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DBRS Downgrades the Bank of Ireland, Senior at BBB (high)

Industry: Fin.Svc.--Banks & Trusts

DBRS Inc. (DBRS) has today downgraded the Non-Guaranteed ratings, including the Non-Guaranteed Long-Term Deposits and Non-Guaranteed Long-Term Debt ratings of The Governor and Company of the Bank of Ireland (Bank of Ireland or the Bank) to BBB (high) from A (high). Concurrently, the Non-Guaranteed Short-Term Deposits and Non-Guaranteed Short-Term Debt ratings have been downgraded to R-2 (high) from R-1 (middle). The trend on all long term debt and deposit ratings is Negative. To reflect DBRS's downgrade of the long-term ratings of the Irish Government, guaranteed instruments issued by the Bank of Ireland are downgraded to "A" from A (high). Concurrently, DBRS has downgraded the ratings of Short-Term Deposits and Short-Term Debt Guaranteed by the Irish Government to R-1 (low) from R-1 (middle). The trend on the long-term guaranteed ratings is Negative, while the trend on the short-term guaranteed ratings is Stable. The ratings action on the guaranteed debt reflects DBRS's downgrade of the Republic of Ireland to "A" with a Negative trend. For a full list of the rating actions, please see table below.

In lowering the Non-Guaranteed Long-Term Deposits and Non-Guaranteed Long-Term Debt ratings, today's rating action reflects the removal of the floor concept in Ireland. In DBRS's opinion, the Irish Government no longer has the ability to support its critically important banking organisations at the level required by the markets for the floor as defined by DBRS, which is A (high) for long-term debt and deposits and R-1 (middle) for short-term debt and deposits at the bank level. The floor afforded uplift to the ratings; as such, removal of this concept has triggered a two notch downgrade, with another notch reflecting the downgrade of the sovereign. Nonetheless, DBRS is maintaining the SA-2 Support Assessment for the Bank of Ireland. The SA-2 designation reflects DBRS's expectation that some form of timely systemic support would continue to be provided to the Bank. DBRS views the statements made by the Government that Bank of Ireland will remain one of the two pillar banks in the Irish banking system as supporting this perspective. Nevertheless, the BBB (high) rating reflects the uncertainties regarding the strength of economic recovery in Ireland and the potential impact on the Irish banking system. Moreover, the rating reflects DBRS's concern as to the level and form of future support should the current Bank Rescue package not be sufficient to stem problems in the banking sector.

Although DBRS has downgraded the ratings, the Bank of Ireland remains solidly in investment grade, reflecting DBRS's view that the Bank is the strongest of the Irish banks. This strength was illustrated



by the Minister for Finance naming Bank of Ireland a “Pillar One Bank” on its own without the need for any business combinations with other Irish financial institutions. Moreover, should conditions be less severe than those assumed in the stress test, DBRS envisions the Bank as emerging from this crisis in a very solid position. Accordingly, DBRS could envision rating stabilisation if conditions in the Republic improve. The Bank would also have significantly strengthened capitalisation. Pro-forma for the capital raise, discussed below, the Bank of Ireland estimates its core Tier 1 capital ratio as of 31 December 2010, would have increased to in excess of 14.5%. The amount of additional capital required by the current PCAR test and the level of haircuts applied to the assets transferred to NAMA in 2010 were both well below the Bank’s nearest peer. In DBRS’s view, this demonstrates the relative strength of the Bank and its underlying risk profile. Indeed, to date the Bank has only received EUR 3.5 billion of capital support from the Government, which is significantly less than its next largest peer and other banks in the system. While the restructuring plan put forth by the Minister for Finance requires the Bank to shed some business that are not supportive of the Bank’s domestic banking franchise, DBRS sees these disposals, which are included in the run-off of EUR 39.1 billion of non-core assets, as manageable with limited impact on the overall franchise.

Today’s rating action considers the results of the Prudential Capital Assessment Review (PCAR) and the Prudential Liquidity Assessment Review (PLAR) conducted by the Irish Central Bank (the Central Bank). Under PCAR/PLAR, the Bank of Ireland was determined to have a capital shortfall. As such, the Bank will be required to raise EUR 4.2 billion of equity capital to maintain a core Tier 1 ratio above 10.5% in the base scenario and 6.0% in the stress scenario. In addition, the Bank will be required to raise EUR 1.0 billion of contingent capital as an additional capital buffer. DBRS notes that compared to its peers, this is a modest increase from the EUR 2.2 billion of capital as put forth by the Central Bank as part of the EU/IMF/ECB Programme in November 2010. The Bank intends to meet the new capital requirement through a combination of capital management initiatives, other capital market sources, and support from existing shareholders. Given the size of the capital raise required and the Bank’s past success in generating capital, as demonstrated by its successful EUR 2.9 billion equity raise in June 2010 and the EUR 825 million of capital generated through liability management exercises and business disposals completed in late 2010 and early 2011, DBRS sees it as possible that the Bank could be successful in raising much of this in the private market. Nonetheless market conditions remain uncertain; as such, the Irish Government stands ready to backstop any capital shortages should the Bank be unable to privately raise the capital as identified in this PCAR and PLAR exercise, which further illustrates the level of government support to its pillar banks.

In DBRS’s view, the difficult operating environment has likely reduced the Bank’s underlying earnings capacity through lower customer activity and increased credit costs. Lower levels of economic activity have reduced demand for new lending and banking products and services



negatively impacting earnings generation. Nevertheless, DBRS sees the possibility that the Bank could return underlying profitability in a shorter period than its industry peers.

While DBRS has already factored in the increased risk of loss to subordinated bondholders in the former ratings, given DBRS's view of lower systematic support across the entire Irish banking sector and increased potential for negative actions impacting senior bond holders, DBRS sees additional risk to the subordinated debt holders. Accordingly, DBRS has lowered the ratings on subordinated debt by a similar number of notches and the ratings remain Under Review with Negative Implications, where they were placed on 3 December 2010.

Notes:

All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations. Other methodologies used include the Enhanced Methodology for Bank Ratings – Intrinsic and Support Assessments. Both can be found on the DBRS website under Methodologies.

The sources of information used for this rating include the issuer, Minister for Finance and Central Bank of Ireland. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

Lead Analyst: Steven Picarillo

Rating Committee Chair: Alan G. Reid

Initial Rating Date: 6 September 2005

Most Recent Rating Update: 15 December 2010

For additional information on this rating, please refer to the linking document below.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Governor and Company of the Bank of Ireland, The	Issuer Rating	Downgraded	BBB (high)	Neg	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Long-Term Debt	Downgraded	BBB (high)	Neg	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Long-Term Deposits	Downgraded	BBB (high)	Neg	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Short-Term Debt	Downgraded	R-2 (high)	Neg	Apr 4, 2011

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Governor and Company of the Bank of Ireland, The	Non-Guaranteed Short-Term Deposits	Downgraded	R-2 (high)	Neg	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Long-Term Debt Guaranteed by the Irish Government	Downgraded	A	Neg	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Long-Term Deposits Guaranteed by the Irish Government	Downgraded	A	Neg	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Short-Term Debt Guaranteed by Irish Government	Downgraded	R-1 (low)	Stb	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Short-Term Deposits Guaranteed by Irish Government	Downgraded	R-1 (low)	Stb	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Dated Subordinated Debt	Downgraded	B (high)	--	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Dated Subordinated Debt	Under Review - Negative	B (high)	--	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Primary Capital Notes	Downgraded	B	--	Apr 4, 2011
Governor and Company of the Bank of Ireland, The	Primary Capital Notes	Under Review - Negative	B	--	Apr 4, 2011
Bank of Ireland UK Holdings plc	Perpetual Preferred Securities	Downgraded	B	--	Apr 4, 2011
Bank of Ireland UK Holdings plc	Perpetual Preferred Securities	Under Review - Negative	B	--	Apr 4, 2011
BOI Capital Funding (No 1) LP	Perpetual Preferred Securities	Downgraded	CCC	--	Apr 4, 2011
BOI Capital Funding (No 1) LP	Perpetual Preferred Securities	Under Review - Negative	CCC	--	Apr 4, 2011
BOI Capital Funding (No 2) LP	Perpetual Preferred Securities	Downgraded	CCC	--	Apr 4, 2011
BOI Capital Funding (No 2) LP	Perpetual Preferred Securities	Under Review - Negative	CCC	--	Apr 4, 2011
BOI Capital Funding (No 3) LP	Perpetual Preferred Securities	Downgraded	CCC	--	Apr 4, 2011
BOI Capital Funding (No 3) LP	Perpetual Preferred Securities	Under Review - Negative	CCC	--	Apr 4, 2011
BOI Capital Funding (No 4) LP	Perpetual Preferred Securities	Downgraded	CCC	--	Apr 4, 2011
BOI Capital Funding (No 4) LP	Perpetual Preferred Securities	Under Review - Negative	CCC	--	Apr 4, 2011

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