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Research Update:

AIB Group PLC Assigned 'BB+/B' Ratings; Outlook Positive

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Research Update:

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Overview

- We are assigning our 'BB+/B' long- and short-term issuer credit ratings to newly established AIB Group PLC, the Ireland-based nonoperating holding company (NOHC) of Allied Irish Banks PLC (AIB).
- The ratings are based on our view of AIB's intrinsic creditworthiness and constrained by the structural subordination of the NOHC's creditors.
- The positive outlook reflects that we could improve our view of the Irish banking industry risk and, in turn, the banking group's unsupported group credit profile over the next two years.

Rating Action

On March 12, 2018, S&P Global Ratings assigned its 'BB+/B' long- and short-term issuer credit ratings (ICRs) to Ireland-based nonoperating holding company AIB Group PLC (the NOHC). The outlook is positive.

Rationale

The rating reflects the NOHC's position as the immediate parent of Allied Irish Banks PLC (AIB), a leading Irish bank, as well as our view of the group's creditworthiness, which is constrained by the structural subordination of the NOHC's creditors.

AIB recently completed a corporate reorganization that led to the creation of AIB Group PLC as the group's listed holding company. As the NOHC, it consolidates AIB, which is the principal operating subsidiary, representing 100% of the group's total assets. The group's only investment is its stake in AIB, and there is no double leverage at the NOHC. We expect the NOHC to downstream issued debt and equity capital to its operating subsidiary and that, over time, it will become a key vehicle for the group's issuance of long-term instruments designed to absorb losses, whether on a going-concern or nonviability basis.

Because we regard AIB Group PLC as a NOHC, we do not assign it a group status, as we would for an operating subsidiary. Rather, the starting point for the ICR on the NOHC is based on AIB's group credit profile (GCP), which we assess at 'bbb-'. We set the ICR on the NOHC one notch below the GCP, reflecting the structural subordination of the NOHC's creditors--in other words, our view of

incrementally higher credit risk for the NOHC relative to its principal operating bank, AIB.

The ratings on both the NOHC and AIB do not benefit from any external support, notably under our additional loss-absorbing capacity (ALAC) criteria. In time, it is possible that we could revise this stance, for example, if it becomes clear that the group will build a sizable buffer of loss-absorbing capacity designed to enable a recapitalization rather than a liquidation if it becomes nonviable. However, even if we included such uplift, this would benefit only the ratings on AIB (which undertakes the systemically important functions), not the NOHC (which could well default in such a scenario). This approach would be consistent with the one we take for other banking group NOHCs, for example in the U.K., the U.S., and Switzerland.

Outlook

AIB Group PLC

The positive outlook on AIB Group PLC reflects that we may improve our view of Irish banking industry risk over our two-year outlook horizon. This could lead us to revise upward our assessment of the unsupported GCP by one notch to 'bbb', and therefore raise the ratings.

While less likely in the short term, we could also revise our view of the unsupported GCP upward if the group continued to make steady progress in reducing its stock of nonperforming assets, such that its asset quality metrics improved to levels more aligned with those of peers in the coming 18-24 months.

We could revise the outlook to stable if our view of Ireland's banking industry risk worsened. We could also revise the outlook to stable if the group's capital management became more aggressive as it gradually returns to full private ownership, such that we no longer believed its risk-adjusted capital ratio would sustainably exceed 10%.

Allied Irish Bank PLC

The positive outlook on AIB, the primary operating company of the group, mirrors that on the NOHC. Accordingly, we could lower or raise the ratings if we revised our assessment of the unsupported GCP upward or downward, as explained above.

We could also raise the ratings on AIB if we included one notch of uplift for ALAC support in the long-term rating on the bank. This depends on the bank's issuance plans regarding the minimum requirement for own funds and eligible liabilities. In addition, the bank's ALAC buffer would need to exceed our threshold of 5% for a bank with an anchor of 'bbb-' or higher. ALAC support would only benefit the ratings on the operating company, AIB, because we do not include notches for ALAC support in our long-term rating on NOHCs.

Ratings Score Snapshot

AIB Group PLC: BB+/Positive/B

Allied Irish Bank PLC: BBB-/Positive/A-3

Group Credit Profile

Anchor	bbb-
Business Position	Adequate (0)
Capital and Earnings	Strong (1)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)
Support*	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

*We do not include any external support in our ratings on the NOHC or the operating subsidiary.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk

Assessment Methodology And Assumptions, Nov. 9, 2011

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

New Rating

AIB Group PLC

Issuer Credit Rating

BB+/Positive/B

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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