MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades AIB Mortgage Bank and EBS Mortgage Finance Covered Bond Programmes to Aa1

Global Credit Research - 20 Nov 2015

London, 20 November 2015 -- Moody's Investors Service has today upgraded to Aa1 from Aa2 the ratings of the covered bonds issued under the AIB Mortgage Bank and EBS Mortgage Finance Covered Bond Programmes.

RATINGS RATIONALE

Today's rating action on the covered bonds was prompted by Moody's upgrade of the Counterparty Risk Assessment (CR Assessment) for the underlying institution supporting the covered bonds:

--- Allied Irish Banks, p.l.c. (AIB; deposits Baa3 positive, adjusted baseline credit assessment (BCA) ba3, Counterparty Risk Assessment Baa2(cr)) as the underlying institution supporting the covered bonds issued by AIB Mortgage Bank p.l.c.; and

--- EBS Ltd (EBS; deposits Baa3 positive, adjusted baseline credit assessment (BCA) ba3, Counterparty Risk Assessment Baa2(cr)) as the underlying institution supporting the covered bonds issued by EBS Mortgage Finance.

For additional details, please see "Moody's upgrades Allied Irish Banks' deposits and senior unsecured ratings to Baa3 and Ba1 respectively; outlook is positive", published on 20 November 2015.

(https://www.moodys.com/research/Moodys-upgrades-Allied-Irish-Banks-deposits-and-senior-unsecured-ratings--PR_339234)

The Timely Payment Indicators (TPIs) assigned to both of the transactions are "Probable".

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The CB anchor for the programmes is the CR Assessment plus one notch. The CR Assessment reflects an issuer's ability to avoid defaulting on certain senior bank operating obligations and contractual commitments, including covered bonds. Moody's may use a CB anchor of the CR Assessment plus one notch in the European Union or otherwise where an operational resolution regime is particularly likely to ensure continuity of covered bond payments.

For both the programmes, cover pool losses are an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk and collateral risk. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score.

--- AIB Mortgage Bank covered bonds

The cover pool losses for this programme are 17.3%, with market risk of 13.7%, and collateral risk of 3.6%, and the collateral score is currently 5.4%. The over-collateralisation (OC) in this cover pool is 72.9% on a nominal basis and 53.8% on a Prudent Market Value (PMV) basis. The minimum PMV OC level that is consistent with the Aa1 rating target is 11%, of which the issuer, provides 5% on a "committed" basis. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

--- EBS Mortgage Finance covered bonds

The cover pool losses for this programme are 15.4%, with market risk of 12.0%, and collateral risk of 3.4%, and the collateral score is currently 5.0%. The OC in this cover pool is 87.2% on a nominal basis and 58.9% on a PMV basis. The minimum PMV OC level that is consistent with the Aa1 rating target is 11%, of which the issuer provides 5% on a "committed" basis. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's, please refer to "Moody's Global Covered Bonds Monitoring Overview", published quarterly. All numbers in this section are based on the most recent Performance Overviews and Moody's most recent modelling based on data, as of 30 June 2015. The PMV OC numbers are based on the relevant issuer's investor reports as 30 June 2015.

TPI FRAMEWORK: Moody's assigns a TPI, which measures the likelihood of timely payments to covered bondholders following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

Factors that would lead to an upgrade or downgrade of the rating:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before it downgrades the covered bonds because of TPI framework constraints.

The TPIs for both programmes are "Probable". The TPI Leeways for AIB Mortgage Bank and EBS Mortgage Finance covered bond programmes are zero notches. Thus, any reduction of the CB anchor may lead to a downgrade of the covered bonds in both programmes.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB Anchor and the TPI; (2) a multiple-notch downgrade of the CB Anchor; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in August 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

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 rating action on the support provider and in relation to each particular 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 rating action, and whose ratings may change as a result of this 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.

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