

Rating Action: Moody's downgrades unguaranteed senior unsecured debt of Irish banks

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Deposit ratings placed on review for possible downgrade

London, 11 February 2011 -- Moody's Investors Service has downgraded today the unguaranteed senior unsecured debt ratings of six Irish banks and kept them under review for further possible downgrade. The deposit ratings of these banks have also been placed under review for downgrade. The actions follow recent government statements that call into question the government's willingness to provide additional support to the banks beyond that which has already been provided to date, and reflect the increasing risk of some type of burden-sharing with senior creditors. Moody's rating actions are summarised as follows:

- The unguaranteed senior unsecured debt ratings of the following banks have been downgraded: Bank of Ireland (BoI) to Ba1/Not-Prime from Baa2/P-2; Allied Irish Banks (AIB) to Ba2 from Baa3; EBS Building Society (EBS) and Irish Life & Permanent (IL&P) to Ba2/Not-Prime from Baa3/P-3; Anglo Irish Bank (Anglo Irish) and Irish Nationwide Building Society (INBS) to Caa1 from Ba3. In addition, the long-term unguaranteed senior unsecured debt ratings of these banks have been placed on review for further possible downgrade.
- The bank deposit ratings of these six banks (Baa2/P-2 for BoI and Baa3/P-3 for AIB, EBS, IL&P, Anglo Irish and INBS), as well as ICS Building Society (Baa3/P-3), have been placed on review for possible downgrade.
- The senior unsecured and bank deposit ratings of KBC Bank Ireland (KBCI) have been downgraded to Baa3/P-3 from Baa2/P-2. The outlook is negative, in line with that on KBC Bank N.V.
- There is no rating impact on the stand-alone bank financial strength ratings (BFSRs), subordinated and tier 1 debt ratings, and government-guaranteed debt ratings; there is also no impact on the ratings of Bank of Ireland (UK) plc, the UK based subsidiary of Bank of Ireland.
- Moody's will communicate separately on the impact of these rating actions on the Covered Bond ratings for AIB Mortgage Bank, Anglo Irish Bank and Anglo Irish Mortgage Bank, Bank of Ireland Mortgage Bank, EBS Mortgage Finance, as well as the Mortgage Backed Promissory Notes ratings for Bank of Ireland Mortgage Bank and KBC Bank Ireland.

RATING RATIONALE FOR SENIOR DEBT DOWNGRADE AND REVIEW

Moody's rating actions today reflect a reduction in its systemic support assumptions for the domestic Irish banks. In line with the Irish government's very supportive policy to date, Moody's has until now assumed a high degree of systemic support for the banks' senior unsecured debt and deposits, as a result of which the corresponding ratings have enjoyed three to four notches of uplift from the standalone ratings. Irish governmental policy has included debt guarantees, capital support (including the up to EUR10 billion as announced with the EU/IMF support package), and the establishment of the National Asset Management Agency (NAMA) to acquire the land and development loans from five domestic banking institutions. In addition, as a further part of the EU/IMF support package, a EUR25 billion contingency fund was established to further support the banks.

Nevertheless, this supportive policy has been brought into question over the past days, in statements from both the leading opposition party and the incumbent finance minister. While some of these statements may reflect the current pre-election debate, Moody's is increasingly concerned that they represent a growing underlying threat for senior creditors from two directions. First, Moody's notes that the Irish government's willingness to provide support beyond what has been committed to date has become far less certain and more difficult to predict, resulting in a significant lowering of our support assumptions for all domestic Irish banks, and the subsequent downgrades of the unguaranteed senior unsecured debt ratings. The announcement late on Wednesday in which the current government decided to postpone the previously agreed capital increases to after the general election adds to these concerns.

Second, given the huge fiscal burden faced by Irish taxpayers as a direct result of problems in the banking sector and banks' subsequent bailout by the government, in Moody's view there is an increasing risk that this burden could be shared not only by subordinated creditors, but by senior creditors, most likely through distressed exchanges. As a result, Moody's has placed the unguaranteed senior unsecured debt ratings of the domestic banks on review for possible downgrade, in order to assess the new government's stance towards senior creditors. Should the risk for senior creditors increase significantly, the banks' unguaranteed senior unsecured debt ratings would likely face further multi-notch downgrades.

Commenting on the lower support assumptions, Moody's stated that the four institutions viewed as going concerns by the authorities -- AIB, BoI, EBS, and IL&P -- now benefit from one notch of systemic support uplift from their standalone ratings (currently mapped to Ba2 for BoI and Ba3 for the other three institutions), resulting in unguaranteed senior unsecured debt ratings of Ba1 for BoI and Ba2 for AIB, EBS, and IL&P. Moody's continues to view these four institutions as more systemically important for the Irish government, as evidenced by the substantial support they have received over the past two years. The ratings also incorporate the support provided through the EU/IMF package, as well as the apparent pressure at the European level to continue supporting senior debt obligations for fear of contagion beyond Ireland. However, in the case of Anglo Irish and INBS, Moody's has now withdrawn all its assumptions of systemic support from the banks' unguaranteed senior unsecured debt ratings, leading to a downgrade to Caa1 from Ba3. This reflects the much lower systemic importance of these two institutions, reflected in this week's decision to commence the auction of their deposits and wind down of their remaining assets over the longer term.

REVIEW FOR POSSIBLE DOWNGRADE ON DEPOSIT RATINGS

The review for possible downgrade of the deposit ratings (currently Baa2/P-2 at BoI and Baa3/P-3 at AIB, Anglo Irish, EBS, IL&P, ICS and INBS) will focus on potential support for this creditor class under a new government and whether this is higher than that for senior unsecured debt. The Baa3/P-3 deposit ratings of Anglo Irish and INBS reflect the recent announcement that the deposits of the two institutions are to be sold to other banks in the system, the lowest of which are now rated Baa3/P-3 (and are on review for possible downgrade).

DOWNGRADE OF KBC BANK IRELAND

As a result of the reducing support for the banking system, Moody's has removed the assumption of systemic support that was incorporated into the ratings of KBCI. As a result, the bank's senior debt and deposit ratings have been downgraded to Baa3/P-3 from Baa2/P-2. At the Baa3 rating level, this continues to incorporate a very high level of support from the bank's parent, Belgium's KBC Bank N.V., resulting in three notches of uplift from the bank's D- BFSR (mapped to Ba3 on the long-term scale). The rating outlook is negative, in line with the negative outlook on KBC Bank N.V.

OTHER BANKS ARE UNAFFECTED BY TODAY'S ACTIONS

The ratings of the other Irish banks are unaffected by today's rating actions, as any rating uplift in their deposit and senior debt ratings stems not from an assumption of government support but from parental support. These banks include 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: Long-term senior unsecured debt rating downgraded to Ba2 from Baa3 and placed on review for possible downgrade; Baa3/P-3 bank deposit ratings placed on review for possible downgrade.
- Anglo Irish Bank: Long-term senior unsecured debt ratings downgraded to Caa1 from Ba3 and placed on review for possible downgrade; Baa3/P-3 bank deposit ratings placed on review for possible downgrade.
- Bank of Ireland: Senior unsecured debt ratings downgraded to Ba1/Not-Prime from Baa2/P-2 and placed on review for possible downgrade; Baa2/P-2 bank deposit ratings placed on review for possible downgrade.
- EBS Building Society: Senior unsecured debt ratings downgraded to Ba2/Not-Prime from Baa3/P-3 and placed on review for possible downgrade; Baa3/P-3 bank deposit ratings placed on review for possible downgrade.
- Irish Life & Permanent: Senior unsecured debt ratings downgraded to Ba2/Not-Prime from Baa3/P-3 and placed on review for possible downgrade; Baa3/P-3 bank deposit ratings placed on review for possible downgrade.
- ICS Building Society: Baa3/P-3 bank deposit ratings placed on review for possible downgrade.
- Irish Nationwide Building Society: Long-term senior unsecured debt ratings downgraded to Caa1 from Ba3 and placed on review for possible downgrade; Baa3/P-3 bank deposit ratings placed on review for possible downgrade.
- KBC Bank Ireland: Long-term senior unsecured debt ratings and bank deposit ratings downgraded to Baa3/P-3 from Baa2/P-2. The outlook on these ratings remains negative.

The principal methodologies used in these rating actions were "Bank Financial Strength Ratings: Global Methodology" (February 2007) and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" (March 2007).

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