Trading Statement

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Permanent TSB Group Holdings PLC
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Permanent TSB Group Holdings plc ('the Bank')

Trading Statement - Q1 2022 Update

'Business and financial performance remained strong through the first three months of this year. New lending volumes and transactional banking income were both higher than the same period last year, with a strong pipeline of activity. Although the economic consequences of the devastating events in Ukraine have tempered the post-pandemic recovery, the fundamentals of the Irish economy remain robust and the Bank's outlook remains promising.

We are making good progress in our preparation to transform the Bank with the migration of Ulster Bank DAC Non-Tracker Mortgages, SME Loans and the Lombard Asset Finance business that form part of our legally binding agreement with NatWest Group Plc ("the Transaction") signed in December 2021. The timelines for completion of the Transaction remain as per previous announcements, subject to regulatory and shareholder approval.

We remain focussed on our ambition of becoming Ireland's best personal and small business bank. As an Irish brand with people and community at the heart of our approach, we are very confident in our ability to continue to grow and provide real choice and value for customers in the Irish market. The Bank is delighted to have recently become the title sponsor for both the Irish Olympic and Irish Paralympic teams for the Paris 2024 Olympic and Paralympic Games, reflecting the Bank's rich heritage in Irish communities.'

Eamonn Crowley, Chief Executive

Key Points:

- The Bank maintains a strong capital position; fully loaded CET1 capital ratio of 15.3%; regulatory CET1 capital ratio 16.7%
- Strong new lending of €0.5 billion YTD; 11% higher compared to Q1'21

- New business mortgage market share of 17%[1], compares to 17.9% at March 2021
- Net interest income is in line with expectations
- Underlying Net Interest Margin (NIM) of 1.76%[2], in line with prior year (see further comment)
- Operating costs of €83m, 12% higher year-on-year (YoY), in line with management expectations
- Customer deposits of €19.4 billion, an increase of 2% (€0.3 billion) in the first quarter of 2022
- Non-performing loans (NPLs) of €0.8 billion at 31 March 2022 remain in line with balances reported at December 2021; the NPL Ratio remains at 5.5%

Business Performance

New mortgage lending of €0.4 billion grew by 11% YoY. Market share of mortgage drawdowns was strong at 17%, slightly below the March 2021 market share (17.9%). The mortgage market in Ireland is estimated to grow 15% from €10.5 billion in 2021 to c. €12.1 billion[3] in 2022, and it remains highly competitive. We continue to manage our offering carefully, by maintaining price discipline and credit underwriting standards.

The Bank has recently announced two key enhancements to its mortgage offering; the first of these is a 0.2% rate reduction to its four year fixed rate products, which offer new customers a wider choice of mortgage products to suit their specific preferences. The second mortgage offering builds on the launch of the Bank's Sustainability Strategy, a new green mortgage product which will offer discounts of 0.2% on five year fixed rates for both new and existing mortgages, on homes with a Building Energy Rating of A1 to B3. Five-year fixed rates start at 2.35% where the Loan to Value (LTV) is less than or equal to 80% and the value of the mortgage is equal to or more than €250,000.

Digital transformation initiatives continue to progress well with the latest roll-out being a digital mortgage journey for customers which is now complete, enabling customers to submit a full mortgage application online. The Digital Current Account launched in the second half of 2021, which allows new customers to open a Current Account in less than ten minutes, is proving to be extremely popular. The Bank is facilitating new account openings through the digital current account opening process and in branch, and we are very pleased with the increase in the number of new current account openings in the first quarter, increasing more than 170% compared to this time last year and 67% higher than the last three months of 2021.

Income

Net interest income is broadly in line YoY; gross interest income was slightly lower post the non-performing loan sale transaction (Glenbeigh III) in Q4'21 together with incurring costs on holding higher levels of excess liquidity, while the cost of deposits reduced YoY. The Q1 net interest margin of 1.44% includes a 32 basis points cost related to higher levels of excess liquidity due to proceeds received from recent deleveraging activity and continued growth in customer deposits. The underlying NIM excluding the cost of excess liquidity is 1.76%. The Bank expects a NIM of c.1.50% in 2022, as we continue to lend and complete the acquisition of retail and SME businesses from Ulster Bank, reducing the Bank's excess liquidity levels. Fees and commission income performance is strong YTD, 25% higher when compared to the prior year, as transactional activity has recovered to pre-Covid levels.

Costs

Operating expenses are trending higher than prior year, which is in line with management expectations, with outlook for costs in 2022 projected to be c. 12% higher YoY, as we deliver on income-generating initiatives, digital enhancements and invest to proactively attract and support the on-boarding of customers from banks who are exiting the Irish market.

The Bank has also agreed a new pay and benefits deal with our colleagues' representative bodies. In order to provide certainty to colleagues, the Bank has agreed a 2 year pay deal based on a 6.5% pay increase, together with a progressive Employee Value Proposition that supports colleagues at all stages of the employee life cycle. We believe that this deal is competitive and will be effective in attracting, retaining and motivating talented colleagues to enable us honour our commitments to customers and all other stakeholders as we build a sustainable bank into the future. The Bank continues to manage its cost base tightly while investing in our people and infrastructure to ensure we are adequately prepared to meet the needs of our rapidly growing customer base.

Balance Sheet

Customer deposits of €19.4 billion at 31 March 2022 are €0.3 billion higher than 31 December 2021, reflecting an increase in current accounts to €7.4 billion. The loan to deposit ratio of 74% at the end of March 2022 provides the Bank with a strong liquidity position and significant potential to lend as it expands its franchise.

The total performing loan book of €13.9 billion at 31 March 2022, is broadly in line with the total performing loan book at 31 December 2021, with new business being offset by repayments and redemptions. Non-performing loans of €0.8 billion at 31 March 2022 remains in line with balances at 31 December 2021. The macroeconomic outlook remains somewhat uncertain as strong domestic growth is countered by increasing inflation and the impact this could have on consumer sentiment, with supply chain disruption and rising commodity prices driven by events in Ukraine. We continue to maintain post model adjusted ECL allowances to help mitigate this uncertainty and will review all macroeconomic assumptions impacting credit impairment in quarter two as part of the Interim Results process.

Capital

The Common Equity Tier 1 (CET 1) ratio on a fully loaded basis increased by 20 basis points to 15.3% at 31 March 2022 compared to a pro forma CET1 ratio of 15.1% at 31 December 2021. The increase reflects movements in non-credit related risk weighted assets. The CET1 ratio on a transitional basis of 16.7% at 31 March 2022 reduced 70 basis points from 17.4% at 31 December 2021; regulatory requirement for CET1 on a transitional basis is currently 8.94%[4]. The Total Capital ratio on a transitional basis was 21.8% at the end of March 2022; regulatory requirement for Total Capital on a transitional basis is currently 13.95%[4].

Outlook

Following a good performance in the first quarter of 2022, based on current business performance expectations and macroeconomic assumptions, the Bank's outlook for this year remains in line with prior market communications. Net Interest Income is expected to grow, however NIM is expected to remain in the low 150 basis points range due to retaining higher levels of excess liquidity with negative yields until Q4'22. Operating Costs are expected to be c.12% higher than 2021 as we continue to invest in the business, and the cost of risk is expected to remain low. On the expectation that the acquisition of Ulster Bank DAC retail and SME business completes in Q4 2022, the Bank will have exceptional accounting gains which will increase the overall profitability of the Bank and positively contribute to the Bank's capital position. We will continue to invest in capabilities to aid the transfer of customers from banks exiting the Irish market. Capital remains strong and having assessed a range of scenarios, the CET1 ratio will remain above the Bank's minimum regulatory requirements.

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Note on Forward-Looking Information:

This announcement contains forward-looking statements, which are subject to risks and uncertainties because they relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Bank or the industry in which it operates, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements referred to in this paragraph speak only as at the date of this announcement. The Bank undertakes no obligation to release publicly any revision or updates to these forward-looking statements to reflect future events, circumstances, unanticipated events, new information or otherwise except as required by law or by any appropriate regulatory authority.

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[1] Based on BPFI data as at 31 March 2022

[2] Underlying Net Interest Margin (NIM) refers to the Bank's NIM before the 32bps cost of holding excess liquidity at negative yields

[3] Source Davy

[4] Regulatory requirements for both CET1 and Total Capital on a transitional basis exclude P2G.

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