MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook to positive on all ratings of Allied Irish Banks and assigns (P) Ba2 rating to holding company senior programme

Global Credit Research - 12 Mar 2018

London, 12 March 2018 -- Moody's Investors Service today affirmed all ratings on Allied Irish Banks, p.l.c. (AIB) and assigned a provisional (P) Ba2 rating to the senior unsecured Euro Medium Term Note Programme of the bank's holding company, AIB Group plc (AIB Group). The agency changed the outlook on the long-term ratings to positive from stable. As part of the same action, Moody's affirmed all ratings of EBS d.a.c. (EBS) and changed the outlook on the long-term ratings to positive from stable.

The assignment of provisional ratings to AIB Group follows the entity's establishment as the holding company of AIB in December 2017. This corporate restructuring will allow AIB to comply with the resolution authorities' requirements under the EU Bank Recovery and Resolution Directive (BRRD) framework: as the Single Resolution Board's preferred resolution strategy for AIB is a so-called "single point of entry", AIB Group will become the primary issuer of external capital and debt securities issued to meet the group's minimum requirement for own funds and eligible liabilities (MREL).

Moody's issues provisional ratings in advance of the final sale of securities. These ratings represent the rating agency's preliminary credit opinion. A definitive rating may differ from a provisional rating if the terms and conditions of the final issuance are materially different from those of the draft prospectus reviewed.

The positive outlooks assigned to AIB's senior unsecured and deposit ratings reflect both (i) AIB's on-going improvement in asset quality, which could lead to an upgrade of the bank's baseline credit assessment (BCA) of ba1 over the outlook period; and (ii) a potential reduction in loss-given-failure for deposits and senior debt given the additional protection provided by debt securities to be issued by AIB Group.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

AIB and AIB Group

BCA

The affirmation of AIB's BCA of ba1 reflects the bank's good level of capitalization, strong profitability, and sound funding and liquidity profile. It also takes into account the remaining large stock of non-performing loans, significant performing but restructured exposures, and likely increase in market funding reliance as MREL rules come into force Moody's believes there is now potential upside to the BCA given the further improvements in asset quality achieved in 2017. While AIB was severely hit during the financial crisis, its efforts in restoring its balance sheet have been significant in terms of loan deleveraging (gross loans declined by 35% between 2011 and 2017), while impaired loans have been reduced dramatically from the peak of €28.9 billion at year-end 2013, largely due to the restructuring of the non-retail legacy exposures. The improvement continued at steady pace in 2017, with impaired loans falling by 31% to €6.3 billion at December 2017 from €9.1 billion at December 2016, due to a combination of restructuring, portfolio sales, write-offs and repayments.

As for other Irish domestic banks, we expect that AIB's legacy portfolio of residential mortgages will require a long time to wind down, given the current low level of repossessions by banks, which the agency does not expect to materially change in the near term. These concerns are however partially mitigated by the ongoing restructuring activity and the improving economic conditions, which led to a decrease in impaired loans from €4.6 billion at end-2016 to €3.3 billion at end-2017, while the proportion of Irish mortgages in negative equity decreased to 10% at end-2017 from 20% a year previously.

While AIB still holds material amounts of restructured loans on its balance sheet, which have an increased probability of default in case of macro-economic headwinds, the trend has been similarly positive in 2017 with loans categorised as vulnerable or past due (but not impaired) reducing by 15%.

The rating agency will monitor over the outlook period AIB's ability to further reduce the impaired loan portfolio in line with the expected rate of decline.

LONG-TERM RATINGS

The affirmation of AIB's long-term senior unsecured debt and deposit ratings at Baa2 and Baa1, respectively, include the uplift resulting from Moody's Advanced Loss Given Failure (LGF) analysis. The senior unsecured debt and deposit ratings continue to benefit from one notch and two notches of uplift respectively, given their different weights in the bank's liability structure. In addition, the long-term ratings incorporate one notch of government support, which also remains unchanged, reflecting a moderate probability of government support for AIB's senior unsecured creditors and wholesale deposits, should the bank fail.

The (P) Ba2 rating assigned to the senior unsecured programme of AIB Group reflects the rating agency's expectation that the debt class is likely to face high loss-given-failure due to the limited loss absorption provided by its own modest volume and the amount of debt subordinated to it.

For holding company instruments, which are meant to absorb losses in resolution, Moody's believes that the potential for government support is therefore low and hence these ratings do not include any related uplift.

The positive outlooks on AIB's long-term deposit and senior unsecured debt ratings reflect AIB's expected issuance plans given its informative MREL target of 29.05% of RWAs. When confirmed, this would provide additional protection for the bank's senior unsecured debt and deposits, and for the holding company's senior unsecured debt, and could lead to higher ratings over the outlook horizon.

CR Assessment (CRA)

The bank's long-term CRA of A3(cr) benefits from three notches of uplift under the LGF analysis, given significant volume of subordinated debt, senior debt and wholesale deposits, and one notch of government support.

WHAT COULD MOVE THE RATINGS UP/DOWN

AIB's long-term debt and deposit ratings could be upgraded as a result of (1) an upgrade in its standalone BCA; 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 non-performing loans; (2) an improvement in stressed-capital resilience above Moody's expectations; or (3) a sustained improvement in core profitability.

AIB's ratings could be downgraded as a result of (1) a downgrade in its standalone BCA; or (2) redemption of maturing subordinated instruments without their replacement. AIB's BCA could be downgraded because of (1) a significant deterioration in the bank's asset risk metrics; (2) a weakening of its solvency profile; or (3) a worsening of its core profitability ratios.

EBS

The affirmation of the ratings of EBS was driven by the affirmation of AIB's ratings. EBS's BCA is fully aligned with the BCA of AIB.

Moody's alignment of the bank's BCA with that of its parent is driven by its high degree of integration with AIB. EBS is managed as a business division of AIB, with treasury, risk management and middle and back office functions centralised at AIB. As a result, Moody's does not believe that EBS's standalone financial metrics provide meaningful indicators of creditworthiness, and considers it to be highly integrated and harmonized with AIB.

EBS's Baa1 long-term deposit ratings are also aligned with those of AIB. Moody's believes that EBS, as a domestic subsidiary of an Irish banking group, would be resolved together with AIB in the event of their failure. This means that, like those of AIB, EBS's deposits are likely to face very low loss-given-failure according to the agency's LGF analysis, resulting in a two-notch uplift in its deposit ratings relative to its adjusted BCA of ba1. In the same way, given AIB's systemic importance, Moody's expects a moderate probability of support from the Irish government for EBS's deposits. This results in a further one-notch uplift above the adjusted BCA.

The positive outlook on EBS's long-term deposit ratings is driven by the outlook on AIB.

Given the high level of integration between EBS and its parent, an upgrade or downgrade of AIB's ratings and/or BCA would likely trigger an upgrade or downgrade of the bank's ratings and/or BCA. EBS's ratings could also be downgraded in the event of a lower degree of integration with AIB.

LIST OF AFFECTED RATINGS

Issuer: Allied Irish Banks, p.l.c.

..Affirmations:

....Adjusted Baseline Credit Assessment, affirmed ba1

....Baseline Credit Assessment, affirmed ba1

....Long-term Counterparty Risk Assessment, affirmed A3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

....Long-term Bank Deposits, affirmed Baa1, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed P-2

....Senior Unsecured Regular Bond/Debenture, affirmed Baa2, outlook changed to Positive from Stable

....Senior Unsecured Medium-Term Note Program, affirmed (P)Baa2

....Subordinate Regular Bond/Debenture, affirmed Ba2

....Subordinate Medium-Term Note Program, affirmed (P)Ba2

....Junior Subordinate Medium-Term Note Program, affirmed (P)Ba3

....Preferred Stock Non-cumulative, affirmed B1(hyb)

....Other Short Term, affirmed (P)P-2

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: AIB Group plc

..Assignments:

....Senior Unsecured Medium-Term Note Program, assigned (P)Ba2

..No Outlook assigned

Issuer: EBS d.a.c.

..Affirmations:

....Adjusted Baseline Credit Assessment, affirmed ba1

....Baseline Credit Assessment, affirmed ba1

....Long-term Counterparty Risk Assessment, affirmed A3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

....Long-term Bank Deposits, affirmed Baa1, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed P-2

..Outlook Action:

....Outlook changed to Positive from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. 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 or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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