



## Rating Action: **Moody's affirms Irish Bank ratings and changes outlook to positive**

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05 Dec 2023

London, December 05, 2023 – Moody's Investors Service ("Moody's") has today affirmed all ratings and assessments of Allied Irish Banks, p.l.c. (AIB), Bank of Ireland (BOI), EBS d.a.c. and Permanent tsb p.l.c. (PTSB) as well as the ratings of their holding companies AIB Group plc (AIBG), Bank of Ireland Group plc (BOIG) and Permanent TSB Group Holdings plc's (PTSBG), respectively.

The rating agency changed the outlook to positive from stable on the long-term deposit, and senior unsecured debt ratings, where applicable, of AIB, AIBG, BOI, BOIG and PTSB. The outlook on PTSBG's long-term issuer and senior unsecured debt ratings remains positive.

A full list of affected ratings is at the end of the press release.

### RATINGS RATIONALE

#### AFFIRMATION OF BASELINE CREDIT ASSESSMENTS OF AIB, BOI AND PTSB

Moody's stated that in addition to further reductions in legacy asset risk, all three banks are benefitting from Ireland's (Aa3, stable) strong operating environment coupled with the exit from the Irish market of Ulster Bank Ireland DAC (UBIDAC, A1 stable) and KBC Bank Ireland PLC (KBC) as well as strong improvements in net interest margins and net income due to both higher rates and portfolio acquisitions from the exiting banks. This market consolidation has provided the three remaining largest banks – AIB, BOI and PTSB - with a unique opportunity to grow both assets, organically and through portfolio acquisitions, and deposits as customers of exiting banks seek a new home for their savings. All three have seen higher new account openings and deposits, strengthening their balance sheets and helping to underpin future earnings generation.

The affirmation of AIB's Baseline Credit Assessment (BCA) reflects the bank's reduced and contained asset risk with its overall solvency further supported by its strong capitalisation and significantly improved profitability. As of June 2023, the bank's problem loan to gross loans was 3.2%, down from 3.4% as of December 2022 and well below historical levels and with high levels of provisioning which will help protect against potential asset risk pressures in the higher rate environment. The bank's capitalisation is strong, at 17.6% of tangible common equity to risk weighted assets (TCE/RWA) as of June 2023, although the rating agency expects it to decline over the medium term in line with the bank's target ratio of above 13.5%. In terms of profitability, AIB's leading deposit franchise and strong market shares across its lending activities, including mortgage lending, corporate and small to medium sized lending and personal loans, and high levels of liquid assets has meant that it has benefitted significantly from the rising rate environment as its assets have repriced far faster than its liabilities. In the first half of 2023, AIB's net income on an annualized basis rose by 123% versus 2022 and the bank expects to achieve net interest income of €3.75 billion in 2023, 74% higher than in 2022. AIB's acquisition of €5.7 billion of performing tracker mortgages from UBIDAC has also been a key driver of its profitability in the higher rate environment. AIB's profitability has been further supported by a relevant large share of fee income, which was 14% of total revenues in 1H23. AIB's funding profile remains very strong with limited reliance on market funding which was 6.1% of tangible banking assets as of June 2023. The bank has also seen strong growth in its deposit base further supporting its significant holdings of liquid assets, which stood at over 40% of its tangible banking assets as of June 2023.

The affirmation of EBS d.a.c's (EBS), AIB's specialized mortgage lending division, BCA and long-term deposit ratings follows that of its parent AIB, and reflects Moody's view of high integration of EBS with AIB.

For BOI, the affirmation of its baa1 BCA reflects its improved asset risk, growing deposit franchise which supports its liquid balance sheet as well as its greater stress capital resilience and improved profitability. BOI's asset risk has improved significantly in recent years as shown by problem loan ratio of 3.5% as of June 2023, versus an average of 4.9% between 2018-2022, and is a key support of its creditworthiness, notwithstanding pressures that can manifest from the higher rate environment. The bank also maintains capitalisation at high levels, which buffers against any potential asset risk pressure, and is further supported by its much stronger profitability. In the first half of 2023, the bank's net income on an annualized basis rose by 90% versus 2022, supported by increased volumes and the higher interest rate environment. The bank's acquisition of €7.6 billion of performing mortgages from KBC has also supported its profitability particularly considering the higher rate environment. BOI's retail funding franchise, with deposits representing over 85% of its total funding, supports the liquidity of its balance sheet, a key credit strength given that liquid assets representing 34% of tangible banking assets.

Moody's affirmed PTSB's BCA of baa3, citing the bank's secured mortgage loan book which supports its asset risk and improving profitability. Following its acquisition of circa €6.8 billion of assets from UBIDAC, the bank has seen significant growth to become a more material lender in the Irish mortgage market, also adding on SME lending and asset finance business. Given its deposit based funding profile, the acquisition combined with the rising rate environment has led to a structural improvement in the bank's profitability, with net income significantly higher than its recent loss making history. PTSB's asset risk has continued to benefit from further legacy asset sales as well as the secured nature of its performing loan book with problem loans now accounting for 3.4% of total loans as of June 2023, well below historical levels. The bank's BCA is also supported by its adequate capitalisation levels and liquid assets holdings that offset market funding risks. PTSB's BCA also reflects its still less diversified monoline business model, which increases its earnings sensitivity to any stress in Ireland's residential mortgage market.

#### AFFIRMATION OF DEPOSIT RATINGS, DEBT RATINGS of AIB, BOI AND PTSB

The affirmation of AIB's, BOI's and PTSB's long-term deposit ratings, as well as their senior unsecured debt ratings where applicable, reflects unchanged loss-given-failure assumptions under Moody's advanced Loss Given Failure (LGF) analysis.

AIB and BOI's deposits and senior unsecured debt, where applicable, continue to face extremely low loss-given-failure according to the rating agency because of the loss absorption provided by both their own volume and the amount of debt subordinated to them. AIB's subordinated instruments and BOI's subordinated program are likely to face high loss-given-failure according to our LGF analysis, given the relatively small volume of debt and limited protection from more subordinated instruments and residual equity.

PTSB's deposits and senior unsecured debt are likely to face low loss given failure because of the loss absorption provided by subordinated debt. PTSB's subordinated debt programme is affirmed at (P)Ba1 one below the bank's BCA, reflecting the high expected loss severity in the event of the bank's failure as well as the evolving nature of its balance sheet.

#### AFFIRMATION OF HOLDING COMPANY RATINGS OF AIBG, BOIG AND PTSBG

The affirmation of AIBG's, BOIG's and PTSBG's ratings reflects unchanged loss-given-failure assumptions under Moody's advanced LGF analysis. AIBG's and BOIG's senior unsecured debt is likely to experience low loss given failure because of the loss absorption provided by its own volume and the amount of debt subordinated to it. AIBG's and BOIG's subordinated instruments are likely to face high loss-given-failure, given the relatively small volume of debt and limited protection from more subordinated instruments. The senior unsecured debt issued by PTSBG is likely to face low loss given failure because of the amount of debt subordinated to it including AT1 debt. PTSBG's subordinate

debt is rated one notch below the PTSB's BCA, reflecting the high expected loss severity in the event of the bank's failure as well as the evolving nature of its balance sheet.

## GOVERNMENT SUPPORT CONSIDERATIONS

Moody's believes that there is a moderate probability of the government support coming from Ireland for systemically important banks such as AIB, BOI and PTSB. However, in the case of AIB and BOI, this does not result in additional rating uplift because the banks' long-term deposit ratings are only one notch below the Government of Ireland (Aa3, stable). For PTSB, Moody's assumption of moderate government support does lead to a one notch uplift in its deposit and senior unsecured ratings given its relatively lower BCA of baa3.

Moody's considers the probability of Irish government support for AIB's, BOI's and PTSB's holding company liabilities and bank junior securities to be low, resulting in no additional rating uplift. This is because such support, if needed, would likely be provided only to the operating entities' senior liabilities to enable them to maintain critical functions and mitigate risks to financial stability.

## RATIONALE FOR OUTLOOK CHANGE TO POSITIVE

The outlooks on the long-term deposit, issuer and senior unsecured debt ratings of AIB, BOI and PTSB, where applicable, are positive. This reflects Moody's view that the financial performance of all three banks will continue to be strong, with asset risk maintained within a limited range relative to existing now materially reduced levels and strong capitalisation levels being maintained supported by improved profitability relative to historical averages. Combined with the banks' strong deposit franchises and high levels of liquidity, Moody's considers that all three banks' financial performance could be commensurate with a higher rating over the next 12-18 months.

The outlook on the AIB's and BOI's holding company – AIBG and BOIG - long-term issuer, and senior unsecured debt ratings, where applicable, is also positive and reflects the positive outlooks on each holding company's operating bank entity's ratings. The outlook on PTSBG's long-term issuer and senior unsecured debt ratings continues to be positive and reflects an expectation of further improvements in the bank's creditworthiness, that could lead to additional positive rating pressure.

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

### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS – AIB AND AIBG

The long-term ratings of AIB and AIBG could be upgraded, as a result of an upgrade of AIB's BCA. The bank's BCA could be upgraded if its credit fundamentals continue to improve with capital levels staying strong while demonstrating improved stress capital resilience, improvements in profitability being maintained and asset risk showing no material signs of deterioration. An upgrade of the Government of Ireland's rating could also potentially result in an upgrade of AIB's long-term deposit and senior unsecured ratings by one notch.

Given the positive outlook, there is limited downward pressure on AIB and AIBG's ratings.

### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS – BOI AND BOIG

BOI's debt and deposit ratings and BOIG's debt ratings could be upgraded if BOI's BCA was upgraded. The bank's BCA could be upgraded if the improvement in its core profitability is maintained, capital remains relatively strong and asset quality pressures remain in check. An upgrade of the Government of Ireland's rating could also potentially result in an upgrade of BOI's long-term deposit and senior unsecured ratings by one notch.

Given the positive outlook, there is limited downward pressure on BOI and BOIG's ratings.

### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS – PTSB AND PTSBG

PTSB's BCA could be upgraded if its core profitability shows greater than expected signs of improvement, its capital base becomes more resilient to a stress and asset risk continues a downward trajectory. PTSB's subordinated program rating could be upgraded following greater issuance of more junior bail-in able debt. PTSB Group's debt ratings could be upgraded in the event of a further upgrade of the PTSB's standalone BCA and its Adjusted BCA. An upgrade of the Government of Ireland's rating could also potentially result in an upgrade of PTSB's long-term deposit and senior unsecured ratings by one notch.

Given the positive outlook, there is limited downward pressure on PTSB and PTSBG's ratings.

## LIST OF AFFECTED RATINGS

Issuer: AIB Group plc

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

....Senior Unsecured Regular Bond/Debenture (Foreign Currency) , Affirmed A3, Outlook changed to POS from STA

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed A3, Outlook changed to POS from STA

....Senior Unsecured Medium-Term Note Program (Foreign Currency) , Affirmed (P)A3

....Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)A3

....Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Baa2

....Subordinate Medium-Term Note Program (Foreign Currency) , Affirmed (P)Baa2

....Subordinate Medium-Term Note Program (Local Currency) , Affirmed (P)Baa2

....Preferred Stock Non-cumulative (Local Currency) , Affirmed Ba1 (hyb)

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

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

....LT Counterparty Risk Rating (Foreign Currency) , Affirmed A1

....LT Counterparty Risk Rating (Local Currency) , Affirmed A1

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-1

....ST Counterparty Risk Rating (Local Currency) , Affirmed P-1

....LT Bank Deposits (Foreign Currency) , Affirmed A1, Outlook changed to POS from STA

....LT Bank Deposits (Local Currency) , Affirmed A1, Outlook changed to POS from STA

....ST Bank Deposits (Foreign Currency) , Affirmed P-1

....ST Bank Deposits (Local Currency) , Affirmed P-1

....LT Counterparty Risk Assessment , Affirmed A1(cr)

....ST Counterparty Risk Assessment , Affirmed P-1(cr)

....Baseline Credit Assessment , Affirmed baa1

....Adjusted Baseline Credit Assessment , Affirmed baa1

....Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)A1

....Subordinate Regular Bond/Debenture (Foreign Currency) , Affirmed Baa2

....Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Baa2

....Subordinate Medium-Term Note Program (Local Currency) , Affirmed (P)Baa2

Issuer: EBS d.a.c.

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

....LT Counterparty Risk Rating (Foreign Currency) , Affirmed A1

....LT Counterparty Risk Rating (Local Currency) , Affirmed A1

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-1

....ST Counterparty Risk Rating (Local Currency) , Affirmed P-1

....LT Bank Deposits (Foreign Currency) , Affirmed A1, Outlook changed to POS from STA

....LT Bank Deposits (Local Currency) , Affirmed A1, Outlook changed to POS from STA

....ST Bank Deposits (Foreign Currency) , Affirmed P-1

....ST Bank Deposits (Local Currency) , Affirmed P-1

....LT Counterparty Risk Assessment , Affirmed A1(cr)

....ST Counterparty Risk Assessment , Affirmed P-1(cr)

....Baseline Credit Assessment , Affirmed baa1

....Adjusted Baseline Credit Assessment , Affirmed baa1

Issuer: Bank of Ireland Group plc

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

....LT Issuer Rating (Foreign Currency) , Affirmed A3, Outlook changed to POS from STA

....LT Issuer Rating (Local Currency) , Affirmed A3 , Outlook changed to POS from STA

....Senior Unsecured Regular Bond/Debenture (Foreign Currency) , Affirmed A3, Outlook changed to POS from STA

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed A3, Outlook changed to POS from STA

....Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)A3

....Subordinate Regular Bond/Debenture (Foreign Currency) , Affirmed Baa2

....Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Baa2

....Subordinate Medium-Term Note Program (Local Currency) , Affirmed (P)Baa2

....Preferred Stock Non-cumulative (Local Currency) , Affirmed Ba1 (hyb)

Issuer: Bank of Ireland

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

....LT Counterparty Risk Rating (Foreign Currency) , Affirmed A1

....LT Counterparty Risk Rating (Local Currency) , Affirmed A1

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-1

....ST Counterparty Risk Rating (Local Currency) , Affirmed P-1

....LT Bank Deposits (Foreign Currency) , Affirmed A1, Outlook changed to POS from STA

....LT Bank Deposits (Local Currency) , Affirmed A1, Outlook changed to POS from STA

....ST Bank Deposits (Foreign Currency) , Affirmed P-1

....ST Bank Deposits (Local Currency) , Affirmed P-1

....ST Deposit Note/CD Program (Local Currency) , Affirmed P-1

....LT Counterparty Risk Assessment , Affirmed A1(cr)

....ST Counterparty Risk Assessment , Affirmed P-1(cr)

....LT Issuer Rating , Affirmed A1, Outlook changed to POS from STA

....Baseline Credit Assessment , Affirmed baa1

....Adjusted Baseline Credit Assessment , Affirmed baa1

....Senior Unsecured Regular Bond/Debenture (Foreign Currency) , Affirmed A1, Outlook changed to POS from STA

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed A1, Outlook changed to POS from STA

....Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)A1

....Subordinate Medium-Term Note Program (Local Currency) , Affirmed (P)Baa2

....Junior Subordinated Regular Bond/Debenture (Foreign Currency) , Affirmed Baa3 (hyb)

....Preferred Stock Non-cumulative (Foreign Currency) , Affirmed Ba1 (hyb)

....Preferred Stock Non-cumulative (Local Currency) , Affirmed Ba1 (hyb)

....Commercial Paper (Foreign Currency) , Affirmed P-1

....Commercial Paper (Local Currency) , Affirmed P-1

....Other Short Term (Foreign Currency) , Affirmed (P)P-1

Issuer: Permanent TSB Group Holdings plc

..Outlook Actions:

....Outlook, Remains Positive

..Affirmations:

....LT Issuer Rating (Local Currency) , Affirmed Baa2 POS

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed Baa2 POS

....Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)Baa2

....Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Ba1

....Subordinate Medium-Term Note Program (Local Currency) , Affirmed (P)Ba1

....Preferred Stock Non-cumulative (Local Currency) , Affirmed Ba3 (hyb)

....Other Short Term (Local Currency) , Affirmed (P)P-3

Issuer: Permanent tsb p.l.c.

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

...LT Counterparty Risk Rating (Foreign Currency) , Affirmed A2

...LT Counterparty Risk Rating (Local Currency) , Affirmed A2

...ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-1

...ST Counterparty Risk Rating (Local Currency) , Affirmed P-1

...LT Bank Deposits (Foreign Currency) , Affirmed A2, Outlook changed to POS from STA

...LT Bank Deposits (Local Currency) , Affirmed A2, Outlook changed to POS from STA

...ST Bank Deposits (Foreign Currency) , Affirmed P-1

...ST Bank Deposits (Local Currency) , Affirmed P-1

...LT Counterparty Risk Assessment , Affirmed A2(cr)

...ST Counterparty Risk Assessment , Affirmed P-1(cr)

...Baseline Credit Assessment , Affirmed baa3

...Adjusted Baseline Credit Assessment , Affirmed baa3

...Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed A2, Outlook changed to POS from STA

...Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)A2

...Subordinate Medium-Term Note Program (Local Currency) , Affirmed (P)Ba1

...Other Short Term (Local Currency) , Affirmed (P)P-1

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions>.

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