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Ratings Raised On AIB Mortgage Bank's Mortgage Covered Bonds Following Similar Rating Action On Issuer; Outlook Stable

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OVERVIEW

- On July 20, 2015, we raised our long-term issuer credit rating on AIB Mortgage Bank's parent, Allied Irish Banks.
- As a result, we have raised to 'AA' from 'AA-' our ratings on AIB Mortgage Bank's Irish mortgage covered bonds program and related issuances.
- The stable outlook on the ratings reflects the stable outlook on our long-term rating on Allied Irish Banks.

LONDON (Standard & Poor's) July 23, 2015--Standard & Poor's Ratings Services said today that it has raised to 'AA' from 'AA-' its ratings on the Irish mortgage covered bonds issued by AIB Mortgage Bank. The outlook on our ratings is stable.

This follows our July 20, 2015 raising of our long-term rating on AIB Mortgage Bank's parent, Allied Irish Banks PLC (see "Allied Irish Banks Long-Term Rating Raised To 'BB+' On Reducing Industry Risks In Ireland; Outlook Stable").

The assets backing the program are residential mortgage assets situated in the Republic of Ireland. Total assets amounted to €14.7 billion as of March 31, 2015.

In accordance with our covered bonds criteria, we uplift the ratings on the covered bonds from the issuer credit rating (ICR), taking into account the fact that the issuer is based in a country subject to the EU's Bank Recovery

And Resolution Directive, and considering the potential jurisdictional support and the portfolio of assets backing the bonds (see "Covered Bonds Criteria," published on Dec. 9, 2014).

The ICR used as a starting point in our analysis is that on Allied Irish Banks to which we deem the issuer to be core under our group rating methodology (see "Group Rating Methodology," published on Nov. 19, 2013). The ICR on Allied Irish Banks incorporates two notches of sovereign support, but also one negative notch, to anticipate a decrease in that government support going forward. We therefore establish the adjusted ICR at 'bb'.

Our criteria classify mortgage covered bond programs in Ireland as having "very strong" systemic importance (see "Assessments For Jurisdictional Support According To Our Covered Bond Criteria," published on Dec. 22, 2014). AIB Mortgage Bank's covered bond program can therefore achieve two notches of uplift above the adjusted ICR to derive the rating reference level (RRL) at 'bbb-'.

Given our "very strong" jurisdictional assessment of mortgage covered bonds in Ireland, we can assign three notches of jurisdictional uplift above the RRL, leading to a jurisdiction-supported rating level (JRL) of 'a-'.

There is an active secondary market for the residential mortgage assets found in the pool, leading to a maximum collateral-based uplift of four notches under our criteria. We assess liquidity risk, which we take into account in our determination of the maximum rating uplift above the Irish sovereign (detailed below). The issuer published a public overcollateralization commitment in July 2015. Therefore, we do not deduct any notches of uplift from the maximum collateral-based uplift for liquidity risk or lack of overcollateralization commitment.

We have determined the potential collateral-based uplift by applying to the pool our credit, liquidity, and interest rate stresses, under different default timing and prepayment rate scenarios. We did not give benefit to the swaps, which cover interest rate risk, as they do not include a counterparty replacement framework reflect our counterparty risk framework criteria. Our cash flow results therefore reflect the most stressful of hedged and unhedged cash flows. As of March 31, 2015, the target credit enhancement for the maximum collateral-based uplift is 39.0%. Available credit enhancement is 75.4%, which means that the program could benefit from all four notches of collateral-based uplift under our criteria.

Commingling risk is mitigated to support the current ratings, in line with our covered bonds counterparty criteria (see "Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions," published on May 31, 2012).

Our criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating do not constrain our current ratings on the covered bonds (see "Methodology And Assumptions For Ratings Above The

Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015). Our long-term unsolicited rating on Ireland is 'A+'. We consider the assets to have "moderate" sensitivity to country risk. However, liquidity risk is not mitigated for 12 months on all of the bonds. As a result, we can assign collateral-based uplift to the covered bonds of up to three notches above the sovereign rating on Ireland.

Based on all of the above factors, we have raised to 'AA' from 'AA-' our ratings on the program and the covered bonds.

The outlook on our ratings on the covered bonds is stable, which reflects that on Allied Irish Banks. If we were to lower our long-term ICR on Allied Irish Banks for any reason other than the reduction of extraordinary government support, all other things being equal, we would lower the ratings on the covered bonds. If we were to lower our long-term ICR on Allied Irish Banks due to the reduction of extraordinary government support, all other things being equal, we would not lower the ratings on the covered bonds. All else remaining equal, if we were to raise the long-term ICR on Allied Irish Banks by one notch, we would also raise the ratings on the covered bonds by one notch.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Ireland RMBS Methodology And Assumptions, March 30, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Group Rating Methodology, Nov. 19, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Global Derivative Agreement Criteria, June 24, 2013
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- Allied Irish Banks Long-Term Rating Raised To 'BB+' On Reducing Industry Risks In Ireland; Outlook Stable, July 20, 2015
- Global Covered Bond Characteristics And Rating Summary Q1 2015, June 19, 2015
- Rating Actions Taken On One Irish And Four U.K. Mortgage Covered Bond Programs Following Application Of Revised Criteria, March 6, 2015
- Low Interest Rates are Only Slowly Reviving Europe's Housing Markets, Feb. 5, 2015

- Credit Rating Model: Covered Bond Monitor, Jan. 9, 2015
- Assessments For Jurisdictional Support According To Our Covered Bond Criteria, Dec. 22, 2014
- Assessments For Target Asset Spreads According To Our Covered Bond Criteria, Dec. 22, 2014
- Allied Irish Banks, Aug. 19, 2014

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