

FITCH DOWNGRADES ANGLO IRISH BANK AND INBS TO 'BB-'; PUTS BOI, AIB & ILP ON RWN

Fitch Ratings-London-16 February 2011: Fitch Ratings has downgraded Anglo Irish Bank Corp's (Anglo) and Irish Nationwide Building Society's (INBS) Long-term and Short-term Issuer Default Ratings (IDR) to 'BB-' and 'B' from 'BBB-' and 'F3', respectively, and maintained them on Rating Watch Negative (RWN). Anglo and INBS's Support Ratings have also been downgraded to '3' from '2' and maintained on RWN.

At the same time, the agency has placed all support-driven ratings of Allied Irish Banks (AIB), Bank of Ireland (BOI), and Irish Life and Permanent (ILP) on RWN and maintained EBS Building Society's (EBS) ratings on RWN. A full list of rating actions appears at the end of this release.

The RWN on the support-driven ratings of AIB, BOI, and ILP reflects the greater uncertainty regarding the implementation of the previously announced recapitalisation plans and the higher political risk in relation to further support available from the Irish authorities to the Irish banking sector and specifically to senior unsecured unguaranteed creditors of the Irish domestic banks.

The rating actions follow the announcement made by the Irish Department of Finance on 9 February 2011 that the government is postponing further capital injections in AIB, BOI and EBS until after the upcoming election on 25 February. At end-November 2010, the Irish authorities agreed under the EU/IMF Programme of Financial Support to ensure that AIB, BOI, EBS and ILP would be capitalised to at least a 12% core Tier 1 capital level, by end-February for AIB, BOI and EBS, and by end-May for ILP. The issue of recapitalisation will now have to be addressed by the incoming government.

Overall, Fitch continues to believe the risks of the sovereign and the domestic banks are strongly interlinked, not least given the banks' extensive reliance on government-guaranteed and central bank funding. A senior debt default or coercive debt exchange, particularly at AIB or BOI, could have expensive ramifications for sovereign finances due to the potential implications for funding stability and unintended legal consequences. It would also likely have negative repercussions for the fragile euro zone bank funding markets beyond Ireland's border, meaning it would probably also be undesirable at a 'higher' European level.

BOI, AIB and EBS's IDRs remain investment grade, reflecting the close correlation between their default risk and that of the Irish sovereign. The RWN is due to Fitch's concerns about higher political risks that might influence the high level of support being made available to the banks. The greater systemic importance of the largest two banks (AIB and BOI) means their IDRs remain closest to those of the Irish sovereign ratings.

Given Anglo and INBS's relatively small proportion of senior unsecured unguaranteed debt in their funding mix and Fitch's view that the authorities would want to minimise the risk of a disorderly (e.g. accelerated) wind-down of these institutions, Fitch believes the Irish authorities are still likely to want to avoid a default or coercive burden sharing for the banks' senior unsecured, unguaranteed creditors. However, political risks mean Fitch considers the probability of further support to be 'moderate', rather than 'high', meaning these banks' IDRs are no longer considered consistent with investment grade ratings.

Fitch notes that Anglo and INBS need to be capitalised banking institutions to be able to continue to access the central bank funding that is so critical to their orderly wind-down and to minimising potential further costs to the Irish taxpayer. The Irish authorities have a meaningful presence on both sides of these banks' balance sheets by way of guaranteed and central bank funding and, on the asset side, about EUR31bn of government promissory notes injected as capital.

On 8 February 2011, the Irish Minister for Finance obtained direction orders from the High Court in respect of Anglo and INBS in relation to the transfer of deposits and certain assets of these institutions to a third party via an auction process. The transfer of deposits to a third institution potentially allows the authorities more flexibility to impose losses on Anglo's and INBS's senior creditors, but in itself is not a driver of Fitch's rating action on the banks.

The rating actions are as follows:

Anglo Irish Bank Corporation

Long-term IDR: downgraded to 'BB-' from 'BBB-'; RWN maintained

Short-term IDR: downgraded to 'B' from 'F3'; RWN maintained

Individual Rating: affirmed at 'E'

Support Rating: downgraded to '3' from '2'; RWN maintained

Support Rating Floor: downgraded to 'BB-' from 'BBB-'; RWN maintained

Short-term debt: downgraded to 'B' from 'F3'; RWN maintained

Senior unsecured downgraded to 'BB-' from 'BBB-'; RWN maintained

Subordinated debt: affirmed at 'C'

Upper tier 2 subordinated notes: affirmed at 'C'

Tier 1 notes: affirmed at 'C'

Sovereign-guaranteed Long-term notes: affirmed at 'BBB+'

Sovereign-guaranteed Short-term notes: affirmed at 'F2'

Sovereign-guaranteed commercial paper: affirmed at 'F2'

Sovereign-guaranteed Long-term deposits: affirmed at 'BBB+'

Sovereign-guaranteed Short-term deposits: affirmed at 'F2'

Sovereign-guaranteed Long-term interbank liabilities: affirmed at 'BBB+'

Sovereign-guaranteed Short-term interbank liabilities: affirmed at 'F2'

Market linked securities: downgraded to 'BB-emr' from 'BBB-emr'; RWN maintained

Anglo Irish Mortgage Bank

Long-term IDR: downgraded to 'BB-' from 'BBB-'; RWN maintained

Short-term IDR: downgraded to 'B' from 'F3' RWN maintained

Support Rating: downgraded to '3' from '2'; RWN maintained

Irish Nationwide Building Society

Long-term IDR: downgraded to 'BB-' from 'BBB-'; RWN maintained

Short-term IDR: downgraded to 'B' from 'F3' RWN maintained

Individual Rating: affirmed at 'E'

Support Rating: downgraded to '3' from '2'; RWN maintained

Support Rating Floor: downgraded to 'BB-' from 'BBB-'; RWN maintained

Senior unsecured notes: downgraded to 'BB-' from 'BBB-'; RWN maintained

Subordinated debt: affirmed at 'C'

Sovereign-guaranteed notes: affirmed at 'BBB+'

Sovereign-guaranteed Long-term deposits: affirmed at 'BBB+'

Sovereign-guaranteed Short-term deposits: affirmed at 'F2'

Sovereign-guaranteed Long-term interbank liabilities: affirmed at 'BBB+'

Sovereign-guaranteed Short-term interbank liabilities: affirmed at 'F2'

Allied Irish Banks (AIB)

Long-term IDR: 'BBB'; placed on RWN

Short-term IDR: 'F2'; placed on RWN

Individual Rating: affirmed at 'E'

Support Rating: '2'; placed on RWN

Support Rating Floor: 'BBB'; placed on RWN

Senior unsecured notes: 'BBB'; placed on RWN

Short-term debt: 'F2'; placed on RWN

Lower tier 2 subordinated debt: affirmed at 'CCC'

Upper tier 2 subordinated notes: affirmed at 'CC'

Tier 1 notes: affirmed at 'CC'

Sovereign-guaranteed Long-term notes: affirmed at 'BBB+'

Sovereign-guaranteed Short-term notes: affirmed at 'F2'
Sovereign-guaranteed commercial paper: affirmed at 'F2'
Sovereign-guaranteed Long-term deposits: affirmed at 'BBB+'
Sovereign-guaranteed Short-term deposits: affirmed at 'F2'
Sovereign-guaranteed Long-term interbank liabilities: affirmed at 'BBB+'
Sovereign-guaranteed Short-term interbank liabilities: affirmed at 'F2'

AIB Bank (CI) Limited

Long-term IDR: 'BBB'; placed on RWN
Short-term IDR: 'F2'; placed on RWN
Individual Rating: affirmed at 'E'
Support Rating: '2'; placed on RWN
Sovereign-guaranteed Long-term notes: affirmed at 'BBB+'
Sovereign-guaranteed Short-term notes: affirmed at 'F2'

AIB Group (UK) PLC

Long-term IDR: 'BBB'; placed on RWN
Short-term IDR: 'F2'; placed on RWN
Individual Rating: affirmed at 'E'
Support Rating: '2'; placed on RWN
Sovereign-guaranteed Long-term notes: affirmed at 'BBB+'
Sovereign-guaranteed Short-term notes: affirmed at 'F2'

Bank of Ireland

Long-term IDR: 'BBB'; placed on RWN
Short-term IDR: 'F2'; placed on RWN
Individual Rating: affirmed at 'D/E'
Support Rating: '2'; placed on RWN
Support Rating Floor: 'BBB'; placed on RWN
Senior unsecured notes: 'BBB'; placed on RWN
Short-term debt: 'F2'; placed on RWN
Upper tier 2 subordinated notes: 'B', RWN maintained
Preference shares: affirmed at 'CCC'
Subordinated debt: 'BB'; placed on RWN
Sovereign-guaranteed notes: affirmed at 'BBB+'
Sovereign-guaranteed Long-term deposits: affirmed at 'BBB+'
Sovereign-guaranteed Short-term deposits: affirmed at 'F2'
Sovereign-guaranteed Long-term interbank liabilities: affirmed at 'BBB+'
Sovereign-guaranteed Short-term interbank liabilities: affirmed at 'F2'

Bank of Ireland Mortgage Bank

Long-term IDR: 'BBB'; placed on RWN
Short-term IDR: 'F2'; placed on RWN
Support Rating: '2'; placed on RWN

Bank of Ireland UK Plc

Long-term IDR: 'BBB'; placed on RWN
Short-term IDR: 'F2'; placed on RWN
Individual Rating: affirmed at 'D/E'
Support Rating: '2'; placed on RWN
Sovereign-guaranteed Long-term deposits: affirmed at 'BBB+'
Sovereign-guaranteed Short-term deposits: affirmed at 'F2'
Sovereign-guaranteed Long-term interbank liabilities: affirmed at 'BBB+'
Sovereign-guaranteed Short-term interbank liabilities: affirmed at 'F2'

EBS Building Society

Long-term IDR: 'BBB-'; RWN maintained
Short-term IDR: 'F3'; RWN maintained
Individual Rating: affirmed at 'E'

Support Rating: '2', RWN maintained
Support Rating Floor: 'BBB-'; RWN maintained
Senior unsecured notes: 'BBB-'; RWN maintained
Short-term debt: 'F3'; RWN maintained
Preferences shares: affirmed at 'CCC'
Sovereign-guaranteed Long-term notes: affirmed at 'BBB+'
Sovereign-guaranteed Short-term notes: affirmed at 'F2'
Sovereign-guaranteed commercial paper: affirmed at 'F2'
Sovereign-guaranteed Long-term deposits: affirmed at 'BBB+'
Sovereign-guaranteed Short-term deposits: affirmed at 'F2'
Sovereign-guaranteed Long-term interbank liabilities: affirmed at 'BBB+'
Sovereign-guaranteed Short-term interbank liabilities: affirmed at 'F2'

EBS Mortgage Finance

Long-term IDR: 'BBB-'; RWN maintained
Short-term IDR: 'F3'; RWN maintained
Support Rating: '2', RWN maintained

Irish Life & Permanent

Individual Rating: affirmed at 'D/E'
Support Rating: '2', placed on RWN

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Applicable criteria, "Global Financial Institutions Rating Criteria", dated 16 August 2010, "Short-Term Ratings Criteria for Corporate Finance", dated 2 November 2010, "Coercive Debt Exchange Criteria", dated 3 March 2009, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547685

Short-Term Ratings Criteria for Corporate Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=568726

Coercive Debt Exchange Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=427866

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