

**Rating Action: Moody's upgrades PTSB, stable outlook, and PTSBG, positive outlook**

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21 Sep 2022

London, September 21, 2022 -- Moody's Investors Service ("Moody's") has today upgraded Permanent tsb p.l.c.'s (PTSB) long-term deposit ratings to A2 from Baa2 and its Baseline Credit Assessment (BCA) and Adjusted BCA to baa3 from ba1. The bank's debt ratings as well as its Counterparty Risk Ratings (CRRs), other short term ratings and assessments were also upgraded. The outlook on the long-term deposit ratings and senior unsecured debt ratings has been changed to stable from ratings under review.

Moody's also upgraded Permanent TSB Group Holdings plc's (PTSBG) long-term issuer and debt ratings as well as its short-term ratings. The outlook on PTSBG's long-term issuer and senior unsecured ratings has been changed to positive from ratings under review.

The rating action concludes the review started on 13 May 2022.

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

**RATINGS RATIONALE**

**UPGRADE OF THE BASELINE CREDIT ASSESSMENT**

The BCA upgrade follows regulatory approval from the Competition and Consumer Protection Commission for the acquisition by PTSB of around EUR7.6 billion of Ulster Bank Ireland DAC (UBIDAC, A1 stable, a3) assets as of June 2021 – equal to almost half of PTSB's loan book at June 2022. Moody's expects the transaction to close in Q4 2022 after which PTSB will have a more relevant share of the Irish mortgage market, a slightly more diversified business model, a broader foundation to support significantly improved profitability along with stable asset risk and a solid deposit-based funding profile.

Announced in July 2021, PTSB is now in the final process of acquiring EUR 7 billion of performing prime mortgage loans as well as EUR 200 million of SME loans and EUR 400 million of asset finance loans from UBIDAC. Moody's expects that on a pro forma basis, PTSB's asset risk will improve from the addition of the UBIDAC performing loans reducing the 2019-June 2022 average to a level below 6.2%. As of June 2022, PTSB's non performing loan ratio had already declined to 5.2%. The bank's profitability is also expected to significantly improve with net interest income being buoyed by both the new acquired assets and the impact of ECB current and anticipated rate rises on PTSB's existing EUR 5.7 billion of tracker mortgages which comprised 38% of total loans as of June 2022.

The rating agency said that PTSB will fund the acquisition with existing liquidity, capital and debt issuances as well as by increasing its deposit base through attracting retail customers of KBC Bank Ireland PLC and UBIDAC who are exiting the Irish Banking system. Moody's also notes that PTSB's capitalisation ratios will fall following the transaction as its risk weighted assets rise. However, the rating agency estimates that its ratio of tangible common equity to risk weighted assets will fall only moderately and its level will be commensurate with a baa3 BCA level.

Moody's also said that although PTSB's market funding will likely rise over the outlook horizon, the bank is expected to maintain a healthy buffer of liquid assets to buffer against funding risk.

**UPGRADE OF PTSB'S DEPOSIT RATINGS AND SENIOR UNSECURED DEBT RATINGS**

The upgrade of the deposit ratings and senior unsecured debt ratings of PTSB reflects the upgrade of the bank's BCA and the rating agency's expectation of the issuance of bail-in-able subordinated debt liabilities as well as senior holding company debt securities to meet regulatory minimum requirements for own funds and eligible liabilities (MREL) requirements. Under Moody's assumption of extremely low loss given failure under its Loss Given Failure Analysis, this new issuance will lead to a greater volume of subordinated liabilities supporting the bank's senior creditors and depositors at failure, leading to three notches of uplift from the bank's BCA.

In addition, Moody's now believes that there is a moderate probability of the government support coming from Ireland for PTSB. The bank's franchise position has improved following from the exit of KBC Bank Ireland PLC and UBIDAC as shown by increasing mortgage and deposit market shares and will be expected to increase further upon integration of the UBIDAC businesses. This results in an additional one notch rating uplift to the bank's long-term deposit and senior unsecured debt ratings.

#### UPGRADE OF PTSBG RATINGS AND POSITIVE OUTLOOK

The upgrade of PTSBG's ratings stems directly from the upgrade of PTSB's BCA as well as our assessment of unchanged loss given failure assumptions for subordinated creditors. However, the senior unsecured debt and long-term issuer ratings upgrade reflects reduced loss given failure given our expectation of the issuance of bail-in-able subordinated debt liabilities as well as senior holding company debt securities to meet regulatory MREL requirements. This will increase both the amount of subordinated liabilities as well as the volume of the debt classes, reducing creditor losses at failure.

The outlook on PTSB's long-term deposit ratings is stable. However, the outlook on PTSBG's long-term issuer and senior unsecured debt ratings is positive and reflects an expectation of further improvements in the bank's asset risk, profitability and funding profile, that could lead to additional positive rating pressure for these holding company ratings .

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

PTSB's BCA could be upgraded if its asset risk and core profitability show greater than expected signs of improvement, its capital base rises and becomes more resilient to a stress. PTSB's subordinated debt ratings could be upgraded following greater issuance of more junior bail-in able debt.

PTSBG's debt ratings could be upgraded in the event of a further upgrade of the bank's standalone BCA and its Adjusted BCA.

Although unlikely given the upgrade, PTSB's ratings could be downgraded following a downgrade in the standalone creditworthiness of the bank, or following a significant reduction in the stock of bail-in-able liabilities or a deterioration in Ireland's operating environment

#### LIST OF AFFECTED RATINGS

Issuer: Permanent TSB Group Holdings plc

..Upgrades:

....Long-term Issuer Rating, upgraded to Baa2 from Ba1, outlook changed to Positive from Ratings Under Review

....Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Ba1, outlook changed to Positive from Ratings Under Review

....Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa2 from (P)Ba1

....Subordinate Regular Bond/Debenture, upgraded to Ba1 from Ba2

....Subordinate Medium-Term Note Program, upgraded to (P)Ba1 from (P)Ba2

....Preferred Stock Non-cumulative, upgraded to Ba3(hyb) from B1(hyb)

....Other Short Term, upgraded to (P)P-3 from (P)NP

..Outlook Action:

....Outlook changed to Positive from Rating Under Review

Issuer: Permanent tsb p.l.c.

..Upgrades:

....Long-term Counterparty Risk Rating, upgraded to A2 from Baa1

...Short-term Counterparty Risk Rating, upgraded to P-1 from P-2

...Long-term Bank Deposits, upgraded to A2 from Baa2, outlook changed to Stable from Ratings Under Review

...Short-term Bank Deposits, upgraded to P-1 from P-2

...Long-term Counterparty Risk Assessment, upgraded to A2(cr) from Baa1(cr)

...Short-term Counterparty Risk Assessment, upgraded to P-1(cr) from P-2(cr)

...Baseline Credit Assessment, upgraded to baa3 from ba1

...Adjusted Baseline Credit Assessment, upgraded to baa3 from ba1

...Senior Unsecured Regular Bond/Debenture, upgraded to A2 from Baa2, outlook changed to Stable from Ratings Under Review

...Senior Unsecured Medium-Term Note Program, upgraded to (P)A2 from (P)Baa2

...Subordinate Medium-Term Note Program, upgraded to (P)Ba1 from (P)Ba2

...Other Short Term, upgraded to (P)P-1 from (P)P-2

..Outlook Action:

...Outlook changed to Stable from Rating Under Review

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997> . 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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