

Bloxham Irish Banking Survey

Friday February 26th , 2010

Executive Summary:

The Irish economy continues to face some significant hurdles to recovery. While much progress has been made, reflected in the strong bond market performance recently, the restructuring and recapitalisation of the Irish banking sector remains pivotal to the economy's prospects.

Against this backdrop, we conducted our second Irish Banking Survey to gauge investor attitude towards the developments in the Irish banking sector and the Irish economy, with the view to building some consensus about investor expectations for the future. We feel this was of particular importance given the size of the retail ownership in the Irish banks.

Three main areas were covered in the February 2010 survey:

- a) the level of confidence in the Irish economic recovery
- b) the sentiment toward NAMA's effectiveness
- c) support for Bank of Ireland and Allied Irish Bank, and the differing views on the Government's role in the re-capitalisation process

Summary of the Findings:

- **Sentiment toward Ireland:** 77% of institutional respondents and 63% of retail respondents feel that the case for investing in Ireland, through either equities or bonds, has improved over the past 12 months. From a macro viewpoint, the relatively high level of support is a positive for Irish investment prospects, particularly among institutional investors. Expectations for the Irish economy remain unchanged from when we completed our first survey in July 2009, with 65% of respondents expecting a recovery in the economy before the second half of 2011. 25% of retail respondents and 38% of institutional respondents expect a recovery in GDP in 2010.
- **Support for rights issues:** The majority of bank shareholders would be supportive of a rights issue at AIB and Bank of Ireland. However, there was declines in retail support for rights issues in both banks since we completed the July 2009 survey, but overall support remains relatively high. Bank of Ireland received greater institutional and retail support for a rights issue than AIB as was the case in July.
- **Opinion on NAMA:** The National Asset Management Agency (NAMA) receives a resounding vote of confidence with 80% of respondents feeling that the agency has/will improve sentiment toward the Irish economy. Institutional investors are slightly more confident on the agency's impact, but support generally is widespread across investors.
- **Views on Government majority stake:** Over 60% of respondents feel that a majority stake by Government (>50%) would negatively impact their decision for future investment in the Irish banks. This rose to 69% among holders of AIB and Bank of Ireland, illustrating the pronounced impact on shareholders should the Government end up with majority stakes.
- **House Prices:** In July 2009, the majority of investors (78%) saw house prices falling by more than 5% in the next 12 months. This has fallen to 45%, reflecting a significant improvement in sentiment toward the property market generally. Retail respondents are markedly more positive on house prices than institutions.

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The survey was conducted from Thursday 2.30 pm February 18th 2010 to Tuesday 23rd February 2010.

Of the 490 respondents, 465 completed the survey. The majority of the respondents were from the Bloxham retail distribution list, with 40 Institutional Investors contributing to the survey.

Objectives and conclusions

We covered a range of topics within the 2nd Irish Banking Survey with the objective of garnering consensus on a range of key issues for the economy and the banking sector. In particular, our key areas of interest were:

- Had sentiment toward the Irish investment case improved over the past 12 months? Would any improvement have been driven by domestic economic expectations?

While respondents believe that the Irish investment story has improved over the past 12 months, particularly among institutional investors, economic expectations since July have not generally improved. This leads us to conclude that either much of the recovery already seen in the Irish market is being driven by non domestic factors at this stage, or simply that economic performance is in line with expectations. However, respondents who were positive on the Irish investment case over the last 12 months also had higher general expectations for the economy.

- Did the view on Irish house prices improve since we conducted the first survey in July 2009?

Investors were generally more positive on Irish house price expectations, with calculated consensus of a 5% fall in house prices in the next 12 months from February 2010. This compares to a calculated consensus expectation of a 9.5% fall in July 2009. 1 in 5 respondents now feel house prices will rise in the 12 months compared to just 4% in July.

- Had support for potential rights issues at Bank of Ireland and AIB improved/deteriorated? Would differences in support emerge between institutional and retail respondents?

The majority of bank shareholders would be supportive of a rights issue at AIB and Bank of Ireland. However support levels have decreased among retail respondents since the July survey, from 66% to 55% in AIB, and from 75% to 65% at Bank of Ireland. Institutional support for a Bank of Ireland rights issue had actually increased during the period since July 2009.

- Was the positive impression of NAMA's impact on the economy among the investment community remaining at a high level seen in the July survey, despite delays in implementation and concerns over the loan valuations?

The positive view on NAMA's impact on the economic prospects of the country remained steady since the summer with 84% of respondents believing that it had/will improve sentiment toward Ireland's economic prospects. This is actually higher than in July, suggesting that despite delays, NAMA is still being viewed as a significant positive for the economy.

- Would the conversion of part or all of the €3.5bn Government preference stake in both AIB and Bank of Ireland be seen as a negative?

Given the impending re-capitalisation of the Irish banks, and the coupon stopper which resulted in the Irish Government increasing its stake in Bank of Ireland the role that the preference shares will play has taken on significant relevance. A slight majority of respondents felt a conversion would be a positive as part of the funding solution. However, this support dipped sharply after the increase in the Government stake in Bank of Ireland, suggesting that investors began to realise the implications of conversion.

- Would investors prefer to be offered an interest bearing instrument rather than subscribe to a rights issue in either bank?

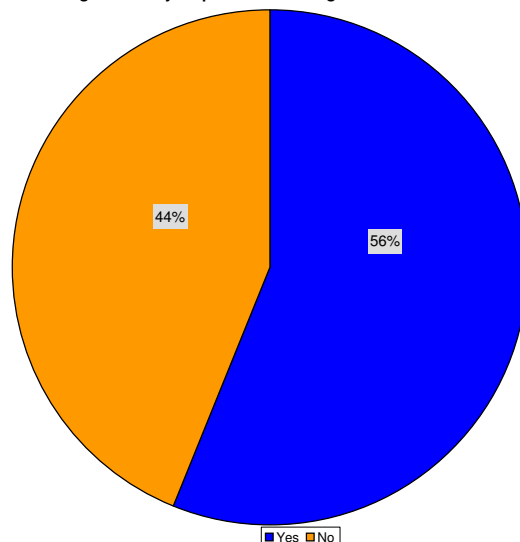
This question was particularly targeted at the retail component of the survey, to review the possibility that an income bearing instrument could form part of the funding alternatives for the Irish banks. As expected, the majority of retail respondents (65%) would favour an income bearing instrument, possibly reflecting the importance of dividend income in the investment decision for a retail buyer.

- Did investor sentiment dip toward the Irish banks after the 15.7% stake in Bank of Ireland was taken by the Irish Government?

One third of the respondents completed the survey after this event. The biggest move in investor sentiment after the Government took the stake in Bank of Ireland last Friday, was in attitude toward the preference shares conversion. Support for a conversion of the preference shareholding dropped substantially from 54% in Bank of Ireland to just 28% among Bank of Ireland retail shareholders.

For AIB retail shareholders, the drop was less severe, moving from 47% to 34%. The drop in support may well be attributed to the realisation of the consequences of a conversion on existing shareholders. Non bank shareholders saw a drop in support for conversion from 63% to 54%, but the majority remained positive on conversion.

Percentage of survey respondents holding shares in Bank of Ireland or AIB:



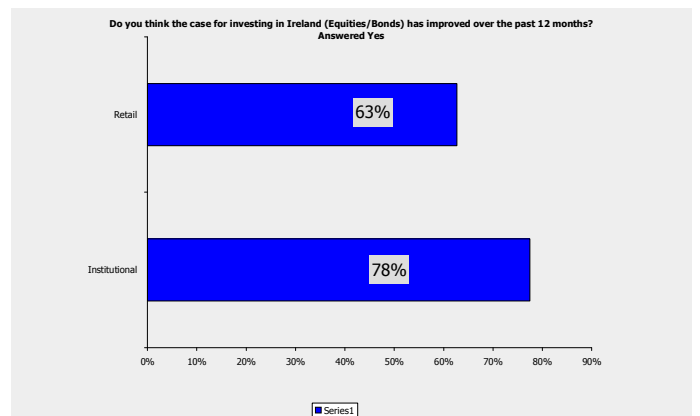
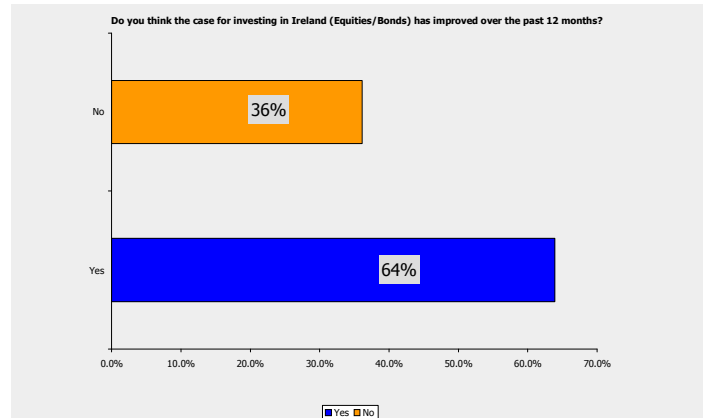
Case for investing In Ireland

In the survey we asked did respondents think that the case for investing in Ireland (Equities/Bonds) has improved over the past 12 months.

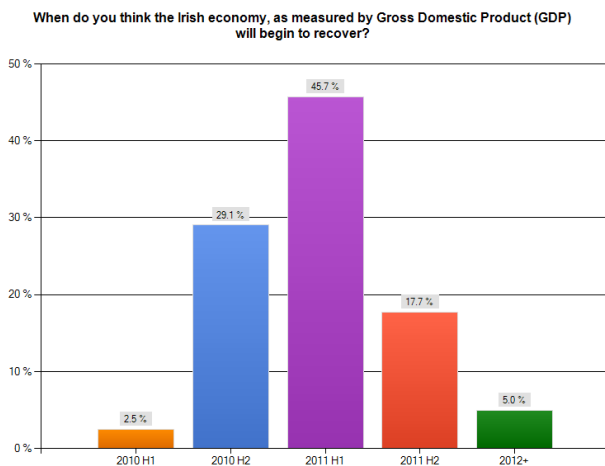
In total 64% of total respondents felt that the case for investing had improved in the past 12 months.

78% of institutional respondents and 63% of retail respondents believe that the case for investing in Ireland, through either equities or bonds, has improved over the past 12 months. From a macro viewpoint, the relatively high level of support is a positive for Irish investment prospects, particularly among institutional investors.

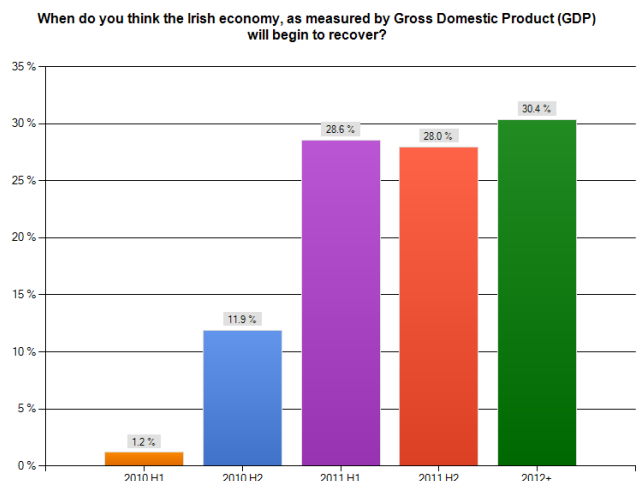
While respondents believed that the Irish investment story had improved over the past 12 months, particularly among institutional investors, economic expectations since July had not generally improved. This leads us to conclude that either much of the recovery already seen in the Irish market is being driven by non domestic factors at this stage, or simply that economic performance is line with expectations. However, respondents who were positive on the investment case for Ireland in the last 12 months also had higher general expectations for the economy.



Positive on Irish investment case:



Negative on Irish investment case:



Those respondents who felt that Ireland's investment prospects had improved in the past 12 months, held higher expectations for the economic prospects going forward. 78% of this set of respondents felt recovery would happen before H2 2011, and held higher than average approval for NAMA at 92%, compared with the average of 80%. Among respondents who felt the Irish investment case had not improved in the past 12 months, just 42% felt the recovery would take place before H2 2011. Not only is approval for NAMA directly linked to positive sentiment on the Irish investment case but also for economic expectations, reflecting the importance to the operation of the agency to investors perception of Ireland.

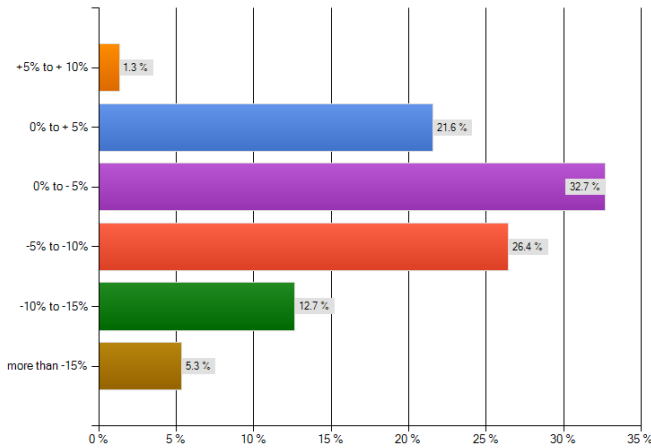
View on Irish house prices

We asked in the survey: what percentage move do you think is likely for Irish house price in the next 12 months?

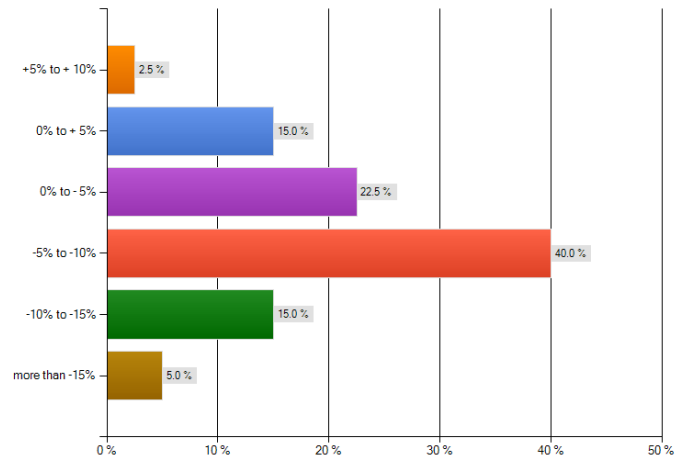
Retail Respondents

Institutional respondents

What percentage move do you think is likely for Irish house prices in the next 12 months? (Retail respondents)



What percentage move do you think is likely for Irish house prices in the next 12 months? (Institutional respondents)

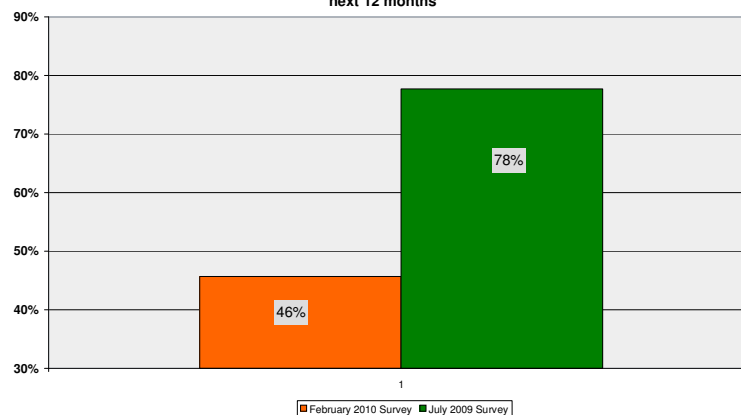


In July 2009, the majority of investors (78%) saw house prices falling by more than 5% in the next 12 months. This has fallen to 45%, reflecting a significant improvement in sentiment toward the property market. Retail respondents are markedly more positive on house prices than institutions.

Investors were generally more positive on Irish house price expectations, with calculated consensus of a 5% fall in house prices in the next 12 months from February 2010. This compares to a calculated consensus expectation of a 9.5% fall from July 2009. 1 in 5 of respondents now feel house prices will rise in the 12 months compared to just 4% in July.

For institutional respondents, the majority still believe that prices have not bottomed yet. That is consistent with the view on the economic recovery, as it is hard to see the housing market stabilising until conditions in the overall economy improve.

% of total respondents who expect house price will fall by more than 5% in next 12 months

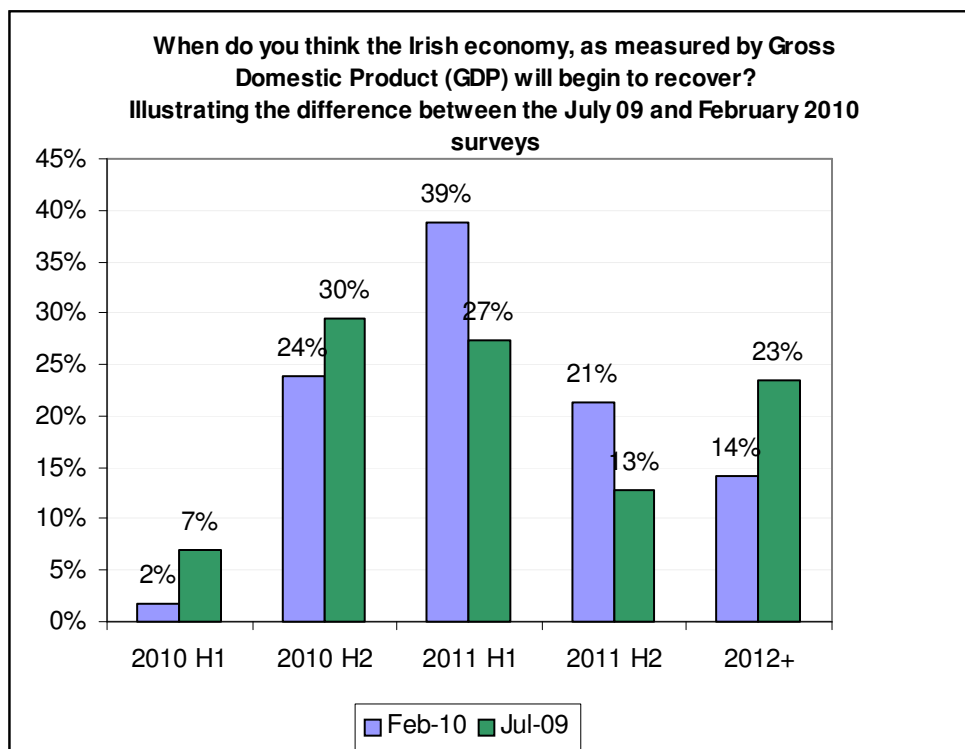


Expectations for the Irish Economy

We asked in the survey: when do you think the Irish economy, as measured by Gross Domestic Product (GDP) will begin to recover?

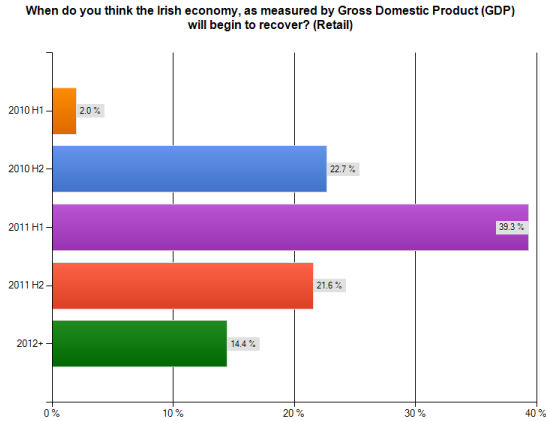
Expectations for the Irish economy remain unchanged from the first survey in July 2009, with 65% of respondents expecting a recovery in the economy before the second half of 2011. 25% of retail respondents and 38% of institutional respondents expect a recovery in GDP in 2010. However, consensus has now tightened with expectations of an economic bottom by H2 2010 or H1 2011.

- As to when the Irish economy (as measured by GDP) will begin to recover, the majority of respondents do not see a pick-up until the second half of 2010 at the earliest.
- 99% of investors do not see a recovery in GDP until at least the second half of 2010. This confirms the prospects for the economy are at least performing inline with the expectations during our summer survey, or at worst have seen little improvement in sentiment. In the context of what is happening to the domestic economy, this is an extremely high result.
- As already mentioned, the whole NAMA issue is continuing to influence people's perception of the economic landscape. In overall terms we would interpret the results on the GDP question as reflecting the fact that Ireland has yet to follow the western economies out of recession.
- Resilience of Irish exports in 2009, despite poorer global conditions, lead us to forecast that Ireland will see a return to positive growth in the second half of 2010. Nearly 40% of institutional investors are in agreement, with 70% expecting a return to growth by at worst H1 2011.
- While much uncertainty over the domestic economic picture remains, consensus appears to be tightening, with the number of respondents holding the most pessimistic forecast for the economy halving since July 2009.

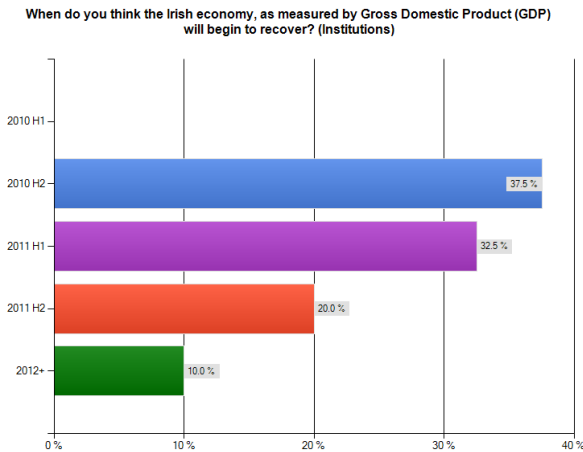


February 2010 Survey

Retail Respondents

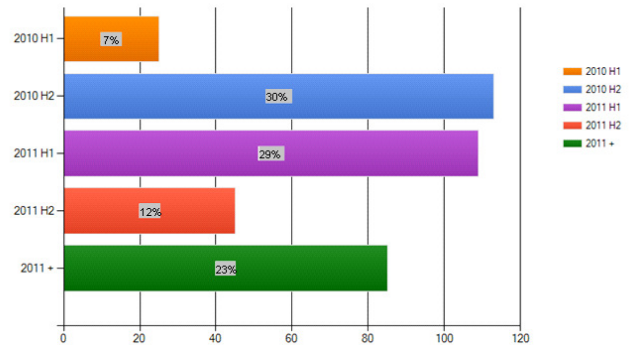


Institutional Respondents

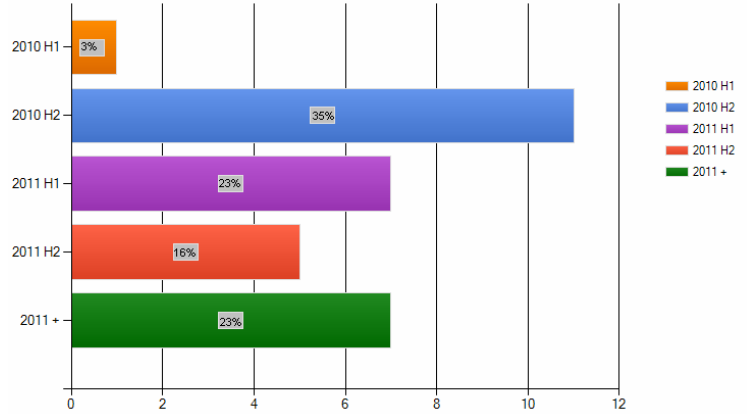


July 2009 Survey

When do you think the Irish economy, as measured by Gross Domestic Product (GDP) will begin to recover?



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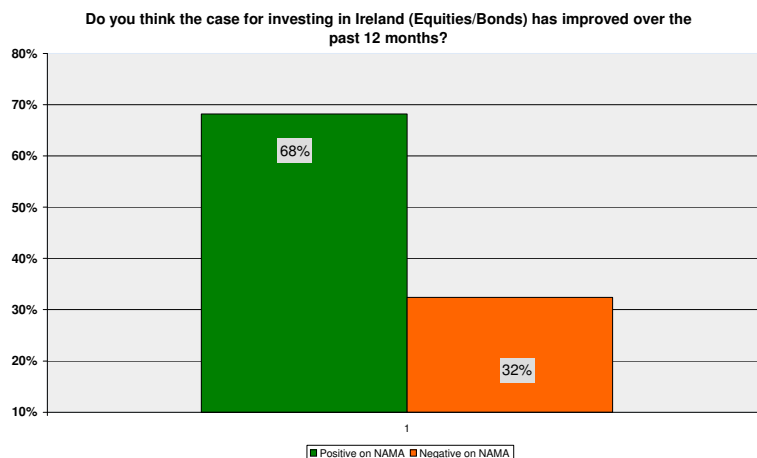


View on NAMA

The creation of NAMA is continuing to have a positive impact on investors attitude toward the economy. In line with the finding of the July survey, NAMA once again received a high level of support, with over 80% of respondents feeling that it has/will improve sentiment for Ireland's economic prospects. This is slightly ahead of the level of support seen in July despite delays in the implementation of NAMA.

In February 2010, 80% of institutional respondents believed NAMA would have a positive impact on the banking sector's prospects for recovery, compared with 84% in July. Among retail respondents, 84% are positive on NAMA compared with 70% in July.

Of all the findings of the survey, NAMA again received comprehensive vindication in the eyes of investors. This is ahead of the actual transfer of any assets, but the level of confidence in NAMA's positive impact on economic sentiment is encouraging. In particular Institutional Investors are showing higher level of confidence in the potential impact of NAMA.

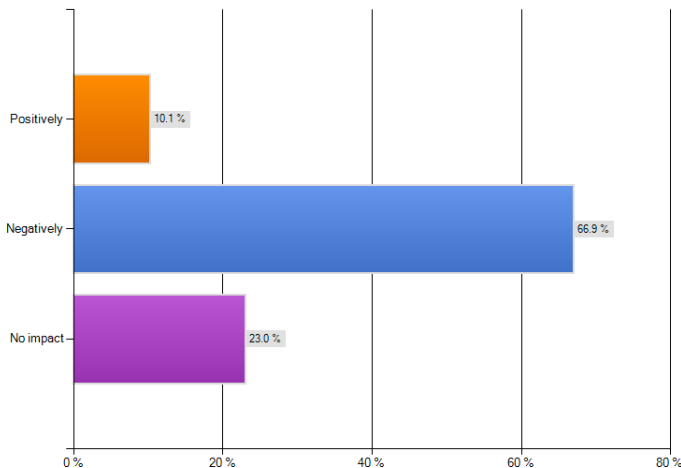


Bank of Ireland– investor sentiment

Of all respondents, 57% held shares in Bank of Ireland and we asked these a number of questions concerning investor opinion. Specifically, we looked at how investors would view a controlling stake in the bank by Government, general support for a potential rights issue and the views on the potential conversion of the Government preference shares to equity.

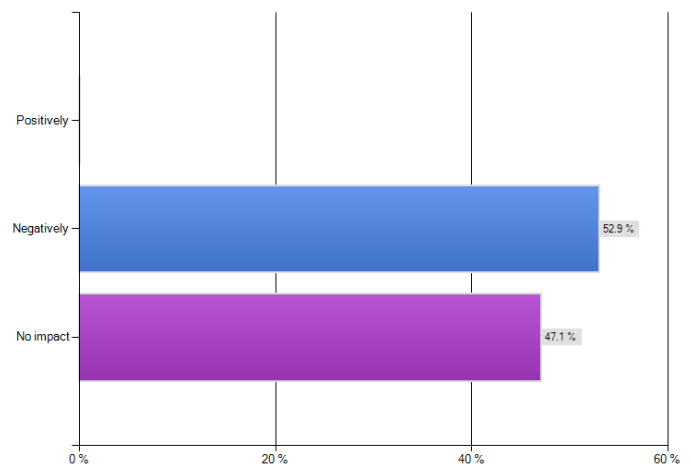
Retail Respondents

How would a controlling stake (>50%) by the Irish Government impact on your decision for future investment in Bank of Ireland? (Retail Bank investor)



Institutional Respondents

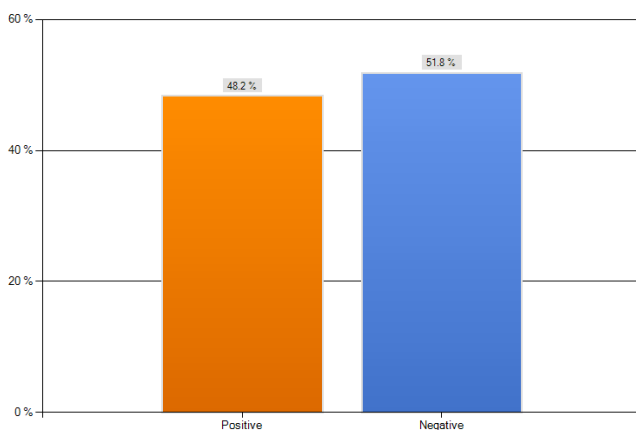
How would a controlling stake (>50%) by the Irish Government impact on your decision for future investment in Bank of Ireland? (Institutional Bank investor)



Over two thirds of retail bank shareholders felt that a controlling stake by the Irish government, greater than 50%, would negatively impact their decision for future investment in Bank of Ireland. 53% of institutional bank shareholder held the same view. Importantly, the “majority stake threshold” is an important factor on the future attractiveness of Bank of Ireland to investors.

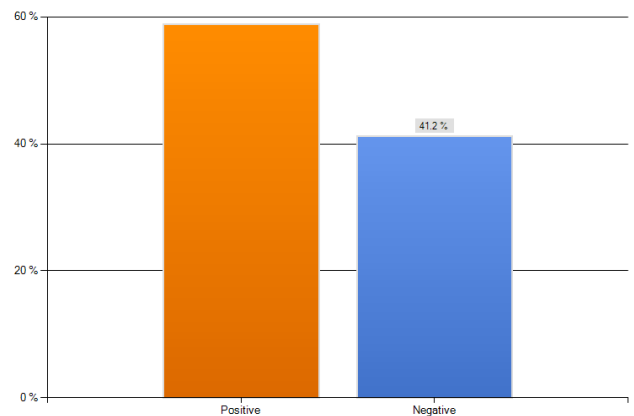
Retail Respondents

Would the conversion of part or all of the €3.5 billion Government preference shares into equity be seen as a positive/ negative as part of a funding solution for Bank of Ireland? (Retail Bank holders)



Institutional Respondents

Would the conversion of part or all of the €3.5 billion Government preference shares into equity be seen as a positive/ negative as part of a funding solution for Bank of Ireland? (Institutional Bank investor)



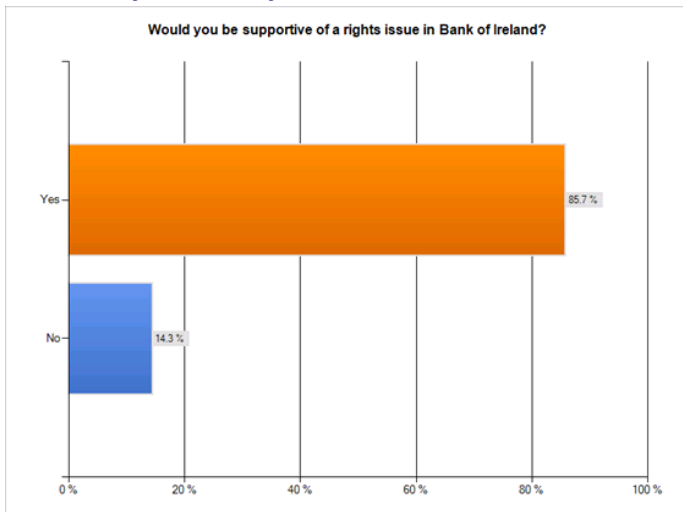
58% of institutional bank investors hold the view that a part or complete preference conversion would be a positive as part of the funding solution for Bank of Ireland. Among retail shareholders, no clear majority was seen for the role of the preference shares.

Importantly, support for a conversion of the preference shareholding dropped substantially from 54% in Bank of Ireland to just 28% among Bank of Ireland retail shareholders after the Government took a 15.7% stake in the bank.

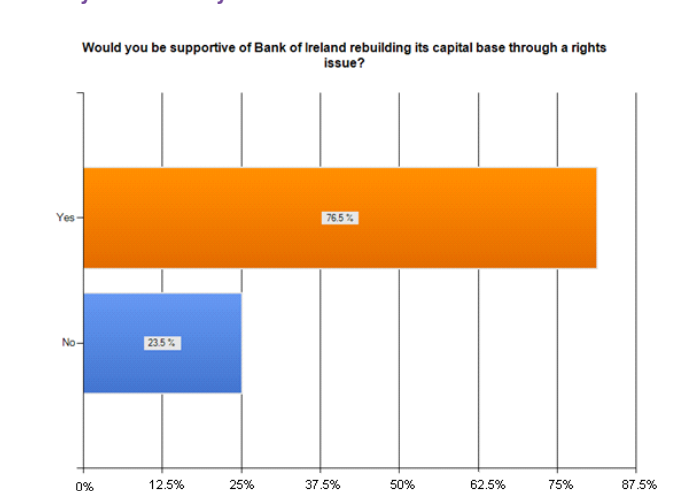
Bank of Ireland– investor sentiment

BOI Institutional Shareholders:

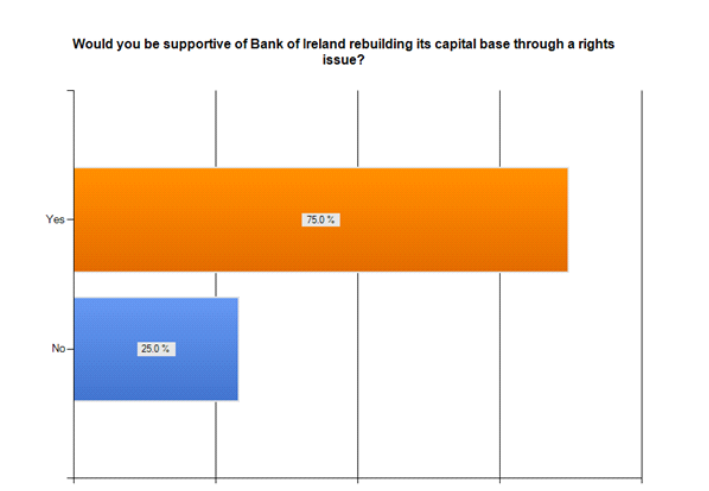
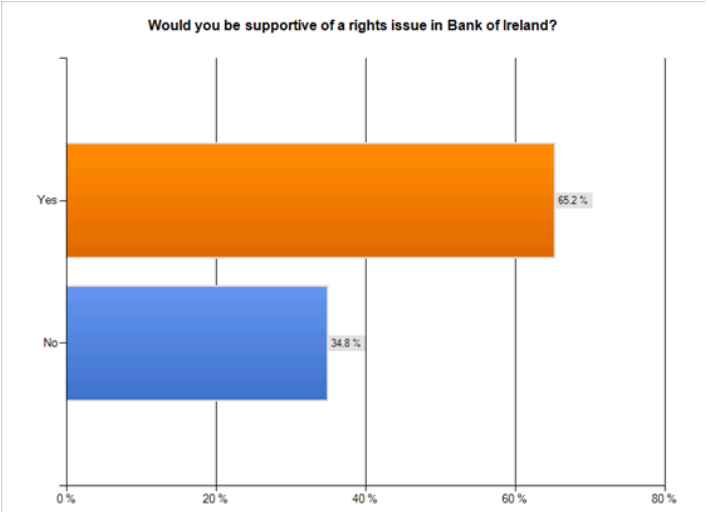
February 2010 survey



July 2009 survey



BOI Retail Shareholders:



Conclusions:

The question on the rights issue shows that support has decreased by 9.8% among retail shareholders to 65% since July. Interestingly, however support among institutional investors has increased by 9% to 77% during the period. Overall support among shareholders for a rights issue remains high, particularly among institutional investors who we assume would have a greater understanding of the implications of NAMA and the recapitalisation plan on dilution.

The potential for a successful rights issue is dependent on a range of factors, including price, size and dilution but a relatively strong level of support for a “non Government” recapitalisation is positive.

Given the sizable retail shareholder base in Bank of Ireland, the results, if reflective of the total holders, are a theoretically positive to funding at the bank. However, with the implications of a Government majority stake seen as a negative by the majority of respondents, the role and eventual stake of Government will be critical.

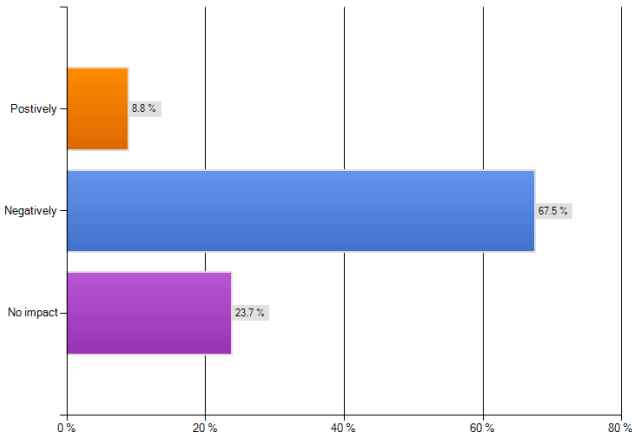
Sentiment toward Bank of Ireland has remained relatively stable since the July 2009 survey, despite the volatility in the share price.

Allied Irish Bank– investor sentiment

Of all respondents 36% held shares in AIB in this survey. We asked a number of questions concerning investor opinion on AIB. Specifically, we looked at how investors would view a controlling stake in the bank by Government, general support for a potential rights issue and the views on potential conversion of the Government preference shares in equity.

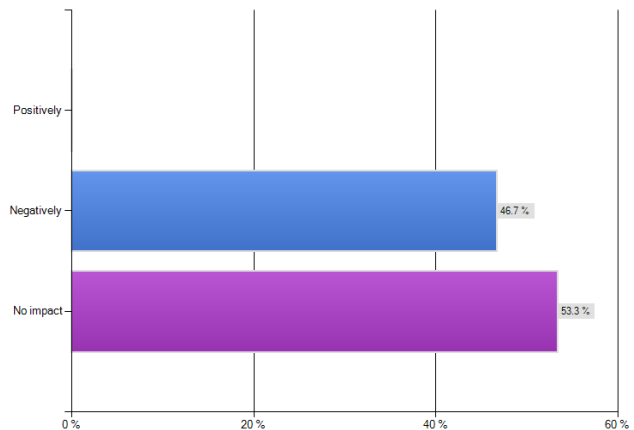
Retail Respondents

How would a controlling stake (>50%) by the Irish Government impact on your decision for future investment in Allied Irish Bank? (Retail Bank Investor)



Institutional Respondents

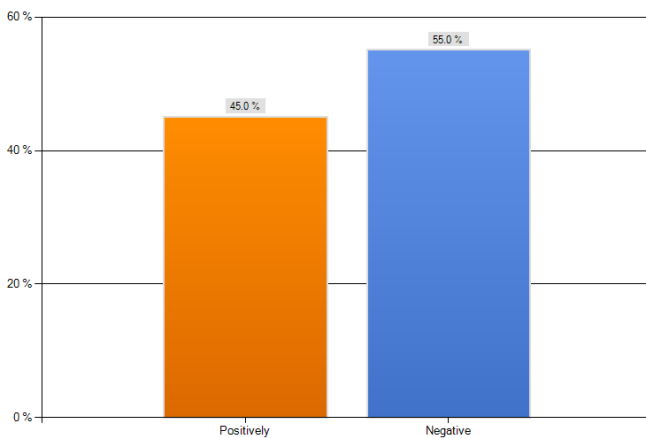
How would a controlling stake (>50%) by the Irish Government impact on your decision for future investment in Allied Irish Bank? (Institutional Bank Investor)



As in the case for Bank of Ireland over two thirds of retail bank shareholders felt that a controlling stake by the Irish government, greater than 50%, would negatively impact their decision for future investment in Allied Irish Bank. 47% of institutional bank shareholders held the same view. Importantly, the “majority stake threshold” is an important factor in the future attractiveness of Allied Irish Bank. However, over half of the Irish bank shareholders felt the majority stake would have no impact on their future investment decision.

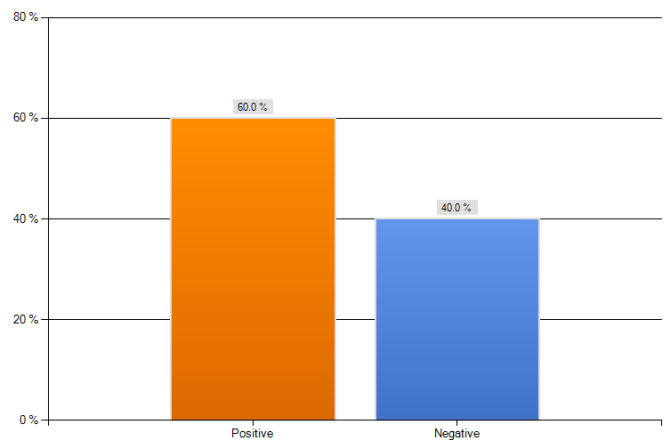
Retail Respondents

Would the conversion of part or all of the €3.5 billion Government preference shares into equity be seen as a positive/ negative as part of a funding solution for Allied Irish Bank? (Retail Bank Investor)



Institutional Respondents

Would the conversion of part or all of the €3.5 billion Government preference shares into equity be seen as a positive/ negative as part of a funding solution for Allied Irish Bank? (Institutional Bank Investors)



As with Bank of Ireland, 60% of institutional bank investors hold the view that a part or complete preference conversion would be a positive as part of the funding solution for AIB. Among retail shareholders, the majority see a conversion as a negative.

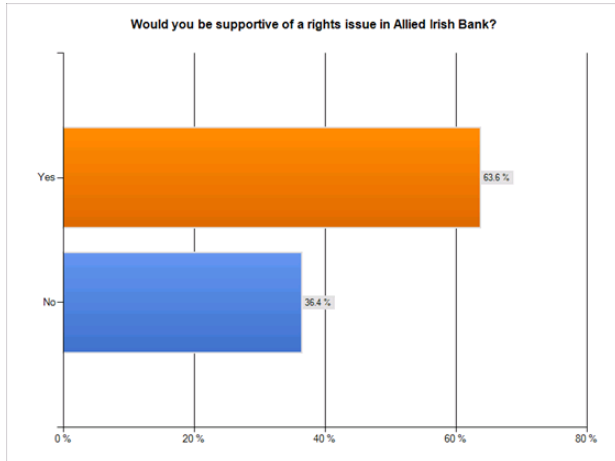
What impact did the 15.7% stake taken by the Irish Government in Bank of Ireland have?

For AIB retail shareholders, support for a conversion slides from 47% to 34%. The drop in support may well be attributed to the realisation of the consequences of a conversion on existing shareholders.

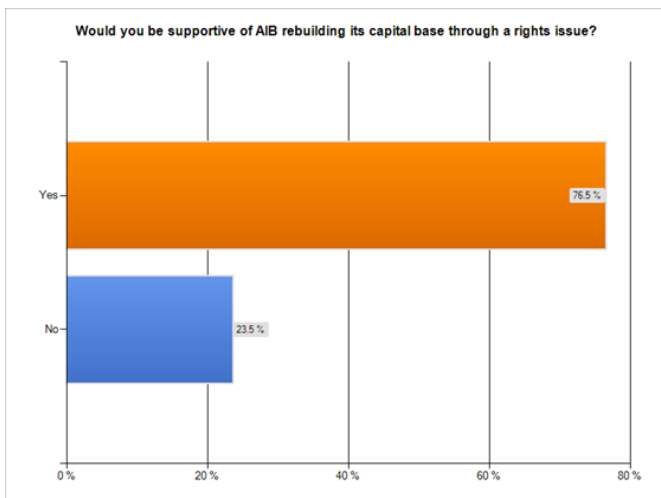
Allied Irish Bank– investor sentiment

AIB Institutional Shareholders:

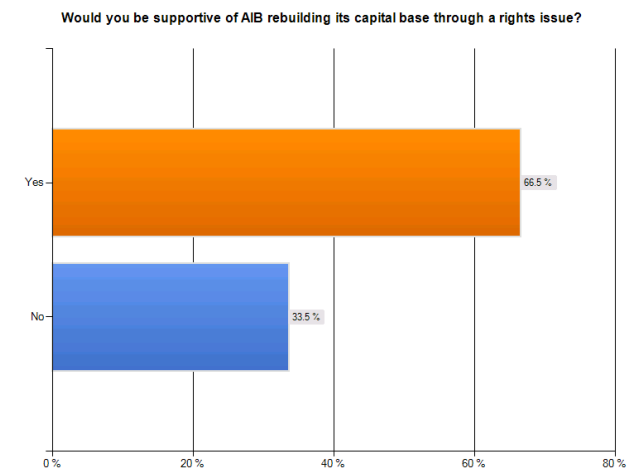
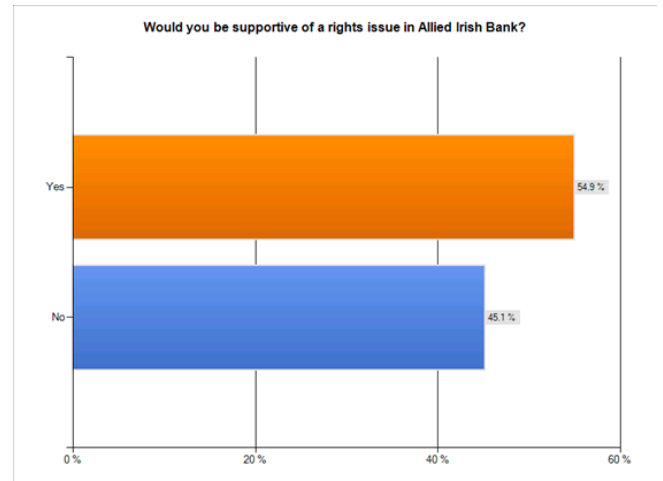
February 2010 survey



July 2009 survey



AIB Retail Shareholders



Conclusions:

Support for a rights issue among shareholders in AIB has decreased by 12% among retail shareholders to 55% since July. A similar fall of 12% among institutional holders is seen, with 64% of institutions holders surveyed still in support of a rights issue. However, once again overall support for a rights issue remains in the majority as in the July 2009 survey. It is important for the banks and potentially the Government, that a future source of capital aside from the Irish state, is theoretically well supported.

The potential for a successful rights issue is dependent on a range of factors, including price, size and dilution but a relatively strong level of support for a “non Government” recapitalisation is positive. As with Bank of Ireland, the implications of a government stake is seen as a negative by the majority of respondents, particularly in the retail space. Equally investor sentiment towards the impact of the preference share conversion has been relatively mixed. As with BOI, retail clients are split almost evenly, with 45% seeing the preference share conversion as a positive and 55% seeing it as a negative for AIB. On the institutional side 60% see preference share conversion as a positive and 40% as a negative. This is generally inline with the findings for BOI.

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