MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades several Irish mortgage covered bond ratings; actions conclude review

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New counterparty risk assessment affects the covered bond anchors

London, 21 May 2015 -- Moody's Investors Service has today upgraded the ratings of the mortgage covered bonds across three Irish covered bond programmes.

--- to Aa2 from A3, on review for upgrade, the ratings on the covered bonds issued under the Mortgage Bank Covered Bond Programme of Allied Irish Banks, p.l.c. (AIB; deposits Ba1 stable, adjusted baseline credit assessment (BCA) b1, counterparty risk assessment Baa3(cr))

--- to Aa2 from A3, on review for upgrade, the ratings on the covered bonds issued under the Mortgage Finance Covered Bond Programme of EBS (deposits Ba1 stable, adjusted baseline credit assessment (BCA) b1, counterparty risk assessment Baa3(cr))

--- to Aa1 from A1, on review for upgrade, the ratings of the covered bonds issued under the Mortgage Bank Covered Bond Programme of Bank of Ireland (deposits Baa2 stable, adjusted baseline credit assessment (BCA) ba2, counterparty risk assessment Baa1(cr))

These rating actions conclude Moody's review of the three Irish covered bonds programmes mentioned above.

RATINGS RATIONALE

Today's rating action on the covered bonds follows Moody's conclusion of the ongoing review of the deposit ratings and the assignment of new CR Assessments of the underlying institution supporting the covered bonds: Allied Irish Banks, p.l.c., EBS Ltd and Bank of Ireland.

Please refer to "Moody's takes rating action on Irish Banks" published on 20 May 2015:
https://www.moodys.com/research/Moodys-takes-rating-action-on-Irish-Banks--PR_324675

The TPIs assigned to all three transactions are "Probable". The ratings of AIB Mortgage Bank's and EBS Mortgage Finance's covered bonds are constrained by the TPI framework, but it does not constrain the rating of Bank of Ireland Mortgage Bank's covered bonds. Instead, Ireland's local-currency bond ceiling constrains the ratings of Bank of Ireland Mortgage Bank's covered bonds at Aa1.

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 all of the three 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 18.4%, with market risk of 14.7%, and collateral risk of 3.7%, and the collateral score is currently 5.5%. The over-collateralisation (OC) in this cover pool is 96.6% on a nominal basis and 72.3% on a Prudent Market Value (PMV) basis. The minimum PMV OC level that is consistent with the Aa2 rating target is 8.0% , of which the issuer, provides 5.0% 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 15.1%, with market risk of 11.4%, and collateral risk of 3.7%, and the collateral score is currently 5.5%. The OC in this cover pool is 155.7% on a nominal basis and 112.6% on a PMV basis. The minimum PMV OC level that is consistent with the Aa2 rating target is 7.5% , of which the issuer, provides 5.0% on a "committed" basis. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

--- Bank of Ireland Mortgage Bank covered bonds

The cover pool losses for this programme are 20.6%, with market risk of 11.7%, and collateral risk of 8.9%, and the collateral score is currently 13.3%. The OC in this cover pool is 53.7% on a nominal basis and 32% on a PMV basis. The minimum PMV OC level that is consistent with the Aa1 rating target is 13.5%, of which the issuer, provides 5.0% 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 31 December 2014. The PMV OC numbers are based on the relevant issuer's investor reports as of 31 December 2014.

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.

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

The TPIs for all three 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. The TPI Leeway for the Bank of Ireland Mortgage Bank Covered Bond Programme is one notch. This implies that if Moody's lowers the CB anchor by two notches, the rating agency might also downgrade the covered bonds because of a TPI cap, 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 March 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.

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