

## Bank of Ireland

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# Bank of Ireland

## Major Rating Factors

### Strengths:

- High systemic importance underpins our expectation of continuing Irish government support.
- Very strong domestic franchise.
- Satisfactory business diversity.
- Capitalization being substantially bolstered.

### Counterparty Credit Rating

BB+/Watch Neg/B

### Weaknesses:

- Very weak outlook for asset quality and profitability due to the sustained difficult economic environment.
- Continuing reliance on liquidity support from monetary authorities.
- Weak investor confidence impeding wholesale funding access.
- Deleveraging set to reduce business breadth.

## Rationale

The ratings on Bank of Ireland (the trading name of The Governor and Company of the Bank of Ireland; BOI) reflect its very strong domestic franchise, high systemic importance, and the consequent strong support that Standard & Poor's Ratings Services expects it to continue to receive from the Irish government (Republic of Ireland; BBB+/Stable/A-2). We factor two notches of support into the ratings on BOI above its stand-alone credit profile (SACP). While the bank is about to receive a further large capital injection, this should be seen in the context of likely further losses over the two-year rating horizon. Weak investor confidence means that the bank's high reliance on monetary authority liquidity support will likely only slowly reduce.

With total reported assets of €167 billion at Dec. 31, 2010, BOI ranks alongside its main competitor, Allied Irish Banks PLC (AIB; BB+/Watch Neg/B), as the leading player in Irish banking. BOI's business profile is one of a full-service retail and corporate bank in its domestic market, a selective provider of banking products in the U.K., and a niche player in international capital markets.

Over the past two years BOI's performance has been severely affected by the consequences of the sharp falls in property prices in its major markets of Ireland and the U.K., the persistent weak economic environment in Ireland, the general dislocation of the wholesale funding markets, and specifically weak investor appetite for exposures to Irish banks and the government. Through this time, BOI has benefited from significant government support, which has included: capital injections, the purchase of BOI's weakest property-related loans by the National Asset Management Agency (NAMA), government-backed funding programmes, and access to liquidity from the monetary authorities. Liquidity support was most evident through the third and fourth quarters of 2010 when BOI, like many domestically owned Irish banks, saw a marked outflow of wholesale deposits. At end-2010, BOI owed €31 billion to monetary authorities, with a further €7 billion of its issued debt and €32 billion of deposits backed by government guarantees. We calculate that the loan-to-deposit ratio was 184% at the same date, up from 159% the year before (this metric uses gross rather than net loans as the numerator).

Following the March 2011 announcement of the Irish government's Financial Measures Programme, comprising a Prudential Capital Assessment (PCAR) and a Prudential Liquidity Assessment (PLAR), BOI is set to further bolster its capitalization with an injection of €4.2 billion of equity and €1.0 billion of contingent capital, expected by end-July 2011. Of the €4.2 billion, the ongoing liability management exercise is set to raise at least €2.0 billion, leaving the balance to be raised via a rights issue underwritten by the Irish government. This could leave the bank up to 69% government-owned (currently 36%). The bank will also pursue a structured plan to delever through 2013, with the aim of refocusing its activities more squarely on its domestic market and materially reducing its reliance on wholesale and monetary authority funding. In our view, this deleveraging could lead to a moderate narrowing in the bank's business profile.

We calculate that the bank made a pretax loss of €3,442 million for the year to end-2010 (excluding one-off gains of €2,492 million), compared with an underlying pretax loss of €2,839 million for the nine months to end-2009. Even with the weakest loans having been transferred to NAMA and anticipating a continued tight focus on operating expenses, we expect BOI's earnings through 2011 and 2012 to be weighed down by persistent interest margin pressure, weak transaction activity, a shrinking loan book, and still-elevated credit losses from the remaining loan book. Assuming also that it may be divesting assets through this period at below book value, in our view this points to likely capital erosion over the period.

BOI reported a regulatory Core Tier 1 ratio of 9.7% at end-2010. We calculate that the risk-adjusted capital (RAC) ratio at the same date was 5.1% after adjustments, which is weak compared with most European peers.

Capitalization will be bolstered substantially by end-July but we expect that, despite reducing risk exposures, it will then reduce through the remainder of 2011 and also 2012.

## CreditWatch

The ratings remain on CreditWatch with negative implications while we consider the bank's stand-alone credit profile (SACP) and notches of extraordinary government support in light of the Irish government's Financial Measures Programme, announced April 2011. We expect to resolve the Watch listing within the next month.

The ratings may be affirmed, or they may be lowered by one or more notches. An affirmation would be supported by a view that the government remains willing and able to provide substantial further support, and/or that BOI's SACP will be maintained or even bolstered by the PCAR/PLAR-related actions, or a combination of the two. By contrast, if we see a weakening of government support and/or a weakening in the SACP, this could lead to a downgrade.

## Related Criteria And Research

- Various Rating Actions Taken On Irish Banks Following Financial Measures Programme & Bank Restructuring Plan, April 6, 2011
- Ireland's Ratings Lowered To 'BBB+/A-2' And Removed From CreditWatch; Stable Outlook Reflects Credibility Of Stress Test, April 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 16, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- How Systemic Importance Plays A Significant Role In Bank Ratings, July 3, 2007

- FI Criteria: Bank Rating Analysis Methodology Profile, March 18, 2004

Table 1

Bank of Ireland RACF [Risk-Adjusted Capital Framework] Data					
(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
<b>Credit risk</b>					
Government and central banks	23,331	13	0	2,187	9
Institutions	17,902	3,138	18	5,961	33
Corporate	57,351	49,750	87	59,956	105
Retail	64,581	10,588	16	31,191	48
Of which mortgage	57,163	5,925	10	24,506	43
Securitization	1,406	763	54	3,310	235
Other assets	3,622	4,650	128	4,542	125
Total credit risk	168,193	68,900	41	107,148	64
<b>Market risk</b>					
Equity in the banking book¶	199	0	0	2,488	1,250
Trading book market risk	--	1,963	--	2,944	--
Total market risk	--	1,963	--	5,431	--
<b>Insurance risk</b>					
Total insurance risk	--	--	--	10,200	--
<b>Operational risk</b>					
Total operational risk	--	5,675	--	7,221	--
(Mil. €)		<b>Basel II RWA</b>		<b>Standard &amp; Poor's RWA</b>	<b>% of Standard &amp; Poor's RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification		76,538		130,000	100
Total adjustments to RWA		--		(5,557)	(4)
RWA after diversification		76,538		124,443	96
(Mil. €)		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>Standard &amp; Poor's RAC ratio (%)</b>
<b>Capital ratio</b>					
Capital ratio before adjustments		7,676	10.0	6,369	4.9
Capital ratio after adjustments§		7,676	9.7	6,369	5.1

\*Exposure at default. €Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2010, Standard & Poor's.

Table 2

Bank of Ireland Asset Quality, Funding, And Liquidity Ratios					
	--Year-ended Dec. 31--				
(%)	2010	2009¶	2008*	2007*	2006*
Gross nonperforming assets/customer loans plus other real estate owned	10.7	10.9	4.7	1.1	1.1
Net nonperforming assets/customer loans plus other real estate owned	6.8	6.9	3.5	0.7	0.8

Table 2

Bank of Ireland Asset Quality, Funding, And Liquidity Ratios (cont.)					
Loan loss reserves/gross nonperforming assets	39.3	39.2	27.8	39.4	30.9
Loan loss reserves/customer loans	4.2	4.3	1.3	0.4	0.3
New loan loss provisions/average customer loans	3.5	4.0	1.1	0.2	0.1
Net charge-offs/average customer loans	0.6	0.1	0.2	0.0	0.0
Customer deposits/funding base	47.6	56.3	51.4	52.0	46.2
Total loans/customer deposits	183.8	158.8	163.0	158.1	173.6
Total loans/customer deposits plus long-term funds	124.4	109.5	113.8	108.1	134.7
Customer loans (net)/assets (adjusted)	73.3	75.2	71.8	72.9	71.3

\*Financial year ended March 31 of the following calendar year. ¶Nine months to Dec. 31, 2009. Ratios annualized where appropriate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 3

Bank of Ireland Profitability Ratios	--Year-ended Dec. 31--				
	2010	2009¶	2008*	2007*	2006*
(%)					
Net interest income/average earning assets	1.4	1.7	2.0	1.8	1.6
Net interest income/revenues	71.9	78.3	89.3	70.9	65.2
Fee income/revenues	13.1	8.4	12.6	15.7	19.0
Market-sensitive income/revenues	(4.4)	(0.8)	(9.5)	(5.7)	(1.5)
Personnel expense/revenues	35.0	30.3	30.7	29.1	32.0
Noninterest expenses/revenues	62.2	53.2	54.7	50.7	55.5
New loan loss provisions/revenues	157.8	155.7	39.3	5.5	2.6
Net operating income before loan loss provisions/loan loss provisions	23.9	30.0	115.4	902.6	1,680.6
Net operating income after loan loss provisions/revenues	(120.0)	(109.0)	6.1	43.8	41.9
Pretax profit/revenues	(33.1)	(69.5)	(0.2)	45.5	50.3
Tax/pretax profit	35.9	19.0	585.7	11.8	15.6
Core earnings/revenues	(103.1)	(92.8)	6.2	38.6	35.5
Core earnings/average adjusted assets	(1.8)	(1.8)	0.1	0.9	0.8
Noninterest expenses/average adjusted assets	1.1	1.0	1.1	1.2	1.3
Core earnings/average risk-weighted assets	N.M.	N.M.	0.4	1.4	1.3
Core earnings/average adjusted common equity	(76.0)	(81.8)	4.6	30.4	30.6
Pretax profit/average common equity (%)	(22.7)	(76.5)	(0.1)	28.8	31.6

\*Financial year ended March 31 of the following calendar year. ¶Nine months to Dec. 31, 2009. Ratios annualized where appropriate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Bank of Ireland Capital Ratios	--Year-ended Dec. 31--				
	2010	2009¶	2008*	2007*	2006*
(%)					
Adjusted common equity/risk assets (%)	N.M.	N.M.	N.M.	4.4	4.6
Tier 1 capital ratio	9.7	9.8	12.0	8.1	8.2
Adjusted total equity/adjusted assets	3.3	1.7	2.9	3.4	3.3
Adjusted total equity/managed assets	3.1	1.6	2.8	3.2	3.1
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	8.5	6.4	5.3	5.1	5.0

Table 4

Bank of Ireland Capital Ratios (cont.)					
Common dividend payout ratio	0.0	0.0	0.0	36.8	34.8

\*Financial year ended March 31 of the following calendar year. †Nine months to Dec. 31, 2009. Ratios annualized where appropriate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 5

Bank of Ireland Summary Balance Sheet					
(Mil. €)	--Year-ended Dec. 31--				
	2010	2009†	2008*	2007*	2006*
<b>Assets</b>					
Cash and money market instruments	8,473	9,274	11,112	9,893	7,572
Securities	21,066	21,798	27,392	29,885	34,284
Trading securities (marked to market)	415	858	534	568	824
Nontrading securities	20,651	20,940	26,858	29,317	33,460
Loans to banks (net)	(1)	(2)	(2)	0	0
Customer loans (gross)	120,300	134,671	135,521	136,334	125,476
Loan loss reserves	5,050	5,775	1,781	596	428
Customer loans (net)	115,250	128,896	133,740	135,738	125,048
Earning assets	145,507	159,172	167,036	169,662	163,940
Equity interests/participations (nonfinancial)	26	23	22	28	26
Investments in unconsolidated subsidiaries (financial companies)	199	194	151	70	73
Intangibles (nonservicing)	452	507	532	863	943
Fixed assets	1,676	1,669	1,905	2,104	1,807
Derivatives credit amount	6,382	5,917	8,397	4,568	2,849
Accrued receivables	495	431	515	1,831	1,990
All other assets	13,455	12,399	10,352	12,454	14,221
Total assets	167,473	181,106	194,116	197,434	188,813
Intangibles (nonservicing)	452	507	532	863	943
Minus insurance statutory funds	(9,781)	(9,224)	(7,195)	(10,460)	(12,403)
Adjusted assets	157,240	171,375	186,389	186,111	175,467
<b>Liabilities</b>					
Total deposits	70,540	89,721	92,425	98,615	86,535
Noncore deposits	5,097	4,909	9,306	12,381	14,258
Core/customer deposits	65,443	84,812	83,119	86,234	72,277
Repurchase agreements	35,978	12,994	19,508	1,749	6,147
Other borrowings	30,881	47,853	49,690	65,441	63,837
Other other borrowings	7,794	17,750	0	0	0
Other liabilities	22,065	22,670	22,105	21,673	21,755
Total liabilities	159,464	173,238	183,728	187,478	178,274
Total equity	8,009	7,868	10,388	9,956	10,539
Limited life preferred and quasi equity	61	114	134	156	182
Preferred stock and other capital	2,433	4,783	6,804	3,254	3,399
Mandatorily convertible securities	0	0	0	0	0
Enhanced trust preferred	0	0	0	0	0

Table 5

Bank of Ireland Summary Balance Sheet (cont.)					
Minority interest-equity	56	50	61	38	34
Common shareholders' equity	5,459	2,921	3,389	6,508	6,924
Share capital and surplus	3,290	1,352	1,331	1,323	1,302
Revaluation reserve	(1,049)	(1,089)	(2,042)	(289)	414
Retained profits	3,740	3,263	4,761	5,670	4,672
Other equity	0	110	131	29	45
Total liabilities and equity	167,473	181,106	194,116	197,434	188,813

\*Financial year ended March 31 of the following calendar year. ¶Nine months to Dec. 31, 2009. Ratios annualized where appropriate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 6

(Mil. €)	--Year-ended Dec. 31--				
	2010	2009¶	2008*	2007*	2006*
Common shareholders' equity	5,459	2,921	3,389	6,508	6,924
Plus minority interest (equity)	56	50	61	38	34
Minus dividends (not yet distributed)	0	0	0	(386)	(376)
Minus revaluation reserves	1,049	1,089	2,042	289	(414)
Minus nonservicing intangibles	(452)	(507)	(532)	(863)	(943)
Minus tax loss carryforwards	(898)	(475)	0	0	0
Minus postretirement benefit adjustment	0	0	0	0	0
Minus cumulative effect of credit-spread related revaluation of liabilities	425	79	84	28	0
Adjusted common equity	4,789	2,999	4,876	5,558	5,225
Plus admissible preferred and hybrids	1,580	990	1,609	1,834	1,724
Total Adjusted Capital	6,369	3,989	6,485	7,392	6,949
Plus general reserves	0	0	0	0	0
Minus equity in unconsolidated subsidiaries	(199)	(194)	(151)	(70)	(73)
Minus capital of insurance subsidiaries	(816)	(797)	(749)	(816)	0
Minus adjustment for securitized assets	(160)	(142)	(138)	(158)	(1,010)
Adjusted total equity	5,194	2,856	5,447	6,348	5,866

\*Financial year ended March 31 of the following calendar year. ¶Nine months to Dec. 31, 2009. Ratios annualized where appropriate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 7

(Mil. €)	--Year-ended Dec. 31--				
	2010	2009¶	2008*	2007*	2006*
Net interest income	2,063	2,040	3,438	3,012	2,535
Interest income	5,023	4,049	9,485	10,146	7,915
Interest expense	2,960	2,009	6,047	7,134	5,380
Operating noninterest income	805	565	413	1,239	1,355
Fees and commissions	376	219	485	666	738
Trading gains	(161)	(27)	(337)	(270)	(64)
Other market-sensitive income	34	7	(29)	26	4

Table 7

<b>Bank of Ireland Profit And Loss (cont.)</b>					
Net insurance income	311	296	125	498	358
Equity in earnings of unconsolidated subsidiaries	49	35	(42)	46	44
Other noninterest income	196	35	211	273	275
Operating revenues	2,868	2,605	3,851	4,251	3,890
Noninterest expenses	1,785	1,387	2,105	2,157	2,159
Personnel expenses	1,003	789	1,181	1,235	1,244
Other general and administrative expense	627	479	746	785	764
Preprovision operating income	1,083	1,218	1,746	2,094	1,731
Credit loss provisions (net new)	4,525	4,057	1,513	232	103
Operating income after loss provisions	(3,442)	(2,839)	233	1,862	1,628
Nonrecurring/special income	2,510	1,028	64	71	330
Nonrecurring/special expense	18	0	304	0	0
Pretax profit	(950)	(1,811)	(7)	1,933	1,958
Tax expense/credit	(341)	(344)	(41)	229	306
Net income (before minority interest)	(609)	(1,467)	34	1,704	1,652
Minority interest in consolidated subsidiaries	5	(9)	(35)	5	1
Net income before extraordinary	(614)	(1,458)	69	1,699	1,651
Net income after extraordinary	(614)	(1,458)	69	1,699	1,651

\*Financial year ended March 31 of the following calendar year. ¶Nine months to Dec. 31, 2009. Ratios annualized where appropriate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 8

<b>(Mil. €)</b>	<b>--Year-ended Dec. 31--</b>				
	<b>2010</b>	<b>2009¶</b>	<b>2008*</b>	<b>2007*</b>	<b>2006*</b>
Net income (before minority interest)	(609)	(1,467)	34	1,704	1,652
Minus nonrecurring/special income	(2,510)	(1,028)	(64)	(71)	(330)
Plus nonrecurring/special expense	18	0	304	0	0
Plus or minus tax impact of adjustments	143	79	(36)	8	52
Plus amortization/impairment of goodwill/intangibles	0	0	0	0	0
Minus preferred dividends	0	0	0	0	0
Plus or minus other earnings adjustments	0	0	0	0	6
Core earnings	(2,958)	(2,416)	238	1,641	1,380

\*Financial year ended March 31 of the following calendar year. ¶Nine months to Dec. 31, 2009. Ratios annualized where appropriate. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

### Ratings Detail (As Of June 30, 2011)\*

#### Bank of Ireland

Counterparty Credit Rating	BB+/Watch Neg/B
Certificate Of Deposit	BB+/B
Commercial Paper	
Local Currency	B/Watch Neg
Junior Subordinated (3 Issues)	C
Preference Stock (1 Issue)	C

<b>Ratings Detail (As Of June 30, 2011)*(cont.)</b>	
Preference Stock (2 Issues)	CC
Preferred Stock (3 Issues)	C
Senior Unsecured (36 Issues)	BB+/B
Senior Unsecured (12 Issues)	BB+/Watch Neg
Subordinated (12 Issues)	D
<b>Counterparty Credit Ratings History</b>	
02-Feb-2011	BB+/Watch Neg/B
26-Nov-2010	BBB+/Watch Neg/A-2
14-Sep-2010	A-/Negative/A-2
26-Jan-2010	A-/Stable/A-2
01-May-2009	A/Watch Neg/A-1
12-Feb-2009	A/Stable/A-1
14-Nov-2008	A+/Watch Neg/A-1
05-Nov-2008	A+/Negative/A-1
30-Jun-2008	A+/Stable/A-1
03-Jul-2006	A+/Positive/A-1
<b>Sovereign Rating</b>	
Ireland (Republic of)	BBB+/Stable/A-2
<b>Related Entities</b>	
<b>Bank of Ireland U.K. Holdings PLC</b>	
Junior Subordinated (2 Issues)	C

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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