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**Research Update:**

# Bank of Ireland 'A' L-T Rating Put On CreditWatch Negative On Expected Asset Transfer And NAMA Plan; Hybrids Cut To 'BB'

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## Research Update:

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## Rationale

On May 1, 2009, Standard & Poor's Ratings Services placed its 'A' long-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. At the same time, the 'A-1' short-term counterparty credit rating on BOI was affirmed. Furthermore, the ratings on BOI's hybrid capital instruments were lowered to 'BB' from 'BB+', and remain on CreditWatch with negative implications.

The CreditWatch placement follows our consideration of the Irish government's plan--announced April 7, 2009--to remove the riskiest lending from the balance sheets of the country's main domestically owned, commercial banks via the establishment of a National Asset Management Agency (NAMA) (For more information see "Irish Bank Rating Implications Are Uncertain Following Government's Asset Transfer Plan," published today on RatingsDirect.)

The impact of the planned transfer of assets to NAMA has been factored into our assessment of BOI's stand-alone credit profile. We now factor two notches of support into the ratings on BOI, reflecting our view that the government will provide further support to BOI if required. We consider BOI to be of high systemic importance to the Irish banking sector.

From the details so far available, we consider that the NAMA plan provides further demonstrable evidence of the government's desire to support BOI and the other participating domestic banks. However, precise details regarding how the plan will work are not yet available. The CreditWatch placement reflects our view that the plan could be only partially successful--removing the most risky assets, but failing to sufficiently strengthen BOI's credit profile to withstand the challenges that we expect it to continue to face from the very weak economic environment.

BOI reported that it had €13 billion of development and €25 billion of investment exposures at Sept. 30, 2008. We note, in particular, that following the asset transfer to NAMA the authorities might allow BOI to run on a regulatory capital ratio significantly below the 9.3% core Tier 1 ratio that BOI reported on a pro forma basis at Sept. 30, 2008. This ratio includes the Irish government's March 2009 injection of €3.5 billion in deeply subordinated 8% preference shares into BOI. While we give some qualitative credit to this capital injection, it provided no uplift to BOI's capital base, as calculated using Standard & Poor's methodology, because BOI had already issued hybrid securities beyond the tolerance levels specified in our criteria.

## 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. The CreditWatch placement with negative implications also reflects the very weak outlook for the Irish economy, the still dislocated wholesale funding market, and the related challenges faced by BOI in terms of managing asset quality and profitability. We expect to resolve the CreditWatch placement when we have more details on the NAMA plan, but continuing deterioration of the Irish economy could prompt negative rating action prior to this. We do not currently expect the ratings on BOI to be lowered by more than one notch, and they may be affirmed. An affirmation could result if we consider that, following the execution of the NAMA plan, the bank's financial profile will be comfortably positioned to weather the economic downturn.

The CreditWatch placement of BOI's undated capital instruments reflects our view that, while BOI may continue to be willing to service the coupons on these instruments, uncertainty persists about whether the authorities, particularly the European Commission, will continue to allow the bank to do this. We will resolve the CreditWatch placement of these instruments when the authorities' position becomes clearer. Should there be no impediment to BOI servicing its hybrid obligations, the ratings on these instruments may be affirmed. Should the instruments be downgraded as a result of our view of increased deferral risk arising from potential authorities' intervention, they are likely to be lowered to the 'B' rating level or lower.

## Ratings List

### Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Bank of Ireland		
Long-Term Counterparty Credit Rating	A/Watch Neg	A/Stable
Short-Term Counterparty Credit Rating	A-1	A-1
Long-Term Certificate Of Deposit	A/Watch Neg	A
Short-Term Certificate Of Deposit	A-1	A-1
Senior Unsecured	A/Watch Neg	A
Subordinated	A-/Watch Neg	A-
Commercial Paper	A-1	

### Downgraded

	To	From
Bank of Ireland		
Junior Subordinated	BB/Watch Neg	BB+/Watch Neg

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Preferred Stock	BB/Watch Neg	BB+/Watch Neg
BOI Capital Funding (No.1) LP Preferred Stock*	BB/Watch Neg	BB+/Watch Neg
BOI Capital Funding (No.2) LP Preferred Stock*	BB/Watch Neg	BB+/Watch Neg
BOI Capital Funding (No.3) LP Preferred Stock*	BB/Watch Neg	BB+/Watch Neg
BOI Capital Funding (No.4) LP Preference Stock*	BB/Watch Neg	BB+/Watch Neg
Bank of Ireland UK Holdings PLC Junior Subordinated*	BB/Watch Neg	BB+/Watch Neg

\*Guaranteed By Bank of Ireland.

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