

Irish Bank Ratings Lowered, On CreditWatch Negative, Following Sovereign Downgrade

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OVERVIEW

- In our opinion, the stand-alone creditworthiness of the four domestically owned Irish banks has weakened.
- As a result, we are lowering the long-term counterparty credit ratings on Allied Irish Banks PLC (AIB), Bank of Ireland (BOI), and Irish Life & Permanent PLC (IL&P) by one notch, and lowering ratings on the senior and subordinated debt of the banks.
- We are also lowering the long-term counterparty credit ratings on Anglo Irish Bank Corp. Ltd. by six notches because we believe that the Irish government may be forced to reconsider its current supportive stance toward Anglo's unguaranteed debt.
- As a result of our downgrade of the sovereign ratings on Ireland to 'A/A-1' on Nov. 23, 2010, we have also reviewed our ratings on the foreign-owned Irish banks.
- We are lowering the long-term counterparty credit ratings on Barclays Bank Ireland PLC (BBI) by one notch and placing the ratings on CreditWatch with negative implications, along with the ratings on Ulster Bank Ireland Ltd., its U.K. parent, Ulster Bank Ltd., and KBC Bank Ireland PLC. The CreditWatch placements indicate that we may take rating action in the event that the sovereign rating is lowered further.

LONDON (Standard & Poor's) Nov. 26, 2010--Standard & Poor's Ratings Services said today that it has revised its ratings on the following Irish banks:

- We have lowered the counterparty credit ratings on Anglo Irish Bank Corp. Ltd. (Anglo) to 'B/B' from 'BBB/A-2'. The ratings remain on CreditWatch with negative implications.

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- We have lowered the long-term counterparty credit rating on Allied Irish Banks PLC (AIB) to 'BBB' from 'BBB+', and placed it, and the 'A-2' short-term counterparty credit rating, on CreditWatch negative. At the same time, we have lowered our ratings on AIB's wholly owned U.K. subsidiary, AIB Group (UK) PLC to 'BBB-/A-3' from 'BBB/A-2', and placed them on CreditWatch negative. Further, we have lowered AIB's lower Tier 2 subordinated debt rating by three notches to 'B' from 'BB'. We continue to factor four notches of support into the counterparty credit ratings on AIB above its revised 'bb-' stand-alone credit profile (SACP).
- We have lowered the long-term counterparty credit rating on Bank of Ireland (BOI) to 'BBB+' from 'A-', and placed it, and the 'A-2' short-term counterparty credit rating, on CreditWatch negative. In addition, we have lowered BOI's lower Tier 2 subordinated debt rating by two notches to 'BB-' from 'BB+'. We continue to factor four notches of support into the counterparty credit ratings on BOI above its revised 'bb' SACP.
- We have lowered the long-term counterparty credit rating on Irish Life & Permanent PLC (IL&P) to 'BBB' from 'BBB+', and placed it, and the 'A-2' short-term counterparty credit rating, on CreditWatch negative. In addition, we have lowered IL&P's lower Tier 2 subordinated debt rating by one notch to 'BB-' from 'BB'. We have lowered our view of the SACP of IL&P's banking operations to 'bb' from 'bb+', but maintain two notches of support above the 'bb+' SACP of IL&P (which in turn incorporates a one-notch uplift for our view of the better financial strength of its life insurance operations).
- We have lowered the long-term counterparty credit and insurer financial strength ratings on Irish Life Assurance PLC (ILA) to 'BBB' from 'BBB+', and placed them on CreditWatch negative, in line with its banking parent. In addition we lowered ILA's junior subordinated debt rating by one notch to 'BB+' from 'BBB-'.
- Today's rating action does not affect those issuances by these four banks which are guaranteed by the Republic of Ireland.
- We have lowered the long- and short-term counterparty credit ratings on Barclays Bank Ireland PLC (BBI) to 'A+/A-1' from 'AA-/A-1+', and placed them on CreditWatch negative.
- We have placed the 'A/A-1' long- and short-term counterparty credit ratings on Ulster Bank Ltd. (UBL) and core Irish subsidiary, Ulster Bank Ireland Ltd. (UBIL), on CreditWatch negative.
- We have placed the 'A-/A-2' long- and short-term counterparty credit ratings on KBC Bank Ireland PLC (KBCI) on CreditWatch negative.

DOMESTICALLY OWNED BANKS

The rating actions follow a turbulent period for the Irish banking system, which in our view has led to the fortunes of the Irish sovereign becoming increasingly intertwined with those of its banking system. On Nov. 23, 2010, we lowered the ratings on the Republic of Ireland to A/Watch Neg/A-1 from AA-/Negative/A-1+, reflecting our view that the government will have to shoulder additional costs associated with further capital injections into Ireland's troubled banking system (see "Ireland Ratings Lowered To 'A/A-1',

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Placed On Watch Neg On Further Banking Costs; Teleconf Nov. 24 @ 3.30 pm GMT," published Nov. 23, 2010).

In recent months, we saw that the domestically owned Irish banks have struggled to source term funding, even when government guaranteed. We also observed that the banks have also suffered significant deposit outflows from institutional clients and become highly reliant on central bank funding. We expect no near-term respite and we believe the prospects for these banks to return to near stand-alone funding profiles in the medium term are receding.

In addition, we consider that the path back to profitability for these banks is likely to be even more difficult than we previously expected, based on our revised expectations for lower economic growth in Ireland (we now expect close to zero nominal GDP growth for 2011 and 2012 and we do not envisage GDP exceeding 2% a year in real terms before 2013). This view also reflects the multiple pressures we observe on liability spreads, arising from increased wholesale funding costs and high deposit competition squeezing margins, and the banks' limited ability to meaningfully offset this through further asset repricing.

Taken together, we consider that the funding pressures and weaker profitability outlook have led to a weakening in the domestically owned banks' SACPs. The SACP takes into account all existing government support we see.

The funding weakness of these banks has contributed to the Irish government agreeing to request financial support from the EU and the International Monetary Fund (IMF). The Irish government has stated that a central element of the EU/IMF program will be to support further deep restructuring and the restoration of the long-term viability and financial health of the Irish banking system. We understand some of this support may be directed toward significantly improving the capitalization of the most systemically important Irish banks.

While this initiative may eventually succeed in addressing investors' current lack of confidence in the system, we consider that it is likely to be a long, slow process for AIB, BOI, and ILP to wean themselves off this support.

In our view, these developments also indicate that the Irish government's ability to provide further extraordinary support to the banks has weakened, although this support could yet be forthcoming through the EU/IMF assistance program. While we believe that considerable uncertainty remains, on balance we have decided to maintain for the time being the existing notches of support factored into the ratings on the domestically owned banks.

The CreditWatch placement indicates that we may take rating action in the event that the sovereign rating is further lowered, but also our intent to review the notches of explicit government support factored into the ratings and the banks' SACPs.

Anglo Irish Bank Corp. Ltd.

The rating actions on Anglo reflect our view that the Irish government may be forced to reconsider its current supportive stance toward Anglo's unguaranteed debt. We base our view on the role of the EU/IMF, which may force a new Irish government to reappraise the existing strong statements of support, and the fact that the Irish government has expressed its desire for Anglo to be split into two and wound down over time. We consider Anglo to be of lower systemic importance than AIB, BOI, and IL&P. The ratings on Anglo remain on CreditWatch negative, where they had been placed on Jan. 26, 2010. We plan to resolve the CreditWatch placement once we have reviewed Anglo's restructuring plan. We would expect, on resolution of the CreditWatch, to classify Anglo as a government-related entity (GRE). Depending on our view of Anglo's role and link to the government, and our view of its SACP, we could lower the ratings by one or more notches.

Allied Irish Banks PLC

The rating actions on AIB reflect our reassessment of its SACP in light of the weak market conditions. We consider AIB to be a highly systemically important institution. We have lowered the ratings on AIB's subordinated debt (lower Tier 2) by three notches because we believe that the likelihood of AIB being wholly nationalized has increased. If this occurs we would expect, based upon the experience that we have observed at nationalized lenders Anglo Irish and Irish Nationwide (not rated), that subordinated bondholders may suffer loss. The ratings will remain on CreditWatch negative pending the outcome of the sovereign rating review. In addition, we could lower the ratings on AIB in particular if we consider that the prospects for its SACP will deteriorate further.

Irish Life & Permanent PLC

The rating actions on IL&P reflect our reassessment of the SACP of its banking operations in light of the weak market conditions. We consider IL&P to be a highly systemically important institution. We have lowered the subordinated debt ratings on IL&P by one notch, thus maintaining the four-notch differential from the counterparty credit rating. We note that IL&P has not received any capital injections from the government. The ratings will remain on CreditWatch negative pending the outcome of the sovereign rating review. We also note that IL&P is one of two preferred bidders (the other is a non-Irish institution) for government-owned mortgage and savings lender, EBS (not rated). We understand that final bids are not required until mid-December. IL&P's management has stated that, if successful in the bid process, it intends to split its enlarged banking operations from that of its life insurance company.

Bank of Ireland

The rating actions on BOI reflect our reassessment of the bank's SACP in light of the weak market conditions. We consider BOI to be a highly systemically important institution. We have lowered the ratings on BOI's subordinated debt by two notches because we perceive an incremental risk that these bondholders will be required to share the burden of supporting the bank. The ratings will remain on CreditWatch negative pending the outcome of the sovereign rating review, but we do anticipate that BOI's SACP may emerge as the strongest of

the domestically owned Irish banks. Despite the high level of support that we factor into the ratings on BOI, we would currently not equalize them with the sovereign rating.

FOREIGN-OWNED, DOMESTICALLY ACTIVE BANKS

We have also considered the immediate implications of the sovereign rating action on the three rated foreign-owned, domestically active banks: BBI, KBCI, and UBIL. While not supported by the Irish government, these banks are typically rated more highly than their domestically owned peers due to our views on the likelihood of parental support.

In our view, these three banks have not seen the sort of stress experienced by their domestic peers, particularly in access to funding. However, under our ratings methodology, we only maintain ratings on financial institution above that of the sovereign in exceptional circumstances (see "Corporate, Counterparty, And LRG Credit Ratings That Exceed The Sovereign Rating," published Nov. 5, 2010). We only do so where we conclude that the operating and financial characteristics of an entity provide a high probability that it can meet its debt obligations even when the sovereign cannot.

Barclays Bank Ireland PLC

The ratings have been lowered to 'A+/A-1' from 'AA-/A-1+' and placed on CreditWatch negative pending the outcome of the sovereign rating review. Given the exceptional circumstances we see, we have not lowered the ratings to be in line with the 'A' sovereign rating, instead allowing a one-notch differential. This is because:

- We see no problem with BBI or its parent being able to find sufficient foreign or local currency to refund its liabilities and all deposits;
- In our view, BBI would be very easily supported by its parent due to its small relative size and the fact that the parent is highly rated, not being a government-supported institution itself; and
- Its core status reflects our view that substantial support would be forthcoming.

The CreditWatch placement reflects our view that, if the sovereign rating is lowered again, we would likely lower the ratings on BBI, maintaining the one-notch differential.

KBC Bank Ireland PLC

The ratings have been placed on CreditWatch negative pending the outcome of the sovereign rating review. This is because:

- While some of the factors cited with regard to BBI apply to KBCI, we do not see a convincing case to rate above the sovereign, not least because we view the bank as strategically important as opposed to core to a parent that is itself government-supported; and
- While we still rate KBCI lower than the sovereign, the sovereign rating may yet be lowered by more than one notch, in which case we would likely lower the ratings on KBCI.

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Ulster Bank Ireland Ltd., Ulster Bank Ltd.

The ratings have been placed on CreditWatch negative pending the outcome of the sovereign rating review. This is because:

- We consider that UBIL is core to U.K.-incorporated UBL, being about 70% of the consolidated assets, and highly integrated, and that a deterioration of UBIL would weaken UBL;
- While some of the factors cited with regard to BBI apply in this case, we do not see a convincing case to rate above the sovereign, not least because UBL is strategically important to a parent that is itself government-supported;
- UBIL is now rated the same as the sovereign, and if the sovereign rating is lowered again, we would likely lower the ratings on UBIL; and
- If we lowered the ratings on UBIL we would likely do the same to those on UBL.

RELATED CRITERIA AND RESEARCH

- Ireland Ratings Lowered To 'A/A-1', Placed On Watch Neg On Further Banking Costs; Teleconf Nov. 24 @ 3.30 pm GMT, Nov. 23, 2010
- How Systemic Importance Plays A Significant Role In Bank Ratings, July 3, 2007
- Bank Rating Analysis Methodology Profile, March 18, 2004
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Methodology For Rating Bank Nondeferrable Subordinated Debt (Lower Tier 2 Regulatory Capital), Aug. 4, 2009
- Group Methodology, April 22, 2009
- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Corporate, Counterparty, And LRG Credit Ratings That Exceed The Sovereign Rating, Nov. 5, 2010

RATINGS LIST

Downgraded; CreditWatch Action; Ratings	Affirmed	
	To	From
Anglo Irish Bank Corp. Ltd.		
Counterparty Credit Rating	B/Watch Neg/B	BBB/Watch Neg/A-2
Senior Unsecured	B/Watch Neg	BBB/Watch Neg
Allied Irish Banks PLC		
Counterparty Credit Rating	BBB/Watch Neg/A-2	BBB+/Negative/A-2
Senior Unsecured	BBB/Watch Neg	BBB+
Subordinated	B/Watch Neg	BB
AIB Group (UK) PLC		
Counterparty Credit Rating	BBB-/Watch Neg/A-3	BBB/Negative/A-2
Irish Life & Permanent PLC		
Counterparty Credit Rating	BBB/Watch Neg/A-2	BBB+/Negative/A-2
Senior Unsecured	BBB/Watch Neg	BBB+
Subordinated	BB-/Watch Neg	BB

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Irish Life Assurance PLC		
Counterparty Credit Rating	BBB/Watch Neg/--	BBB+/Negative/--
Financial Strength Rating	BBB/Watch Neg/--	BBB+/Negative/--
Junior Subordinated	BB+/Watch Neg	BBB-
Bank of Ireland		
Counterparty Credit Rating	BBB+/Watch Neg/A-2	A-/Negative/A-2
Senior Unsecured	BBB+/Watch Neg	A-
Subordinated	BB-/Watch Neg	BB+
Barclays Bank Ireland PLC		
Counterparty Credit Rating	A+/Watch Neg/A-1	AA-/Negative/A-1+
KBC Bank Ireland PLC		
Counterparty Credit Rating	A-/Watch Neg/A-2	A-/Stable/A-2
Senior Unsecured	A-/Watch Neg	A-
Ulster Bank Ireland Ltd.		
Ulster Bank Ltd.		
Counterparty Credit Rating	A/Watch Neg/A-1	A/Stable/A-1

NB: This list does not include all ratings affected.

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