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Research Update:

Bank of Ireland Long-Term Rating Lowered To 'A' From 'A+'; Outlook Stable; Hybrids Cut To 'BBB'

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Rationale

On Feb. 12, 2009, Standard & Poor's Ratings Services lowered its long-term counterparty credit rating on Bank of Ireland (the trading name of the Governor and Company of the Bank of Ireland; BOI) to 'A' from 'A+'. In addition, the long-term ratings on BOI were removed from CreditWatch with negative implications, where they had been placed on Nov. 14, 2008. At the same time, the 'A-1' short-term counterparty credit rating on BOI was affirmed. The outlook is stable.

We have also lowered the ratings on BOI's hybrid capital instruments to 'BBB' from 'A-'. In addition, the ratings on the instruments remain on CreditWatch with negative implications.

The rating action reflects our opinion on BOI's strategy and prospects for the bank's asset quality, earnings, and capitalization, as well as the Irish government's announcement yesterday of an expanded support package for BOI and its close peer, Allied Irish Banks PLC.

The rating action reflects our view that, notwithstanding its strong market position, BOI faces a very weak outlook for asset quality and therefore profitability over the rating horizon. In our opinion, the significant support that BOI has received from the Irish government demonstrates its high systemic importance to the Irish banking system. We view this as a stabilizing factor to the ratings on BOI and we now include one notch of support above BOI's stand-alone credit strength.

The Irish government announced yesterday its intention to inject €3.5 billion in deeply subordinated 8% preference shares into BOI. It also plans to enable Irish domestic banks to issue longer-dated government-guaranteed bonds beyond the current September 2010 deadline, as well as to investigate ways to reduce the domestic banks' land and real estate development exposures. Although details of this scheme have not yet been announced, we consider that it may reduce downside risk to BOI's stand-alone credit profile.

We understand that the preference shares will be classed as Core Tier 1 capital by the Irish regulator and will increase the bank's reported Core Tier 1 ratio to a pro forma 9.3% at Sept. 30, 2008. Based on indicative terms, we consider it likely that we will classify these securities as "intermediate-strong" under our hybrid methodology. We think there will be no immediate benefit to our view on BOI's capital ratios, as calculated using Standard & Poor's methodology, because BOI has already issued hybrid securities beyond our tolerance levels. Nevertheless, we recognize the benefit to BOI's regulatory capital ratios and absolute capital levels, as well as the, in our view, strong demonstration of support from the government toward the bank.

The continued weakening of the Irish and U.K. economic environment since November has led us to take an increasingly pessimistic view of the outlook for BOI's asset quality. The bank's property and construction (P&C) portfolio, which represented about 26% of total loans at Sept. 30, 2008, continues to pose the greatest risk of loss, in our view. Management now expects the bank to take loan losses of €4.5 billion in the three years to March 31, 2011, or, in the case of an even weaker economic outturn, up to €6.0 billion. In our view, the latter is the more likely outcome. While the effect on BOI's profitability is uncertain, as this will also depend on the robustness of its revenues, cost management, and the scope and cost of any government action to reduce the bank's development exposures, we think it is likely that BOI will make a loss in the year to March 31, 2010, and possibly also in the year to March 31, 2011.

BOI's undated perpetual capital instruments are now rated three notches below the counterparty credit rating, reflecting our approach to these instruments when institutions become more stressed.

Outlook

The stable outlook reflects our expectation that the support being provided by the Irish government will allow BOI to maintain adequate capitalization despite, in our opinion, the weak and deteriorating outlook for BOI's asset quality and earnings. The outlook is also underpinned by our view that further state support would be forthcoming if required. An upgrade is currently considered remote within the rating horizon, due to the very weak outlook for the Irish economy and the challenges faced by BOI. Negative rating action could occur in particular if we consider the government to be less willing to support BOI, or if the bank's business or financial profile weakens further than expected. In this event, external support may not, in our view, be sufficient to continue to justify the current ratings.

CreditWatch

The CreditWatch placement of the undated capital instruments reflects our view that, while BOI may continue to be willing to service the coupons on these instruments, uncertainty exists on whether it will be allowed to by the authorities, particularly the European Commission, if the bank makes material losses in the coming years. We intend to resolve the CreditWatch placement of these instruments when the authorities' position becomes clearer to us. Should we consider there to be no impediment to BOI servicing its hybrid obligations, and all other things being equal, we may affirm the ratings on these instruments. Should the instruments be downgraded as a result of our view of increased deferral risk arising from potential authorities' intervention, at this stage and again all other things being equal, they are likely to be downgraded to subinvestment grade.

Ratings List

	To	From
Downgraded; CreditWatch/Outlook Action; Ratings Affirmed		
	To	From
Bank of Ireland		
Counterparty Credit Rating	A/Stable/A-1	A+/Watch Neg/A-1
Certificate Of Deposit	A/A-1	A+/Watch Neg/A-1
Commercial Paper (2 issues)	A-1	A-1

N.B.--This does not include all ratings affected.

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