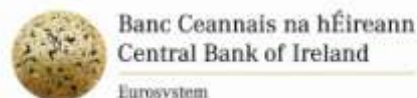


01 February 2012



Irish Responses January 2012 Bank Lending Survey

Results Summary:

- During the final quarter of 2011, credit standards were unchanged on loans to enterprises. However, a further decrease in loan demand from enterprises was reported.
- A tightening of credit standards on loans to households for house-purchases was reported for the fourth quarter of 2011 with a further tightening anticipated for the first quarter of 2012. Loan demand from households for house purchases weakened again during the final quarter of 2011.
- Regarding consumer credit and other lending, credit standards were unchanged during the fourth quarter of 2011, repeating a result from the October round of the BLS. However, a further decrease in loan demand was reported.
- A deterioration in banks' retail and wholesale funding was reported for the final quarter of 2011 with access to funding expected to remain broadly unchanged during the first quarter of 2012.
- In anticipation of Basel III and in response to other national regulatory requirements concerning banks' capital positions, a reduction in banks' risk weighted assets and an increase in their capital position was reported for the second half of 2011 with a similar result anticipated for the first half of 2012.

The euro-area Bank Lending Survey is completed each quarter and examines credit market conditions with a distinction made between loans to enterprises and households and a further distinction made between loans to households for house-purchases as well as consumer credit and other lending. A detailed note examining the euro area responses can be found through the following link [euro area results](#). Occasionally, the survey is supplemented with ad-hoc questions relating to topical issues in financial markets for which limited data exists e.g. impact of Basel III. Five Irish banks participate in the survey although not all banks answer all questions due to their business model. Given the survey nature of the questionnaire, the responses are qualitative.

1. Enterprises

The January 2012 Bank Lending Survey (BLS) examined how credit standards on loans to enterprises changed during the fourth quarter of 2011 using a five point scale. For the third successive quarter, credit standards were unchanged on loans to enterprises across all five loan categories examined and this is reported in Table 1. Most of the factors impacting credit standards that banks were asked to evaluate were unchanged although heightened levels of risk perception and in particular diminished prospects regarding economic activity were reported. In addition, some increase in loan margins was also reported.

Table 1: Changes in Credit Standards on Loans to Enterprises

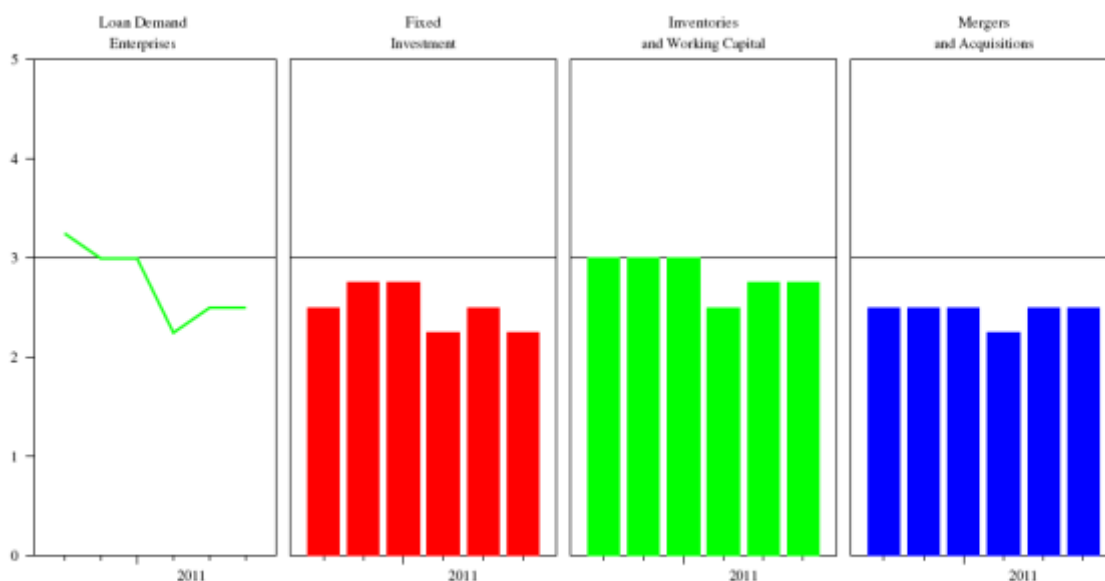
		Q3 2011	Q4 2011
Enterprises:	Overall	3.00	3.00
	Small/medium enterprises	3.00	3.00
	Large enterprises	3.00	3.00
	Short-term loans	3.00	3.00
	Long-term loans	3.00	3.00

Key: A response less than three denotes a tightening of credit standards, a response equal to three indicates unchanged credit standards, and a response greater than three corresponds to an easing of credit standards.

Banks were also asked to report using a five point scale how the demand for loans from enterprises changed during the final quarter of 2011. A decrease in loan demand across all five loan categories

examined was recorded for the final quarter of 2011, similar to the responses provided to the previous two rounds of the BLS. In turn, the drop in loan demand was entirely attributed to a reduction in the financing needs of enterprises rather than a change in the external funding patterns of businesses. In particular, declining volumes of fixed investment, and lower levels of Mergers and Acquisitions activity provided the largest impulse towards the drop in loan demand and this is represented in Figure 1.

Figure 1: Changes in Loan Demand From Enterprises and Factors Affecting Loan Demand.



Key: A response between 1 and 3 denotes a decrease in loan demand, a response equal to three denotes unchanged loan demand, and a response greater than three represents an increase in loan demand.

During the first quarter of 2012, the recent pattern of unchanged credit standards and decreasing loan demand is expected to continue.

2. Households

Banks were also asked to report using a five point scale how credit standards on loans to households for house purchases as well as consumer credit and other lending changed during the fourth quarter of 2011¹. Repeating the results from the October 2011 round of the BLS, credit standards tightened on loans to households for house purchases and were unchanged in respect of consumer lending and this is reported in Table 2. The tightening of credit standards in respect of mortgage lending was attributed to less favourable expectations regarding economic activity along with diminished prospects for the housing market. Regarding the terms and conditions for approving loans to

¹ The values that make up the five point scale showing how credit standards on loans to households changed have the same interpretation as those described earlier concerning changes in credit standards on loans to enterprises.

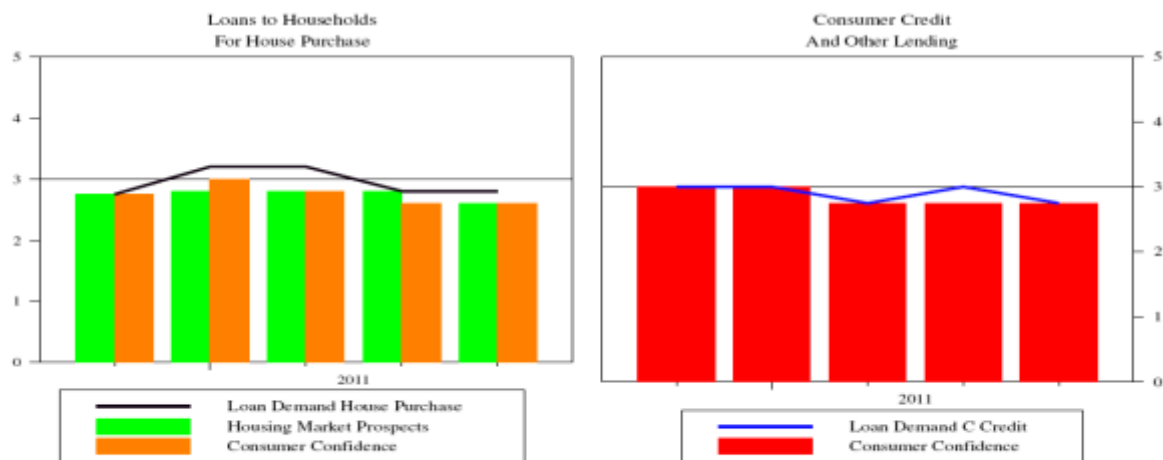
households for house-purchases, some easing in mortgage interest margins was reported although this coincided with more restrictive loan-to-value ratios.

Table 2: Changes in Credit Standards on Loans to Households for House Purchases

		Q3 2011	Q4 2011
Households:	House Purchases	2.80	2.80
	Consumer Credit and other lending	3.00	3.00

During the final quarter of 2011, a reduction in loan demand in respect of both mortgage lending and consumer credit was reported². Consistent with this, the reduction in household loan demand was attributed to diminished housing market prospects along with lower levels of consumer confidence. Similarly, the reduction in loan demand regarding consumer credit and other lending was attributed to lower levels of consumer confidence and this is represented in Figure 2.

Figure 2: Changes in Household Loan Demand and Factors Affecting Loan Demand.



During the first quarter of 2012, credit standards are expected to tighten on loans to households with loan demand anticipated to remain unchanged across both loan categories examined.

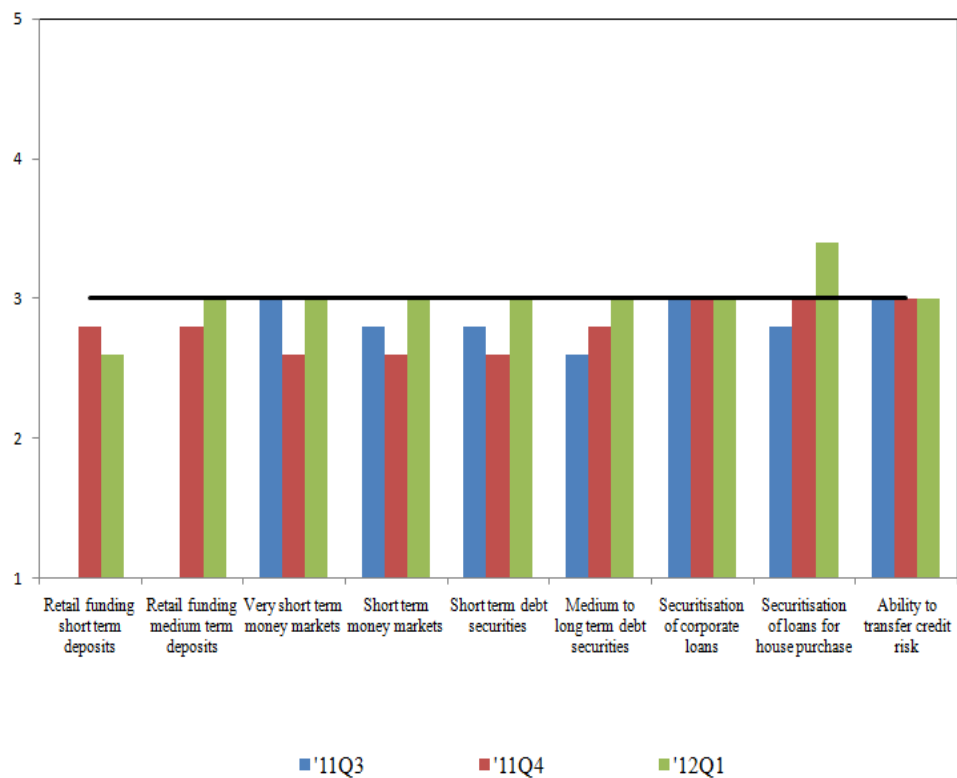
3. Ad-Hoc Questions

² The values that make up the five point scale showing how loan demand from households changed have the same interpretation as those described earlier concerning loan demand from enterprises.

Four supplementary questions examining access to funding markets, recent changes in banks' capital positions, the impact of Basel III concerning banks' credit standards, and the impact of the sovereign debt crisis on banks' funding positions and credit standards were included in the January 2012 round of the BLS. In addition, the single ad-hoc question included in the previous round of the survey examining access to wholesale funding sources was expanded to examine changes in retail funding sources.

A deterioration in access to retail along with most wholesale funding sources was reported for the final quarter of 2011 and this is represented in Figure 3. During the first quarter of 2012, access to most funding sources is anticipated to remain unchanged with the exception of short term retail deposits.

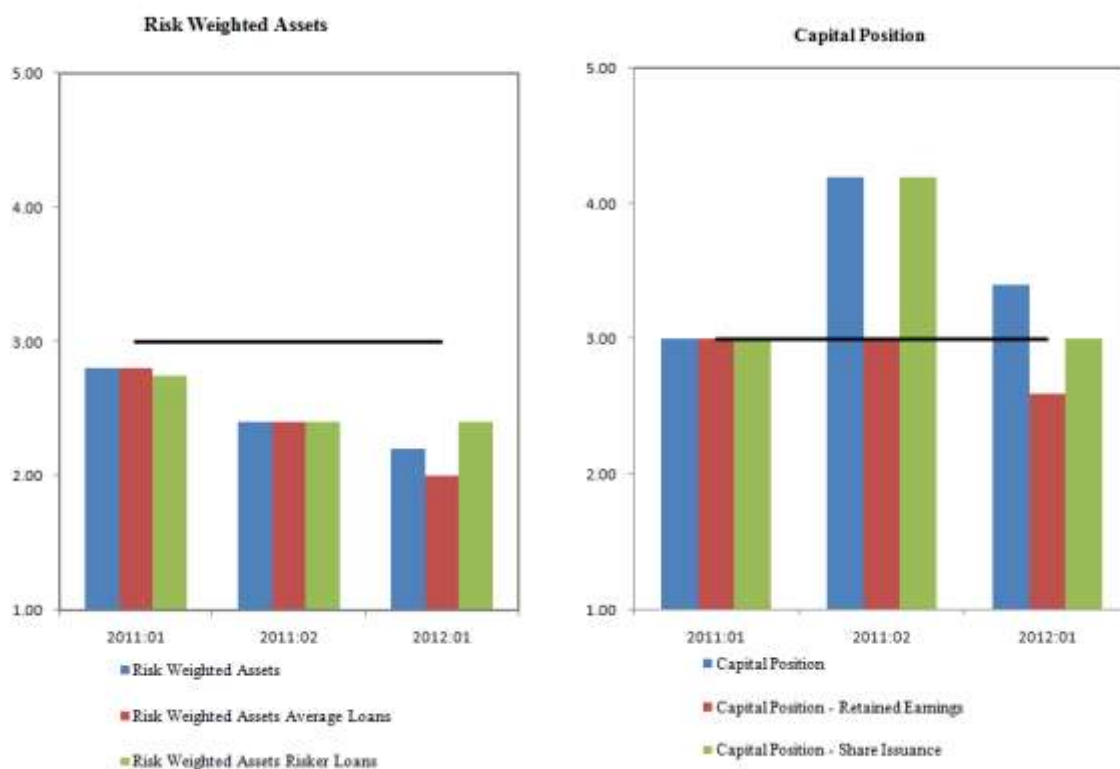
Figure 3: Access to Retail and Wholesale Funding Sources 2011Q3 – 2012Q1.



Key: 1 = deteriorated considerably / will deteriorate considerably, 2 = deteriorated somewhat / will deteriorate somewhat, 3 = remained unchanged / will remain unchanged, 4 = eased somewhat / will ease somewhat, 5 = eased considerably / will ease considerably.

In anticipation of Basel III and other regulatory requirements, a reduction in banks' risk weighted assets including average as well as riskier loans and an increase in banks' capital position were reported for the second half of 2011 with a similar result anticipated for the first half of 2012 and this is documented in Figure 4.

Figure 4: Changes in Risk Weighted Assets and Capital Position 2011H1 – 2012H1.



Key: 1 = decreased considerably / will decrease considerably, 2 = decreased somewhat / will decrease somewhat, 3 = remained unchanged / will remain unchanged, 4 = increased somewhat / will increase somewhat, 5 = increased considerably / will increase considerably.

However, no impact or expected impact from Basel III on banks' credit standards in respect of both business and household lending was reported either for the second half of 2011 or the first half of 2012. Finally, recent tension in the European sovereign debt markets is reported to have had no direct impact on banks' funding conditions or credit standards.