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Bank of Ireland Plans to Raise 3.4 Billion Euros (Update2)
2010-04-26 09:48:39.184 GMT

(Adds analyst comment in fourth paragraph, shares in fifth,
finance minister's remarks in 11th.)

By Dara Doyle

April 26 (Bloomberg) -- Bank of Ireland Plc, the country's biggest bank by market value, plans to raise as much as 3.4 billion euros (\$4.5 billion) to bolster capital as real-estate losses surge.

The company aims to sell 500 million euros in shares to a group of institutional investors and an additional 1.9 billion euros of stock in a rights offer, the Dublin-based lender said in a statement today. The bank also plans to convert some of the government's preference shares into equity, raising 1.04 billion euros. The state will retain a maximum stake of 36 percent.

Ireland's banks need 31 billion euros in capital after "appalling" lending decisions left the country's financial system on the brink of collapse, Finance Minister Brian Lenihan said last month. Bank of Ireland said its plan will help raise a total of 2.8 billion euros after expenses and buying back state warrants.

"There may be some disappointment at the dilution, but it's well anticipated and overall the transaction terms look attractive," said Sebastian Orsi, an analyst at Merrion Capital in Dublin. "The money has been effectively raised now. I'd expect a good level of take-up of the rights."

Bank of Ireland fell 8 cents, or 4.4 percent, to 1.72 euros by 10:23 a.m. in Dublin trading, giving the company a market value of 2 billion euros.

The placement of stock with institutional investors and the conversion of government preference shares will be at a price of 1.53 euros, or 15 percent less than the April 23 closing price.

Bad Bank

The government pumped 3.5 billion euros into the bank last year to help keep it alive after Irish real-estate values fell by half on average. Lenihan has also set up a so-called bad bank, the National Asset Management Agency, to purge lenders of toxic loans.

The agency is buying debt with a book value of 80 billion euros, about half the size of the Irish economy. In the first tranche of loans, NAMA is buying loans with a nominal value of 1.93 billion euros loans from Bank of Ireland at a discount of about 36 percent.

"Trading conditions in our core markets in Ireland and the U.K. in the first quarter of our 2010 financial year remain challenging though economic conditions have recently shown some signs of stabilization," Bank of Ireland said in a separate statement today.

Tougher Standards

The country's financial regulator is imposing higher capital requirements on lenders to help them withstand losses. Bank of Ireland said the fundraising will boost its equity tier one ratio, a measure of financial strength, to 8 percent from 5.3 percent at the end of last year.

"The target was for them to go to the market and raise money, so they've done that," Lenihan said in an interview with Dublin-based RTE radio today. "It's a sign of international confidence."

The bank is being advised by IBI Corporate Finance and Credit Suisse Group AG, the statement shows. Credit Suisse, UBS AG, Deutsche Bank AG, Citigroup Inc. and Davy are acting as joint bookrunners and underwriters.

"The big news today is the placing of 500 million euros of stock with institutions and demand for this will be a good barometer for the level of interest in Ireland Plc again by international investors," said James Forbes, senior equity strategist at Irish Life Investment Managers in Dublin. "The company looks to have ticked all the boxes and is well down its re-capitalization road."

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