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Irish Bank Ratings Unaffected By €10 Billion Government Recapitalization Fund Announcement

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LONDON (Standard & Poor's) Dec. 16, 2008--Standard & Poor's Ratings Services said today that it broadly welcomed the Irish government's announcement on Dec. 14, 2008, that it would provide up to €10 billion in capital support to Irish banks and building societies. The ratings on participating Irish banks rated by Standard & Poor's are unaffected by this announcement, pending the release of further details. (See the list below for participating banks and counterparty credit ratings.)

The recapitalization fund follows on from the government's bank guarantee scheme, established on Sept. 30, 2008, in which seven domestic banks are participating, including Allied Irish Banks PLC (A+/Negative/A-1), Bank of Ireland (A+/Watch Neg/A-1), Irish Life & Permanent PLC (A-/Watch Neg/A-1), and Anglo Irish Bank Corp. PLC. (A-/Watch Neg/A-1). (For further details of the guarantee scheme, see "Rating Actions Taken On Various Irish Banks Following Government Guarantee," published on Sept. 30, 2008, on RatingsDirect.)

The guarantee scheme and recapitalization fund appear consistent with our expectations of extraordinary government action in supportive countries in times of extreme stress. The government intends that the recapitalization fund

will ensure sufficient supply of credit to the domestic market. Since the Irish guarantee scheme was announced, several, mostly European, governments have provided capital to their domestic banks, increasing the participating banks' regulatory Tier 1 ratios to about 10%, in the form of equity or hybrid capital instruments.

The recapitalization fund appears clearly material in the context of the Irish banking sector. The announced maximum size of the government fund, at €10 billion, represents approximately an additional 40% of aggregated shareholders' equity across the seven participating institutions, and 35% of adjusted total equity.

We understand that the recapitalization fund expects to co-invest with the private sector. The vehicle for co-investment is yet to be determined, but we understand the government intends to provide preference shares or ordinary equity, and may underwrite issuance where appropriate. We understand the government expects participating banks to continue assessing proposals for additional capital from other sources, including existing shareholders. It has been reported that several private equity firms are considering bids for Irish banks.

Proposals from banks wishing to participate in the recapitalization fund are expected in early January 2009. Recapitalized institutions may have additional restrictions or requirements placed on them. Maintaining the availability of credit to some sectors of the economy seems a likely requirement.

We consider higher capital levels as only a partial mitigant against downward rating pressures on Irish banks. The main factors behind our CreditWatch placements or negative outlooks on the four rated independent Irish banks are deteriorating asset quality--a common factor in all four banks--and the long-term funding positions and business model sustainability in relation to Anglo Irish Bank and Irish Life & Permanent.

Furthermore, when we analyze the benefits of announced plans on the relevant bank's capitalization, a key component of our assessment of ratings impact will be the form of capital. Irish banks in the main already have nonequity capital instruments beyond our tolerance levels for inclusion in our capital ratios; a high coupon on a nonequity instrument may be a drain on already-pressured profitability levels; and nonequity securities may be structured in a way which incentivises early repayment.

Standard & Poor's will update in January 2009 the impact of recent developments on Irish bank ratings, including the benefits of recapitalization plans and any revised capital targets.

	Reported shareholders' Equity(1) (Mil. €)	ATE (Mil. €)
Allied Irish Banks PLC	9,058	10,317
Bank of Ireland	6,524	9,298

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Irish Life & Permanent PLC	2,639	944
Anglo Irish Bank Corp. PLC	4,375	6,029
EBS Building Society(2)	612	843
Irish Nationwide(2) Building Society	1,510	1,364
Postbank(2)	N.A.	N.A.

(1)All data at June 30, 2008, except Bank of Ireland (Sept. 30, 2008) and Irish Nationwide Building Society (Dec. 31, 2007). (2)Not rated by Standard & Poor's Ratings Services. ATE--Adjusted total equity.

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