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**Research Update:**

# Anglo Irish Bank Corp. Ltd. Ratings Lowered To 'BBB+/A-2' On Weak Financial Position; Outlook Negative

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## Overview

- The ratings on Anglo Irish Bank Corp. Ltd. are lowered to 'BBB+/A-2' and removed from CreditWatch with negative implications.
- The ratings reflect our expectations of ongoing support from the Irish government, which may allow Anglo to stabilize its currently weak financial position.
- Downside risk to the counterparty credit rating reflects uncertainty regarding future capital needs, possible state aid implications, and business plan execution risks.

## Rating Action

On June 15, 2009, Standard & Poor's Ratings Services lowered its long- and short-term counterparty credit ratings on Anglo Irish Bank Corp. Ltd. (Anglo) to 'BBB+/A-2' from 'A-/A-1'. At the same time, the ratings were removed from CreditWatch, where they had been placed with negative implications on Nov. 5, 2008. The outlook is negative.

## Rationale

The rating action reflects our opinion of Anglo's future business plans and its current financial position. We consider Anglo to be of high systemic importance, reflective of the scale of state support, and as a result the long-term rating on Anglo receives six notches of support above its stand-alone credit profile.

Anglo intends to significantly downsize its asset base to match its funding position with the aim of stabilizing its financial profile. Anglo has announced that over time it intends to develop a broader business banking franchise. We consider that this is a highly demanding plan.

Anglo's current stand-alone financial position is, in our view, weak and reliant on funding support from the Irish Central Bank. The Irish government (Republic of Ireland; AA/Negative/A-1+) wholly owns Anglo following its nationalization in January 2009. Credit quality is poor, in our opinion, and is the result of a monoline business profile in the difficult commercial real estate sector, mostly in Ireland and the U.K. Anglo has material exposure to development and landbank lending (€17.7 billion at March 31, 2009), which was the primary driver of loan impairments totaling €4.1 billion in the six months to March 31, 2009. Anglo reported a loss before tax of €4.1 billion in this period.

The Irish government has committed to inject €4 billion of capital into

Anglo. Unadjusted for this capital commitment, Anglo was able to report an 8.2% regulatory total capital ratio and a Tier 1 ratio of 3.9%, despite the large losses, as various regulatory capital requirements were waived by the Irish Financial Regulator until July 31, 2009.

Anglo's exposure to development lending is expected to be addressed by the Irish government's planned National Asset Management Agency (NAMA), which reportedly will purchase development and associated property investment lending from participating domestic banks at a discount to face value. Anglo's participation in NAMA has been confirmed. Nevertheless, material property investment lending will remain on Anglo's balance sheet, and we consider that further significant impairments are likely in the remainder of this financial year and the following financial year, which is likely to result in Anglo posting further losses. Anglo may additionally book a loss on the loans it is transferring to NAMA, but the magnitude of this is unclear.

Government support will remain the key factor in our ratings on Anglo. Support has been demonstrated through the provision of funding via the Irish Central Bank, a commitment to provide substantial equity, and the acknowledgement that further capital may be required. We expect the Irish government to continue providing financial and other support to Anglo to assist it in stabilizing its financial profile.

Anglo's plans to significantly downsize its balance sheet, a key element of its revised business plan, will be accelerated by its participation in NAMA. Consideration received in exchange for the development lending would improve Anglo's liquidity position, and should also allow Anglo to repay its funding line.

Anglo's deleveraging plans may reduce the risk of the European Commission (EC) requiring significant further restructuring changes to Anglo as a result of its state aid application, but downside risk remains. Our ratings on Anglo's deferrable capital instruments already reflect our view of the material risk of coupon deferral. Deferral may be required by the EC as a result of its approval of the support being provided to Anglo. Additionally, Anglo's distributable reserves available for servicing hybrid coupons are significantly diminished.

The lowering of the short-term counterparty credit rating to 'A-2' is a direct consequence of the long-term rating action and maintains consistency with the long-term rating on Anglo. We note that the terms of the Irish government guarantee of many domestic banking sector liabilities, including all deposits, remain unchanged. Anglo's rated debt instruments that mature within the guarantee period continue to be rated in line with the sovereign rating on Ireland. The guarantee in its present form matures on Sept. 29, 2010. The government has announced a review of the guarantee, with a view to extending it, at least in part.

## Outlook

The negative outlook reflects our view of continuing uncertainties regarding Anglo's future capital needs, possible EU state aid implications, and business plan execution risk. It also reflects the continuing difficult operating environment, which is expected to continue to suppress earnings into the midterm. Rating pressures are mitigated, however, by government ownership and

the potential for continued extraordinary support.

## Ratings List

### Downgraded; CreditWatch/Outlook Action

	To	From
Anglo Irish Bank Corp. Ltd.		
Counterparty Credit Rating	BBB+/Negative/A-2	A-/Watch Neg/A-1
Commercial Paper	A-2	A-1/Watch Neg
Certificate Of Deposit	BBB+/A-2	A-/Watch Neg/A-1
Senior Unsecured	BBB+	A-/Watch Neg
Subordinated Debt	BBB	BBB+/Watch Neg
Short-term Debt	A-2	A-1/Watch Neg

### Ratings Affirmed

Anglo Irish Asset Finance PLC	
Anglo Irish Capital U.K. (2) LP	
Junior Subordinated*	CCC
Anglo Irish Capital U.K. (3) LP	
Anglo Irish Capital U.K. LP	
Preferred Stock*	CCC

\*Guaranteed by Anglo Irish Bank Corp. Ltd.

### Additional Contact:

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Ratings information is available to RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). It can also be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating. 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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