



Fitch Removes Large Irish Banks and UK Subsidiaries from Under Criteria Observation

Fitch Ratings - Milan - 17 March 2020:

Fitch Ratings has upgraded Bank of Ireland's (BOI) and Bank of Ireland (UK) PLC's (BOIUK) Long-Term Issuer Default Ratings (IDRs) and Derivative Counterparty Ratings (DCRs) to 'BBB+' from 'BBB'. Fitch has also upgraded the Long-Term IDR of AIB Group (UK) PLC (AIBUK) to 'BBB+' from 'BBB'. The Outlooks are Stable.

Fitch has also downgraded Allied Irish Banks, plc's (AIB) and Bank of Ireland Group Public Limited Company's (BOIG) - the operating company of AIB Group PLC and the holding company of the Bank of Ireland Group, respectively - Tier 2 debt and upgraded AIB's AT1 debt. All the ratings were removed from Under Criteria Observation. A full list of rating actions is included in this commentary.

Today's rating actions follow the publication of Fitch's updated Bank Rating Criteria on 28 February 2020.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Allied Irish Banks, plc		
subordinated	LT BB- Upgrade	B+
subordinated	LT BB+ Downgrade	BBB-
Bank of Ireland Group Public Limited Company		
subordinated	LT BB+ Downgrade	BBB-
Bank of Ireland	LT IDR BBB+ ● Upgrade	BBB +
	DCR BBB+(dcr) Upgrade	BBB(dcr)
Bank of Ireland (UK) Plc	LT IDR BBB+ ● Upgrade	BBB ●
	ST IDR F2 Upgrade	F3
	DCR BBB+(dcr) Upgrade	BBB(dcr)
AIB Group (UK) PLC	LT IDR BBB+ ● Upgrade	BBB ●

Key Rating Drivers

BOIG, BOI, BOIUK

BOI's and BOIUK's Long-Term IDRs and DCRs have been upgraded to reflect that senior third-party liabilities are expected to benefit from resolution funds ultimately raised by BOIG, down-streamed to BOI and BOIUK (the latter through its direct parent bank BOI) and designed to protect these operating companies' (opcos) external senior creditors in a group failure. We expect the group will comply with MREL (minimum requirement for own funds and eligible liabilities) targets and that internal debt down-streamed to BOI will become junior to BOI's external liabilities by end-2022.

Fitch has also upgraded BOIUK's Short-Term IDR to 'F2', the baseline approach for a 'BBB+' Long-Term IDR under our updated banking criteria.

As a result of the upgrades, the IDRs of BOIUK are no longer based on its standalone risk profile as reflected by its 'bbb' Viability Rating (VR), but are instead based on our assessment of the protection offered to external senior bondholders.

BOIG's Tier 2 debt has been downgraded by one notch to reflect the change in baseline notching for loss-severity to two notches (from one previously) from its 'bbb' VR, since the bank does not meet the specific conditions under our updated criteria for applying one notch.

AIB, AIBUK

AIBUK's Long-Term IDR has been upgraded to reflect that external senior creditors are expected to benefit from resolution funds ultimately raised by AIB Group PLC, the group's holding company, and down-streamed to AIBUK through its direct parent bank AIB and designed to protect the OpCo's external senior creditors in a group failure. We expect the group will comply with MREL targets.

AIB's Tier 2 debt has been downgraded by one notch to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the bank's 'bbb' VR since AIB does not meet the specific conditions under our criteria for applying one notch.

AIB's AT1 debt has been upgraded by one notch to reflect a change in baseline notching to four notches (from the previous five) from the bank's 'bbb' VR, reflecting a reduction in incremental non-performance risk. Our assessment is based on the group operating with CET1 ratio levels that are well above maximum distributable amount (MDA) thresholds and its intention to continue to do so in the future, despite some possible decline in CET1 ratio levels, as well as having comfortable levels of items available for distribution at end-2019.

RATING SENSITIVITIES

BOI, BOIUK

The IDRs and DCRs of BOI and BOIUK are sensitive to changes in BOI's VR and in the group being unable to meet its MREL through senior non-preferred debt and more junior instruments, or in failing to meet BOIUK's internal MREL, as this would reduce the level of protection for senior third-party liabilities.

BOI's VR remains sensitive to a successful execution of the group's strategy to improve cost efficiency and profitability and further progress in reducing the still high proportion of problem loans to levels more commensurate with higher-rated peers' while reducing capital encumbrance.

The VR could come under pressure if the post-Brexit relationship between the UK and the EU results in a less supportive environment for Irish or UK banks and negatively impacts asset quality and capitalisation or if the Irish economic environment is negatively impacted by the spread of the coronavirus. Negative pressure on the VR would also arise if the bank increases its risk appetite, for example, by materially increasing its exposure to commercial real estate. Negative rating action could also arise from a significant erosion of profitability.

AIBUK

The IDR of AIBUK is sensitive to changes in AIB's VR and in the group being unable to meet its MREL through senior non-preferred debt and more junior instruments, or in failing to meet its internal MREL, as this would reduce the level of protection for senior third-party liabilities.

Given the AIB Group PLC's (and AIB's) focus on a fairly small and volatile Irish market upside to the VR is limited. An upgrade will depend on the ability of the group to strengthen its company profile and profitability significantly and operate with a much lower risk appetite.

The ratings could come under pressure if the economic effect of the UK's decision to leave the EU is particularly severe for either Ireland as it could negatively impact asset quality and ultimately capitalisation or if the Irish economic environment is negatively impacted by the spread of the coronavirus. Negative pressure on the VR would also arise if the group increases its risk appetite.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The ratings of the subordinated and hybrid instruments are primarily sensitive to a change in the banks' VRs from which they are notched, or to changes in their notching in accordance with our criteria and assumptions on non-performance risk.

Public Ratings with Credit Linkage to other ratings

The ratings of Bank of Ireland (UK) Plc are directly linked to Bank of Ireland; a change in Fitch's assessment of the ratings of Bank of Ireland may result in a change in the ratings of Bank of Ireland (UK) Plc.

The ratings of AIB Group (UK) PLC are directly linked to Allied Irish Banks, plc; a change in Fitch's assessment of the ratings of Allied Irish Banks, plc may result in a change in the ratings of AIB Group (UK) PLC.

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Applicable Criteria

Bank Rating Criteria (pub. 28 Feb 2020)

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