

## **FITCH RATES AIB GROUP PLC 'BBB-/POSITIVE'**

Fitch Ratings-London-07 March 2018: Fitch Ratings has assigned AIB Group plc a Long-Term Issuer Default Rating (IDR) of 'BBB-', Viability Rating (VR) of 'bbb-' and Short-Term IDR of 'F3'. The Outlook on the Long-Term IDR is Positive.

Fitch has also affirmed EBS d.a.c.'s Long-Term IDR at 'BBB-' with a Positive Outlook and withdrawn all EBS d.a.c.'s ratings for commercial reasons.

A full list of ratings actions is at the end of this commentary.

AIB Group is the recently established holding company and ultimate parent of the Allied Irish Banks group and its ratings are equalised with those of its wholly-owned operating subsidiary, Allied Irish Banks, plc (AIB; BBB-/Positive).

The establishment of AIB Group is part of a reorganisation aimed at improving the ability to resolve the group in line with the Single Resolution Board'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 AIB Group as the holding company of the Allied Irish Banks group and are aligned with those of its main operating subsidiary, AIB.

We expect AIB Group to become the main debt-issuing entity of the group, issuing an increasing proportion of debt, including additional Tier 1 (AT1) and other subordinated 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 AIB's ratings. This is based on our expectation that the proceeds of any future debt issued at the holding company level will be downstreamed 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 AIB Group's VR and IDRs with AIB's also reflects our expectation of no material restrictions to the transfer of capital and liquidity across entities within the group subject to the operating companies meeting their regulatory capital and liquidity requirements.

As a result, AIB Group's ratings are driven by the same considerations that affect AIB's ratings. AIB's VR and IDRs are driven by the bank's strong domestic franchise, strengthened capitalisation, sound funding profile, diversified revenue streams by product and customer, and improving, albeit still weak, asset quality (see 'Fitch Upgrades Allied Irish Banks, plc to 'BBB-'; Outlook Remains Positive, dated 23 November 2017 at [www.fitchratings.com](http://www.fitchratings.com)).

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

AIB Group'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) provides a framework that is likely to require senior creditors to participate in losses for resolving the group.

## SUBSIDIARY AND AFFILIATED COMPANY - IDRS, SUPPORT RATING AND SENIOR DEBT

EBS d.a.c. is wholly-owned by AIB Group plc, through AIB, and is reliant on its parent for funding and capital support. Its IDRs, SRs and senior debt ratings are based on support, and its IDRs and senior debt ratings are equalised with AIB Group's. Fitch does not assign a VR to EBS d.a.c. as we believe that the subsidiary is closely integrated with its parent and cannot be analysed meaningfully on a standalone basis. The Positive Outlook reflects that on its parent.

### RATING SENSITIVITIES

#### VR AND IDRS

As AIB Group's VR and IDRs are equalised with AIB's, they are sensitive to the same factors as AIB's. The Positive Outlook mirrors that on AIB's Long-Term IDR and reflects the potential for upgrading AIB's VRs and IDRs, should the bank continue to make progress in reducing its stock of problem loans over the next 24 months while maintaining sound capitalisation, funding and liquidity and continuing to generate adequate profitability.

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

Rating sensitivities are not applicable for EBS d.a.c. as the ratings have been withdrawn.

### SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of the SR and upward revision of 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:

#### AIB 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'

#### EBS d.a.c.

Long-Term IDR affirmed at 'BBB-'; Outlook Positive and withdrawn

Short-Term IDR affirmed at 'F3' and withdrawn

Support Rating affirmed at '2' and withdrawn

Senior long-term debt affirmed at 'BBB-' and withdrawn

Short-term debt affirmed at 'F3' and withdrawn

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### Applicable Criteria

Exposure Draft: Bank Rating Criteria (pub. 12 Dec 2017)

<https://www.fitchratings.com/site/re/904081>

Global Bank Rating Criteria (pub. 25 Nov 2016)

<https://www.fitchratings.com/site/re/891051>

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