

Rating Action: Moody's upgrades the long-term bank deposit and debt ratings of Bank Of Ireland and Allied Irish Banks

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The banks' standalone BCAs also upgraded by one notch

London, 06 June 2017 -- Moody's Investors Service has today upgraded the long-term debt and deposit ratings of two Irish banks - Bank of Ireland (BOI) and Allied Irish Banks, p.l.c. (AIB). As part of the same action, Moody's upgraded the baseline credit assessments (BCAs) of AIB and BOI.

The rating upgrades reflect a range of positive factors, including further reduction in non-performing loans, improved capital ratios and achievement of stable core profitability" said Irakli Pipia, Vice President-Senior Credit Officer. "However, AIB's higher stock of problem loans, continues to justify a difference in the base line credit assessment of AIB relative to BOI".

Moody's maintained a positive outlook on BOI's long-term senior unsecured debt and deposit ratings. The agency revised the outlook on AIB's long-term senior unsecured debt and deposit ratings to stable from positive.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

Bank Of Ireland

BCA

The upgrade of BOI's long-term debt and deposit ratings was driven by the revision of the bank's BCA to baa3 from ba1.

The upgrade of BOI's BCA reflects the following trends: (1) further improvements in asset quality, as shown by the bank's problem loan ratio, which fell to 7.9% as at end-2016 from 11% a year earlier; (2) improving trend in capital ratios despite non-operational factors, (e.g. negative impact of the defined benefit plan deficit volatility), with Tangible Common Equity (TCE) as percentage of Risk Weighted Assets (RWAs) at 13.4% as at end-2016, up from 13.2% a year earlier; (3) stable core profitability and net interest margin, with reduced reliance on one-off items; and (4) a good funding profile, reflected in an improved loan-to-deposit ratio of 108% as at end-2016 down, from 112% a year earlier.

At the same time, the current BCA takes into account the remaining sizeable stock of non-performing loans in addition to a significant stock of forbore loans with an expectation of a slower rate of amortization going forward. The bank's problem loans as a percentage of its capital and loan loss reserves at 60% as at end-2016 still compares unfavorably to similarly rated peers. Overall, these factors expose the bank to asset quality challenges if the current benign operating environment in Ireland were to weaken unexpectedly.

LONG-TERM RATINGS

The long-term senior unsecured debt and deposit ratings were upgraded to Baa1 and A3, respectively from Baa2 and Baa1, reflecting the upgrade of the bank's BCA as well as the uplift resulting from Moody's Advanced Loss Given Failure (LGF) analysis. The senior unsecured debt rating benefits from one notch of uplift and bank deposit rating benefits from two notches of uplift from Moody's Advanced LGF analysis. In addition, the long-term ratings incorporate one notch of government support, which remains unchanged. The bank's short-term ratings were affirmed at Prime-2.

The long-term senior unsecured debt and deposit ratings were upgraded to Baa1 and A3, respectively from Baa2 and Baa1, as a result of the upgrade of the bank's BCA, with uplift resulting from Moody's Advanced Loss Given Failure (LGF) analysis remaining unchanged. The senior unsecured debt rating and bank deposit rating benefit from one notch and two notches of uplift respectively, given their different positioning in the

bank's liability structure and, consequently, different amount of subordination supporting loss-rates. The bank's senior unsecured debt is likely to face loss-given-failure supported by the loss absorption provided by its own volume and the amount of junior debt subordinated to it. The bank's deposits are likely to face lower loss-given-failure, as expressed in the two notches of uplift, due to the loss absorption provided by subordinated debt and, potentially, by a sizeable amount of senior unsecured debt should deposits be treated preferentially in a resolution. In addition, the long-term ratings incorporate one notch of government support, which also remains unchanged.

The positive outlooks on BOI's long-term deposits and senior unsecured debt ratings reflect Moody's expectation of debt to be issued by a new holding company over the outlook period which if carried out as planned, will increase the level of protection for both bank's deposits and its own senior debt.

CR Assessment (CRA)

The bank's CRA was affirmed at A3(cr)/Prime-2(cr). The CRA incorporates three notches of uplift from the bank's BCA given the protection provided by subordinated debt, senior debt and wholesale deposits, bringing it the same level Moody's rating on the Government of Ireland. Given this, a moderate probability of government support for the bank's operating obligations does not give rise to any further uplift and the long-term and short-term CRAs remain A3(cr) and Prime-2(cr) respectively.

WHAT COULD MOVE THE RATINGS UP/DOWN

BOI's long-term debt and deposit ratings could be upgraded as a result of (1) an upgrade in its standalone BCA; or (2) a significant increase in the bank's bail-in-able debt. The bank's BCA could be upgraded following (1) further significant reductions in non-performing loans and/or improving provisioning coverage; (2) improving capitalisation and risk absorption capacity, while maintaining (3) stable profitability, funding and liquidity metrics.

BOI's ratings could be downgraded as a result of (1) a downgrade of its standalone BCA; or (2) the redemption of maturing subordinated instruments without their replacement. BOI's BCA could be downgraded due to (1) a significant deterioration in the bank's asset quality; (2) a significant and sustained drop in the bank's capitalisation; (3) a deterioration in its core profitability metrics; or (4) a significant increase in the use of confidence-sensitive wholesale funding or a material reduction in liquid assets.

RATINGS RATIONALE -- AIB

BCA

The upgrade of AIB's long-term debt and deposit ratings was driven by the revision of the bank's BCA to ba1 from ba2.

The upgrade of AIB's BCA to ba1 reflects the following trends: (1) on-going improvement in asset quality reflected in the reduction of the percentage of problem loans to total loans at 14% as at end-2016 from 18.6% a year earlier; (2) improvement in capital levels, with a relatively high tangible common equity (TCE) over risk-weighted assets (RWA) ratio of 15.6% as at end-2016, up from 14.5% a year earlier; (3) stabilising its core profitability with improved earnings quality and increasing net interest margin; and (4) a funding profile exhibiting lower reliance on market funds than in previous periods and a comfortable liquidity position.

At the same time, the BCA takes into account AIB's higher non-performing asset ratio and lower provisioning coverage when compared with similarly-rated peers. The BCA also incorporates the bank's higher problem loans as a percentage of its capital and loan loss reserves, at 69% as at end-2016. In Moody's view these features constrain further upside potential of the bank's BCA over the outlook horizon.

LONG-TERM RATINGS

The upgrade of AIB's long-term senior unsecured debt and deposit ratings to Baa2 and Baa1 from Baa3 and Baa2, respectively, reflect the upgrade of the bank's BCA and include uplift resulting from Moody's LGF analysis. The senior unsecured debt and deposit ratings continue to benefit from one notch and two notches of uplift respectively under the LGF analysis, given their different weights in the bank's liability structure. In addition, the long-term ratings incorporate one notch of government support, which also remains unchanged. The bank's short-term ratings were affirmed at Prime-2.

The stable outlooks on AIB's long-term deposit and senior unsecured debt ratings reflect the limited upside for

the bank's standalone BCA during the outlook period given its relatively high stock of non-performing loans and modest provisioning coverage compared to its peers. While Moody's expects the group to issue debt from a planned holding company, which would provide additional protection for the bank's senior unsecured debt and deposits, the rating agency does not believe that this will be sufficient to lead to higher ratings over the outlook horizon.

CR Assessment (CRA)

The bank's long-term CRA was upgraded to A3(cr) from Baa1(cr), one notch above the bank's PRA and at the same level as Ireland's sovereign rating of A3. Short-term CRA was affirmed at Prime-2(cr). The CRA includes three notches of uplift under the LGF analysis, given significant volume of subordinated debt, senior debt and wholesale deposits, and one notch of government support.

WHAT COULD MOVE THE RATINGS UP/DOWN

AIB's long-term debt and deposit ratings could be upgraded as a result of (1) an upgrade in its standalone BCA; or (2) a significant increase in the bank's bail-in-able debt. The bank's BCA could be upgraded because of (1) a further material reduction in non-performing loans; (2) an improvement in stressed-capital resilience above Moody's expectations; or (3) a sustained improvement in core profitability.

AIB's ratings could be downgraded as a result of (1) a downgrade of its standalone BCA; or (2) redemption of maturing subordinated instruments without their replacement. AIB's BCA could be downgraded because of (1) a significant deterioration in the bank's asset risk metrics; (2) a weakening of its solvency profile; or (3) a worsening of its core profitability ratios.

LIST OF AFFECTED RATINGS

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

Upgrades:

...LT Bank Deposits (Local & Foreign Currency), Upgraded to Baa1 from Baa2, Outlook Changed To Stable From Positive

...Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3, Outlook Changed To Stable From Positive

...Subordinate, Upgraded to Ba2 from Ba3

...Pref. Stock Non-cumulative, Upgraded to B1(hyb) from B2(hyb)

...Senior Unsecured MTN Program, Upgraded to (P)Baa2 from (P)Baa3

...Subordinate MTN Program, Upgraded to (P)Ba2 from (P)Ba3

...Junior Subordinate MTN Program, Upgraded to (P)Ba3 from (P)B1

...Other Short Term, Upgraded to (P)P-2 from (P)P-3

...Adjusted Baseline Credit Assessment, Upgraded to ba1 from ba2

...Baseline Credit Assessment, Upgraded to ba1 from ba2

...LT Counterparty Risk Assessment, Upgraded to A3(cr) from Baa1(cr)

Affirmations:

...ST Bank Deposits (Local & Foreign Currency), Affirmed P-2

...ST Counterparty Risk Assessment, Affirmed P-2(cr)

Issuer: Bank of Ireland

Upgrades:

....LT Issuer Rating (Local Currency), Upgraded to Baa1 from Baa2, Outlook Remains Positive
....LT Bank Deposits (Local & Foreign Currency), Upgraded to A3 from Baa1, Outlook Remains Positive
....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa1 from Baa2, Outlook Remains Positive
....Subordinate, Upgraded to Ba1 from Ba2
....Junior Subordinate, Upgraded to Ba2(hyb) from Ba3(hyb)
....Pref. Stock, Upgraded to Ba3(hyb) from B1(hyb)
....Pref. Stock Non-cumulative, Upgraded to Ba3(hyb) from B1(hyb)
....Senior Unsecured MTN Program, Upgraded to (P)Baa1 from (P)Baa2
....Subordinate MTN Program, Upgraded to (P)Ba1 from (P)Ba2
....Adjusted Baseline Credit Assessment, Upgraded to baa3 from ba1
....Baseline Credit Assessment, Upgraded to baa3 from ba1

Affirmations:

....ST Bank Deposits (Local & Foreign Currency), Affirmed P-2
....Commercial Paper, Affirmed P-2
....ST Deposit Note/CD Program, Affirmed P-2
....Other Short Term, Affirmed (P)P-2
....LT Counterparty Risk Assessment, Affirmed A3(cr)
....ST Counterparty Risk Assessment, Affirmed P-2(cr)

Issuer: Bank of Ireland UK Holdings Plc

Upgrade:

....BACKED Pref. Stock, Upgraded to Ba2(hyb) from Ba3(hyb)

Issuer: Bristol & West plc

Upgrade:

....Subordinate, Upgraded to Ba1 from Ba2

Issuer: EBS d.a.c.

Upgrades:

....LT Bank Deposits (Local & Foreign Currency), Upgraded to Baa1 from Baa2, Outlook Changed To Stable From Positive
....Adjusted Baseline Credit Assessment, Upgraded to ba1 from ba2
....Baseline Credit Assessment, Upgraded to ba1 from ba2
....LT Counterparty Risk Assessment, Upgraded to A3(cr) from Baa1(cr)

Issuer: EBS d.a.c.

Affirmations:

....ST Bank Deposits (Local & Foreign Currency), Affirmed P-2

...ST Counterparty Risk Assessment, Affirmed P-2(cr)

Outlook Actions:

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

...Outlook, Changed To Stable From Positive

Issuer: Bank of Ireland

...Outlook, Remains Positive

Issuer: EBS d.a.c.

...Outlook, Changed To Stable From Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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