



Thursday 4th December 2008

**DAILY COMPANY NOTE — Anglo Irish Bank** See page 2 & 3 for full details

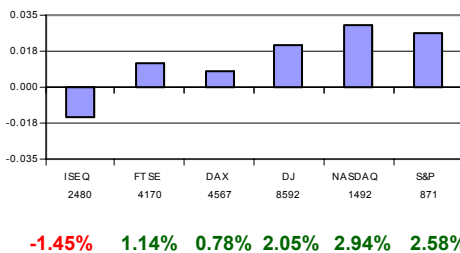
**Daily Market Comment**

**Yesterday's Summary :** Anglo Irish Bank, who reported a 37% decline in full year pre-tax profits, weighed heavily on sentiment in the Irish market yesterday, as the ISEQ closed down 36 points at 2,480. Anglo's shares closed down 28.7% at a new low of €0.67. Irish Life and Permanent also fared poorly on the day, as it bucked its recent trend of the outperforming financial to close down 11.7% at €1.44. Elsewhere, Ryanair ended the day in positive territory closing up 4.9% at €2.90.

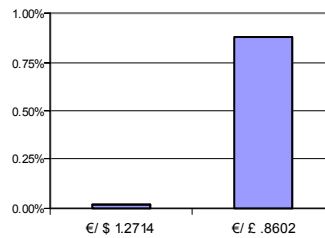
**Overnight News :** US indices posted another volatile and relatively directionless day yesterday as markets remained quiet in anticipation of central bank interest rate decisions today and Friday's non-farm payrolls. Last night the Federal Reserve's beige book report reiterated that the US continues to drop deeper into recession. Dow Jones: +2.1% at 8,592, S&P 500: +2.6% at 871, NASDAQ: +2.9% at 1,492.

**Breaking News :** Media speculation this morning has suggested that **Apax Partners** is the latest to join a handful of private equity groups considering a politically sensitive investment in **Bank of Ireland**. **Easyjet** has reported an increase of 3.4% in passenger numbers for November and a load factor of 83.9%, increasing 3.1% from the same period a year earlier. **Credit Suisse** this morning announced it had lost a net US\$2.5bn in the two months to the end of November and would axe about 11 per cent of its workforce, principally in investment banking. The lay-offs comprise 5,300 internal positions and a further 1,200 jobs held by contractors in support functions, such as information technology. **Sweden's** central bank cut interest rates by an unprecedented 175 basis points to 2% this morning. The cut was nearly twice analyst expectations.

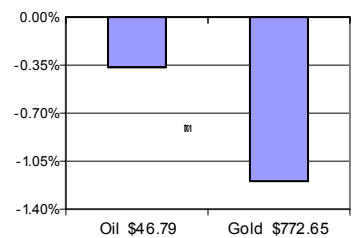
**Equity Indices change on day**



**Currency daily % change**



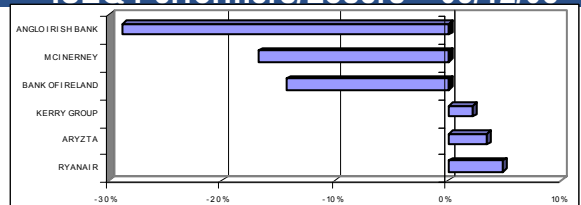
**Oil/Gold daily % change**



**News**

- "Anglo Irish sets aside €2bn-plus to cover bad debts"-(Irish independent)
- "ECB and BoE set to cut rates today in new bid to revive economies"-(I.I)
- "Brown throws homeowners a mortgage lifeline"-(Financial Times)
- "Paulson considers request for bailout funds"-(The Wall Street Journal)
- "Jobless rate jumps to 7.8% in November"-(The Irish Times)

**ISEQ Performers/Losers 03/12/08**



**Market Themes & Movers**

**All eyes on ECB and BoE :** The European Central Bank and the Bank of England will announce their latest interest rate decisions today and expectations are for both to reduce rates aggressively. The ECB to expected to reduce borrowing costs by 0.5% to 2.75%, representing a two year low, while the Bank of England are anticipated to lower rates to 2.00% from 3.00%. There is however forecasts for a larger cuts, with some economists anticipating a 0.75% reduction in European interest rates and 1.50% reduction in British rates. The ECB meeting will take place in Brussels and its decision will be announced at 12:30pm, while the Bank of England will release theirs at noon. With the 15 nation economy spiraling into recession, economists are indicating it is time for the ECB to respond more forcefully to the financial crisis. Manufacturing and service industries contracted at the fastest pace on record in November and economic confidence plunged to a 15 year low. The International Monetary Fund predicts the euro region economy will shrink by 0.5% in 2009, while ECB president Jean Claude Trichet will release its revised growth and inflation projects at today's press conference.



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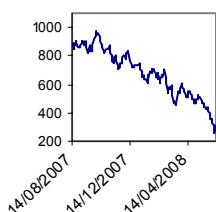
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# Anglo Irish Bank

**ISEQ**
**Bank**
**Company Profile**

The Group's principal activity is providing banking and other financial services in the United Kingdom and overseas. The Group has five divisions, Retail, Corporate, Insurance & Investment, International and Treasury & Asset Management. Retail includes customer bank accounts, consumer credit and advances.

**Statistics**
**Price Performance**

**Revenue by Region**


- Retail 34%
- Corporate 38%
- Insurance Invt. 11%
- International 13%
- Treasury Asset Mgt.

**Fundamental view**

- Anglo Irish Bank (Anglo) released full year results yesterday reporting a 34% fall in profits. EPS for the year was 88.4c compared to the market consensus of 147c mainly due to a €500m general bad debt provision the bank has put in place. The general provision is to allow Anglo to smooth out the impact of increased bad debts over the next number of years.
- Net Interest Margin (NIM) improved from 1.96% to 2.01%, but the gain in NIM was due to higher loan repricing and we would estimate a large part of this is from restructuring client's deals that are on the watch list. Net interest margin, as with other Irish banks, will fall over the next year as term funding begins to reprice.
- Specific impairments for the year were higher than guided by management earlier in the year at 0.31% or €224m with the majority of these from the commercial and residential development loan books and 49% of the bad debts were from Ireland with 44% from the UK.
- Core Tier 1 capital ratio at the end of September was 6.7% including the general provision of €500m and excluding this provision was 5.9%. Anglo has suspended its dividend to preserve capital and is aiming to increase core Tier 1 to a range between 7.5% and 8.5% within the next three years. No guidance was given on how this is going to be achieved, but all capital options will be examined and the strong internal capital generation would help achieve this target. With investors demanding higher capital ratios now, the scope for Anglo to wait to grow capital ratios organically is limited.
- On funding, deposits grew by 3.8% over the year and were affected by the volatility in Irish banks in September. When compared to the first 6-months of the year, deposits fell by 5.6% and the loan to deposit ratio was 1.25x in March and had deteriorated to 1.45x at the end of September. At the investor presentation it seems the growth in deposits were behind the growth in the loan book as the current loan to deposit figure was not disclosed.

**Valuation**

- Anglo expects a difficult trading conditions next year due to the slowdown in all three of its major markets with an expected recovery in 2011. The bank aims to reduce its reliance on inter-bank funding over the next three years and lower its loan to deposit ratio to 1.0x during that period. Management guided loan growth in FY09 will be in percentage terms low single digit and we would estimate similar levels until 2011.
- While the majority of problem loans are commercial and residential development, management have guided on the percentage of loans in other portfolios on watch. Business Banking has 4.1% of loans on watch and Retail investment in the UK is at 7%. With the retail sector suffering in the UK and property prices falling, this sector will cause problems for all banks in 2009.
- The issues for Anglo relate to the level of bad debts they will face over the next three years. If AIB and BOI impairment levels are used on Anglo's loan book the impairment increases to circa 1.90% (€1.39Bn), significantly higher than their guided worst case of 1.20% (€878m). Anglo argue they have recourse to all assets of the borrower and have a close relationship with the client that allows them to take action quickly if the loan gets into difficulty.
- Management have guided they wish to raise core tier 1 capital to a range between 7.5% and 8.5% within the next 3-years. Increasing core capital to 8% through a rights issue would result in Tangible Net Asset Value (TNAV) falling to €1.30 from €5.50 due to the large amount of shares that must be issued assuming a 20% discount to the current share price. The level of cash required excluding the €500m general provision would be €1.75Bn.
- Based on this potential dilution and the lack visibility on earnings, dilution or bad debts for the next year, we remain negative on the stock and believe the level of impairments will be higher than management guidance putting pressure on profitability for Anglo over the next 2-years.
- Due to the fall in the share price we are lowering our price target to €1.30 to take into account the potential dilution from a capital raise at the current depressed share price. We maintain our hold rating on the stock and see no catalyst that will drive the share price while the uncertainty over impairments and earnings remain.

Major Shareholders		Peer Group Multiples.			
	%	Company name	P/E 08	P/E 09	EPS Growth 08-09
Invesco	7.15%	<b>Anglo Irish Bank</b>	0.7	1.7	-60.23%
Janus Capital Mgt.	7.13%	AIB	1.1	1.7	-37.13%
Lehman Brothers	4.81%	Bank of Ireland	0.8	1.8	-55.68%
Janus Capital Mgt. Overseas	3.48%				
Axa	2.09%				

Shares Outstanding 759.15m

Share Data		Financial Data		
		2007	2008	2009e
Current Price (€)	0.60	PBT (€m)	1,243	784
Mkt Cap (€m)	456	EPS (€)	1.28	0.88
Reuters	ANGL.I	P/E(x)	9.70	0.68
Bloomberg	ANGL ID	DPS (€)	0.19	0.08
Sector	Bank	Dividend Yield	1.46%	12.97%
CEO	David Drumm			
Chairman	Seán Fitzpatrick			
Website	<a href="http://www.angloirishbank.com">www.angloirishbank.com</a>			





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