

Announcement: Moody's places some additional Irish Bank ratings under review for downgrade

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London, 25 November 2010 – Moody's Investors Service has today placed additional ratings of certain Irish banks and building societies under review for possible downgrade. This is because a multi-notch downgrade of the Irish sovereign is now the most likely outcome of the on-going review of the sovereign rating, more than initially anticipated in October 2010 when the rating agency initiated its review of other Irish bank ratings. Today's bank rating actions are as follows:

- Moody's has placed on review for possible downgrade the short-term bank deposit and debt ratings of Bank of Ireland (Prime-1), EBS Building Society (Prime-2), and Irish Life & Permanent (Prime-2).
- Moody's has also placed on review for possible downgrade the dated subordinated debt of EBS, and the following debt classes of Allied Irish Banks (AIB): dated subordinated debt (Ba3), junior subordinated debt (B1), cumulative Tier 1 securities (B1) and non-cumulative preference shares (Caa1)
- Moody's has also placed on review for possible downgrade the A3 long-term bank deposit rating of Bank of Ireland (UK) plc

RATINGS RATIONALE

The review for possible downgrade of the short-term bank deposit and debt ratings of Bank of Ireland (Prime-1), EBS Building Society (Prime-2), and Irish Life & Permanent (Prime-2) reflects Moody's view that a multi-notch downgrade of the sovereign rating, which would leave the rating of the Republic still within the investment-grade category, is now the most likely outcome of our current review of the Aa2 sovereign credit rating (see Special Comment of November 22, "Ireland's EU/ IMF Bailout is Major Step Addressing Crisis, But Greater Weaknesses Are Exposed"). As a result, the final rating outcome of the long-term and short-term bank deposit and senior debt ratings of these banks, whose ratings incorporate a very high level of systemic support, could now be lower than originally envisaged, potentially leading to lower short-term ratings. The long term bank deposit and senior debt ratings of these institutions (Bank of Ireland at A1, EBS Building Society at A3, and Irish Life & Permanent at A3) were placed on review for possible downgrade on October 6, 2010. The P-1 rating of Bank of Ireland would most likely be downgraded if the long-term ratings of the bank were to be lowered to A3 or below. If the long-term ratings of EBS Building Society and Irish Life & Permanent were to be downgraded to Baa2 or below, then the P-2 short-term ratings of these institutions could also be downgraded.

REVIEW FOR DOWNGRADE OF SUBORDINATED DEBT OF AIB and EBS

The Irish government announced in September 2010 that it was "working on a resolution and reorganisation legislation to allow burden-sharing by subordinated bondholders", specifically at Anglo Irish Bank and Irish Nationwide Building Society. Following this announcement the government clarified that "prospective resolution and reorganisation legislation, insofar as it affects subordinated debt in issue, will apply only to such debt in issue from institutions which are not listed on a recognised stock exchange, are in 100 per cent State control and cannot survive in the absence of total State support."

The review for possible downgrade of the dated subordinated debt of EBS (Ba3), and the dated subordinated debt (Ba3), junior subordinated debt (B1), cumulative Tier 1 securities (B1) and non-cumulative preference shares (Caa1) of Allied Irish Banks will therefore focus on the future ownership of these institutions and the impact on their stand-alone creditworthiness as a result of potential restructuring of the banking sector. Currently EBS is fully-owned by the Irish government, and AIB will, following its forthcoming rights issue that is underwritten by the National Pension Fund Reserve Commission, likely have government ownership in excess of 90%. In the case of the junior subordinated debt, cumulative Tier 1 securities, and non-cumulative preference shares of Allied Irish Banks, the review will also focus on the likelihood that the assumed two-year deferral/omission period on payment of coupons could be extended, thus leading to a higher expected loss for investors. There is currently no impact on AIB's D stand-alone bank financial strength rating (that translates into Baa3 baseline credit assessment (BCA) on the long-term rating scale) as we assume that in the short-term the bank will benefit from further capital support as a result of the EU/IMF support package. Were this not to happen then there would likely be negative implications for the BFSR.

REVIEW FOR DOWNGRADE OF BANK OF IRELAND (UK)

The review for possible downgrade of the A3 long-term bank deposit rating of Bank of Ireland (UK) reflects the potential for a multi-notch downgrade of its parent. The review will focus on the rating of Bank of Ireland at the end of the review period as well as any potential restructuring of the Irish banking sector that could affect the position of the UK operation within the Bank of Ireland group. Potential downward pressure on the A3 rating is limited by Moody's view of the systemic importance of Bank of Ireland (UK) to the UK, as a result of the strong links with the Post Office and its important position in Northern Ireland.

PREVIOUS RATING ACTIONS AND METHODOLOGIES

Moody's last rating action on Allied Irish Banks, Bank of Ireland (BoI), EBS Building Society (EBS) and Irish Life & Permanent (IL&P) was on October 6, 2010 when the long-term bank deposit and debt ratings of AIB, BoI, EBS and IL&P were placed on review for possible downgrade. In addition the Prime-1 short-term rating of AIB was also placed on review for possible downgrade. Moody's also changed to stable from positive the outlooks on the D Bank Financial Strength Ratings (BFSRs) of AIB and EBS.

The last rating action on Bank of Ireland (UK) was on November 1, 2010 when Moody's assigned first-time bank deposit ratings of A3/P-2 and a D+ bank financial strength rating (that translates into Baa3 baseline credit assessment (BCA) on the long-term rating scale), with a stable outlook.

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.

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