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Market Movers

IRISH PAPERS TODAY

Lenihan says Anglo may need another €10bn of State cash
(The Irish Times)

New powers will bolster regulatory system
(The Irish Times)

Banks woes dominate the landscape
(Irish Independent)

INTERNATIONAL PAPERS TODAY

Steel prices set to soar on iron ore deal
(Financial Times)

RBS fined £28m for sharing data
(Financial Times)

Ireland sets plan to repair bank system
(The Wall Street Journal)

Market View

Analyst: Stephen Taylor

European equity markets have opened higher this morning reversing the majority of yesterday's losses as we approach the end of the first quarter. Credit Spreads on sovereign debt have stabilised after widening by c. 5% across the board yesterday following the low bid to cover ratio on Greece's 7-year bond issue. Concerns around sovereign debt are likely to continue however, we believe the economic recovery in particular in the US and Asia remains on track. Although data from the major economies of Europe has improved lately we still believe that the euro will remain under pressure given the deflationary pressure in countries such as Ireland, Greece, Spain and Italy. As a result we are continuing to recommend selling the €/USD currency pair on strength. We maintain our positive equity market outlook; however we have moved to a more market neutral approach with our preferred sectors being the cyclical energy & technology sectors in addition to increasing our exposure to healthcare sector. As for today the main focus will be on economic data out of the US. The ADP employment report will be the key event today and is expected to show 40,000 jobs were added in the US during the month of March and will provide a key read across into the non-farm payrolls number due to be released this Friday. The gain would mark the first positive reading for the ADP report since January 2008. In addition to the ADP report, Chicago PMI manufacturing data will also be closely watched.

BoI: Buy **Previous Close** €1.28 **Price Target** €1.70 **Analyst** Oliver Gilvarry

Bank of Ireland (BOI) reported results this morning for the 9-month period to the end of December. On an underlying basis, the group reported an operating profit of €1.05bn which was better than our estimate of €900m. The beat here was helped by a stronger Net Interest Margin than expected at 1.59%. The underlying loss for the group was €2.972bn again higher than our and consensus estimate of €1.5bn. This loss was driven by higher impairment charges as the bank brought forward a large level of impairment charges into the 9-month period. The impairment charge was 55% related to NAMA assets and the remainder non-NAMA. The higher impairment charge impacted on equity tier 1 which fell to 5.3% from 6.5% at the end of September. In the statement today, BOI has declared the amount of assets it will transfer to NAMA is €12.2bn from €16bn previously. On funding, the loan to deposit ratio was unchanged from the 30th of September at 1.52x. Customer deposits overall increased by 2% with the Post Office in the UK increasing by 9% in GBP terms since the end of March. When the loans transferred to NAMA are taken into account, the loan to deposit ratio falls to 1.41x. Divisional performances were mixed with operating profit in Retail Ireland falling by 61% since March. BOI Life had a good performance compared to last year, helped by better investment valuation variances. UK financial Services operating profit fell by 42% yoy and finally Capital Markets operating profit fell by 36% since the end of March. On capital, the management state there is a robust investment case and the bank is in discussion with a number of international banks to maximise private investor involvement in the required capital raise of €2.7bn. The capital raise will begin once the European Commission come back on its business plan. Some Government preference shares will be converted into ordinary equity and as part of this process, the bank will look to redeem the outstanding warrants held. The results today have been overshadowed by the announcements yesterday. In our opinion, the Government stake in BOI will be sub 50%. It also will have first mover advantage in launching a rights issue compared to AIB. We remain buyers of BOI and increase slightly our price target to €1.70 as we see the bank as the main winner from the Minister's announcement yesterday.

Diversified Miners

Analyst Brian Gallagher

Yesterday's announcement that Vale will sell iron ore to Japanese and Chinese steelmakers using a quarterly system based off spot rates is a significant breakthrough for diversified miners. The new system will replace a 40 year old process in which miners sold ore to millers using an inflexible annual contract that was negotiated at the start of each year. A capitulation in global demand as a consequence of the financial crisis resulted in a situation where steelmakers failed to honour the annual contracts. This move irretrievably tarnished the integrity of the annual system and swung the pricing inertia towards the miners who have since used their improved bargaining position to push through a system that is more volatile but more transparent. The magnitude of yesterday's announcement is highlighted by estimates that the three largest producers of iron (Rio Tinto, BHP Billiton & Vale) were losing \$20bn a year as a result of the old system. Furthermore, we believe that from a purely geographical perspective, the switch to spot prices will benefit Australian miners more as it will allow them to negotiate better terms with their customers as a result of their closer proximity to the end users. We continue to recommend diversified miners with BHP Billiton and Rio Tinto our preferred picks given their superior earnings momentum and exposure to China.

IL&P: Buy **Previous Close** €2.84 **Price Target** €5.55 **Analyst** Oliver Gilvarry

Yesterday, Irish Life & Permanent (IL&P) released a statement indicating that based on initial discussions with the Regulator in respect of likely capital requirements for the Group as currently structured, it expects its current capital resources to be sufficient to withstand anticipated base case and stress test scenarios. However, comments from the Minister for Finance were more vague in relation to a third banking force yesterday due to the uncertainties surrounding EBS and Irish Nationwide. As a result the potential creation of the third force in Irish banking will be delayed until the end of this year and as a result the stock is lacking a catalyst. We do however continue to like IL&P on a long-term basis and see value in its life book.

Irish Banking Recapitalisation



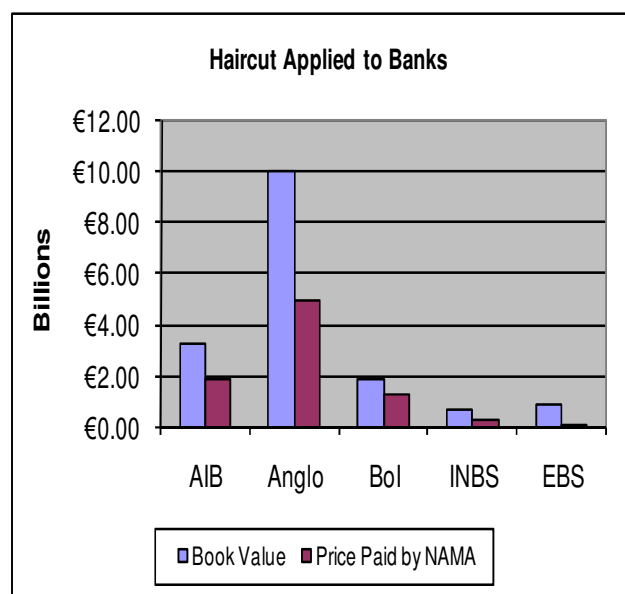
Analyst: **Oliver Gilvarry**
31st March 2010

Yesterday the Financial Regulator, Central Bank Governor and the Minister for Finance outlined the changes in the Irish banking system that have been speculated on for a number of weeks. Their statements followed the release of the first haircuts on loans transferred into NAMA in addition to the new capital requirement that are going to be imposed by the Financial Regulator. We outline details below:

Nama Transfer

NAMA is to acquire over 1,200 individual loans with a nominal value of €16bn for a consideration of €8.5bn, representing an average discount of 47% on the first tranche of loans to be transferred to the agency. NAMA has already completed the transfer of the initial tranche of loans from Irish Nationwide (INBS) and Educational Building Society (EBS) on March 29th. The agency is to transfer the first batch of loans from Bank of Ireland (BoI) on April 2nd and expects to complete the acquisition of the first tranche of loans from Allied Irish Bank (AIB) and Anglo Irish Bank (Anglo) by early April. The agency expects that the remaining loans from all five institutions will be transferred by the end of the year and no later than the end of February 2011, the deadline set by the EU Commission. The Book Value of the total loans NAMA expects to purchase is €81bn. We have outlined details of the haircuts in value terms in Figure 1.1. On a percentage basis, the discount on the first tranche of loans from AIB is 43%, Anglo 50%, BoI 35%, INBS 58%, EBS 37%. Given the extent of the initial haircuts we estimate that the remaining loans would have to be purchased at 26% discount to make the initial 30% haircut that had been estimated. Given the larger than expected size of the initial discounts, we estimate that the total haircut on the €81bn will be c. 32%.

Figure 1.1



Capital Requirements

The Financial Regulator announced the new capital requirement for Irish banks with a target of 7% equity tier one to be achieved by the end of this year. The Financial Regulator, as we have previously argued, stated that equity capital is the highest quality capital and it is the form of capital demanded by international investors. Core tier 1 is to be at 8% and the new requirement means the banks cannot fall below 4% core tier 1 in a severely stressed scenario.

The level of capital required by the banks was determined under a "Prudential Capital Assessment Review" (PCAR). The review examined a 3-year period and determined the capital needs of each bank based on expected base and potential stressed loan losses. The capital test was based on similar exercises used by UK and US regulators. It was designed to ensure the banks have enough of a capital buffer to withstand losses under "an adverse scenario significantly worse than currently anticipated."

Under the stress test, the core tier 1 capital requirement of 4% was determined to ensure the banks remain adequately capitalised even if they experience an adverse macroeconomic event or significant losses on particular loan portfolios. The Financial Regulator the required banks to test their portfolios to the higher of estimated loan losses due to a delayed macroeconomic recovery scenario and, application of severe sensitivity shocks to certain loan portfolios. This included assuming loan loss rates of 5% for mortgages in Ireland and non-NAMA development property loan losses of 60% in Ireland and 35% in the UK.

Banks now have 30-days to put forward plans on how they will raise capital to meet the target set by the Financial Regulator and the Government before year end. On the next page we have outlined the capital requirements for each bank.

AIB will require an additional €7.396bn of equity to meet the base case target of 7% equity before taking account of projected asset disposals.

BoI will require an additional €2.66bn of equity capital to meet the base case target of 7% equity.

EBS will require an additional €875m of Core Tier 1 capital to meet the base case target of 8%, in addition to contingent capital of €120m of Core Tier 1 capital to meet the stress case target of 4%.

Irish Banking Recapitalisation

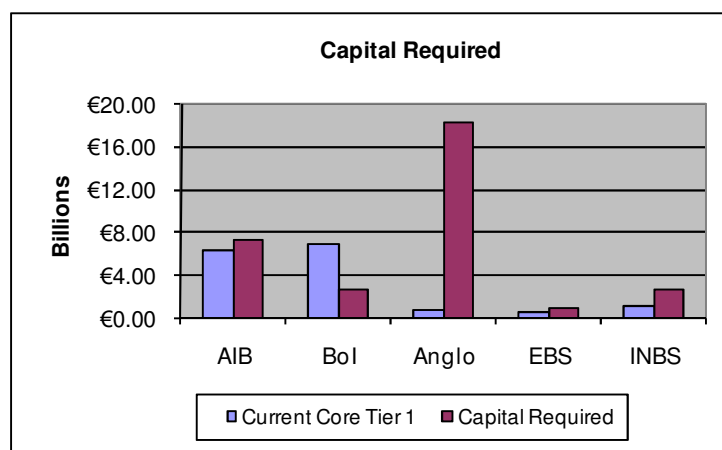


Capital Requirements (continued) :

The PCAR for **Anglo** has not yet been undertaken as the discussions on its restructuring plan between, the Bank, Government and the European Commission are still at a formative stage. As an interim measure, Anglo will require an additional €8.3bn of capital to meet current minimum capital requirements. Minister Lenihan also pointed out that Anglo will need further capital to cover future losses with the estimate potentially in the order of c. €10bn.

The Financial Regulator has estimated that the capital shortfall at **INBS** to meet current minimum capital requirements is €2.6bn.

Figure 2.1



Dolmen View From Here

Bank of Ireland :

The capital raise required of €2.7bn by BOI was higher than our expectations, but lower than media reports over the last number of days. The Minister for Finance's speech in the Dáil was more positive towards BOI and stated it is in a position to raise capital privately with some of the Government preference shares converted into ordinary equity. Of this capital raise, BOI still has options to realise capital from the significant Tier 1 and Upper Tier 2 bonds the bank still has in issue. This in our opinion could realise another €400m of capital.

The Minister for Finance also stated yesterday evening that BOI received positive news from the European Commission. This could indicate the penalties to be imposed on the group following its receipt of state aid are minimal. The key point here is that BOI may be allowed to keep its UK Business Banking operation and its Post Office JV. We remain of the opinion that BOI is a better investment than AIB, due to its lower capital requirement and retention of key non-Irish businesses.

Some uncertainties still exist surrounding the rights issue and the price the Government will pay for its stake in the bank, but a large level of uncertainty has been removed. We are now estimating a 2011 Tangible Net Asset Value (TNAV) of €1.80. Based on the lower level of uncertainty we are moving our price target to €1.70. BOI will announce a rights issue once the European Commission releases its decision on its restructuring plan, which we expect in the next number of weeks. Therefore, we remain Buyers of BOI following the announcement yesterday.

Allied Irish Bank :

Compared to BOI, the capital announcement for AIB of €7.4bn was much higher than we and the market was expecting. After the Minister's speech, AIB released a statement to the market. In the statement it makes reference to the fact the capital requirements for the bank are based on the same discount rate to the overall portfolio of NAMA loans as the discount applied to the first tranche. Banks can apply to the Regulator up to the 30th of June to revise down their capital requirements if subsequent tranches are at lower discounts or the quantum of loans moving across are lower. They imply in the statement that a lower discount could apply to further AIB loans.

On the self help options, AIB have confirmed they will sell M&T, BZWBK and the UK business. They state that these sales will raise significantly more than estimated in the market and these sales will "meet a substantial part of our overall need for capital."

AIB have confirmed they will look to raise equity before the end of this year with capital raised from private shareholders and the remainder from the Irish Government by conversion of Preference Shares into ordinary equity. While AIB has capital levers available to it, sale of its quality assets will not reach the €7.4bn needed. The sale of these businesses will mean the bank becomes totally island of Ireland focused unlike BOI which in our view will retain its UK operations.

Due to these measures we see the bank as a loser in today's announcement and we remain cautious on the stock. We do not share the view of management that the sale of its assets will be significantly higher than current estimates. Based on this we estimate TNAV for the group to be €1.30 for 2011. With the bank's profitability coming totally from a weak Irish economy at that stage it deserves to trade at a 15% discount to TNAV. Therefore, we are Neutral on the stock and would recommend a switch into BOI for existing investors.



International Equity Markets

Index	Value	1-Day	YTD
ISEQ	3,150	-0.3%	6.2%
FTSE	5,672	-0.7%	5.1%
Dow Jones	10,907	0.1%	4.6%
S&P	1,173	0.0%	5.2%
Nikkei	11,097	1.0%	5.2%
Stoxx 50	2,940	-0.3%	-0.8%

Sector Performances

Sector	Index	1-Day	YTD
Construction	278	-0.1%	0.9%
Technology	214	-0.5%	16.2%
Oil & Gas	334	0.2%	1.1%
Financials	223	-0.6%	0.7%
Retail	261	0.4%	7.1%
Food & Drink	326	0.7%	6.9%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	82.4	0.2%	1.6%
Copper	356.4	0.8%	5.2%
Gold	1,103.6	-0.6%	1.1%
Silver	17.3	-0.3%	3.4%
Wheat	472.0	1.6%	-15.7%
Cattle	93.2	0.3%	6.2%

Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.341	-0.5%	6.7%
€/£	0.890	-1.0%	-0.5%
£/\$	1.507	0.5%	7.4%
\$/JPY	92.760	0.3%	-0.2%
€/JPY	124.440	-0.2%	6.6%
€/SFR	1.431	-0.1%	3.6%

5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	71.2	0.1%	2.7%
High Yield	392.8	-0.5%	-6.6%
Financials	80.0	-0.9%	16.6%
BoI	199.9	-1.8%	-18.1%
AIB	213.2	-1.5%	-22.9%
RBS	150.5	-0.4%	8.8%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.5%	0.2%
3-Month	0.6%	0.6%	0.3%
1-Year	1.1%	1.1%	0.6%
2-Year	1.5%	1.6%	1.2%
5-Year	2.4%	2.9%	2.7%
10-Year	3.3%	3.8%	3.8%

Date	Company	Region	Event
31/03/2010	Theolia SA	FR	Q4
31/03/2010	Aareal Bank AG	DE	FINAL
31/03/2010	3U Holding AG	DE	Q4
31/03/2010	Compass Group PLC	GB	TRADE
31/03/2010	Enterprise Inns PLC	GB	TRADE
31/03/2010	Northern Foods Plc	GB	YRTRADE
31/03/2010	Xyratex Ltd	GB	Q1
31/03/2010	Finnair Oyj	FI	3/HOLDERS
01/04/2010	Mothercare PLC	GB	Q4 TRADE
01/04/2010	MAN SE	DE	AGM
06/04/2010	Banco Espirito Santo SA	PT	AGM
07/04/2010	Finnair Oyj	FI	TRAFFIC
07/04/2010	Air Berlin PLC	DE	TRAFFIC
07/04/2010	British Airways PLC	GB	TRAFFIC
07/04/2010	Chloride Group PLC	GB	TRADE
07/04/2010	Marston's Plc	GB	TRADE
07/04/2010	Speymill PLC	GB	PRELIM
07/04/2010	SAS AB	SE	AGM
07/04/2010	Family Dollar	US	Q2
07/04/2010	Monsanto Co.	US	Q2
07/04/2010	Bed Bath & Beyond	US	Q4
08/04/2010	EasyJet PLC	GB	TRAFFIC

Date	Event	Region	Estimate
31/03/2010	Producer Prices (MoM)	FR	--
31/03/2010	Unemployment Change (000's)	GE	--
31/03/2010	Unemployment Rate (s.a)	GE	--
31/03/2010	Euro-Zone Unemployment Rate	EC	--
31/03/2010	Euro-Zone CPI Estimate (YoY)	EC	--
31/03/2010	ADP Employment Change	US	--
31/03/2010	Chicago Purchasing Manager	US	--
31/03/2010	Factory Orders	US	--
01/04/2010	Retail Sales (MoM)	GE	--
01/04/2010	PMI Manufacturing	GE	--
01/04/2010	PMI Manufacturing	EC	--
01/04/2010	PMI Manufacturing	UK	--
01/04/2010	Initial Jobless Claims	US	--
01/04/2010	Continuing Claims	US	--
01/04/2010	ISM Manufacturing	US	--
02/04/2010	Change in Nonfarm Payrolls	US	--
02/04/2010	Unemployment Rate	US	--
05/04/2010	ISM Non-Manf. Composite	US	--
05/04/2010	Pending Home Sales MoM	US	--
06/04/2010	BoJ Monetary Policy Meeting	JN	--
06/04/2010	PMI Construction	UK	--
06/04/2010	Minutes of FOMC Meeting	US	--

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