Moody's
INVESTORS SERVICE

Rating Action: **Moody's downgrades Irish Banks further to sovereign downgrade**

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London, 20 December 2010 -- Moody's Investors Service has today downgraded the ratings of several Irish banks further to last week's five-notch downgrade of the Irish government's bond ratings to Baa1 with a negative outlook from Aa2. Today's rating actions can be summarised as follows:

• Moody's has downgraded the bank deposit ratings, the senior debt ratings, the bank financial strength ratings (BFSRs) and most junior securities of Allied Irish Banks (Allied Irish), Bank of Ireland (BoI), EBS Building Society (EBS), Irish Life & Permanent (IL&P) and Irish Nationwide Building Society (INBS).

• Moody's has also downgraded the deposit ratings and BFSRs of the subsidiaries of Bank of Ireland, ICS Building Society (ICS) and Bank of Ireland (UK) (BoI UK).

• In addition, the senior debt and bank deposit ratings of Anglo Irish Bank (Anglo Irish) have been downgraded.

• The debt guaranteed under the Irish government's Eligible Liabilities Scheme has also been downgraded. This refers to the backed senior debt of five institutions -- Allied Irish, Anglo Irish, BoI, EBS and IL&P.

These actions conclude the reviews initiated in October, November and December 2010.

For full details of the rating actions, please refer to the list provided at the end of this release.

OVERALL RATIONALE

Moody's concludes that the banks' debt ratings are affected by the downgrade of the Irish government, as the high degree of systemic support from the government had so far largely mitigated the pressure stemming from a much weaker standalone credit profile of these banks. The downgrade of the Irish government to Baa1 reflects Moody's view of the revised capacity of the government to extend support to its banking sector -- over and above the contingency fund set aside as part of the EU/IMF package. However, at this point Moody's continues to assume a very high, willingness of the government to provide such support for senior bondholders.

Commenting on the downgrade of the banks' standalone financial strength ratings Ross Abercromby, Vice President and lead analyst for Irish banks at Moody's Investors Service, said: "The downgrade of the standalone ratings of BoI (to D), and of Allied Irish, IL&P and EBS (to D-) reflects their ongoing high reliance on external support for day-to-day funding, the uncertain evolution of their respective franchises amidst an expected far-reaching restructuring of the entire sector, and likely further pressure on asset quality as a result of the government's austerity measures. These challenges are only partially offset by the significant recapitalisation of these banks, which in itself is a clear credit positive."

RATING RATIONALE FOR DOWNGRADE OF SENIOR DEBT

The senior unsecured debt ratings of Allied Irish, BoI, EBS and IL&P have been downgraded by three to five notches to Baa2 (BoI) and Baa3 (Allied Irish, EBS, IL&P). The outlook on these ratings is negative in line with the outlook on the government bond rating and on the BFSRs.

Moody's views these four institutions as being systemically important for the Irish government as evidenced by the substantial support that they have received over the past two years. While the senior ratings have been downgraded as a result of the downgrade of the Irish Government (Moody's measures the Irish government's ability to support its banks at the same level as Ireland's own debt rating), the senior obligations of these bank's continue to benefit from three notches of uplift from the bank's stand-alone ratings and continue to be investment grade. This is due to a combination of several factors:

(i) In addition to the EUR8 billion of capital that will be injected into the four banks (Moody's notes that some of this capital may be raised privately), the EU/IMF package has provided a structure that will allow the Irish government to call on a EUR25 billion contingency fund if further capital is required. In Moody's view, this would cover all of the lifetime losses of these four banks both in Moody's base and stress case scenarios.

(ii) Moody's expects that, over the foreseeable future, Irish banks are likely to continue to face very difficult conditions in the wholesale markets and will therefore continue to rely on central bank funding. In this regard, Moody's believes that the authorities will remain a reliable source of funding for these four banks until progress is made on the restructuring of the banking sector and market confidence can be restored.

The senior debt ratings of Anglo Irish and INBS have been downgraded by three notches to Ba3 (negative outlook) from Baa3. In line with the downgrade of the other banks' senior ratings, these downgrades reflect not only the reduced ability of the government to support the senior debt in the future, but also the reduced systemic importance of these banks as implied by the plans to wind them down over the longer term. At the Ba3 level, the ratings continue to incorporate significant systemic support (with a four-notch uplift from their standalone rating). However, Moody's no longer considers their credit profile to be commensurate with an investment-grade rating.

Deposits at Anglo Irish and INBS are now rated Baa3 (negative outlook). This reflects Moody's understanding that the deposits of the two institutions are likely to be transferred or sold to other banks in the system, the lowest of which are now rated Baa3.

The senior ratings do not incorporate the potential for a restructuring of the debt. Moody's says that, in the event of a change in the clear commitment by the Irish government to abstain from imposing losses on senior creditors, it is likely that these ratings could be further downgraded. In light of the negative outlook on all the senior debt ratings, Moody's currently does not see any upward rating pressure, which would most likely be conditional on an upgrade of the government rating.

RATING RATIONALE FOR DOWNGRADE OF JUNIOR SECURITIES

As a result of the substantial support that the Irish government has provided to the banking sector, and the strain which the sizeable capital injections has placed on the Irish government's finances, the government is introducing legislation that will allow losses to be imposed on the subordinated liabilities of the six institutions covered by the guarantee (Allied Irish, Anglo Irish, BoI, EBS, IL&P and INBS). Moody's has therefore taken rating actions on the subordinated liabilities of the four banks (all junior securities at Anglo Irish and INBS are already rated C). For Allied Irish, which will be almost fully owned by the government, and EBS which is already 100% owned by the government, the junior securities -- including in the case of Allied Irish the dated subordinated debt, junior subordinated debt and Tier 1 securities -- have all been downgraded to Ca. This reflects Moody's view that any exchange carried out by these institutions would almost certainly be classified as a distressed exchange. In the absence of an exchange, it is likely that the government would impose losses.

Moody's believes that the situation differs for Bank of Ireland and IL&P. IL&P has not received any state aid from the government and its need for capital is deemed to be less than that of the other institutions. As a result, the likelihood of losses being imposed is lower. However, as the bank has received substantial funding support in the form of the guarantees, use of the legislation cannot be ruled out. Given this uncertainty, Moody's has downgraded the dated subordinated debt to B2 and the junior subordinated debt to B3, which are two and three notches, respectively, below the bank's standalone rating. If a distressed exchange was to take place or losses are imposed, Moody's says that the ratings could well be downgraded further to reflect the actual level of losses incurred.

Bank of Ireland has now completed an exchange offer on the majority of its dated subordinated debt. Moody's has classified this transaction as a distressed exchange and consequently has downgraded the affected securities to Ca. In a few days the rating on these securities will be upgraded to B2, in line with the rating of the dated subordinated debt that is not included in the exchange offer. Although the B2 rating reflects Moody's view that the use of the legislation cannot be ruled out, the rating agency believes that, as a result of the exchange, this likelihood is lower than it is for Allied Irish and EBS. This also reflects the fact that Bank of Ireland has received less state aid, relative to the size of its balance sheet. Junior subordinated debt and cumulative Tier 1 securities of BoI have been downgraded to B3, while the non-cumulative preference shares remain rated Caa1.

RATING RATIONALE FOR DOWNGRADE OF BANKS' STANDALONE RATINGS

In Moody's opinion, the EU/IMF support package for Ireland and its banking system is positive for the capital profiles of Irish banks, making available significant funds for bank recapitalisations that will in turn provide a significantly improved buffer to absorb any future loan losses. The aim is to instil greater investor confidence and underpin the banks' financial fundamentals.

The government also reaffirmed its intention to restructure the Irish banking system. While Moody's believes that such a restructuring will strengthen the overall position of the system, the rating agency notes that it leaves each of the banks, individually, in an uncertain position. More generally, the operating environment for Irish banks remains highly volatile and uncertain, and therefore asset quality and earnings performance in the sector is likely to remain extremely weak. In addition, the four banks remain under significant short-term funding pressure, and are highly reliant on external support. As a result of these factors, the standalone BFSR of BoI has been downgraded to D (mapping to Ba2 on the long-term scale) and the BFSRs of Allied Irish, IL&P and EBS have been downgraded to D- (mapping to Ba3). The higher BFSR of BoI reflects Moody's opinion that it is likely to be the first bank to recover from the current crisis as a result of its stronger franchise and stronger business model, and that it may need less restructuring than some of the other banks. The rating outlook on the BFSRs is negative, reflecting the difficult economic condition, the funding issues and the challenges facing the banks to deleverage in a difficult environment.

The BFSR of INBS has been downgraded to E (mapping to Caa1) as a result of the plans to transfer the deposits out of the institution and wind down the assets that remain on the balance sheet after the transfers to NAMA. Moody's had previously expected the institution to be sold as a whole. The outlook on INBS's E BFSR is stable.

RATING RATIONALE FOR DOWNGRADE OF GOVERNMENT-GUARANTEED DEBT

Moody's has downgraded the backed senior debt of the five institutions -- Allied Irish, Anglo Irish, BoI, EBS and IL&P -- that have issued public debt under the Eligible Liabilities Guarantee (ELG) scheme to Baa1 (negative outlook) from Aa2. This action is in line with the downgrade of the Irish government's bond rating to Baa1 from Aa2. (Please refer to press release entitled "Moody's downgrades Ireland to Baa1 from Aa2; outlook negative", published on 17 December 2010.) The backed-Baa1 ratings assigned are based on the unconditional and irrevocable guarantee from the Irish government (Please refer to press release entitled "Moody's to assign backed-Aa1/Prime-1 ratings to debt securities covered by the Irish government's new guarantee", published on 7 January 2010.) In addition, in the case of the commercial paper programme of AIB North America, Inc, the guaranteed long-term rating is downgraded to Baa1 (negative outlook), from A1. Due to a clerical error this had continued to be rated A1 as opposed to the rating of the Irish government from the introduction of the guarantee.

BANK OF IRELAND SUBSIDARIES DOWNGRADED TO Baa3/P-3

Given that ICS Building Society and Bank of Ireland (UK) are both highly integrated subsidiaries of Bank of Ireland, they both have the same standalone rating as BoI. Their BFSRs have therefore been downgraded to D, with a negative outlook (mapping to Ba2 on the long-term scale) from D+ (mapping to Baa3 on the long-term scale.) The potential for parental support from Bank of Ireland, and in the case of BoI (UK), the potential for systemic support from the UK reflecting the importance of the deposit franchise it has as part of its joint venture with the Post Office, has limited the downward pressure on these institutions. As a result the bank deposit ratings are downgraded to Baa3/P-3 for both institutions. The outlook is negative, in line with that on BoI. In the case of ICS, the negative outlook additionally reflects the need to sell the institution over a multi-year period following negotiations with the European Commission.

OTHER BANKS ARE UNAFFECTED BY TODAY'S ACTIONS

The ratings of the other Irish banks are unaffected by today's rating actions as they are not being supported as part of the Irish government's guarantee schemes. Instead, the rating uplift in their deposit and senior debt ratings primarily stems from parental support. These banks include KBC Bank Ireland (Baa2 negative; D-/Ba3 negative); Bank of Scotland (Ireland) (Baa1, negative; D-/Ba3 negative); Ulster Bank Ireland (A2, negative; D-/Ba3 negative); Zurich Bank (A1, review for possible upgrade; D-/Ba3 negative); and Hewlett Packard International Bank (A2, stable; C-/Baa1 stable).

Today's bank rating actions are as follows:

• Allied Irish Banks: Senior debt and bank deposits downgraded to Baa3/P-3 from A1/P-1, dated subordinated debt to Ca from Ba3, undated subordinated debt and cumulative Tier 1 securities to Ca from B1, and non-cumulative preference shares to Ca from Caa1. The BFSR is downgraded to D- (mapping to Ba3) from D (Ba2). Government guaranteed debt is downgraded to Baa1/P-2. The outlook is negative.

• Anglo Irish Bank: Senior debt downgraded to Ba3/Not-Prime from Baa3/P-3 and bank deposits to Baa3/P-3 from A3/P-1. Government guaranteed debt is downgraded to Baa1/P-2. The outlook is negative.

• Bank of Ireland: Senior debt and bank deposits downgraded to Baa2/P-2 from A1/P-1, dated subordinated debt to B2 from Ba1, undated subordinated debt and cumulative Tier 1 securities to B3 from Ba3. Non-cumulative preference shares remain rated Caa1. The BFSR is downgraded to D (mapping to Ba2) from D+ (Baa3). Government guaranteed debt is downgraded to Baa1/P-2. The outlook is negative. Dated subordinated debt currently being exchanged is downgraded to Ca, but will be upgraded to B2 in a few days.

• EBS Building Society: Senior debt and bank deposits downgraded to Baa3/P-3 from A3/P-2, dated subordinated debt to Ca from Ba3. Non-cumulative preference shares remain rated Ca. The BFSR is downgraded to D- (mapping to Ba3) from D (Ba2). Government guaranteed debt is downgraded to Baa1/P-2. The outlook is negative.

• Irish Life & Permanent: Senior debt and bank deposits downgraded to Baa3/P-3 from A3/P-2, dated subordinated debt to B2 from Ba3, undated subordinated debt to B3 from B1. The BFSR is downgraded to D- (mapping to Ba3) from D (Ba2). Government guaranteed debt is downgraded to Baa1/P-2. The outlook is negative.

• Irish Nationwide Building Society: Senior debt downgraded to Ba3/Not-Prime from Baa3/P-3 and bank deposits are confirmed at Baa3. The BFSR is downgraded to E (mapping to Caa1) from E+ (B3). The outlook is negative.

• Bank of Ireland (UK): Senior debt and bank deposits downgraded to Baa3/P-3 from A3/P-2. The BFSR is downgraded to D (mapping to Ba2) from D+ (Baa3).

• ICS Building Society: Senior debt and bank deposits downgraded to Baa3/P-3 from A2/P-1. The BFSR is downgraded to D (mapping to Ba2) from D+ (Baa3).

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007, and Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt published in November 2009.

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