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Research Update:

Bank of Ireland 'A-1' S-T Rating Put On Watch Neg On Updated Funding Support Arrangements; Guaranteed Issues Unaffected

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Research Update:

Bank of Ireland 'A-1' S-T Rating Put On Watch Neg On Updated Funding Support Arrangements; Guaranteed Issues Unaffected

Overview

- The near-blanket government guarantee of Bank of Ireland's (BOI) liabilities implemented on Sept. 30, 2008, has less than one year left to run.
- We are placing our 'A-1' short-term counterparty credit rating on BOI on CreditWatch with negative implications, reflecting our approach to the linkage between long- and short-term counterparty credit ratings.
- We expect that from Sept. 30, 2010, the bank liability guarantee arrangements are likely to be narrower in scope than now, and therefore unlikely to merit an explicit uplift to our short-term rating on BOI.
- The CreditWatch placement reflects the existing CreditWatch placement of our long-term rating on BOI, and our view that we would now be likely to lower the short-term rating in the event that the long-term rating is lowered to 'A-'.

Rating Action

On Sept. 30, 2009, Standard & Poor's Ratings Services placed its 'A-1' short-term counterparty credit rating on Bank of Ireland (BOI; the trading name of the Governor and Company of the Bank of Ireland) on CreditWatch with negative implications. The 'A' long-term counterparty credit rating on BOI remains on CreditWatch, where it had originally been placed with negative implications on May 1, 2009. Issues guaranteed by the Republic of Ireland (AA/Negative/A-1+) are unaffected by the rating action.

Rationale

The CreditWatch placement of our short-term counterparty credit rating on BOI results from the fact that the existing Irish government guarantee of BOI's liabilities has less than one year left to run. In the first year of the guarantee scheme, we included one notch of explicit support into the short-term ratings on participating Irish banks if they were rated 'A-'. However, we consider that from Sept. 30, 2010, the bank liability guarantee arrangements are likely to be narrower in scope than now, and therefore unlikely to merit this explicit uplift. If our long-term rating on BOI is lowered to 'A-' upon resolution of the CreditWatch placement, we would then also expect to lower the short-term rating.

In view of the fact that our short-term ratings look out over a one-year horizon, and that, as of today, the near-blanket guarantee ends within that one-year horizon, we have today revised that rating approach, bringing it into

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line with that applied to banks in other jurisdictions. Henceforth, we are unlikely to lift the short-term rating on BOI above that suggested by the long-term rating.

Based on the outline proposal, we understand that the proposed new Eligible Liabilities Guarantee scheme (ELG scheme) will be in addition to, rather than replace, the government's existing scheme and the near-blanket guarantee of the liabilities of BOI that that provides. In our view, this should allow BOI to issue longer-dated guaranteed debt over the coming year, and to issue a mixture of unguaranteed and guaranteed debt. While the cost to BOI for this support will likely be higher than before, we consider it to be a useful measure for the bank. It is also one that is in line with our expectations.

It appears that any liability already guaranteed under the existing scheme will continue to be guaranteed in line with the terms of that scheme. Therefore, where we have applied rating substitution treatment to a guaranteed liability of BOI, we expect this to continue.

Once available, we will review the final ELG scheme legislation and associated arrangements to assess whether the new guarantee will be irrevocable, unconditional, and timely. If it is, we expect that BOI-issued instruments guaranteed under the ELG scheme would qualify for rating substitution treatment in line with the treatment of the existing guarantee. Standard & Poor's does not maintain explicit ratings on deposits, but we note that they may, on a case by case basis, be guaranteed for their entire life under the ELG scheme.

CreditWatch

The CreditWatch placement reflects our expectation that the Irish government's National Asset Management Agency (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 bank's financial profile, particularly its capitalization and earnings prospects, may not be sufficiently bolstered. We expect Irish economic conditions to remain weak through 2010 and unsupportive of bank earnings. We currently expect to resolve the CreditWatch status by end-December 2009. We currently anticipate the ratings on BOI to be lowered by at most one notch, and it is possible that they may be affirmed.

Related Research

- Standard & Poor's Comments On The Irish Government's Revised Bank Liability Guarantee Arrangements, Sept. 30, 2009
- Bank of Ireland 'A' Long-Term Rating Remains On CreditWatch Negative; 'A-1' Short-Term Rating Affirmed, Aug. 6, 2009
- Rating Sovereign-Guaranteed Debt, April 6, 2009
- Commercial Paper I: Banks, March 23, 2004

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Ratings List

CreditWatch/Outlook Action

	To	From
Bank of Ireland		
Long-Term Counterparty Credit Rating	A/Watch Neg	A/Watch Neg
Short-Term Counterparty Credit Rating	A-1/Watch Neg	A-1
Bank of Ireland		
Senior Unsecured	A/Watch Neg	A/Watch Neg
Subordinated	A-/Watch Neg	A-/Watch Neg

NB: This list does not include all ratings affected.

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