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UPDATE: Ireland's Noonan: Bank Plans Near Burden Sharing Goal

DUBLIN (Dow Jones)--Irish Finance Minister Michael Noonan said plans by the Bank of Ireland Plc and other stricken lenders to make junior debt holders share the cost of recapitalizing the banks were in line with the government's aim of "appropriate" burden sharing.

Bank of Ireland, one of the country's last surviving major lenders, said Tuesday it plans to start talks--driven by the government--to reduce the EUR2.6 billion it owes holders of its subordinated bonds.

The government, which already owns 36% of Bank of Ireland, hopes that this and similar so-called debt liability offers to bond holders in three other broken Irish lenders will help save taxpayers at least EUR5 billion.

The Irish central bank has said its stress tests on the banks show the broken lenders need EUR24 billion in additional capital to health.

The stress tests were ordered by the European Union and International Monetary Fund as part of last year's EUR67.5 billion bailout. Ireland was forced to seek international aid after markets refused to lend the country more money, alarmed by the escalating costs of saving the Irish banks.

Ireland may end up injecting EUR70 billion into its banks, equivalent to 44% of its annual economic output, making it one of the most expensive bank rescues in recent times. Like other Irish broken banks, Bank of Ireland has already needed huge injections of government aid after reckless lending during the boom years.

Noonan said the plans announced separately Tuesday by Bank of Ireland, Irish Life & Permanent--Ireland's largest home loans and pensions provider--and by the small lender Educational Building Society, is the final market-based step" for the government to make savings from bond holders.

The government took on new powers in April to force, if necessary, big losses on subordinated holders in Allied Irish Banks PLC, Ireland's other major lender. But the new coalition led by Prime Minister Enda Kenny said the EU and the European Central Bank refused to let it push much more significant losses on senior bond holders for fear that could inflame Europe's debt crisis.

In its update to the stock market, Bank of Ireland said it expected to offer only 10% of the face value to holders of its so-called Tier 1 subordinated bonds and 20% of the face value to Tier 2 bond holders.

Dolmen Securities Chief Economist Oliver Gilvarry said the Bank of Ireland offer was "significantly lower" than the market expected. He forecasts the lender will cut no more than EUR2 billion from the EUR2.6 billion it owes holders of its junior debt.

Bank of Ireland also confirmed that it was working on other "initiatives," possibly including a rights issue or placing of its shares in the coming months. Its plan may also include an offer for bond holders to swap some of their existing debt for equity in the bank.

Irish Life & Permanent said Tuesday it too plans to launch a debt management offer to holders of EUR840 million subordinated bonds, and expects to offer holders 20% of the face value of the bonds. The government is seeking to spin off and sell its profitable Irish Life assurance unit from the group.

The Educational Building Society also said Tuesday it expects to offer similarly sized discounts to holders of its EUR110 million bonds.

Conor Houlihan, partner at law firm Dillon Eustace, said the plans offer "a menu of options" to nudge bank bond holders into voluntarily accepting the terms. However, the Irish government could, as it has done with Allied Irish Banks, threaten more coercive action if sufficient numbers of bond holders fail to accept the discounts.

Two bond holding groups in Allied Irish Banks have challenged the government's new powers.

"The bond offers will make a contribution, but clearly not transform the country's finances," said Alan McQuaid, chief economist at Bloxham Stockbrokers.

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