

Rating Action: Moody's assigns Counterparty Risk Ratings to six Irish banking groups

27 Jun 2018

Ratings are assigned following 6 June 2018 update to Moody's Banks rating methodology

London, 27 June 2018 -- Moody's Investors Service today assigned Counterparty Risk Ratings (CRRs) to entities within the following six banking groups: Allied Irish Banks, p.l.c. (AIB), Bank of Ireland (BOI), Hewlett-Packard International Bank Plc (HPIB), KBC Bank Ireland PLC (KBCI), Permanent tsb p.l.c. (PTSB) and Ulster Bank Ireland DAC (UBID).

Moody's Counterparty Risk Ratings (CRR) are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

RATINGS RATIONALE

In assigning CRRs to the banks operating in Ireland subject to this rating action, Moody's starts with the banks' adjusted Baseline Credit Assessments (BCAs) and uses the agency's existing advanced Loss Given Failure (LGF) approach that takes into account the level of subordination to CRR liabilities in the bank's balance sheet, and assumes a nominal volume of such liabilities.

Furthermore, in some cases the CRR benefits from additional uplift from government support.

-- UPLIFT FROM OUR LOSS GIVEN FAILURE ANALYSIS

- For four banking groups, Moody's advanced LGF approach provides three notches of uplift to the CRRs above their respective adjusted BCAs: AIB, BOI, PTSB, and UBID.
- For KBCI, Moody's advanced LGF approach provides two notches of uplift to the CRR above its adjusted BCA.
- For HPIB, Moody's advanced LGF approach provides one notch of uplift to the CRR above its adjusted BCA.

Although the banking groups whose CRRs receive three notches of uplift from their adjusted BCAs are likely to have more than a nominal volume of CRR liabilities at failure, this has no impact on the ratings because the significant level of subordination below the CRR liabilities at each of the banking groups already provides the maximum amount of uplift allowed under Moody's rating methodology.

In all cases the CRRs assigned are equal to or higher than the rated bank's senior debt and deposit ratings where such ratings are assigned. This reflects Moody's view that secured counterparties to banks typically benefit from greater protections under insolvency laws and bank resolution regimes than do senior unsecured creditors, and that this benefit is likely to extend to the unsecured portion of such secured transactions in most bank resolution regimes. Moody's believes that in many cases regulators will use their discretion to allow a bank in resolution to continue to honour its CRR liabilities or to transfer those liabilities to another party who will honour them, in part because of the greater complexity of bailing in obligations that fluctuate with market prices, and also because the regulator will typically seek to preserve much of the bank's operations as a going concern in order to maximize the value of the bank in resolution, stabilize the bank quickly, and avoid contagion within the banking system. CRR liabilities at these banks therefore benefit from the subordination provided by more junior liabilities, with the extent of the uplift of the CRR from the adjusted BCA depending on the amount of subordination.

-- UPLIFT FROM GOVERNMENT SUPPORT

For three banking groups, Moody's considers the likelihood of government support for CRR liabilities to be moderate, resulting in an additional one notch of uplift from their respective adjusted BCAs, reflecting their systemic importance to the Irish financial system: AIB, BOI and PTSB.

For the remaining three banking groups, due to their limited systemic importance, Moody's believes there is a low probability of government support for CRR liabilities, which does not result in any further uplift: HPIB, KBCI and UBID.

OUTLOOK

CRRs do not carry outlooks.

FACTORS THAT COULD LEAD TO AN UPGRADE/DOWNGRADE

The CRRs assigned to the banks included in this action could be upgraded following an upgrade of their respective adjusted BCAs; for KBCI and HPIB, whose CRR benefits from less than three notches of uplift from Moody's advanced LGF approach, a higher volume of bail-in-able debt and junior deposits could also lead to an upgrade of the CRR.

Conversely, the CRRs for the banks included in this action could be downgraded following a downgrade of their respective adjusted BCAs, or by a reduction in the stock of bail-in-able debt and junior deposits.

The following ratings were assigned:

Allied Irish Banks p.l.c., EBS d.a.c. --

Local currency and foreign currency Long-term Counterparty Risk Ratings of A3

Local currency and foreign currency Short-term Counterparty Risk Rating of Prime-2

Bank of Ireland --

Local currency and foreign currency Long-term Counterparty Risk Ratings of A2

Local currency and foreign currency Short-term Counterparty Risk Ratings of Prime-1

Hewlett-Packard International Bank Plc --

Local currency and foreign currency Long-term Counterparty Risk Ratings of A3

Local currency and foreign currency Short-term Counterparty Risk Ratings of Prime-2

KBC Bank Ireland PLC --

Local currency and foreign currency Long-term Counterparty Risk Ratings of **Baa2**

Local currency and foreign currency Short-term Counterparty Risk Ratings of **Prime-2**

Permanent tsb p.l.c. --

Local currency and foreign currency Long-term Counterparty Risk Ratings of Ba1

Local currency and foreign currency Short-term Counterparty Risk Ratings of Not Prime

Ulster Bank Ireland DAC --

Local currency and foreign currency Long-term Counterparty Risk Ratings of A2

Local currency and foreign currency Short-term Counterparty Risk Ratings of Prime-1

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in June 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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