MOODY'S
INVESTORS SERVICE

Rating Action: Moody's takes rating actions on Irish mortgage covered bonds

Global Credit Research - 26 Sep 2016

London, 26 September 2016 -- Moody's Investors Service has today placed on review for upgrade the Aa1 ratings assigned to the mortgage covered bonds issued by AIB Mortgage Bank (AIBMB) and EBS Mortgage Finance (EBSMF). At the same time, Moody's has affirmed the Aa1 rating assigned to the mortgage covered bonds issued by Bank of Ireland Mortgage Bank (BOIMB).

RATINGS RATIONALE

Today's rating actions are prompted by the upgrades of the counterparty risk (CR) assessments of the issuers' parent entities. For further details, please see "Moody's takes rating actions on Irish banks", published on 19 September 2016 (http://www.moodys.com/viewresearchdoc.aspx?docid=PR_355209).

At present, each of the three programmes has a relatively high level of over-collateralisation (OC). During the review of the ratings assigned to the covered bonds issued by AIBMB and EBSMF, Moody's will consider whether OC will be maintained at a level consistent with a Aaa rating. Moody's has affirmed the Aa1 rating assigned to BOIMB's covered bonds because looking forward, Moody's does not expect that OC will be maintained at a level consistent with a Aaa rating.

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 each of these programmes is the CR assessment plus 1 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 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.

The 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 is derived from the collateral score, which measures losses resulting directly from the cover pool assets' credit quality.

- AIB Mortgage Bank

The cover pool losses of this programme are 18.7%, with market risk of 15.2% and collateral risk of 3.5%. The collateral score for this programme is currently 5.2%. The over-collateralisation in this cover pool is 58.6% on a Prudent Market Value (PMV) basis, of which AIBMB provides 5.0% on a "committed" basis. The minimum PMV OC level that is consistent with the Aa1 rating is 10.0%, of which the issuer should provide 0.0% in a "committed" form. The minimum PMV OC level that is consistent with a Aaa rating is 17.0%, of which the issuer should provide 0.0% in a "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

- Bank of Ireland Mortgage Bank

The cover pool losses of this programme are 22.3%, with market risk of 14.4% and collateral risk of 7.9%. The collateral score for this programme is currently 11.8%. The over-collateralisation in this cover pool is 61.9% on a Prudent Market Value (PMV) basis, of which BOIMB provides 5.0% on a "committed" basis. The minimum PMV OC level that is consistent with the Aa1 rating is 9.0%, of which the issuer should provide 0.0% in a "committed" form. The minimum PMV OC level that is consistent with a Aaa rating is 20.5%, of which the issuer should provide 0.0% in a "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

- EBS Mortgage Finance

The cover pool losses of this programme are 16.2%, with market risk of 12.9% and collateral risk of 3.4%. The collateral score for this programme is currently 5.0%. The over-collateralisation in this cover pool is 47.4% on a Prudent Market Value (PMV) basis, of which EBSMF provides 5.0% on a "committed" basis. The minimum PMV OC level that is consistent with the Aa1 rating is 6.5%, of which the issuer should provide 0.0% in a "committed" form. The minimum PMV OC level that is consistent with a Aaa rating is 14.5%, of which the issuer should provide 0.0% in a "committed" form. 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 Moody's most recent modelling (based on data provided by the issuers as of 30 June 2016 for AIBMB and EBSMF and as of 31 March 2016 for BOIMB).

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (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.

For each of these programmes, Moody's has assigned a TPI of Probable.

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

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 the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of "Probable", the TPI Leeway for the programmes of AIBMB and EBSMF is 1 notch. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 2 notches, all other variables being equal. Based on the current TPI of "Probable", the TPI Leeway for BOIMB's programme is 2 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap, if it lowers the CB anchor by 3 notches, all other variables being equal.

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 Ratings 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 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 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.

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