



SPECIAL REPORT

●Daire O'Brien on the sizzle in sport

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SKY IS THE LIMIT

State Street chief Jay Hooley has grand ambitions

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IL&P needs to raise €600m before pursuing merger plan

Bancassurer suffers €196m loss as bad loan provisions hit lender

FINANCIALS

Joe Brennan

IRISH Life & Permanent's boss Kevin Murphy said the group will need to raise up to €600m from shareholders before it can push its loss-making bank into an industry merger.

The cash would be required to cushion Permanent TSB's balance sheet so it could stand independently from the life business.

The bancassurer swung into an operating loss of €196m last year, as bad loan losses and high funding costs hit the bank. Sales dropped by a third in the life business.

It remains uncertain whether the Government will give Permanent TSB the go-ahead to pursue its preferred option of tying up with EBS and Irish Nationwide, which are in merger talks.

Yesterday, group finance director David McCarthy also suggested the possibility of the bank partnering with British-owned Ulster Bank or even nationalised Anglo Irish Bank as the industry consolidates.

Mr Murphy ruled out going cap-in-hand to the market until he had details of a deal in place. "Typical calculations have focused on raising between €500m and €600m in a rights issue," he said.

Bad loan provisions jumped 84pc in the Permanent TSB arm to €376m last year - though most analysts had expected the figure to top

€400m. It pushed the bank into an operating loss of €270m.

At Irish Life, normally the source of two-thirds of group earnings, operating profits tumbled to €102m from €284m for 2008. It was hit by a 32pc drop in new sales as well as increased lapses in life and pension plans - or what is known in the industry as 'negative persistency'.

Still, new life sales came in better than the almost 40pc decline expected by the market, enjoying a boost in the run-up to last December's Budget.

Forecast

Irish Life & Permanent (IL&P) is sticking to its forecast that its combined loan impairment charge over three years should come in between €800m and €900m, or 2.05pc-2.3pc of loans. It expects impairments to peak this year.

But NCB Stockbrokers analyst Ciaran Callaghan said: "Our more conservative forecast assumes losses of 2.7pc - or €1.1bn - over the same period." Impaired loans jumped to €753m from €128m at the end of 2008.

The pace of increase in non-performing Irish mortgages eased in the second half of last year. At the end of December, 3.9pc of accounts - or 7,228 cases - were at least 90 days in arrears, although an estimated 22pc of customers were suffering the effects of negative equity.

When asked to what extent Permanent TSB is restructuring mortgage payments, David



Chairman Gillian Bowler and group chief executive Kevin Murphy at the publication yesterday of IL&P's 2009 results at their headquarters in Dublin. STEVE HUMPHREYS

Guinane, head of the banking arm, said about 7,000 customers were renegotiating their payments. Half were making interest-only payments, with the remainder divided between people on a three-month holiday or paying less than full interest, he said.

Permanent TSB faced down tough criticism by increasing its standard variable mortgage rates twice by 0.5 percentage points during the past nine months.

But Mr Murphy said its net interest margin, which fell from 1.05pc to an industry-low of 0.83pc, would have been hit by a further 0.11 points had

last July's rate increase not taken place. The net interest margin is the difference between the bank's own funding costs and what it charges customers.

Mr Murphy agreed with AIB managing director Colm Doherty's comments on Tuesday that the market was

"dysfunctional", as lenders continued to pay more for funding than what they can charge customers.

But he said it would be the middle of the year before banks would be able to start lowering their deposit rates, as the effects of the liquidity boost from the National Asset

Management Agency begins to be felt. Meanwhile, IL&P's accounts note that the group remains the subject of investigations in relation to its controversial deposits with Anglo Irish Bank in 2008.

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€4.8bn 'austerity' package approved by Greece

BUDGET CRISIS

Christos Ziotis

GREEK Prime Minister George Papandreou's government yesterday approved an additional €4.8bn in spending cuts and tax rises as he tries to convince European allies and investors that he can reduce the euro area's biggest budget gap.

The new austerity package includes an immediate freeze on pensions, further salary cuts for public sector workers and sharp increases in excise and value added taxes.

There will also be a 30pc cut in three bonus salary payments civil servants receive at holiday times. Trade unions joined left-wing politicians in saying the measures would spark a new round of strikes, starting next week.

Backlash

Pensioners marched to the Finance ministry in Athens yesterday to demonstrate against planned changes to reduce the cost of the pension system.

Mr Papandreou risks a backlash at home by agreeing to greater austerity measures after the European Union demanded more cuts before member states would come to Greece's aid.

The announcement comes as Mr Papandreou prepares to meet German Chancellor Angela Merkel on March 5 and French President Nicolas Sarkozy on March 7 to discuss Greece's financing woes.

"Today's announcement is as much about giving other EU governments more political capital in the event that they do eventually need to provide liquidity to Greece," said Gary Jenkins, head of credit research at Evolution Securities in London.

"They can make the claim to their own taxpayers that Greece has taken further measures as

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FBD set to hike premiums as floods and cold slash profits

INSURANCE

Thomas Molloy

FBD, the country's second largest insurer, said underlying earnings halved last year as the recent floods and cold snap ate into profits and forced unusually high payouts.

FBD forecast a return to profit this year as it forces through higher charges for customers.

Chief executive Andrew Langford said that the economic environment and poor weather conditions made 2009 an extremely challenging year for the insurance industry but noted that the rate of contraction in the Irish economy has now slowed.

A measure of just how serious the recent floods and storms were can be seen in the €550m cost to the industry compared to total weather-related costs of just €330m for the entire previous decade.

November's floods and December's freeze cost FBD €13.5m, while the freezing weather at the beginning of this

Headline figures

- Eps 75 cents (-56pc)
- Pre-tax loss €34.6m (10.3pc)
- Dividend 30 cents (-25pc)
- Sees return to earnings growth in 2010

year cost another €12m net of reinsurance, Mr Langford added.

Houses built on flood plains and prone to flooding will see an increase in insurance costs to reflect the extra risk, while houses built in towns and cities which have new flood defences, such as Mallow and Kilkenny, will see premiums fall, Mr Langford said.

The company now expects to charge customers close to 10pc more for home insurance this year after smaller hikes last year and the previous year.

FBD reported adjusted operating earnings of €28.8m, or 75c per share, down from 172 cents the previous year. Mr Langford forecast operating earnings per share will reach

Continued on Page 2 with Analysis

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