Moody's Global
Banking

Credit Analysis

April 2008

Bank of Ireland

Dublin, Ireland

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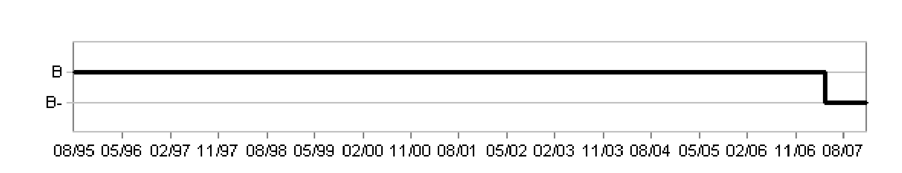
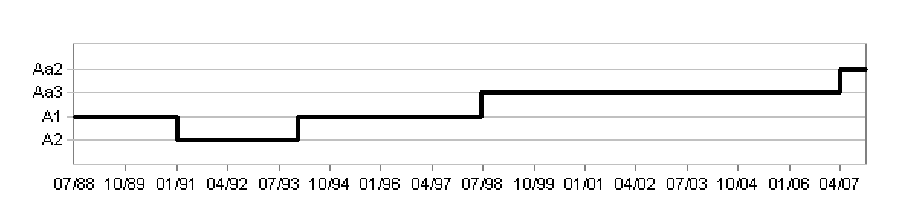
Summary Rating Rationale

Rating History - Bank Financial Strength



Rating History - Long Term Issuer Rating



Moody's assigns a bank financial strength rating (BFSR) of B- to Bank of Ireland (BoI). The rating outlook is stable.

The rating reflects the group's strong domestic market position where it is one of the two predominant institutions, as well as its established presence in the UK, where it offers a range of retail and business banking services. The institution has a growing international presence, particularly via Corporate Banking. The strength of the group's domestic franchise is reflected by its diversified product focus, encompassing retail, wholesale and life businesses as well as its strong market shares in current accounts, business banking, mortgages, life assurance, and retail deposits. The ratings also take account of the bank's good asset quality, solid earnings profile and diversified funding profile.

This Credit Analysis provides an in-depth discussion of credit rating(s) for Bank of Ireland and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

Moody's Investors Service

BFSR Rating Drivers

Any upward pressure on the BFSR would be dependent on a significant increase in the breadth or depth of the bank's franchise. Such an increase would need to be achieved without any deterioration in the bank's risk profile and in conjunction with an improvement in sustained recurring earning power that would result in pre-provision income as a percentage of average risk weighted assets in the 2.4%-3.5% range, and in net income as percentage of average risk weighted assets in the 1.7%-2% range.

Any downward pressure on the BFSR would be principally triggered by a marked deterioration in credit quality or a significant weakening of the currently strong franchise in Ireland. Similarly, worsening financial indicators in terms of capital adequacy profitability and efficiency may also impact negatively upon the rating.

Deposit Ratings

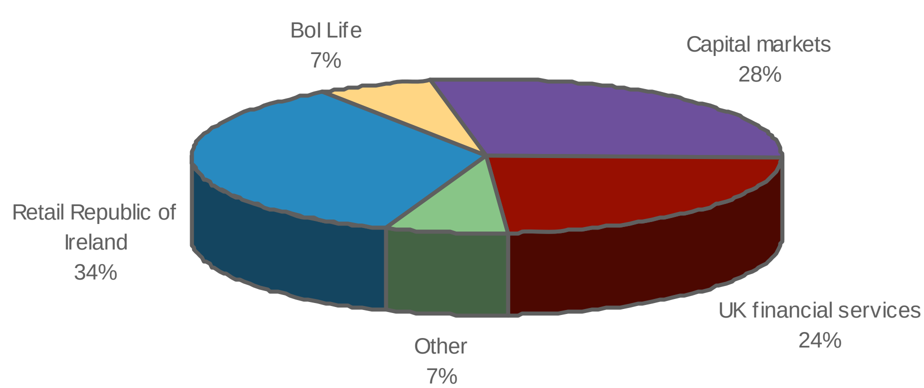
Bank of Ireland's long-term global local currency (GLC) deposit rating is Aa2 based on Moody's assessment of a very high probability of systemic support in the event of a stress situation in accordance with the medium country support guideline for Ireland. Consequently, there is a two-notch uplift for Bank of Ireland's GLC deposit rating from its A1 Baseline Credit Assessment.

Please see the section "Discussion of Support Considerations" for a detailed rationale.

Group Structure

Bank of Ireland (BoI) is the second largest bank in Ireland, with total assets of €199.9 billion at 30 September 2007. BoI provides a comprehensive range of products and services, broadly encompassing retail, life assurance, wholesale, asset management and UK financial services. More specifically, the group's products and services include: current and deposit accounts, mortgages, corporate lending, private banking, leasing, instalment credit, life assurance, investment management as well as advice on M&A.

Breakdown of Profit Before Tax by Business Segment
As at 30 September 2007



Source: Based on Company's publications

The group operates through four main divisions; (i) Retail Republic of Ireland, (ii) Bank of Ireland Life, (iii) Capital Markets, and (iv) UK Financial Services (UKFS), present in the UK, including Northern Ireland. Retail encompasses the personal and business banking services in Ireland. BoI Life entails life assurance protection, pensions as well as investment products, primarily to its clientele in Ireland via both Bank of Ireland Life and New Ireland Life Assurance. In October 2006, the Wholesale Financial Services and Asset Management Services divisions were combined to form the Capital Markets Division, which encompasses Corporate Banking, Global Markets and Asset Management. The UKFS division includes business banking (including lending, deposit-taking and money transmission services) and mortgage activities that includes the operations of Bristol & West, acquired in 1997, and BOI Home Mortgages, originally established in 1987. In addition, BoI offers financial services through the UK Post-Office network, following a joint venture agreement, finalised in March 2004, between BoI's Consumer Financial Services and the UK Post Office.

Key Issues

- ***Slow-down of domestic retail banking activities:*** The Irish housing market has slowed considerably in 2007, experiencing 7% drop in house prices. Given the importance of this sector to the Irish economy, we would expect in 2008 that retail banking activities in Ireland will grow at a slower pace in terms of profit and volume growth. As a result, given that the retail division accounted for 38% of pre-tax profits as at 30 September 2007, a significant downturn in the Irish economy could have an impact on the group's earning base, in addition to asset quality indicators. That said, Ireland's economic health remains strong; Irish GDP growth rate for 2008, estimated at over 3%, is expected to continue to compare favourably with that of the EU average. In addition, we note that asset quality indicators continue to compare well versus B- rated peers at 30 September 2007.

- ***Increasing risk-weighted profitability and efficiency*:** Although improving in recent years, the risk-weighted recurring earnings power of BoI continues to lag behind that of B- rated peers. This is partly due to pressure on margins and significant growth in risk-weighted assets in recent times. We believe that there is scope for the group to continue the rationalisation of its processes and to leverage the group's distribution capacity - especially through the UK Post-Office - in order to achieve greater commercial and operating efficiency. With a year on year ROE target of over 20%, the bank may be challenged to achieve its financial goals as the economic climate is deteriorating and as the credit cycle appears to have turned negative. Nevertheless, we believe that Bank of Ireland is well positioned to deliver on its objectives in both Ireland and the UK. The further development of its Capital Markets activities does slightly increase the risk profile but adds to the diversification of the bank's income.

- ***Developing its franchise through the Post-Office network***: The success of the group's joint-venture with the UK Post-Office is important if the bank is to be successful in its aim of increasing earnings outside of Ireland to more than 50% and in this respect we note positively that the agreement between the two parties has been extended to 2020 (2014 under the old contract). We believe this should give Bank of Ireland enough time to implement a successful sales strategy, develop a franchise and generate significant returns.

Analysis of Rating Considerations[1]

Discussion of Qualitative Rating Drivers

Franchise Value

- **Market Share and Sustainability**

One of the two predominant banks in Ireland

Bank of Ireland is the second largest banking group in the Republic of Ireland (RoI) in terms of equity, and operates a well-diversified franchise, encompassing retail, wholesale, consumer and life products. Although BoI faces strong competition in all its business lines, the strength of its domestic franchise is reflected by its diversified product focus, encompassing retail, wholesale and life businesses as well as its strong market shares in current accounts, business banking, mortgages, life assurance, and retail deposits. Specifically, it has market shares in Ireland of 19% in mortgage lending and 24% in retail deposit-taking, in addition to market shares of 26% in life and pensions businesses. Going forward, BoI also intends to place a greater emphasis on small-to-medium-sized enterprises (SMEs), where it currently has market shares of 27% in terms of lending.

The bank aims to further improve its position in the Irish market, specifically in its business banking and wealth management activities. However we expect competition to remain high in these areas, particularly in wealth management, an area that is been targeted by several indigenous banks and foreign entrants to the Irish market. In addition, Moody's notes BoI's substantial market share and recognised brand name in life insurance and pension activities, which should enable BoI to take advantage of business opportunities going forward. In this respect, Moody's believes that the prospects for the life and pensions market in Ireland are good, particularly with regard to single premium investments and personal pensions.

BoI is also well established in the UK, offering a range of retail and business banking services. The UK now accounts for approximately 31% of the group's pre-tax profits, including earnings from the capital markets division. The bank's UK franchise has three main business lines encompassing business banking, mortgages and consumer finance, including through its joint venture with the UK-Post Office. Over time, we believe that this venture has the potential to significantly improve BoI's UK revenue stream. BoI's market shares in the UK are modest, with its mortgage lending operation accounting for around 3% of the UK market. Nevertheless, Moody's views BoI's UK operations as a credit strength, providing the institution with access to a wider market and thereby affording the group greater diversification from an earnings and credit perspective.

The Capital Markets division of BoI - corporate banking, global markets and asset management services, respectively 60%,30% and 10% of pre-tax divisional profits at 30 September 2007 - benefits from a strong domestic corporate banking position. It is also developing internationally via a number of niche-based lending businesses – primarily UK, Europe and US, as well as middle-east and Asia for project finance. Specifically, BoI engages in acquisition finance, project finance (infrastructure and energy) and property finance, as well as in other niche sectors such as media, healthcare and asset-based lending. In addition BoI is active in corporate finance advisory services, through IBI Corporate Finance, and institutional banking, comprising of corporate lending, securitisations, structured lending and agency services. Its Global Markets' unit is a leading provider of treasury services in Ireland, with dealing rooms in the UK and US, and is acting as the treasury unit of the BoI group.

Asset management services consist of (i) Bank of Ireland Securities Services (BOISS), offering administration and custodial services, with €125 billion of funds under custody, (ii) Bank of Ireland Asset Management (BIAM), with around €39 billion of assets under management, and (iii) alternative investments in the US, through Iridian Asset management (equity asset manager), Guggenheim Advisors (Fund of Hedge Funds manager) and Paul Capital investments (private equity specialist), together representing approx. $14 billion of assets under management. In particular, we would flag the recent

[1] Financial numbers refer to end-September unless stated otherwise

disappointing performances of the Asset Management Services which has been contributing in recent years for an increasingly smaller proportion of the group's pre-tax profits, approximately 3% in the first six months of 2007 compared with 4% in the first half of 2006. Going forward, BoI aims to revamp and improve the performance of this unit in the medium-term, and has thus broadened its investment focus by supplementing its existing equities portfolio with additional fixed income, property and structured products, in addition to putting in place a new management team.

Overall, Bank of Ireland relies upon a multi-channel distribution approach (branch, broker and direct sales force), including a 273-strong retail branch network in Ireland. Bank of Ireland employed an average 15,823 staff on a full time equivalent basis as at 30 September 2007, down from 16,190 at 31 March 2006.

- **Geographic diversification**

Growing outside of Ireland, particularly in the UK

On a geographic basis, the Republic of Ireland (RoI) accounted for 55% of revenues and 65% of aggregate assets (this includes corporate banking assets booked in Ireland but originated overseas) in the six months to end-September 2007. The UK accounted for an additional 42% of revenues and 33% of assets. Going forward, the bank has a long-term target that more than 50% of the bank's profits will come from outside Ireland; in the first-half of 2007 this was 41%. This will be achieved primarily through the development of UKFS and capital market activities, thus focusing on the UK and US.

- **Earnings Stability and Diversification**

Earnings Stability Benefits from Leading Franchise

BoI benefits from a diversified revenue stream both in terms of business segment and product offering. In general, Moody's considers retail banking to be relatively stable, and therefore, given that it contributes the largest part of BoI's profit we view the bank as enjoying good earnings stability. Moody's considers an institution to be a "mono-line" institution when more than 80% of its net income originates from a single business line. Given BoI's diversified business lines the bank does not fit this definition.

In addition we note the limited impact of the recent market dislocation on the bank; in its trading update in February 2008 the bank reported that it had exposure of approximately €85 million, €45 million and €136 million to structured investment vehicles (SIVs), collateralised debt obligations (CDOs) and monoline insurers (primarily through wrapped products) respectively and that the provision against the investments in SIVs had been increased by €15 million to approximately 50% of that portfolio. Compared to pre-tax profit of €1,091 million in the six months to end-September 2007 this is easily manageable for the bank.

Risk Positioning

Generally a low risk profile with sound risk management, although granularity of the loan portfolio could be improved

- **Corporate Governance**

Corporate Governance is Ratings Neutral

There are, in our opinion, no corporate governance issues at BoI, in Moody's view. As such, corporate governance is ratings neutral.

- **Controls & Risk Management**

Satisfactory Risk Management & Control Structure

Moody's regards BoI's risk management practices and controls as satisfactory and commensurate with its risk profile. In particular, we note the fact that risk is independently reviewed by a dedicated risk management function, which is headed by a Group Chief Risk Officer (GCRO). Importantly, the GCRO is a member of the Group Executive Committee and reports directly to the Group Chief Executive. The GCRO has responsibility for the management and overview of risk and has to ensure the group wide integration of the risk management function. Supported by a number of in-house risk specialists, the GCRO is also charged with the formulation of risk policy and strategy, risk identification, analysis, measurement, the establishment of risk limits, monitoring & control in addition to reporting requirements.

BoI has extended its risk management capabilities, by the establishment of committees with specific risk management responsibilities. These include a portfolio review committee and a risk measurement committee. Regarding Basel II, Moody's notes positively that BoI has finalised a methodology for measuring the risk-adjusted profitability of its credit business, and as such is now budgeting on a risk adjusted basis.

- **Financial Reporting Transparency**

Good level of disclosure, though could improve further

BoI's financial statements are audited by PwC and prepared under IFRS. As a listed group, BoI provides an extensive amount of information in addition to the annual and interim accounts. Financial performance is easily measurable for the purpose of global comparison, and the bank publicly discloses all important information.

- **Credit Risk Concentration**

Significant exposure to the domestic and UK property market

BoI has a significant degree of exposure to the domestic property market through both residential mortgages, representing approximately 20% of the total loan portfolio, and in terms of construction and property accounting for an additional 11%. The bank has a further exposure in the UK to both residential mortgages and construction & property sector, respectively of around 26% and 13% of total loan portfolio. As such, we believe that this concentration could leave BoI exposed to an economic downturn in both/either the UK and Ireland, although we note that the strong property price appreciation seen in Ireland over the last decade mitigates these concerns to a degree. The remainder of the loan portfolio is spread across corporate banking, consumer finance and commercial lending activities with no significant concentrations by product. Although the bank does have a handful of relatively high single name concentrations these are generally secured on property and are part of a wider banking relationship.

- **Liquidity Management**

Good liquidity management reflected by the group's solid funding profile, albeit increasingly reliant on wholesale funding

BoI benefits from a solid retail and commercial deposit-funding base, which accounted for 41% of total funding requirements as at 30 September 2007 compared with 43% as at 30 September 2006. Nevertheless, similar to domestic peers, BoI has seen an increase in its wholesale funding reliance as loan growth has been exceeding customer deposit growth in recent years. As at 30 September 2007, interbank deposits and wholesale funds accounted for 46% of aggregate funding requirements.

Overall, BoI has a well-diversified funding profile by geography, instrument and borrower. There is a growing structural maturity mismatch between BoI's liability base (shorter maturity) and its assets (longer maturity) and Moody's would view positively a further lengthening of the maturity profile of the bank's term debt, (it was extended between 2006 and 2007.) Particularly, we note the group's intention – not unlike many market players – to grow its core customer deposits both in Ireland and the UK. Customer deposits in the UK have grown significantly in 2007 and are expected to continue growing in 2008 through UKFS.

We believe the reliance on market funds will continue to be high although a slowdown in the rate of growth in Ireland may mitigate this. We also note the new liquidity regulations recently introduced by the Irish regulator which utilises a maturity mismatch approach which we believe to be an improvement on the previous regime. The market turmoil over recent months is likely to lead to an increase in the cost of market funds and this may have an impact on the bank, although we note the diversification of the funding sources by geography, instrument and borrower, as well as its solid customer deposit base. In addition, we note that the bank has reported good growth in deposits in recent months, that it has maintained a good funding profile in the difficult markets of the last few months and that it has recently increased its promissory note capability, which provides us with further comfort regarding its liquidity position.

- **Market Risk Appetite**

Contained Market Risk Appetite

BoI's market risk in the group's trading and non-trading books is contained, though we note that a significant portion of the group's capital base is in currency other than euros in order to minimize the sensitivity of the group's capital ratios to exchange rate movements. In this respect, we would note that market risks arising as a result of movements in interest rates, foreign exchange rates, equities as well as swap and credit spreads are overseen by the ALCO committee, and are confined to the Global Markets unit. An overall VaR limit is set for the group, and further sub-limits for interest rate, foreign exchange and credit spread risk in Global Markets are set by Group ALCO. In addition to compliance with VaR limits, Global Markets uses a range of other limits and controls, including stop-loss limits to close out loss-making positions. Scenario-based stress-testing is also employed within the business and for the purposes of reporting to executive management. Moreover, under Moody's scorecard ratio, BoI achieves a low level of market risk appetite versus Tier 1. In addition, we note that its securities portfolio almost completely consists of investment grade exposures.

Regulatory Environment

All Irish banks are subject to the same assessment on regulatory environment. This factor does not address bank-specific issues; instead it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. Refer to Moody's Banking System Outlook for Ireland to obtain a detailed discussion on the regulatory environment.

Although BoI operates in more than one country, our analysis focuses in the country where the bank is domiciled (Ireland) due to the importance of regular on-site examinations, although we also note the strong regulatory regimes in both the UK and US.

Operating Environment

The assessment of BoI's operating environment reflects our view of the different countries where the group operates. The Irish market, where the majority of the bank's earnings are derived is characterised by relative economic stability, an acceptable level of integrity and corruption, and a well-established and enforced system of contract law. This is also the case in the UK and the US.

Discussion of Quantitative Rating Drivers

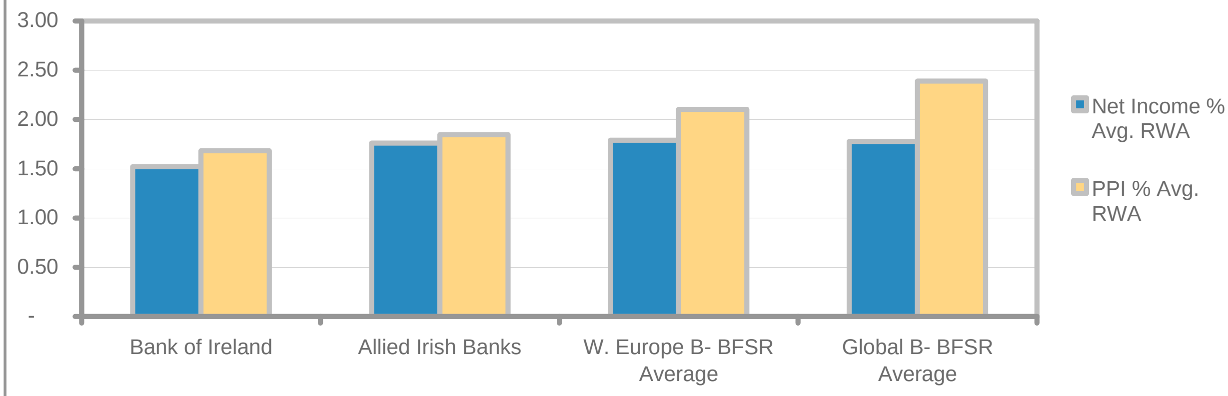
Profitability

Solid and diversified earnings capacity

BoI benefits from a diversified revenue stream both in terms of sector and product offering. In terms of profit before tax, 38% accrued from domestic retail banking activities, 7% from BoI Life, 30% from Capital Markets, and 25% from UKFS as at 30 September 2007. Profitability indicators are however slightly weaker than international B- rated peers reflecting the group's large low margin residential mortgage book, although we note that the risk weighting of these is likely to reduce significantly under Basel II. The group's risk-weighted recurring earnings power amounted to 1.56% as at 31 March 2007 versus 1.7% as at 31 March 2006. The decline is primarily attributable to the pace of growth in risk weighted assets compared to growth in pre-provision income.

Bank of Ireland

Profitability Ratios* (%)



Source: Moody's Calculations **3Y averages 2004-2006*

As at 30 September 2007, risk-weighted earnings power on an annualised basis stood at 1.87%, which denotes a continued improvement in terms of earnings generation for all business lines. In particular, we note the good performances of UKFS and domestic retail businesses, with double digit growth in the first half to 30 September 2007. UKFS was particularly successful in business banking and consumer finance, almost doubling profits (before-tax) for the latter. Likewise, domestic retail results were boosted by an increase in net interest income arising from strong growth in lending volumes, though this was partly alleviated by a rise in impairment charges. Going forward, we would expect overall impairment charges to increase in view of the slowing Irish and UK economies, though this should not affect significantly overall results as we believe asset quality and underwriting criteria to be good at Bank of Ireland.

With regards to profitability, our main concern remains declining margins, now combined with lower growth in lending. Indeed, the group's net interest margin has been declining in recent years, albeit at a slower rate, as a result of increased competition, increased wholesale funding reliance – where going forward, we would expect a slight increase in the cost of funds given the recent repricing of risk in the credit markets - and more rapid growth in lower margin lending business. However, susceptibility to margin attrition is countered in part by the institution's sizable portion of non-interest income. Furthermore, we note that the group is likely to benefit from a gradual repricing of credit, supporting margins. This is whilst economic growth in Ireland, expected to level down going forward, should continue to support a certain degree of profit generation.

Liquidity

High reliance on market funding

Looking quantitatively at BoI's liquidity position, we note the impact of the higher reliance on market funding on the bank's liquidity position (see Exhibit 3 below.) Market funding has grow at a much faster rate, prior to 2007, than its liquid assets and, as a result, the bank's liquidity ratio (as per Moody's definition) has deteriorated to 18.3% at end-September 2007 from 5% in 2004, although we note in mitigation the bank has now got a significantly more diversified range of wholesale funding resources including an EMTN programme, a covered bond programme, a US MTN programme and a variety of CP and CD programmes as well as extendible notes. Overall, BoI has a well-diversified funding profile by geography, instrument and borrower. In addition, BoI benefits from a solid retail and commercial deposit-funding base, which accounted for 43% of total funding requirements as at 30 September 2007 compared with 41% as at 30 September 2006.

We believe the reliance on market funds will continue to be high although a slowdown in the rate of growth in Ireland may mitigate this. We also believe that the new liquidity regulations recently introduced by the Irish regulator, which utilises a maturity mismatch approach, is an improvement on the previous regime. The market turmoil over recent months is likely to lead to an increase in the cost of market funds and this may have a negative impact on the bank's profitability.

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In addition, as mentioned previously, we note that it has recently increased its promissory note capability, which provides us with further comfort regarding its liquidity position.

Exhibit 3:

	H1 2007	2006	2005	2004
Estimated Market Funding	92,990	87,736	75,619	46,168
Estimated Liquid Assets	56,371	54,259	51,888	39,994
Total Assets	199,921	188,813	162,354	127,780
Estimated Liquidity Ratio *	18.3%	17.7%	14.6%	4.8%

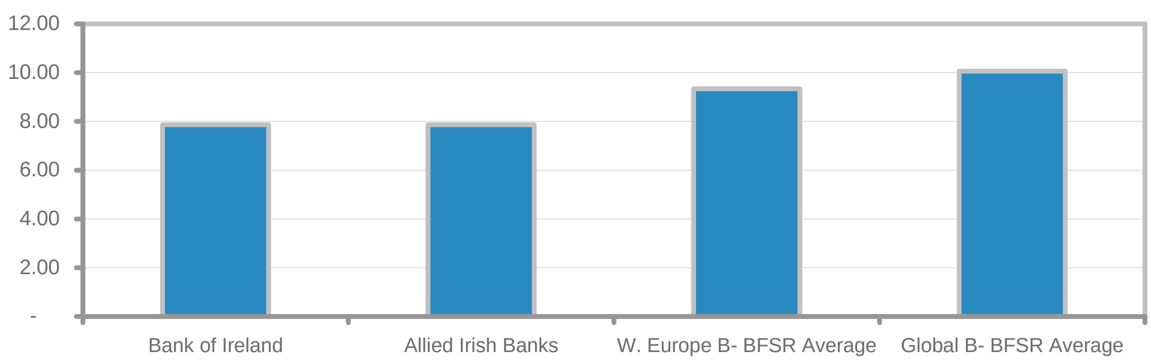
** (Market Funds - Liquid Assets / Total Assets)*

Capital Adequacy

Adequate capitalisation, though we note the relatively high proportion of hybrids

BoI manages its capital requirements on economic capital principles, taking into consideration credit risk, market risk, operational risk and insurance. Capitalisation levels have largely been maintained through profit retention and the issuance of preferred securities. From a regulatory standpoint, BoI's Tier 1 and total capital ratios amounted to 7.6% and 11.1%, respectively, as at 30 September 2007 compared with 7.7% and 10.9% as at 30 September 2006. BoI has carried out securitisations and the partial sale and leaseback of its domestic branch network as part of its capital management strategy. The bank has issued non-equity (non-core) capital in the past and hybrid Tier 1 capital (non-core Tier 1) represents over 30% of its Tier 1 ratio. These ratios place the bank in a weaker position relative to similarly rated peers, although we note the bank's relatively low risk profile.

Capital Adequacy Ratios* (%)



Source: Moody's Calculations ** BIS Tier 1 Ratio - 3Y averages 2004-2006*

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Nevertheless, economic capitalisation remains sound, supported by good asset quality and solid internal capital generation (20.9% in the year ending March 2007). In addition, we do not expect any material change to the bank's capital base from the introduction of Basel II. In this respect, we note that target capital ratios are currently being reviewed to take into account the Basel II environment. We understand that the current targeted tier 1 ratio is 7%, with an intended equity tier 1 of 5.5-6% and a minimum of at least 5%. Moody's would consider these ratios to be relatively low, though adequate for the group's risk profile.

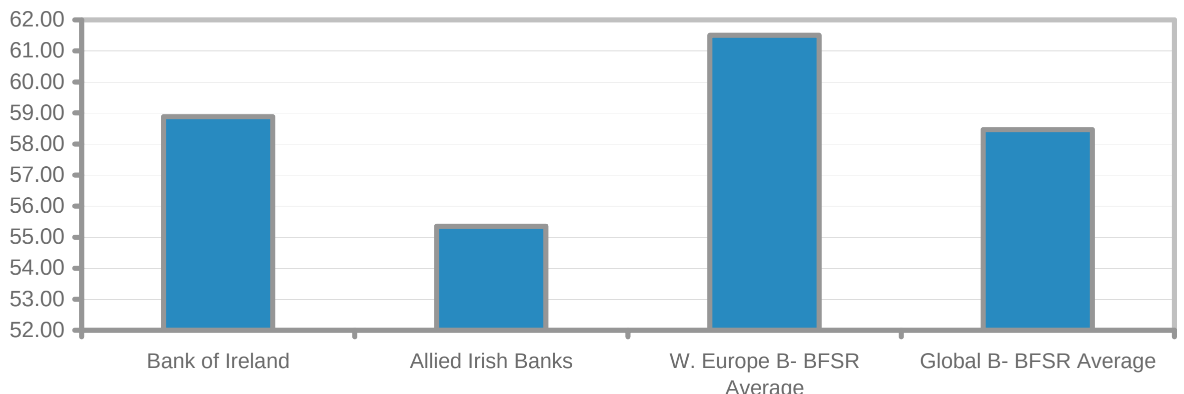
Efficiency

Cost-to-income ratio continues to improve

BoI's cost-to-income ratio improved to 56.7% in the financial year to 31 March 2007. Results for the first six months to 30 September 2007 reflect further efficiency gains, with the reported cost-to-income ratio falling to 51%. Under the groups' Strategic Transformation Programme, BoI has achieved cumulative cost savings of €95 million against a planned €75 million for the financial year to 31 March 2007, and they have indicated to the market that they will achieve €140 million by March 2008 compared to the March 2009 target of €120 million. The sale of the Bristol & West branch network, headcount reductions, the centralisation of a number of operations as well as investment in new technologies have all contributed to the improvement in cost efficiency.

Nevertheless, further efficiency gains may be difficult to realise in view of ongoing investment needs, wage inflation and the challenge of having to sustain current earnings growth over the long term, especially in a less buoyant market environment in Ireland and the UK.

Cost-Income Ratio (%) -



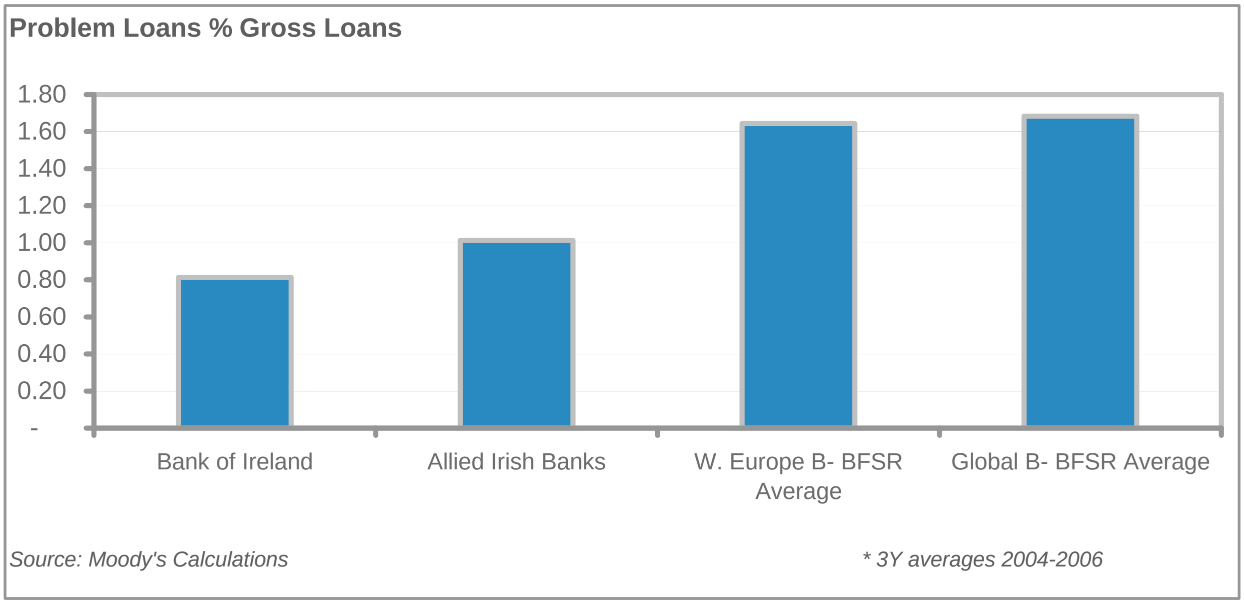
Source: Moody's Calculations ** 3Y averages 2004-2006*

Asset Quality

Good asset quality

BoI's credit quality is good, reflected by the fact that impaired loans represented 0.77% of gross loans as at 31 March 2007 (0.78% in 2006), which is low in comparison with domestic and European peers. Impaired loans as a proportion of aggregate loans increased slightly to 0.82% as at 30 September 2007. The low level of non-performing loans reflects BoI's sound underwriting approach, but is also a function of strong loan growth in recent years in addition to the relatively benign credit environment in Ireland and the UK. The group's loan portfolio is well diversified in terms of products, with residential mortgage lending accounting for the largest part of the total book at 46%. Property investment and development accounted for an additional 23% of the group's loan book. From a geographic perspective, as at 30 September 2007, the UK represented 58% and 54% of respectively the group's mortgages and property investment & development, highlighting the significant exposure of the BoI to the UK property market, in addition to the Irish property market.

Bank of Ireland



Regarding residential mortgage lending, we would note that this market has slowed down significantly in Ireland and in 2007 house prices fell 7% following over a decade of price rises. We believe however that BoI should be relatively well insulated from any deterioration given that close to 85% of its book has LTV[2] less than 90%, with 100% LTV mortgages representing less than 3% of the domestic mortgage loan book (provided on a selective basis to first time buyers with professional qualifications). In relation to the UK property book, at the end of December the total book was around GBP11 billion of which around one third was for development and two thirds for investment. The development book is split further into 50% residential and 50% commercial with generally a loan to gross development value of less than 75% with pre-sales/pre-lets being an important criteria in underwriting this type of lending. In the investment portfolio only 3% of the portfolio has a LTV of above 80% with the vast majority (approximately 70%) having an LTV of less than 75%. In the Corporate Banking and Retail RoI property book the average LTV is generally less than 70%. These books are predominantly priced of euribor and libor.

The bank is also active in the UK buy-to let market and this accounted for about 29% of UK mortgage advances at 30 September 2007. Moody's generally views this sector as inherently more vulnerable than other categories within the residential mortgage portfolio in the event of an economic downturn, however we note the good performance to date of this portfolio and that the underwriting remains relatively conservative with an average LTV on new business of 73%, though the maximum is 90%.

Thus, whilst BoI's credit quality indicators remain good, the group has a substantial degree of exposure to the Irish and UK property market, partly mitigated by the predominance of residential mortgages. Concerns in relation to the domestic property market are allayed by the relatively low interest rate environment, the continuing low though slightly rising unemployment levels, and prudent lending criteria. Going forward, we would expect to see a tightening in lending criteria, as well as lower lending volumes resulting from a slow down in the Irish and UK economy.

The low-risk nature of the group's life operations is primarily attributable to the fact that the life business is predominantly unit-linked. The institution's non-linked business is conservatively invested in fixed-interest securities (mainly long term), which have the benefit of a government guarantee. Furthermore, business persistency levels in both retail and corporate life segments show consistency year-on-year, with overall lapse rates remaining in line with pricing assumptions.

[2] LTV rates in this section are not indexed

Bank of Ireland

Discussion of Support Considerations

Exhibit [ ]: Mapping the BFSR to the Baseline Credit Assessment (BCA)

The discussions of qualitative and quantitative rating drivers presented in this report forms the analytical basis for assigning a Bank Financial Strength Rating (BSFR) of "[B-]" to Bank of Ireland.

BFSRs are Moody's opinions on the intrinsic safety and soundness of a bank enterprise and, in effect, address the susceptibility of a particular institution to financial distress.

The BFSR array of ratings is not on Moody's traditional rating scale (Aaa, Aa, etc.). There is a useful method, however, for translating BFSRs to Moody's traditional scale – the baseline credit assessment. In effect, the baseline credit assessment measures a bank's stand-alone default risk assuming there is no systemic or other external support.

Bank of Ireland's "[B-]" BFSR maps to a baseline credit assessment of [A1], yet, considering external support factors, its deposit ratings are [Aa3].

BFSR/Baseline Risk Assessment Mapping for Bank of Ireland	
BFSR	**Baseline Credit Assessment (BCA)**
A	Aaa
A-	Aa1
B+	Aa2
B	Aa3
B-	A1
C+	A2
C	A3
C-	Baa1
C-	Baa2
D+	Baa3
D+	Ba1
D	Ba2
D-	Ba3
E+	B1
E+	B2
E+	B3
E	Caa1
E	Caa2
E	Caa3

Bank of Ireland

Company Annual Statistics

Bank of Ireland

	9/30/2007	3/31/2007	3/31/2006	3/31/2005	3/31/2004
Summary Balance Sheet (EUR million)					
Cash & central bank	416	2,486	1,899	1,613	1,397
Due from banks	8,556	5,086	10,576	8,347	7,753
Securities	47,399	46,687	39,413	30,034	15,970
Gross loans	133,560	125,476	101,605	80,155	68,101
Loan loss reserves (LLR)	-482	-428	-359	-319	-472
Insurance assets	0	0	0	0	7,542
Fixed assets	2,048	1,807	1,667	1,223	1,268
Other assets	8,424	7,699	7,553	6,727	4,872
Total assets	199,921	188,813	162,354	127,780	106,431
Total assets (USD million)[1]	284,318	251,338	196,474	166,069	130,792
Total assets (EUR million)	199,921	188,813	162,354	127,780	106,431
Demand deposits	42,944	42,325	34,220	34,738	29,929
Savings deposits[2]	33,404	29,952	27,490	25,447	24,466
Due to banks	18,856	20,648	32,596	21,095	17,060
Market funds	66,018	59,523	36,814	21,217	13,678
Insurance liabilities	7,684	7,190	5,192	8,713	6,969
Other liabilities	15,676	14,609	14,176	8,072	6,053
Total liabilities	184,582	174,247	150,488	119,282	98,155
Subordinated debt	8,116	7,808	6,493	4,086	3,682
Shareholders' equity	7,189	6,724	5,328	4,277	4,464
Total capital funds	15,339	14,566	11,866	8,498	8,276
Total liabilities & capital funds	199,921	188,813	162,354	127,780	106,431
Derivatives - notional amount	0	415,346	236,168	166,049	135,990
Derivatives - replacement value	0	2,849	2,085	1,622	1,518
Contingent liabilities	42,636	38,516	33,003	31,241	27,053
Risk weighted assets (RWA)	122,218	112,940	97,510	75,886	63,361
Assets under management (EUR million)[3]	39,000	43,700	45,100	46,900	57,500
Number of employees	15,823	15,952	16,190	16,960	17,540

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	9/30/2007	3/31/2007	3/31/2006	3/31/2005	3/31/2004
Summary Income Statement					
+Interest income	5,022	8,137	5,954	4,263	3,631
-Interest expense	3,490	5,380	3,647	2,332	1,887
=Net interest income	1,532	2,757	2,307	1,931	1,744
+Trading income	-83	-70	30	66	73
+Fee & commission income	350	738	742	900	934
+Insurance income (net)	348	398	408	348	177
Dividend income and other operating income	5	-19	14	54	50
=Operating income	2,152	3,804	3,501	3,299	2,978
-Personnel expenses	622	1,244	1,167	1,109	965
-Other operating expenses	363	764	687	765	506
= Operating funds flow	1,167	1,796	1,647	1,425	1,507
-Amortisation/depreciation	69	151	166	177	164
(Total operating expenses)	1,054	2,159	2,020	2,051	1,635
=Preprovision income (PPI)	1,098	1,645	1,481	1,248	1,343
-Loan loss provisions	79	103	103	-21	86
Impairment of goodwill, fixed assets and investments[4]	39	129	176	11	-19
+Result of subsidiaries and associates	33	44	45	30	29
Non-recurring items	0	243	0	0	-97
=Pretax income	1,091	1,958	1,599	1,310	1,170
-Taxes	164	306	303	256	208
=Net income	927	1,652	1,296	1,054	962
-Minority interests	1	1	-9	-1	19
=Net income (group share)	926	1,651	1,305	1,055	943
Growth Rates (%)					
Gross loans	12.89	23.49	26.76	17.7	18.45
Total assets	11.77	16.3	27.06	20.06	19.18
Customer deposits (demand and savings)	11.26	17.12	2.53	10.64	12.16
Net interest income	11.14	19.51	19.47	10.72	0.87
Fee and commission income	-5.15	-0.54	-17.56	-3.64	7.23
Operating expenses	-2.36	6.88	-1.51	25.44	-1.62
Preprovision income	33.5	11.07	18.67	-7.07	7.01
Net income	12.17	26.51	23.7	11.88	12.93
Income Statement in % Average Risk Weighted Assets					
Net interest income	2.61	2.62	2.64	2.77	2.96
Trading income	-0.14	-0.07	0.03	0.09	0.12
Fee and commission income	0.6	0.7	0.85	1.29	1.58
Insurance income	0.59	0.38	0.47	0.5	0.3
Operating income	3.66	3.62	4.01	4.74	5.05
Operating expenses	1.79	2.05	2.31	2.95	2.77
Preprovision income	1.87	1.56	1.7	1.79	2.28
Loan loss provisions	0.13	0.1	0.12	-0.03	0.15
Extraordinary profit	0	0.23	0	0	-0.16
Net income	1.58	1.57	1.48	1.51	1.63

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	9/30/2007	3/31/2007	3/31/2006	3/31/2005	3/31/2004
Liquidity, Funding (including sub debt) & Balance Sheet Composition					
Avg. liquid assets % avg. total assets	28.46	30.23	31.83	27.8	23.41
Avg. gross loans % avg. total assets	66.64	64.66	62.65	63.3	64.17
Avg. customer deposits % avg. total funding	45.09	44.98	48.71	58.64	63.56
Avg. interbank funds % avg. total funding	11.99	17.87	22.81	19.53	18.33
Avg. market funds (excl. interbank) % avg. total funding	38.09	32.34	24.2	17.86	14.83
Avg. sub debt % avg. total funding	4.83	4.8	4.27	3.98	3.27
Avg. liquid assets % avg. customer deposits	74.44	79.22	77.5	56.83	44.54
Avg. gross loans % avg. customer deposits	174.29	169.48	152.55	129.39	122.07
Avg. market funds reliance[5]	5.76	-5.42	-18.87	-20.53	-17.71
Avg. RWA % avg. total assets	60.49	59.93	60.01	59.45	60.26
Breakdown of Operating Income in %					
Net interest income % operating income	71.19	72.48	65.9	58.53	58.56
Trading income % operating income	-3.86	-1.84	0.86	2	2.45
Fee & commission income % operating income	16.26	19.4	21.19	27.28	31.36
Insurance income % operating income	16.17	10.46	11.65	10.55	5.94
Other operating income % operating income	0.23	-0.5	0.4	1.64	1.68
Profitability					
Yield on avg. earning assets (%)	5.48	4.95	4.38	4.05	4.28
Cost of interest bearing liabilities (%)	4.24	3.61	2.97	2.39	2.33
Net interest margin (%)[6]	1.67	1.68	1.7	1.83	2.06
Recurring earning power (Pre-prov. inc. [PPI] % avg. assets)	1.13	0.94	1.02	1.07	1.37
Risk-weighted recurring earning power (PPI % avg. RWA)	1.87	1.56	1.7	1.79	2.28
Post-provision income % avg. assets	1.05	0.88	0.95	1.08	1.28
Post-provision income % avg. risk weighted assets	1.73	1.47	1.58	1.82	2.13
Return on average assets (%)	0.95	0.94	0.89	0.9	0.98
Return on avg. RWA (%)	1.58	1.57	1.48	1.51	1.63
Post-provision income % tier 1 capital	21.8	16.57	18.79	21.08	27.51
Return on equity (period end) (%)	25.76	24.55	24.49	24.67	21.12
Net interest income coverage of loan loss provisions	19.39	26.77	22.4	-91.95	20.28
Loan loss provisions % preprovision income	7.19	6.26	6.95	-1.68	6.4
Pre-tax income % operating income	50.7	51.47	45.67	39.71	39.29
Internal capital growth (%)	16.12	20.87	19.48	14.11	12.86
Dividend payout ratio (%)	39.96	30.83	34.18	38.77	41.57

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	9/30/2007	3/31/2007	3/31/2006	3/31/2005	3/31/2004
Efficiency					
Cost/income ratio (op. expenses % op.income)[7]	48.98	56.76	57.7	62.17	54.9
Adjusted cost/income ratio (incl. non-operating items)	45.63	45.82	51.39	60.93	57.82
Operating expenses % average assets	1.08	1.23	1.39	1.75	1.67
Operating income / employee (EUR thousand)	272.01	238.47	216.24	194.52	169.78
Operating expenses / employee (EUR thousand)	133.22	135.34	124.77	120.93	93.22
PPI / employee (EUR thousand)	138.79	103.12	91.48	73.58	76.57
Asset Quality and Risk Measurement					
Problem loans % gross loans	0.82	0.77	0.78	0.89	0.55
LLR % problem loans	43.78	44.21	45.1	44.93	125.87
LLR % gross loans	0.36	0.34	0.35	0.4	0.69
Loan loss provisions % gross loans	0.12	0.08	0.1	-0.03	0.13
Problem loans % (shareholders' equity + LLR)	14.35	13.53	14	15.45	7.6
Replacement value % shareholder's equity	0	42.37	39.13	37.92	34.01
Capital Adequacy (Period End)					
Tier 1 ratio (%)	7.6	8.2	7.5	7.9	7.2
Total capital ratio (%)	11.1	11.8	11.4	10.9	11.3
Shareholders' equity % total assets	3.6	3.56	3.28	3.35	4.19
Equity participations % shareholders' equity	1.84	1.47	1.8	1.82	5.76

[1] Historical exchange rates are applied accordingly for USD and EUR figures.
[2] Full disclosure may not be available for all years. The amount is then included in demand deposits.
[3] As reported by the bank.
[4] Includes goodwill amortisation (pre-IFRS).
[5] Avg. [(market funds-liquid assets) % (earning assets-liquid assets)].
[6] Although not part of net interest income calculation, the NIM includes dividend income.
[7] Cost/income ratio excludes goodwill amortisation, which is included together with net non-operating income in the adjusted cost/income ratio.

Moody's Related Research

Banking Statistical Supplement:

- Ireland, December 2007 (105480)

Rating Methodology:

- Bank Financial Strength Ratings, February 2007 (102151)
- Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology, March 2007 (102639)

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Bank of Ireland

Report Number: 108487

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