

The Irish Banking Sector

Continuing Challenges or Growing Opportunities

Monday 18th April 2011, New York

DILLON  EUSTACE

 Grant Thornton


GLAS SECURITIES

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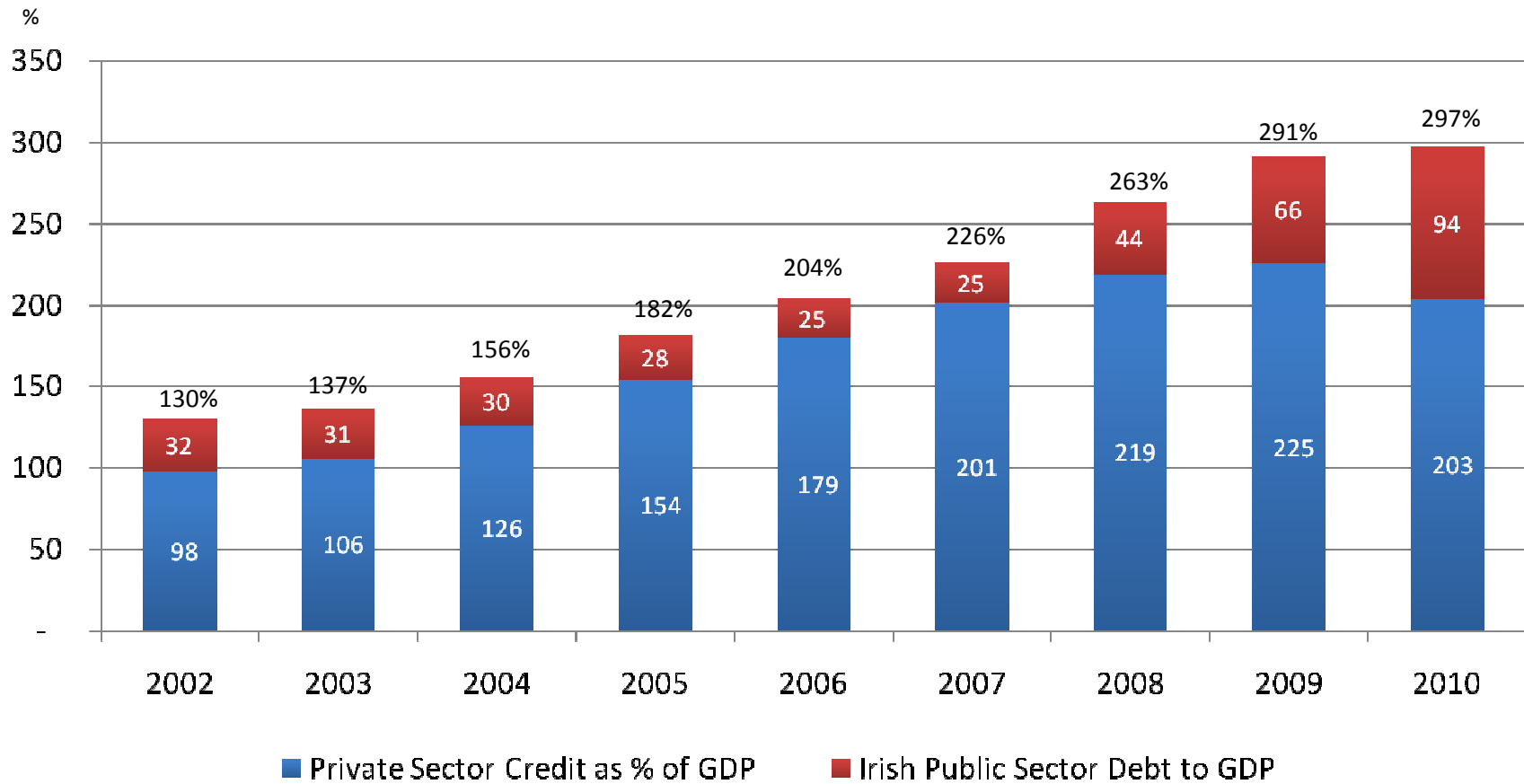
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Section 2 The Irish Banking Sector

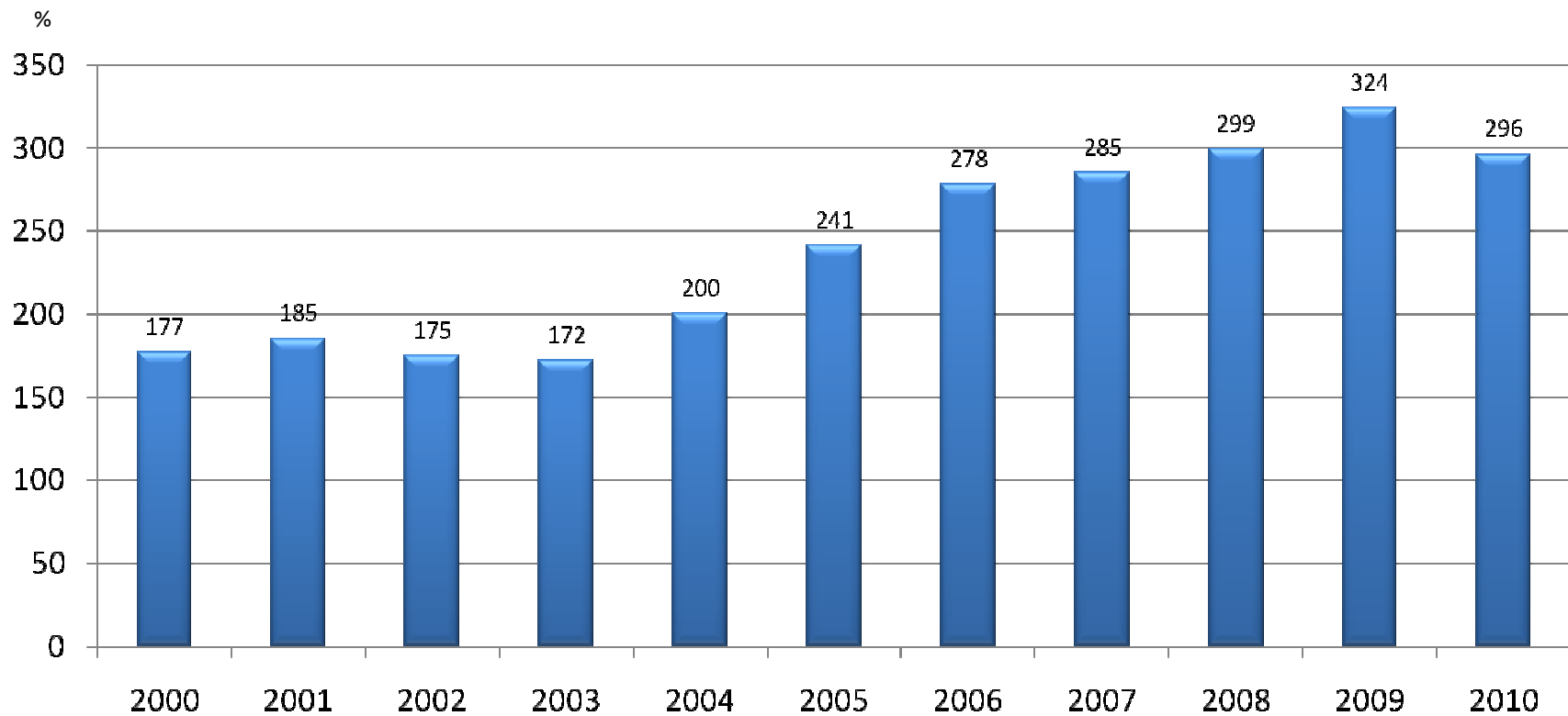
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Ireland's Private and Public Sector Debt as % of GDP 2002-2010



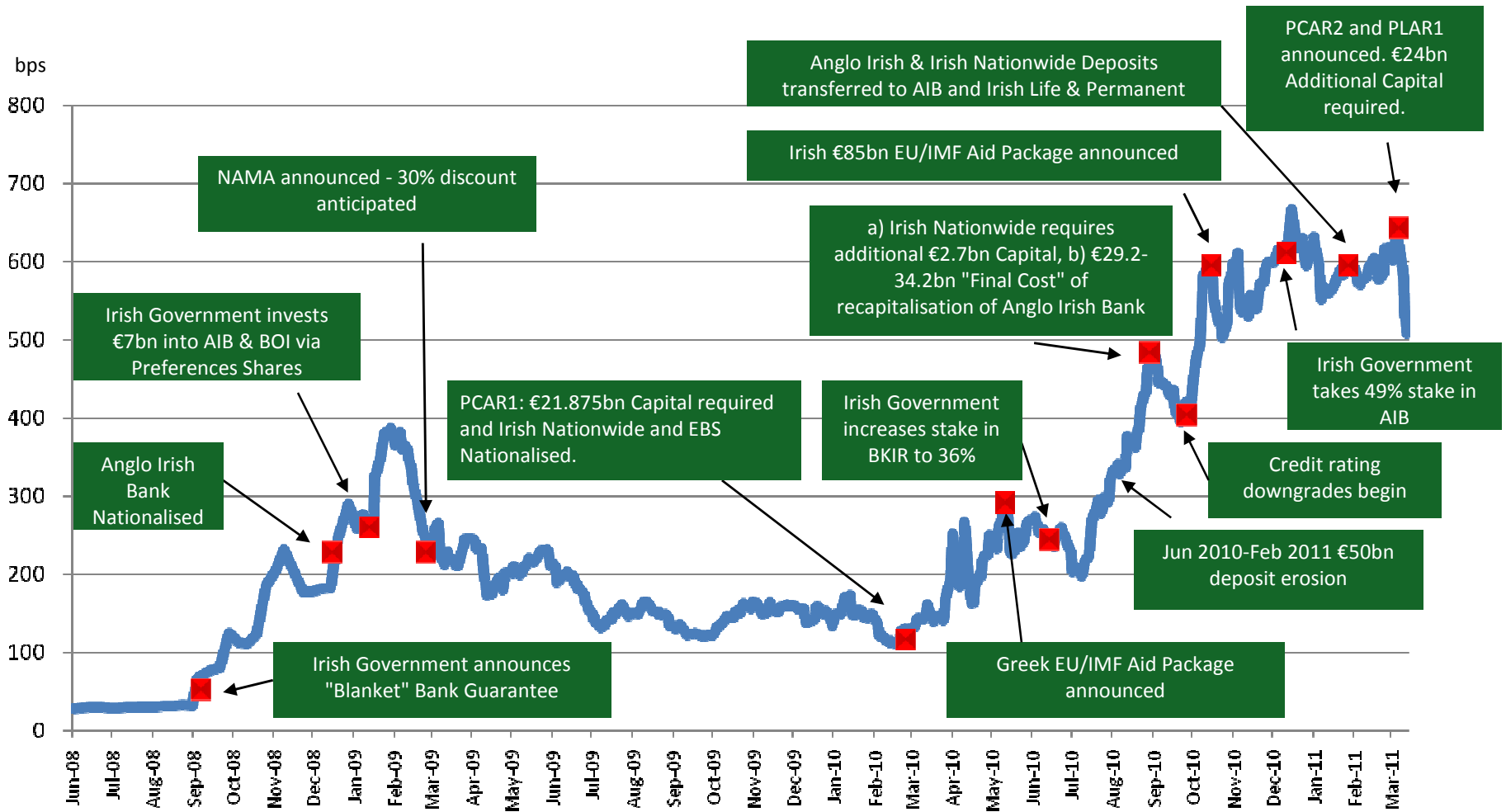
Source: Central Statistics Office, Central Bank of Ireland

Irish “Covered” Banks Total Assets as a % of GDP



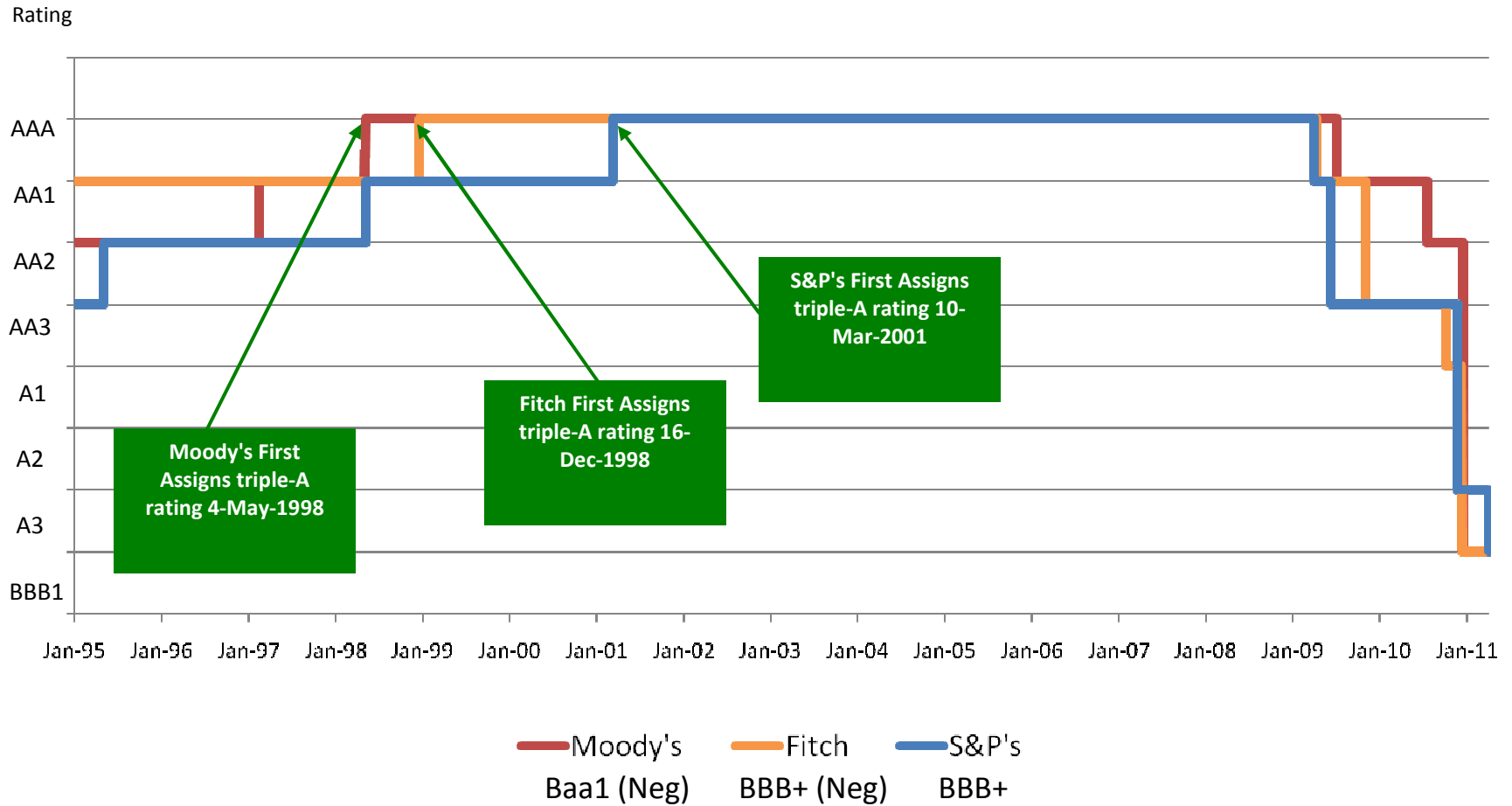
Source: Central Bank of Ireland

Irish Banking Sector – Evolution of the Crisis – 5 year CDS



Source: Bloomberg, Glas Estimate

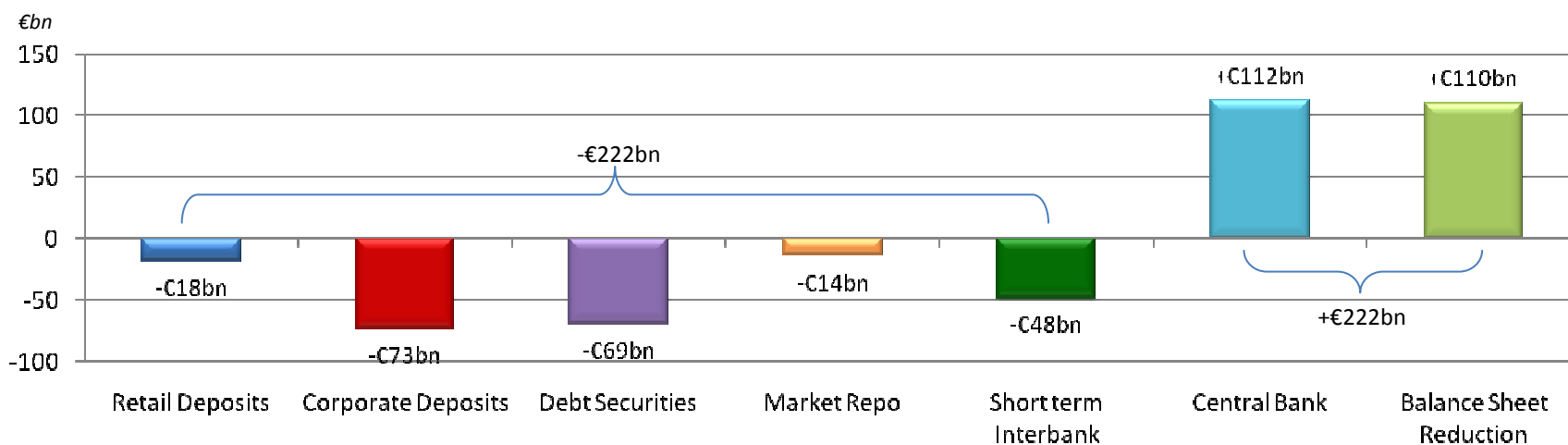
Irish Governments Rating History



Source: Individual Rating Agencies

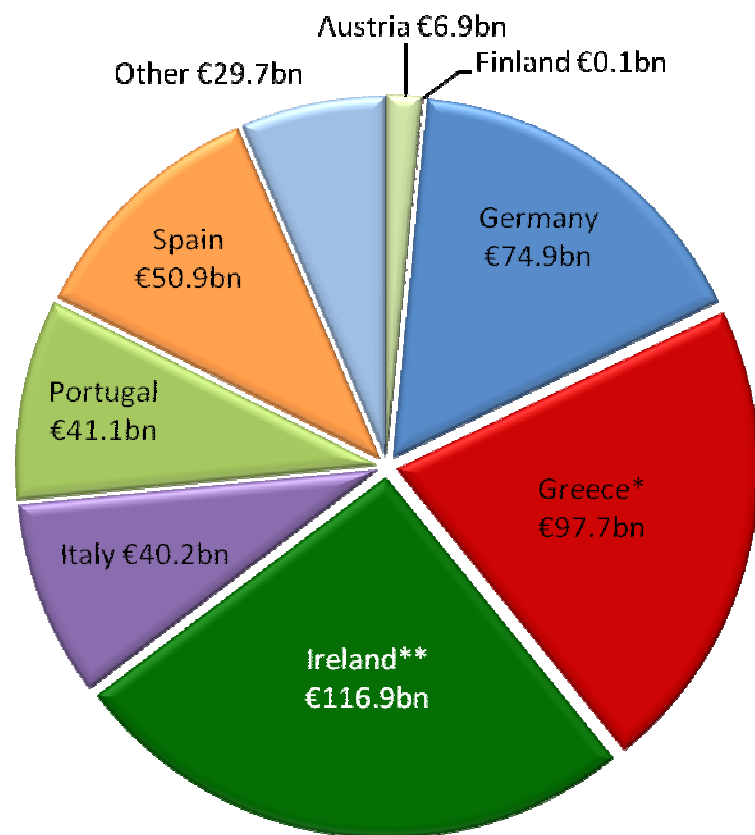
Funding Evolution of Six Domestic “Covered” Banks

Type of Funding		Dec-08	Dec-09	Jun-10	Dec-10	Feb-11	Change Since Dec-08
Retail Deposits	€bn	152	146	148	136	134	-18
Corporate Deposits	€bn	103	80	72	32	30	-73
Debt Securities	€bn	140	123	120	69	71	-69
Market Repo	€bn	35	34	34	23	21	-14
Short term Interbank	€bn	54	16	14	7	6	-48
Central Bank	€bn	37	62	58	142	147	112
Total	€bn	521	461	446	409	409	-110



Source: Central Bank of Ireland

Breakdown of ECB Open Market Operations Participation



	Percentage of Funding	Percentage of Euro GDP
Ireland	25.5%	1.8%
Greece	21.3%	2.6%
Germany	16.3%	26.9%
Spain	11.1%	11.7%
Portugal	9.0%	1.9%
Italy	8.8%	17.0%
Austria	1.5%	3.1%
Finland	0.0%	1.9%

*Dec 2010

** Excludes ELA of €70bn

Source: ECB Statistics, February 2011, except Greece (December 2010). Note: €40bn non Irish Banks.

Bank Recapitalisation: Pre PCAR/PLAR 2011

Recapitalisation Type		AIB	BOI	ILP	EBS	Anglo	INBS	Total
Preference Shares - 2009	€bn	3.5	3.5					7.0
Cash Contribution - 2009	€bn					4.0		4.0
Promissory Notes / SIS - 2010	€bn				0.9	25.3	5.5	31.7
Equity - December 2010	€bn	3.7						3.7
Total Government Contribution	€bn	7.2	3.5	-	0.9	29.3	5.5	46.4
Debt Management	€bn	2.5	2.4		1.7	3.3	0.2	10.1
Sale of Assets	€bn	3.2	0.1					3.3
Rights Issues	€bn		1.5					1.5
Total Private Contribution	€bn	5.7	4.0	-	1.7	3.3	0.2	14.9
Total Pre March 2011 Recapitalisation	€bn	12.9	7.5	-	2.5	32.6	5.7	61.3

Source: NTMA, Irish Department of Finance, Glas Estimate

— €61.3bn total Bank recapitalisation Pre PCAR/PLAR 2011.

PCAR 2011 – Key Components

Sum of the Parts Analysis	€bn
CT1 Capital Dec 2010 (+)	13.3
Provision taken Dec 2010 (+)	9.9
Expected 3yr Operating Profit (+)	3.9
CT1 Capital raised since 2010 (+)	3.5
3yr CB Stressed Loss Assumption (-)	-27.7
Non Core Asset Deleveraging (-)	-13.2
Capital Shortfall	-10.3
Additional Capital shortfall for Adverse 6% CT1	-8.4
PCAR Capital requirement	18.7
Plus Equity Buffer	2.3
Plus Contingent Capital (from Govt)	3.0
Total Capital Requirement	24.0

Macro

- GDP growth (2011 -1.6%, 2012 +0.3%, 2013 +1.4%).
- Unemployment peak at 15.8% in 2012.
- Inflation <1% 2011-2013.

Property Prices

- 60% peak to trough decline in Irish Residential Property.
- 70% peak to trough decline in Irish Commercial Property.

Loss Assumptions (over the 2011-2013 cycle)

- Residential Mortgages 6.7%.
- Corporate: 4.9%.
- SME: 12.3%.
- Commercial Real Estate 22.1%.
- Consumer and other: 20.7%.

Funding

- No access to wholesale funding 2011-2013 under adverse scenario.
- Non Investment grade Sovereign rating under adverse scenario.
- Zero deposit growth.
- ELG guaranteed funding to remain 2011-2013 (subject to EU approval).

Source: Central Bank of Ireland

PCAR/PLAR 2011 – Impact by Bank

PCAR2: Results

Bank		PCAR 2	Buffer	Contingent	Total
Bank of Ireland	€bn	3.7	0.5	1.0	5.2
Allied Irish Bank	€bn	10.5	1.4	1.4	13.3
EBS Building Society	€bn	1.2	0.1	0.2	1.5
Irish Life & Permanent	€bn	3.3	0.3	0.4	4.0
Total	€bn	18.7	2.3	3.0	24.0

→ €18.7bn adverse stress result.

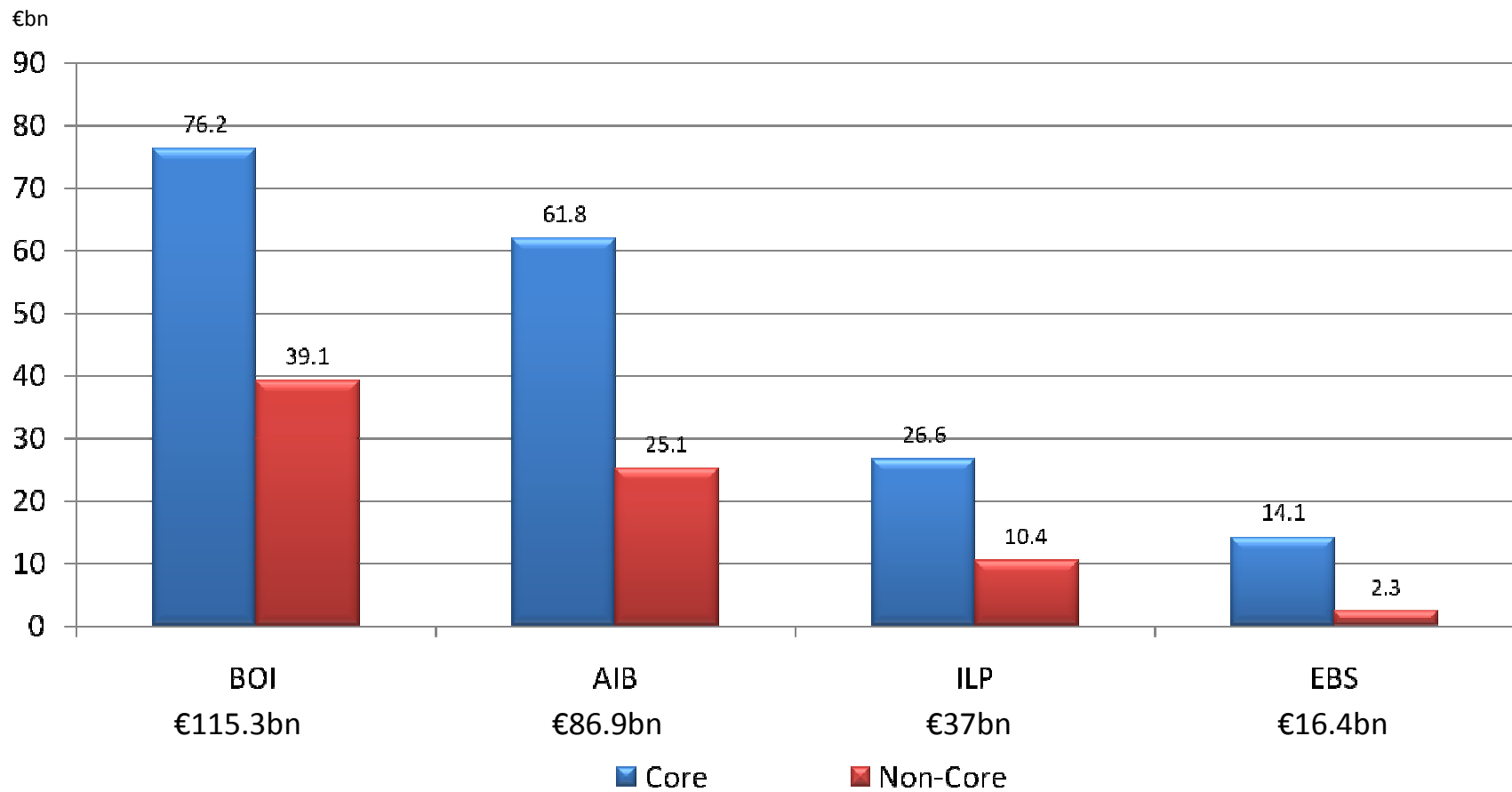
→ €5.3bn additional buffer.

PLAR: Results

Bank		Loans	Deposits	LTD	Deleveraging	Target Loan Book	Target Deposit Book	Target LTD
Bank of Ireland	€bn	115.3	65.4	176%	32.6	82.7	69.4	122.5%
Allied Irish Bank	€bn	86.9	52.4	166%	19.4	67.5	55.1	122.5%
EBS Building Society	€bn	37	14.9	248%	4.9	21.3	17.5	122.5%
Irish Life & Permanent	€bn	16.4	9.4	174%	15.7	11.5	9.5	122.5%
Total	€bn	255.6	142.1	180%	72.6	183	151.5	122.5%

Source: Central Bank of Ireland

Core v Non Core: A “Virtual” Good Bank – Bad Bank



Source: Central Bank of Ireland

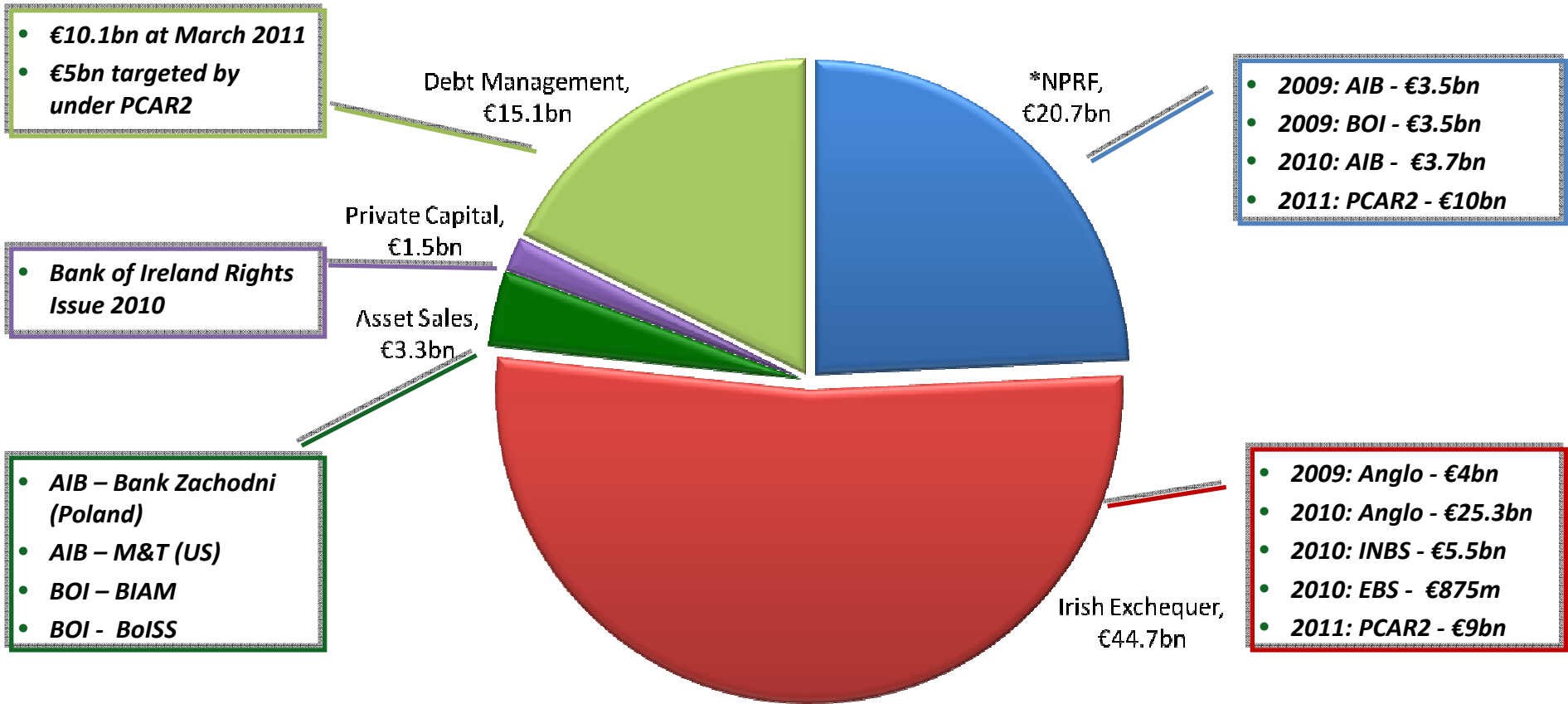
Bank Recapitalisation: Post PCAR/PLAR 2011

		AIB	BOI	ILP	EBS	Anglo	INBS	Total
Total - Pre March 2011 (as per page 11)	€bn	12.9	7.5	-	2.5	32.6	5.7	61.3
PCAR/PLAR - pre Buffer	€bn	10.5	3.7	3.3	1.2			18.7
PCAR/PLAR - Buffer - Equity	€bn	1.4	0.5	0.3	0.1			2.3
PCAR/PLAR - Buffer - Coco's	€bn	1.4	1.0	0.4	0.2			3.0
PCAR/PLAR March 2011	€bn	13.3	5.2	4.0	1.5	-	-	24.0
Total Recapitalisation	€bn	26.2	12.7	4.0	4.0	32.6	5.7	85.3
As a % of 2010 GDP	€bn	17%	8%	3%	3%	22%	4%	57%
Total Assets 2008	€bn	182	194	55	21	101	14	567
Loans to Customers	€bn	135	133	40	17	72	11	408
Recap as a % of Total Assets	€bn	14%	7%	7%	19%	32%	41%	15%
Recap as a % of Loans	€bn	19%	10%	10%	24%	45%	55%	21%

Source: NTMA, Irish Department of Finance, Glas Estimate

- €85.3bn total bank recapitalisation represents 21% of total loans at end 2008.
- €20bn Private contribution. €65bn Contribution from Irish Government.

Bank Recapitalisation: Who pays the bill?



Source: Irish Department of Finance, NTMA, Glas Estimate
 *NPRF: National Pension Reserve Fund

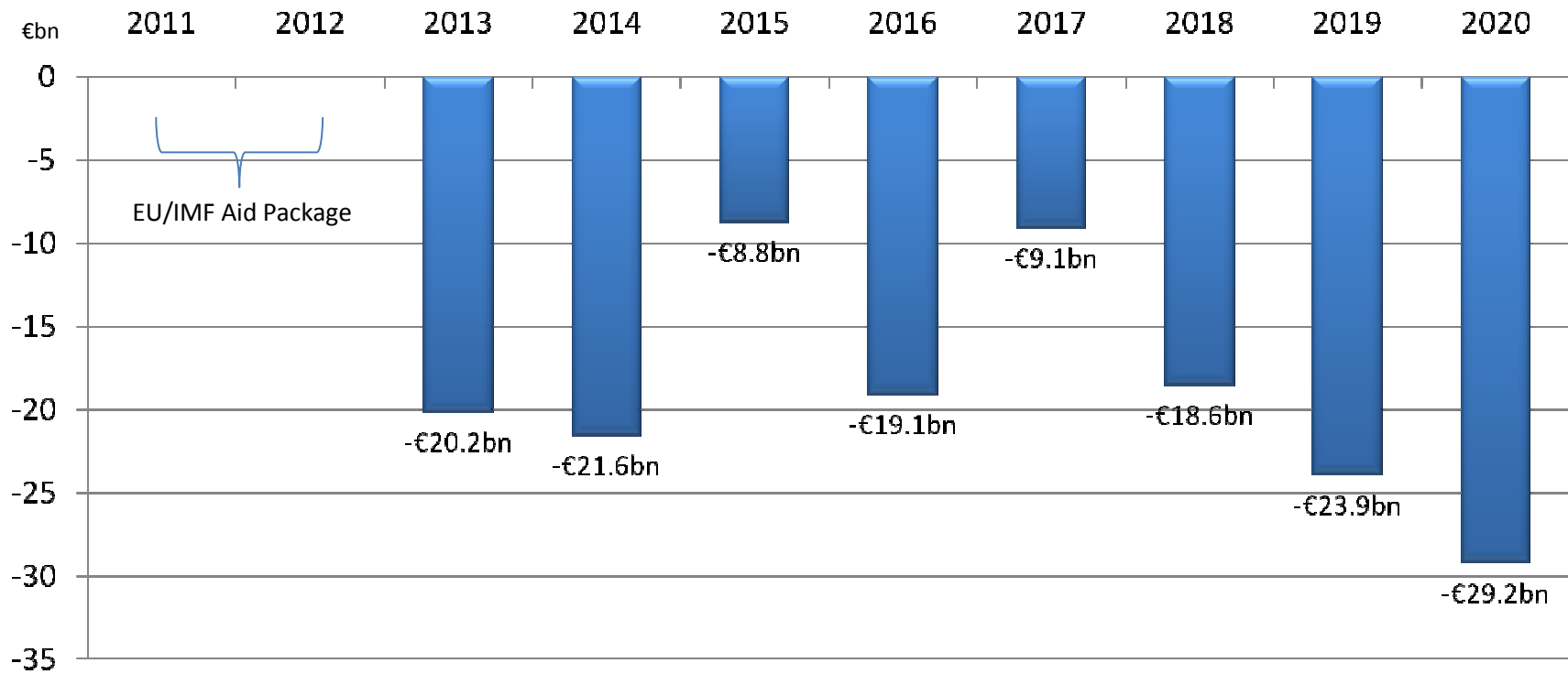
Ireland's Debt trajectory: Sustainability the Key question

Budget 2011		2010	2011	2012	2013	2014
GDP	€bn	157	161	168	175	184
GDP Growth	%	0.3%	1.75%	3.25%	3.00%	2.75%
General Government Balance - Annual Deficit	€bn	50.1	15.2	12.3	10.2	5.2
Fiscal Consolidation required	€bn		6.0	3.6	3.1	3.1
Annual Deficit as a % of GDP (post Fiscal consolidation)	%	31.9%	9.4%	7.3%	5.8%	2.8%
General Government Debt (GGD) as a % of GDP	%	94.2%	98.6%	102.0%	102.5%	100.0%
General Government Debt (GGD)	€bn	148	159	171	180	184
Plus Bank Recapitalisation Requirements Post PCAR/PLAR		2010	2011	2012	2013	2014
Plus :						
Bank Recapitalisation - €24bn less 17bn (€10bn NPRF)(7bn Cash Reserves)	€bn	7	7	7	7	7
Bank Recapitalisation - €24bn less €17bn and less (€5bn from Self-Help)	€bn	2	2	2	2	2
General Government Debt plus €7bn Bank Recap	€bn	155	166	178	187	191
General Government Debt plus €2bn Bank Recap	€bn	150	161	173	182	186
General Government Debt as a % of GDP (€7bn Bank Recap)	%	99%	103%	106%	106%	104%
General Government Debt ** NET ** as a % of GDP (€25bn Bank Recap)	%	95%	100%	103%	104%	101%

Source: National Recovery Plan 20110-2014, Irish Department of Finance, Glas Estimate

- Four year plan growth assumptions will be a challenge.
- Current cost of funding too high relative to growth and inflation forecast.

Projected Funding Requirement Post EU/IMF Aid



Source: NTMA, Irish Department of Finance, Glas Estimate

- Assumes 3% deficit beyond 2014.
- Includes Deficit, Bond Redemptions and Promissory Note Funding.

Section 3 Banking Crisis Legislative Framework

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The Legislative Framework

- Credit Institutions (Financial Support) Act 2008
- NAMA Act 2009
- Credit Institutions (Stabilisation) Act 2010
- Central Bank and Credit Institutions (Resolution) Bill 2011

Credit Institutions (Financial Support) Act

Background

- The CIFS Scheme
- 29th September 2008
- Deposits, bonds, senior and sub-debt
- Expiry: 29th September 2010

Credit Institutions (Financial Support) Act

The ELG Scheme

- 9th December 2009
- 'Eligible Liabilities'
- Deposits and certain debt securities of up to five year maturity

NAMA Act 2009

- Statutory Purposes
- Acquisition Process
- Statutory Powers
- Points of interest for potential purchasers

Credit Institutions (Stabilisation) Act 2010

- Directors' Duties
- Direction Orders
- Special Management
- Subordinated Liabilities Order
- Transfer of Assets and Liabilities
- Miscellaneous Provisions

Credit Institutions (Resolution) Bill 2011

- In compliance with EU / IMF Programme
- Governor of the Central Bank rather than the Minister

Section 4 Political overview post-General
Election 2011

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Political contexts

- New Government – elected on 9 March 2011.
- Strong mandate.
- Centre Right – Fine Gael/Labour coalition.
- Massive majority.
- Likely to be stable for 5 years.
- Handed a difficult challenge.
- Not wedded to approach of the previous Government – where they have discretion to differ!

Has the new Government a programme?

- Programme for Government passed by the Dail (Lower Chamber) on 15 March 2011.
- Commitment to smaller banking system.
- End of transfers to NAMA.
- New measures to deal with banking insolvencies.
- Disposal of public stakes in banks “asap”.
- Extension of burden sharing measures.

Stimulus measures

- €100m Microfinance Start Up fund.
- Commitment to new VC industry – to attract “top tier” venture capital and investment companies to Ireland.
- Jobs Budget and Jobs Fund.
- New Strategic Investment Bank.
- NewERA programme – “commercially financed” initiatives in water; telecommunications; bio energy and electricity transmission.
- Sale of State Assets – between €2bn and €5bn – airports; ports; power companies, etc.

Can the Government deliver?

- Yes – but.....
- All elements of the Programme are subject to attainment of fiscal targets in EU/IMF deal!
- Ireland in a form of “national receivership”.
- Concerns about sustainability of the debt burden and prospects for growth.
- No Irish government solo runs without ECB approval.
- Given liquidity and funding challenges – ECB/EU have effective veto over domestic policy.
- Is debt restructuring inevitable?

Political attitudes to burden sharing

- Sub debt regarded as fair game.
- €6bn of sub debt will be targeted in bank restructuring.
- Senior Debt in BANK;AIB; EBS;IL&P regarded as untouchable.
- Political desire for senior debt burden sharing in Anglo/INBS.
- Government pushing ECB/EU to allow Anglo/INBS be treated like a standard insolvency.

Political contexts on the Irish Government's stake

- Irish banks – seek an exit as soon as possible.
- NAMA – meaningful process of disposals required.
- Asset sales – strong base of assets for disposal.
- Hallmark of approach to disposals and new investment to date has been caution.
- Politicians willing to move the agenda along.
- New meaning for a strategic asset!
- Fear of fire sales, but limited options noted.

Observations

- Context set for the Government by the EU/IMF deal.
- Limited national discretion in key areas.
- Political stability assured.
- Signs of a strategy emerging to bring opportunities to the market soonest.
- No sacred cows!

Section 5 Direct Involvement with Distressed Assets

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Contents

- Irish distressed assets, what's out there?
- Overview of NAMA, its objectives, powers and progress
- NAMA appointed assets
- Examinerships – the alternative discount purchase
- Distressed financial services assets

Irish distressed assets, what's out there?

Irish distressed assets

- distressed assets can be split into 3 categories
 - trading assets
 - property – commercial and residential (NAMA and non NAMA related)
 - financial services
- significant increase in number of property based insolvencies
 - 225 corporate receiverships in 2010
 - 472 construction related insolvencies in 2010
- 2010 and 1st quarter 2011 has also seen significant increase in number of trading receivership appointments

Trading assets – recent cases

Sector	Buyer	Target	Buyer nationality
Motor	Thrifty Car Rentals Group	Irish Car Rentals Limited	US
Airline	Stobart Group/PE	Aer Arann	UK
Technology	Better Capital (PE)	Calyx Managed Services Limited	UK
Retail	Anglo Irish Bank/Ulster Bank	Arnotts Limited	Irish

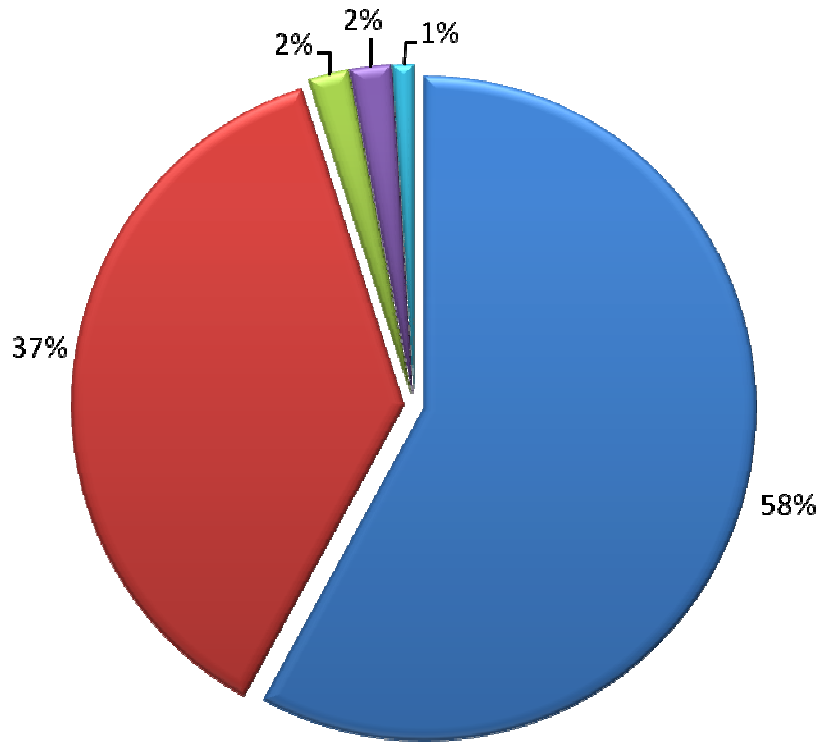
Overview of NAMA, its objectives, powers and progress

NAMA's progress to date

Participating Institution	Nominal Value of loans acquired	Value of securities exchanged for loans	Discount	Discount %
Allied Irish Bank	€6.02bn	€3.30bn	€2.72bn	45%
Bank of Ireland	€3.75bn	€2.39bn	€1.36bn	36%
EBS Building Society	€0.18bn	€0.11bn	€0.07bn	39%
Irish Nationwide Building Society	€1.26bn	€0.44bn	€0.82bn	65%
Anglo Irish Bank	€16.00bn	€6.73bn	€9.27bn	58%
Total Tranches 1& 2	€27.20bn	€12.97bn	€14.24bn	52%
Tranche 3	€45.10bn	€17.50bn	€27.60bn	61%
Total Tranche 1,2&3	€72.30bn	€30.47bn	€41.84bn	58%

NAMA's progress to date

Geographical Breakdown of Tranche 1 & 2 (€bn)

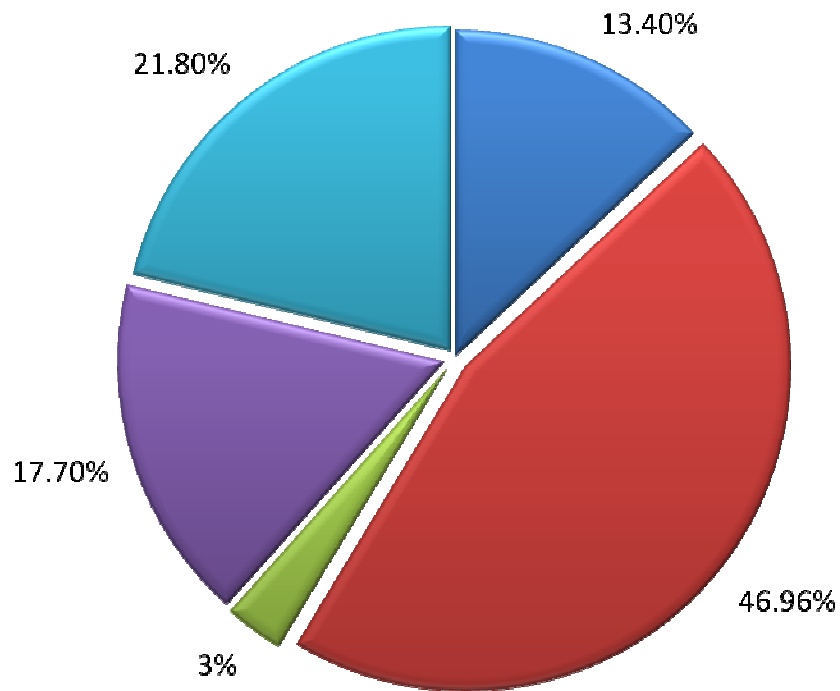


Country	Loan value
Ireland	€15.51bn
Britain & Channel Islands	€10.30bn
Rest of Europe	€0.51bn
US	€0.46bn
Northern Ireland	€0.42bn
Total	€27.2bn

- Ireland
- Britain and Channel Islands
- Rest of Europe
- US
- Northern Ireland

NAMA's progress to date

Sectoral Breakdown of Tranche 1 & 2



- Residential Property for Sale
- Investment Property
- Development (>30% complete)
- Hotels
- Land

Country	Loan value
Land	€5.94bn
Residential Property for sale	€3.66bn
Investment Property	€12.77bn
Development (>30% complete)	€0.85bn
Hotels	€3.99bn
Total	€27.2bn

NAMA's progress to date

- acquired €72.3bn for a consideration of €30.5bn
- 850 debtors loans acquired
- loans of largest 175 debtor connections account for €61bn
- concluded review of the business plans of top 30 debtors
- NAMA have approved the sale of circa €2.7bn in property assets as at end of February 2011

NAMA appointments to date

Whelan's Group

- Paul McCann of Grant Thornton appointed Statutory Receiver 28 January 2011
- Assets: 7 quarries & explosive site based on Clare, Cork and Roscommon
- Overall debt: €65m



NAMA appointments to date

Paddy Kelly Assets

- Kieran Wallace of KPMG appointed on 25 March 2011 over 9 hotel assets and Savills were also appointed as property receiver over a number of non hotel assets
- Assets are located in Dublin, Meath and Limerick area
- Overall debt: >€200m



NAMA appointments to date

Michael McNamara Construction

- Statutory Receiver on 12 November 2010
- Assets: high end commercial assets in Dublin City Centre and large development at Elm Park
- Overall debt: €1.5bn



NAMA appointments to date

Paddy Doyle Connection

- Paul McCann appointed as Statutory Receiver on 20 December 2010 via PI, Anglo Irish Bank
- Assets: 6 connected companies, 2 retail parks (M1), petrol station and 10 commercial units, office block, 2 apartment blocks and 4 land banks
- Woodies; B&Q; Smyths Toystore; Heatons; Mothercare; Applegreen
- Overall debt: €211m



Examinerships – the alternative discount purchase

Examinerships

- alternative to liquidation
- petition brought to the High Court seeking
- Independent Accountant's Report prepared to outline financial position and future prospect of survival
- if Court rules prospect of survival is reasonable it will grant company court protection for 3 month period

Examinerships – procedure

Interim Examiner

- exceptional circumstances / not guaranteed

Time frames in protection period

- 35 days – meetings
- 70 days
- can be extended to 100 days
- Section 18(4) “Extension”

Effect of protection

- no winding up proceedings / no appointment of receiver
- no enforcement of security (car rental examples)
- no payment of pre petition debts

Examinerships – recent cases

Recent Grant Thornton cases

- Laragan Developments
- Murrays Rent A Car
- O'Briens Sandwich Bars
- Irish Car Rentals
- Aer Arann
- Farm Supplies

Other key cases

- Linen Supplies
- Tivway (Fleming Construction)
- McInerney Builders

Examinerships – Aer Arann Case Study

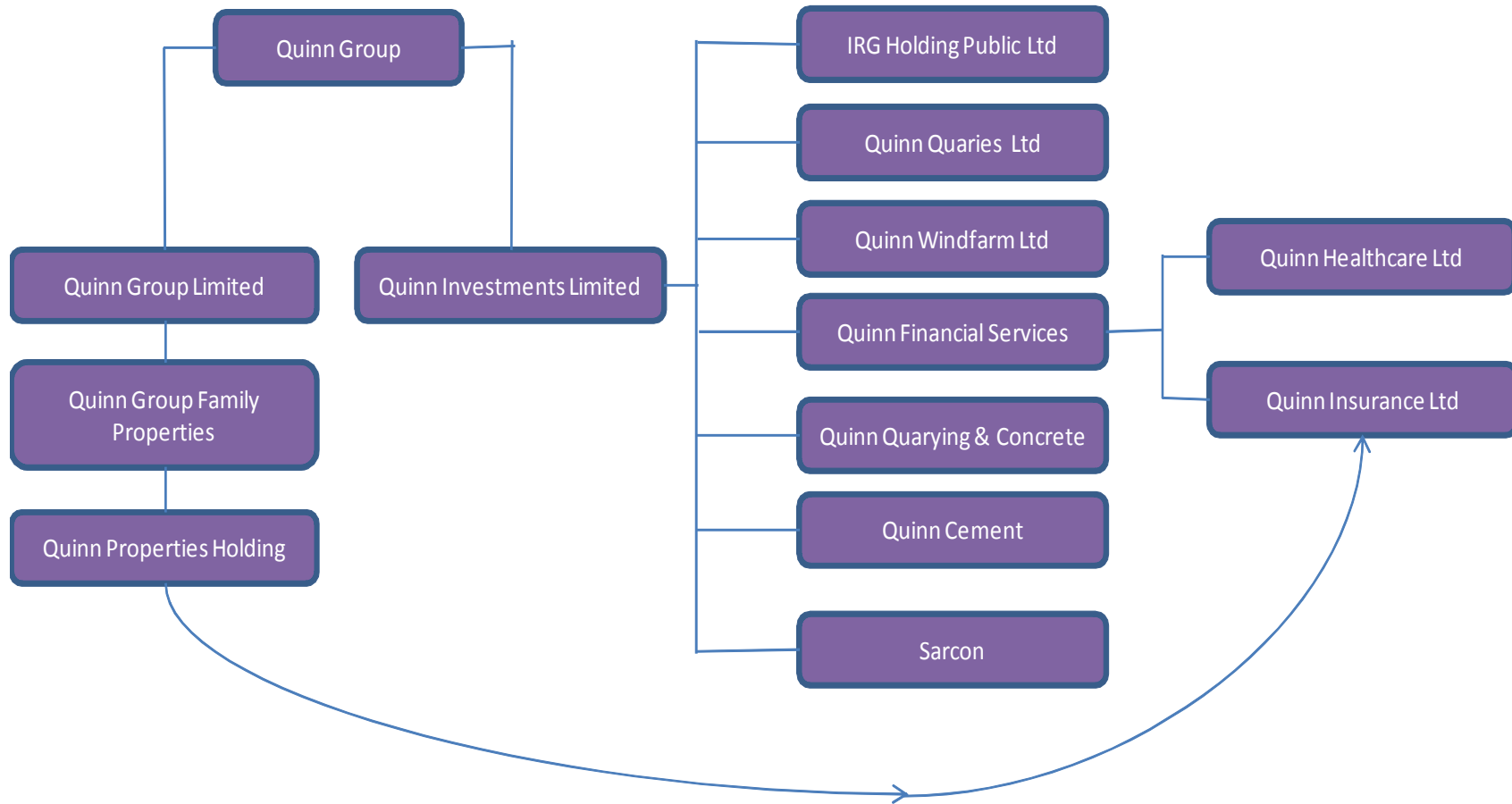
- examiner appointed 8 September 2010 on foot of petition to the High Court
- Company operating a fleet of 13 leased aircrafts as a regional carrier serving 25 destinations
- macro and micro market factors impacted on Company's:
 - continued growth
 - capacity to generate &
 - sustain earnings to meet ongoing obligations
- 11 October 2010 investor through JV Everdeal Limited (Eddie Stobart) agreed to invest in the company for its continued survival

Distressed financial services assets

Quinn Insurance - Administrators appointed

- on 30 March 2010 Michael McAteer and Paul McCann were appointed Provisional Joint Administrators of Quinn Insurance Limited (QIL)
- reasons for seeking appointment:
 - Company's inability to maintain adequate solvency margin
 - the manner in which the company had been managed
 - the overall financial position of the Company

Quinn Insurance – Group organisation



Quinn Insurance – Solvency ratio

- solvency margin of 113% on 30 March '10 v's minimum requirement of 150%
- QIL margin included the assets of its subsidiaries in Quinn Property Holdings (QPH) valued at €650m at date of petition
- QPH had provided guarantees to 3rd party finance providers. Total debt owing to 3rd party institutes was €1.3bn
- exclusions of QPH assets resulted in QIL having insufficient assets to cover its potential liabilities/ claims with a net liability position of c €250m

Quinn Insurance – Action upon appointment

- official joint administrators' appointment was confirmed by the High Court on 15 April 2010
- immediate focus upon appointment was to take control of the business
- prepare detailed business plan for Central Bank in relation to reopening the UK motor market
- implement a restructuring programme in ROI- voluntary redundancies required

Section 6

What asset classes are likely to present the earliest opportunities?

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Section 7 Questions and Answers

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Appendices

Presenters Overview

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Dillon Eustace Contact Details

- Dillon Eustace is one of Ireland's leading law firms with the largest team of financial services lawyers in Ireland. Its international focus includes acting for some of the world's largest hedge funds, distressed asset and opportunistic investors.
- Dillon Eustace's distressed asset unit has been advising clients in relation to the acquisition of distressed assets using Irish special purpose structures and investment fund vehicles since 1998 advising on acquisitions in jurisdictions as diverse as Korea, Japan, United Kingdom, Germany and numerous other European jurisdictions.
- The distressed asset unit's recent experience includes advising the Irish National Asset Management Agency in relation to the acquisition of loan assets, potential purchasers of loan assets from NAMA, and acquirers of assets from NAMA Borrowers and NAMA covered institutions. The unit has also advised clients in relation to the Irish Government guarantee schemes (CIFS and ELG) as well as in relation to their holding of senior and subordinated bank debt.
- The firm also has the largest investment fund practice in Ireland where it advises some of the world's largest hedge funds on establishment, redomiciliation and structuring across legal, regulatory and tax matters. The firm has offices in Dublin, Boston, New York and Tokyo and a strategic alliance with leading Luxembourg law firm Arendt & Medernach. For further information please go to www.dilloneustace.ie.

Grant Thornton – Overview

- Grant Thornton in Ireland comprises 32 partners and over 400 staff operating from offices in Dublin, Limerick, Newbridge and Galway.
- Our comprehensive range of services include: audit and assurance, tax planning and compliance, corporate finance, business risk services, strategic and financial consulting, personal financial planning, and corporate recovery services. We have a dedicated financial services team who provide audit, tax and specialist advisory services specifically to the financial services sector.
- We are a member firm within the Grant Thornton International Limited ("Grant Thornton International"); one of the world's leading international organisations of independently owned and managed accounting and consulting firms. Clients of member and correspondent firms can access the knowledge and experience of over 2,400 partners in over 100 countries and consistently receive a distinctive, high quality and personalised service wherever they choose to do business

Glas Securities Overview

- Glas Securities was established in March 2009 and is regulated by the Irish Central Bank since October 2009. Glas specialises in Agency Broking of Irish Fixed Income products such as Irish Government Bonds, Irish Government Guaranteed Debt, Irish Bank senior & subordinated debt and Irish Corporate Debt.
- The principals of Glas have extensive experience over the last 20 years in all aspects of Fixed Income: Sales, Trading, Research, Advice & Regulation. Research is the cornerstone of the Firm's business and is increasingly regarded as the most informative, unbiased and comprehensive research available in the Irish Fixed Income market. Domestic Irish clients accounted for the largest portion of the client base in the start-up phase of the Firm but international clients are increasingly becoming the engine of growth for Glas in recent months with a client base that currently spans four different continents.
- Glas has selected Pershing Securities (part of Bank of New York Mellon) as its Clearing & Settlement Agent. To date, Glas has executed trades with over 100 clients and its market share in Irish Fixed Income products continues to expand.
- Glas also provides an Advisory & Solutions service to its clients which include Basle III advice, Regulatory & Credit risk modelling, and Asset Liability Management solutions. For further information, please call + 353 1 685 3970 or email info@glassecurities.com.



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