(BN) Bank of Ireland Returns to Bond Markets as Loan Losses Ease
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(Updates with size of bond in second paragraph.)

By Joe Brennan

Nov. 13 (Bloomberg) -- Bank of Ireland Plc, the nation's largest lender by assets, began its first public bond sale in two years after saying it's ready to exit a state guarantee plan and reiterating it expects loan losses to decrease.

The bank will sell 1 billion euros ($1.27 billion) of three-year, Irish residential mortgage-covered bonds, double its minimum target, Anne Mathews, a bank spokeswoman, said by phone today. The bonds will yield 270 basis points above the mid-swaps rate, a benchmark for fixed-rate debt, she said, adding that the transaction hasn't officially closed. A basis point is the equivalent of 0.01 percentage point.

"The return to the debt markets represents another step in the healing process for the bank, with the funding likely to replace existing European Central Bank drawings," Eamonn Hughes, an analyst at Dublin-based Goodbody Stockbrokers, said in a note.

Irish banks have been out of the public bond market since Bank of Ireland sold 750 million euros of state-guaranteed notes in October 2010, a month before the nation sought an international bailout. The lender, which hasn't issued an Irish covered bond in three years, said in a trading update today its reliance on ECB funding fell to 21 billion euros in November from 28 billion euros in June as deposits increased and the bank continued to shrink its balance sheet.

Shares Rise

Citigroup Inc., Morgan Stanley, Nomura Holdings Inc., Royal Bank of Scotland Group Plc and UBS AG have been mandated to manage the transaction, Dublin-based Bank of Ireland said yesterday.

Bank of Ireland rose 3.2 percent in Dublin trading to 9.6 euro cent at 12:15 p.m., giving it a market value of 2.9 billion euros. The shares are up 11 percent this year.

Bank of Ireland's comments on exiting the guarantee plan follow recent statements from the Irish central bank and Finance Ministry that the government may be coming close to ending the support it extended after the collapse of Lehman Brothers Holdings Inc. in 2008. Irish banks have since received 64 billion euros of funding.

Liabilities covered by the state's so-called Eligible Liabilities guarantee fell to less than 28 billion euros in November from 36 billion euros at the end of June, the bank said. Covered bond aren't backed by the guarantee.

Separately, Bank of Ireland said its net interest margin is widening as the lender cuts rates it offers for deposits and increases charges for borrowers. Chief Executive Officer Richie Boucher said in August that the lender's target of rebuilding its net interest margin to more than 200 basis points by the end of 2014 "looks very challenging" after it reported a 1.20 percent margin for the first half.

'Positive Indications'

Today's report gives "positive indications of an income recovery to complement balance sheet healing we've been witnessing for some time," Stephen Lyons, an analyst with Dublin-based securities firm Davy, said by e-mail.

The pace of growth of home-loan arrears continued to ease since June, Bank of Ireland said. The nation's banks are struggling with residential mortgages after the state-owned National Asset Management Agency took over most of its risky commercial real-estate assets in 2010.

"We maintain our expectation that impairment charges will reduce from the elevated levels experienced in 2011, trending over time toward a more normalized impairment charge as the domestic economy recovers," Bank of Ireland said. The lender reported a 1.94 billion-euro impairment loss last year.

The bank had a 13.9 percent core Tier 1 capital ratio, a gauge of financial strength, at the end of October. It is "actively considering actions" to address its pension deficit, which increased by 600 million euros since June to 1.6 billion euros. The spokeswoman declined to comment on what measures the bank is weighing.

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