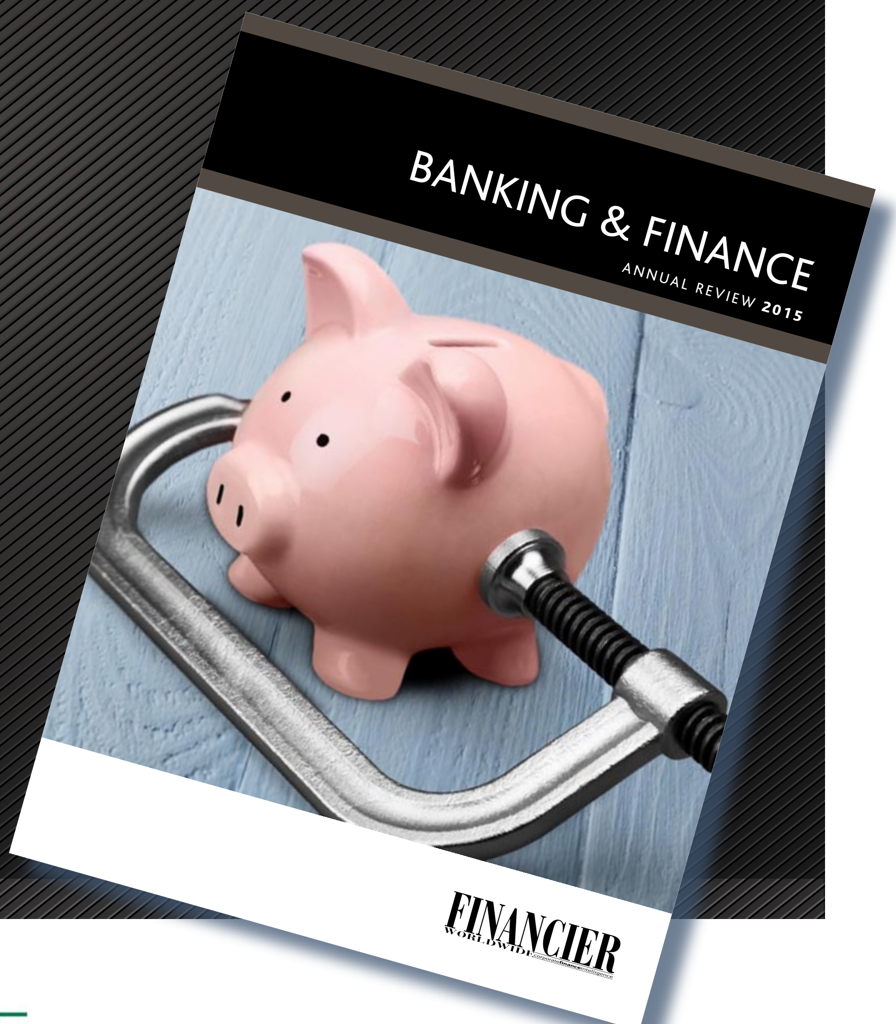
ANNUAL REVIEW

BANKING & FINANCE



REPRINTED FROM

ONLINE CONTENT
DECEMBER 2015

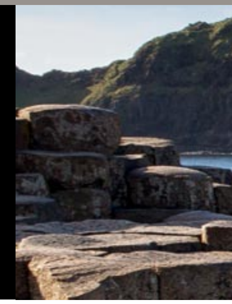
PREPARED ON BEHALF OF

DILLON EUSTACE

FINANCIER WORLDWIDE corporatefinanceintelligence

IRELAND

JOHN-HUGH COLLERAN
DILLON EUSTACE SOLICITORS



Q COULD YOU PROVIDE A BRIEF OVERVIEW OF RECENT BANKING AND FINANCE ACTIVITY IN IRELAND? ARE BANKS IN GENERAL DEMONSTRATING A STRONG APPETITE TO LEND TO CORPORATES?

COLLERAN: Banks and financial institutions in the Irish market have continued to deleverage their balance sheets on a large scale by way of loan sales to international investors. However, after much loan sale activity by almost all of the traditional players in the market over the past two to three years, the end of this phase is now in sight. The National Asset Management Agency (NAMA), which initially assisted in deleveraging the five participating Irish financial institutions, is now well advanced in disposing of its acquired loan book and was the most active Irish seller so far in 2015. It is anticipated that NAMA will dispose of the bulk of its remaining assets during 2016. It has been evident during the year to date that the focus of the remaining traditional banks is now shifting from deleveraging and workout of their challenged loan books and they are increasingly willing to lend new monies, albeit still subject to relatively strict credit approvals.

Q WHAT TYPES OF FINANCING SEEM TO BE POPULAR? ARE NON-TRADITIONAL DEBT SOURCES PLAYING A NOTABLE ROLE IN SERVICING CORPORATE DEMAND FOR DEBT IN IRELAND?

COLLERAN: While the lending appetite of Irish banks has been increasing, there are still capital constraints and a greatly reduced number of players in the banking market. Accordingly, there is a strong demand for credit among Irish corporates and SMEs, and non-bank lending has been stepping in to fill this credit gap. For large corporates, the private placement bond market has been an increasingly popular source of finance. Institutional investors, encouraged by the Irish government, have also been moving into this space. In particular, US and UK investment companies have been entering into joint ventures with local partners to lend to Irish borrowers. Similarly, joint ventures have been formed between asset managers with dedicated lending funds and Irish state owned entities, such as the Ireland Strategic Investment Fund. With banks typically only willing to fund 60 to 65 percent LTV, mezzanine lenders have also been bridging the gap.

Q HOW WOULD YOU DESCRIBE INTEREST RATES, COVENANTS AND OTHER TERMS APPLIED TO DEBT OFFERINGS IN THE CURRENT MARKET?

COLLERAN: For large corporates with a strong credit proposition, access to finance is quite readily available and at competitive rates. This has been assisted by the growth in the economy, eurozone interest rates remaining at record lows and liquidity measures imposed by the ECB to boost supply. Furthermore, there is increased competition among banks, non-bank lenders and capital markets. Accordingly, some loosening of covenants is also evident at this end of the market. However, SMEs and smaller corporates are being subjected to much more robust credit analysis and, where lending is approved, it is subject to higher margins and to lower gearing levels. Banks are also applying a relatively conservative risk assessment approach and stringent stress testing, whereby, for instance, lending propositions are tested for a simultaneous drop in income and an increase in interest rates. Another feature of current lending to SMEs and mid-size corporates is shorter loan terms, with aggressive repayment schedules where there is proven capacity.

Q ARE LENDERS TAKING ALL PRECAUTIONS TO ENSURE THEY GAIN SECURITY OVER ASSETS? WHAT CONCESSIONS MAY DEBTORS NEED TO ACCEPT IN ORDER TO OBTAIN A FINANCING PACKAGE?

COLLERAN: With the improved levels of liquidity, large corporates are in a better negotiating position than in recent years and will seek to avoid finance where lenders require significant over collateralisation. However, smaller corporates and SMEs, where they succeed in being credit approved, are generally still being subjected to quite onerous security requirements. Lenders are generally insisting on first fixed charges over as much of the undertaking of a borrower as practicable. Also, lenders are conducting a high level of due diligence on the assets of obligors, in particular insisting on full investigations of title. Many lenders are keen to take security over the shares in asset holding entities as well as over the assets themselves. Wherever possible, lenders are seeking guarantees in order to have recourse to as much of the borrower's group structure as possible. For SMEs, lenders are often requiring personal recourse to company directors and shareholders – but their credit analysis still remains focused on taking security over specific assets with ascertainable value.

Q COULD YOU OUTLINE THE MAJOR REGULATORY CHANGES IN IRELAND OVER THE PAST 12-18 MONTHS THAT WILL AFFECT THE BANKING INDUSTRY GOING FORWARD?

COLLERAN: A number of 'core' supervisory responsibilities and decision making powers were moved from the Irish Central Bank to the ECB – in line with the Single Supervisory Mechanism – as of 4 November 2014, as part of the programme of advancing financial integration and stability across Europe. The Central Bank now retains responsibility for certain 'non-core' responsibilities, for example anti-money laundering and consumer protection. The Bank Recovery and Resolution Directive was implemented into Irish law on 15 July 2015 with the aim of eliminating – insofar as possible – the need for government-led bailouts by enabling authorities to intervene early to prevent failure of an institution and to take swift action where failure cannot be avoided. The Irish company law regime was consolidated and reformed by the Companies Act 2014, which came into effect on 1 June 2015. Among its welcome changes were a reduction in the scope of the prohibition on financial assistance and greater certainty on the charges registrable with the Companies Registration Office and how their priority is established.

Q IN YOUR OPINION, WHAT ARE THE KEY ISSUES AND CHALLENGES FACING SENIOR BANKING & FINANCE EXECUTIVES IN THE YEAR AHEAD? IS THERE A CONSCIOUS EFFORT TO REGAIN TRUST AND REPAIR REPUTATIONS FOLLOWING THE FINANCIAL CRISIS?

COLLERAN: The coming year will see a continued drive by the remaining large Irish domestic banks – AIB, Bank of Ireland and Permanent TSB – to reduce their level of state support or ownership and to return to a greater degree of commercial ownership and control. It is to be hoped that this will allow these pillar banks to respond in a more dynamic fashion to the renewed growth in the Irish economy and will thus boost competition and the availability of credit. With a large proportion of the credit that was extended between 2004 and 2007 due to be refinanced by 2017, and many of the markets which were the source of this finance now being either closed or operating at reduced capacity, a wide range of non-bank institutions have the potential to act as direct lenders to entities and individuals that are struggling to obtain financing by traditional means. This represents a significant competitive challenge for Irish banks and their senior executives.

"Continued growth in new lending by the banks can be anticipated as the banking sector further stabilises."

Q WHAT DEVELOPMENTS IN BANKING & FINANCE DO YOU EXPECT TO SEE IN IRELAND OVER THE NEXT 12-18 MONTHS?

COLLERAN: It can be expected that the process of normalisation of the Irish banking sector will continue, with the deleveraging process in its final stages and major loan portfolio sales by Irish institutions coming to an end. This period should also see the remaining domestic banks increasingly returning to a commercial funding structure. Accordingly, continued growth in new lending by the banks can be anticipated as the banking sector further stabilises and the Irish banks' focus continues to shift from management and work-out of impaired assets to lending opportunities in a growing economy. However, it would seem that the demand for credit will also continue to rise in view of the economic recovery and the need to refinance existing debt – particularly property-related debt. Accordingly, it will still be challenging for smaller borrowers to get credit approval and, while credit terms and covenants should ease further, they will remain relatively strict.

DILLON EUSTACE

John-Hugh Colleran

Partner
Dillon Eustace Solicitors
+353 1 673 1731
johnhugh.colleran@dilloneustace.ie

John-Hugh Colleran is a partner in the Banking and Capital Markets Departments of Dillon Eustace, a law firm with principal offices in Dublin and Cayman. Mr Colleran advises domestic and international financial institutions and corporates on a broad range of banking and finance transactions, including secured and unsecured financings, bilateral and syndicated lending, security and intercreditor packages, tax based lending structures, acquisition finance, general corporate lending and restructures. He also advises on disposals and acquisitions of distressed assets and Irish loan sale books, acting for vendors, purchasers and financers.