

Interim Report

for the six months ended

30 June 2020



permanent tsb
Group Holdings plc

Forward Looking Statements

This document contains certain forward-looking statements with respect to certain of the Permanent TSB Group Holdings plc's Group's (the 'Group') intentions, beliefs, current goals and expectations concerning, among other things, the Group'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 the Group's present and future business strategies and the environment in which the Group 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 the Group 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 the Group'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 the Group 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.

The Group expressly disclaims any obligation or undertaking to release any updates or revisions to these forward-looking statements to reflect any change in the Group's expectations with regard thereto or any change in events, assumptions, conditions or circumstances on which any statement is based after the date of this document or to update or to keep current any other information contained in this document. Accordingly, undue reliance should not be placed on the forward looking statements, which speak only as of the date of this document.

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



Permanent TSB Group Holdings plc

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Overview

Key Financial and Non-Financial Highlights

Financial Highlights

Financial Performance

Underlying (loss)/profit €m ^(a)**June 2020: €(56)m**

June 2019 €42m
June 2018 €73m

Decreased due to a fall in operating income as a result of lower yields from treasury assets and absence of income from sales of properties in possession

Net Interest Margin % ^(b)**June 2020: 1.75%**

June 2019 1.82%
June 2018 1.77%

Decreased due to lower income from treasury assets and impact of deleveraging of NPLs offset by lower funding costs

Return on Equity % ^(c)**June 2020: (2.8)%**

June 2019 2%
June 2018 3%

Decreased due to fall in operating income while operating costs remain stable

2019 Figure Transformation and Simplification

Headline Cost to Income Ratio ^(d)**June 2020: 90%**

June 2019 78%
June 2018 69%

Increased due to a lower operating income as cost base remained stable

Adjusted Cost to Income Ratio ^(e)**June 2020: 79%**

June 2019 69%
June 2018 61%

Increased due to lower total income while savings from cost management has enabled business efficiencies and digital investment, reflecting stable costs

Investment Spend €m ^(f)**June 2020: €31m**

June 2019 €21m
June 2018 €10m

Continued investment in digital offerings despite challenging economic environment

2020 Sustainability

CET1 Ratio (Transitional basis) ^(g)**June 2020: 16.5%**

December 2019 17.6%
December 2018 14.7%

Reduction due to the H1 impairment charge reflecting the revised macroeconomic outlook

NPL Ratio ^(h)**June 2020: 6.8%**

December 2019 6.4%
December 2018 10.0%

Reflects the Group's commitment to reducing the NPL ratio to mid-single digits in the medium term

R.W.A ⁽ⁱ⁾**June 2020: 9,983**

December 2019 10,012
December 2018 11,990

Decrease reflects lower risk profile of the Bank

(a) Underlying (loss)/profit before exceptional items. See table 9 on page 20 for a reconciliation of underlying (loss)/profit to operating (loss)/profit on an IFRS basis.

(b) Defined as net interest income (NII) divided by average interest-earning assets.

(c) Defined as (loss)/profit for the year after tax (excluding exceptional and other non-recurring items) expressed as a percentage of total average equity.

(d) Defined as total operating expenses (excluding exceptional and other non-recurring items) divided by total operating income.

(e) Defined as total operating expenses (excluding exceptional, other non-recurring items, and regulatory charges) divided by total operating income.

(f) Investment spend includes both capital and operating expenditure.

(g) Total common equity tier 1 (CET1) capital on a transitional basis divided by total risk weighted assets (RWAs).

(h) Defined as non-performing loans (NPL) expressed as a percentage of the total gross loans of the bank.

(i) RWAs are the Group's assets or off balance sheet exposures, weighted according to risk.

Our Response To COVID-19:

COVID-19 has affected all of us - our families, our business, our communities, and ultimately, the way we do business.

Permanent TSB is fully committed to supporting our customers, colleagues and communities through the COVID-19 pandemic. Proactive measures were undertaken from early February 2020 to protect the health and welfare of our colleagues and customers, including the mobilisation of the Group's Incident Management Team. Throughout this period of uncertainty, we will continue to work closely with the Government, Regulators and other authorities and play our part in supporting Ireland's recovery.



Covid-19 response for our customers



All Customer Contact Centres remained open



Redeployment of over one hundred staff and mobilisation of four new regional contact centres to further support in answering customer queries.



All 76 Branches remained open



Prioritised in-branch banking hours for elderly and vulnerable customers



A Covid-19 Hub on permanentsb.ie and online application for payment breaks



Unlimited 10c cashback payments on debit card transactions for Explore Current Account customers



11,637 Mortgage and Term Loan Payment Breaks implemented



Social distancing and increased hygiene measures in our branches nationwide



€5 back for customers on our GoRewards programme when they spent €30 in any supermarket during April and May



Contactless Payment limit increase to €50



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Overview

Chief Executive Review



Introduction

The first half of 2020 has been an unprecedented period of time, where customer and colleague experiences have changed so profoundly. The sudden outbreak of COVID-19 in March 2020 has impacted the Group's operational and financial performance, however the strength built up in the Bank's balance sheet and business model has ensured that we are able to support our customers and the Irish economy.

In my first six weeks as Chief Executive Officer (CEO) of Permanent TSB, I have set out a new Purpose for the organisation which is centred on building trust with our customers and connecting with the Bank's community heritage. We have put that Purpose into action and prioritised the well-being of our colleagues, customers and communities. We have put in place a range of supports, including; over 11,000 loan Payment Breaks; temporary overdraft and credit card limit increases; and, we've given over €1m in cashback to Explore current account customers. In addition, we have kept all of our branches open to serve our customers and increased our service footprint by mobilising four new centres in regions across the country. In recent days we have also announced a reduction in fixed and variable mortgage interest rates for new and existing customers.

Despite these unprecedented times, we continue to do good business, albeit at lower levels than anticipated. The first quarter saw a positive start to the year, while the second quarter has been dominated by the impact of COVID-19. As customers embraced the Government lockdown we saw new business volumes and transactional banking activities reduce to unanticipated levels, but we are pleased to say that volumes have increased again as the phased approach to opening up the Irish economy emerges.

Business Performance Overview

Funding

Current Accounts

Current Account balances were €5.4 billion which is an increase of 15% from 31 December 2019. Current Account balances have been consistently increasing over the last number of years, (c.11% per annum) however the growth rate accelerated during the COVID-19 outbreak as a result of a reduction in consumer spending. Customer behaviours have somewhat returned to their normal patterns with Debit Card spend almost back to pre COVID-19 levels.

Retail Deposits

Retail Deposit balances increased marginally to €10.5 billion and represent 56% of the Bank's total funding. We continue to grow deposits in line with the market with the increase driven by demand increases. We continue to manage the cost of funds in line with the low interest rate environment.

Corporate and Institutional Deposits

Corporate and Institutional Deposit balances reduced marginally to €1.9 billion. This reflects a slowdown in funds placed on Term Deposits. In reaction to COVID-19, customers are electing to withdraw Term Deposits at maturity rather than roll for another term.

We will continue to manage these resources carefully in line with the reduction of the Bank's funding requirements and its obligation to add other long term funding sources under the Single Resolution Board's Minimum Requirement for own funds and Eligible Liabilities (MREL).

Lending

Total new lending of €0.6 billion is down by 16% from the same period in 2019. Mortgage lending, which represented 88% of total new lending, decreased by 14% compared to H1 2019. This reduction in overall lending reflects the market movements due to the COVID-19 pandemic

however, Mortgage Applications, have recently returned to pre-Covid levels.

The Irish mortgage market activity has been severely hit by the COVID-19 pandemic with a global decline in H1 2020. Gross new lending has significantly decreased; however we are now beginning to see an increase since the reopening of the economy. Housing supply which was already falling short has been impacted by the restrictions imposed to halt the spread of COVID-19.

Estimates before the current crisis for total housing completions in 2020 were between 24,000 to 26,000 units. Banking & Payments Federation Ireland (BPI) has estimated that total completions would be c14,000 to 16,500 units in 2020 which will have an impact on loan growth.

The Bank recorded gross new term lending of €45 million in 2020. This is a decrease of 37% compared to the previous period. Term lending has seen a significant impact since the COVID-19 outbreak; however it has seen significant improvement since the reopening of the economy.

Financial Performance Overview

The Bank recorded a total loss after tax for the first half of the year of €54 million which compares to a profit of €21 million for the same period in 2019.

While impairment provisions are driving the decrease, other factors such as the low interest environment have impacted the underlying income.

Impairment

The total Impairment Charge for the first half of 2020 was €75 million. This compares to a €5m charge for the same period in 2019. The impairment charge is largely driven by the update of macro-economic inputs to reflect the impact of COVID-19 on the longer term economic outlook and the impact of payment breaks.

Operating Income

Overall Net Interest Income has reduced by 6% from the prior period as a result of reduced income from non-performing loans (NPLs) due to loan sales in 2019 and lower treasury income. The bank's NIM has reduced to 1.75% showing a decrease of 5 basis points from the full year 2019.

Net Fees and Commission income is broadly in line with the prior period.

Net Other Income has reduced due to lower gains from the sale of properties in possession resulting in a loss of €2m for the period. The stock of properties in possession has reduced from 406 to 343 properties at the end of June 2020.

Operating Expenses

We continue to deliver on cost saving initiatives throughout the period with operating expenses broadly in line with the prior period.

NPLs

Non-performing loans of €1,102 million remain broadly in line with balances at 31 December 2019. The marginal increase in NPLs is as a result of inflows from the Non-Standard Mortgage Execution programme. The NPL ratio increased to 6.8% from 6.4% at 31 December 2019. The Bank continues to actively manage the NPL portfolio and is still committed to reducing the NPL ratio to mid-single digits in the medium term.

Capital

The Common Equity Tier 1 (CET1) capital ratio was 13.9% and 16.5%, on a Fully Loaded and Transitional basis respectively. This compares to the Bank's reported CET1 ratio of 14.6% and 17.6% at 31 December 2019, on a Fully Loaded and Transitional basis respectively.

Capital ratios remain above both Management and Regulatory minima; however the reduction in capital ratios is primarily driven by the increase in impairment charge. The Central Bank of Ireland (CBI) has provided additional flexibility to Banks under their supervision in the context of the COVID-19 crisis to support the sustainable provision of credit to the economy.

A Customer Focused Culture

Permanent TSB is an organisation with a long heritage and a tradition of serving customers for over 200 years. Building on this heritage and growing a positive customer focussed culture within the bank is a key priority for the Bank. Our Purpose is to work hard every day to build trust with customers by building a sustainable organisation that is transparent and fair with customers.

Our colleague's response to the COVID-19 pandemic is a reflection of the positive customer focused culture in the Bank, as over 1,000 of our branch colleagues worked face to face with customers daily to provide an essential service to people right across the country, with no Permanent TSB location closing throughout the COVID-19 pandemic. We also introduced priority banking hours for vulnerable customers and provided over €1m in incentives and reward payments to Explore current account customers.

In recent days we have also announced significant changes to our mortgage pricing for both new and existing customers. This move addresses the discrepancy which traditionally existed between our pricing for new and existing mortgage customers and combines enhanced competitiveness with increased fairness. We will continue to evolve our mortgage pricing strategy in this direction as we go forward in line with our ambition to build trust with customers.

We are also supporting valuable societal and citizenship projects, such as our recent partnership with Ó Cualann Affordable Housing. Ó Cualann Cohousing Alliance is an approved housing body who develop fully integrated, cooperative and affordable schemes in communities across the country. As part of the partnership, Permanent TSB will provide Ó Cualann with €350,000 in funding, which Ó Cualann founder Hugh Brennan and his team will use to fund the resources required to accelerate their development plans – including more than 1,800 family homes across the country.

Permanent TSB is also actively involved in improving culture across the banking industry as a member of the Irish Banking Culture Board (IBCB). In 2018, the five Irish Retail Banks came together to establish the IBCB, aimed at rebuilding confidence in the Irish banking sector.

Digital Transformation

COVID-19 has accelerated the move towards digital channels for both our customers and our colleagues, evolving the way we work and the way we bank. Personal service will remain at the heart of everything we do, however, as both customer and colleague experiences have changed so profoundly, digital will play an ever increasing role in our service offering and our future ways of working.

At the onset of COVID-19, the teams across Technology were focussed heavily on providing a quick response to both customers and colleagues, building a COVID-19 hub on our website and enabling over 1,200 of our colleagues to work from home.

We are also making good progress with our multi-year Digital Transformation Programme with 94% of our Term Loan applications now being completed online. Later this year, we will be bringing to market an end to end Current Account - a new digital on boarding journey that will allow customers to open a Current Account from the safety of their home in under ten minutes.

In addition to enhancing personal customer journey's online, the Bank is also building digital services for our business customers, a priority focus for us for the remainder of 2020 and beyond.

business momentum and that has impacted on the Bank's ability to grow.

However, the outlook is becoming more positive with the Pandemic Unemployment Payment claimants falling, increases in Retail spending and a stimulus package set out by the new Government.

We continue to keep operating costs relatively stable in this challenging economic environment and look to further deliver cost savings in the medium term.

Despite the challenging outlook, we maintain capital levels comfortably above the required regulatory and management minima.

The coronavirus pandemic has accelerated many of the trends we were already seeing, we will be looking over the coming years at how both the workforce, and workplace, may change in the future.

As we close out the first half of the year, I am committed to combining the best of our digital offering with that of our long history of personal service, as we continue to rebuild trust and build a sustainable bank for the future.



Eamonn Crowley
Chief Executive Officer

03 August 2020

Outlook

The first half of 2020 has seen unprecedented times for both our country and our Bank. Throughout this time we have continued to ensure that delivering for our customers is a top priority for the Bank. We have seen a reduction in



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Business Review

Operating and Financial Review

Performance Summary

While the COVID-19 pandemic has adversely affected the Group's business and caused unprecedented uncertainty in the global economy including Ireland, the Group has maintained a strong capital position giving protection against such economic downturns. The Group continues to monitor closely its operating costs and manage its offerings with strict credit underwriting standards.

The Group's overall resilience to economic shocks has improved steadily in prior years as a result of various balance sheet actions it has undertaken and coupled with its strong liquidity position and simple but resilient business model, the Group is well prepared to continue supporting its strong customer base and the Irish economy to recover from the challenges of the pandemic.

While the Group recognises that the COVID-19 pandemic has increased the latent credit risk, non-performing loans are in line with the prior reporting period. The Group has not experienced any loan loss outcomes related to COVID-19.

The lower for longer interest rate environment has distressed the Group's Net Interest Margin (NIM), which the Group aims to manage through diversifying its income streams and continued active management of funding costs.

Basis of preparation

The financial review is prepared using International Financial Reporting Standards (IFRS) and non-IFRS measures to analyse the Group's financial and operational performance during the financial half year ended 30 June 2020. Non-IFRS measures are used by Management to assess the financial performance of the Group and to provide insights into financial and operational performance.

The Group has a tightly drawn accounting policy for exceptional items (see note 1 in the consolidated financial statements of 2019) and exceptional items are considered to include:

- Profit/loss on disposal of businesses;
- Profit/loss on material deleveraging including any increase in impairment arising solely due to the sale of NPLs becoming part of the Group's recovery strategy; and
- Material restructuring costs.

However, from time to time certain material non-recurring items occur which do not meet the definition of exceptional items as set out in the accounting policy. To assist the users of the financial statements and to ensure consistency in reporting with other financial institutions, these items are disclosed separately from underlying profit in the financial review. These items are clearly identified as non-IFRS items and reconciled back to the IFRS income statement.

A reconciliation between the underlying (loss)/profit and operating (loss)/profit on an IFRS basis is set out on page 20.

Basis of calculation

Percentages presented throughout the financial review are calculated using absolute values and therefore the percentages may differ from those calculated using rounded numbers.

Management performance summary consolidated Income statement

	Table	Half year ended 30 June 2020	Half year ended 30 June 2019
		€m	€m
Net interest income	1	171	181
Net fees and commissions income	3	16	17
Net other (expense)/income	4	(2)	12
Total operating income		185	210
Total operating expenses (excl. exceptional items, other non-recurring items and regulatory charges)*	5	(146)	(145)
Regulatory charges	6	(20)	(18)
Underlying profit before impairment		19	47
Impairment charge on loans and advances to customers	7	(75)	(5)
Underlying (loss)/profit		(56)	42
Exceptional and other non-recurring items comprises:	8	(1)	(14)
Restructuring and other costs		(1)	(12)
Impairment on deleveraging of non-performing loans		-	1
Charges in relation to legacy legal cases		-	(3)
(Loss)/Profit before taxation		(57)	28
Taxation		3	(7)
(Loss)/Profit for the year		(54)	21

* See table 9 on page 20 for a reconciliation of underlying (loss)/profit to operating profit on an IFRS basis.

Financial Performance Headlines

Loss before tax of €57m for the period is mainly driven by higher expected credit losses as result of increased risk due to adverse changes in macro-economic conditions.

Exceptional and other non-recurring items of €1m relate to phase 2 of the Group's voluntary scheme.

Impairment charge is €75m primarily reflecting the impact of the deterioration in the forecast Irish macroeconomic outlook arising from COVID-19.

Underlying profit before impairment has decreased by €28m since 30 June 2019. This includes €4m costs as a result of COVID-19 including refurbishment costs for additional customer support centres and additional payroll related costs. Further decrease was due to a €25m decrease in operating income as a result of lower yields from treasury assets and absence of income from sale of properties in possession.

Operating expenses (excluding exceptional and other non-recurring items) increased by €1m to €146m for the half year ended 30 June 2020. This cost base has remained stable.

Total operating income has decreased by €25m as noted above during the first half of 2020 primarily due to:

- **Net interest income** decreased by €10m (6%) during 2020 to €171m mainly driven by lower yielding treasury assets and the impact of COVID-19 on origination activity partially offset by a decrease in interest expense; and
- **Net other expense** is €2m for the half year ended 30 June 2020 compared to net other income of €12m for the half year ended 30 June 2019, mainly due to changes in net realisable value of properties in possession.

Net Interest Income	Net Interest Margin
€171m	1.75%

Table 1: Net Interest Income

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Interest income	194	211
Interest expense	(23)	(30)
Net interest income	171	181
Net interest margin (NIM)	1.75%	1.82%

Net interest income (NII) decreased by €10m (6%) and the NIM decreased by 7bps to 1.75%. While the interest income from the performing loan book declined marginally, the reduction is mainly driven by the impact of reduced income from treasury assets due to the maturity of high yielding Irish sovereign gilts partially offset by savings in the funding costs.

The lower for longer interest rates continues to challenge the Group's NIM as a result of balance sheet composition and growth in lower yielding liquid assets.

Interest income

Interest income of €194m for the half year ended 30 June 2020 decreased by €17m (8%) compared to the prior period. This was mainly driven by maturity of higher yielding treasury assets, which were replaced at lower yield reflecting the subdued interest rate environment in which the Group operates.

The reduced income from NPLs due to loan sales in H2 2019 also contributed to the interest income reduction.

Interest expense

Interest expense decreased by €7m (23%) for the half year ended 30 June 2020 as a result of active management of the funding costs. The Group has reduced reliance on secured financing.

Table 2.1: Average Balance Sheet

	Half year ended 30 June 2020			Half year ended 30 June 2019		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	€m	€m	%	€m	€m	%
Interest-earning assets						
Loans and advances to customers	15,540	187	2.42%	15,838	190	2.42%
Debt securities and derivative assets	2,238	7	0.66%	2,563	20	1.57%
Loans and advances to banks	2,013	-	-	1,588	1	0.13%
Total average interest-earning assets	19,791	194	1.97%	19,989	211	2.13%
Interest-bearing liabilities						
Customer accounts	17,467	15	0.18%	17,167	21	0.25%
Deposits by banks	10	-	0.99%	958	1	0.21%
Debt securities in issue and derivative liabilities	899	6	1.44%	860	6	1.41%
Loans and advances to banks	-	2	-	-	2	-
Lease liabilities	39	-	1.24%	-	-	-
Total average interest-bearing liabilities	18,415	23	0.22%	18,985	30	0.32%
Total average equity attributable to owners	1,981			2,065		
Net Interest Margin		171	1.75%		181	1.82%

Net interest margin (NIM)

NIM decreased by 7bps to 1.75% for the half year ended 30 June 2020 compared to 1.82% for the prior period. The NIM of the Group is depressed due to margin compression, as a result of the low interest rate environment impacting yields on the new treasury assets and growth in liquid assets, offset by the lower funding costs.

Table 2.2: Volume drivers

The main drivers for the 7bps reduction in the NIM include:

	(€m)	Impact on NIM (bps)
Reduction in the average interest-earning assets from deleveraging coupled with a natural reduction in the treasury assets	269	2
Yield drivers		
Decrease in interest income from the non-performing loan book as a result of deleveraging projects	(4)	(4)
Reduced income from treasury assets due to the maturity of high yielding Irish sovereign gilts and derivatives	(12)	(11)
Increase in interest expense through the issuance of MREL Debt in H2 2019	(4)	(4)
Reduction in NII during the year	(20)	(19)
Increase in interest income from uplift in new lending	2	2
Decrease in interest expense driven by lower volumes of secured funding	2	2
Saving through deposit rate cuts during the year	6	6
Increase in NII during the year	10	10
Overall net reduction NII	(10)	(9)
Overall movement in the NIM		(7)

Interest Income/Average Interest-earning assets

- Interest income on loans and advances to customers reduced by €3m for the half year ended 30 June 2020 due to reduced income from deleveraged loans and impact of the fix rate cuts in second half of 2019.
- The average balance of loans and advances to customers decreased by €298m as a result of deleveraging of the non-performing book in the second half of 2019 and lower business activity due to COVID-19, resulting in reduced origination of new assets.
- Interest income on debt securities and derivatives assets reduced by €13m for the half year ended 30 June 2020. The average balance decreased by €325m to €2,238m from €2,563m for the prior period. The reduction of interest income reflects the impact of the continued depressed interest rate environment impacting yields on new treasury assets.

Interest expense/Average Interest-bearing assets

- Interest expense on customer accounts decreased by €6m for the half year ended 30 June 2020, primarily due to effects of the rate cuts in line with the average market interest rates. The average balance however increased by €300m to €17,467m from €17,167m reflecting a reduction in consumer spending over the period that the economy was closed due to COVID-19 along with an increased sale volumes of the Group's current account products.
- Interest expense of deposits by banks is minimal. The average balance reduced from €958m in the prior period to €10m in the current period as the Group has reduced reliance on secured financing to support its operational cash flow requirements. This is in line with the Group's strategy to reduce the elevated levels of excess liquidity.
- Interest expense on debt securities in issue and derivative liabilities remained in line with the prior period. Average balances reduced to €852m at 30 June 2020 from €860m at 30 June 2019. This is due to the natural reduction of Fastnet securities along with an earlier redemption of Medium Term Notes (MTN) in 2019, which is partially offset by the issuance of MREL debt in the second half of 2019.
- Interest expense on loans and advances to banks amounted to €2m for the half year ended 30 June 2020 as a result of cash held with the CBI at a negative interest rate.

Net fees and commissions Income

€16m

Table 3: Net fees and commission income

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Net fees and commission income	16	17
Net fees and commission income	16	17

Net fees and commission income is €16m for the half-year ended 30 June 2020 and is broadly in line with the prior period. The modest decrease of €1m compared to the prior period reflects a reduction in consumer spending during the economic restrictions imposed by the government, which has begun to recede since the re-opening of the economy.

Net other (expense)/Income

(€2m)

Table 4: Net other (expense)/income

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Net Other (expense)/income	(2)	12
Net other (expense)/income	(2)	12

Net other expenses of €2m for the half year ended 30 June 2020 decreased by €14m compared to €12m income for the half year ended 30 June 2019. This is due to changes in the net realisable value of properties in possession and impact of the lower volume of sales of these properties.

Total operating expenses (*)

Adjusted cost income ratio

€162m

78%

(*) Excluding exceptional and other non-recurring items

Table 5: Operating expenses

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Staff costs		
Wages and salaries including commission paid to sales staff	63	64
Social insurance	7	7
Pension costs	7	6
Total staff costs	77	77
General and administrative expenses	50	51
Administrative, staff and other expenses	127	128
Depreciation of property and equipment	11	11
Amortisation of intangible assets	8	6
Total operating expenses (excluding exceptional and other non-recurring items and regulatory charges)	146	145
Regulatory charges	20	18
Total operating expenses (excluding exceptional and other non-recurring items items)	166	163
Headline cost to income ratio**	90%	78%
Adjusted cost to income ratio***	79%	69%
Closing staff numbers****	2,465	2,414
Average staff numbers	2,424	2,376

*Excludes staff redundancy costs associated with exceptional items

**Defined as total operating expenses (excluding exceptional and other non-recurring items) divided by total operating income.

***Defined as total operating expenses (excluding exceptional, other non-recurring items and regulatory charges) divided by total operating income.

****Closing staff numbers are calculated on a full time equivalent (FTE) basis.

Operating expenses

Cost management is a key focus area for the Group and it continues to manage its cost base. The Group expects operating costs to reduce over the medium term. The savings from restructuring of the Group functions is invested in the digital offerings of the Group.

Staff costs

Total staff costs have remained broadly flat at €77m for the half year ended 30 June 2020 with incremental pay increases offset by lower average salaries.

General and administrative expenses

General and administrative expenses decreased by €5m for the half year ended 30 June 2020 to €123m. Other general and administrative expenses include legal and professional fees, technology costs, property costs and business as usual administrative expenses. The year on year decrease is due to the Group's focus on cost saving initiatives.

Depreciation of property and equipment

Depreciation of property and equipment is broadly in line with the balance for the half year ended 30 June 2019.

Amortisation of Intangible assets

The increase in amortisation expense of €2m reflects the impact of increased capital spending across all the Group's external digital offerings as well internal software upgrades made in recent years.

Adjusted cost income ratio

Operating costs of €146m and operating income of €185m for the half year ended 30 June 2020 led to an adjusted cost income ratio of 79% for 2020, compared to an adjusted cost income ratio of 69% for the period to 30 June 2019. The increase in adjusted cost income ratio was due to lower income in the period. The cost base has remained stable for the Group.

Regulatory charges

€20m

Table 6: Regulatory charges

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Bank Recovery and Resolution Directive (BRRD) levy	5	5
Other regulatory charges	15	13
Regulatory charges	20	18

BRRD levy and other regulatory charges amounted to €20m for the half year ended 30 June 2020. Other regulatory charges include €14m for Deposit Guarantee Scheme (DGS) (30 June 2019: €12m).

Impairment

€75m

Table 7: Impairment

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Total impairment charge on loans and advances to customers	75	5

The impairment charge on loans and advances to customers for the half year ended 30 June 2020 is €75m, compared to €5m for the prior period. The increase in impairment charge is primarily as a result of the deterioration in the macroeconomic outlook arising from the COVID-19 pandemic.

Income tax credit

€3m

The effective tax rate was 5% for 2020 compared to 25% for 2019. The income tax credit for 2020 amounted to €3m compared to a charge of €7m for 2019. The tax credit arose as a result of losses arising in the period.

Exceptional and other non-recurring items

€1m

Table 8: Exceptional and other non-recurring items

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Restructuring and other charges	1	12
Impairment on deleveraging of non-performing loans	-	(1)
Charges in relation to legacy legal cases	-	3
Exceptional items and other non-recurring items	1	14

Exceptional and other non-recurring items as viewed by Management for the half year ended 30 June 2020 of €1m comprise:

Restructuring and other charges

Restructuring and other charges for the half year ended 30 June 2020 amount to €1m (30 June 2019: €12m) relating to phase 2 of the Group's voluntary severance scheme and costs associated with the restructure of Group functions.

Underlying profit in the management income statement is stated before exceptional items and other non-recurring items, whereas operating profit in the IFRS income statement is stated after these items.

Table 9: Reconciliation of underlying (loss)/profit to operating profit on an IFRS basis

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Operating (loss)/profit per IFRS income statement	(57)	28
Other exceptional items in IFRS total operating expenses	1	12
Exceptional impairment in IFRS credit impairment loss	-	(1)
Non-IFRS adjustments		
Charges in relation to legacy legal cases	-	3
Underlying (loss)/profit per management income statement	(56)	42

Summary consolidated statement of financial position

	Table	30 June 2020	31 December 2019
		€m	€m
Assets			
Home loans		12,073	12,098
Buy-to-let		2,959	3,077
Total residential mortgages		15,032	15,175
Commercial mortgages		138	127
Consumer finance		285	342
Total loans and advances to customers (net of provisions)	10	15,455	15,644
Debt securities	12	2,591	2,005
Remaining asset balance	13	2,703	2,629
Total assets		20,749	20,278
Liabilities and equity			
Current accounts		5,358	4,667
Retail deposits		10,519	10,301
Corporate & institutional deposits		1,887	2,222
Total customer accounts	14	17,764	17,190
Debt securities in issue	15	890	923
Other liabilities	16	163	168
Total liabilities		18,817	18,281
Total equity		1,932	1,997
Total equity and liabilities		20,749	20,278
Liquidity coverage ratio ⁽¹⁾		208%	170%
Net stable funding ratio (minimum 100%) ⁽²⁾		142%	138%
Loan to deposit ratio ⁽³⁾		87%	91%
Return on equity ⁽⁴⁾		(2.8%)	3%

⁽¹⁾ Calculated based on the Commission Delegated Regulation (EU) 2015/61.

⁽²⁾ Defined as ratio of available stable funding to reassured liable funding. The ratio reflects the Group's position as at 31 March 2020 due to timing of the return submission for 30 June 2020.

⁽³⁾ Defined as ratio of loans and advances to customers compared to customer accounts as presented in the statement of financial position.

⁽⁴⁾ Defined as (loss)/profit for the year after tax (before exceptional and other non-recurring items) as a percentage of total average equity.

Summary consolidated statement of financial position - key highlights

The Group maintains a strong capital, liquidity and funding position and continues to strengthen its financial position to withstand economics shocks and financial instability in its operating environment.

The Group has significantly reduced NPL balances over the past two years and has adequate capital to weather the challenges posed by the current macro-economic climate. The Group's balance sheet reflects significant strength to withstand current challenging macroeconomic environment and the Group continues to invest in a high quality and resilient asset base.

- **Loans and advances to customers (net of impairment)** are €15,455m as at 30 June 2020, a reduction of €189m from €15,644m at 31 December 2019. New lending has been impacted by COVID-19 during H1, resulting in net redemptions for the period. An increased level of Expected Credit Loss (ECL) as a result of the unfavourable macro-economic outlook has also impacted this balance.

- **Customer accounts** increased to €17,764m at 30 June 2020 from €17,190m, an increase of €574m from the last reporting period. Current account growth as a result of COVID-19 reflects the Group's strong market position and attractive product proposition.

Table 10 (a): Summary of movement in loans and advances to customers

	30 June 2020	31 December 2019
	€m	€m
Gross loans and advances to customers 1 January	16,389	16,916
New lending*	561	1,594
Redemptions and repayments of existing loans	(700)	(1,528)
Write-offs and restructures	(25)	(87)
Net movement from non-performing and Other	-	(506)
Gross loans and advances to customers	16,225	16,389
Deferred fees, discounts and other adjustments	107	73
Provision for impairment losses	(877)	(818)
Total loans and advances to customers	15,455	15,644

*New lending during the year is stated net of repayments during the year.

Table 10(b): Composition of loans and advances to customers

	30 June 2020	31 December 2019
	€m	€m
Residential mortgages:		
Home loans	12,231	12,260
Buy-to-let	3,494	3,598
Total residential mortgages	15,725	15,858
Commercial	174	165
Consumer finance	326	366
Total measured at amortised cost	16,225	16,389
Of which are reported as non-performing loans	1,102	1,050
Deferred fees, discounts & other adjustments	107	73
Provision for impairment losses	(877)	(818)
Total loans and advances to customers	15,455	15,644

Total loans and advances to customers (net)

€15,455m

Total loans and advances to customers (after provisions for impairment) of €15,455m at 30 June 2020 decreased by €189m when compared to the year ended 31 December 2019. New lending has been impacted by COVID-19 during H1, resulting in net redemptions for the period. An increased level of ECL as a result of the unfavourable macro-economic outlook has also impacted this balance.

The performing loan book has modestly decreased from 31 December 2019 as a result of a lower level of origination activity due to COVID-19; thereby redemption in current performing book exceeded the new growth.

Total new lending

€596m

Total new lending for the half year ended 30 June 2020 amounted to €596m (30 June 2019: €713m); this represents a 16% year-on-year decrease, with all lending products significantly impacted by COVID-19.

New residential mortgage lending for the half year ended 30 June 2020 was €526m (30 June 2019: €610m); this reflects a 14% period-on-period decrease, however the Group's market share of year to date mortgage drawdowns has increased to 15.2%¹ from 14.7%.

Personal lending for the Group has decreased by 37%, from €71m for the half year ended 30 June 2019 to €45m for the half year ended 30 June 2020. Small and medium sized enterprises (SME) lending decreased from €31m for the half year ended 30 June 2019 to €25m for the half year ended 30 June 2020.

¹% Market Share as at June 2020. Source BPFI.

NPLs

NPLs as a % of gross loans

€1,102m

6.8%

Table 11: NPLs

	30 June 2020	31 December 2019
	Total	Total
	€m	€m
Home Loans	647	614
Buy-to-let	404	377
Commercial	32	41
Consumer finance	19	18
Non-performing loans	1,102	1,050
NPLs as % of gross loans	6.8%	6.4%
Foreclosed assets*	35	58
Non-performing assets (NPAs) **	1,137	1,108
NPAs as % of gross loans	7.0%	6.8%

*Foreclosed assets are defined as assets held on the statement of financial position, 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.

Total Group's NPLs have remained relatively stable in the half year ended 30 June 2020. Despite the marginal increase in the Group's NPL ratio the Group is committed to reducing NPLs to an acceptable level.

Debt securities

Table 12: Debt securities

	30 June 2020	31 December 2019
	€m	€m
Government bonds	2,511	1,963
Corporate bonds	80	42
Total debt securities	2,591	2,005

The Group purchased Irish, Portuguese and Spanish sovereign bonds during the half year ended 30 June 2020. In addition, during the period the Group also purchased residential mortgage backed securities. The total cash investment that the Group made in debt securities was €1,017m and debt securities amounting to €392m matured during the period.

Remaining asset balances

Table 13: Remaining assets balances

	30 June 2020	31 December 2019
	€m	€m
Remaining asset balances	739	755
Loans and advances to banks	1,920	1,556
Assets classified as held for sale	36	59
Other assets	8	259
Total	2,703	2,629

The remaining assets balances were in line with Management expectations. The key movements in the period related to an increase of €364m in loans and advances to credit institutions, primarily related to increased balances held with the CBI as a result of higher customer account balances during the period.

Other assets reduced by €251m reflecting the receipt of the Glas II tranche sale in the prior period.

Liabilities

The Group continues to optimise its funding profile by capitalising on cost efficient sources of funding and ensuring appropriate diversification of its funding base. The growth in customer accounts and reduction in deposits by banks by the Group reflects its focus on liquidity management.

Customer accounts

€17,764m

Table 14: Customer accounts

	30 June 2020	31 December 2019
	€m	€m
Current accounts	5,358	4,667
Retail deposits	10,519	10,301
Total retail deposits (including current accounts)	15,877	14,968
Corporate deposits	1,887	2,222
Total customer accounts	17,764	17,190
Loan to deposit ratio*	87%	91%

* Defined as the ratio of loans and advances to customers compared to customer accounts as presented in the SOFP.

At 30 June 2020, customer accounts increased to €17,764m from €17,190m at 31 December 2019. Customer account growth accelerated during the COVID-19 outbreak as a result of a reduction in consumer spending. Account balances are returning to their normal patterns since Phase 2 of the Government Roadmap, however, on average the customer balances are still at elevated levels reflecting the changes in consumer behaviours.

In the current period, account openings exceeded the closures resulting in net inflows to the Group. While the Group continues to closely track the market, its attractive product proposition continues to expand its customer base.

The retail deposits balance remained broadly flat from the prior reporting period, reflecting the stable funding source for the Group.

Debt securities In Issue

€890m

Table 15: Debt securities in issue

	30 June 2020	31 December 2019
	€m	€m
Bonds and medium term notes	362	308
Non-recourse funding	528	615
Debt securities in issue	890	923

Debt securities in issue decreased by €33m for the half year ended 30 June 2020. The reduction in non-recourse funding is a result of natural amortisation of mortgaged backed securities. The increase in bonds and medium term notes is due to an additional issuance of MREL eligible notes during the period.

The Group continues to hold sufficient liquidity resulting in a decreased appetite for secured financing.

Other liabilities

€163m

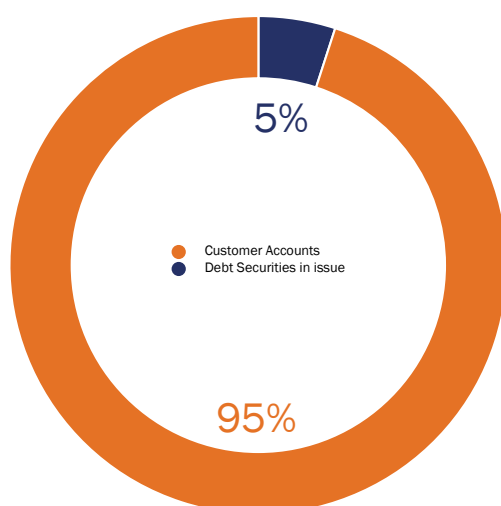
Table 16: Other liabilities

	30 June 2020	31 December 2019
	€m	€m
Derivative liabilities	1	2
Accruals	6	5
Current tax liability	1	2
Provisions	39	41
Other liabilities	116	118
Total	163	168

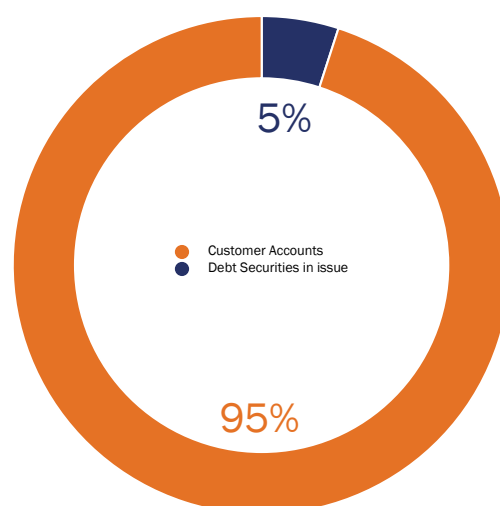
The Group provisions remained consistent with the prior reporting period, with an increase in provisions relating to third party legal costs offset by the utilisation of other provisions. Other liability balances are broadly in line with the prior period.

Funding Profile

June 2020



December 2019



The Group's funding profile at 30 June 2020 is broadly in line with the position at 31 December 2019. The Group is predominantly funded by customer accounts, which the Group considers a stable source of funding.

While the Group is significantly funded by customer accounts, it continues to optimise the cost of funds to manage the distressed NIM as a result of a low interest rate environment through availing cost efficient sources of funding available to the Group

Capital Management

The objective of the Group's capital management policy is to ensure that the Group has sufficient capital to cover the risks of its business, support its strategy and at all times to comply with regulatory capital requirements. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital. The capital adequacy requirements, set by the Regulator, are used by the Group as the basis for its capital management. The Group seeks to maintain sufficient capital to ensure that these requirements are met.

Capital Requirements Directive IV (CRD IV)

Implementation of the CRD IV legislation commenced on a phased basis from 1 January 2014. The CRD IV transition rules resulted in a number of deductions from CET1 capital being introduced on a phased basis, all of which are now fully implemented, with the exception of the deferred tax asset (dependent on future profitability) deduction which, in the case of the Group, is phased to 2024. The ratios outlined in this section reflect the Group's interpretation of the CRD IV rules as published on 27 June 2013 and subsequent clarifications, including the European Central Bank (ECB) regulation 2016/445 on the exercise of options and discretions.

Regulatory capital developments

The European Commission published an amendment to the Capital Requirements Regulation on 28th April 2020 ("the CRR quick fix") to bring forward certain changes made to the CRR announced last year ("CRR2") in light of the challenges posed to the banking sector by the current COVID-19 crisis. Other amendments not contained in CRR2 were also announced to provide further flexibility to banks in meeting capital requirements. The European Parliament voted to approve these measures, which contain some amendments to the original text, on 18th June 2020.

The key measures in the CRR quick fix include an extension of the IFRS 9 transitional arrangements by 2 years, the introduction of a prudential filter on sovereign bonds held at fair value and the acceleration of CRR2 amendments to exempt certain software assets from capital deduction and to revise the SME supporting factors.

The Basel Committee has also announced a delay by one year in the implementation of revisions to the Basel Framework for Credit Risk, Credit Valuation Adjustment ("CVA") and Operational Risk. These changes are expected to form part of CRR 3 in the European Union (EU) with an expected application date of 1 January 2023 as opposed to an application date of 1 January 2022 expected pre COVID.

The Group monitors these changes and other emerging developments as they relate to regulatory capital to ensure compliance with all requirements when applicable.

Flexibility provided by the Central Bank of Ireland in the context of the COVID-19 crisis^[1]

The CBI has provided additional flexibility to banks under its direct supervision when meeting its capital requirements. This includes:

- Allowing banks to use Additional Tier 1 and Tier 2 capital to partially meet Pillar 2 Requirements ("P2R"), bringing forward a measure due to be implemented in January 2021 as part of the amendments to the Capital Requirement Directive V ("CRD V");
- Announcing a reduction in the countercyclical capital buffer ("CCyB") rate on Irish exposures to 0% at the beginning of April 2020; and
- Allowing banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance ("P2G") and the capital conservation buffer ("CCB").

Regulatory capital requirements

The Group's Common Equity Tier1 (CET1) minimum Supervisory Review & Evaluation Process (SREP) requirement of 8.94% (31 December 2019: 11.45%) is comprised of a Pillar 1 Requirement of 4.50%, Pillar 2 Requirement (P2R) of 1.94% (31 December 2019: 3.45%), Capital Conservation Buffer (CCB) of 2.5% and Countercyclical Buffer (CCyB) of 0% (31 December 2019: 1.0%).

The Group's Total Capital minimum SREP requirement is 13.95% at 30 June 2020 (31 December 2019: 14.95%).

The reduction in SREP Requirement is due to:

- The reduction of the CCyB from 1% to 0% in April 2020; and

^[1] <https://www.centralbank.ie/regulation/covid19-flexibility-measures/credit-institutions>

- The introduction of the CRD V amendments in May 2020 which permits banks to meet a portion (up to 44%) of their P2R with non-CET1 capital (i.e. Tier1 and Tier2 capital) reducing CET1 requirements by 1.51%, this does not impact Total Capital requirements.

Capital ratios at 30 June 2020

At 30 June 2020, the regulatory transitional CET1 was 16.5% (31 December 2019: 17.6%) and Total Capital ratio 17.9% (31 December 2019: 19.1%), exceeding the Group's 2020 minimum SREP requirements of 8.94% and 13.95% respectively.

On a fully loaded basis, the CET1 ratio was 13.9% (31 December 2019: 14.6%) and the Total Capital ratio was 15.5% (31 December 2019: 16.3%).

The reduction in capital ratios in H1 2020 is primarily driven by an YTD impairment charge (€75m).

The leverage ratio on a fully loaded and transitional basis amounted to 7.2% and 8.3% respectively at 30 June 2020 (31 December 2019: 7.8% and 9.1%).

The following table outlines the Group's regulatory (transitional) and fully loaded capital positions under CRDIV/CRR.

Table 17: Regulatory capital

	30 June 2020		31 December 2019	
	Transitional	Fully Loaded	Transitional	Fully Loaded
	€m	€m	€m	€m
Capital Resources:				
Common Equity Tier 1	1,646	1,385	1,765	1,464
Additional Tier 1*	79	96	85	103
Tier 1 Capital	1,725	1,481	1,850	1,567
Tier 2 Capital*	66	66	61	61
Total Capital	1,791	1,547	1,911	1,628
Risk Weighted Assets	9,983	9,970	10,012	9,996
Capital Ratios:				
Common Equity Tier 1 Capital	16.5%	13.9%	17.6%	14.6%
Tier 1 Capital	17.3%	14.9%	18.5%	15.7%
Total Capital	17.9%	15.5%	19.1%	16.3%
Leverage Ratio**	8.3%	7.2%	9.1%	7.8%

*The amount of Additional Tier 1 Capital and Tier 2 instruments included within the consolidated capital of the holding company is restricted within the limits laid down under the CRR. Effective 1 January 2018, these restrictions are now fully phased in.

** The leverage ratio is calculated by dividing Tier 1 Capital by gross balance sheet exposure (total assets and off-balance sheet exposures).

The following table reconciles the statutory shareholders' funds to the Group's regulatory (transitional) and fully loaded CET1 Capital.

Table 18: CET1 Capital

	30 June 2020		31 December 2019	
	Transitional	Fully Loaded	Transitional	Fully Loaded
	€m	€m	€m	€m
Total Equity	1,932	1,932	1,997	1,997
Less: AT1 Capital	(122)	(122)	(122)	(122)
Adjusted Capital	1,810	1,810	1,875	1,875
Prudential Filters:				
Intangibles	(77)	(77)	(66)	(66)
Deferred Tax	(214)	(344)	(170)	(337)
IFRS 9 (Transitional adjustment)*	131	-	134	-
Others	(4)	(4)	(8)	(8)
Common Equity Tier 1	1,646	1,385	1,765	1,464

*The CET1 transitional impact to the Group as a result of EU Regulation 2017/2395 mitigating the impact of the introduction of IFRS 9 own funds and applies to both the static day 1 addback and the dynamic addback for increases in Stage 1 and 2 provisions (net of expected loss). The June 2020 CRR quick fix amendments are also reflected.

Transitional CET1 capital reduced by €119m to €1,646m at 30 June 2020 (31 December 2019: €1,765m). This reduction was primarily driven by the phasing of the prudential filters and year to date losses of €54m which include an impairment call-up of €75m.

Fully loaded capital

Fully loaded CET1 capital decreased by €79m to €1,385m at 30 June 2020 (31 December 2019: €1,464m). This decrease was primarily driven by YTD losses and an increased balance of Intangible Assets, a deduction from capital.

Risk weighted assets (RWAs)

The following table sets out the Group's risk weighted assets (RWAs) at 30 June 2020 and 31 December 2019.

Table 19: RWAs

	30 June 2020		31 December 2019	
	Transitional	Fully Loaded	Transitional	Fully Loaded
	€m	€m	€m	€m
RWAs				
Credit risk	8,567	8,567	8,341	8,341
Counterparty credit risk*	141	141	141	141
Securitisation	163	163	90	90
Operational risk	672	672	695	695
Other**	440	427	745	729
Total RWAs	9,983	9,970	10,012	9,996

*Counterparty credit risk includes Treasury, Repo and CVA RWAs.

**Other includes Standardised Exposures including a receivable in 2019 in relation to Glas II of €296m.

Transitional RWAs of €9,983m at 30th June 2020 have decreased marginally YTD (31 December 2019: €10,012m).

RWA reductions relating to the de-recognition of Glas II loans in Q1 and YTD net contraction of the mortgage loan book are substantially offset by increases through Payment Break offerings.

Interim **Report**

for the six months ended

30 June 2020

Business Review

Risk Management

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 (RAS), 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 the following key aspects:

- Risk Identification;
- Risk Assessment and Measurement;
- Risk Mitigation and Control;
- Risk Monitoring and Testing; and
- Risk Reporting and Escalation

Enterprise Risk Management Framework

The Enterprise Risk Management Framework (RMF) is the Group's overarching Risk Management Framework articulating the risk management process governing risks within the following key risk categories: Capital adequacy Risk, Liquidity and Funding Risk, Market risk, Credit risk, Strategic business risk, Operational risk, Information technology risk, Model risk, Compliance risk and Conduct and Reputational risk. The RMF outlines the Group-wide approach to the identification; assessment and measurement; mitigation and control; monitoring and testing; and reporting and escalation 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 (BRCC) 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 RAS.

Risk Appetite and Strategy

The Group's RAS documents are owned by the Board, supported by the Chief Risk Officer (CRO), and describe the Group's risk appetite at the enterprise level. The RAS serves as a boundary to business, support, and control function leaders; enables a consistent approach to risk management; endorses risk discipline; and, integrates risk management into decision making at all levels of the organisation. The RAS further ensures the Group's risk is communicated clearly and well understood by both Senior Management and Group employees so that risk management is continually embedded into the Group's culture.

The structure of the RAS enables the Group to maintain robust discussions of risk taking and risk management and provides a commonly understood baseline against which Management recommendations and decisions can be debated and effectively and credibly challenged.

The RAS is an articulation of how the Group's appetite for and tolerance of risk will be expressed. This comes in the form of qualitative statements about the nature and type of risk that the Group will take on, and quantitative limits and thresholds that define the range of acceptable risk. The RAS includes component risk appetite statements for each of the distinct key risk categories, including qualitative expressions of risk appetite as well as quantitative measures which translate the qualitative expressions of risk appetite into actionable metrics (RAS Metrics) and supporting Key Risk Indicators (KRIs) that can be monitored and reported to ensure prompt and proactive adherence with the Board-approved risk appetite.

The Group has a straight forward business model, to deliver a full-service Retail and SME Bank with a low risk appetite exclusively focussed on the Republic of Ireland. In light of this the risk appetite is not decomposed into individual business unit-specific statements of risk appetite.

Risk Governance

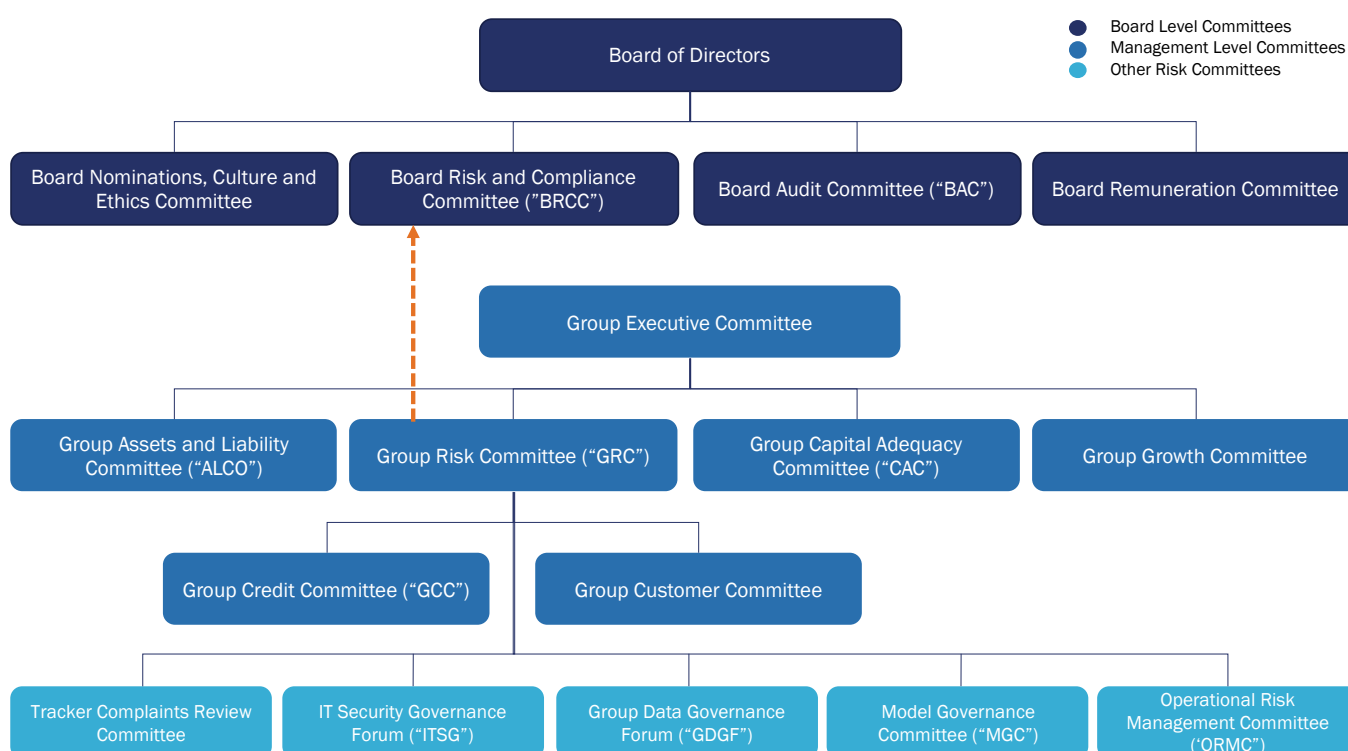
The Group's risk governance structure establishes the authority, responsibility and accountability for risk management across the Group and enables effective and efficient monitoring, escalation, decision-making and oversight with respect to risks by appropriate Board and management-level governing bodies.

The responsibilities set out below relate to risk management activities. Further roles and responsibilities are documented in the Internal Control Framework (ICF), the Board Manual and the committees Terms of Reference. The design of the Group's risk governance structure is informed by a set of risk governance principles that are based on relevant regulatory guidelines.

These principles include:

- **Committee Structure:** The number of committees at Board and Management levels reflects the nature and types of risk faced by the Group. Criteria for establishing risk sub-committees give due consideration to the: purpose of the committee; duration of the committee; proposed membership; committee reporting line; and flight path for outputs from the committee;
- **Board Committees:** Made up of Non-Executive Directors (NEDs) whose role is to support the Board in overseeing risk management and overseeing and challenging Senior Management's decisions;
- **Management Committee:** Brings together Senior Managers in the Group who individually and collectively possess the requisite skills, expertise, qualifications, knowledge and experience to exercise sound, objective judgement, commensurate with the risk profile of the Group;
- **Independence Safeguards:** The risk governance structure features safeguards to protect the independence of key relationships between Senior Executives and the Board. In this respect, the Executive Committee (ExCo) may not override or modify decisions of the Asset and Liabilities Committee (ALCO), Group Risk Committee (GRC) or Group Credit Committee (GCC), but may appeal decisions to the Board (or relevant Board committee). Additionally, the CRO is assigned the right to refer/appeal planned management action agreed by ExCo risk sub-committees, where the CRO considers such action to be inconsistent with adherence to the Board-approved Risk Appetite;
- **Flow of Risk Information:** The risk governance structure establishes independent reporting lines which facilitate effective risk oversight by the Board via the BRCC;
- **Communication of Risk Information:** Risk information is prioritised and presented in a concise, fully contextualised manner, to enable robust challenge and informed decision-making throughout the risk governance structure; and
- **Appropriateness:** The number of overall governance committees/fora in the Group, the length of time per meeting, the number of meetings per year, and the number of meetings each Director/Executive attends should be appropriate to the Group's resources and business model. This is reviewed on a regular basis and the feedback of the committee members sought.

The diagram below depicts the Group's risk governance structure.



Key Risk Governance Roles and Responsibilities

Committee/Role	Key Responsibilities
Board 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 for the Group; • Defining the strategy for the on-going management of material risks; and • Ensuring there is a robust and effective ICF that includes well-functioning independent internal 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 guidance to the Board on risk governance and strategy. This guidance includes recommendations to the Board on current and future risk exposure, tolerance and appetite. The committee oversees Management's implementation of risk strategy including capital and liquidity strategy, 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 risks categories as described in the Risk Management Framework; • Reviewing and making recommendations to the Board in relation to the Group's Risk Appetite Framework (RAF), RAS and the Group Recovery Plan; • Monitoring and escalating positions outside risk appetite 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 and relevant supporting documents; • Communicating all issues of material Group reputational and operational risk directly to the Board; • Reviewing and approving credit policy, credit related strategy and any material amendments to credit policy; • 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 the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP)), including in relation to proposed mergers, acquisitions or disposals; and • Promoting a sound risk culture across the Group.
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). ExCo is the accountable body for the Group's operations, compliance and performance; defining the Group's organisational structure; ensuring the adoption, application and maintenance of all standards set by the Board; and a forum for Group-wide colleague and other functional issues and ensuring that a robust and resilient operating framework exists within which the Group's activities are undertaken. The committee is chaired by the CEO who is accountable to the Board.	In the context of Risk Management, ExCo is primarily responsible for: • The oversight of strategic risk associated with the development and execution of the Group's management agenda and financial plans. GRC is a Committee of ExCo with delegated responsibility for group-wide risk management issues. ExCo is the ultimate point of escalation for Group-wide specific issues saved for those matters reserved for the Board or its Committees; and • Ensuring that the operations, compliance and performance (through delivery of the management agenda and financial plans, as well as policies, practices and decisions of the Group) are carried out appropriately, are correctly aligned to Group Strategy and the interests of its shareholders while operating within applicable regulatory and legal requirements.

Committee/Role	Key Responsibilities
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 approving optimisation and hedging strategies against those risks. ALCO is a sub-committee of ExCo.	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; • Assessing and maintaining 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; and • 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 Funds Transfer Pricing (FTP) Policy.
Group Growth Committee (GrowthCo) GrowthCo provides context and promotes understanding of the commercial agenda. In this context, 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. GrowthCo exists to prioritise opportunities, resources and capabilities in order to deliver the first year of the Medium Term Plan (MTP), and make recommendations to maximise shareholder value in future years which build on the Group ambitions and feed these recommendations into ExCo and the IPP. GrowthCo is an ExCo Sub-Committee.	The GrowthCo is responsible for: • To prioritise opportunities, resources and capabilities in order to deliver the first year of the MTP. The Committee is also responsible for proposing new Management Agenda items for consideration by the CEO and ExCo; • To act as a gateway through which all developments to product, price, service or channels are initiated and reviewed prior to delivery or submission to GrowthCo; and • To act as a steering group to all relevant Group performance agenda work.
Capital Adequacy Committee (CAC) CAC is responsible for the detailed execution and initial oversight responsibilities for capital adequacy. The CAC is responsible for reviewing the adequacy of capital on an ongoing basis and should receive monthly reporting on the capital position. CAC is a sub-committee of ExCo.	The CAC is responsible for: • Monitoring (i) the minimum capital requirements set by the Group's Regulators; and (ii) the Basel III minimum Solvency rules, as implemented by the CRD IV Directive and Regulation, which details the Pillar 1 minimum capital ratios that the Group needs to hold; • Reviewing and recommending ICAAP documentation to the BRCC/Board; • Maintain a level of oversight and management of the on-going execution of capital-impacting stress testing exercises (e.g. ICAAP, SSM, SREP); and • Considering both the quality and quantity of capital held by the Group including the composition of the Group's total capital resources (i.e. the preferred split of CET1, Tier 1 and Tier 2 capital) while remaining within the parameters of the approved budget and recommending any remedial actions to ExCo/Board accordingly.

Committee/Role	Key Responsibilities
Group Credit Committee (GCC) GCC is 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. GCC ensures that the appropriate operating frameworks governing the portfolio credit risk management activities of the Group are approved and are enforced. It operates as the forum for Group-wide portfolio credit risk management issues across the full credit risk management lifecycle. GCC is a sub-committee of GRC.	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; • 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 proposing remediation plans to restore risk appetite/limits where required; • Reporting any breaches of approved limits in accordance with agreed protocol; and • Acting as the gateway through which decisions required from higher authorities are reviewed prior to submission (e.g. BRCC/Board) and they are the forum review of Group-wide credit risk management issues.
Group Risk Committee (GRC) A committee for Group-wide Risk Management issues, GRC is a sub-committee of the Group 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 Limits. It is the guardian of the Group's Risk Register and Risk Appetite and is responsible for monitoring the total risk position of the Group. Key activities of GRC include, but are not limited to: • Measuring and monitoring the total risk position of the Group and maintaining a Risk Register of Top and Emerging risks facing the Group, together with an assessment of the probability and severity of those risks; • Monitoring and reporting on regulatory developments and upstream/horizon risk in relation to all relevant risk categories and communicating all material issues to the BRCC or the Board as appropriate; • Monitoring and assessing the Group's risk profile and action trackers against risk appetite and recommending remediation plans to restore risk appetite where required; • Reporting any breaches of approved thresholds in accordance with agreed protocol; • Recommending proposed changes to the Group's risk appetite for Board approval; and • Maintaining, monitoring and enforcing adherence to the Enterprise Risk Management Framework (ERMF), for all key risk categories excluding those, which fall directly under the remit of CAC and the ALCO.
Group Customer Committee The Group Customer Committee ensures that the Group monitors, controls and mitigates conduct and customer outcome risk by embedding a culture where achieving positive customer outcomes in order to generate sustainable long-term shareholder value permeates the Group's approach and thinking. In doing so, it oversees all significant business strategies and propositions that may have a material impact on customers, and in turn, ensures the 'Customer Value Equation' is delivered at all times. This covers new product development, product delivery and fulfilment, on-going product and customer management, and customer interaction. Customer Committee is a sub-committee of GRC.	The Group Customer Committee's responsibilities include but are not limited to: • Providing guidance to Executive Management (including the 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 provide both, 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 • Serving as the central oversight body for all significant customer matters ensuring fair treatment of customers (via the 'Customer Value Equation') is at the heart of key decisions made by the business.

Role of the Chief Risk Officer

The CRO has overall responsibility for overseeing the development and implementation of the Group's risk function, including overseeing development of the risk management framework, supporting frameworks, 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 to. The CRO is a member of the GEC and directly manages the Group's risk function. The CRO has a shared reporting line to the BRCC and the CEO.

The CRO is accountable for the development of the Group's RAS, which the CRO submits to GRC for recommendation to BRCC, who in turn recommend approval to the Board. 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 and reporting this to the Board. The CRO's responsibilities also encompass independent review and participation in the IPP, capital and liquidity planning and the development and approval of new products.

Specifically, the CRO is tasked with:

- Providing second line of defence assurance to the Board across all risk categories;
- Providing independent advice to the Board on all risk issues, including the risk appetite and risk profile of the Group;
- Monitoring and enforcing Group-wide adherence to frameworks, policies, and procedures, with the aim of ensuring that risk-taking is in line with the point-in-time Board approved risk appetite;
- Monitoring material risks to which the Group is, or may become, exposed, and overseeing development of risk mitigating responses as appropriate;
- Developing and submitting the ICAAP, ILAAP, Recovery Planning and Resolution Planning for Board approval; and
- Developing and maintaining the Group's risk management organisation.

In connection with these responsibilities, the CRO is assigned the right of appeal 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.

Three Lines of Defence

A 'Three Lines of Defence' model has been adopted by the Group for the effective oversight and management of risks across the Group.

Line Of Defence	High-Level Roles And Responsibilities
FIRST LINE OF DEFENCE (FLOD)	• Role-modelling the Banking Blueprint in all aspects of the Group's operation and decision-making; • Proposing the Group's strategies to the Board and implementing Board-approved strategies and initiatives by actively engaging in the Group's business and operations, and taking decisions on a sound and well-informed basis; • Embedding the ICF and its supporting frameworks (e.g., Risk Management Framework) and sound risk management practices into standard operating practices, including by creating explicit links between maintaining and delivering robust governance and risk and control processes to performance management; • Establishing appropriate governance structures to support the implementation of the ICF and achieve the Group's strategic, business, operational, risk, and assurance objectives; • Identifying, assessing, measuring, monitoring, mitigating, reporting and owning all risks associated with business and operational activities across the Group's risk categories in a manner consistent with the ERMF; • Managing all risks associated with business and operational activities in a manner consistent with the enterprise-wide risk appetite; • Complying in full and within the spirit and letter of relevant regulations and legal obligations applicable to business and operational activities; • Establishing, owning, maintaining, and adhering to internal controls, frameworks, policies, and procedures, including embedding responsibility for data completeness and accuracy; • Monitoring and testing the control environment in accordance with the Group's frameworks; • Identifying issues, analysing root causes, and developing and implementing remediation plans within appropriate timelines; • Monitoring, reporting, and escalating material decisions on business activities, changes in the risk profile, the Group's operating environment, and other issues including non-compliance with laws and regulations and non-adherence with established risk limits, internal controls, and policies and procedures; • Cultivating a strong risk culture that encourages prompt identification and escalation of issues and fostering an environment of continuous improvement and open engagement; • Providing assurance to relevant governance bodies on the management of risk in their functions and the effective operation and reporting of relevant controls; and • Ensuring fair customer outcomes in all aspects of the Group's operation and decision-making.
SECOND LINE OF DEFENCE	• Developing the Risk Management Framework and enterprise-wide risk appetite statement; • Proposing to, advising, and seeking approval from the Board with regard to enterprise-wide risk appetite tolerances and limits; • Identifying, assessing, and assigning responsibility for regulatory obligations to business and support units and advising business units on compliance risk exposures and related risk management practices; • Advising the business and support units on measures to be taken to ensure compliance with applicable laws, rules, regulations and standards and interpret the possible impact of any changes in the legal or regulatory environment on the Group's business, operations, and compliance framework; • Assessing FLOD adherence to the risk management framework, risk appetite, and risk limits to determine whether FLOD units meet the standards for their risk management roles and responsibilities; • Setting standards for enterprise-wide risk identification and assessment processes; • Reviewing, scrutinising, and, as appropriate, challenging the FLOD risk management activities, and escalating issues if risk management concerns are not adequately addressed by the FLOD; • Ensuring, in an independent manner, that all material risks to which the Group is, or may become, exposed are identified, assessed, measured, monitored, mitigated, and reported on by the relevant units in the institution; • Establishing, maintaining, and delivering a program of monitoring, testing and selected validation; • Cultivating a strong risk culture that encourages prompt identification and escalation of issues and fostering an environment of continuous improvement and open engagement; and • Providing comprehensive and understandable information, independent of the First Line of Defence, to relevant governance bodies – through ongoing risk management committee updates – on the state of the Group's overall risk and control environment and the effectiveness of risk management, including risk issues and risk management deficiencies, and adherence to the Group's risk appetite, limits, and risk management framework.

Line Of Defence	High-Level Roles And Responsibilities
THIRD LINE OF DEFENCE	- Establishing and maintaining an internal audit system that is appropriate to the size of the institution and the nature and scope of its activities and that provides for: - Adequate monitoring of the system of internal controls through a risk-based, independent assessment of the Group's governance, risk management and control processes; - Independence and objectivity; - Qualified persons; - Adequate testing and review of information systems; - Adequate documentation of tests and findings and any corrective actions; - Verification and review of Management actions to address material weaknesses; and - Review by the Board Audit Committee (BAC) or the Board of the effectiveness of the internal audit system. - Establishing and adhering to an audit plan, which is updated periodically and approved by the BAC, that takes into account the Group's risk profile, emerging risks, and issues; - Providing independent assurance to relevant governance bodies and other internal and external stakeholders, on the adequacy, effectiveness, and sustainability of the systems of risk management, governance and control throughout the Group; and - Tracking the implementation of all internal Group Internal Audit actions and external audit management points and reporting to the BAC on the status and progress of that implementation

2 Principal Risks and Uncertainties

On a quarterly basis risk registers, containing details of current and emerging risks, from each of the Group risk functions are collated. The registers utilise the 'top down' risk Identification and 'bottom up' Risk and Control Self Assessment (RCSA) processes and form the basis of the Group's 'Top and emerging risks' report. The 'Top and emerging risks report' is included in the CRO report, is presented to Board and is used to ensure identification, measurement, management and monitoring of all material risks. During the COVID-19 pandemic there is heightened monitoring of the Group's top and emerging risks.

The following 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 six 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 six months may become significant. As a result of the challenging conditions in financial markets across the world due to COVID-19; also in Europe as a consequence of the United Kingdom (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.

COVID-19

The current economic shock as a result of the COVID-19 virus outbreak poses a significant challenge to businesses in Ireland and across the world. The outlook is challenging with the long term consequences largely dependent on its severity and the ensuing timeline over which business activity and employment levels begin to recover.

Anticipated higher impairments and in a time significantly higher arrears profile, adjustments to RWAs due to declining credit quality (impacting the risk parameters), higher costs and lower income will together place a strain on the Group's capital position. In light of the current economic outlook, the net impairment charge on the Group's loan book increased to €75m. This position will be kept under constant review.

The unprecedented nature of the crisis gives rise to an elevated degree of uncertainty regarding the Group's financial and capital outlook at this time. Management continue to review and benchmark internal projections against economic assessments published by reputable, independent sources.

To ensure that the Bank's strategy takes into consideration the impact (both known and unknown) of COVID-19, an exercise was undertaken at the end of Q2 to refresh the Bank's Management Agenda – the vehicle through which the Bank's strategy is executed. Key strategic assumptions and inputs were challenged and updated where appropriate, supporting the redistribution of resources and investment to the value maximising issues and opportunities for the Bank within its new operating context.

In addition, the COVID-19 virus brought significant change across the organisation in relation to our 'Ways of Working' with reliance on remote working and remote collaboration becoming the new normal and redeployment and reorganisation of how are teams are setup to work being required.

The health of all colleagues continues to be our utmost priority and in this regard work is being undertaken in designing a 'future fit' organisation for a return to the physical workplace, as well as an enduring home working approach. To assist with this, we are developing longer term technology solutions and an improved equipment infrastructure to enable flexible working. Brexit

In addition to the current pandemic event, a 'no-deal' and disorderly Brexit remains a short-term threat to the Irish economy. There is still uncertainty about the final outcome, and it is widely expected to have a negative impact on the Irish economy which will in turn adversely impact the Group's results, financial condition and prospects. Important political decisions are being made during 2020 in both the UK and Europe for specific negotiations and finalisation. Therefore, it is expected that the Brexit uncertainty will continue to distress the markets in 2020 and beyond. The post pandemic consequences coupled with Brexit may represent an even greater challenge for the Group than previously anticipated. Operationally the Group is continually assessing the impact on Capital risk, Liquidity risk, Credit risk, IT/Cyber, Third Party Risk and communications to customers and staff. There is a heightened level of monitoring of these risks in advance of Brexit.

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Interest Rate Benchmarks

The London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR) and other rates and indices which are deemed to be "benchmarks" are the subject of recent international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently from the past or disappear entirely or have other consequences that cannot be predicted.

For the Group this potentially may impact the payment and receipt of interest on PTSB's securitised transactions and interest rates swaps but the impact is considered minimal given the low level of exposure. The Group will monitor and address potential challenges from any transition to new reference rates.

Government Control and Intervention

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

The risk is that the Irish Government through its direct shareholding of the Group, 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 Group's other stakeholders.

The Minister for Finance and the Group entered into a relationship framework agreement dated 23 April 2015. The framework agreement provides that the Minister will ensure that the investment in the Group is managed on a commercial basis and will engage with the Group, 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 the Group.

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.

Irish Economic Outlook

"The COVID-19 pandemic is a global health crisis without precedent in living memory. It has triggered the most severe economic recession in nearly a century and is causing enormous damage to people's health, jobs and well-being." This is how the Organisation for Economic Co-operation and Development (OECD) characterised the global economic outlook in June 2020. In its Outlook, it considered what it characterised as "two equally probable scenarios – one in which a second wave of infections, with renewed lock-downs, hits before the end of 2020, and one in which another major outbreak is avoided." It forecasts that Ireland's Gross Domestic Product (GDP) would decline by 8.75% in 2020 with no recovery in 2021 in the first scenario while in the second, GDP would fall by 6.75% in 2020 and grow by 4.75% in 2021.

The European Commission is forecasting a decline of 8.5% in Irish GDP in 2020 followed by growth of 6.25% in 2021. Its forecast is for the euro area economy "to contract by about 8¾% in 2020 before recovering at an annual growth rate of 6% next year." The NTMA baseline estimate for the decline in Irish GNI* is 10%. This places Ireland approximately mid-table for GDP decline within the OECD countries.

Many commentators point to the fact that while the first half of 2020 has seen a substantial deterioration in the public finances, “the nature and extent of this weakening is notably different and consequently less threatening to that which emerged in 2008. In the earlier episode, the key driver was the evaporation of tax revenues. In this instance, the main factor has been a deliberate and temporary albeit massive increase in public spending on income supports to cushion the hit from the pandemic.”

Tax revenues for the first half of 2020 were 0.7% higher than the comparable period of 2019 despite the pandemic. Corporation tax receipts relating to 2019 profits were particularly strong. Equally, income tax receipts fell less than expected. It was noted that those who lost their jobs were largely in lower-paid employment and paying little tax whereas the higher-paid continued to work from home. While the Government estimated the general government deficit would “rise to approximately €27 billion in the downside scenario and €29 billion in the severe downside” in its Stability Programme Update in April 2020, it now appears the actual deficit may be less.

Having started the year with an unemployment rate of less than 5%, by April, the rate had reached 28%, the highest ever recorded. The Economic and Social Research Institute (ESRI) estimates “unemployment is ... set to average 17.4% for 2020” in its baseline scenario which Management believes are outliers in terms of forecasts given recent developments. In its Jun/20 report, the Central Statistics Office (CSO) notes: “The COVID-19 crisis has continued to have a significant impact on the labour market in Ireland. While the standard measure of Monthly Unemployment was 5.3% in June 2020, a new COVID-19 Adjusted Measure of Unemployment could indicate a rate as high as 22.5% if all claimants of the Pandemic Unemployment Payment were classified as unemployed.” It further notes how the pandemic disproportionately affected young workers: the June 2020 COVID-adjusted unemployment rate was 45.4% for those aged 15 to 24 years compared to 19.2% for those aged 25 to 74 years.

The European Commission estimates Irish HICP inflation will be -0.2% in 2020 and will rise to 0.8% in 2021 as economic activity is restored. This compares with its estimate for inflation in the Euro-area of 0.3% in 2020 and 1.1% in 2021. The CSO reports that average earnings rose by 3.9% in the year to March 2020.

Residential property prices increased by 0.3% nationally in the year to May 2020 compared to an increase of 2.6% in the twelve months to May 2019. Overall, the national index is 18.1% lower than its highest level in 2007. Property prices nationally have increased by 82.7% from their trough in early 2013. Dublin residential property prices have risen 92.1% from their February 2012 low, whilst residential property prices in the Rest of Ireland are 81.6% higher than at the trough, which was in May 2013.

Household deposits grew by €4.5 billion or 4.7% in the year to March 2020, the fastest rate since 2008 and the fifth consecutive year of annual growth. The Central Bank noted that “bank lending to households recorded a net decline of €310 million in May 2020, as the effects of COVID-19 and the subsequent lockdown continue to have a dampening impact on economic activity. In annual terms, the rate of growth has declined in recent months from 1.93% in February to 0.8% in May 2020. Consumer lending has now turned negative on a 12-month basis having been positive since March 2016.”

While the Central Bank reports that “net new lending for house purchase was €1.1 billion in the year to end-March; the largest annual increase since late 2009”, figures from BPFi show that the situation has changed since the pandemic struck: mortgage approvals in May 2020 were over 60% less than a year previously. With increased precautionary saving and lower lending volumes, it is likely that banks will see their loan-to-deposit rates continue to reduce for the coming years.

House completions, as measured by the CSO’s new dwelling data, rose by 18% last year to over 21,000 units. From a supply perspective, in a best-case scenario, Davy estimate completions may only total in the region of 16,000-18,000 units this year. Before the crisis struck, they were projecting new supply of around 24,000 units in 2020.

According to the ESRI, the Government is facing “a deficit of at least 9% of GDP or €27.5 billion” in its baseline scenario. Davy estimate “the government debt to GDP ratio will rise from 59% in 2019 to 70.4% in 2020, falling slightly to 69% in 2021. Expressed as a percentage of gross national income, debt rises from 99% in 2019 to 123% in 2020 and falls to 119.7% in 2021.”

The ECB has established the Pandemic Emergency Purchase Programme enabling it to buy €1.35tn of bonds in the market over the next year. These purchases are in addition to the €20bn per month under the Asset Purchase Programme (APP); the cumulative total of purchases under the APP is approximately €2.8tn. The net effect of the ECB’s purchases has been to keep yields on sovereign bonds low despite the high levels of issuance resulting from the large Government deficits. The yield on Irish 10-year debt has remained negative despite the increased issuance.

The risk of Brexit is looming ever larger: there are six months to get a deal or Ireland-UK trade will be subject to significant trade disruption. While it is likely that a minimal trade agreement will be signed before year-end, the economic damage may be large.

Uncertainty around corporation tax remains as the United States has paused the OECD’s Base Erosion and Profit Shifting (BEPS) II talks. It is likely to be 2021 before any agreement is reached.

Capital Adequacy Risk

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

- Materially worse than expected financial performance;
- Increases in RWAs;
- Changes in the prescribed regulatory framework; or

- 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 undertakes an 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 SREP capital requirements. The ICAAP is subject to review and evaluation by the CBI 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 monitors other potentially significant changes to the requirements including measures which may culminate in Basel IV regulations replacing or supplementing Basel III.

The current MTP includes further reductions to NPLs in line with the Group's NPL strategy. Their capital impact will be closely monitored.

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.

The Group's customer exposures are originated and managed in Ireland. The Group's principal exposure is to residential mortgages secured firstly by a first legal charge on the property. Economic uncertainty, (however it arises e.g. Coronavirus, a public health crisis transferring into an economic risk), 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.

Brexit

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.

Model Risk

Model risk is defined by the Group as an adverse outcome (incorrect or unintended decision or financial loss) that occurs as a direct result of weaknesses or failures in the design, implementation or use of a model. The adverse consequences include financial loss, poor business or strategic decision-making, or damage to the Group's reputation.

Model risk is managed in accordance with the Groups Model Risk Framework. A key element of this policy is the work carried out by the Model Validation Team (MVT). The Group maintains a model inventory, detailing the range of models used in the Group across a full range of risk types, which is used to drive a materiality based view of the Group's models ensuring the prioritisation of validation resources and visibility of any emerging model risks. Within the validation process a number of steps are taken to manage model risk, including; the application of additional conservatism, where appropriate, in order to ensure model outputs reflect the realised outcomes seen in practice, and the issuing of detailed remediation actions. The MVT track all actions to completion and provide progress updates to management and other stakeholders.

Funding and Liquidity Risk

Funding risk is the risk that the Group is not able to achieve its target funding mix, is too dependent on particular funding instruments, funding sources (retail/wholesale) or funding tenors, fails to meet regulatory requirements and, in extremis, is not able to access funding markets or can only do so at excessive cost and/or Liquidity Risk.

Liquidity risk is the risk that the Group has insufficient funds to meet its financial obligations and regulatory requirements as and when they arise either through inability to access funding sources or monetise liquid assets.

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. The level of liquidity risk further depends on the size and quality of the liquid asset buffer, the maturity profile, and the composition of sources and uses of funding, as well as broader market factors such as depositor and investor sentiment/behaviour.

It is likely that these risks would be further exacerbated in times of stress. Given the nature of the Group's retail focus which stems from its business model, liquidity and funding risk will arise naturally due to the maturity transformation of primarily short term contractual deposits, albeit recognising behavioural stickiness, into longer term loans predominantly mortgage lending.

The levels of liquidity and funding risk within the Group have been positively impacted by the execution of the NPL strategy and will continue to benefit from further NPL deleveraging in the years ahead.

Market Risk

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. Often market risk cannot be fully eliminated through diversification, though it can be hedged against.

From the Group's perspective, Market risk consists of three components, Interest rate risk, Credit spread risk and Foreign exchange 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 the BRCC on the recommendation of the ExCo and the ALCO.

All market risks arising within the Group are subject to strict internal controls and reporting procedures and are monitored by the ALCO, the ExCo and the BRCC on a regular basis. Group Treasury is responsible for the management of market risk exposures on the balance sheet. Group Risk and Group Internal Audit (GIA) provide further oversight and challenge to the market risk framework.

Conduct and Reputational Risk

Conduct and Reputational Risk is the risk that the conduct of the Group towards customers or the market leads to poor customer outcomes, a failure to meet customers' or regulators' expectations, or breaches of regulatory rules or laws.

Conduct Risk can occur in every aspect of the Group's activities, including through:

- The strategy of the Group and how it is executed;
- The way the Group is run and managed;
- The existence of group think or localised cultures;
- The design type and pricing of products/services offered, the customers to whom they are offered and the distribution channels used;
- The way sales are made or transactions are executed;
- The post-sales fulfilment process throughout the life of the product; and
- Interactions with customers throughout the lifetime of the relationship, including when customers make complaints or where customer-impacting errors occur.

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

The management of conduct risk is the responsibility of the ExCo and First Line Management.

The Group's Senior Management are responsible for the identification and management of conduct risk in their business areas and for ensuring fair customer outcomes. The Group has a team within its regulatory compliance function responsible for second line conduct risk oversight. This team is guided by a Conduct Risk Management Framework, including a board-approved risk appetite and 12 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 fair outcomes for its customers at the heart of its strategy, governance and operations. The role of the conduct risk team is to provide oversight and support for the delivery of fair outcomes throughout all stages of the customer relationship with the Group.

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, the level of direct and indirect Government support or 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 operations. The Group cannot be sure that it will be successful in avoiding damage to its business from reputational risk.

Board and Senior Management have ensured that there is regular reporting of metrics and KRI 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 GCC (a sub-committee of the GRC).

Strategic Business Risk

Strategic business risk is the risk to earnings and capital (viability/sustainability of the Group) arising from adverse strategic decisions, inadequate or insufficient implementation of decisions, or lack of responsiveness or adaption to external environment changes.

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.

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

Operational Risk and IT Risk

Operational Risk and IT Risk are defined as the risk of loss or unplanned gains resulting from inadequate or failed processes, people and systems or from external events. 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 these risk categories are inherently present in the Group's business.

The Group has a low appetite for operational risk 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 data 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.

External events can have major impact on the Group's operations. The end of 2019, saw the start of the unprecedented world-wide COVID-19 pandemic coupled with the increased risk of external fraud and cybercrime as criminals are exploiting the situation.

Progress continues to be made to improve the Group's defences and the Group's IT security defence mechanisms and the enhanced security programme. Scenario testing is performed on cyber incidents to ensure existing processes support timely recovery. Monitoring and incident management processes are in place to detect and recover from both cyber-attacks and IT issues which may affect the availability of critical IT systems. Regular disaster recovery testing of critical systems is conducted in order to test IT resilience. Any changes made to the Group's IT systems or applications are governed by a change management process.

From a people perspective, the Group is challenged in its ability to retain and nurture a high performing and diverse workforce due to an extremely competitive market, in particular the roles that require key technical skills and those involved in Control Functions. Our people growth strategy involves a significant focus on the identification of key talent, retention and development strategies as well as a series of programmes aimed at improving capability at all levels of the Group. Our succession planning processes have been enhanced, in particular an increased focus on gender diversity built into our succession, development and senior talent acquisition planning.

The Group's operational and IT Risk Management Framework outlines the Group's approach to managing Operational and IT risks and are applicable Group wide. The framework defines 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, testing and reporting of Operational and IT risks in the Group.

A RCSA process is in place for the identification of operational and IT risk throughout the Group. It provides a mechanism for consistently capturing, measuring, monitoring and reporting operational and IT risks, including the controls and loss mitigation actions designed to minimise and mitigate potential risks found in existing procedures.

Internal controls are tested on a continual basis to provide assurance on the design effectiveness and operating effectiveness of controls captured in the RCSA process. Independent risk based control assurance reviews are also undertaken mainly in relation to key processes to provide an assessment of how effective associated risks are controlled and managed.

This system of internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring.

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 approach is to create a culture of risk awareness where all staff have an understanding of Operational and IT 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 outlines the processes and controls in place for identifying, assessing, mitigating and managing third party risks.

Regulatory Developments

At a European level, the EU Risk Reduction Package was passed, which includes amendments to the Capital Requirements Regulations and Directive, and the BRRD 2. The amendments include changes to the Net Stable Funding Ratio, counterparty risk, market risk, large exposures, reporting and disclosures and the introduction of minimum provision coverage for NPLs. A number of the changes have been implemented ahead of schedule as part of the regulatory response to COVID-19 with further changes to be implemented in the second half of 2020 through to 2022. The changes may impact Group's capital requirements, liquidity management and market disclosures.

At a global and European level, sustainable finance has emerged as a key priority for governments and regulators. The EU Action Plan on sustainable finance sets out the EU's strategy to integrate environmental, social and governance (ESG) considerations into its financial policy framework and mobilise finance for sustainable growth. The plan is broad and encompasses many elements including: measures to develop a common European taxonomy or "classifications system" for sustainable finance, enhanced disclosure rules to make sustainability risks fully transparent to investors and measures to make ESG considerations part of investment advice.

At a domestic level, the Irish Government will bring forward legislation to introduce an Individual Accountability Regime for Banks and other regulated entities, via a Senior Executive Accountability Regime (SEAR). This regime is expected to include Conduct Standards for Staff and enhancements to both the Fitness and Probity and the Administrative Sanctions Regimes. Following the enactment of the legislation the CBI will undertake a consultation process.

Regulators continue to emphasise the importance of culture, conduct risk, diversity practices, IT resilience and cyber security. These will continue to be important areas of regulatory focus especially in light of the response to COVID-19 on maintaining banking services and meeting customer needs.

Compliance Risk

As a financial services firm, the Group is subject to extensive and comprehensive legislation and regulation. The Group is subject to regulation by a number of regulatory authorities.

The Group is classed as a Less Significant Institution (LSI) and is directly supervised by the CBI, as the National Competent Authority.

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 resolution fund established under the Single Resolution Mechanism or levies in respect of applicable compensation schemes (including the Investor Compensation Scheme and the DGS);
- Non-compliance with 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 data protection, the detection and prevention of money laundering, terrorist financing, bribery, corruption and other financial crime; and
- Non-compliance with legislation relating to unfair or required contractual terms or disclosures.

The regulatory environment continues to evolve and further changes in banking regulation are expected over the medium-term.

Climate Risk

The Group is conscious of the effect that climate change can have and may manifest itself in two different ways, firstly on the operations of our business and secondly, in the longer term, an associated financial risk and increased credit risk for the Group.

Retail mortgage portfolios (such is the Group's focus) can be impacted by climate related physical risks through persistent or chronic changes in the environment. Climate change can lead to an increase in storms and flooding events, such events can subsequently impact property values and defaults, posing credit risk.

There is also a growing need to transition to a low carbon economy, with likely major impacts to reduce oil and gas power generation and increase wind, solar and wave technologies. If the pace of change transition is too slow, a sharper adjustment will be ultimately required, posing macroeconomic and financial stability risks.

Climate risk and sustainability is captured across a number of lenses, including: green products, credit assessment, capital allocation, pricing, Corporate Social Responsibility and carbon footprint. Integrating climate risk into the broader risk management framework will require the Group to measure its potential exposures to climate change. This is an increasing area of focus for the Group throughout 2020.

3 Group Risks

The Board has overall responsibility for the establishment and oversight of the ERMF. The Board has established the BRCC, which is responsible for oversight and advice on risk governance, the current risk exposures of the Group and future risk strategy, including strategy for capital and liquidity management and the embedding and maintenance of a supportive culture in relation to the management of risk throughout the Group. The BRCC, in turn, delegates responsibility for the monitoring and management of specific risks to committees accountable to it such as the GRC, the GCC, Group CAC and the ALCO.

The BAC, consisting of members of the Board, oversees how Management monitors compliance with the Group's Risk Management policies and procedures and reviews the adequacy of the Risk Management framework in relation to the risks faced by the Group in consultation with the BRCC. The BAC is assisted in its oversight role by GIA. GIA undertakes both routine and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

The following risks to which the Group is exposed to are discussed in detail below:

- Credit Risk;
- Liquidity Risk; and
- Market Risk (including foreign currency exchange risk, credit spread risk and interest rate risk).

The key financial risks arise in the underlying subsidiary companies of Permanent TSB Group Holdings plc (PTSBGH). All of the Directors of PTSBGH are also Directors of the Board of Permanent TSB plc (PTSB).

3.1 Customer Credit Risk

Definition of Customer Credit Risk

Customer credit risk is the risk of loss resulting from a customer being unable to meet his/her contractual obligations to the Group in respect of loans or other financial transactions. This risk includes but is not limited to default risk, concentration risk, migration risk and collateral risk.

Credit default risk is the risk that a customer will not be able to meet the required payments on their debt obligations to the Group when they become due.

An increase in the risk of default may be as a result of one or a number of factors including, but not limited to:

- Deterioration observed in an individual borrower's capacity to meet payments as they become due;
- Deterioration observed or expected in macroeconomic or general market conditions;
- Regulatory change; and
- Environmental factors that impact on the credit quality of the counterparty.

Concentration risk

Concentration risk is the risk of excessive credit concentration to an individual, counterparty, group of connected counterparties, industry sector, country or geographic area, a type of collateral or type of credit facility.

Migration risk

Migration risk is the risk for loss due to a ratings (internal/external) downgrade which indicates a change in the credit quality of an exposure.

Collateral risk

Collateral risk is the potential risk of loss arising from a change in the security value or enforceability due to errors in nature, quantity or pricing of the collateral.

Governance

Credit risk appetite defines the Group's tolerance for risk and its willingness to grant credit based on product type, customer type, collateral concerns and various other risk factors. The Board is ultimately responsible for the governance of credit risk across the Group, setting the risk appetite and ensuring that there are appropriate processes, systems and reporting lines in place to monitor and manage risks against the appetite. The BRCC, a sub-committee of the Board approves all credit policy and provides oversight to the Board on the setting and monitoring of the risk appetite and risk governance. The GCC is responsible for the execution and delivery of the Group's system of Portfolio Credit Risk Management. The Board has granted authority to the BRCC to approve a delegated framework of lending authority within which the GCC and Customer Credit function operate.

Credit Risk Management

The Group's credit risk management approach is focused on detailed credit assessment at underwriting together with early borrower engagement where there are signs of pre-arrears or delinquency with a view to taking remedial action to prevent the loan becoming defaulted. Where a borrower is in pre-arrears, arrears or default the Group will consider offering treatments/options which apply to the borrower's circumstance cognisant of affordability and sustainability. The Group's system of portfolio credit risk management incorporates the following key components:

- Credit policy;
- Lending authorisation;
- Credit risk mitigation;
- Credit risk monitoring;
- Arrears management and forbearance; and
- Credit risk measurement.

Credit Policy

To aid in the management of credit risk, the Group has put in place credit policies which set out the core values and principles governing the provision and management of credit. These policies take account of the Group's RAS, applicable sectorial credit limits, the Group's historical experience and resultant loan losses, the markets in which the business units operate and the products which the Group provides. Each staff member involved in assessing or managing credit has a responsibility to ensure compliance with these policies and effective procedures are in place to manage the control and monitoring of exceptions to policy.

Lending Authorisation

The Group's credit risk management systems operate through a hierarchy of lending authorities. Exposures above certain predetermined levels require approval by the GCC or the Board. Below GCC level, a tiered level of discretion applies with individual discretion levels set to reflect the relevant staff members' level of seniority, expertise and experience and the Group's operational needs. All mortgage lending is currently approved by experienced credit risk professionals assisted by scoring models. For Group unsecured personal lending portfolios, scoring models and automated processes are utilised to support the credit decision process for those segments that present a lower credit risk. Exposures that present a higher credit risk, but remain within risk appetite are manually reviewed prior to approval.

Credit Risk Mitigation

The granting of a loan in the first instance is always assessed based on the borrower's repayment capacity and proven ability. Credit risk mitigation forms a key supplementary element of the credit granting process. Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product, as set out in the Group's policies and procedures. The Group takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay the debt as originally assessed. At portfolio level, credit risk is assessed in relation to name, sector and geographic concentration.

The nature and level of collateral required depends on a number of factors including, but not limited to, the amount of the exposure, the type of facility made available, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or probability of default (PD).

Various types of collateral are accepted, including property, securities, cash and guarantees etc., grouped broadly as follows:

- real estate;
- financial collateral (lien over deposits, shares, etc.); and
- other collateral (guarantees etc.).

The valuation methodologies for the Group's key portfolios of collateral held are adjusted for costs to sell, as appropriate:

- Residential property valuations are based on the CSO property price index or on a recent valuation from a professional valuer. In respect of residential property securing performing loan exposures of greater than €0.5m, the Group policy is to ensure an independent valuation is updated within the last three years. For residential property securing NPL exposures of greater than €0.3m, the Group policy is to ensure an independent valuation is updated within the last year.
- Commercial property valuations are based on opinions from professional valuers, the Investment Property Database Index, local knowledge of the properties, benchmarking similar properties and other industry-wide available information, including estimated yields discount rates. In respect of commercial property securing performing loan exposures of greater than €0.5m, the Group policy is to ensure an independent valuation is updated within the last three years. For commercial property securing NPL exposures of greater than €0.3m, the Group policy is to ensure an independent valuation is updated within the last year.

The valuation methodologies outlined above are determined as close to the statement of financial position date as is feasible and are therefore considered by the Group to reflect its best estimate of current values of collateral held.

The Group's requirements in respect of collateral in relation to (i) completion; (ii) taking of security; (iii) valuation; and (iv) on-going management are set out in credit policies.

The table on the following page details the loan balance distribution by indexed Loan to value (LTV) band for the Group's residential mortgage portfolio (home loan and buy-to-let).

Residential Mortgage Exposures by Indexed LTV

30 June 2020

	Home loans	Buy-to-let	Total
	€m	€m	€m
Less than 70%	7,032	959	7,991
71% to 90%	3,866	602	4,468
91% to 100%	657	450	1,107
Subtotal	11,555	2,011	13,566
Greater than 100%	676	1,483	2,159
Subtotal	676	1,483	2,159
Total Residential Mortgages	12,231	3,494	15,725
Commercial			174
Consumer Finance			326
Total loans and advances to customers			16,225
Deferred fees, discount fees and other adjustments			107
Gross loans and advances to customers			16,332

31 December 2019

	Home loans	Buy-to-let	Total
	€m	€m	€m
Less than 70%	7,260	1,025	8,285
71% to 90%	3,738	717	4,455
91% to 100%	623	494	1,117
Subtotal	11,621	2,236	13,857
Greater than 100%	639	1,362	2,001
Subtotal	639	1,362	2,001
Total Residential Mortgages	12,260	3,598	15,858
Commercial			165
Consumer Finance			366
Gross loans and advances to customers			16,389

Credit Risk Monitoring

Credit risk appetite metrics and limits are designed to align with the strategic objectives of the Group to maintain stable earnings growth, stakeholder confidence and capital adequacy. This is achieved through setting concentration limits for higher risk product segments, ensuring new business meets pricing hurdle rates and through monitoring default rates and losses. Limits are also set in the context of the peer group, regulatory and economic landscape, to ensure the Group does not become an outlier in the market. Monthly updates are presented to the GCC and the BRCC which include an overview, trends, limit categories and detail on mitigation plans proposed where a particular parameter is close or at its limit.

Credit risk appetite is considered an integral part of the annual planning/budget process and reviewed at various checkpoints in the year to ensure the appetite is being met and is not expected to be breached during the budget time frame.

Arrears Management and Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ("forbearance measure"), for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred where the concession or agreed change to a loan does not arise from actual or apparent financial distress.

The Group is committed to supporting customers that are experiencing financial difficulty and seeks to work with those customers to find a sustainable solution through proactive arrears management and forbearance. Group credit policy and procedures are designed to comply with the requirements of the CBI Code of Conduct on Mortgage Arrears (CCMA), which sets out the framework that must be used when dealing with borrowers in mortgage arrears or in pre-arrears.

The Group's forbearance strategy is built on two key factors namely affordability and sustainability. The main objectives of this strategy are to ensure that arrears solutions are sustainable in the long term, that they comply with all regulatory requirements and where possible keep customers in their home.

Types of forbearance treatment currently offered by the Group include short term temporary arrangements (such as a payment moratorium) and term appropriate treatments (such as reduced payment, arrears capitalisation and term extension). Requests for concessions in recent years are arising as a result of temporary cash flow problems and an inability to repay at contractual maturity, whereas during the 2008 financial crisis such requests reflected more in-depth long term affordability issues. This is further reflected in the change in the volume and nature of forbearance measures availed. A request for forbearance is a trigger event for the Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance treatment. Where a borrower has been granted a forbearance treatment, the loan is considered to have experienced a significant increase in credit risk (SICR) and is classified as Stage 2 for Expected Credit Loss (ECL) assessment purposes under IFRS 9. The customer assessment may also result in the customer being classified as Stage 3, credit impaired as a result of the requirement for a specific impairment provision.

Further deterioration in the individual circumstances of the borrower or where expected improvement in the borrower's circumstances fails to materialise may result in non-compliance with the revised terms and conditions of the forbearance measure. In such circumstances the Group may consider a further forbearance request or the loan may ultimately prove unsustainable.

The effectiveness of forbearance measures over the lifetime of the arrangements are subject to ongoing management and review. A forbearance measure is considered to be effective if the borrower meets the modified terms and conditions over a sustained period of time resulting in an improved outcome for the borrower and the Group.

In response to the COVID-19 pandemic the Bank implemented a number of measures for customers financially impacted by the crisis.

Subject to certain criteria, impacted residential mortgage customers were eligible to apply for a loan payment break, a temporary repayment arrangement where the customer makes no payment, or a partial loan payment break where the customer repays an amount they can afford on their mortgage for an initial period of up to three months with an option to extend for a further three months. Personal loan customers were also eligible to apply for a term loan payment break for an initial period of up to three months with an option to extend for a further three months whereas personal current account holders were eligible to apply for an additional overdraft limit of up to six months.

SME and Commercial customers who experienced a significant fall in income or had to temporarily close a business as a result of COVID-19 were eligible to apply for a new or additional overdraft facility and/or loan payment break for up to six months on their commercial mortgage.

For all customers who were granted a Bank loan payment break, at the end of the loan payment break period their repayments are adjusted so that the mortgage or loan will be repaid within its original term.

Across all portfolios, the Bank granted 11,637 full or partial loan payment breaks in the first six months of the year. The table on the following page summarises those facilities where loan payment breaks and partial loan payment breaks were in place at 30 June 2020 segmented by portfolio and IFRS 9 Stage classification.

	Residential Mortgage		Commercial		Consumer		Total	
	Number	Loan balance	Number	Loan balance	Number	Loan balance	Number	Loan balance
		€m		€m		€m		€m
Stage 1	1,153	164	2	0	40	1	1,195	165
Stage 2	8,680	1,280	84	46	612	7	9,376	1,333
Stage 3	987	165	18	5	-	-	1,005	170
	10,820	1,609	104	51	652	8	11,576	1,668
ECL		99		12		1		112
Net Loan Balance		1,510		39		7		1,556

€849m of the Stage 2 portfolio, where a payment break was granted at 30 June 2020 (ECL €25m) was classified as Stage 1 at 31 December 2019.

Credit Risk Measurement

Applications for credit are rated for credit quality as part of the origination and loan approval process. The risk, and consequently the credit grade, is reassessed monthly as part of a continuous assessment of account performance and other customer related factors.

Credit scoring plays a central role in the ratings process. Credit scoring combined with appropriate portfolio risk segmentation is the method used to assign grades, and in turn the PDs to individual exposures.

Scorecards have been designed for each portfolio based on the drivers or characteristics of default associated with that portfolio. Typical scoring characteristics include financial details, bureau information, product, behavioural and current account data. For portfolios where there is not enough data to develop statistical models, expert judgement-based models are used.

For each of the Group's key residential home loan and buy-to-let mortgage portfolios, a scorecard combining application and behavioural factors has been developed which allows for the consistent ranking of exposures for risk through time. These scorecards are used consistently across IFRS 9 and Internal Ratings Based (IRB) models to assign grades and in turn a PD to individual exposures as appropriate under each framework.

The Group, as approved by the Central Bank of Ireland, has adopted the standardised approach for calculation of Risk Weighted exposure amounts for the Commercial, Corporate and SME portfolios effective from Q1 2020.

For capital purposes and in accordance with the CRR, all of the Group's remaining exposures are mapped to a risk rating scale (master scale) which reflects the risk of default. The assignment of an exposure to a grade is based on the probability of an exposure defaulting in the next year. The credit risk ratings employed by the Group are designed to highlight exposures requiring Management attention. The Group uses the Basel 25 point scale for the Internal Rating Based (IRB) approach for credit risk. The scale ranges from 1 to 25 where 1 represents the best risk grade or lowest PD and 25 represents the defaulted exposures or PD equal to 100% for credit risk. All of the Group's IRB exposures are mapped to the rating scale based on PD.

Credit grading and scoring systems are used by the Group to assist in the identification of vulnerabilities in loan quality in advance of arrears. Changes in scoring information is reflected in the credit grade of the borrower and where there is a significant deterioration may result in pre-arrears engagement activity on the part of the Group together with a reclassification of the exposure into Stage 2 for ECL assessment purposes.

The Group's material scorecards and models used for risk origination and ongoing measurement purposes are subject to annual review by an independent MVT to ensure that they remain fit for purpose.

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. Full alignment to this revised definition of default for IRB purposes took effect on 31 December 2018.

Reaching alignment on a definition of default allows for the mapping of IRB risk categories to the IFRS 9 3 stage process as follows:

- Investment grade (IRB ratings 1 to 7) – includes very high quality exposures.
- Excellent risk profile (IRB ratings 8 to 16) – includes exposures whose general profiles are considered to be of a very low risk nature.
- Satisfactory risk profile (IRB ratings 17 to 21) – includes exposures whose general profiles are considered to be of a low to moderate risk nature. Accounts are considered satisfactory or above 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 risk profile (IRB ratings 22 to 24) – 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; and
 - 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.
- Defaulted (IRB rating 25) – Accounts that are considered as defaulted or non-performing.

Credit Exposure

Maximum exposure to credit risk before collateral held or other credit enhancements

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

	Note	30 June 2020 €m	31 December 2019 €m
Cash at bank	9	54	63
Items in the course of collection	9	10	15
Debt securities	10	2,591	2,005
Derivative assets	12	-	1
Loans and advances to banks	13	1,920	1,556
Loans and advances to customers	14	15,455	15,644
Other assets (loan sale receivable)	17	-	251
		20,030	19,535
Commitments and contingencies	26	903	873
		20,933	20,408

Further detail on loans and advances to customers is provided in note 25, Financial Risk Management.

The following tables outline the Group's exposure to Credit Risk by asset class.

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 table on the following page gives an indication of the level of creditworthiness of the Group's debt securities and is based on ratings that are equivalent to the ratings prescribed by Moody's Investor Services. There are no impaired debt securities as at 30 June 2020 or at 31 December 2019, with the exception of a corporate bond held by the Group.

Debt securities credit ratings

Debt securities neither past due or impaired	30 June 2020	31 December 2019*
	€m	€m
Rating		
Aaa	39	-
A2	1,505	1,436
Baa1	524	284
Baa3	482	243
Unrated	41	42
Total	2,591	2,005

*The presentation of the debt securities ratings has been updated to include an enhanced disclosure of the Moody's rating attributable to each counterparty with no material impact as at 31 December 2019.

All debt securities at 30 June 2020 are Stage 1 with the exception of the Glenbeigh securitisation 2018-1 DAC, which is Purchased or Originated Credit Impaired (POCI).

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

	30 June 2020	31 December 2019
	€m	€m
Country		
Ireland	1,585	1,478
Portugal	482	284
Spain	524	243
Total	2,591	2,005

Derivative assets

The Group has executed standard ISDA agreements with all of its counterparties. The Group has also executed CSAs with all of its counterparties with derivative instruments. As part of these agreements, the Group exchanges collateral in line with movements in the market values of derivative positions daily. All interest rate swap derivative assets are covered by netting agreements. FX forward derivatives are settled gross.

The Group manages its collateral derivative positions with counterparties on a net basis. The uncollateralised derivative positions are all held with investment grade counterparties.

Loans and advances to banks

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

	30 June 2020	31 December 2019*
	€m	€m
Rating		
Aaa	1,410	1,038
Aa2	212	240
Aa3	255	234
A1	39	33
A2	2	9
Baa2	2	2
Total	1,920	1,556

*The presentation of the loans and advances to banks ratings has been updated to include an enhanced disclosure of the Moody's rating attributable to each banking counterparty with no material impact as at 31 December 2019.

Loan Impairment

Under IFRS 9 an entity is required 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. The change in credit risk should be based on the change in the risk of default and not changes in the amount of ECL which may be expected on a financial instrument.

The standard is a 3-stage model for impairment, based on changes in credit risk quality since initial recognition:

Stage 1

Financial assets that have not had a SICR since initial recognition are classified as Stage 1. For these assets, 12-month ECL is recognised. 12-month ECL is the expected credit losses that result 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 loss 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

Financial assets that have had a SICR since initial recognition but that do not have objective evidence of impairment are classified as Stage 2. 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.

At each reporting date, the Group has relied on the following measures to identify a SICR in relation to an exposure since origination and classification as Stage 2 within the IFRS 9 ECL framework:

1. **Delinquency** – greater than 30 days past due;
2. **Forbearance** – reported as currently forborne in accordance with European Banking Authority (EBA) NPL guidelines;
3. **Risk Grade** – accounts that migrate to a risk grade which the bank has specified as being outside its risk appetite for origination;
4. **Change in remaining lifetime PD** – accounts that have a remaining lifetime PD that is in excess of the risk at which the bank 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; and
5. **PD at maturity** - For interest only exposures, all home-loan and commercial exposures together with those buy-to-let exposures in excess of 70% LTV have been assessed as presenting an increased risk of default at maturity and are consequently classified as Stage 2.

The assessment of SICR 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 meet the definition of default 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 treatments.

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 where certain criteria are met (e.g. no longer classified as EBA forborne).

Facilities where payment breaks or partial payment breaks are granted by the Group in response to the COVID-19 pandemic (see page 50) are not reported as forbearance in accordance with the criteria set out by the EBA in 'Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of COVID-19' published 2 April 2020 and as a result are not automatically considered a SICR as a result of being granted the full or partial loan payment break.

Stage 3

Financial assets that have objective evidence of impairment at the reporting date are classified as Stage 3, i.e. are credit impaired. For these assets, lifetime ECL is recognised.

The definition of default used in the measurement of ECL for IFRS 9 purposes is aligned to the regulatory definition of default used by the Group for credit risk management purposes, and which has been approved for use for capital management. For the Group's main mortgage portfolio, this is the definition of default approved for use under Targeted Review of Internal Models (TRIM) from 31 December 2018. The definition of default was implemented under IFRS 9 with effect from 1 January 2018 in anticipation of this approval. This definition of default has been designed to comply with the regulatory requirements and guidelines on default, NPLs and forbearance.

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 did not rebut this presumption for any portfolio.

Under the Group's definition of default an exposure is considered defaulted and is classified as Stage 3 credit-impaired where an account is greater than 90 days past due on any material credit obligation or is otherwise assessed as unlikely to pay. Where a material amount of principal on interest remains outstanding at the reporting date, the counting of days past due commences from the first date that a payment, or part thereof, met materiality thresholds and became overdue. Key indicators of unlikely to pay include:

- Accounts that have, as a result of financial distress, received a concession from the Group with respect to terms or conditions. Such exposures 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, received a concession from the Group with respect to terms or conditions which result in a significant terminal payment. Such exposures must fulfil additional conditions in relation to that terminal payment before moving to a performing classification; and
- Accounts where the customer is assessed as otherwise unlikely to pay, including bankruptcy, personal insolvency, assisted voluntary sale, disposal etc.

Exception to the general three stage impairment model

Purchased or originated credit impaired assets (POCI) are excluded from 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 2014, the NCU portfolio is accounted for on a POCI basis under IFRS 9.

Low credit risk exemption

A low risk exemption can be availed for financial instruments under IFRS 9 for which the Group can demonstrate objective evidence that these financial instruments are not subject to a significant increase in credit risk.

The Group considers credit risk on a financial instrument low if it meets the following conditions:

- Strong capacity by the borrower to meet its contractual cash flow obligations in the near term;
- Adverse changes in economic business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations; and
- External rating of investment grade or an internal credit rating equivalent.

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.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate (EIR) for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a SICR has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the modification does not result in derecognition and the date of origination continues to be used to determine SICR.

ECL Framework

The Group's IFRS 9 models leverage 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. IFRS 9 models, however, differ from regulatory models in a number of conceptual ways (e.g. the use of 'through the cycle' (TTC) (regulatory) versus 'point in time' (IFRS 9) inputs, 12 month ECL (regulatory) versus lifetime ECL (IFRS 9)) and as a result the Group did not leverage the outputs of its regulatory models, but instead developed statistical models tailored to the requirements of IFRS 9.

Measurement

For all material portfolios, the Group has adopted an ECL framework that takes cognisance of industry best practice, as set out in the Global Public Policy Committee (GPPC) paper, and reflects a component approach using PD, Loss Given Default (LGD) and Exposure at Default (EAD) components calibrated for IFRS 9 purposes. To adequately capture life-time expected losses, the Group also modelled early redemptions as a separate component within the ECL calculation.

IFRS 9 PD

For estimating 12 month and lifetime default, the Group uses a statistical model methodology that allows the Group to estimate the risk that a loan will default at a given point in time, through grouping exposures with similar risk characteristics and measuring the historic rate of default for exposures of this type. This technique effectively provides a TTC measure of likelihood of default. To translate this TTC probability to a Point in Time probability and to reflect Forward Looking Information (FLI) at the balance sheet date, the Group calibrates the starting point for the projection to the current Observed Default Rate (ODR). The Group then uses an economic response model to reflect future expected macroeconomic conditions. Behavioural scorecards, containing key loan performance indicators for each customer are used for the purpose of grouping exposures with similar risk characteristics as described above. A PD is calculated for each group (internally referred to as risk grades) which drives the PD used for the ECL process. All components of PD, risk grade, ODR and economic response model are independently monitored by the Group's MVT to confirm ongoing fitness for purpose.

For the Group's key mortgage portfolios, LGD assumes that the Group will have recourse to collateral in the event that an exposure fails to return to a performing state. The LGD model incorporates the probability of each defaulted account returning to performing together with the estimated loss rate should they return to performing and the estimated loss rate should they not return to performing. The Group uses a consistent approach for LGD estimation for both 12 month and lifetime.

For performing loans, the EAD is calculated for each future period based on the projected loan balance (after expected capital and interest payments) at that future period. A Credit Conversion Factor (CCF) is then applied to calculate the percentage increase in balance from the point of observation to the point of default including accrued missed interest payments and any related charges. The CCF is segmented by the accounts' repayment type.

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.

Effective Interest Rate

The discount rate used by the Group in measuring ECL is the EIR (or 'credit adjusted effective interest rate' for a POCI financial assets) or an approximation thereof. For undrawn commitments, the EIR, or an approximation thereof, is applied when recognising the financial assets resulting from the loan commitment.

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 or on foot of a negotiated settlement. 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. Specifically for cases subject to legal enforcement (bankruptcy and personal insolvency arrangement cases) write-off will take place on fulfilment of the terms of the bankruptcy or insolvency arrangement by the customer.

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

Governance

The Group has a detailed framework of policies governing development, monitoring and validation of Models. The Model Governance Committee (MGC) oversees the execution of this framework and approves model changes and model validation reports prior to their consideration by the GRC and/or the ALCO and the BRCC, where appropriate.

The GCC is responsible for oversight of changes to credit policies, data or post model adjustments that would affect model outcomes.

IFRS 9 ECL methodologies are subject to formal review and approval by the GCC and the BRCC on a half-yearly basis. The adequacy of ECL allowance is also reviewed by the BAC on a half-yearly basis.

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. Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a SICR since origination.

Measurement of ECLs at each reporting period should reflect reasonable and supportable information

The requirement to incorporate a range of unbiased future economic scenarios, including macroeconomic factors, is a distinctive feature of the ECL accounting framework, which increases both the level of complexity and judgement in the measurement of allowance for credit losses under IFRS 9.

The Group has developed the capability to incorporate a number of macroeconomic impacts and scenarios into the ECL models.

The process to determine the FLI used in the ECL models leverages existing ICAAP processes, while recognising that IFRS 9 scenarios are not stress 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 publically available information for key economic indicators including the Residential Property Price Index (RPPI), unemployment, interest rates and publically available external macroeconomic forecasts including from the Department of Finance (DoF), the CBI and ESRI. This external data has been combined with internal forecasts to develop a combined house view forecast. The governance and oversight process includes the review, challenge and sign-off by the Group CAC of FLI. Macroeconomic variables have been updated to reflect the deterioration in the economic outlook arising from the COVID-19 pandemic. In general, a review and update of macroeconomic variables takes place at least bi-annually.

The Group has adopted three macroeconomic scenarios for ECL purposes. The Group's approach uses extreme but plausible economic scenarios (i.e. underpinned by historical evidence) to estimate the distribution of ECL to which the Group is exposed. The central scenario, which is consistent with the Group's IPP, is at the 50th percentile of the distribution of scenarios (implying a 50% probability that the actual outcome is worse than the central forecast and a 50% probability that the outcome is better). The upside scenario is at the 5th percentile and the downside scenario is at the 95th percentile. Using statistical techniques combined with expert credit judgement the Group then formulates an unbiased probability weighted estimate of ECL at the reporting date (see note 1, Corporate information, basis of preparation, significant accounting policies, estimates and judgements for further details).

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 period dates.

At 30 June 2020, the impairment provision included €118m of Management's adjustments to modelled outcomes (see note 1, Corporate information, basis of preparation, significant accounting policies, estimates and judgements for further details).

3.2 Funding and Liquidity Risk

Funding Risk is the risk that the Group is not able to achieve its target funding mix or is over-reliant on System Funding/Wholesale Markets. Funding Risk can also occur if the Group fails to meet regulatory requirements and, in 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.

The level of risk is dependent on the composition of the balance sheet, the maturity profile and the quantum and quality of the liquidity buffer. It is likely that these risks would be further exacerbated in times of stress. Given the nature of the Group's retail focus which stems from its business model, liquidity and funding risk will arise naturally due to the maturity transformation of primarily short term contractual deposits (albeit recognising behavioural stickiness) into longer term loans (predominantly mortgage lending). With 95% of the balance sheet being deposit funded, exposure to a potential deposit run represents the primary liquidity and funding risk.

I. Regulatory Compliance

From 1 January 2019, the Group transitioned out of the Single Supervisory Mechanism (SSM) and came under the direct supervision of the CBI. The Group is required to comply with the liquidity requirements of the CBI and the full spectrum of European regulatory requirements including CRR, CRD IV and associated Delegated Acts such as the LCR Delegated Act.

The primary ratios calculated and reported are the Liquidity Coverage Ratio (LCR) and the 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 is required to adhere to an MREL target. The Group has proactively engaged with the CBI to determine the Group's MREL requirement, which represents a quantification of the eligible liabilities required to act as a buffer in the event of a resolution scenario. MREL targets have been communicated and compliance becomes binding from 2021. The Group issued its inaugural €300m 5NC4 (5 year maturity callable after year 4) MREL compliant MTN via PTSB Group Holdings (PTSBGH) in September 2019 and has formulated a senior unsecured issuance strategy to meet the MREL target.

II. Risk Management, Measurement and Monitoring

Group Treasury are responsible for the day to day management of the Group's liquidity position and ensuring compliance with the regulatory requirements. In carrying out this responsibility, the principal objective is to ensure that adequate liquid assets are available at all times to meet the operational and strategic liquidity needs of the Group under both normal and stressed conditions. Liquidity management focuses on the overall balance sheet structure together with the control of risks arising from the mismatch in contracted maturities of assets and liabilities, undrawn commitments and other contingent liabilities.

Liquidity risk is measured on a daily basis using a range of metrics against the internally as well as regulatory 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 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 suite of KRIs and Early Warning Indicators (EWIs) covering a range of market wide and Bank specific events. The purpose of these metrics is to provide forewarning of any potential liquidity trigger events, ensuring the Group has sufficient time to intervene and mitigate any emerging risk.

The 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 and is conducted from both an economic and normative perspective (as guided by the EBA). Overall, the Group takes a prudent approach in setting the inflow and outflow parameters at a level which is appropriate for each stress scenario with due consideration of the Group's business model, liquidity and funding risk exposures and the liquidity risk drivers, as outlined in the EBA SREP Guidelines. The stress testing framework is designed to reflect the liquidity position impact under idiosyncratic, systemic and combined stresses.

The economic perspective requires the internal liquidity of the institution to be sufficient to cover its risks and expected outflows and to support its strategy on an ongoing basis. The Group performs weekly survivability stress testing and scenario analysis through the Maximum Cumulative Outflow (MCO) model to evaluate the impact of differing stresses on its liquidity position.

The normative perspective takes into account all aspects that could affect relevant regulatory ratios. To analyse the Bank's liquidity position on a normative basis, ratio sensitivity analysis is conducted on a bi-annual basis through the ILAAP which tracks the stress scenario effects on the suite Regulatory, RAS and KRI metrics.

The full suite of liquidity metrics and stress test results are regularly reported to the ALCO, the 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. Through the ILAAP process, the Board attests to the adequacy of the Bank's liquidity position and risk management processes on an annual basis.

III. Liquidity Risk Management Framework

The exposure to liquidity risk is governed by the Group's liquidity policies, RAS and associated limits. The liquidity policies are designed to comply with regulatory standards with the objective of ensuring the Group holds sufficient counterbalancing capacity to meet its obligations, including deposit withdrawals and funding commitments, as and when they fall due under both normal and stressed conditions. The process establishes 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 the ALCO. The effective operation of liquidity policies are delegated to the ALCO, while Group Risk and GIA functions provide further oversight and challenge to the liquidity risk framework.

The liquidity 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; and

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

I. Minimum Liquidity Levels

The Group maintains a sufficient liquidity buffer comprised of both unencumbered HQLA and non-HQLA liquidity capacity to meet LCR and stress testing requirements.

The Group measures and monitors the Net Stable Funding Ratio (NSFR) which is designed to limit over-reliance on short-term funding and promote longer-term stable funding sources. The NSFR will become binding from a regulatory perspective in 2021. The Group asset encumbrance level is also monitored and tracked against the internally prescribed limit on an on-going basis.

II. 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 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 competition for deposits from other financial institutions.

The availability and extent of deposit guarantees are of critical importance especially for a Retail bank. The DGS protects deposits up to a balance of €100,000. The national DGS together with the establishment of the European Deposit Insurance Fund is designed to maintain depositor confidence and protect against a potential deposit run. A significant change to the operation of the DGS could adversely affect the Group's ability to retain deposits under a severe stress event.

The Group remains active in capital markets, be it secured or unsecured transactions, and 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 ECB eligible retained securitisations which can be monetised quickly to safeguard against a liquidity event. While the quantum of the buffer is sufficient to provide capacity to withstand a significant liquidity stress event there is a concentration in Irish based assets which could reduce overall capacity in the event of an idiosyncratic Irish stress event.

Significant progress has been made in reducing the encumbrance level over recent years. Following the successful NPL deleveraging programme and the execution of the Treasury funding plan, encumbrance is now well within the target level. A clear and defined strategy has been developed to ensure an encumbrance level consistent with its economic plan is maintained by the Group. Disruption to unsecured funding sources and a requirement to revert to secured funding channels could potentially pose a threat to this ratio and unsecured creditors.

A series of liquidity and funding EWs 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.

III. Credit Ratings

The Group's credit ratings have been subject to change and may change in the future, which could affect its cost or access to 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 a loss of customer deposits; limit access to capital and money markets; and trigger additional collateral requirements in secured funding arrangements and derivatives contracts. These issues are factored into the Group's liquidity stress testing.

During 2020, S&P, Moody's and DBRS upgraded PTSB plc's senior unsecured credit ratings to investment grade following the successful issuance of MREL eligible senior unsecured debt from PTSBGH and reduction in NPLs.

The ratings for PTSB plc are as follows:

- Standard & Poor's (S&P): Long-Term Rating "BBB-" with Outlook "Negative";
- Moody's: Long-Term Rating "Baa2" with Outlook "Stable"; and
- DBRS: Long-Term Rating "BBBL" with Outlook "Negative".

The ratings for PTSBGH are as follows:

- Standard & Poor's (S&P): Long-Term Rating "BB-" with Outlook "Negative";
- Moody's: Long-Term Rating "Ba1" with Outlook "Stable"; and
- DBRS: Long-Term Rating "BBH" with Outlook "Negative".

3.3 Market Risk

Market Risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. From the Group's perspective, market risk consists of three components being Foreign Exchange (FX) Risk, Credit Spread Risk and Interest Rate Risk. Often market risk cannot be fully eliminated through diversification, though it can be hedged against.

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 the BRCC on the recommendation of the ExCo and the ALCO.

All market risks arising within the Group are subject to strict internal controls and reporting procedures and are monitored by the ALCO, the ExCo and the BRCC on a regular basis. Group Treasury is responsible for the management of market risk exposures on the balance sheet. Group Risk and GIA provide further oversight and challenge to the market risk framework.

I. Interest rate risk

Interest rate risk is the risk to earnings or capital arising from movement in the absolute level of interest rates, spread between rates, the shape of the yield curve or in any other interest rate relationship. The risk may be subdivided into gap, option 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) (Earnings at Risk (EAR)) and economic value perspective (EV).

The Group separately calculates the contractual Basis Risk exposure which is factored into the Pillar II ICAAP process. The risk position is added to the most severe of EV, EVE (Economic Value of Equity) or EaR risk levels in order to ensure all material sources of Interest Rate Risk are capitalised for.

Interest rate gap analysis is used to capture re-price risk, the EV and EVE approaches measures yield curve risk while EAR is utilised to calculate the risk to earnings.

In defining the level of interest rate risk, the Group applies the most severe of the 13 core stress scenarios inclusive of the six scenarios prescribed by the Basel and EBA Guidelines on the Management of IRRBB, under the EV, EVE and EAR models and subject to interest rate flooring assumptions. The results are measured and reported against the Board approved risk limits.

The Group also monitors PV01 (impact of 0.01% movement in interest rates), duration mismatches and NII sensitivity when assessing interest rate risk.

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.

The 30 June 2020 interest rate risk level, based on the EVE calculation (most severe of the 3 measures), was calculated as €72m (31 December 2019: €44m). The increase in the risk position is primarily driven by an increase in the Bank's holding of government bonds.

Based on the internally derived Basis Risk calculation methodology, the 30 June 2020 risk level stands at €20m. A floor of ECB Refi minus 25bps is applied for the ECB refinance rate and -1% for EURIBOR positions.

II. Foreign Exchange Risk

Foreign exchange risk is the volatility in earnings resulting from the retranslation of foreign currency denominated assets and liabilities. Consistent with its business model as a domestically focused Retail bank, the Group is predominantly exposed to GBP and USD positions arising from customer deposits denominated in these currencies or branch bureau activities.

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. FX exposures also may arise as a result of non-Euro contractual payment obligations to third parties. Group Treasury manage these exposures in line with the underlying policy framework. The aggregate euro denominated FX position at 30 June 2020 was €1.3m (31 December 2019 €2.9m).

III. Credit Spread Risk

Credit Spread Risk is the risk of a decline in the value of an asset due to changes in the market perception of its creditworthiness over its life to maturity. This risk applies to the Banks bond portfolio which is classified as Hold to Collect (HTC) and Sell (HTC&S) under IFRS9 classifications.

The Group's strategy is to hedge, as much as is practical, the interest rate risk element of the HTC&S bond volatility. The remaining Mark-to-Market (MTM) volatility represents the Group's Credit Spread Risk exposure.

Interim **Report**

for the six months ended

30 June 2020

Financial Statements

Director's 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 82, 83, 84 and 85 of the 2019 Annual Report, confirms that to the best of each person's knowledge and belief:

- the condensed consolidated interim financial statements, prepared in accordance with IAS 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 2020, and its loss 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 interim 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 2020, and material changes to related party transactions described in the Annual Report for the year ended 31 December 2019.

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



Eamonn Crowley
Chief Executive



Donal Courtney
Audit Committee (chair)



Conor Ryan
Company Secretary

3 August 2020

Independent Review Report to Permanent TSB Group Holdings plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Permanent TSB Group Holdings plc's condensed consolidated interim financial statements (the "interim financial statements") in the "Interim Report" of Permanent TSB Group Holdings plc for the six month period ended 30 June 2020. 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 2020;
- 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.

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

03 August 2020

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Condensed Consolidated Income Statement (Unaudited)

For the half year ended 30 June 2020

	Note	Half year ended 30 June 2020	Half year ended 30 June 2019
		€m	€m
Interest income	3	194	211
Interest expense	3	(23)	(30)
Net interest income		171	181
Fees and commission income		28	29
Fees and commission expense		(12)	(12)
Net trading income		-	3
Net other operating (expense)/income		(2)	9
Total operating income		185	210
Administrative, staff and other expenses (excluding exceptional items)	4	(127)	(131)
Regulatory charges	5	(20)	(18)
Depreciation of property and equipment		(11)	(11)
Amortisation of intangible assets		(8)	(6)
Exceptional items			
Restructuring and other charges	6	(1)	(12)
Total operating expenses		(167)	(178)
Operating profit before charge for impairment and taxation losses		18	32
Credit impairment losses			
Loans and advances to customers	15	(75)	(5)
Exceptional impairment arising from deleveraging of non-performing loans	6	-	1
Total credit impairment losses		(75)	(4)
Operating (loss)/profit before taxation		(57)	28
Taxation	7	3	(7)
(Loss)/profit for the period		(54)	21
Attributable to:			
Owners of the holding company		(54)	21
(Loss)/earnings per ordinary share		€ Cent	€ Cent
Basic (loss)/earnings per share of €0.5 ordinary shares	8	(14.3)	2.2
Diluted (loss)/earnings per share of €0.5 ordinary shares	8	(14.3)	2.2

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the half year ended 30 June 2020

	Note	Half year ended 30 June 2020	Half year ended 30 June 2019
		€m	€m
(Loss)/profit for the period		(54)	21
<u>Items that will not be reclassified to the income statement in subsequent periods</u>			
Fair value reserve (equity instruments)			
Change in fair value of equity instruments	23	1	4
Tax relating to items that will not be reclassified to income statement	23	-	(1)
<u>Items that may be reclassified to the income statement in subsequent periods</u>			
Fair value reserve (debt instruments)			
Change in fair value of debt instruments	23	(3)	(10)
Amortisation of discontinued hedges	23	2	4
Tax relating to items that may be reclassified to income statement	23	-	1
Other comprehensive expense, net of tax		-	(2)
Total comprehensive (expense)/income for the period, net of tax		(54)	19
Attributable to:			
Owners of the holding company		(54)	19
		(54)	19

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 June 2020

	Note	30 June 2020	31 December 2019
		€m	€m
Assets			
Cash at bank	9	54	63
Items in the course of collection	9	10	15
Debt securities	10	2,591	2,005
Equity securities	11	16	15
Derivative assets	12	-	1
Loans and advances to banks	13	1,920	1,556
Loans and advances to customers	14,15	15,455	15,644
Property and equipment		191	201
Intangible assets		77	66
Deferred taxation	16	349	345
Other assets	17	8	259
Prepayments and accrued income		42	49
Assets classified as held for sale	28	36	59
Total assets		20,749	20,278
Liabilities			
Customer accounts	18	17,764	17,190
Debt securities in issue	19	890	923
Derivative liabilities	12	1	2
Accruals		6	5
Current tax liability		1	2
Other liabilities	20	116	118
Provisions	21	39	41
Total liabilities		18,817	18,281
Equity			
Share capital	22	227	227
Share premium	22	333	333
Other reserves	22	(795)	(795)
Retained earnings	22	2,045	2,110
Shareholders' equity		1,810	1,875
Other equity instruments	22	122	122
Total equity		1,932	1,997
Total liabilities and equity		20,749	20,278

On behalf of the Board



Robert Elliott
Chairman



Eamonn Crowley
Chief Executive



Donal Courtney
Audit Committee (chair)



Conor Ryan
Company Secretary

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the half year ended 30 June 2020

	Attributable to owners of the holding company						Total
	Share capital	Share premium	Revaluation reserve*	Fair value reserve*	Other Capital Reserve*	Retained earnings	
	€m	€m	€m	€m	€m	€m	€m
Balance as at 1 January 2020	227	333	55	6	(856)	2,110	1,997
Loss for the half year ended 30 June 2020	-	-	-	-	-	(54)	(54)
Other comprehensive expense, net of tax (note 23)	-	-	-	-	-	-	-
Total comprehensive expense for the period	-	-	-	-	-	(54)	(54)
Transactions with owners, recorded directly in equity:							-
Contributions by and distributions to owners							-
AT1 coupon paid (note 22)	-	-	-	-	-	(11)	(11)
Total contributions by and distributions to owners	-	-	-	-	-	(11)	(11)
Balance as at 30 June 2020	227	333	55	6	(856)	2,045	1,932

* All are included in other reserves in the statement of financial position.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the half year ended 30 June 2019

	Attributable to owners of the holding company						Total
	Share capital	Share premium	Revaluation reserve*	Fair value reserve	Other Capital Reserve*	Retained earnings	
	€m	€m	€m	€m	€m	€m	€m
Balance as at 31 December 2018	227	333	51	12	(856)	2,091	1,980
Impact of adopting IFRS 16 at 1 January 2019	-	-	-	-	-	-	-
Restated balance at 1 January 2019	227	333	51	12	(856)	2,091	1,980
Profit for the half year ended 30 June 2019	-	-	-	-	-	21	21
Other comprehensive expense, net of tax (note 23)	-	-	-	(2)	-	-	(2)
Total comprehensive (expense)/income for the period	-	-	-	(2)	-	21	19
Contributions by and distributions to owners							
AT1 coupon paid (note 22)	-	-	-	-	-	(11)	(11)
Total contributions by and distributions to owners	-	-	-	-	-	(11)	(11)
Balance as at 30 June 2019	227	333	51	10	(856)	2,101	1,988

* All are included in other reserves in the statement of financial position.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the year ended 31 December 2019

	Attributable to owners of the holding company						Total
	Share capital	Share premium	Revaluation reserve*	Fair value reserve*	Other Capital Reserve*	Retained earnings	
	€m	€m	€m	€m	€m	€m	€m
Balance as at 31 December 2018	227	333	51	12	(856)	2,091	1,980
Impact of adopting IFRS 16 at 1 January 2019							
Restated Balance as at 1 January 2019	227	333	51	12	(856)	2,091	1,980
Profit for the year ended 31 December 2019	-	-	-	-	-	30	30
Other comprehensive income/(expense), net of tax	-	-	4	(6)	-	-	(2)
Total comprehensive income/(expense) for the year	-	-	4	(6)	-	30	28
Transactions with owners, recorded directly in equity:							
Contributions by and distributions to owners							
AT1 coupon paid	-	-	-	-	-	(11)	(11)
Total contributions by and distributions to owners	-	-	-	-	-	(11)	(11)
Balance as at 31 December 2019	227	333	55	6	(856)	2,110	1,997

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

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the half year ended 30 June 2020

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Cash flows from operating activities:		
Operating (loss)/profit before taxation	(57)	28
Adjusted for non-cash items and other adjustments:		
Depreciation of property and equipment and amortisation of	19	16
Impairment charge in period:		
- Loans and advances to customers	75	5
- Assets classified as held for sale	-	(1)
Unrealised (gains)/losses on financial assets	-	(3)
Other mortgage related adjustments	8	8
Other provisions	6	
	51	53
(Increase)/decrease in operating activities:		
Loans and advances to customers	151	82
Debt securities	(1)	1
Other assets	270	1,276
Prepayments and accrued income	7	45
Increase/(decrease) in operating liabilities:		
Deposits by banks (including central banks)	-	(1,346)
Customer accounts	570	351
Debt securities in issue	(33)	(366)
Derivative liabilities	(1)	-
Other liabilities and accruals	(4)	8
Provisions	(9)	(38)
Net other movements	(2)	10
	948	23
Net cash inflow from operating activities before tax	999	76
Tax paid	(1)	(1)
Net cash inflow from operating activities	998	75

Condensed Consolidated Statement of Cash Flows (Unaudited) (continued)

For the half year ended 30 June 2020

	Half year ended 30 June 2020	Half year ended 30 June 2019
Cash flows from investing activities:		
Purchase of property and equipment	2	(6)
Purchase of intangible assets	(11)	(1)
Maturities of debt securities - HTC&S	200	126
Maturities of debt securities - HTC	192	350
Purchase of debt securities - HTC	(1,017)	-
Movement in restricted cash holdings	43	(10)
Movement in reverse repos	-	(200)
Deferred consideration received on equity securities	-	2
Net cash (outflow)/inflow from investing activities	(591)	261
Cash flows from financing activities:		
Payment of lease liabilities	(4)	(4)
AT1 coupon payment	(11)	(11)
Net cash outflow from financing activities	(15)	(15)
Increase in cash and cash equivalents	392	321
Analysis of changes in cash and cash equivalents		
Cash and cash equivalents at the beginning of the period	1,231	796
Increase/(decrease) in cash and cash equivalents	392	321
Cash and cash equivalents as at period end*	1,623	1,117

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

Reconciliation of liabilities arising from financing activities

	01/01/2020 €m	Financing cash flows €m	Other changes €m	30/06/2020 €m
Lease liability	42	(4)	-	38

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

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

1.1 Corporate information

Permanent TSB Group Holdings plc (the Company) is a holding company domiciled in Ireland (registration number 474438) and is regulated by the CBI. Its registered office is situated at 56 - 59, St. Stephen's Green, Dublin 2, Ireland. The holding company's shares are listed on the main market of the Irish and London Stock Exchanges.

The Group's condensed consolidated interim financial statements include the financial statements of the Company and its subsidiary undertakings, (together referred to as 'the Group' or 'PTSBGH' where appropriate), and are prepared for the period up to the end of the half year, 30 June 2020. The condensed consolidated interim financial statements for the half year ended 30 June 2020 are unaudited but have been reviewed by the independent auditor whose report is set out earlier in this report.

Permanent TSB plc (PTSB), a 100% owned subsidiary of the Company, is the main trading entity of the Group which is involved in retail banking.

These condensed consolidated interim financial statements were approved by the Board and authorised for issue by the Directors on 3 August 2020.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements for the half year ended 30 June 2020 are set out below.

1.2 Basis of preparation

Statement of compliance

These condensed consolidated 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 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 consolidated financial statements of the Group for 2019 which was prepared in accordance with International Financial Reporting Standards (IFRS) and the IFR Interpretations Committee (IFRIC) interpretations as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and European Union (Credit Institutions: Financial Statements) Regulations 2015.

The consolidated financial statements of the Group for 2019 are available at www.permanenttsbgroup.ie.

Basis of measurement

These condensed consolidated 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.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements for the half year ended 30 June 2020 are consistent with those used by the Group as described in note 1 of the Group's consolidated financial statements for 2019.

Since these condensed consolidated 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 2019.

Statutory accounts

These condensed consolidated 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 2019 were approved by the Directors on 25 February 2020, contained an unqualified audit report and will be filed with the Companies Registration Office on or before 30 September 2020.

Functional and presentation currency

These condensed consolidated 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).

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

Use of estimates and judgements

The preparation of these condensed consolidated 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, expenses and related disclosures.

The COVID-19 pandemic has increased the uncertainty associated with judgements, estimates and assumptions made by Management due to the extent, depth, and evolving nature of the impacts of the pandemic. The measures adopted to contain the virus by the Government and the resulting business actions from the Group, including customer behaviours and their evolving nature has increased the estimation uncertainty.

The estimation uncertainty is further increased by the effectiveness of measures introduced by the Government, the CBI, and the EBA, which in turn affects the forecasts that Management has prepared to support the judgements, estimates, and assumptions made in preparation of these condensed consolidated interim financial statements.

The significant judgements, estimates, and assumptions made by the Group can significantly change in due course as a result of increased estimated uncertainty arising from the evolving nature of COVID-19. The disruption in the financial markets continues to recede and the economic factors including GDP, unemployment, and house prices are recovering from the sudden contraction of the economy. Management however, has sensitised its forecasts to cater for the downside scenario of the COVID-19 pandemic.

While the actual results may differ from the estimates made, the Directors believe that they are reasonable in the current circumstances based on the best available information at the date of the approval of these condensed consolidated interim financial statements.

The estimates and assumptions are reviewed on an on-going basis and where necessary are revised to reflect current conditions and updated information.

The key sources of estimation and uncertainty were the same as those that applied in note 2 of the Group's consolidated financial statements for 2019 with the exception of the following updates in respect of ECL provision for the customer loans and advances portfolio:

Allowance for credit losses under IFRS 9

IFRS 9 requires an impairment allowance to be recorded for ECL on financial assets, regardless of whether there has been an actual loss event. There is a requirement 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.

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

Determination of significant increase in credit risk (SICR)

The determination of whether a loan has experienced a SICR may have a material impact on the level of ECL impairment allowance as a 12-month ECL is recognised for Stage 1 loans whereas a lifetime ECL is recognised for Stage 2 loans.

Migration of loans between Stage 1 and Stage 2 can cause some volatility in the amount of the recognised ECL allowances and the provision for ECL in any accounting period.

The Group has relied on a number of measures including delinquency, forbore status, risk grade, change in remaining lifetime PD and PD at maturity to determine SICR.

As detailed in the Risk Management section, facilities which have been granted a loan payment break or partial loan payment break by the Group in response to the COVID-19 pandemic are not reported as forbearance in accordance with the criteria set out by the EBA and as a result granting of a full or partial loan payment break is not considered by Management to be an automatic SICR.

The Group has adopted an ECL framework that reflects a component approach using PD, EAD and LGD components calibrated for IFRS 9 purposes. To adequately capture lifetime ECL, the Group also modelled early redemptions as a separate component within the ECL calculation.

Judgement is combined with statistical evidence in determining which forward-looking variables are relevant for the Group's loan portfolios and in determining the extent by which through-the-cycle parameters should be adjusted for FLI to determine point-in-time parameters.

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

Changes in FLI variables used to convert through-the cycle PD and LGD into point-in-time parameters can either increase or decrease ECL impairment allowances in a particular accounting period. On update, increases in the level of optimism in the FLI variables will cause a decrease in ECL, while increases in the level of pessimism in the FLI variables will cause an increase in ECL. These movements could be significant in the accounting period of update.

The estimation and application of FLI requires significant judgement. The Group considers in its calculation of ECL multiple scenarios and possible outcomes together with their probability of occurrence. Scenarios are designed to capture a range of possible outcomes. Each macroeconomic scenario used in the Group's ECL calculation includes a projection of all relevant macroeconomic variables used in the models for a five year period, subsequently reverting to long-run averages.

The central scenario is consistent with the Group's IPP. The Group considers at least one scenario which considers a macroeconomic environment that is more favourable to the central scenario and at least one scenario which considers a macroeconomic environment that is less favourable to the central scenario. Three scenarios are currently considered in the Group's calculation of ECL.

The Group's approach uses extreme but plausible economic scenarios (i.e. underpinned by historical evidence) to estimate the distribution of ECL to which the Group is exposed. Using statistical techniques combined with expert credit judgement the Group then formulates an unbiased probability weighted estimate of ECL at the reporting date.

The following tables detail the key macroeconomic variables used in modelling the allowance for credit losses together with the associated percentiles and probability weightings for Stage 1 and 2 at 30 June 2020 following an update to reflect the deterioration in the economic outlook arising from the COVID-19 pandemic together with the macroeconomic variables in use at 31 December 2019. The update in the Base Case Scenario reflects the shock to the economy in 2020 with unemployment forecast to be c. 11% at year-end, house prices forecast to fall by 9% and GDP forecast to fall by c. 10%.

The economy is anticipated to commence recovery in 2021. The upside and downside scenarios have remained broadly unchanged relative to December 2019. Given the severity of these scenarios (5th Percentile upside and 95% Percentile downside), their combination captures the macroeconomic uncertainty arising from COVID-19.

	30 June 2020				31 December 2019			
	Central (Base Case) Scenario		Upside Scenario	Down side Scenario	Central (Base Case) Scenario		Upside Scenario	Down side Scenario
	Average value over year 1	Average value over the forecast period	Average value over the forecast period	Average value over the forecast period	Average value over year 1	Average value over the forecast period	Average value over the forecast period	Average value over the forecast period
Percentile		50th	5th	95th		50th	5th	95th
Scenario Probability Weighting		56%	22%	22%		54%	23%	23%
Irish Residential House Prices	-9%	1%	13%	-10%	3%	3%	13%	-10%
Irish Unemployment	11%	7%	4%	14%	5%	5%	4%	14%
Irish GDP	-10%	1%	5%	-2%	4%	3%	6%	-1%
Consumer Price Index	0%	1%	1%	2%	1%	2%	1%	2%
ECB Base Rate	0%	0%	0%	1%	0%	0%	0%	1%

Given the relative sizes of the portfolios, the key judgemental area for the Group is in relation to the level of ECL calculated for the residential mortgage portfolio.

Forecasting FLI for multiple scenarios and determination of probability weighting of the scenarios involves a significant degree of Management judgement. The reported ECL allowance is impacted by the probability weighting attributed to each macroeconomic scenario.

If the Group were to only use its Base Case Scenario for the measurement of ECL for the secured mortgage portfolio, excluding Management's adjustment to modelled outcomes, the ECL impairment allowance would be €93m lower than the weighted result reported at 30 June 2020. Similarly, excluding Management's adjustment to modelled outcomes, if the Group were to only use its Upside Scenario for the measurement of ECL for the secured mortgage portfolio, the ECL impairment allowance would be

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

€458m lower than the weighted result reported at 30 June 2020, whereas if the Group were to only use its Downside Scenario the ECL impairment allowance would be €769m higher than the weighted result reported at 30 June 2020.

Management's adjustment to modelled outcomes

At 30 June 2020, the impairment provision included €118m of Management's adjustments to modelled outcomes for the residential mortgage portfolio (31 December 2019: €60m) which primarily comprises the following:

- €91m of management adjustment in respect of a cohort of loans for which ECL is maintained until post COVID-19 performance is established;
- €12m overlay to reflect the uncertainty associated with the payment break population not captured in the ECL models; and
- A Management adjustment of €9m to reflect the tail risk of payment at maturity of a cohort of loans which cannot be reflected in the residential mortgage model due to lack of empirical data.

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 particularly the impact of severe but plausible downside scenario of COVID-19 as they might pertain to the going concern assumption, particularly the liquidity position, profitability and the capital position. Management has sensitised its forecasts and considered a wide range of scenarios along with emerging and principle risks.

These scenarios are most sensitive to the assumptions for the macroeconomic environment in which the Group operates, which is in turn impacted by the recovery period from COVID-19 and the measures taken by the Group, the Government and the E.U to contain the spread of the virus. The changes in the macro-economic variables have a resultant impact on the expected credit losses as noted earlier.

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 condensed consolidated interim financial statements for the half year ended 30 June 2020.

Assessment Basis

The time period that the Directors and Management have considered in evaluating the appropriateness of the going concern basis in preparing the condensed consolidated interim financial statements for the half year ended 30 June 2020 is a period of 12 months from the date of approval of these condensed consolidated interim financial statements; 3 August 2021 ("the period of assessment").

In making this assessment, the Directors and Management have considered the refreshed Group's Medium Term Plan 2020-2023 which has been updated for COVID-19, 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.

COVID-19

The sudden outbreak of COVID-19 in March 2020 has impacted the Group's operational and financial performance. While the financial and operational performance of the Group in line with the overall market has been distressed, the Group has shown resilience to these economics shocks due to its continued investment in deleveraging of the risks and high quality liquid asset portfolio.

While the plausibility of a second wave of the infection is uncertain, the Group's investment in technology, people, and processes will minimise potential operational disruptions.

Economic Outlook

The Group's operational and financial performance has been impacted with COVID-19 and the resultant impact of the measures taken to contain the spread of the virus is evolving. While, the macro-economic variables continue to improve in the latter part of 2020 following a sharp contraction in the reporting period, the Group has stress tested for downside scenarios.

A 'no-deal' and disorderly Brexit remains a short-term threat to the Irish economy. There is still uncertainty about the outcome, and it is widely expected to have a negative impact on the Irish economy, which will in turn adversely impact the Group's results, financial condition, and prospects.

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

Directors and Management have considered these factors and are satisfied that over the period of assessment the Group has sufficient resources to ensure it is sufficiently capitalised.

Funding & Liquidity

The Group continues to have sufficient liquidity throughout 2020 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 period of assessment under a range of stress scenarios.

The Group continues to hold a significant liquidity buffer at 30 June 2020. The Group also retains the capability 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 basis over the period of assessment.

Capital Adequacy

Directors and Management have reviewed the refreshed Group's Medium Term Plan and believe that it appropriately reflects the Group's strategic and financial plan 2020-2023 iterated as a result of COVID-19.

Directors and Management believe that the ICAAP 2020 supports a view that the Group has sufficient capital to meet its requirements as at 3 August 2020 and for the following 12 months. This has been assessed via the ICAAP Baseline and COVID downside stress scenario in the context of both evolving regulatory requirements and supervisory expectations.

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 financial statements on a going concern basis.

1.4 Impairment testing of non-financial assets

Following from the impairment testing of non-financial assets at 31 December 2019, the Group has considered the impact of COVID-19 on market capitalisation and the headroom available by comparing Value in Use (VIU) based on updated MTP projections with the carrying value of those non-financial assets. The group applied the same discount rate and long term growth rate as at the year end.

While the headroom available to the Group has reduced from 31 December 2019, no impairment arose.

1.5 Comparative information

The comparative information for 2019 has been prepared on a consistent basis.

1.6 Changes in significant accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for 2019. The significant accounting policies used in the preparation of these interim financial statements are consistent with those used in the Group's consolidated financial statements for 2019 (note 1).

A number of other new accounting standards are effective from 1 January 2020 but do not have a material effect on the Group's financial statements.

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

1.7 Impact of other accounting standards effective periods beginning on 1 January 2020

Topic	Description of change	Impact
Amendments to IFRS 9, 'Financial instruments', IAS 39, 'Financial instruments', and IFRS 7, 'Financial instruments: disclosures' – Interest rate benchmark reform	Following the financial crisis, the replacement of benchmark interest rates such as London Interbank Offered Rate (LIBOR) and other inter-bank offered rates ('IBORs') has become a priority for global regulators. The IASB has a two-phase project to consider what, if any, reliefs to give from the effects of IBOR reform: - Phase 1, which considers reliefs to hedge accounting in the period before the reform, has led to these amendments. The amendments clarify that the entities would continue to apply certain hedge accounting requirements, assuming that the interest rate benchmarks, on which the hedge cash flows and cash flows from hedging instrument are based, will not alter as a result of interest rate benchmark reform. - Phase 2 of the IASB's project will address issues that arise once the existing interest rate is replaced with an alternative interest rate. On 25 June 2020, the Board met to discuss the feedback on Exposure Draft Interest Rate Benchmark Reform.	The Group, based on its assessment of the amendment, concluded that these requirements do not have a significant impact on the Group's condensed consolidated interim financial statements.
Amendments to IFRS 3, 'Business combinations' – Definition of a business	The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test' that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.	The Group, based on its assessment of the amendment, concluded that these requirements do not have a significant impact on the Group's condensed consolidated interim financial statements.
Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors' – Definition of material	IAS 1, IAS 8 and consequential amendments to other IFRSs are amended to: - use a consistent definition of materiality throughout IFRSs and the conceptual framework for the financial reporting; - clarify the explanation of the definition of material; and - incorporate some of the guidance in IAS 1 about immaterial information. The amended definition is: 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of the general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'	The Group, based on its assessment of the amendment, concluded that these requirements do not have a significant impact on the Group's condensed consolidated interim financial statements.

Topic	Description of change	Impact
Amendments IFRS 16 Leases for COVID-19 related rent concessions	The amendment provides lessees with an exemption for assessing whether COVID-19 related rent concession is lease modification. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; - Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); There is no substantive change to other terms and conditions of the lease.	The Group, based on its assessment of the amendment, concluded that these requirements do not have a significant impact on the Group's condensed consolidated interim financial statements.

2. Operating segments

The Group reports one operating segment, which is in accordance 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 Isle of Man (IOM).

The 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 KPIs and internal management reports on a monthly basis.

2.1 Revenue from external customers split by 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 NII from these products is set out in the table below.

Net interest income from external customers split by product:

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Mortgages	169	173
Consumer finance*	18	17
Treasury assets	5	17
Deposits and current accounts	(15)	(21)
Wholesale funding	(6)	(5)
Total	171	181

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

2.2 Profitability based on geographical location

During the periods ended 30 June 2020 and 30 June 2019, the majority of the Group's profit was earned in Ireland. Immaterial losses (less than €1m) were earned outside of Ireland in the Group's IOM subsidiary Permanent Bank International Limited (PBI Ltd) during the periods ended 30 June 2020 and 30 June 2019.

2. Operating segments (continued)

2.3 Assets and liabilities based on geographical location

30 June 2020	Ireland	IOM*	Of which inter-group balances	Total
	€m	€m	€m	€m
Assets				
Held for sale	36	-	-	36
Other assets	20,711	2	(106)	20,713
Total segment assets	20,747	2	(106)	20,749
Total segment liabilities	18,815	2	(106)	18,817
Capital expenditure for the half year ended 30 June 2020	21	-	-	21

*This is based on geographical location and constitutes business conducted in the IOM through PBI Ltd.

31 December 2019*	Ireland	IOM*	Of which inter-group balances	Total
	€m	€m	€m	€m
Assets				
Held for sale	59	-	-	59
Other assets	20,217	2	(114)	20,219
Total segment assets	20,276	2	(114)	20,278
Total segment liabilities	18,279	2	(114)	18,281
Capital expenditure for the financial year ended 31 December 2019	57	-	-	57

*This is based on geographical location and constitutes business conducted in the IOM through PBI Ltd.

3. Net interest income

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Interest income		
Loans and advances to customers	187	190
Loans and advances to banks	-	1
<i>Debt securities and other fixed-income securities</i>		
- Hold to collect (HTC)	4	12
- Hold to collect and sell (HTC&S)	3	8
	194	211
Interest expense		
Deposits from banks (including central banks)	-	(1)
Due to customers	(15)	(21)
Interest on debt securities in issue	(4)	(2)
Amortisation of discontinued hedges on financial assets	(2)	(4)
Loans and advances to banks	(2)	(2)
	(23)	(30)
Net interest income	171	181

Included in net interest income are interest rate fair value hedges which include gains on hedging instruments of €nil (30 June 2019: €3m) and losses on hedged items attributable to hedged risk of €nil (30 June 2019: €3m).

Net interest income includes a charge in respect of deferred acquisition costs on loans and advances to customers of €8m (30 June 2019: €8m).

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

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Staff costs (as detailed below)	77	77
Other general and administrative expenses	50	51
Other expenses	-	3
Administrative, staff and other expenses (excluding exceptional items)	127	131

Other general and administrative expenses include €4m of costs incurred specifically in response to COVID-19. Other expenses relate to legal, compliance and other costs.

Staff costs	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Wages and salaries (including commission payable to sales staff)	63	64
Social insurance	7	7
Pension costs (payments to defined contribution pension schemes)	7	6
Total staff costs	77	77

The number of staff employed is broken down by geographical location for 30 June 2020 and 30 June 2019 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 2020	Half year ended 30 June 2019	Half year ended 30 June 2020	Half year ended 30 June 2019
Ireland	2,465	2,414	2,424	2,376
Total number of staff	2,465	2,414	2,424	2,376

* Closing staff numbers are calculated on a full time equivalent (FTE) basis.

5. Regulatory charges

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
BRRD levy	5	5
Deposit guarantee scheme (DGS)	14	12
Other regulatory charges	1	1
Regulatory charges	20	18

Other regulatory charges include payments to the Financial Services and Pensions Ombudsman and the IBCB.

6. Exceptional items

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Restructuring and other charges (a)	1	12
Impairment arising from deleveraging of loans (b)	-	(1)
Exceptional items	1	11

(a) These comprise €1m (30 June 2019: €12m) relating to phase 2 of the Group's voluntary severance scheme.

b) Under the Group's accounting policy, exceptional items include profits/losses arising on deleveraging. Under IFRS 9 when the sale of a loan becomes part of the Group's recovery strategy and meets the other conditions as set out in the accounting policy, the expected cash flows from the loan sale (including costs of sale) are included in the IFRS 9 impairment calculation. During 2019, an impairment provision of €1m was released relating to the costs associated with the Glas I and Glenbeigh loan sales in 2018. The Group also considers the impairment release as exceptional. This treatment is consistent with the treatment of losses on deleveraging of non-performing loans in prior years.

7. Taxation

(a) Analysis of taxation charge

	Half year ended 30 June 2020	Half year ended 30 June 2019
	€m	€m
Current taxation		
Charge for current period	1	1
Deferred taxation		
Origination and reversal of temporary differences	(4)	6
Taxation (credited)/charged to income statement	(3)	7
Effective tax rate	5%	25%

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 credit for the half year ended 30 June 2020 was €3m (30 June 2019: €7m charge). This is made up of a current tax charge of €1m arising on non-trading income and a deferred tax credit of €4m. The deferred tax credit arises primarily due to:

- (i) an increase in the deferred tax asset on tax losses carried forward of €7m due to taxable losses arising in the period;
- (ii) a €2m deferred tax charge arising on other timing differences; and
- (iii) the partial release of a deferred tax asset of €1m created on the introduction of IFRS 9.

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

Half year ended 30 June 2020

	Gross	Tax	Net
	€m	€m	€m
Fair value reserve:			
- Change in fair value reserve	(2)	-	(2)
- Amortisation of discontinued hedges	2	-	2
Balance as at 30 June 2020	-	-	-

Half year ended 30 June 2019

	Gross	Tax	Net
	€m	€m	€m
Fair value reserve:			
- Change in fair value reserve	(2)	-	(2)
Balance as at 30 June 2019	(2)	-	(2)

8. (Loss)/earnings per ordinary share

(a) Basic (loss)/earnings per ordinary share

	Half year ended 30 June 2020	Half year ended 30 June 2019
Weighted average number of ordinary shares in issue and ranking for dividend excluding (Loss)/profit for the period attributable to equity holders	454,690,912 (€54m)	454,690,912 €21m
Less AT1 coupon paid (see note 22)	(€11m)	(€11m)
(Loss)/profit for the period attributable to equity holders less AT1 coupon paid	(€65m)	€10m
Basic (loss)/earnings per ordinary share (€ cent)	(14.3)	2.2

(b) Diluted earnings per ordinary share

	Half year ended 30 June 2020	Half year ended 30 June 2019
Weighted average number of ordinary shares excluding treasury shares held under employee benefit trust used in the calculation of diluted earnings per share and including the potential ordinary shares from the AT1 conversion feature	454,690,912	454,690,912
Diluted (loss)/earnings per ordinary share (€ cent)	(14.3)	2.2

Diluted (loss)/earnings per ordinary share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

No adjustment to the weighted average number of ordinary shares for the effects of dilutive potential ordinary shares was required for the half year ended 30 June 2020 or 30 June 2019 as the Additional Tier 1 AT1 securities were assessed due to the conversion feature within the security, and were found to have an anti-dilutive effect.

Weighted average number of ordinary shares*

	Half year ended 30 June 2020	Half year ended 30 June 2019
Number of ordinary shares in issue at 1 January (note 22)	454,695,492	454,695,492
Treasury shares held (note 22)	(4,580)	(4,580)
Weighted average number of ordinary shares at 30 June	454,690,912	454,690,912

* When calculating the earnings per share the weighted average number of ordinary shares outstanding during the period and all periods presented shall be adjusted for events other than the conversion of potential ordinary shares that have changed the number of ordinary shares without a corresponding change in reserves.

9. Cash and cash equivalents

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

	30 June 2020	31 December 2019
	€m	€m
Cash at bank	54	63
Items in the course of collection	10	15
Loans and advances to banks repayable on demand (maturity of less than 3 months) (note 13)	1,920	1,556
	1,984	1,634
Restricted cash included in loans and advances to banks repayable on demand	(361)	(403)
Cash and cash equivalents as per the statement of cash flows	1,623	1,231

As at 30 June 2020, restricted cash of €361m (31 December 2019: €403m) comprised cash of €360m (31 December 2019: €402m) held by the Group's securitisation entities and €1m (31 December 2019: €1m) which related to cash collateral placed with counterparties in relation to derivative positions.

10. Debt securities

(A) HTC and HTC&S

	30 June 2020			31 December 2019		
	HTC	HTC&S	Total	HTC	HTC&S	Total
	€m	€m	€m	€m	€m	€m
Government bonds	2,511	-	2,511	1,754	209	1,963
Corporate bonds	80	-	80	42	-	42
Gross debt securities	2,591	-	2,591	1,796	209	2,005

As at 30 June 2020, all debt securities are available to be used and are eligible as collateral (though eligibility will depend on the criteria of the counterparty) in sale and repurchase agreements.

Debt securities that are managed on a HTC business model basis are accounted for at amortised cost. Debt securities that are managed on a HTC&S basis are accounted for at Fair value through other comprehensive income (FVOCI).

Government bonds of €2.5bn (31 December 2019: €1.8bn) comprise Irish, Spanish and Portuguese government bonds which are designated as HTC. Corporate bonds comprises Residential Mortgage Backed Securities (RMBSs), including a retained note in the Glenbeigh securitisation 2018-1 DAC, both RMBSs are designated as HTC. The HTC securities represent a portfolio of securities purchased for the purpose of collecting contractual cash flows to maturity.

The HTC&S securities which the Group held as at 31 December 2019 matured during the first half of 2020.

All debt securities at 30 June 2020 are Stage 1 with the exception of the Glenbeigh securitisation 2018-1 DAC, which is POCI.

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

	30 June 2020		31 December 2019*	
	HTC	HTC&S	HTC	HTC&S
	€m	€m	€m	€m
As at 1 January	1,796	209	2,090	557
Change in fair value	-	-	-	(11)
Additions	1,016	-	319	-
Maturities/disposals	(199)	(209)	(578)	(338)
Interest net of cash receipts	(22)	-	(35)	1
Total	2,591	-	1,796	209

*The presentation of the movement in HTC and HTC&S securities has been updated to include the amortisation of premium/ (discount) on securities. As a result, the prior period movement in HTC and HTC&S securities has been updated to reflect these changes.

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

(i) Held at amortised cost

As at 30 June 2020, the amount arising from ECL on debt securities measured at amortised cost is €0.7m (31 December 2019: €0.4m). The ECL on debt instruments measured at amortised cost is offset against the carrying amount of the assets in the statement of financial position.

(ii) Held at FVOCI

As at 30 June 2020, the amount arising from ECL on debt securities measured at FVOCI is €nil (31 December 2019: €nil).

11. Equity securities

	30 June 2020	31 December 2019
	€m	€m
As at 1 January	15	13
Revaluation	1	2
Total equity investments	16	15

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

	30 June 2020	31 December 2019
	€m	€m
Unlisted	16	15
Total equity investments	16	15

PTSB Group holds Series B preferred stock in Visa Inc. at 30 June 2020. This was fair valued at €16m at 30 June 2020 and is recognised in the

12. Derivative assets/liabilities

Derivative instruments are used by the Group to hedge against interest rate risk and foreign currency risk.

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 the risk management section of the report.

Derivatives, which are not in qualifying hedge accounting relationships, are treated as trading for accounting purposes in accordance with IFRS 9.

Derivatives held by the Group are analysed as follows:

	30 June 2020			31 December 2019		
	Contract/ notional	Fair value	Fair value	Contract/ notional	Fair value	Fair value
	€m	€m	€m	€m	€m	€m
Fair value hedges						
Interest rate swaps	17	-	1	22	-	1
	17	-	1	22	-	1
Held for trading						
Forwards	36	-	-	105	1	-
Interest rate swaps	11	-	-	14	-	1
	47	-	-	119	1	1
Derivative financial instruments as per the statement	64	-	1	141	1	2

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in interest rates. The financial instruments hedged for interest rate risk include fixed rate loans, fixed rate debt issued and other borrowed funds. The Group uses interest rate swaps to hedge interest rate risk.

12. Derivative assets/liabilities (continued)

The gains/(losses) recognised in net interest income on the hedging instruments are designated as fair value hedges. The hedged items attributable to the hedged risk are analysed below:

	30 June 2020	31 December 2019
	€m	€m
Gains on hedging instruments	-	6
Losses on hedged items attributable to hedged risk	-	(6)
Net (losses)/gains	-	-

13. Loans and advances to banks

	30 June 2020	31 December 2019
	€m	€m
Held at amortised cost		
Placed with central banks	1,410	1,038
Placed with other banks	510	518
Loans and advances to banks	1,920	1,556

Placements with other banks includes restricted cash of €361m (31 December 2019: €403m) of which €360m (31 December 2019: €402m) is held by the Group's securitisation entities and €1m (31 December 2019: €1m) which relates to cash collateral placed with counterparties in relation to derivative positions.

Loans and advances to banks amounting to €1,920m (31 December 2019: €1,556m) 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.

14. Loans and advances to customers

Loans and advances by category are set out below:

	30 June 2020	31 December
	€m	€m
Residential mortgages		
Held through special purpose entities	7,163	7,627
Held directly	8,562	8,231
	15,725	15,858
Commercial mortgage loans	174	165
Consumer finance (term loans/other)	326	366
Gross loans and advances to customers	16,225	16,389
Less: provision for impairment (note 15)	(877)	(818)
Deferred fees, discount fees and other adjustments*	107	73
Net loans and advances to customers	15,455	15,644

*Included within deferred fees, discounts and other adjustments is a reverse repurchase agreement with a carrying value of €28m (31 December 2019: €nil). The credit rating of this counterparty is Baa3.

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

	Gross loans and advances to		Net loans and advances to customers	
	30 June 2020	31 December	30 June 2020	31 December
	€m	€m	€m	€m
Tracker rate	8,652	8,941	7,973	8,291
Variable rate	3,597	4,019	3,438	3,876
Fixed rate	3,976	3,429	3,937	3,404
	16,225	16,389	15,348	15,571
Deferred fees, discount fees and other adjustments	107	73	107	73
Total	16,332	16,462	15,455	15,644

14. Loans and advances to customers (continued)

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.

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 2020	31 December 2019
	€bn	€bn
Residential mortgages held through special purpose entities	7.2	7.7
Notes issued by special purpose entities		
- rated	4.4	4.9
- unrated	2.8	2.8

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

	30 June 2020	31 December 2019
	€bn	€bn
- Sold to third parties and included within debt securities in issue (non-recourse) on	0.5	0.6
- Other		
Available collateral*	3.9	4.3
Unrated notes	2.8	2.8
	7.2	7.7

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

Loans and advances balance movement for the half year ended 30 June 2020 and the year ended 31 December 2019 is set out in the following tables:

	Non-credit impaired		Credit impaired		
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Balance as at 1 January 2020	10,999	4,340	1,048	2	16,389
New assets originated*	480	81	-	-	561
Stage Transfers:					-
Transfer from Stage 1 to Stage 2	(1,565)	1,565	-	-	-
Transfer to Stage 3	(17)	(137)	154	-	-
Transfer from Stage 2 to Stage 1	409	(409)	-	-	-
Transfer from Stage 3	1	45	(46)	-	-
Net movement arising from transfer of Stage	(1,172)	1,064	108	-	-
Redemptions and repayments	(530)	(136)	(34)	-	(700)
Decrease due to write offs	-	(3)	(22)	-	(25)
Deleveraging	-	-	-	-	-
Balance as at 30 June 2020	9,777	5,346	1,100	2	16,225

* Loan originations are net of repayments in the period

14. Loans and advances to customers (continued)

	Non-credit impaired		Credit impaired		Total €m
	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI €m	
Balance as at 1 January 2019	10,519	4,701	1,692	4	16,916
New assets originated*	1,496	98	-	-	1,594
Stage Transfers:					
Transfer from Stage 1 to Stage 2	(361)	361	-	-	-
Transfer to Stage 3	(25)	(146)	171	-	-
Transfer from Stage 2 to Stage 1	588	(588)	-	-	-
Transfer from Stage 3	1	213	(214)	-	-
Net movement arising from transfer of Stage	203	(160)	(43)	-	-
Redemptions and repayments	(1,216)	(245)	(65)	(2)	(1,528)
Decrease due to write offs	(1)	(8)	(78)	-	(87)
Deleveraging	(2)	(46)	(458)	-	(506)
Balance as at 31 December 2019	10,999	4,340	1,048	2	16,389

* Loan originations are net of repayments in the period

15. Impairment provisions**Loans and advances to customers**

The following table reflects NPLs for which ECL provisions are held and an analysis of Stage 1, Stage 2 and Stage 3 ECL provisions across the loans and advances to customers portfolio.

The NPL balance as at 30 June 2020 is €1,102 (31 December 2019: €1,050m). Refer to note 25 for further details.

30 June 2020	Loans and advances to customers	NPLs	NPL % of total loans	ECL provisions				Total ECL provisions as % of total
				Stage 1	Stage 2	Stage 3	Total	
	€m	€m	%	€m	€m	€m	€m	%
Residential:								
- Home loans	12,231	647	5.3%	29	85	151	265	2%
- Buy-to-let	3,494	404	11.6%	3	365	167	535	15%
Commercial	174	32	18.4%	1	17	18	36	21%
Consumer finance:								
- Term loans/other	326	19	5.8%	5	21	15	41	13%
Total gross loans	16,225	1,102	6.8%	38	488	351	877	5%
Impairment provision	(877)							
Deferred fees, discounts and	107							
Balance as at 30 June	15,455							
31 December 2019	Loans and advances to customers	NPLs	NPL % of total loans	ECL provisions				Total ECL provisions as % of total
				Stage 1	Stage 2	Stage 3	Total	
	€m	€m	%	€m	€m	€m	€m	%
Residential:								
- Home loans	12,260	614	5.0%	31	58	146	235	2%
- Buy-to-let	3,598	377	10.5%	8	363	150	521	14%
Commercial	165	41	24.8%	2	12	24	38	23%
Consumer finance:								
- Term loans/other	366	18	4.9%	3	6	15	24	7%
Total gross loans	16,389	1,050	6.4%	44	439	335	818	5%
Impairment provision	(818)							
Deferred fees, discounts and	73							
Balance as at 31 December	15,644							

15. Impairment provisions (continued)

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

30 June 2020	Residential	Commercial	Consumer	Total
	€m	€m	€m	€m
Total by portfolio	756	38	24	818
ECL as at 1 January 2020	756	38	24	818
Redemptions and repayments	(6)	-	-	(6)
Net remeasurement of loss allowance	57	(1)	19	75
Loan originations	4	2	1	7
Net movement excluding derecognition	55	1	20	76
Derecognition-disposals	-	-	-	-
Derecognition-repossessions	-	-	-	-
Derecognition-write offs*	(11)	(3)	(3)	(17)
Derecognition	(11)	(3)	(3)	(17)
ECL as at 30 June	800	36	41	877
Net movement excluding derecognition (from above)				76
Interest income booked but not recognised				(4)
Write offs net of recoveries				3
Impairment charge on customer loans and advances as at 30 June 2020				75

*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 offs may be earlier than collateral realisation.

31 December 2019

Total by portfolio	Residential	Commercial	Consumer	Total
	€m	€m	€m	€m
ECL as at 1 January 2019	1,013	42	28	1,083
Redemptions and repayments	(12)	(1)	(3)	(16)
Net remeasurement of loss allowance	19	(1)	3	21
Loan originations	9	5	2	16
Net movement excluding derecognition	16	3	2	21
Derecognition-disposals	(227)	(5)	-	(232)
Derecognition-repossessions	(12)	-	-	(12)
Derecognition-write offs*	(34)	(2)	(6)	(42)
Derecognition	(273)	(7)	(6)	(286)
ECL as at 31 December 2019	756	38	24	818
Net movement excluding derecognition (from above)				21
Interest income booked but not recognised				(14)
Write offs net of recoveries				3
Impairment charge on customer loans and advances as at 31 December 2019				10

*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.

15. Impairment provisions (continued)

Total by Stage	Stage 1	Stage 2	Stage 3	Total
	€m	€m	€m	€m
ECL as at 1 January 2020	44	439	335	818
Transfer to Stage 1	16	(16)	-	-
Transfer to Stage 2	(11)	21	(10)	-
Transfer to Stage 3	-	(15)	15	-
Stage Transfers	5	(10)	5	-
Redemptions and repayments	(1)	(2)	(3)	(6)
Net remeasurement of loss allowance	(13)	58	30	75
Loan originations	3	4	-	7
Net movement excluding derecognition	(11)	60	27	76
Derecognition-disposals	-	-	-	-
Derecognition-repossessions	-	-	-	-
Derecognition-write offs*	-	(1)	(16)	(17)
Derecognition	-	(1)	(16)	(17)
ECL as at 30 June 2020	38	488	351	877
Net movement excluding derecognition (from above)				76
Interest income booked but not recognised				(4)
Write offs net of recoveries				3
Impairment charge on customer loans and advances as at 30 June 2020				75

* 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.

Total by Stage	Stage 1	Stage 2	Stage 3	Total
	€m	€m	€m	€m
ECL as at 1 January 2019	35	411	637	1,083
Transfer to Stage 1	12	(12)	-	-
Transfer to Stage 2	(3)	47	(44)	-
Transfer to Stage 3	-	(17)	17	-
Stage transfers	9	18	(27)	-
Redemptions and repayments	(2)	(5)	(9)	(16)
Net remeasurement of loss allowance	(6)	8	19	21
Loan originations	8	8	-	16
Net movement excluding derecognition	-	11	10	21
Derecognition-disposals	-	-	(232)	(232)
Derecognition-repossessions	-	-	(12)	(12)
Derecognition-write offs*	-	(1)	(41)	(42)
Derecognition	-	(1)	(285)	(286)
ECL as at 31 December 2019	44	439	335	818
Net movement excluding derecognition (from above)				21
Interest income booked but not recognised				(14)
Write offs net of recoveries				3
Impairment charge on customer loans and advances as at 31 December 2019				10

*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

Modified Financial Assets

At 30 June 2020 there have been no significant modified financial assets for which the loss allowance has changed from lifetime to 12-month ECL (31 December 2019: none).

16. Deferred taxation

	30 June 2020	31 December 2019
	€m	€m
Deferred tax liabilities	(23)	(22)
Deferred tax assets	372	367
Net deferred tax assets	349	345

	30 June 2020	31 December 2019
	€m	€m
At 1 January	345	355
Recognised through income statement (note 7)	4	(11)
Recognised in equity	-	1
Recognised in other comprehensive income	-	-
30 June/31 December	349	345

At 30 June 2020, the Group had a net deferred tax asset of €349m.

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 Management's judgements surrounding the probability and adequacy of future taxable profits and the reversals of existing taxable temporary differences.

The most important judgement relates to Management's assessment of the recoverability of the deferred tax asset relating to carried forward tax losses, being €367m at 30 June 2020. It should be noted that the full deferred tax asset on tax losses relates to tax losses generated in 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 uncertainty arising from COVID-19, in accordance with IAS 12, there must be convincing other evidence to underpin this assessment.

In making the assessment, the Management considered the following factors:

- The current macroeconomic environment and forecasts for the Irish economy;
- The significant progress made on the Group's NPL strategy together with the deleveraging of the Group's Non-Core portfolios in recent years;
- The current expected trajectory of the Group's financial performance;
- The impairment performance;
- The Group's projected liquidity and capital position;
- The capability demonstrated by the Group in recent years to raise additional capital, when required, in challenging circumstances;
- 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; and
- 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).

Taking the above factors into account, and in the absence of any expiry date for the utilisation of carried forward tax losses in Ireland, Management 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, to recognise €367m of a deferred tax asset on tax losses on the statement of financial position as at 30 June 2020.

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 2024 and profit projections, thereafter, assuming a level of profitability growth consistent with a longer term GDP growth of approximately 2.5%, it will take c.26 years for the deferred tax asset on tax losses of €367m 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

16. Deferred taxation (continued)

therefore that, over the long-term, the Group's performance would be expected to broadly track the performance of the Irish economy. Notwithstanding the impact of COVID-19 and a hard Brexit, an assumed growth rate of 2.5% has been used in line with the prior period reflecting medium and long term external forecasts for the Irish economy. Management are of the view that a long-term assumed growth rate of 2.5% is not unreasonable in this context.

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 expected period of time to full utilisation of the deferred tax asset has increased since 31 December 2019 from 19 years to 26 years. This is mainly due to the impact of the global economic downturn caused by the COVID-19 global pandemic on forecasted profitability in the short to medium term. These revised profitability figures also impact the assumed long-term projections for the Group with the result that the expected utilisation period has increased.

The recognition of this 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 more or less profitable in certain periods owing to various factors such as COVID-19, the interest rate environment, loan loss provisions, operating costs and the regulatory environment, Management expect that, notwithstanding these, the Group will be profitable over 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.

17. Other assets

	30 June 2020	31 December 2019
	€m	€m
Loan sale receivable	-	251
Other	8	8
	8	259

Loan sale receivable at 31 December 2019 relates to the amount due from the purchaser of the Glas II portfolio, which was received in the first half of 2020.

18. Customer accounts

	30 June 2020	31 December 2019
	€m	€m
Term deposits	3,692	4,701
Demand deposits	6,693	5,836
Current accounts	5,358	4,667
Notice and other accounts	2,021	1,986
Customer accounts	17,764	17,190

€nil was placed by Government institutions at 30 June 2020 (31 December 2019: €0.1bn).

An analysis of the contractual maturity profile of customer accounts is set out in the liquidity risk section of note 25.

19. Debt securities in issue

	30 June 2020	31 December 2019
	€m	€m
At amortised cost		
Bonds and medium term notes	362	308
Non-recourse funding	528	615
	890	923
Repayable in less than 1 year	13	9
Repayable in greater than 2 years but less than 5 years	349	299
Repayable in greater than 5 years	528	615
	890	923

19. Debt securities in issue (continued)

Bonds and medium term notes

In February 2020, PTSBGH issued an additional €0.05bn of Senior unsecured 2.125% Notes maturing on 26 September 2024 as part of the MREL securities programme. Interest is payable on the nominal amount annually in arrears on the coupon date.

Non-recourse funding

As at 30 June 2020, the Group had advances of €0.5bn (31 December 2019: €0.6bn) collateralised on residential property loans of €0.5bn (31 December 2019: €0.6bn) 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 €0.1bn between 30 June 2020 and 31 December 2019 to €0.5bn, primarily due to the paydown of the securitised notes. The Group did not have any defaults of principal or interest or other with respect to non-recourse funding during 2020.

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.

20. Other liabilities

	30 June 2020	31 December 2019
	€m	€m
Amounts falling due within one year		
PAYE and social insurance	5	4
Other taxation including deposit interest retention tax (DIRT)	1	2
Others	72	70
Lease liability	7	8
Total amounts falling due within one year	85	84
Amounts falling due greater than one year		
Lease liability	31	34
Total amounts falling due greater than one year	31	34
Total other liabilities	116	118

Included in the Others is €61m (€64m in 2019) relating to creditor accruals made during the period.

21. Provisions

	2020				2019			
	Restructuring costs	Provision for legacy, legal and compliance liabilities	Other	Total	Restructuring costs	Provision for legacy, legal and compliance liabilities	Other	Total
	€m	€m	€m	€m	€m	€m	€m	€m
As at 1 January	2	25	14	41	5	55	14	74
Provisions made during the period	-	7	-	7	13	6	3	22
Write-back of provisions during the period	-	-	-	-	(2)	-	(1)	(3)
Provisions used during the period	(1)	(8)	-	(9)	(14)	(36)	(2)	(52)
As at 30 June/31 December	1	24	14	39	2	25	14	41

21. Provisions (continued)

The provision at 30 June 2020 is €39m (31 December 2019: €41m) which is comprised of the following:

Restructuring costs

During 2018 the Group announced a voluntary severance scheme. As at 30 June 2020, provisions of €0.5m were utilised as part of Phase 1 and Phase 2 (31 December 2019: €12m). The remaining provision of €0.3m is based on an estimate of the remaining costs to bring Phase 1 and Phase 2 to a conclusion.

The Group remains a lessee on a number of non-cancellable leases over properties that it no longer occupies following a restructure in 2013. During 2019, provisions of €2m were written back in line with IFRS 16. The remaining provision of €1m relates to dilapidation costs associated with the remaining properties.

Provision for legacy, legal and compliance liabilities

As at 30 June 2020, the Group has provisions of €24m relating to legal, compliance and other costs of on-going disputes in relation to legacy business issues (31 December 2019: €25m). Management have exercised judgement in arriving at the estimated provision in respect of the potential liabilities.

A provision of €5m was made during 2020 relating to a change in the treatment of third party legal costs charged to customers in mortgage arrears. Additional provisions of €2m were made during 2020 relating to legal, compliance and other costs of on-going disputes in relation to legacy business issues.

Management has exercised judgment in arriving at the estimated provision in respect of the potential liabilities.

Other

As at 30 June 2020, the provision of €14m (31 December 2019: €14m) primarily relates to indemnities and guarantees provided by the Group, together with further costs, relating to deleveraging of various asset portfolios.

22. 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 the holding company Permanent TSB Group Holdings plc.

Authorised share capital

30 June 2020	30 June 2020
	€m
Number of shares	
Ordinary shares of €0.50 each	1,550,000,000
31 December 2019	775
	31 December 2019
	€m
Number of shares	
Ordinary shares of €0.50 each	1,550,000,000
	775

Issued share capital

The movement in the number of paid up ordinary shares is as follows:

Balance as at 30 June 2020	€0.50 Ordinary shares	Total
As at 1 January 2020	454,695,492	
Movement	-	
As at 30 June 2020	454,695,492	
Issued share capital (€m)	227	227
Shares held under employee benefit trust	4,580	
% of Authorised capital issued		29%

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

Balance as at 31 December 2019

	€0.50 Ordinary shares	Total €m
As at 1 January 2019	454,695,492	
Movement	-	
As at 31 December 2019	454,695,492	
Issued share capital (€m)	227	227
Shares held under employee benefit trust	4,580	
% of Authorised capital issued		29%

Share premium

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

Other reserves

Revaluation reserve (Non-distributable)

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

Fair value reserve (Non-distributable)

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 the income statement.

Other capital reserves (Non-distributable)

Other capital reserves include €7m capital redemption reserve arising from the repurchase and cancellation of shares. It also includes the cancellation of the share capital and share premium of PTSB on the incorporation of the Company of €224m and issue of share capital by the Company of €1,087m.

Retained earnings

Retained earnings include distributable and non-distributable earnings. This reserve represents the retained earnings of the holding company and subsidiaries after consolidation adjustments.

On the 1 January 2019 the Group adopted IFRS 16 and on transition to IFRS 16, the Group recognised an additional €45m of right-of-use assets, €46m lease liabilities and €1m of finance leases. There was an immaterial impact on retained earnings from transition to IFRS 16.

Furthermore €11m (2019: €11m) coupon interest on the AT1 securities was paid from this reserve during 2020.

Other equity instruments - Non-distributable

	30 June 2020	31 December 2019
	€m	€m
Additional Tier 1 securities	122	122

On 6 May 2015, PTSB issued €125,000,000 fixed rate resettable 'AT1 securities' as part of the Capital Raise. The first reset date for the fixed rate is 1 April 2021.

The AT1 securities are perpetual and redeemable 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). AT1 securities are included in regulatory capital base of the Group on a fully loaded basis.

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

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 2020 (April 2019: €11m). This is paid out of distributable retained earnings on an annual basis.

23. Analysis of other comprehensive income

The analysis of OCI 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.

6 months to 30 June 2020	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	-	-	-	-	-
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	-	(3)	-	-	(3)
Amortisation of discontinued hedges	-	2	-	-	2
Total other comprehensive income/(expense), net of tax	-	-	-	-	-

12 months to 31 December 2019	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	4	-	-	-	4
Fair value reserve (equity instruments):					
Change in value of equity instruments	-	2	-	-	2
Fair value reserve (debt instruments):					
Change in fair value of debt instruments	-	(15)	-	-	(15)
Amortisation of discontinued hedges	-	7	-	-	7
Total other comprehensive income/(expense), net of tax	4	(6)	-	-	(2)

6 months to 30 June 2019	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	-	-	-	-	-
Fair value reserve (equity instruments):					
Change in value of equity instruments	-	3	-	-	3
Fair value reserve (debt instruments):					
Change in fair value of debt instruments	-	(9)	-	-	(9)
Disposal of debt instruments	-	4	-	-	4
Total other comprehensive (expense), net of tax	-	(2)	-	-	(2)

24. Measurement basis and fair values of financial instruments

The table below sets out an overview of financial instruments held by the Group and their fair values. The Group classifies its financial instruments into the following categories, determined at initial recognition for each individual instrument.

30 June 2020	Note	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
		€m	€m	€m	€m	€m	€m
Financial assets:							
Cash at bank	9	54	-	-	-	54	54
Items in the course of collection	9	10	-	-	-	10	10
Debt securities	10	2,591	-	-	-	2,591	2,635
Equity securities	11	-	16	-	-	16	16
Derivative assets	12	-	-	-	-	-	-
Loans and advances to banks	13	1,920	-	-	-	1,920	1,920
Loans and advances to customers	14	15,455	-	-	-	15,455	14,247
Financial liabilities:							
Customer accounts	18	17,764	-	-	-	17,764	17,773
Debt securities in issue	19	890	-	-	-	890	866
Derivative liabilities	12	-	-	-	1	1	1
31 December 2019	Note	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
		€m	€m	€m	€m	€m	€m
Financial assets:							
Cash at bank	9	63	-	-	-	63	63
Items in the course of collection	9	15	-	-	-	15	15
Debt securities	10	1,796	209	-	-	2,005	2,030
Equity securities	11	-	15	-	-	15	15
Derivative assets	12	-	-	1	-	1	1
Loans and advances to banks	13	1,556	-	-	-	1,556	1,556
Loans and advances to customers	14	15,643	-	-	1	15,644	14,472
Financial liabilities:							
Customer accounts	18	17,190	-	-	-	17,190	17,201
Debt securities in issue	19	923	-	-	-	923	926
Derivative liabilities	12	-	-	1	1	2	2

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 data.

The table on the following page sets out the fair value of financial instruments that the Group holds at 30 June 2020. It categorises these financial instruments into the relevant level on the fair value hierarchy.

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

30 June 2020	Note	Total carrying value	Level 1	Level 2	Level 3	Total fair value
Financial assets:						
Cash at bank	9	54	54	-	-	54
Items in course of collection	9	10	-	10	-	10
Debt securities	10	2,591	2,596	-	39	2,635
Equity securities	11	16	-	-	16	16
Derivative assets	12	-	-	-	-	-
Loans and advances to banks	13	1,920	-	1,920	-	1,920
Loans and advances to customers	14	15,455	-	-	14,247	14,247
Financial liabilities:						
Customer accounts	18	17,764	-	17,773	-	17,773
Debt securities in issue	19	890	335	531	-	866
Derivative liabilities	12	1	-	1	-	1
31 December 2019		Total carrying value	Level 1	Level 2	Level 3	Total fair value
Financial assets:						
Cash at bank	9	63	63	-	-	63
Items in course of collection	9	15	-	15	-	15
Debt securities	10	2,005	1,989	-	41	2,030
Equity securities	11	15	-	-	15	15
Derivative assets	12	1	-	1	-	1
Loans and advances to banks	13	1,556	-	1,556	-	1,556
Loans and advances to customers	14	15,644	-	-	14,472	14,472
Financial liabilities:						
Customer accounts	18	17,190	-	17,201	-	17,201
Debt securities in issue	19	923	303	623	-	926
Derivative liabilities	12	2	-	2	-	2

Fair value measurement principles

The Group's accounting policy on valuation of financial instruments is described in note 1 and note 2 of the consolidated financial statements for 2019 which 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 year end, which may not necessarily be indicative of any subsequent fair value. Any changes in the assumptions used could have an 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 in this note, 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 do not represent, nor should it be interpreted to represent, the underlying value of the Group as a going concern at the reporting date.

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

Financial assets and financial liabilities not subsequently measured at fair value

Other than the HTC&S debt securities, derivative assets and liabilities, and equity securities all other financial assets and liabilities are not measured at fair value at the reporting date. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

Cash at bank

The fair value of these financial instruments is equal to their carrying value due to these instruments being repayable on demand and short-term in nature in an active market.

Items in the course of collection

The fair value of these financial instruments is equal to their carrying value due to these instruments being repayable on demand and short-term in nature.

Loans and advances to banks

For the purposes of fair value valuation, loans and advances to banks have been treated as cash and cash equivalents. These loans and advances are repayable on demand and short-term in nature; hence, the fair value of each financial instrument is equal to their carrying value.

Loans and advances to customers

Loans and advances to customers are carried net of impairments. The Group uses a discounted cash flow valuation model to estimate the fair value for the ROI residential and commercial mortgages. Cash flows are discounted using the current weighted average interest rate based on the specific portfolio. The fair value calculation also takes into account loan impairment provisions at the balance sheet date. The carrying value of the consumer finance portfolio is considered equal to its fair value due to its short duration.

Debt securities (HTC securities)

Included in debt securities at 30 June 2020 are €2,591m (31 December 2019 €1,796m) of HTC securities. The fair value of HTC securities are derived from observable market data through independent pricing sources such as Bloomberg, apart from one corporate bond €41m (31 December 2019 €42m) which is derived using prices of similar observable bonds in the market. A weighted average method is used to apply these prices to the Group's retained holding in the securitisation.

Customer accounts

The estimated fair value of deposit liabilities and current accounts with no stated maturity, which are repayable on demand (including non-interest bearing deposits), approximates to their book value. The estimated fair value of fixed-interest bearing deposits and other borrowings is based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

Debt securities in issue/subordinated liabilities

The fair values of debt securities in issue/subordinated liabilities are estimated using market prices of instruments that are substantially the same as those issued by the Group. Where a readily available market price is unavailable in relation to the instrument, an estimated price is calculated using observable market data for similar instruments. If observable market data is not available, an appropriate credit spread linked to similar instruments, is used within the valuation technique.

Financial assets and financial liabilities subsequently measured at fair value

On initial recognition, all financial instruments are measured at fair value. Following this, the Group measures HTC&S financial assets at fair value through other comprehensive income. Derivative assets and liabilities are held for trading and fair valued through the income statement.

Debt securities (HTC&S Securities)

Included in debt securities at 30 June 2020 are €nil (31 December 2019: €209m) of HTC&S securities. The fair value of HTC&S securities is determined directly from observable market prices.

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

Derivative assets and liabilities

The fair values of derivatives are determined using valuation techniques such as discounted cash flow and pricing models which are commonly used by market participants. These valuations are provided by third party brokers and the models used incorporate observable market inputs such as current interest rate, time to maturity, forward foreign exchange rates, yield curves and volatility measures.

Equity securities

Equity securities at 30 June 2020 consists of the €16m Visa Inc. shareholding (31 December 2019: €15m) which is measured using unobservable data inputs, including Management judgement in respect of the current value of the investment.

Fair value measurements recognised in the statement of financial position.

30 June 2020		Level 1	Level 2	Level 3	Total
	Note	€m	€m	€m	
Financial assets measured at fair value					
Debt securities - HTC&S	10	-	-	-	-
Equity instruments	11	-	-	16	16
Derivative assets	12	-	-	-	-
Financial liabilities measured at fair value					
Derivative liabilities	12	-	1	-	1
31 December 2019					
		Level 1	Level 2	Level 3	Total
		€m	€m	€m	
Financial assets measured at fair value					
Debt securities - HTC&S	10	209	-	-	209
Equity instruments	11	-	-	15	15
Derivative assets	12	-	1	-	1
Financial liabilities measured at fair value					
Derivative liabilities	12	-	2	-	2

There were no transfers between level 1 and level 2 of the fair value hierarchy during the half year ended 30 June 2020, or in the year ended 31 December 2019.

Reconciliation of level 3 fair value measurements of financial assets

	30 June 2020	31 December 2019
	€m	€m
Equity instruments		
As at 1 January	15	13
Acquisition	-	-
Revaluation movement	1	2
As at 30 June/31 December	16	15

There have been no transfers in/out of level 3 per the fair value hierarchy in the half year ended 30 June 2020, or in the year ended 31 December 2019.

Equity instruments

PTSB holds Series B preferred stock in Visa Inc. at 30 June 2020. The fair value at €16m at 30 June 2020 (31 December 2019: €15m) and has been calculated using unobservable inputs. The valuation inputs are based on the best information available at the reporting date.

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

Level 3 sensitivity analysis

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Financial instruments

30 June 2020	Valuation technique	Significant unobservable inputs	Range of estimates for unobservable inputs	Ranges of estimates	
				Fair Value	Changes in the fair value
				€m	
Visa Inc. Series B Preferred Stock	Quoted market price (Discounted)*	Final share conversion rate	0 - 90%	16	0 - 90%

* Discount has been applied for illiquidity and the conversion rate variability of the Visa Inc. Series B Preferred stock.

31 December 2019	Valuation technique	Significant unobservable inputs	Range of estimates for unobservable inputs	Ranges of estimates	
				Fair Value	Changes in the fair value
				€m	
Visa Inc. Series B Preferred Stock	Quoted market price (Discounted)*	Final share conversion rate	0 - 90%	15	0 - 90%

* Discount has been applied for illiquidity and the conversion rate variability of the Visa Inc. Series B Preferred stock.

Significant unobservable inputs

Visa Inc. Series B preferred stock

The Visa Inc. shareholding held by PTSB will be convertible into Class A Common Stock of Visa Inc. at some point in the future. The conversion of the stock is subject to ongoing litigation which may affect the conversion rate.

Valuation Methodology: The Visa Inc. Series B Preferred Stock conversion ratio was applied to the PTSB shareholding of Visa Inc. stock at 30 June 2020. The stock was converted at the period end exchange rate.

Unobservable input: Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.

The Visa Inc. Series B preferred stock is denominated in US dollars.

25. Financial risk management

The Group's risk management framework, risk identification and assessment process are disclosed in detail in the Risk Management section of the Interim Report.

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 manages credit risk through detailed credit policies for each business unit which outline relevant conditions under which a loan can be made covering collateral credit assessment risk grading and compliance. 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 Group Credit Committee, as created by the Board of Directors, oversees the overall exposure to credit risk and the arrangements put in place to minimise credit risk in line with regulatory and statutory requirements.

Maximum exposure to credit risk before collateral held or other credit enhancements

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

	Note	30 June 2020	31 December 2019
		€m	€m
Cash at bank	9	54	63
Items in the course of collection	9	10	15
Debt securities (i)	10	2,591	2,005
Derivative assets (ii)	12	-	1
Loans and advances to banks (iii)	13	1,920	1,556
Loans and advances to customers (iv)	14	15,455	15,644
Other assets (loan sale receivable)	17	-	251
		20,030	19,535
Commitments and contingencies	26	903	873
		20,933	20,408

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

(i) Debt securities

The Group is exposed to 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 ratings that are equivalent to the ratings prescribed by Moody's Investor Services.

	30 June 2020	31 December 2019
	€m	€m
Rating		
Aaa	39	-
A2	1,505	1,436
Baa1	524	284
Baa3	482	243
Unrated	41	42
Total	2,591	2,005

*The presentation of the loans and advances to banks ratings has been updated to include an enhanced disclosure of the Moody's rating attributable to each banking counterparty with no material impact as at 31 December 2019.

All debt securities at 30 June 2020 are Stage 1 with the exception of the Glenbeigh securitisation 2018-1 DAC, which is POCI.

25. Financial risk management (continued)

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

	30 June 2020	31 December 2019
	€m	€m
Country		
Ireland	1,585	1,478
Portugal	482	243
Spain	524	284
Total	2,591	2,005

(ii) Derivative assets

The Group has executed standard ISDA agreements with all of its counterparties. The Group has also executed CSAs with all of its counterparties with derivative instruments. As part of these agreements, the Group exchanges collateral in line with movements in the market values of derivative positions daily. All interest rate swap derivative assets are covered by netting agreements. FX forward derivatives are settled gross.

The Group manages its collateral derivative positions with counterparties on a net basis. The uncollateralised derivative positions are all held with investment grade counterparties.

(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 ratings that are equivalent to the ratings prescribed by Moody's Investor Service and Standard & Poors for the CBI.

	30 June 2020	31 December 2019*
	€m	€m
Rating		
Aaa	1,410	1,038
Aa2	212	240
Aa3	255	234
A1	39	33
A2	2	9
Baa2	2	2
Total	1,920	1,556

*The presentation of the loans and advances to banks ratings has been updated to include an enhanced disclosure of the Moody's rating attributable to each banking counterparty with no material impact as at 31 December 2019.

The following sections detail additional disclosures on Asset Quality.

(iv) Loans and advances to customers

Gross customer loans and advances

The tables on the following page outline total loans and advances to customers for the Group analysed by home loan, buy-to-let, commercial and consumer finance.

Total Group Loans and Advances amounted to € 16.2 billion at 30 June 2020, a 1% reduction from 31 December 2019.

25. Financial risk management (continued)

Residential mortgages comprised 97% of total loans and advances at 30 June 2020. The home loan portfolio comprised 78% of the residential mortgage portfolio and the buy-to-let portfolio comprised 22%.

	30 June 2020	31 December 2019
	€m	€m
Measured at amortised cost		
Residential mortgages:		
Home loan	12,231	12,260
Buy-to-let	3,494	3,598
Total residential mortgages	15,725	15,858
Commercial	174	165
Consumer finance	326	366
Total measured at amortised cost	16,225	16,389
Analysed by ECL staging:		
Stage 1	9,777	10,999
Stage 2	5,346	4,340
Stage 3	1,100	1,048
POCI	2	2
Total measured at amortised cost	16,225	16,389
Of which at the reporting date:		
Neither past due nor Stage 3	15,095	15,295
Past due but not Stage 3	28	44
Stage 3	1,102	1,050
Total measured at amortised cost	16,225	16,389
Of which are reported as non-performing loans	1,102	1,050
Deferred fees, discounts and other adjustments	107	73

Past due but not Stage 3

The following tables provide an aged analysis of secured customer loans and advances, which are past due but not Stage 3.

30 June 2020	Home loans	Buy-to-let	Commercial	Total
	€m	€m	€m	€m
0-30 days	6	3	-	9
31-60 days	2	1	-	3
61-90 days	5	1	-	6
Total past due not Stage 3	13	5	-	18
Fair value of collateral held	13	4	-	17

Fair value of collateral held	Home loans	Buy-to-let	Commercial	Total
	€m	€m	€m	€m
0-30 days	6	2	-	8
31-60 days	2	1	-	3
61-90 days	5	1	-	6
Total past due not Stage 3	13	4	-	17

Collateral held against residential mortgages is principally comprised of residential properties; their fair value has been estimated based upon the last actual valuation, adjusted to take into account subsequent movement in house prices and is capped at the lower of the loan balance or the valuation amount.

25. Financial risk management (continued)

31 December 2019	Home loans	Buy-to-let	Commercial	Total
	€m	€m	€m	€m
0-30 days	11	6	-	17
31-60 days	6	2	-	8
61-90 days	5	1	-	6
Total past due not Stage 3	22	9	-	31
Fair value of collateral held	21	8	-	29
Fair value of collateral held	Home loans	Buy-to-let	Commercial	Total
	€m	€m	€m	€m
0-30 days	11	5	-	16
31-60 days	6	2	-	8
61-90 days	4	1	-	5
Total past due not Stage 3	21	8	-	29

Collateral held against residential mortgages is principally comprised of residential properties; their fair value has been estimated based upon the last actual valuation, adjusted to take into account subsequent movement in house prices and is capped at the lower of the loan balance or the valuation amount.

Non-performing loans

NPLs 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 and is designed to be consistent with EBA guidance on the definition of forbearance.

Foreclosed assets are 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 2020	Stage 3				
	Home loans	Buy-to-let	Commercial	Consumer	Total
	€m	€m	€m	€m	€m
NPL is < 90 days	443	315	25	1	784
NPL is > 90 days and < 1 year past due	55	22	1	9	87
NPL is 1-2 years past due	28	6	-	1	35
NPL is 2-5 years past due	19	5	2	1	27
NPL is > 5 years past due	102	56	4	5	167
POCI	-	-	-	2	2
Non-performing loans	647	404	32	19	1,102
Foreclosed assets*	8	27	-	-	35
Non-performing assets	655	431	32	19	1,137
Gross loans	12,231	3,494	174	326	16,225
NPLs as % of gross loans	5.3%	11.6%	18.4%	5.8%	6.8%

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

25. Financial risk management (continued)

31 December 2019

	Stage 3				
	Home loans	Buy-to-let	Commercial	Consumer	Total
	€m	€m	€m	€m	€m
NPL is < 90 days	420	294	29	1	744
NPL is > 90 days and < 1 year past due	46	12	-	7	65
NPL is 1-2 years past due	20	4	-	1	25
NPL is 2-5 years past due	19	8	4	2	33
NPL is > 5 years past due	109	59	8	5	181
POCI	-	-	-	2	2
Non-performing loans	614	377	41	18	1,050
Foreclosed assets*	13	45	-	-	58
Non-performing assets	627	422	41	18	1,108
Gross loans	12,260	3,598	165	366	16,389
NPLs as % of gross loans	5.0%	10.5%	24.8%	4.9%	6.4%

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

Asset Quality

The following tables provide detail of asset quality by IFRS 9 Stage.

30 June 2020	Total Residential Mortgages					Total
	Home loan	Buy-to-let	Commercial	Consumer		
	€m	€m	€m	€m	€m	€m
Stage 1						
Excellent	6,323	214	6,537	5	73	6,615
Satisfactory	2,924	186	3,110	18	13	3,141
Fair	16	-	16	-	1	17
Standardised	-	-	-	-	4	4
	9,263	400	9,663	23	91	9,777
Stage 2						
Excellent	288	908	1,196	2	88	1,286
Satisfactory	531	1,134	1,665	12	72	1,749
Fair	1,502	648	2,150	105	35	2,290
Standardised	-	-	-	-	21	21
	2,321	2,690	5,011	119	216	5,346
Stage 3						
Default	647	404	1,051	32	19	1,102
Total measured at amortised cost	12,231	3,494	15,725	174	326	16,225

25. Financial risk management (continued)

31 December 2019

	Home loan	Buy-to-let	Total Residential Mortgages	Commercial	Consumer	Total
	€m	€m	€m	€m	€m	€m
Stage 1						
Excellent	6,515	471	6,986	4	199	7,189
Satisfactory	3,378	266	3,644	23	82	3,749
Fair	26	1	27	14	20	61
Standardised	-	-	-	-	-	-
	9,919	738	10,657	41	301	10,999
Stage 2						
Excellent	333	689	1,022	1	1	1,024
Satisfactory	469	1,186	1,655	29	12	1,696
Fair	925	608	1,533	53	34	1,620
Standardised	-	-	-	-	-	-
	1,727	2,483	4,210	83	47	4,340
Stage 3						
Default	614	377	991	41	18	1,050
Total measured at amortised cost	12,260	3,598	15,858	165	366	16,389

Total portfolio loss allowance: statement of financial position

The tables below outline the ECL loss allowance total at 30 June 2020 and 31 December 2019 in respect of total customer loans and advances.

The impairment charge in respect of the total loans and advances for the half year ended 30 June 2020 was €75m, compared to a charge of €10m for the year ended 31 December 2019.

	30 June 2020	31 December 2019
	€m	€m
Loss allowance - statement of financial position		
Stage 1	38	44
Stage 2	488	439
Stage 3	351	335
Total loss allowance	877	818

	30 June 2020	31 December 2019
	%	%
Provision coverage ratio*		
Stage 1	0.4%	0.4%
Stage 2	9.1%	10.1%
Stage 3	31.9%	31.9%
Total loss allowance/total loans	5.4%	5.0%

*Provision coverage ratio is calculated as loss allowance, as a percentage of gross loan balance.

25. Financial risk management (continued)

Loan-to-value profile

Loan-to-value (LTV) of mortgage lending (index linked):

The LTV ratio is calculated at a property level and is the average of indexed property values in proportion to the outstanding loan balance. LTV is a key input to the impairment provisioning process. The tables below outline the composition of this ratio for the residential loan portfolio.

Actual and average LTVs across principal mortgage portfolios:

The tables on below outline the weighted average LTVs for the total residential mortgage portfolios analysed across home loan and buy-to-let facilities by value. The weighted average LTV on the residential mortgage portfolios is 71% at 30 June 2020 compared to 69% at 31 December 2019...

30 June 2020	Home loans	Buy-to-let	Total
	%	%	%
Less than 50%	32%	15%	28%
50% to 70%	25%	12%	23%
71% to 90%	32%	17%	28%
91% to 100%	5%	13%	7%
Subtotal	94%	57%	86%
101% to 110%	2%	13%	5%
111% to 120%	1%	10%	3%
121% to 130%	1%	6%	2%
131% to 140%	1%	3%	1%
141% to 150%	-	3%	1%
151% to 160%	-	2%	1%
161% to 170%	-	1%	-
171% to 180%	-	1%	-
Greater than 180%	1%	4%	1%
Subtotal	6%	43%	14%
Total	100%	100%	100%
Weighted average LTV:			
Stock of residential mortgages	63%	96%	71%
New residential mortgages	75%	55%	75%
Stage 3 mortgages	93%	134%	109%

25. Financial risk management (continued)

31 December 2019

	Home loans	Buy-to-let	Total
	%	%	%
Less than 50%	33%	15%	29%
50% to 70%	26%	13%	23%
71% to 90%	31%	20%	28%
91% to 100%	5%	14%	7%
Subtotal	95%	62%	87%
101% to 110%	2%	12%	4%
111% to 120%	1%	9%	3%
121% to 130%	1%	6%	2%
131% to 140%	-	3%	1%
141% to 150%	-	2%	1%
151% to 160%	-	1%	1%
161% to 170%	-	1%	-
171% to 180%	-	1%	-
Greater than 180%	1%	3%	1%
Subtotal	5%	38%	13%
Total	100%	100%	100%
Weighted average LTV:			
Stock of residential mortgages	62%	92%	69%
New residential mortgages	74%	59%	74%
Stage 3 mortgages	93%	128%	106%

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 existing CCMA. These are set out in the table below.

Residential mortgages

The following tables set out the volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 30 June 2020 and 31 December 2019.

(i) Residential home loan mortgages:

The incidence of the main type of forbearance arrangements for owner occupied residential mortgages are analysed below:

30 June 2020	All loans		Stage 3	
	Number	Balances	Number	Balances
		€m		€m
Interest only	159	31	114	23
Reduced payment (less than interest only)	109	18	37	6
Reduced payment (greater than interest only)	2,563	373	1,160	183
Payment moratorium	635	100	214	36
Arrears capitalisation	888	119	389	50
Term extension	678	56	273	21
Hybrid*	211	34	124	20
Split mortgages	447	86	447	86
Total	5,690	817	2,758	425

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

25. Financial risk management (continued)

31 December 2019

	All loans		Stage 3	
	Number	Balances	Number	Balances
		€m		€m
Interest only	119	22	102	19
Reduced payment (less than interest only)	15	2	8	1
Reduced payment (greater than interest only)	3,244	481	1,313	212
Payment moratorium	25	4	15	2
Arrears capitalisation	977	132	356	43
Term extension	749	60	261	20
Hybrid*	208	39	96	16
Split mortgages	451	87	451	88
Total	5,788	827	2,602	401

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

The tables above reflect a decrease of 98 cases in the half year ended 30 June 2020 for the Group in the number of residential home loans in forbearance arrangements, a decrease of €10m. The average balance of forborne loans is €0.144m at 30 June 2020 (31 December 2019: €0.143m).

(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 2020

	All loans		Stage 3	
	Number	Balances	Number	Balances
		€m		€m
Interest only	62	23	55	20
Reduced payment (less than interest only)	15	6	8	3
Reduced payment (greater than interest only)	168	45	126	35
Payment moratorium	81	29	31	12
Arrears capitalisation	77	41	59	30
Term extension	42	12	15	3
Hybrid*	44	20	29	13
Split mortgages	103	28	103	28
Total	592	204	426	144

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

31 December 2019

	All loans		Stage 3	
	Number	Balances	Number	Balances
		€m		€m
Interest only	64	24	55	22
Reduced payment (less than interest only)	1	-	1	-
Reduced payment (greater than interest only)	259	84	139	43
Payment moratorium	4	1	3	1
Arrears capitalisation	71	35	63	34
Term extension	54	14	13	3
Hybrid*	33	14	28	13
Split mortgages	103	29	103	29
Total	589	201	405	145

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

25. Financial risk management (continued)

The tables on the previous page reflect an increase of 3 cases in the half year ended 30 June 2020 for the Group in the number of residential buy-to-let in forbearance arrangements, an increase of €3m. The average balance of forborne loans is €0.345m at 30 June 2020 (31 December 2019: €0.341m).

(iii) Commercial mortgages

The incidence of the main type of forbearance arrangements for commercial mortgages are analysed below:

Commercial mortgages	30 June 2020		31 December 2019	
	Number	Balances	Number	Balances
		€m		€m
Interest only	2	-	1	-
Reduced payment (less than interest only)	1	1	-	-
Reduced payment (greater than interest only)	11	5	14	10
Payment moratorium	3	1	-	-
Arrears capitalisation	3	1	3	1
Term extension	11	5	10	3
Hybrid*	10	5	10	5
Total	41	18	38	19

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

The table above reflects an increase of 3 cases in the half year ended 30 June 2020 for the Group in the number of commercial mortgages in forbearance arrangements, a decrease of €1m.

Reconciliation of movement in forborne loans for all classes

The tables below provide an analysis of the movement of total forborne loans and Stage 3 forborne loans during the year. It outlines the number and balances of forbearance treatments offered, expired and loans paid down during the year.

(i) Reconciliation of movement of total forborne loans

30 June 2020	Residential mortgages							Total balances
	Home loan cases	Home loan balances	Buy -to-let cases	Buy-to-let balances	Commercial cases	Commercial balances	Total cases	
		€m		€m		€m		€m
Opening balance 1 January 2020	5,788	827	589	201	38	19	6,415	1,047
New forbearance extended during the period*	720	102	114	41	5	4	839	147
Deleveraged loans	-	-	-	-	-	-	-	-
Exited forbearance								
- re-classified to Stage 3 non-forborne	(9)	(2)	(3)	(1)	-	-	(12)	(3)
- expired forbearance treatment	(655)	(82)	(87)	(29)	-	-	(742)	(111)
- expired loan paid down	(154)	(16)	(21)	(6)	(2)	(5)	(177)	(27)
Balance shift**	-	(12)	-	(2)	-	-	-	(14)
Closing balance of loans in forbearance as at 30 June 2020	5,690	817	592	204	41	18	6,323	1,039

*Balance movements are stated net of portfolio re-classification.

** Balance movements in respect of loans which are in forbearance at the start and end of the period.

25. Financial risk management (continued)

31 December 2019

	Residential mortgages				Commercial cases	Commercial balances	Total cases	Total balances
	Home loan cases	Home loan balances	Buy -to-let cases	Buy-to-let balances				
		€m		€m		€m		€m
Opening balance 1 January 2019	9,759	1,416	1,763	699	70	29	11,592	2,144
New forbearance extended during the period*	394	46	23	7	4	1	421	54
Deleveraged loans	(1,405)	(278)	(335)	(117)	(20)	(5)	(1,760)	(400)
Exited forbearance								
- re-classified to Stage 3 non-	(220)	(22)	(122)	(58)	(5)	(1)	(347)	(81)
- expired forbearance treatment	(2,185)	(251)	(602)	(278)	(4)	(3)	(2,791)	(532)
- expired loan paid down	(555)	(57)	(138)	(45)	(7)	(2)	(700)	(104)
Balance shift**	-	(27)	-	(7)	-	-	-	(34)
Closing balance of loans in forbearance as at 31 December 2019	5,788	827	589	201	38	19	6,415	1,047

*Balance movements are stated net of portfolio re-classification.

** Balance movements in respect of loans which are in forbearance at the start and end of the year.

(ii) Reconciliation of movement in Stage 3 forborne loans

30 June 2020

	Residential mortgages						Total cases	Total
	Home loan	Home loan	Buy-to-let	Buy-to-let	Commercial	Commercial		
		€m		€m		€m		€m
Opening balance 1 January 2020	2,602	401	405	145	33	17	3,040	563
New Stage 3 forborne during the period*	396	57	51	15	4	3	451	75
Deleveraged loans	-	-	-	-	-	-	-	-
Exited forborne Stage 3, now	(152)	(18)	(15)	(8)	(1)	-	(168)	(26)
Exited forbearance								
- exited forborne Stage 3, now	(8)	(1)	(2)	(1)	-	-	(10)	(2)
- expired forbearance treatment	(1)	-	(1)	-	-	-	(2)	-
- expired loan paid down	(79)	(10)	(12)	(4)	(2)	(6)	(93)	(20)
Balance shift**	-	(4)	-	(3)	-	-	-	(7)
Closing balance loans in forbearance as at 30 June 2020	2,758	425	426	144	34	14	3,218	583

*Balance movements are stated net of portfolio re-classification.

** Balance movements in respect of loans which are in forbearance at the start and end of the period

31 December 2019

	Residential mortgages				Commercial	Commercial	Total cases	Total
	Home loan	Home loan	Buy-to-let	Buy-to-let				
		€m		€m		€m		€m
Opening balance 1 January 2019	5,239	862	974	349	64	26	6,277	1,237
New Stage 3 forborne during the period*	363	36	18	6	4	1	385	43
Deleveraged loans	(1,375)	(273)	(315)	(104)	(20)	(6)	(1,710)	(383)
Exited forborne Stage 3, now	(1,068)	(157)	(38)	(10)	(3)	(1)	(1,109)	(168)
Exited forbearance								
- exited forborne Stage 3, now Stage	(173)	(19)	(104)	(45)	(5)	(1)	(282)	(65)
- expired forbearance treatment	(39)	(3)	(16)	(5)	-	-	(55)	(8)
- expired loan paid down	(345)	(38)	(114)	(41)	(7)	(2)	(466)	(81)
Balance shift**	-	(7)	-	(5)	-	-	-	(12)
Closing balance of loans in forbearance as at 31 December 2019	2,602	401	405	145	33	17	3,040	563

*Balance movements are stated net of portfolio re-classification.

** Balance movements in respect of loans which are in forbearance at the start and end of the period.

25. Financial risk management (continued)

(iii) Group Portfolios: 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 period.

Stock of collateral in possession	30 June 2020		31 December 2019	
	Number	Balance	Number	Balance
Residential collateral in possession		€m		€m
Home loans	61	22	100	32
Buy-to-let	251	71	371	105
Commercial	-	-	4	1
Total	312	93	475	138

Collateral in possession assets are sold as soon as is practicable. These assets which total €35m as at 30 June 2020 (31 December 2019: €58m) are included in assets held for sale (see note 28 for further details).

During the year the ownership of 8 properties were transferred to the Group. The details of the transfers are provided in the table below:

	Number
Home loans	-
Buy-to-let	8
Commercial	-
Total	8

During the year 171 properties were disposed.

The details of the disposals are provided in the table below:

	Number
Home loans	39
Buy-to-let	128
Commercial	4
Total	171

30 June 2020

	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	39	10	5	-	5
Buy-to-let	128	35	17	1	19
Commercial	4	1	-	-	1
Half year ended 30 June 2020	171	46	22	1	25

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

31 December 2019	Number of	Balance	Gross sales	Costs to sell	Pre provisioning
		€m	€m	€m	€m
Collateral in possession					
Home loans	258	67	34	2	35
Buy-to-let	641	159	88	4	75
Commercial	9	5	3	-	2
Year ended 31 December 2019	908	231	125	6	112

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

25. Financial risk management (continued)

Funding profile

The ALCO monitors sources of funding and their respective maturities with a focus on establishing a stable and cost effective funding profile. Excluding equity, the Group's funding profile as at 30 June 2020 can be broken down into the below component parts:

	30 June 2020	31 December 2019
	%	%
Customer accounts	95	95
Long-term debt	5	5
	100	100

Long-term debt refers to debt with a maturity greater than 12 months from the period-end and short-term debt is that which has a maturity of less than 12 months from the period-end.

In accordance with IFRS 7 'Financial instruments: disclosures', 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 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 for trading and as hedging instruments in respect of financial liabilities.

The Group stress tests the liquidity on an annual basis and monitors the liquidity position against set RAS metrics on a periodic basis. These RAS metrics are approved on an annual basis through the Group's ILAAP.

30 June 2020	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							
Customer accounts	13,352	1,498	641	1,006	649	646	17,792
Debt securities in issue	1	1	9	4	9	935	959
Derivative liabilities	-	-	-	1	-	-	1
Lease liabilities	2	-	2	4	6	26	40
Total liabilities	13,355	1,499	652	1,015	664	1,607	18,792

31 December 2019	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							
Customer accounts	12,690	903	801	1,203	755	878	17,230
Debt securities in issue	1	1	2	11	7	982	1,004
Derivative liabilities	-	-	-	-	2	-	2
Lease liabilities	2	-	2	4	7	29	44
Total liabilities	12,693	904	805	1,218	771	1,889	18,280

26. Commitments and contingencies

The table below gives the contractual amounts of credit 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 2020	31 December 2019
	€m	€m
Guarantees and irrevocable letters of credit	2	2
Commitments to extend credit		
- less than 1 year	815	782
- 1 year and over	86	89
Total commitments to extend credit	901	871
Total credit commitments	903	873

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 21, the Group does not believe that any such litigation will have a material effect on its income statement or SOFP.

A number of different statutory and regulatory bodies, including the CBI, 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. The Bank understands that these criminal proceedings have concluded and so the Bank is waiting to see if the investigations, which, from the Bank's perspective, have been dormant for some time will now be re-commenced.

As part of the agreement in August 2011 to dispose of Irish Life International Limited, the Group provided certain indemnities and warranties to the purchaser under a number of identified scenarios. At 30 June 2020, the Group believes that the crystallisation of any claim against the Group is unlikely and as a result has not included a provision.

Like other banks, in the normal course of business, customers bring complaints to the Financial Services and Pensions Ombudsman (FSPO) in relation to a variety of issues. The Bank considers the applicability of FSPO decisions and findings to other customers in similar circumstances. It is not practicable to predict the final outcome of FSPO decisions, their timing and their likely impact, if any on the Group.

ECL held against commitments and contingencies are reported under loans and advances to customers.

27. Related parties

Related parties include individuals and entities that can exercise significant influence on operational and financial policies of the Group.

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 ExCo. The Executive Directors and members of the ExCo are set out in note 41 of the 2019 Annual Report.

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

	30 June 2020	31 December 2019
Non-Executive Directors	7	8
Executive Directors and Senior Management	9	9
	16	17

27. Related parties (continued)

Balances and transactions with key management personnel

There were no significant transactions with key management personnel during the first six months of 2020.

(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 per IAS 24). 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 and senior debt.

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

- The Group holds securities issued by the Government and Government related entities of €1,505m (31 December 2019: €1,436m).
- As at 30 June 2020 the Group had €nil deposits placed by government institutions (31 December 2019: €0.1bn). For further information, refer to note 18 of the condensed consolidated interim financial statements for half year ended 30 June 2020.
- 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.
- At 30 June 2020 the Company had an intercompany balance of €355m (31 December 2019: €300m) with its principal subsidiary PTSB plc relating to MREL issuance.
- 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 €24m for the year ended 31 December 2019. The Group expects to incur a charge in the second half of 2020, 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 CBI 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 CBI and the Group dated 10 November 2013. It was also agreed in the FIA that the CBI 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 2020, the Group had recorded a payable of €1m due under the FIA (31 December 2019: €1m).

The Government has a controlling interest in Allied Irish Bank plc and also has significant influence over Bank of Ireland. Due to the Group's related party relationship with the Irish Government as described above, 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
Bank of Ireland	30 June 2020	1	-	-	-	-
	31 December 2019	5	-	-	-	-

28. Assets classified as held for sale

At 30 June 2020, assets classified as held for sale amounted to €36m (31 December 2019: €59m). This consists of the following:

1. €35m (31 December 2019: €58m) relates to collateral in possession. These properties are expected to be sold within the next 12 months.
2. €1m (31 December 2019: €1m) relates to two branch properties (31 December 2019: two branch properties) which are no longer occupied by the Group. The sale of these properties is expected to complete within the next 12 months.

29. Reporting currency and exchange rates

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

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

	30 June 2020	31 December 2019	30 June 2019
€/£ exchange rate			
Closing	0.9124	0.8508	0.8966
Average	0.8773	0.8760	0.8731
€/US\$ exchange rate			
Closing	1.1198	1.1234	1.1380
Average	1.1033	1.1194	1.1315

30. Events after the reporting period

No items, transactions or events that would materially impact the condensed consolidated interim financial statements and require adjustment or disclosure have occurred between the reporting date of 30 June 2020 and the date of the approval of these financial statements by the Board of Directors being 3 August 2020.

The Directors in their opinion have significantly reflected the current and future affairs of the Group based on the best available information given the uncertainty arising from the COVID-19 pandemic on the date of approval of these condensed consolidated interim financial statements.

Interim Report

for the six months ended
30 June 2020

Supplemental Information

The following templates provide additional information on the payment breaks as required by the EBA to meet the Pillar 3 disclosure requirement. Template 1 and 2 are outlined below. Template 3 has not been included, as PTSB do not have any exposures which qualify for this template at 30 June 2020. The following information has not been subject to review by the Group's Independent Auditor.

Template 1: Information on loans and advances subject to legislative and non-legislative moratoria

The following template provides an overview of the credit quality of loans and advances subject to moratoria on loan repayments applied in the light of the COVID-19 crisis, in accordance with EBA/GL/2020/02.

	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							
	Performing				Non-performing			Performing				Non-performing			
	Of which: exposures with forbearance measures	Of which: Instruments with increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days		Of which: exposures with forbearance measures	Of which: Instruments with increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days		
Loans and advances subject to moratorium	984	902	106	807	82	68	76	66	49	9	48	17	14	16	18
of which: Households	948	869	105	775	79	64	73	57	41	9	40	16	13	15	18
of which: Collateralised by residential immovable property	934	856	105	763	78	64	73	55	39	9	39	16	13	15	17
of which: Non-financial corporations	36	32	-	32	4	3	4	8	8	-	8	1	1	1	-
of which: Small and Medium-sized Enterprises	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which: Collateralised by commercial immovable property	34	30	-	30	4	3	4	8	8	-	8	1	1	1	-

Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

The following template provides an overview of the volume of loans and advances subject to legislative and non-legislative moratoria in accordance with EBA/GL/2020/02 by residual maturity of these moratoria.

	Gross carrying amount								
				Residual maturity of moratoria					
	Number of obligors		Of which: legislative moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances subject to moratorium	18,147	1,668	-	-	-	-	-	-	-
Loans and advances subject to moratorium (granted)	18,142	1,668	-	684	720	263	-	-	-
of which: Households	-	1,619	-	671	689	259	-	-	-
of which: Collateralised by residential immovable property	-	1,603	-	669	681	254	-	-	-
of which: Non-financial corporations	-	49	-	13	32	4	-	-	-
of which: Small and Medium-sized Enterprises	-	-	-	-	-	-	-	-	-
of which: Collateralised by commercial immovable property	-	47	-	13	30	4	-	-	-

Abbreviations

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

ALCO Asset and Liability Committee	HTC&S Hold to Collect and Sell
ALM Asset Liability Management	HQLA High Quality Liquid Assets
AT1 Additional Tier 1	IAS International Accounting Standards
BAC Board Audit Committee	IASB International Accounting Standards Board
BPFI Banking & Payments Federation Ireland	ICAAP Internal Capital Adequacy Assessment Process
BRCC Board Risk and Compliance Committee	IFRIC International Financial Reporting Standards Interpretations Committee
BRRD Banking Recovery and Resolution Directive	IFRS International Financial Reporting Standards
CAC Capital Adequacy Committee	ILAAP Internal Liquidity Adequacy Assessment Process
CBI Central Bank of Ireland	IOM Isle of Man
CCB Capital Conservation Buffer	IPP Integrated Planning Process
CCMA Code of Conduct on Mortgage Arrears	IRB Internal Rating Based
CCyB Countercyclical Capital Buffer	IRRBB Interest Rate Risk in the Banking Book
CEO Chief Executive Officer	ISDA International Swaps and Derivatives Association
CET1 Common Equity Tier 1	LCR Liquidity Coverage Ratio
CFP Contingency Funding Plan	LDR Loan to Deposit Ratio
CODM Chief Operating Decision Maker	LGD Loss Given Default
CPI Consumer Price Index	LIBOR London Interbank Offered Rate
CRD IV Capital Requirements Directive IV	LSI Less Significant Institution
CRD V Capital Requirement Directive V	LTV Loan to value
CRO Chief Risk Officer	MCO Maximum Cumulative Outflow
CRR Capital Requirements Regulation	MGC Model Governance Committee
CSAs Credit Support Annexes	MREL Minimum Requirement for own funds and Eligible Liabilities
CSO Central Statistics Office	MTM Mark-to-Market
DGS Deposit Guarantee Scheme	MTN Medium Term Notes
DIRT Deposit Interest Retention Tax	MTP Medium Term Plan
DoF Department of Finance	NCU Newbridge Credit Union
EAD Exposure at Default	NII Net Interest Income
EAR Earnings at Risk	NIM Net Interest Margin
EBA European Banking Authority	NPL Non-Performing Loan
ECAI External Credit Assessment Institution	NSFR Net Stable Funding Ratio
ECB European Central Bank	OCI Other Comprehensive Income
ECL Expected Credit Loss	OECD Organisation for Economic Co-operation and Development
EIR Effective Interest Rate	P2G Pillar 2 Guidance
ESRI Economic and Social Research Institute	P2R Pillar 2 Requirement
EU European Union	PBI Ltd Permanent Bank International Limited
EURIBOR Euro Interbank Offered Rate	PD Probability of Default
EV Economic Valuation	POCI Purchased or Originated Credit Impaired
EWI Early Warning Indicator	PTSB Permanent TSB plc
ExCo Executive Committee	PTSBGH Permanent TSB Group Holding plc
FIA Financial Incentives Agreement	PwC PricewaterhouseCoopers
FLI Forward looking information	RAF Risk Appetite Framework
FSPO Financial Services and Pensions Ombudsman	RAS Risk Appetite Statement
FTE Full Time Equivalent	RCSA Risk and Control Self Assessment
FTP Fund Transfer Pricing	RPPI Residential Property Price Index
FVOCI Fair value through other comprehensive income	RWAs Risk Weighted Assets
FX Foreign Exchange	SICR Significant increase in Credit Risk
GCC Group Credit Committee	SME Small and medium sized enterprises
GDP Gross Domestic Product	SREP Supervisory Review & Evaluation Process
GIA Group Internal Audit	SSM Single Supervisory Mechanism
GPPC Global Public Policy Committee	TRIM Targeted Review of Internal Models
GRC Group Risk Committee	UK United Kingdom
GrowthCo Group Growth Committee	US United States
GNI Gross National Income	
HTC Hold to Collect	