NPL ratio to a mid-single-digit level over the two-year outlook timeframe, and that its relatively large U.K. business will not be a source of weakness for the group.

An upgrade might follow if we deemed that BOI's subordinated buffers would exceed our 4.75% threshold for additional loss-absorbing capacity (ALAC) over a two-year horizon, or potentially longer, 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 BOI's business and earnings predictability falters.

Rationale

We regard BOI as an institution that has largely dealt with the key issues in its credit profile that arose from the financial crisis in Ireland. Its funding and liquidity profiles, capitalization, and earnings performance are today supportive of the ratings, and it has completed its deleveraging process.

That said, BOI's stock of nonperforming assets is still quite high, albeit at a lower level than Irish peers. Moreover, prospects are mixed for BOI's loan and earnings growth in the context of muted systemwide Irish loan growth and the bank's ongoing need to invest in its digital and operational capabilities. It also faces macroeconomic uncertainty in both the U.K. and Ireland following the U.K.'s referendum vote to leave the EU.

The starting point for our ratings on BOI is its 'bbb-' anchor, and our view of the economic and industry risks in Ireland and the U.K., where BOI predominantly operates. The weighted-average economic risk for BOI is based upon the geographic distribution of its customer loan exposures. The distribution is roughly 50% exposure to Ireland, 45% to the U.K., and 5% to the rest of the world. We judge the weighted-average economic risk to be closer to '5' than '4' on a scale of 1-10 (where '1' is the lowest risk and '10' is the highest). The industry risk score of '6' is solely based upon its domicile of Ireland. We then adjust for four bank-specific factors, as detailed below, in order to arrive at the 'bbb' stand-alone credit profile.

Our assessment of BOI's business position as strong reflects its resilient franchises and high market share across all retail banking and commercial banking lines in Ireland. BOI's life insurance division adds to its revenue diversity. We also believe that its U.K. business is a predictable performer, includes a useful source of customer deposits, and allows for long-term growth potential relative to the smaller Irish banking market. We consider that BOI's management team is the most stable in Ireland and the strategy is consistent. The Irish government has broadly maintained its 14% equity stake in BOI since the Irish banking system was recapitalized in 2011; we assume that this stake will disappear much more quickly than its near total ownership of BOI's closest peer, Allied Irish Banks.

We have revised up our projection of BOI's risk-adjusted capital (RAC) ratio to 9.0%-9.5% by end-2018 (from 8.5%-9.0%). This follows the upward revision of our economic risk score for Ireland to '5' from '6' in January 2017. Overall, we consider that BOI's earnings prospects are satisfactory.

Our adequate risk position assessment should be viewed in the context of peers with a similar economic risk and product mix, including Polish and New Zealand banks for example, as well as other Irish banks. We take into account BOI's more favorable overall loss experience than its Irish peers because it generally avoided the worst excesses of commercial property and other lending. Gross nonperforming assets by our calculations remain high at 10.3% as of June 30, 2016, but compare favorably with those of Irish peers, and we expect this metric to continue to reduce in 2017. We note that residential mortgages accounted for 58% of BOI's gross loan book, with an equal split between Irish and U.K. mortgages. Arrears and forbearance rates are better than Irish peers; the quality of BOI's U.K. mortgage book is broadly in line with industry averages.

We consider BOI's funding as average and its liquidity as adequate. BOI's reported loan-to-deposit ratio was 103% on June 30, 2016. Deposits are largely sourced from retail customers, and are granular in nature. Our assessment of BOI's

stable funding metric of 106% on Dec 31, 2015, supports this view. Our metric of broad liquid assets to short-term wholesale funding was 3.9x as of the same date. We expect these metrics to remain broadly unchanged at end-2016.

On a pro forma basis, we calculate that BOI's ALAC ratio was about 2.0% of our measure of risk-weighted assets (RWA) at year-end 2015. We observed no ALAC issuance, maturities, or announced calls during 2016. Looking ahead, we do expect BOI to grow its ALAC ratio because regulatory requirements appear likely to oblige BOI to increase the buffer of instruments that we expect to be ALAC-eligible. That said, we do not incorporate any notches of ALAC uplift at this time given that guidelines from the Irish regulator on the resolution approach, build-up of bail-in capacity, and the transition timeline are pending. We also note the fairly limited track record of capital issuance by Irish banks since the financial crisis. Our threshold for one notch of ALAC support for BOI is 4.75%--this is lower than the default of 5.0% because we qualitatively adjust for BOI's insurance operations that we expect would be outside the scope of required bail-in capitalization.

Related Criteria And Research

Related Criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Commercial Paper I: Banks, March 23, 2004
- Use of 'C' and 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, October 24, 2013
- Guarantee Criteria, Oct. 21, 2016

Related Research

- Various Positive Rating Actions Taken On Irish Banks On Reduced Economic Risk, Jan. 13, 2017
- Banking Industry Country Risk Assessment: Ireland, Jan. 13, 2017

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of January 13, 2017)

Bank of Ireland

Counterparty Credit Rating	BBB/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Junior Subordinated	BB-
Preference Stock	BB-
Senior Unsecured	A-2
Senior Unsecured	BBB
Subordinated	BB+

Counterparty Credit Ratings History

13-Jan-2017	BBB/Stable/A-2
20-Jul-2015	BBB-/Positive/A-3
09-Dec-2014	BB+/Positive/B
29-Apr-2014	BB+/Negative/B
16-Jul-2013	BB+/Stable/B
20-Jan-2012	BB+/Negative/B

Sovereign Rating

Ireland (Republic of)	A+/Stable/A-1
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*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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