

Rating Action: Moody's upgrades Permanent TSB's ratings and assessments; outlook remains positive

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Permanent TSB Group Holdings' issuer rating upgraded to Ba3, outlook remains positive

London, 01 April 2019 -- Moody's Investors Service today upgraded the long-term deposit and senior unsecured debt ratings of Permanent tsb p.l.c. (PTSB) to Baa3 from Ba2 and its baseline credit assessment (BCA) to ba2 from b1. As part of the same action, Moody's upgraded the bank's Counterparty Risk Assessment (CR Assessment) to Baa1(cr)/P-2(cr) from Baa3(cr)/P-3(cr) and the Counterparty Risk Rating (CRR) to Baa1/P-2 from Baa3/P-3. The short-term deposit ratings were also upgraded to Prime-3 from Not Prime. Furthermore, Moody's upgraded the long-term issuer rating of Permanent TSB Group Holdings plc (PTSB Holdings) to Ba3 from B2.

Moody's maintained the positive outlooks on the bank's long-term senior unsecured debt and deposit ratings as well as on PTSB Holdings' issuer rating, driven by the agency's expectation of further improvements in the bank's asset quality and largely stable profitability in the context of ongoing regulatory pressure to reduce non-performing loans and the supportive operating environment in the Republic of Ireland (A2, stable). The positive outlooks also reflect the likelihood that PTSB Holdings will issue material bail-in-able debt over the next twelve to eighteen months which could reduce loss-given-failure for PTSB's senior unsecured debt and deposits.

RATINGS RATIONALE

BCA

The upgrade of PTSB's BCA primarily reflects Moody's view that the bank's solvency has materially strengthened thanks to a sharp decrease in its problem loans. As of end-2018, PTSB's problem loan ratio had fallen to around 10% from 25% at end-June 2018, forbore loans were down to 10% from 26%, and mortgage loans in negative equity declined to 16% of the mortgage book from 29% during the same period. Furthermore, Moody's expects PTSB's asset quality to continue to improve in the near term, driven by very low new arrears formation and the bank's commitment to decrease its gross problem loans to 5% of total loans by end-2020, which could lead to a higher BCA and ratings. The targeted non-performing loan ratio is largely in line with ECB guidance and the agency believes to be achievable through sales and other means.

Furthermore, the bank reports sound ratios of tangible common equity (TCE) to risk-weighted assets and total assets of 13% and 8% respectively as of end-2018. However, the ratio of problem loans to loan loss reserves and TCE remains high at 61%, albeit significantly lower than 135% at end-2017. Moody's expects this ratio to continue to improve as problem loans decline further.

The upgrade of PTSB's BCA also takes into account moderate improvements in the bank's profitability, which however remains structurally weaker than larger and more diversified peers. On a Moody's adjusted basis, the bank reported a profit of €60 million for 2018 compared to €40 million in 2017, driven by higher revenues and cost control. A further moderate increase in PTSB's revenues will likely be partially offset by an expected rise in funding costs as PTSB Holdings issues more loss-absorbing debt, and the bank's profitability continues to be constrained by a sizeable amount of low-margin tracker mortgages.

PTSB has improved its liability profile and now has a low reliance on market counterparties, benefiting from a stable funding base of primarily retail deposits. The gross loan-to-deposit ratio improved to 100% as of year-end 2018, down from 121% as of year-end 2017. The issuance of loss-absorbing debt via PTSB Holdings will increase slightly the bank's reliance on market funding but will remain moderate, accompanied by growth in deposits to support modest balance sheet growth.

LONG-TERM RATINGS

The long-term deposit and senior unsecured debt ratings were upgraded to Baa3 from Ba2 as a result of the upgrade of the bank's BCA, with two notches of uplift relative to the BCA under Moody's Advanced Loss Given Failure (LGF) analysis, which remains unchanged. This incorporates the agency's expectation of senior

unsecured debt issued by PTSB Holdings over the course of the next twelve to eighteen months.

PTSB's senior unsecured debt and bank deposit ratings continue to incorporate one notch of uplift reflecting a moderate probability of government support given the bank's systemic importance in Ireland and its majority ownership by the Irish government. However this does not extend to PTSB Holdings' debt, for which Moody's considers the probability of government support to be low.

CR ASSESSMENT AND CR RATING (CRR)

The bank's long-term CR Assessment and CRR were upgraded to Baa1(cr) from Baa3(cr) and to Baa1 from Baa3 respectively. The CR Assessment and CRR incorporate three notches of uplift from the bank's BCA given the protection provided by subordinated debt, senior debt and wholesale deposits. The CR Assessment and CRR also benefit 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.

OUTLOOKS

The positive outlooks on PTSB's long-term senior unsecured debt and deposit ratings, and the positive outlook on PTSB Holdings' issuer rating, reflect the potential upside for the bank's BCA. In addition, the issuance of senior unsecured debt by PTSB Holdings over the next twelve to eighteen months and beyond could drive a further upgrade for PTSB's senior debt and deposit ratings.

WHAT COULD MOVE THE RATINGS UP/DOWN

PTSB's long-term debt and deposit ratings could be upgraded as a result of (1) an upgrade of its standalone BCA; or (2) a significant increase in the bank's bail-in-able debt relative to its tangible banking assets. PTSB's BCA could be upgraded if the bank (1) continues to improve its asset risk; and (2) shows sustainable improvements in profitability. PTSB Holdings' issuer rating could be upgraded following an upgrade of PTSB's BCA or a significant increase in the group's bail-in-able debt relative to its tangible banking assets.

PTSB's ratings could be downgraded as a result of a downgrade of its standalone BCA. The BCA could be downgraded because of (1) an unexpected significant deterioration in its capitalisation; (2) a reversal in the improving profitability trend; or (3) a deterioration in asset quality and provisioning coverage. PTSB Holdings' issuer rating could be downgraded following a downgrade in the BCA of PTSB.

LIST OF AFFECTED RATINGS

Permanent TSB Group Holdings plc

..Upgrades:

.... Long-term Issuer Rating, Upgraded to Ba3 from B2 outlook remains Positive

....Senior unsecured Medium-Term Note Program, Upgraded to (P)Ba3 from (P)B2

..Affirmation:

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

..Outlook Action:

....Outlook Remains Positive

Permanent tsb p.l.c.

..Upgrades:

.... Long-term Counterparty Risk Ratings, Upgraded to Baa1 from Baa3

.... Short-term Counterparty Risk Ratings, Upgraded to P-2 from P-3

.... Long-term Counterparty Risk Assessment, Upgraded to Baa1(cr) from Baa3(cr)

.... Short-term Counterparty Risk Assessment, Upgraded to P-2(cr) from P-3(cr)

... Long-term Bank Deposits, Upgraded to Baa3 from Ba2 outlook remains Positive
... Short-term Bank Deposits, Upgraded to P-3 from NP
... Baseline Credit Assessment, Upgraded to ba2 from b1
... Adjusted Baseline Credit Assessment, Upgraded to ba2 from b1
...Senior Unsecured Regular Bond/Debenture, Upgraded to Baa3 from Ba2 outlook remains Positive
...Junior Subordinate Medium-Term Note Program, Upgraded to (P)B1 from (P)B3
...Subordinate Medium-Term Note Program, Upgraded to (P)Ba3 from (P)B2
...Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa3 from (P)Ba2
.Other Short-Term Ratings, Upgraded to (P)P-3 from (P)NP
..Outlook Action:
... Outlook Remains Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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