

## Negative Rating Actions Taken On Irish Banks After Sovereign Downgrade And BICRA Revision; Ratings Still On Watch Neg

**Primary Credit Analyst:**

Nigel Greenwood, London (44) 20-7176-7211; nigel\_greenwood@standardandpoors.com

**Secondary Contact:**

Giles Edwards, London (44) 20-7176-7014; giles\_edwards@standardandpoors.com

- On Feb. 2, 2011, we lowered our ratings on the Republic of Ireland to 'A-/A-2' from 'A/A-1'. The ratings remain on CreditWatch negative.
- As a result of our view of the weaker economic outlook, reduced prospects for bank earnings, and the funding difficulties of the domestic banks, we are revising downward our Banking Industry Country Risk Assessment (BICRA) on Ireland to Group 6 from Group 4.
- In our opinion, both the ability and willingness of the Irish government to provide extraordinary support to the four rated domestically owned Irish banks has weakened and we observe that these banks remain highly reliant on central bank funding sources and have been unable to source term funding, even when government-guaranteed, for some months.
- We are therefore lowering the ratings on Allied Irish Banks PLC (AIB), Anglo Irish Bank Corp. Ltd (Anglo), Bank of Ireland (BOI), and Irish Life & Permanent PLC (IL&P).
- The ratings on the four domestically owned banks remain on CreditWatch with negative implications, indicating potential further rating actions in the event that we lower the sovereign ratings further. This also reflects our view that the potential extraordinary support that we factor into the counterparty credit ratings may diminish further.
- As a result of our downgrade of the Irish sovereign ratings we have also reviewed the ratings on the foreign-owned domestically active banks.
- We are lowering the ratings on KBC Bank Ireland PLC (KBCI), Ulster Bank Ireland Ltd. (UBIL), and its U.K. parent Ulster Bank Ltd. (UBL) by one notch.

LONDON (Standard & Poor's) Feb. 2, 2011--Standard & Poor's Ratings Services said today that it has taken various rating actions on six Irish banks. This follows a review of our Banking Industry Country Risk Assessment (BICRA) on Ireland, which we have revised downward to Group 6 from Group 4, a review of the extraordinary support that we factor into the ratings on the banks from the Republic of Ireland (A-/Watch Neg/A-2), and our expectations for their own stand-alone credit profiles (SACP).

- We have lowered the counterparty credit ratings on Anglo Irish Bank Corp. (Anglo) to 'B-/C' from 'B/B'. The ratings remain on CreditWatch with negative implications.
- We have lowered the counterparty credit ratings on Allied Irish Banks PLC (AIB) to 'BB/B' from 'BBB/A-2'. We have also lowered our ratings on AIB's wholly owned U.K. subsidiary, AIB Group (UK) PLC to 'BB-/B' from 'BBB-/A-3'. The ratings remain on CreditWatch with negative implications. We now factor two notches of support (rather than four previously) into the counterparty credit ratings on AIB above its revised 'b+' SACP.
- We have lowered the counterparty credit ratings on Bank of Ireland (BOI) to 'BB+/B' from 'BBB+/A-2'. The ratings remain on CreditWatch with negative implications. We now factor two notches of support (rather than four previously) into the counterparty credit ratings on BOI above its revised 'bb-' SACP.
- We have lowered the counterparty credit ratings on Irish Life & Permanent PLC (IL&P) to 'BBB-/A-3' from 'BBB/A-2'. The ratings remain on CreditWatch with negative implications. In addition, we have lowered IL&P's lower Tier 2 subordinated debt rating by two notches to 'B' from 'BB-'. We have lowered our view of the SACP of IL&P's banking operations to 'bb-' from 'bb', but maintain two notches of support above the revised 'bb' SACP of IL&P (which in turn incorporates a one-notch uplift for our view of the better financial strength of its life operations).
- We have lowered the long-term counterparty credit ratings on Ulster Bank Ltd. (UBL) and core Irish subsidiary, Ulster Bank Ireland Ltd. (UBIL), to 'A-/A-2' from 'A/A-1'. The ratings remain on CreditWatch with negative implications. In addition, we have lowered UBL's SACP by one notch to 'bb+' from 'bbb-'.
- We have lowered the long-term counterparty credit rating on KBC Bank Ireland PLC (KBCI) by one notch to 'BBB+' from 'A-' and affirmed the short-term counterparty credit rating at 'A-2'. The ratings remain on CreditWatch with negative implications. In addition, we have lowered KBCI's SACP by one notch to 'bbb-' from 'bbb'.

#### DOMESTICALLY OWNED BANKS

The rating actions primarily reflect our reassessment of Ireland's BICRA, and a review of the number of notches of extraordinary support that we factor into the rated domestically owned Irish banks.

The revision downwards of the BICRA reflects our revised view of banking industry and country risk in Ireland (see "S&P Comments On Irish BICRA Revision To Group 6 From Group 4 On Heightened Economic And Industry Risks," published today on RatingsDirect). This revision was an important factor in the one-notch downgrade of the Irish sovereign ratings. The ratings on Ireland

remain on CreditWatch negative as we believe that uncertainties remain regarding the size of additional capital needs for Ireland's largely state-owned financial sector (see "Ireland Ratings Lowered One Notch To 'A-/A-2'; Still On Watch Neg Due To Ireland's Uncertainty About Capital Needs," published today).

In addition to potential negative implications from a further sovereign downgrade, the domestically owned bank ratings remain on CreditWatch with negative implications, indicating our view that the potential extraordinary support that we factor into the counterparty credit ratings on the banks may diminish further.

In our view, liquidity is very weak. All of the domestically owned Irish banks rely on central bank funding sources and we see no obvious solution emerging from the authorities to resolve this problem in the near term. Nevertheless, in our view there is the potential for the very low investor confidence in the Irish banking system to start to stabilize in the coming weeks in the event that the forthcoming publication of the regulatory capital stress test review (PCAR 2011) and the prudential liquidity assessment review (PLAR) provide more certainty than hitherto. Even then, we see a long journey of recovery for the Irish banking system and believe that downside risk remains.

We consider that both the willingness and ability of Ireland to provide extraordinary support to its banking system has reduced. We reflect this potential for future support in notches above a bank's SACP, which incorporates support received to date or that is pending and, we believe, clearly identified. These include:

- Injections of equity and hybrids under previous recapitalization efforts;
- National Asset Management Agency (NAMA) tranches already transferred;
- Funding and liquidity support via the ELG (Eligible Liabilities Guarantee) scheme and repurchase agreement (repo) lending by the European Central Bank and Central Bank of Ireland;
- Remaining NAMA tranches due to complete by the end of the first quarter of 2011; and
- Capital injections announced in November 2010--some of which remain to be completed. Because they are quantified, we believe the government is committed (and able) to provide these injections and that they will happen very soon.

Our view of the reduced willingness of the Irish government to provide extraordinary support reflects our perception of increased political acceptance for burden sharing (with respect to senior unsecured unguaranteed bonds). Our view of its reduced ability to support incorporates the downgrade of the Irish sovereign.

In December 2010, the Irish government introduced a legislative regime to deal proactively with distressed financial institutions. We consider that this has resulted in legislation that is similar in impact to the U.K.'s Banking Act. Until end-2012, it gives the authorities wide-ranging powers over distressed financial institutions, for example to change bank management, force

subordinated debt-for-equity swaps, and transfer out assets and/or liabilities.

While these powers have not yet been used, we expect that they may be exercised in order to facilitate the wind-down of Anglo and Irish Nationwide Building Society (INBS; not rated). Furthermore, we consider that the combination of the government's evident desire for providers of bank debt regulatory capital to take part in burden-sharing and the authorities' new ability to enforce this means that there is a realistic possibility of a government-enforced default on these instruments through coercive burden-sharing. In recent months, we have treated lower tier 2 liability management exercises by Anglo, BOI, and AIB to be "distressed exchanges" in accordance with our criteria.

In our view, the current government stance regarding burden-sharing by bondholders has been clearly delineated: subordinated investors are clearly at high risk, senior are not at present directly threatened. However, we believe that the impending general election, due February 25, and the stated stance of opposition parties to revisit the topic, have introduced greater uncertainty. By contrast, we also note the stated desire of the EU that senior bank bondholders should remain whole.

On balance, with the exception of Anglo, which is now rated 'B-', our base case remains that there is still a fairly small prospect of senior secured unguaranteed bonds in rated institutions being forced into a coercive default. The fact that our ratings on the domestically owned Irish banks explicitly include two notches of support above the banks' SACPs bears this view out. However, having previously factored in four notches of support into the ratings on AIB and BOI (which was higher than that provided to most other supported bank ratings in Europe), we have reduced the available uplift for government support to two notches for highly systemically important domestically owned Irish banks. We may further review this position based on political or regulatory developments.

Anglo Irish Bank Corp. Ltd.

The rating actions on Anglo reflect our first-time classification of Anglo as a government-related entity (GRE) in accordance with our criteria. We take this approach for the ratings on Anglo, in contrast to those of the other domestically owned Irish banks for whom we apply our systemic importance criteria, because we expect Anglo to be wound down over a period of years and remain in government ownership throughout that period. We classify Anglo as a GRE with an "important" role and a "strong" link to the government. Accordingly, we consider that there is a "moderately high" likelihood of extraordinary government support and therefore the 'B-' long-term counterparty credit rating is two notches above the 'ccc' SACP. The ratings remain on CreditWatch negative pending publication of the final details of the government's plan for Anglo's wind-down, expected within the next three months, which may lead to a further incremental increase in our view of the risk of burden sharing.

#### Allied Irish Banks PLC

The rating actions on AIB reflect our reassessment of its SACP in light of our revised view of Ireland's BICRA. They also reflect a reduction in the notches of extraordinary support that we factor into the ratings on AIB. We consider AIB to be a highly systemically important institution. The ratings remain on CreditWatch pending the outcome of the sovereign rating review and our assessment of the potential for extraordinary support following the announcement of the impact of PCAR 2011 and PLAR on AIB.

#### Bank of Ireland

The rating actions on BOI reflect our reassessment of its SACP in light of our revised view of Ireland's BICRA. It also reflects a reduction in the notches of extraordinary support that we factor into the ratings on BOI. We consider BOI to be a highly systemically important institution. The ratings remain on CreditWatch pending the outcome of the sovereign rating review and our assessment of the potential for extraordinary support following the announcement of the impact of PCAR 2011 and PLAR on BOI.

#### Irish Life & Permanent PLC

The rating actions on IL&P reflect our reassessment of its SACP in light of our revised view of Ireland's BICRA. We consider IL&P to be highly systemically important. We have maintained the two notches of extraordinary support that we factor into the ratings on IL&P, which is now the same level as we have for AIB and BOI, because the differences that we observe in the potential for burden sharing among the three appear to be minor. We have lowered the subordinated debt ratings on IL&P by two notches, thus expanding the differential from the counterparty credit rating to five notches from four, because we see greater pressures for burden sharing on subordinated debt than we do for senior debt. Based upon the experience that we have observed at Anglo, AIB, and BOI, subordinated bondholders may suffer loss. The ratings remain on CreditWatch pending the outcome of the sovereign rating review and our assessment of the potential for extraordinary support following the announcement of the impact of PCAR 2011 and PLAR on IL&P.

#### FOREIGN-OWNED, DOMESTICALLY ACTIVE BANKS

We have also considered the implications of the BICRA revision and the sovereign downgrade on the two foreign-owned, domestically active banks that we rate: KBCI and UBIL. While not supported by the Irish government, these banks are typically rated higher than their domestically owned peers due to our views on the likelihood of parental support and our view of their modestly stronger SACPs. In particular, in our view, these banks have not seen the sort of stress experienced by their domestic peers, particularly in terms of access to funding.

#### KBC Bank Ireland PLC

The rating actions on KBCI reflect our reassessment of its SACP in light of our revised view of Ireland's BICRA. The ratings remain on CreditWatch negative pending the outcome of the sovereign rating review. This is because:

- We view the bank as strategically important as opposed to core to a parent that is itself government-supported; and

- While we still rate KBCI lower than the sovereign, the sovereign rating may yet be lowered by more than one notch, in which case we would likely lower the ratings on KBCI.

Ulster Bank Ireland Ltd., Ulster Bank Ltd.

The rating actions on UBIL reflect our reassessment of its SACP in light of our revised view of Ireland's BICRA. The ratings remain on CreditWatch negative pending the outcome of the sovereign rating review. This is because:

- We consider that UBIL is core to U.K.-incorporated UBL, being about 70% of the consolidated assets, and highly integrated, and that a deterioration of UBIL would weaken UBL;
- We view UBL as strategically important as opposed to core to a parent that is itself government-supported;
- UBIL is now rated the same as the sovereign, and if the sovereign rating is lowered again, we would likely lower the ratings on UBIL; and
- If we lowered the ratings on UBIL we would likely do the same to those on UBL.

#### RELATED CRITERIA AND RESEARCH

- Ireland Ratings Lowered One Notch To 'A-/A-2'; Still On Watch Neg Due To Ireland's Uncertainty About Capital Needs, Feb. 2, 2011
- Irish BICRA Changed To Group 6 From Group 4 On Higher Economic And Industry Risks, Feb. 2, 2011
- How Systemic Importance Plays A Significant Role In Bank Ratings, July 3, 2007
- Bank Rating Analysis Methodology Profile, March 18, 2004
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Methodology For Rating Bank Nondeferrable Subordinated Debt (Lower Tier 2 Regulatory Capital), Aug. 4, 2009
- Group Methodology, April 22, 2009
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

#### RATINGS LIST

Downgraded; CreditWatch Action; Ratings Affirmed

	To	From
Anglo Irish Bank Corp. Ltd. Counterparty Credit Rating Senior Unsecured	B-/Watch Neg/C B-/Watch Neg	B/Watch Neg/B B/Watch Neg
Allied Irish Banks PLC Counterparty Credit Rating Senior Unsecured	BB/Watch Neg/B BB/Watch Neg/	BBB/Watch Neg/A-2 BBB/Watch Neg
AIB Group (UK) PLC Counterparty Credit Rating	BB-/Watch Neg/B	BBB-/Watch Neg/A-3
Irish Life & Permanent PLC Counterparty Credit Rating Senior Unsecured	BBB-/Watch Neg/A-3 BBB-/Watch Neg	BBB/Watch Neg/A-2 BBB/Watch Neg

*Negative Rating Actions Taken On Irish Banks After Sovereign Downgrade And BICRA Revision; Ratings Still On Watch Neg*

Subordinated	B/Watch Neg	BB-/Watch Neg
Irish Life Assurance PLC		
Counterparty Credit Rating	BBB-/Watch Neg/--	BBB/Watch Neg/--
Financial Strength Rating	BBB-/Watch Neg	BBB/Watch Neg/--
Junior Subordinated	BB/Watch Neg	BB+/Watch Neg
Bank of Ireland		
Counterparty Credit Rating	BB+/Watch Neg/B	BBB+/Watch Neg/A-2
Senior Unsecured	BB+/Watch Neg	BBB+/Watch Neg
KBC Bank Ireland PLC		
Counterparty Credit Rating	BBB+/Watch Neg/A-2	A-/Watch Neg/A-2
Senior Unsecured	BBB+/Watch Neg	A-/Watch Neg
Ulster Bank Ireland Ltd.		
Ulster Bank Ltd.		
Counterparty Credit Rating	A-/Watch Neg/A-2	A/Watch Neg/A-1

NB: This list does not include all ratings affected.

**Additional Contact:**

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

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