

**Rating Action: Bank of Ireland**

**Moody's downgrades Bank of Ireland to Aa3/C**

**Outlook is negative**

London, 12 February 2009 -- Moody's Investors Service has today downgraded the long-term senior debt and bank deposit ratings of Bank of Ireland (BoI) to Aa3 from Aa2. The bank's financial strength rating (BFSR) was lowered to C (mapping to a baseline credit assessment - "BCA" - of A3) from B- (BCA of A1). Subordinated debt and preferred stock of the bank are downgraded to A1 and A2 respectively and the backed preferred stock of the bank's subsidiaries has also been downgraded to A2. This concludes Moody's review of the bank's ratings initiated on 18 November 2008. The short term debt and deposit ratings were affirmed at Prime-1. The senior and dated subordinated debt covered by the Irish government guarantee maturing prior to September 29 2010, rated Aaa with a negative outlook, is unaffected by this action.

Ross Abercromby, Vice President/Senior Analyst and the lead analyst for this bank at Moody's commented: "The downgrade reflects Moody's expectation of a substantial increase in impairments in both Ireland and the UK, especially from the bank's exposure to property and construction and to non-standard mortgage lending. In addition the slowdown in the bank's major markets is likely to result in lower profitability reducing the bank's ability to generate capital and reserves internally." Moody's downgrade of the bank's long-term rating to Aa3 reflects the weaker BFSR, but also incorporates the rating agency's view on the long-term probability of very high ongoing support from the Irish Government as evidenced by the announcement of a EUR3.5 billion preference share investment in the bank as well as the two year government guarantee (See "Moody's assigns backed-Aaa ratings to certain debt securities covered by the Irish government's guarantee" published on November 7 2008").

**DOWNGRADE OF THE BFSR TO C**

In the bank's loan books, Moody's considers that impairments in the commercial property and corporate loan books will accelerate in both Ireland and the UK and the expectation of a rise in unemployment will also affect the residential mortgage books, especially in the non standard mortgage lending book in the UK. Moody's does however consider the bank's Irish retail mortgage lending book to be relatively conservatively positioned although noted that similar to other Irish banks the level of buy-to-let lending is high. Moody's has a negative outlook for credit conditions on both the Irish and UK banking sectors. The bank's exposure to construction and property is around EUR38 billion and in particular Moody's would expect substantial impairments to arise on the EUR5.8 billion Irish and EUR4.7 billion UK residential development and landbank loan books. At the bank's current rating level we consider the tolerance for further impairment charges and losses to be around EUR6 billion, assuming a reduction in pre-provision income of up to 25%. Losses above this level would increase the downward rating pressure.

The EUR3.5 billion preference share investment in the bank by the Irish Government will have the impact of increasing the bank's pro-forma Tier 1 capital ratio (at 30 September 2008) to over 11.5% and will provide a further buffer against the expectation of further losses. However Ross Abercromby noted that "while the action announced by the Irish Government is viewed positively it will increase the non-equity component of the bank's capital base, and Moody's views this type of capital as lower quality than common equity." The negative outlook on the C BFSR reflects the remaining significant uncertainty associated with potential further impairments beyond Moody's base stress assumptions given the difficult economic environment in the bank's main markets.

**DOWNGRADE OF THE LONG-TERM SENIOR RATINGS TO Aa3 FROM Aa2**

Moody's downgraded to Aa3 from Aa2 the senior long-term debt and deposit ratings of BoI, with a negative outlook. This reflects the downgrade in the BFSR as well as the continuing importance of the bank to the Irish banking system and Moody's assessment that potential support for the bank remains very high. This results in three notches of uplift from the A3 baseline credit assessment. The negative outlook reflects that a further downgrade of the bank's BFSR could also lead to a similar action on the long-term senior ratings.

**DOWNGRADE OF ICS BUILDING SOCIETY**

The long-term bank deposit rating of ICS Building Society (ICS), BoI's Irish mortgage lending subsidiary, has also been downgraded, to A1 from Aa3. The Prime-1 short-term bank deposit rating and the C BFSR (mapping to a baseline credit assessment of A3) were affirmed. The outlook on the A1 long-term bank

deposit rating and the C BFSR is negative. Due to the downgrade to A1 of the senior rating of ICS, Moody's has also downgraded the Mortgage Backed Promissory Notes of ICS to Aa2. The ratings of the Mortgage Backed Promissory Notes benefit from a two notch uplift from the issuers' senior debt rating. Please refer to the "Framework Agreement in Respect of the issue of Mortgage Backed Promissory Notes" on [www.moodys.com](http://www.moodys.com). ICS is specifically focussed on the provision of mortgage and savings and investment products, and is managed as part of the Bank of Ireland's retail business in Ireland.

#### DETAILS OF THE GOVERNMENT RECAPITALISATION PACKAGE

The preference shares issued by the bank have a fixed dividend of 8% payable in cash or ordinary shares in lieu, and they can be repurchased at par value within five years or at 125% of the par value after this. The preference shares also have warrants attached to them and this provides the Irish government with the option to purchase up to 25% of the ordinary equity (at the time of the the EUR3.5 billion preference share issue) of the bank in five years time, potentially providing a significant return. However if the bank redeems up to EUR1.5 billion of these preference shares by replacing them with new core tier 1 capital, before year-end 2009, then the warrants can be reduced but not below 15% of the ordinary equity of the bank.

In addition as part of this investment the Irish government can appoint up to 25% of the directors of the bank and receives 25% of the total ordinary voting rights in respect of change of control and board appointments.

Moody's also noted that the Irish government plans to examine how the current guarantee scheme can be restructured to allow the covered banks to issue longer-term debt, and that it is investigating proposals for dealing with the high-risk land and property development lending that has been carried out by many of the Irish banks.

The following ratings were downgraded:

Bank of Ireland:

Long-term bank deposits: to Aa3 from Aa2

Senior unsecured debt: to Aa3 from Aa2

Subordinated debt: to A1 from Aa3

Junior subordinated debt: to A1 from Aa3

Preference stock: to A2 from A1

Bank of Ireland Capital Funding I, LP:

Backed preferred stock: to A2 from A1

Bank of Ireland Capital Funding II, LP:

Backed preferred stock: to A2 from A1

Bank of Ireland Capital Funding III, LP:

Backed preferred stock: to A2 from A1

Bank of Ireland Capital Funding IV, LP:

Backed preferred stock: to A2 from A1

Bank of Ireland UK Holdings Plc:

Backed preferred stock: to A2 from A1

Bank of Ireland, Connecticut Branch:

LT Deposit Note/CD Program: to Aa3 from Aa2

ICS Building Society:

Long-term bank deposits: to A1 from Aa3

The following ratings were affirmed:

Bank of Ireland:

Short-term bank deposits: Prime-1

Short-term debt: Prime-1

Backed senior unsecured debt: Aaa

Backed subordinated debt: Aaa

Bank of Ireland, Connecticut Branch:

Backed LT Deposit Note/CD Program: Aaa

ICS Building Society:

Short-term bank deposits: Prime-1

Bank Financial Strength Rating: C

The principal methodologies used in rating this issuer were "Bank Financial Strength Ratings: Global Methodology" (February 2007) and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" (March 2007), which can be found at [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action on Bol was on November 18, 2008 when the bank's BFSR and long-term ratings were placed on review for possible downgrade.

Headquartered in Dublin, Ireland, Bank of Ireland reported consolidated assets of EUR204 billion at end-September 2008.

London  
Johannes Wassenberg  
Managing Director  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

London  
Ross Abercromby  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

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