ISSUER COMMENT
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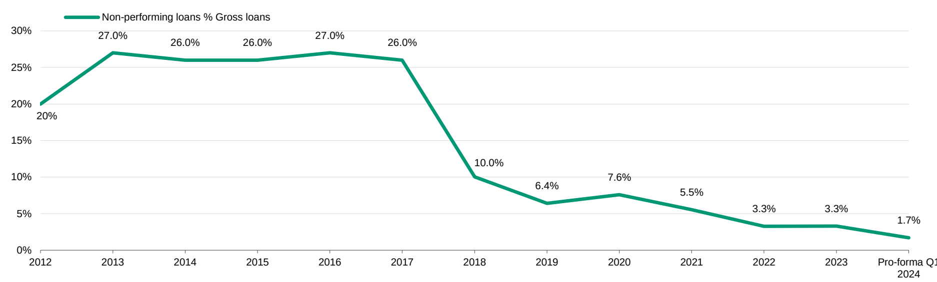
Permanent TSB Group Holdings plc

Nonperfoming loan sale is credit positive

On 19 July, Irish retail bank Permanent TSB Group Holdings plc (PTSB, Baa2 positive) announced its sale of a nonperforming loan (NPL) portfolio to Mars Capital Finance Ireland DAC, an Irish credit servicing firm. The transaction will strengthen the quality of PTSB's loan book and likely reduce its first-quarter 2024 NPL ratio to around 1.7% on a pro forma basis from 3.3% as of year-end 2023, 20 basis points (bps) lower than the European average of 1.9%, according to the EBA Risk Dashboard as of March 2024.

Fewer than 10 years ago, PTSB's NPL ratio was around 27%, where it remained more or less for several years (see Exhibit 1). However, PTSB has made significant progress in improving its asset quality through a combination of workouts, NPL sales and securitisations, as well as the more recent acquisition of around €6.8 billion of performing assets from Ulster Bank Ireland DAC (UBIDAC), which exited the Irish market in 2023. The latest NPL sale reflects PTSB's commitment to drawing a line under the issues of the past and continuing to take steps towards building a stronger and more resilient bank.

Exhibit 1
PTSB's NPL ratio has fallen significantly from around 27% less than 10 years ago



Source: Company financials

The gross balance sheet value of the sold portfolio was €348 million, and included 1,244 loan accounts split between home loans (925 accounts) and buy-to-let loans (319 accounts). Nearly 83% of the loans were classified as nonperforming because of their arrears status. The remaining 17% were classified as nonperforming in accord with regulatory guidelines and definitions.

The bank expects the sale of the nonperforming portfolio to enhance its Common Equity Tier 1 (CET1) ratio by about 35 bps, strengthening its already sound capital levels as its systematic importance in the Irish banking system increases, which is likely to raise its regulatory capital requirements. As of March 2024, the bank reported a CET1 ratio of 14.3%, comfortably ahead of its CET1 requirement of 9.83%. Off-loading the NPLs, which equate to about 2% of its balance sheet loans as of 31 December 2023, is also likely to free up capital and allow PTSB to extend around €2 billion of new lending in the absence of regulatory provisioning that would otherwise be needed if the NPLs remained on its books.

In 2023, PTSB completed an acquisition of €6.8 billion of assets from UBIDAC, including performing residential mortgages, micro-SME and business loans and asset finance loan business. These acquisitions have been transformative for PTSB, increasing its mortgage book by about 40%, business banking book by about 200% and branch network by around 30%, giving it greater scale and product diversification as well as about 88,000 additional customers.

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