



# Irish Banking Outlook 2025

Further Progress Is Required To Sustain Momentum

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**S&P Global**  
Ratings

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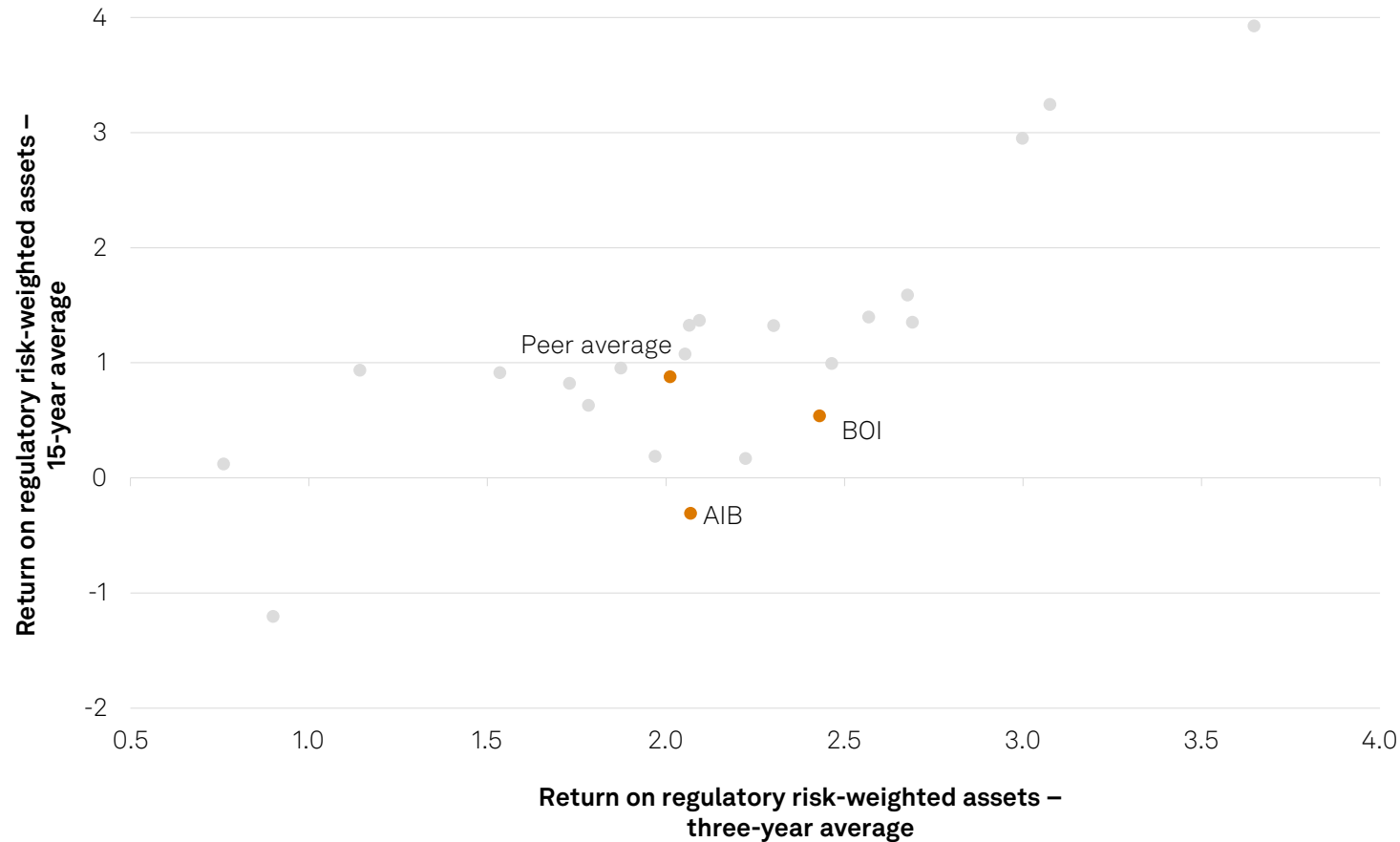
Jan. 23, 2024

*This report does not constitute a rating action*

## Key Takeaways

- Our positive outlooks on Irish banks reflect our view that risk-adjusted profitability will remain solid despite declining interest rates, supported by credit growth and cross-selling activities, tight cost control, and a still benign economic environment.
- Structural efficiency improvements remain critical for Irish banks to sustain robust profitability, while they will have to keep investing in their digital agendas and to retain talent to preserve their competitive advantage.
- Sound risk management practices should help banks mitigate emerging risks. Some asset quality problems will emerge, but deterioration should be contained. We expect non-performing assets to remain below 3% and the cost of risk through the cycle to remain at 20-30 basis points (bps).
- The Irish economy continues to perform strongly, but as a small and open economy, it remains vulnerable to external shocks.
- Irish banks will continue to rely on a solid capital base, supported by expected strong earnings generation capacity, to provide a buffer against potential headwinds.

# Our Outlooks On Our 'A/A-1' Ratings On Irish Banks Are Positive



Source: S&P Global Ratings, CapIQ, selected peers with SACP (stand-alone credit profile) levels of 'bbb-', 'bbb', 'bbb+', and 'a-'.  
 Note: The chart shows a positive correlation between the three-year and 15-year averages of return on regulatory risk-weighted assets. AIB and BOI are positioned below the peer average line, indicating lower profitability relative to their peers.

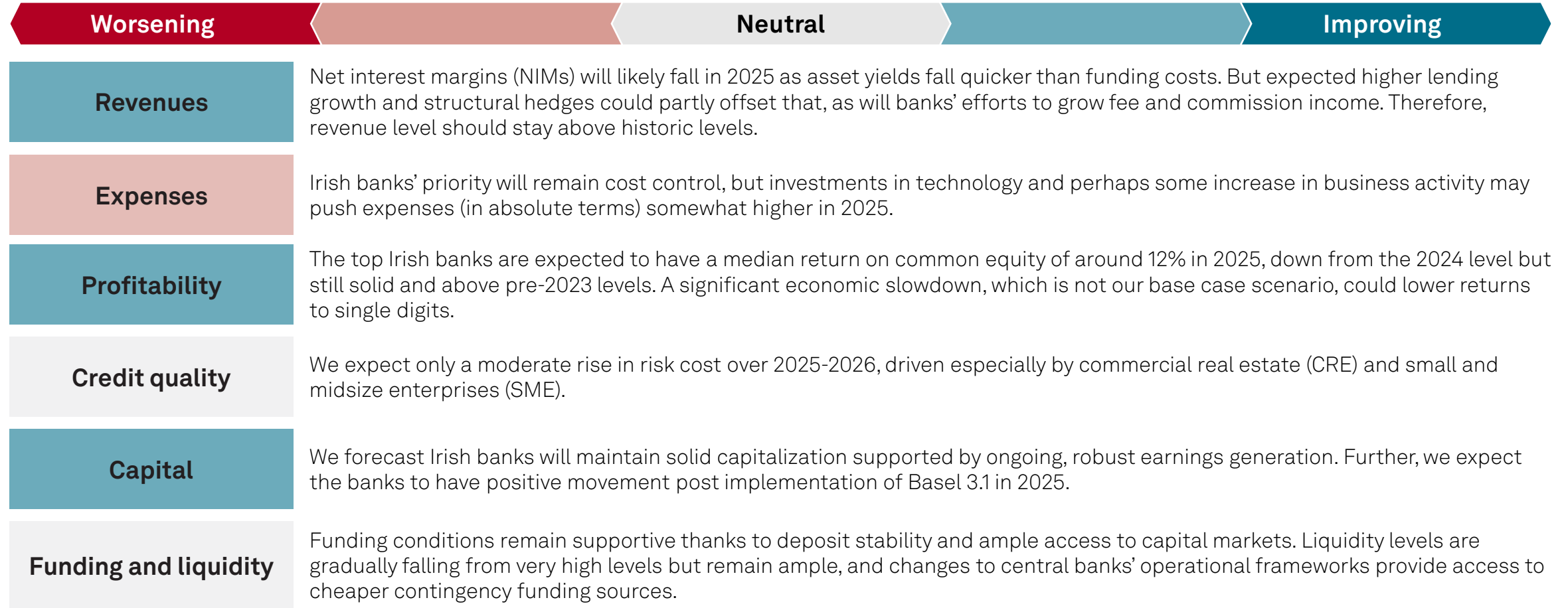
## AIB Group and BOI Group

- We expect the risk-adjusted profitability of AIB Group and Bank of Ireland Group to remain solid despite declining interest rates.
- Both banks' sound risk management and potentially stronger and more efficient franchises could help close the gap with higher-rated peers.

## PTSB Group (no longer rated by S&P Global Ratings)

- A higher interest rate environment and market consolidation have lifted PTSB's profitability, but there is scope to do more both in terms of profitability and competitiveness.

# 2025 Forecast | Earnings Remain Solid Amid Modest Economic Growth



Note: Forecast for next 12 months. Source: S&P Global Ratings.



# Key Risks



## **Turbulence from global geopolitical and trade tensions**

This could directly affect the small, open Irish economy and indirectly affect Irish banks through transmission channels such as financial market volatility and energy prices.



## **Digital and IT transition**

Along with delivering efficiency gains and an enhanced service proposition, digital transition and innovation brings operational resilience and cyber security risks, which could disrupt operations and have reputational and financial consequences.



## **Structural efficiency improvements**

Optimization of operating structures is critical to Irish banks' sustained robust profitability and competitiveness, especially as interest rates return to normal levels.

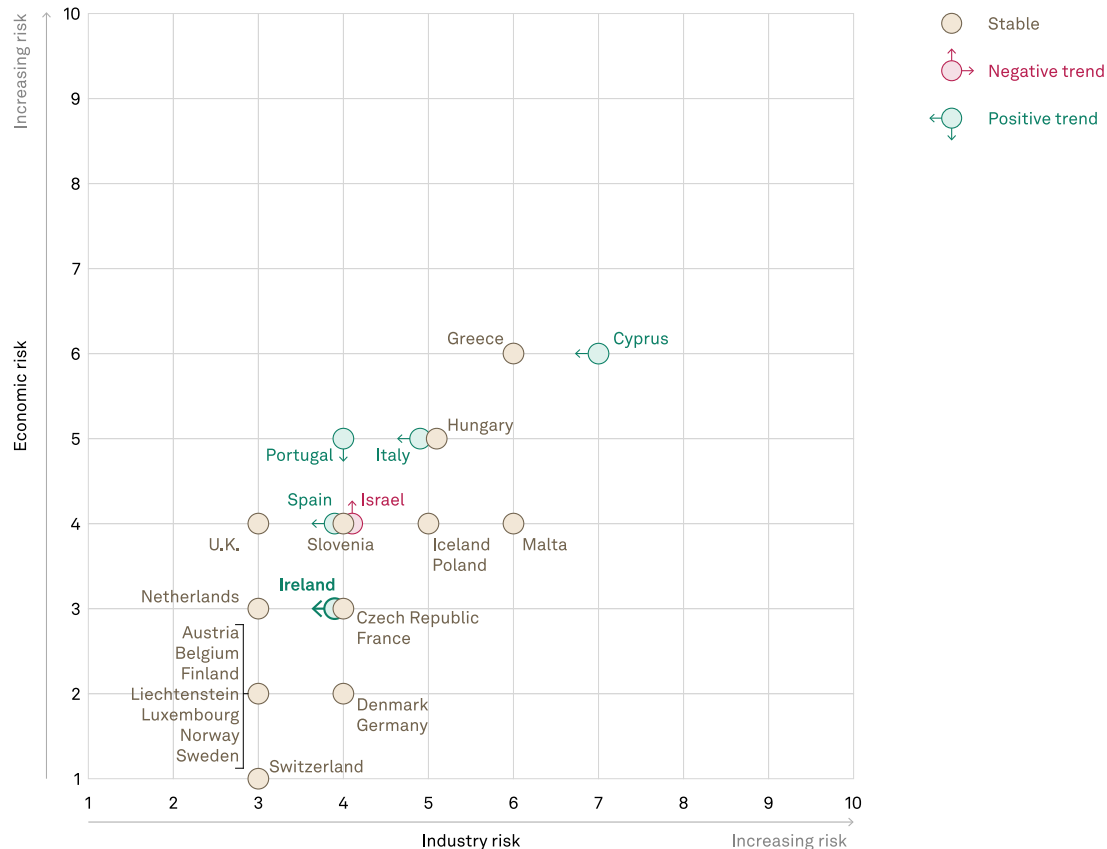


## **Talent acquisition and retention**

The ability to attract and retain personnel (amid competition from Ireland's strong IT sector), while also maintaining caps on compensation levels will be key to the banks' future.

# Irish Banks Benefit From Consolidated Market And Higher Interest Rates

BICRA scores, economic risk, and industry risk trends



Our BICRA scores compare the relative strength of a jurisdiction's banking system. BICRA scores are on a scale from 1 to 10, with Group 1 representing the lowest-risk banking systems and Group 10 the highest-risk ones. The two main components of the BICRA are the economic risk score and the industry risk score. Data reflects scores and trends as of Jan. 22, 2025. Source: S&P Global Ratings database

## Key credit drivers

- A wealthy economy with adequate private sector leverage.
- Banks' simple business models, with mortgages dominating the loan portfolios.
- Banks' solid funding profiles, weighted toward non-interest-bearing retail deposits and with limited reliance on external debt.

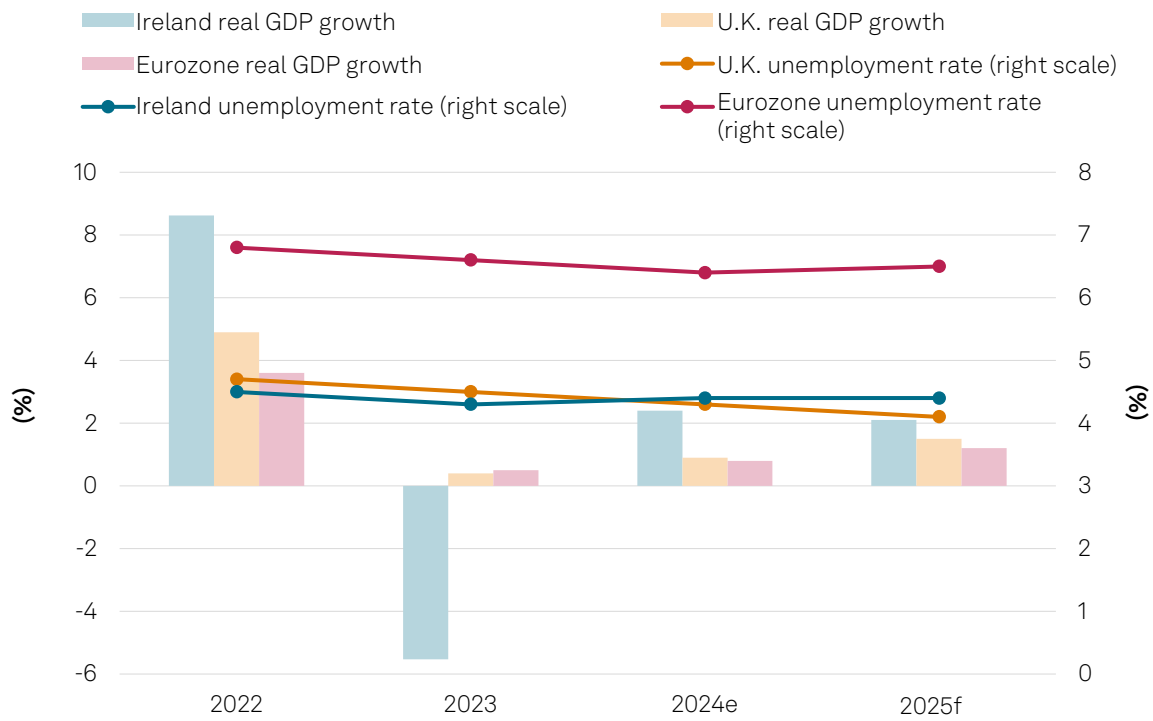
## What to look for

- Vulnerability to shifts in external demand and geopolitical risks, as a small economy with high reliance on international investment.
- Housing market dynamics.
- Structural efficiency improvements amid continued investments.

# Irish Economy Continues To Perform Solidly Amid External Risks

Ireland's economic growth is expected to outpace the Eurozone average, labor market to remain tight...

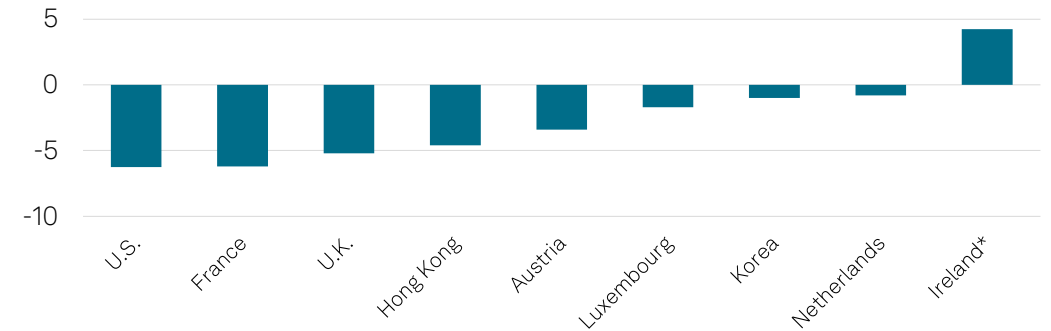
Real GDP growth and unemployment rates for Ireland, U.K., and eurozone



Note: After a strong performance in 2022, Ireland's real GDP declined by 5.5% in 2023 due to a reduction in multinational sector activity amid a sluggish economic environment. Source: S&P Global Ratings.

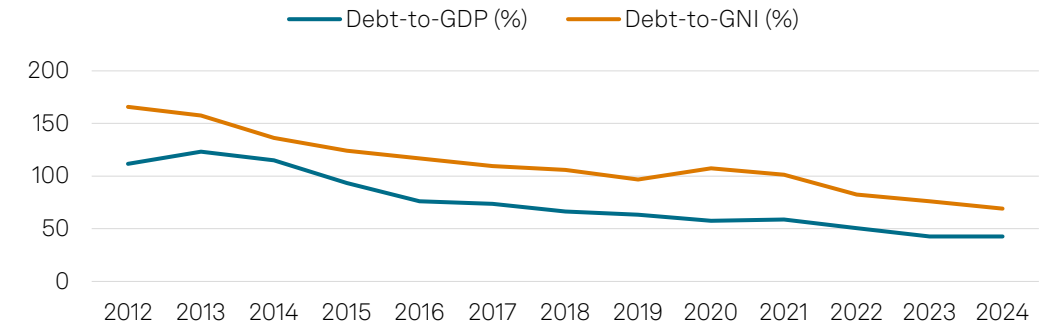
## While Ireland's fiscal position remains strong

General government balance over GDP or GNI\* (%) (2024e)



\*Ireland's GDP estimate for 2024 is based on the underlying domestic economy. Source: S&P Global Ratings,

## And government debt continues to fall

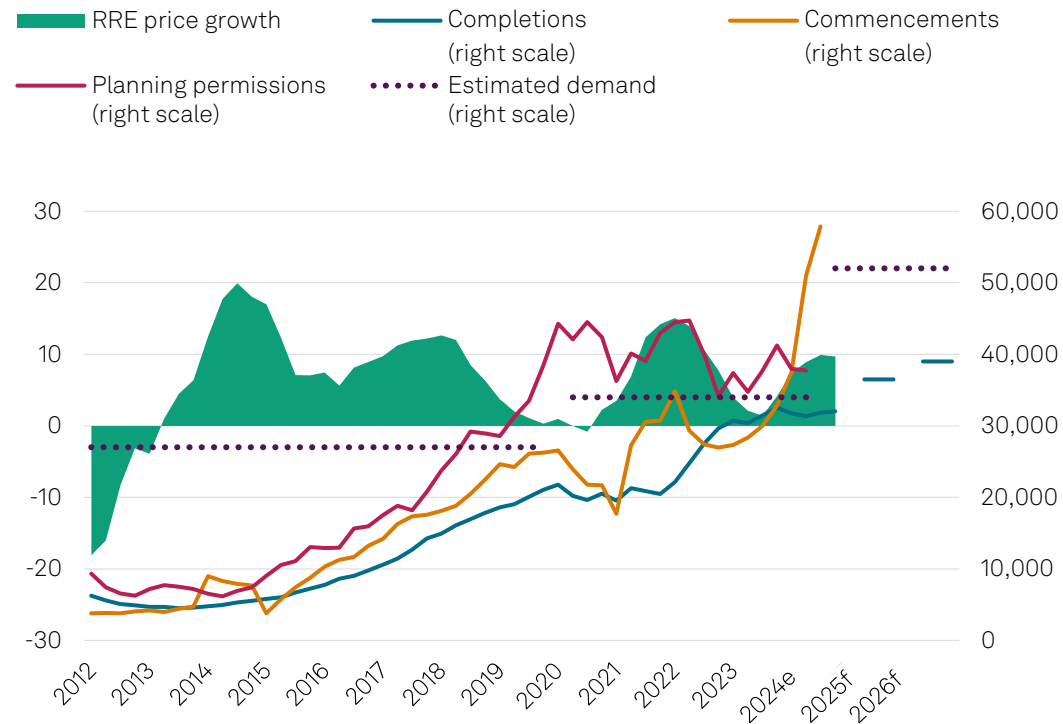


Source: Central Statistics Office.

# Mismatched Supply And Demand Continues To Drive House Price Growth

Growth in new residential unit supply remains below expected demand (driven by population growth)....

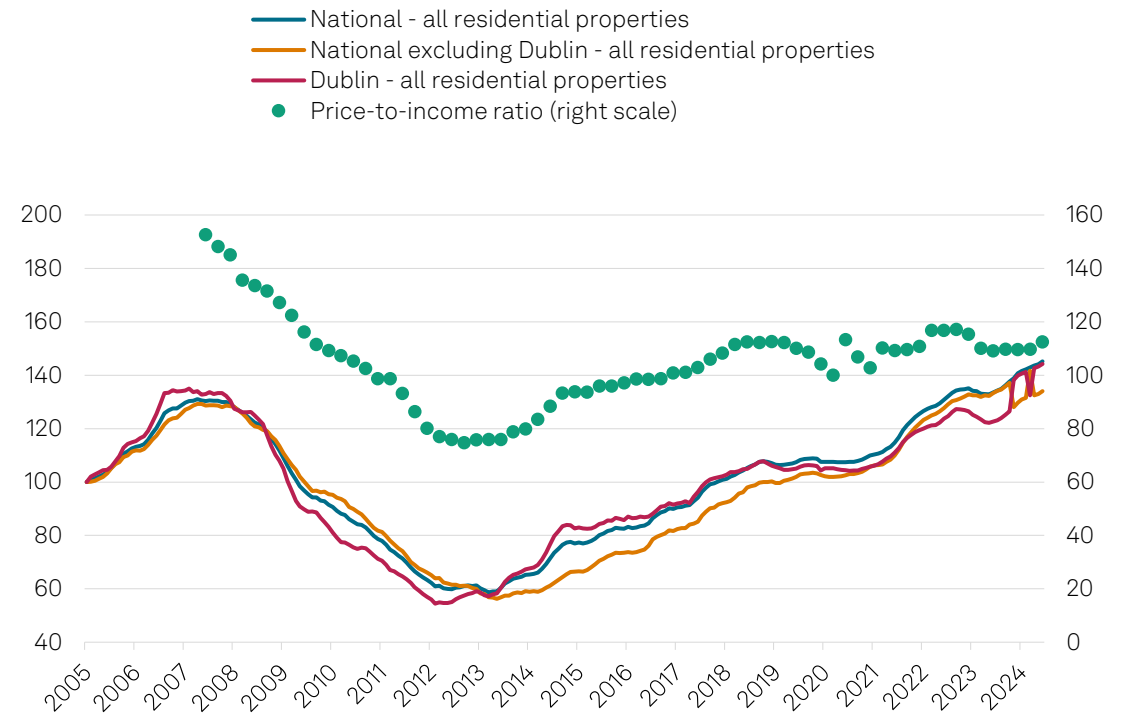
Residential real estate prices, supply, and estimated demand (rolling annual total)



RRE--Residential real estate. Source: Central Statistic Office, Department of Housing, Local Government and Heritage and Central Bank of Ireland calculations.

Leading to strong increases in house prices and affordability pressures

Residential property index and price-to-income ratio dynamics



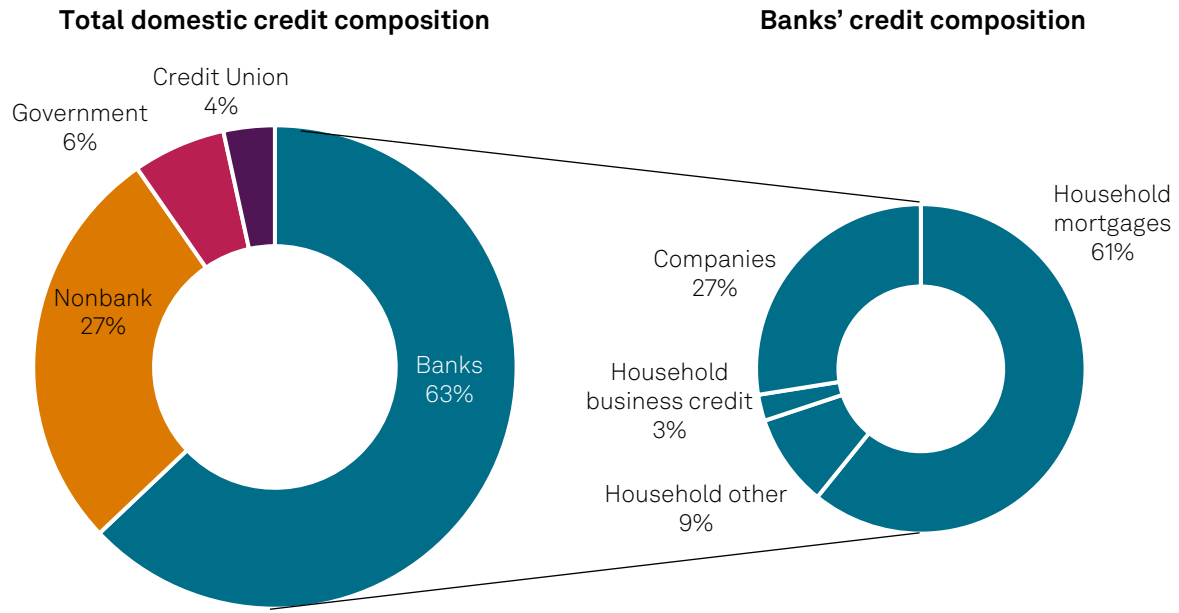
Source: Central Statistics Office, OECD.



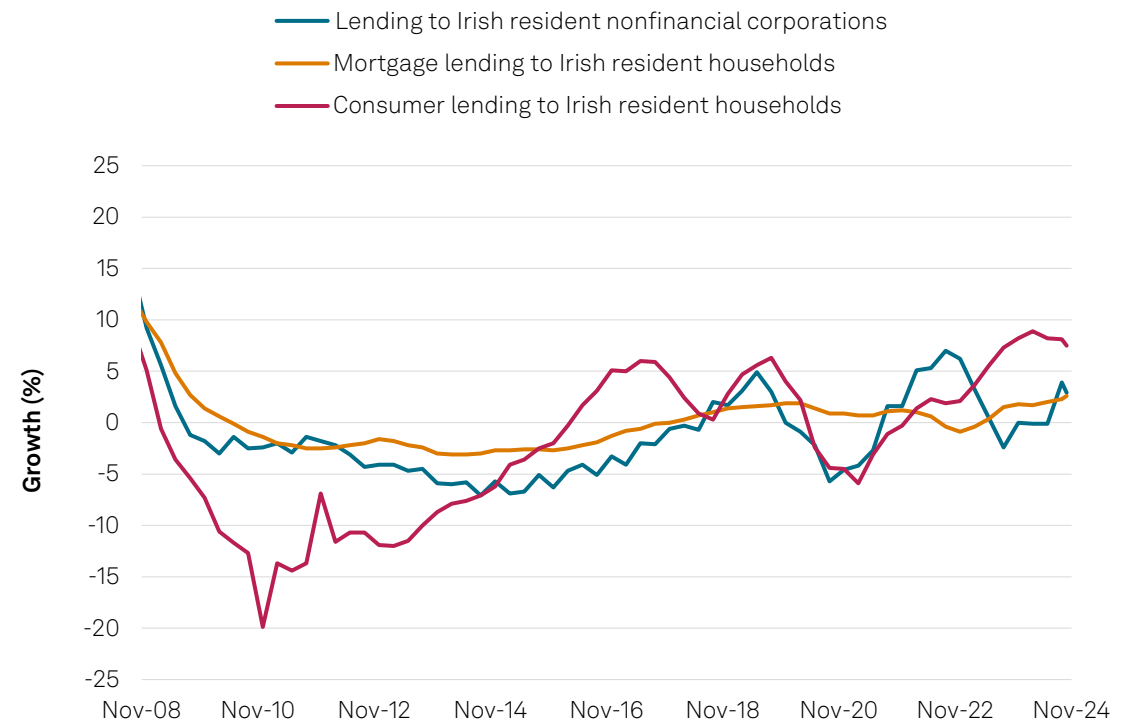
# Loan Growth Shows Signs Of A Positive Trend

We expect Irish banks to maintain domestic market dominance, with mortgages outweighing banks' loan portfolios

Annual bank lending was 3.5% in November 2024, with mortgage growth the main contributor



Annual lending growth rates for mortgages, consumer and corporates credits

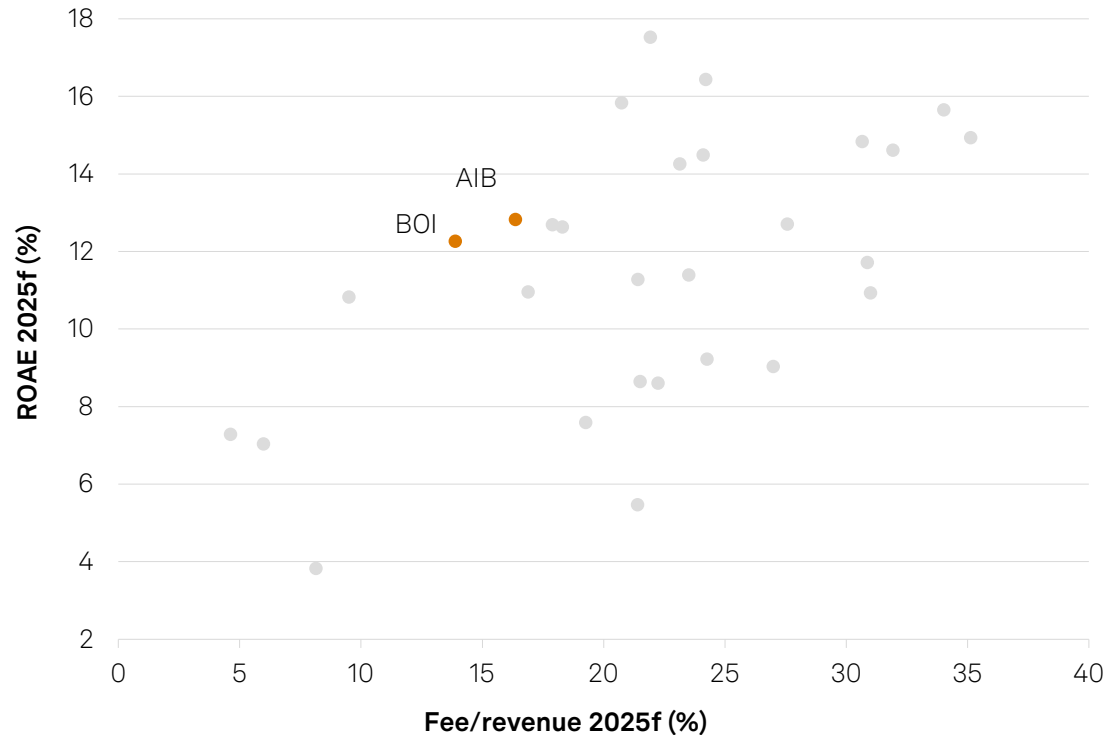


Source: Central Bank of Ireland & Central Statistics Office.

Source: Central Statistics Office.

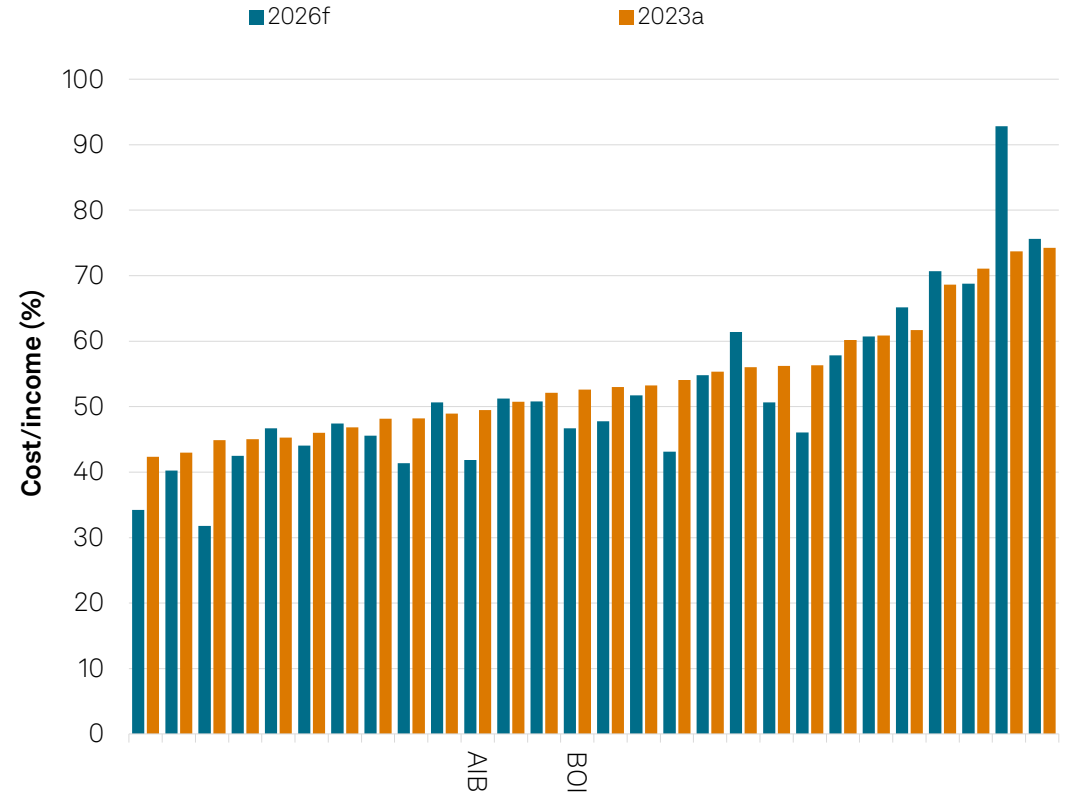
# Revenue Diversification And Efficiency Remain Top Priorities

A continued focus on revenue diversification will support banks' profitability



ROAE--Return on average equity. Selected peers with SACP levels of 'bbb-', 'bbb', 'bbb+', and 'a-'.  
Source: S&P Global Ratings.

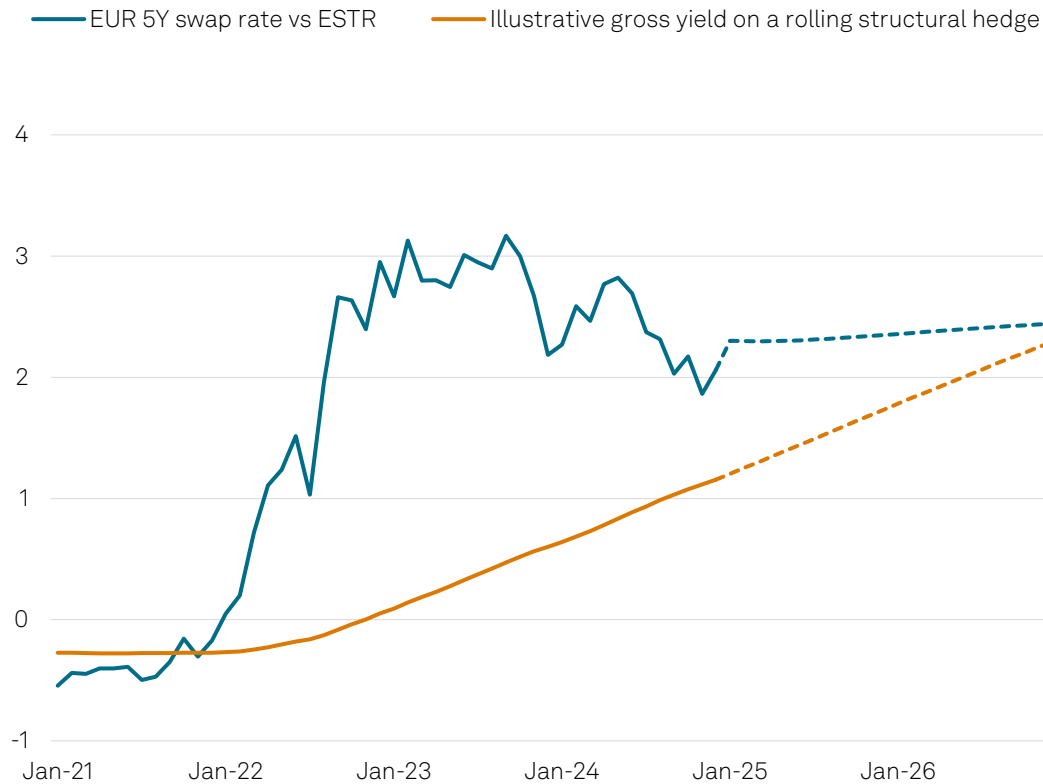
Cost controls and resilient revenue creation will help cost efficiency remain in line with peers



Selected peers with SACP levels of 'bbb-', 'bbb', 'bbb+', and 'a-'.  
Source: S&P Global Ratings.

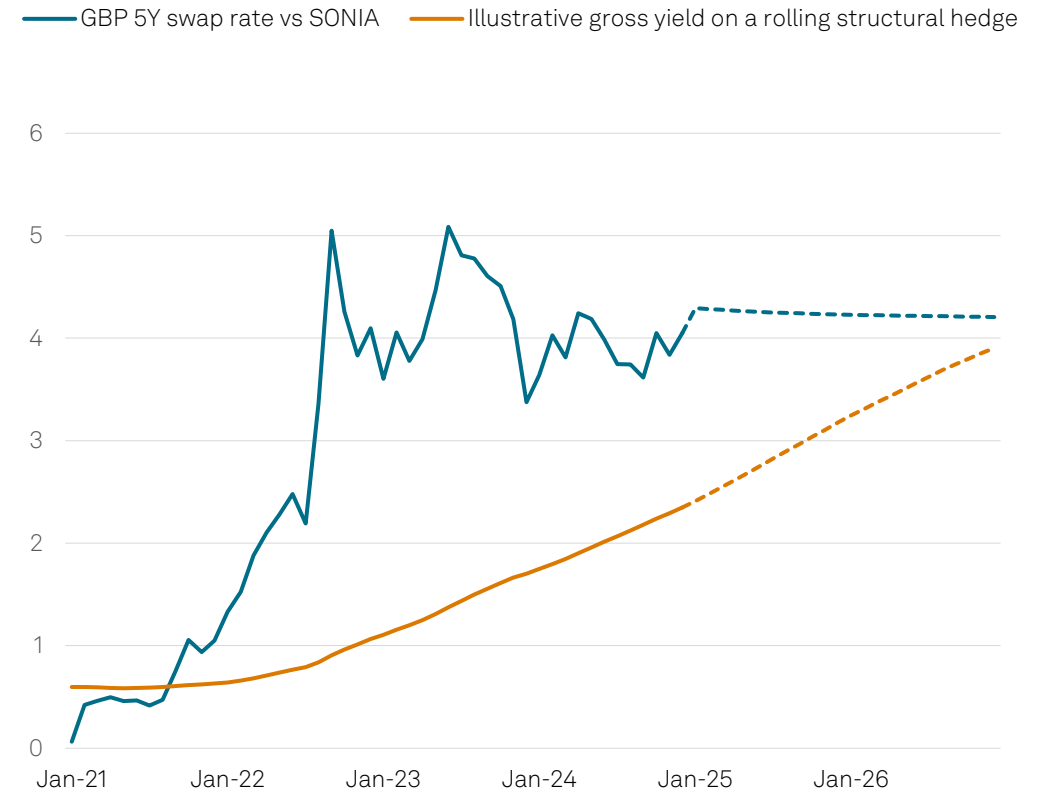
# Structural Hedges Underpin Net Interest Income As Rates Decline

## Rising structural hedge yields, 2025-2026 (EUR)



Source: Bloomberg, S&P Global Ratings.

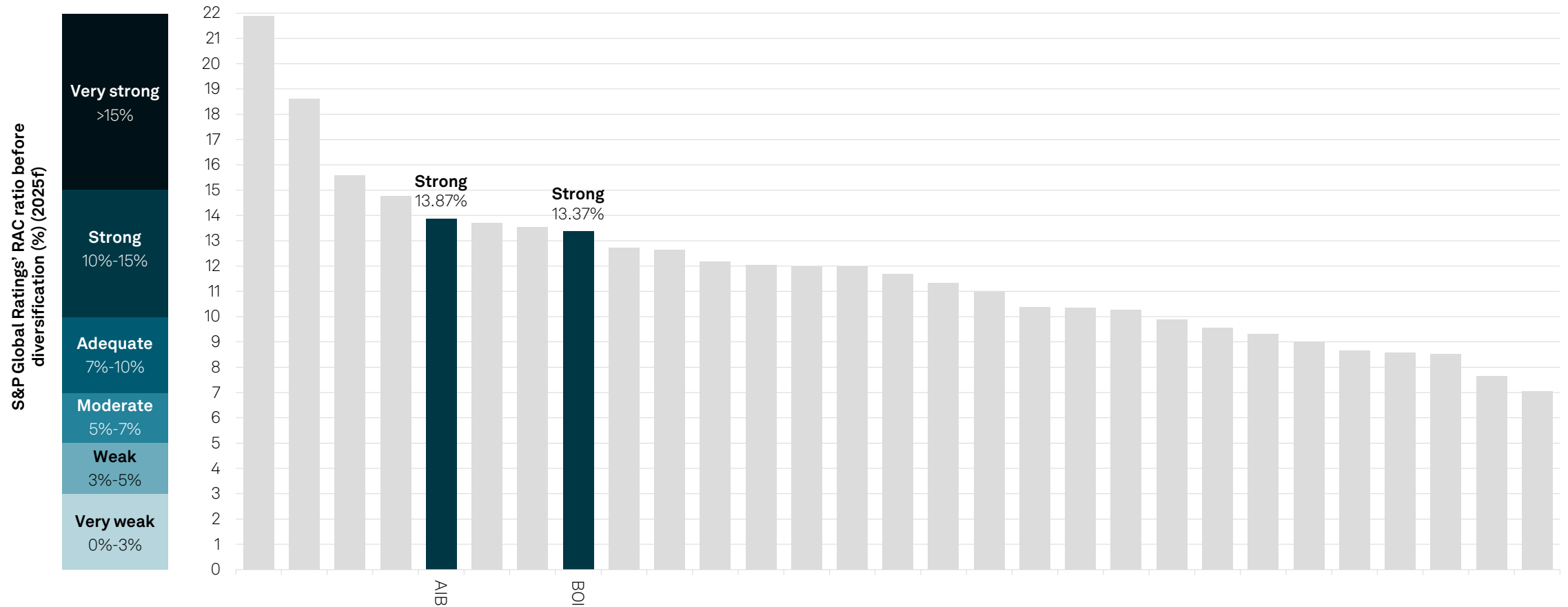
## Rising structural hedge yields, 2025-2026 (GBP)



Source: Bloomberg, S&P Global Ratings.

# Strong Capitalization Remains A Rating Strength For Irish Banks

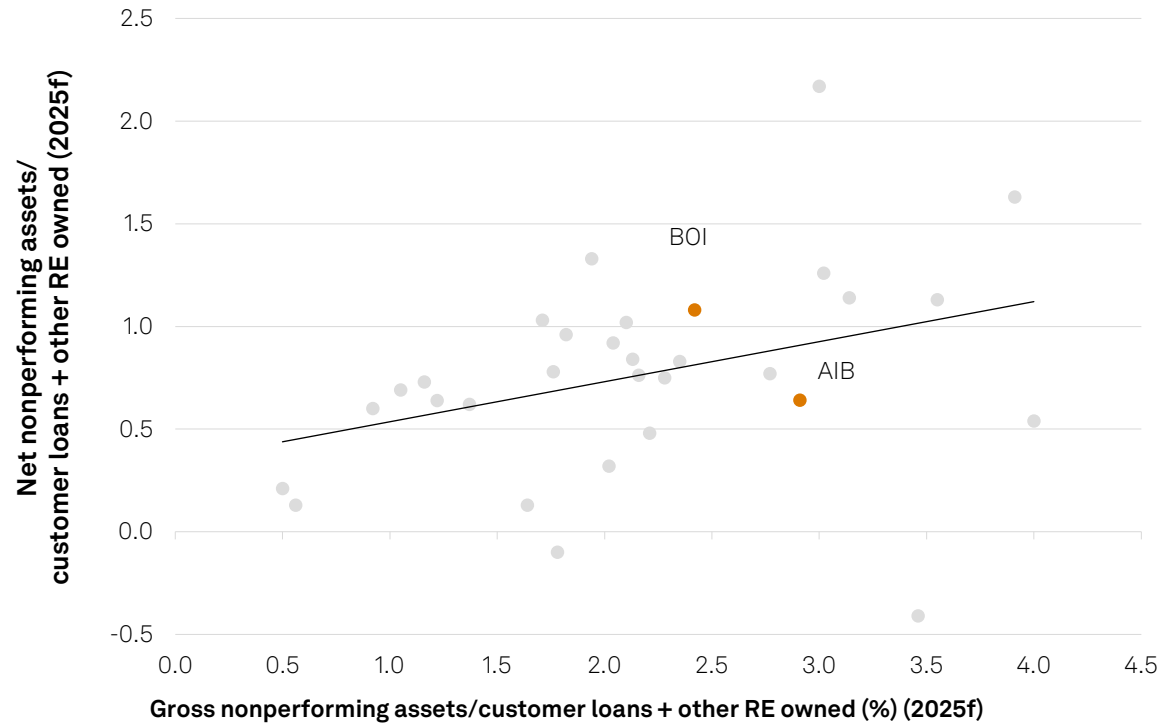
Improved earnings generation supports capitalization and is a buffer against potential headwinds.



Selected peers with SACP levels of 'bbb-', 'bbb', 'bbb+', and 'a-'. Source: S&P Global Ratings.

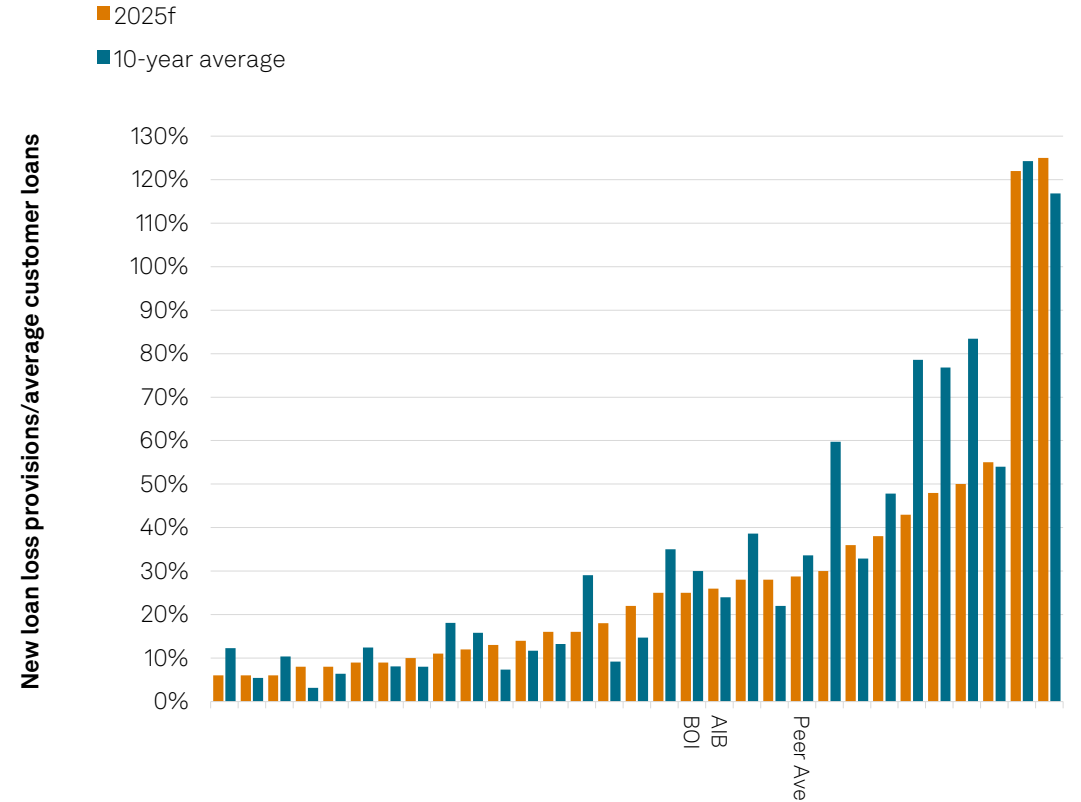
# Ireland's Economic Outlook Supports Good Asset Quality

Nonperforming loans are expected to remain below 3%



Selected peers with SACP levels of 'bbb-', 'bbb', 'bbb+', and 'a-'. Source: S&P Global Ratings.

Keeping credit losses below the peer average

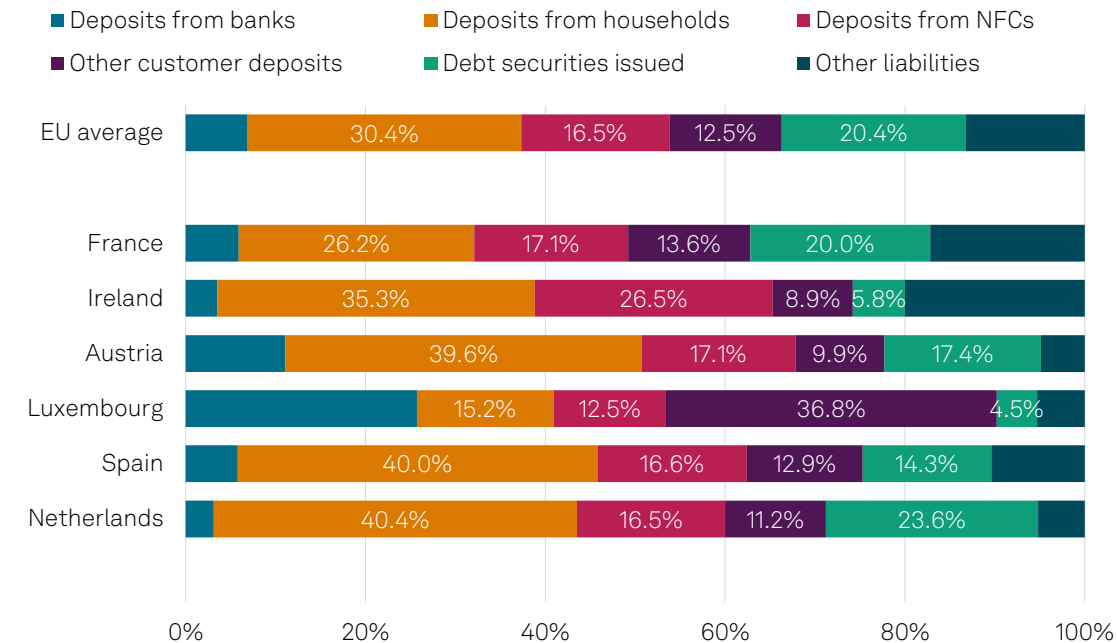


Selected peers with SACP levels of 'bbb-', 'bbb', 'bbb+', and 'a-'. Source: S&P Global Ratings.

# Large Deposit Base And Ample Liquidity Supports Irish Banks Profitability

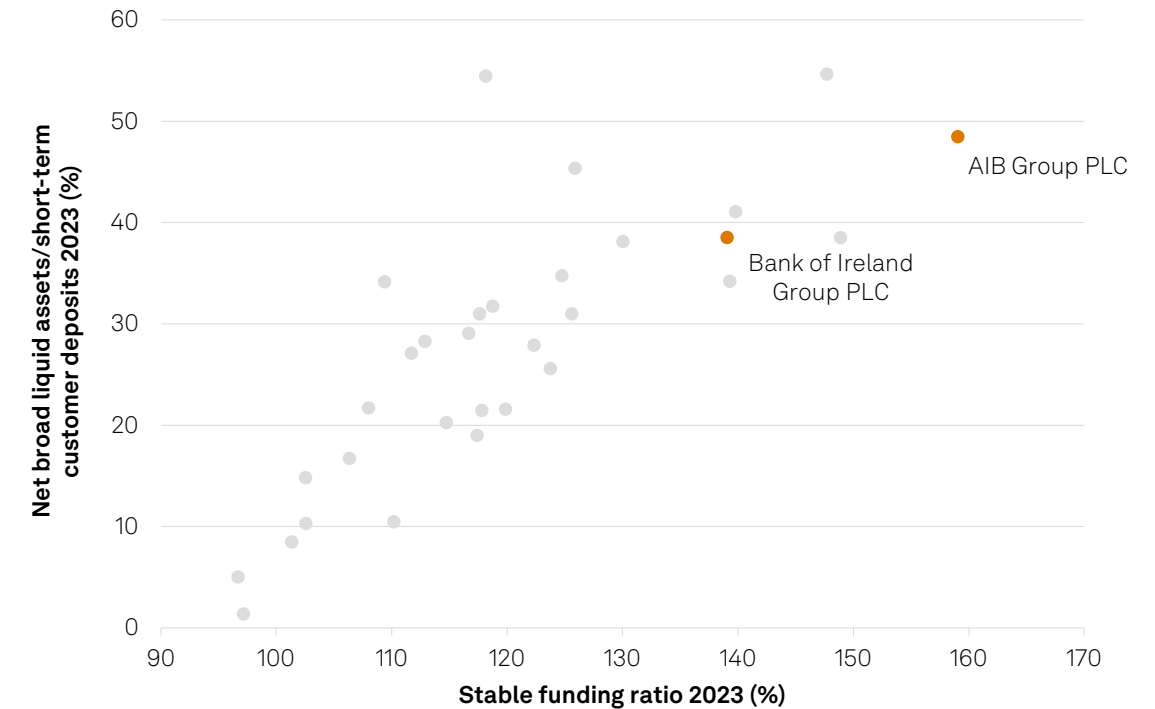
## Stable customer deposits remain the backbone of banks' funding

Liability composition of large EU banks, as of Sept. 30, 2024 (%)



The sample includes 164 banks included in the EBA Risk Dashboard exercise. NFCs--Nonfinancial corporates. Sources: European Banking Authority, S&P Global Ratings.

## Liquidity and funding metrics are positive outliers compared to those of peers, reflecting structural system-wide strength



Selected peers with SACP levels of 'bbb-', 'bbb', 'bbb+', and 'a-'. Source: S&P Global Ratings.



# Global Banks

# Outlook 2025

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the linked resources

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## Country-By-Country Outlook 2025: Cautiously Confident

Our overarching view and one-page summaries for 86 banking jurisdictions

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## Global Banks Outlook 2025: Cautiously Confident

A slide deck presenting key messages and summarizing our outlooks

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## Global Banks Outlook 2025 Video

A video capturing key points from our reports

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## Global Banks Outlook 2025 Dashboard

An interactive dashboard with key data from our reports

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