

Announcement: Moody's maintains positive outlook on Irish banking system amid strong operating environment

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London, 14 November 2016 -- Moody's Investors Service has maintained its positive outlook on Ireland's banking system, reflecting the rating agency's expectation that operating conditions for the country's banks will continue to improve. The outlook expresses Moody's expectation of how bank creditworthiness will evolve in Ireland over the next 12-18 months.

Moody's report, entitled "Banking System Outlook - Ireland: Strong Economy and Improving Credit Fundamentals Drive Positive Outlook" is available on www.moody's.com. Moody's subscribers can access this report via the link provided at the end of this press release.

"The Irish economy will likely continue to perform strongly over the next two or three years, fuelling demand for new loans and other banking products, as well as further alleviating the pressure from the still high stock of problem loans," says Dany Castiglione, Vice President at Moody's.

As noted in November 2016, the rating agency expects real GDP to grow by 3.4% in 2016 and 3.1% in 2017, continuing to outperform most of the euro region. Although the United Kingdom's (UK) June 2016 vote to leave the European Union leaves Ireland's economy exposed, Moody's believes that the uncertainty created by the vote is manageable for Ireland over the outlook period.

Irish banks now have sustainable funding profiles, in line with most European peers, and have been able to consistently tap wholesale debt markets at competitive prices. In addition, banks in Ireland have solid capital ratios and Moody's expects them to continue to strengthen their loss absorption buffers.

Furthermore, pre-provision profitability should continue to benefit from low funding costs, a favourable competitive environment and increasing demand for new lending and other banking services.

The banking system's large stock of problem loans remains a critical issue for Irish banks and will continue to slow their recovery and pressure profitability. Problem loans for rated Irish banks were €41.5 billion as of end-2015, down from €67.0 billion at end-2014.

"We expect the stock of bad loans to decrease further over the next two years, helped by supportive operating conditions, but the pace of decline will be slower compared to previous years," explains Mr. Castiglione. "This is because banks have already carried out most of the heavy lifting on the restructuring and sale of non-performing loan portfolios."

In addition, Moody's notes, that the large proportion of legacy tracker mortgages will continue to pressure margins in addition to the impact of the high stock of problem loans.

Subscribers can access the report at: http://www.moody's.com/viewresearchdoc.aspx?docid=PBC_1026959

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