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

Primary Credit Analyst:
Antonio Farina, Madrid (34) 91-788-7226; antonio.farina@spglobal.com

Secondary Contact:
Andreas M Hofmann, Frankfurt +49 69 33999 314; andreas.hofmann@spglobal.com

OVERVIEW

- On Jan. 13, 2017, we raised to 'BBB-' from 'BB+' our long-term issuer credit rating on AIB Mortgage Bank's parent, Allied Irish Banks.
- As a result, we have raised to 'AAA' from 'AA+' our ratings on AIB Mortgage Bank's Irish mortgage covered bond program and related issuances.
- The stable outlook on the ratings reflects the stable outlook on the issuer's parent and on Ireland.

MADRID (S&P Global Ratings) Jan. 30, 2017--S&P Global Ratings today raised to 'AAA' from 'AA+' its credit ratings on the Irish mortgage covered bonds issued by AIB Mortgage Bank. The outlook on the ratings is stable.

These upgrades follow our Jan. 13, 2017 rating action on AIB Mortgage Bank's parent, Allied Irish Banks PLC (AIB) (see "Various Positive Rating Actions Taken On Irish Banks On Reduced Economic Risk").

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,"

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published on Dec. 9, 2014).

The ICR used as a starting point in our analysis is that on AIB. The ICR on AIB does not incorporate any notches of uplift based on sovereign support. We therefore establish the adjusted ICR of the covered bonds at the same level as the ICR of AIB, 'bbb-'.

Our criteria classify mortgage covered bond programs in Ireland as having very strong systemic importance (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on July 20, 2016). 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) of '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+'.

We consider that 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 covered bonds criteria. We assess liquidity risk, which we take into account in our determination of the maximum rating uplift above the Irish sovereign. The issuer published a public overcollateralization commitment. Therefore, we do not deduct any notches of uplift from the maximum collateral-based uplift for liquidity risk or lack of overcollateralization commitment. Given that the available credit enhancement covers the target credit enhancement for the maximum collateral-based uplift, the program benefits from all four notches of collateral-based uplift under our criteria.

We have revised our analysis of country risk to assess whether the sovereign foreign currency rating on Ireland further constrains our ratings on the covered bonds (see "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016). We consider the assets to have moderate sensitivity to country risk. Therefore, we can assign a collateral-based uplift to the covered bonds of up to four notches above the sovereign rating on Ireland if liquidity risk is mitigated for 12 months. The liquidity risk is structurally mitigated on 99.15% of the bonds by the fact that their maturities are extendible. Two covered bonds maturing in 2019 have no extendible features, but we believe that liquidity risk is mitigated by the scheduled cash collection from the cover pool. We understand that the issuer has no intention to issue further notes without extendible features and our revised cash flow analysis shows that collections from the cover pool can repay the principal outstanding on such notes without exposing the issuer to a material liquidity risk. Thus, we can assign ratings up to four notches above our 'A+' foreign currency long-term sovereign rating on Ireland.

Based on all of the above factors, we have raised to 'AAA' from 'AA+' our ratings on the program and the related issuances.

The outlook on our ratings on the covered bonds is stable, which reflects the outlook on our ratings on AIB and Ireland. If we were to lower our long-term ICR on AIB or our long-term rating on Ireland, all other things being equal, we would lower the ratings on the covered bonds.

RELATED CRITERIA

- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Dec. 23, 2016
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 08, 2016
- Criteria - Structured Finance - Covered Bonds: Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bonds Criteria, Dec. 09, 2014
- Legal Criteria: Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- Various Positive Rating Actions Taken On Irish Banks On Reduced Economic Risk, Jan. 13, 2017
- Global Covered Bond Characteristics And Rating Summary Q4 2016, Jan. 13, 2017
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Aug. 15, 2016
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, July 20, 2016