



INTERIM REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2018

Forward Looking Statements

This document contains certain forward-looking statements with respect to certain of the Permanent TSB plc's (PTSB) intentions, beliefs, current goals and expectations concerning, among other things, PTSB's results of operations, financial condition, performance, liquidity, prospects, growth, strategies, the banking industry and future capital requirements.

The words "expect", "anticipate", "intend", "plan", "estimate", "aim", "forecast", "project", "target", "goal", "believe", "may", "could", "will", "seek", "would", "should", "continue", "assume" and similar expressions (or their negative) identify certain of these forward-looking statements but their absence does not mean that a statement is not forward looking. The forward-looking statements in this document are based on numerous assumptions regarding PTSB's present and future business strategies and the environment in which PTSB will operate in the future. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of PTSB to be materially different from those expressed or implied by such forward looking statements. Many of these risks and uncertainties relate to factors that are beyond PTSB's ability to control or estimate precisely, such as future global, national and regional economic conditions, levels of market interest rates, credit or other risks of lending and investment activities, competition and the behaviour of other market participants, the actions of regulators and other factors such as changes in the political, social and regulatory framework in which PTSB operates or in economic or technological trends or conditions. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance. Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is intended to be a profit forecast or profit estimate.

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Investor and shareholder information and services including these Half Year Reports, are available on-line at www.permanenttsbgroup.ie.

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Financial Headlines

Net Interest Margin¹

1.77%



4 bps
YOY

Adjusted Cost Income Ratio²

68%



3 pts
YOY

Impairment Charge

€0.3m



95%
YOY

Profit After Tax

€56m



56%
YOY

NPLs³

€5.1bn



4%
YTD

Loan to Deposit Ratio⁴

105%



3 pts
YTD

CET1 Ratio⁵ (Transitional Basis)

16.2%



90 bps
YTD

Risk Weighted Assets⁶

11.2bn



0.6bn
YTD

Total New Lending

€585m



50%
YOY

Liquidity Coverage Ratio⁷

156%



9 pts
YTD

YOY – 30 June 2018 v 30 June 2017

YTD – 30 June 2018 v 31 December 2017

1. Net Interest Margin (annualised) ("NIM") is defined as net interest income (excluding ELG fees) divided by average interest-earning assets.

2. Adjusted Cost Income Ratio is defined as total operating expenses (excluding exceptional items and regulatory charges) divided by total operating income.

3. Non-performing loans ("NPLs") are defined as loans which are credit impaired or loans which are classified as defaulted in accordance with the Group's definition of default.

4. The ratio of loans and advances to customers (including loan assets which are held for sale) compared to customer accounts as presented in the statement of financial position.

5. CET 1 Ratio is the ratio of a Group's Common Equity Tier 1 capital to its total risk-weighted assets.

6. Risk Weighted Assets ("RWAs") are the Group's assets or off balance sheet exposures, weighted according to risk. See page 17.

7. LCR is calculated based on the Commission Delegated Regulation (EU) 2015/61.



Investor and Shareholder information is available online at www.permanenttsbgroup.ie

Chief Executive's Review

Introduction

In the first half of 2018, the underlying business continued to build positive momentum whilst in addition, we made significant progress in reducing the level of non-performing loans (NPLs) following the announcement of a €2.1 billion sale at the end of July, with further action planned to bring the level of NPLs to normalised levels.

The Group reported a profit after tax for the year of €56m in the first half which is 56% higher than the first half of 2017.

Economic Environment

Economic growth in Ireland continues at pace. Ireland is set to be one of the fastest growing economies in Europe for a fourth consecutive year. GDP is expected to grow by 5% in 2018 and employment is expected to increase by 2.6% year-to-date. Housing market activity also continues to rise steadily enabling strong credit growth. Brexit uncertainties continue to remain. Whilst our business is not directly impacted by Brexit, having divested previously its UK assets, the Group continues to build contingency plans in relation to affected counterparties and supply chains.

Business Performance Overview

Business performance for the first half continued to demonstrate progress. In the first half of 2018, new lending volumes of €585 million were approximately 50% higher than the same period in 2017. Mortgage lending, which grew by 51% year-on-year, contributed over 80% of total new lending. The Group's mortgage market share increased to 13.8% in the first half from 12.6% for 2017. Whilst the mortgage market has become very competitive, we have preserved price discipline and made process improvements to deliver a better customer experience.

Personal term lending grew by 42% year-on-year. We have delivered 100% year-on-year growth since June 2015.

We continue to maintain a strong deposit base while managing the cost of funds in line with a continuing low interest rate environment. At 30 June 2018, total deposits (including current accounts) amounted to €17.1 billion which represents 83% of our funding base.

Financial Performance Overview

Operating Profit

The Group recorded a total profit after tax for the first half of the year of €56 million which compares to €36 million for the same period in 2017.

Net Interest Margin

Net Interest Margin (NIM) decreased by 4 basis points to 1.77% in the period year-on-year. The decrease is primarily due to the maturity of higher yielding treasury assets during the second half of 2017, partly offset by a reduction in interest expense on customer accounts.

Operating Expenses (Excluding Exceptional Items and Regulatory Charges)

Total Operating Expenses (excluding Exceptional Items and Regulatory Charges) for the first half of the year increased by €14 million to €158 million. This is primarily due to the recognition of new provisions relating to legal, compliance and other costs for legacy tracker mortgage issues.

The adjusted Cost Income Ratio (excluding Exceptional Items and Regulatory Charges) increased from 65% to 68% for the first half of 2018.

Impairment Charge

The Impairment Charge for the first half of 2018 was €nil. This is compared to a charge of €6 million for the same period in 2017. The impairment outturn for the period primarily reflects stable economic conditions during the period.

NPLs

NPLs reduced by €235m to €5,050m for the period ended 30 June 2018.

Subsequent to the end of the interim reporting period, in July 2018, the Group agreed to sell a NPL portfolio (Project Glas) to a retail credit firm, Start Mortgages DAC.

The Glas portfolio has a gross balance sheet value of €2.1bn and a net book value of €1.3bn. At completion, the Group expects to receive cash consideration of €1.3 billion. This transaction will reduce the Group's overall NPL ratio from 25% to 16% and increase the CET1 ratio by 2%.

Capital

At 30 June 2018, the Common Equity Tier 1 (CET1) capital ratio was 16.2% and 13.4%, on a Transitional and Fully loaded basis respectively. This compared to a ratio of 17.1% and 15.0% at 31 December 2017. This is mainly due to the partial embedding of the ECB's Targeted Review of Internal Models (TRIM) and transition to IFRS 9 offset by profit for the first 6 months of 2018.

Chief Executive's Review

RWAs increased to €11.2 billion from €10.6 billion at the end of 2017 mainly due to partial embedding of TRIM (approximately €0.7 billion) offset by a reduction in the loan book.

Following the sale of €2.1 billion of NPLs, RWAs of €1.3 billion will be derecognised at completion. In addition, implementation of updated capital models following the completion of the ECB's TRIM is expected to increase RWAs by approximately €1.7 billion in the second half bringing the total impact from TRIM to approximately €2.4 billion in 2018. As a result, on a Pro forma basis, RWAs are expected to increase to €11.6 billion. Consequently, the Pro forma CET1 ratio, after including the impacts from completion of NPL sale (Project Glas) and incremental TRIM, would decrease to 15.6% and 13.0% on a Transitional and Fully Loaded basis respectively.

During July 2018, the Central Bank of Ireland announced an increase in the Countercyclical Capital Buffer (CCyB) from 0% to 1.0% effective from July 2019. As a result, the Group will be required to hold an additional capital buffer equivalent to 1% of its RWAs from that date. Despite this, the Group's medium term target remains unchanged at 12% on a Fully Loaded basis.

The Group remains confident that it is adequately capitalised for profitable growth and to deliver the NPL reduction strategy.

Customers

We continue to embed our vision which is to become the Bank of Choice. This is evident in the way we are shaping the delivery of our services by listening to our customer's; we are focused on delivering the right customer outcomes. We continue to invest in all our distribution channels (Branch;

Voice; Online; Mobile; and, Intermediary) as we look to serve our customers at a time and location of their choosing. We are committed to further investment in all areas of the customer experience.

Summary and Outlook

In the first half of 2018, we continued to maintain strong momentum in new lending recording close to a 50% increase year-on-year. We have increased our market share in mortgage lending while maintaining price discipline and making process improvements to deliver a better customer experience in a very competitive market.

Whilst our underlying business continued to show progress, we have also made significant progress in reducing the NPLs following the announcement of a €2.1 billion sale at the end of July. We also continue to maintain capital levels comfortably above the required regulatory minimum which positions us well for investment, profitable growth and the continued reduction in NPLs over the medium term.

We are very close to completing the rebuilding of the Bank such that we can focus solely on competing in the Retail and SME markets. In summary, our goal is that by early 2019 we will have built a Retail and SME Bank that is focused on delivering the right outcomes for its customers and quality earnings for its shareholders - the Bank Of Choice.



Jeremy Masding
Chief Executive Officer
28 August 2018

Financial Review

Summary Condensed Consolidated Income Statement

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
Net interest income (before ELG fees)	193	204
ELG fees	-	(1)
Net other income	41	18
Total operating income	234	221
Total operating expenses (excl. exceptional items)	(176)	(162)
Operating profit before impairment charge and exceptional items	58	59
Impairment charge on loans and advances to customers and collateral in possession	-	(6)
Operating profit before exceptional items	58	53
Exceptional items (net)	(1)	(10)
Profit before taxation	57	43
Taxation	(1)	(7)
Profit for the period	56	36

- (i) **Net Interest Income** (pre-Eligible Liabilities Guarantee (ELG)) decreased by 5% for the first six months to 30 June 2018 to €193m. This represents a four basis point decrease in net interest margin from 1.81% at 30 June 2017 to 1.77% at 30 June 2018. This is due to the maturity of higher yielding treasury assets during the second half of 2017 and a reduction in yields on loans and advances to customers, which is offset by a reduction in interest expense on customer accounts as a result of a reduction in average market interest rates.
- (ii) **Net Other Income** increased by 128% to €41m during the period ended 30 June 2018. This income comprises net fees and commissions on credit cards and insurance contracts of €19m, net trading income of €9m and net other operating income of €13m. The movement of €23m between the periods ended 30 June 2017 and 30 June 2018 comprises a €15m gain as a result of the sale of a portion of the Group's High Quality Liquid Assets (HQLA), a €10m gain as a result of the closure of a legacy treasury structure during the first half of 2018, offset by a €2m loss arising from the on-going management of the Group's properties in possession.
- (iii) **Operating Expenses** (excluding exceptional items) increased by 9% from 30 June 2017 to €176m for the period ended 30 June 2018. The movement of €14m between the periods ended 30 June 2017 and 30 June 2018 is primarily due to the recognition of provisions which predominantly relates to legal, compliance and other costs in relation to legacy tracker mortgage issues.
- (iv) **Impairment** is determined under IFRS 9 for 30 June 2018. Impairment is €nil for the period ended 30 June 2018, this compared to a charge of €6m for the period ended 30 June 2017 which is measured under IAS 39. As permitted by IFRS 9, prior year figures have not been restated and consequently are not directly comparable. The impairment outturn for the period primarily reflects stable economic conditions during the period.
- (v) **Exceptional Items** are €1m for the first half of 2018. This comprises a €1m charge relating to the restructure of the Group's distribution model.
- (vi) **Profit Before Tax** for the period has increased by €14m to €57m in comparison to 30 June 2017. This is driven by an increase in other income, decreases in exceptional items and in the Group's impairment charge; and offset by a reduction in net interest income.

Financial Review

Summary Condensed Consolidated Statement of Financial Position

	30 June 2018	31 December 2017
	€m	€m
Assets		
Home loans	13,582	13,657
Buy-to-let	4,102	4,264
Total residential mortgages	17,684	17,921
Commercial mortgages	84	153
Consumer finance	277	296
Total loans and advances to customers (including those which are held for sale)	18,045	18,370
Loans and advances to banks	1,368	1,518
Debt securities	2,588	1,978
Equity securities	13	12
Other assets	709	737
Assets held for sale (excluding loans and advances to customers which are held for sale)	218	161
Total assets	22,941	22,776
Liabilities and equity		
Current accounts	4,055	3,697
Retail deposits	10,587	10,612
Corporate & institutional deposits	2,475	2,686
Total customer accounts	17,117	16,995
Deposits by ECB	230	230
Deposits by banks and other financial institutions	2,152	1,612
Total deposits by banks	2,382	1,842
Debt securities in issue	1,211	1,633
Subordinated liabilities	24	23
Other liabilities	169	169
Total liabilities	20,903	20,662
Total equity	2,038	2,114
Total equity and liabilities	22,941	22,776

Total assets increased by €165m or 0.7% to €22,941m during the half year ended 30 June 2018. This is primarily as a result of: (i) an increase in debt securities due to the purchase of Irish Government Bonds, which is offset by; (ii) a net decrease in loans and advances to customers as a result of loan redemptions being greater than new lending, coupled with the continuation of the Group's voluntary surrender scheme.

Total liabilities increased by €241m or 1% to €20,903m during the half year ended 30 June 2018, due to (i) an increase in deposits by banks due to increased external repurchase transactions of the Group's asset backed securities and; (ii) an increase in customer accounts reflecting positive macro-economic conditions in Ireland which is offset by; (iii) a decrease in debt securities in issue due to the maturity of a medium term note (MTN) and continued repayment of the Group's securitisation issuances and; (iv) a decrease in loans and advances to banks.

Financial Review

Net Interest Income

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
Interest income	235	255
Interest expense (excl ELG)	(42)	(51)
Net interest income (excl ELG)	193	204
ELG fees	-	(1)
Net interest income	193	203

Interest income decreased by €20m or 8% during the period ended 30 June 2018. Interest income primarily comprises income on loans and advances to customers, debt securities and derivative assets.

- Interest income on loans and advances to customers decreased by €12m due to the continued effect of a lower interest rate environment.
- Interest income on debt securities and derivative assets decreased by €8m, primarily due to the maturity of higher yielding Irish Government bonds and the redemption of the final NAMA bond in 2017.

Interest expense (excluding ELG fees) decreased by €9m or 18% during the period ended 30 June 2018. Interest expense primarily comprises interest incurred on customer accounts, deposits by banks, debt securities in issue and derivative liabilities.

- Interest expense on customer accounts has decreased by €12m for the period ended 30 June 2018. This is primarily due to the effects of reductions in average market interest rates.

ELG fees were negligible for the period ended 30 June 2018 as a result of the scheme maturing in March 2018.

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
Total average interest-earning assets	21,899	22,666
Total average interest-bearing liabilities	20,563	21,101
Average rate on average interest earning assets	2.12%	2.26%
Average rate on average interest-bearing liabilities (excluding ELG fees)	0.37%	0.49%
Net interest margin (excluding ELG fees)	1.77%	1.81%

Total average interest-earning assets decreased by €767m for the period ended 30 June 2018 compared to the period ended 30 June 2017, largely due to loan redemptions being higher than new lending and the effects of the Group Voluntary Surrender Scheme which was launched during the second half of 2017.

Average interest-bearing liabilities decreased by €538m for the period ended 30 June 2018 compared to the period ended 30 June 2017. This is primarily driven by the reduction in average ECB funding over the period.

Financial Review

Key NIM Drivers: Average Balance Sheet and Interest Rate Data

The following table sets out the average balances of interest-earning assets and interest-bearing liabilities for the periods ended 30 June 2018 and 30 June 2017. The table also outlines the amount of interest income earned and interest expense (excluding ELG fees) incurred by the Group in the 6 month period ended 30 June 2018 and 30 June 2017, as well as the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities. For the purpose of the table below, average balances are calculated from month end positions from 31 December 2017 to 30 June 2018 and similar for the comparative period.

For the purpose of the table below, interest expense excludes ELG fees, therefore interest expense is lower than it would otherwise be.

	Half year ended 30 June 2018			Half year ended 30 June 2017		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	€m	€m	%	€m	€m	%
Interest-earning assets						
Loans and advances to customers	18,168	214	2.38%	18,727	226	2.43%
Loans and advances to banks	1,424	(2)	(0.28%)	1,254	-	-
Debt securities and derivative assets	2,307	18	1.57%	2,685	29	2.18%
Total average interest-earning assets	21,899	230	2.12%	22,666	255	2.26%
Interest-bearing liabilities						
Customer accounts	16,998	28	0.34%	16,943	40	0.48%
Deposits by banks	2,020	2	0.20%	2,772	3	0.22%
Debt securities in issue and derivative liabilities	1,522	7	0.93%	1,363	8	1.18%
Subordinated liabilities	23	-	-	23	-	-
Total average interest-bearing liabilities	20,563	37	0.37%	21,101	51	0.49%
Total average equity attributable to owners	2,104			2,101		

Net average balances of loans and advances to customers decreased by €559m to €18,168m for the period ended 30 June 2018 from €18,727m for the period ended 30 June 2017 (a 3% decrease). This is largely due to the natural reduction of the loan book due to loan repayments exceeding new lending and the impact of the Group's Voluntary Surrender Scheme as loans are derecognised. The average interest rate on loans and advances to customers decreased to 2.38% for the period ended 30 June 2018 from 2.43% for the prior period, reflecting external market trends.

The average balance of debt securities and derivative assets decreased by €378m to €2,307m for the period ended 30 June 2018, from €2,685m for the prior period to €2,307m (a 14% decrease) primarily as a result of the maturity of Irish government bonds. This was partially offset by further additions of Irish government bonds. The average interest rate on debt securities and derivative assets decreased to 1.57% for the period ended 30 June 2018 from 2.18% for the period ended 30 June 2017, principally as a result of a restructuring the maturities of the Group's HQLA.

The average balance of customer accounts increased by €55m for the period ended 30 June 2018 from €16,943m to €16,998m for the period ended 30 June 2017 (a 0.3% increase), primarily due to an increase in current accounts as a result of favourable macro-economic conditions in Ireland. The average interest rate on customer accounts decreased to 0.34% for the period ended 30 June 2018 from 0.48% for the period ended 30 June 2017, reflecting rate reductions implemented on both retail and corporate deposits during 2017.

The average balance of deposits by banks decreased by €752m to €2,020m for the period ended 30 June 2018 from €2,772m for the period ended 30 June 2017 (a 27% decrease) driven by the reduction of ECB funding during 2017. The average interest rate on deposits by banks reduced from 0.22% for the period ended 30 June 2017 to 0.20% for the period ended 30 June 2018 reflecting market movements.

The average balance of debt securities in issue and derivative liabilities increased by €159m to €1,522m for the period ended 30 June 2018 from €1,363m for the period ended 30 June 2017 (a 12% increase). The average interest rate on debt securities in issue and derivative liabilities decreased to 0.93% for the period ended 30 June 2018 from 1.18% for the period ended 30 June 2017, reflecting favourable rates achieved on the issuance of a new asset backed security in late 2017 and the maturity of a MTN in early 2018.

Financial Review

Net Other Income

The following table sets out the components of the Group's net other income in the periods ended 30 June 2018 and 30 June 2017.

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
Fees and commission income	31	28
Fees and commission expenses	(12)	(10)
Net fees and commission income	19	18
Net trading income/(expense)	9	(1)
Net other operating Income	13	1
Total net other income	41	18

Net fees and commission income of €19m for the 6 months ended 30 June 2018 increased by €1m. The majority of this income comprises fees and commissions on credit cards and insurance contracts and is in line with the prior period.

Net trading income of €9m for the 6 months ended 30 June 2018 increased by €10m compared to a €1m net trading expense for the 6 months ended 30 June 2017. This is primarily due to gains realised as a result of the closure of derivative contracts during the first half of 2018.

Net other operating income of €13m for the 6 months ended 30 June 2018 increased by €12m compared to the 6 months ended 30 June 2017. This is primarily due to gains realised as a result of the sale of a portion of the Group's HQLA of €15m offset by a €2m loss arising from the on-going management of the Group's properties in possession.

Financial Review

Total Operating Expenses (excluding exceptional items)

The following table sets out the components of the Group's total operating expenses (excluding exceptional items) in the 6 months ended 30 June 2018 and 30 June 2017.

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
Staff Costs:		
Wages and salaries including commission paid or payable to sales staff	62	62
Social insurance	7	7
Pension costs	6	6
Total staff costs	75	75
General and administrative expenses	56	58
Other expenses	15	-
Administrative, staff and other expenses (excluding exceptional items and regulatory charges)	146	133
Depreciation of property and equipment	6	6
Amortisation of intangible assets	6	5
Total operating expenses (excluding exceptional items and regulatory charges)	158	144
Regulatory charges	18	18
Total operating expenses (excluding exceptional items)	176	162
Headline cost to income ratio*	75%	73%
Adjusted cost to income ratio**	68%	65%

*Defined as total operating expenses (excluding exceptional items) divided by total operating income.

**Defined as total operating expenses (excluding exceptional items and regulatory charges) divided by total operating income.

Total operating expenses (excluding exceptional items) increased by 9% from €162m for the 6 months ended 30 June 2017 to €176m for the 6 months ended 30 June 2018.

Total staff costs have remained flat at €75m for the 6 months ended 30 June 2018 compared to the 6 months ended 30 June 2017.

General and administrative expenses decreased by €2m for the 6 months ended 30 June 2018 to €56m. Other expenses increased by €15m to €15m for the 6 months ended 30 June 2018 primarily due to recognition of provisions which predominantly relates to legal, compliance and other costs in relation to legacy tracker mortgage issues. This has led the headline cost-to-income ratio to increase from 73% for the 6 months ended 30 June 2017 to 75% for the 6 months ended 30 June 2018.

A bank levy payable to government is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy. The bank levy introduced through the 2013 Finance Act is payable in the second half of 2018 and will, under accounting standards, be recognised at this point.

Impairment charges

Impairment is determined under IFRS 9 for 30 June 2018. Impairment is €nil for the period ended 30 June 2018, this compared to a charge of €6m for the period ended 30 June 2017 which is measured under IAS 39. As permitted by IFRS 9, prior year figures have not been restated and consequently are not directly comparable. The impairment outturn for the period primarily reflects stable economic conditions during the period.

Financial Review

Assets

Asset Quality

The tables below outline total loans and advances to customers for the Group's residential mortgages analysed by home loans, buy-to-let, commercial and consumer finance.

Loans and advances to customers	30 June 2018	1 January 2018	31 December 2017
	€m	€m	€m
Measured at amortised cost			
Residential mortgages:			
Home loan	14,851	15,037	15,037
Buy-to-let	4,964	4,953	4,953
Total residential mortgages	19,815	19,990	19,990
Commercial	119	224	224
Consumer finance	302	314	345
Total measured at amortised cost	20,236	20,528	20,559
Analysed by ECL staging			
Stage 1	10,880	11,649	-
Stage 2	4,306	3,594	-
Stage 3	5,045	5,278	-
POCI	5	7	-
Analysed as to asset quality			
Excellent	-	-	10,585
Satisfactory	-	-	3,978
Fair	-	-	1,066
Neither past due nor impaired	-	-	15,629
Past due but not impaired	-	-	467
Impaired	-	-	4,463
Total measured at amortised cost	20,236	20,528	20,559
Of which are reported as non-performing loans	5,050	5,285	5,285
Deferred fees, discounts & fair value adjustments	58	55	57

	30 June 2018	1 January 2018	31 December 2017
	€m	€m	€m
Loss allowance – statement of financial position			
Stage 1	46	54	-
Stage 2	379	333	-
Stage 3	1,824	1,936	-
Specific provisions	-	-	1,913
IBNR provisions	-	-	333
Total loss allowance	2,249	2,323	2,246

	30 June 2018	1 January 2018	31 December 2017
	%	%	%
Loss allowance cover percentage			
Stage 1	-	-	-
Stage 2	9	9	-
Stage 3	36	37	-
Specific provisions/non-performing loans	-	-	36
Total provisions/non-performing loans	-	-	42
Total provisions/total loans	-	-	11

* The amounts as at 30 June 2018 and 1 January 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

More detailed commentary on the impact of IFRS 9 on the classification of loans and advances to customers is provided in note 27.

Impairment Provisions

During the period ended 30 June 2018, impairment provisions were €2,249m. The reduction is largely associated with ECL utilisation as a result of property surrender.

Financial Review

Non-Performing Loans (NPLs)

The following tables provide details of NPLs and NPLs as a percentage of loans and advances to customers (including assets held for sale) as at 30 June 2018 and as at 31 December 2017.

Non-performing loans (NPL's) are loans which are credit impaired or loans which are classified as defaulted in accordance with the Group's definition of default. The Group's definition of default considers objective indicators of default including the 90 days past due criterion, evidence of exercise of concessions or modifications to terms and conditions is designed to be consistent with European Banking Authority (EBA) guidance on the definition of forbearance.

30 June 2018

	Stage 3				Total
	Home loans	Buy-to-let	Commercial	Consumer finance	
	€m	€m	€m	€m	€m
NPL is < 90 days	2,279	740	28	3	3,050
NPL is >90 days and < 1 year past due	120	36	-	9	165
NPL is 1-2 years past due	124	50	3	2	179
NPL is 2-5 years past due	258	69	8	9	344
NPL is >5 years past due	920	379	9	4	1,312
Non-performing loans	3,701	1,274	48	27	5,050
Foreclosed assets*	69	149	-	-	218
Non-performing assets	3,770	1,423	48	27	5,268
NPLs as % of gross loans	25%	26%	40%	9%	25%

*Foreclosed assets are assets held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.

31 December 2017*

	Home loans	Buy-to-let	Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
Not impaired no arrears	546	131	3	-	680
Not Impaired < 90 days in Arrears	54	3	-	-	57
Not Impaired > 90 days in Arrears	82	3	-	-	85
Impaired loans	3,259	1,083	68	53	4,463
Non-performing loans	3,941	1,220	71	53	5,285
Foreclosed assets**	30	160	-	-	190
Non-performing assets	3,971	1,380	71	53	5,475
NPLs as % of gross loans	26%	25%	32%	15%	26%

* The amounts as at 30 June 2018 and 1 January 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

**Foreclosed assets are assets held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.

NPLs reduced by €235m to €5,050m for the period ended 30 June 2018.

Financial Review

Forbearance Arrangements – Residential mortgages

The Group operates a number of mechanisms which are designed to assist borrowers experiencing credit and loan repayment difficulties, which have been developed in accordance with the current Code of Conduct on Mortgage Arrears (CCMA).

The tables below set out the asset quality and volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 30 June 2018 and 31 December 2017. The balance of forbearance arrangements for residential home loan mortgages and buy-to-let residential mortgages are analysed below.

30 June 2018

	All loans		Stage 3	
	Number	Balances	Number	Balances
		€m		€m
Residential home loan mortgages	23,778	3,749	19,044	3,173
Residential buy-to-let mortgages	3,581	1,246	2,628	835

31 December 2017

	All loans		Loans >90 days in arrears and/or impaired	
	Number	Balances	Number	Balances
		€m		€m
Residential home loan mortgages	25,533	4,006	15,919	2,787
Residential buy-to-let mortgages	3,543	1,250	1,589	553

The tables above reflect a decrease of €257m as at 30 June 2018 for the Group in the balance of residential home loans in forbearance arrangements, a decrease of 6% compared to 31 December 2017.

It also reflects a decrease of €4m as at 30 June 2018 for the Group in the balance of residential buy-to-let in forbearance arrangements, a decrease of 0.3% compared to as at 31 December 2017.

More details on forborne loans are provided in note 27 financial risk management in the interim financial statements.

Loans and Advances to Banks

The following table outlines the Group's loans and advances to banks as at 30 June 2018 and 31 December 2017.

	30 June 2018	31 December 2017
	€m	€m
Cash balances at central banks	713	805
Placements with other banks	655	713
Total loans and advances to banks	1,368	1,518

During the period ended 30 June 2018, loans and advances to banks decreased by €150m or 10% to €1,368m. This decrease is primarily due to a reduction of €90m in the central bank deposit, a reduction in cash collateral held with other banks as a result of the closure of certain derivative contracts in the first half of 2018 and a reduction in restricted cash as a result of the restructure of two internally held asset backed securities.

Debt Securities

The following table outlines the Group's debt securities as at 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
	€m	€m
Government bonds	2,588	1,978
Total debt securities	2,588	1,978

During the period ended 30 June 2018, the debt securities portfolio increased by €610m or 31%, principally as a result of new purchases of Irish government bonds.

Financial Review

Liabilities

Customer Accounts

The following table outlines the Group's customer accounts as at 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
	€m	€m
Term deposits	7,679	8,050
Demand deposits	3,714	3,568
Current accounts	4,055	3,697
Notice and other accounts	1,669	1,680
Total customer accounts	17,117	16,995

The following table sets forth the Group's customer accounts by customer type as at 30 June 2018 and 31 December 2017.

	30 June 2018	31 December 2017
	€m	€m
Current accounts	4,055	3,697
Retail deposits	10,587	10,612
Total retail deposits (including current accounts)	14,642	14,309
Corporate deposits	2,468	2,667
Institutional deposits	7	19
Total customer accounts	17,117	16,995

At 30 June 2018, customer accounts increased to €17,117m, an increase of €122m compared to 31 December 2017, primarily due to an increase in current accounts as a result of favourable macro-economic conditions in Ireland, offset by a reduction in term deposits.

Deposits by Banks (including central banks)

The following table outlines the Group's deposits by banks as at 30 June 2018 and 31 December 2017.

	30 June 2018	31 December 2017
	€m	€m
Placed by the ECB	230	230
Placed by other banks and institutions on repurchase agreements	2,151	1,610
Other deposits	1	2
Total deposits by banks	2,382	1,842

During the period ended 30 June 2018, deposits by banks increased by €540m to €2,382m, compared to €1,842m at the year ended 31 December 2017. This increase is primarily due to increases of repurchase agreements of notes issued by special purpose entities controlled by the Group.

The portion of the Group's funding sourced from the ECB stands at €230m, which comprises Targeted Longer-Term Refinancing operations (TLTRO) funding only.

Debt Securities in Issue

The following table outlines the Group's debt securities in issue as at 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
	€m	€m
Bonds and medium-term notes	18	321
Non-recourse funding	1,193	1,312
Total debt securities in issue	1,211	1,633

Bonds and medium term notes consist of debt instruments issued by the Group while non-recourse funding consists of residential mortgage backed securities issued by the Group.

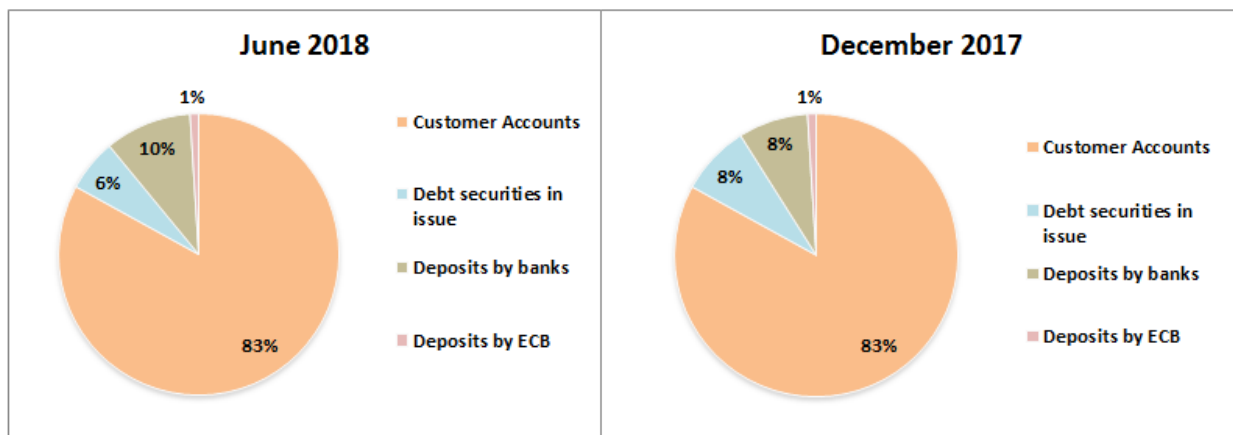
Bonds and medium term notes reduced by €303m between 31 December 2017 and 30 June 2018 due to the maturity of a medium term note. The Group has not issued any new medium-term notes during the period.

Non-recourse funding is funding by way of residential mortgage-backed securities. Non-recourse funding reduced by €119m between 31 December 2017 and 30 June 2018 to €1,193m due to scheduled principal repayments and the repurchase of mortgage loans from the Group's asset backed securities for Project Glas, resulting in the acceleration of principal repayment of debt securities in issue.

Financial Review

Funding profile

The following tables show the Group's funding profile as at 30 June 2018 and 31 December 2017:



The level of ECB funding at 30 June 2018 amounted to €0.2bn, this has not changed since 31 December 2017.

For the period ended 30 June 2018, customer accounts amounted to €17,117m, which made up 83% of total funding. This is unchanged, on a percentage basis, from 31 December 2017. The remaining funding requirements comprise of deposits by banks (on repurchase agreements) at €2,152m, debt securities in issue of €1,211m and subordinated liabilities of €24m.

All non-recourse funding is repayable after five years. Customer deposits along with deposits by banks are predominantly short term in nature, being less than one year. Further details on the maturity profile of these deposits are provided in note 27.

Regulatory capital

The Group's regulatory capital position as at 30 June 2018 and 31 December 2017 under CRD IV / CRR is summarised as follows:

	30 June 2018 ¹		31 December 2017	
	Transitional	Fully loaded	Transitional	Fully loaded
	€m	€m	€m	€m
Capital Resources:				
Common Equity Tier¹	1,814	1,506	1,812	1,590
Additional Tier 1	82	82	66	52
Tier 1 Capital	1,896	1,588	1,878	1,642
Tier 2 Capital	71	71	76	67
Total Capital	1,967	1,659	1,954	1,709
Risk Weighted Assets	11,211	11,211	10,593	10,593
Capital Ratios:				
Common Equity Tier 1 Capital	16.2%	13.4%	17.1%	15.0%
Tier 1 Capital ²	16.9%	14.2%	17.7%	15.5%
Total Capital ³	17.5%	14.8%	18.4%	16.1%
Leverage Ratio⁴	8.1%	6.8%	8.0%	7.1%

¹ The 2018 Interim Profit is reflected in the Group's capital ratios calculations. The application for the inclusion of the Interim Profit in the regulatory capital metrics is being sought under Article 26 (2) of the Capital Requirements Regulation (CRR).

² The Tier 1 capital ratio is the ratio of a bank's common equity and additional Tier 1 capital to its total risk-weighted assets (RWA).

³ The total capital ratio is the ratio of a bank's total capital (Tier 1 and Tier 2 capital) to its risk-weighted assets.

⁴ The leverage ratio is calculated by dividing Tier 1 Capital by total exposures (on balance sheet items, off balance sheet items and derivatives).

Financial Review

Regulatory capital (continued)

The following table sets out reconciliation from the statutory shareholders' funds to the Group's regulatory CET1 Capital:

	30 June 2018		31 December 2017	
	Transitional €m	Fully Loaded €m	Transitional €m	Fully Loaded €m
Total equity	2,033	2,033	2,111	2,111
Less: AT1 capital	(122)	(122)	(122)	(122)
Captive insurance equity ¹	(9)	(9)	(10)	(10)
Adjusted capital	1,902	1,902	1,979	1,979
Prudential filters and deductions:				
Intangibles	(36)	(36)	(39)	(39)
Deferred tax ²	(150)	(354)	(103)	(343)
AFS reserves ³	-	-	(7)	-
Revaluation reserve	-	-	(10)	-
IFRS 9 transitional arrangements	104	-	-	-
Others	(6)	(6)	(8)	(7)
Common Equity Tier 1	1,814	1,506	1,812	1,590

¹ Insurance entity outside the prudential scope of consolidation.

² Certain DTAs are deducted at a rate of 40% in 2018, increasing annually at a rate of 10% until 2024.

³ The transitional arrangements in respect of unrealised gains on AFS securities expired in 2018.

The Group's transitional common equity tier 1 (CET1) ratio at 30 June 2018 is 16.2%. This has decreased by 0.9% since 31 December 2017 reflecting the net impact of an increase in credit RWAs (-0.85%) and operational risk RWAs (-0.10%), partially offset by a marginal increase in CET1 capital (+0.05%). The fully loaded CET1 ratio is 13.4% at 30 June 2018 (31 December 2017: 15.0%).

The transitional total capital ratio of 17.5% at 30 June 2018 is 0.9% lower than the position at 31 December 2017 and the fully loaded position has decreased by 1.3% to 14.8%.

Transitional CET1 capital resources are €1,814m at 30 June 2018. This has increased by €2m since December 2017 primarily due to profits after tax (+€56m) offset by an increased DTA deduction (-€47m). Transitional tier 1 capital is €18m higher due to an increase in qualifying additional tier 1 debt.

The Group has elected to apply the transitional arrangement related to IFRS 9 which partially mitigates the impact on own funds. This involves a capital add back of a portion of the increase in impairment loss allowance on transition to IFRS 9 and also any subsequent increase in the stage 1 and 2 loss allowances at future reporting dates. The transition period is for five years, with a 95% add-back allowed in 2018, decreasing to 85%, 70%, 50% and 25% in subsequent years.

Total RWAs increased to €11,211m primarily due to the partial embedding of the ECB's Targeted Review of Internal Models (TRIM) resulting in increased Credit Risk RWA (€555m) and increased Operational Risk RWA (€63m). Following the sale of €2.1 billion of NPLs post 30 June 2018, RWAs of €1.3 billion will be derecognised at completion. In addition, implementation of updated capital models following the completion TRIM post 30 June 2018 will increase the RWAs by €1.7 billion. As a result, on a pro-forma basis, after including the impacts from the completion of the NPL sale and incremental TRIM, the RWAs will increase to €11.6 billion. Consequently, the pro-forma CET1 ratio will decrease to 15.6% and 13.0% on a Transitional and Fully Loaded basis respectively.

The leverage ratio on a transitional basis at 30 June 2018 is 8.1%, which is broadly in line with the position at 31 December 2017 (8.0%).

The Group's 2018 Supervisory Review and Evaluation Process (SREP) requirement which was effective from 1 January 2018 requires that the Group maintains a CET1 ratio of 9.825% and a Total Capital ratio of 13.325% on a transitional basis.

The CET1 ratio requirement of 9.825% consists of a Pillar 1 CRR requirement of 4.50%, a Pillar 2 Requirement (P2R) of 3.45% and a Capital Conservation Buffer (CCB) of 1.875%. The total capital ratio requirement of 13.325% consists of a Pillar 1 CRR requirement of 8% and the P2R and CCB as set out above. These requirements exclude Pillar 2 Guidance (P2G) which is not publicly disclosed.

During July 2018, the Central Bank of Ireland (CBI) announced an increase in the countercyclical capital buffer (CCyB) from 0% to 1.0% effective July 2019. As a result, the Group will be required to hold an additional capital buffer equivalent to 1% of its risk weighted assets from that date.

Financial Review

IFRS 9

On 1 January 2018, PTSB adopted International Financial Reporting Standard 9: Financial Instruments (IFRS 9), which introduced new requirements for the recognition and measurement of credit impairment provisions, the classification and measurement of financial instruments and provides for a simplified approach for hedge accounting.

The Group's ECL models were developed leveraging the systems and data used to calculate expected credit losses for regulatory purposes. In particular, key concepts such as the definition of default and measurement of credit risk (i.e. ranking of exposures for risk) have been aligned across the impairment (accounting) and regulatory frameworks.

The IFRS 9 ECL models, however, differ from regulatory models in a number of conceptual ways (e.g. the use of 'through the cycle' (regulatory) versus 'point in time' (IFRS 9) inputs, 12 month ECL (regulatory) versus lifetime ECL (IFRS 9)) and as a result the Group instead developed statistical models tailored to the requirements of IFRS 9.

Summary impact of transition to IFRS 9 as at 1 January 2018:

- Total equity decreased by €97m (net of tax), from €2.1bn as at 31 December 2017 to €2bn as at 1 January 2018;
 - €95m of the net impact to equity was due to the adoption of an expected credit loss (ECL) approach for impairment provisioning, partly offset by the tax benefit from the IFRS 9 adjustments;
- In line with previous guidance, the estimated impact CET 1 is a reduction of c. 107bps, after taking account of any offset against regulatory expected losses and tax;
- Under the transitional rules, the Day 1 impact on the CET1 ratio is immaterial - €7m or approximately 6bps; and
- The impact of 'Classification and Measurement' changes introduced by IFRS 9 is not material to PTSB, with an overall decrease in shareholder's equity of €2m.

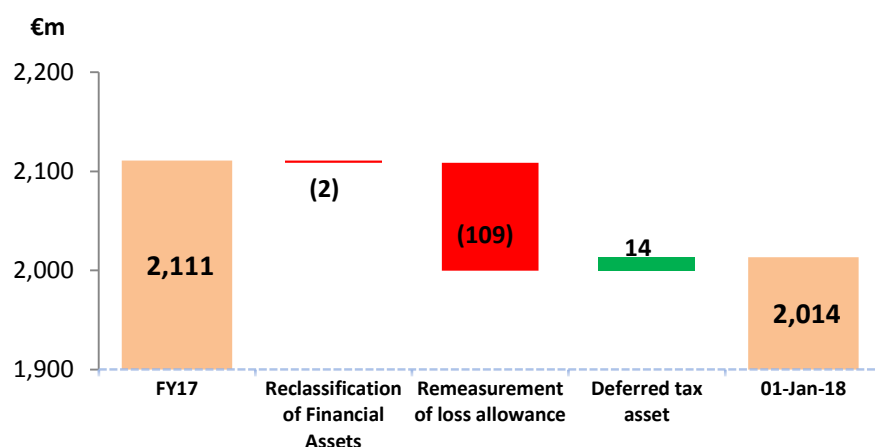
The Group has elected to apply the following transitional options:

- As permitted, the Group has not restated comparative periods on transition to IFRS 9; the measurement difference between the previous carrying amount under IAS 39 and the new carrying amount at the transition date has been reflected through an adjustment to opening retained earnings; and
- The Group has taken the accounting policy choice to adopt an IFRS 9 basis for hedge accounting; the Group will also adopt the revised disclosures relating to hedge accounting set out in the amendments to IFRS 7, 'Financial Instruments: Disclosures' in the PTSB plc 2018 Annual Report.

Impact of IFRS 9 on shareholder's equity

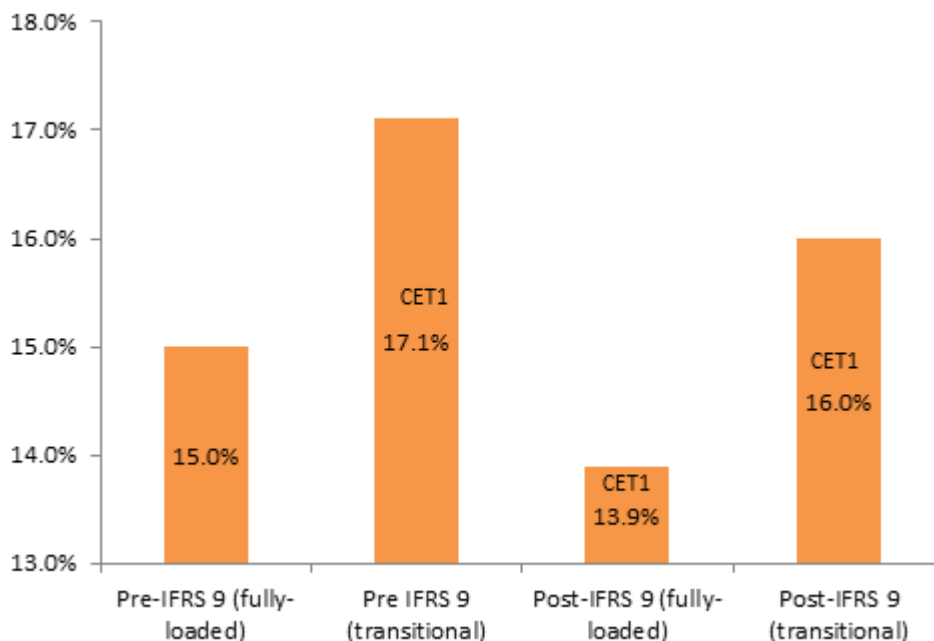
The adoption of IFRS 9 decreases shareholders' equity at 1 January 2018 by €97m (net of tax). This comprises a €2m decrease from the application of the new classification and measurement requirements for financial assets and a €109m decrease arising from the application of the new ECL impairment methodology. These amounts are partially offset by the recognition of a €14m deferred tax asset (DTA).

Impact on Reserves and retained earnings



Financial Review

Impact of IFRS 9 on regulatory capital



Impact of Regulatory Transitional Relief

Regulatory rules, as permitted by Regulation (EU) 2017/2395 of the European Parliament and of the Council, with an effective date of 1 January 2018, sets out an option for institutions to avail of relief on the transitional impact of IFRS 9, where the capital impact is phased in over 5 years. PTSB wrote to the EBA in Q1 2018 informing them of the intention to apply the transitional arrangements for IFRS 9, noting a one-off option to reverse its decision in the transition period subject to regulatory approval.

Under this approach, the balance of ECL provisions in excess of the regulatory EL and additional ECL on standardised portfolios, net of related tax, is phased in over 5 years. The relief operates as follows:

- Day 1 – the difference between IFRS 9 provision and IAS 39 provision. This adjustment applies to stage 1, 2 and 3 assets.
- Dynamic on-going relief on increases in Stage 1 and Stage 2 ECL compared to Day 1 Stage 1 and Stage 2 ECL.

Tapering of the transitional benefit over a 5 year period is as follows:

- 2018, 5 per cent;
- 2019, 15 per cent;
- 2020, 30 per cent;
- 2021, 50 per cent ;
- 2022; 75 per cent;
- Thereafter, 0%.

The day 1 impact to regulatory capital is €7m or approximately 6 basis points.

The above estimates, which have been assessed under an interim control environment, are based on assumptions, judgements and estimation techniques that remain subject to change until the Group finalises its financial statements for the year ending 31 December 2018. The Group continues to refine and further validate the impairment models and related processes and controls through 2018.



Risk Management

Group Risk Management and Governance

The nature of risk taking is fundamental to a financial institution's business profile. It follows that prudent Risk Management forms an integral part of the Group's governance structure.

Within the boundaries of the Board-approved Risk Appetite Statement, the Group follows an integrated approach to Risk Management, to ensure that all risks faced by the Group are appropriately identified and managed. This approach ensures that robust mechanisms are in place to protect and direct the Group in recognising the economic substance of its risk exposure.

The Group implements a Risk Management Process, which consists of four key aspects:

- Risk Identification;
- Risk Assessment;
- Risk Mitigation; and
- Risk Monitoring and Reporting.

Group Risk Management Framework

The Group Risk Management Framework (GRMF) is an overarching Risk Management Framework articulating the Risk Management Process governing risks within the following key risk categories: Financial Risk (including Market, Credit, Liquidity, Funding, Capital Adequacy and Viability Risks), and Non-Financial Risk (including Operational & IT, Regulatory Compliance, Conduct, Strategic, Reputational, Volatility and Other Risks). The GRMF describes the Group-wide approach to the identification, assessment, mitigation, monitoring and reporting of risk across the outlined risk categories. The Group manages, mitigates, monitors and reports its risk exposure through a set of Risk Management Processes, activities and tools.

The Board Risk and Compliance Committee provides oversight and advice to the Board on risk governance and supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, assessed, mitigated, monitored and reported and that the Group's strategy is consistent with the Group's Risk Appetite.

Risk Appetite and Strategy

The Board sets overall policy in relation to the type and level of risk that the Group is permitted to assume. To achieve this, the Board has established a formal Group Risk Appetite Statement (RAS) supported by a Risk Appetite Framework which outlines the principles and processes underpinning the development of the RAS and its implementation, including its governance structure and relevant roles and responsibilities. The risk parameters identified in the RAS are applied in practice throughout the business. These risk parameters are closely aligned with the Group's strategic and business objectives.

The overarching Group RAS articulates the level and nature of risk the Group is willing to accept, consistent with its Corporate Purpose and in order to deliver its Restructuring Plan Commitments. It includes qualitative statements as well as quantitative measures expressed relative to Viability, Capital, Liquidity, Funding and Culture and other relevant measures as appropriate.

The Group RAS has been developed and is consistently iterated through a defined process involving all the key functions of the Group. The Board holds the final responsibility for approval of the Group RAS. A mix of quantitative and qualitative, backward and forward looking Risk Metrics is defined to monitor the actual Risk Position against individual metrics by risk category.

Risk Governance

The primary objectives of the Group's Risk Governance Structure are:

- Ensure the delegation of responsibility for risk oversight and management is appropriate to the nature and types of risk faced by the Group;
- Promote robust dialogue and decision-making around key risk matters;
- Enable the Group to accept and take a level of risk appropriate to its strategic objectives, with risks taken in areas where the Group has sufficient expertise and oversight capabilities;
- Ensure that safeguards are in place to protect the independence of key relationships between Senior Executives and the Board; and
- Promote transparency in the reporting of risk information throughout the Group.

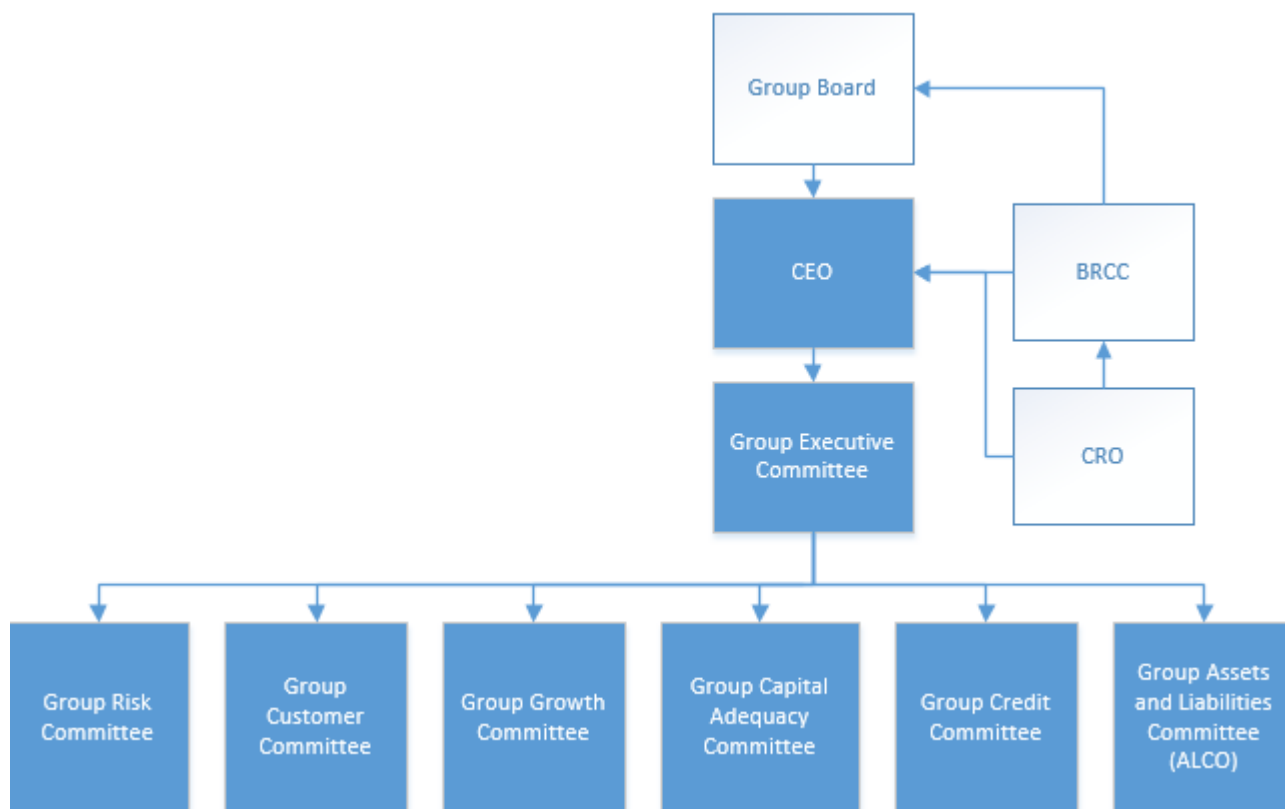
These objectives are fulfilled through:

- Designing and applying a set of principles which guide and underpin the Group's Risk Governance;
- Designing and implementing an appropriate governance structure to ensure risks are managed appropriately and in line with approved Risk Appetite;
- Setting and periodically reviewing the Terms of Reference for each Board and Management-level Committee for appropriateness;
- Periodically reviewing the operating effectiveness of the Board and Management-level Committees; and
- Establishing systems of Risk Management and reporting.

The Board retains responsibility for the management of risks across the Group, including approving and overseeing the effectiveness of the Group's Risk Governance structure, through which responsibility for Risk Management is delegated across the Group.

Risk Management Report

Risk Governance Structure



Key Risk Governance Roles and Responsibilities

Governance Forum/Role

Key Responsibilities

Board

Ultimately responsible for the Group's business strategy, financial soundness, key personnel decisions, internal organisation, governance structure and practices, Risk Management and compliance obligations.

A key role of the Board is to ensure that risk and compliance are properly managed in the business. Key risk responsibilities of the Board include, but are not limited to:

- Understanding the risks to which the Group is exposed and establishing a documented Risk Appetite Statement for the Group;
- Setting and overseeing the amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Group;
- Defining the strategy for the on-going management of material risks; and
- Ensuring that there is a robust and effective internal control framework that includes well-functioning risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework.

Board Risk and Compliance Committee (BRCC)

Oversees and provides advice to the Board on risk governance and the current and future risk exposures tolerance/appetite and strategy, and oversees the implementation of that strategy by Senior Management. This includes the strategy for capital and liquidity management, the setting of risk and compliance policies and the embedding and maintenance throughout the Group of a supportive culture in relation to the management of risk and compliance.

The Committee supports the Board in carrying out its responsibilities of ensuring that risks are properly identified, assessed, mitigated, monitored and reported, and that the Group is operating in line with its approved Risk Appetite. Key activities of the BRCC include, but are not limited to:

- Reviewing and making recommendations to the Board on the Group's risk profile, both current and emerging, encompassing all relevant risk categories as described in the Risk Management Framework;
- Reviewing and making recommendations to the Board in relation to the Group's Risk Appetite Framework and Risk Appetite Statement, and the Group Recovery Plan;
- Monitoring and escalating positions outside the RAS to the Board, within agreed timeframes and approving and overseeing proposed Remediation Plans aimed at restoring the Group's risk profile to within the approved Risk Appetite;
- Reviewing and approving the key components of the Group's Risk Management Architecture (GRMA) and relevant supporting documents;
- Communicating all issues of material reputational risk directly to the Board;
- Reviewing and making recommendations to the Board on the adequacy of capital and liquidity in the context of the Group's current and planned activities (via reviewing relevant outputs from Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)), including in relation to proposed mergers, acquisitions or disposals; and
- Promoting a sound Risk Culture across the Group.

Risk Management Report

Governance Forum/Role

Key Responsibilities

Executive Committee (ExCo)

ExCo is the Senior Management Executive Committee for the Group, and is the:

- Custodian of the Group's collective Management Agenda, Financial Plans and Risk Management Architecture as developed through the annual Integrated Planning Process (IPP);
- Accountable body for the Group's operations, compliance and performance;
- Ultimate point of escalation for Group specific issues, save for those matters reserved for the Board or its Committees;
- Gateway through which decisions required from the Board are reviewed prior to submission unless otherwise delegated by ExCo to one of its sub-committees (or to another forum/person); and
- Forum for Group-wide functional issues.

In the context of Risk Management, ExCo is primarily responsible for, but not limited to:

- Implementing the GRMA and that all risks defined therein are managed effectively and efficiently, in a prudent manner within the Group's Risk Appetite;
- Ensuring that robust operating frameworks exist (e.g. business continuity, site management, IT system capability and similar) within which the Group's activities are undertaken; and
- Defining the Group's organisational structure.

Group Risk Committee (GRC)

A forum for Group-wide Risk Management topics, this is a sub-committee of the Executive Committee with the Chair having unfettered access to the Chair of the BRCC.

The GRC monitors and enforces adherence to the Group's Risk Frameworks, Risk Policies and Risk Appetite. It is the guardian of the Group's Risk Registers and is responsible for monitoring the total risk profile of the Group. Key activities of GRC include, but are not limited to:

- Measuring and monitoring the total risk profile of the Group and maintaining a Risk Register of top risks facing the Group, together with an assessment of the probability and severity of those risks;
- Monitoring regulatory developments and upstream/horizon risk in relation to all relevant risk categories and ensuring that all material issues are communicated to the BRCC or the Board as appropriate;
- Monitoring and assessing the Group's risk profile against RAS and propose remediation plans to restore Risk Appetite for ultimate Board approval where required;
- Monitoring the reporting and remediation plan with regard to any breaches of approved limits in accordance with agreed protocol;
- Recommending proposed changes to the Group's Risk Appetite for Board approval;
- Agreeing the structure and content of the GRMA for recommendation to the BRCC;
- Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and Policies, for all key risk categories excluding those which fall directly under the remit of Group Credit Committee (GCC), Group Assets and Liabilities Committee (ALCO), Customer Committee, Capital Adequacy Committee and Growth Committee;
- Recommending the ICAAP, ILAAP and RP to BRCC for review and recommendation to the Group Board; and
- Overseeing validation of key Risk Models for all risk categories.

Group Assets and Liabilities Committee (ALCO)

ALCO reviews, and is responsible for overseeing, all activities relating to the management of Asset Liability Management (ALM), Treasury and Market Risks, including Liquidity Risk, Interest Rate Risk, Treasury Counterparty Risk and Foreign Exchange Risk. It is the body accountable for the evaluation of other potential drivers of earnings volatility, including, but not limited to, competitive and external market pressures, and for agreeing on optimisation and hedging strategies against those risks.

Key activities of ALCO include, but are not limited to:

- Recommending the relevant ALM, Treasury and Market Risk elements of the Group's RAS for approval by the Board;
- Refresh and recommend for onward approval a suite of Policies;
- Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and Policies for all ALM, Treasury and Market Risks;
- Overseeing and monitoring the ALM, Treasury and Market risks to which the Group is exposed and to consider and approve strategies to mitigate such risks;
- Maintaining and assessing the ALM, Treasury and Market Risk profiles against set limits and propose remediation plans to restore Risk Appetite where required;
- Reporting any breaches of approved limits in accordance with agreed protocol;
- Managing the capital requirements for the Group's ALM, Treasury and Market Risks in line with the capital adequacy directive;
- Ensuring there is adequate and effective segregation of duties within Treasury and to approve any significant amendment to the responsibilities of Treasury;
- Approving new products or material changes to existing products which have interest rate or capital implications; and
- Approve Funds Transfer Pricing (FTP) methodology and metrics, and ensure such process is economically fair, transparent and incentivises appropriate behaviour in accordance with FTP Policy.

Risk Management Report

Governance Forum/Role

Key Responsibilities

Group Credit Committee (GCC)

The body accountable for the execution and delivery of the Group's system of Portfolio Credit Risk Management, encompassing the identification, measurement, monitoring and reporting of Portfolio Credit Risks. It ensures that the appropriate operating frameworks governing the portfolio credit risk management activities of the Group are approved and are enforced.

The GCC is responsible for developing and implementing portfolio credit policy within the Group. The policy addresses all material aspects of the full credit lifecycle, including credit risk assessment and mitigation, collateral requirements, collections and forbearance and the risk grading of individual credit exposures.

Key activities of the GCC include, but are not limited to:

- Recommending the relevant Portfolio Credit Risk elements of the Group's RAS for approval by the Board;
- Setting and monitoring adherence to the Group's Credit Policy, including discretion limits and structure for underwriting, scoring, collections, recoveries and provisioning within the boundaries of the Group's RAS (as approved by the Board);
- Monitoring the portfolio credit risks to which the Group is exposed;
- Maintaining and assessing the portfolio credit risk profile against set limits and propose remediation plans to restore Risk Appetite where required; and
- Reporting any breaches of approved limits in accordance with agreed protocol.

Group Capital Adequacy Committee (CAC)

CAC is responsible for the detailed execution and initial oversight responsibilities for Capital Adequacy. The CAC is responsible for monitoring the minimum capital requirements that the Group is required to hold and reviewing the adequacy of capital on an on-going basis.

The CAC is responsible for:

- Overseeing and challenging of specific ICAAP-related activities in the relevant business lines and risk functions;
- Reviewing and challenging the documentation of the ICAAP for the Joint Supervisory Team (JST) submission and recommending the same to BRCC for approval by the Board;
- Overseeing and managing the on-going execution of capital-impacting stress testing exercises;
- Monitoring the minimum capital requirements that the Group is required to hold; and
- Considering both the quality and quantity of capital held by the Group including the composition of the Group's total capital resources while remaining within the parameters of the Risk Appetite Framework (RAF).

Group Customer Committee

The Group Customer Committee ensures that the Group monitors, controls and mitigates Conduct and Customer Outcome Risk by embedding a culture of achieving positive customer outcomes in order to generate sustainable long-term shareholder value permeates the Group's approach and thinking. This covers new product development, product delivery and fulfilment, ongoing product and customer management, and customer interaction.

The Group Customer Committee:

- Provides guidance to Executive Management (including ExCo and other ExCo sub-committees) for business and commercial decisions which may have a material impact on customers and for the endorsement of such proposals;
- Reviews "high impact" customer events, issues and complaints arising to both provide guidance on significant individual issues/events and to analyse trends to inform future strategy and decision-making with regard to customers;
- Reviews the Conduct Risk that exists within the Group against the Board-approved Conduct Risk Appetite and Principles; and
- Serves as the central oversight body for all customer matters ensuring fair treatment of customers is at the heart of key decisions made by the business.

Group Growth Committee

The Group's Growth Committee provides context and promotes understanding of the commercial agenda.

The Growth Committee monitors performance against key commercial targets and is responsible for identifying, initiating and executing on activities/projects to achieve those targets based on customer insight. The commercial agenda is defined as the plans by the organisation to meet both income and cost targets as set through the Medium Term Plan (MTP), in the context of the Group's Risk Appetite.

Risk Management Report

Role of the Chief Risk Officer

The Chief Risk Officer (CRO) has overall responsibility for overseeing the development and implementation of the Group's Risk Management Function, including development of the Group's Risk Management systems, policies, processes, models and reports and ensuring they are sufficiently robust to support delivery of the Group's strategic objectives and all of its risk-taking activities.

The CRO has independent oversight of the Group's Risk Management activities across all key risk categories. The CRO is responsible for independently assessing, monitoring and reporting all material risks to which the Group is, or may become, exposed. The CRO is a member of the Group's Executive Committee and the Board of Directors. The CRO directly manages the Group's Risk Function (incorporating Regulatory Compliance, Conduct Risk, Credit Risk, Financial Risk, Treasury Risk Oversight and Non-Financial Risk teams as well as the Group Risk Governance and Strategy team). The CRO's primary responsibility is to the Board with a reporting line to the Chief Executive Officer (CEO).

The CRO is accountable for the development and oversight of the Group's Risk Appetite Framework and RAS, which the CRO endorses for Board approval. The CRO is responsible for translating the approved Risk Appetite into risk limits which cascade throughout the business. Together with management, the CRO is actively engaged in monitoring the Group's performance relative to risk limit adherence. The CRO's responsibilities also encompass independent review and participation in the Group's IPP (strategic and financial goal setting), capital and liquidity planning and the development and approval of new products.

The role of the CRO is to:

- Ensure that the Group has effective processes in place to identify and manage the risks to which the Group is or might be exposed;
- Maintain effective processes to monitor and report the risks to which the Group is or might be exposed;
- Promote sound and effective Risk Management both on an individual and consolidated basis and that the system of Risk Management shall promote an appropriate risk culture at all levels of the Group and shall be subject to regular internal review;
- Facilitate the setting of the Risk Appetites by the Board;
- Provide comprehensive and timely information on the Group's material risks which enables the Board to understand the overall risk profile of the institution; and
- Report to the BRCC on a regular basis.

In connection with these responsibilities, the CRO is assigned the right to exercise a veto over planned management action agreed by ExCo Risk Sub-Committees (such as the ALCO and the GCC) when the CRO considers such action to be inconsistent with adherence to the Board approved risk Appetite.

Principal Risks and Uncertainties

The following section describes the risk factors that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects for the next 6 months and also over the medium term.

The risk factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties as there may be risks and uncertainties of which the Group is not aware or which the Group does not consider significant but which in the next 6 months may become significant. As a result of the challenging conditions in financial markets across Europe in part as a consequence of the UK vote to leave the EU but also due to on-going political uncertainty and economic weakness within the Eurozone, the precise nature of all risks and uncertainties that the Group faces cannot be predicted as many of these risks are outside of the Group's control. Reference is also made to the disclaimer in respect of Forward Looking Statements set out on the inside front cover.

Government Control and Intervention

In 2011, the Minister for Finance of Ireland became the owner of 99% of the issued ordinary shares of PTSBGH which reduced to c.75% following the successful capital raise in 2015.

The risk is that the Irish Government through its direct shareholding of PTSBGH, uses its voting rights or intervenes in the conduct and management of the business in a way that may not be in the best interests of the PTSBGH's other shareholders.

The Minister for Finance and PTSBGH entered into a Relationship Framework Agreement dated 23 April 2015. The Framework Agreement provides that the Minister will ensure that the investment in PTSBGH is managed on a commercial basis and will engage with PTSBGH, including in respect of the manner in which he exercises his voting rights, in accordance with best institutional shareholder practice in a manner proportionate to the shareholding interest of the State in PTSBGH.

Current and future budgetary policy, taxation, the insolvency regime and other measures adopted by the State to deal with the economic situation in Ireland may have an adverse impact on the Group's customers' ability to repay their loans, the Group's ability to repossess collateral and its overall pricing policy.

EU Restructuring Plan

The recapitalisation of PTSBGH in 2011, together with other aspects of the Irish Government's response to the banking crisis, was considered by the European Commission (EC) to involve the provision of State Aid by Ireland, within the meaning of Article 107 of the Treaty on the Functioning of the European Union to PTSBGH. This resulted in the requirement for the submission of a restructuring plan to the EC for approval under EU State Aid rules. PTSBGH's Restructuring Plan was submitted to the EC in October 2014 and was subsequently approved in April 2015.

The Restructuring Plan sets out the terms for the restructuring of PTSBGH, which the Minister for Finance and PTSBGH have committed to observe and includes certain portfolio disposals (Capital Home Loans (CHL) and Non-Performing Irish Commercial Real Estate (CRE)), reducing the value of defaulted Irish tracker mortgages, achieving an agreed Cost Income ratio, together with other behavioural and viability commitments. The commitments restrict the activities of PTSBGH to particular areas and impose particular viability measures on PTSBGH.

Whilst the key deleveraging commitments have been met (i.e. the disposals of the CHL and CRE portfolios and the reduction in defaulted trackers), the commitment to deliver a certain Cost Income Ratio (CIR) by the end of 2017 was not achieved, largely due to factors outside of PTSBGH's control amongst which was the significant regulatory cost burden for PTSBGH over and above what was originally anticipated when the Restructuring Plan commitments were set.

PTSBGH's activities are monitored, and reported on, to the EC by an Independent Monitoring Trustee on a regular basis. Additionally PTSBGH has its own internal monitoring and reporting mechanisms in place to ensure that its obligations are adhered to and that matters which require consultation with the EC are appropriately dealt with. Failure to meet these commitments without justification could lead to a re-opening of the case by the EC and potentially a need to revisit and revise the commitments.

Economic Conditions

The Group's businesses are subject to the inherent risks arising from the macro-economic and other general business conditions in Ireland and, to a lesser extent, the UK and the wider European economies.

The Group is exposed to both positive and negative trends in Ireland. As a consequence, should negative trends begin to impact on the Group, this could lead to a reduction in the demand for the Group's products and services, adverse changes in asset performance or adverse changes in the availability and the cost of capital or funding. Such adverse changes could individually or in combination adversely affect the Group's results, financial condition and prospects.

Risk Management Report

The Irish economy is expected to be the fastest-growing in the European Union in 2018 for the fourth year in succession. GDP is predicted to grow by circa 5% in 2018 and circa 4% in 2019. The unemployment rate is projected to fall to 5.4% in 2018 and to 4.5% in 2019, a level often considered to represent full employment. Market commentators note that the key difference between today and a decade ago is the lower level of participation in the labour force which, at 62.3%, is still four percentage points lower than Q1 2008.

Inflation in Ireland is expected to remain subdued with the consumer price index expected to increase by just 0.7% in 2018 and 1.1% in 2019. Workers can expect to see a real improvement in their living standards as wages are expected to rise by 2.5% and 3.5% this year and next. This is reflected in consumer expenditure which is projected to grow by 2.4% and 2.5% p.a. in 2018 and 2019.

House price inflation moderated to 7.3% in Q1 2018, down from over 10% during 2017. Over 19,000 homes were built in 2017, a 29% increase on the previous year. This is, nevertheless, substantially short of the estimated 35,000 homes often estimated as being required to meet annual demand. Rents continue to increase by over 10% p.a. while rents in Dublin are now 30% higher than their Celtic-Tiger peak. Almost 36,000 mortgages, worth €7.6bn were drawn down in the year ending March 2018, a 26% increase on the previous year. The total stock of loans to retail customers in Irish banks has stabilised at €90bn while loans to the SME sector continued to decline, by €2bn in 2017 to €26bn. Retail deposits in Irish banks were €90bn at the end of 2017, up €4bn on the year.

Amidst all the positive indicators and a recovery which is characterised by the International Monetary Fund (IMF) as broad-based and jobs-rich, there are concerns about emerging skills shortages. A possible hard Brexit and an escalation in global protectionism would have significant negative impact on Ireland. There is also a risk that the exchequer has an over reliance on corporation tax receipts which are vulnerable to changes in US trade policy and the international tax environment. Ireland's net debt, at 87%, is the sixth-largest in the Organisation for Economic Co-operation and Development (OECD). While acknowledging the increasing pressures in the housing sector where persistent undersupply has been evident, the OECD points to the risks of overheating associated that a faster than assumed but much needed pick-up in housing output.

UK growth is expected to decline from 1.9% in 2016 and 1.7% in 2017 to 1.5% in 2018 and 1.4% in 2019 before recovering slowly thereafter. The vote to leave the European Union appears to have slowed the economy, but by less than we expected immediately after the referendum – thanks in part to the willingness of consumers to maintain spending by reducing their saving. UK inflation increased to 3% p.a. in 2017 driven in large part by Sterling weakness. As the currency effect disappears, inflation is expected to moderate and the Bank of England may not increase rates as much as was previously expected. However, consumption is expected to remain subdued as real wages are likely to remain static. The outlook for the UK economy may be somewhat uncertain and possibly problematic which is problematic for Ireland given the strong economic ties.

Economic expansion in the euro area is projected to remain robust, with growth rates staying above potential while real GDP growth is likely to slow from 2.5% in 2017 to 1.7% in 2020 as some tailwinds slowly fade away. The ECB projects Harmonised Consumer Price Index (HICPI) inflation to pick up to 1.7% in 2020 as the extraordinary measures adopted since the crisis are terminated. The European Central Bank (ECB) is expected not to buy bonds after September 2018, though it is likely to continue to reinvest the proceeds of the bonds it currently owns. However, few believe the ECB will start raising rates in 2018. While the overall outlook remains positive for Ireland, all commentators highlight the severe impact a potential disorderly exit of Britain from the European Union would have on Ireland. Likewise, as interest rates rise, potentially over the next two years, debt service will become a greater burden and the effects of this are not clear at this time.

Many of the above noted risks are outside of the Group's control. The Group sold its UK and Isle of Man (IOM) non-core portfolios in 2016, consolidated our balance sheet position, and continue to improve our

liquidity, capital and funding bases in order to mitigate against future adverse economic conditions. We have also stress tested our balance sheet to assess our ability to withstand a continued economic downturn.

Capital Adequacy Risk

The Group's business and financial condition could be affected if the amount of capital is insufficient due to:

1. Materially worse than expected financial performance;
2. Increases in risk weighted assets;
3. Changes in the prescribed regulatory framework; or
4. Sales of assets, including NPLs, which adversely affect net capital buffer levels.

The core objective of the Group's capital management policy is to ensure it complies with regulatory capital requirements (Capital Requirements Regulation (CRR), Capital Requirements Directive IV (CRD IV) and the Banking Recovery and Resolution Directive (BRRD) and to ensure that it maintains sufficient capital to cover its business risks and support its market strategy.

As outlined in the Group's RAS, the Group goes through an Internal Capital Adequacy Assessment Process (ICAAP) to ensure that it is adequately capitalised against the inherent risks to which its business operations are exposed and to maintain an appropriate level of capital to meet the minimum regulatory and Supervisory Review and Evaluation Process (SREP) capital requirements. The ICAAP is subject to review and evaluation by the Single Supervisory Mechanism (SSM) as part of its SREP.

The management of capital within the Group is monitored by the BRCC, ExCo, the CAC and the ALCO in accordance with Board approved policy.

While the key elements of the Basel III requirements commenced in January 2014 and further rollout is expected to continue on a phased basis until 2023, the Group closely monitor other potentially significant changes to the requirements including measures which may culminate in Basel IV regulations replacing or supplementing Basel III.

The Group's expectation is that the ECB's Targeted Review of Internal Models (TRIM) is likely to result in an increase to the Group's RWAs. Additionally, the Group's plan to reduce the level of NPLs over the course of the medium term may result in a reduction to the Group's capital resources.

Credit Risk

Credit risk is the risk of loss arising from a borrower or counterparty failing to meet its contractual obligations to the Group in respect of loans or other financial transactions and includes concentration risk and country risk.

Risks arising from changes in credit quality and the recoverability of both secured and unsecured loans and amounts due from the Group's borrowers and counterparties are inherent in a wide range of the Group's businesses.

The Group's customer exposures were originated and are managed in Ireland. The Group's principal exposure is to residential mortgages secured by a first legal charge on the property. Economic uncertainty, as well as the socio-political environment may adversely impact or cause further deterioration in the credit quality of the Group's loan portfolios. This may give rise to increased difficulties in relation to the recoverability of loans or other amounts due from borrowers, resulting in further increases in the Group's impaired loans and impairment provisions.

Deterioration, should it take place, in reported macroeconomic metrics such as house prices and unemployment could put strain on borrowers' or counterparties' capacity to repay loans. These and other economic factors may cause prices of property or other assets to stall or fall, thereby reducing the value of collateral on many of the Group's loans and increasing write-downs and impairment losses.

Risk Management Report

The Group transitioned to IFRS 9 on 1 January 2018. As a result of the forward looking nature of IFRS 9, the Group anticipates there will be increased volatility in the PTSBGH'S provision for losses on performing loans coupled with earlier recognition of the credit losses.

Other factors such as regulatory action may also impact on property prices or lead to further uncertainty in relation to the full recoverability of certain outstanding debts or require the Group to take specific mitigating actions beyond the contractual arrangements in place. The Group mitigates these risks by applying strict underwriting criteria to new business lending, by actively managing its NPLs and by carrying appropriate loan loss provisions across its various loan and other asset portfolios.

The Group also has exposures to Sovereign and Banking counterparties and/or their guarantors. Adverse changes arising from a general deterioration in global economic conditions, Eurozone uncertainty or systemic risks in the financial system could reduce the recoverability and value of these Group assets and lead to further increases in the Group's impaired loans and impairment provisions. Counterparty credit risk is mitigated by placing maximum credit limits on counterparties dependant on both their credit rating and the exposure classification. Treasury instruments such as derivatives and repurchase agreements also require counterparties to post collateral with the Group which further mitigates exposure.

Funding and Liquidity Risk

Funding Risk is the risk that the Group is not able to achieve a suitable funding mix, is too dependent on System Funding/ Wholesale Markets, and, in the extremis, is not able to access funding markets or can do so only at excessive cost. Liquidity Risk is the risk that the Group has insufficient funds to meet its financial obligations as and when they fall due, resulting in an inability to support normal business activity and/or failing to meet regulatory liquidity requirements. These risks are inherent in banking operations and can be heightened by a number of factors, including over reliance on a particular funding source, changes in credit ratings or market dislocation. It is likely that these risks would be further exacerbated in times of stress.

(i) Regulation and Ratios

The Group assesses the liquidity and funding positions with respect to the prescribed regulatory metrics from the CRD IV, the CRR and the Liquidity Coverage Ratio (LCR) Delegated Act. The ratios calculated and reported are Liquidity Coverage Ratio and the Net Stable Funding Ratio (NSFR).

In addition, supplementary liquidity and funding metrics are measured and monitored on a regular basis.

Under the Bank Recovery and Resolution Directive (BRRD) the Group, alongside other Banks within the EU, is required to adhere to the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ratio. The ratio is expected to become binding on the Group from 2021 and represents a quantification of the eligible liabilities required to act as a buffer in the event of a bail-in scenario. The Group has proactively engaged with the Single Resolution Board and the Central Bank of Ireland (the 'Resolution Authorities') to determine the Group's MREL requirement. Targets remain to be finalised. The Group has formulated a senior unsecured issuance strategy to meet the indicative MREL target. There will be increased funding costs arising out of issuing MREL compliant debt.

(ii) Risk Measurement and Monitoring

Liquidity risk is measured on a daily basis using a range of metrics against the prescribed limit framework.

The Group primarily monitors its liquidity position through the LCR. The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It achieves this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet the liquidity needs for a 30-calendar day liquidity stress scenario.

NSFR, Asset Encumbrance, Loan to Deposit Ratio and Liquidity Stress Survivability constitute additional core liquidity and funding metrics within the overarching liquidity management framework that are measured, monitored and reported within the Group.

The Group also actively monitors a comprehensive list of Early Warning Indicators (EWIs) covering a range of market wide and Group specific events. The purpose of the EWIs is to provide forewarning of any potential liquidity trigger events ensuring the Group has sufficient time to intervene and mitigate any emerging risk.

The Group's Contingency Funding Plan (CFP) outlines the strategy and action plan to address liquidity crisis events. The CFP identifies processes and actions incremental to the existing daily liquidity risk management and reporting framework to assist in making timely, well-informed decisions.

Stress testing forms a key pillar of the overall liquidity risk framework. The Group performs weekly stress testing and scenario analysis through the Maximum Cumulative Outflow (MCO) model to evaluate the impact of differing stresses on its liquidity position. These stress tests incorporate the liquidity risk drivers, as outlined in the EBA guidelines, banks should incorporate when formulating a suite of idiosyncratic, systemic and combined stress scenarios.

The full collection of liquidity metrics and stress test results are regularly reported to ALCO, BRCC and the Board.

In addition, the Group maintains an ILAAP which forms a holistic view of the Group's liquidity adequacy. The ILAAP examines both the short and long term liquidity position relative to the internal and regulatory limits. The assessment is further supplemented by stress testing which measures the ability and capacity to withstand severe yet plausible liquidity stress events.

(iii) Liquidity Risk Management Framework

The exposure to liquidity risk is governed by the Group's liquidity policies, Risk Appetite Statement and associated limits. The liquidity policies are designed to comply with regulatory standards with the objective of ensuring the Group holds sufficient liquidity to meet its obligations, including deposit withdrawals and funding commitments, as and when they fall due under normal and stressed conditions. The protocols establish quantitative rules and targets in relation to the measurement and monitoring of liquidity risk. The policies are approved by the BRCC on the recommendation of the ExCo and ALCO. The effective operation of liquidity policies are delegated to the ALCO.

The liquidity risk management framework provides the mechanisms to manage liquidity risk within the Board approved Risk Appetite and is in line with the overarching liquidity and funding risk principles as follows:

Liquidity: maintain a prudent liquid asset buffer above the internally determined or regulatory mandated (whichever is greater) liquidity requirement such that the Group can withstand a range of severe yet plausible stress events.

Funding: develop a stable, resilient and maturity-appropriate funding structure, with focus on customer deposits augmented by term wholesale funding sources.

(iv) Minimum Liquidity Levels

The Group maintains a sufficient liquidity buffer comprised of both unencumbered high quality liquid assets (HQLA) and Non-HQLA to meet the LCR and stress test requirements.

The Group measures and monitors the NSFR which is designed to limit over-reliance on short-term funding and promotes longer-term stable funding sources. The Group's asset encumbrance level is also monitored and tracked on an on-going basis.

(v) Liquidity Risk Factors

Over reliance and concentration on any one particular funding source can lead to a heightened liquidity impact during a period of stress. The Group relies on customer deposits to fund a considerable portion of its

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loan portfolio. The on-going availability of these deposits may be subject to fluctuations due to factors such as the confidence of depositors in the Group, and other certain factors outside the Group's control including, for example, macroeconomic conditions in Ireland, confidence of depositors in the economy in general and the financial services industry specifically, the availability and extent of deposit guarantees and competition for deposits from other financial institutions.

Loss of consumer or retail confidence in the Group's banking business generally, amongst other things, could result in unexpectedly high levels of corporate or retail deposit withdrawals which could adversely affect the Group's business and financial condition. A series of Liquidity and Funding Early Warning Indicators (EWIs) are in place in order to alert the Group to any potential liquidity trigger event therefore allowing sufficient time for mitigating actions to be taken.

It is also worth noting that the national Deposit Guarantee Scheme (DGS) is in place in Ireland (and across the EU) which protects deposits up to a balance of €100,000. The national DGS together with the establishment of the European Deposit Insurance Fund is a mitigant designed to maintain depositor confidence and protect against potential high levels of withdrawals.

In the recent past, the Group has accessed the capital markets by issuing equity, additional Tier 1 capital and unsecured funding structures and continues to execute secured funding transactions through the Fastnet securitisation programme. Any restrictions on the Group's access to capital markets could pose a threat to the overall funding position. The inability to adequately diversify the funding base could lead to over concentration on the remaining funding sources.

The Group maintains a significant liquidity buffer split between HQLA sovereign bonds, and cash reserves and ECB eligible retained securitisations which can be monetised quickly to safeguard against a liquidity event. The quantum of the buffer is sufficient to provide capacity to withstand a significant liquidity stress event. However, over use of short dated secured funding risks triggering the LCR unwind scalar mechanism, which in turn could result in a breach of Regulatory ratios.

Significant progress has been made in reducing the encumbrance level over the last few years, a period in which the Group was implementing its recovery plan. Following the successful deleveraging of the UK mortgage portfolio and the execution of the Treasury funding plan, encumbrance is within its target level. A clear and defined strategy has been developed, comprising two component routes of securitisation collateral efficiency alongside full and price efficient capital markets access, to ensure an encumbrance level consistent with its economic plan is maintained by the Group. Disruption to any of these avenues could potentially pose a threat.

(vi) Credit Ratings

The Group's credit ratings have been subject to change and may change in the future, which could impact its cost, access to, and sources of financing and liquidity. In particular, any future reductions in long-term or short-term credit ratings could further increase borrowing costs, adversely affect access to liquidity, require the Group to replace funding lost arising from a downgrade, which may include the loss of customer deposits, limit access to capital and money markets and trigger additional collateral requirements in secured funding arrangements and derivatives contracts.

Market Risk

Market risk is the risk of change in fair value of a financial instrument due to adverse movements in bond prices, interest rates or foreign currency exchange rates. Interest rate, credit spread and foreign exchange risks constitute the Group's market risk.

The Group's RAS and associated policies set out the governance and limit framework for the management of market risk exposures. The policies are approved by BRCC on the recommendation of ExCo and ALCO.

All market risks arising within the Group are subject to strict internal controls and reporting procedures and are monitored by both ALCO and

BRCC. Group Treasury is responsible for the management of market risk exposures on the balance sheet. Group Risk and Group Internal Audit provide further oversight and challenge to the market risk framework.

(i) Interest Rate Risk

Interest rate risk arises from structural and duration mismatches between assets and liabilities in the balance sheet which generate a risk to earnings or capital caused by the movement in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship. The Group is primarily exposed to re-price, yield curve and basis risk. In line with regulatory standards, the approved Interest Rate Risk in the Banking Book (IRRBB) framework determined that the Group's interest rate risk exposure must be derived from both an earnings (accrual) and economic value perspective.

Interest rate gap analysis is used to capture re-price risk, the Economic Valuation (EV) approach measures yield curve risk while Earnings at Risk (EAR) is utilised to calculate the basis risk exposure. Interest rate risk modelling is produced and quantified by Group Risk and reported against the prescribed limits to Senior Management daily.

In measuring the level of interest rate risk, the standard +/-200bps shock scenario subject to the appropriate interest rate flooring assumptions is applied under both EV and EAR models which are measured and reported against the Board approved risk limits. The Group also monitors PV01, duration mismatches and Net Interest Income (NII) sensitivity when assessing interest rate risk.

In addition, the IRRBB stress-testing model incorporates up to 39 rate scenarios under both EV and EAR models. The aim of modelling several types of interest rate shock scenarios is to measure the Group's vulnerability to loss under multiple stressed market conditions.

(ii) Foreign Exchange Risk

Foreign currency exchange risk is the volatility in earnings resulting from the retranslation of foreign currency denominated assets and liabilities from mismatched positions. Following the successful deleveraging of the UK mortgage portfolio and Isle of Man deposit book (PBI) the main foreign exchange exposure consists of small intermittent positions arising from the normal business activities of the Group.

Derivatives (FX swaps and forwards) are executed to minimise the FX exposure. Overnight FX positions are monitored against approved notional limits. It is the responsibility of both Group Treasury and Group Risk to measure and monitor exchange rate risk and maintain the exposure within approved limits.

(iii) Credit Spread Risk

Credit Spread Risk (CSR) is the risk of a decline in the value of an asset due to changes in the market perception of its creditworthiness. In essence, CSR reflects the asset risk not explained by general interest rate risk and captures the risk of changes in market value with respect to volatility of credit spreads.

The Group maintains a portfolio of Hold to Collect and Sell (HTCS) bonds which are subject to credit spread fluctuations. While the majority of the interest rate exposure on the portfolio is hedged, exposure to credit spread volatility exists.

Group Treasury are responsible for monitoring and measuring CSR. The evolution of the HTCS reserve is tracked and monitored weekly against a set of prescribed limits. The Group's HTCS reserve remains in a positive position and creates a buffer to mitigate market stress events.

Conduct Risk

Conduct Risk is defined by the Group as the risk that the conduct of the Group or its staff towards customers or within the market leads to poor customer outcomes, a failure to meet its customers' or regulators' expectations or breaches of regulatory rules or laws.

The Group recognises that the management and mitigation of Conduct Risk is fundamental and intrinsically linked to the achievement of its governing objective. It recognises that Conduct Risk can occur in every

Risk Management Report

aspect of the Group's activities and is committed to continuing to achieve best practice in this area.

The Group has a separate risk team responsible for Conduct Risk oversight. This team is guided by a Conduct Risk Management Framework, including a Board-approved Risk Appetite and twelve Conduct Risk Principles for the Group. Its purpose is to help ensure that the Group achieves its strategic objectives by acting honestly, fairly and professionally in the best interests of its customers and the integrity of the market, and acts with due skill, care and diligence. In doing so, the Group is placing the achievement of the right outcomes for its customers at the heart of its strategy, governance and operations. The role of the Conduct Risk function is to provide oversight and assurance of the delivery of the right outcomes throughout all stages of the customer relationship with the Group.

The Group delivers a dedicated training and communications programme to ensure that achieving the right outcomes for our customers is embedded throughout all of the Group's activities.

Board and Senior Management have ensured that there is regular reporting of metrics and Key Risk Indicators against the Conduct Risk Appetite as well as events that could affect or have already impacted on customers. The primary governance body responsible for Conduct issues is the Group Customer Committee (a sub-committee of the ExCo). This committee receives regular reporting from the Head of Conduct Risk, who also reports regularly to ExCo and BRCC as well as having an unrestricted line of communication to the Chairman and Group Board.

Business and Strategic Risks

Business and strategic risk is the volatility of the Group's projected outcomes (including income, net worth or reputation) associated with damage to the franchise or operational economics of the business and reflected in the income or net worth of the Group. It includes volatilities caused by changes in the competitive environment, new market entrants, new products or failure to execute a strategy or to anticipate or mitigate a related risk.

Business risk is typically assessed over a one year horizon while strategic risk generally relates to a longer timeframe and pertains to volatilities in earnings arising from failure to develop and execute an appropriate strategy. Business Units are responsible for delivery of their business plans and management of such factors as pricing, sales and loan volumes, operating expenses and other factors that may introduce earnings volatility. The development of new markets, products and services and significant changes to existing ones is addressed under the Group's New Product Approval process, which was updated in 2017 to incorporate an IFRS9 assessment, along with product oversight and governance requirements in line with European Banking Authority (EBA) guidelines.

Business Unit strategy is developed within the boundaries of the Group's Strategy as well as the Group's RAS. Monitoring of business and strategic risk is evaluated through regular updates to the ExCo, BRCC and Board. The Group also reviews business and strategic risk as part of the risk identification process.

Reputational Risk

Reputational risk, meaning the risk to earnings and capital from negative public opinion, is inherent in the Group's business. Negative public opinion can result from the actual or perceived manner in which the Group conducts its business activities, from the Group's financial performance, from the level of direct and indirect Government support or from actual or perceived practices in the banking and financial industry. It is often observed that reputational risk is in fact a consequence of other risks. Negative public opinion may adversely affect the Group's ability to keep and attract customers and, in particular, corporate and retail deposits which in turn may adversely affect the Group's financial condition and results of operations. The Group cannot be sure that it will be successful in avoiding damage to its business from reputational risk.

Mortgage Redress

Pursuant to its powers under the Administrative Sanctions Regime, the CBI is conducting an enforcement investigation into the Group's compliance with the Consumer Protection Code and, in particular, is investigating alleged breaches of the Consumer Protection Code 2006. These alleged breaches arose from the failure of the Group to inform customers that, as a consequence of exiting early from a fixed rate mortgage contract, they would not be able to avail of the option of a tracker rate in the future and/or no longer default to a tracker rate at the end of that fixed rate period. In addition, the Group's non-conformance with contractual terms was also identified in some instances along with operational errors in the handling of accounts. The Group offered redress and compensation to affected customers.

In December 2015 the Central Bank announced an industry-wide review of tracker mortgages (Tracker Mortgage Examination). PTSB has completed its Tracker Mortgage Examination in line with the framework set down by the Central Bank. All impacted customers identified under the review have been offered redress and compensation. The Central Bank has been conducting its own assurance review of the Group's findings and this is on-going.

As a result of these reviews, in addition to administrative sanctions, the Group is also exposed to the risk that customers who were impacted, or who may consider themselves to have been impacted, by the loss of a tracker rate mortgage entitlement may seek alternative redress and compensation, beyond that offered by the Group, including by way of litigation, or seek to criticise the Group's actions. There may also be a number of customers who will feel that they have been wrongfully excluded from the impacted population and will seek a further review of this outcome. Further detail is included in note 22 to the interim financial statements.

Operational and IT Risk

Operational risk is defined as the risk of loss or unplanned gains from inadequate or failed processes, people (management), systems or from external events. IT risk is the current or prospective risk of a failure of critical IT systems to support the daily operations of the Group. Any significant disruption to the Group's IT systems, including breaches of data security or cyber security could harm the Group's reputation and adversely affect the Group's operations or financial condition materially. Risks from both of these risk categories are inherently present in the Group's business.

The general data protection regulation (GDPR) came into effect on 25 May 2018. GDPR is directly applicable to the Group and will lead to a great degree of data protection harmonisation in the markets the Group operates in. The Group set up its GDPR project, a large scale priority 1 programme, in 2016 to ensure it is robustly prepared for the upcoming changes under GDPR.

The Group has a low appetite for Operational and IT risk and aims to minimise the level of serious disruption or loss caused by Operational or IT issues to its customers, employees, brand and reputation. The Group has no tolerance for information or cyber security breaches which may result in significant damage to customer confidence and financial stability. The Group has no appetite for non-conformance with laws.

The Group's Operational Risk Management Framework and accompanying IT Risk Management Framework outline the Group's approach to managing Operational and IT risks and are applicable Group-wide, including any subsidiaries within the Group. They define the roles and responsibilities for the oversight of Operational and IT risks, along with the ownership and processes in place for the identification, assessment, mitigation, monitoring and reporting of Operational and IT risks in the Group.

This includes risk controls and loss mitigation actions designed to minimise and mitigate potential risks found in existing procedures. This system of internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring.

Risk Management Report

Weakness in the Group's internal control system or breaches/alleged breaches of laws or regulations could result in increased regulatory supervision, enforcement actions and other disciplinary action, and could have a material adverse impact on the Group's results, financial condition and prospects. To quantify the potential impact of weaknesses in this regard, and to strengthen the Group's system of internal controls through the consideration of unexpected events, scenario analysis and stress testing are conducted on a regular basis.

A key objective of the Group's Risk Management system is to create a culture of risk awareness where all staff have an understanding of operational risk and the role they each play in ensuring that any impacts/losses are minimised.

Third Party Service Providers

From time to time, the Group may engage the services of third parties to support delivery of its objectives or to complement its existing processes. The risk associated with these activities is categorised as 'Outsourcing and Third Party' risk and defined as the current or prospective risk of any loss or reputational damage connected with the engagement of third parties contracted internally or externally.

The Group's Third Party Risk Management Framework, which is aligned to applicable EBA Guidelines on Outsourcing, outlines the processes and controls in place for identifying, assessing, mitigating and managing third party risks.

Regulatory Risk

The Group is regulated by a number of regulatory authorities at national and European level.

Recent years have seen significant changes in banking regulation domestically and internationally, and the Group expects that this trend in banking regulation will continue. The ECB has deemed the Group to be a significant institution. The Group came under the direct supervision of the ECB since the introduction of the SSM on 4 November 2014.

The Group is exposed to many forms of risk in connection with compliance with such laws and regulations, including, but not limited to:

- The risk that changes to the laws and regulations under which the Group operates will materially impact on the

Group's liquidity, capital, profitability, product range or distribution channels or markets;

- The risk that the Group is unable to respond to the scale of regulatory change and implement all required changes in full or on time, or the challenge of meeting regulatory changes will impact the Group's abilities to undertake other strategic initiatives;
- The level of costs associated with the regulatory overhead including, but not limited to, the industry funding levy, funding the bank resolution fund established under the Single Resolution Mechanism or levies in respect of applicable compensation schemes (including the Investor Compensation Scheme and the Deposit Guarantee Scheme);
- Organisational requirements, such as the requirement to have robust governance arrangements, effective processes to identify, manage, monitor and report the risks the Group is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems;
- The possibility of mis-selling financial products or the mishandling of complaints related to the sale of such products by or attributed to an employee of the Group, including as a result of having sales practices, complaints procedures and/or reward structures in place that are determined to have been inappropriate;
- Breaching laws and requirements relating to the safeguarding of customer data, the detection and prevention of money laundering, terrorist financing, bribery, corruption and other financial crime;
- Non-compliance with legislation relating to unfair or required contractual terms or disclosures; and
- Through its NPL Guidance issued in March 2017 and 2018 and Supervisory Dialogue, the SSM has set expectations in relation to the need for banks with high NPL ratios to set out a strategy establishing objectives for the time-bound reduction of NPLs over realistic but sufficiently time-bound horizons. In the event that the SSM considers that such a strategy does not meet regulatory expectations it has a number of tools at its disposal up to and including regulatory sanctions.

Directors Responsibility Statement

The Directors are responsible for preparing the Interim Financial Report in accordance with International Accounting Standard 34 on Interim Financial Reporting (IAS 34) as adopted by the European Union, the Transparency (Directive 2004 / 109 / EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

Each of the Directors, whose names and functions are listed in the Board of Directors section, pages 34 and 35 of the 2017 Annual Report, other than Emer Daly who resigned on 16 May 2018, confirms that to the best of each person's knowledge and belief:

- the condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 30 June 2018, and its profit for the period then ended; and
- that as required by the Transparency (Directive 2004 / 109 / EC) Regulations 2007, the Interim Financial Report includes a fair review of:
 - (a) important events that have occurred during the first six months of the year, and their impact on the condensed consolidated financial statements;
 - (b) a description of the principal risks and uncertainties for the next six months of the financial year; and
 - (c) details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2018, and material changes to related party transactions described in the Annual Report for the year ended 31 December 2017.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

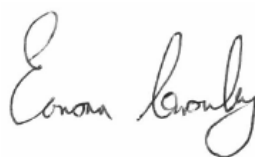
On behalf of the Board



Robert Elliott
Chairman



Jeremy Masding
Chief Executive Officer



Eamonn Crowley
Chief Financial Officer



Conor Ryan
Company Secretary

28 August 2018

Independent review report to Permanent TSB plc

Report on the condensed interim consolidated financial statements

Our conclusion

We have reviewed Permanent TSB plc's condensed interim consolidated financial statements (the "interim financial statements") in the "Interim Report" of Permanent TSB plc for the six month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

What we have reviewed

The interim financial statements, comprising:

- the condensed consolidated statement of financial position as at 30 June 2018;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended; and
- the notes to the interim financial statements with the exception of the items denoted as not subject to review by the Group's Independent Auditor in Note 16 on page 69 and in Note 27 on pages 82 and 83.

The interim financial statements included in the Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

As disclosed in note 1.2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom and Ireland. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers
Chartered Accountants
Dublin
28 August 2018

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Condensed Interim Consolidated Financial Statements

Condensed Consolidated Income Statement (Unaudited)

For the half year ended 30 June 2018

	Notes	Half year ended 30 June 2018 €m	Half year ended 30 June 2017 €m
Interest income	4	235	255
Interest expense	4	(42)	(52)
Net interest income		193	203
Fees and commission income		31	28
Fees and commission expense		(12)	(10)
Net trading income/(expense)		9	(1)
Net other operating income		13	1
Total operating income		234	221
Administrative, staff and other expenses (excluding exceptional items)	5	(146)	(133)
Regulatory charges	6	(18)	(18)
Depreciation of property and equipment		(6)	(6)
Amortisation of intangible assets		(6)	(5)
Exceptional items	7	(1)	(10)
Total operating expenses		(177)	(172)
Operating profit before charge for impairment		57	49
Credit impairment losses			
Loans and advances to customers	15	-	(5)
Collateral in possession		-	(1)
Total credit impairment losses		-	(6)
Operating profit/profit before taxation		57	43
Taxation	8	(1)	(7)
Profit for the period		56	36
Attributable to:			
Owners of the holding company		56	36

Condensed Interim Consolidated Financial Statements

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the half year ended 30 June 2018

	Notes	Half year ended 30 June 2018 €m	Half year ended 30 June 2017 €m
Profit for the period		56	36
<u>Items that will not be reclassified to the income statement in subsequent periods</u>			
Revaluation of property (tax relating to items that will be reclassified to income statement)	8(B)	(5)	-
<u>Items that may be reclassified to the income statement in subsequent periods</u>			
Available for sale (AFS) reserve:			
Change in fair value of AFS financial assets	25	-	(19)
Tax relating to items that will be reclassified to income statement	8(B)	-	2
Fair value reserve (equity instruments):			
Change in fair value of equity instruments	25	1	-
Fair value reserve (debt instruments):			
Change in fair value of debt instruments	25	(11)	-
Disposal of debt instruments	25	(11)	-
Tax relating to items that will be reclassified to income statement	8(B)	2	-
Other comprehensive expense, net of tax		(24)	(17)
Total comprehensive income for the period, net of tax		32	19
Attributable to:			
Owners of the holding company		32	19
		32	19

Condensed Interim Consolidated Financial Statements

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 June 2018

	Notes	30 June 2018 €m	31 December 2017 €m
Assets			
Cash and balances with central banks	9	53	62
Items in the course of collection	9	34	28
Debt securities	10	2,588	1,978
Equity securities	11	13	12
Derivative assets	12	36	37
Loans and advances to banks	13	1,368	1,518
Loans and advances to customers	14,15	16,732	18,370
Loans and advances to customers classified as held for sale	14,15,30	1,313	-
Property and equipment		139	141
Intangible assets		36	39
Deferred taxation	16	354	343
Other assets	17	14	42
Prepayments and accrued income		43	45
Assets classified as held for sale	30	218	161
Total assets		22,941	22,776
Liabilities			
Deposits by banks (including central banks)	18	2,382	1,842
Customer accounts	19	17,117	16,995
Debt securities in issue	20	1,211	1,633
Derivative liabilities	12	35	48
Accruals		7	8
Current tax liability		2	2
Other liabilities	21	60	48
Provisions	22	65	63
Subordinated liabilities	23	24	23
Total liabilities		20,903	20,662
Equity			
Share capital	24	89	89
Share premium	24	533	533
Other reserves	24	2,701	2,725
Retained earnings	24	(1,407)	(1,355)
Shareholders' equity		1,916	1,992
Other equity instruments	24	122	122
Total equity		2,038	2,114
Total liabilities and equity		22,941	22,776

Condensed Interim Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the half year ended 30 June 2018

	Attributable to owners of the holding company										
	Share capital	Share premium	Capital contribution reserve*	Revaluation reserve*	AFS reserve*	Fair value reserve*	Currency translation adjustment reserve*	Other capital reserve*	Retained earnings	Other equity instruments	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
As at 1 January 2018	89	533	2,631	51	35	-	1	7	(1,355)	122	2,114
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	(35)	35	-	-	(97)	-	(97)
Restated balance at 1 January 2018	89	533	2,631	51	-	35	1	7	(1,452)	122	2,017
Profit for the period ended 30 June 2018	-	-	-	-	-	-	-	-	56	-	56
Other comprehensive expense, net of tax (note 25)	-	-	-	(5)	-	(19)	-	-	-	-	(24)
Total comprehensive (expense)/income for the period	-	-	-	(5)	-	(19)	-	-	56	-	32
<i>Contributions by and distributions to owners.</i>											
AT1 coupon paid (note 24)	-	-	-	-	-	-	-	-	(11)	-	(11)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	-	(11)	-	(11)
Balance as at 30 June 2018	89	533	2,631	46	-	16	1	7	(1,407)	122	2,038

* All are included in Other reserves in the Statement of financial position.

Condensed Interim Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the half year ended 30 June 2017

	Attributable to owners of the holding company										
	Share capital	Share premium	Capital contribution reserve*	Revaluation reserve*	AFS reserve*	Cash flow hedge reserve*	Currency translation adjustment reserve*	Other capital reserve*	Retained earnings	Other equity instruments	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
As at 1 January 2017	89	533	2,631	30	61	-	1	7	(1,371)	122	2,103
Profit for the period ended 30 June 2017	-	-	-	-	-	-	-	-	36	-	36
Other comprehensive income, net of tax (note 25)	-	-	-	-	(17)	-	-	-	-	-	(17)
Total comprehensive income for the period	-	-	-	-	(17)	-	-	-	36	-	19
<i>Contributions by and distributions to owners</i>											
AT1 coupon paid (note 24)	-	-	-	-	-	-	-	-	(11)	-	(11)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	-	(11)	-	(11)
Balance as at 30 June 2017	89	533	2,631	30	44	-	1	7	(1,346)	122	2,111

Condensed Interim Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the holding company										Total €m
	Share capital	Share premium	Capital contribution reserve*	Revaluation reserve*	AFS reserve*	Cash flow hedge reserve*	Currency translation adjustment reserve*	Other capital reserve*	Retained earnings	Other equity instrument	
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
As at 1 January 2017	89	533	2,631	30	61	-	1	7	(1,371)	122	2,103
Profit for the year ended 31 December 2017	-	-	-	-	-	-	-	-	40	-	40
Other comprehensive income relating to prior years, net of tax (note 25)	-	-	-	13	-	-	-	-	(13)	-	-
Other comprehensive income, net of tax (note 25)	-	-	-	8	(26)	-	-	-	-	-	(18)
Total comprehensive income/(expense) for the year	-	-	-	21	(26)	-	-	-	27	-	22
Transactions with owners, recorded directly in equity:											
Contributions by and distributions to owners											
AT1 coupon paid (note 24)	-	-	-	-	-	-	-	-	(11)	-	(11)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	-	(11)	-	(11)
Balance as at 31 December 2017	89	533	2,631	51	35	-	1	7	(1,355)	122	2,114

*All are included in Other reserves in the Statement of financial position

Condensed Interim Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the half year ended 30 June 2018

	Notes	Half year ended 30 June 2018 €m	Half year ended 30 June 2017* €m
Cash flows from operating activities			
Profit before taxation for the period		57	43
Adjusted for:			
Depreciation, amortisation and impairment of property, equipment and intangibles		12	11
Impairment charge in period:			
- Loans and advances to customers	15	-	5
- Collateral in possession		-	1
Unrealised (gains)/losses on financial assets		(9)	1
Other mortgage related adjustments		7	8
Net movement in loans and advances to customers		134	301
Net movement in customer accounts		120	(87)
Net movement in debt securities		2	(2)
Net movement in prepayments and accrued income		(5)	69
Net movement in deposits by banks (including central banks)		540	(197)
Net movement in debt securities in issue		(422)	(131)
Net movement in other liabilities and accruals		11	(5)
Net movement in provisions		(2)	(10)
Net movement in assets held for sale		71	-
Net other movements		(8)	6
Net cash inflow from operating activities before tax		508	13
Tax refund		-	3
Net cash inflow from operating activities		508	16
Cash flows from investing activities			
Purchase of property and equipment		(4)	(9)
Purchase of intangible assets		(3)	(3)
Disposals of debt securities	10	145	198
Purchase of debt securities	10	(788)	(151)
Movement in restricted cash holdings		87	61
Net cash (outflow)/inflow from investing activities		(563)	96
Cash flows from financing activities			
AT1 coupon payment		(11)	(11)
Payment on cancellation on deferred shares		(2)	-
Net cash (outflow)/inflow from financing activities		(13)	(11)
(Decrease)/increase in cash and cash equivalents		(68)	101
Analysis of changes in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		1,030	600
(Decrease)/increase in cash and cash equivalents		(68)	101
Effect of exchange translation adjustments		2	(7)
Cash and cash equivalents as at period end**	9	964	694

*The 2017 Statement of Cash Flows was restated to classify the movements in deposits by banks (€197m) and the movement in debt securities in issue (€131m) as cash flows from operating activities rather than cash flows from financing activities, and to reclassify the purchase (€151m) and disposal (€198m) of debt securities as cash flows from investing activities rather than cash flows from operating activities. The Statement of Cash Flows was updated to more appropriately reflect and enhance comparability with current year presentation.

* The amounts for the period ended 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

**The cash and cash equivalents exclude restricted cash as per note 9.

Notes to the Interim Financial Statements (Unaudited)

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Notes to the Interim Financial Statements (Unaudited)

1. Corporate information, basis of preparation, significant accounting policies, estimates and judgements

1.1 Corporate information

Permanent TSB plc is a holding company domiciled in Ireland (registration number 222332). Its registered office is situated at 56 - 59, St. Stephen's Green, Dublin 2, Ireland. The condensed consolidated interim financial statements (interim financial statements) include the financial statements of Permanent TSB plc ('the Company' or 'PTSB') and its subsidiary undertakings, and are prepared for the period up to the end of the half year, 30 June 2018. The interim financial statements for the half year ended 30 June 2018 are unaudited but have been reviewed by the independent auditor whose report is set out earlier in this report.

PTSB, a 100% owned subsidiary of Permanent TSB Group Holdings plc (PTSBGH or 'the Group'), is the main trading entity of the Group which is primarily involved in retail banking. The shares of the holding company, PTSBGH, are listed on the main market of the Irish and London Stock Exchanges.

These interim financial statements were approved and authorised for issue by the Directors on 28 August 2018.

The accounting policies applied in the preparation of the interim financial statements for the half year ended 30 June 2018 are set out below.

1.2 Basis of preparation

Statement of compliance

These interim financial statements comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related notes (with the exception of the items denoted as not subject to review in note 16 on page 69 and in note 27 on pages 82 and 83) and have been prepared in accordance with the Transparency Directive (2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and IAS 34, 'Interim Financial Reporting' as published by the International Accounting Standards Board (IASB) and adopted by the EU. This report should be read in conjunction with the Annual Report and Financial Statements of the Group for the year ended 31 December 2017, which was prepared in accordance with International Financial Reporting Standards (IFRS) and the IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS.

Basis of measurement

The interim financial statements have been prepared on the historical cost basis as modified to include fair valuation of certain financial instruments, financial assets classified as hold to collect and sell (HTC&S) and land and buildings.

As stated in note 1 of the 2017 Annual Report, the Group adopted IFRS 9 'Financial Instruments' (IFRS 9) on 1 January 2018. As permitted by IFRS 9, the Group did not restate comparative consolidated financial statements. Note 1 and note 2 herein present the impact of IFRS 9 adoption on the Group's consolidated statement of financial position as at 1 January 2018. Since interim financial statements do not include all of the annual financial statement disclosures required under IFRS, this report should be read in conjunction with the audited annual consolidated financial statements and accompanying notes for the year ended 31 December 2017.

Statutory accounts

These interim financial statements do not comprise statutory accounts within the meaning of the Companies Act 2014. The statutory accounts for the year ended 31 December 2017 were approved by the Directors on 13 March 2018, contained an unqualified audit report and will be filed with the Companies Registration Office on or before 30 September 2018.

These interim financial statements were prepared in accordance with International Accounting Standards (IAS) 34, 'Interim Financial Reporting' and use the same accounting policies as those described in note 1 of the 2017 Annual Report, except for the changes described in note 1 to these interim financial statements, which have been applied since 1 January 2018, following the Group's adoption of IFRS 9.

Functional and presentation currency

These interim financial statements are presented in Euro, which is the Company's functional currency. Except where otherwise indicated, financial information presented in Euro has been rounded to the nearest million (m).

Use of estimates and judgements

The preparation of the interim financial statements, in conformity with IFRS, requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about the carrying amounts of assets and liabilities. Actual results may differ from these estimates.

In preparing the 2018 Interim Financial Report, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied in note 2 in the 2017 Annual Report, except for the changes discussed in section 1.6 below and note 2, which have been applied since 1 January 2018 following the Group's adoption of IFRS 9.

The critical accounting estimates are the same as those described in the 2017 Annual Report, except for financial asset impairment estimates, which have been determined in accordance with IFRS 9 since 1 January 2018. For additional information on IFRS 9 adoption, refer to note 1, section 1.6, and note 2.

1.3 Going concern

In considering management's assessment of the Group's ability to continue as a going concern, Management considered principal risks and uncertainties as they might pertain to the Going Concern assumption, particularly the status of the Group's adherence to the terms of the Restructuring Plan, the Liquidity position, Profitability and the Capital position. Management considered these items over the course of the year to date and into 2019, their current status and future projections. In doing so, Management considered each risk in turn, and the likelihood of the risk precipitating in the Going Concern assumption becoming invalid over the period of assessment, being 12 months from the date of the approval of the Interim Report for the six month period ended 30 June 2018. Management considered realistic alternatives, including downside scenarios applied by the Group so as to appropriately test assumptions and potential outcomes.

Notes to the Interim Financial Statements (Unaudited)

1. Corporate information, basis of preparation, significant accounting policies, estimates and judgements (continued)

Assessment basis

The time period that the Directors and Management have considered in evaluating the appropriateness of the going concern basis in preparing the interim consolidated financial statements for the six month period ended 30 June 2018 is a period of 12 months from the date of approval of these financial statements ("the period of assessment").

In making this assessment, the Directors and Management have considered the Group's 2018-2021 Medium Term Plan (MTP), profitability forecasts, funding and capital resource projections under base and stress scenarios applied by the Group, together with a number of factors such as the outlook for the Irish economy, Government's fiscal policies, the availability of collateral to access funding through third parties and the euro system, and on-going changes in the regulatory environment. Further, the Group's strategic outlook has continued to improve, both from the perspective of the macroeconomic environment and the Group's performance.

Economic & political environment

The Group continues to be materially reliant on Government and European Union policy in relation to the Irish economy and the financial services sector. At a macroeconomic level, property prices and unemployment levels continue to improve in 2018. Though improving, the mortgage market continues to be constrained, impacted by housing completions and various other factors.

Continued uncertainty remains with regard to the final outcome of 'Brexit' and the nature of the UK's revised trading relationship with the EU and the consequent impact on both the UK and the wider European Union's economic outlook. The Group believes it is reasonably well positioned to withstand any near term volatility caused by Brexit, particularly given the Group's completion of the sale of its residual UK portfolio. However, the risk of a 'Hard Brexit' remains, which and could have a negative impact on the Irish economy and could, in time, impact the Group's business.

The potential impact of economic, political and market risks and uncertainties are inherent in the Group's business and continue to impact the Group. These include the risk of house price falls and risk of deterioration of unemployment together with lower income levels. The risks have a direct impact on the Group's loan arrears levels, impairment provisions and as a consequence, profitability and regulatory capital levels. Directors and Management have considered these factors, and in particular, house price falls and potential increases in the level of arrears under a stress case and the impact that these may have on the Group's performance and are satisfied that over the period of assessment that the Group has sufficient resources to ensure it is adequately capitalised.

Restructuring plan (RP)

The Restructuring Plan was approved in April 2015, of which the commitment to deliver a certain Cost Income Ratio (CIR) by the end of 2017 was not achieved, largely due to factors outside of PTSBGH's control, principal amongst which was the significant regulatory cost burden for PTSBGH over and above what was originally anticipated when the Restructuring Plan commitments were set. Details of the Cost-Income Ratio trajectory for PTSBGH have been discussed with the DG Competition (DG Comp). A breach of this commitment is not, of itself, expected to be an outright risk to PTSBGH being a going concern for the period of assessment.

To the extent that PTSBGH cannot continue to meet the commitments of the RP, this may require PTSBGH to revisit the terms of the RP, which could result in the EU imposing further commitments to PTSBGH. It is PTSBGH's view that, having raised capital and returned to profits, it is in a better financial position than it was when the original RP was agreed. The re-opening of the restructuring plan would therefore not give rise to a material uncertainty which would cast doubt on the ability of PTSBGH to continue as a going concern for the period of assessment.

Funding & liquidity

The Group continues to have sufficient liquidity throughout 2018, and continues to undertake initiatives to further improve its liquidity position in the areas of deposits, collateral optimisation and wholesale markets activity. The Directors and Management have also considered forecasts of the liquidity position over the going concern period, under a range of stress scenarios.

The Group continues to hold a significant liquidity buffer at 30 June 2018. The Group also continues to utilise the normal operations of the ECB for liquidity and funding during the period of assessment and the Directors and Management are aware that the Group's ability to continue to access system liquidity and funding will be dependent on the Group having sufficient eligible collateral. However, the Directors and Management are satisfied, based on a review of funding plans, interaction with wholesale markets and deposit trends that the required liquidity and funding will be available to the Group during the period of assessment, and does not give rise to material uncertainties which would cast significant doubt on the ability of the Group to continue as a going concern for the period of assessment.

Profitability and capital adequacy

The Group made a profit before tax for the six month period ended 30 June 2018.

Directors and Management have reviewed the MTP and based on this, the macro economic conditions of the country and the planned resolution of legacy issues, the Directors and Management are satisfied that the Group is on track to continue profitability in future years, excluding the impact of deleveraging NPLs.

Directors and Management have also considered the Group's forecasted capital base, including the potential impact of deleveraging NPLs, its ability to withstand additional Group applied stress scenarios such as the economic environment in Ireland declining. On the basis of the above considerations, the Directors and Management have assessed and concluded that this does not give rise to a material uncertainty which would cast significant doubt on the ability of the Group to continue as a going concern for the period of assessment.

Conclusion

As required by IFRS as adopted by the EU, Directors and Management have considered the principal risks/uncertainties facing the Group as outlined above. Based on the latest and projected financial performance and position and the options available to the Group, the Directors have concluded that the Group has no material uncertainties, which would cast significant doubt on the going concern assumption and have considered it appropriate to prepare the interim consolidated financial statements on a going concern basis.

Notes to the Interim Financial Statements (Unaudited)

1. Corporate information, basis of preparation, significant accounting policies, estimates and judgements (continued)

1.4 Comparative information

The comparative information for 2017 has been prepared on a consistent basis, except for IFRS 9 disclosures and the other items as set out below:

The 2017 Statement of Cash Flows was restated to classify the movements in deposits by banks (€197m) and the movement in debt securities in issue (€131m) as cash flows from operating activities rather than cash flows from financing activities, and to reclassify the purchase (€151m) and disposal (€198m) of debt securities as cash flows from investing activities rather than cash flows from operating activities. The Statement of Cash Flows was updated to more appropriately reflect and enhance comparability with current year presentation.

Operating segments have been restated to reflect the change in operating segments reported by the Group. During 2017 the Group recognised two operating segments; Core Bank and Non-Core. The remaining Non-Core business was wound down during 2017 and consequently in 2018 the Group recognised a single operating segment. The tables within the operating segment note have been updated to reflect this change in operating segments.

1.5 Summary of significant accounting policies

The significant accounting policies used in the preparation of the interim financial statements are consistent with those used by the Group as described in note 1 of the Group's 2017 Annual Report, except for changes relating to IFRS 9 discussed further below.

Please refer to section 1.6 Changes in accounting policy below, which addresses the impact of transition to IFRS 9 on classification & measurement, impairment and hedge accounting policy and note 2 Transition to IFRS 9, which presents the impact of IFRS 9 adoption on the Group's consolidated statement of financial position as at the transition date of 1 January 2018.

1.6 Changes in accounting policy

The 2018 interim financial statements should be read in conjunction with the Group's 2017 Annual Report. The significant accounting policies used in the preparation of these interim financial statements are consistent with those used in the Group's 2017 Annual Report (note 1), except for changes to the accounting for financial instruments resulting from the adoption of IFRS 9 and IFRS 15 (see 1.6.4). IFRS 9 has resulted in changes in accounting policies related to the classification and measurement, hedge accounting and impairment of financial assets. IFRS 9 introduces no significant changes in accounting policies for financial liabilities, derivative instruments and derecognition of financial assets and liabilities.

The Group has considered the amendment to IFRS 9, published by the IASB in October 2017, Prepayment Features with Negative Compensation, which is effective from 1 January 2019, with earlier application permitted. This amendment was endorsed by the EU on 22 March 2018. The amendment changes the existing requirements to allow measurement at amortised cost (or fair value through other comprehensive income) even in the case of negative compensation payments. This amendment is not expected to have a material impact on the Group.

Related changes to other accounting standards:

IFRS 9 has necessitated changes to existing financial accounting standards, namely IFRS 7 'Financial Instruments: Disclosures' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The changes include guidance on IFRS 9 transitional disclosure requirements, covering requirements for more extensive qualitative and quantitative disclosures relating to the new IFRS 9 classification categories, the three stage impairment model, the new hedge accounting requirements, data inputs and modelling assumptions applied. The Group will adopt IFRS 7 and consequential related changes to IAS 8 for its financial statements for the year ending 31 December 2018.

While there are no mandatory or prescriptive guidelines on the disclosure requirements for interim financial statements in 2018, the disclosures set out within this report have considered and incorporated the following, prior to more extensive disclosures in the Permanent TSB plc 2018 Annual Report:

- IAS 34, Interim Financial Reporting;
- IFRS 9, including the narrow scope amendment issued by the International Accounting Standards Board (IASB) in October 2017 and;
- IFRS 7 Financial Instruments: disclosure requirements relating to the initial application of IFRS 9.

The disclosures set out below in note 2 'Transition to IFRS 9', present a point-in-time bridge between IAS 39 'Financial Instruments: Recognition and Measurement', IAS 37 'Provisions Contingent Liabilities' and 'Contingent Assets' and IFRS 9 'Financial Instruments' and should be read in conjunction with the Group's 2017 Annual Report.

1.6.1 Classification & measurement accounting policy change

The following accounting policy changes have been applied from 1 January 2018, following the adoption of IFRS 9.

Financial assets

Recognition and initial measurement

The Group, on the date of origination or purchase, recognises loans, debt securities, equity securities, deposits and subordinated debentures at the fair value of consideration paid. Derivatives are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument. All other financial assets and liabilities are recognised on the settlement date.

The initial measurement of a financial asset or liability is at fair value including transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognised immediately in the income statement.

Financial assets include both debt and equity instruments.

Debt instruments

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:

- Amortised cost; or
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL) for trading related assets.

Notes to the Interim Financial Statements (Unaudited)

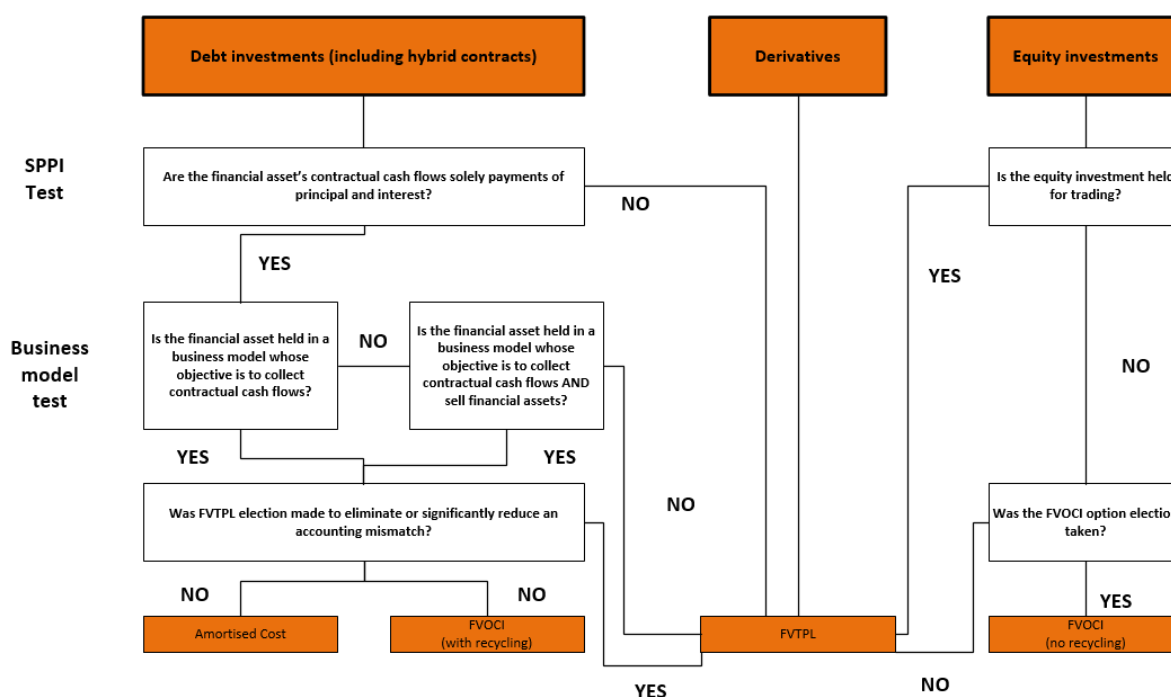
1. Corporate information, basis of preparation, significant accounting policies, estimates and judgements (continued)

IFRS 9 sets out criteria for the classification and measurement (C&M) of financial assets which are significantly different from the criteria in IAS 39. In determining the measurement approach to be applied to a financial instrument, IFRS 9 sets out two key criteria for assessment:

1. Are the cash flows associated with the instrument solely payments of principal and interest (the SPPI test)?
2. What is the purpose for which the financial instrument is held? 'hold to collect principal and interest', 'hold to collect and sell', or 'held for sale'?

Debt instruments that are managed on a 'hold to collect and sell' basis are accounted for at FVOCI. Financial instruments held for sale are accounted for at FVTPL. Debt instruments that are managed on a 'hold to collect' business model basis are accounted for at amortised cost.

IFRS 9 Classification & Measurement flowchart



Debt instruments measured at amortised cost

Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold the assets to collect contractual cash flows, where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are measured at amortised cost. Interest income on these instruments is recognised in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortised cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Impairment on debt instruments measured at amortised cost is calculated using the Expected Credit Losses (ECL) approach.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to both hold the assets to collect contractual cash flows and to sell the financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealised gains and losses on debt instruments measured at FVOCI are recorded in Other Comprehensive Income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship any changes in fair value due to changes in the hedged risk are recognised in interest income in the income statement. On derecognition, realised gains and losses are reclassified from OCI and recorded in other income in the statement of comprehensive income. Foreign exchange gains and losses that relate to the amortised cost of the debt instrument are recognised in the income statement. Premiums, discounts and related transaction costs are amortised over the expected life of the instrument to interest income in the income statement using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the ECL approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to provision for credit losses in the income statement. The accumulated allowance recognised in OCI is recycled to the income statement on derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. These instruments are measured at fair value in the statement of financial position, with transaction costs recognised immediately in the income statement as part of net trading income. Realised and unrealised gains and losses are recognised as part of non-interest income in the income statement.

Notes to the Interim Financial Statements (Unaudited)

1. Corporate information, basis of preparation, significant accounting policies, estimates and judgements (continued)

Equity instruments

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognised as part of non-interest income in the income statement. The Group can elect to classify non-trading equity instruments at FVOCI. The FVOCI election is made upon initial recognition, on an instrument-by-instrument basis and once made, is irrevocable. Gains and losses on these instruments including when derecognised/sold are recorded in OCI and are not subsequently reclassified to the income statement. Dividend received is recorded in the income statement. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and other income are not reclassified to the income statement on the sale of the security.

As at 30 June 2018, the Group held one equity investment, valued at €13m.

Financial assets and liabilities designated at FVTPL

Financial assets and financial liabilities classified in this category are those that have been designated by the Group on initial recognition. Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- A group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial assets and financial liabilities designated at FVTPL are recorded in the statement of financial position at fair value. For assets designated at FVTPL, changes in fair value are recognised in net trading income in the income statement. For liabilities designated at FVTPL, changes in fair value are recognised in non-interest income in the income statement, with the exception of movements in own credit.

For financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit is presented in other comprehensive income. The Group has not and does not expect to invoke the fair value option for financial liabilities.

The Group has applied both the cash flow characteristics and business model tests to financial assets and financial liabilities as at 30 June 2018.

Cash flow characteristics test

The SPPI test was applied based on an assessment of the contractual features of each product. Derivatives instruments and equity instruments do not meet the SPPI definition; as a result they were not in scope of the SPPI assessment as they are automatically held at fair value through profit and loss (except when equities are accounted for at FVOCI), in a similar manner to how they were previously accounted for under IAS 39. All other instruments in scope of the SPPI assessment passed the SPPI test. This outcome is in line with Managements' expectation given the nature of the other Group's business model (retail bank) and risk appetite. SPPI testing has been embedded in our operations for all newly originated and purchased assets and the Group will perform business model testing on an on-going basis. All new product development includes a C&M assessment to complete the SPPI test and determine the appropriate business model.

Business model assessment

The Group assessed its business model at a portfolio level based on how it manages groups of financial assets to achieve its business objectives. The observable factors considered include:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to Group ExCo;
- How risks that affect the performance of the business model are managed;
- How business managers are compensated; and
- The timing, frequency and volume of sales.

The results of the business model assessment, based on the facts and circumstances as they existed on transition at 1 January 2018 and at the date of the interim financial statements at 30 June 2018, are not materially different to the previous measurement basis under IAS 39. The new C&M requirements are not expected to have a significant impact on the Group's credit risk policies and practices. The Group will continue to review and update our policies and procedures as and when appropriate.

A breakdown of the changes in the classification and measurement of financial assets on transition to IFRS 9 is presented in note 2.

Financial Liabilities

IFRS 9 retains most of the existing classification and measurement requirements for financial liabilities in IAS 39. Overall, financial liabilities are still measured at amortised cost with some exceptions.

1.6.2 Impairment accounting policy change

Scope

IFRS 9 introduced the requirement to calculate ECL, which enables a more progressive approach to recognising credit loss allowances than the IAS 39 incurred loss model. IFRS 9 impairment requirements apply to all financial assets classified at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, certain off balance sheet loan commitments and financial guarantee contracts.

Moving to measuring loan loss provisions under a new ECL approach on 1 January 2018 was a significant change for the Group, introducing a greater degree of complexity and management judgement than IAS 39. Under IAS 39, a financial asset or group of financial assets was impaired and impairment losses were incurred if, and only if, there was objective evidence of impairment (a loss event). Losses as a result of a future event (expected losses), no matter how likely, were not recognised. In contrast, the IFRS 9 impairment model looks at the movement in the credit risk of an asset since its origination and requires recognition of lifetime expected loan losses when there is a significant increase in credit risk, regardless of whether there has been an actual loss event. As a result of the forward-looking nature of IFRS 9 we anticipate there will be increased volatility in the Bank's provision for losses on loans, coupled with earlier recognition of credit losses.

Notes to the Interim Financial Statements (Unaudited)

1. Corporate information, basis of preparation, significant accounting policies, estimates and judgements (continued)

The ECL framework adopted by the Bank on transition to the new standard along with an overview of key areas of judgement within the new framework is detailed below.

ECL impairment model

The Group's allowance for credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The ECL models were developed leveraging the systems and data used to calculate expected credit losses for regulatory purposes.

IFRS 9 requires the Group to track and assess changes in credit risk on financial instruments since origination and determine whether the credit risk on those financial instruments has increased significantly since initial recognition. Under the IFRS 9 ECL model, the change in credit risk should be based on the risk of default and not changes in the amount of ECL which may be expected on a financial instrument. The standard introduces a 3-stage model for impairment, based on changes in credit risk quality since initial recognition:

- **Stage 1** – includes financial instruments that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month ECL is recognised. 12-month ECL is the expected credit loss that results from default events that are possible within 12 months of the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the default will occur in the next 12 months. Therefore all financial assets in scope will have an impairment provision equal to at least 12-month ECL.
- **Stage 2** – includes financial instruments that have had a significant increase in credit risk since initial recognition but that does not have objective evidence of impairment. For these assets, lifetime ECL is recognised, being the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- **Stage 3** – includes financial assets that have objective evidence of impairment at the reporting date, i.e. are credit-impaired. For these assets, lifetime ECL is recognised.

Exception to the general three stage impairment model

Purchased or originated credit impaired assets (POCI) are an exception to the general 3 stage impairment model in IFRS 9. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised on a credit adjusted EIR basis. ECLs are only recognised or released to the extent that there is a subsequent change in expected credit losses. The Group purchased the credit impaired Newbridge Credit Union (NCU) portfolio in 2013; the NCU portfolio is accounted for on a POCI basis under IFRS 9 and had a net book value of €5m on 30 June 2018 (31 December 2017: €7m).

Measurement of ECL

For all material portfolios, the Group has adopted an ECL framework that reflects a component approach using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) components calibrated for IFRS 9 purposes. Details of these statistical components are as follows:

- **PD** – the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the lending portfolio;
- **EAD** – the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments;
- **LGD** – the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

To adequately capture lifetime expected credit losses, the Group also modelled early redemptions as a separate component within the ECL calculation.

Because financial assets within the scope of the IFRS 9 impairment model are assessed for at least 12 months of expected credit losses, and underperforming assets attract full lifetime expected credit losses, loss allowances are expected to be higher under IFRS 9 relative to IAS 39.

For financial assets, the discount rate used in measuring ECL is the effective interest rate (or 'credit-adjusted effective interest rate' for a purchased or originated credit-impaired financial assets) or an approximation thereof. For undrawn commitments, it is the effective interest rate, or an approximation thereof, that will be applied when recognising the financial assets resulting from the loan commitment.

Key drivers of ECL

The following concepts introduce significant judgment within impairment accounting policy and have a tangible impact on the level of ECL allowances:

- Assessing both 12-month and lifetime ECL;
- Determining when a significant increase in credit risk has occurred; and
- Incorporating forward looking information including forecast macro-economic factors through probability weighted scenarios.

Definition of default

The definition of default used in the measurement of ECL for IFRS 9 purposes is the definition of default used by the Group for credit risk management purposes.

IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. The Group will not rebut this presumption for any portfolio.

Assessment of significant increases in credit risk

The standard requires that an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. At each reporting date, to identify a significant increase in credit risk (SICR) in relation to an exposure since origination, and classification as Stage 2 within the IFRS 9 ECL framework, the Group has relied on the following measures:

Notes to the Interim Financial Statements (Unaudited)

1. Corporate information, basis of preparation, significant accounting policies, estimates and judgements (continued)

- 1) **Delinquency** – greater than 30 days past due;
- 2) **Forbearance** – reported as currently forbore;
- 3) **Risk grade** – accounts that migrate to a risk grade which the Group has specified as being outside its risk grade at origination; and
- 4) **Change in remaining lifetime PD** – accounts that have a remaining lifetime PD that is in excess of the risk at which the Group seeks to originate risk. For the purposes of this assessment, credit risk is based on an instrument's lifetime PD, not the losses expected to be incurred.

For its originated interest only portfolio, the Group also assesses the risk of negative equity at maturity as part of its SICR evaluation for that cohort of exposures.

The assessment is performed on a relative basis and is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

Transition from Stage 3 to Stage 2	• Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. • Certain long term forbearance treatments may transition from Stage 3 to Stage 2 in line with the definition of default but would not be expected to transition from Stage 2 to Stage 1 without an unwind of the forbearance treatment e.g. part capital and interest, split mortgages.
Transition from Stage 2 to Stage 1	• No longer 30 days past due – transition automatically (i.e. without probation), where other criteria are met. • Forborne exposures that cure where certain criteria are met

Forward looking information (FLI)

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macro-economic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information.

Macro-economic factors

The requirement to incorporate a range of unbiased future economic scenarios, including macro-economic factors, is a distinctive feature of the ECL accounting framework which increases both the level of complexity and judgement in the measurement of expected loss. The Group has developed the capability to incorporate a number of macro-economic impacts and scenarios into the ECL models.

Multiple forward-looking scenarios

A process has been implemented to determine the FLI used in the ECL models, leveraging existing ICAAP processes, while recognising that IFRS 9 scenarios are not stress scenarios. The governance and oversight process includes the review, challenge and sign-off of FLI for the three IFRS 9 scenarios. The methodology to incorporate multiple economic scenarios into the ECL models considers, amongst other things, the Group's four year MTP, and the views of policy makers on longer term economic prospects and key risks. In developing the methodology, the Group has referenced publicly available information for key economic indicators including the House Price Index (HPI), unemployment, interest rates and publicly available external macro-economic forecasts including those from the Department of Finance (DoF), Central Bank of Ireland (CBI) and Economic & Social Research Institute (ESRI). This external data has been combined with internal forecasts to develop a combined house view forecast.

The Group adopts three scenarios for ECL purposes.

Expected life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options, extension and rollover options. For most instruments, the expected life is limited to the remaining contractual life, adjusted as applicable for expected prepayments.

For certain revolving credit facilities that do not have a fixed maturity (e.g. credit cards and overdrafts), the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

For instruments in Stage 2 or Stage 3, loss allowances will cover expected credit losses over the expected remaining life of the instrument.

Expert credit judgement

The Group's ECL accounting framework methodology, in line with the requirements of the standard, requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Modified financial assets

Where a financial asset is modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the financial asset should be derecognised. Where the modification does not result in derecognition, the date of origination continues to be used to determine SICR.

Where the modification results in derecognition, the modified financial asset is considered to be a new asset.

Write-off policy

The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier than collateral realisation.

In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the income statement.

Presentation of ECL allowance in the statement of financial position

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at fair value. Instead an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to provision for credit losses in the income statement;

Notes to the Interim Financial Statements (Unaudited)

1. Corporate information, basis of preparation, significant accounting policies, estimates and judgements (continued)

- Off-balance sheet credit risks include certain undrawn lending commitments, letters of credit and letters of guarantee: as a provision in the statement of financial position, refer to note 22.

Interest recognition

IFRS 9 defines interest recognition by ECL stage where for stage 1 and stage 2 loans, it is calculated by applying the effective interest rate (EIR) to the gross carrying amount. For stage 3 assets the EIR is applied to the net book value, measured at amortised cost. Where loans are purchased or originated credit impaired a credit adjusted EIR is applied to the net book value, which is measured at amortised cost.

1.6.3 Hedge accounting policy changes

The key changes introduced by the hedge accounting requirements of IFRS 9 are the elimination of the 80% - 125% effectiveness test and closer alignment of hedge designation with risk management practices, following a more principle-based approach than IAS 39.

IFRS 9 however, allows for the deferral of hedge accounting policy choice, i.e. the option to continue with IAS 39 principles, until the IASB Macro Hedging project completes.

The Group has elected, as a policy choice, to adopt an IFRS 9 model for hedge accounting from 1 January 2018. The preparatory work necessary to facilitate transition at 1 January 2018 was completed in H2 2017, with adoption of IFRS 9 Hedge accounting policy approved by Group ALCO in November 2017.

1.6.4 Revenue

IFRS 15 'Revenue from Contracts with Customers' became effective on 1 January 2018. IFRS 15 replaces all existing revenue recognition requirements in IAS 18 and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other accounting standards. IFRS 15 does not have a material impact on the Group accounts.

1.7 Impact of new accounting standards

IFRS 16 'Leases' is effective for financial periods beginning on or after 1 January 2019. It addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that all operating leases will be accounted for on balance sheet for lessees. The accounting for lessors will not materially change. The standard replaces IAS 17 Leases.

The Group is currently assessing the implications of IFRS 16. The main impact on the Group will be in relation to property leases that the Group currently accounts for as operating leases.

2. Transition to IFRS 9

Introduction

As set out in note 1, basis of preparation and summary of significant accounting policies, the Group transitioned to IFRS 9 'Financial Instruments' on 1 January 2018; IFRS 9 replaced IAS 39 'Financial Instruments: Recognition and Measurement'. The Group has also considered the amendment to IFRS 9, published by the IASB in October 2017, Prepayment Features with Negative Compensation, which is effective from 1 January 2019, with earlier application permitted. This amendment was endorsed by the EU on 22 March 2018. The amendment changes the existing requirements to allow measurement at amortised cost (or fair value through other comprehensive income) even in the case of negative compensation payments. This amendment is not expected to have a material impact on the Group.

IFRS 9 has necessitated changes to existing financial accounting standards, namely IFRS 7 'Financial Instruments: Disclosures' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The Group will adopt IFRS 7 and consequential related changes to IAS 8 for its financial statements for the year ending 31 December 2018.

As permitted by IFRS 9, the Group did not restate comparative periods on initial application. The Group has recognised the measurement difference between the previous carrying amount and the new carrying amount at the transition date, through an adjustment to opening retained earnings.

The information set out in this note provides details relevant to understanding the impact of transitioning to IFRS 9 on the Group's financial position as at 1 January 2018. This note includes reconciliations of the closing statement of financial position as at 31 December 2017 to the opening statement of financial position at 1 January 2018, together with summary detail of the impact on the financial statements and key performance metrics. The detail included below is a point-in-time bridge between IAS 39 'Financial Instruments: Recognition and Measurement', IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRS 9 'Financial Instruments' and should be read in conjunction with the Group's 2017 Annual Report.

Reconciliation of IAS 39 to IFRS 9

IFRS 9 impacts the accounting for financial instruments in three areas: classification & measurement, impairment and hedge accounting as follows:

- Classification & measurement: The changes introduced by IFRS 9 regarding how the Group accounts for financial assets and measures them on an ongoing basis did not result in any material changes for the Group on transition. An adjustment reflecting the movement of balances between categories on the statement of financial position has an impact of €2m on shareholders' equity. There is no quantitative impact of the transition to IFRS 9 for classification and measurement of financial liabilities.
- Impairment: The methodologies for the calculation of incurred losses under IAS 39 and ECLs under IFRS 9 are fundamentally different. Moving to the expected loss accounting model in IFRS 9 has resulted in a number of changes to the Group's impairment accounting approach. On transition to IFRS 9 on 1 January 2018, the Group's loss allowance increased by €109m from €2.2bn loss allowance under IAS 39 to €2.3bn ECL impairment provision under IFRS 9.
- Purchased or Originated Credit Impaired: On transition to IFRS 9, the Group accounted for loans and advances acquired from Newbridge Credit Union (NCU) as purchased or originated credit impaired. On transition the NCU portfolio has been recorded in Loans and advances at

Notes to the Interim Financial Statements (Unaudited)

2. Transition to IFRS 9 (continued)

- its purchased credit impaired amount, resulting in a reduction on 1 January 2018 in both gross loans and advances and related loss allowance of €31m. The NCU portfolio will be reported as Stage 3, credit impaired for the remainder of its life.
- Hedging: IFRS 9 introduced changes to the hedge accounting requirements in place under IAS 39. The key changes are the elimination of the 80% - 125% effectiveness test and closer alignment of hedge designation with risk management practices, following a more principle-based approach than IAS 39. The Group has elected, as a policy choice, to adopt an IFRS 9 model for hedge accounting from 1 January 2018. The preparatory work necessary to facilitate transition at 1 January 2018 was completed in H2 2017, with adoption of IFRS 9 Hedge accounting policy approved by Group ALCO in November 2017. The Group will implement the revised hedge accounting disclosures required by the amendments to IFRS 7, on foot of IFRS 9, in its annual report for the financial year ended 31 December 2018.

The following table reconciles the impairment provisions as at 31 December 2017, presented on an IAS 39 basis, to impairment provisions on 1 January 2018 presented on an IFRS 9 basis. The table outlines that the key impact for the group has been the transition to IFRS 9 for impairment where loss allowances for the Group's lending portfolios increased by €109m (gross of tax).

	31 December 2017	1 January 2018		
	Impairment allowance under IAS 39 or provision under IAS 37	POCI	Additional IFRS 9 loss allowance	Loss allowance under IFRS 9
	€m	€m	€m	€m
<u>Impairment allowance</u>				
Loans and advances to customers at amortised cost	2,246	(31)	108	2,323
Loans and advances to banks at amortised cost	-	-	1	1
Total	2,246	(31)	109	2,324

The following table presents a reconciliation of gross loans and advances to customers at amortised cost, together with impairment provisions under IAS 39 to gross loans and advances at amortised cost together with loss allowances, analysed by staging under IFRS 9.

	As at 31 December 2017	IFRS 9 transition adjustments		As at 1 January 2018
	IAS 39	Reclassified	Remeasured*	Total
	€m	€m	€m	€m
Gross loans and advances to customers	20,559		(31)	20,528
Impairment provision/loss allowance	(2,246)	-	(77)	(2,323)
Deferred fees, discounts and fair value adjustments	57	(2)		55
Carrying amount	18,370	(2)	(108)	18,260

*€77m impairment provision/loss allowance figure in the table above relates to €108m remeasured carrying amount less €31m gross loans and advances to customers in respect of POCI.

1 January 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Gross loans and advances to customers	11,649	3,594	5,278	7	20,528
Impairment provision/loss allowance	(54)	(333)	(1,936)		(2,323)
Deferred fees, discounts and fair value adjustments	-	-	-	-	55
Carrying amount	11,595	3,261	3,342	7	18,260
Loss allowance coverage rate	0%	9%	37%	0%	11%

Impact of transition to IFRS 9

As outlined above transition to IFRS 9 impacts classification and measurement, impairment and hedge accounting. This note sets out the detail of the impact of implementation of IFRS 9 on 1 January 2018 under each of those three areas.

(i) Classification and measurement

The classification and measurement of financial assets rules set out in IFRS 9 determine how assets are accounted for and how they are measured on an on-going basis. The criteria for the classification and measurement (C&M) of financial assets in IFRS 9 is significantly different from the criteria in IAS 39. In order to determine the measurement approach to be applied to a financial instrument, IFRS 9 requires an assessment of:

- The cash flows associated with the instrument - to determine if those cash flows are solely payments of principal and interest (the SPPI test)?
- The purpose for which the financial instrument is held? 'Hold to collect principal and interest', 'hold to collect and sell', or 'held for sale'?

The classification and measurement categories are: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

Notes to the Interim Financial Statements (Unaudited)

2. Transition to IFRS 9 (continued)

A financial asset is measured at amortised cost if two criteria are met: the asset fits a hold to collect business model whose objective is to hold the asset for the collection of cash flows; those cash flows represent solely payments of principal and interest (SPPI). Assets eligible for amortised cost measurement can have an election applied to measure the asset at fair value where doing so eliminates or significantly reduces an accounting mismatch.

Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the loss allowance.

Investments in equity instruments must be measured at fair value, however an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss.

The classification of financial liabilities is broadly the same as under the previous accounting basis IAS 39, except for changes relating to certain liabilities measured at fair value and to gains or losses relating to changes in the Group's own credit risk which are included in other comprehensive income.

Transition to IFRS 9 for classification and measurement did not result in any significant changes for the Group. The business model assessment which was carried out in 2017 for 1 January 2018 did not result in any change to the measurement basis for the Group.

All instruments in scope of the SPPI assessment with the exception of derivatives and equities passed the SPPI test. This outcome is in line with Managements' expectation given the nature of the Group's business model (retail bank) and risk appetite. SPPI testing has been embedded in our operations for all newly originated and purchased assets and the Group will perform business model testing on an on-going basis. All new product development includes a C&M assessment, as part of the new product approval process, to ensure the SPPI test is satisfied and to determine the appropriate business model.

The Group has not taken the option to designate any financial assets at FVTPL as permitted by IFRS 9 under certain conditions. Classification of financial liabilities is unchanged.

(ii) Impairment

The move to an expected credit loss accounting model, on transition to IFRS 9, resulted in a number of changes in the Group's impairment approach. The key changes are set out below:

- All originated loans and other assets within scope of the standard attract a provision equal to at least 12 months expected loss from origination.
- The standard requires the Group to calculate and maintain lifetime inputs, such as lifetime PD, LGD and EAD.
- The Group is also required to conduct its assessment of a change in credit risk relative to the risk at origination of that exposure. Where there has been an increase in credit risk since origination that is significant, a provision for lifetime expected losses is recognised.
- The scope of the standard includes undrawn loan commitments previously within the scope of IAS 37. This requires the Group to hold a provision on such undrawn facilities from 1 January 2018.
- The Group is required to assess expected credit losses for financial assets held primarily for liquidity purposes.
- Forward looking macroeconomic scenarios are included into the provisioning process and the determination of changes in credit risk. This Group has developed an approach to include its forward looking views into its provision estimates, including for periods beyond its traditional forecast horizon.
- Under IFRS 9 the Group considers in its calculation of ECL multiple scenarios and possible outcomes together with their probability of occurrence.

(iii) Hedge accounting

The key changes introduced by the hedge accounting requirements of IFRS 9 are the elimination of the 80% - 125% effectiveness test and closer alignment of hedge designation with risk management practices, following a more principle-based approach than IAS 39. IFRS 9 however, allows for the deferral of hedge accounting policy choice, i.e. the option to continue with IAS 39 principles until the IASB Macro Hedging project completes.

The Group has elected, as a policy choice, to adopt an IFRS 9 model for hedge accounting from 1 January 2018. The preparatory work necessary to facilitate transition at 1 January 2018 was completed in H2 2017, with adoption of IFRS 9 hedge accounting policy approved by Group ALCO in November 2017.

Financial statements impact at 1 January 2018

Opening statement of financial position

The following table reconciles the statement of financial position under IAS 39 at 31 December 2017 to that under IFRS 9 at 1 January 2018.

Notes to the Interim Financial Statements (Unaudited)

2. Transition to IFRS 9 (continued)

Assets	Measurement category	IAS 39			IFRS 9	Carrying Amount 1 January 2018 €m
		Carrying Amount 31 December 2017 €m	Reclassifications ¹	Remeasurement ²	Measurement category	
Cash and balances with central banks	Loans & receivables	62	-	-	Amortised Cost	62
Derivative assets	FVTPL (Trading)	37	-	-	FVTPL (Mandatory)	37
Loans and advances to banks	Loans & receivables	1,518	-	-	Amortised Cost	1,518
Loans and advances to customers	Loans & receivables	18,370	(2)	(108)	Amortised Cost	18,260
Debt securities	Available-for-sale financial assets	784	-	-	FVOCI	784
	Held-to-maturity investments	1,194	-	(1)	Amortised Cost	1,193
Equity securities	Available-for-sale financial assets	12	-	-	FVOCI (Designated)	12
Other assets	Other assets	796	-	-		796
Total assets (pre-DTA)		22,773	(2)	(109)		22,662

(1) Reclassifications: this column captures the gross (pre-tax) impacts on assets resulting from facilities impacted by the new IFRS 9 C&M rules

(2) Remeasurement: this column captures the gross (pre-tax) impact of moving from an incurred lost model under IAS 39, to an ECL framework under IFRS 9 for all assets in scope.

Financial asset classification and measurement

The following table summarises the impact of classification and measurement on the Group's financial assets at 1 January 2018.

Financial Assets	Original measurement category determined in accordance with IAS 39 at 31 December 2017	New measurement category determined in accordance with IFRS 9 at 1 January 2018	Original carrying amount determined in accordance with IAS 39 at 31 December 2017	New carrying amount determined in accordance with IFRS 9 at 1 January 2018
			€m	€m
Cash and balances with central bank	Loans and receivables	Amortised cost	62	62
Derivative assets	FVTPL (Trading)	FVTPL (mandatory)	37	37
Loans and advances to banks	Loans and receivables	Amortised cost	1,518	1,518
Loans and advances to customers	Loans and receivables	Amortised cost	18,370	18,260
Debt securities- AFS	Available-for-sale	FVOCI	784	784
Debt securities - HTM	Amortised cost	Amortised cost	1,194	1,193
Equity securities	Available-for-sale	FVOCI (designated)	12	12

There were no changes in the classification of financial liabilities.

Notes to the Interim Financial Statements (Unaudited)

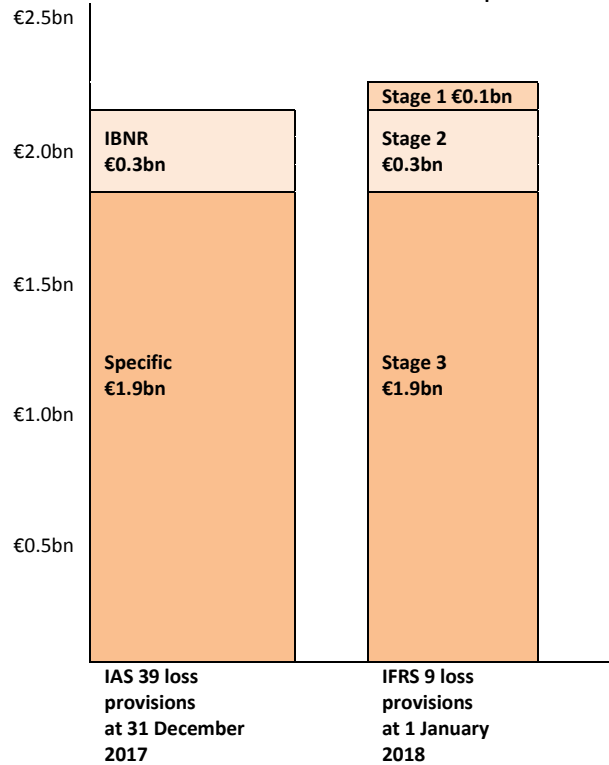
2. Transition to IFRS 9 (continued)

Impairment reconciliation

The following table reconciles the closing impairment provision (recognised in accordance with IAS 39) as at 31 December 2017 to the opening ECL allowances (in accordance with IFRS 9) as at 1 January 2018 for all loan portfolios.

Provision Walk

Reconciliation of movement from IAS 39 to IFRS 9 loss provisions



On transition to IFRS 9 on 1 January 2018 all loans classified in Stage 3 constitute impaired loans and do not include purchased or originated or credit impaired loans.

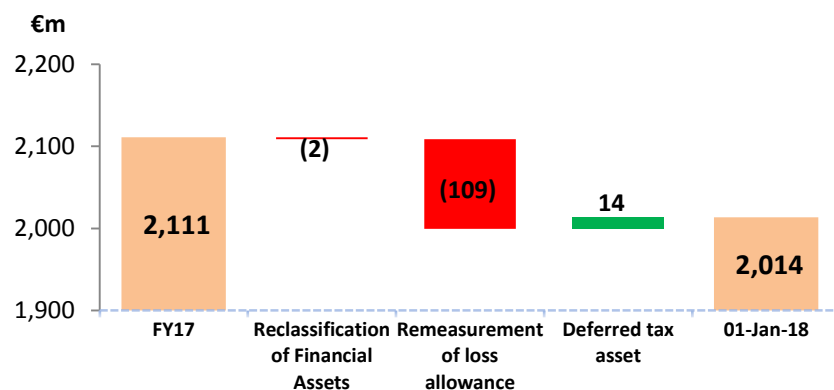
Notes to the Interim Financial Statements (Unaudited)

2. Transition to IFRS 9 (continued)

Revenue reserves reconciliation

The following table sets out the impact of transitioning to IFRS 9 on 1 January 2018 to opening revenue reserves.

Impact on reserves



As set out in the table above the introduction of IFRS 9 has increased the total impairment allowance held by PTSB by €95m (net of tax), from €2.2bn as at 31 December 2017 to €2.3bn as at 1 January 2018, as a result of earlier recognition of impairment allowances.

Analysis of loans and advances to customers

1 January 2018

	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Loans and advances to customers	11,650	3,261	3,342	7	18,260
Total loans and advances to customers	11,650	3,261	3,342	7	18,260

Notes to the Interim Financial Statements (Unaudited)

3. Operating segments

The Group reports one operating segment which is in line with IFRS 8 'Operating segments'.

In line with IFRS 8, the Group also reports revenue from external customers for each major group of products and services. The amount of revenue reported is based on the financial information used to produce the Group's financial statements. The Group also reports revenue and non-current assets on a geographical basis; Ireland and IOM.

There is no single external customer whose revenue accounted for 10% or more of total Group revenue as at 30 June 2018.

Previously the Group reported two operating segments; 'Core Bank' and 'Non-Core'. For the financial year ended 31 December 2017, the Non-Core segment comprised a single subsidiary held by the Group in the Isle of Man; Permanent Bank International Limited (PBI). During 2017, the decision was taken to close PBI and to begin an orderly wind-down of the business. The banking license for PBI was surrendered in December 2017 and PBI legally changed its name to PBI Ltd.

The Executive Committee (ExCo) as the Chief Operating Decision Maker (CODM) is responsible for implementing the strategic management of the Group as guided by the Board. The ExCo reviews key performance indicators and internal management reports on a monthly basis.

Notes to the Interim Financial Statements (Unaudited)

3. Operating segments (continued)

3.1 Revenue from external customers for each major group of products and services

The main products from which the Group earns external revenue include: mortgages; consumer finance; treasury assets; deposits and current accounts and; wholesale funding. The net interest income from these products is set out in the table below.

Net interest income from external customers split by product

	30-Jun-18	30-Jun-17
	€m	€m
Mortgages	199	212
Consumer finance*	15	15
Treasury assets	21	29
Deposits and current accounts	(28)	(40)
Wholesale funding	(14)	(13)
Total	193	203

*Consumer finance comprises income from term loans, credit cards and overdrafts.

3.2 Profit for the period based on geographical location

30 June 2018

	Ireland	IOM*	Total
	€m	€m	€m
Net interest income			
From external customers	193	-	193
From internal customers	-	-	-
Total net interest income	193	-	193
Other banking income	28	-	28
Net other operating income	13	-	13
Total operating income	234	-	234
Total operating expense excluding exceptional items, depreciation and amortisation	(164)	-	(164)
Depreciation of property and equipment	(6)	-	(6)
Amortisation of intangible assets	(6)	-	(6)
Total operating expense excluding exceptional items	(176)	-	(176)
Operating profit before charge for impairments and exceptional items	58	-	58
Charge for impairment of loans and advances and collateral in possession	-	-	-
Operating profit/profit before exceptional items	58	-	58
Exceptional items (net)			(1)
Profit before taxation			57
Taxation			(1)
Profit for the period			56

* This is based on geographical location and reflects group intercompany activity with PBI Ltd.

30 June 2017*

	Ireland	IOM**	Total
	€m	€m	€m
Net interest income			
From external customers	204	(1)	203
From internal customers	(2)	2	-
Total net interest income	202	1	203
Other banking income	17	-	17
Net other operating income	1	-	1
Total operating income	220	1	221
Total operating expense excluding exceptional items, depreciation and amortisation	(150)	(1)	(151)
Depreciation of property and equipment	(6)	-	(6)
Amortisation of intangible assets	(5)	-	(5)
Total operating expense excluding exceptional items	(161)	(1)	(162)
Operating profit before charge for impairments and exceptional items	59	-	59
Charge for impairment of loans and advances and collateral in possession	(6)	-	(6)
Operating profit/profit before exceptional items	53	-	53
Exceptional items (net)			(10)
Profit before taxation			43
Taxation			(7)
Profit for the period			36

* Comparative information has been restated to reflect the operating segments as at 30 June 2018.

* The amounts for the period ended 30 June 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts, as allowed under the standard, have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

** This is based on geographical location and reflects group intercompany activity with PBI Ltd.

Notes to the Interim Financial Statements (Unaudited)

3. Operating segments (continued)

3.3 Assets and liabilities based on geographical location

30 June 2018

	Ireland	IOM*	Other reconciling items	Total
	€m	€m	€m	€m
Assets				
Held for sale	1,531	-	-	1,531
Other assets	21,405	115	(110)	21,410
Total segment assets	22,936	115	(110)	22,941
Total segment liabilities	21,008	5	(110)	20,903
Capital expenditure for the half year ended 30 June 2018	7	-	-	7

* This is based on geographical location and reflects group intercompany activity with PBI Ltd.

31 December 2017*

	Ireland	IOM**	Other reconciling items	Total
	€m	€m	€m	€m
Assets				
Held for sale	161	-	-	161
Other assets	22,613	110	(108)	22,615
Total segment assets	22,774	110	(108)	22,776
Total segment liabilities	20,769	1	(108)	20,662
Capital expenditure for the financial year ended 31 December 2017	33	-	-	33

*Comparative information has been restated to reflect the operating segments as at 30 June 2018.

** This is based on geographical location and reflects group intercompany activity with PBI Ltd.

Notes to the Interim Financial Statements (Unaudited)

4. Net interest income

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
Interest income		
Loans and advances to customers	214	226
<i>Debt securities and other fixed-income securities</i>		
- Held to maturity	-	12
- Available for sale (AFS)	-	15
- Loans and receivables	-	2
- Hold to collect (HTC)	12	-
- Hold to collect and sell (HTC&S)	9	-
	235	255
Interest expense		
Deposits from banks (including central banks)	(2)	(3)
Due to customers	(28)	(40)
Interest on debt securities in issue	(7)	(8)
Fees payable on ELG Scheme (note 29)	-	(1)
Loans and advances to banks	(2)	-
Losses on interest rate hedges on financial assets	(3)	-
	(42)	(52)
Net interest income	193	203

* The Group transitioned to IFRS 9 for classification and measurement on 1 January 2018; the criteria for classifying financial assets for measurement are significantly different than those under IAS 39. Refer to note 1, section 1.6 'Changes in Accounting Policy' and note 2 'Transition to IFRS 9' for details of the change.

Included in net interest income are interest rate fair value hedges which include gains on hedging instruments of €4m (30 June 2017: €15m) and losses on hedged items attributable to hedged risk of €4m (30 June 2017: €15m). Also included in net interest income is €3m relating to the amortisation of the loss on early terminated swaps that were previously held in order to hedge a portion of our HTC&S (previously AFS) debt securities portfolio.

Net interest income includes a charge in respect of deferred acquisition costs on loans and advances to customers of €8m (30 June 2017: €8m).

At 31 December 2017, interest recognised on impaired loans and advances to customers was €78m.

Notes to the Interim Financial Statements (Unaudited)

5. Administrative, staff and other expenses (excluding exceptional items)

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
Staff costs (as detailed below)	75	75
General and administrative expenses	56	58
Other expenses	15	-
Administrative, staff and other expenses (excluding exceptional items)	146	133

General and administrative expenses include operating lease rentals on land and buildings of €4m (30 June 2017: €3m).

Other expenses relate to legal, compliance and other costs in relation to legacy tracker mortgage issues.

Staff costs

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
Wages and salaries including commission payable to sales staff	62	62
Social insurance	7	7
Pension costs	6	6
Total staff costs	75	75

Staff numbers

The number of staff employed are broken down by geographical location for 30 June 2018 and 30 June 2017 in the table below.

Closing and average number of staff (including Executive Directors) employed during the period are as follows:

	Closing staff numbers		Average staff numbers	
	Half year ended 30 June 2018	Half year ended 30 June 2017	Half year ended 30 June 2018	Half year ended 30 June 2017
Ireland	2,485	2,520	2,397	2,431
Isle of Man	1	10	4	10
Total number of staff	2,486	2,530	2,401	2,441

6. Regulatory charges

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
BRRD levy	6	7
Deposit guarantee scheme (DGS)	12	11
Regulatory charges	18	18

7. Exceptional items

At 30 June 2018 exceptional items amounted to €1m. This comprises a €1m charge relating to the restructure of the Group's distribution model.

At 30 June 2017 exceptional items amounted to €10m. This comprised a €7m charge relating to the restructuring of the Group's distribution model, €1m relating to the wind-down of the Group's IOM deposit book entity (PBI Ltd) and other net costs relating to previously deleveraged portfolios.

Notes to the Interim Financial Statements (Unaudited)

8. Taxation

(A) Analysis of taxation charge

	Half year ended 30 June 2018	Half year ended 30 June 2017
	€m	€m
Current taxation		
Charge for current period	1	-
	1	-
Deferred taxation		
Origination and reversal of temporary differences	-	7
Taxation charged to Income Statement	1	7
Effective tax rate	2%	16%

Income tax expense is recognised based on Management's best estimate of the annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

The Group taxation charge for the half year ended 30 June 2018 was €1m; (30 June 2017: €7m). This is made up of a current tax charge of €1m and a deferred tax charge of €nil.

(B) Tax effects of each component of other comprehensive income

Half year ended 30 June 2018

	Gross €m	Tax €m	Net €m
Revaluation reserve:			
- Revaluation of property	-	(5)	(5)
Fair value reserve:			
- Change in fair value reserve	(21)	2	(19)
Balance as at 30 June 2018	(21)	(3)	(24)

Half year ended 30 June 2017

	Gross €m	Tax €m	Net €m
AFS Reserve			
- Change in fair value of AFS securities	(19)	2	(17)
Balance as at 30 June 2017	(19)	2	(17)

Notes to the Interim Financial Statements (Unaudited)

9. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	30 June 2018	31 December 2017
	€m	€m
Cash and balances with central banks	53	62
Items in the course of collection	34	28
Loans and advances to banks repayable on demand (maturity of less than 3 months) (note 13)	1,368	1,518
	1,455	1,608
Restricted cash included in loans and advances to banks repayable on demand	(491)	(578)
Cash and cash equivalents per statement of cash flows	964	1,030

As at 30 June 2018, restricted cash of €491m (31 December 2017: €578m) comprised cash of €456m (31 December 2017: €485m) held by the Group's securitisation entities and €35m (31 December 2017: €93m) which related to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

10. Debt securities

	30 June 2018				
	Hold to collect (HTC) ¹	Hold to collect and sell (HTC&S) ²	Held to maturity (HTM)	Available for sale (AFS)	Total
	€m	€m	€m	€m	€m
Government bonds	1,965	623	-	-	2,588
Gross debt securities	1,965	623	-	-	2,588

¹ HTC: previously classified as 'HTM' under IAS 39.

² HTC&S: previously classified as 'AFS' under IAS 39.

	31 December 2017				
	HTC	HTC&S	HTM	AFS	Total
	€m	€m	€m	€m	€m
Government bonds	-	-	1,194	784	1,978
Gross debt securities	-	-	1,194	784	1,978

All debt securities at 30 June 2018 and 31 December 2017 were listed.

Debt securities with a carrying value of €nil (31 December 2017: €0.11bn) have been pledged to third parties in sale and repurchase agreements.

As at 30 June 2018, all debt securities are available to be used and eligible as collateral (though eligibility will depend on the criteria of the counterparty) in sale and repurchase agreements.

Hold to collect securities of €1.97bn comprise Irish and Spanish bonds. They represent securities with fixed maturities, fixed and determinable cash flows, which the group has the ability and intention to hold to maturity.

(A) HTC and HTC&S

Debt securities that are managed on a HTC&S basis are accounted for at FVOCI. Debt securities that are managed on a HTC business model basis are accounted for at amortised cost. All debt securities at 30 June 2018 are Stage 1.

The movement in HTC and HTC&S securities may be classified as follows:

	30 June 2018		31 December 2017	
	HTC ¹	HTC&S ²	HTM	AFS
	€m	€m	€m	€m
As at 1 January	1,194	784	1,151	1,277
Change in fair value	-	(16)	-	(54)
Additions	788	-	275	-
Maturities/disposals	-	(145)	(200)	(433)
Interest net of cash receipts	(17)	-	(32)	(6)
At 30 June/31 December	1,965	623	1,194	784

¹ HTC: previously classified as 'HTM' under IAS 39.

² HTC&S: previously classified as 'AFS' under IAS 39.

Notes to the Interim Financial Statements (Unaudited)

10. Debt securities (continued)

(B) Amounts arising from impairment provisioning on debt securities:

(i) Held at amortised cost

	30 June 2018			31-Dec-17
	Stage 1	Stage 2	Stage 3	Total impairment
	€m	€m	€m	€m
HTC Debt securities				-
IFRS 9 transitional adjustment at 1 January	1	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Changes in models/risk parameters	-	-	-	-
At 30 June/31 December	1	-	-	-

(ii) Held at FVOCI

As at 30 June 2018, the amount arising from ECL on debt securities measured at FVOCI is €0.1m. Furthermore, the ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to provision for credit losses in the income statement. The accumulated allowance recognised in OCI is recycled to the income statement on derecognition of the debt instrument. The loss allowance on these securities are reclassified from the fair value reserve to the profit & loss because the carrying value of debt securities at FVOCI (2017: AFS) is their fair value.

11. Equity securities

	30 June 2018	31 December 2017
	€m	€m
As at 1 January	12	9
Revaluation	1	3
Total equity investments	13	12

The carrying value of equity securities can be analysed as follows:

	30 June 2018	31 December 2017
	€m	€m
Unlisted	13	12
Gross equity securities	13	12

The Company was a Principal Member of Visa Europe Ltd. (Visa Europe) and as such owned one share in Visa Europe with a fair value of €23m at 31 December 2015. In June 2016, all shares in Visa Europe were sold with Principal Members receiving consideration in the form of upfront cash consideration, deferred cash and preferred stock in Visa Inc.

The Company continues to hold the preferred stock in Visa Inc. at 30 June 2018. This was fair valued at €13m at 30 June 2018 and is recognised in the Statement of financial position (31 December 2017: €12m).

The fair value of this shareholding in Visa Inc. is classified as level 3 as the valuation of the share includes inputs that are based on unobservable market data (refer to note 26 for further details).

Notes to the Interim Financial Statements (Unaudited)

12. Derivative assets/liabilities

Derivative instruments are used by the Group to hedge against interest rate risk and foreign currency risk. On 1 January 2018, the Group adopted International Financial Reporting Standard 9: Financial Instruments (IFRS 9), which introduced new requirements for the recognition and measurement of credit impairment provisions, the classification and measurement of financial instruments and provides for a simplified approach to hedge accounting.

Certain derivative instruments do not fulfil the hedge accounting criteria under IFRS 9 and are consequently classified as held for trading. All derivatives are carried at fair value.

The derivative instruments used by the Group include:

- Currency forward rate contracts which are commitments to purchase and sell currencies, including undelivered spot transactions; and
- Interest rate swaps which are commitments to exchange one set of cash flows for another.

Further details on the Group's risk management policies are set out in note 33 of the 2017 Annual Report.

Derivatives held by the Group are analysed as follows:

	30 June 2018			31 December 2017		
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
	€m	€m	€m	€m	€m	€m
Designated as fair value hedges						
Interest rate swaps*	344	17	20	355	16	23
	344	17	20	355	16	23
Held for trading						
Forwards	115	-	1	75	-	-
Interest rate swaps	113	19	14	744	21	24
	228	19	15	819	21	24
Embedded derivatives	-	-	-	7	-	1
	-	-	-	7	-	1
Derivative assets & liabilities as per the statement of financial position	572	36	35	1,181	37	48

*Embedded derivatives are not included in the contract/notional amount in the interest rate swaps.

13. Loans and advances to banks

	30 June 2018	31 December 2017
	€m	€m
Held at amortised cost		
Placed with central banks	713	805
Placed with other banks	655	713
Total loans and advances to banks	1,368	1,518

Placements with other banks includes restricted cash of €491m (31 December 2017: €578m) of which €456m (31 December 2017: €485m) is held by the Group's securitisation entities and €35m (31 December 2017: €93m) which relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Loans and advances to banks amounting to €1,368m as at 30 June 2018 (31 December 2017: €1,518m) have an original maturity of less than three months and therefore have been treated as cash and cash equivalents, with the exception of restricted cash as noted above.

Notes to the Interim Financial Statements (Unaudited)

14. Loans and advances to customers

Loans and advances by category are set out below:

	30 June 2018	31 December 2017
	€m	€m
Residential mortgages		
Held through special purpose entities	10,127	12,554
Held directly	9,746	7,493
	19,873	20,047
Commercial mortgage loans	119	224
Consumer finance (term loans/other)	302	345
Gross loans and advances to customers	20,294	20,616
Less: provision for impairment (note 15)	(2,249)	(2,246)
Loan assets classified as held for sale (note 30)	(1,313)	-
Net loans and advances to customers	16,732	18,370

Loans and advances can be analysed into tracker, fixed and variable-rate loans as follows:

	Gross loans and advances to customers		Net loans and advances to customers*	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	€m	€m	€m	€m
Tracker rate	12,350	12,688	10,832	11,225
Variable rate	6,616	6,953	5,899	6,179
Fixed rate	1,328	975	1,314	966
	20,294	20,616	18,045	18,370

*Includes net assets held for sale of €1,313m at 30 June 2018.

The Group has established a number of securitisation entities. This involved transferring the Group's interest in pools of residential mortgages to a number of special purpose entities which issued mortgage-backed floating-rate notes to fund the purchase of the interest in the mortgage pools. The notes are secured by a first fixed charge over the residential mortgages in each pool and may be sold to investors or held by the Group and used as collateral for borrowings.

Notes to the Interim Financial Statements (Unaudited)

14. Loans and advances to customers (continued)

Details of the residential mortgage pools sold to special purpose entities and the notes issued by the special purpose entities are included below:

	30 June 2018	31 December 2017
	€bn	€bn
Residential mortgages held through special purpose entities	10.1	12.6
Notes issued by special purpose entities		
- rated	7.1	8.1
- unrated	3.0	4.5

The notes issued by these special purpose entities comprise the following:

	30 June 2018	31 December 2017
	€bn	€bn
- Sold to third parties and included within debt securities in issue (non-recourse) on the Statement of financial position (note 20)	1.2	1.3
- Held by the ECB as collateral in respect of funds raised under the euro system funding programme (note 18)	0.6	0.5
- Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements (note 18)	2.4	1.7
- Other		
Available collateral*	2.9	4.6
Unrated notes	3.0	4.5
	10.1	12.6

* The eligibility of available collateral will depend on the criteria of the counterparty.

Notes to the Interim Financial Statements (Unaudited)

15. Impairment provisions

Loans and advances to customers

The Group adopted IFRS 9 'Financial instruments' on 1 January 2018 and as allowed under the standard did not restate comparative periods. Accordingly, the impairment provision balances set out in the table below are not directly comparable, where the impairment balances for 31 December 2017 are presented on an IAS 39 basis, with the 30 June 2018 balances presented on an IFRS 9 basis.

Under IAS 39, a financial asset or group of financial assets were impaired and impairment losses were incurred if, and only if, there was objective evidence of impairment (a loss event). Losses as a result of a future event (expected losses), no matter how likely, were not recognised. In contrast, the IFRS 9 impairment model looks at the movement in the credit risk of an asset since its origination and requires recognition of lifetime expected loan losses when there is a significant increase in credit risk (12 month expected credit loss where credit risk has not increased significantly), regardless of whether there has been an actual loss event.

The non-performing loan balance as at 30 June 2018 were €5,050m (31 December 2017: €5,285m). Refer to note 27 for further details.

30 June 2018*	Loans and advances to customers	NPL % of total loans	ECL provisions					Total ECL provisions as % of total loans
			NPLs	Stage 1	Stage 2	Stage 3	Total	
	€m	€m	%	€m	€m	€m	€m	%
Residential:								
- Home loans	14,851	3,701	25%	33	46	1,248	1,327	9%
- Buy-to-let	4,964	1,274	26%	10	321	531	862	17%
Commercial	119	48	40%	1	8	26	35	29%
Consumer finance:								
- Term loans / other	302	27	9%	2	4	19	25	8%
Total gross loans	20,236	5,050	25%	46	379	1,824	2,249	11%
Impairment provision	(2,249)							
Assets classified as held for sale (note 30)	(1,313)							
Deferred fees, discounts and fair value adjustments	58							
Balance as at 30 June	16,732							

*The amounts as at 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 2 for further detail on transition to IFRS 9 on 1 January 2018).

31 December 2017*	Loans and advances to customers	Impaired loans	Impaired % of total loans	Impairment Provisions			Total provisions as % of impaired loans	Total provisions as % of total loans
				Specific	IBNR	Total		
	€m	€m	%	€m	€m	€m	%	%
Residential:								
- Home loans	15,037	3,259	22%	1,300	137	1,437	44%	10%
- Buy-to-let	4,953	1,083	22%	530	159	689	64%	14%
Commercial	224	68	30%	36	35	71	104%	32%
Consumer finance:								
- Term loans / other	345	53	15%	47	2	49	92%	14%
Total gross loans	20,559	4,463	22%	1,913	333	2,246	50%	11%
Impairment provision	(2,246)							
Deferred fees, discounts and fair value adjustments	57							
Balance as at 31 December	18,370							

*The amounts as at 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 2 for further detail on transition to IFRS 9 on 1 January 2018).

Notes to the Interim Financial Statements (Unaudited)

15. Impairment provisions (continued)

A reconciliation of the provision for impairment losses for loans and advances is as follows:

2018*

	Residential mortgages	Commercial	Consumer finance	Total
	€m	€m	€m	€m
Total				
At 31 December 2017 (IAS 39)	2,126	71	49	2,246
<i>Impact of adopting IFRS 9 at 1 January 2018</i>				
Increase/(decrease) in ECL allowances	115	(17)	10	108
Application of Purchased Originated Credit Impaired accounting	-	-	(31)	(31)
At 1 January 2018 (IFRS 9)	2,241	54	28	2,323
Portfolio reclassification	13	(13)	-	-
Charge/(write-back) for the period (as per Income statement)	(3)	3	-	-
Decrease in loss allowance due to utilisation (write-offs)**	(82)	(10)	-	(92)
Increase due to interest booked but not recognised	20	1	1	22
As at 30 June	2,189	35	29	2,253
ECL provision on loan commitments issued (see note 22)	-	-	(4)	(4)
As at 30 June	2,189	35	25	2,249

*The amounts as at 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 for further detail on transition to IFRS 9 on 1 January 2018).

** The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier than collateral realisation.

2017*

	Residential mortgages	Commercial	Consumer finance	Total
	€m	€m	€m	€m
Total				
As at 1 January	2,336	81	65	2,482
Charge/(write-back) for the period (as per Income statement)	49	(2)	1	48
Increase due to interest booked but not recognised	66	1	2	69
Unwinding of discount	(36)	(2)	-	(38)
Amounts written off**	(25)	(13)	(23)	(61)
Recoveries	1	-	4	5
Collateral in repossession write-off	(269)	4	-	(265)
Other	4	2	-	6
As at 31 December	2,126	71	49	2,246

*The amounts as at 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 for further detail on transition to IFRS 9 on 1 January 2018).

** The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier than collateral realisation.

Notes to the Interim Financial Statements (Unaudited)

16. Deferred taxation

	30 June 2018	31 December 2017
	€m	€m
Deferred tax liabilities	(22)	(18)
Deferred tax assets	376	361
Net deferred tax assets	354	343

	30 June 2018	31 December 2017
	€m	€m
At 1 January	343	353
Recognised through Income statement (note 8)	-	(12)
Recognised in reserves - transitional adjustment	14	-
Recognised in reserves - other	(3)	2
At end of period	354	343

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The recognition of a deferred tax asset relies on Directors' judgements surrounding the probability and adequacy of future taxable profits.

The most important judgement relates to the Directors' assessment of the recoverability of the deferred tax asset relating to carried forward tax losses, being €361m at 30 June 2018. It should be noted that the full deferred tax asset on tax losses relates to tax losses generated the Company legal entity (i.e. no deferred tax asset is being recognised on tax losses carried forward in any other Group company). The assessment of recoverability of this asset requires significant judgements to be made about the projection of long-term profitability because of the period over which recovery extends. In addition, given the Company's history of recent losses, in accordance with IAS 12, there must be other convincing other evidence to underpin this assessment.

In making this assessment, the Board considered the following factors:

- The improving macroeconomic environment including the continued growth in GDP, the continued decline in unemployment and the continued increase in house prices;
- External forecasts for the Irish economy which indicate continued and increasing economic recovery in the medium term;
- The significant progress made on the deleveraging of the Non-Core portfolios in recent years with the completion of the sale of the Group's remaining UK business and the Group's Isle of Man business;
- The current expected trajectory of the Group's financial performance and return to profitability;
- The improved commercial performance; and
- The Group's projected liquidity and capital position.

The Board recognises the inherent uncertainties in any long-term financial assumptions and projections and therefore, in making their assessment have balanced consideration of the above factors with the following:

- The absolute level of deferred tax assets on tax losses compared to the Group's equity;
- The quantum of profits required to be generated to utilise the tax losses and the extended period of time over which these profits are projected to be generated;
- The challenge of forecasting over an extended period and in particular taking account of external factors such as the level of competition and disruptors to the market and market size;
- Consideration of the assumptions underpinning the Group's financial projections (on which analysis of the recoverability of the deferred tax asset on tax losses are based). The key relevant assumptions considered being:
 - No material change to the Group's business activities in the medium term;
 - Further progress in addressing the Group's legacy, non-performing assets;
 - NIM is expected to be positively impacted by the evolution of the Group's lending book as new lending volumes are added and lower yielding tracker mortgages pay down; however, further material reductions in cost of funds are considered unlikely;
 - An expectation that market size will begin to return to normalised levels together with further anticipated growth in the Group's market share;
 - Continued focus on cost management; and
 - The cost of risk will gradually return to normalised levels reflecting the Group's assessment of the medium to long term average.
- Consideration of forecasting risks, including sensitivity analysis on the financial projections, such sensitivity analysis including the effect of higher than expected impairments, cost of funds or operating expenditure, and lower than expected asset yields, new lending or ECB rates; and
- Potential implications for the Irish economy resulting from global political uncertainty.

Taking the above factors into account, and in the absence of any expiry date for the utilisation of carried forward tax losses in Ireland, the Board have concluded that it is more likely than not that there will be sufficient taxable profits against which the losses can be utilised and on the basis of the assessment above, continue to recognise €361m of a deferred tax asset on tax losses on the statement of financial position at 30 June 2018.

In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset arising on tax losses carried forward. Based on the Group's latest forecast plans to 2021 and assuming a level of profitability growth consistent with GDP growth of approximately 2.5%, it will take c. 23 years for the deferred tax asset on tax losses of €361m to be utilised. A level of profitability consistent with GDP growth continues to be considered by Management to be appropriate given the Group's primarily domestic retail focus and the expectation arising therefrom that, over the long-term, the Group's performance would be expected to broadly track the performance of the Irish economy.

Notes to the Interim Financial Statements (Unaudited)

16. Deferred taxation (continued)

IFRS does not allow for the deferred tax asset recognised to be discounted notwithstanding that it is likely to take a number of years for it to be recovered.

The recognition of this deferred tax asset is dependent on the Group earning sufficient profits to utilise the tax losses. The quantum of, and timing of these profits is a source of significant estimation uncertainty. However, as a principle, the Group is expecting to be profitable in the medium-term. Consequently, the key uncertainty relates principally to the time period over which these profits will be earned. Whilst the Group may be relatively more or less profitable in certain periods owing to various factors such as the interest rate environment, loan loss provisions, operating costs, the regulatory environment and implementation of the Group's NPL strategy, Management expects that, notwithstanding these, the Group will be profitable in the long term. Consequently, any change to these factors which would ultimately impact on profitability, are highly subjective, but will only impact on the time period over which this asset is recovered.

The following information has not been subject to review by the Group's independent auditor.

Finally, it should be noted that the full net deferred tax asset is not currently included in the PTSBGH's CET1 capital. This is due to the fact that, under CRD IV/CRR, PTSBGH was required to begin deducting deferred tax assets that rely on future profitability from CET1 capital in 2014. Transitional arrangements provide for the phasing-out of such assets over a period from 2014 to 2023 with full deduction from 2024. The net deferred tax asset that is reliant on future profitability that is included in CET1, and subject to deduction on a phased basis until 2023, is €204m as at 30 June 2018 (31 December 2017: €240m).

17. Other assets

	30 June 2018	31 December 2017
	€m	€m
Collateral in possession	-	30
Other	9	9
Amounts due from parent entity	5	3
	14	42

As at 30 June 2018, Management assessed its intention with all collateral held in its possession and has reclassified the balances from 31 December 2017 to held for sale as it is highly probable that these properties will be sold within 12 months, see note 30 for further details.

Notes to the Interim Financial Statements (Unaudited)

18. Deposits by banks (including central banks)

	30 June 2018	31 December 2017
	€m	€m
Placed by the ECB	230	230
Placed by other banks and institutions on repurchase agreements	2,151	1,610
Other deposits	1	2
Deposits by banks	2,382	1,842
Balances placed by the ECB		
Maximum	230	1,780
Average	230	518

The Group holds €0.2bn (31 December 2017: €0.2bn) of deposits from the ECB which are secured on €0.6bn (31 December 2017: €0.5bn) of notes issued by special purpose entities controlled by the Group.

Of the deposits received on repurchase agreements, €2.2bn (31 December 2017: €1.5bn) are collateralised on €2.4bn (31 December 2017: €1.7bn) of notes issued by special purpose entities controlled by the Group. The notes issued by special purpose entities are secured by a first fixed charge over residential mortgages held by the special purpose entities (refer to note 14).

Other deposits include €1m (31 December 2017: €2m) of cash collateral placed in relation to repurchase agreements.

19. Customer accounts

	30 June 2018	31 December 2017
	€m	€m
Term deposits	7,679	8,050
Demand deposits	3,714	3,568
Current accounts	4,055	3,697
Notice and other accounts	1,669	1,680
Customer accounts	17,117	16,995

€0.3bn of deposits are placed by a Government institution (31 December 2017: €0.1bn) which are included within term deposits.

An analysis of the contractual maturity profile of customer accounts is set out in the liquidity risk section of note 27.

Notes to the Interim Financial Statements (Unaudited)

20. Debt securities in issue

	30 June 2018	31 December 2017
	€m	€m
At amortised cost:		
Bonds and medium-term notes	18	321
Non-recourse funding	1,193	1,312
	1,211	1,633
Maturity analysis		
Repayable in less than 1 year	-	304
Repayable in greater than 2 years but less than 5 years	8	7
Repayable in greater than 5 years	1,203	1,322
	1,211	1,633

Bonds & Medium Term Notes ("MTNs")

During the period, €0.3bn of MTNs matured (31 December 2017: €0.05bn).

Non-recourse funding

As at 30 June 2018, the Group had advances of €1.2bn (31 December 2017: €1.3bn) collateralised on residential property loans of €1.2bn (31 December 2017: €1.3bn) subject to non-recourse funding by way of residential mortgage securitisations. Residential mortgage securitisations involve transferring the interest in pools of mortgages to special purpose entities which issue mortgage-backed floating rate notes, to fund the purchase of the interest in mortgage pools. These loans, which have not been de-recognised, are shown within loans and advances to customers while the non-recourse funding is shown as a separate liability.

Non-recourse funding reduced by €119m between 31 December 2017 and 30 June 2018 to €1,193m due to the repurchase of certain mortgage loans from the Group's asset backed securities for Project Glas, resulting in the acceleration of principal repayment of debt securities in issue.

Under the terms of these securitisations, the rights of the providers of the related funds are limited to the mortgage loans in the securitised portfolios together with any related income generated by the portfolios and the subordinated loans provided by the Group, without further recourse to the Group. During the term of the transactions, any amounts realised from the portfolios in excess of that due to the providers of the funding, less any related administrative costs, will be paid to the Group. The providers of this funding have agreed in writing (subject to the customary warranties and covenants) that they will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the mortgages and related security and any subordinated loans provided by the Group, and that they will not seek recourse in any other form.

21. Other liabilities

	30 June 2018	31 December 2017
	€m	€m
Amounts falling due within one year		
PAYE and social insurance	4	4
Other taxation including DIRT	1	3
Other	55	41
	60	48

Notes to the Interim Financial Statements (Unaudited)

22. Provisions

Loan commitments issued and other provisions recognised under IAS 37

	30 June 2018	31 December 2017
	€m	€m
Loan commitments issued	4	-
Other provisions recognised under IAS 37	61	63
	65	63

Loan commitments issued

The amount in respect of certain loan commitments issued represents an ECL provision of €4m.

Other provisions recognised under IAS 37

	2018				2017			
	Restructuring costs	Provision for legacy legal and compliance issues	Other	Total	Restructuring costs	Provision for legacy legal and compliance issues	Other	Total
	€m	€m	€m	€m	€m	€m	€m	€m
As at 1 January	12	45	6	63	4	74	6	84
Provisions made during the period	1	19	-	20	12	9	5	26
Write-back of provisions during the year	-	-	-	-	(1)	(4)	(4)	(9)
Provisions used during the period	(7)	(15)	-	(22)	(3)	(34)	(1)	(38)
As at 30 June/31 December	6	49	6	61	12	45	6	63

Provisions recognised under IAS 37 at 30 June 2018 of €61m (31 December 2017 €63m) comprise the following:

Restructuring costs

The provision relates to restructuring costs associated with changes to the Group's distribution model and back office function as well as the cost of onerous contracts.

During 2017 the Group announced changes to the Group's distribution model, including changes to the Branch Network and a restructure of its Operations Function. At June 2018, €7m has been utilised and estimated remaining costs to deliver these changes are in the region of €3m, with the majority of this provision being utilised within 12 months.

The Group remains a lessee on a number of non-cancellable leases over properties that it no longer occupies, following a restructure in 2013. At June 2018 the provision of €2m (31 December 2017: €3m) relates to leases on properties of up to twelve years and is calculated as the present value of future lease payments. It is expected that €0.5m of this provision will be utilised in the next 12 months.

Provision for legacy, legal and compliance issues

The Group has recognised provisions of €49m which relate to legal, compliance and other costs of on-going disputes in relation to legacy business issues.

This includes €36m relating to Tracker mortgage issues including those related to the on-going enforcement investigation by the Central Bank of Ireland (CBI) primarily focused on the Group's compliance with the Consumer Protection Codes in respect of tracker mortgage related customers and the industry-wide CBI Tracker Mortgage Examination (TME). As at the end of 2017 redress and compensation had been offered to all impacted customers identified by the Bank; and as at 30 June 2018, payments have been made for 97% of impacted accounts. The Group has determined in 2018 that a further €15m (over and above that provided at the end of 2017) is required to cover the increased costs of closing out Tracker mortgage issues. During the period ended 30 June 2018, the Group have engaged and corresponded with the CBI and the CBI's enforcement investigation and TME assurance work has progressed further, but there is no certainty as to when the CBI will conclude this work or what the outcome will be. Management has considered on-going uncertainties that may impact on the provision. These include uncertainties relating to engagement with the CBI on the enforcement investigation and on-going TME, the outcome of both including any potential regulatory fine and additional compensation and costs arising from appeals taken by customers through the Appeals process, the FSPO or the Courts. Management has exercised judgement in arriving at the estimated provision in respect of these uncertainties. Depending on the outcome of such uncertainties this could result in material adjustments to the provision in the future. It is expected that €16m will be utilised in the next 12 months.

Other

At June 2018 the provision of €6m (31 December 2017: €6m) primarily relates to indemnities and guarantees provided by the Group, together with further costs, relating to deleveraging of various asset portfolios in prior periods.

Notes to the Interim Financial Statements (Unaudited)

23. Subordinated liabilities

	30 June 2018	31 December 2017
	€m	€m
As at 1 January	23	22
Other Movements	1	1
As at 30 June/31 December*	24	23

	30 June 2018	31 December 2017
	€m	€m
Maturity date		
€24m 0% non-callable lower tier 2 capital notes 2018	24	23
As at 30 June/31 December	24	23

*Included in the closing balance is a hedge accounting adjustment of €nil (31 December 2017: €1m).

All of the above subordinated liabilities are issued by the Company.

Further details of the subordinated liabilities can be found on page 128 in the 2017 Annual Report.

Notes to the Interim Financial Statements (Unaudited)

24. Share capital, reserves and other equity instruments

Share capital

Share capital is the funds raised as a result of a share issue and comprises the ordinary shares of Permanent TSB plc.

Authorised share capital

30 June 2018

	Number of shares	30 June 2018 m
Ordinary shares of €0.32 each	750,000,000	€240
Deferred shares of €1 each	300,000,000	€300
Preference shares of US \$1 each	200,000,000	\$200
Preference shares of Stg £1 each	100,000,000	£100

31 December 2017

	Number of shares	31 December 2017 m
Ordinary shares of €0.32 each	750,000,000	€240
Preference shares of €1 each	300,000,000	€300
Preference shares of US \$1 each	200,000,000	\$200
Preference shares of Stg £1 each	100,000,000	£100

Issued share capital

The movement of paid up ordinary shares at €0.32 cent is as follows

Balances as at 30 June 2018

	30 June 2018	31 December 2017
Issued share capital (number of shares)	276,782,351	276,782,351
Issued share capital (€m)	89	89

Share Premium

The share premium reserve represents the excess of amounts received for share issues less associated issue costs over the par value of those shares of the Company.

Other Reserves

Capital contribution reserve (Distributable)

This reserve comprises the capital contribution received from PTSBGH.

Revaluation reserve (Non-distributable)

The revaluation reserve is a non-distributable reserve comprising unrealised gains or losses, net of tax, on the revaluation of owner occupied properties.

AFS reserve (Non-distributable) (now classified as 'fair value' reserve under IFRS 9)

The AFS reserve comprises unrealised gains or losses, net of tax and hedge accounting, on AFS financial assets which have been recognised at fair value in the statement of financial position.

Fair value reserve (Non-distributable) (previously classified as 'AFS' reserve under IAS 39)

The fair value reserve comprises unrealised gains or losses, net of tax and hedge accounting, on debt and equity instruments measured at FVOCI, less the ECL allowance recognised in profit or loss. On 1 January 2018, the fair value reserve included the cumulative net change in the fair value of available-for-sale financial assets.

Currency translation adjustment reserve (Non-distributable)

The currency translation adjustment reserve represents the cumulative gains and losses, net of hedging on the re-translation of the Group's net investment in foreign operations, at the rate of exchange at the reporting date.

Notes to the Interim Financial Statements (Unaudited)

24. Share capital, reserves and other equity instruments (continued)

Other capital reserves (Non-distributable)

Other capital reserves include €7m capital redemption reserve arising from the repurchase and cancellation of shares.

Retained earnings

Retained earnings include distributable and non-distributable earnings.

On 1 January 2018 the Group adopted IFRS 9. As permitted, the Group has not restated comparative periods on transition to IFRS 9; the measurement difference between the previous carrying amount under IAS 39 and the new carrying amount at the transition date has been reflected through an adjustment of €97m (net of tax) to opening retained earnings.

€11m (2017: €11m) coupon interest on the AT1 securities was paid from this reserve during 2018.

Other equity instruments - Non-distributable

	30 June 2018	31 December 2017
	€m	€m
Additional Tier 1 Securities	122	122

On 6 May 2015, PTSB issued €125,000,000 fixed rate resettable additional tier one securities "AT1 Securities" as part of the Capital Raise.

The AT1 Securities are perpetual financial instruments with an annual coupon of 8.625%. PTSB may elect at its full discretion at any time to cancel permanently (in whole or in part) the interest amount otherwise scheduled to be paid on an interest payment date. PTSB may use such cancelled payments without restriction, including to make distributions or any other payments to the holders of its shares or any other securities issued by the Company. Any cancellation of interest payments will be permanent and on a non-cumulative basis and such cancellation will not give rise to or impose any restriction on PTSB.

On the occurrence of a Trigger Event the AT1 Securities convert into ordinary shares in the Company at a conversion price of €3 per share subject to certain anti-dilution adjustments. This will occur if the Common Equity Tier 1 Capital Ratio of PTSB or the Company at any time falls below 7%. This conversion feature provides the necessary loss absorption for regulatory capital purposes under the Capital Requirements Regulation (CRR).

Although the AT1 Securities are perpetual, PTSB may, in its sole discretion, redeem the AT1 Securities in full on the first reset date being 1 April 2021 and on every interest payment date thereafter (subject to the approval of the Supervisory Authority).

€11m coupon interest on the AT1 Securities was paid in April 2018 (April 2017: €11m) and was classified as a distribution payment. This is paid out of distributable retained earnings.

Notes to the Interim Financial Statements (Unaudited)

25. Analysis of other comprehensive income

The analysis of other comprehensive income below provides additional analysis to the information provided in the primary statements and should be read in conjunction with the condensed consolidated statement of changes of equity.

30 June 2018	Revaluation reserve	Fair value reserve*	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m	€m
Other comprehensive income/(expense) (net of tax)					
Revaluation of property	(5)	-	-	-	(5)
AFS reserve:					
Change in fair value of AFS financial assets	-	-	-	-	-
Fair value reserve (equity instruments):					
Change in value of equity instruments	-	1	-	-	1
Fair value reserve (debt instruments):					
Change in fair value of debt instruments	-	(10)	-	-	(10)
Disposal of debt instruments	-	(10)	-	-	(10)
Total other comprehensive (expense), net of tax	(5)	(19)	-	-	(24)

*Fair value reserve: previously classified as 'available for sale' reserve under IAS 39.

31 December 2017	Revaluation reserve	Available for sale reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m	€m
Other comprehensive income/ (expense) (net of tax)					
Revaluation of property relating to prior years	13	-	-	(13)	-
Revaluation of property	8	-	-	-	8
AFS reserve:					
Change in fair value of AFS financial assets	-	(26)	-	-	(26)
Total other comprehensive income/(expense), net of tax	21	(26)	-	(13)	(18)

30 June 2017	Revaluation reserve	Available for sale reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m	€m
Other comprehensive (expense) (net of tax)					
Revaluation of property	-	-	-	-	-
AFS reserve:					
Change in fair value of AFS financial assets	-	(17)	-	-	(17)
Total other comprehensive (expense), net of tax	-	(17)	-	-	(17)

Notes to the Interim Financial Statements (Unaudited)

26. Measurement basis and fair values of financial instruments

The Group adopted IFRS 9 'Financial instruments' on 1 January 2018. The Group recorded a charge to its opening reserves on 1 January 2018, to reflect the impact of the new requirements for impairment accounting and classification and measurement. Accordingly, the measurement basis for financial instruments set out below is on an IFRS 9 basis for the 6 months ended 30 June 2018 and on IAS 39 basis for the year ended 31 December 2017. Therefore, balances are not directly comparable.

The Group's accounting policy on valuation of financial instruments is described in note 1 of the 2017 Annual Report. The table below sets out an overview of financial instruments held by the Group and their fair values.

30 June 2018

		Held at amortised cost	At fair value through OCI	At fair value through profit or loss	Designated as fair value hedges	Total carrying value	Fair value
	Note	€m	€m	€m	€m	€m	€m
Financial assets:							
Cash and balances with central banks	9	53	-	-	-	53	53
Items in course of collection	9	34	-	-	-	34	34
Debt securities*	10	1,965	623	-	-	2,588	2,637
Equity securities	11	-	13	-	-	13	13
Derivative assets**	12	-	-	19	17	36	36
Loans and advances to banks	13	1,368	-	-	-	1,368	1,368
Loans and advances to customers***	14	18,042	-	-	3	18,045	16,877
Financial liabilities:							
Deposits by banks	18	2,382	-	-	-	2,382	2,383
Customer accounts	19	17,117	-	-	-	17,117	17,139
Debt securities in issue	20	1,210	-	(1)	2	1,211	1,219
Derivative liabilities**	12	-	-	15	20	35	35
Subordinated liabilities	23	24	-	-	-	24	24

31 December 2017

		Held at amortised cost	At fair value through OCI	At fair value through profit or loss	Designated as Fair value hedges	Total carrying value	Fair value
	Note	€m	€m	€m	€m	€m	€m
Financial assets:							
Cash and balances with central banks	9	62	-	-	-	62	62
Items in course of collection	9	28	-	-	-	28	28
Debt securities*	10	1,194	784	-	-	1,978	2,031
Equity securities	11	-	12	-	-	12	12
Derivative assets**	12	-	-	21	16	37	37
Loans and advances to banks	13	1,518	-	-	-	1,518	1,518
Loans and advances to customers***	14	18,366	-	-	4	18,370	17,216
Financial liabilities:							
Deposits by banks	18	1,842	-	-	-	1,842	1,842
Customer accounts	19	16,995	-	-	-	16,995	17,006
Debt securities in issue	20	1,633	-	1	(1)	1,633	1,637
Derivative liabilities**	12	-	-	24	24	48	48
Subordinated liabilities	23	23	-	-	-	23	24

*Debt securities held at amortised cost include €1,965m of hold to collect securities (31 December 2017: held to maturity securities of €1,194m).

**Derivative assets and liabilities held at fair value through the profit and loss relate to derivative instruments deemed to be held for trading.

***Loans and advances to customers include €1,313m of loans and advances to customers classified as held for sale (31 December 2017 : €nil).

Notes to the Interim Financial Statements (Unaudited)

26. Measurement basis and fair values of financial instruments (continued)

Fair value measurement principles

The Group's accounting policy on valuation of financial instruments which is described in note 1 and note 2 of the 2017 Annual Report contains details on the critical accounting estimates and judgements made by management in relation to the fair value measurement of financial instruments. The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques. These techniques are subjective in nature and may involve assumptions which are based upon management's view of market conditions at half year which may not necessarily be indicative of any subsequent fair value. Changes in the assumptions used could have a significant impact on the resulting estimated fair values and, as a result, it may be difficult for the users to make a reasonable comparison of the fair value information disclosed here, against that disclosed by other financial institutions or to evaluate the Group's financial position and therefore are advised to exercise caution in interpreting these fair values. The fair values disclosed above also do not represent, nor should they be interpreted to represent, the underlying value of the Group as a going concern at the reporting date.

The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

A description of the methods, assumptions and processes used to calculate fair values of these assets and liabilities is set out on pages 133 to 134 of the Annual Report for the year ended 31 December 2017. At 30 June 2018, there has been no significant changes to those methods, assumptions or processes.

The following table presents financial instruments that are measured at fair value categorised into the fair value hierarchy.

30 June 2018	Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m
Financial assets measured at fair value				
Debt securities (note 10)	623	-	-	623
Equity instruments (note 11)	-	-	13	13
Derivative assets (note 12)	-	36	-	36

Financial liabilities measured at fair value

Derivative liabilities (note 12)	-	35	-	35
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During the half year ended 30 June 2018, there were no transfers between any of the levels of the fair value hierarchy.

31 December 2017	Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m
Financial assets measured at fair value				
Debt securities				
AFS Debt securities (note 10)	784	-	-	784
Equity instruments (note 11)	-	-	12	12
Derivative assets (note 12)	-	37	-	37

Financial liabilities measured at fair value

Derivative liabilities (note 12)	-	48	-	48
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During the year ended 31 December 2017, there were no transfers between any of the levels of the fair value hierarchy.

Derivative assets and liabilities

Derivative assets of €36m (31 December 2017: €37m) and derivative liabilities of €35m (31 December 2017: €48m) have been classified as level 2 in the fair value hierarchy above. Valuation techniques used for instruments categorised in level 2 are described in note 32 of the 2017 Annual Report.

Reconciliation of level 3 fair value measurements of financial assets

	2018	2017
	€m	€m
Equity instruments - fair value reserve (previously classified as 'available for sale' reserve under IAS 39)		
As at 1 January	12	9
Acquisition	-	-
Revaluation movement	1	3
Disposals	-	-
As at 30 June/31 December	13	12

Equity instruments - fair value reserve (previously classified as 'available for sale' reserve under IAS 39)

PTSB continues to hold the preferred stock in Visa Inc. at 30 June 2018. This was fair valued at €13m at 30 June 2018 and is recognised in the statement of financial position.

As noted above, as part of the transaction, PTSB has received preferred stock in Visa Inc. The fair value of this shareholding has been calculated at €13m and is classified as level 3 as the valuation of the share includes inputs that are based on unobservable market data. Management has made assumptions and judgements, based on the best information made available to PTSB to determine the fair value of the shares. Adjustments have been made to the estimated consideration to take account of potential litigation costs which may be incurred by Visa Inc. and which need to be reflected in the fair value of the shares held by PTSB in Visa Inc. Management have stressed these unobservable inputs by +/- 100bps which would have a resultant impact on the fair value calculation by +/- €0.03m.

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management

The Group's risk management framework, risk identification and assessment process are disclosed in detail in note 33 of the 2017 Annual Report.

The Group adopted IFRS 9 on 1 January 2018 and, as allowed under the standard, did not restate comparative periods. Accordingly, the impairment provision balances set out in the following tables are not directly comparable, where the impairment balances for 31 December 2017 are presented on an IAS 39 basis, with the 30 June 2018 balances presented on an IFRS 9 basis.

Credit risk

Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions.

The Group maintains detailed credit policies for each business unit which outlines relevant conditions under which a loan can be made. Credit policies establish coherent limit systems for credit risk. There are various limit structures, which are in place to manage credit default risk, concentration risk, settlement risk and counterparty risk.

The following table outlines the maximum exposure to credit risk before collateral held or other credit enhancements in respect of the assets of the Group as at the statement of financial position date.

	Notes	30 June 2018 €m	31 December 2017 €m
Cash and balances with central banks	9	53	62
Items in course of collection	9	34	28
Debt securities (i)	10	2,588	1,978
Derivative assets (ii)	12	36	37
Loans and advances to banks (iii)	13	1,368	1,518
Loans and advances to customers (including loans and advances to customers classified as held for sale) (iv)	14	18,045	18,370
		22,124	21,993
Commitments and contingencies	28	876	810
		23,000	22,803

The following tables outline the Group's exposure to credit risk by asset class

(i) Debt securities

The Group is exposed to the credit risk on third parties where the Group holds debt securities (including sovereign debt). These exposures are subject to the limitations contained within Board approved policies, with sovereign debt restricted to those countries that have an External Credit Assessment Institution (ECAI) rating of investment-grade.

The following table gives an indication of the level of creditworthiness of the Group's debt securities and is based on an internally set rating that is equivalent to Moody's rating. On 1 January 2018, the Group transitioned to IFRS 9. Under IFRS 9, the Group is required to recognise impairments under the new expected credit loss approach. This change in approach has required an impairment of €0.5m to be recognised for Debt Securities in retained earnings on transition, with an additional €0.1m recognised in the profit and loss during the 6 months to 30 June 2018.

	30 June 2018 €m	31 December 2017 €m
Rating		
A	2,472	1,862
Baa	116	116
Total	2,588	1,978

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

The following table discloses, by country, the Group's exposure to sovereign debt as at:

	30 June 2018	31 December 2017
	Sovereign debt	Sovereign debt
Country	€m	€m
Ireland	2,472	1,862
Spain	116	116
Total	2,588	1,978

The majority of the debt securities held by the Group carry a guarantee from the Minister for Finance on behalf of the Irish State.

(ii) Derivative assets

	30 June 2018	31 December 2017
	€m	€m
Covered by netting agreements	36	37
Total	36	37

The Group has executed standard ISDA agreements with all of its counterparties. The Group has also executed CSA with its counterparties in respect of the majority of derivative instruments to mitigate its credit risk. As part of these agreements, the Group exchanges collateral in line with movements in the market values of derivative positions daily. The cumulative positive market value of derivative assets at 30 June 2018 was €36m (31 December 2017: €37m). In the majority of cases the Group manages its collateral derivative positions with counterparties on a net basis. The uncollateralised derivative position as at 30 June 2018 of €34m (31 December 2017: €34m) are all held with investment grade counterparties. The level of collateral placed and received by the Group is outlined in note 13 Loans and advances to banks.

(iii) Loans and advances to banks

The Group has a policy to ensure that, where possible, loans and advances to banks are held with investment grade counterparties with any exceptions subject to prior approval by the BRCC. The following table gives an indication of the level of creditworthiness of the Group's loans and advances to banks and is based on the internally set rating that is equivalent to the rating prescribed by Moody's Investor Services Limited and Standard & Poors for the Central Bank of Ireland.

	30 June 2018	31 December 2017
	€m	€m
Rating		
Aaa	713	806
Aa	387	470
A	203	217
Baa	60	23
Ba	5	2
Total	1,368	1,518

(iv) Loans and advances to customers

IFRS 9

On 1 January 2018 the Group successfully completed its transition in accounting standards from the existing standard IAS 39 *Financial Instruments: Recognition and Measurement* to the new standard IFRS 9 *Financial Instruments*. IFRS 9 introduces a revised classification and measurement model and a forward looking expected credit loss (ECL) impairment methodology.

Further detail on the new accounting policy requirements are set out in note 1 to the interim financial statements.

Detail on the financial impact of Transition to IFRS 9 is set out note 2 to the interim financial statements.

This section will focus on the key credit risk impacts of the new standard.

Measurement of loans and advances to customers

A financial asset is classified as measured at amortised cost if it:

- Meets the SPPI criterion, i.e. the contractual terms give rise to cash flows that are solely payments of principal and interest; and
- Is held within a business model, the objective of which is to hold financial assets in order to collect contractual cash flows. The standard recognises that sales of assets may occur from time to time, which would not invalidate the assessment of the business model as being held to collect. Specifically, the standard recognises that disposal of assets as a result of deterioration of credit quality is not inconsistent with a hold to collect business model

At 1 January all loans and advances to customers were measured at amortised cost on transition. This is both consistent with the Group's strategy to develop and maintain a retail banking proposition based on the origination and retention of credit risk and the Group's current strategy to reduce its non-performing loan portfolios through portfolio sale.

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

The Group has classified a portfolio of non-performing loans, known as Project Glas in the interim financial statements as held for sale. Under IFRS 5 this portfolio continues to be measured in accordance with IFRS 9. These non-performing loans continue to be reported within loans and advances for credit quality disclosure purposes.

Classification of loans and advances to customers for Expected Credit Loss (ECL) measurement

Under IFRS 9, loans and advances to customers are classified into one of three stages:

- Stage 1 includes loans that have not had a significant increase in credit risk since initial recognition and would typically include newly originated loans;
- Stage 2 includes loans that have had a significant increase in credit risk since initial recognition but do not have objective evidence of being credit impaired; and
- Stage 3 includes loans that are defaulted or are otherwise considered to be credit impaired. This category includes impaired loans under IAS 39 as well as an additional cohort of loans that now meet the wider definition of default in accordance with accounting standards and are designed to be consistent with EBA guidelines.

There is an additional category of purchased or originated credit impaired (POCI) which includes loans where there was evidence of credit impairment at the time of their initial recognition.

The amount of ECLs recognised as a loss allowance depends on the extent of credit deterioration since initial recognition. There are two measurement bases:

1. 12-month ECLs (Stage 1), which applies to all financial assets as long as there is no significant deterioration in credit quality since initial recognition; and
2. Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

The following information has not been subject to review by the Group's Independent Auditor

Definition of default and credit risk assessment

As part of the implementation of IFRS 9, the Group has sought to reach a single aligned definition of default for risk measurement purposes. This resulted in a net increase in residential and commercial loans and advances defined as non-performing on transition to IFRS 9. Implementation of this revised definition of default for IRB purposes will only take place on foot of TRIM approval.

Reaching alignment of a definition of default has allowed the Group for its key secured mortgage portfolios to design and implement a change to its approach in assessing and ranking exposures for risk. This change has been introduced for IFRS 9 on transition and will take place for capital management purposes on foot of TRIM approval.

The revised approach allows for the direct mapping of risk categories to the IFRS 9 3 stage process and are materially different to the grade categories the Group used in previous years and are therefore not directly comparable. Definitions of grade categories used previously up to and including 31 December 2017 are set out on page 138 of the 2017 Annual Report.

Strong/satisfactory and reported as Stage 1

Accounts are considered strong/satisfactory if they have no current or recent credit distress, are not more than 30 days in arrears and there are no indications they are unlikely to pay.

Fair and reported as Stage 2

Accounts of lower quality and considered as less than satisfactory are categorised as fair and include the following;

Emerging: Accounts exhibiting weakness and are deteriorating in terms of credit quality and may need additional management attention e.g. missed payments, deteriorating savings performance;

Recovery: Includes accounts with recent default experience, accounts which are performing as a result of forbearance measures and need to complete a probationary period and accounts with significant terminal payments;

Latent: Accounts that are performing but exhibit underlying credit characteristics which could threaten recoverability should they become non-performing e.g. Interest only accounts which are projected to be in negative equity at maturity.

Non-performing and reported as Stage 3

Accounts that are considered as defaulted or non-performing include:

- Accounts where the customer is 90 days or more past due on any material credit obligation (where a material amount of principal or interest remains outstanding at the reporting date the counting of days past due commences from the first date that a payment, or part thereof, became overdue);
- Accounts that have, as a result of financial distress (as defined within the Group's definition of default policy), received a concession from the Group on terms or conditions, and will remain in stage 3 until certain exit conditions are met and for a minimum probationary period of 12 months before moving to a performing classification.
- Accounts that have, as a result of financial distress (as defined within the Group's definition of default policy), received a concession from the Group on terms or conditions which result in a significant terminal payment obligation and consequently have been assessed as unlikely to repay without realisation of collateral.
- Accounts where the customer is assessed as unlikely to pay, including bankruptcy, personal insolvency, assisted voluntary sale.

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

Asset Quality

The tables below outline total loans and advances to customers for the Group's residential mortgages analysed by home loans, buy-to-let, commercial and consumer finance.

Loans and advances to customers

	30 June 2018	1 January 2018	31 December 2017
	€m	€m	€m
Measured at amortised cost			
Residential mortgages:			
Home loan	14,851	15,037	15,037
Buy-to-let	4,964	4,953	4,953
Total residential mortgages	19,815	19,990	19,990
Commercial	119	224	224
Consumer finance	302	314	345
Total measured at amortised cost	20,236	20,528	20,559

Analysed by ECL staging

Stage 1	10,880	11,649	-
Stage 2	4,306	3,594	-
Stage 3	5,045	5,278	-
POCI	5	7	-

Analysed as to asset quality (this shaded information is not subject to review by the Group's Independent Auditor)			
Excellent	-	-	10,585
Satisfactory	-	-	3,978
Fair	-	-	1,066
Neither past due nor impaired	-	-	15,629
Past due but not impaired	-	-	467
Impaired	-	-	4,463
Total measured at amortised cost	20,236	20,528	20,559
Of which are reported as non-performing loans	5,050	5,285	5,285
Deferred fees, discounts & fair value adjustments	58	55	57

* The amounts as at 30 June 2018 and 1 January 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

	30 June 2018	1 January 2018	31 December 2017
	€m	€m	€m
Loss allowance – statement of financial position			
Stage 1	46	54	-
Stage 2	379	333	-
Stage 3	1,824	1,936	-
Specific provisions	-	-	1,913
IBNR provisions	-	-	333
Total loss allowance	2,249	2,323	2,246

* The amounts as at 30 June 2018 and 1 January 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

	30 June 2018	1 January 2018	31 December 2017
	%	%	%
Loss allowance cover percentage			
Stage 1	-	-	-
Stage 2	9	9	-
Stage 3	36	37	-
Specific provisions/non-performing loans	-	-	36
Total provisions/non-performing loans	-	-	42
Total provisions/total loans	-	-	11

* The amounts as at 30 June 2018 and 1 January 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

Non-performing loans:

Non-performing loans (NPL's) are loans which are credit impaired or loans which are classified as defaulted in accordance with the Group's definition of default. The Group's definition of default considers objective indicators of default including the 90 days past due criterion, evidence of exercise of concessions or modifications to terms and conditions is designed to be consistent with European Banking Authority (EBA) guidance on the definition of forbearance.

Foreclosed assets are defined as assets held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.

Non-performing assets are defined as NPLs plus foreclosed assets.

30 June 2018	Stage 3				
	Home loans	Buy-to-let	Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
NPL is < 90 days	2,279	740	28	3	3,050
NPL is > 90 days and < 1 year past due	120	36	-	9	165
NPL is 1-2 years past due	124	50	3	2	179
NPL is 2-5 years past due	258	69	8	9	344
NPL is > 5 years past due	920	379	9	4	1,312
Non-performing loans	3,701	1,274	48	27	5,050
Foreclosed assets*	69	149	-	-	218
Non-performing assets	3,770	1,423	48	27	5,268
NPLs as % of gross loans	25%	26%	40%	9%	25%

*Foreclosed assets are defined as assets held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.

31 December 2017*

	Home loans	Buy-to-let	Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
Not impaired no arrears	546	131	3	-	680
Not impaired <90 days in arrears	54	3	-	-	57
Not impaired >90 days in arrears	82	3	-	-	85
Impaired loans	3,259	1,083	68	53	4,463
Non-performing loans	3,941	1,220	71	53	5,285
Foreclosed assets**	30	160	-	-	190
Non-performing assets	3,971	1,380	71	53	5,475
NPLs as % of gross loans	26%	25%	32%	15%	26%

* The amounts as at 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

**Foreclosed assets are defined as assets held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

Forbearance arrangements

The Group has provided information in respect of its key forborne portfolios at the statement of financial position date.

The Group operates a number of mechanisms which are designed to assist borrowers experiencing credit and loan repayment difficulties, which have been developed in accordance with the existing "Code of Conduct on Mortgage Arrears" (CCMA). These are set out in the following tables.

Residential mortgages

The tables below set out the volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 30 June 2018 and 31 December 2017.

Stage 3 balances noted below represents the loan balances which are credit impaired at 30 June 2018. The impaired balance as at 31 December 2017 represents the loan balances to which impairment charges have been raised due to either being 90 days or more in arrears, or showing evidence of impairment prior to reaching arrears of 90 days.

(i) Residential home loan mortgages:

The incidence of the main type of forbearance arrangements for home loan residential mortgages are analysed below:

30 June 2018

	All loans		Stage 3	
	Number	Balances	Number	Balances
		€m		€m
Interest only	435	80	393	70
Reduced payment (less than interest only)	66	9	52	7
Reduced payment (greater than interest only)	11,572	1,801	9,129	1,507
Payment moratorium	146	20	53	6
Arrears capitalisation	2,841	403	1,663	233
Term extension	1,769	146	933	85
Hybrid*	846	145	718	120
Split mortgages	6,103	1,145	6,103	1,145
Total	23,778	3,749	19,044	3,173

31 December 2017*

	All loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances	Number	Balances
		€m		€m
Interest only	268	52	100	19
Reduced payment (less than interest only)	126	17	98	13
Reduced payment (greater than interest only)	12,975	1,961	6,136	1,084
Payment moratorium	204	25	79	11
Arrears capitalisation	2,971	433	1,466	232
Term extension	1,439	130	682	71
Hybrid**	1,393	226	1,201	196
Split mortgages	6,157	1,162	6,157	1,161
Total	25,533	4,006	15,919	2,787

* The amounts as at 30 June 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

** Hybrid is a combination of two or more forbearance arrangements.

The tables above reflect a decrease of 1,755 cases, as at 30 June 2018 for the Group in the number of residential home loans in forbearance arrangements, a decrease of €257m. The average balance of forborne loans is relatively unchanged during the period (30 June 2018: €0.158m versus 31 December 2017: €0.157m).

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

(ii) Residential buy-to-let mortgages:

The incidence of the main type of forbearance arrangements for residential buy-to-let mortgages only is analysed below:

30 June 2018	All loans		Stage 3 Loans > 90 days in arrears and / or impaired	
	Number	Balances	Number	Balances
		€m		€m
Interest only	626	253	603	244
Reduced payment (less than interest only)	1	-	1	-
Reduced payment (greater than interest only)	2,030	720	1,277	365
Payment moratorium	6	1	5	1
Arrears capitalisation	257	97	175	69
Term extension	154	30	75	15
Hybrid*	94	29	79	25
Split mortgages	413	116	413	116
Total	3,581	1,246	2,628	835

31 December 2017*	All loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances	Number	Balances
		€m		€m
Interest only	435	157	264	104
Reduced payment (less than interest only)	11	2	8	2
Reduced payment (greater than interest only)	2,259	832	630	226
Payment moratorium	5	1	5	1
Arrears capitalisation	235	88	162	66
Term extension	108	21	43	11
Hybrid**	100	38	87	32
Split mortgages	390	111	390	111
Total	3,543	1,250	1,589	553

* The amounts as at 30 June 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated.

Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

** Hybrid is a combination of two or more forbearance arrangements.

The tables above reflect an increase of 38 cases, as at 30 June 2018 for the Group in the number of residential buy-to-let in forbearance arrangements, a decrease of €4m. The average balance of forborne loans during the period 30 June 2018: €0.348m versus 31 December 2017: €0.353m).

Impairment charge and provisions on loans and advances to customers by product line

The tables below provide the movement in impairment charges from 30 June 2017 to 30 June 2018 and also the provisions in respect of performing and non-performing forborne loans as at 30 June 2018 and 31 December 2017.

Forborne loans - impairment charge	Half year ended 30 June 2018			Half year ended 30 June 2017*		
	Performing	Non-performing	Total	Performing	Non-performing	Total
	€m	€m	€m	€m	€m	€m
Stage 3						
<i>Residential</i>						
- Home loans	(6)	26	20	(12)	19	7
- Buy-to-let	(7)	(8)	(15)	(15)	4	(11)
<i>Commercial</i>	-	(3)	(3)	-	(1)	(1)
Total impairment (write-back)/charge	(13)	15	2	(27)	22	(5)

* The amounts for the period ended 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 30 June 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

Forborne loans – stock of impairment provisions

	30 June 2018			31 December 2017*		
	Performing	Non-performing	Total	Performing	Non-performing	Total
	€m	€m	€m	€m	€m	€m
<i>Residential</i>						
- Home loans	14	1,073	1,087	25	1,119	1,144
- Buy-to-let	69	329	398	27	240	267
<i>Commercial</i>	1	11	12	1	16	17
Total impairment provisions	84	1,413	1,497	53	1,375	1,428

* The amounts as at 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

Collateral in possession

Collateral in possession occurs where the obligor either (i) voluntarily surrenders the property or (ii) the Group takes legal ownership due to non-repayment of the loan facility. The following tables outline the main movements in this category during the first 6 months of 2018.

Stock of collateral in possession	30 June 2018		31 December 2017*	
	Number	Balance outstanding at transfer of ownership	Number	Balance outstanding at transfer of ownership
		€m		€m
Residential collateral in possession				
Home loans	587	154	337	90
Buy-to-let	1,420	343	1,471	373
Commercial	2	-	1	-
Total	2,009	497	1,809	463

*The amounts as at 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

Collateral in possession assets are sold as soon as practicable. These assets which total €218m as at 30 June 2018 (31 December 2017: €190m) are included within assets held for sale in the statement of financial position. A number of properties that were categorised as collateral in possession at 31 December 2017 were reclassified to Loans and Advances to Customers during the first half of 2018. The carrying value of these reclassified loans is €4m.

During the period, 435 residential properties were repossessed. Further details are set out in below table:

	Number
Home loans	372
Buy-to-let	61
Commercial	2
Total	435

During the period 235 properties were disposed of.

	Number
Home loans	131
Buy-to-let	103
Commercial	1
Total	235

30 June 2018	Number of disposals	Balance outstanding at transfer of ownership	Gross sales proceeds	Costs to sell	Pre provisioning loss on sale*
		€m	€m	€m	€m
Collateral in possession					
Home loans	131	29	16	1	14
Buy-to-let	103	32	12	1	21
Commercial	1	-	-	-	-
Period ended 30 June 2018	235	61	28	2	35

31 December 2017**	Number of disposals	Balance outstanding at transfer of ownership	Gross sales proceeds	Costs to sell	Pre provisioning loss on sale*
		€m	€m	€m	€m
Collateral in possession					
Home loans	91	18	12	1	7
Buy-to-let	37	8	4	-	4
Commercial	-	-	-	-	-
Year ended 31 December 2017	128	26	16	1	11

*Calculated as gross sales proceeds less balance outstanding at transfer of ownership less costs to sell. These losses are provided for as part of the impairment provisioning process.

** The amounts as at 30 June 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 2 for further detail on transition to IFRS 9 on 1 January 2018).

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group may experience difficulty in financing its assets and/or meeting its contractual obligations as and when they fall due, without incurring excessive cost.

The Group's liquidity risk framework is disclosed in the 2017 Annual Report (pages 154 and 155). There have been no changes to the framework during the half year ended 30 June 2018.

The Assets and Liabilities Committee (ALCO) monitors sources of funding and reviews short-term and long-term borrowings and their respective maturity profiles. The Group's funding profile based on remaining maturities was:

	30 June 2018	31 December 2017
	%	%
Customer accounts	83	83
Long-term debt (> 1 year)	7	8
Short-term debt (< 1 year)	10	9
	100	100

Long-term funding consists of debt with a remaining maturity or call date of greater than 12 months, including bonds and medium-term notes, non-recourse funding and ECB funding.

Short-term funding consists of debt with a remaining maturity or call date of less than 12 months, including subordinated liabilities, debt securities in issue and certain other short-term debt.

The following tables present the maturity analysis of financial liabilities on an undiscounted basis, by remaining contractual maturity at the statement of financial position date. These will not agree directly with the balances on the condensed consolidated statement of financial position due to the inclusion of future interest payments. In this table, derivative liabilities represent the carrying value of derivative instruments that are held as hedging and trading instruments in respect of financial liabilities.

30 June 2018	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Liabilities							
Deposits by banks	1,751	-	-	401	-	230	2,382
Customer accounts	10,508	1,083	1,478	2,390	1,371	340	17,170
Debt securities in issue	-	1	2	4	8	1,471	1,486
Subordinated liabilities	-	24	-	-	-	-	24
Derivative liabilities	1	11	1	2	18	2	35
Total liabilities	12,260	1,119	1,481	2,797	1,397	2,043	21,097
31 December 2017	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Liabilities							
Deposits by banks	1,311	-	302	-	-	230	1,843
Customer accounts	9,642	1,348	1,521	2,335	1,158	1,041	17,045
Debt securities in issue	-	2	309	4	8	1,611	1,934
Subordinated liabilities	-	-	-	23	-	-	23
Derivative liabilities	1	-	1	12	20	14	48
Total liabilities	10,954	1,350	2,133	2,374	1,186	2,896	20,893

Notes to the Condensed Consolidated Financial Statements (unaudited)

28. Commitments and contingencies

The table below gives the contractual amounts of capital commitments and operating lease commitments. The maximum exposure to credit loss under commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

Credit commitments	30 June 2018	31 December 2017
	€m	€m
Guarantees and irrevocable letters of credit	2	5
Commitments to extend credit		
- less than 1 year	761	688
- 1 year and over	113	117
Total commitments to extend credit	874	805
Total credit commitments	876	810

Operating lease commitments

The Group leases various offices and motor vehicles under non-cancellable operating leases. The future aggregate minimum lease payments under these leases are as follows:

	30 June 2018	31 December 2017
	€m	€m
Less than 1 year	8	8
Greater than 1 year and less than 5 years	23	26
Greater than 5 years	17	16
Total operating lease commitments	48	50

Other contingencies

The Group, like all other banks, is subject to litigation in the normal course of its business. Based on legal advice, other than matters referred to in note 22, the Group does not believe that any such litigation will have a material effect on its income statement or statement of financial position.

A number of different statutory and regulatory bodies, including the Central Bank of Ireland, commenced investigations into a series of transactions involving deposits placed by Irish Life Assurance plc with Irish Bank Resolution Corporation (formerly Anglo Irish Bank) (on 31 March 2008, 26 September 2008, 29 September 2008 and 30 September 2008). While these investigations commenced a number of years ago, they were put on hold pending the determination of criminal proceedings against a number of individuals in respect of the same transactions. While trials have taken place in respect of the charges against a number of individuals in 2016 and 2018, it is not yet clear whether there will be an appeal of the decision in the most recent trial. As such, as at 30 June 2018, as far as the Group is aware, it appears that the investigations are still on-going albeit they have been dormant for some time.

From 1 January 2018 the Group recognises loss allowance on loan commitments which are recognised within provisions (note 22).

Notes to the Condensed Consolidated Financial Statements (unaudited)

29. Related parties

The Group has a related party relationship with its Directors, Senior Executives, the Group's pension schemes, the Minister for Finance and with the Irish Government and Irish Government related entities on the basis that the Irish Government is deemed to have control over the Group.

(A) Transactions with key management personnel

Key management personnel include Non-Executive Directors, Executive Directors and members of the Executive Committee (ExCo). The Executive Directors and members of the ExCo are set out in note 39 of the 2017 Annual Report.

During the first 6 months of 2018, the following key management personnel changes occurred. Emer Daly retired as Non-Executive Director and Brendan Lynott (Distribution Director) ceased to be a member of ExCo, having left the service of the Group.

Number of key management personnel as at period end is as follows:

	30 June 2018	31 December 2017
Non-Executive Directors	6	7
Executive Directors and Senior Management	8	9
	14	16

Balances and transactions with key management personnel

(B) Irish Government and Government related entities

The Minister for Finance continues to be the majority shareholder of the Group (and the ultimate controlling party). The Irish Government is recognised as a related party as the Government is deemed to have control over the Group. The Group is exempt from the related party disclosure requirements in respect of the Government and Government related entities unless transactions are individually or collectively significant. In the normal course of business, the Group has entered into transactions with the Government and Government related entities involving deposits, senior debt and dated subordinated debt.

The following are transactions and balances between the Group and the Government and Government related entities that are collectively significant:

- PTSB and its subsidiary Permanent Bank International Ltd (now known as PBI Ltd.) were participating covered institutions under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the ELG Scheme) which guaranteed certain eligible liabilities (including deposits) of up to five years in maturity prior to its withdrawal for new deposits by the Minister for Finance from 29 March 2013. The charge to the income statement in respect of the ELG Scheme to 30 June 2018 was €0.2m (31 December 2017: €2m). The liabilities covered by the scheme at 30 June 2018 amounted to €Nil (31 December 2017: €133m).
- The Group holds securities issued by the Government and Government related entities of €2,472m (31 December 2017: €1,862m).
- Customer accounts include deposits of €0.3bn placed by a Government institution (31 December 2017: €0.1bn). €0.1bn relate to deposits placed by the NTMA (National Treasury Management Agency), with the remaining €0.2bn on deposit from the Irish Bank Resolution Corporation Limited (In special liquidation). Further details on these deposits are provided in note 19.
- The Group entered into banking transactions in the normal course of business with local Government and Semi-State Institutions such as Local Authorities and County Councils. These transactions principally include the granting of loans, the acceptance of deposits and clearing transactions.
- A Bank Levy imposed by the Government through the Finance Bill 2014 is payable in the second half of each calendar year. As per the accounting guidance, the obligating event occurs as the activity that triggers the payment of the levy occurs in accordance with the relevant legislation. The Group incurred a charge in respect of the levy of €23m for the year ended 31 December 2017. The Group expects to incur a charge in the second half of 2018, which is broadly in line with the charge incurred last year. The Bank levy has been extended by 5 years to 2021 as announced by the Minister for Finance on 13 October 2015.
- During 2013, following the Transfer Order requested by the Central Bank and issued by the High Court dated 10 November 2013, the Group acquired certain assets, liabilities, books and records of Newbridge Credit Union (NCU) and all its employees transferred to the Group. As part of this transaction, along with the assets and liabilities of NCU, a cash financial incentive of €23m was paid from the Credit Institutions Resolution Fund, which forms part of the Financial Incentives Agreement (FIA) signed between the Central Bank and the Group dated 10 November 2013. It was also agreed in the FIA that the Central Bank will use the Credit Institution Resolution Fund to compensate the Group for 50% of any future impairment losses incurred on NCU loans and advances to customers. Similarly, it was also agreed that if any provision write-backs or future recoveries of previously written off NCU loans and advances to customers occurs, the Group will pay a cash amount equivalent to 50% of the provision write-back or the recoveries to the Credit Institutions Resolution Fund. As per the FIA, this arrangement will continue for ten years from the transfer date. At 30 June 2018, the Group had recorded a payable of €0.6m due under the FIA (31 December 2017: €0.2m).
- At 30 June 2018 the Company had an intercompany balance of €5m (31 December 2017: €3m) with its holding company PTSBGH.

Notes to the Condensed Consolidated Financial Statements (unaudited)

29. Related parties (continued)

The Government also has a controlling interest in Allied Irish Bank plc, including EBS Limited, and also has significant influence over Bank of Ireland. Due to the Group's related party relationship with the Irish Government as previously described, balances between these financial institutions and the Group are considered related party transactions in accordance with IAS 24.

The following table summarises the balances between the Group and these financial institutions:

		Loans and advances to banks	Debt securities held	Derivative assets	Derivative liabilities	Deposits by Banks
		€m	€m	€m	€m	€m
Allied Irish Banks p.l.c	30 June 2018	5	-	-	-	-
	31 December 2017	5	-	-	-	-
Bank of Ireland	30 June 2018	3	-	-	-	-
	31 December 2017	17	-	-	-	-

Notes to the Condensed Consolidated Financial Statements (unaudited)

30. Assets classified as held for sale

At 30 June 2018, assets classified as held for sale (including loans and advances to customers) amounted to €1,531m (31 December 2017: €161m). This consists of the following:

- 1) €1,313m (2017: €nil) relates to a specific cohort of non-performing loans (NPLs) recorded at amortised cost net of credit impairment. In accordance with IFRS 5, these loans and advances are not deemed a discontinued operation as they are not considered a major line of business or geographical area. Management expect to complete the sale of these loans within the next 6 months. These loans are included within note 14 as at 30 June 2018.
- 2) €218m (2017: €160m) relates to collateral in possession. These properties are expected to be sold within the next 12 months.
- 3) €0.4m (2017: €1m) relates to one branch property (31 December 2017: three branch properties) which is no longer occupied by the Group. The sale of this property is expected to complete within the next 12 months.

31. Reporting currency and exchange rates

The condensed consolidated financial statements are presented in millions of Euro.

The following tables show the average and closing rates used by the Group:

	30 June 2018	31 December 2017	30 June 2017
€ / Stg£ exchange rate			
Closing	0.8861	0.8872	0.8793
Average	0.8800	0.8760	0.8613
€ / US\$ exchange rate			
Closing	1.1658	1.1993	1.1412
Average	1.2071	1.1375	1.0937

32. Events after the reporting period

On 31 July 2018, the Group announced that they agreed to sell a portfolio of non-performing loans (Project Glas) to the retail credit firm Start Mortgages DAC. Start Mortgages DAC will become the servicer of the loans when the transaction completes later this year. At 30 June 2018, the portfolio had a gross balance sheet value of €2.1bn and a net book value of €1.3bn. The Group expect to receive cash consideration of €1.3bn on completion of the transaction. Any costs related to the transaction are covered by the impairment provision on these loans at 30 June 2018. As a result no gain/loss is expected to rise on completion.

Abbreviations

The following information has not been subject to audit by the Group's Independent Auditor.

AFS Available for Sale	EAR Earnings at Risk	HTM Held to Maturity
ALCO Asset and Liability Committee	EBA European Banking Authority	IAASA Irish Auditing and Accounting Supervisory Authority
ALM Asset Liability Management	EC European Commission	IAS International Accounting Standard
AT1 Additional Tier 1	ECAI External Credit Assessment Institution	IASB International Accounting Standards Board
BPFI Banking & Payments Federation Ireland	ECB European Central Bank	IBNR Incurred But Not Reported
BRCC Board Risk and Compliance Committee	ECL Expected Credit Loss	ICAAP Internal Capital Adequacy Assessment Process
BRRD Banking Recovery and Resolution Directive	EIR Effective Interest Rate	IFRS International Financial Reporting Standards
BTL Buy to Let	ELG Eligible Liabilities Guarantee Scheme	IFRS IC International Financial Reporting Interpretations Committee
C&M classification and measurement	ESMA European Securities and Market Authority	ILAAP Internal Liquidity Adequacy Assessment Process
CAC Capital Adequacy Committee	ESRI Economic & Social Research Institute	IMF International Monetary Fund
CBI Central Bank of Ireland	EU European Union	IOM Isle of Man
CCB Capital Conservation Buffer	EV Economic Valuation	IPP Integrated Planning Process
CCMA Code of Conduct on Mortgage Arrears	EWI Early Warning Indicator	IRB Internal Ratings Board
CCyB Countercyclical capital buffer	ExCo Executive Committee	IRRBB Interest Rate Risk in the Banking Board
CET 1 Common Equity Tier 1	FIA Financial Incentives Agreement	ISDA International Swap Dealers Association
CFP Contingency Funding Plan	FLI Forward Looking Information	LCR Liquidity Coverage Ratio
CHL Capital Home Loans	FVOCI Fair Value through Other Comprehensive Income	LGD Loss Given Default
CIR Cost Income Ratio	FTPL Fair Value through Profit or Loss	LTV Loan to Value
CODM Chief Operating Decision Maker	FX Foreign Exchange	MCO Maximum Cumulative Outflow
CRD Capital Requirements Directive	GCC Group Credit Committee	MREL Minimum Required for Own Funds and Eligible Liability
CRE Commercial Real Estate	GDP Gross Domestic Product	MRP Mortgage Redress Programme
CRO Chief Risk Officer	GDPR General Data Protection Regulation	MTN Medium Term Note
CRR Capital Requirements Regulation	GPCC Global Public Policy Committee	MTP Medium Term Plan
CSA Credit Support Annex	GRC Group Risk Committee	NAMA National Asset Management Agency
CSR Credit Spread Risk	GRMA – Group Risk Management Architecture	NCU Newbridge Credit Union
DG Comp EC Directorate General for Competition	GRMF Group Risk Management Framework	NII Net Interest Income
DGS Deposit Guarantee Scheme	HICP Harmonised Consumer Price Index	NIM Net Interest Margin
DIRT Deposit Interest Retention Tax	HPI House Price Index	NPL Non-performing loan
DoF Department of Finance	HQLA High-Quality Liquid Assets	
DTA Deferred Tax Asset	HTC Hold to collect	
EAD Exposure at Default	HTC&S Hold to Collect and Sell	

Abbreviations

NSFR Net Stable Funding Ratio

NTMA National Treasury Management Agency

OCI Other Comprehensive Income

OECD Organisation for Economic Co-operation and Development

P2G Pillar 2 Guidance

P2R Pillar 2 Requirement

PBI Limited (previously Permanent Bank International Limited)

PD Probability of Default

POCI Purchased or Originated Credit Impaired assets

Project Glas Sale of portfolio of NPL's announced on 31 July 2018

PTSB Permanent TSB plc

PTSBGH Permanent TSB Group Holding plc

PwC PricewaterhouseCoopers

RAS Risk Appetite Statement

ROI Republic of Ireland

RP Restructuring Plan

RWA Risk Weighted Assets

SICR Significant Increase in Credit Risk

SME Small & Medium sized Enterprises

SPE Special Purpose Entity

SPPI Solely Payments of Principal and Interest

SREP Supervisory Review & Evaluation Process

SSM Single Supervisory Mechanism

TLTRO Targeted Longer-Term Refinancing Operations

TME Tracker Mortgage Examination

TRIM Targeted Review of Internal Models

UK United Kingdom