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## Permanent TSB Group Holdings PLC (Holding Company)

Permanent TSB PLC (Lead Bank)

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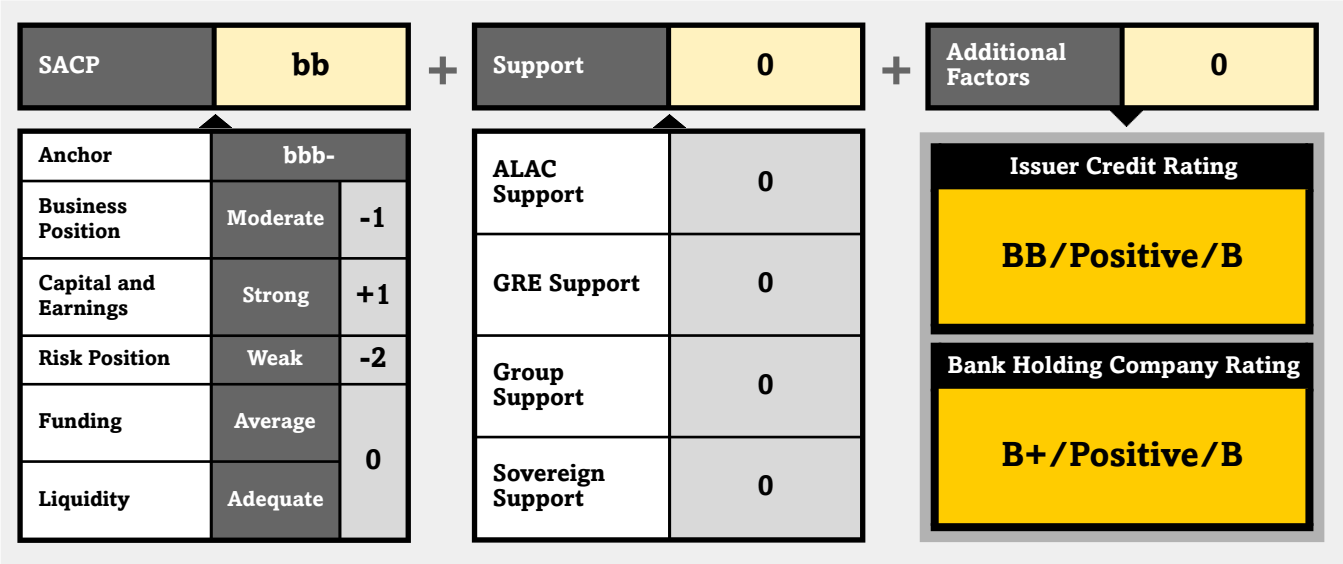
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# Permanent TSB Group Holdings PLC (Holding Company)

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## Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Strong capitalization.</li> <li>• Meaningful position in the Irish mortgage market, with a useful share of stock of retail deposits.</li> <li>• Gradual recovery of earnings and more robust balance-sheet metrics, supported by completion of non-core restructuring and reduced reliance on ECB funding.</li> </ul>	<ul style="list-style-type: none"> <li>• High stock of nonperforming assets (NPAs) relative to domestic and international peers.</li> <li>• Narrow reliance on retail banking in a relatively small market.</li> <li>• Remaining challenges in restoring market position and generating meaningful returns in a low interest rate environment.</li> </ul>

**Outlook: Positive****Permanent TSB Group Holdings PLC**

The positive outlook reflects our view that Permanent TSB Group Holdings' enhanced focus on reducing NPAs will support a gradual improvement in its asset quality profile, operating performance, and earnings capacity over the coming 12 months.

We could raise the ratings over the coming 12 months if we observed that NPAs and mortgage arrears converged toward levels more in line with those of its domestic and international peers while capitalization remained at a level commensurate with a strong assessment.

We could revise the outlook back to stable if we observed that the economic risks faced by Irish banks had increased, or if the bank's ability to reduce NPAs as well as its path to earnings recovery and business growth ambitions proceed more slowly than we currently assume.

**Permanent TSB PLC**

The positive outlook on Permanent TSB PLC, the primary operating company of the group, mirrors that on Permanent TSB Group Holdings PLC, the nonoperating holding company (NOHC). We could lower or raise the ratings if we revised the group credit profile downward or upward, as explained above.

While less likely in the short term, we could also raise the ratings if we perceived a clear path to the group building a sufficiently large additional loss-absorbing capacity (ALAC) buffer, subject to evidence of issuance. This would only benefit the ratings on the operating company, Permanent TSB PLC, because we do not include notches for ALAC support in the ratings on NOHCs. This is because we do not believe that their senior obligations would continue to receive full and timely payment in a resolution scenario.

**Rationale**

The starting point for our ratings on Permanent TSB Group Holdings (PTSB) is based on our view of the banking system in the Republic of Ireland, which reflects PTSB's domestic focus. We consider that PTSB has a meaningful franchise in Irish retail banking, but that its business position is weaker than that of market-leading peers Allied Irish Banks PLC (AIB) and Bank of Ireland Group PLC (BOI) due to its lack of business diversity and franchise depth. We consider that PTSB has strong capitalization, reflecting a RAC ratio of 11.8% at end-December 2016 pro forma the improvement in our view of Irish economic risk. We project this ratio to be 12.0%-12.5% over the coming 12-18 months.

However, we consider that the combined assessment of capital and earnings and risk position is neutral to the bank's creditworthiness. This is because we consider that the bank's stock of NPAs--33.5% of average customer loans--is high both relative to its capital base as well as compared with domestic and international peers'. We view PTSB's funding and liquidity profile as comparable to that of domestic peers' and the industry average in Ireland, reflecting significant improvements in the loan-to-deposit ratio and S&P Global Ratings' funding and liquidity ratios, supported by deleveraging and a material reduction in ECB funding reliance. PTSB is currently not eligible for rating uplift under our ALAC criteria because our calculation of its ALAC ratio of about 2.2% as of end-2016 remains below the 5% threshold for one notch of uplift.

## Anchor:'bbb-' for a commercial bank operating mainly in Ireland

We view Ireland's economic risk as relatively high compared with other developed economies. Businesses, households, and government finances were all hit hard by the fallout from the collapse in property collateral values and the severe difficulties in the banking sector, especially in 2008-2011. More recently, a steady rise in property prices and reduction in unemployment levels is helping to reduce the strain on the banks. Nevertheless, in 2017 banks are still left with relatively high stocks of bad loans (defined as impaired loans plus 90 days past due loans that are not impaired plus performing renegotiated loans), and their mortgage books remain weak by international norms. In our view, the ongoing economic recovery, combined with modest levels of new lending (and much improved underwriting standards) since the financial crisis, will support fairly low systemwide credit losses of 25-30 basis points (bps) over the next two years.

Our view of Ireland's industry risk remains somewhat weaker than economic risk. Our industry risk assessment remains constrained by Ireland's weak regulatory track record (notwithstanding the implementation of the eurozone's single supervisory mechanism [SSM] since November 2014), limited prospects for pre-provision profitability growth, and government ownership of two of the three largest domestic banks.

**Table 1**

Permanent TSB Group Holdings PLC Key Figures					
--Year-ended Dec. 31--					
(Mil. €)	2017*	2016	2015	2014	2013
Adjusted assets	23,154	23,567	29,284	36,225	37,508
Customer loans (gross)	21,068	21,368	25,718	30,928	33,316
Adjusted common equity	1,522	1,488	1,709	1,723	1,755
Operating revenues	220	434	381	316	240
Noninterest expenses	157	335	322	394	305
Core earnings	49	127	33	(90)	(587)

\*Data as of June 30.

## Business position: Less diversified than larger Irish peers

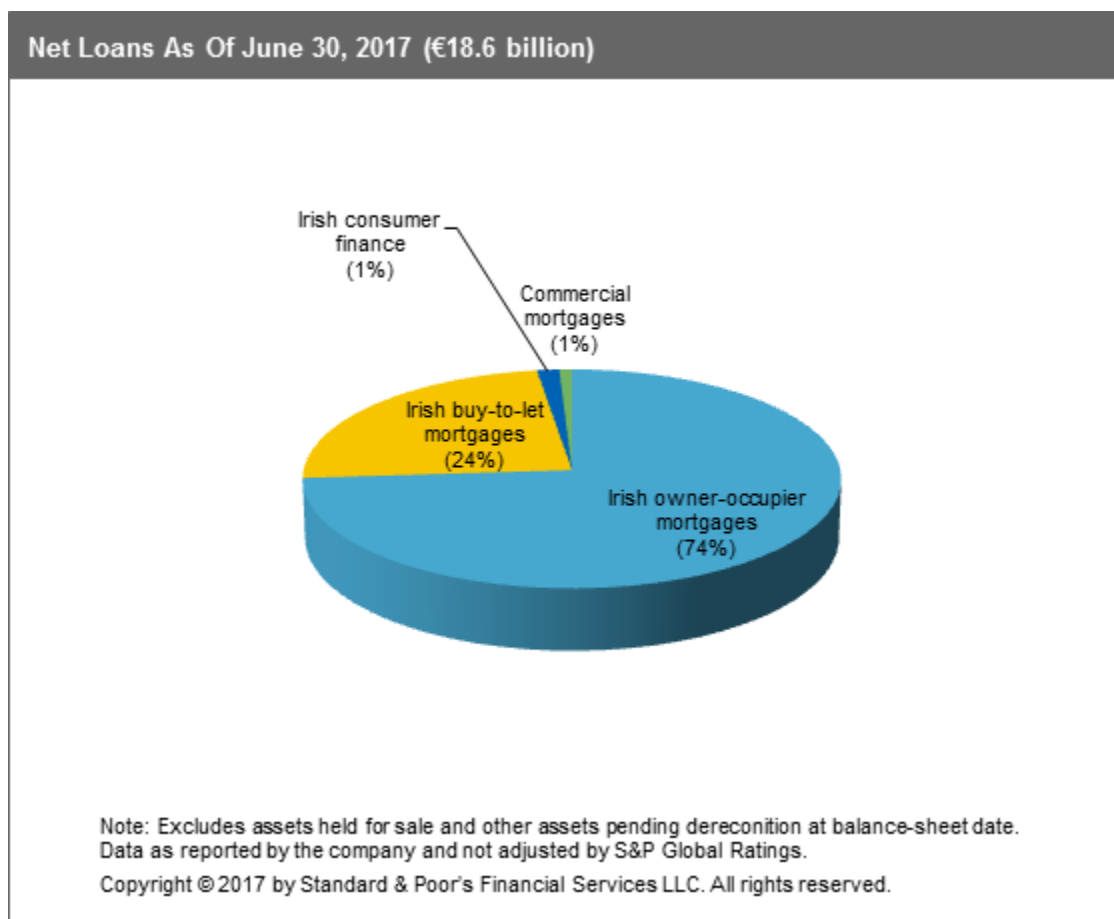
Our assessment of PTSB's business position as moderate is based on the lack of business diversity and franchise depth relative to industry leading peers, AIB and BOI. Other than AIB and BOI, PTSB's main rated peers active in the Irish banking industry include foreign-owned banks Ulster Bank Ireland DAC and KBC Bank Ireland PLC. Peers outside Ireland include Portugal-based Banco Comercial Portugues, S.A. and Banco BPI S.A.; Spain-based Abanca Corporacion Bancaria S.A. and Banco de Sabadell S.A.; and Slovenia-based Nova Ljubljanska Banka D.D. These banks have similar business models to PTSB and operate in systems with similar economic and industry risks as Ireland.

We consider that PTSB has a meaningful franchise in Irish retail banking. This franchise is underpinned by its sizable share of outstanding Irish mortgage stock of around 10%-15%, and useful market share of Irish retail deposits, current accounts, and other retail lending products. However, our assessment is affected by relatively subdued gross new lending in recent years and the bank's prolonged work to restructure and stabilize the business. We note that PTSB has curbed gross new lending even more than AIB and BOI in recent years, and that it has a much smaller customer base. Gross new lending in 2016 was €591 million, of which €525 million was mortgages and €66 million term lending. This

growth was significantly overshadowed by an overall reduction in net loans and advances by about €4.1 billion, reflecting progress on asset sales as part of its substantial deleveraging of its non-core business. Excluding non-core assets, the reduction in net loans amounted to €1.4 billion. We note that new lending improved to €0.4 billion in first-half 2017, but net loans decreased by €0.3 billion due to continued redemptions.

PTSB completed the European Commission (EC) mandated deleveraging of its non-core business--comprised of its U.K. and Isle of Man portfolios--in 2016 and is now a fully-domestic Irish retail bank (see chart 1). This, along with management's renewed focus on rebuilding the bank, should allow the net lending book to grow quicker over time. However, we expect new lending volumes to remain muted over the coming 12 months. This is because we consider that net growth will remain constrained by household deleveraging, in addition to structural mortgage market factors such as supply and demand imbalances. A negative impact on Ireland's macroeconomic recovery from Brexit could also lead to slower credit demand.

**Chart 1**



Our assessment of PTSB's business position could be negatively affected if we observed that it were unable to restore its market position in a post-Brexit operating environment. We note that PTSB returned to statutory profitability in first-half 2016 and we expect it to report a net profit for 2017 following the reported profit for first-half 2017. However, this is much later than AIB and BOI--which both returned to statutory profitability in 2014.

The Irish government owns around 75% of PTSB's ordinary shares, down from its peak at over 99%, following the EC's approval of PTSB's restructuring plan and the bank's subsequent successful capital raise in April 2015. However, we believe that the government is unlikely to reduce its stake further in the near term, and that the process to return the bank to private ownership will take several years.

We think that PTSB's new management team has proved its capability over the past couple of years by completing the EC mandated restructuring plan and stabilizing the business, improving the balance-sheet profile, laying out a plausible long-term retail banking strategy, and above all creating the Asset Management unit--a mortgage arrears and collections function dealing with NPA portfolios. That said, we still see the following challenges to PTSB's business model:

- Resources will be tied up to reduce NPAs, mortgage arrears, and foreclosures.
- As a result, new lending volumes are likely to remain muted, accentuated by a subdued mortgage market.
- Whether the Irish retail bank can demonstrate meaningful, recurring returns in a low interest rate environment is not yet clear.
- Increased regulatory costs, including the Irish bank levy and contributions to the Bank Recovery and Resolution Directive (BRRD), will exert pressure on earnings. However, we note that the cost-to-income ratio improved to 71% in first-half 2017 from 85% in 2015, following an increase in revenues and stable operating costs.

### **Capital and earnings: Continued support to capitalization from deleveraging**

We view PTSB's capital and earnings as strong and project that its RAC ratio will stand between 12.0%-12.5% over our 12-18-month forecast horizon. Pro forma the improvement in our view of Irish economic risk, we calculate this ratio at 11.8% as of Dec. 31, 2016, up from 10.2% as of Dec. 31, 2015. We note that this ratio was barely affected by the recent update to our capital criteria. PTSB's RAC ratio has benefitted from a significant reduction in S&P Global Ratings' risk-weighted assets, due to continued net deleveraging, which has more than offset its statutory losses resulting from the disposal of non-core assets.

PTSB's capitalization is somewhat weaker under our RAC framework compared to its regulatory Common Equity Tier 1 ratio, which stood at 15% at end-June 2017. The material difference between our capital measure and PTSB's regulatory ratios is that we largely apply more-conservative risk weights to reflect our view of economic risk in Ireland. In line with the Basel III fully-loaded treatment, we also exclude €355 million of tax loss carry-forwards from our measure of capital.

The key assumptions underpinning our capital forecast are as follows:

- Net interest margin (NIM) to continue expanding on the back of lower funding costs and redemptions of National Asset Management Agency (NAMA) senior bonds, offset somewhat by competitive and political pressures on mortgage pricing, and expected issuance of subordinated debt to meet MREL requirements.
- Net credit growth to remain negative until end-2018 reflecting continued household deleveraging, combined with subdued new lending due to housing market supply and demand imbalances, new regulations on mortgages, and potentially adverse macroeconomic impacts from Brexit.
- Stable operating expenses, which remain high compared to peers. Low-single-digit cost reductions expected over the forecast horizon given the bank's focus on cost control, with likely reductions in asset management staff and some potential efficiency gains.
- A gradual normalization in the cost of risk, with credit losses expected to return to the underlying average of around

25-35 bps assuming that negative effects on the macroeconomic recovery from Brexit will lead to inflows of new defaults.

- S&P Global Ratings' risk-weighted assets (RWAs) to continue declining over 2017-2018, followed by a low single-digit increase in 2019 assuming a return to net lending growth.
- AT1 instruments remaining at the current level, receiving intermediate equity content in total adjusted capital (TAC).

PTSB has been loss-making since 2009. However, financial results in recent years indicate an improvement in the bank's earnings profile, which has become more predictable following the completion of non-core deleveraging. We expect PTSB to return to a moderate net statutory profit for full-year 2017. This reflects the reported statutory profitability for first-half 2017 and our expectation that earnings capacity should benefit from the absence of non-core asset sales and other exceptional items.

PTSB reported a net loss of €266 million for 2016 due an exceptional charge of €400 million related to the sale of its U.K. and Isle of Man loan books, but underlying performance indicated a continuation of improved operating trends. Operating revenues rose 14%, following an increase of 21% in 2015. Net interest income increased 13% as lower funding costs, non-core deleveraging, and redemption of NAMA senior bonds supported a higher NIM. The cost-to-income ratio improved to 78% in 2016 (85% in 2015) as higher revenues more than offset a 4% increase in noninterest expenses stemming from higher regulatory charges. PTSB's results were further supported by a €68 million net provision write-back linked to house price inflation, as well as a gain of €29 million from the sale of shares held in Visa Europe.

The positive earnings momentum continued in first-half 2017 as PTSB reported a statutory profit of €36 million. NIM continued its upward trend to 1.81%, from 1.48% for full-year 2016. Operating expenses reduced by €8 million due to lower professional fees and project costs, supporting an improved cost-to-income ratio of 71%. PTSB reported an impairment charge of €6 million, compared to the net writeback in 2016, and an exceptional item of €10 million, significantly lower than in the past.

We consider PTSB's quality of capital to be relatively solid because over 90% of the capital base is comprised of common equity. We include the €122 million of AT1 securities in our calculation of TAC. They receive intermediate equity credit as they are perpetual instruments with loss-absorption features on a going-concern basis, giving the bank the ability to suspend coupons at any time. However, while we consider that PTSB's earnings profile is more predictable than before, we note that its earnings buffer is negative, which indicates the inability of underlying, pre-provision earnings to cover normalized losses.

**Table 2**

Permanent TSB Group Holdings PLC Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2017*	2016	2015	2014	2013
Tier 1 capital ratio	15.4	15.7	16.0	14.2	15.3
S&P Global Ratings' risk-adjusted capital (RAC) ratio before diversification	N.M.	11.8	10.2	7.8	6.3
S&P Global Ratings' RAC ratio after diversification	N.M.	7.7	7.5	6.5	5.2
Adjusted common equity/total adjusted capital	92.6	92.4	93.3	100.0	100.0
Net interest income/operating revenues	92.3	89.9	90.4	85.5	85.0

Table 2

Permanent TSB Group Holdings PLC Capital And Earnings (cont.)					
	--Year-ended Dec. 31--				
(%)	2017*	2016	2015	2014	2013
Fee income/operating revenues	8.2	9.0	10.2	11.7	15.0
Market-sensitive income/operating revenues	(0.5)	0.7	(1.1)	1.6	(0.8)
Noninterest expenses/operating revenues	71.4	77.2	84.6	124.8	127.1
Provision operating income/average assets	0.5	0.4	0.2	(0.2)	(0.2)
Core earnings/average managed assets	0.4	0.4	0.1	(0.2)	(1.3)

\*Data as of June 30.

Table 3

Permanent TSB Group Holdings PLC RACF [Risk-Adjusted Capital Framework] Data					
(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
<b>Credit risk</b>					
Government and central banks	4,914	0	0	132	3
Institutions and CCPs	1,443	400	28	414	29
Corporate	274	288	105	280	102
Retail	21,838	8,313	38	10,825	50
Of which mortgage	21,049	8,000	38	9,835	47
Securitization§	69	0	0	14	20
Other assets†	741	375	51	1,121	151
Total credit risk	29,279	9,375	32	12,786	44
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	163	--	0	--
<b>Market risk</b>					
Equity in the banking book	9	25	278	68	750
Trading book market risk	--	0	--	0	--
Total market risk	--	25	--	68	--
<b>Operational risk</b>					
Total operational risk	--	488	--	772	--
(Mil. €)		Basel III RWA		S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
<b>Diversification adjustments</b>					
RWA before diversification		10,588		13,625	100
Total Diversification/Concentration adjustments		--		7,196	53
RWA after diversification		10,588		20,821	153
(Mil. €)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
<b>Capital ratio</b>					
Capital ratio before adjustments		1,661	15.7	1,610	11.8



**Table 3**

<b>Permanent TSB Group Holdings PLC RACF [Risk-Adjusted Capital Framework] Data (cont.)</b>				
Capital ratio after adjustments†	1,661	15.7	1,610	7.7

The RAC ratio is pro forma the improvement in Irish economic risk. \*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes deferred tax assets not deducted from adjusted common equity. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2016, S&P Global Ratings.

### **Risk position: We expect NPAs to remain high, and loan impairment charges to remain low**

We compare PTSB's risk position with the same peers as for its business position because they have a similar product mix to PTSB and operate in banking systems with similar economic risk as Ireland. We consider PTSB's risk position to be weak compared with that of peers due to its relatively large stock of NPAs.

We understand that Irish banks are required to use the European Banking Authority's (EBA) regulatory definition of nonperforming exposures (NPEs) for regulatory reporting, EBA stress testing, and for capital planning. In addition to impaired loans, the EBA's measure of NPEs includes performing loans that are 90 days past due, probationary loans (restructured loans held as nonperforming for 12 months thereafter), and collateral disposals.

Our measure of PTSB's NPAs--which includes impaired loans, loans 90 days past due, and performing renegotiated loans--stood at 33.5% of average customer loans as of end-June 2017 (see chart 2). Excluding performing renegotiated loans, PTSB's NPAs remain elevated at 23.6%, which is higher than that of European and international peers with similar economic risk and business mix. It is also higher than those of domestic peers BOI and AIB, for which we calculate NPA ratios of 13.8% and 22.4%, respectively, as of end-June 2017 (see chart 3). We also note that PTSB reported a Texas ratio of 162% as of end-June 2017, which remains high on an absolute and relative basis compared with BOI (102%) and AIB (95%). The Texas ratio measures NPAs (including performing forbore loans) to tangible common equity and loan loss reserves.

Chart 2

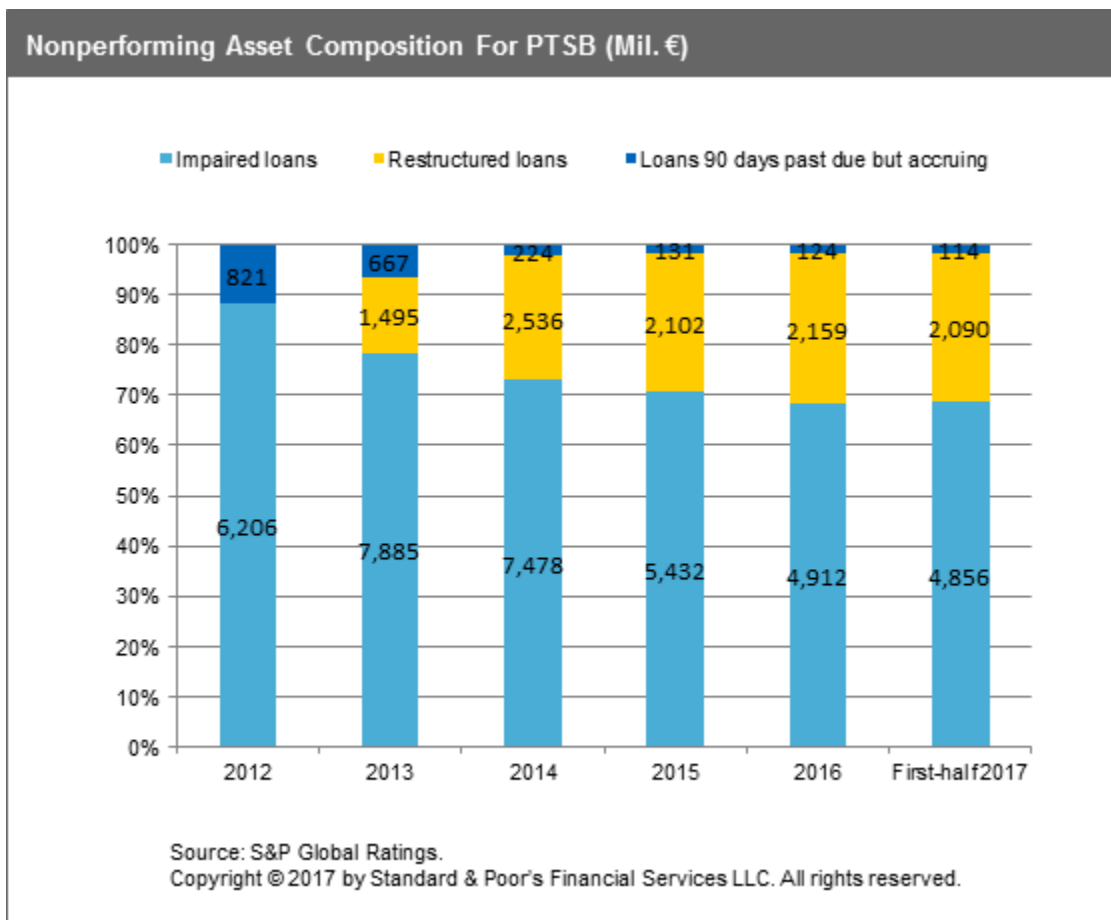
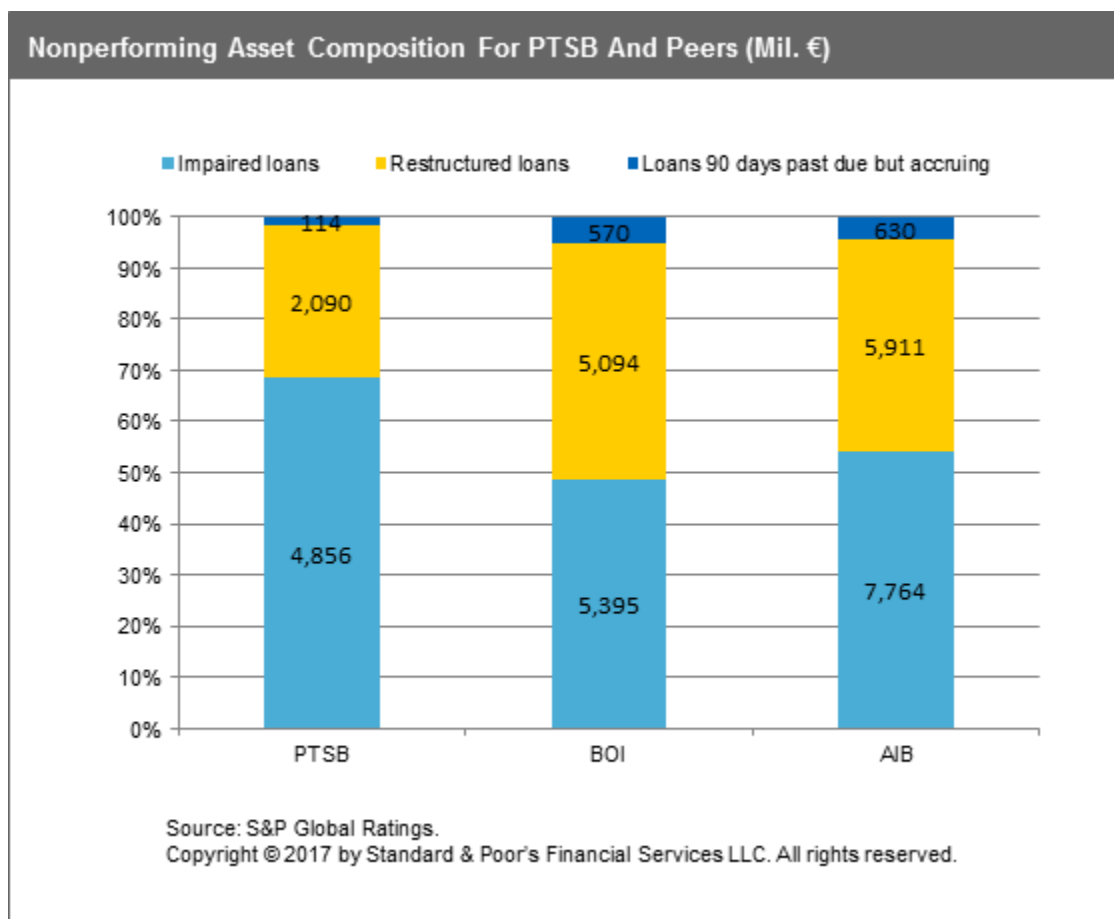
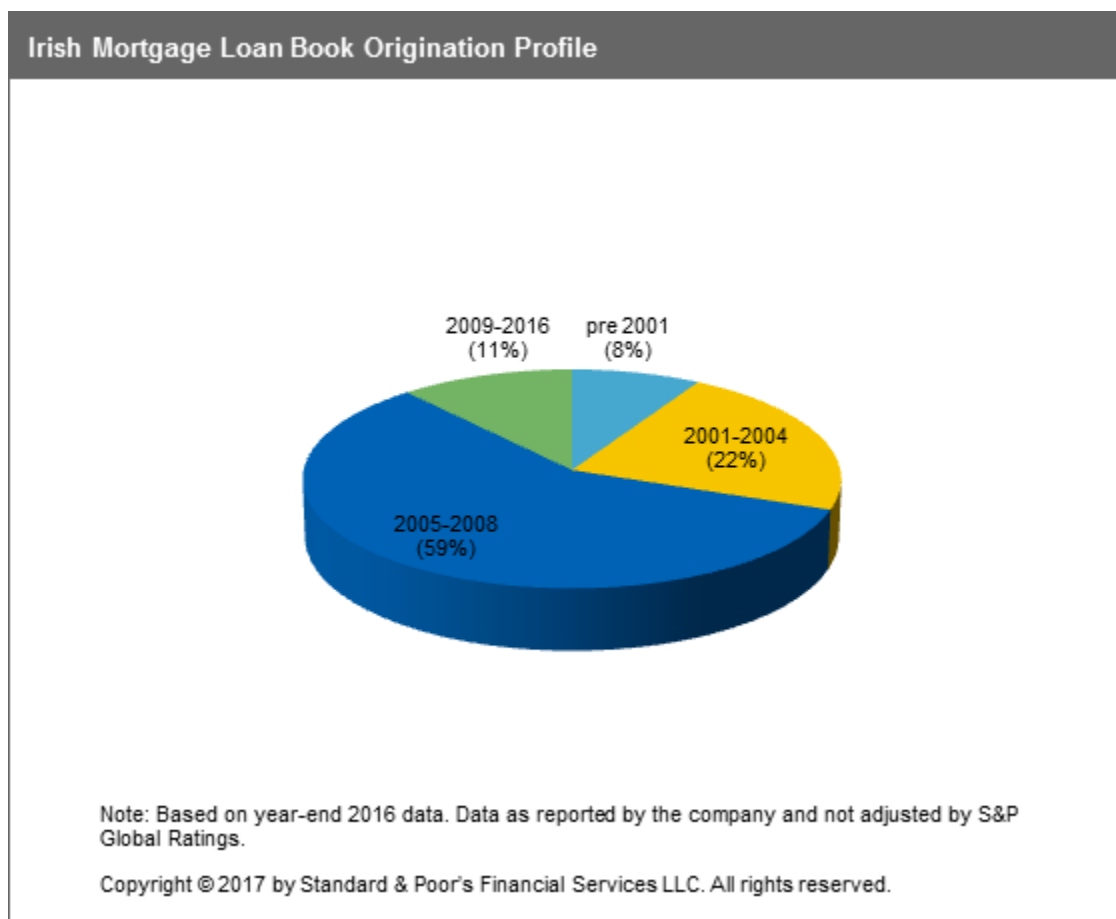


Chart 3



Following the €2.7 billion sale of its non-core U.K. and Isle of Man portfolios, and further deleveraging of nonperforming Irish CRE lending, PTSB is now a fully-domestic Irish retail bank. Irish mortgages (of which 76% are owner-occupied and 24% BTL) dominate PTSB's net loan book. As of end-June 2017, they accounted for 98% of total lending, compared to 84% at Dec. 31, 2015. Consumer finance and CRE represented the remainder at about 1% each. As part of its deleveraging commitments, PTSB disposed of €1.8 billion from its legacy CRE portfolio over 2015 and 2016. We note that less than €0.2 billion remains in this portfolio and that it was transferred to the core bank on Jan. 1, 2016 (see chart 4).

Chart 4



About 26% of the mortgage book was impaired at end-June 2017, which we consider to be higher than peers. We note that the mortgage book represents 97% of NPAs, up from 94% in 2015 and 77% in 2014, as the bank made progress in reducing the non-core portfolio. We also consider the profile of this book to be weaker than PTSB's peers. For example, there is a bias toward weaker performing BTL mortgages (24% of the Irish mortgage book) and negative equity (39% of the book).

Notwithstanding the high level of NPAs, we believe downside risks to asset quality are receding as the inflows into new defaults are declining and loan cures are sticky, indicated by low re-default rates on the back of Ireland's economic recovery. We understand that re-default rates on restructured accounts are generally below 15%.

We expect that PTSB's focus will remain on actively managing down NPAs in light of its NPA strategy review. PTSB employs a range of forbearance solutions to engage with customers and restructure defaulted mortgage accounts. That said, we expect the reduction in the stock of NPAs to be gradual as the remaining untreated cases are largely comprised of long-term arrears (>360 days) and/or cases in the legal process. Although we think inflows into new defaults could increase somewhat given the negative impact on the macroeconomic recovery in Ireland from Brexit, we think that the conservative Irish risk-weights in our RAC calculation cover the risks we see to PTSB's capitalization. Moreover, we consider PTSB's provision coverage of impaired loans to be in line with that of peers, at slightly above

40%.

PTSB's overall loss experience has been better than most peers because it largely avoided the weakest elements of commercial property lending before the crisis. PTSB reported a credit impairment charge of €6 million for first-half 2017 compared to a net provision write-back of €68 million in 2016. Although 2016 had updates to model parameters, including model assumptions on house price inflation, we do not expect any further provision releases over our 12-month forecast horizon. Equally, we think the domestic mortgage impairment charge is unlikely to reach its previous high levels, given restructurings to date and the slower pace of new arrears mentioned earlier. We project that PTSB's loss rate will increase to about 25-35 bps of loans in 2017-2018, just under the long-run average of 40 bps.

**Table 4**

Permanent TSB Group Holdings PLC Risk Position					
	--Year-ended Dec. 31--				
(%)	2017*	2016	2015	2014	2013
Growth in customer loans	(2.8)	(16.9)	(16.8)	(7.2)	(4.6)
Total diversification adjustment/S&P Global Ratings' risk-weighted assets before diversification	N.M.	52.8	35.4	19.9	21.1
Total managed assets/adjusted common equity (x)	16.0	18.7	21.6	26.2	27.6
New loan loss provisions/average customer loans	0.1	(0.3)	0.1	(0.1)	2.7
Net charge-offs/average customer loans	0.2	0.5	0.4	0.5	0.5
Gross nonperforming assets/customer loans + other real estate owned	33.5	33.7	29.8	33.1	30.2
Loan loss reserves/gross nonperforming assets	35.1	34.5	35.1	36.4	40.2

\*Data as of June 30. N.M.--Not meaningful.

### **Funding and liquidity: Improved funding and liquidity profile due to deleveraging and reduced reliance on monetary authorities**

We regard PTSB's funding as average and its liquidity position as adequate. We primarily compare funding with the domestic industry average, while liquidity is an absolute assessment.

PTSB's funding profile has improved substantially over the past financial year. This has been supported by lower funding needs due to deleveraging, as redemptions continue to exceed new lending, and the sale of non-core assets. At the same time, current accounts and deposit balances have remained stable.

Accordingly, PTSB's loan-to-deposit ratio improved to 110% at end-June 2017, from 130% at end-June 2016 and over 200% in 2011. PTSB's improved funding profile is also evident from its stronger S&P Global Ratings' stable funding ratio, which increased to 104% at end-2016, from 86% in 2015 and 46% in 2011. Our base case expectation is that there is room for further improvement in these two ratios over the coming 12 months due to lower funding needs, as net loan balances continue to reduce on the back of redemptions, while deposit balances remain stable.

Our adequate liquidity assessment reflects PTSB's improved liquidity position due to a significant reduction in ECB funding and deposits from other financial institutions (mainly institutional deposits and repos with Ireland's National Treasury Management Agency). Other contributing factors were the repayments of a €1.4 billion medium-term note and €366 million contingent convertible capital notes in 2015.

Reported ECB borrowings stood at €1.4 billion at end-2016, down 70% from €4.7 billion at end-2015. ECB funding reduced further to €230 million at end-June 2017, representing 1% of total funding compared to 18% at end-2015. We note that the share of deposits increased to 94% of the funding base, and that retail deposits (including current accounts) comprised 68% of total funding. We believe that a small proportion of PTSB's funding will come from ECB borrowings while pricing remains attractive, but that the bank's funding base will primarily comprise customer deposits and some capital market funding.

The improvement in PTSB's liquidity position is reflected in our adjusted liquidity ratio of broad liquid assets to short-term wholesale funding, which rose to 1.5x at end-2016, from 0.7x at end-2015. Moreover, our measure of asset encumbrance reduced to 13% at end-2016, from 40% in 2011. In light of further reductions in ECB funding in first-half 2017, we believe there is scope for further improvement in this ratio by end-2017. We note that over 99% of PTSB's liquidity buffer consists of government bonds, including NAMA bonds, and that it no longer has large or unusual liquidity needs. Consequently, it should be in a position to maintain its current liquidity profile under benign market conditions, in our view.

**Chart 5**

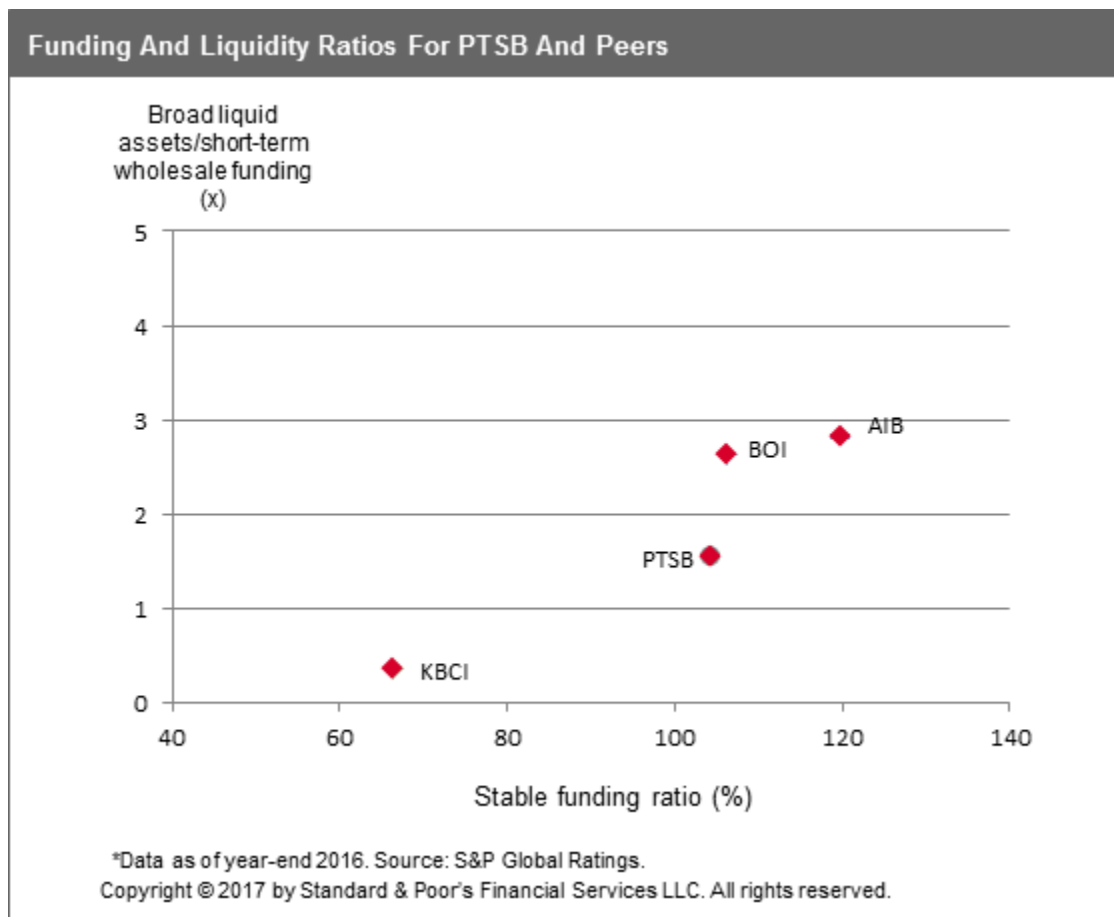


Table 5

Permanent TSB Group Holdings PLC Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2017*	2016	2015	2014	2013
Core deposits/funding base	81.2	80.0	67.0	55.6	49.9
Customer loans (net)/customer deposits	109.9	111.2	130.5	146.8	169.1
Long-term funding ratio	87.8	89.5	73.2	63.7	78.4
Stable funding ratio	103.3	104.3	86.1	76.4	92.8
Short-term wholesale funding/funding base	13.4	11.5	29.2	38.7	23.1
Broad liquid assets/short-term wholesale funding (x)	1.3	1.5	0.7	0.5	0.8
Net broad liquid assets/short-term customer deposits	6.3	8.9	(14.2)	(33.2)	(7.7)
Short-term wholesale funding/total wholesale funding	69.0	55.8	87.2	87.2	46.0
Narrow liquid assets/3-month wholesale funding (x)	1.7	1.5	0.9	1.0	1.2

\*Data as of June 30.

### External support: No uplift for ALAC support

We consider PTSB to be of moderate systemic importance in Ireland, but it receives no benefit for extraordinary government support given our assessment that the Irish government's support of private-sector banks is uncertain. We have not included notches in the long-term rating on PTSB under our ALAC criteria because PTSB does not yet exceed our required 5% threshold for one notch of support, which applies to banks with an anchor of 'bbb-'. At this stage, we have limited visibility on PTSB's MREL requirements and issuance plans, which are forthcoming in Ireland. This makes it difficult for us to project the bank's ALAC ratio.

We do not include notches for ALAC support in the ratings on NOHCs because we do not believe that their senior obligations would continue to receive full and timely payment in a resolution scenario. Therefore, potential future ALAC support would only benefit the ratings on the operating company, Permanent TSB PLC.

We believe that our risk-weighted assets adequately capture the risks PTSB is exposed to, and we consider that PTSB's group structure is relatively simple. We extended the projection period to four years, because we believe the Republic of Ireland is in an extended regulatory transition period in which banks will progressively build larger buffers of loss-absorbing capacity.

We calculate PTSB's ALAC ratio to about 2.2% of S&P Global Ratings' risk-weighted assets at year-end 2016. Our calculation of PTSB's ALAC stock primarily includes the amount of TAC above the amount needed to maintain our current assessment of capital and earnings at strong. We include in our calculation PTSB's €125 million AT1 and €55 million Tier 2 instruments. PTSB does not have material amounts of other Tier 1 and Tier 2 instruments.

We have not assumed any issuance of ALAC-eligible instruments at this time because precise regulatory guidelines on the build-up of gone-concern loss absorbing buffers are forthcoming in Ireland.

## Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
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## Related Research

- Outlook On Permanent TSB PLC Revised To Positive; Ratings Affirmed At 'BB/B', Aug. 3, 2017
- Irish Banks: Getting Back To Where They Once Belonged, March 20, 2017
- Various Positive Rating Actions Taken On Irish Banks On Reduced Economic Risk, Jan. 13, 2017
- Banking Industry Country Risk Assessment: Ireland, Jan. 13, 2017

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
<b>6</b>	bbb	bbb	bbb-	bbb-	<b>bbb-</b>	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

### Ratings Detail (As Of September 26, 2017)

#### Permanent TSB PLC

Counterparty Credit Rating

BB/Positive/B

Senior Unsecured

BB

Senior Unsecured

BB/B



## Ratings Detail (As Of September 26, 2017) (cont.)

### Counterparty Credit Ratings History

03-Aug-2017	BB/Positive/B
13-Jan-2017	BB/Stable/B
20-Jul-2015	BB-/Stable/B
13-May-2015	B+/Positive/B
30-Oct-2014	B+/Watch Neg/B

### Sovereign Rating

Ireland (Republic of)	A+/Stable/A-1
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### Related Entities

#### Permanent TSB Group Holdings PLC

Issuer Credit Rating	B+/Positive/B
Senior Unsecured	B+
Short-Term Debt	B

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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