

**Rating Action: Moody's downgrades government-guaranteed debt of five Irish banks**

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**Global Credit Research - 14 Jul 2011**

London, 14 July 2011 -- Moody's Investors Service has today downgraded to Ba1 with a negative outlook from Baa3 the government-guaranteed debt of five Irish banks. This action follows Moody's downgrade of Ireland's government's bond ratings to Ba1 with a negative outlook from Baa3.

The government-guaranteed debt of the following banks has been downgraded:

- Allied Irish Banks (AIB)
- Anglo Irish Bank (Anglo Irish)
- Bank of Ireland (BoI)
- EBS Ltd (EBS)
- Irish Life & Permanent (IL&P)

There is no impact on other ratings of banks in Ireland.

**RATINGS RATIONALE**

In line with the downgrade of the Irish government bond rating to Ba1 (with a negative outlook), Moody's has today downgraded to Ba1 (with a negative outlook)/Not-Prime, from Baa3/Prime-3, the government-backed senior debt of AIB, Anglo Irish, BoI, EBS and IL&P (see "Moody's downgrades Ireland to Ba1; outlook remains negative", 11 July 2011).

These five banks have all issued public debt under the Eligible Liabilities Guarantee scheme. The assigned government-backed Ba1/Not-Prime ratings are based on the unconditional and irrevocable guarantee from the Irish government (see "Moody's to assign backed-Aa1/Prime-1 ratings to debt securities covered by the Irish government's new guarantee", 7 January 2010).

**NO IMPACT ON BANK DEPOSIT RATINGS, SENIOR UNSECURED DEBT RATINGS OR STAND-ALONE BFSRs**

The other ratings of the five banks -- including the bank deposit ratings, the senior unsecured debt ratings and the standalone bank financial strength ratings (BFSRs) -- are unaffected by this rating action. The downgrade of the government bond rating has not affected the unguaranteed long-term senior unsecured debt ratings, as we do not incorporate any government support into these ratings.

BoI's BFSR is D (mapping to Ba2 on the long-term scale), its unguaranteed long-term senior unsecured debt rating is Ba2 and its long-term bank deposit rating is Ba1, all with a negative outlook. AIB, EBS and IL&P have BFSRs of D- (mapping to Ba3 on the long-term scale), their unguaranteed long-term senior unsecured debt ratings are Ba3 and their long-term bank deposit ratings are Ba2, all with a negative outlook. Anglo Irish has a BFSR of E (mapping to Caa1 on the long-term scale), its unguaranteed long-term senior unsecured debt rating is Caa2 and its long-term bank deposit rating is Caa1. The outlook on the debt and deposit ratings is negative and the outlook on the E BFSR is stable.

Moody's continues to incorporate one notch of rating uplift into the bank deposit ratings of AIB (including EBS), BoI (including its subsidiary ICS Building Society) and IL&P, from the banks' standalone ratings, reflecting the explicit support received by the institutions and Moody's expectation that further support for deposit holders would likely be forthcoming in the event of need. This is based on the supportive attitude of the Irish government towards depositors as illustrated recently by the transfer orders to sell the deposits of Anglo Irish and Irish Nationwide Building Society to Allied Irish and IL&P, respectively. As a result of the high level of uncertainty around whether the Irish government would extend further support to the banking sector if required (beyond the EUR35 billion that has been committed to as part of the EU/IMF support package) Moody's no longer incorporates systemic support into the senior unsecured debt ratings and these are placed at the same level as the standalone ratings of the banks.

If the credit risk for unguaranteed senior unsecured debt was to increase -- either because of further economic decline or because of policy changes implying a greater willingness to impose losses on bondholders -- then the banks' unguaranteed senior unsecured debt ratings would likely face further downgrades. Moody's will therefore continue to monitor the approach of the Irish government to this debt class. Moody's sees little likelihood of upward rating pressure emerging on the ratings due to the still very challenging economic conditions in Ireland. Improvements in the banks' funding profiles, permitting a substantial reduction in the reliance on central bank funding, would be a prior condition for any potential upgrade.

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

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London  
Ross Abercromby  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

London  
Johannes Wassenberg  
MD - Banking  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454



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