

Rating Action: Moody's upgrades senior unsecured ratings of AIB Group and Bank of Ireland Group; affirms deposit ratings of BOI UK while downgrading its BCA following updates to bank methodology

13 Jul 2021

London, 13 July 2021 -- Moody's Investors Service ("Moody's") has today upgraded the senior unsecured debt ratings of AIB Group plc (AIBG) and Bank of Ireland Group plc (BOIG), the holding companies of Allied Irish Banks, p.l.c.(AIB) and Bank of Ireland (BOI) respectively, to Baa1 from Baa2. At the same time the agency affirmed the (P)A2 senior unsecured programme rating of AIB and the Baa3 subordinated debt ratings of AIB and AIBG. Furthermore, Moody's has affirmed the Baa1/P-2 deposit ratings of Bank of Ireland (UK) plc (BOI UK) while at the same time downgrading its Baseline Credit Assessment (BCA) and Adjusted BCA to baa2 from baa1. The outlook on the long-term deposit and senior unsecured debt ratings of AIBG, BOIG and BOI UK -- where applicable - remains stable.

The rating actions were driven by revisions to Moody's Advanced Loss Given Failure (Advanced LGF) framework, which is applied to banks operating in jurisdictions with Operational Resolution Regimes, following the publication of Moody's updated Banks Methodology on 9 July 2021. This methodology is available at this link: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625.

In Moody's updated Banks Methodology, the key changes were the following: (i) the application of revised notching guidance thresholds at lower levels of subordination and volume in the liability structure; (ii) Moody's view that group-wide resolutions coordinated in a unified manner will be more common following the requirement to issue internal loss absorbing capital (ILAC), leading to a likely transfer of losses from subsidiaries to parents at the point of failure and (iii) the consideration of all Additional Tier 1 (AT1) securities in Moody's Advanced LGF framework, eliminating the previous analytical distinction between those high trigger instruments that were deemed to provide equity-like absorption of losses before the point of failure and other AT1 securities.

A full list of affected ratings and assessments can be found at the end of this Press Release.

All other ratings and assessments of these banks were unaffected by today's rating action and the update of the bank's methodology.

RATINGS RATIONALE

- Allied Irish Banks, p.l.c. (AIB), AIB Group plc (AIBG); EBS d.a.c. (EBS):

The upgrade of the senior unsecured debt ratings of AIBG, reflects the reduction in the loss-given failure to a low from moderate level, providing one notch uplift from the baa2 Adjusted BCA of AIB, instead of zero previously.

Furthermore, the affirmation of the senior unsecured programme rating of AIB reflects the reduction in the loss-given failure to an extremely low from very low level, providing three notches of uplift from the baa2 Adjusted BCA of AIB, instead of two notches previously. The additional notch offsets the similar magnitude of uplift from the Government of Ireland (A2 stable) that was previously incorporated in the rating.

In addition, the affirmation of the subordinated debt ratings of AIB and AIBG, reflects the uncertainty in the bank's balance sheet evolution which elevates the sensitivity to the narrow margin they have to the threshold to benefit from any additional ratings uplift, despite the reduction in their loss-given failure.

Moody's also said that the ratings and BCA of EBS continue to be aligned to those of AIB. According to the rating agency, there is a high level of operational integration between EBS and AIB, and funding and liquidity of the two banks are managed as a whole. For these reasons, Moody's classified EBS as a Highly Integrated Entity (HIE) of AIB; Moody's believes that, in case of failure, EBS and AIB would be resolved together; the rating agency therefore maintains the same loss-given-failure and government support assumptions for the depositors and bondholders of both, leading to ratings that are aligned for the two banks.

- Bank of Ireland Group plc (BOIG)

The upgrade of BOIG's senior unsecured debt ratings reflects the reduction in the loss-given failure to a low from moderate level, leading the ratings to be positioned one notch above, instead of previously in line with the baa2 Adjusted BCA of BOI.

- Bank of Ireland (UK) plc (BOI UK)

Moody's downgraded the BCA and Adjusted BCA of BOI UK to baa2 from baa1, the Counterparty Risk (CR) Ratings to A3/P-2 from A2/P-1, and the long-term CR Assessment to A2(cr) from A1(cr). As part of this rating action, Moody's affirmed BOI UK's deposit ratings of Baa1/P-2 and its short-term CR Assessment of P-1(cr).

The downgrade of the BCA reflects Moody's revised view of the capital instruments likely to provide the bank with equity-like loss absorption before the point of non-viability. The removal of equity credit for high trigger AT1 instruments from the bank's going concern capital means that the bank has a reduced capacity to absorb unexpected losses before the point of failure, resulting in a weaker solvency position.

BOI UK's deposit ratings were affirmed, despite the downgrade of its Adjusted BCA. This reflects the inclusion of the high trigger AT1 in Moody's Advanced LGF analysis, which results in a reduction in the loss-given failure to a moderate from high level for the deposit ratings, leading to the ratings being positioned one notch above, instead of previously in line with the Adjusted BCA, offsetting the downgrade of the Adjusted BCA of the bank by a similar magnitude. However, the CR Ratings and long-term CR Assessment were downgraded due to the downgrade of the Adjusted BCA as the inclusion of AT1 in Moody's Advanced LGF analysis resulted in unchanged two and three (maximum allowed) notches respectively of uplift from the bank's Adjusted BCA.

OUTLOOK

The outlooks on the senior unsecured debt and long-term deposit ratings of AIBG, BOIG and BOI(UK) -- where applicable -- remain stable. The rating outlooks on the other issuers remain unchanged at stable. The stable outlooks reflect Moody's view that the banks' combined solvency and liquidity metrics will on a forward looking basis remain in line with their current standalone assessments as the banks' asset quality and profitability stabilizes following the pandemic-induced deterioration in 2020.

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

The affected ratings could be upgraded as a result of an upgrade in the banks' standalone creditworthiness or a significant increase in the bank's bail-in-able debt.

Conversely, the affected ratings could be downgraded following a downgrade in the standalone creditworthiness of the banks or following a significant reduction in the stock of bail-in-able liabilities.

LIST OF AFFECTED RATINGS

Issuer: AIB Group plc

..Upgrades:

....Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2, outlook remains Stable

....Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

..Affirmations:

....Subordinate Regular Bond/Debenture, affirmed Baa3

....Subordinate Medium-Term Note Program, affirmed (P)Baa3

..Outlook Action:

....Outlook remains Stable

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

Affirmations:

...Senior Unsecured Medium-Term Note Program, affirmed (P)A2

...Subordinate Regular Bond/Debenture, affirmed Baa3

...Subordinate Medium-Term Note Program, affirmed (P)Baa3

Issuer: Bank of Ireland Group plc

..Upgrades:

...Long-term Issuer Ratings, upgraded to Baa1 from Baa2, outlook remains Stable

...Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2, outlook remains Stable

...Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

..Outlook Action:

...Outlook remains Stable

Issuer: Bank of Ireland (UK) plc

..Downgrades:

...Long-term Counterparty Risk Ratings, downgraded to A3 from A2

...Short-term Counterparty Risk Ratings, downgraded to P-2 from P-1

...Long-term Counterparty Risk Assessment, downgraded to A2(cr) from A1(cr)

...Baseline Credit Assessment, downgraded to baa2 from baa1

...Adjusted Baseline Credit Assessment, downgraded to baa2 from baa1

..Affirmations:

...Long-Term Bank Deposits, affirmed Baa1, outlook remain Stable

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

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..Outlook Action:

...Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies 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 in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Arif Bekiroglu
Vice President - Senior Analyst
Financial Institutions Group
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

Laurie Mayers
Associate Managing Director
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

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