

Research Update:

Ireland-Based AIB Group Ratings Affirmed On AT1 Issue; Outlook Stable

October 10, 2019

Overview

- AIB Group (AIB) recently issued a €500 million Additional Tier 1 (AT1) instrument, the first to be issued by the holding company.
- Although we include this issue in our risk-adjusted capital (RAC) ratio, it doesn't fundamentally change our view of AIB's capitalization and overall creditworthiness.
- Therefore, we are affirming our 'BBB-/A-3' long and short-term ratings on the group's nonoperating holding company, AIB Group PLC, along with our 'BBB+/A-2' long and short-term ratings on the group's main operating bank, Allied Irish Banks PLC.
- The stable outlook indicates that we expect the banking group to continue to proactively reduce its nonperforming loans (NPLs) and maintain its domestic market position over the two-year outlook horizon.

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

Rating Action

On Oct. 10, 2019, S&P Global Ratings affirmed its 'BBB-' long-term and 'A-3' short-term ratings on AIB Group PLC (AIB). The outlook is stable.

At the same time, we affirmed our 'BBB+' long-term and 'A-2' short-term ratings on the main bank, Allied Irish Banks PLC. The outlook is stable.

We also affirmed our 'A-/A-2' resolution counterparty rating on Allied Irish Banks PLC.

Rationale

The rating action follows the issuance of an €500 million AT1 instrument, priced on Oct. 2, 2019. This is the first hybrid instrument to be issued out of the holding company; previous hybrids were issued from the main bank subsidiary.

Given its loss-absorbing structural features, we consider this instrument to have intermediate equity content (see "Hybrid Capital: Methodology And Assumptions," published on July 1, 2019). We include the full €500 million issue amount in calculating total adjusted capital (TAC), the

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numerator of our capital ratio. This raises the year-end 2018 pro forma RAC ratio up by about 70 basis points (bps), to around 13.2%.

Nevertheless, we don't consider that this issuance will fundamentally change AIB's capital trajectory over the next 24 months. We still expect AIB's RAC ratio to be 13.5%-14.0% at year-end 2019, before falling back toward our 10% threshold in 2020 because the capital in excess of the targeted 13% fully loaded common equity Tier 1 (CET1) ratio is likely to be returned to shareholders, consistent with AIB's stated financial plan.

Although neither the exact amount nor the timing of the return of capital are certain at this stage, we anticipate that a special capital distribution may take place in 2020 if AIB meets its gross nonperforming exposure target ratio of about 5% by end-2019.

Although it does not directly affect our ratings, we regard this AT1 issuance as a positive because it improves AIB's financial flexibility and gets closer to meeting the 28.22% minimum requirement for own funds and eligible liabilities (MREL) target by 2021. This will be particularly important if AIB--and Irish banks in general--face persistently volatile market conditions, such as those that might follow Brexit-related macroeconomic shocks.

As of today, AIB has successfully issued €3.8 billion of bail-inable instruments, of the required €5 billion.

Outlook

AIB Group PLC (nonoperating holding company)

The stable outlook indicates that we expect AIB to continue to proactively reduce its 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 have assumed, or asset quality weaknesses re-emerged.

Allied Irish Banks PLC (operating company)

The stable outlook reflects that on AIB Group PLC.

We could 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 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.

Ratings Score Snapshot

Issuer credit rating*	BBB+/Stable/A-2
Group SACP§	bbb
Anchor	bbb
Business position	Adequate (0)
Capital and earnings	Strong (1)
Risk position	Moderate(-1)
Funding and	Average and (0)
Liquidity	Adequate
Support	-1
ALAC support	-1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

*The issuer credit rating refers to Allied Irish Banks PLC. §The group stand-alone credit profile of AIB Group. The holding company rating (BBB-/Stable/A-3) applies to AIB Group PLC and is one notch below the group SACP.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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
- 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

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

Related Research

- AIB Group PLC, Aug. 30, 2019
- Irish Banks' Recovery Phase Draws To A Close, May 15, 2019
- 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

Ratings List

Ratings Affirmed

AIB Group PLC

Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-

Allied Irish Banks PLC

Issuer Credit Rating	BBB+/Stable/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Unsecured	BBB+
Subordinated	BB+
Subordinated	D
Commercial Paper	A-2

Allied Irish Banks N.A. Inc.

Commercial Paper	A-2
Commercial Paper	BBB+

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