MOODY'S
INVESTORS SERVICE

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.

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