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Bank of Ireland to Avoid State Control With Sale of Stake (3)
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(Updates with investors in second paragraph.)

By Joe Brennan

July 25 (Bloomberg) -- Ireland agreed to sell as much as 37 percent of Bank of Ireland Plc to an investor group for 1.12 billion euros (\$1.61 billion), a day before a rights offering was set to give the government majority ownership of the lender.

Private investors will own at least 68 percent of the country's largest bank after the transaction closes tomorrow, Finance Minister Michael Noonan said in a statement today. The stake is being sold to fewer than 10 institutional investors from outside the country, according to three people with knowledge of the matter.

Bank of Ireland is seeking to raise 1.9 billion euros in a rights offering to bolster capital. The lender is offering investors shares at 10 cents each, compared with the 10.1 cents the stock traded at on July 22. The Dublin-based lender said on July 8 that the state may own between 29 percent and 70 percent of the lender, depending on how many private investors purchase stock in the rights offering.

"Foreign investment in Bank of Ireland is an important milestone for the Irish government," analysts including Jim Ryan and Michael Cummins at Dublin-based fixed-income firm Glas Securities, said in a note to clients. "It sends a positive signal to the market after what has been a fairly miserable 18 months for the Irish banking sector."

Bank of Ireland rose as much as 8.9 percent in Dublin trading and traded at 11 cents as of 10:23 a.m. Allied Irish Banks Plc, the nation's second-largest lender, rose as much as 4.8 percent and was unchanged at 12.4 cents.

Allied Irish

Most of the investors are new to the bank, said two of the people, who declined to be identified because the talks are private. The identity of the investors will become known in the coming weeks as each passes the stock exchange's 3 percent disclosure threshold, they said. Officials at the Bank of Ireland and Finance Ministry declined to comment.

Ireland was forced to seek an 85 billion-euro international bailout in November following the near-collapse of the country's banks as deposits flowed out of the system. The state already controls Anglo Irish Bank Corp., Irish Nationwide Building Society and EBS Ltd., with Irish Life & Permanent Plc also close to falling under the state's aegis.

"We still value the bank closer to 8 to 8.5 cents compared to the rights price of 10 cents, given our view on the headwinds facing the domestic financial system," said Eamonn Hughes, an analyst at based Goodbody Stockbrokers, in a note to clients.

Investor Talks

Separately, Allied Irish said today its underlying loss widened to 2.6 billion euros in the first half from 2.1 billion euros in the year-earlier period as bad debts climbed.

Allied Irish Chairman David Hodgkinson said he wants to persuade investors to return to the lender in 2012. The state's holding in the bank is set to rise to 99.8 percent by the end of this month from 93 percent, as the government injects a further 14.8 billion euros into the company.

Hodgkinson has had "positive" talks with investors who want to wait to see how loan losses develop in the second half, he said in an interview with Dublin-based RTE Radio today.

Allied Irish acting Chief Financial Officer Paul Stanley said in a phone interview the bank's bad loan losses should peak this year. Loans in arrears of more than 90 days rose to 7.8 percent of its Irish home loans at the end of June from 4.8 percent six months earlier.

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