Moody's Investors Service

Global Credit Research
Rating Action
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Rating Action: **Bank of Ireland**

Moody's announces several rating actions on Irish Banks

Ratings of non-cumulative Tier 1 securities downgraded

London, 04 June 2009 -- Moody's Investors Service has today taken the following rating action on Irish Banks:

(1) It has downgraded the ratings of Anglo Irish Bank (Anglo) to A3/Prime-1/E from A2/Prime-1/E+

(2) It has placed the long-term bank deposit and senior debt ratings of Allied Irish Banks plc (AIB, rated Aa3), Bank of Ireland (BoI, Aa3), Irish Life & Permanent (IL&P, A1) and ICS Building Society (ICS, A1) on review for possible downgrade.

(3) It has downgraded or placed on review for downgrade various junior debt securities of Allied Irish Bank, Anglo Irish Bank, Bank of Ireland, EBS Building Society (EBS) and IL&P.

The downgrade of Anglo Irish Bank's ratings reflect Moody's concerns on the serious challenges faced by the bank as indicated by a significant capital erosion and a liquidity position highly reliant on central bank support. Furthermore, Moody's believes that significant restructuring will be necessary for the bank to develop a viable business model again.

"The review of the debt and deposit ratings of AIB, BoI, ICS and IL&P will look at the extent to which Ireland's ability to provide support to its banking system may be impacted by the weakening of the government's own debt capacity (which is under review for possible downgrade) as a result of the ongoing global economic and credit crisis," says Ross Abercromby, a Moody's Vice President / Senior Analyst and lead analyst at Moody's for the Irish banks. Moody's notes that the review is not expected to lead to more than a one, possibly two, notch change in the debt and deposit ratings of the institutions under review. The rating agency expects to conclude this review on the bank's ratings following the conclusion of the review of the Irish government bond rating (see "Moody's places Ireland's ratings on review for possible downgrade" published on April 17, 2009).

The downgrade of both the non-cumulative preferred shares and the cumulative junior subordinated debt at these banks incorporates Moody's view that the risk for potential losses has heightened, stemming from coupon deferrals due to the potential for protracted losses at these banks, but also due to an increased risk of EU approval for the state aid being contingent on burden sharing among these junior securities.

DOWNGRADE OF ANGLO IRISH BANK

The long-term bank deposit and senior debt rating of Anglo Irish Bank (Anglo) has been downgraded to A3 (with a negative outlook) from A2 (negative), the dated subordinated debt is downgraded to Baa1 (negative) and the BFSR is downgraded to E (mapping to a Baseline Credit Assessment of Caa1) from E+ (BCA: B2). These rating actions follow the release of the bank's results for the half-year to end-March 2009. In this period the bank recorded a loss of EUR4.1 billion as a result of a greatly increased provisioning charge, year on year. The loss has the effect of all but wiping out the bank's equity, and at end-March the reported tier 1 ratio was 3.9% and the total capital ratio 8.2%. Moody's notes that these ratios include substantial regulatory forbearance.

Moody's has also taken into consideration that the Irish Government has announced that it will, subject to EU approval, provide up to €4 bn of capital to the bank. However the rating agency would expect that the capitalisation of the bank is likely to remain very weak, without further ongoing support from the Irish government, as losses are likely to continue to rise given the challenging economic conditions in Ireland and the bank's very high and concentrated exposure to the commercial property market. Also reflected in the action is that the bank will participate in the National Asset Management Agency, or NAMA (the government's vehicle to acquire development and investment-related real estate assets from banks) and is expected to transfer a substantial amount of assets. Depending on the value of the assets which will be transferred, this could also lead to a further capital requirement.

The BFSR of E reflects Moody's view that the bank will require ongoing support from the Irish government to absorb any remaining risks in the balance sheet; also continuing government support is likely to be required to give the bank sufficient flexibility to restructure and establish a viable business model again.

Incorporating this weak intrinsic credit profile as indicated by the BFSR of E, the downgrade of the debt and deposit ratings to A3 continues to reflect the 100% state ownership and very high probability of systemic support. The difference to the government's own debt rating stems from Moody's expectation that the bank will not be in permanent public ownership and the resulting greater uncertainty for senior unsecured bondholders as compared to investors in government debt.

The Prime-1 short-term rating of Anglo has been affirmed. Commenting on this Moody's said that, in most cases, an A3 long-term rating results in a Prime-2 short-term rating. "However we believe the Prime-1 rating is appropriate because under conditions of strong systemic ownership and support, including a liquidity facility with the Central Bank of Ireland, short-term ratings are the most predictable and assurance of payment of short-term obligations is the highest," explained Abercromby.

The negative outlook on the A3 long-term bank deposit and senior debt ratings reflects the uncertainties in Moody's view around the yet to be implemented new business plan and its viability, which will still need to be demonstrated.

Moody's has also downgraded Anglo's Tier 1 securities reflecting the lower BFSR and Moody's expectation that the bank will be challenged to return to profitability in the medium term which increases the possibility of coupons being deferred. Importantly as discussed previously Moody's notes that as well as EU approval for NAMA, Anglo also requires EU approval for the business plan it is currently developing. As a result of these factors as well as Moody's view that the bank may be placed into a run-off situation the Tier 1 securities have been downgraded as below:

Anglo Irish Bank:

- Cumulative Tier 1 hybrids downgraded to Caa1 (neg) from B3 (neg)

- Non-cumulative preferred shares and hybrids downgraded to Caa3 (neg) from Caa1 (neg)

LONG TERM BANK DEPOSIT AND SENIOR DEBT RATINGS PLACED ON REVIEW FOR DOWNGRADE IN LINE WITH THE REVIEW ON THE IRISH GOVERNMENT BOND RATING

At present the deposit and debt ratings of Allied Irish Bank, Bank of Ireland, its subsidiary ICS, and IL&P incorporate substantial systemic support leading to the senior ratings benefiting from between seven and eight notches of systemic support.

"As such, Moody's will be reassessing the level of systemic support for the banks listed above to determine whether the systemic support they receive will be affected by the review for possible downgrade on the Irish government's Aaa bond rating" says Abercromby

During the global crisis the Irish government has introduced a number of measures to support the country's banking system. These measures include the raising of the size of deposits guaranteed by the deposit guarantee fund to €100,000 from €20,000, the establishment of a two year blanket guarantee for deposits, senior debt, covered bonds and dated subordinated debt of seven institutions (Allied Irish Banks, Bank of Ireland, Anglo-Irish Bank, Irish Life & Permanent, EBS Building Society and Irish Nationwide Building Society, as well as the unrated Postbank, a joint venture between An Post and Fortis) and the injection of €3.5 billion in non-cumulative preference shares into the two largest banks, Bank of Ireland and Allied Irish Banks. The government has also announced that it will restructure the guarantee to enable the banks to issue debt with a term of up to 5 years.

These measures have been implemented as a result of the severe stress that the Irish banking system is now exposed to, as the value of commercial and residential property continues to decline, and the economic conditions in the country remain very challenging with GDP forecasted to fall substantially in 2009 and unemployment expected to continue to rise.

Moody's notes that the review is not expected to lead to more than a one, possibly two, notch change in the debt and deposit ratings of the institutions under review. The rating agency expects to conclude this review on the bank's ratings following the conclusion of the review of the Irish government bond rating (see "Moody's places Ireland's ratings on review for possible downgrade" published on April 17, 2009).

For more information, see Moody's recent report "Financial Crisis More Closely Aligns Bank Credit Risk and Government Ratings in Non-Aaa Countries" available on www.moodys.com.

IRISH BANK'S JUNIOR SECURITIES

The junior securities of the following banks have been downgraded or placed on review for possible downgrade:

Allied Irish Banks and Bank of Ireland:

- Dated subordinated debt placed on review for possible downgrade

- Cumulative junior subordinated debt downgraded to Baa2 (on review for possible downgrade) from A2 (neg)

- Non-cumulative preference shares and hybrids downgraded to B3 (neg) from B1 (developing)

- The cumulative Tier 1 hybrids have been affirmed at B1, the outlook is changed to negative from developing

EBS Building Society:

- Non-cumulative preference shares and hybrids downgraded to B3 (neg) from B1 (developing)

Irish Life & Permanent:

- Dated subordinated debt placed on review for possible downgrade

- Cumulative junior subordinated debt downgraded to Baa3 (on review for possible downgrade) from A3 (neg)

The dated subordinated debt of AIB, BoI and IL&P has been placed on review for possible downgrade, in line with the review on the senior debt ratings. Moody's continues to notch dated subordinated debt of the Irish banks one notch below the senior debt rating reflecting the current Irish government guarantee on dated subordinated debt (for the six rated institutions covered under the guarantee) and our view that the Irish authorities do not have the tools available to impose losses on dated subordinated debt outside of a liquidation scenario.

Moody's has downgraded the junior subordinated debt instruments at AIB and BoI to Baa2 (on review for possible downgrade) and at IL&P to Baa3 (on review for possible downgrade). This reflects their junior priority of claim to dated subordinated debt and the optional deferral feature. The review for possible downgrade is in line with the review on the senior debt ratings.

The downgrades of the tier 1 instruments reflects Moody's concern that (i) the EU authorities' approval of NAMA could be contingent upon the suspension of coupons on these instruments; and (ii) Moody's expectation of the banks remaining loss-making in the near-to-medium term increases the possibility of coupons being missed.

The B3 rating of the non-cumulative preference shares of AIB, BoI and EBS is based on an expected-loss approach and reflects the rating agency's assumption of a high probability of the omission of coupons and high loss severity over a two-year period. The rating agency's assumption is that EU requirements could lead to the banks exercising their right for optional deferral on these instruments. The outlook for the securities is negative reflecting that given the difficult economic conditions in Ireland and also the potential that the establishment of NAMA may lead to a further capital requirement and therefore a possible omission of coupons for a period of longer than two years cannot be ruled out.

The cumulative preference shares / hybrids (with cumulative deferral and non-cash settlement through ACSM) of AIB and BoI remain rated B1. These securities have largely the same features as junior subordinated debt on a going concern basis, but have a preferred claim in liquidation. Under a going concern assumption, the expected loss for investors in these cumulative instruments should therefore be clearly lower than for the non-cumulative preference shares. However, given their categorisation as Tier 1 instruments by the regulators we are concerned that the risk of coupon deferral is higher than for junior subordinated debt.

PREVIOUS RATING ACTION AND PRINCIPAL METHODOLOGIES

The last rating action on AIB was on April 21, 2009 when the senior debt guaranteed by the Irish government was placed on review for possible downgrade.

The last rating action on Anglo was on April 21, 2009 when the senior debt guaranteed by the Irish government was placed on review for possible downgrade.

The last rating action on BoI was on April 21, 2009 when the senior debt guaranteed by the Irish government was placed on review for possible downgrade.

The last rating action on EBS was on April 21, 2009 when the senior debt guaranteed by the Irish government was placed on review for possible downgrade.

The last rating action on ICS was on April 21, 2009 when the BFSR was downgraded to D with a developing outlook. The long-term bank deposit rating was affirmed at A1 with a negative outlook at the same time.

The last rating action on IL&P was on April 21, 2009 when the senior debt guaranteed by the Irish government was placed on review for possible downgrade.

The principal methodologies used in rating these banks 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), which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The detailed ratings and actions are listed below:

Allied Irish Banks plc:

• Long-term bank deposit and senior debt ratings of Aa3 and the A1 dated subordinated debt rating placed on review for possible downgrade

• Short-term bank deposit and debt rating of Prime-1 is unaffected.

• Undated junior subordinated debt rating downgraded to Baa2 (on review for possible downgrade) from A2 (negative outlook).

• Cumulative Tier 1 hybrids unchanged at B1 (outlook changed to negative from developing)

• Non-cumulative preferred shares and hybrids downgraded to B3 (negative outlook) from B1 (developing outlook)

• Bank financial strength rating of D is unaffected and carries a developing outlook.

Anglo Irish Bank Corporation Ltd:

• Long-term bank deposit and senior debt ratings downgrade to A3 (negative outlook) from A2 (negative outlook) and the dated subordinated debt is downgraded to Baa1 (negative outlook) from A3 (negative outlook).

• Short-term bank deposit and debt rating of Prime-1 is affirmed.

• Undated junior subordinated debt rating unchanged at B3 (negative outlook).

• Cumulative Tier 1 hybrids downgraded to Caa1 (negative outlook) from B3 (negative outlook).

• Non-cumulative preferred shares and hybrids downgraded to Caa3 (negative outlook) from Caa1 (negative outlook)

• Bank financial strength rating downgraded to E (stable outlook) from E+ (developing outlook).

Bank of Ireland:

• Long-term bank deposit and senior debt ratings of Aa3 and the A1 dated subordinated debt rating placed on review for possible downgrade

• Short-term bank deposit and debt rating of Prime-1 is unaffected.

• Undated junior subordinated debt rating downgraded to Baa2 (on review for possible downgrade) from A2 (negative outlook).

• Cumulative Tier 1 hybrids unchanged at B1 (outlook changed to negative from developing)

• Non-cumulative preferred shares and hybrids downgraded to B3 (negative outlook) from B1 (developing outlook)

• Bank financial strength rating of D is unaffected and carries a developing outlook.

EBS Building Society:

• Long-term bank deposit and senior debt ratings of A2 are unaffected

• Short-term bank deposit and debt rating of Prime-1 is unaffected.

• Non-cumulative preferred shares and hybrids downgraded to B3 (negative outlook) from B1 (developing outlook)

• Bank financial strength rating of D is unaffected and carries a developing outlook.

ICS Building Society:

• Long-term bank deposit rating of A1 placed on review for possible downgrade.

• Short-term bank deposit rating of Prime-1 is unaffected.

• Bank financial strength rating of D is unaffected and carries a developing outlook.

Irish Life & Permanent:

• Long-term bank deposit and senior debt ratings of A1 and the A2 dated subordinated debt rating placed on review for possible downgrade

• Short-term bank deposit and debt rating of Prime-1 is unaffected.

• Undated junior subordinated debt rating downgraded to Baa3 (on review for possible downgrade) from A3 (negative outlook).

• Bank financial strength rating of D is unaffected and carries a negative outlook.

All of the banks are headquartered in Dublin, Ireland.

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