S&P Global
Ratings

Irish Snapshot 2022

Growth And Stability Characterize The Start Of 2022

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Overview

Growth and stability are the watchwords that best describe Ireland's rated portfolio in the second half (H2) of 2021. *Growth* in the form of the 11 new issuer ratings in H2, following 14 new issuers in H1, resulting in a more than 25% year-on-year increase in the overall size of the portfolio. Structured finance issuers, predominately residential mortgage-backed securities (RMBS), continued to be the leading sector for new issuers, but two new corporate issuers were rated in H2, bringing to five the number of public ratings assigned to Ireland-incorporated corporates during 2021. *Stability* was exhibited by a reduced number of rating actions and the lowest number of downgrades since H1 2019. There were only two downgrades in H2 2021, while 88% of the portfolio now carries a stable outlook. While this is influenced by the growth in new structured finance issuers, which typically carry a stable outlook, it also reflects the sustained recovery of both the domestic and global economy and the continuation of accommodative financing conditions.

Sector Outlooks

Sovereign: Our 'AA-' sovereign rating on Ireland reflects the country's high income levels; open, productive, and diversified economy; and flexible workforce. The ratings also reflect Irish policymakers' track record of prudent, flexible, and predictable macroeconomic policies, which we believe have bolstered economic resilience. Constraints to the rating include high public debt, elevated external leverage, and outsized statistical effects in external accounts. Ireland's record of sound fiscal management has given the government some leeway to mitigate the near-term impact of the OECD corporate tax agreement, while we expect elevated fiscal deficits to narrow sharply in 2022 as the domestic economy rebounds and support programs are withdrawn or more narrowly targeted. The stable outlook indicates that we do not expect the COVID-19 pandemic or its potential long-term effects to cause any lasting structural damage to Ireland's credit metrics.

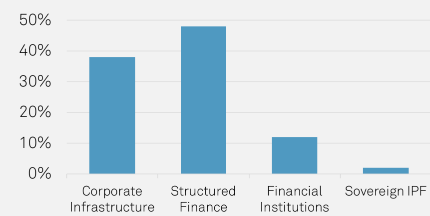
Financial Institutions: Despite the evolving banking landscape, Irish banks' earnings and profitability remain under pressure. The pending departure of both Ulster Bank and KBC have provided growth opportunities, primarily in the form of loan book acquisitions. Still, organic earnings growth remains challenging and substantive revenue diversification limited. In addition, the banks continue to face persistent headwinds in the form of high capital requirements for mortgage loans and elevated cost bases, although the negative impact should be diluted by the scale of loan book acquisitions. Irish banks currently carry a mix of rating outlooks, primarily a function of banks' ability to generate sustainable medium-term profitability.

Corporate/Infrastructure: Global corporate defaults fell by 70% in 2021, and the continued recovery of the global economy should support positive global rating trends. However, cost inflation, strained supply chains, and the impact of the pandemic continue to pose challenges unevenly across many global corporate sectors. Among rated entities in Ireland, corporates continue to be the sector with the largest number of negative outlooks, and the only downgrades during H2 2021

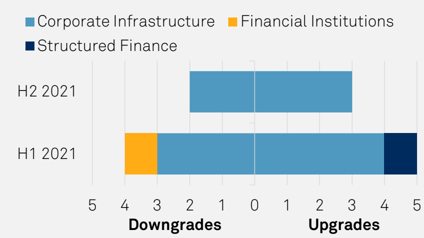
Irish Public Ratings Dashboard

	H2 2021	H1 2021
Public ratings	112	101*
Downgrades	2	4
Upgrades	3	5
New ratings	11	14
Stable outlook	88%	83%

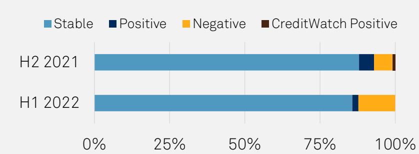
Total Irish Issuers



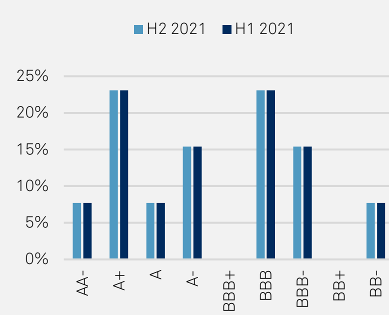
Upgrades/Downgrades



Outlook Distribution



Financial Institutions Ratings§



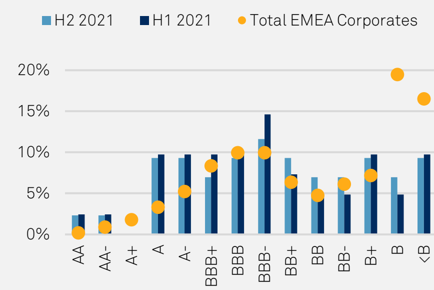
were in this sector. Despite the ongoing pandemic, M&A activity has remained a dominant global theme, and Ireland-incorporated issuers have been active participants. A majority of them have maintained active M&A strategies, financed either by internally generated cash flow for smaller bolt-on acquisitions or new debt issuances for larger transactions. Shareholder-friendly financial policies also remain prevalent, with dividend distributions and share buyback programs continuing, although in some cases at a less aggressive pace.

Structured Finance: This sector is the largest among Ireland-incorporated entities we rate, primarily attributable to strong growth among RMBS and CLO (collateralized loan obligation) transactions. The performance of both sectors has been supported by improving economic and financing conditions. According to the CSO, Irish house prices increased 14% in the year to November 2021, while transaction-level, long-term mortgage arrears have remained low, limiting underling mortgage defaults and contributing to rating stability. 2021 was a record year for European CLO issuance and significant M&A activity and investors' continued search for floating-rate investments fueled significant growth in leveraged loans, which underpin the CLOs managed by Ireland-based asset managers. Existing S&P-rated transactions continue to exhibit stable performance, benefiting from improving European credit conditions and diversified portfolios. However, we continue to observe higher leverage on the assets in comparison to previous years.

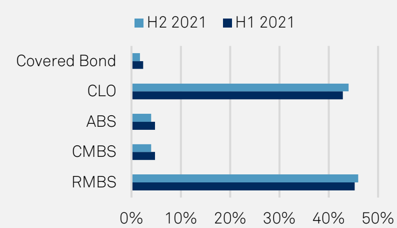
Related Research

- Global Credit Outlook 2022: Aftershocks, Future Shocks, And Transitions, Dec. 1, 2021
- Ireland, Nov. 29, 2021
- The OECD Tax Agreement Is Likely To Put Pressure On Irish Public Finances, Oct. 11, 2021
- Ratings on Irish Banks Affirmed Amid Ongoing Profitability Pressure; Most Outlooks Still Negative, June 24, 2021
- Global Structured Finance 2022 Outlook, Jan. 13, 2022

Corporate Ratings



Structured Finance Issuers



*Includes three issuers previously omitted.
§Where applicable, ratings reflect operating company as opposed to holding company entities.
ABS--Asset-backed securities.
CLO--Collateralized loan obligation.
CMBS--Commercial mortgage-backed securities.
IPF--International public finance.
RMBS--Residential mortgage-backed securities.
Source: S&P Global Ratings.

S&P Global Ratings publicly rates 112 Irish incorporated or headquartered issuers across financial institutions, sovereign international public finance (IPF), corporate/infrastructure, and structured finance sectors. The structured finance portfolio is composed of transactions involving Irish assets or Irish based asset managers.

The commentary and charts reflect the portfolio as of Dec. 31, 2021, and do not reflect any rating actions that may have been taken subsequent to this date.

This report does not constitute a rating action.