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Anglo Irish Bank Corporation Plc

Anglo Irish Bank Corporation's (AIBC) A2/P-1/C ratings reflect the bank's stable market positions in the Irish commercial lending market and UK investment property lending market, as well as the bank's strong and consistent profitability and good asset quality. AIBC is a bank that has grown substantially over the last five years. We believe these apparently aggressive growth rates need to be viewed in the context of both the growth experienced in the Republic of Ireland and against the background of what we would view as conservative and consistent underwriting policies of the bank.

Company Fundamentals And Franchise

The core business of AIBC entails lending to middle market companies and the professions in Ireland, and investment property lending in the UK. The bank considers that it has a 17%-18% share of mid-sized commercial lending in Ireland. In the UK the bank is a niche-player but ranks 7th amongst foreign-owned investment property banks. The bank differentiates itself from its two much bigger Irish competitors (Allied Irish and Bank of Ireland) and indeed from UK competitors through its tailored ("bespoke") loan offering.

Net interest income constituted 72% of revenue at end 2003¹, with 54% of lending concentrated in Ireland and 39% in the UK. AIBC estimates that it has increased its share of the medium size corporate / commercial market in Ireland from about 9% in the mid to late 1990s to 17% in the past few years. Moody's believes the market share is sustainable for several reasons:

- The two large banks, Allied Irish Banks and Bank of Ireland, already hold sufficiently large shares;
- The market is small and relationship-driven, making it less attractive to outside players; and
- AIBC has a significant cost advantage.

The UK business is also a niche one, but again AIBC is operating from a low cost base, and has a long track record within the UK commercial property market place.

Non-interest income revenue is growing, although as net interest income is growing at an even faster rate, the proportion of non-interest income revenues is growing slowly. Nevertheless, fees and commissions have increased from €63million in 2000 to €140 million in 2003, through a number of successful acquisitions and organic growth, particularly in private banking, funds management and trust business.

¹ Unless otherwise specified, all references to year-end refer to the bank's financial year-end at 30th September.



Consistent Profitability And Low Cost Base

Anglo-Irish is able to run on a low cost base because it does not have to maintain a retail branch network, and its lending operations are centralised. Its efficiency ratios are better than those of most of its Irish peers, and costs have been contained, while asset and revenue growth has been strong. The cost-income ratio as of September 2003 was 30%, and the ratio of operating expenses to average assets was 0.74%.

We believe that the bank's low cost base helps give it the flexibility to deal with competitive pricing pressures. However, to date, margins in the medium-size corporate market have not been squeezed as much as they have been in other sectors, such as retail mortgage lending.

Asset Quality Is Good, Although Loan Book Could Be More Vulnerable In A Serious Downturn

The bank's core lending markets are Ireland (54% of loan book) and the UK (39% of loan book). The bank also has a small loan book in Boston. Core lending sectors include professional firms and practices (doctors, lawyers and accountants) as well as fully developed and leased commercial property. All lending is secured on physical assets (i.e. property, cash or bonds).

The bank has seen strong loan growth in all its markets. We believe these growth rates need to be viewed in the context of both the very strong economic growth experienced in the Republic of Ireland over the last several years and against the background of what we would view as conservative and consistent underwriting policies of the bank.

This latter point is further borne out by AIBC's low level of non-performing loans (60 days overdue at 0.74% of total loans) albeit against a fairly benign economic background both in the Republic of Ireland and the UK. However, Irish and UK property values have increased significantly, and AIBC's own loan book (both organic and through acquisition) has grown substantially over the past few years and indeed the growth rate has not fallen below 20% per annum over the last five years.

Although we view the bank's underwriting policies as conservative, we also believe the commercial property and investment markets would suffer higher levels of problem loans in a serious economic downturn than low-risk residential mortgages. However, the bank provisions conservatively (general provision currently amount to 1.3% of loans) and current non-performing loans have 200%+ provisioning cover. In addition, the bank avoids larger exposures, with no loan exceeding 1% of the loan portfolio.

AIBC have publicly said that both in anticipation of IAS and because they believe themselves to be more than adequately provisioned, that the bank has decided to moderate provisioning coverage levels and make no further general provision for the medium term at which point the general provision charge may be reintroduced at a lower level. We do not believe that this stance is likely to undermine the bank's rating position given the ample provisioning levels currently in place (loan loss reserve/problem loan coverage was 200% plus at end 2003 and has been consistently above the 200% mark over the last four years).

Core Funding Profile Continues To Strengthen, Although The Bank Still Relies On Market/Corporate Funding

The absence of a retail branch network means the bank has a greater reliance on market and corporate funding. Nevertheless, Moody's views positively the bank's ongoing efforts to grow its retail and personal deposit funding base, reduce the proportion of less sticky corporate deposits and to lengthen the maturity of market funding and generally diversify the overall funding profile.

	2003	2000
Personal Deposits	23%	15%
Interbank Deposits	14%	33%
Corporate Deposits	40%	47%
Securitised notes	3%	5%
CP/CD	8%	--
MTN	12%	--
Total funding (mn)	€22,470	€9,852

Anglo's retail and personal deposit book is sourced from Ireland (55%), United Kingdom (29%), Isle of Man (10%), Austria (5%) and Geneva (1%). AIBC has put in place a number of initiatives over the last few years aimed at increasing the proportion of retail funding it attracts - both in the Republic and in the UK². These initiatives are beginning to pay off and Moody's views positively the fact that the bank has been steadily increasing its market share of Irish and UK retail and personal deposits (indeed at an accelerating rate).

The corporate deposits come from a wide variety of sources. Moody's has taken the view that asset managers, insurance companies and some large corporates, are perhaps the least sticky elements of the corporate deposit book and we note that the proportion of the book consisting of these categories has declined. Most of the remaining deposits constitute small deposits in Ireland from entities such as credit unions, charities, small manufacturers, professionals etc. Moody's would view these deposits as being relatively stable.

We note that AIBC's market share of deposits in the Irish market has grown from 2.9% at end 1995 to 7.9% at end 2003.

In addition, the bank has a number of sources of medium-term funding, including an MTN programme, ongoing securitisations of the UK loan book, and a committed syndicated bank facility (with no MAC clauses).

Liquidity levels are strong, reflected in average liquid assets of around 30% (almost 40% if syndicated facilities are drawn) of average total assets as at year end 2003. The IFSRA requires Irish banks to maintain a minimum liquidity ratio of 25%.

Solid Capital Levels

The bank's Tier 1 and total capital ratios amounted to 8.5% and 11.5% as at year end 2003. We regard these capital levels as solid given the mix of business undertaken by AIBC. Perhaps more importantly, capital replenishment has not been a problem for the bank despite its high growth rates. Indeed, internal capital growth is very strong and has averaged 26% over the last five years.

Related Research

Banking Statistical Supplement

[Ireland, September 2003\(79226\)](#)

Banking System Outlook

[Banking System Outlook: Ireland, October 2003\(79864\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

² In addition to encouraging organic growth, AIBC has acquired First Active's UK deposit book.

Anglo Irish Bank Corporation Plc

	30/09/2003	30/09/2002	30/09/2001	30/09/2000	30/09/1999
Summary Balance Sheet (EUR million)					
Cash & central bank	0	0	0	0	0
Due from banks	5,799	3,888	3,387	2,213	1,470
Securities	1,370	1,465	950	742	704
Gross loans	17,580	13,649	11,187	7,993	5,720
Loan loss reserves (LLR)	(281)	(256)	(212)	(161)	(107)
Insurance assets	272	79	56	0	0
Fixed assets	33	28	29	23	19
Other assets	754	564	379	238	131
Total assets	25,526	19,418	15,776	11,047	7,935
Total assets (USD million) [1]	29,603	19,049	14,350	9,712	8,452
Total assets (EUR million)	25,526	19,418	15,776	11,047	7,935
Demand deposits	3,667	2,403	1,658	864	677
Savings deposits [2]	10,911	9,433	7,205	5,608	3,767
Due to banks	3,290	3,097	3,764	2,452	2,484
Market funds	4,558	1,919	1,217	928	129
Insurance liabilities	272	79	56	0	0
Other liabilities	578	465	302	246	179
Total liabilities	23,275	17,397	14,201	10,098	7,236
Subordinated debt	429	467	477	329	170
Shareholders' equity	917	710	492	327	261
Total capital funds	2,252	2,021	1,575	950	700
Total liabilities & capital funds	25,526	19,418	15,776	11,047	7,935
Derivatives - notional amount	46,151	27,967	24,490	8,073	6,040
Derivatives - replacement value	494	421	230	113	60
Contingent liabilities	3,802	3,186	2,779	1,858	1,322
Risk weighted assets (RWA)	-	-	-	-	-
Assets under management (EUR million) [3]	0	0	0	0	0
Number of employees	1,031	901	807	666	538
Summary Income Statement					
+Interest income	1,061	990	948	735	487
-Interest expense	647	643	678	530	341
=Net interest income	414	347	270	205	146
+Trading income	6	4	6	3	3
+Fee & commission income	140	112	99	63	42
+Insurance income (net)	0	0	0	0	0
+Other operating income	11	9	7	3	3
=Operating income	571	472	383	273	194
-Personnel expenses	106	90	72	56	40
-Other operating expenses	49	43	37	28	25
= Operating funds flow	416	339	273	190	130
-Amortisation/depreciation	12	12	8	5	4
(Total operating expenses)	167	145	118	89	69
=Preprovision income (PPI)	404	327	265	185	126
-Loan loss provisions	58	66	70	51	37
+Other non operating adjustments [4]	0	0	(0)	0	0
+Extraordinary profit / loss	0	0	0	0	0
=Pretax income	347	261	195	134	89
-Taxes	76	59	44	25	15
=Net income	270	203	151	109	74
-Minority interests	17	19	23	25	16
=Net income (group share)	253	184	128	84	59
Growth Rates (%)					
Gross loans	28.80	22.01	39.97	39.74	59.28
Total assets	31.46	23.08	42.80	39.22	42.68
Customer deposits (demand and savings)	23.16	33.56	36.94	45.60	37.61
Net interest income	19.34	28.72	31.34	40.45	55.07
Fee and commission income	24.98	12.37	57.78	49.29	72.20
Operating expenses	15.63	22.65	32.77	29.45	45.23
Preprovision income	23.59	23.50	43.39	46.74	67.08
Net income	37.66	43.97	52.32	42.69	54.36
Income Statement in % Average Risk Weighted Assets					
Net interest income	-	-	-	-	-
Trading income	-	-	-	-	-
Fee and commission income	-	-	-	-	-
Insurance income	-	-	-	-	-
Operating income	-	-	-	-	-
Operating expenses	-	-	-	-	-
Preprovision income	-	-	-	-	-
Loan loss provisions	-	-	-	-	-
Extraordinary profit	-	-	-	-	-
Net income	-	-	-	-	-

Anglo Irish Bank Corporation Plc

	30/09/2003	30/09/2002	30/09/2001	30/09/2000	30/09/1999
Liquidity, Funding (including sub debt) & Balance Sheet Composition					
Avg. liquid assets % avg. total assets	27.86	27.53	27.19	27.02	30.44
Avg. gross loans % avg. total assets	69.48	70.57	71.50	72.24	68.98
Avg. customer deposits % avg. total funding	65.75	65.42	62.58	62.71	62.04
Avg. interbank funds % avg. total funding	15.90	21.69	25.37	28.36	32.62
Avg. market funds (excl. interbank) % avg. total funding	16.12	9.91	8.76	6.07	2.43
Avg. sub debt % avg. total funding	2.23	2.98	3.29	2.86	2.90
Avg. liquid assets % avg. customer deposits	47.40	46.81	47.56	46.98	53.53
Avg. gross loans % avg. customer deposits	118.23	119.99	125.08	125.61	121.32
Avg. market funds reliance [5]	(20.00)	(26.52)	(26.62)	(30.55)	(42.43)
Avg. RWA % avg. total assets	-	-	-	-	-
Breakdown of Operating Income in %					
Net interest income % operating income	72.48	73.57	70.44	75.05	75.15
Trading income % operating income	1.12	0.74	1.65	0.95	1.49
Fee & commission income % operating income	24.44	23.69	25.98	23.04	21.71
Insurance income % operating income	0.00	0.00	0.00	0.00	0.00
Other operating income % operating income	1.96	1.99	1.93	0.95	1.65
Profitability					
Yield on avg. earning assets (%)	4.85	5.74	7.16	7.80	7.25
Cost of interest bearing liabilities (%)	3.22	4.07	5.54	6.08	5.51
Net interest margin (%)	1.89	2.01	2.04	2.18	2.18
Recurring earning power (PPI % avg. assets)	1.80	1.86	1.97	1.94	1.86
Risk-weighted recurring earning power (PPI % avg. RWA)	-	-	-	-	-
Post-provision income % avg. assets	1.54	1.48	1.45	1.41	1.32
Post-provision income % avg. risk weighted assets	-	-	-	-	-
Return on average assets (%)	1.20	1.15	1.13	1.15	1.10
Return on avg. RWA (%)	-	-	-	-	-
Post-provision income % tier 1 capital	-	-	-	-	-
Return on equity (period end) (%)	27.61	25.93	25.98	25.64	22.52
Net interest income coverage of loan loss provisions	7.20	5.29	3.87	4.02	3.98
Loan loss provisions % preprovision income	14.23	20.07	26.33	27.63	29.17
Pre-tax income % operating income	60.66	55.42	50.91	48.87	45.83
Internal capital growth (%)	27.02	29.21	30.10	23.44	22.53
Dividend payout ratio (%)	24.32	21.90	22.93	27.06	30.61
Efficiency					
Cost/income ratio (operating expenses % operating income)	29.27	30.67	30.82	32.48	35.29
Operating expenses % average assets	0.74	0.82	0.88	0.94	1.02
Operating income / employee (EUR thousand)	554.03	523.31	474.10	410.51	361.34
Operating expenses / employee (EUR thousand)	162.17	160.49	146.10	133.33	127.51
PPI / employee (EUR thousand)	391.85	362.82	328.00	277.18	233.83
Asset Quality and Risk Measurement					
Problem loans % gross loans	0.74	0.77	-	-	-
LLR % problem loans	217.01	243.71	-	-	-
LLR % gross loans	1.60	1.87	1.90	2.02	1.87
Loan loss provisions % gross loans	0.33	0.48	0.62	0.64	0.64
Problem loans % (shareholders' equity + LLR)	10.79	10.88	-	-	-
Replacement value % shareholder's equity	53.82	59.29	46.68	34.66	22.90
Capital Adequacy (Period End)					
Tier 1 ratio (%)	8.50	8.25	6.80	6.96	8.00
Hybrid capital % tier 1 capital	-	-	-	-	-
Total capital ratio (%)	11.50	12.70	12.18	10.64	11.00
Shareholders' equity % total assets	3.59	3.65	3.12	2.96	3.29
Equity participations % shareholders' equity	-	-	-	-	-

[1] USD and EUR figures use historical exchange rate against the EUR

[2] Full disclosure may not be available for all years. The amount is then included in "demand deposits".

[3] As reported by the bank

[4] This may include value adjustments of securities.

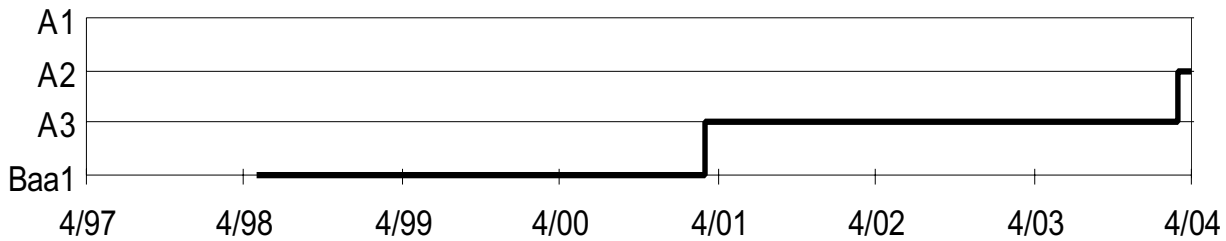
[5] Avg. [(market funds-liquid assets) % (earning assets-liquid assets)]

Description	Coupon (%)	Currency	Face Amount (mil)	Maturity	Moody's Rating
Anglo Irish Bank Corporation Plc					
Issuer Rating	-	-	-	-	A2
Flt Rt Euro Medium Term Notes	-	USD	25	2004	A2
Flt Rt Euro Medium Term Notes	-	GBP	30	2004	A2
Flt Rt Euro Medium Term Notes	-	EUR	15	2004	A2
Flt Rt Euro Medium Term Notes	-	EUR	30	2004	A2
Flt Rt Euro Medium Term Notes	-	EUR	150	2004	A2
Euro Medium Term Notes	-	HKD	70	2004	A2
Euro Medium Term Notes	2.345	EUR	50	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	500	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	15	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	55	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	100	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	100	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	150	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	50	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	100	2005	A2
Flt Rt Euro Medium Term Notes	-	GBP	100	2005	A2
Flt Rt Euro Medium Term Notes	-	-	52	2005	A2
Flt Rt Euro Medium Term Notes	-	GBP	50	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	110	2005	A2
Flt Rt Euro Medium Term Notes	-	EUR	500	2006	A2
Flt Rt Euro Medium Term Notes	-	GBP	9	2006	A2
Euro Medium Term Notes	2.245	HKD	100	2006	A2
Flt Rt Euro Medium Term Notes	-	GBP	4	2007	A2
Euro Medium Term Notes	5.453	GBP	34	2007	A2
Flt Rt Euro Medium Term Notes	-	USD	60	2007	A2
Flt Rt Euro Medium Term Notes	-	EUR	11	2008	A2
Euro Medium Term Notes	4.340	GBP	34	2008	A2
Flt Rt Euro Medium Term Notes	-	EUR	20	2008	A2
Flt Rt Euro Medium Term Notes	-	EUR	5	2008	A2
Flt Rt Euro Medium Term Notes	-	EUR	15	2008	A2
Flt Rt Euro Medium Term Notes	-	GBP	9	2008	A2
Flt Rt Euro Medium Term Notes	-	-	50	2008	A2
Sub. Flt. Rt. Euronotes	-	EUR	150	2011	A3
Commercial Paper	-	-	-	-	P-1
Euro MTN Program	-	EUR	2,000	-	A2/A3/P-1
Long-Term Bank Deposit Rating	-	-	-	-	A2
Bank Financial Strength Rating	-	-	-	-	C+
Short-Term Bank Deposit Rating	-	-	-	-	P-1
Anglo Irish Asset Finance PLC					
Perp. Gtd. Sub. Var. Rt. Non-Cum. Capital Secs. [1]	-	GBP	200	-	Baa1
7.625%Per.Gtd.Sub.Non-Innovative Capt.Sec.(TONICS) [1]	-	GBP	250	-	Baa1
Anglo Irish Capital Funding Limited					

[1] Backed rating.

Rating History

Long-term Bank Deposits



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