

Rating Action: Moody's takes rating action on three Irish banks and their UK subsidiaries

13 May 2022

Rating action follows upgrade of Ireland's sovereign debt rating and improvement in the banks' operating environment

London, May 13, 2022 -- Moody's Investors Service ("Moody's") has today upgraded the long-term deposit ratings, Counterparty Risk (CR) Assessments, Baseline Credit Assessments (BCA) and Adjusted BCAs of Allied Irish Banks, p.l.c. (AIB) and Bank of Ireland (BOI), as well as the senior unsecured debt ratings of their holding companies AIB Group plc (AIBG) and Bank of Ireland Group plc (BOIG), respectively. Moody's also upgraded the Adjusted BCAs of AIB Group (UK) plc (AIBUK) and Bank of Ireland (UK) plc (BOIUK), the United Kingdom-based subsidiaries of AIB and BOI, respectively.

Furthermore, Moody's placed Permanent tsb p.l.c.'s (PTSB), and its holding company Permanent TSB Group Holdings plc's (PTSBG) long-term deposit, issuer and senior unsecured debt ratings, where applicable, on review for upgrade.

The rating agency maintained the stable outlook on the long-term deposit, and senior unsecured debt ratings, where applicable, of AIB, AIBG, AIBUK, BOI, BOIG and BOIUK. AIBUK's and BOIUK's BCAs are not affected by this rating action.

The rating action follows Moody's change of Ireland's Macro Profile to Strong + from Strong (https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1311694) on the back of significantly reduced private sector indebtedness and the increased economic resilience of Ireland, which also contributed to the upgrade of the Government of Ireland's long-term issuer ratings to A1 from A2 with a positive outlook (see press release entitled "Moody's upgrades Ireland's ratings to A1 from A2, outlook remains positive; https://www.moody.com/research/--PR_465240).

Please click on this link https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL465867 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

CHANGE IN IRELAND MACRO PROFILE TO STRONG + FROM STRONG

Moody's changed Ireland's Macro Profile to Strong+ from Strong, reflecting the increased economic resilience of the country and the rating agency's opinion that the improved operating environment will support further recovery in the banks' profitability, while asset risk will remain contained. Inflationary pressures and growing macroeconomic uncertainties due to the Russia-Ukraine military conflict will reduce private sector confidence, economic activity, and households' purchasing power; at the same time, Moody's believes Irish borrowers are in a stronger position to withstand these headwinds due to sizeable deleveraging over the years.

RATIONALE FOR THE UPGRADE OF AIB'S AND BOI'S LONG-TERM RATINGS AND STABLE OUTLOOK

The one notch upgrade of AIB's and BOI's long-term deposit ratings reflects a one notch upgrade in the banks' BCAs, and unchanged loss-given-failure assumptions under Moody's advanced Loss Given Failure (LGF) analysis.

The upgrade of EBS d.a.c.'s (EBS) BCA and long-term deposit ratings follows that of its parent AIB, and reflects Moody's view of high integration of EBS with AIB.

The upgrade of AIB's and BOI's BCAs primarily reflects the improved operating environment, as reflected by the change in the Irish Macro Profile to Strong+. Both banks have also achieved enhanced solvency metrics over the last few years, in particular through reduced asset risk, strengthened profitability and higher capital levels. These improvements are expected to be partially offset by lower capital levels over the medium term.

Moody's also expects both banks' strong liquidity profile to remain unchanged over the next 12-18 months.

Moody's believes that there is a moderate probability of the government support coming from Ireland for systemically important banks such as AIB and BOI. However, this does not result in additional rating uplift because the bank's long-term deposit ratings are already positioned at the same level as those of the Government of Ireland.

Moody's considers the probability of Irish government support for AIB and BOI's holding company liabilities and bank junior securities to be low, resulting in no additional rating uplift. This is because such support, if needed, would likely be provided only to the operating entities' senior liabilities to enable them to maintain critical functions and mitigate risks to financial stability.

The outlooks on the long-term deposit, issuer and senior unsecured debt ratings of AIB, AIBG, BOI, BOIG, where applicable, remain stable. Moody's expects the operational risk deriving from the recent and planned acquisitions by BOI and AIB to be moderate. Additionally, Moody's expects both banks' capital to remain strong.

RATIONALE FOR THE REVIEW FOR UPGRADE ON PTSB AND PTSBG'S RATINGS

The review for upgrade of PTSB's long-term deposit and senior unsecured debt ratings reflects the bank's strengthened asset quality and capital metrics as well as its enlarged franchise position within the Irish banking system. PTSB's franchise position will benefit further from the exit of KBC Bank Ireland and Ulster Bank Ireland DAC (UBIDAC, A3 ratings under review, ba1) from the Irish market. In addition, PTSB is to acquire around EUR7.6 billion of UBIDAC assets – equal to about half of PTSB's loan book at year-end 2021.

Moody's said that, following the acquisition, the probability of government support for PTSB could increase, reflecting the bank's potentially higher systemic importance in a more concentrated Irish banking system.

During the review period, Moody's will consider PTSB's evolving balance sheet and funding structure, and the broader implications of its strengthening competitive positioning in the local market.

RATIONALE FOR THE UPGRADE OF AIBUK'S AND BOIUK'S LONG-TERM RATINGS AND STABLE OUTLOOK

The upgrade of AIBUK's and BOIUK's long term ratings and assessments reflects the upgrade of their Adjusted BCA on the back of improving capacity of AIB and BOI to provide support to their subsidiaries, as reflected by Moody's upgrade of their respective BCAs by one notch.

The stable outlook on the long-term deposit ratings of AIBUK and BOIUK reflects the stable outlook on the long-term issuer and senior unsecured debt ratings of their parents, where applicable.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

AIB, AIBG, AIBUK, BOI, BOIG AND BOIUK

The long-term ratings of AIB, AIBG, BOI, BOIG could be upgraded over the next 12-18 months, as a result of an upgrade of their respective BCAs. AIB's and BOI's BCAs could be upgraded if the operating environment and the credit fundamentals of the banks further strengthen. Despite AIB and BOI's systemic importance, an upgrade of Ireland's rating by a notch, were this to occur as reflected by the current positive outlook, would not result in any additional rating uplift. The long-term ratings of AIBUK and BOIUK could be upgraded as a result of the upgrade of their parent's BCAs.

Conversely, the banks' ratings could be downgraded following a downgrade of their respective BCAs or a material deterioration in the Irish macro environment, or following a significant reduction in the stock of bail-in-able liabilities.

PTSB AND PTSBG

PTSB's and PTSBG's debt ratings could be upgraded in the event of an upgrade of the bank's standalone BCA and its Adjusted BCA, and a further increase in its bail-in-able debt. In addition, PTSB's deposit and debt ratings could be upgraded due to higher government support, reflecting increasing domestic importance. PTSB's BCA could be upgraded if its capital becomes more resilient to a stress, if its core profitability is strengthens, and if asset risk is further reduced beyond Moody's current expectations.

Moody's conclusion of the review on PTSB's long-term deposit and senior unsecured debt ratings will be

dependent on the timing of the regulatory approval of its UBIDAC transaction.

Although unlikely given the current review for upgrade, PTSB's ratings could be downgraded following a downgrade in the standalone creditworthiness of the bank, or following a significant reduction in the stock of bail-in-able liabilities or a deterioration in Ireland' operating environment.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moody.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL465867 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
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- Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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