

August 6, 2009

**Research Update:**

**Bank of Ireland 'A' Long-Term  
Rating Remains On CreditWatch  
Negative; 'A-1' Short-Term Rating  
Affirmed**

**Primary Credit Analyst:**

Giles Edwards, London (44) 20-7176-7014; giles\_edwards@standardandpoors.com

**Secondary Credit Analyst:**

Nigel Greenwood, London (44) 20-7176-7211; nigel\_greenwood@standardandpoors.com

**Table Of Contents**

---

Overview

Rating Action

Rationale

CreditWatch

Related Research

Ratings List

## Research Update:

# Bank of Ireland 'A' Long-Term Rating Remains On CreditWatch Negative; 'A-1' Short-Term Rating Affirmed

## Overview

- Draft legislation regarding the Irish National Asset Management Agency (NAMA) has now been published.
- Our 'A' long-term counterparty credit rating on Bank of Ireland (BOI) remains on CreditWatch, where it had been placed with negative implications on May 1, 2009.
- The continued CreditWatch placement reflects our view that the impact of NAMA and any associated measures on BOI's financial profile remains uncertain.
- We currently expect to resolve the CreditWatch placement in the coming three months.

## Rating Action

On Aug. 6, 2009, Standard & Poor's Ratings Services commented on its CreditWatch placement of Bank of Ireland (BOI; the trading name of the Governor and Company of the Bank of Ireland). The 'A' long-term counterparty credit rating on BOI remains on CreditWatch, where it had been placed with negative implications on May 1, 2009. At the same time, the 'A-1' short-term counterparty credit rating was affirmed.

## Rationale

The original CreditWatch placement followed an announcement by the Irish government (Republic of Ireland; AA/Negative/A-1+) on April 7, 2009, of its plans to create a National Asset Management Agency (NAMA) (see Related Research section). The placement reflected our expectation that the NAMA proposal would proceed, but also the significant uncertainty about BOI's financial profile following the execution of the NAMA plan--especially whether or not it would be sufficiently strengthened to withstand the challenges that we expect it to continue to face from the weak economic environment.

Draft NAMA legislation has now been published. While the draft legislation provides insight into the operational mechanics of how NAMA is intended to work, in our view a number of important questions remain, particularly regarding the strength of the bank's financial position after the loans have been transferred to NAMA. These include the:

- Exact amount of the assets to be transferred,
- Price/discount to book value at which they will be acquired,
- Bank's capitalization following the transfer and any subsequent capital replenishment exercise,

- Composition of its capital base,
- Future capital policy, and
- Future earnings capacity.

We understand that the legislation will go before the Irish parliament in mid September, and that around this time the government will provide an indicative figure on the valuation discount. In our view, the implications for the bank's capitalization and its earnings capacity should subsequently become much clearer. We therefore currently expect to be able to resolve the CreditWatch status within the three-month CreditWatch horizon. We continue to view BOI as being of high systemic importance and incorporate two notches of support in our long-term rating on BOI beyond its stand-alone credit profile.

In its July 3, 2009, interim management statement, BOI reaffirmed its expectation of loan impairment provisions of up to €4.6 billion in the two years to March 31, 2011, while also noting downside risk to this forecast. BOI also said that its Core Tier 1 ratio had improved following the conclusion of its hybrid capital tender offers. Including the impact of this buyback initiative, the pro forma Core Tier 1 regulatory capital ratio at March 31, 2009, would have been 10.5%, up from the 9.5% reported at the time.

In our view, the bank's weakening asset quality will cause a significant reduction in its capital ratios. Without NAMA, this could happen over an extended period if loan impairment charges lead the bank to make losses. Alternatively, the bank would realize a significant portion of these losses up front, if, as we expect, the loans are transferred to NAMA at a discount to their current book value. Either way, we expect that further capital support may be needed if the bank is to maintain capitalization at a level that is consistent with the current 'A' rating. This support could come from a less aggressive NAMA transfer price, or from an injection of capital. When assessing capital adequacy, we will also consider the bank's ability to generate more capital.

In our view, the economic outlook for Ireland remains weak, but the pace of deterioration has slowed. The Irish economy as a whole continues to suffer from a very deep recession. Standard & Poor's Chief European Economist forecasts that Irish GDP will decline 8% in 2009 and 2% in 2010. We therefore expect that even after the NAMA loan transfer, BOI will continue to contend with the challenges of managing asset quality, and maintaining revenues in a low interest rate, low activity environment.

## **CreditWatch**

The CreditWatch placement of the long-term rating on BOI reflects our expectation that the NAMA proposal will proceed, but also uncertainty about the financial profile of BOI following the execution of the NAMA plan. While we expect that the Irish government would continue to support BOI, the level of support provided, particularly regarding capitalization, may not be consistent with the current 'A' rating. We expect to resolve the CreditWatch status within the coming three months. However, if the economic environment appeared likely to deteriorate materially beyond our base-case expectations, this could prompt a negative rating action sooner. We do not currently expect the ratings on BOI to be lowered by more than one notch, and it is possible that they may be affirmed.

## Related Research

- Bank of Ireland U.S. Dollar Hybrid Securities Ratings Raised To 'B' On Completion Of Tender Offer, June 26, 2009
- Bank of Ireland 'A' L-T Rating Put On CreditWatch Negative On Expected Asset Transfer And NAMA Plan; Hybrids Cut To 'BB', May 1, 2009
- Irish Bank Rating Implications Are Uncertain Following Government's Asset Transfer Plan, May 1, 2009

## Ratings List

Bank of Ireland

Counterparty Credit Rating

A/Watch Neg/A-1

NB: This list does not include all ratings affected.

### Additional Contacts:

Claire Curtin, London (44) 20-7176-7032; [claire\\_curtin@standardandpoors.com](mailto:claire_curtin@standardandpoors.com)

Trevor Cullinan, London (44) 20-7176-7110; [trevor\\_cullinan@standardandpoors.com](mailto:trevor_cullinan@standardandpoors.com)

Financial Institutions Ratings Europe; [FIG\\_Europe@standardandpoors.com](mailto:FIG_Europe@standardandpoors.com)

Ratings information is available to RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). It can also be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).