

EU pressure on AIB as capital raising not finished

By Joe Brennan

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AIB may find it difficult to pass European stress tests, as its capital raising won't be finished before results are due, says Glas Securities, which specialises in fixed-income markets.

Allied Irish, the country's second-biggest lender by market value, is seeking to raise €7.4 billion to meet targets set by the country's Financial Regulator in March.

"AIB is still in the initial stages of its capital-raising programme, which makes it difficult for AIB to pass the EU test as it will be determined using current capital levels while not taking into account any future capital raising plans," Dublin-based Glas said in a note to clients.

Allied Irish and Bank of Ireland Plc are among 91 European banks being assessed by EU regulators to show whether they are able to withstand a shrinking economy and drop in the value of government bonds.

Allied Irish's fundraising "is well under way and we'd expect that to be recognised by the market", said Alan Kelly, general manager of group finance.

Allied Irish shares fell 4.25% to 9 cent at the close in Dublin trading, for a market value of €972.76 million. The stock down 43.43% is the worst-performing member of the country's benchmark ISEQ Overall Index this year.

Ireland's Financial Regulator ordered the two banks to raise a combined €10 billion by the end of this year. Glas said that Bank of Ireland is "likely to pass" the European tests after raising €2.9 billion of capital in June.

An 8% discount on its sovereign bond holdings would cost Bank of Ireland €213 million and Allied Irish €791 million, Glas said.

"We conclude that considerable upward revisions to both banks capital requirements would appear unlikely but we do not rule out some impact related to their respective sovereign portfolios," Glas said.

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