S&P Global
Ratings

# RatingsDirect®

# AIB Group PLC

**Primary Credit Analyst:**
Letizia Conversano, Dublin 353 1 568 0615; letizia.conversano@spglobal.com

**Secondary Contact:**
Anastasia Turdyeva, Dublin (353) 1-568-0622; anastasia.turdyeva@spglobal.com

## Table Of Contents

# AIB Group PLC

| Group SACP | bbb |
|---|---|
| Anchor | bbb | |
| Business Position | Adequate | 0 |
| Capital and Earnings | Strong | +1 |
| Risk Position | Moderate | -1 |
| Funding | Average | 0 |
| Liquidity | Adequate | |

\+

| Support | +1 |
|---|---|
| ALAC Support | +1 |
| GRE Support | 0 |
| Group Support | 0 |
| Sovereign Support | 0 |

\+

| Additional Factors | 0 |
|---|---|

| Issuer Credit Rating |
|---|
| BBB+/Stable/A-2 |
| **Resolution Counterparty Rating** |
| A-/--/A-2 |
| **Holding Company ICR** |
| BBB-/Stable/A-3 |

SACP—The group stand-alone credit profile of the AIBGroup. The holding company rating shown applies to AIB GroupPLC and is one notch below the group SACP. The ICR and the resolution counterparty rating shown apply to the core bank operating subsidiary, Allied Irish Banks PLC.

## Major Rating Factors

| Issuer Credit Rating |
|---|
| BBB-/Stable/A-3 |

| Strengths: | Weaknesses: |
|---|---|
| • Stable franchise in Ireland, with a high market share across banking business lines<br>• Strong capitalization<br>• Stable deposit base, with very low concentration risk and high current account balances | • Asset quality that continues to be weaker than that of international peers<br>• Exposure to macroeconomic uncertainty in both the U.K. and Ireland following the U.K.'s referendum vote to leave the EU<br>• Increasing pressure on earnings due to the low interest rate environment and necessity to improve cost efficiency to maintain adequate profitability |

**Outlook**

### AIB Group PLC (non-operating holding company)

The stable outlook reflects S&P Global Ratings' expectation that AIB will continue to proactively reduce its non-performing loans (NPLs) and maintain its domestic market position over the two-year outlook horizon. We also assume that the recent change in the senior leadership team will not lead to a material shift in strategy or risk appetite.

We could raise the ratings over the next 12-24 months if AIB improves its returns from both its domestic and international operations, while maintaining its risk appetite. Less likely, we could also raise the ratings if AIB reduces NPLs to align with higher rated peers, while maintaining its current capital strength.

We are unlikely to lower the ratings at this time, but we could consider doing so if AIB adopted a more aggressive capital policy than we assume, or asset quality weaknesses re-emerged.

### Allied Irish Banks PLC (operating company)

The stable outlook reflects that on AIB Group PLC.

We could also raise the ratings on Allied Irish Banks PLC over the next 12-24 months if the group makes more substantial progress than expected in terms of minimum requirement for own funds and eligible liabilities (MREL) issuance. This would lead us to raise the ratings if its additional loss-absorbing capacity (ALAC) buffer exceeds our 8% threshold for two notches of ALAC support within the long-term rating, and we expect this to remain the case. Greater clarity on the group's future capital policy could also inform this analysis.

## Rationale

The ratings reflect a banking group that has achieved a material recovery in its credit profile since its full nationalization in 2011. It has done so by deleveraging, and improving its management, amid the Irish economy's brisk recovery. The Irish government has maintained its equity stake of just over 70%, following a successful IPO in mid-2017, but we assume this stake will gradually decrease.

Indicative of AIB's reduced scale is that its net loan book of €60.9 billion at June 30, 2019, is less than half what it was at year-end 2008. The group has preserved its high and resilient market share across Irish banking, but has relatively limited international diversification. As a result, our ratings on AIB broadly reflect our view of Irish banking in general, so the 'bbb' Group SACP is the same as the anchor for a bank operating in Ireland.

The still-high stock of NPEs, relative to other "national champion" regional banks, remains a key rating constraint for AIB. Its strong capitalization partially offsets this. We expect AIB will continue focusing on working out its NPEs, even after achieving the 5% target NPE ratio, expected by year-end 2019. Nevertheless, the NPE stock's performance in

2020-2021 will largely correlate to the domestic macroeconomic environment after the U.K. leaves the EU.

Although there might be a more substantial return of capital to shareholders in 2020--contingent upon achieving its 5% target NPE ratio--we anticipate that our risk-adjusted capital (RAC) will remain above 10% by year-end 2021. This mainly follows our view of AIB's more cautious risk-appetite and mild balance-sheet growth, on the back of a highly competitive domestic mortgage market, a weakening external environment, and Brexit-related uncertainty. Given this unclear outlook, we potentially see some pressure on the group's earnings, absent a strong recovery in net loan growth, improvement in fee and commission income, and a lower cost base.

We compare AIB to other rated Irish banks and some regional banks (not all "national champions") with a similar or stronger economic and industry risk profile: for example, Bank Hapoalim B.M. (group SACP is 'a-'); CSOB ('a-'); Banco de Sabadell S.A. ('bbb'), Caixabank S.A. ('bbb+'); CYBG plc ('bbb'), and Santander UK Group Holdings plc ('bbb+').

### Anchor: Stable trends in Ireland's banking sector

The starting point for our ratings on AIB is its 'bbb' anchor, which principally captures our view of the risks in Ireland given that its U.K. and other international lending activities are relatively modest (23% of gross loans as of June 30, 2019).

In our view, the economic risk trend in Ireland is stable. This reflects our assumption that Ireland's GDP growth will remain brisk, which in turn will continue to feed through to further property price appreciation and reduction in unemployment--all of which should help, at least in the short term, to improve the resilience of banks' balance sheets. We assume that the era of household and corporate deleveraging is now largely over and we would need to see evidence of a substantial further reduction in NPLs before we could consider an improved assessment. Even then, ongoing house price inflation and any potential Brexit-related risks to Ireland--with the U.K. being its closest trading partner--may also cause us to delay a stronger assessment.

The industry risk trend is also stable. We assume that our metric of deposits to loans will remain above 75% on a sustainable basis as lending growth revives, and that regular access to wholesale markets will persist. We also assume that net interest margin pressure will not emerge sufficiently to weigh on statutory earnings. Banks will likely continue to invest in their operations and digital capability. Finally, we also assume that the longstanding government stakes in a large part of the banking system will only be reduced to zero during the 2020s.

**Table 1**

**AIB Group PLC Key Figures**

| | | --Year ended Dec. 31-- | | |
|---|---|---|---|---|
| **(Mil. €)** | **2019*** | **2018** | **2017** | **2016** |
| Adjusted assets | 94,929.0 | 90,854.0 | 89,493.0 | 95,230.0 |
| Customer loans (gross) | 62,518.0 | 62,907.0 | 63,338.0 | 65,228.0 |
| Adjusted common equity | 8,530.0 | 8,366.0 | 8,068.0 | 7,248.0 |
| Operating revenues | 1,378.0 | 2,765.0 | 2,879.0 | 2,670.0 |
| Noninterest expenses | 795.0 | 1,581.0 | 1,574.0 | 1,489.0 |
| Core earnings | 475.3 | 1,215.5 | 1,268.4 | 1,192.3 |

*Data as of June 30.

### Business position: Largely a pure play on the Irish economy

AIB has a stable franchise in Ireland, across banking business lines. We observe high market shares, revenue stability, and a clear strategy that is not overly aggressive. We believe that these factors are broadly captured by our view of Irish banking in general.

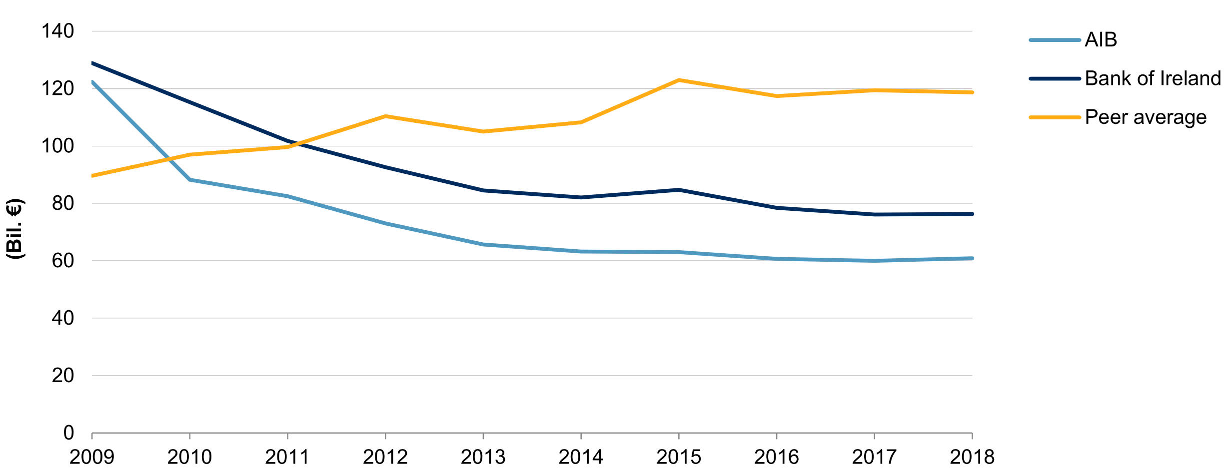
AIB benefits from resilient domestic franchises and high market share across all retail and commercial banking lines in Ireland. For example, the bank states that its stock shares of personal current accounts and business current accounts are 37% and 44% respectively; its share of mortgage market new lending flow as of June 2019 was 31%. AIB also states that it has 2.4 million domestic personal and small business customers, though this is a lot fewer than some international peers. The bank's international activities are fairly limited and mainly constitute its mid-markets business banking operation in Great Britain, a full-service bank in Northern Ireland, and a useful acquisition finance franchise, which has proven resilient.

AIB's reduced scale (see chart 1) reflects the bank's decade-long deleveraging, which has been sharper than that of peers. We believe that the decline in the net loan book has broadly reached its end and now expect it to likely start increasing from 2020. We believe that there will be less pressure on large NPE disposals, following the achievement of the 5% NPE target ratio. Nevertheless, the pace of the net loan growth will likely depend on how Brexit will finally affect the Irish economy and, therefore, the demand for loans.

We expect further substantial NPE disposals in second-half 2019--possibly from €600 million-€1 billion--and the macroeconomic uncertainty around Brexit to weight on AIB's portfolio size in 2019.

**Chart 1**

**AIB Group PLC And Selected Peers--Net Loan Book (2009-2018)**




Source: S&P Global Ratings.

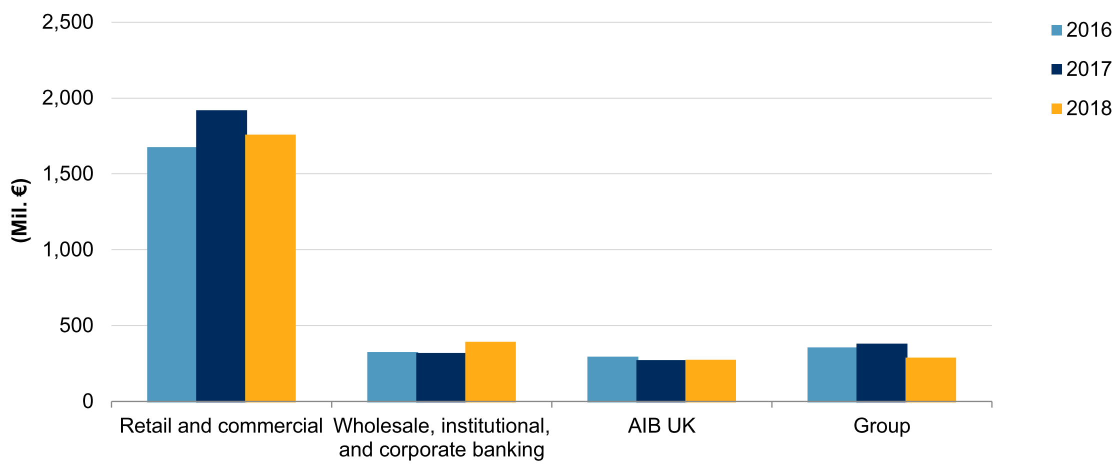


Revenue by business line has been reasonably diverse and revenues have been stable in recent years (see chart 2). Still, approximately 76% of the group's revenues are interest-sensitive, and the proportion of more resilient fees and commissions is lower than what we typically see at some other national champions'. Growth in other income, however, might be difficult, similar to banking trends in general.

This revenue-structure might pose the group's earning-generation capacity at risk, in a prolonged low interest-rate and highly competitive environment, absent a strong loan growth or effective cost savings.

**Chart 2**

**AIB Group PLC--Total Operating Income By Division**




Source: Company accounts. Starting from 2018, the group presents previously unrecognised interest income as a reversal of credit impairment/ recovery of amounts previously written-off. For the sake of comparability, €61 million of income in 2017 was reclassified from Net Interest Income to Net Credit Impairment Writeback. Therefore, 2016 numbers are not fully comparable with the ones stated in 2017 and 2018.


On April 18, 2019, AIB announced the acquisition of 95.9% of Payzone, a leading Irish fintech payments business. Although we don't expect this transaction to translate in significantly higher revenue flow in the near term, we positively see the deal in the context of AIB's strategy to continue to evolve its customer experience and product proposition. We understand that AIB's mobile app has received a positive response in the domestic market, with more than 1 million active users as of June 2019.

In February and March this year, Colin Hunt, previously Wholesale & Institutional Banking divisional CEO; and Donal Galvin, previously deputy CFO and group treasurer, were appointed CEO and CFO, respectively. The government-imposed cap on senior management remuneration is believed to be a factor of the departure of the previous top management.

This development highlights the risk that, while the ongoing government ownership is in of itself not a credit negative, it is nevertheless an impediment to AIB's growth plans.

The quality, stability, and execution capabilities of management are important considerations in our ratings analysis, particularly in the context of AIB's ownership structure. We currently think it unlikely that the CEO change will result in a material shift in the strategy.

A number of key publicly stated financial targets might prove ambitious, in our view, given the weak external environment, low interest rates, and increasing regulatory costs:

- Net interest margin of 2.4% plus (a reported 2.46% for the first six months of 2019);
- Cost-to-income ratio of below 50% (54% on a reported underlying basis in the first half of 2019); and
- A return on tangible equity above 10% (a reported 7.9% in the first half of 2019).

We see these targets as hard to be met in case of a no-deal Brexit.

However, we view the new management's public commitment to continue to improve efficiency, amid wage inflation and increasing regulatory costs, as a credit positive. In this respect, AIB recently announced a hiring freeze for 2019.

**Table 2**

**AIB Group PLC Business Position**

| | | --Year ended Dec. 31-- | | |
|---|---|---|---|---|
| **(%)** | **2019*** | **2018** | **2017** | **2016** |
| Total revenues from business line (currency in millions) | 1,412.0 | 2,888.0 | 2,959.0 | 2,955.0 |
| Commercial and retail banking/total revenues from business line | 88.0 | 85.9 | 85.4 | 81.5 |
| Trading and sales income/total revenues from business line | (3.4) | 0.2 | 3.3 | 2.4 |
| Insurance activities/total revenues from business line | 2.0 | 1.6 | 0.8 | 0.8 |
| Asset management/total revenues from business line | 0.0 | 0.0 | 0.0 | 0.0 |
| Other revenues/total revenues from business line | 13.5 | 12.3 | 10.5 | 15.3 |
| Investment banking/total revenues from business line | (3.4) | 0.2 | 3.3 | 2.4 |
| Return on average common equity | 5.4 | 8.2 | 8.6 | N/A |

*Data as of June 30. N/A--Not applicable.

### Capital and earnings: Medium-term capital return plan will be a bigger driver than NPL reductions

We project AIB's risk-adjusted capital (RAC) ratio will remain above our 10% threshold for a strong assessment through end-2021. We calculate AIB's RAC ratio at 12.5% at Dec. 31, 2018, up from 12.1% the year before. We assume this metric will be about 13% at year-end 2019, before falling back toward the 10% threshold in 2020, on the assumption that capital is returned to shareholders.

We base our RAC projection on the following key assumptions:

- Lower pre-provision income than the €1.2 billion we calculate by our measures in 2018, as we assume a slightly decreasing net interest margin,, and ongoing investment in the business and operational resilience;
- The loan loss rate to pick up to a more normalized 20-25 basis points (bps) in 2020, from about 3 bps in 2019; the 20-25 bps range assumes an orderly Brexit, but we could revise this upward in case of a disruptive no-deal Brexit;
- Modest impact from exceptional items, following the €43 million provisioned for fines in June 2019;
- A projected 50% payout ratio, in addition to a possible special capital distribution in 2020, compatible with a targeted 13% CET 1 ratio; and

- S&P Global Ratings-calculated RWA to be broadly flat in 2019, before rising by around 1.5% in 2020 and 2.4% in 2021, because we expect net loan growth to accelerate. We assume loan book growth of over 2% in 2020, but RWA growth will be lower as NAMA subordinated bonds mature in that year.

We do not factor potential net new total adjusted capital (TAC) eligible AT1 issuance into our forecast, until consummated.

The quality of capital is currently better than larger international peers; our ratio of adjusted common equity to TAC was 94% at June 30, 2019.

AIB reported a regulatory fully loaded CET1 ratio of 17.3% on June 30, 2019. We assume that the ongoing NPE reduction strategy will not negatively affect this measure.

On July 26, 2019, AIB announced that the ECB Targeted Review of Internal Models (TRIM) concerning the mortgage portfolio model resulted in about €2.2 billion additional regulatory risk-weighted assets (90 bps on CET 1). We understand that the review of the portfolio's corporate component is ongoing. Nevertheless, our view of AIB's capitalization has not fundamentally changed. This is primarily because we base our assessment on our risk-adjusted capital (RAC) methodology. Our RWAs factor in our views of risks per asset class and geography. Therefore, our calculations do not rely on banks' internal models, which might vary widely from one institution to another and, in many instances, result in very low risk weights. This is why our measure of capital, the RAC ratio, is well below the bank's reported Tier 1 ratio, even post-TRIM.

Our assessment of capital and earnings also looks beyond the capital analysis and considers both the quality of earnings and earnings capacity. We expect our calculation of AIB's earnings buffer, which measures the capacity for pre-provision income to cover our estimation of normalized credit losses through the credit cycle, to be about 90 bps in 2019-2021, which compares quite well.

**Table 3**

**AIB Group PLC RACF [Risk-Adjusted Capital Framework] Data**

| (Mil. €) | Exposure* | Basel III RWA | Average Basel III RW (%) | S&P Global RWA | Average S&P Global RW (%) |
|---|---|---|---|---|---|
| **Credit risk** | | | | | |
| Government and central banks | 17,268 | 200 | 1 | 465 | 3 |
| Of which regional governments and local authorities | 7 | 0 | 0 | 0 | 6 |
| Institutions and CCPs | 8,459 | 2,050 | 24 | 2,544 | 30 |
| Corporate | 26,026 | 19,350 | 74 | 27,357 | 105 |
| Retail | 34,465 | 18,938 | 55 | 18,607 | 54 |
| Of which mortgage | 29,470 | 15,188 | 52 | 13,578 | 46 |
| Securitization§ | 555 | 63 | 11 | 183 | 33 |
| Other assets† | 6,061 | 5,300 | 87 | 9,403 | 155 |
| Total credit risk | 92,834 | 45,900 | 49 | 58,559 | 63 |
| Credit valuation adjustment | | | | | |
| Total credit valuation adjustment | -- | 400 | -- | 0 | -- |

**Table 3**

**AIB Group PLC RACF [Risk-Adjusted Capital Framework] Data (cont.)**

| | | | | | |
|---|---|---|---|---|---|
| **Market Risk** | | | | | |
| Equity in the banking book | 818 | 313 | 38 | 6,519 | 797 |
| Trading book market risk | -- | 375 | -- | 563 | -- |
| Total market risk | -- | 688 | -- | 7,081 | -- |
| Operational risk | | | | | |
| Total operational risk | -- | 4,625 | -- | 5,513 | -- |
| **(Mil. €)** | **Exposure** | **Basel III RWA** | **Average Basel II RW (%)** | **S&P Global RWA** | **% of S&P Global RWA** |
| Diversification adjustments | | | | | |
| RWA before diversification | -- | 51,613 | -- | 71,152 | 100 |
| Total diversification/concentration adjustments | -- | -- | -- | 3,992 | 6 |
| RWA after diversification | -- | 51,613 | -- | 75,144 | 106 |
| **(Mil. €)** | | **Tier 1 capital** | **Tier 1 ratio (%)** | **Total adjusted capital** | **S&P Global RAC ratio (%)** |
| Capital ratio | | | | | |
| Capital ratio before adjustments | | 9,309 | 18.0 | 8,860 | 12.5 |
| Capital ratio after adjustments | 9,309 | 18.0 | 8,860 | 11.8 | |

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2018. Source: S&P Global Ratings.

**Table 4**

**AIB Group PLC Capital And Earnings**

| | | --Year ended Dec. 31-- | | |
|---|---|---|---|---|
| **(%)** | **2019*** | **2018** | **2017** | **2016** |
| Tier 1 capital ratio | 18.0 | 18.1 | 18.0 | 16.2 |
| S&P Global Ratings' RAC ratio before diversification | N/A | 12.5 | 12.1 | N/A |
| S&P Global Ratings' RAC ratio after diversification | N/A | 11.8 | 11.1 | N/A |
| Adjusted common equity/total adjusted capital | 94.5 | 94.4 | 94.2 | 93.6 |
| Double leverage | N.M. | 100.0 | 100.0 | N.M. |
| Net interest income/operating revenues | 76.2 | 75.9 | 73.5 | 75.4 |
| Fee income/operating revenues | 16.7 | 16.5 | 13.6 | 14.8 |
| Market-sensitive income/operating revenues | 1.8 | 1.0 | 4.0 | 6.0 |
| Noninterest expenses/operating revenues | 57.7 | 57.2 | 54.7 | 55.8 |
| Preprovision operating income/average assets | 1.2 | 1.3 | 1.4 | N/A |
| Core earnings/average managed assets | 1.0 | 1.3 | 1.4 | N/A |

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful.

## Risk position: Ongoing decrease in impaired loans

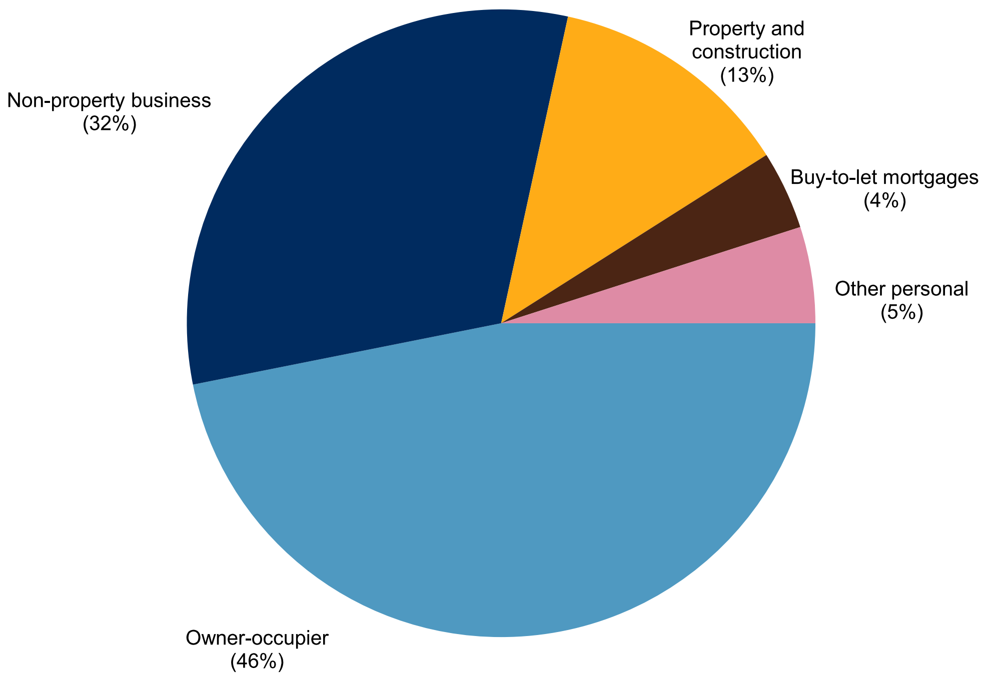
We expect AIB to continue to make progress improving its asset quality but we doubt that its stock metrics will approach the level of peers operating in countries characterised by similar economic risk (such as Spain, Israel, and

U.K.) in the near term. Furthermore, adverse economic developments from a no-deal Brexit could weigh on AIB's NPE stock performance in 2020-2021.

As of June 30, 2019, residential mortgages were the largest component of gross customer loans at 51%. Property and construction is still an important element, at 12% of gross loans, which is higher than that of most peers (see chart 3).

**Chart 3**

**AIB Group PLC--Gross Loan Book Composition (€62.6 bil.)**




Note: As of December 2018. Source: Company accounts, S&P Global Ratings.


Irish banks are required to use the European Banking Authority's (EBA) regulatory definition of NPEs for regulatory reporting, EBA stress testing, and for capital planning. AIB reports that the EBA's measure of NPEs post-implementation of IFRS 9 includes loans that are unlikely to pay, collateral disposals, and probationary period loans. As of June 30, 2019, AIB reported an NPE measure of €4.7 billion, or 7.5% of gross loans. The reduction in NPEs relative to €6.1 billion at December 2018 is partly due to the sale of a loan portfolio of about €1 billion on top of case-by-case restructuring.

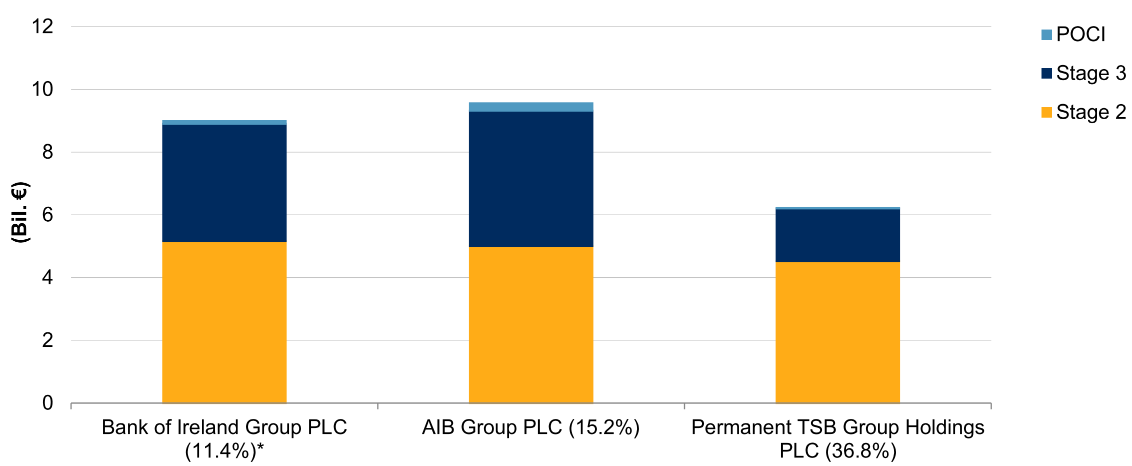
AIB stated that Stage 3 loans were €4.5 billion or 7.3% of gross loans at June 30, 2019. A broader analysis of asset quality also captures Stage 2 loans. For AIB, total Stage 2 loans were €5 billion or 8% of gross loans at the same date. These metrics are weaker than at BOI (see chart 4). Expected credit loss coverage of Stage 2 and Stage 3 loans was

15.5%.

Our risk analysis also captures a potential nonfinancial vulnerabilities, such as those emanating from misconduct or mis-selling issues. Rhe bank booked in the first half of 2019 a €43 million charge associated with customer redress on the "Tracker Mortgage examination." Moreover, we will observe the extent to which the bank has beefed up its risk management and compliance to prevent further occurrences.

**Chart 4**

**IFRS9 NPL Composition For AIB Group PLC Versus Other Irish Banks**




Note: As of June 30, 2019. Ratio in brackets is Stage 2+Stage 3+POCI to gross loans. *BOI's ratio does not include the €250 million disposal performed Aug. 28, 2019. Source: Company accounts.


**Table 5**

**AIB Group PLC Risk Position**

| | | --Year ended Dec. 31-- | | |
|---|---|---|---|---|
| (%) | 2019* | 2018 | 2017 | 2016 |
| Growth in customer loans | (1.2) | (0.7) | (2.9) | N.M. |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | N/A | 5.6 | 9.2 | N/A |
| Total managed assets/adjusted common equity (x) | 11.2 | 10.9 | 11.2 | 13.2 |
| New loan loss provisions/average customer loans | 0.0 | (0.3) | (0.3) | N/A |
| Net charge-offs/average customer loans | 0.3 | 1.4 | 1.1 | N/A |
| Gross nonperforming assets/customer loans + other real estate owned | 9.8 | 12.4 | 18.8 | 24.6 |
| Loan loss reserves/gross nonperforming assets | 26.3 | 26.1 | 28.1 | 28.7 |

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful.

## Funding and liquidity: Balanced profiles

We consider AIB's funding in line with the rest of the Irish banking system, and we expect this to continue.

AIB's funding profile benefits from the bank's strong domestic franchises and its limited reliance on short-term wholesale funding. Our calculation of AIB's stable funding metric of 123% at Dec. 30, 2018, supports this view.

AIB reported a loan-to-deposit ratio of 90% at Dec. 30, a level which has been consistent in recent years. Deposits are largely sourced from retail customers and are granular in nature. Reflecting the strength of its domestic franchise, current account credit balances within the Irish Retail & Commercial Banking division were a reported 35% of total customer deposits at Dec. 31, 2018.

Our metric of broad liquid assets to short-term wholesale funding was an unusually high 172x at Dec. 30, 2018. This reflects the relative absence of wholesale funding given AIB's multi-year deleveraging. In the long term, we expect the bank's profile to move more in line with that of international peers.

**Table 6**

**AIB Group PLC Funding And Liquidity**

| | | --Year ended Dec. 31-- | | |
|---|---|---|---|---|
| **(%)** | **2019*** | **2018** | **2017** | **2016** |
| Core deposits/funding base | 88.4 | 90.2 | 87.6 | 79.7 |
| Customer loans (net)/customer deposits | 87.6 | 89.9 | 93.0 | 96.4 |
| Long-term funding ratio | 98.4 | 98.7 | 97.3 | 90.5 |
| Stable funding ratio | 125.9 | 123.4 | 123.0 | 119.8 |
| Short-term wholesale funding/funding base | 1.8 | 1.5 | 3.2 | 11.1 |
| Broad liquid assets/short-term wholesale funding (x) | 15.4 | 17.6 | 8.7 | 2.8 |
| Net broad liquid assets/short-term customer deposits | 30.7 | 28.5 | 28.7 | 26.4 |
| Short-term wholesale funding/total wholesale funding | 15.0 | 14.4 | 24.4 | 52.9 |
| Narrow liquid assets/three-month wholesale funding (x) | 30.1 | 35.3 | 10.2 | 4.0 |

*Data as of June 30.

### Support: Our ALAC measure is rising

AIB completed a corporate reorganization in December 2017 that resulted in the creation of AIB Group PLC as the group's listed holding company. AIB Group PLC is the ultimate holding company of the group that it heads, and is a non-operating holding company (NOHC). We expect the NOHC to downstream issued debt and equity capital to Allied Irish Banks PLC and that it will be the key vehicle for the group's issuance of long-term instruments designed to absorb losses, whether on a going-concern or nonviability basis.

In March 2018 AIB Group issued its first senior unsecured MREL eligible instruments. Currently, combined issuance totals about €3.3billion, out of €5 billion expected by January 2021.

Since mid-2018, we have incorporated one notch of uplift into the long-term rating on Allied Irish Banks PLC because the group's ALAC ratio is above our 5.0% threshold, and because its approach to issuance is proactive.

We view the Irish resolution regime as effective under our ALAC criteria because it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We include the majority of the legacy Allied Irish Banks junior and subordinated instruments in our ALAC assessment because, over our projection period, we believe they have capacity to absorb losses without triggering a default on Allied Irish Bank's senior obligations (see table 6). On this basis, we calculate that ALAC was 5.5% of S&P Global Ratings' RWAs at year-end 2018. We estimate this metric will remain above 5.0% at year-end 2021, in light of the planned €5 billion MREL issuance in 2018-2021.

**Table 7**

**Summary of ALAC Calculation As Of Dec. 31, 2018**

| | | (Mil. €) | % of S&P Global Ratings' RWAs |
|---|---|---|---|
| A | Adjusted common equity | 8,366 | |
| B | Hybrids in TAC | 494 | |
| C (A+B) | Total adjusted common equity | 8,860 | 12.45 |
| D | TAC in excess of our 10% threshold | 1,251 | |
| E | ALAC-eligible instruments | 3,020 | |
| | o/w NOHC senior | 1,656 | |
| | o/w Dated subordinated | 864 | |
| | o/w Minimal equity content hybrids | 0 | |
| | o/w Other | 500 | |
| F (=D+E) | ALAC buffer | 3,877 | 5.45 |
| | S&P RWA | 71,152 | |

Source: S&P Global Ratings database. ALAC--Additional loss-absorbing capacity. RWA--Risk-weighted assets. TAC--Total adjusted capital.

### Additional rating factors: None

No other factors affect the ratings.

### Group structure, rated subsidiaries and hybrids

We do not include notches for ALAC support in the ratings on NOHCs because we do not believe that their senior obligations would continue to receive full and timely payment in a resolution scenario. As a result of this, we rate AIB Group one notch below the 'bbb' unsupported GCP.

We rate the group's wholly owned U.K. subsidiary one notch below Allied Irish Banks PLC. This is because we do not believe it demonstrates the characteristics of a core subsidiary as per our group rating methodology; it has yet to demonstrate it can generate returns consistent with group targets and the group strategy vis-a-vis the U.K. is very cautious. Furthermore, we regard its intrinsic creditworthiness as not as strong as its parent's, owing to its narrow focus, offset by its robust level of capitalization at present.

We rate nondeferrable subordinated debt issued by Allied Irish Bank two notches below the Group SACP, reflecting the debt's contractual subordination as a Tier 2 instrument and our view that the Bank Recovery and Resolution Directive creates the equivalent of a contractual write-down clause. AIB Group has yet to issue similar debt but we would likely rate similar issuance by AIB Group one notch lower, reflecting our view of structural subordination.

### Resolution counterparty ratings

We set the 'A-/A-2' resolution counterparty ratings (RCRs) on Allied Irish Banks PLC one notch above its long-term issuer credit rating. The RCRs also reflect our jurisdiction assessment for Ireland.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that might be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- 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: 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

## Related Research

- Banking Industry Country Risk Assessment: Ireland, Dec. 17, 2018
- Various Positive Rating Actions Taken On Irish Banks On Improving Funding Profile, Dec. 17, 2018
- Allied Irish Banks PLC Upgraded To 'BBB/A-2' On Growing ALAC Buffer; Holding Company Ratings Affirmed; Outlook Positive, July 10, 2018
- Merely A Win, No Grand Slam Glory For Irish Banks, March 26, 2018

| Ratings Detail (As Of August 30, 2019)* | |
|---|---|
| **AIB Group PLC** | |
| Issuer Credit Rating | BBB-/Stable/A-3 |
| Senior Unsecured | A-3 |
| Senior Unsecured | BBB- |
| Subordinated | BB |
| **Issuer Credit Ratings History** | |
| 17-Dec-2018 | BBB-/Stable/A-3 |
| 12-Mar-2018 | BB+/Positive/B |
| **Sovereign Rating** | |
| Ireland | A+/Stable/A-1 |
| **Related Entities** | |
| **AIB Group (U.K.) PLC** | |
| Issuer Credit Rating | BBB/Stable/A-2 |
| Resolution Counterparty Rating | BBB+/--/A-2 |
| **AIB Mortgage Bank** | |
| Senior Secured | AAA/Stable |
| **Allied Irish Banks PLC** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| Resolution Counterparty Rating | A-/--/A-2 |
| Commercial Paper | A-2 |
| Senior Unsecured | BBB+ |
| Short-Term Debt | A-2 |
| Subordinated | BB+ |
| Subordinated | D |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.