



Fitch Upgrades AIB Group to 'BBB' and AIB to 'BBB+'; Outlook Stable

Fitch Ratings - Milan - 30 October 2019:

Fitch Ratings has upgraded AIB Group plc's (AIBG) Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB-' and its main operating bank subsidiary Allied Irish Banks plc's (AIB) Long-Term IDR to 'BBB+' from 'BBB-'. The Outlooks are Stable. The agency has also upgraded the entities' Viability Ratings (VRs) to 'bbb' from 'bbb-'. Fitch has also upgraded AIBG's and AIB's Short-Term IDRs to 'F2' from 'F3'. A full list of rating actions is at the end of this rating action commentary.

The upgrades of the VRs and of AIBG's IDRs reflect the asset quality improvements in the past two years through a sustained reduction in legacy problem loans. They also reflect our expectation that the bank will achieve a gross non-performing exposure (NPE) ratio of around 5% by the end of this year, strive to achieve further reductions and operate with lower NPE levels thereafter.

The upgrade of AIB's Long-Term IDR and senior debt ratings to one notch above its VR reflect the build-up of a significant and sustainable qualifying junior debt (QJD) and internal non-preferred senior debt buffer at the bank that provides additional protection for its senior unsecured creditors.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Allied Irish Banks, plc	LT IDR BBB+ ● Upgrade	BBB- +
	ST IDR F2 Upgrade	F3
	Viability bbb Upgrade	bbb-
	Support 5 Affirmed	5
	Support Floor NF Affirmed	NF
	DCR BBB+(dcr) Upgrade	BBB-(dcr)
subordinated	LT B+ Upgrade	B
subordinated	LT C Affirmed	C

senior unsecured	LT BBB+ Upgrade	BBB-
subordinated	LT BBB- Upgrade	BB+
senior unsecured	ST F2 Upgrade	F3
AIB Group (UK) PLC	LT IDR BBB ● Upgrade	BBB- ➕
	ST IDR F2 Upgrade	F3
	Support 2 Affirmed	2
AIB Group Public Limited Company	LT IDR BBB ● Upgrade	BBB- ➕
	ST IDR F2 Upgrade	F3
	Viability bbb Upgrade	bbb-
	Support 5 Affirmed	5
	Support Floor NF Affirmed	NF
senior unsecured	LT BBB Upgrade	BBB-
senior unsecured	ST F2 Upgrade	F3

Key Rating Drivers

IDRS, DERIVATIVE COUNTERPARTY RATING (DCR) AND SENIOR DEBT

AIB's Long-Term IDR, senior debt ratings and DCR have been upgraded to one notch above its VR to reflect the level of protection offered to AIB's senior third-party liabilities by existing buffers of QJD and non-preferred senior debt, which we consider sufficient to recapitalise AIB, in case of failure, without triggering a default on its senior third-party liabilities. The upgrade also reflects Fitch's view of the sustainability of these buffers, given the need to comply with minimum requirement for own funds and eligible liabilities (MREL).

The group's MREL is currently set at 28.22% of risk-weighted assets (RWAs) per end-2017 balance sheet, to be reached by 1 January 2021. Under the group's single-point-of-entry resolution strategy, senior debt issued at the holding level is downstreamed to AIB in the form of MREL eligible instruments. Since April 2019, AIBG's externally issued senior debt, which is downstreamed to AIB, is subordinated by statute to AIB's external senior liabilities, as it is in the form of non-preferred senior debt.

We would expect a resolution action to be taken on the bank when it breaches its minimum capital requirements. We assume the intervention point would be at a common equity Tier 1 (CET1) ratio no lower than 7.5% of RWAs. Fitch estimates that post-resolution capital needs mean that a buffer of QJD and internal non-preferred senior debt of about 8% of RWAs would most likely be sufficient to restore AIB's viability without imposing losses on the bank's senior creditors. Fitch estimates the combined buffer of QJD and downstreamed senior non-preferred debt at AIB, including 3Q19 AIBG issuances, to be around 8% of RWAs.

AIBG's Long-Term IDR and senior debt ratings are in line with its VR. AIB's DCR is rated at the same level as the Long-Term IDR because under Irish legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

The upgrades of the Short-Term IDRs and short-term senior debt ratings are based on our assessment of the group's funding and liquidity, which is in line with the level required for a 'F2' rating under Fitch's Short-Term Ratings Criteria.

VRs

Fitch assesses the group on a consolidated basis. AIBG acts as the holding company of the Allied Irish Banks group and its VR is aligned with the VR of its wholly-owned operating subsidiary, AIB. The equalisation of the ratings reflects the continued absence of double leverage at the holding company level and no material restrictions to the transfer of capital and liquidity across the group, subject to the operating companies meeting regulatory capital and liquidity requirements.

The VRs reflect the bank's strong domestic franchise in core lending and deposit segments in Ireland, improving asset quality, moderate risk appetite and sound and stable funding. The bank operates with strong regulatory capital ratios. However, despite a rapidly reducing stock of problem loans, unreserved problem loans still represent a moderate proportion of capital. Profitability is adequate but potentially variable over the economic cycle, reflecting the bank's geographic concentration to the small, open and cyclical Irish economy.

Asset quality remains a comparatively weaker rating factor. Stage 3 loans, largely Irish residential mortgage loans, accounted for 6.9% of gross loans at end-1H19. This is still high when compared with European norms and international peers but is a significant improvement on the nearly 19% ratio at end-2015 and the 35% ratio reported at end-2013. The bank has been using both portfolio sales and extensive workout and restructuring measures to reduce problem loans, benefiting from the supportive Irish economy and growing investor demand.

AIB's profitability is supported by the wide margins of the concentrated Irish market, its leading market position and pricing power, and pricing discipline in the sector, combined with the gradual return to positive net lending growth and an improving loan mix. An increase in funding costs is possible as the bank builds up its MREL buffers. Our assessment also reflects some cost rigidity in the very near term but with the prospect of moderate cost reductions in the medium-term, combined with more normalised loan impairment charges as large write-backs have tailed away. We expect profitability levels may vary over the economic cycle, reflecting the inherent risks of the Irish economy.

At end-1H19, AIBG's fully loaded common equity Tier 1 (CET1) ratio was 17.3%, which compared well with peers. We expect the group to maintain comfortable buffers over minimum requirements. The bank recommenced ordinary dividend payments in 2017 and targets a future 50%-60% payout ratio. Special dividends could be considered once it reaches its target for non-performing exposures ratio of around 5% by

end-2019. However, unreserved impaired loans, which reduced to a more contained 27% of Fitch Core Capital at end-1H19 (down from 41% at end-1H18), highlight some moderate vulnerability to falling collateral prices.

AIBG's funding profile is supported by strong access to stable retail deposits, and an established and sufficiently diversified wholesale funding franchise, although the latter remains confidence sensitive. Customer deposits fund a significant portion of the bank's assets and have been increasing. Significant loan deleveraging in recent years has reduced funding requirements. Liquidity is sound, supported by a large stock of liquid assets and contingent access to central bank liquidity facilities.

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

AIBG's and AIB's SR of '5' and SRF of 'No Floor' reflect Fitch's view that senior creditors cannot rely on extraordinary support from the Irish authorities in the event that the bank 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 bank.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The ratings on the subordinated debt and other hybrid capital issued by AIB are notched off AIB's VR and reflect Fitch's assessment of their incremental non-performance risk relative to the VR (up to three notches) and assumptions around loss severity (up to two notches).

AIB's subordinated Tier 2 debt rating is notched down once from the bank's VR, reflecting larger loss severity relative to senior obligations given their subordinated status. No notching is applied for incremental non-performance risk as the write-down of the notes will only occur after the point of non-viability is reached and there is no prior coupon flexibility.

AIB's AT1 debt rating is notched down twice for loss severity and three times for non-performance risk, reflecting the notes' deep subordination and fully discretionary coupon omission.

The 'C' rating on AIB's legacy subordinated notes reflects their non-performance since the bank is not paying the discretionary coupons and also the notes' sustained economic losses, resulting in weak recoveries.

SUBSIDIARY AND AFFILIATED COMPANY

The IDRs and SR of AIB Group (UK) Plc, AIB's wholly-owned subsidiary, are based on support, reflecting its key role as the main entity operating in the UK, a core market for the group, and a track record of unquestioned support from the parent.

AIB Group (UK) represented 14% of AIBG's gross loans at end-1H19 and 15% of 1H19 operating profit. The subsidiary is closely integrated with the group and is heavily reliant on the group's systems and processes. It contributes positively to the group's performance. Fitch has not assigned a VR to AIB Group (UK) as we believe it is closely integrated with AIBG and therefore cannot be analysed meaningfully on a standalone basis.

The Long-Term IDR is equalised with AIB's VR, and not with the Long-Term IDR of AIB, as a large buffer of junior debt to meet its internal MREL has not yet been pre-positioned.

RATING SENSITIVITIES

IDRS, DCR AND SENIOR DEBT

The IDRs, senior debt ratings and DCR of AIB and AIBG are sensitive to changes in the VRs. AIB's ratings are also sensitive to a material reduction in the combined QJD and internal senior non-preferred buffer. The notching is also sensitive to changes in assumptions on the resolution intervention point and post-resolution capital needs, and the development of resolution planning more generally.

The Short-Term IDRs and short-term senior debt ratings of AIBG are also sensitive to a weakening of our assessment of the group's funding and liquidity.

VRs

Given AIBG's focus on a fairly small and volatile Irish market upward rating potential is limited. An upgrade will depend on the bank's ability 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. Negative pressure on the VR would also arise if the bank increases its risk appetite.

SR AND SRFS

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.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The ratings of all subordinated instruments are primarily sensitive to a change in AIB's VR, or to changes in their notching in accordance with our criteria and assumptions on non-performance risk.

SUBSIDIARY AND AFFILIATED COMPANIES

AIB Group (UK) Plc's ratings are sensitive to the same factors that might drive a change in AIB's VR. The SR would be sensitive to changes in its strategic importance to AIBG as well as AIB's ability to support it. AIB Group (UK)'s Long-Term IDR is also sensitive to the volume of junior and non-preferred debt buffers that will be downstreamed by AIB in the future in order for its UK subsidiary to meet its MREL. Given the high level of AIB Group (UK)'s CET 1 ratio, at 17.2% at end- 2018, it is unlikely that a large buffer of junior instrument will be required to meet its MREL.

ESG Considerations

The highest level of ESG credit relevance for this issuer is a score of 3. ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Francesca Vasciminno
Senior Director
+39 02 879087 225
Fitch Italia Società Italiana per il rating, S.p.A.
Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8
Milan 20123

Secondary Rating Analyst
Maria Shishkina
Associate Director
+44 20 3530 1379

Committee Chairperson
Olivia Perney
Managing Director
+33 1 44 29 91 74

MEDIA CONTACTS

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT

[HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

COPYRIGHT

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate

all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more.