STANDARD & POOR'S

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Research Update:

Bank of Ireland 'A+' L-T Rating On Watch Neg On Interim Results; 'A-1' S-T Rating Affirmed

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Rationale

On Nov. 14, 2008, Standard & Poor's Ratings Services placed its 'A+' long-term counterparty credit rating on Bank of Ireland (the trading name of the Governor and Company of the Bank of Ireland; BOI) on CreditWatch with negative implications. At the same time, the 'A-1' short-term counterparty credit rating was affirmed. Standard & Poor's continues to equalize the ratings on those BOI issues that mature within the life of the guarantee with the sovereign ratings on the Republic of Ireland (AAA/Stable/A-1+).

The CreditWatch placement follows yesterday's announcement of BOI's results for the six months to Sept. 30, 2008, which clearly suggest a faster and deeper deterioration in the bank's asset quality than we had previously expected. In Standard & Poor's view, the revised impairment forecast indicates that the bank may only just remain profitable in the six months to March 31, 2009, and will face a similar earnings challenge in the following financial year.

BOI's reported pretax earnings declined to €706 million in the six months ended Sept. 30, 2008, from €1,091 million in the same period in 2007. Net operating income, which fell modestly, was supported by a small improvement to net interest margin and good cost control. The main hit to earnings came, as expected, from credit impairment provisions, which are now rising rapidly from cyclical lows due to the economic slowdown and falling property markets in the U.K. and Ireland.

Our concerns relate primarily to the substantial revision that BOI has made to its forecast impairment charge. In its pre-close announcement in mid-September 2008, BOI had guided toward a charge of mid 40s basis points (bps) for the current financial year, rising to 60 bps-90 bps in the years to March 31, 2010, and 2011. BOI has now materially revised these forecasts, guiding to a 60 bps-75 bps charge for the current financial year, and 90 bps-110 bps in the years to March 31, 2010, and 2011. A 65 bps impairment charge for the current financial year would follow from the charge rising from 38 bps in the six months ended Sept. 30, 2008, to 90 bps-95 bps in the following six months. This demonstrates the severity of the deterioration in BOI's operating environment and also the potential downside risks to management's revised forecast for the year to March 31, 2010.

The results announcement contained some marginally positive developments: the bank's core Tier 1 capital ratio improved to 6.3% at Sept. 30, 2008, from 5.7% at March 31, 2008; the bank's U.K. and Irish residential mortgage portfolios saw some modest deterioration in arrears, but continue to perform relatively well; and the bank's funding profile has improved, with the loan-to-deposit ratio falling from 157% at end-March to 145% by end-October.

We consider BOI to be a highly systemically important bank in the Irish banking sector, but do not currently factor in any extraordinary support into the counterparty credit ratings on the bank. As a result of its participation in the Irish Government's bank guarantee scheme, BOI's funding is well supported, but it is now subject to increased government control and regulatory oversight. Like its peers, BOI will discuss its proposed business plan with regulators in the coming weeks. The implications are unclear, but likely results include revised financial targets and further actions to improve capitalization.

CreditWatch

The CreditWatch placement of BOI reflects its difficult current and prospective operating environment, and the related near- and medium-term challenges to the bank's earnings presented by its deteriorating asset quality.

Standard & Poor's will resolve the CreditWatch placement within the coming several weeks, once we have greater insight into the bank's business plans. This will include discussion of forecast asset quality and revenues, the underlying assumptions, and their combined impact on BOI's earnings. Capital policy will also be an important factor. We do not currently expect that the ratings will be lowered by more than one notch, and they may be affirmed.

Ratings List

	To	From
Long-term counterparty credit rating		
	A+/Watch Neg	A+/Negative
Short-term counterparty credit rating		
	A-1	A-1

NB: This list does not include all ratings affected.

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Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. 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) 495-783-4017.