MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Allied Irish Bank and Group's ratings, outlook changed to stable from positive

07 May 2020

London, 07 May 2020 -- Moody's Investors Service, ("Moody's") today affirmed the A2 long-term bank deposit and (P)A2 senior unsecured programme ratings, the baa2 Baseline Credit Assessment (BCA) and baa2 Adjusted BCA of Allied Irish Banks, p.l.c. (AIB). Furthermore, Moody's affirmed the Baa2 long-term senior unsecured debt rating of the bank's holding company, AIB Group plc (AIB Group).

The outlook on AIB's long-term deposit ratings and AIB Group's senior unsecured debt ratings was changed to stable from positive.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL424066 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

Following the outbreak of the coronavirus, which Moody's regards as a social risk under its ESG framework, the agency expects the Irish economy to contract sharply in 2020 due to enforced business closures aimed at containing the coronavirus outbreak, leading to an increase in Irish banks' problem loans and a decline in their profitability. However, government support measures will mitigate but not fully offset the impact of the coronavirus-induced downturn, while ultra-low interest rates will limit the risk associated with high private-sector debt (see 28 April 2020 update of Global Macro Outlook 2020-21: Global recession is deepening rapidly as restrictions exact high economic cost, https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1212762).

The rating agency expects a decrease in revenues due to mandatory lockdown measures, an increase in credit losses and provisions in relation to corporate and retail clients, an increase in the inflow of new problem loans, and a further contraction in net interest margins.

AIB, along with the rest of the Irish banking sector, has significantly reduced its stock of nonperforming loans in recent years and now has a track record of successful loan restructuring, putting it in a strong position to manage the coronavirus-related stress. Limited lending growth curbed excessive risk taking in 2019, and AIB, in line with its peers, is less exposed to a potential fall in house prices thanks to a decline in the number of negative equity mortgage loans on its books to 1.7%[1] of gross loans. However, at the same time, the pace of reduction of legacy problem loans to 5.37% is now expected to slow relative to our previous expectations due to coronavirus-related disruption of the debt purchasing and securitisation markets. Moody's expects AIB's profitability to decline as coronavirus-induced economic disruption limits new lending growth and results in higher loan-loss provisions. Persistently low interest rates will continue to pressure net interest margins while fee income generation will be constrained.

AIB's solid capital, with a reported Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded) ratio of 20.55% and good liquidity given gross loans to total deposits of 86% at December 2019, provide strong loss absorption against the coronavirus outbreak-related headwinds. As a result, Moody's affirmed AIB's and AIB Group's ratings and ratings inputs.

The affirmation of the BCA and ratings reflects (1) the bank's very strong capitalization, mitigating the effects of lower profitability and weaker asset quality; (2) unchanged results of Moody's forward-looking Advanced Loss Given Failure (LGF) analysis, which results in three and two notches of uplift for AIB's deposits and senior unsecured ratings, respectively; and (3) a moderate probability of government support, resulting in a further notch of uplift for senior unsecured ratings.

-- OUTLOOK

The outlook change to stable from positive on AIB's long-term deposit ratings and AIB Group's senior unsecured debt ratings reflects Moody's view that AIB's asset quality will deteriorate in the short to medium term, due to the deteriorating economic environment, rather than continuing to improve as previously expected.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

AIB's deposit ratings could be upgraded as a result of an upgrade in its standalone BCA.

AIB's long-term programme and debt ratings could be upgraded as a result of (1) an upgrade in its standalone BCA by more than one notch; or (2) a significant increase in the bank's bail-in-able debt.

The bank's BCA could be upgraded because of (1) a further reduction in problem loans; (2) further improvement in stressed-capital resilience; or (3) a sustained improvement in its core profitability.

AIB's ratings could be downgraded as a result of (1) a downgrade in its standalone BCA; or (2) the redemption of maturing subordinated instruments without their replacement. However, a notch downgrade of AIB's BCA would likely be offset by a notch of uplift for deposit ratings, under Moody's assumption of moderate likelihood of Government support in case of need. AIB's BCA could be downgraded if there is a significant deterioration in the bank's solvency or liquidity profile.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/research/Banks-Methodology--PBC_1147865 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL424066 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

REFERENCES/CITATIONS

[1] Company Annual Report 31-Dec-2019

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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