MOODY'S
INVESTORS SERVICE

Rating Action: Moody's: NAMA triggers mostly positive actions on Irish Banks' BFSR's

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Actions follow Government, NAMA and Financial Regulator announcements

London, 31 March 2010 -- Moody's Investors Service today took positive rating actions on certain Irish banks following the concerted actions taken by various Irish authorities to strengthen these banks and remove their exposure to the most toxic real estate assets. The announcements included details from the National Asset Management Agency (NAMA) on the discount to be applied on the first tranche of loans to be transferred from banks to NAMA, the announcement from the Irish Government regarding its recapitalisation plans for the banking sector, and a statement from the Financial Regulator on its revised (and much stricter) capital requirements.

The rating changes are as follows:

Bank of Ireland ("BoI") and ICS Building Society -- the D bank financial strength ratings (BFSR -- mapping to a baseline credit assessment of Ba2) are placed on review for possible upgrade, previously they had a developing outlook.

Allied Irish Banks ("AIB") -- the outlook on the D BFSR is changed to positive from developing.

EBS Building Society ("EBS") -- the outlook on the D BFSR is changed to positive from developing and the non-cumulative tier 1 instruments are downgraded to Caa1 from B3.

Irish Nationwide Building Society ("INBS")-- the outlook on the E+ BFSR (BCA: B3) is changed to stable concluding the review (with uncertain direction) that had been initiated on December 9, 2009.

There are no rating implications at the present time for Anglo Irish Bank ("Anglo"); its A3/P-1 long- and short term debt and deposit ratings remain under review for possible downgrade, and the E BFSR has a stable outlook at the bottom of that scale.

Ross Abercromby, a Vice President and lead analyst for Irish banks at Moody's commented: "Yesterday's announcements by the Irish authorities constitute an important milestone for the Irish banking system. Unless there should be a significant further deterioration in the wider Irish economy, the actions taken by NAMA, the government and the regulator should have put the bank's intrinsic credit profiles on a much more resilient footing. These actions ensure that banks have to clean up their balance sheets, but also need to recapitalise to adequate levels, which the government is ultimately willing to underwrite. This will put the banks in a better position to finance a return to economic growth, which in turn should help avoid a significant further economic deterioration. Overall, this is both positive for banks' intrinsic credit strength as well for the wider economy."

Ross Abercromby continued: " The review for possible upgrade for Bank of Ireland and the outlook changes to positive for Allied Irish Banks and EBS Building Society reflect our expectation that the inflection point in these bank's intrinsic credit profile should have been achieved. The debt and deposit ratings for all these banks are primarily driven by the significant amount of systemic support and therefore are not affected by these changes to banks' standalone ratings".

NAMA-IMPOSED DISCOUNTS BETWEEN 35% TO 58%, STRESS TESTS AND SUBSEQUENT RECAPITALISATION REQUIREMENTS ARE POSITIVE FOR BANKS

Yesterday's announcement by NAMA has detailed the discount to book value at which the first tranche of development and property loans will be transferred from the banks to NAMA: The discount ranges between 35% for Bank of Ireland to 58% at Irish Nationwide. This reflects the extremely difficult economic environment in Ireland, the approximate 50% fall in the value of Irish commercial property and the differences in the underwriting and composition of the loan books of the individual entities.

Furthermore, the regulator has laid out new capital requirements for Irish banks. These include a target level for core tier 1 capital of 8% after deducting impairments on non-NAMA assets as well as a core-Tier 1 ratio of at least 4% after further deducting hypothetical stress losses through to 2012.

Thirdly, the government has announced that while preferring private solutions to the subsequent capital requirements, e.g. via asset sales, public offerings etc, it is willing to underwrite the necessary capital injections to an amount of more than EUR 21 billion where necessary.

Moody's had already incorporated similar levels of expected losses into the BFSRs of the entities participating in NAMA, which in turn had been a key factor behind the downgrades of the banks' BFSRs to subinvestment-grade levels in April 2009. Overall, these impairments largely correspond to Moody's own base case scenario of expected losses especially when taking into consideration earlier capital injections (EUR 11 billion in 2009 by the Irish government) and exposure reductions by some of the affected banks. Therefore, the primary rating impact of yesterday's combined announcements by NAMA, the government and the regulator is positive for most banks' standalone BFSR.

NO IMPACT ON DEPOSIT AND SENIOR DEBT RATINGS

Importantly for the bank deposit and senior debt ratings the Irish government continues to be extremely supportive and this is the key factor in the high levels of uplift incorporated into the senior ratings of the banks that range from A1 for Allied Irish and Bank of Ireland to Baa3 (on review with uncertain direction) for Irish Nationwide. Moody's noted that the statement by the Irish government included confirmation that capital will be provided for those institutions who as a result of the transfers to NAMA, loan losses on other assets and the newly announced minimum capital levels required by the Financial Regulator, have a need for capital infusions. Given the differing needs and corporate structures the way in which the capital is injected may differ but Moody's continues to view the government as being extremely supportive.

DETAILS ON THE RATING ACTIONS

REVIEW FOR UPGRADE OF THE BFSR OF BANK OF IRELAND

Bank of Ireland's D BFSR is placed on review for possible upgrade. The regulator is requiring the bank to raise a further EUR2.7 billion of equity. Bank of Ireland is unlikely to require further capital from the Irish government and has indicated that it will be able to raise capital from private shareholders and through the conversion of an element of the government's preference shares. The review will focus on i) the capital plan of the bank, including the quantum of capital that is raised and the capital structure of the bank post any conversion of the government preference shares, as well as ii) the degree to which the capital injection sufficiently offsets the remaining risks in its books, which will require a more detailed comparison of the performed stresses and impairments to Moody's own stress scenarios. An important part of the review will also be the conclusion of the bank's negotiations with the European Commission over its restructuring plan which has been lodged as a result of the State Aid the bank has received. Moody's also highlights that Bank of Ireland's strong Irish franchise has been relatively unaffected by the crisis and that it still has an element of geographic diversification through its UK operations.

The D BFSR of ICS Building Society, BoI's Irish mortgage lending subsidiary, is also placed on review for possible upgrade, in line with its parent.

ALLIED IRISH BFSR OUTLOOK CHANGED TO POSITIVE

The change in the outlook to positive from developing on the D BFSR of Allied Irish reflects the stronger position that the bank will be in as a result of the capital to be raised. The bank will raise EUR7.4 billion of equity as required by the regulator and this will put the bank in a much improved position. Although the bank's franchise will be more focused on Ireland in the future as the first part of its capital raising will involve the sale of its investments in Poland (Bank Zachodni WBK), the USA (M&T) and its UK subsidiary, Moody's believes it will remain one of the two predominant banks in Ireland. However, the significantly higher degree of impairment in its books as compared to BoI indicates that more fundamental changes to its underwriting and risk culture are required, therefore resulting in a more drawn-out trajectory of improvement. An important element in the positive outlook and overall rating levels of the BFSR and long-term debt ratings is Moody's understanding that if the bank is unable to raise the remaining capital requirement then the bank will be able to convert some or all of the government's EUR3.5 billion preference share investment in the bank. Furthermore, Moody's believes that if further capital was needed beyond the currently envisaged amounts the government would also provide it.

EBS BUILDING SOCIETY'S BFSR OUTLOOK CHANGED TO POSITIVE; TIER 1 INSTRUMENTS DOWNGRADED TO Caa1 FROM B3

The change in the outlook to positive from developing on the D BFSR of EBS reflects the stronger position that the society will be in as a result of the capital that will be injected. The society is required to raise EUR875 million of equity by the regulator. As detailed by the government there is the potential for an investment in the society by a third party, however if this does not materialise then the capital will be provided by the Irish government. In Moody's opinion EBS has a good franchise in Ireland and the main issue at the society has been the small development loan portfolio. With the transfer to NAMA of these loans and the resulting capital increase the society should be relatively well placed to maintain its position as a key retail financial service provider in Ireland. Moody's notes however that the society will be required to submit a restructuring plan to the European Commission which could result in some further restructuring requirements being imposed. EBS is also involved in potential merger negotiations with Irish Nationwide Building Society and if the merger was to go ahead -- only after INBS has been cleaned up, as Moody's understands -- then an important element of EBS' ratings would be the integration of the smaller society into EBS.

The one notch downgrade to Caa1 from B3 on the tier 1 instruments of EBS reflects that as the society will now receive State Aid through the Special Investment Share, Moody's believes that the European Commission will request that the society does not make payments on its Tier 1 capital instruments unless it has a legal obligation to do so. The downgrade of the non-cumulative instruments last year to B3 was based on an expected-loss approach and reflected Moody's assumption that the society would likely omit coupons for at least a two-year period, in line with other European banks that have benefited from substantial State Aid. The further downgrade by one notch to Caa1 incorporates i) the higher level of certainty that EBS will receive State Aid as well as ii) the remaining uncertainty about the bank's financial strength beyond the 2-year time horizon, which also adds uncertainty about future coupon payments. At Caa1, the ratings are aligned with the ratings of comparable securities issued by BoI and AIB. The outlook for the securities is stable reflecting Moody's conservative expected loss assumptions in terms of the likelihood and time horizon of missed coupons, as well as the lower sensitivity of these instruments to the society's intrinsic financial strength.

CONCLUSION OF THE REVIEW -- DIRECTION UNCERTAIN ON THE E+ BFSR OF IRISH NATIONWIDE

The outlook on the E+ BFSR (BCA: B3) of Irish Nationwide is now stable reflecting the EUR2.7 billion capital injection into the society from the Irish government to ensure that it meets its minimum current capital requirements, and Moody's view that support will remain high for this institution. Similar to EBS the members of Irish Nationwide voted to provide the government with a Special Investment Share and this gives the Minister of Finance huge powers and is similar in scope to a nationalisation. Importantly the government has stated that its priority is to sell the entity or integrate it into another institution and therefore the Baa3/P-3 bank deposit and senior debt ratings of the institution remain on review -- direction uncertain, pending a sale or merger. If INBS does not merge with EBS, or another entity, in the near future then it is likely that the ratings would be downgraded to non-investment grade, reflecting the higher potential for losses at the end of the two-year guarantee period. This concludes the review on the BFSR that was initiated on December 9, 2009.

NO RATING IMPLICATIONS AT THE PRESENT TIME FOR ANGLO IRISH BANK

The bank deposit, senior debt, dated subordinated debt and junior subordinated debt ratings of Anglo Irish all remain on review for possible downgrade despite the announced capital injection of EUR 8.3 billion, as the key rating driver in Moody's view remains the bank's restructuring plan that is currently waiting EU approval. Moody's aims to complete the review of the bank's ratings following the conclusion of the European Commission's assessment of the bank's restructuring plan (See the Press Release "Moody's downgrades to Ba1 Anglo Irish Bank subordinated debt" published on March 1, 2010 for further details.)

Irish Life & Permanent (rated A2/P-1/D, negative) is not participating in NAMA as it does not have any development lending and therefore there are no rating implications for the bank.

The principal methodologies used in rating Irish banks are "Bank Financial Strength Ratings: Global Methodology" and "Guidelines for Rating Bank Junior Securities", which can be found on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action on AIB was on December 2, 2009 when the bank's non-cumulative tier 1 securities were downgraded to Caa1 from B3.

The last rating action on Anglo Irish Bank was on March 1, 2010 when the dated subordinated debt was downgraded to Ba1 from Baa1 and the review of the bank deposit ratings, the senior debt ratings, the dated subordinated debt rating and the junior subordinated debt rating was maintained.

The last rating action on BoI was on January 19, 2009 when the bank's non-cumulative tier 1 securities were downgraded to Caa1 from B3.

The last rating action on EBS was on July 7, 2009 when the backed senior debt guaranteed by the Irish government was downgraded to Aa1 (negative outlook) from Aaa (on review for possible downgrade.)

The last rating action on Irish Life & Permanent was on February 10, 2010 when the bank's junior subordinated debt rating was downgraded to Ba3 from Ba1. guaranteed by the Irish government was downgraded to Aa1 (negative outlook) from Aaa (on review for possible downgrade.)

The last rating action on INBS was on December 9, 2009 when the direction of the review on the Baa3/P-3 bank deposit and senior debt ratings, and the Ba1 subordinated debt rating was changed to direction uncertain from possible downgrade

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

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