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Market Movers

IRISH PAPERS TODAY

State expects Nama to pay taxpayer €5.5bn profit by 2020
(The Irish Times)

Liquidator appointed to troubled Zoe Group
(The Irish Times)

Irish economy's long term debt gap soars to €27bn
(Irish Independent)

INTERNATIONAL PAPERS TODAY

JP Morgan profits lift the Dow
(Financial Times)

Hurdle for Lloyds rights issue
(Financial Times)

J.P. Morgan profits leaps to \$3.59 billion
(The Wall Street Journal)

Market View

Analyst : Stephen Taylor

European equity markets are slightly lower this morning giving back some of yesterday's strong gains following better than expected results from JPMorgan and German chemical maker BASF. It indicated that earnings for the third quarter would be ahead of expectations driven by strong demand from China. Third quarter earnings season are continuing to surprise to the upside with companies becoming more optimistic about the economic outlook. The bar however has been placed even higher for companies that are due to report over the coming month and they must continue to beat expectations for equity markets to continue their strong run. Focus will again be on economic data and corporate earnings today. On the economic front CPI data out of both the Euro-Zone and US will be closely watched. More importantly however will be jobless claims figures in the US, in addition to manufacturing data in the form of Empire State and Philadelphia manufacturing figures. On the corporate front both Goldman Sachs and Citigroup are due to report third quarter earnings before the US market opens. The main focus for Goldman will be on its trading and investment banking arm, while the market will be paying close attention to losses at Citigroup's consumer related divisions. In Europe Nokia is due to report at 11am. The main focus will be on the group's average selling price that has been in decline due to increased competition from Apple and Research in Motion at the higher end of the market. As a result Nokia has continued to increase its exposure to lower end handsets as it has increased its exposure to emerging markets.

JP Morgan : Buy Current Price: (\$45.66) Price Target:(\$53.00) Analyst : Oliver Gilvarry

JPM reported much stronger results than expected yesterday with EPS for Q3 coming in at 82c versus consensus estimates of 51c. The beat on estimates was driven by the third straight quarter of fixed income revenues of \$5bn. The results also included circa \$900m of gains related to investment portfolios. Credit cost expectations for prime and sub prime mortgages were unchanged, but credit card losses are expected to increase to 11% in Q1 of next year. Management have stated they are seeing some signs of consumer credit stabilisation, but they remain cautious on whether this trend will continue. They believe they will remain elevated for the foreseeable future in consumer lending and credit cards. On capital tier 1 common equity increased from 7.7% in Q2 to 8.2% in this quarter, which was stronger than expected. JPM still retains one of the strongest capital positions of any of its peers. CEO of JPM, Jamie Dimon, did state in the conference call that when they are confident the economy will not have another leg down, the bank will look to increase its dividend payout from the current 20c to a range of 75c to \$1. From that point the payout will move to 30-40% of earnings. Following yesterday's strong results we remain positive on JPM and it is our preferred US bank. Later today Goldman Sachs reports Q3 earnings at 12.30 Irish time and Citigroup reports at 1.00.

Nama Update: Business Plan Released

Analyst : Oliver Gilvarry

Last night the NAMA bill passed the second stage in the Dáil and the Minister for Finance also released the draft NAMA business plan. The plan includes an estimate of how much NAMA will make on the loans transferred over a 10-year period. Based on cashflow protections, the agency will make a positive cashflow of €5.48bn and this equals €4.8bn in today's money. The cashflow is based on the assumption that 20%, or €15bn of the loans transferred to NAMA will default, with a recovery of €4bn on those loans. On the transfer of loans, 78% of the book value of the loans will be transferred by April of next year, with all loans fully transferred by July next. On staffing, the agency will only have a maximum core staff of 75 people with the primary servicing of loans to be outsourced to the participating institutions. These institutions will have to establish a segregated unit to manage NAMA loans with access to the NAMA database limited to those staff and NAMA officials. Major credit decisions will be taken by the NAMA Credit Committee and credit managers. Decisions on the largest 150 borrowers will be taken solely by NAMA, but for other borrower's routine credit decisions will be taken "on the basis of delegated authority from NAMA to the various institutions." The details in the Business Plan are not vastly different than what has been discussed previously in the market. The positive for the Irish banks is that the bill has passed the second stage and will be in force within the next number of weeks, decreasing the uncertainty over the Irish banking system. This could also allow certain banks look to the market for fresh capital before Christmas.

Paddy Power :Under Review

Current Price:(€21.70)

Analyst :Edward Keeling

PartyGaming released its Q3 trading update this morning and the online gaming group reported third quarter revenue of \$112.7m, down from \$117.7m last year and slightly behind consensus estimates. Poker revenue continued its downward trend, posting a 30% decline on last year to \$45.1m. Its casino division continues to go from strength to strength posting revenue of \$49.2m, while reflecting unfavourable sporting results, its sportsbook revenue fell 18% year on year. The group reiterated its guidance for full year EBITDA margins of 31% and has said that Q4 has started strongly. Overall it is confident about its full year outlook. We remain very positive on the future prospects for Paddy Power. Its entry into the Australian market has provided the group with very attractive growth opportunities and with a very healthy net cash position of c.€65m, it will surely be eyeing up any other potential acquisition opportunities. In addition, it is rolling out further expansion into the UK retail market on favourable terms as competitors continue to scale back. However considering the run the shares have had up to our price target, we are placing the group under review and will issue a full company note over the coming weeks.



C&C: Neutral

Current Price: (€2.70)

Analyst : David Dunk

In a trading update for the first six months of the year, SABMiller has said that underlying sales volumes declined by 1% over the period. The London based brewer indicated that its financial performance was in line with expectations, with price increases helping to offset some of the decline in demand for its products. Strong performances from both its Asia and Africa operations were offset by weak volumes in Europe and Latin America. In other news, Belgian brewer Anheuser-Busch InBev has announced that it will sell its Central European operations for \$2.2bn to CVC capital partners. AB InBev has been selling assets to pay down the \$45bn in debt it took on to buy Anheuser-Busch last year

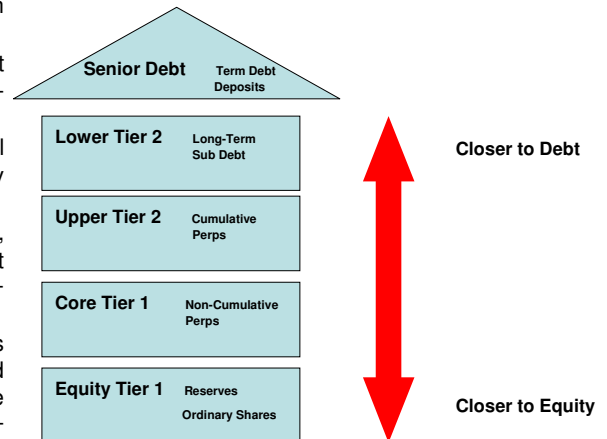
BOI & AIB Senior Debt Buy

15th October 2009



Analyst: **Oliver Gilvarry**

- Following the announcement of the details surrounding NAMA a month ago, both AIB and BOI have issued senior unsecured debt with maturities outside the Government guarantee period.
- In the case of AIB, the bank issued a 3-year bond maturing on the 1st of October 2012. The bond is paying a coupon of 4.50% and is currently trading at €100.25 with a yield of 4.40%.
- The BOI issuance was for 3.5 years and matures on the 8th of April 2013 and pays an annual coupon of 4.625%. The bond is currently trading at €100.65 and yields 4.40%.
- Both of these bonds are senior unsecured debt and in credit terms, rank the same as deposits. Both deposits and senior unsecured debt rank the same in the capital structure of a bank, at the top of the capital structure. This can be seen in the diagram to the right.
- The ability of the banks to issue such debt without a guarantee was facilitated by the terms applied in transferring loans into NAMA and the breakdown of the loans moving into the agency. AIB will move €24bn of assets into NAMA and BOI will move €16bn. As a percentage of their land and development loan books, BOI and AIB are moving 84% and 72% respectively.
- Following the release of the NAMA details, both AIB and BOI released Interim Management Statements (IMS). AIB's statement announced it will aim to raise €2bn of capital over the next 12-18 months from sources such as the equity market, strategic investors or asset sales/business disposals. Sale of M&T would raise circa €500m with a sale of its Polish assets generating €1bn in new capital, still leaving a shortfall in capital.
- BOI's statement provided an up-date on trading conditions with the group noting that conditions are still difficult. Underlying operating profit for the first six months of this year was guided to be lower year on year. It increased its impairment guidance from €6bn over the cycle to €7bn. The increase in guidance is mainly due to land and development loans, but issues are starting to appear on the SME and Corporate loans books.
- BOI have also stated it aims to reduce its reliance on ECB and BOE funding from €17bn to €10bn by the end of September. Highlighting Bank of Ireland's ability to attract deposits and wholesale funding.
- On capital the group is aiming for an equity tier 1 of between 5-6% over the current cycle. Management implied on its conference call that accessing equity markets was unlikely until NAMA was fully in place. The timeline for this is roughly the end of October to early November.
- In our opinion both AIB and BOI will look to raise ordinary equity in the short term to increase capital ratios to help absorb the losses from the removal of loans into NAMA and the credit losses from the residual loan books.
- The support provided by the Government to both banks and the likely equity raises are both credit positive for AIB and BOI.
- Of the two banks our preference in credit terms is BOI. Its higher quality loan book and the higher percentage of land and development loans that will be transferred into NAMA compared to AIB is another positive.
- Despite the difference in both banks in credit terms, the difference in yields does compensate for the extra risk and we have a BUY rating on both bonds.
- With NAMA removing problem loans from Irish banks balance sheets and providing them with a large amount of liquidity through NAMA bonds, we expect interest rates paid on deposits to fall over the next number of months. The attractive returns offered on both of these bonds offers a way for investors to lock in attractive yields in a low interest rate environment.



BOI 5 Year CDS spreads



AIB 5 Year CDS spreads





International Equity Markets

| Index | Value | 1-Day | YTD |
|-----------|--------|-------|-------|
| ISEQ | 3,322 | 1.5% | 42.2% |
| FTSE | 5,256 | 2.0% | 18.5% |
| Dow Jones | 9,871 | -0.1% | 14.1% |
| S&P | 1,073 | -0.3% | 20.9% |
| Nikkei | 10,060 | -0.2% | 15.6% |
| Stoxx 50 | 2,951 | 2.5% | 20.8% |

Sector Performances

| Sector | Index | 1-Day | YTD |
|--------------|-------|-------|------|
| Construction | 277 | 2.0% | 1.5% |
| Technology | 198 | 1.7% | 3.7% |
| Oil & Gas | 312 | 2.7% | 2.8% |
| Financials | 240 | 3.5% | 2.3% |
| Retail | 223 | 0.8% | 1.5% |
| Food & Drink | 270 | 0.1% | 3.9% |

Commodity Prices

| Commodity | Index | 1-Day | YTD |
|-----------|---------|-------|--------|
| Crude Oil | 75.2 | 1.4% | 30.4% |
| Copper | 284.5 | 1.8% | 97.0% |
| Gold | 1,062.4 | -0.2% | 19.8% |
| Silver | 17.9 | 0.4% | 57.2% |
| Wheat | 513.0 | 0.3% | -24.4% |
| Cattle | 85.6 | 1.1% | -5.2% |

Currency Exchange Rates

| Commodity | Index | 1-Day | YTD |
|-----------|---------|-------|-------|
| €/\$ | 1.492 | 0.5% | -6.5% |
| €/£ | 0.934 | 0.1% | 3.0% |
| £/\$ | 1.598 | 0.3% | -9.2% |
| \$/JPY | 89.445 | -0.3% | 1.4% |
| €/JPY | 133.464 | 0.2% | -5.3% |
| €/SFR | 1.515 | -0.2% | -1.4% |

5Yr Credit Spreads

| Commodity | Index | 1-Day | YTD |
|--------------|-------|-------|--------|
| Invest Grade | 88.0 | -7.1% | -50.8% |
| High Yield | 488.5 | -6.4% | -54.6% |
| Financials | 69.6 | -7.1% | -42.0% |
| BoI | 172.1 | -0.5% | -31.3% |
| AIB | 176.2 | -0.4% | -12.4% |
| RBS | 106.7 | -3.3% | -20.2% |

Money Market Rates

| Rate | EUR | UK | US |
|-----------|------|------|------|
| Overnight | 0.6% | 0.4% | 0.2% |
| 3-Month | 0.7% | 0.6% | 0.3% |
| 1-Year | 1.3% | 0.9% | 0.6% |
| 2-Year | 1.8% | 1.8% | 1.3% |
| 5-Year | 2.7% | 3.1% | 2.7% |
| 10-Year | 3.5% | 3.8% | 3.6% |

Date Company Region Event

| Date | Company | Region | Event |
|------------|--------------------------|--------|-----------|
| 15/10/2009 | Nokia Oyj | FI | Q3 |
| 15/10/2009 | Carrefour SA | FR | Q3 SALES |
| 15/10/2009 | Iberia Lineas Aereas de | ES | TRAFFIC |
| 15/10/2009 | Roche Holding AG | CH | Q3 SALES |
| 15/10/2009 | Ashmore Group Ltd | GB | TRADE |
| 15/10/2009 | Mothercare PLC | GB | Q2 TRADE |
| 19/10/2009 | St Ives PLC | GB | PRELIM |
| 19/10/2009 | L'Oreal SA | FR | S/HOLDERS |
| 19/10/2009 | BB&T Corporation | US | Q3 |
| 19/10/2009 | Hasbro, Inc. | US | Q3 |
| 19/10/2009 | Texas Instruments | US | Q3 |
| 19/10/2009 | Zions Bancorp | US | Q3 |
| 19/10/2009 | Apple Inc. | US | Q4 |
| 20/10/2009 | Total SA | FR | S/HOLDERS |
| 20/10/2009 | BNY Mellon | US | Q3 |
| 20/10/2009 | DuPont | US | Q3 |
| 20/10/2009 | M&T Bank Corporation | US | Q3 |
| 20/10/2009 | Pfizer | US | Q3 |
| 20/10/2009 | State Street Corporation | US | Q3 |
| 20/10/2009 | The Coca-Cola Co. | US | Q3 |
| 20/10/2009 | UnitedHealth Group Inc. | US | Q3 |
| 20/10/2009 | Western Union Co. | US | Q3 |
| 20/10/2009 | Yahoo, Inc. | US | Q3 |

Date Event Region Estimate

| Date | Event | Region | Estimate |
|------------|--------------------------------|--------|----------|
| 15/10/2009 | ECB Publishes Oct. Monthly Rep | EC | -- |
| 15/10/2009 | Euro-Zone CPI (MoM) | EC | 0.10% |
| 15/10/2009 | Consumer Price Index (MoM) | US | 0.20% |
| 15/10/2009 | Initial Jobless Claims | US | 525K |
| 15/10/2009 | Empire Manufacturing | US | 18 |
| 15/10/2009 | Philadelphia Fed. | US | 12 |
| 16/10/2009 | Euro-Zone Trade Balance | EC | -- |
| 19/10/2009 | Rightmove House Prices (MoM) | UK | -- |
| 19/10/2009 | Construction Output SA MoM | EC | -- |
| 19/10/2009 | NAHB Housing Market Index | US | -- |
| 20/10/2009 | Producer Prices (MoM) | GE | -- |
| 20/10/2009 | Producer Prices (YoY) | GE | -- |
| 20/10/2009 | Public Sector Net Borrowing | UK | -- |
| 20/10/2009 | M4 Money Supply (MoM) | UK | -- |
| 20/10/2009 | Producer Price Index (MoM) | US | -0.30% |
| 20/10/2009 | Housing Starts | US | 607K |
| 20/10/2009 | Building Permits | US | 590K |
| 20/10/2009 | Bank of Canada Rate | CA | -- |
| 20/10/2009 | ABC Consumer Confidence | US | -- |
| 21/10/2009 | Bank of England Minutes | UK | -- |
| 21/10/2009 | MBA Mortgage Applications | US | -- |
| 21/10/2009 | Fed's Beige Book | US | -- |

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