

Global Credit Research - 22 Jul 2011

Dublin, Ireland

## Ratings

Category	Moody's Rating
Outlook	Negative
Bank Deposits	Caa1/NP
Bank Financial Strength	E
Baseline Credit Assessment	Caa1
Adjusted Baseline Credit Assessment	Caa1
Issuer Rating	Caa2
Senior Unsecured	Caa2
Subordinate -Dom Curr	C
Jr Subordinate MTN	(P)C
Preference Stock	C (hyb)
Bkd Commercial Paper	NP
Other Short Term	(P)NP
<b>Anglo Irish Capital UK (2) LP</b>	
Outlook	Stable
BACKED Pref. Stock Non-cumulative	C (hyb)
<b>Anglo Irish Asset Finance PLC</b>	
Outlook	Stable
BACKED Pref. Stock	C (hyb)
<b>Anglo Irish Capital UK (3) LP</b>	
Outlook	Stable
BACKED Pref. Stock Non-cumulative -Dom Curr	C (hyb)

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## Key Indicators

### Anglo Irish Bank Corporation Limited (Consolidated Financials)[1]

	[2]12-10	[2]12-09	[2]9-08	[3]9-07	[3]9-06	Avg.
Total Assets (EUR million)	72,183.0	85,212.0	101,321.0	96,652.0	73,290.0	[4]-0.4
Total Assets (USD million)	96,836.6	122,257.1	142,320.8	137,453.8	92,840.3	[4]1.1
Tangible Common Equity (EUR million)	3,650.0	4,393.0	5,811.7	5,363.0	3,488.4	[4]1.1
Tangible Common Equity (USD million)	4,896.6	6,302.8	8,163.5	7,627.0	4,418.9	[4]2.6
PPI / Avg RWA (%)	0.5	1.0	1.9	2.0	1.6	[5]1.1
Net Income / Avg RWA (%)	-30.4	-15.8	0.7	1.5	1.2	[5]-15.2
(Market Funds - Liquid Assets) / Total Assets (%)	67.3	41.6	17.3	10.2	15.8	[6]30.5
Core Deposits / Average Gross Loans (%)	19.5	37.8	73.9	91.1	74.6	[6]59.4
Tier 1 Ratio (%)	10.9	6.4	8.4	8.6	8.4	[5]8.6
Tangible Common Equity / RWA (%)	10.0	5.8	6.8	6.8	6.1	[5]7.5
Cost / Income Ratio (%)	57.2	33.4	16.7	22.3	26.1	[6]31.1
Problem Loans / Gross Loans (%)	48.6	48.5	1.3	0.5	0.5	[6]19.9
Problem Loans / (Equity + Loan Loss Reserves) (%)	128.3	179.3	15.5	6.0	6.9	[6]67.2

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] Basel II & IFRS reporting periods have been used for average calculation [6] IFRS reporting periods have been used for average calculation

## Opinion

## RECENT CREDIT DEVELOPMENTS

On 14 July 2011, following the downgrade of the Irish government's bond ratings, the government-guaranteed debt ratings of Anglo Irish Bank Corporation Limited (Anglo Irish) were downgraded to Ba1/Not-Prime from Baa3/P-1. The ratings carry a negative outlook and are in line with the Irish sovereign debt ratings.

On 24 June, 2011, the unguaranteed long-term senior unsecured debt rating of Anglo Irish Bank Corporation Limited ("Anglo Irish") was downgraded by one notch to Caa2 from Caa1. At the same time the long-term bank deposit rating was confirmed at Caa1. The outlook is negative. The downgrade of the unguaranteed senior unsecured debt rating follows recent statements made by the Irish government that confirm the heightened risk that the government may yet impose losses on this class of debt, which has so far been protected from burden sharing. Currently Anglo Irish has approximately EUR2.9 billion of senior unsecured debt outstanding. The review for possible downgrade on the senior unsecured debt had reflected the risk of burden sharing with senior unsecured bondholders at Anglo Irish only in the event that the bank required further capital, taking into consideration apparent pressure at the European level to continue supporting senior debt obligations for fear of contagion beyond Ireland. However the Central Bank of Ireland confirmed on May 31, 2011, that Anglo Irish did not need further capital at this time. Therefore the recent statements by members of the government that it will discuss this issue again with the Troika in the autumn increases the likelihood, in Moody's view, that losses could be imposed on this particular class of debt at Anglo Irish. The one notch downgrade to Caa2 therefore positions the unguaranteed senior unsecured debt ratings one notch below the deposit rating, based on this concern. The negative outlook reflects the continuing uncertainty about a potential default on these instruments as well as the potential recovery in such a scenario.

The long-term bank deposit rating of Anglo Irish has been confirmed at Caa1, again with a negative outlook. At the Caa1 level this rating does not incorporate any uplift for systemic support from the government but importantly we do not believe that the government would look to impose losses on the remaining few deposits held by the bank. The bank deposit rating had previously been downgraded in March, 2011, following the transfer of the vast majority of the deposit base to Allied Irish Banks (see Moody's comment: "Deposits from Anglo Irish and Irish Nationwide Improve Funding at AIB and IL&P" published on February 28, 2011). At the Caa1 level these ratings no longer incorporate any systemic support, reflecting the much lower systemic importance of the bank as evidenced by the transfer of the deposits and the wind down of their remaining assets over the longer term.

Effective December 31 2010, the Irish government provided to Anglo Irish a further EUR6.4 billion of capital through the promissory note structure. This increased the total capital provided to the bank to EUR29.3 billion. In the final quarter of 2010 Anglo Irish carried out a series of exchange offers on the outstanding dated subordinated debt at an exchange ratio of 20% and made an offer to holders of the bank's undated securities for a consent fee of 5% that allowed the bank to redeem the securities. These generated a capital gain of around EUR1.5 billion for the bank. Moody's classifies this as a distressed exchange.

## SUMMARY RATING RATIONALE

The unguaranteed long-term senior unsecured debt rating of Anglo Irish is Caa2. This reflects recent statements made by the Irish government that confirm the heightened risk that the government may yet impose losses on this class of debt, which has so far been protected from burden sharing. The long-term bank deposit rating of Anglo Irish is Caa1. At this level this rating does not incorporate any uplift for systemic support from the government but importantly we do not believe that the government would look to impose losses on the remaining few deposits held by the bank.

Moody's assigns an E BFSR (mapping to a Caa1 baseline credit assessment) to Anglo. This reflects the wind down of the remaining assets over the longer term.

Anglo Irish Bank joined the newly established Irish government guarantee scheme (the Eligible Liabilities Guarantee (ELG) Scheme) in early 2010. Moody's will assign the same rating as the Irish government (currently Baa1, negative outlook) to long-term senior debt issuance of banks and building societies covered by the new Irish government guarantee (including Anglo). (See "Moody's to assign backed-Aa1/Prime-1 ratings to debt securities covered by the Irish government's new guarantee" published January 7, 2010).

## Rating Outlook

The outlook is negative reflecting the continuing uncertainty about a potential default on the senior debt instruments as well as the potential recovery in such a scenario.

## What Could Change the Rating - Up

Any upgrade of the senior debt ratings is only likely in the case of explicit guarantees being put in place for those liabilities.

## What Could Change the Rating - Down

An increase in the likelihood of burden sharing being imposed on the bank's unguaranteed senior unsecured debt ratings would likely lead to further downgrades in line with the expected loss.

## Recent Results and Developments

In the year to end-December 2010 Anglo recorded a net loss of EUR17.7 billion, driven by an impairment charge of EUR7.8 billion and further losses on disposal of NAMA assets of EUR11.5 billion. The bank reported an operating profit before impairment and loss on disposals to NAMA of EUR1.8 billion, however the majority of this was due to the exchange on subordinated debt carried out in the fourth quarter of 2010. Impaired loans stood at EUR17.6 billion, out of a total gross loan book of EUR36.9 billion. Provisions totalled EUR10.1 billion at end-2010. As a result of the capital injections from the government, now totalling EUR29.3 billion, at end- 2010 Anglo had a Tier 1 capital ratio of 10.9% and a total capital ratio of 12.4%. These ratios no longer benefit from the regulatory derogations that expired in August 2010.

## ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

#### Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

#### National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. AAaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

#### Foreign Currency Deposit Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

#### About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

### Rating Factors

#### Anglo Irish Bank Corporation Limited

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
<b>Qualitative Factors (50%)</b>						D-	
<b>Factor: Franchise Value</b>						E+	<b>Weakening</b>
<b>Market Share and Sustainability</b>					x		
<b>Geographical Diversification</b>			x				
<b>Earnings Stability</b>					x		
<b>Earnings Diversification [2]</b>					x		
<b>Factor: Risk Positioning</b>						E	<b>Weakening</b>
<b>Corporate Governance [2]</b>							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
<b>Controls and Risk Management</b>					x		
- Risk Management					x		
- Controls					x		
<b>Financial Reporting Transparency</b>				x			
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information					x		
<b>Credit Risk Concentration</b>					x		

- Borrower Concentration					x		
- Industry Concentration					x		
<b>Liquidity Management</b>					x		
<b>Market Risk Appetite</b>	x						
<b>Factor: Operating Environment</b>						B	Weakening
<b>Economic Stability</b>							
<b>Integrity and Corruption</b>		x	x				
<b>Legal System</b>	x						
<b>Financial Factors (50%)</b>						D	
<b>Factor: Profitability</b>						E+	Weakening
<b>PPI / Average RWA- Basel II</b>				1.11%			
<b>Net Income / Average RWA- Basel II</b>					-15.15%		
<b>Factor: Liquidity</b>						E	Weakening
<b>(Mkt funds-Liquid Assets) / Total Assets</b>					42.07%		
<b>Liquidity Management</b>					x		
<b>Factor: Capital Adequacy</b>						B+	Weakening
<b>Tier 1 Ratio - Basel II</b>		8.57%					
<b>Tangible Common Equity / RWA- Basel II</b>	7.53%						
<b>Factor: Efficiency</b>						A	Weakening
<b>Cost / Income Ratio</b>	35.76%						
<b>Factor: Asset Quality</b>						E	Weakening
<b>Problem Loans / Gross Loans</b>					32.79%		
<b>Problem Loans / (Equity + LLR)</b>					107.70%		
<b>Lowest Combined Score (15%)</b>						E	
<b>Economic Insolvency Override</b>						D	
<b>Aggregate Score</b>						D-	
<b>Assigned BFSR</b>						E	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral



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