

01 Apr 2020 | Rating Changed Outlook to Negative

## Fitch Takes Actions on Large Irish Banking Groups on Coronavirus Uncertainties

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Fitch Ratings-Milan-01 April 2020:

Fitch Ratings has revised the two large Irish banking groups', AIB Group Public Limited Company (AIBG) and Bank of Ireland Group Public Limited Company (BOIG), Outlook to Negative from Stable following the coronavirus outbreak.

While the ultimate economic and financial market implications of the coronavirus pandemic are unclear, Fitch considers the risks to the banks' credit profiles to be clearly skewed to the downside, which has driven today's rating actions.

Fitch's downside scenario for the eurozone is a sharp GDP contraction this year, with a GDP contraction also highly likely in Ireland, before recovering in 2021. We also see downside risks to the estimates due to the rapidly evolving nature of the pandemic. As a result of the challenges Fitch has changed the outlook on the operating environment for banks operating in Ireland to negative from stable.

Fiscal support measures for the private sector and financial markets have mixed first-order implications for banks. Mortgage loan relief programmes will have negative first-order implications for banks unless temporary in nature, but compensation by the state for direct COVID-19 related losses appears to be approved by EU state-aid authorities, so it is probable that the full financial impact for banks will ultimately be mitigated.

Nonetheless, we expect asset quality to weaken relative to our previous expectations and for earnings challenges to intensify due to weaker business volumes and rising loan impairment charges. At least initially, we consider the large Irish banks as more vulnerable to SMEs experiencing distress and drawing down on overdrafts and credit facilities. The banks are also sensitive to a more permanent rise in unemployment levels.

Due to the banks' large customer deposit bases and them having already funded a sizeable portion of their minimum requirement for own funds and eligible liabilities (MREL), they should be reasonably isolated from the risk of higher wholesale funding costs. The ECB's EUR750 billion Pandemic Emergency Purchase Programme (PEPP) and the possibility to access targeted longer-term refinancing operations (TLTRO) represent additional mitigating factors. Therefore the

risks to their funding profiles is rather a longer-term (eg term debt refinancing and market issuance), rather than a near-term, risk.

Allied Irish Banks, plc; Long Term Issuer Default Rating; Affirmed; BBB+; RO:Neg

; Short Term Issuer Default Rating; Affirmed; F2

; Viability Rating; Affirmed; bbb

; Support Rating; Affirmed; 5

; Support Rating Floor; Affirmed; NF

; Derivative Counterparty Rating; Affirmed; BBB+(dcr)

----subordinated; Long Term Rating; Affirmed; C

----subordinated; Long Term Rating; Affirmed; BB+

----senior unsecured; Long Term Rating; Affirmed; BBB+

----subordinated; Long Term Rating; Affirmed; BB-

----senior unsecured; Short Term Rating; Affirmed; F2

Bank of Ireland Group Public Limited Company; Long Term Issuer Default Rating; Affirmed; BBB;  
RO:Neg

; Short Term Issuer Default Rating; Affirmed; F2

; Viability Rating; Affirmed; bbb

; Support Rating; Affirmed; 5

; Support Rating Floor; Affirmed; NF

----subordinated; Long Term Rating; Affirmed; BB+

Bank of Ireland; Long Term Issuer Default Rating; Affirmed; BBB+; RO:Neg

; Short Term Issuer Default Rating; Affirmed; F2

; Viability Rating; Affirmed; bbb

; Support Rating; Affirmed; 5

; Support Rating Floor; Affirmed; NF

; Derivative Counterparty Rating; Affirmed; BBB+(dcr)

----senior unsecured; Short Term Rating; Affirmed; F2

Bank of Ireland (UK) Plc; Long Term Issuer Default Rating; Affirmed; BBB+; RO:Neg

; Short Term Issuer Default Rating; Affirmed; F2

; Viability Rating; Affirmed; bbb

; Support Rating; Affirmed; 2

; Derivative Counterparty Rating; Affirmed; BBB+(dcr)

AIB Group (UK) PLC; Long Term Issuer Default Rating; Affirmed; BBB+; RO:Neg

; Short Term Issuer Default Rating; Affirmed; F2

; Support Rating; Affirmed; 2

AIB Group Public Limited Company; Long Term Issuer Default Rating; Affirmed; BBB; RO:Neg  
; Short Term Issuer Default Rating; Affirmed; F2  
; Viability Rating; Affirmed; bbb  
; Support Rating; Affirmed; 5  
; Support Rating Floor; Affirmed; NF  
----senior unsecured; Long Term Rating; Affirmed; BBB  
----senior unsecured; Short Term Rating; Affirmed; F2

## Key Rating Drivers

### AIB GROUP PUBLIC LIMITED COMPANY (AIBG) AND SUBSIDIARIES

Unless noted below, the key rating drivers for AIBG and its subsidiaries are those outlined in our Rating Action Commentary published in October 2019 (Fitch Upgrades AIB Group to 'BBB' and AIB to 'BBB+'; Outlook Stable) and subsequently in March 2020 (Fitch Removes Large Irish Banks and UK Subsidiaries from Under Criteria Observation).

Fitch has revised AIBG's Outlook to Negative from Stable, while affirming the bank's Long-Term IDR at 'BBB' and Viability Rating at 'bbb'. The Outlook change reflects medium-term risk from the economic fallout from the pandemic to AIBG's ratings. However, the group enters the economic downturn from a relative position of strength, primarily its sound capitalisation and a strong funding and liquidity profile. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of asset quality and earnings but also management and strategy, as executing on its recently presented strategy is going to be particularly difficult, relative to when we last reviewed the bank's ratings.

### BANK OF IRELAND GROUP PUBLIC LIMITED COMPANY (BOIG) AND SUBSIDIARIES

Unless noted below, the key rating drivers for BOIG and its subsidiaries are those outlined in our Rating Action Commentary published in October 2019 (Fitch Affirms Bank of Ireland Group plc at 'BBB'; Outlook Stable) and subsequently in March 2020 (Fitch Removes Large Irish Banks and UK Subsidiaries from Under Criteria Observation).

Fitch has revised BOIG's Outlook to Negative from Stable while affirming the bank's Long-Term IDR at 'BBB' and VR at 'bbb'. The Outlook change reflects medium-term risk from the economic fallout from the pandemic to BOIG's ratings. However, the bank enters the economic downturn from a relative position of strength, primarily its sound capitalisation and a strong funding and liquidity profile. BOIG's ratings are underpinned by a strong domestic franchise in the small Irish economy and a fairly diversified business model. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of earnings, asset

quality and management and strategy given the bank's ambitious growth targets relative to when we last reviewed BOIG's ratings.

We affirmed BOI UK's Long-Term IDR but revised the Outlook to Negative from Stable as we see medium-term downside risks to the ratings. The ratings reflect a modest franchise in the UK and are somewhat constrained by a narrow business model. On the other hand, sound reported capital ratios underpin its ratings. We see downside risks to profitability, which is already under pressure from low interest rates and stiff competition in the bank's main segment - mass market residential mortgage lending. The bank's strategy to pursue niche segments of the mortgage market may prove harder to execute. Asset quality is likely to deteriorate given an expected rise in unemployment.

#### RATING SENSITIVITIES

Unless noted below, the rating sensitivities for these banks are those outlined in the latest Rating Action Commentaries referenced above.

Following today's rating action, the most immediate downside risk to the banks' IDRs, VRs and debt ratings is the economic and financial market fallout arising from the pandemic as this represents a clear risk to our assessment of asset quality and earnings. The extent to which support packages by the government and central bank can mitigate rating pressure on the banks' ratings will depend on the amount and form such support takes.

#### AIB GROUP PUBLIC LIMITED COMPANY (AIBG) AND SUBSIDIARIES

AIBG has headroom to emerge with its ratings intact due to the relative strength of its company profile, sound management and execution capabilities, risk appetite, capitalisation and funding, which are all in line with or above its VR. However, this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Irish economy.

AIBG's ratings would likely be downgraded if it becomes less likely that the health crisis will be resolved globally in 2H20, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in sustained pressure on the bank's earnings and more permanent damage to asset quality, which would be difficult to restore within a short period of time.

Given AIBG's focus on the fairly small and volatile Irish market rating upside is limited. Nonetheless, in the event the group is able to withstand rating pressure arising from the pandemic, an upgrade would depend on its ability to strengthen its company profile and

profitability significantly and operate with a much lower risk appetite.

#### BANK OF IRELAND GROUP PUBLIC LIMITED COMPANY (BOIG) AND SUBSIDIARIES

BOIG has headroom to emerge with its ratings intact due to the relative strength of its company profile, sound management and execution capabilities, risk appetite, capitalisation and funding, which are all in line with or above its VR. However, this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Irish economy.

BOIG's ratings would likely be downgraded if it becomes less likely that the health crisis will be resolved globally in 2H20, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in more permanent damage to the bank's earnings and asset quality, which would be difficult to restore within a short period of time.

In the event the group is able to withstand ratings pressure arising from the pandemic, its ratings could be upgraded if the group successfully executes its strategy to improve cost efficiency and profitability and makes further progress in reducing the still high proportion of problem loans to levels more commensurate with higher-rated peers' while reducing capital encumbrance.

Also BOIUK has headroom to emerge with its ratings intact due to the relative strength of its risk appetite, capital and funding, which underpin its 'bbb' VR. However, this outcome will depend on the ultimate depth and duration of the coronavirus shock to the UK economy.

BOIUK's ratings would likely be downgraded if it becomes less likely that that the health crisis will be resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in more permanent damage to the bank's earnings and asset quality, which would be difficult to restore within a short period of time.

If the impact of the current health crisis proves to be within the resilience of BOIUK's ratings, positive rating momentum for the IDR may arise if there is an upgrade of either its VR, which would be contingent on the bank diversifying its business model further and reducing reliance on key strategic partnerships, or if there is at least a two-notch upgrade of BOIG's VR.

#### Best/Worst Case Rating Scenario

Ratings of financial institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings <https://www.fitchratings.com/site/re/10111579>.

#### REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

#### Public Ratings with Credit Linkage to other ratings

The ratings of AIBG 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.

The ratings of BOIUK 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 BOIUK.

#### ESG Considerations

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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### **Applicable Criteria**

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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