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Bank of Ireland warns of tough conditions

By Jamie Smyth in Dublin

Bank of Ireland has warned that trading conditions in the first three months of 2012 were challenging, with mortgage arrears rising due to weakness in the Irish economy.

At its annual meeting on Tuesday, the bank said its operating income continued to be hit by the cost of funding, competition for deposits and the fees it pays for a state bank guarantee.

"While consumer confidence surveys have shown improvements in the first three months of 2012, domestic economic indicators remain weak, unemployment remains elevated, and residential property prices do not appear, as yet, to have fully stabilised," said the bank.

Bank of Ireland is the only Irish bank to escape outright nationalisation following a property crash and subsequent banking crisis.

In July 2011, it attracted private investment from several North American investors and is refocusing its operations on its core markets by shrinking its balance sheet and cutting costs.

Despite the difficult economy, Pat Molloy, the chairman of Bank of Ireland, said he expected impairment charges would fall this year from €1.9bn in 2011.

"The pace of the reduction will be particularly dependent on the future performance of our Irish residential mortgage book and commercial real estate markets," he said.

Bank of Ireland has an Irish mortgage book worth €28bn ($37bn), which is split between €21bn residential and €7bn buy-to-let loans. The bank said it had recently appointed investigators, known as rent receivers, to ensure that landlords in the buy-to let sector were not diverting rental income away from the banks as mortgage arrears rise in the sector.

Mr Molloy said the bank had made significant progress since the start of year, reducing the price it pays for deposits and increasing mortgage interest rates in the UK.

He said Bank of Ireland had contracted to sell a further €900m in non-core assets, which include €600m of residential mortgages to ITL Limited, a subsidiary of the Coventry Building Society. When this is complete Bank of Ireland will have divested of €9.5bn of assets– just €500m short of a target set by the Central Bank of Ireland to reducing the size of its balance sheet by €10bn, Mr Molloy added.

Several shareholders at the meeting criticised management at the bank, the share price of which has fallen to €0.11 from a high of more than €18 in 2007. Shane Ross, a shareholder and member of the Irish parliament, told the meeting it was quite exceptional that management could lead the share price down to €0.10. He described the €831,000 total annual pay of the bank's chief executive Richie Boucher as "unreal".

Mr Molloy said the bank's leadership had been exceptional given the difficult conditions it faced. He said the bank had met all government guidelines on pay.

In February Bank of Ireland reported a reduction in pre-tax losses, which fell to €190m in the year to the end of December 2011, compared with €950m in 2010.