

### Research Update:

## Bank of Ireland 'BB+/B' Ratings Affirmed Following Sovereign Action; Off Watch Neg, Outlook Negative

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## Research Update:

# Bank of Ireland 'BB+/B' Ratings Affirmed Following Sovereign Action; Off Watch Neg, Outlook Negative

## Overview

- Standard & Poor's affirmed its 'BBB+/A-2' sovereign credit ratings on the Republic of Ireland on Jan. 13, 2012, and removed the ratings from CreditWatch with negative implications.
- We are affirming the 'BB+/B' ratings on Bank of Ireland (BOI) and removing the long-term ratings from CreditWatch with negative implications, where they were placed on Dec. 8, 2011.
- The outlook on BOI is negative. This reflects our view that BOI is still at a relatively early stage in implementing its turnaround strategy, has undergone a period of significant stress to its balance sheet, and has recorded large losses.

## Rating Action

On Jan. 20, 2012, Standard & Poor's Ratings Services affirmed its 'BB+/B' long- and short-term counterparty credit ratings on Bank of Ireland (BOI). At the same time, the long-term ratings were removed from CreditWatch with negative implications, where they had been placed on Dec. 8, 2011. The outlook is negative.

## Rationale

The rating actions follow similar actions on the Republic of Ireland (see "Ireland's 'BBB+/A-2' Ratings Affirmed; Off Watch Neg; Outlook Negative," published on Jan. 13, 2012).

Our ratings on BOI continue to reflect our view of its 'bb+' anchor, "strong" business position, "weak" capital and earnings, "adequate" risk position, "average" funding, and "moderate" liquidity, as our criteria define these terms. The stand-alone credit profile (SACP) of BOI is 'bb'.

The ICR is one notch higher than the SACP, reflecting our view of BOI's "high" systemic importance in Ireland and our assessment of the Irish government as "supportive."

## Outlook

The negative outlook reflects our view that BOI is still at a relatively early stage in implementing its turnaround strategy, has undergone a period of significant stress to its balance sheet, and has recorded large losses. We could lower the ratings if BOI reports much higher losses in 2012 than envisaged, such that its capital ratio, as measured by our risk-adjusted capital framework, reduces further and faster than expected--we project BOI's RAC ratio to be in the 4.0-4.5% range by end-2013. This would most likely be due to a reversal in the nascent Irish economic recovery and a downward spike in asset quality, which might also spur a downward revision in our Banking Industry Country Risk Assessment (BICRA) economic risk score. We could also lower the ratings if BOI falters in its de-leveraging strategy. Thus, we could lower BOI's capital and earnings or funding and liquidity scores, which could result in a lower counterparty credit rating.

We could revise the outlook to stable if we see an improvement in BOI's ability to achieve retained earnings and consider that its reliance on central bank funding and liquidity support is on a sustainable downward path.

## Ratings Score Snapshot

Issuer Credit Rating	BB+
SACP	bb
Anchor	bb+
Business Position	Strong (+1)
Capital and Earnings	Weak (-1)*
Risk Position	Adequate (0)
Funding and Liquidity	Average and Moderate (-1)
Support	+1
GRE Support	0
Group Support	0
Sovereign Support	+1
Additional Factors	0

\*When a bank's anchor SACP, derived from our BICRA methodology, is in the 'bb' category and its common equity regulatory Tier 1 ratio is greater than the local regulatory requirements, a "weak" assessment of capital and earnings has a minus one notch impact on the SACP, rather than two (see paragraph 88 of "Banks: Rating Methodology And Assumptions," Nov. 9, 2011).

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Ireland's 'BBB+/A-2' Ratings Affirmed; Off Watch Neg; Outlook Negative, Jan. 13, 2012
- Bank of Ireland 'BB+' Long-Term Ratings Placed On Watch Negative Following Sovereign Action, Dec. 8, 2011
- BICRA On Ireland Revised To Group '7' From Group '6', Nov. 9, 2011
- BICRA On The U.K. Maintained At Group '3', Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology For Banks, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010

## Ratings List

	To	From
Bank of Ireland		
Counterparty Credit Rating	BB+/Negative/B	BB+/Watch Neg/B
Certificate of Deposit	BB+/B	BB+/Watch Neg/B
Senior Unsecured	BB+	BB+/Watch Neg
Subordinated	D	
Junior Subordinated	C	
Preference Stock	C	
Preference Stock	CC	

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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