



Tuesday 7th October 2008

**DAILY COMPANY NOTE — Irish Life & Permanent** See page 2 & 3 for full details

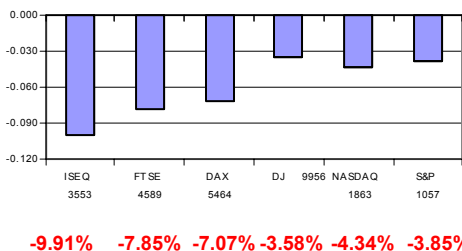
**Daily Market Comment**

**Yesterday's Summary :** The ISEQ yesterday gave up a large proportion of its gains from last week as the largest one day drop on the FTSE since 1987 weighed heavily on the Irish index. It closed down 9.9% at 3553. Once again the banks led the sell off with Irish Life & Permanent, the worst performer, dropping 23% to close at €5.00. Anglo Irish Bank and Bank of Ireland fell 21.6% and 17.5% closing at €3.99 and €4.00 respectively. Few stocks ended the day in positive territory, Aryzta being one, as it climbed 2% to close €28.55.

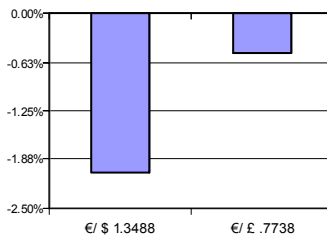
**Overnight News :** The US markets witnessed another sharp sell off yesterday with the Dow Jones down by as much as 7.8% at one stage, as fears over the interbank market gripped market sentiment once again. Despite this large sell off, US indices became well bid in their afternoon session as speculation over a coordinated response among central banks to the current issues facing the credit markets caused indices to recoil from their lows of the day. Dow Jones: -3.6% at 9956, S&P 500: -3.9% at 1057, NASDAQ: -4.3% at 1863.

**Breaking News :** **BNP Paribas** is set to become Europe's biggest bank in terms of deposit size after taking over **Fortis'** operations in Belgium and Luxembourg for €14.5bn in cash and shares. The deal was brokered by the Belgian government. **AIB** announced this morning that it is to stick to its EPS earnings target of €1.85-€1.90 for FY '08, while also stating it is to 'continue' a 'progressive' dividend policy; despite a deteriorating property market. **Iceland's** mounting financial crisis and a decline of 30% in the Icelandic krona forced its government to take emergency action. The ruling alliance and opposition parties approved legislation that gives the state sweeping powers over Iceland's troubled banks including the option of nationalising them.

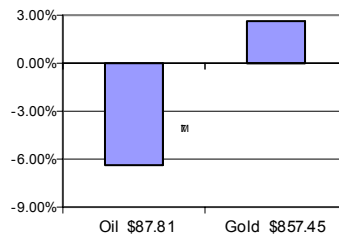
**Equity Indices change on day**



**Currency daily % change**



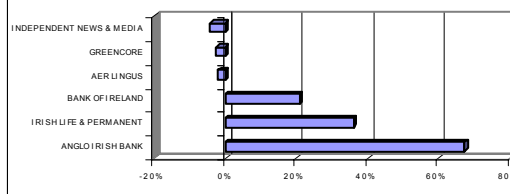
**Oil/Gold daily % change**



**News**

- "Aer Lingus staff to ballot for action over plan for €74m cuts"-(The Irish Times)
- "Greencore shares fall after stake disposal"-(The Irish Times)
- "Banks borrow most in seven years"-(The Irish Times)
- "Poor forecast sees Elan shares drop"-(Irish Independent)
- "Fed to hold CDS clearance talks"-(Financial Times)

**ISEQ Performers/Losers 06/10/08**



**Market Themes & Movers**

**British banks in talks on UK government funding ?** Media speculation this morning has suggested that some British banks, including Royal Bank of Scotland, are in talks with the UK government over a possible £45bn investment that would help bolster the banks capital, which has been depleted by mortgage related losses. The measure is said to be one of several the UK government has been looking at to prop up banks. The reports this morning have indicated that the Chancellor of the Exchequer Alistair Darling and Bank of England Governor Mervyn King met with banking chief executives late yesterday to discuss the investment. This speculation comes as the credit rating agency Standard & Poor yesterday cut their rating on RBS bank for the first time in almost a decade. RBS fell 90 pence to its lowest value for 15 years in early trading this morning.

**Australia cut interest rates :** Australia's central bank has cut its interest rate by one percentage point, the most since its 1992 recession and by twice as much as economists had forecasted. Australia's S&P/ASK 200 stock index jumped 1.7% to 4,618.7 at the close as Reserve Bank Governor Glenn Stevens announced that "an unusually large movement in the cash rate was appropriate in order to bring about a significant reduction in costs to borrowers. The Australian dollar rose to 72.85 US cents in early trading from 72.06 cents prior to the central bank's announcement. This is set to increase the pressure on both the ECB and the Bank of England to act in a similar fashion.



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# Irish life & Permanent

**ISEQ**
**Insurance**
**Company Profile**

The Group's principal activity is providing financial services in Ireland. The Group operates through its Insurance and Investment, Banking, General Insurance and Other segments. Insurance and Investment includes long term savings products including pensions to both individuals and group schemes.

**Statistics**
**Price Performance**

**Revenue by Region**


■ Insurance & Investment Business 61%

■ Banking 39%

**Fundamental View**

- The falls in Irish banks stocks last week was due to concerns over their ability to access wholesale money markets and not only the level of bad debts that they will face in 2009 and 2010. The Irish Government guarantee has off-set this worry as all bank deposits, both retail and interbank, are covered. The interbank markets are still closed, but retail and corporate monies are now returning to Irish banks.

- Once interbank markets normalise, the concern will move onto capital and bad debts in the Irish banks. In the case of IPM, the loan book has no exposure to Residential or Corporate Developers, the type of loans at greatest risk to bad debt. The loan book of €41.2Bn consists of Irish Residential mortgages (67%), UK residential (21%), ROI Commercial Mortgages (6%) and Consumer Finance (6%). The level of bad debts on the total loan portfolio will be significantly lower than other Irish banks.

- Capital for IPM is not an issue as at the interim results presentation the group outlined a plan to release capital from the Life Business through Financial Re-Insurance and Value in Force Securitisation. The re-insurance will generate €100m capital for the group in 2009 and possibly €100m each year in 2010 and 2011 and will allow the group to "withstand whatever the current economic cycle may throw at us" according to management.

- IPM has re-financed all of its 2008 term funding of €3Bn and circa 80% of 2009 maturities. Further cash can be raised from ECB Repos with a minimum €5.3Bn available with a conservative maximum estimate of €10Bn available from the mortgage book.

**Valuation**

- When valuing IPM a Sum of the Parts (SOTP) method can be used. The main value in the group is the life business and this has an embedded value for 2008 of €2.1Bn. Price/Embedded Value for Life companies in the UK is 0.8x and valuing IPM's life book on the same basis results in a value per share of €6.00.

- The next major part of IPM is the loan book of €41.2Bn. This will generate PAT of €142m in 2008, lower than in 2007 due to higher impairments and funding costs. The Irish banking sector is trading at 4x forward earnings due to concerns over the level of bad debts in the next number of years. IPM should have a lower level of bad debts due to residential mortgage portfolio, but will have more earnings pressure due to the larger portion tracker mortgages make up of the loan portfolio. Therefore, 4x forward earnings is a conservative way to value the loan book and results in a price per share of €2.03.

- The final portion of the group is the share in Allianz Ireland and this had PAT of €30m in 2007. With the headwinds facing the insurance sector plus the poor weather over the summer months, profits in 2008 will be effected. Assuming a 10% fall in profits to €27m and using a multiple of 4x, would give a price per share of €0.385.

- The three parts of IPM gives a price per share of €8.42 and taking a 15% haircut due to the reliance on wholesale funding in the group, gives a price per share of €7.05. The 42% discount between the current share price and our SOTP valuation would indicate a large up-side on the stock.

- We believe any significant gain on the share price will only be achieved from M&A activity and IPM management have stated in the past they are not tied to the idea of remaining independent and would look at any offers. The lack of foreign investors and the negative sentiment against the Irish economy will continue to put pressure on the Irish financials for the foreseeable future and will limit the appetite of investors, but the significant discount in the valuation of the IPM could attract an opportune investor.

Major Shareholders	%	Peer Group Multiples			
AXA	4.65%	Company name	P/E 08	P/E 09	EPS Growth 08-09
Capital Group	4.13%	<b>IPM</b>	3.0	3.0	0.00%
BOIAM	3.93%	Aviva	7.7	6.6	16.67%
UBS Investments	3.76%	Friends Provident	6.6	7.1	-7.58%
Capital Research	2.61%				

Shares Outstanding 268.5m

Share Data	Financial Data	2007	2008e	2009e	
Current Price (€)	PBT (€m)	4.25	590	528	457
Mkt Cap (€m)	EPS (c)	1,140.9m	1.94	1.41	1.41
Reuters	P/E(x)	IPM.L	5.70	3.01	3.01
Bloomberg	DPS (c)	IPM LN	0.75	0.75	0.75
Sector	Div Yield	Insurance	6.80%	17.65%	17.65%

CFO Denis Casey  
 Chairman Peter Fitzpatrick  
 Website [www.irishlifepermanent.ie](http://www.irishlifepermanent.ie)





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