MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Ba3(hyb) rating to AIB Group plc's high-trigger AT1 capital securities

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London, 02 October 2019 -- Moody's Investors Service (Moody's) has today assigned a Ba3(hyb) rating to the "high trigger" additional tier 1 (AT1) EUR 500 million note to be issued by AIB Group plc (AIB Group) the holding company of Allied Irish Banks, p.l.c. (AIB).

This perpetual non-cumulative AT1 security ranks junior to all liabilities of AIB Group and ranks senior to common shares. Coupons may be cancelled on a non-cumulative basis at the issuer's option and on a mandatory basis subject to the availability of distributable items and regulatory discretion. The principal of the security will be written-down if AIB's Common Equity Tier 1 (CET1) ratio falls below 7%. The principal amount can be written-up at the sole discretion of the bank.

RATINGS RATIONALE

The Ba3(hyb) rating assigned to the security is based on multiple risks, including the likelihood of AIB's capital ratio reaching the conversion trigger, the likelihood of coupon suspension on a non-cumulative basis and the probability of a bank-wide failure and loss severity, if any or all these events occur. Moody's assesses the probability of a trigger breach using an approach that is model-based, incorporating the bank's creditworthiness, its most recent reported CET1 ratio and qualitative considerations, particularly with regard to how the bank may manage its CET1 ratio on a forward-looking basis. Moody's rates these notes to the lower of the model-based outcome and AIB's non-viability security rating, which also captures the risk of coupon suspension on a non-cumulative basis. Moody's approach to rating high-trigger contingent capital securities is described in its "Banks" rating methodology, published on August 2018.

AIB has a Baseline Credit Assessment (BCA) of baa3, which incorporates the bank's overall intrinsic credit strength and the most recently published group level fully-loaded CET1 ratio, which was 17.3% at end-June 2019. AIB's BCA, its group-level fully-loaded CET1 ratio and some forward-looking assumptions on its regulatory ratio, were used as inputs to the model, which corresponds to an output of Ba1(hyb).

The model output was then compared to the issuer's non-viability security rating, Ba3(hyb), which is positioned based on Moody's Advanced Loss Given Failure (LGF) analysis and also captures both the probability of impairment associated with non-cumulative coupon suspension as well as the probability of a bank failure. The 'high trigger' security rating is constrained by the rating on the non-viability security, leading to the assignment of a Ba3(hyb) rating to AIB Group's 'high trigger' AT1 securities.

In addition, Moody's ran a model sensitivity analysis on AIB that factors in changes to the group and bank's CET1 ratio. The outcome of this sensitivity analysis confirms that a Ba3(hyb) rating is resilient under the main plausible scenarios.

OUTLOOK

AT 1 capital securities do not carry outlook. However, the positive outlook on the long-term senior unsecured debt ratings of AIB and AIB Group, A3 and Baa3, respectively, reflects our view that both ratings would move in line with a potential further upgrade of the BCA. Such a BCA upgrade could be warranted over the outlook horizon, should the bank succeed in reducing its problem loans at the expected rate of decline while maintaining its strong profitability, capital and liquidity metrics.

WHAT COULD CHANGE THE RATING UP/DOWN

The rating of AIB Group's AT1 notes is currently constrained by the rating on the issuer's non-viability security, which in turn could be upgraded if AIB's baa3 BCA were to be upgraded. AIB's BCA could be upgraded because of (1) a further reduction in non-performing loans; (2) an improvement in stressed-capital resilience above our expectations; or (3) sustained improvement in its core profitability.

Conversely, downward pressure on the rating of this instrument could develop if AIB's BCA was downgraded, due to significant weakening in asset risk, capital or profitability, although unlikely given the positive outlook on the senior unsecured debt rating of AIB and AIB Group. In addition, Moody's would also reconsider the rating in the event of an increased probability of a coupon suspension.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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.

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