

Rating Action: Moody's upgrades the senior unsecured ratings of holding company AIB Group to Baa3 and the long-term deposit ratings of Allied Irish Banks to A2

25 Jul 2018

Upgrades driven by improved standalone creditworthiness and increasing loss-absorbing debt

London, 25 July 2018 -- Moody's Investors Service (Moody's) today upgraded the long-term senior unsecured debt and deposit ratings of Allied Irish Banks, p.l.c. (AIB) to A3 and A2, from Baa2 and Baa1, respectively. The rating agency also upgraded the long-term senior unsecured debt rating of the bank's holding company, AIB Group plc (AIB Group), to Baa3 from Ba2. As part of the same action, Moody's upgraded the baseline credit assessment (BCA) and adjusted BCA of AIB to baa3 from ba1. The agency assigned a positive outlook to the A3 long-term senior unsecured debt rating of AIB and to the Baa3 long-term senior unsecured debt rating of AIB Group, while assigning a stable outlook to the A2 long-term deposit rating of AIB. Moody's also upgraded AIB's long-term Counterparty Risk Ratings (CRR) and Counterparty Risk Assessments (CRA) to A2 and A2(cr) from A3 and A3(cr), respectively.

The upgrades of the senior unsecured and deposit ratings reflect both (i) the improvement in AIB's asset quality, reflected in the upgrade of the BCA to baa3; and (ii) Moody's expectation of a reduction in loss-given-failure for deposits and senior bank and holding company 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

BCA

The upgrade of AIB's BCA to baa3 from ba1 is underpinned by the faster-than-expected improvement in asset quality achieved in 2017 and H1 2018. In May 2018, AIB announced it had agreed to sell a portfolio of nonperforming loans to Irish credit management company Everyday Finance DAC as part of a consortium arrangement with Everyday and affiliates of US distressed debt fund Cerberus Capital Management. The sale lowered AIB's nonperforming exposure (NPE) ratio to circa 12% at end-June 2018 (Moody's estimates), from 14% as of 31 March 2018, and marked an important step in its de-risking strategy, which targets an NPE ratio of 5% by the end of 2019. AIB indicated that it would receive an €800 million cash consideration for the loans, and that the sale would be capital accretive.

The €1.1 billion portfolio AIB is selling to Everyday consists mainly of commercial property and investments, and excludes private homes and family farms. Moody's expects that AIB will not include home loans in asset sales, and that it will favour pursuing case-by-case restructurings where possible, which has constituted 95% of its non-performing loan reductions so far. Given this, and as for other domestic banks, Moody's expects that AIB's legacy portfolio of residential mortgages will require a long time to wind down, given banks' current low level of repossessions.

The baa3 BCA also reflects the bank's good level of capitalization, its stable profitability, as well as sound funding and liquidity profile. It is constrained by the likely increase in market funding reliance as MREL rules come into force, as well as by the remaining large stock of non-performing loans and loans subject to forbearance arrangements.

LONG-TERM RATINGS

The Advanced Loss Given Failure (LGF) notching assigned to AIB's long-term deposit and senior unsecured debt ratings reflect AIB's expected issuance plans given its final MREL target of 28.04% of RWAs, confirmed in May 2018, which will provide additional protection for the bank's senior unsecured debt and deposits, and for the holding company's senior unsecured debt over the outlook horizon.

The upgrade of AIB's long-term senior unsecured debt and deposit ratings to A3 and A2, respectively, include

the uplift resulting from Moody's Advanced LGF analysis. The senior unsecured debt and deposit ratings now benefit from two and three notches of uplift respectively, given their different weights in the bank's liability structure. In addition, both ratings incorporate one notch of government support, which remains unchanged, reflecting a moderate probability of government support for AIB's senior unsecured creditors and wholesale deposits, should the bank fail.

The Baa3 rating assigned to the senior unsecured rating of AIB Group reflects the rating agency's expectation that the debt class is likely to face moderate loss-given-failure due to the increasing loss absorption provided by its own 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.

OUTLOOK

The positive outlook assigned to the A3 long-term senior unsecured debt rating of AIB and to the Baa3 long-term senior unsecured rating of AIB Group reflects Moody's 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 non-performing loans at the expected rate of decline, while maintaining its strong profitability, capital and liquidity metrics.

Over the outlook period, the rating agency will monitor (i) AIB's ability to further reduce the non-performing loan portfolio in line with the expected rate of decline, (ii) whether the bank's restructuring measures and potential further asset sales are detrimental to its capital generation capacity, and (iii) whether the bank will be able to maintain its strong underlying profitability in the context of increased competition on mortgage lending.

The stable outlook assigned to the A2 long-term deposit rating of AIB reflects Moody's view that a potential further one-notch upgrade of the BCA would not lead to an upgrade of the rating. This is because the capacity of Ireland to provide support, represented by its A2 sovereign rating, would not warrant a one-notch uplift for government support if the preliminary rating assessment (PRA) were upgraded to a2.

Counterparty Risk Rating (CRR) and CR Assessment (CRA)

The bank's long-term CRR and CRA of A2 and A2(cr), respectively, benefit from three notches of uplift under the LGF analysis, given significant volume of subordinated debt, senior debt and wholesale deposits. Both the CRR and the CRA benefit from one notch of government support, which remains unchanged, reflecting a moderate probability of government support.

WHAT COULD MOVE THE RATINGS UP/DOWN

AIB's deposit ratings could be upgraded as a result of an upgrade in its standalone BCA by more than one notch.

AIB's long-term debt ratings could be upgraded as a result of (i) an upgrade in its standalone BCA; or (ii) a significant increase in the bank's bail-in-able debt.

The bank's BCA could be upgraded because of (i) a further reduction in non-performing loans; (ii) an improvement in stressed-capital resilience above Moody's expectations; or (3) sustained core profitability.

AIB's ratings could be downgraded as a result of (i) a downgrade in its standalone BCA; or (ii) redemption of maturing subordinated instruments without their replacement.

AIB's BCA could be downgraded because of (i) a significant deterioration in the bank's asset risk metrics; (ii) a weakening of its solvency profile; or (iii) a worsening of its core profitability ratios.

LIST OF AFFECTED RATINGS

Issuer: AIB Group plc

..Upgrades:

...Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa3 from (P)Ba2

...Senior Unsecured Regular Bond/Debenture, Upgraded to Baa3 Positive from Ba2 Positive

..Outlook Actions:

....Outlook, Remains Positive

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

..Upgrades:

- Adjusted Baseline Credit Assessment, Upgraded to baa3 from ba1
- Baseline Credit Assessment, Upgraded to baa3 from ba1
- Long-term Counterparty Risk Assessment, Upgraded to A2(cr) from A3(cr)
- Short-term Counterparty Risk Assessment, Upgraded to P-1(cr) from P-2(cr)
- Long-term Counterparty Risk Rating, Upgraded to A2 from A3
- Short-term Counterparty Risk Rating, Upgraded to P-1 from P-2
- Long-term Bank Deposit Ratings, Upgraded to A2 Stable from Baa1 Positive
- Short-term Bank Deposit Ratings, Upgraded to P-1 from P-2
- Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa2
- Subordinate Medium-Term Note Program, Upgraded to (P)Ba1 from (P)Ba2
- Junior Subordinate Medium-Term Note Program, Upgraded to (P)Ba2 from (P)Ba3
- Senior Unsecured Regular Bond/Debenture, Upgraded to A3 Positive from Baa2 Positive
- Pref. Stock Non-cumulative, Upgraded to Ba3(hyb) from B1(hyb)
- Subordinate Regular Bond/Debenture, Upgraded to Ba1 from Ba2

..Affirmations:

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

..Outlook Actions:

....Outlook, Changed To Positive(m) From Positive

Issuer: EBS d.a.c.

..Upgrades:

- Adjusted Baseline Credit Assessment , Upgraded to baa3 from ba1
- Baseline Credit Assessment , Upgraded to baa3 from ba1
- Long-term Counterparty Risk Assessment , Upgraded to A2(cr) from A3(cr)
- Short-term Counterparty Risk Assessment , Upgraded to P-1(cr) from P-2(cr)
- Long-term Counterparty Risk Ratings, Upgraded to A2 from A3
- Short-term Counterparty Risk Ratings, Upgraded to P-1 from P-2
- Long-term Bank Deposit Ratings, Upgraded to A2 Stable from Baa1 Positive
- Short-term Bank Deposit Ratings, Upgraded to P-1 from P-2

..Outlook Actions:

....Outlook, Changed To Stable From Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in July 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 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.

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.

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

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.

Roland Auquier
Asst Vice President - Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Nicholas Hill
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage

arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.