

Research Update:

Anglo Irish Bank Long-Term Rating Lowered To 'BBB'; Ratings On Watch Neg; Lower Tier 2 Debt Downgraded To 'BB+'

Primary Credit Analyst:

Claire Curtin, London (44) 20-7176-7032; claire_curtin@standardandpoors.com

Secondary Credit Analyst:

Nigel Greenwood, London (44) 20-7176-7211; nigel_greenwood@standardandpoors.com

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Overview

- We have revised our opinion regarding economic and industry risk in Ireland and revised our expectations regarding future credit losses. As a result, we have re-assessed our expectations regarding the potential credit strength on Anglo Irish Bank Corp. Ltd. (Anglo).
- As a result, we have lowered our long-term counterparty credit rating of Anglo by one notch to 'BBB' from 'BBB+'.
- At the same time, we are placing our 'BBB/A-2' counterparty credit ratings on Anglo on CreditWatch with negative implications.
- We are lowering the notching of Anglo's lower Tier 2 instruments to two from one, and are lowering the ratings on these instruments to 'BB+'.
- The CreditWatch placement reflects our view that there are potentially considerable downside risks relating to the pending European Commission's restructuring decision.

Rating Action

On Jan. 26, 2010, Standard & Poor's Ratings Services lowered its long-term counterparty credit on Anglo Irish Bank Corp. Ltd. (Anglo) to 'BBB' from 'BBB+'. At the same time, the 'BBB/A-2' long- and short-term counterparty credit ratings were placed on CreditWatch with negative implications. Furthermore, the rating on Anglo's nondeferrable dated subordinated debt (lower Tier 2) securities was lowered to 'BB+' from 'BBB' and placed on CreditWatch with negative implications. Issuance guaranteed by the Republic of Ireland (AA/Negative/A-1+) is not affected by today's rating action.

Rationale

The rating action on Anglo reflects our view of increased economic and industry risk of the Irish banking system and our revised expectations regarding future credit losses. It also factors in our opinion that even in a best-case scenario, such as the reported split into a good bank combined with a more benign environment than we expect, a restructured Anglo would be unlikely to attain a 'BBB+' long-term counterparty credit rating due to what we would likely view as a narrow business profile and modest financial profile.

The CreditWatch placement reflects our opinion that there are potentially considerable downside risks for Anglo's creditworthiness attached to the pending outcome of the European Commission's (EC) review of Anglo's

restructuring plan, including significant uncertainty regarding the bank's future financial position.

Anglo has submitted a restructuring plan to the EC as a consequence of the state aid it has received from the Irish government. It has been reported that the management is proposing that Anglo is split up into a good bank and a bad bank. We anticipate that, if such a plan is approved by the EC, capital instruments such as lower Tier 2 may be left in the bad bank. Other options reportedly considered in the plan are liquidation and an orderly wind-down. Anglo's plan is yet to be approved by the EC; we understand approval may occur in the first half of 2010.

The ratings on Anglo principally reflect our view on its 100% ownership by the government of Ireland and our expectation of ongoing support. Under our criteria, the number of notches of support that could be factored into the ratings of distressed banks receiving targeted extraordinary support depends on the situation, but should result in a counterparty credit rating that reflects our view on the likely strength of the bank once the problems have been addressed, and the importance of the bank within the banking system.

Anglo was nationalized in January 2009, following a period of severe deposit stress and the emergence of significant corporate governance failings. A major portion of its loan portfolio is to be transferred to Ireland's National Asset Management Agency in the course of 2010. Nevertheless, we expect Anglo's financial performance to remain poor, and that government support in relation to funding and capital will remain in place.

The widening in the notching of Anglo's lower Tier 2 instruments from the bank's counterparty credit rating reflects our view that Anglo meets our criteria for widened notching on these instruments. (For more information see the Legislation section below and "Methodology For Rating Bank Nondeferrable Subordinated Debt (Lower Tier 2 Regulatory Capital)," published on Aug. 4, 2009, on RatingsDirect.) These criteria relate to the regulatory and legal framework, and our view of likely behavior of authorities.

CreditWatch

We plan to resolve the CreditWatch placement following the outcome of the EC review of Anglo's restructuring plan. We understand this may occur in the first half of 2010.

When we know the EC's decision, we will then assess the expected mid-term financial and business profiles of Anglo, the level of support we consider Anglo is likely to receive from the Irish government, as well as the bank's intentions regarding its various classes of debt instruments.

Legislation

We note a statement from the Irish government that it is considering the introduction of a legislative regime to deal with distressed financial

institutions. While the exact nature and timing of any legislation remains uncertain, we consider that this may result in broad legislation similar to the U.K.'s Banking Act, or specific legislation to address a single distressed bank, which may result in the default risk on nondeferrable subordinated lower Tier 2 debt being higher than for senior debt. In our view, Anglo is a distressed institution. If legislation is enacted in Ireland, we therefore think it possible that Anglo may be subject to a restructuring that could be detrimental to lower Tier 2 debt holders, even though senior creditors could be protected at the same time.

As legislation is yet to be introduced to the Dail, the Irish parliament, we are not widening the notching of other Irish banks' lower Tier 2 instruments, the same approach we take for the U.K. banking sector. Should we see that legislation is introduced in Ireland that enables the Irish authorities to instigate a restructuring that could result in a default, or distressed exchange, on subordinated debt without triggering a default on senior debt, we will review our assessment of the authorities' willingness to utilize these powers and may widen the notching across all lower Tier 2 instruments issued by Irish banks in line with our approach in the U.K. In addition, such a review may result in a significant further widening of the notching of Anglo's lower Tier 2 instruments,

Related Research

- Assumptions For Credit Stress Testing Irish Banks, Jan. 26, 2010
- Determining Credit Loss Assumptions For Irish Banks, Jan. 26, 2010
- Review Of Irish Banks On Implementation Of Credit Loss Assumptions And BICRA Change Leads To Rating Actions, Jan. 26, 2010
- Irish BICRA Changed To Group 4 From Group 3 On Higher Economic And Industry Risk, Jan. 26, 2010
- Methodology For Rating Bank Nondeferrable Subordinated Debt (Lower Tier 2 Regulatory Capital), Aug. 4, 2009
- Bank Rating Analysis Methodology Profile, March 18, 2004

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Anglo Irish Bank Corp. Ltd.		
Counterparty Credit Rating	BBB/Watch Neg/A-2	BBB+/Negative/A-2
Commercial Paper	A-2/Watch Neg	A-2
Senior Unsecured	BBB/Watch Neg	BBB+
Subordinated	BB+/Watch Neg	BBB

NB: This list does not include all ratings affected.

Additional Contact:

Financial Institutions Ratings Europe;FIG_Europe@standardandpoors.com

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. 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) 495-783-4011.

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