

## **FITCH AFFIRMS 4 IRISH BANKS IDRS, DOWNGRADES EBS**

Fitch Ratings-London-18 September 2009: Fitch Ratings has today affirmed the Long-term Issuer Default Ratings (IDR) of Allied Irish Banks (AIB), Anglo Irish Bank Corporation (Anglo), Bank of Ireland (BoI), all at 'A-', and Irish Nationwide Building Society (INBS) at 'BBB-'. It has downgraded the Long-term IDR of EBS Building Society (EBS) to its Support Rating Floor at 'BBB-' from 'BBB' and removed the Rating Watch Evolving. The Outlook is Stable.

At the same time, Fitch has downgraded the Individual rating of AIB to 'D/E' from 'D' and removed the Rating Watch Negative (RWN). Anglo's Individual rating is upgraded to 'E' from 'F', BoI's Individual rating is affirmed at 'C/D' and the RWN removed, and EBS' Individual rating is downgraded to 'E' from 'C/D' and the Rating Watch Evolving (RWE) removed. INBS' Individual rating is downgraded to 'E' from 'D/E.' The ratings for the institutions' covered bond ratings will be addressed in a separate announcement. For a full list of ratings, please see foot of announcement.

The rating actions follow the Sept 16 2009 announcement by the Irish Minister for Finance, Mr Brian Lenihan, that the above credit institutions will transfer the bulk of their land and development loans and some associated loans to the National Asset Management Agency (NAMA) with a total nominal value of EUR77bn. This transfer is a positive development in the medium to longer term, in Fitch's view, as it removes a burden from the institutions and allows them to concentrate on providing more resilient and traditional banking services.

"The introduction of NAMA should allow the institutions to return to profitability faster, to support more readily the local economy and to improve their liquidity," says Matthew Taylor, Senior Director in Fitch's Financial Institutions' rating group. "In addition, the restructuring should encourage the institutions' rehabilitation in the money and capital markets."

Loans will be transferred at an expected aggregate discount of 30%, which will crystallise losses for the five institutions concerned. However, the discount will vary by bank and will be calculated by valuing the collateral on a loan by loan basis, meaning that some banks will ultimately be hit harder than others. The losses will be incurred only when the loans are transferred, which is expected between late 2009 and first half 2010. The expectation of losses arising on the transfer of loans has a negative impact on some of the ratings.

Fitch considers that the size of the loss to be incurred by AIB on the EUR24bn loans to be transferred to NAMA will place pressure on its capital despite its existing loan impairment allowances, sizeable pre-loan impairment operating profit, capital management actions earlier in 2009 and receipt of EUR3.5bn preference shares subscribed to by the Irish government. AIB plans to raise or realise in the region of EUR2bn capital within the next 18 months. Fitch considers that the bank requires this capital in order to address the serious credit risks on its balance sheet and maintain an acceptable level of capitalisation. To reflect AIB's need for capital, the agency has downgraded the bank's Individual rating to 'D/E' from 'D' and removed the RWN. However, Fitch believes that the bank's resilient underlying profitability, although likely to be tempered by the contracting economy, should help the bank recover more swiftly now that the riskiest and least liquid assets have been removed from its balance sheet. When the outcome of the capital raising is known, Fitch expects to review the Individual rating.

At Anglo, the transfer of EUR28bn of loans to NAMA represents 38% of its loan book. Fitch considers that the size of the loss to be incurred on the transfer of the loans to NAMA means the bank is likely to require a further injection of capital by the government, following the EUR4bn already received. The need for additional capital reflects the serious credit problems in the bank. Anglo generated weak pre-loan impairment charges operating profit for the six months to end-March 2009 and subdued profitability is likely to hinder a smooth or rapid recovery. Fitch has changed the bank's Individual rating to 'E' from 'F,' to reflect its receipt of external support.

BoI has emerged in better condition than AIB or Anglo, due to its smaller and more conservative portfolio of development and construction loans. Its large retail franchise and speedier internal reorganisation should also position it to achieve a more consistent performance before its immediate peers. In recognition of its improved position after transferring EUR16bn of loans to NAMA, Fitch has removed the RWN from the bank's Individual rating of 'C/D'. The rating incorporates an expectation that asset quality may weaken further in a tough operating environment. If BoI were to raise capital, Fitch expects to view it as strengthening the bank's position and not as external support to address serious problems.

The capital position of EBS was tight before the announcement of the size of the average discount on the EUR1bn loans the society will transfer to NAMA. In Fitch's opinion, after the impending loss on the transfer of loans, the society will need external support. To reflect this position, Fitch has downgraded the EBS' IDR to its Support Rating Floor of 'BBB-' from 'BBB' and removed the RWE. The Outlook is Stable. It has also downgraded the society's Individual rating to 'E' from 'C/D' and removed the RWE.

Fitch expects EBS to participate in the restructuring of the Irish banking sector and considers it possible that its legal status may change. If EBS converts to limited liability status, then the implicit support provided to senior unsecured debt by its ranking senior to member deposits will vanish. Fitch has downgraded the senior unsecured debt rating to 'BBB' from 'BBB+', removed the RWE and, acknowledging the possible change in legal status, placed the rating on RWN. The expected external support for the society increases the probability that the society's permanent interest bearing shares (PIBS) would be involved in burden sharing. As a result, the PIBS' ratings have been downgraded to 'B' from 'BB+'. The RWE has been removed and replaced with RWN. Fitch considers that there is a high probability of external support materialising, indicated by the '2' Support Rating, which is affirmed.

INBS will transfer EUR8bn of loans to NAMA, representing 80% of its customer loans. Fitch calculates that the losses incurred on the transfer of these loans will erode loan impairment allowances and equity, placing the society in need of external support. The Individual rating has been downgraded to 'E' from 'D/E' to reflect Fitch's view that the society has serious problems and is likely to require external support. Fitch expects INBS to be involved in the restructuring of the Irish banking system. In view of the severity of the society's problems, the agency believes that there could be some legislative risk to the position of dated subordinated debt, which is maintained at 'BB+' and placed on RWN. Fitch considers that there is a high probability of external support materialising, indicated by the '2' Support Rating, which is affirmed.

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's long- and short-term IDRs.

The ratings of the banks are as follows:

**AIB:**

Long-term IDR affirmed at 'A-'; Outlook Stable

Short-term IDR maintained at 'F1+' RWN

Individual Rating downgraded to D/E from 'D', RWN removed

Support Rating affirmed at '1'

Support Rating Floor affirmed at 'A-'

Senior unsecured affirmed at 'A-'

Lower Tier 2 affirmed at 'BBB+'

Upper Tier 2 maintained at 'B+' RWN

Tier 1 maintained at 'B' RWN

Guaranteed senior unsecured Long-term affirmed at 'AA+'

Guaranteed senior unsecured Short-term affirmed at 'F1+'

**AIB Group (UK) PLC:**

Long-term IDR affirmed at 'A-'; Outlook Stable

Short-term IDR maintained at 'F1+' RWN

Individual Rating downgraded to D/E from 'D', RWN removed  
Support Rating affirmed at '1'

**AIB Bank (CI) Limited:**

Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR maintained at 'F1+' RWN  
Individual Rating downgraded to D/E from 'D', RWN removed  
Support Rating affirmed at '1'

**Anglo:**

Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR affirmed at 'F1+';  
Individual Rating upgraded to 'E' from 'F',  
Support Rating affirmed at '1'  
Support Rating Floor affirmed at 'A-'  
Senior unsecured affirmed at 'A-'  
Lower Tier 2 affirmed at 'BBB+'  
Upper Tier 2 affirmed at 'CC'  
Tier 1 affirmed at 'C'  
Guaranteed senior unsecured Long-term affirmed at 'AA+'  
Guaranteed senior unsecured Short-term affirmed at 'F1+'

**Anglo Irish Mortgage Bank:**

Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR affirmed at 'F1+';  
Support Rating affirmed at '1'

**Bank of Ireland:**

Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR maintained at 'F1+' RWN  
Individual Rating affirmed at 'C/D', removed from RWN  
Support Rating affirmed at '1'  
Support Rating Floor affirmed at 'A-'  
Senior unsecured affirmed at 'A-'  
Lower Tier 2 affirmed at 'BBB+'  
Tier 1 maintained at 'B' RWN  
Guaranteed senior unsecured affirmed at Long-term 'AA+'

**EBS Building Society:**

Long-term IDR downgraded to 'BBB-' from 'BBB'; RWE removed, Outlook Stable  
Short-term IDR maintained at 'F1+' RWN  
Individual Rating downgraded to 'E' from 'C/D'; RWE removed  
Support Rating affirmed at '2'  
Support Rating Floor affirmed at 'BBB-'  
Senior unsecured downgraded to 'BBB' from 'BBB+'; RWE removed and placed on RWN  
Tier 1 downgraded to 'B' from 'BB+'; RWE removed and placed on RWN  
Guaranteed senior unsecured Long-term affirmed at 'AA+'  
Guaranteed senior unsecured Short-term affirmed at 'F1+'

**EBS Mortgage Finance:**

Long-term IDR downgraded to 'BBB-' from 'BBB'; RWE removed, Outlook Stable  
Short-term IDR maintained at 'F1+' RWN  
Support Rating affirmed at '2'

**Irish Nationwide Building Society:**

Long-term IDR affirmed at 'BBB-'; Outlook Stable  
Short-term IDR maintained at 'F1+'; RWN  
Individual Rating downgraded to 'E' from 'D/E'  
Support Rating affirmed at '2'

Support Rating Floor affirmed at 'BBB-'  
Senior unsecured affirmed at 'BBB-'  
Lower Tier 2 maintained at 'BB+', placed on RWN  
Guaranteed senior unsecured Long-term affirmed at 'AA+'

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