

**Rating Action: Moody's upgrades PTSB's long-term Senior Unsecured Debt and Deposit ratings to Ba3 and Ba2, respectively; outlook remains positive**

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Global Credit Research - 25 Aug 2017

**Standalone BCA also upgraded to b2**

London, 25 August 2017 -- Moody's Investors Service today upgraded the long-term senior unsecured debt and deposit ratings of Permanent tsb p.l.c. (PTSB) to Ba3 and Ba2 from B1 and Ba3, respectively. The short-term deposit ratings of Not Prime were affirmed.

As part of the same rating action, Moody's upgraded the standalone baseline credit assessment (BCA) to b2 from b3, reflecting improvements in the bank's credit fundamentals.

Moody's maintained a positive outlook on the bank's long-term senior unsecured debt and deposit ratings, driven by the expectation of a further recovery in its asset quality and profitability in the context of the supportive operating environment in the Republic of Ireland.

A full list of affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

**BCA**

The upgrade of PTSB's long-term ratings was driven by the revision of the bank's BCA to b2 from b3. The upgrade of the BCA reflects: (1) the bank's decreased reliance on wholesale and central bank funding, which resulted in an improved net loan-to deposit ratio of 110% as at end-June 2017, down from 124% a year earlier; (2) a return to profitability, net of write-backs, and an improved net interest margin of 1.6% in the first half of 2017; (3) a solid capital level, with Tangible Common Equity (TCE) of 16.5% of Risk-Weighted Assets (RWAs) as at end-June 2017, up from 16.2% as at end-December 2017.

The sale of PTSB's non-core UK mortgage book in December 2016 has enabled the bank to reshape its funding profile, eliminating a key structural weakness, reducing its use of expensive wholesale funding and supporting improvements in its profitability and capital metrics. In addition, the bank has continued to enhance its operating efficiency, with a reported cost-to-income ratio of 65% as at end-June 2017 versus 69% a year earlier. The bank's stock of non-performing loans continued its slow decline, to EUR4.8 billion at end-June 2017, with a coverage ratio of 51% broadly unchanged.

The BCA remains lower than those of the other major Irish banks, reflecting the remaining sizeable stock of non-performing loans, in addition to a significant portion of forborne loans with low amortization rates. The bank's problem loans as a percentage of its capital and loan loss reserves was 112% as at end-June 2017, comparing unfavorably with its higher-rated Irish peers, and is improving at a slower rate.

However, Moody's expects that the improving trend in the bank's profitability will prevail and that the management's focus on an accelerated reduction of non-performing assets will bear visible results for asset quality ratios over the outlook horizon. Positive trends in the bank's fundamentals are also expected to be supported by the benign operating environment in Ireland, reflecting growing economic activity, increasing consumer confidence and strong demand for housing.

**LONG-TERM RATINGS**

The long-term senior unsecured debt and deposit ratings were upgraded to Ba3 and Ba2 from B1 and Ba3 respectively, as a result of the upgrade of the bank's BCA, with uplift under Moody's Advanced Loss Given Failure (LGF) analysis relative to the BCA remaining unchanged. The senior unsecured debt rating and bank deposit rating benefit from one notch and two notches of uplift respectively, given their different weights in the bank's liability structure and, consequently, different degrees of subordination and loss-rates. In addition, the long-term ratings incorporate one notch for potential government support, which also remains unchanged, in view of PTSB's systemic importance in Ireland.

In addition, Moody's has corrected the rating originally assigned on June 22, 2017 to Permanent TSB Group Holdings plc's senior unsecured medium-term note program to (P)Caa1 from (P)B1, and subsequently upgraded it to (P)B3. The program was assigned an incorrect rating due to an internal administrative error.

## OUTLOOKS

The positive outlooks on PTSB's long-term senior unsecured debt and deposit ratings reflect the potential upside for the bank's standalone BCA during the outlook period, as noted above. While Moody's expects the group to issue debt from its holding company, which would provide additional protection for the bank's senior unsecured debt and deposits, the rating agency does not believe that this issuance will be sufficient to lead to higher ratings over the outlook horizon.

## CR Assessment (CRA)

The bank's long-term CRA was upgraded to Ba1(cr) from Ba2(cr). The CRA incorporates four notches of uplift from the bank's BCA given the protection provided by subordinated debt, senior debt and wholesale deposits. The CR Assessment also benefits from one notch of government support, in line with the agency's assessment of a moderate probability of support for deposits and senior unsecured debt.

## WHAT COULD MOVE THE RATINGS UP/DOWN

PTSB's long-term debt and deposit ratings could be upgraded as a result of: (1) an increase of its standalone BCA; or (2) a significant increase in the bank's bail-in-able debt, beyond the agency's current expectations. PTSB's BCA could be upgraded if the bank (1) continues to improve its asset risk metrics; and (2) shows further sustainable improvements in profitability.

PTSB's ratings could be downgraded as a result of: (1) a lowering of its standalone BCA; or (2) the redemption of maturing instruments without their replacement. PTSB's BCA could be downgraded because of: (1) an unexpected significant deterioration in the bank's capital level; (2) a reversal in the improving profitability trend; or (3) a deterioration in asset quality and provisioning coverage.

## LIST OF AFFECTED RATINGS

Issuer: Permanent tsb p.l.c.

### Upgrades:

- ....LT Bank Deposits, Upgraded to Ba2 from Ba3, Outlook Remains Positive
- ....Senior Unsecured Regular Bond/Debenture, Upgraded to Ba3 from B1, Outlook Remains Positive
- ....Senior Unsecured MTN Program, Upgraded to (P)Ba3 from (P)B1
- ....Subordinate MTN Program, Upgraded to (P)B3 from (P)Caa1
- ....Junior Subordinate MTN Program, Upgraded to (P)Caa1 from (P)Caa2
- ....Adjusted Baseline Credit Assessment, Upgraded to b2 from b3
- ....Baseline Credit Assessment, Upgraded to b2 from b3
- ....LT Counterparty Risk Assessment, Upgraded to Ba1(cr) from Ba2(cr)

### Affirmations:

- ....ST Bank Deposits, Affirmed NP
- ....Other Short Term, Affirmed (P)NP
- ....ST Counterparty Risk Assessment, Affirmed NP(cr)

### Outlook Actions:

- ....Outlook, Remains Positive

Issuer: Permanent TSB Group Holdings plc

Upgrades:

....LT Issuer Rating, Upgraded to B3 from Caa1, Outlook Assigned Positive

....Senior Unsecured MTN Program, upgraded to (P)B3 from corrected (P)Caa1

Affirmations:

....Other Short Term, Affirmed (P)NP

Outlook Actions:

....Outlook, Remains Positive

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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