Rating Action: **AIB UK 2 LP**

Moody's announces multiple rating actions on 12 Irish banks

Rating actions incorporate government support announcement

London, 08 April 2009 -- Moody's Investors Service announced today that it has taken multiple rating actions on 12 Irish banks. Moody's has been incorporating expected losses on bank loan portfolios into its ratings for some time. However, it has considerably increased those expectations because of the continuing deterioration in the outlook for commercial real estate prices, the likelihood of more corporate defaults as the Irish economy enters a deep recession, and the current erosion in residential loan performance, including the buy-to-let mortgages that account for around 25% of the Irish market. "We believe that these losses are likely to significantly weaken the capital positions of most Irish banks and building societies over the next two years" says Ross Abercromby, Vice President/Senior Analyst and lead analyst at Moody's for the Irish banks.

Moody's rating actions are based on the view that the global economic crisis will lead to significantly higher credit losses than previously anticipated, as well as a refinement to our approach to rating banks in the current environment. Although Moody's Bank Financial Strength Rating (BFSR) methodology remains unchanged, the weight attached to certain rating considerations, particularly capital and future earnings prospects, has been increased to better reflect the present conditions. (This rationale is discussed in a Special Comment entitled "Calibrating Bank Ratings in the Context of the Global Financial Crisis", which was published in February.)

IMPACT OF THE NATIONAL ASSET MANAGEMENT AGENCY

A key risk to the Irish banks in the current environment is their large exposures to residential and commercial development, given the substantial reduction in asset prices and even higher falls in land values. As a result of this, the Irish government has announced that it will establish, subject to European Commission State aid approval, a "National Asset Management Agency" (NAMA); this entity will be an asset management company that property development assets will be transferred to, removing them from the banks' balance sheets. It is estimated that up to EUR90 billion of development loans, and certain property investment loans, including those outside Ireland, will be shifted to NAMA. The loans will be transferred at a written-down value, and the banks will receive either government bonds or government guaranteed bonds in return for the loans.

We believe that the main beneficiaries of this new support scheme will be Allied Irish Banks and Bank of Ireland, although other entities will be eligible to participate.

RATING ACTIONS

Today's rating actions incorporate the expected losses on other asset classes, including residential and commercial mortgages in an extremely challenging economic environment, as well as the agency's revised support assumptions. Moody's support assumptions are in line with our expectation for banks in highly rated countries receiving, (or that are expected to receive) systemic support (as detailed in our February Special Comment entitled "Calibrating Bank Ratings in the Context of the Global Financial Crisis").

(i) Allied Irish Banks: The BFSR has been downgraded to D with a developing outlook, from C negative outlook; the Aa3/P-1 senior debt & deposit and the A1 subordinated debt ratings were affirmed and the junior subordinated debt ratings were downgraded to A2 from A1, all with a negative outlook; preference shares and Tier 1 hybrids were downgraded to B1 from A2, with a developing outlook.

(ii) Bank of Ireland: The BFSR has been downgraded to D with a developing outlook, from C negative outlook; the Aa3/P-1 senior debt & deposit and the A1 subordinated debt ratings were affirmed and the junior subordinated debt ratings were downgraded to A2 from A1, all with a negative outlook; preference shares and Tier 1 hybrids were downgraded to B1 from A2, with a developing outlook.

(iii) ICS Building Society: The BFSR has been downgraded to D with a developing outlook, from C negative outlook; the A1/P-1 deposit ratings were affirmed.

(iv) EBS Building Society: The BFSR has been downgraded to D with a developing outlook, from C- negative outlook; the A2/P-1 senior debt and deposit ratings were affirmed and the A3 subordinated debt rating was affirmed, all with a negative outlook; preferred stock was downgraded to B1 from Baa1, with a developing outlook.

(v) Irish Life & Permanent: The BFSR has been downgraded to D with a negative outlook, from C, on review for possible downgrade; the A1/P-1 senior debt & deposit and the A2 subordinated debt ratings were affirmed, and the junior subordinated debt ratings were downgraded to A3 from A2, all with a negative outlook.

(vi) Ulster Bank Limited: The BFSR has been downgraded to D, on review for possible downgrade, from C negative outlook; the A1/P-1 deposit ratings were downgraded to A2/P-1, on review for possible downgrade.

(vii) Ulster Bank Ireland: The BFSR has been downgraded to D, on review for possible downgrade, from C negative outlook; the A1/P-1 senior debt & deposit ratings were downgraded to A2/P-1, on review for possible downgrade.

(viii) First Active: The BFSR has been downgraded to D, on review for possible downgrade, from C negative outlook; the A1/P-1 senior debt & deposit ratings were downgraded to A2/P-1, and the subordinated debt rating to A3 from A2, all on review for possible downgrade.

(ix) Bank of Scotland (Ireland): The BFSR has been downgraded to D, on review for possible downgrade, from C- stable outlook; the A2/P-1 deposit ratings are on review for possible downgrade.

(x) KBC Bank Ireland: The BFSR has been downgraded to D- with a negative outlook, from C- stable outlook; the A2/P-1 senior debt & deposit ratings and the A3 subordinated debt rating was downgraded to Baa2/P-2 and Baa3, and the junior subordinated debt rating was downgraded to Ba1 from A3, all with a negative outlook.

(xi) Irish Nationwide Building Society: The BFSR has been downgraded to E+ with a negative outlook, from D- negative outlook; the Baa3/P-3 senior debt & deposit ratings and Ba1 subordinated debt ratings were affirmed, all with a negative outlook.

(xii) Zurich Bank: The BFSR has been downgraded to D- with a negative outlook, from D stable outlook; the A1/P-1 deposit ratings were affirmed, as was the A2 senior debt rating and the A3 subordinated debt rating. The outlook is stable.

DOWNGRADES AND REVIEWS FOR DOWNGRADE ON BANK FINANCIAL STRENGTH RATINGS

The BFSRs of Allied Irish Banks, Bank of Ireland, and EBS Building Society were downgraded to D (mapping to a baseline credit assessment - "BCA" - of Ba2), with a developing outlook. This reflects our increased loss expectations as detailed above, and it is consistent with our definition that a bank with a D BFSR may need periodic outside support. The developing outlook on these institutions incorporates the extremely challenging economy, as well as the uncertainties around how the establishment of NAMA will affect the capital bases and ongoing profitability of the institutions. The BFSR of Bank of Ireland's mortgage lending subsidiary ICS Building Society was also downgraded in line with its parent.

The downgrades of the BFSRs of Irish Life & Permanent (IL&P) to D (BCA: Ba2), negative outlook, and of KBC Bank Ireland to D- (BCA: Ba3), negative outlook, are based on Moody's opinion that credit losses on residential mortgages, including buy-to-let (to which both institutions have a large exposure), will likely be substantially higher than previously anticipated as the unemployment rate in Ireland continues to increase rapidly. However, the BFSR of IL&P benefits from its strong position in the life assurance market through Irish Life, the market leader, and this diversification is an important element in the D BFSR. The negative outlook also indicates our expectation that IL&P will not benefit to the same extent as other institutions from the establishment of NAMA, as well as the increasing dependence on ECB funding. KBC Bank Ireland's exposure to the Irish corporate market may lead to further stress on profitability and provisioning as the economy deteriorates further. The negative outlook on KBC Bank Ireland's BFSR also reflects continuing concerns over the funding profile that is increasingly dependent on its Belgian parent. The rating action on IL&P concludes the review for possible downgrade on the BFSR initiated on February 17, 2009.

The downgrade of the BFSR of Irish Nationwide Building Society to E+ (BCA: B3) is a result of our view that losses on commercial real estate and development finance will continue to increase; in the current environment, we believe it will be difficult for the society to generate enough capital to cover the expected increased loan losses. As we have highlighted previously, the high concentration risk within the portfolio also remains a key concern. The outlook remains negative.

The downgrades of the BFSRs of Bank of Scotland (Ireland) and of Ulster Bank and its two subsidiaries, Ulster Bank Ireland and First Active to D (BCA: Ba2), are based on Moody's view that the increased loan losses are likely to put substantial downward pressure on the stand-alone creditworthiness of the banks, especially given their relatively light capitalisation. The BFSRs also remain on review for possible downgrade. These reviews will focus on the ability of the banks to place assets in the UK's Asset Protection Scheme through the respective ultimate parents, Royal Bank of Scotland and Lloyds Banking Group, and how the mechanics of this scheme will affect the BOSI and Ulster Bank legal entities.

The downgrade of the BFSR of Zurich Bank to D- (BCA: Ba3) is also a result of our view that losses on commercial real estate and development finance will continue to increase; in the current environment, we believe that it will be difficult for the bank to generate enough capital to cover the likely increase in loan losses. The outlook remains negative.

LIMITED IMPACT ON BANK DEPOSIT AND SENIOR DEBT RATINGS

The bank deposit and senior debt ratings of Allied Irish Banks (Aa3/P-1, negative outlook), Anglo Irish Bank (A2/P-1, negative outlook), Bank of Ireland (Aa3/P-1, negative outlook), EBS Building Society (A2/P-1, negative outlook), ICS Building Society (A1/P-1, negative outlook), Irish Life & Permanent (A1/P-1, negative outlook), Irish Nationwide Building Society (Baa3/P-3, negative outlook), and Zurich Bank (A1/P-1, stable outlook) were affirmed. These actions are generally consistent with our expectation for banks in highly rated countries receiving, (or that are expected to receive) systemic support (as detailed in our February Special Comment entitled "Calibrating Bank Ratings in the Context of the Global Financial Crisis").

The A2/P-1 bank deposit and senior debt ratings of Bank of Scotland (Ireland) have been placed on review for possible downgrade in line with the review on its BFSR. If the BFSR is downgraded, it is likely that the deposit ratings would also move down. The long-term bank deposit and senior debt ratings of Ulster Bank and its subsidiaries have been downgraded to A2 from A1, and they remain on review for possible downgrade. The Prime-1 short-term rating is also placed on review for possible downgrade. These actions again reflect the fact that, if the BFSR were to be downgraded, then it is likely that the deposit ratings would also move down.

The bank deposit and senior debt ratings of KBC Bank Ireland were downgraded to Baa2/P-2 from A2/P-1. This is a result of the weaker BFSR; although mitigated to a certain degree by the high level of parental support from Belgium's KBC Bank that is incorporated into the rating, this leads to deposit ratings of Baa2/P-2.

For Allied Irish Banks, Bank of Ireland, Anglo Irish Bank, Irish Life & Permanent, and EBS and Irish Nationwide Building Societies, the senior and dated subordinated debt covered by the Irish government guarantee maturing prior to September 29 2010, rated Aaa with a negative outlook, is unaffected by this action.

DOWNGRADE OF SUBORDINATED AND HYBRID DEBT

In its Special Comment entitled "Moody's Assesses Bank Hybrid Securities in the Context of the Current Credit Crisis", dated December 2008, Moody's began a dialogue with market participants regarding a potential change to its bank hybrid notching practices. The proposal explores the possibility of removing systemic support from bank hybrid ratings, and it considered wider notching based on the hybrid's risk characteristics. This process continues for banks generally, but as Moody's noted in its Special Comment, subordinated and hybrid ratings will be adjusted as appropriate, should circumstances warrant.

Moody's ratings on banks' subordinated and hybrid securities generally reflect the assumption that, if a government extends financial support to a bank in difficulty, that support would also benefit subordinated and hybrid investors. As has been observed in the case of Anglo Irish Bank, however, systemic support does not always include supporting certain hybrid or Tier 1 instruments. In light of the heightened potential for restructuring of banks in Ireland, as highlighted by the actions detailed above on the BFSRs, we believe that potential losses to hybrid and Tier 1 investors are more closely aligned to the bank's BFSR.

Given the current Irish government guarantee on dated subordinated debt (for the six rated institutions covered under the guarantee), and acknowledging our current guidelines for rating junior securities, Moody's will continue to notch the ratings of Irish banks' subordinated and junior subordinated debt from the supported senior debt rating. Subordinated debt will continue to be rated one notch below the senior debt rating, whereas the notching of junior subordinated debt is widened to two notches.

Our view is that systemic support for hybrid and Tier 1 instruments in Ireland is likely to be lower in the future, however, so the anchor for the notching of these instruments will be the baseline credit assessment (BCA), which maps from the intrinsic strength of the bank as indicated by our published Bank Financial Strength Rating (BFSR). The actual notching for hybrid and Tier 1 instruments from the BCA is two notches.

The junior subordinated or hybrid instruments of the following institutions have been affected by this action:

• Allied Irish Banks - Junior subordinated debt downgraded to A2 from A1, and preference shares and tier 1 hybrids downgraded to B1 from A2. Outlook is developing in line with the BFSR.

• Bank of Ireland - Junior subordinated debt downgraded to A2 from A1, and preference shares and tier 1 hybrids downgraded to B1 from A2. Outlook is developing in line with the BFSR.

• EBS Building Society - Backed preferred stock downgraded to B1 from Baa1. Outlook is developing in line with the BFSR.

• Irish Life & Permanent - Junior subordinated debt downgraded to A3 from A2. Outlook remains negative.

• KBC Bank Ireland - Subordinated debt downgraded to Baa3 from A3, in line with the action on the senior debt rating. Junior subordinated debt downgraded to Ba1 from A3. Outlook remains negative.

• First Active and First Active Treasury plc - Subordinated debt downgraded to A3 from A2. These ratings are all placed on review for further downgrade in line with the review on the banks senior debt ratings.

The last rating actions on the Irish banks were:

AIB - The last rating action on AIB was on February 12, 2009 when the bank's BFSR was downgraded to C from B- and the long-term ratings were downgraded to Aa3 from Aa2.

Anglo Irish Bank - The last rating action on Anglo Irish Bank was on January 19, 2009 when the BFSR was downgraded to E+ from C+ and the long-term ratings were downgraded to A2 from A1.

Bank of Ireland - The last rating action on Bank of Ireland was on February 12, 2009 when the bank's BFSR was downgraded to C from B- and the long-term ratings were downgraded to Aa3 from Aa2.

Bank of Scotland (Ireland) - The last rating action on Bank of Ireland was on February 16, 2009 when the bank's long-term rating was downgraded to A2 from Aa3.

EBS Building Society - The last rating action on EBS Building Society was on February 5, 2009 when the outlook on the society's backed-Aaa rated Government guaranteed bonds was changed to negative from stable.

ICS Building Society - The last rating action on ICS Building Society was on February 12, 2009 when the outlook on the C BFSR was changed to negative from stable, and the long-term ratings were downgraded to A1 from Aa3.

Irish Life & Permanent - The last rating action on Irish Life & Permanent was on February 17, 2009 when the BFSR was downgraded to C, on review for further downgrade, from C+ and the long-term ratings were downgraded to A1 from Aa3.

Irish Nationwide Building Society - The last rating action on Irish Nationwide Building Society was on February 16, 2009 when the BFSR was downgraded to D- from C- and the long-term ratings were downgraded to Baa3 from Baa1.

KBC Bank Ireland - The last rating action on KBC Bank Ireland was on January 26, 2009 when the long-term ratings were downgraded to A2 from A1.

Ulster Bank Limited and subsidiaries - The last rating action on Ulster Bank Limited and subsidiaries was on January 21, 2009 when the BFSRs of Ulster Bank Limited and Ulster Bank Ireland Limited were downgraded to C from C+, the C BFSR of First Active was confirmed and the long-term ratings of the three institutions were downgraded to A1 from Aa2. .

Zurich Bank - Moody's last rating action on Zurich Bank was in April 2007 when the long-term bank deposit rating was affirmed at A2 following the implementation of Moody's JDA methodology.

The principal methodologies used in rating these issuers 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 these issuers can also be found in the Credit Policy & Methodologies directory.

All of the banks with the exception of Ulster Bank Limited are headquartered in Dublin, Ireland. Ulster Bank Limited is headquartered in Belfast, United Kingdom.

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