MOODY'S RATINGS

Rating Action: Moody's Ratings upgrades PTSB's long-term deposit rating to A1, outlook changed to stable

27 Sep 2024

London, September 27, 2024 -- Moody's Ratings (Moody's) has today upgraded the long-term deposit ratings and senior unsecured ratings of Permanent tsb p.l.c. (PTSB) to A1 from A2, as well as the standalone Baseline Credit Assessment (BCA) and standalone Adjusted BCA to baa2 from baa3. The bank's long-term Counterparty Risk Ratings were upgraded to A1 from A2 and the long-term Counterparty Risk Assessment was also upgraded to A1(cr) from A2(cr). The bank's subordinate medium-term note (MTN) programme was also upgraded to (P)Baa3 from (P)Ba1, the senior unsecured MTN programme was upgraded to (P)A1 from (P)A2. PTSB's short-term Counterparty Risk Assessment was affirmed at P-1(cr), the short-term Counterparty Risk Rating and short-term deposit ratings were affirmed at P-1 and the Other Short Term rating was affirmed at (P)P-1

The senior unsecured debt rating and long-term issuer rating of Permanent TSB Group Holdings plc (PTSBG), the holding company of PTSB, was upgraded to Baa1 from Baa2, as well as PTSBG's subordinate debt and MTN programme ratings to Baa3 from Ba1 and to (P)Baa3 from (P)Ba1, respectively. PTSBG's preferred stock non-cumulative rating and Other Short Term rating were also upgraded to Ba2(hyb) and (P)P-2 respectively, from Ba3(hyb) and (P)P-3 respectively, and the senior unsecured MTN rating was upgraded to (P)Baa1 from (P)Baa2.

The outlook on the long-term deposit ratings and the senior unsecured debt rating of PTSB and on the long-term issuer and the senior unsecured debt ratings of PTSBG have been changed to stable from positive.

RATINGS RATIONALE

UPGRADE OF THE BASELINE CREDIT ASSESSMENT

We upgraded PTSB's BCA to baa2, reflecting the improved fundamentals citing a marked reduction in non-performing loans (NPL), which have decreased to record lows of 1.7% as of end-June 2024. The improvement reflects the predominantly secured loan book of PTSB with an average loan-to-value (LTV) of 50%, as well as the bank improving asset quality through a combination of workouts, NPL sales and securitisations. We expect the bank's asset risk to benefit from its secured loan book which will help to maintain an NPL ratio in the low single digits. However, we also note the bank's strategic plans to expand into higher risk lending areas such SME lending and asset finance, as well as increasing its share of other financial products to retail customers. In addition, the bank is also undergoing significant initiatives in digitalisation across the bank to improve its operational flexibility.

The upgrade in the bank's BCA also reflects its solid capitalisation levels, with a Common Equity Tier 1 (CET1) ratio of 14.5% as of end-June 2024, comfortably ahead of their minimum requirement of 10.3%. PTSB's medium term target of a CET1 ratio of greater than 14.0% and our expectation of it maintaining sufficient capital levels even once they resume shareholder distributions in the medium term are also reflected in the higher BCA.

PTSB has been deemed an Other Systemically Important Institution (O-SII) and from 1 January 2025 will have to carry an additional buffer. We expect the bank's balance sheet to grow over the next 12-18 months and once it is over €30 billion, it will likely directly be supervised by the European Central Bank in conjunction with the Central Bank of Ireland. We would consider this strengthened regulatory oversight to enhance the bank's resilience.

PTSB's improved profitability in the higher interest rate cycle as well as investments made in technology and digital capabilities enhance operational efficiencies and reduce costs. In 1H24 the bank reported net income to tangible banking assets of 0.4% and we expect the bank's larger scale and growth ambitions in SME lending and Asset Finance, combined with its more prominent positioning in the Irish banking system, to continue to improve and support the baa2 BCA.

The bank's baa2 BCA is also further supported by its adequate holdings of liquid assets that offset the bank's market funding risk. PTSB's BCA also reflects its still less diversified monoline business model, which increases its earnings sensitivity to any stress in Ireland's residential mortgage market. This concentration acts as a constraint to the bank's baa2 BCA.

PTSB's and PTSBG's subordinated MTN programme and PTSBG's non-cumulative preferred stock rating were upgraded to (P)Baa3 and Ba2(hyb), respectively, reflecting the high expected loss severity in the event of the bank's failure as well as the evolving nature of its balance sheet. The preferred stock rating also reflects additional risks associated to these instruments' loss-absorbing nature and coupon suspension feature.

GOVERNMENT SUPPORT CONSIDERATIONS

We believe that there is a moderate probability of the government support coming from the Government of Ireland (Aa3 positive) for systemically important banks such PTSB. Our assumption of moderate government support leads to a one notch uplift in PTSB's deposit and senior unsecured ratings.

OUTLOOK

The outlook on the long-term deposit and senior unsecured debt ratings of PTSB and the long-term issuer rating and senior unsecured debt rating of PTSBG, is stable. This reflects our view that the financial performance will continue to be strong, with asset quality remaining in the low single digits and capitalisation levels will be maintained within our current expected levels and will be supported by the bank's improved profitability, balanced by the bank's evolving risk appetite.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO AN UPGRADE

PTSB's BCA could be upgraded if its profitability sustainably improves and the bank demonstrates good control over the cost of risk as it grows and expands its business banking offering. PTSB's subordinated MTN programme rating could be upgraded following significantly greater issuance of more junior bail-in able debt. PTSBG's debt ratings could also be upgraded in the event of a further upgrade of PTSB's standalone BCA and its Adjusted BCA.

FACTORS THAT COULD LEAD TO AN DOWNGRADE

Rising asset risk pressures and weaker profitability would lead to downward pressure on PTSB's BCA. PTSBG's debt ratings could be downgraded in the event of a downgrade of PTSB's standalone BCA and its Adjusted BCA.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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