

Deposit trends at Irish Covered Banks

February 2013 data set

March 2013

Consolidated Deposits at Covered Banks

February 2013 data

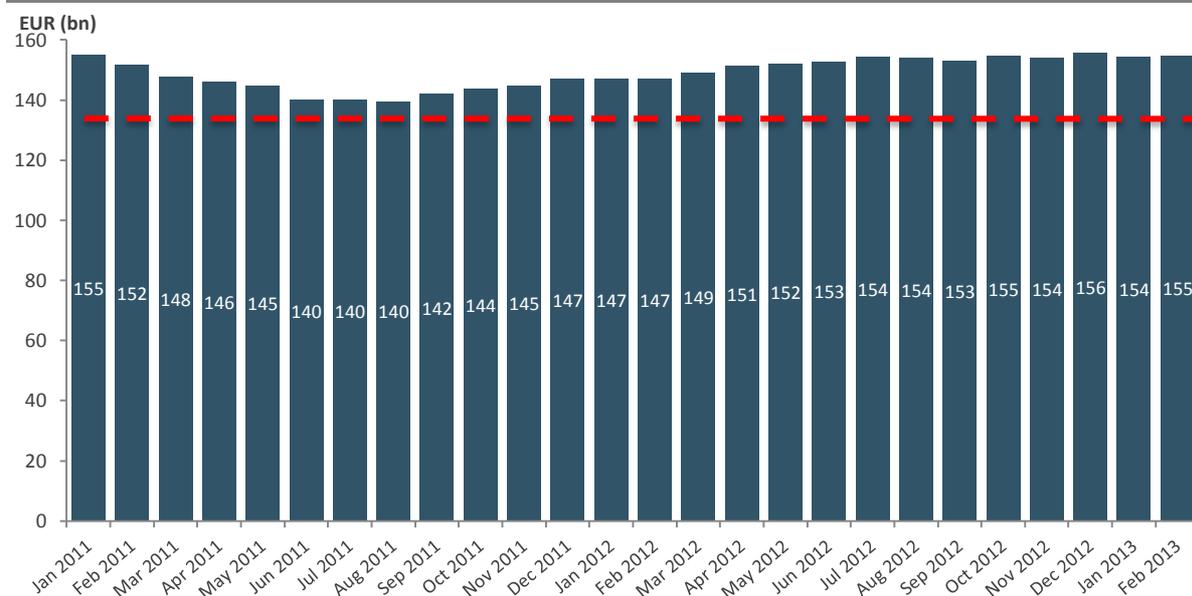
Headline deposits at covered banks remained stable in February at €154.8bn, increasing by c.€0.5bn (c.+0.3%) during the month due to inflows of deposits from Corporate and Non-Banking Financial Institutions. On a constant currency basis, underlying deposits were c.€1.1bn higher month on month in February, however some volume was lost in the UK.

While headline deposits during February increased, the weakening of Sterling against the Euro since December has affected deposit values significantly. Headline UK Retail deposits are down c.€3.1bn since December with volume fluctuations only accounting for only c.€0.8bn of this movement, with the remainder attributable to unfavourable foreign exchange movements.

The cumulative growth for the last 12 months (i.e. Feb 2012 versus Feb 2013) remains strong with headline deposits up c.€7.7 bn (5.2%) year on year although the pace of year on year increase has moderated somewhat.

The stability in customer deposit volumes among the covered banks comes at a time when the cost of deposit funding is reducing and the ELG scheme for new liabilities is being ended. While still very early in the process, there have been no negative trends or unusual deposit volume movements as a result of announcement to end the ELG scheme on 28th March 2013.

Figure 1. Customer deposits at Covered Banks (consolidated figures) *



Source: Central Bank of Ireland, DoF

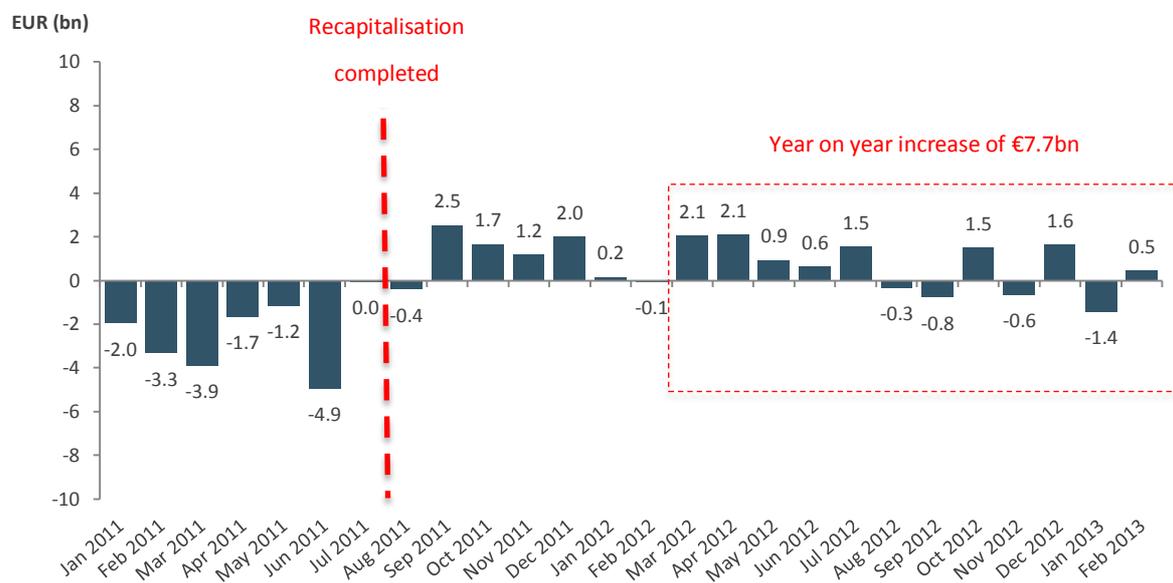
*Excludes NTMA deposits held prior to re-capitalisation, AIB's Polish operations. From January 2012 the figures also include the acquisition of Northern Rock deposits by Permanent TSB.

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The increase in headline deposits during February of c.€0.5bn, which was due primarily to the deposits made by Irish Non-Banking Financial Institutions and also Corporates. The further weakening of Sterling continues to affect balances in the UK however, volumes in the UK were broadly unchanged in February.

As shown in Figure 2 below, there has been steady quarter on quarter increases recorded across the Covered Banks since Q3 2011 following the successful recapitalisation of the banking system. In fact deposits have increased by c.€14.8bn (c.10.6%) since the recapitalisation was completed and are up €7.7bn year on year.

Figure 2. Covered Bank deposit net inflows/outflows (consolidated figures)



Source: Central Bank of Ireland, DoF

Covered Banks usage of Eurosystem funding

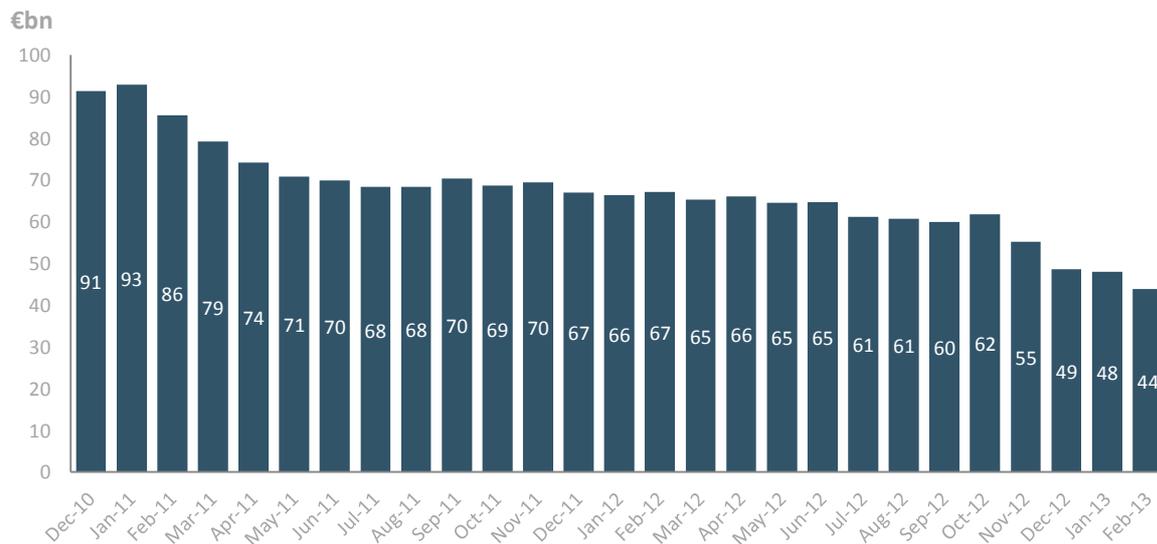
Drawings from the ECB by Covered Banks (excluding IBRC) declined by €4.2bn (or 9%) during the month of February. The reduction of c.€4bn was mainly due to the unwinding of the repo transaction between BOI and IBRC (c.€3bn). The remaining reduction was driven by an increase in underlying deposit balances and some further capital market transactions by each of the covered banks.

Year-on-year borrowing from the ECB is down €23.3bn (-35%) to stand at €43.9 billion at end-February. The steady decline in reliance on ECB funding reflects the continued strengthening of the banking system, albeit from a weak base. The reduction in borrowing from the ECB has been achieved through managed deleveraging, deposit gathering and the return of AIB, BOI and PTSB to international funding markets.

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The continued decline in ECB borrowing, on a sustainable basis, demonstrates the stability in deposit volumes and the progress being made in restructuring the domestic banking sector.

Figure 3. Covered banks ECB funding, €'bn



Source: Central Bank of Ireland, DoF

Deposit volumes on a constant currency basis

As exchange rates are an important factor in understanding period to period comparisons in deposit volumes, we believe the presentation of results on a constant-currency basis in addition to reporting headline results will help improve the readers ability to understand the trends in covered bank deposit volumes. Constant-currency information compares results between periods as if exchange rates had remained constant period-over-period. We calculate constant-currency by calculating prior-period closing deposit volume using the current period-end foreign currency exchange rate.

Please also note that the deposit volume information presented here is gathered on a geographic basis of where the business is conducted rather than the actual currency of the underlying deposit account. These figures should therefore be considered indicative only, but will give a good indication of the period to period movements adjusted for exchange rate movements.

As can be seen in the table below, on a constant currency basis deposit volumes remained stable; up by c.€1.1bn in February.

Deposit volumes on a constant currency basis

Period ended	Period end volume, at current period end rate	Movement between periods
	EUR'000	EUR'000
December 2012	153,470	
January 2013	153,718	248
01 March 2013	154,772	1,054
Cumulative movement, at constant currency		1,302

ELG Notice of Withdrawal

The Minister for Finance recently announced the ending of the ELG Scheme for new liabilities incurred after the 28th March 2013. With the stabilisation in the economy, the progress made in restructuring the banking sector following its recapitalisation and the return of the covered banks and the Sovereign to international capital markets, there is no longer the need to provide for a guarantee into the future. The funding position of the banks covered by the guarantee has improved significantly. The change in ELG Scheme coverage from midnight on 28 March 2013, will ultimately bring the participating Irish banks into line with other European countries in terms of the level of deposit protection that is provided to their customers i.e. that provided by the Deposit Guarantee Schemes that operate in all EU Member States.

The Minister for Finance gave a speech on the 26th February the day of the announcement from which the following is an extract, “I am confident that the ending of the scheme and the gradual removal of this liability from the taxpayer will also help to sustain Ireland’s re-entry to international markets.”

Central Bank statistics are very different from those shown in the data set presented above

Please note (as we covered in our first bulletin: http://banking.finance.gov.ie/wp-content/uploads/Deposit_Note-Republished-25-April-2012.pdf) that the statistics published by the Central Bank of Ireland are compiled using a different methodology than those produced by the Covered Banks themselves.

Please also note that data on Eurosystem funding for February 2013 is as of Friday 22 February, in line with Central Bank practice. The deposit data included in this note is as of 1 March 2013.



Next publication date

16/04/2013 March Deposit note

14/05/2013 April Deposit note

14/06/2013 May Deposit note

Further information

For further information or requests, please contact:

Department of Finance

Government Buildings

Upper Merrion Street

Dublin 2, Ireland

Tel: +353 1 676 7571

pressoffice@finance.gov.ie

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