

Ireland
Credit Analysis

Bank of Ireland

Ratings

Security Class	Current Ratings
Bank of Ireland	
Foreign Currency	
Long-Term IDR	AA-
Short-Term IDR	F1+
Individual	
Support Rating	B
Support Rating Floor	1
Sovereign Risk	
Foreign Long-Term IDR	AAA
Local Long-Term IDR	AAA

Outlook

Foreign Long-Term IDR	Stable
Local Long-Term IDR	Stable

Financial Data

Bank of Ireland	31 Mar 08	31 Mar 07
Total assets (USDm)	313,387	251,462
Total assets (EURm)	197,434	188,813
Total equity (EURm)	6,792	6,876
Operating profit (EURm)	1,894	1,628
Published net income (EURm)	1,704	1,652
Comprehensive income (EURm)	503	1,611
Operating ROAA (%)	0.98	0.93
Operating ROAE (%)	27.71	26.53
Internal capital generation (%)	7.36	26.25
Eligible capital/weighted risks (%)	7.98	7.94
Tier 1 ratio (%)	8.10	8.20

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Rating Rationale

- The Long- and Short-Term Issuer Default and Individual ratings of Bank of Ireland (“BOI”) reflect the strength of its retail and commercial banking franchise in Ireland, the predominance of residential mortgage lending and good profitability.
- BOI earns around 40% of its operating profits from its retail franchise in the Republic of Ireland and has benefited from the strong Irish economy. However, slower economic growth in Ireland and the UK is likely to dampen earnings. Around 25% of operating profit is generated by the bank’s UK operations and the capital markets division generates around a third of BOI’s operating profit.
- Growth in operating profit of 16% in 2007/8 marked a modest slowdown from the previous year. Revenues are relatively well diversified geographically between Ireland and UK and split between interest (c. 76%) and non-interest (c. 24%) streams. Cost growth was non-existent during 2007/8 as the bank’s strategic transformation programme took effect, ahead of target and the cost/income ratio has improved to 51% (end-2006/7: 56%).
- Asset quality remains good, although exposure to property lending may be a source of risk. The bank enjoys low levels of arrears on both its Irish and UK residential mortgage portfolios but its business banking loan portfolio is showing some signs of strain. Impairment charges on the loan book rose during the year, but were still relatively modest at 0.18% of average loans. A further rise is likely for 2008/9. Loan loss reserve coverage of 56% at end-2007/8 was adequate.
- BOI’s funding is a mix of retail deposits (52% of total customer and wholesale funding, compared with 46% in the previous two years) with active wholesale funding (CP, EMTN and covered bond programmes). Liquidity is good and benefits from newly-introduced, more conservative regulatory requirements.
- Hybrid capital (approximately one third of Tier 1) has been used to lift the return to shareholders, adversely affecting capital quality. The Tier 1 ratio of 8.1% at end-2007/8 is ahead of the Fitch eligible capital ratio of 8.0%, reflecting Fitch’s limit of 30% hybrids in the ratio. The ratios remain adequate.

Support

- Given BOI’s relative size and its importance to the Irish economy, Fitch believes that, if BOI runs into difficulties, there is an extremely high probability of support from the Central Bank of Ireland.

Rating Outlook and Key Rating Drivers

- BOI’s ratings have a Stable Outlook. Despite uncertainty over the intensity and duration of the economic slowdown, BOI seems well-placed to cope with a reasonable level of continued stress in the markets. Pressure to lower its ratings would most probably arise from a notable deterioration in asset quality or capital adequacy. Limited diversification constrains a rise in ratings.

Profile

- BOI is one of the two largest Irish banks, providing a wide range of financial services in Ireland, the UK and internationally, through offices in Australia, Canada, France Germany, the Isle of Man and the USA. In November 2006 the bank sold its 90% stake in Davy, the Irish stockbrokers.

- One of the two major Irish banks
- Ireland and the UK remain key markets
- Growing niche international operations

BOI was incorporated under charter in 1783. It is one of the two largest commercial banks in Ireland and has a sizeable presence in the UK. A branch based in the US started business in October 2006. Growth is most likely to be organic in both Ireland and the UK, while international operations are more likely to see small scale acquisitions, although none are currently planned. BOI is listed in Dublin, London and New York with a broad spread of, mainly institutional, shareholders. The group is organised as follows.

Retail Republic of Ireland

BOI's extensive domestic retail operations include branches, telephone and internet banking, the ICS Building Society and Bank of Ireland Finance. The latter provides instalment credit and leasing, together with invoice discounting and debt factoring. BOI's strength in Ireland is illustrated by its c.40% share of current accounts, a c.19% share of the residential mortgage stock and a c.27% share of SME loans (market shares provided by BOI). Home loans are distributed via branches and intermediaries. Other activities include private banking, card services (c.34% share of market turnover) and Banking 365 (offering a range of sales and servicing functions over the telephone and internet).

Bank of Ireland Life

Bank of Ireland Life sells life assurance, protection, pension and investment products through BOI's branches, brokers and a direct sales force. Bank of Ireland Life has a c.25% share of the Irish life assurance and pensions market, making it one of two market leaders. There are strong domestic growth prospects, given rising national prosperity and under-provision in insurance and pensions.

Capital Markets

The main units are Global Markets, Corporate Banking, IBI Corporate Finance and Asset Management. In October 2006 the bank announced the sale of its 90.4% stake in Davy Stockbrokers to the Davy management and staff. The sale resulted in a EUR229m profit on disposal. Global Markets manages BOI's liquidity and funding needs and also acts on behalf of corporate customers. Global Markets also provides interest rate, foreign exchange, trade finance and other banking services. Corporate Banking is engaged in international financing, with an emphasis on niche skill-based areas, in addition to offering a full banking service to large Irish corporates, financial institutions and Ireland-based multinationals. IBI advises clients on M&A, flotations and raising of capital.

Asset Management comprises BOI Asset Management (BIAM), BOI Securities Services, Iridian Asset Management and stakes in Guggenheim Advisors (a US-based fund of hedge funds, 71.5% acquired in January 2006) and Paul Capital Investments, a 50% joint venture established in June 2006 with private equity firm Paul Capital. Total funds under management in BIAM were EUR33bn at end-2007/08 (EUR43.7bn at end-2006/07), having suffered from weakness in global equity markets.

UK Financial Services

UK Financial Services includes Business Banking UK (BBUK), Personal Lending UK (PLUK) and Consumer Financial Services (CFS). BBUK concentrates on the mid-corporate and property markets through five key 'hub' locations in London, Birmingham, Manchester, Glasgow and Belfast. BBUK has a branch network of 44 branches in Northern Ireland providing a full range of banking services to personal customers and small to medium sized enterprises (SME). In Great Britain the branch network is primarily focused on the recruitment of deposits and the provision of banking services to SME's. As part of the Group's cost saving initiative, the network has been reduced in Great Britain to 11 key locations.

PLUK has approximately 2% of the UK's residential mortgage stock and sells separately branded Bank of Ireland and Bristol & West mortgage products. CFS includes the bank's joint ventures with the UK post office. Within CFS, Post Office

Financial Services is a low cost sales channel, mainly for BOI's savings and credit cards products and third party insurance products. This business has significant potential and reached break-even in the second half of FY06/07. First Rate Exchange Services offers personal foreign exchange services.

Group and Central

Group and Central mainly comprises earnings on surplus capital, less unallocated central overheads.

Strategy

BOI has three broad aims in its strategy. The first involves driving growth in the Irish franchise, by seeking to strengthen its market position in all aspects of its business, reducing its cost/income ratio and improving its customer interface through a remodelled branch network, an enhanced on-line platform and an increase in front-line staff. Secondly, it continues to seek growth in the non-Irish parts of the business, aiming to achieve more than half of the group's earnings from its international business. The development of the UK as its second core market is fundamental to this plan, and it also plans to broaden its capital markets presence and focus more on particular niches, especially in the US market. Finally, it plans to continue maximising efficiencies from the now completed new operating model, which has included initiatives on back office functions, branches and group support services.

Performance

Although the Irish economy has been performing well since the mid 1990s, growth has slowed sharply during the past eighteen months and is forecast to continue slowing during 2008. The previously booming housing market has been going through a period of transition as the rate of building adjusts to a more sustainable level, against a backdrop of falling house prices. However, several key factors continue to underpin the housing market and drive the wider economy. These include a favourable demographic trend with a relatively young population, a falling household size trend, together with net immigration, low interest rates and a low level of unemployment. Bad debt levels have been, and for the time being continue, to be low but are expected to rise. The UK economy has also performed well in recent years, but GDP growth has been lower than in Ireland and the housing market is also now under pressure from falling prices and a more conservative attitude to risk on the part of UK mortgage lenders, which is threatening to exacerbate the downturn. Although problems in the residential property markets of both the UK and Ireland are, to some extent, the result of the significant dislocation in the credit markets since August 2007, they were both looking highly priced and due for correction before August 2007.

- Sound profitability
- Satisfactory cost control
- Economic growth slowing rapidly

Table 1: Profit Contribution Analysis

(EURm)	2007/8	(%)	2006/7	(%)	2005/6	(%)
Retail Republic of Ireland	716	40	698	41	550	39
Bank of Ireland Life	108	6	148	8	134	10
Capital markets	651	36	572	34	471	34
UK financial services	495	28	441	26	349	25
Group and central	-176	-10	-159	-9	-111	-8
Underlying profit before tax	1,794	100	1,700	100	1,393	100

Source: Bank accounts

BOI's performance in the year to end 31 March 2008 was good with reported post impairment operating profit 16.3% higher than the previous year, at EUR1,894m. This solid performance was driven by the 18.3% increase in net interest revenues (boosted by IFRS-related changes) from a modestly growing loan portfolio (up by 8.5%). However, underlying net interest income, which excluded the trading impact of the Davy disposal was up by a more modest 11%. Fee income fell by almost 10%,

reflecting the impact of the Davy disposal, reduced income from asset management and again, reflecting IFRS-related changes. The cost base was largely unchanged from the previous year, although if Davy is excluded from the figures, the underlying trend showed a modest increase. This outcome reflected the successful completion of the Strategic Transformation Programme, which has brought about annualised cost savings of EUR145m. As a result, the cost/income ratio improved sharply to 50.9% from 56.1% in 2006/7. The loan impairment charge more than doubled during the year to EUR232m (0.18% of average loans, including a 0.03% charge for SIVs). Although this is still at a low level, the year-on-year rise could be seen as a warning of what is to come.

In addition, BOI reported much lower non-operating income of EUR39m in 2007/8 compared with EUR330m in 2006/7, which included an EUR87m profit on the sale and leaseback of retail branches and a EUR229m gain on the disposal of the 90.4% stake in Davy Stockbrokers.

As can be seen in Table 1, profit before tax has improved in all of the bank's divisions, with the exception of Bank of Ireland Life. The performance of each business unit is discussed below.

Retail Republic of Ireland

Retail Republic of Ireland is the largest contributor to the bank's profits with a stable share of c. 40% (see Table 1). Profit before tax was up by a modest 2.6% in 2007/8 to EUR716m, reflecting the more difficult economic environment, following a much stronger increase in profits the previous year (up 27%). Operating profit before impairment losses was up by 13.3%, reflecting a 9% increase in operating income compared with a 6% increase in operating expenses, but impairment charges more than doubled during the year (up by 131%), representing 28bps of average loans (loan impairments were 14bps of average loans in 2006/7). Overall loan growth slowed to 12% during the year (25% in 2006/7), with growth in business banking continuing to do well (up by 16%, although up by 33% the previous year). Growth in the mortgage book slowed as the year went on and the property market weakened, but it still achieved growth of 9% during the year.

Bank of Ireland Life

Bank of Ireland Life reported a fall in profit before tax of 27% in 2007/8. Although operating profit increased by 12% overall, profit before tax suffered from a negative investment variance of EUR50m and a further EUR6m expensed with regard to an increase in the discount rate. The first half of the year went well, with sales growth of 27%, but disruption and uncertainty in global equity markets contributed to much lower sales during the second half of the year.

Capital Markets

Capital Markets is the second largest contributor to profit before tax, reporting EUR651m in 2007/8 (up by 13.8% on 2006/7). The divisional performance is not strictly comparable with the prior period because of the disposal of Davy stockbrokers in October 2006 and the establishment of a private equity joint venture, in July 2006. Net interest income increased by 54% but this result was skewed upwards by the impact of a change in IFRS income classification between net interest income and 'other income'. Excluding the impact of that change and the effects of the disposal of Davy, net interest income increased by 27% and 'other income' increased by 4% (rather than the decrease of 76% reported). The cost/income ratio improved to 37% from 43% the previous year. The growth in net interest income was driven by improved margins and higher volumes. The Corporate Banking loan book grew by 22% during the year. Global Markets, which acts as Treasurer for the group as well as providing a range of risk management products for the bank's customer base has done very well in the volatile market conditions from above normal levels of trading profits. The Asset Management business achieved the same result as the previous year, with the fund administration

business growing strongly, compensating for the fall in funds under management (down by 25%). Loan impairment charges in 2007/8 were higher than the previous year but still represented only 0.2% of average loans.

UK Financial Services

UK Financial Services (UKFS) is the third largest contributor to BOI's profit before tax and reported an 18% increase in profit before tax in 2007/8 to GBP353m. Translated into Euros, this represented a more modest 12% increase to EUR495m, reflecting the strong depreciation of Sterling against the Euro during the year. Of the three strands to UKFS's business, only the mortgage business failed to increase its profitability during the year. Although the residential book increased by 14% during the year, competition in the first half of the year, together with higher funding costs in the second half of the year, eroded margin. The business banking division reported a 21% increase in profit before tax, with loan growth of 27% and deposit growth of 14%. The loan impairment charge increased by 77% (from a very low base) to GBP23m (6bp of average loans). This was still low in comparison with the bank's peers. Although the residential mortgage book remained sound with negligible loan impairment, the business banking division noted deterioration in the loan portfolio as a result of weakness in the property sector. Margins remained stable as the increased cost of funding was largely passed on to customers. Consumer Financial Services, BOI's joint ventures with the UK Post Office, reported a strong performance, with profits almost doubling, albeit from a much lower base. Profit growth came with higher fees from the sale of insurance products through Post Office Financial Services and higher profits from the sale of foreign exchange through First Rate Exchange Services.

Fitch Comprehensive Income (Line 20 on the Income Statement Analysis appended to this report) is considerably lower than published net income. This reflects income net of various items which are taken straight to reserves and includes a EUR419m negative change in the value of available for sale financial assets, which is expected to reverse as the underlying assets mature, a EUR712m loss on the translation of the group's investments in its foreign subsidiaries as the US dollar and Sterling have depreciated against the Euro and some smaller revaluation losses, in connection with the sale of group property.

Prospects

Prospects for BOI remain reasonable although the economic downturn in its two key markets of the UK and Ireland is proving to be much steeper and faster than previously anticipated and is likely to impact revenue growth during 2008/9. Reduced activity in the housing markets is expected to slow the rate of loan growth sharply. BOI expects loan impairment charges to rise modestly but to no more than c. 0.25%-0.30% of average lending, a figure which may still prove optimistic before the bottom of the cycle is reached. Revenues will also be affected by stock market weakness which is causing a negative investment variance on the Life Assurance business and by the weakness of Sterling against the Euro, which causes a translation loss on the profits from the UK Financial Services unit. On a more positive note, customer deposits are expected to increase at a faster rate than the loan portfolio and the bank should be in a position to continue passing higher funding costs through to customers.

Risk Management

BOI has an integrated approach to the oversight and governance of risk management under the direction of the Group Chief Risk Officer ("GCRO"). BOI adopts a portfolio approach to risk management, with limits for risk appetite and a range of risk measurements for the assessment of business performance and corporate development. Specific risk responsibility is delegated as follows: credit risk management to the group credit committee; oversight of risk measurement systems to the risk measurement group; market risk and liquidity risk to the group

- Conservative approach to risk
- Substantial residential mortgage balances in Ireland and the UK
- Asset quality is sound, although corporate loan is book deteriorating

asset and liability committee; and regulatory and operational risk to the group regulatory and operational risk committee. The central control functions - group financial control, group credit review and group internal audit - monitor compliance with financial and operating controls.

BOI's main risk is credit risk. The group's credit risk management system operates through a hierarchy of exposure discretions, with exposures above a certain level needing group credit committee approval, comprising executive directors and other senior management. Sectoral limits are imposed when appropriate. There are no country limits for Eurozone countries (except Greece), the UK or the US, but limits are set for other countries and for banks. Group Credit Review is an independent function and reviews the quality and management of risk assets across the group. The group operational risk committee is supported by a dedicated group operational risk function. BOI's preparations for Basel II have enhanced and extended its credit risk measurement processes and are expected to facilitate improved allocation of economic capital, pricing for risk and customer profitability awareness.

Market risk arises from the structure of the balance sheet, the carrying out of customer and interbank business and proprietary trading. Market risk associated with proprietary business is confined to the Global Markets division and is measured and controlled using a value at risk ("VaR") approach to interest rate and forex risk, supplemented by scenario-based stress tests. It is Group policy that all market risk arising from customer business is centralised by way of internal hedging arrangements with the Global Markets division. Levels of proprietary risk taken are relatively low for the size of the group. In order that capital ratios remain largely unaffected by exchange rate movements, BOI matches the currency composition of its capital to that of its risk-weighted assets. Liquidity risk is managed by ensuring wholesale funding sources are diversified across by maturity and that sufficient liquid assets are held to cover short-term mismatches.

Credit Risk

BOI makes use of two credit grading systems: a seven-point system for personal and smaller commercial credits and a thirteen-point system for larger commercial lending. In total, the vast majority of the portfolio is in the first three categories (or the equivalent) of the seven-point system. Customer loans, which account for two-thirds of the balance sheet, increased by 8.5% during FY2007/8 (FY2006/7: 23.5%). On a constant currency basis, the increase was c.16%. Of the total loan book at end-2007/8, residential mortgages accounted for 44%, of which approximately 55% was in the UK. Construction and property lending, a potential source of risk, accounted for a sizeable 26% of the group total but covered a good spread of asset classes with a bias towards safer investment exposures. The construction and property book has a slight bias towards the UK, which accounts for 52% of the total, while the Republic of Ireland accounts for 45%, Europe 2% and the US 1%.

Table 2: Asset Quality

(EURm)	Mar 08	Mar 07	Mar 06
Total impaired loans	1,062	679	796
Total impairment reserves	596	428	360
Impaired/gross loans (%)	0.78	0.54	0.78
Reserves/impaired loans (%)	56.1	63.0	45.1

Source: BOI

In the UK mortgage portfolio the focus has been on expanding non-standard lending, mostly buy-to-let but also to self-certified borrowers. While arrears levels on buy-to-let lending have been similar or slightly better than standard lending, the book is

unseasoned and problems could arise in the weaker market we are now seeing. During 2007/8 the buy-to-let and standard loan books continued to grow strongly but growth in self-certified mortgages was more subdued. However, the split between standard and higher margin non-standard mortgages remained steady at around 50:50. Average new business loan to value ratios were c.66% for the standard book, c.71% for the buy to let book and c.75% for the self-certification book, at this date. The overall average indexed LTV is c.50%. Residential mortgages were c.60% of the UK book, the other sizeable sector being construction and property at c.27%. Asset quality within Business Banking UK remains very good, although there has been some deterioration during 2007/8, particularly in the property sector.

Residential mortgages are also the largest item of the Republic of Ireland book at approximately 50% at end-2007/8. Average new business loan to value ratios at end-2007/8 were 70% for owner-occupiers and 59% for investors. Indexed LTVs on the whole portfolio were c.40% at end-2007/8, while LTVs on new business in excess of 95% were approximately 8% for 2007/8. All private residential mortgages are stress-tested at origination at the ECB rate plus 3%. The rest of the Irish book seems well spread by business sector, and has limited exposure to industries with possible problems. Apart from the concentration in mortgages, which Fitch still views as positive, the loan book appears well diversified. There are no exposures in excess of 10% of capital and the twenty largest grouped exposures at end-2007/8 were all performing at that date.

Through its Capital Markets division, BOI is exposed to major Irish and multinational companies, financial institutions, as well as the more specialised areas of lending, such as acquisition finance, project and property finance. These assets totalled c.EUR27bn at end-2007/8. Risks are actively managed by sector, industry and individual exposures with no concentrations evident. In general, BOI's liquid asset book is of high quality. Reflecting its conservative approach to risk, BOI had a very modest exposure to Structured Investment Vehicles (SIVs), Collateralised Debt Obligations (CDOs) and Monoline Insurers totalling EUR251m at end FY2007/8, against which the bank holds a EUR47m provision (3bps of the impairment charge for the year).

Impaired loan balances and impairment loss charges have been very low for a long time, benefiting from the previously benign credit environment (18bp charge in 2007/8, 9bp in 2006/7, 11bp in 2005/6). The impaired loan balance increased slightly in 2007/8 to 0.78% of average advances (2006/7: 0.54%). Impaired loans in Ireland were EUR642m, compared to EUR227m in the UK and EUR193m in the international book at end-2007/8. BOI's provisioning appears conservative with reserve coverage of 56% at end-2007/8 (end 2006/7: 63%). Reserves were EUR596m at end-2007/8, compared with EUR428m at end-2006/7.

Market Risk

The court of directors approves an overall Value at Risk ("VaR") limit, which is a quantification of the Group's appetite for market risk. ALCO in turn approves VaR sub-limits for Bank of Ireland Global Markets (BoIGM). These limits are set by principal risk type (interest rate, foreign exchange, equity and credit spread) and by currency. In addition, Group ALCO approves small risk limits for the retail business units, which are solely intended to facilitate efficient hedging.

A VaR approach is used to measure and limit market risk in BoIGM. VaR provides an estimate of the potential mark-to-market loss on a set of exposures over a specified time horizon at a defined level of statistical confidence. In the case of Bank of Ireland, the horizon is 1 day and the confidence level is 99%. This implies that, on any given day, VaR provides an estimate of potential mark-to-market loss which has no more than a 1% probability of being exceeded. The bank does little proprietary trading and trading VaR for 2007/8 was low, peaking at EUR5.2m with an average of

EUR2.3m. The Group uses a variety of tests to assess the reliability of its VaR modelling and the results of these tests have validated the methodology and techniques used.

A large structural foreign exchange exposure of EUR4.0bn existed at end-2007/8, with the majority arising from BOI's GBP businesses (EUR3.7bn). The bank estimates that a 10% depreciation in the Euro rate against all other currencies would result in a gain taken to reserves of EUR397m. Other currencies' VaR and other limits are very small in relation to group equity. BOI trades for customers and its own account in a range of derivatives, the bulk being interest rate swaps. Most income earned by Global Markets comes from customer-related business.

Operational Risk

BOI has established an Operational Risk Management Framework to allow it to identify, assess, monitor and manage all operational risks across the group. Risk is monitored at entity level and reported formally to the group twice a year. Reporting methods include risk maps, action plans and a loss events register.

Funding and Capital

Funding

The main constituent of the bank's funding base remains customer deposits at EUR86.2bn (52% of total customer and wholesale funding) at end 2007/8. This represented a 19.3% increase, year on year. The increase reflects the bank's success in developing a funding strategy to address the dislocation in the wholesale funding markets which has prevailed since August 2007. Wholesale funding (EUR75bn at end-2007/8) decreased during the same period. There has been a marked shift in recent years to extend the duration of wholesale funding, but in 2007/8, the volume of interbank deposits fell, while the bank has made increased use of medium term note and commercial paper programmes, certificates of deposit and asset covered securities. The fall in interbank deposits is a positive thing as they are typically for less than 30 days and under the liquidity regime offer no funding benefit as they have to be matched with liquid assets. BOI has diversified funding further through the opening of a branch in the US in 2006/7 to access the wider USD market.

Liquidity

From 1 January 2007 Irish banks were obliged to follow new regulations for managing liquidity. On that date, the Irish Financial Regulator introduced new, more conservative requirements which ran in parallel with the old ones for a six month period. From 1 July 2007, Irish banks have been managing liquidity solely using the new approach. The new regulations are based on a behavioural mismatch approach, so that obligations maturing in 0-8 days must be at least 100% covered by liquid assets and maturities falling due in the next 9 to 30 days must be 90% covered by liquid assets. These assets must meet certain criteria set by the regulator to ensure that they are liquid or, in the worst case, eligible for repo transactions with the Irish Central Bank/ ECB. A large (EUR29bn) portfolio of available for sale assets supports the bank's liquidity, which Fitch considers good.

Capital

At end-March 2008, BOI's Tier 1 and total capital ratios were 8.1% and 11.1% respectively and its eligible capital ratio was 8.0%. The bank targets an Equity Tier 1 ratio of 5.5-6.5% after deduction of proposed dividends and a total capital ratio of 10.5%. Within Tier 1, BOI will maintain non-equity Tier 1 at c.1/3 of the total. Fitch's eligible capital ratio gives equity credit to qualifying non-equity Tier 1 up to a maximum of 30% of total Tier 1 and hence the difference between reported Tier 1 and eligible capital. However, the ratios remain adequate and consistent with current ratings.

- Highly diversified funding
- Sound liquidity
- Adequate capital ratios

Balance Sheet Analysis

BANK OF IRELAND

	31 Mar 2008				31 Mar 2007			31 Mar 2006		31 Mar 2005	
	Year End	Year End	As % of	Average	Year End	As % of	Year End	As % of	Year End	As % of	
	USDm	EURm	Assets	EURm	EURm	Assets	EURm	Assets	EURm	Assets	
	Original	Original	Original	Original	Original	Original	Restated	Restated	Preliminary	Preliminary	
A. LOANS											
1. Loans and Advances < 3 months	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
2. Loans and Advances 3 - 12 months	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
3. Loans and Advances > 1 year	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
4. Loan Impairment (to deduct from above)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
5. Loan Impairment (memo)	946.0	596.0	0.30	512.0	428.0	0.23	359.0	0.22	319.0	0.25	
6. Less: Loans from the Insurance Business	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
TOTAL A	215,457.1	135,738.0	68.75	130,393.0	125,048.0	66.23	101,246.0	62.42	79,836.0	62.48	
B. TOTAL EARNING ASSETS											
1. Loans and Advances to Banks	14,934.9	9,409.0	4.77	7,247.5	5,086.0	2.69	9,706.0	5.98	8,347.0	6.53	
2. Government Securities	2,801.6	1,765.0	0.89	4,078.0	6,391.0	3.38	6,045.0	3.73	1,607.0	1.26	
3. Trading Assets	188.9	119.0	0.06	319.5	520.0	0.28	464.0	0.29	0.0	0.00	
4. Derivatives	7,250.8	4,568.0	2.31	3,708.5	2,849.0	1.51	2,085.0	1.29	0.0	0.00	
5. Other Securities and Investments	63,379.4	39,929.0	20.22	40,399.0	40,869.0	21.65	33,544.0	20.68	23,214.0	18.17	
6. Equity Investments	223.8	141.0	0.07	144.5	148.0	0.08	121.0	0.07	5,794.0	4.53	
7. Insurance	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
TOTAL B	88,779.4	55,931.0	28.33	55,897.0	55,863.0	29.59	51,965.0	32.04	38,962.0	30.49	
C. TOTAL EARNING ASSETS (A+B)	304,236.5	191,669.0	97.08	186,290.0	180,911.0	95.81	153,211.0	94.45	118,798.0	92.97	
D. TANGIBLE FIXED ASSETS	941.3	593.0	0.30	629.0	665.0	0.35	860.0	0.53	720.0	0.56	
E. NON-EARNING ASSETS											
1. Cash and Due from Banks	1,852.4	1,167.0	0.59	2,232.0	3,297.0	1.75	3,699.0	2.28	2,173.0	1.70	
2. Other	6,357.1	4,005.0	2.03	3,972.5	3,940.0	2.09	4,442.0	2.74	6,089.0	4.77	
F. TOTAL ASSETS	313,387.3	197,434.0	100.00	193,123.5	188,813.0	100.00	162,212.0	100.00	127,780.0	100.00	
G. DEPOSITS & MONEY MARKET FUNDING											
1. Due to Customers < 1 year	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
2. Due to Customers > 1 year	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
3. Due to Customers, no breakdown	136,879.4	86,234.0	43.68	79,255.5	72,277.0	38.28	61,710.0	38.04	60,185.0	47.10	
4. Deposits from Banks	22,831.7	14,384.0	7.29	17,516.0	20,648.0	10.94	32,596.0	20.09	21,095.0	16.51	
5. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
TOTAL G	159,711.1	100,618.0	50.96	96,771.5	92,925.0	49.22	94,306.0	58.14	81,280.0	63.61	
H. OTHER LIABILITIES											
1. Derivatives	6,860.3	4,322.0	2.19	3,628.5	2,935.0	1.55	1,647.0	1.02	n.a.	-	
2. Trading Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
3. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
4. Insurance	11,333.3	7,140.0	3.62	7,165.0	7,190.0	3.81	5,192.0	3.20	8,713.0	6.82	
TOTAL H	18,193.7	11,462.0	5.81	10,793.5	10,125.0	5.36	6,839.0	4.22	8,713.0	6.82	
I. OTHER FUNDING											
1. Long-term Borrowing	96,574.6	60,842.0	30.82	60,182.5	59,523.0	31.52	36,814.0	22.69	21,217.0	16.60	
2. Subordinated Debt	7,300.0	4,599.0	2.33	4,456.5	4,314.0	2.28	3,613.0	2.23	2,106.0	1.65	
3. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
TOTAL I	103,874.6	65,441.0	33.15	64,639.0	63,837.0	33.81	40,427.0	24.92	23,323.0	18.25	
J. NON-INTEREST BEARING	15,722.2	9,905.0	5.02	10,727.0	11,549.0	6.12	12,354.0	7.62	7,866.0	6.16	
K. HYBRID CAPITAL											
1. Hybrid capital accounted for as equity	11.1	7.0	0.00	7.0	7.0	0.00	7.0	0.00	7.0	0.01	
2. Hybrid Capital accounted for as debt	5,093.7	3,209.0	1.63	3,351.5	3,494.0	1.85	2,880.0	1.78	1,980.0	1.55	
L. TOTAL LIABILITIES	302,606.3	190,642.0	96.56	186,289.5	181,937.0	96.36	156,813.0	96.67	123,169.0	96.39	
M. EQUITY											
1. Common Equity	12,347.6	7,779.0	3.94	7,222.5	6,666.0	3.53	5,111.0	3.15	4,409.0	3.45	
2. Minority Interest	60.3	38.0	0.02	36.0	34.0	0.02	45.0	0.03	135.0	0.11	
3. Revaluation Reserves	-1,627.0	-1,025.0	-0.52	-424.5	176.0	0.09	243.0	0.15	67.0	0.05	
TOTAL M	10,781.0	6,792.0	3.44	6,834.0	6,876.0	3.64	5,399.0	3.33	4,611.0	3.61	
MEMO: CORE CAPITAL	11,712.7	7,379.0	3.74	6,853.5	6,328.0	3.35	4,751.0	2.93	4,226.0	3.31	
MEMO: ELIGIBLE CAPITAL	16,732.4	10,541.4	5.34	9,790.7	9,040.0	4.79	6,787.1	4.18	6,037.1	4.72	
N. TOTAL LIABILITIES & EQUITY	313,387.3	197,434.0	100.00	193,123.5	188,813.0	100.00	162,212.0	100.00	127,780.0	100.00	
Exchange Rate		USD1 = EUR 0.6300			USD1 = EUR 0.7509		USD1 = EUR 0.8262		USD1 = EUR 0.7714		

Income Statement Analysis

BANK OF IRELAND

	31 Mar 2008		31 Mar 2007		31 Mar 2006		31 Mar 2005	
	Income Expenses EURm Original	As % of Total AV Earning Assts Original	Income Expenses EURm Original	As % of Total AV Earning Assts Original	Income Expenses EURm Restated	As % of Total AV Earning Assts Restated	Income Expenses EURm Preliminary	As % of Total AV Earning Assts Preliminary
1. Interest Income	10,395.0	5.58	8,137.0	4.87	5,954.0	4.38	4,263.0	-
2. Interest Expense	7,134.0	3.83	5,380.0	3.22	3,647.0	2.68	2,332.0	-
3. NET INTEREST REVENUE	3,261.0	1.75	2,757.0	1.65	2,307.0	1.70	1,931.0	-
4. Net Fees & Commissions	666.0	0.36	738.0	0.44	742.0	0.55	900.0	-
5. Net Insurance Revenue	315.0	0.17	222.0	0.13	231.0	0.17	264.0	-
6. Other Operating Income	41.0	0.02	173.0	0.10	191.0	0.14	234.0	-
7. Personnel Expenses	1,235.0	0.66	1,244.0	0.74	1,167.0	0.86	1,109.0	-
8. Other Operating Expenses	922.0	0.49	915.0	0.55	853.0	0.63	942.0	-
9. PRE-IMPAIRED OPERATING PROFIT	2,126.0	1.14	1,731.0	1.04	1,451.0	1.07	1,278.0	-
10. Loan Impairment Charge	232.0	0.12	103.0	0.06	103.0	0.08	-21.0	-
11. Other Credit Impairment and Provisions	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. OPERATING PROFIT	1,894.0	1.02	1,628.0	0.97	1,348.0	0.99	1,299.0	-
13. Other Income and Expenses	39.0	0.02	330.0	0.20	176.0	0.13	11.0	-
14. PUBLISHED PRE-TAX PROFIT	1,933.0	1.04	1,958.0	1.17	1,524.0	1.12	1,310.0	-
15. Taxes	229.0	0.12	306.0	0.18	303.0	0.22	256.0	-
16. Profit/(Loss) from Discontinued Operations	n.a.	-	n.a.	-	n.a.	-	n.a.	-
17. Change in Value of AFS Investments	-419.0	-0.22	n.a.	-	10.0	0.01	16.0	-
18. Currency Translation Differences	-712.0	-0.38	49.0	0.03	-17.0	-0.01	-108.0	-
19. Other Gains/(Losses) not in Published Net Income	-70.0	-0.04	-90.0	-0.05	183.0	0.13	159.0	-
20. FITCH COMPREHENSIVE INCOME	503.0	0.27	1,611.0	0.96	1,397.0	1.03	1,121.0	-
21. Total Gains/(Losses) not in Published Net Income	-1,201.0	-0.64	-41.0	-0.02	176.0	0.13	67.0	-
22. IFRS Dividends included in Fitch Interest Expense	n.a.	-	n.a.	-	n.a.	-	n.a.	-
23. PUBLISHED NET INCOME	1,704.0	0.91	1,652.0	0.99	1,221.0	0.90	1,054.0	-

Ratio Analysis

BANK OF IRELAND

		31 Mar 2008	31 Mar 2007	31 Mar 2006	31 Mar 2005
		Year End EURm Original	Year End EURm Original	Year End EURm Restated	Year End EURm Preliminary
I. PERFORMANCE					
1. Net Interest Margin	%	1.75	1.65	1.70	n.a.
2. Loan Yield	%	6.56	5.91	5.42	n.a.
3. Cost of Funds	%	4.33	3.61	2.99	n.a.
4. Costs/Average Assets	%	1.12	1.23	1.39	n.a.
5. Costs/Income	%	50.94	56.14	58.96	62.17
6. Pre-impairment Operating ROAA	%	1.10	0.99	1.00	n.a.
7. Operating ROAA	%	0.98	0.93	0.93	n.a.
8. Pre-impairment Operating ROAE	%	31.11	28.20	28.99	n.a.
9. Operating ROAE	%	27.71	26.53	26.93	n.a.
II. CAPITAL ADEQUACY					
1. Internal Capital Generation	%	7.36	26.25	27.91	n.a.
2. Core Capital/Total Assets	%	3.75	3.36	2.94	3.32
3. Eligible Capital/Regulatory Weighted Risks	%	9.01	8.00	6.96	7.96
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	7.98	7.94	6.86	7.83
5. Tier 1 Regulatory Capital Ratio	%	8.10	8.20	7.50	7.90
6. Total Regulatory Capital Ratio	%	11.10	11.80	11.40	10.90
7. Free Capital/Equity	%	149.72	158.28	137.54	243.57
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	26.25	34.31	28.33	26.40
2. Loans/Deposits	%	157.41	173.01	164.07	132.65
IV. ASSET QUALITY					
1. Loan Impairment Charge/Gross Loans (av.)	%	0.18	0.09	0.11	n.a.
2. Total Credit Impairment/Pre-impairment Operating Profit	%	10.91	5.95	7.10	-1.64
3. Loan Impairment/Gross Impaired Loans	%	56.12	63.03	45.10	n.a.
4. Individual Loan Impairment/Gross Impaired Loans	%	n.a.	n.a.	n.a.	n.a.
5. Impaired Loans Gross / Loans Gross	%	0.78	0.54	0.78	n.a.
6. Impaired Loans Net/Eligible Capital	%	4.42	2.78	6.44	n.a.
7. Net Charge-offs/Gross Loans (av.)	%	n.a.	n.a.	n.a.	n.a.

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