

# Bank of Ireland Ratings And Outlook Unaffected By Government Recapitalization Announcement

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LONDON (Standard & Poor's) April 1, 2010--Standard & Poor's Ratings Services said today that its ratings and outlook on Bank of Ireland (BOI, trading name of the Governor & Company of the Bank of Ireland; A-/Stable/A-2) are unaffected by recent announcements by BOI of its 2009 results, and by the Irish government (Republic of Ireland is rated AA/Negative/A-1+) and Financial Regulator regarding revised capital requirements for the Irish banking system, the expected aggregate haircut on BOI's assets transferring to the National Asset Management Agency (NAMA), and associated recapitalization requirement. (For more information see "Government Announcements Allow A Clearer View Of Irish Banks' Recapitalization Plans," published today on RatingsDirect.)

BOI reported an underlying pretax loss of €3.0 billion for the nine months ended Dec. 31, 2009, compared with a €0.6 billion profit for the comparable period in 2008. Within this, notable figures for 2009 were:

- A 19% fall in revenues, due mainly to margin pressure, the cost of the government guarantee, and charges relating to investment properties;
- A 11% fall in operating expenses, the product of cost cutting;
- A 28% fall in operating income;
- A €3.3 billion rise in the loan impairment charge; and
- An equity Tier 1 ratio of 5.3%, down from 6.2% a year earlier, rising to 5.8% on a pro forma basis including the gain on the February 2010 lower Tier 2 debt exchange.

We now expect BOI to transfer loans totaling €12.2 billion to NAMA through 2010, at an aggregate haircut of about 35%, which assumes that the first

tranche is representative of the whole portfolio. BOI had raised provisions of €2.8 billion on this portfolio at end-2009, which implies that it will take further related provisions of around €1.5 billion in 2010. These large losses, combined with the new 7% minimum equity Tier 1 regulatory capital requirement, are the principal reasons why the regulator has told BOI to raise about €2.7 billion in new equity capital. BOI has said that it intends to do this as far as possible through private means, notably an equity raising, and to repurchase the warrants held by the Irish government. The government has said that it stands ready to address any resultant shortfall via a conversion of its existing preference shares.

Our ratings on BOI include four notches of support above its stand-alone credit profile (SACP). This incorporates our view that BOI will be successful in raising the required amount of capital, and the overall beneficial impact of NAMA for its liquidity and as a protection against downside credit risk. The ratings also factor in the willingness of the Irish government to provide further support to this highly systemically important bank, in addition to that outlined above, if this was needed.

Despite the loan book risk reduction and the anticipated capital raising, BOI's medium-term prospects are, in our view, rather weak. We expect economic and market conditions in Ireland and, to a lesser extent, the U.K. to remain unsupportive of bank earnings, leading to continued margin pressure, weak client activity, and still-elevated credit losses on non-NAMA loans through 2011. We consider it likely that BOI will continue to be loss-making through this period. Some uncertainty remains around BOI's business profile, as it has not yet received European Commission (EC) approval of its restructuring plan. However, while the EC may yet choose to require a more substantial restructuring than that outlined by BOI, our base case is that this would not affect its domestic franchise, nor its joint venture with the U.K. post office, which plays an important contribution to group deposit funding.

Our 'A-' long-term counterparty credit rating on BOI is consistent with our view that over the next several years BOI will be a highly systemically important, increasingly domestically-focused bank, with a very strong domestic market position, but which is operating in challenging economic circumstances. Over time, we would expect BOI's SACP to gradually strengthen, particularly with regard to capital generation, asset quality, and funding risk.

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