

Fitch Rates Anglo Irish Mortgage Bank's Commercial MCS 'AAA'

22 Jan 2009

Fitch Ratings-London-22 January 2009: Fitch Ratings has today assigned Anglo Irish Mortgage Bank's (AIMB, 'A-' (A minus)/Outlook Stable/'F1+') first Irish commercial mortgage covered securities (MCS) a 'AAA' rating. The rating applies to the first four series issued today under the EUR10bn programme for a total combined amount of EUR3.8bn, consisting of series 1, 2, 3, and 4 in amounts of EUR1.5bn, EUR1.0bn, EUR0.8bn, and EUR0.5bn, respectively. The bonds have expected due dates of January 2011, January 2012, July 2012, and July 2014 respectively, and benefit from an extended maturity date of 18 months after the expected due date.

This is the first covered bond programme for Irish commercial MCS. MCS are covered bonds issued under the Irish Asset Covered Securities (ACS) Act 2001 (as amended) (ACS Act) and backed by commercial mortgage loans. AIMB is a wholly-owned subsidiary of Anglo Irish Bank Corporation Limited (Anglo, 'A-'(A minus)/'F1+'/'Outlook Stable). AIMB is registered as a designated mortgage credit institution under the ACS Act.

The rating is based on AIMB's Long-term Issuer Default Rating (IDR) and a Discontinuity Factor (D-Factor) of 10%, the combination of which enables the MCS to reach a 'AA+' rating on a probability of default basis, and a final 'AAA' rating after taking into account one notch uplift for high expected recoveries on the covered bonds. The rating also takes into account committed over-collateralisation (OC) between the cover assets and the covered bonds being sufficient to sustain 'AAA' stress scenarios applied by the agency. Available OC currently stands at 57.4%.

Fitch D-Factors assess the likelihood of interruption of payments on the covered bonds at the time of a default by their issuer, on a scale between 0% and 100%, with 0% reflecting a perfect continuity and 100% equivalent to a concomitant default of the issuer and its covered bonds. The D-Factor assigned to AIMB's mortgage covered bonds reflects the strength of the asset segregation mechanism put in place by the ACS Act for the benefit of the MCS holder. It incorporates Fitch's assessment of AIMB's systems and the regulatory provision for the appointment of an alternative manager. Also, Fitch's analysis takes into account the provision for the appointment of a stand-by servicer upon a downgrade of the issuer below 'BBB'. Fitch takes further comfort from the role played by the National Treasury Management Agency under the ACS Act, which has to appoint the alternative manager or act as such itself where an alternative manager cannot be found. The D-Factor reflects Fitch's assessment of the liquidity gaps that could arise in the immediate aftermath of a potential default of the issuer. This risk is mitigated by the implementation of a reserve covering three months interest payments on the MCS, by the covered bonds' extendible maturity feature of up to 18 months, by the possibility of selecting more liquid assets in case of liquidation up to the point of certain portfolio criteria being breached, and by an asset-liability matching rule implemented by the issuer. Finally, the D-Factor gives credit to the regulation applicable to the commercial mortgage credit institution under the ACS Act and the supervisory role of the Irish banking authorities, especially through the role played by the cover asset monitor.

AIMB's cover pool has exposure to 396 borrowers with a total outstanding commercial mortgage loan balance of EUR5.98bn. This pool is backed by a mixture of 969 properties with an aggregate market value (MV) of EUR11bn. The assets within the pool are above-average in quality both in terms of technical specification, lease length and covenant strength. The collateral assets are located across England, Ireland, Scotland and Wales, with a significant concentration in Dublin (47.2% by property market value (MV) and the London sub-markets (22.4%)). The majority of the assets are located in prime or good secondary locations within their local market. Although the portfolio includes a range of property types, it displays high concentration in office and retail properties (mainly shopping centres), in that 73.3% of total MV is derived from such properties. Of the pool 21.4% (by MV) constitutes non-standard property types split between: hotels (15%), pubs (1.3%) and other property types ((5.1%) - such as leisure, medical, educational facilities, car parks & mixed-use assets). The portfolio benefits from strong income diversification with over 3,300 tenants currently in place. The largest property contributes 3% of the total balance of properties in the pool. While there is a large proportion of single tenant loans within the cover pool, this exposure is somewhat mitigated by the quality of the assets, covenant strength and lease length. The weighted average (WA) cut-off interest cover ratio of the pool

is 1.77x and the WA cut-off loan-to-value ratio (LTV) is 59.3%. In addition, the pool exhibits a weighted average (WA) seasoning of 41 months and a WA loan term to maturity of 50 months.

Fitch compared the cash flows from the cover pool in a wind-down situation, subject to a 'AA+' level of default and losses, and under the management of a third party, to the payments due under the covered bonds. Maturity mismatches were assumed to be bridged through portfolio sale occurring at a discounted sale price. Interest rate swaps are in place with Anglo as a counterparty to hedge any discrepancies between the interest rate yielded by the cover assets and the covered bonds as well as any currency mismatches. Anglo is posting collateral under the swaps as a remedy for being rated below the Fitch minimum swap counterparty rating of 'A'/F1'.

As stated in a 17 October 2008 commentary, Fitch is revising its liquidity assumptions for covered bonds which might adversely affect any of its covered bond ratings. Fitch will publish shortly its general conclusions in an exposure draft report. Fitch will specify in the report the timeframe for implementing the revised assumptions into its ratings for individual covered bonds, after taking into account any further risk mitigants issuers may adopt during this period.

Due to the dynamic nature of the cover pool and covered bonds, Fitch will monitor the key characteristics of the cover assets and periodically check whether available OC provides protection that is commensurate with the rating. In particular, due to the granularity of the pool and potential credit risk volatility as loans are added and removed, Fitch has run its analysis based on a stressed portfolio that takes into account certain portfolio limitations that Anglo has committed to. If these criteria are breached, Fitch will review the cover pool and the OC level necessary to support the rating.

Contacts: Andre Dahlkamp, London, Tel: +44 207 417 6279; Suzanne Albers, +44 207 417 6325; Vito Natale, +44 207 682 7369; Vida Tayebi, +44 207 417 3468; Stefan Baatz, +44 207 070 5838.

Media Relations: Julian Dennison, London, Tel: +44 020 7682 7480, Email: julian.dennison@fitchratings.com.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.