

RatingsDirect®

Ratings Raised 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@standardandpoors.com

Secondary Contact:

Marta Escutia, Madrid (34) 91 788 7225; marta.escutia@standardandpoors.com

OVERVIEW

- On Dec. 2, 2015, we revised our assessment of AIB's stand-alone credit profile to 'bb+' from 'bb' and revised to positive from stable the outlook on 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 bond program and related issuances.
- The stable outlook on the ratings reflects the stable outlook on Ireland.

MADRID (Standard & Poor's) Dec. 11, 2015--Standard & Poor's Ratings Services said today that it has raised to 'AA+' 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 Dec. 2, 2015 rating action on AIB Mortgage Bank's parent, Allied Irish Banks PLC (AIB) (see "Most European Bank Ratings Affirmed Following Government Support And ALAC Review," and "Allied Irish Banks Outlook Revised To Pos On Government Support Review And Capital Restructuring; Affirmed At 'BB+/B'," published on Dec. 3, 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 AIB, to which we deem the issuer to be core under our group rating methodology (see "Group Rating Methodology," published on Nov. 19, 2013). Following our Dec. 2, 2015 rating action, the ICR on AIB no longer incorporates any notches of uplift based on sovereign support. We therefore establish the adjusted ICR at the same level as the ICR, '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) 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'.

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.

Our criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (RAS criteria) further 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 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 a 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 related issuances.

The outlook on our ratings on the covered bonds is stable, which reflects the outlook on our ratings on 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. All else remaining equal, we would raise the ratings on the covered bonds by one notch, if we were to also raise

both the long-term ICR on AIB and the rating on Ireland by at least 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
- Legal Criteria: 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
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- Allied Irish Banks Outlook Revised To Pos On Government Support Review And Capital Restructuring; Affirmed At 'BB+/B', Dec. 3, 2015
- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015
- Global Covered Bond Characteristics And Rating Summary Q3 2015, Nov. 5, 2015
- Europe's Recovery Persists Despite Signs Of Weakness In China And Latin America, Oct. 13, 2015
- Low Lending Rates And Stronger Economic Growth Are Reviving Europe's Housing Markets, July 30, 2015
- Ratings Raised On AIB Mortgage Bank's Mortgage Covered Bonds Following Similar Rating Action On Issuer; Outlook Stable, July 23, 2015
- Allied Irish Banks Long-Term Rating Raised To 'BB+' On Reducing Industry Risks In Ireland; Outlook Stable, July 20, 2015
- Advance Notice Of Proposed Criteria Change: Covered Bonds Counterparty And Supporting Obligations, March 5, 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

Additional Contact:

Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.