Ratings Raised On AIB Mortgage Bank's Mortgage Covered Bonds Following Review; Outlook Negative

Primary Credit Analyst:
Andrew O'Neill, CFA, London (44) 20-7176-3578; andrew.oneill@standardandpoors.com

OVERVIEW

- We have reviewed AIB Mortgage Bank's Irish mortgage covered bonds program under our Irish RMBS criteria.
- We have also taken into account the public overcollateralization commitment from the issuer.
- In our view, the program can benefit from four notches of collateral-based uplift and the available credit enhancement is commensurate with the target credit enhancement. There are currently no counterparty, country, legal, or operational risk rating constraints.
- We have therefore raised to 'AA-' from 'A+' our ratings on the covered bonds.
- The negative outlook on the ratings reflects the negative outlook on our long-term rating on AIB Mortgage Bank's parent, Allied Irish Banks.

LONDON (Standard & Poor's) July 10, 2015--Standard & Poor's Ratings Services said today that it has completed its review of its ratings on the Irish mortgage covered bonds issued by AIB Mortgage Bank, by applying its criteria for rating residential mortgage-backed securities (RMBS) in Ireland (see " Ireland RMBS Methodology And Assumptions," published on March 30, 2015.

In our analysis, we also included the public overcollateralization commitment made by the issuer in July 2015. This public overcollateralization commitment removes the need for the negative adjustment that we previously made to the number of collateral-based notches of uplift (see "Rating Actions Taken On One Irish And Four U.K. Mortgage Covered Bond Programs Following Application Of Revised Criteria," published on March 6, 2015). As a result, we have raised to 'AA-' from 'A+' our ratings on the covered bond program and related issuances. The outlook on our ratings is negative.

Today's upgrade follows our review of the program's assets, liabilities, and cash flows as of March 31, 2015. We have applied our Irish RMBS criteria and have consequently removed the "under criteria observation" identifier from the ratings, which we added on April 13, 2015 (see "Irish And Portuguese RMBS And Covered Bond Program Ratings Placed Under Criteria Observation," published on April 13, 2015).

The assets backing the program are residential 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 PLC 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 'bb+'.

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 'bbb+'.

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 is taken into account in our rating above the Irish sovereign and the issuer has published a public overcollateralization commitment as of July 2015. Therefore, we do not deduct any notch 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 do not given benefit to the swaps, which cover interest rate risk, as they do not reflect our counterparty 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 'A+' our ratings on the program and the covered bonds.

The outlook on our ratings on the covered bonds remains negative and reflects that on Allied Irish Banks. If we were to downgrade Allied Irish Banks, all other things being equal, we would lower the ratings on the covered bonds. All else remaining equal, if we were to raise the long-term rating on Allied Irish Banks by up to two notches, we would raise the ratings on the covered bonds by up to two notches.

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

- 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

Additional Contact:
Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com