

PILLAR 3
DISCLOSURES
2017



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Introduction

This Pillar 3 disclosure report has been published to meet the disclosure requirements of Part Eight of the Capital Requirements Regulation (EU) No 575/2013 (hereafter the CRR).

The disclosures relate to Permanent TSB Group Holdings plc (hereafter “Permanent TSB Group” or “the Group”), the highest level of consolidation to which the requirements of the CRR apply. They provide comprehensive information on the risk profile and risk management of the Group.

The Group has a formal policy for its Pillar 3 disclosures as required under Article 431 (3) of the CRR. No disclosures are omitted on the basis of proprietary or confidential information. Where appropriate, some disclosure requirements have been met by reference to the relevant disclosure in the Group’s Annual Report or on its website. The information in this report will be published annually. Certain information on own funds, capital requirements and other items prone to rapid change (e.g. LCR) will be published in the half year financial report of the Group.

The Pillar 3 disclosure report is available on the Group’s website at the following location: <http://www.permanenttsbgroup.ie/investors/reports-and-presentations>

Current regulatory framework

This report is part of the Basel III Framework which has been in effect in all EU member states since 1 January 2014 through EU Regulation No 575/2013 and EU Directive No 2013/36, as transposed into Irish law through S.I. No. 158 of 2014. These are collectively known as CRD IV.

The Basel capital framework is founded upon three Pillars:

Pillar 1 refers to the minimum amount of capital required to protect the Group against losses for credit, market and operational risk over a one year time-frame and it is used to calculate the capital adequacy ratios.

Under **Pillar 2** of the Basel Framework, the Group is required to have in place sound, effective and comprehensive strategies and processes to assess and measure the amount of internal capital requirements it considers adequate to cover the nature and level of the risks to which the Group is exposed. The Group arrives at an appropriate estimation of its capital requirements for all risks through the use of a Pillar 1 Plus approach.

The Group is subject to regular reviews of its internal capital adequacy assessment process (ICAAP) through the Supervisory Review and Evaluation Process (SREP) and is subject to minimum capital requirements which exceed those set by the CRR (see Note 35 in the Group’s Annual Report 2017).

Pillar 3 refers to market discipline and how the Group reports publicly and in a transparent manner information relating to the assessment and management of risks by the Group. This includes disclosing information on the scope of application, capital, risk exposures, risk assessment and management processes, and hence the capital adequacy of the Group.

EBA Pillar 3 disclosure guidelines

The European Banking Authority (EBA) published updated guidelines in August 2017 (EBA/GL/2016/11) on Pillar 3 disclosures which are expected to be followed in full for end 2017 disclosures by EU banks designated as either Global or Other Systemically Important Institutions (G-SIIs or O-SIIs). Further guidelines on LCR disclosure were published in June 2017 (EBA/GL/2017/01) which also apply from 31 December 2017.

In November 2017 the Central Bank of Ireland removed PTSB from the list of O-SIIs. Following an assessment, the Group as a non O-SII, will publish the disclosure requirements applicable to other institutions as set out in EBA/GL/2016/11 and EBA/GL/2017/01.

Please note the figures in this report are in millions of euro and may contain rounding differences as they are compiled using information reported to supervisors in units of euro.

CRR Disclosure Requirements

The Group has an approved policy to comply with CRR Articles 431 to 434, which relate to the overall Pillar 3 disclosure requirements. The following table summarises the applicability of specific disclosure requirements contained in the CRR.

CRR Article Description	CRR Article No.	Applicable / Not applicable to Permanent TSB Group
Article 435 – Risk Management Objectives and Policies	435 (1) (a)	Applicable
	435 (1) (b)	Applicable
	435 (1) (c)	Applicable
	435 (1) (d)	Applicable
	435 (1) (e)	Applicable
	435 (1) (f)	Applicable
	435 (2) (a)	Applicable
	435 (2) (b)	Applicable
	435 (2) (c)	Applicable
	435 (2) (d)	Applicable
	435 (2) (e)	Applicable
Article 436 – Scope of Application	436 (a)	Applicable
	436 (b) (i) to (iv)	Applicable
	436 (c)	Applicable
	436 (d)	Applicable
	436 (e)	Applicable
Article 437- Own Funds	437 (1) (a)	Applicable
	437 (1) (b)	Applicable
	437 (1) (c)	Applicable
	437 (1) (d) (i) to (iii)	Applicable
	437 (1) (e)	Applicable
	437 (1) (f)	Not applicable
Article 438 - Capital Requirements	438 (a)	Applicable
	438 (b)	Not applicable
	438 (c)	Applicable
	438 (d) (i) to (iv)	Applicable
	438 (e)	Applicable
	438 (f)	Applicable
Article 439 – Exposure to Counterparty Credit Risk	439 (a)	Applicable
	439 (b)	Applicable
	439 (c)	Applicable
	439 (d)	Applicable
	439 (e)	Applicable
	439 (f)	Applicable
	439 (g)	Not applicable
	439 (h)	Not applicable
	439 (i)	Not applicable

Article 440 - Capital buffers	440 (1) (a)	Applicable
	440 (1) (b)	Applicable
Article 441 – Indicators of global systemic importance	441	Not applicable
Article 442 -Credit risk adjustments	442 (a)	Applicable
	442 (b)	Applicable
	442 (c)	Applicable
	442 (d)	Applicable
	442 (e)	Applicable
	442 (f)	Applicable
	442 (g) (i) to (iii)	Applicable
	442 (h)	Applicable
	442 (i) (i) to (v)	Applicable
Article 443 – Unencumbered Assets	443	Applicable
Article 444 – Use of ECAIs	444 (a)	Not applicable
	444 (b)	Not applicable
	444 (c)	Not applicable
	444 (d)	Not applicable
	444 (e)	Not applicable
Article 445 – Market Risk	445	Not applicable
Article 446 – Operational Risk	446	Applicable
Article 447 – Exposure to equities not included in the trading book	447 (a)	Applicable
	447 (b)	Applicable
	447 (c)	Applicable
	447 (d)	Applicable
	447 (e)	Applicable
Article 448 – Exposure to interest rate risk on positions not included in the trading book	448 (a)	Applicable
	448 (b)	Applicable
Article 449 – Exposure to securitisation positions	449 (a)	Applicable
	449 (b)	Applicable
	449 (c)	Not applicable
	449 (d)	Applicable
	449 (e)	Applicable
	449 (f)	Not applicable
	449 (g)	Not applicable
	449 (h)	Applicable
	449 (i)	Not applicable
	449 (j)	Applicable
	449 (k)	Not applicable
	449 (l)	Not applicable
	449 (m)	Not applicable
	449 (n) (i) to (vi)	Not applicable
	449 (o) (i) to (ii)	Not applicable
	449 (p)	Not applicable
	449 (q)	Not applicable

	449 (r)	Not applicable
Article 450 – Remuneration	450 (1) (a)	Applicable
	450 (1) (b)	Applicable
	450 (1) (c)	Applicable
	450 (1) (d)	Applicable
	450 (1) (e)	Applicable
	450 (1) (f)	Applicable
	450 (1) (g)	Applicable
	450 (1) (h) (i) to (vi)	Applicable
	450 (1) (i)	Not applicable
	450 (1) (j)	Not applicable
	450 (2)	Applicable
Article 451 – Leverage Ratio	451 (1) (a)	Applicable
	451 (1) (b)	Applicable
	451 (1) (c)	Not applicable
	451 (1) (d)	Applicable
	451 (1) (e)	Applicable
Article 452 – Use of the IRB Approach to Credit Risk	452 (a)	Applicable
	452 (b) (i) to (iv)	Applicable
	452 (c) (i) to (v)	Applicable
	452 (d)	Applicable
	452 (e) (i) to (iii)	Applicable
	452 (f)	Applicable
	452 (g)	Applicable
	452 (h)	Applicable
	452 (i)	Applicable
	452 (j) (i) to (ii)	Applicable
Article 453 – Use of Credit Mitigation	453 (a)	Applicable
	453 (b)	Applicable
	453 (c)	Applicable
	453 (d)	Not applicable
	453 (e)	Applicable
	453 (f)	Applicable
	453 (g)	Not applicable
Article 454 - Use of the Advanced Measurement Approaches to Operational Risk	454	Not applicable
Article 455 -Use of Internal Market Risk Model	455 (a) (i) to (iv)	Not applicable
	455 (b)	Not applicable
	455 (c)	Not applicable
	455 (d) (i) to (iii)	Not applicable
	455 (e)	Not applicable
	455 (f)	Not applicable
	455 (g)	Not applicable

Risk Management Objectives and Policies (Art 435)

Overview

Within the boundaries of the Board-approved Risk Appetite, Permanent TSB 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 appropriate mechanisms are in place to protect and direct the Group in recognising the economic substance of its risk exposure, encompassing all risk types.

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

- (i) Risk Identification;
- (ii) Risk Assessment;
- (iii) Risk Mitigation; and
- (iv) Risk Monitoring and Reporting.



The design of the Group's Risk Management Process is underpinned by Risk Management Objectives and Principles, which are detailed in the sections below.

The risks to which the Group is, or may be, exposed are grouped into Risk Categories, within which sub-risk categories are defined at a more granular level. Risks must be identified, assessed, measured, monitored and reported in line with First or Second Line responsibilities consistent with the Three Lines of Defence Model employed by the Group.

A suite of supporting documentation (Frameworks and Policies) is maintained for relevant key Risk Categories, and reviewed at least annually. This supporting documentation describes the activities and tools required to support the ongoing Risk Management Process, and to promote a comprehensive and consistent approach to Risk Management across the Group.

Risk Management Objectives (Art 435.1.a)

The broad objectives of the Risk Management Process are to:

- i. Ensure that risks (including emerging risks), to which the Group is exposed, are identified appropriately and in a timely manner;
- ii. Ensure that a robust risk assessment is undertaken for all risks identified by the Group, using qualitative and quantitative assessment tools, as applicable;
- iii. Ensure that effective risk mitigation strategies are adopted by the Group;
- iv. Ensure that the Group's Risk Profile is monitored and reported on both an individual and aggregate basis; and
- v. Ensure that a dynamic Risk Management environment is promoted in the Group.

These objectives are fulfilled by:

- i. Documenting the activities required to fulfil the Group's Risk Management Process;
- ii. Reviewing the design and adequacy of the Group's Risk Management Process and supporting tools periodically; and
- iii. Establishing independent testing of the Risk Management Process, to review for operating effectiveness across the Group.

Please see the Risk Management section and Note 34 in the Group's Annual Report 2017 for details of the processes and strategies used by the Bank to manage risk.

Risk Management Principles (Art 435.1.a, 435.1.c)

The principles for effective Risk Management are as follows:

Principle 1	The Group must classify material risks according to a standard comprehensive list of risks to which the Group is exposed (risk and sub-risk categories). These are reviewed and updated at least on an annual basis.
Principle 2	The Group strives to adopt a consistent approach across all risk categories regarding its Risk Management Processes, including risk identification, assessment, mitigation, monitoring and reporting.
Principle 3	The Group must implement and embed comprehensive, fit for purpose Frameworks and Policies with detailed standards to cover key risks and key Risk Management Processes.
Principle 4	The Group must have a Risk Management Process for identifying the material risks to which the Group is exposed and for assessing those material risks on a qualitative and quantitative basis in the form of top-down and bottom-up assessments.
Principle 5	The Group must have a definition of materiality against which key risks are evaluated. This definition and criteria will be reviewed and approved annually.
Principle 6	The Group must use a common system across risk categories to monitor and

	escalate risks and exceptions (incidents) promptly – i.e. before they crystallise – by assessing the risk impact and likelihood of events occurring through the use of the Group-wide Risk scoring matrix.
Principle 7	The Group aims to adopt appropriate risk mitigation (risk treatment) approaches including risk reduction (by ensuring there are controls designed and operational), risk avoidance, risk transfer, risk optimisation or risk acceptance (if within Board approved Risk Appetite).
Principle 8	The Group must use MI and risk data to prepare risk information (including qualitative information and quantitative metrics) to report on the holistic risk profile of the Group including any changes in risk profile and emerging / horizon risks. The Risk Monitoring and Reporting Process should enable the reporting of the effectiveness of Risk Mitigation strategies including the effectiveness of controls.
Principle 9	The Group facilitates the promotion of a risk awareness culture, which in turn bolsters effective risk management and ensures that risk-taking activities are identified, assessed, mitigated, monitored and reported in a timely manner.
Principle 10	The Group strives to operate in line with the Board-approved Risk Appetite at all times and the Group's control environment seeks to reinforce this.

The key details on the scope and nature of risk reporting are set out on pages 36-48 within the Risk Management section of the Group's Annual Report 2017.

Organisation of risk management (Art 435.1.b)

A 'Three Lines of Defence' model has been adopted by the Group for the effective oversight and management of risks across the Group. Functions and teams in the First Line undertake frontline commercial and operational activities. In their day-to-day activities, these teams take risks which are managed through the effective design and operation of controls. Each Head of First Line Function is responsible for ensuring that activities undertaken are within the Board-approved Risk Appetite.

The Group Risk Function is an independent risk management function, under the direction of the Chief Risk Officer (CRO), and is the key component of the Group's Second Line of Defence. Group Risk is responsible for the on-going assessment, monitoring and reporting of risk-taking activities across the Group.

Group Internal Audit comprises the Third Line of Defence. It plays a critical role by providing independent assurance to the Group Board over the adequacy, effectiveness and sustainability of the Group's internal control, risk management and governance systems and processes, thereby supporting both the Board and Senior Management in promoting effective and sound risk management and governance across the Group.

The key responsibilities of each Line of Defence are set out on page 41 within the Risk Management section of the Group's Annual Report 2017.

Risk Categories (Art 435.1.c, 435.1.d)

The following key risk categories have been identified through the Group's risk assessment process:

- Funding Risk
- Liquidity Risk
- Capital Adequacy Risk
- Credit Risk
- Market Risk
- Operational and IT Risk
- Conduct Risk
- Reputational Risk
- Viability Risk
- Regulatory Compliance Risk
- Strategic Risk
- Volatility Risk (primarily Business Risk)

In order to minimise the risks to which the Group is exposed, the Group has implemented risk management strategies for key risks. While the Group devotes significant effort to its risk management strategies, there is a risk that in some circumstances these management strategies may fail to adequately mitigate the risks, especially where particular risks were not identified or foreseen.

Further information about the policies for hedging and mitigating the above risks including the process for monitoring the ongoing effectiveness of these hedges and mitigants is provided within pages 43-48 of the Risk Management section and Note 1 and Note 34 of the Group's Annual Report 2017. For Viability Risk see also pages 74-75 of the Corporate Governance Statement.

Declaration by management on the adequacy of risk management (Art 435.1.e)

Information on the adequacy of risk management is contained in the Group's Annual Report 2017 within Risk Management (pages 36 to 48) and the Corporate Governance Statement (pages 55 to 82).

Risk management responsibilities are outlined in the Group Risk Management Architecture (GRMA), which includes the categories of risk to which the Group is, or potentially is, exposed. The GRMA creates clear ownership and accountability; ensures the Group's most significant risk exposures are understood and managed in accordance with agreed risk appetite and risk tolerances; and ensures regular risk reporting.

The embedding of the GRMA, that governs all risk management arrangements in the Group, is monitored by executive and Board committees. The Group Risk Management Framework (GRMF) and its component key risk and sub-risk categories are subject to review to identify issues to be mitigated.

Risk Profile (Art 435.1.f)

As noted above, Permanent TSB has adopted an integrated approach to identifying, assessing and managing risks. The core aspects of the Group's Risk Management Framework are set out on pages 36 to 48 of the Group's Annual Report 2017.

The Group's Risk Appetite expresses the level and nature of risk the Group is willing to accept in pursuit of its strategic objectives. Expressed in both quantitative and qualitative terms, the Risk Appetite informs Group strategy and, as part of the overall framework for risk governance, is a boundary condition that guides the Group in its risk-taking and related business activities. Risk Appetite is incorporated into, and informs, relevant Group processes, such as the Integrated Planning Process. As such, the Group has defined a Board approved Risk Appetite Statement (RAS) covering each of the Risk Categories set out above.

The Group has defined measures to track its risk profile against the most significant risks it assumes. A mix of quantitative and qualitative, backward and forward looking Risk Metrics are defined to monitor the actual Risk Position against RAS by Risk Category. Each of these measures has a defined risk tolerance and risk appetite threshold. A number of measures have defined risk capacity thresholds, based on their potential to singularly threaten the viability of the Group. Actual performance is tracked against these tolerances and appetites and reported to the Group Board. As such, Risk Appetite represents a boundary condition to the Group's strategy.

The RAS provides both qualitative statements and, backward and forward looking, qualitative and quantitative Metrics to allow tracking of the Group's Risk Profile and performance against the agreed Risk Appetite.

Table 1: Key Ratios associated with the risk profile of the Group include the following:

	31 December 2017	31 December 2016
Capital - Transitional		
Common Equity Tier 1 ratio	17.1%	17.2%
Total Capital Ratio	18.4%	18.9%
Leverage Ratio – Transitional		
	8.0%	7.8%
Liquidity		
Liquidity Coverage Ratio (LCR)	165%	166%
Net Stable Funding Ratio (NSFR)	114%	105%
Loan to Deposit Ratio		
	108%	111%

All ratios are within Risk Appetite approved limits

Liquidity disclosures

The following information is disclosed in accordance with the EBA Guidelines on LCR Disclosures (EBA/GL/2017/01).

Table 2: EU LIQ1: LCR disclosure template

Quarter ending 2017	Total weighted value (average*)			
	Mar-17	Jun-17	Sep-17	Dec-17
Liquidity buffer (€m)	2,799	2,612	2,612	2,570
Total net cash outflows (€m)	1,947	1,879	1,796	1,816
Liquidity coverage ratio (%)	145%	140%	146%	142%
*Number of data points used in the calculation of averages: 12				

The Group maintains a liquidity buffer to meet LCR requirements comprised of unencumbered High Quality Liquid Assets (HQLA) made up of HQLA Eurozone sovereign bonds, central bank reserves and cash.

Governance Arrangements [\(Art 435.2\)](#)

The risk governance arrangements, including the role of the Board of Directors in relation to risk management, are set out in the Risk Governance section of the Group's Annual Report 2017 from page 36.

Number of directorships [\(Art 435.2.a\)](#)

Director	Total No of Directorships	CRD IV Directorships*
Robert Elliott	9	3
Jeremy Masding	5	0
Stephen Groarke	2	0
Eamonn Crowley	10	0
Julie O'Neill	6	2
Emer Daly	6	3
Ronan O'Neill	3	1
Ken Slattery	6	0
Andrew Power	3	1
Richard Pike	6	3

* External Directorships as counted under 91 (3) and 91 (4) of Directive 2013/36/EU

The number of directorships held by members of the Board is listed in the above table. In addition, there have been no additional directorships approved by the competent authorities in respect of the Directors during the reporting period.

The Board of Directors section on page 58 of the Group's Annual Report 2017 also contains information relating to the number of directorships held by members of the Board of Directors.

Recruitment Policy and Diversity Policy [\(Art 435.2.b, 435.2.c\)](#)

The Corporate Governance section in the Group's Annual Report 2017 contains information relating to:

- The recruitment policy for the selection of members of the Board of Directors (see 'Director Appointments' on page 80);
- The policy on diversity with regard to selection of members of the Board of Directors, its objectives and target set out in that policy, and the extent to which these objectives and targets have been achieved (see 'Board size and composition' on page 67 and 'Board objective for 2018: Board Diversity' on page 57); and
- The skills, expertise and experience of members of the Board of Directors (see 'Board of Directors' on pages 58 to 59).

Risk Committee (Art 435.2.d)

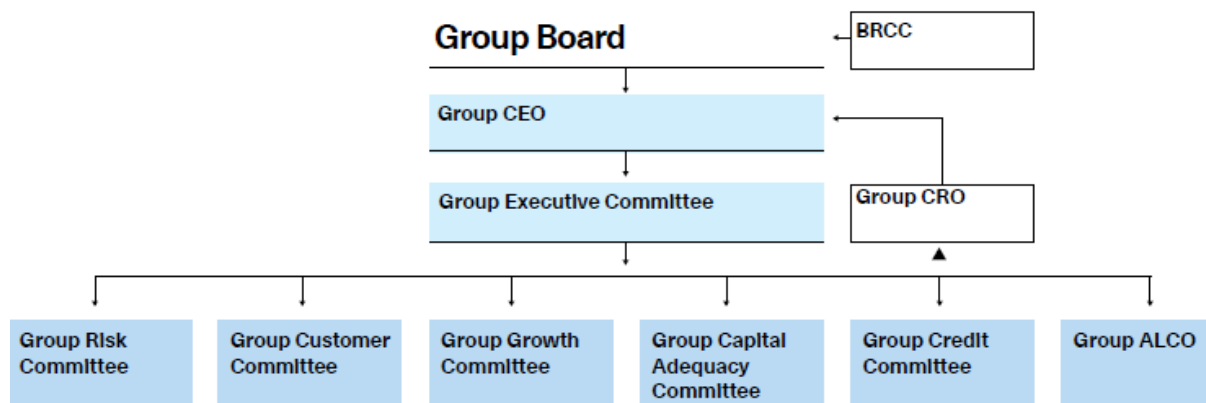
Please see pages 77 to 78 of the Group's Annual Report 2017 for information relating to:

- The existence of a separate Board risk committee (the Board Risk and Compliance Committee);
- Detail on the composition and operation of the committee;
- Detail of the number of times that committee met during 2017;
- Detail on the Roles and Responsibilities of the committee; and
- Detail on matters considered by the committee during 2017.

Information flow to Management (Art 435.2.e)

The following diagram illustrates the high-level Risk Governance Structure of the Group demonstrating the information flow on risk throughout the Group including to the Board of Directors:

Risk Governance Structure



- The **Group Board has overall governance responsibility** for the Group. It approves the Group's Risk Appetite, Strategic Direction, Financial Medium Term Plan (MTP) and Budget as part of the Integrated Planning Process. The Board reserves authority to resolve risk/reward decisions which may be subject to appeal or veto.
- **BRCC** is a Board Sub-Committee with responsibility for overseeing and providing advice to the Group Board on Risk Governance and the current and future risk exposures of the Group. It supports the Board in carrying out its responsibilities of ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's approved Risk Appetite.

- The Board delegates executive responsibility to the **Group CEO** for the Group's operations, compliance and performance. The Group CEO is the principal executive accountable to the Board for the day-to-day management of the Group.
- The **Group ExCo**, which is chaired by the Group CEO, is accountable to the Group Board for the implementation of the Group's Risk Appetite and delivery of the Group's MTP/Budget.
- The Group ExCo has established risk sub-committees which are chaired by ExCo members and are accountable to ExCo for the Risk Management activities of the Group. Relevant decisions/matters arising from ExCo risk sub-committees are reported to the BRCC (via the CRO) for independent oversight, and to ExCo (via the relevant ExCo member/Sub-Committee Chair) for information/noting, or, to bring to the attention of ExCo where appropriate:
 - The Group ExCo may not override or modify the decision of its Risk Sub-Committees but may appeal decisions to the Group Board (or relevant Board Committee).
 - The CRO is assigned the right of veto over planned management action agreed by ExCo risk sub-committees, to exercise in circumstances where the CRO considers such action to be inconsistent with adherence to the Group Risk Appetite.
- The Group Risk Committee receives information from a range of sources including the Operational Risk Management Committee, Group Data Governance Forum and Credit Model Governance Committee. These groups act as supporting forums for GRC and as such do not have any delegated authority.
- The CRO maintains a right of **independent access** to both the Board and BRCC to facilitate the independent communication of significant or material risk matters impacting the Group.

Scope of Application (Art 436)

Regulatory Requirements (Art 436.a)

These disclosures apply to Permanent TSB Group Holdings plc which is the highest level of consolidation for prudential reporting purposes. The Group's regulatory requirements, in respect of these disclosures, are contained within the CRD IV package, which is made up of the CRR regulation which is directly applicable to all EU countries and a directive which is transposed into Irish law through S.I. No. 158 of 2014, as well as EBA technical standards and guidelines. Under these requirements, the Group's total capital for Pillar 1 must be adequate to cover its risk for credit, market and operational risks, including capital buffers. The Group must also hold sufficient capital to cover the additional risks identified under the Pillar 2 process including any add-on's imposed on the Group as part of the supervisory SREP assessment. As an institution using the Internal Ratings Based (IRB) approach there is an additional requirement for the Group to hold own funds which equal or exceed 80% of the minimum amount of own funds that the institution would be required to hold under Basel 1 rules (Basel 1 floor).

The Group fulfils all of its capital requirements set out above as at 31 December 2017.

Differences in the basis of consolidation for accounting and prudential purposes (Art 436.b)

The scope of consolidation for the Group is broadly the same for accounting and prudential purposes with the exception of an insurance company which is not consolidated for prudential purposes.

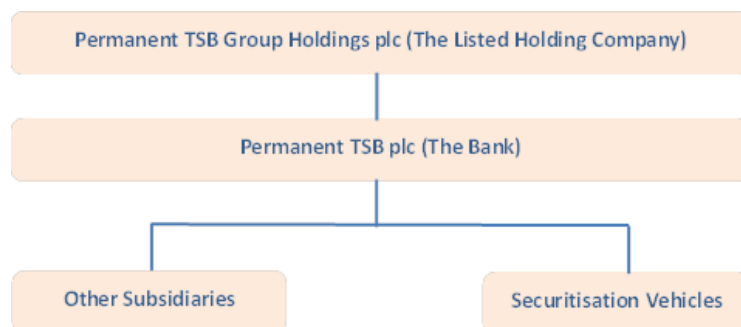


Table 3: Basis of consolidation

Company Name	Consolidated for Regulatory / Accounting	Method of Consolidation
Other Subsidiaries		
Permanent TSB Group Holdings plc	Both	Full
Permanent TSB plc	Both	Full
PBI Ltd	Both	Full
Permanent TSB Finance Ltd	Both	Full
Guinness & Mahon (Ireland) Ltd	Both	Full
Springboard Mortgages Ltd	Both	Full
Blue Cube Personal Loans Ltd	Both	Full
Kencarol Ltd	Both	Full
Erin Executor & Trustee Co Ltd	Both	Full
Mars Nominees Ltd	Both	Full
Joint Mortgage Holdings No1 Ltd	Both	Full
Springboard Funding No1 Ltd	Both	Full
Irish Permanent Property Company Ltd	Accounting	Full
Securitisation Vehicles		
Fastnet Securities 3 DAC	Both	Full
Fastnet Securities 5 DAC	Both	Full
Fastnet Securities 6 DAC	Both	Full
Fastnet Securities 9 DAC	Both	Full
Fastnet Securities 10 DAC	Both	Full
Fastnet Securities 11 DAC	Both	Full
Fastnet Securities 12 DAC	Both	Full
Fastnet Securities 13 DAC	Both	Full

Impediments to the transfer of financial funds (Art 436.c)

The Group is subject to regular reviews of its internal capital adequacy assessment process (ICAAP) through the SREP. Per the outcome of the latest SREP report which is applicable for 2018, there is a restriction imposed on Permanent TSB plc from paying dividends to Permanent TSB Group Holdings plc. SREP requirements are reviewed on an annual basis.

The Group has one subsidiary in the Isle of Man which held a banking licence. However, at the end of 2017, this subsidiary relinquished its banking licence and is therefore no longer subject to minimum capital requirements and thus can remit capital to its parent, Permanent TSB plc, without restriction.

Shortfall of own funds for subsidiaries not included in consolidation (Art 436.d)

There is no shortfall of own funds for subsidiaries not included in consolidation.

Use of Article 9 for individual reporting (Art 436.e)

The Group has availed of the discretion in Article 9 (1) of the CRR to meet its individual reporting for Permanent TSB plc on an “amended solo” basis. This discretion treats subsidiaries of a group as if they were branches rather than separate legal entities.

The risk profile of the Group does not differ in any material way from that of Permanent TSB plc and therefore all disclosures have been provided at Group level only.

Own Funds (Art 437)

The disclosure requirement for Own funds is laid down under Regulation (EU) No 1423/2013. This Regulation specifies uniform templates for the purposes of disclosure pursuant to points (a), (b), (d) and (e) of paragraph 1 of Article 437 and pursuant to paragraph 3 of Article 492 of Regulation (EU) No 575/2013.

Table 4: Reconciliation of shareholders' equity in Group Balance Sheet to own funds (Art 437.1.a)

All figures in €m	31-Dec 2017	31-Dec 2016
Shareholders' equity according to the Group's balance sheet	2,111	2,100
Deconsolidation of insurance companies	(9)	(11)
Deferred tax assets	(343)	(355)
Intangible assets	(39)	(34)
Additional Tier 1 instrument	(122)	(122)
Other adjustments	214	249
<i>of which: add back for deferred tax asset transitional adjustment</i>	<i>240</i>	<i>284</i>
<i>of which: deduct AFS reserve for sovereign exposures</i>	<i>(7)</i>	<i>(24)</i>
Common Equity Tier 1 capital	1,812	1,827
Additional Tier 1 instrument included in consolidated own funds	66	98
Total Tier 1 capital	1,878	1,924
Tier 2 instrument	9	12
Net provisions for reported IRB credit exposures	56	54
Other adjustments	10	12
Total Tier 2 capital	76	78
Total capital base	1,954	2,003

Table 5: Difference between IFRS and CRR Balance Sheet (Art 437.1.a)

Balance Sheet as at 31 December 2017 Euro m	IFRS	Deconsolidation of insurance entity	CRR
Assets:			
Cash and balances at central banks	62	0	62
Items in course of collection	28	0	28
Debt Securities	1,978	0	1,978
Equity Securities	12	0	12
Derivative assets	37	0	37
Loans and advances to banks	1,518	(5)	1,513
Loans and advances to customers	18,370	0	18,370
Property and equipment	141	0	141
Intangible Assets	39	0	39
Deferred tax asset	343	0	343
Other assets	39	0	39
Prepayments and accrued income	45	0	45
Current Tax Asset	0	0	0
Assets classified as held for sale	161	0	161
Investment in subsidiary undertakings	0	10	10
Total Assets	22,773	5	22,778
Liabilities:			
Deposits by banks	1,842	0	1,842
Customer accounts	16,995	14	17,009
Debt securities in issue	1,633	0	1,633
Derivative liabilities	48	0	48
Accruals	8	0	8
Current Tax liability	2	0	2
Other liabilities	48	0	48
Provision for liabilities & charges	63	0	63
Subordinated liabilities	23	0	23
Total Liabilities	20,662	14	20,676
Shareholders' equity	2,111	(9)	2,102
Total Liabilities and equity	22,773	5	22,778

Table 6: Description of the main features of the Common Equity Tier 1, Additional Tier 1 instruments and Tier 2 instruments issued by the Group (Art 437.1.b)

Capital instruments' main features template ⁽¹⁾					
1	Issuer	Permanent TSB Group Holdings plc	Permanent TSB Group Holdings plc	Permanent TSB plc	Permanent TSB plc
2	Unique identifier		IE00BWB8X525	XS1227057814	XS0387718173
3	Governing law(s) of the instrument	Irish	Irish	English/Irish	English/Irish
	Regulatory treatment				
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Additional Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Additional Tier 1	Tier 2
6	Eligible at solo / consolidated	Consolidated	Consolidated	Solo & (partially) Consolidated	Solo & (partially) Consolidated
7	Instrument type	Deferred Shares	Ordinary Shares	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (€m)	1,030	227	66	9
9	Nominal amount of instrument	EUR 0.0289	EUR 0.50	EUR 125,000,000	EUR 54,650,000
9a	Issue price (of latest issue)	N/A	EUR4.50	100.029 per cent	43.1825 per cent
9b	Redemption price	N/A	N/A	100 per cent of principal amount	At par
10	Accounting classification	Shareholders' Equity	Shareholders' Equity	Shareholders' Equity	Liability - amortised cost
11	Original date of issuance	05-May-15	05-May-15	29-Apr-15	15-Sep-08
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	No maturity	15-Sep-18
14	Issuer call subject to prior supervisory approval	No	No	Yes	N/A
15	Optional call date, contingent call dates, and redemption amount	N/A	N/A	1 April 2021 and 1 April annually thereafter. 100 per cent of principal amount In addition Tax/Regulatory call.	N/A
16	Subsequent call dates, if applicable	N/A	N/A	1 April annually from 2022	N/A
	Coupons / dividends				
17	Fixed or floating dividend/coupon	N/A	N/A	Fixed	N/A

Capital instruments' main features template ⁽¹⁾					
18	Coupon rate and any related index	N/A	N/A	8.625%	Zero
19	Existence of a dividend stopper	N/A	N/A	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	N/A	Fully discretionary	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	N/A	Fully discretionary	N/A
21	Existence of step up or other incentive to redeem	N/A	N/A	No	No
22	Non-cumulative or cumulative	N/A	N/A	Non-cumulative	N/A
23	Convertible or non-convertible	N/A	N/A	Convertible	N/A
24	If convertible, conversion trigger(s)	N/A	N/A	CET 1 Capital Ratio of the Issuer or the CET 1 Capital Ratio of the Issuer Group falls below 7.00 per cent.	N/A
25	If convertible, fully or partially	N/A	N/A	Fully	N/A
26	If convertible, conversion rate	N/A	N/A	EUR 3.00	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	Mandatory	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	Ordinary shares	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	Parent (Permanent TSB Group Holdings plc)	N/A
30	Write-down features	N/A	N/A	No	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A

Capital instruments' main features template ⁽¹⁾					
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Additional Tier 1	Tier 2	Senior debt
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A

¹ 'N/A' inserted if the question is not applicable

Full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments (Art 437.1.c)

Details of the full terms and conditions of all of the above instruments can be found at the following location on the Group's website:

- For Common Equity Tier 1 instruments please refer to the Articles of Association found at the following link: <http://www.permanenttsbgroup.ie/investors/shareholder-services.aspx>
- For Additional Tier 1 and Tier 2 instruments:
<http://www.permanenttsbgroup.ie/investors/debt-investors/debt-issuance-programmes.aspx>

Table 7: Own funds disclosure template (Art 437.1.d & 437.1.e)

Own funds disclosure template ⁽¹⁾ All figures in €m		31-Dec-17	31-Dec-16	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	31-Dec-17	31-Dec-16
		Transitional basis			Fully loaded basis	
Common Equity Tier 1 capital: instruments and reserves						
1	Capital instruments and the related share premium accounts	1,590	1,590	26 (1), 27, 28, 29, EBA list 26 (3)	1,590	1,590
	of which: ordinary shares	227	227	EBA list 26 (3)	227	227
	of which: deferred shares	1,030	1,030	EBA list 26 (3)	1,030	1,030
	of which: share premium	333	333		333	333
2	Retained earnings	1,124	1,414	26 (1) (c)	1,124	1,414
3	Accumulated other comprehensive income (and any other reserves)	(765)	(760)	26 (1)	(765)	(760)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	32	0	26 (2)	32	0
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,981	2,244		1,981	2,244
Common Equity Tier 1 (CET1) capital: regulatory adjustments						
7	Additional value adjustments (negative amount)	(1)	(1)	34, 105	(1)	(1)
8	Intangible assets (net of related tax liability) (negative amount)	(39)	(34)	36 (1) (b), 37, 472 (4)	(39)	(34)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(104)	(71)	36 (1) (c), 38, 472 (5)	(343)	(355)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(8)	(8)	36 (1) (f), 42, 472 (8)	(8)	(8)
25a	Losses for the current financial year (negative amount)	(0)	(267)	36 (1) (a), 472 (3)	(0)	(267)
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(7)	(36)		0	0
	of which: unrealised gains on equity investments	(0)	(0)		0	0
	of which: unrealised gains on Sovereign bonds	(7)	(24)		0	0
	of which: revaluation reserve on property	(10)	(12)		0	0
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(169)	(418)		(391)	(666)
29	Common Equity Tier 1 (CET1) capital	1,812	1,827		1,590	1,579
Additional Tier 1 (AT1) capital: instruments						
30	Capital instruments and the related share premium accounts	0	0	51, 52	0	0

Own funds disclosure template ⁽¹⁾ All figures in €m		31-Dec-17	31-Dec-16	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	31-Dec-17	31-Dec-16
		Transitional basis			Fully loaded basis	
31	of which: classified as equity under applicable accounting standards	0	0		0	0
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	66	98	85, 86, 480	52	82
36	Additional Tier 1 (AT1) capital before regulatory adjustments	66	98		52	82
Additional Tier 1 (AT1) capital: regulatory adjustments						
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0		0	0
44	Additional Tier 1 (AT1) capital⁽²⁾	66	98		52	82
45	Tier 1 capital (T1 = CET1 + AT1)	1,878	1,924		1,642	1,661
Tier 2 (T2) capital: instruments and provisions						
46	Capital instruments and the related share premium accounts	0	0	62, 63	0	0
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	9	12	87, 88, 480	11	14
50	Credit risk adjustments	56	54	62 (c) & (d)	56	54
51	Tier 2 (T2) capital before regulatory adjustment	66	66		67	68
Tier 2 (T2) capital: regulatory adjustments						
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	10	12	467, 468, 481	0	0
	of which: IBNR provisions	0	0		0	0
	of which: revaluation reserve on property	10	12		0	0
57	Total regulatory adjustments to Tier 2 (T2) capital	10	12		0	0
58	Tier 2 (T2) capital⁽²⁾	76	78		67	68
59	Total capital (TC = T1 + T2)	1,954	2,003		1,709	1,729
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	0	0		0	0
	Of which: Deferred tax assets that rely on future profitability net of related tax liability items not deducted from CET1	0	0	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	0	0

Own funds disclosure template ⁽¹⁾ All figures in €m		31-Dec-17	31-Dec-16	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	31-Dec-17	31-Dec-16
		Transitional basis			Fully loaded basis	
60	Total risk-weighted assets	10,593	10,593		10,593	10,593
Capital ratios⁽³⁾ and buffers						
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.1%	17.2%	92 (2) (a), 465	15.0%	14.9%
62	Tier 1 (as a percentage of total risk exposure amount)	17.7%	18.2%	92 (2) (b), 465	15.5%	15.7%
63	Total capital (as a percentage of total risk exposure amount)	18.4%	18.9%	92 (2) (c)	16.1%	16.3%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	1.25%	0.625%	CRD 128, 129, 140	2.5%	2.5%
65	of which: capital conservation buffer requirement	1.25%	0.625%		2.5%	2.5%
66	of which: countercyclical buffer requirement	0.0%	0.0%		0.0%	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) ⁽⁴⁾	10.4%	10.9%	CRD 128	8.1%	8.3%
Amounts below the thresholds for deduction (before risk-weighting)						
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	12	8	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	12	8
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	10	10	36 (1) (i), 45, 48, 470, 472 (11)	10	10
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	1	1	36 (1) (c), 38, 48, 470, 472 (5)	1	1
Applicable caps on the inclusion of provisions in Tier 2						
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	56	54	62	56	54

(1) Template prescribed in Regulation EU 1423/2013. Row is not shown if the question is not applicable, however in line with EBA guidance the numbering of each row is unchanged.

(2) AT1 and T2 for the previous year has been restated to restrict the amount included within consolidated own funds to the limits under Articles 85 and 87 of the CRR

(3) The Group calculates its capital ratios in accordance with EU Regulation 575/2013.

- (4) The CET1 available to meet buffers is calculated as the difference between the Group's CET1 ratio and the Pillar 1 CET1 minimum requirement plus the amount of CET1 used to cover any shortfall of AT1/T2.

Own funds disclosure template ⁽¹⁾ All figures in €m		31-Dec-17	31-Dec-16
AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(240)	(284)

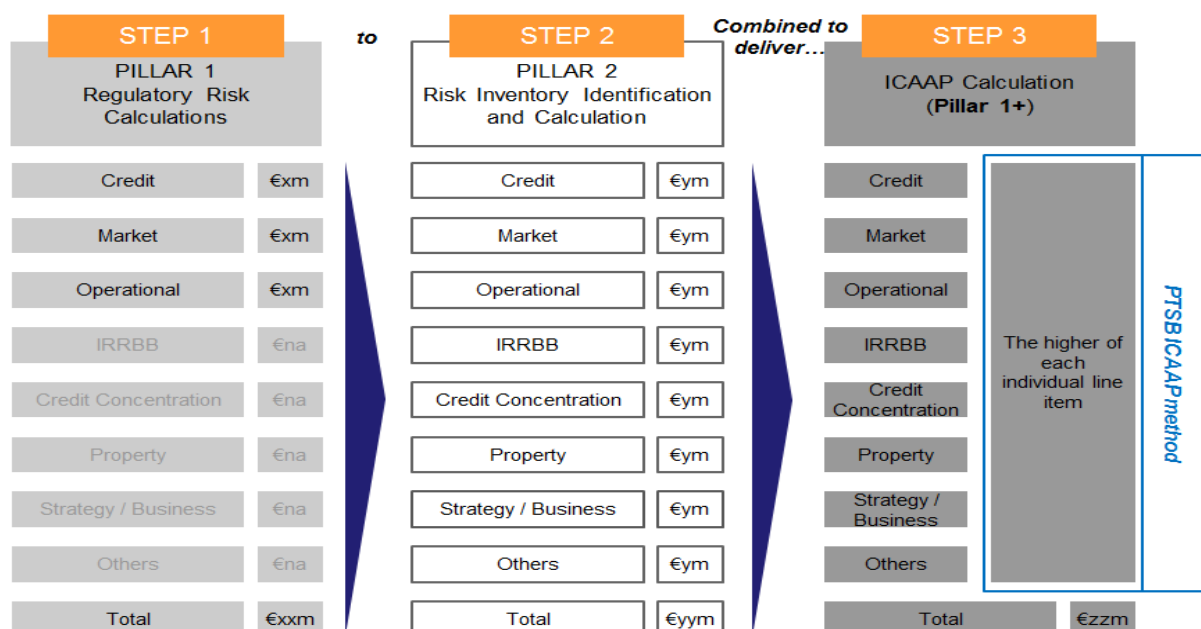
- (1) Template prescribed in Regulation EU 1423/2013. Row is not shown if the question is not applicable, however in line with EBA guidance the numbering of each row is unchanged.

Capital Requirements (Art 438)

Group's approach to assessing the adequacy of its internal capital to support current and future activities

(Art 438.a)

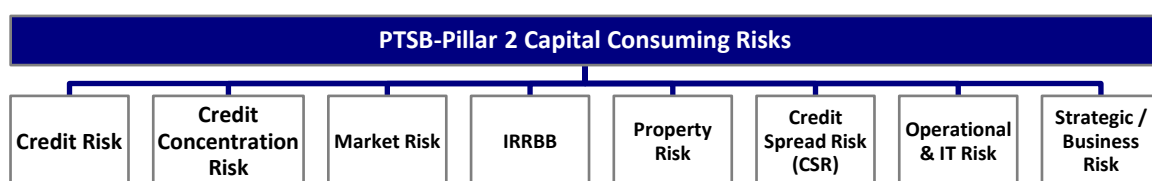
The Group has adopted a 'Pillar 1 Plus' approach to calculate its internal capital requirements. This approach is based on the aggregation of individually calculated internal capital requirements (a comparison to the Pillar 1 Risk capital calculations where relevant and taking the higher of those) for each material risk where capital is deemed an appropriate risk mitigant and it provides the total capital requirements for the Group at a specified point in time for a 1 year horizon.



For the purposes of ICAAP the definition of what constitutes a material risk, and for which of these risks capital should be assessed and set aside, is based on the Group material risk decision framework.

The following table summarises the current Pillar 2 risks for which the Group has assessed internal capital requirements. The underlying approach calculates the economic loss over a one year horizon at a 99.9% confidence level.

Diagram: Pillar 2 Capital Consuming Risks



The methodology used for each material risk calculation for ICAAP 2017 (and going forward in 2018) under Pillar 2 is summarised below:

Diagram: Capital Quantification Methodology for Capital-Consuming Risks.

Risk Category	Capital Quantification/methodology
Credit Risk	<p>Credit</p> <p>Pillar 1 Calculation of Credit Risk Regulatory Pillar 1 Capital is for most of the portfolio based upon the advanced or, for the Treasury book, foundation IRB approaches. A small Standardised portfolio also exists.</p> <p>Pillar 2 Similar to Pillar 1, the Economic Capital Credit Risk model determines 1 in 1000 year losses (99.9% confidence interval) over a one year time horizon based upon current performing Basel / CRD IV IRB exposures / probabilities of default and long run average recovery rates. The model works by calculating portfolio level unexpected losses (1 standard deviation), applying conservative Basel / CRD IV asset correlations in a standard “variance–covariance” approach to account for diversification, and then extrapolating out to the tail of the potential loss distribution using a wide tailed beta distribution.</p> <p>Add-ons linked to Pillar 1 approaches are applied for Defaulted Assets and Standardised portfolios.</p>
	<p>Credit Concentration</p> <p>The Group researched available industry methodologies to estimate Credit Concentration Risk. The methodology proposed by the UK’s Prudential Regulation Authority (PRA) has been adopted for Sectoral and Geographical (International) Concentration.</p> <p>The level of concentration of each of the components is measured using the widely adopted Herfindahl Hirschman Index (HHI). The index score for each risk type is mapped to a concentration risk capital add-on range published by the PRA.</p> <p>In 2017 two additional methodologies have been introduced and implemented to assess “Single Name Concentration” and “Within Country Region” and “Product Sector Concentrations”. The Gordy approach has been used for “Single Name Concentration” while the Variance-Covariance approach has been applied to “Within Country Region” and “Product Sector Concentrations”.</p>
Market Risk	<p>Market Risk under Pillar 1 is limited to foreign exchange risk. However as the Group’s net foreign exchange position at the end of 2016 and 2017 is immaterial (less < 2% of total own funds) no capital is required to be held against this risk under Pillar 1. Traditional position market risk is therefore not considered material for assessment under Pillar 2.</p>

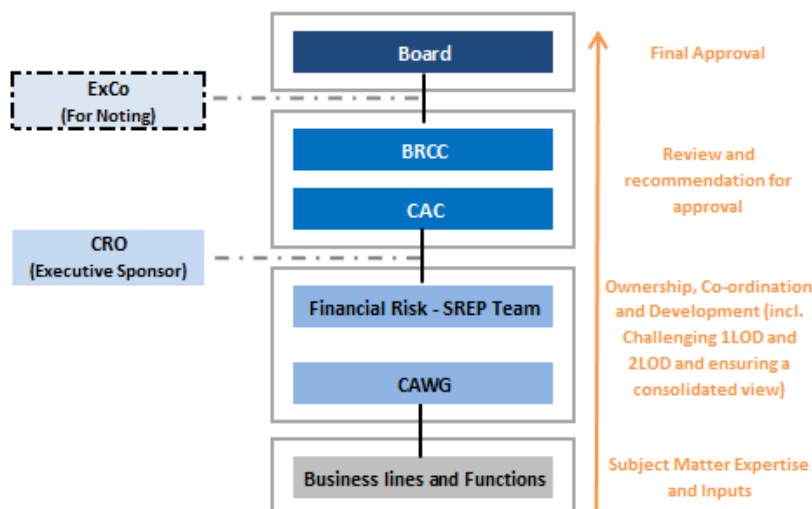
Interest Rate Risk in the Banking Book (IRRBB) incl. Basis Risk	<p>The Group assesses its required internal capital for IRRBB through a structured mismatch analysis of all on and off balance sheet assets and liabilities, under the worse of an upward or downward parallel interest rate shock of 200 basis points on top of a calculated risk-free interest rate curve.</p> <p>Assets and Liabilities are bucketed according to maturity (contractual or behavioural) or re-pricing type (variable, fixed), with the parallel interest rate shock applied using the following methods:</p> <ol style="list-style-type: none"> 1. Earnings at Risk (EaR), including Basis Risk and Re-pricing Risk; 2. Economic Value including Equity (Yield Curve Risk); and 3. Economic Value excluding Equity. <p>The capital required for IRRBB is considered to be the highest stress result of the above methodologies.</p> <p>The Group has also considered Optionality (pipeline) Risk embedded in a number of retail banking products currently traded:</p> <ul style="list-style-type: none"> • Term deposits with 'instant access' balances • Undrawn balances on credit cards and overdrafts • Fixed interest rate loans in pipeline <p>It has been determined that these items are either immaterial or behaviourally do not exhibit volatile balances which would indicate exercising of embedded options by customers.</p> <p>As such, Optionality Risk is not considered material from a capital assessment perspective.</p>
Property Risk	<p>Property Risk is assessed for potential capital impact by shocking the value of the Group's own property (branch and office) network by an appropriate level in line with the Group's target confidence level of 99.9%.</p> <p>The appropriate size of the property shock is a function of the volatility of the property markets to which the group is exposed and aligned to the selected confidence level in the credit risk assessment methodology used for Group loans and advances. Tangible assets that are capitalised for credit risk under Pillar 1 are netted from the result to avoid double-counting.</p>
Credit Spread Risk (CSR)	<p>As the daily market value of the bonds in the AFS portfolio is determined by their current yields, the Group considers relative changes in the observed yield as being the primary source of current market perceptions of the credit quality of the bond portfolio. To define potential future volatility, Treasury have looked to calibrate historical observed credit spread movements, as a reference point for future sources of risk in the portfolio.</p> <p>The assessment focused on three year bond prices given the portfolio duration and the German bund rate is taken as the benchmark risk-free rate. A one month hold period is used as it reflects the period of time it would take the Group to exit its bond position. A confidence level of 99.9% is applied which is consistent with other Pillar 1+ risk methodologies employed by the Group. The credit spread shock is applied to the 31 December 2017 portfolio value and the potential capital impact assessed.</p>

Operational & IT Risk	<p>Pillar 1 CRD IV Standardised Approach is followed by the Group to calculate the Operational Risk Capital for Pillar 1. Based on this approach, operational risk capital is a direct multiple of gross income and uses a “beta factor” (prescribed by regulation) differentiated by business line to determine capital requirements from gross income.</p> <p>Pillar 2 For Pillar 2 Scenario analysis is used to assess and quantify the potential impact of the most material non-financial risks to which the Group is, or may be, exposed. Scenario analysis involves performing a ‘deep-dive’ into low frequency, high impact risk events with appropriate members of the business to drive-out estimates of impact and likelihood.</p> <p>Estimates of the expected frequency of a given scenario event, together with severity estimates, provide inputs to a statistical model which calculates an assessment of the Operational Risk Pillar 2 capital charge at a confidence level of 99.9%.</p>
Strategic/ Business Risk	<p>The Group’s Business Risk analysis captures the 99.9% worst case value change over a 1 year time horizon due to fluctuations in volume, margins, and expenses depending on the variable and fixed cost composition.</p> <p>Business Risk is measured by shocking the one year base case forecast income levels by an appropriate degree, in line with the chosen confidence level.</p> <p>Strategic Risk is not considered to be appropriately mitigated by capitalisation.</p>

ICAAP Governance

The ICAAP is integral to the effective oversight and challenge of capital planning and, accordingly, the Group takes a disciplined approach to ICAAP governance.

Figure 3.3: Overview of the 2017 ICAAP Governance Structure



ICAAP Frequency

The Group is required to produce a Full ICAAP report on an annual basis, or more frequently, if deemed required.

Design, Execution and Documentation

The Group's Supervisory Review and Evaluation Process (SREP) Team is responsible for the co-ordination and oversight of the ICAAP. This is done in close collaboration with a range of relevant first and second-line business units. The Capital Adequacy Committee (CAC) is an ExCo sub-committee and provides the first layer of oversight and challenge to the SREP Team's activities. The BRCC are responsible for reviewing and for recommending approval of the Full ICAAP Report to the Board.

Stress Testing Oversight

The CAC is responsible for maintaining an appropriate level of oversight and management of the ongoing execution of solvency stress testing exercises, including those performed external to the ICAAP. Whilst the Board maintains overall responsibility for the stress testing programme, it delegates detailed execution responsibilities to the CAC, which is responsible for scrutinising the practical aspects including methodologies and the translation of macroeconomic variables into internal risk factors.

Capital Adequacy Review and Conclusions

The CAC is also responsible for reviewing capital adequacy on an ongoing basis and, at a minimum, receives monthly reporting on the Group's actual and forecast capital position. As part of the review, the CAC evaluates trends in Pillar 1 and Pillar 2 capital requirements and assesses appropriate mitigants to any escalating risks.

Table 8: Capital Requirements by Exposure Type (Art 438.c, 438.d, 438.e, 438.f)

Type of risk by exposure class Figures in €'m	Dec-17		Dec-16	
	Capital requirements	Risk weighted assets	Capital requirements	Risk weighted assets
Credit Risk IRB Approach	755	9,437	724	9,047
Central Governments and Central Banks	4	52	0	0
Institutions	28	351	32	400
Corporate	17	215	23	291
Retail, of which:	699	8,746	663	8,294
SME	0	0	0	0
Secured by immovable property	673	8,415	640	7,999
Retail Qualified Revolving	12	151	12	151
Retail Other	14	181	11	144
Equity risk, of which:	5	68	4	56
Simple risk weight approach	3	43	2	31
Significant investments (@ 250% RW)	2	25	2	25
Securitisation positions	0	5	0	5
Credit Risk Standardised Approach	34	428	26	322
Central Governments and Central Banks	0	0	0	0
Corporate	0	0	0	0
Retail	1	6	1	9
Defaulted positions	0	3	1	7
Other non-credit obligation assets	34	419	24	306
Credit risk	789	9,865	750	9,369
Market risk	0	0	0	0
Credit Value Adjustment - Standardised method	11	132	13	163
Operational risk – Standardised Approach	48	596	39	493
Other risk exposure amounts¹	0	0	45	568
Total	847	10,593	847	10,593

¹ Per Article 3 of the CRR. In advance of the ECB's Targeted Review of Internal Models (TRIM) exercise, the Group considers it prudent not to recognise on-going RWA reductions in the ROI portfolios but rather to maintain these portfolios at 30 June 2016 levels.

Counterparty credit risk (Art 439)

Internal capital allocation and credit limits for counterparty credit exposures (Art 439.a)

The Group is exposed to counterparty credit risk through its portfolio of derivatives contracts, comprising mostly of interest rate and currency forward agreements, in addition to money market transactions conducted by Group Treasury. Derivative instruments are used by the Group to hedge against interest rate risk, foreign currency risk and basis risk exposures.

Credit exposure arises on derivative transactions as there is a risk that the counterparty to the contract defaults prior to its maturity. If, at that time, the Group incurs a loss in order to replace the contract, this gives rise to a claim on the counterparty.

In line with Board approved policy counterparty credit limits are approved at individual customer level by the Asset and Liability Committee (ALCO) and are based primarily on the counterparty's credit rating, internal credit review and business requirements. The Group allocates these limits using the internal ratings based approach (IRB). The IRB grade is determined using the mid-rating for the three main rating agencies post-notching.

The capital calculation uses Probability of Default (PDs) assigned to counterparties based on their IRB ratings and the PDs are then used to calculate Risk Weighted Assets and Expected Loss.

Securing of collateral and establishing of reserves (Art 439.b)

It is Group practice, where possible and appropriate, that Master Agreements are put in place to cover derivatives business on a counterparty specific basis. It is also Group practice in relation to wholesale market counterparties to supplement International Swaps and Derivatives Association (ISDA) documentation with a Credit Support Annex (CSA) to accommodate the reduction of net exposure on an agreed basis, and in line with market practice, by way of transferring a margin amount. As of 31 December 2017, all outstanding derivative transactions are covered by master agreements.

Acceptable collateral is predominantly cash-based (EUR, USD, GBP) although the documentation in general allows for securities to be used as collateral. In line with market practice, the underlying transactions and the associated collateral are subject to daily/weekly mark to market calculation, with any required transfer of collateral being made in line with contractual requirements. Accordingly, as at 31 December 2017, no specific credit reserves are maintained for exposures of this type

Limitation on wrong-way exposures (Art 439.c)

The Group's measurement of credit risk exposure takes into account the requirement to ensure that related risks are correctly measured e.g. where a counterparty provides collateral for margining. The

Group does not accept collateral which could be considered to be highly correlated with their own credit risk. This is further mitigated by managing all margining using only cash as collateral.

Impact of collateralisation of a rating downgrade (Art 439.d)

Certain counterparties require an 'independent amount', which is in addition to the minimum threshold amount, to be deposited due to the Group's credit rating. This obligation is detailed in the CSA agreements the Group entered into. Due to the Group's credit rating all CSA counterparty rating triggers have been exercised. As a result, a rating downgrade of the Group would not necessitate the posting of any additional collateral.

Table 9: Fair value and exposure value of derivatives using mark to market method (Art 439 (e))

<i>All figures in €m</i>	31-Dec-17	31-Dec-16
Exposure calculated under mark to market method⁽¹⁾		
Gross positive fair value of contracts	37	44
PFE Add-on	9	17
Netting benefits	-	-
Collateral held – eligible for CRM	-	-
Net derivatives credit exposure	46	61
<i>Collateral held – not eligible for CRM</i>	<i>0</i>	<i>0</i>

Table 10: Counterparty Credit Exposure using mark to market method (Art 439 (f))

<i>All figures in €m</i>	31-Dec-17	31-Dec-16
Exposure calculated under mark to market method⁽¹⁾		
Interest rate contracts	45	55
Foreign Exchange contracts	1	6
Credit derivative contracts	-	-
TOTAL	46	61

(1) Per article 274 of CRR

Capital buffers (Art 440)

The following disclosures are made in accordance with Commission Delegated Regulation (EU) 2015/1555.

Table 11: Amount of institution-specific countercyclical capital buffer *(figures in €'m)*

		2017	2016
		010	010
010	Total risk exposure amount	10,593	10,593
020	Institution specific countercyclical buffer rate	0.00%	0.00%
030	Institution specific countercyclical buffer requirement	0	0

Table 12: Geographical distribution of credit exposures relevant¹ for the calculation of the countercyclical capital buffer**December 2017**

€'m	General credit exposure		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
Country	Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	of which: General credit exposures	of which: Trading book exposures	of Securitisation exposures	Total		
	010	020	030	040	050	060	070	080	090	100	110	120
Ireland	749	21,147	0	0	0	0	741	0	0	741	0.98	0.00%
United Kingdom	0	179	0	0	0	65	11	0	0	11	0.01	0.00%
United States	0	37	0	0	0	0	2	0	0	2	0.00	0.00%
Australia	0	17	0	0	0	0	1	0	0	1	0.00	0.00%
France	0	8	0	0	0	0	0	0	0	0	0.00	0.00%
Germany	0	4	0	0	0	0	0	0	0	0	0.00	0.00%
United Arab Emirates	0	4	0	0	0	0	0	0	0	0	0.00	0.00%
Spain	0	3	0	0	0	0	0	0	0	0	0.00	0.00%
Canada	0	2	0	0	0	0	0	0	0	0	0.00	0.00%
Jersey	0	2	0	0	0	0	0	0	0	0	0.00	0.00%
Hong Kong	0	0	0	0	0	0	0	0	0	0	0.00	1.25%
Sweden	0	0	0	0	0	0	0	0	0	0	0.00	2.00%
Slovakia	0	0	0	0	0	0	0	0	0	0	0.00	0.50%
Iceland	0	0	0	0	0	0	0	0	0	0	0.00	1.25%
Norway	0	0	0	0	0	0	0	0	0	0	0.00	2.00%
Czech Republic	0	0	0	0	0	0	0	0	0	0	0.00	0.50%
Other countries (<€2m each)	0	18	0	0	0	0	1	0	0	1	0.00	0.00%
Total	749	21,423	0	0	0	0	756	0	0	756	1.00	0.00%

¹ Relevant credit exposures exclude exposures, for example, to governments, public sector entities and institutions.

December 2016

€'m	General credit exposure		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
Country	Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	of which: General credit exposures	of which: Trading book exposures	of Securitisation exposures	Total		
	010	020	030	040	050	060	070	080	090	100	110	120
Ireland	699	21,828	0	0	0	0	703	0	0	703	0.98	0.00%
United Kingdom	0	185	0	0	0	69	10	0	0	10	0.01	0.00%
United States	0	42	0	0	0	0	2	0	0	2	0.00	0.00%
Australia	0	19	0	0	0	0	1	0	0	1	0.00	0.00%
France	0	8	0	0	0	0	0	0	0	0	0.00	0.00%
Germany	0	4	0	0	0	0	0	0	0	0	0.00	0.00%
United Arab Emirates	0	4	0	0	0	0	0	0	0	0	0.00	0.00%
Spain	0	3	0	0	0	0	0	0	0	0	0.00	0.00%
Canada	0	3	0	0	0	0	0	0	0	0	0.00	0.00%
Hong Kong	0	0	0	0	0	0	0	0	0	0	0.00	0.625%
Sweden	0	0	0	0	0	0	0	0	0	0	0.00	1.50%
Other countries (each <2m exposure)	0	22	0	0	0	0	1	0	0	1	0.00	0.00%
Total	699	22,119	0	0	0	69	717	0	0	717	1.00	0.00%

Indicators of global systemic importance [\(Art 441\)](#)

Permanent TSB Group Holdings plc was removed from the list of O-SIIs (Other Systemically Important Institutions) by the Central Bank of Ireland in 2017. The Group had previously been designated as an O-SII by the Central Bank of Ireland in 2016. The Group has not been identified as a bank of global systemic importance and therefore no additional disclosures are required to be made under this article. A full list of the global systemically important institutions (G-SIIs) in the EU is available on the EBA's website.

Credit risk adjustments (Art 442)

Definition of past due and impaired (Art 442.a)

Past due but not impaired is defined as loans where repayment of interest and / or principal is overdue by at least one day but which are not impaired.

A loan is considered **impaired** when there is objective evidence of impairment or where the loan is greater than 90 days in arrears and the present value of future cash flows is less than the carrying value of the loan (for residential mortgages this is typically where the indexed LTV is >80%) requiring a specific provision to be recognised in the income statement.

Approaches to determining specific credit risk adjustments (Art 442.b)

A financial asset is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows of the asset. Impairment provisions are calculated either individually on loans where significant, or on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

Payments relating to impaired loans and advances are used to reduce the accrued interest and the remainder, if any, to reduce the principal amount outstanding.

Impairment of loans and advances to customers

Specific impairment

Loans are assessed for objective evidence based on current information and events at the date of assessment. The Group assesses its primary portfolio, ROI residential mortgage loans, for evidence of individual impairment monthly while the commercial portfolio is assessed quarterly. Residential mortgage loan portfolios are assessed, in the first instance due to their homogenous nature, by use of a statistical model primarily driven by the current delinquency status, being the number of days in arrears.

Objective evidence of impairment may include the following:

- Delinquency in contractual interest or principal repayments;
- Significant financial difficulty of the borrower;
- Deterioration in value of the collateral;
- For reasons relating to the borrower's financial difficulty a concession is granted that would not otherwise be considered;
- It is probable that the borrower will enter bankruptcy or other financial re-organisation;

- A forbearance request by the customer accompanied by submission of a standard financial statement (SFS);
- Absence of active markets (commercial mortgages);
- Borrower's ability to refinance the existing loan (commercial mortgages); and
- Any significant exceptional events.

Certain macroeconomic factors such as a decrease in property prices and an increase in unemployment rates are also considered as objective evidence requiring an impairment assessment to be performed.

In general, the Group employs statistical models to assess and calculate the appropriate provision charge for all loans greater than 90 days in arrears or when there is objective evidence of impairment. Those statistical models mainly incorporate historical trends of probability of defaults, rates by which defaulted or delinquent accounts are assumed to return to performing status (known as cure rates), the timing of recoveries of collateral and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates (Probability of Default); loss rates (Loss Given Default), cure rates and the expected timing of recoveries of collateral are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

However, in certain circumstances an individual assessment will be carried out and an impairment charge will be calculated. Loans are individually assessed when certain criteria have been met. The criteria for the individual portfolios are as follows:

- ROI residential mortgages: exposures in excess of €5m and/or greater than 90 days in arrears;
- Commercial mortgages: exposures in excess of €0.75m where any facility is greater than 90 days in arrears or currently in forbearance.
- In addition to the above - For residential property securing performing loan exposures of greater than €0.5m, the Bank policy is to ensure an independent valuation is updated within the last 3 years. In respect of residential property securing non-performing loan exposures of greater than €0.3m, the Bank policy is to ensure an independent valuation is updated within the last year.

The impairment provisions on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

When a loan is impaired, interest income continues to be recognised at the original effective interest rate (in the case of a portfolio assessment, the weighted average interest rate of the portfolio) on the carrying amount, representing the unwind of the discount of the expected cash flows.

Incurred But Not yet Reported (IBNR) impairment

Loans for which no evidence of loss has been specifically identified are grouped together according to their credit risk characteristics (such as Home loans or Buy-to-let, geographical location, type of collateral, loan-to-value ratio, past due status, forbearance treatment status) for the purpose of calculating an estimated collective provision. This reflects impairment losses that the Group has

incurred as a result of events occurring before the statement of financial position date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually reported in the future when more evidence of impairment becomes available at which stage the relevant loans are moved from IBNR to specific impairments.

IBNR impairment provision is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics, adjusted for current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based, and to remove the effects of the condition in the historical period that do not exist currently;
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of a specific provision against the loan (known as the emergence period); and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the statement of financial position date is likely to be greater or less than that suggested by historical experience.
- Residential loan exposures greater than €1m with certain risk characteristics may attract an additional IBNR provision.

To effect this, when appropriate empirical information is available, the Group utilises a transition rate methodology. The methodology employs statistical analysis of historical data and experience of delinquency and losses as a result of the events occurring before the statement of financial position date which the Group is not able to report on an individual loan basis, and that can be reliably estimated. Under the transition rate approach, loans are grouped into ranges according to the number of days past due and a statistical model is used to estimate the likelihood that loans in each range will progress straight to specific impairment. The estimated loss is calculated as the product of the probability of the customer defaulting, Group's exposure to the customer and the historical loss rate adjusted for current market conditions.

Write-off of loans and advances

Loans (and the related impairment provisions) are written off, either partially or in full, when it is viewed that it is unlikely that the loan will be collectible. In the case of secured debt where the collateral has been realised and where there are insufficient funds from the realisation of the collateral, the Group must determine whether there is a reasonable expectation of further recovery. Recoveries of amounts previously written off are offset against the loan impairment provision charge in the income statement.

Write-back of impairment provision

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision account accordingly. The write-back is recognised in the income statement.

Forbearance strategies – residential mortgage loans

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change ('forbearance measure') to a loan for reasons relating to the actual or apparent financial

stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such arrangements can include extended payment terms, a temporary reduction in interest or principal repayments, payment moratorium and other modifications.

All loans that are considered for a forbearance solution are assessed for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is created to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the IBNR assessment.

Loans in forbearance classified as impaired or non-performing, may be reclassified as performing following a satisfactory assessment of the customer's continuing ability and willingness to repay, displayed by 12 months of continuous payments being made as required under the newly restructured terms and the account remaining not more than 30 days in arrears for the full 12 month period. Loans that are reclassified as performing are included in the Group's IBNR assessment.

Non-forbearance renegotiation

Where a concession or agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance. Any changes in expected cash flows are accounted for under IAS 39 i.e. the carrying amount of the asset is adjusted to reflect any change to estimated cash flows discounted at the original effective interest rate, before the modification of terms. If a renegotiated asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Any difference between the asset's carrying amount and the present value of estimated future cash flows is reflected in the income statement. However, where cash flows on the original asset have been considered to have expired, the original asset is derecognised and a new asset is recognised at fair value. Any difference arising between the derecognised asset and the new asset is recognised in the income statement.

The Group provides significant disclosures in relation to Non-Performing Loans (NPLs) and Forbearance in accordance with EBA Guidelines (EBA/ITS/2013/03/rev1) in its Annual Report 2017. Please see Note 34 and the Appendix of the Group's Annual Report 2017 for more information on these disclosures.

Impairment of Available for Sale (AFS) financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that the asset is impaired.

Impairment losses on AFS financial assets are recognised by reclassifying the losses accumulated in the AFS reserve to the income statement. The amount reclassified as impairment is the difference between the amortised cost and the current fair value, less any impairment loss previously

recognised in the income statement. If the fair value of a debt instrument classified as an AFS financial asset increases subsequently and the increase can be objectively related to a credit event occurring after the impairment loss was recognised, then the impairment loss is reversed through the income statement. Impairment losses recognised on AFS equity instruments are not reversed through the income statement.

The tables on the following pages provide details of the types of credit exposures the Group is exposed to, based on exposure at default, and any credit impairments thereon.

Table 13: Credit exposure at default pre credit risk mitigation (CRM) broken down by exposure class (Art 442.c)

All figures in €m	Dec-17	Average ¹	Dec-16	Average ¹
	Exposure at period end	exposure for the period	Exposure at period end	exposure for the period
Sovereign	116	59	0	0
Institutions	1,157	1,343	1,443	1,525
Corporate	256	266	274	374
Total credit exposures using the foundation IRB approach	1,528	1,668	1,717	1,900
Retail Mortgages	20,354	20,756	21,049	23,544
Retail Qualified Revolving	582	580	583	627
Retail Other	209	207	194	198
Total credit exposures using the advanced IRB approach	21,146	21,544	21,826	24,369
Sovereign	3,204	3,550	4,914	7,386
Corporate	0	0	0	0
Retail	9	10	12	15
Defaulted positions	35	36	38	38
Other non-credit obligation assets	738	596	681	626
Total credit exposures using the Standardised Approach	3,986	4,191	5,645	8,065
Total credit exposures	26,660	27,403	29,188	34,334

¹ Average exposure for the period is a simple average of the Group's exposures at the end of each quarter

Table 14: Exposures broken down by main geographical area and exposure class (Art 442.d)

All figures in €m	ROI Balances	UK Balances	Other EU Balances	Rest of World	Total
As at 31 December 2017					
Sovereign	0	0	116	0	116
Institutions	48	144	518	446	1,157
Corporate	250	4	1	0	256
Total credit exposures using the foundation IRB approach	298	149	636	446	1,528
Retail Mortgages	20,099	162	35	59	20,354
Retail Qualified Revolving	578	3	1	1	582
Retail Other	208	0	0	0	209
Total credit exposures using the advanced IRB approach	20,885	165	35	60	21,146
Sovereign	3,204	0	0	0	3,204
Corporate	0	0	0	0	0
Retail	9	0	0	0	9
Defaulted positions	35	0	0	0	35
Other non-credit obligation assets	738	0	0	0	738
Total credit exposures using the Standardised Approach	3,986	0	0	0	3,986
Total credit exposures	25,168	314	671	506	26,660
As at 31 December 2016					
Sovereign	0	0	0	0	0
Institutions	93	359	550	441	1,443
Corporate	268	4	1	0	274
Total credit exposures using the foundation IRB approach	361	364	551	441	1,717
Retail Mortgages	20,772	176	37	64	21,049
Retail Qualified Revolving	579	3	1	1	583
Retail Other	193	0	0	0	194
Total credit exposures using the advanced IRB approach	21,544	179	38	65	21,826
Sovereign	4,914	0	0	0	4,914
Corporate	0	0	0	0	0
Retail	12	0	0	0	12
Defaulted positions	38	0	0	0	38
Other non-credit obligation assets	681	0	0	0	681
Total credit exposures using the Standardised Approach	5,645	0	0	0	5,645
Total credit exposures	27,551	543	589	505	29,188

Table 15: Exposure broken down by industry and exposure class (Art 442.e)

All figures in €m	Sovereign	Institutions	Corporate	Retail Mortgages	Retail Qualified Revolving	Retail Other	Other	Total
As at 31 December 2017								
General Government and Central Banks	3,320	0	0	0	0	0	0	3,320
Credit Institutions	0	1,157	0	0	0	0	0	1,157
Mortgage Finance	0	0	129	20,272	0	0	0	20,401
Other Real Estate activities	0	0	84	37	0	8	0	129
Personal (Private Households)	0	0	0	7	579	194	0	781
SMEs	0	0	0	0	0	0	0	0
Other	0	0	42	39	3	51	738	872
Total exposures	3,320	1,157	256	20,354	582	253	738	26,660
As at 31 December 2016								
General Government and Central Banks	4,914	0	0	0	0	0	0	4,914
Credit Institutions	0	1,443	0	0	0	0	0	1,443
Mortgage Finance	0	0	130	20,956	0	0	0	21,086
Other Real Estate activities	0	0	95	43	0	7	0	145
Personal (Private Households)	0	0	2	8	580	185	0	774
SMEs	0	0	0	0	0	0	0	0
Other	0	0	47	42	3	52	681	825
Total exposures	4,914	1,443	274	21,049	583	244	681	29,188

Table 16: Residual maturity of exposures (Art 442.f)

All figures in €m	Sovereign	Institutions	Corporate	Retail Mortgages	Retail Qualified Revolving	Retail Other	Other	Total
As at 31 December 2017								
<= 1 Year	1,347	470	7	457	582	135	738	3,736
>1 and <5 Years	1,857	688	170	2,088	0	116	0	4,918
>= 5 years	116	0	79	17,810	0	2	0	18,006
Total exposures	3,320	1,157	256	20,354	582	253	738	26,660
As at 31 December 2016								
<= 1 Year	2,350	1,322	9	191	583	156	673	5,284
>1 and <5 Years	2,257	119	67	2,064	0	86	4	4,598
>= 5 years	307	1	198	18,794	0	2	4	19,306
Total exposures	4,914	1,443	274	21,049	583	244	681	29,188

Table 17: Exposures by loan type and impairment information (Art 442.g)

All figures in €m	Sovereign	Institutions	ROI Residential mortgages	UK Residential mortgages	Commercial	Consumer Finance	Other	Total
As at 31 December 2017								
Neither past due nor impaired	3,320	1,157	15,599	0	158	746	742	21,722
Past due but not impaired	0	0	447	0	5	23	0	475
Impaired – provisions held	0	0	4,342	0	68	53	0	4,463
Total exposures before provisions	3,320	1,157	20,388	0	231	821	742	26,660
Provision for impairment losses*	0	0	(2,127)	0	(70)	(49)	0	(2,246)
Total exposures after provisions	3,320	1,157	18,261	0	161	772	742	24,414
Charge / (writeback) for the year	0	0	49	0	(2)	1	0	48
As at 31 December 2016								
Neither past due nor impaired	4,914	1,443	15,669	0	174	710	686	23,595
Past due but not impaired	0	0	556	0	5	18	0	580
Impaired – provisions held	0	0	4,863	0	75	74	0	5,013
Total exposures before provisions	4,914	1,443	21,089	0	254	803	686	29,188
Provision for impairment losses*	0	0	(2,336)	0	(81)	(65)	0	(2,482)
Total exposures after provisions	4,914	1,443	18,753	0	173	738	686	26,706
Charge / (writeback) for the year	0	0	(53)	0	(4)	(9)	0	(66)

*These are all specific credit risk adjustments. Under IAS 39 the Group does not have any general credit risk adjustments.

Table 18: Exposures by main geographical area and impairment information (Art 442.h)

All figures in €m	ROI Balances	UK Balances	Other EU Balances	Rest of World	Total
As at 31 December 2017					
Neither past due nor impaired	20,308	262	660	492	21,722
Past due but not impaired	464	8	1	2	475
Impaired – provisions held	4,397	44	10	12	4,463
Total exposures before provisions	25,168	314	671	506	26,660
Provision for impairment losses*	(2,207)	(29)	(4)	(6)	(2,246)
Total exposures after provisions	22,961	285	667	500	24,414
As at 31 December 2016					
Neither past due nor impaired	22,005	486	576	490	23,557
Past due but not impaired	571	6	1	3	580
Impaired – provisions held	4,974	51	12	13	5,051
Total exposures before provisions	27,551	543	589	505	29,188
Provision for impairment losses*	(2,436)	(34)	(5)	(7)	(2,482)
Total exposures after provisions	25,114	509	585	498	26,706

*These are all specific credit risk adjustments. Under IAS 39 the Group does not have any general credit risk adjustments.

Reconciliation of changes in credit risk adjustments (Art 442.i)

Please see Note 19 of the Group's Annual Report 2017 for a reconciliation of the changes in the Group's impairment provisions during the period.

Unencumbered Assets (Art 443)

An asset is classed as encumbered when a third party that is not the owner has a claim over the asset. The Group aligns its definition of encumbrance to the regulatory reporting framework of partial encumbrance meaning that an asset is only considered encumbered when it is pledged to a third party. Encumbrance impacts the transferability of the asset by restricting its free use until the claim is lifted. This disclosure has been formed in line with the 2014 EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).²

Table 19: "Template A" Assets

All figures in €m		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		10	40	60	90
Median values 2017					
10	Assets of the reporting institution	6,107		17,042	
30	Equity instruments	0	0	10	10
40	Debt securities	417	429	2,047	2,048
120	Other assets	0		767	
Median values 2016					
10	Assets of the reporting institution	12,254		15,023	
30	Equity instruments	0	0	9	9
40	Debt securities	629	652	2,355	2,410
120	Other assets	0		800	

Table 20: "Template B" Collateral Received*

All figures in €m		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		10	40
Median values 2017			
130	Collateral received by the reporting institution	3	0
Median values 2016			
130	Collateral received by the reporting institution	9	0

* Rows deleted where question is not applicable. All collateral received by the Group is in the form of cash.

² The Commission Delegated Regulation with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets was published in the Official Journal on 13 December 2017 and came into force on 2 January 2018.

Table 21: "Template C" Encumbered assets / collateral received and associated liabilities

All figures in €m		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		10	30
Median values 2017			
10	Carrying amount of selected financial liabilities	3,528	5,496
Median values 2016			
10	Carrying amount of selected financial liabilities	7,119	11,457

Encumbrance disclosures in the above tables are based on median values for 2017 and 2016 (2016 values have been restated as the values used in the 2016 Pillar 3 Report were average values).

"Template D" - Information on the importance of encumbrance

Encumbered Assets

As a retail bank encumbering assets through the use of secured funding facilities forms an important pillar of the Group's funding strategy.

The Group's encumbrance level is primarily driven by mortgage assets which are included in securitisation special purpose entities (SPEs) and become encumbered when the associated notes are purchased by external investors or pledged as collateral through market repos or Central Bank funding facilities. To note, there is no legal obligation to supply additional collateral to these securitisation structures. The Group does not have a covered bond programme and, as such does not have a requirement for over collateralisation.

The Group transacted a large deleverage programme during 2016 and the remaining non-group entities are small in the context of the size of the overall Group balance sheet. The remaining entities do not contribute to the Group's encumbrance as they are classified as unencumbered.

Other sources of encumbrance include the use of sovereign bond debt securities and cash in repurchase arrangements. Sovereign bond debt securities are encumbered through repurchase arrangements primarily with third party market counterparts. Maturity dates are typically short term ranging from 1 week to 3 months. Cash encumbrance relates both to cash within securitisation structures and collateral paid under derivative and repo contracts.

A key objective of the Group Treasury funding strategy is to monitor the encumbrance level of the Group. A number of viable options, including deleveraging, unsecured debt issuance and collateral efficiency in the securitisation programme, have been identified as effective means with which to pro-actively manage encumbrance.

The Group has reduced its encumbrance level over the course of 2017. The reported Asset Encumbrance ratio has reduced from 33% at 31 December 2016 to 24% at 31 December 2017. The key driver behind this reduction was the proactive reduction in ECB system funding which reduced

from €1.38bn at 31 December 2016 to €0.23bn of longer term NSFR accretive TLTRO funding at 31 December 2017.

Unencumbered Assets

The liquidity buffer and counterbalancing capacity comprises three asset classes being cash, sovereign bonds and retained securitisation notes. The Group also has a significant mortgage pool which is not included in securitisation but is considered as not being available to support further issuances if required for funding purposes.

Additionally, the Group has €0.9bn of unencumbered other assets comprising of deferred tax and tangible assets / other assets that do not qualify for encumbrance.

Use of ECAI's (Art 444)

The Central Bank of Ireland granted an exemption to the Group from the IRB approach for Irish sovereign exposures in April 2011 under article 89.1 (d) of the Directive 2006/48/EC relating to exposures to central governments and central banks. This exemption allows the Group to treat all exposures to the Irish Sovereign under the Standardised Approach and apply a 0% risk weighting. Consequently, ECAI ratings are not used in the calculation of risk weights for credit exposures to the Irish Sovereign.

Credit exposures to the Irish Sovereign and Central Bank of Ireland were €3.2bn pre credit risk mitigation (CRM) and €3.0bn post CRM as of 31 December 2017 (€4.9bn and €3.9bn respectively as of 31 December 2016).

Market Risk (Art 445)

The Group does not hold any capital against market risk as at 31 December 2017 or 31 December 2016 in accordance with points (b) and (c) of Article 92 (3) of the CRR.

The Group does not have a trading book and is therefore not subject to the risks associated with trading book positions. The foreign exchange position of the Group at the end of 2017 and 2016 does not exceed the 2% of total own funds threshold as laid down in Article 351 of the CRR and, therefore, the Group has no requirement to hold pillar 1 capital against this risk.

Operational Risk (Art 446)

Operational and IT Risk is defined as the risk of loss or unplanned gains resulting from inadequate or failed processes, people and systems or from external events. Information Technology (IT) risk is a sub-risk within the Operational and IT risk category. Operational and IT Risk is an inherent part of doing business and hence is present in all activities of the Group. The management of operational and IT risk is linked to a control framework and sound monitoring and reporting of risk events. Appropriate risk governance and control structures, qualified and competent staff and strong leadership provide key foundations for the control environment of operational and IT risk across the Group.

A system of effective internal controls is fundamental to the safe and sound management of the Group. Controls mitigate key risks and support sound decision making, delivery of the Group's goals and maintenance of its financial viability. With respect to operational and IT risks, controls play a critical role in helping the Group protect and enhance shareholder value by reducing the possibility of unexpected losses or reputational damage.

The Group has in place Operational and IT Risk Management Frameworks which encompass the measurement and monitoring of Operational and IT risks. The broad objectives of the Operational and IT Risk Management Frameworks are to:

- Ensure that Operational and IT risks to which the Group is exposed are identified appropriately and in a timely manner;
- Ensure that robust risk assessment is undertaken for all Operational and IT risks identified by the Group;
- Ensure that effective risk mitigation strategies are adopted and applied by the Group;
- Ensure that the Group's Operational and IT risk profile is monitored and reported on both at an individual and at an aggregate level; and
- Ensure that a culture of risk awareness is fostered and promoted within the Group 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.

The Group-wide approach to risk management includes risk identification, risk assessment, risk mitigation and risk monitoring and reporting. The management of Operational and IT risks is aligned to that approach.

The Group's risk identification process aims to be comprehensive in nature, considering both established and emerging risks. It seeks to identify the largest risks faced by the Group from both 'top-down' and 'bottom-up' perspectives. In the 'top-down' risk identification process, senior management input is gathered via a consultation process across the Group and incorporates the Group's experience and a review of recent industry and regulatory events/commentary. In the 'bottom-up' approach, each Business Unit is responsible for identifying and recording risks impacting their unit and for considering both the likelihood and impact of a risk occurring. Risks are assessed both on an inherent (pre-control) and a residual (post-control) basis. The Risk and Control Self-Assessment (RCSA) Process is the process by which the Group captures, challenges and records the bottom-up identification and assessment of Operational and IT risks.

The Group monitors and reports on its Operational and IT risk profile on a continuous basis using qualitative information and quantitative metrics. In addition to reviewing submitted RCSAs, measurement and monitoring of the Group's Operational and IT risk profile is augmented by tracking a suite of Key Risk Indicators (KRIs), Operational and IT risk events (both internal and external) and through the testing of internal controls across the Group.

Capital Requirements for Operational and IT Risk

The Group performs stress testing and scenario analysis to facilitate a forward looking assessment in relation to strategic, capital and risk management planning and to ensure that:

- Operational and IT risks are sufficiently and adequately stressed; and
- Relevant Operational and IT risk scenarios are incorporated into its stress tests.

Scenario analysis is used to estimate the potential financial outcome of high impact, low likelihood events. It is performed annually and scenarios are revised either when a material change to any of the assessments occurs or when a new scenario is needed to address an emerging risk. A 'long-list' of potential scenarios is developed by examining internal and external data points, including prior Group financial losses, external loss events, risk assessments, audit reports, and peer surveys. A final 'short-list' of scenarios is then proposed and approved by the Group Board for further assessment. The outputs and correlations of the scenario assessment exercise are modelled for capital purposes at pre-defined percentile loss estimates.

The capital requirement for operational risk is calculated according to the CRR Standardised Approach, in which an institution's activities are divided into eight standardised business lines: corporate finance, trading and sales, retail brokerage, commercial banking, retail banking, payment and settlement, agency services and asset management.

Total Pillar I capital requirements for operational risk are derived from the three year average "risk-weighted relevant indicator" (based on gross income) for each business line multiplied by a fixed beta coefficient. Beta coefficients are established under CRR for specific business lines and are calibrated to attribute higher capital requirements to business lines with perceived greater operational risk. Beta coefficients across business lines range from 12% to 18%.

The Group's principal business line is retail banking.

The regulatory capital requirement for operational risk amounts to €48m as at 31 December 2017 (€39m – December 2016). Movements in the required capital for operational risk are driven by the Group's underlying income in the relevant business lines averaged over the last three years.

Tracker Mortgage Redress

Pursuant to its powers under the Administrative Sanctions Regime, the CBI is conducting an enforcement investigation into the Group's compliance with the Consumer Protection Code and, in particular, is investigating alleged breaches of the Consumer Protection Code 2006. These alleged breaches arose from the failure of the Group to inform customers that, as a consequence of exiting early from a fixed rate mortgage contract, they would no longer be able to avail of the option of a tracker rate in the future and/or no longer default to an appropriate tracker rate at the end of that fixed rate period. In addition, the Group's non-conformance with contractual terms was also

identified in some instances. The Group offered redress and compensation to affected customers in 2015.

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

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

Exposures to equities not included in the trading book (Art 447 (a), (b), (c), (d) and (e))

The Group holds an equity investment in Visa Incorporated in the form of preferred shares as a result of the sale of its shares in Visa Europe Limited. The preferred stock in Visa Incorporated was fair valued at €12m at 31 December 2017 and is recognised as an asset on the Group's balance sheet. PTSB does not have a trading book and the equity investment in Visa Incorporated is the only equity investment held in entities outside the Group. The valuation method used by the Group for this investment is described in more detail in Note 15 and Note 33 of the Group's Annual Report 2017.

The table below summarises the value of these investments at the end of the year as well as the amount included within the Group's Common Equity Tier 1 capital.

The Group calculates its capital requirements for equity exposures in the banking book under the IRB approach using the simple risk weight method.

Table 22: Fair value of equities not included in the trading book and amount included in CET capital

€m	Book value	Fair Value	Included in CET1	Realised Gains & Losses in the period
As at 31 December 2017				
VISA Incorporated preferred shares	12	12	11	0
As at 31 December 2016				
Visa Europe	9	9	9	21

Exposure to interest rate risk on positions not included in the trading book (Art 448)

Interest Rate Risk in Permanent TSB (Art 448.a)

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

Interest rate gap analysis is used to capture re-price risk, the Economic Valuation (EVE) approach measures yield curve risk while Earnings at Risk (EAR) is utilised to calculate the basis risk exposure.

These measures are further supplemented by a basis risk calculation, NII sensitivity analysis, PV01 sensitivity, duration mismatch and comprehensive stress testing. These measures capture all material interest rate risk associated with Permanent TSB's assets, liabilities and off Balance-Sheet (OBS) positions in the banking book. To note the Bank does not run a trading book.

Gap Analysis

Gap analysis splits the current Balance Sheet position into re-pricing time bands, highlighting possible interest rate risk concentrations for the Bank's primary currencies (EUR & GBP). Principal balances (and derivative notionals) are sourced for the re-pricing schedules from the Bank's core systems. Governance and controls are fully integrated into the Bank's daily risk management practices.

The controls include a Risk Appetite limit scheme consisting of individual limits for each time band and currency. The limits are based on duration estimated from the current interest rates, recognising convexity by applying separate limits for downward and upward shocks and taking account of the applicable rate floor. Limits are set in terms of notional exposure by bucket.

Balances are included within the re-pricing schedules at a product level sufficient to identify any sources of significant mismatches, by major currencies (EUR and GBP) and allocated into the Basel prescribed time bands as outlined in Table 23 below:

Table 23: IRRBB Modelled Time bands

Overnight	18 months to 2 years	8 to 9 years
1 day to 1 month	2 to 3 years	9 to 10 years
1 day to 2 months	3 to 4 years	10 to 15 years
3 to 6 months	4 to 5 years	15 to 20 years
6 to 9 months	5 to 6 years	Greater than 20 years
9 to 12 months	6 to 7 years	
1 year to 18 months	7 to 8 years	

Table 24: IRRBB Modelled Product Types

Product Groups	Assets	Liabilities
Customer	Mortgages by geography and type: Ireland or UK, Tracker / SVR / Fixed Commercial loans Consumer lending Non-Interest Bearing (NPLs)	Retail deposits by type: Current / Demand & Notice / Term Corporate deposits by type: Call / Term
Treasury	Gilts / Government Bonds Other securities Interbank assets	Market funding (MTNs, Securitisations) System funding Market repos Interbank liabilities
Other	Impairments (deducted)	Equity
Derivatives	Receiver leg notionals by type: Interest rate / FX / cross-currency	Payer leg notionals by type: Interest rate / FX / cross-currency

Assumptions

All balances are included at their contractual re-pricing profiles where applicable with behavioural assumptions applied to non-contractual balances as per the exceptions list detailed below.

1. Current Accounts (core portion only, volatile at contractual maturity) and Equity are profiled evenly over 6 years in line with the maximum asset maturity (for NPL Recoveries). All other non-maturity deposits are assumed to re-price in month one reflecting the variable interest rate nature of the products.
2. NPLs: These are split into Cures, Recoveries and Write Offs according to percentages updated quarterly by Credit Risk. Cures are profiled as if they were performing, Recoveries have a specific profile (also updated quarterly by Credit Risk) and Write Offs and warehoused loans are profiled evenly over 6 years. Impairments are profiled in the same proportion as total NPLs.
3. Credit Cards and Overdrafts: These are profiled evenly over 1 year to reflect the relative price inelasticity.

Prepayments on asset balances are applied based on the latest actual prepayment rates calculated quarterly and these can be varied during Stress Testing.

EVE

The Economic Value of Equity (EVE) component of the IRRBB framework is one of the key IRRBB measurement tools for the Group.

The EVE component uses the re-price profile generated within the Gap Analysis, and applies weighted risk factors to each re-pricing time bucket to calculate the PV of the risk profile. The weighted factors for each bucket are based on a discount factor reflecting the specific stress scenario. This approach is aligned to the methodology used under the SSM IRRBB Stress Testing exercise of H1 2017.

EAR

The EaR (Earnings at Risk) component measures the net exposure (assets less liabilities) of the balance sheet with respect to several reference interest rates and time bands, and measures the respective risk to net interest income under shock interest rate scenarios.

EaR calculations approach interest rate risk measurement through two lenses; one approach is to measure the re-pricing risk whereby interest rates move in parallel, and the other approach is to measure the basis risk where separate rate indices move independently. The higher of these two approaches is identified as the Earnings at Risk measure.

NII Sensitivity

In addition to the 12 month EAR NII calculation, Group Treasury (GT) runs a dynamic and longer time horizon NII sensitivity analysis on a monthly basis to help better inform strategic decision making.

The approach takes the MTP model as the base case with GT running a specific interest rate or balance sheet scenario each month. By comparing the outcomes to the MTP base position the aim of the analysis is to identify opportunities or risk exposures where strategic action may be warranted.

PV01 and Duration

These relatively straightforward measures augment the PTSB IRRBB monitoring capacity. PV01 measures the effect of a 1bp shift in rates upwards or downwards while Duration compares the weighted average maturity of assets against liabilities.

Stress Testing

The Bank stress tests IRRBB on both an EVE and EaR basis. For each stress scenario, the risk level is taken as the most negative of the two measures or zero if they are both positive.

The overall risk level of the Bank is taken to be the most adverse risk position stemming from the 12 key stress scenarios that the Bank runs. These scenarios are either prescribed through regulation (Revised Basel Standards), standard market or PTSB specific in terms of balance sheet composition.

The results of these scenarios are reported monthly to both ALCO and BRCC. In each case the management assumptions detailed below are applied to fixed and administered product balances subject to the approved floors.

Where products are re-priced using administered rates, the Group maintains assumptions for how these rates are likely to shift in relation to market rates when modelling EAR risk. The following table

shows the assumed movement in administered rate products per 100 bps move in market rates. These assumptions are provided by the Commercial unit with full consideration of customer fairness, political influence and the current market environment.

Table 25: IRRBB Model Pass-through Assumptions

	Upwards shock	Downwards shock
Mortgages		
Variable	0.60%	-0.60%
Fixed	1.00%	-0.60%
Deposits		
Demand	0.10%	-0.21%
FTIA	0.00%	-0.04%
Notice	0.20%	-0.40%
Term	0.45%	-0.50%
Source: Commercial Unit		

The 12 core scenarios which include the six prescribed Basel scenarios are as follows:

Up200: This shock is currently prescribed by the ECB for the quarterly Short Term Exercise (STE) and consists of all rates being shocked instantaneously upwards by 200bps.

Dn200: This shock is also currently prescribed by the ECB for the STE and is the opposite of the Up200, i.e. all rates are shocked 200 bps downwards, subject to applicable flooring.

Parallel Up (B)*: This is a new shock prescribed by the Basel Committee and consists of an upward shock in rates which varies by currency. The EUR shock is 200bps and the GBP shock is 250bps so this will generate a result similar to the Up200 shock given that the Group's balance sheet is largely EUR.

Parallel Down (B): Like the relationship between Up200 and Dn200 shocks, this shock is the mirror image of the Parallel Up shock, subject to floors.

Steeper (B): Interest rates are shocked downwards at tenors of up to 5 years and shocked upwards for longer term rates. For this and the 3 scenarios that follow, the exact amount of the shock is determined by an exponential function that depends on the tenor of the time bucket midpoint and scalars supplied by the Basel Committee.

Flattener (B): Interest rates are shocked upwards by an amount that declines as the tenor lengthens, becoming a negative shock for 7 years and further out the curve.

Short Up (B): Interest rates are shocked upwards at the short end, with less of an impact out the curve, i.e. the maximum shock is for the overnight bucket.

*(B) represents a Basel prescribed scenario

Short Down (B): Interest rates are shocked downwards at the short end with less of an impact out the curve.

Basis: This internally generated scenario measures the impact of shocking each rate driver in an adverse direction. For example a net asset position in Euribor linked instruments is shocked downwards. For fixed rate products, a net liability position is shocked upwards subject to management assumptions as mentioned above.

Inverted: In this shock the slope of the yield curve is flipped so that the short term rates assume the values that the long term rates had and vice versa.

MTP: The interest rates forecast in the MTP are applied.

Flat: The current market interest rate curve is applied.

Quantitative disclosure for variation in earnings/other relevant measure for shocks used broken down by currency (Art 448.b)

The current and prior year capital charges are shown below (GBP figures are incorporated in EUR equivalent at Year End FX rates):

EUR	Δ EVE		Δ NII	
Period	2017	2016	2017	2016
Parallel Up	69	135	199	164
Parallel Down	-32	-26	0	5
Steepener	-13	-9		
Flattener	42	66		
Short rate up	60	102		
Short rate down	-34	-28		
Maximum	34	28	0	-5
Period	2017		2016	
Tier 1 capital	34		36*	

* IRRBB Charge in 2016 determined by Basis Risk scenario rather than one of the Basel prescribed scenarios.

The numbers above are calculated including commercial margins, discounted by the Euribor and Libor curves. The numbers are on a run-off balance sheet basis.

The Group uses the industry standard Economic Value of Equity (EVE) and Earnings at Risk (EaR) methodologies to determine the level of interest rate risk to which the Group is exposed. The higher of the EVE and EaR calculations across the 12 key scenarios described earlier is assigned as the risk level.

The Group applies a -0.50% floor in the Euro EVE Model and for the Group's Euribor positions under the EaR calculation. The zero bound floor is maintained for GBP positions under both the EVE model and the EaR and for ECB base rate positions under the EaR calculation. The model floor parameters remain under continuous review and will be re-examined in response to significant curve shifts.

The EaR basis risk calculation has decreased due to the implementation of management pricing pass through assumptions that accurately reflect the commercial environment and is no longer the primary driver of IRRBB risk.

The EVE calculation has increased due to increased EUR swap rates.

The EVE result is now the more severe and is the driver of the Group's IRRBB risk level and capital charge allocation.

The EVE risk level is driven by the Basel Committee prescribed Short Rate Down scenario similar to down 200bps scenario.

The capital requirement has decreased from €36m (EaR basis) in 2016 to €34m (EVE basis) in 2017.

Exposure to securitisation positions

(Art 449)

The following chapter describes the securitisation activity of the Permanent TSB Group.

Key objectives of securitisation activity (Art 449.a)

The primary objective of PTSB in undertaking securitisation activity is funding either through external market issuances or in support of repo transactions.

Securitisation involves the transfer of assets with an income stream to a special purpose entity (SPE) which in turn issues securities to fund the purchase of those assets. The interest and principal payments received are passed on to the purchasers of the securities.

The Group has issued a number of securitisations through either public or retained transactions.

The Group does not hold any purchased securitisation positions as at 31 December 2017 (31 December 2016: nil).

Securitisation risks (Art 449.b)

Whilst the capital requirement attributable to the Group's securitisation activities is not material (see table 26 below), there are a number of risks attached to securitisations, such as credit risk, liquidity risk, operational risk and non-trading interest rate risk. These risks are identified, managed and monitored in line with Group policy.

When the Group originates a new securitisation, the risks are minimised through the use of standard securitisation structures, the use of only high quality counterparties to perform the structuring, oversight and governance provided by appropriately qualified experienced external and internal parties.

Loans securitised by the Group have not been derecognised for accounting or for Pillar 1 capital purposes and are classified within loans and receivables to customers, with the Group retaining the exposure to the credit risk and interest rate risk on the underlying securitised loans.

Different roles in the securitisation process (Art 449.d)

Originator

The Group originates securitisations which are backed by Irish residential mortgages. This involves selling pools of mortgages to special purpose entities (SPEs) which issue mortgage backed floating notes to fund the purchase of these mortgage pools. Most of the notes issued by these SPEs are held internally and are used as collateral in repurchase transactions, an important source of funding for the Group.

The Group also holds positions in securitisations originated by the Group's former UK business, Capital Home Loans Limited (CHL) by virtue of a derivative transaction with two securitisation SPEs.

In 2015, CHL was sold by PTSB and the Group took on the role of swap provider to the CHL securitisations. These swaps and their associated cash collateral placed are the only remaining exposures to the UK securitisations.

Investor

The Group is not currently an investor in any securitisations.

Sponsor

The Group does not currently act as a sponsor to securitisations.

Summary of Group's securitisation activities at 31 December 2017 (Art 449.e)

The securitisations originated by the Group as at the 31 December 2017 do not qualify for de-recognition under the CRR. The risk weighted exposure for the underlying mortgage loans are calculated using the IRB approach to credit risk for Pillar 1 capital purposes.

Most notes issued out of the securitisations originated by the Group are held internally and are used to support the funding activity of the Group. As at 31 December 2017, the originated securitisations support the Group's funding activity in the following ways:

Publicly Issued Securitisations

In a public securitisation, mortgages are packaged into a securitisation SPE and the securities issued are sold to investors. PTSB issued €500m of new funding through a public securitisation in 2017. At 31 December 2017 Permanent TSB has €1.3bn of public securitisations.

Retained securitisations

Retained transactions are similar in structure to public deals except that the notes issued are retained by the originator and used as collateral for 3rd party repos and ECB drawings. At 31 December 2017 Permanent TSB has €10.8bn of retained securitisations.

Swap Provider

The Group is swap provider for two securitisations which relate to the Group's UK Business (CHL Ltd.) which was sold in 2016. The swaps and cash collateral are the only remaining exposure to the UK securitisations.

The exposures to the CHL securitisations are outlined in table 26 below.

Own funds requirement for securitisations (Art 449.h)

As stated above, the Group does not hold any purchased securitisation positions as at 31 December 2017. Loans securitised by the Group have not been derecognised for accounting or for Pillar 1 capital purposes and are classified within loans and receivables to customers, with the Group retaining the exposure to the credit risk and interest rate risk on the underlying securitised loans. As

a result, the capital requirement attributable to the Group's securitisation activities is not material (see table 26 below).

Table 26: Own funds requirement per Part Three -Title II, Chapter 5 of the CRR

All figures in €m	Exposure	Risk weighted Amount	Capital requirement
Dec-17	65	5	<1
Dec-16	69	5	<1

Summary of accounting policies (Art 449.j)

The SPEs used to originate securitisations are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or the Group has transferred substantially all the risks and rewards of ownership.

The Group enters into certain transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all the risks and rewards are retained, then the transferred assets are not de-recognised. Transfers of assets with retention of all or substantially all risks and rewards include securitisations originated by the Group.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

Remuneration (Art 450)

These disclosures summarise information regarding the remuneration policy at PTSB as required by Article 450 of Regulation (EU) 575/2013. This includes an overview of the decision making process and governance of remuneration, an overview of the Group Remuneration Policy (“the Policy”) including the link between pay and performance, the identification of Material Risk Takers (MRTs) and aggregate quantitative information on pay.

These disclosures should be read in conjunction with the Corporate Governance Statement and Directors Report on Remuneration within the Group’s Annual Report for the year ended 31 December 2017 pages 83 to 85.

Decision making process and governance

Governance of Group Remuneration Policy

While the Board retains ownership of, and responsibility for, the Group Remuneration Policy within Permanent TSB Group, the Group Remuneration Committee (“the RemCo”) is delegated certain responsibilities with respect to remuneration.

The RemCo recommends the Policy to the Board for approval, and monitors and evaluates its application. The Group CEO is ultimately responsible for the implementation of this Policy, however the HR, Risk and Compliance functions play key roles in its development prior to the RemCo’s consideration.

Group HR are responsible for the preparation of proposals on changes to the Policy, with input from other relevant functions. The Group Risk and Compliance function reviews specific proposals for consideration of remuneration-related risks and compliance with applicable regulations.

The Chief Risk Officer (CRO) and Group Risk Function have input into the Policy and its implementation. The CRO will provide an update at least annually to RemCo on risk considerations relating to remuneration matters, both in terms of plan design considerations and also payouts relating to Material Risk Takers. The CFO will provide an assessment on the impact of variable remuneration on the impact on capital and liquidity.

In line with regulatory requirements, the implementation of this Remuneration Policy is, at least annually, subject to central and independent internal review by Group Internal Audit for compliance with policies and procedures for remuneration adopted by the Board. The CFO will provide an update annually on the impact of making variable remuneration payments on the ability of the Bank to strengthen its capital base.

Role of other stakeholders in the development of the Group Remuneration Policy

The Policy has been designed to comply with the regulatory requirements and the specific agreements contained within the Framework Agreement between the Minister for Finance and the Company.

Our customers are considered when reviewing the Policy. Customer and conduct are key performance underpins for the variable remuneration scheme for staff based in our Distribution Division.

The RemCo may ask independent advisors for advice on any matters in relation to the Group Remuneration Policy they determine is necessary.

Composition and mandate of the Remuneration Committee

The RemCo is currently comprised of four independent non-executive directors - Julie O'Neill (Chair), Robert Elliott, Ken Slattery and Andrew Power. During 2017 a total of nine meetings took place.

The Chairman of the Company (if not a member), the Group CEO, the Group HR Director, the Chief Risk Officer and any other individuals the RemCo wishes, may be invited to attend meetings of the RemCo at the request of the Chairman of the RemCo. Based on the items of business under consideration, the Chairman of the RemCo may ask these invited members to step out of the meeting for some or all items on the agenda.

The purpose, responsibilities and terms of membership of the RemCo are set out in its Terms of Reference which may be viewed on the Group's website www.permanenttsbgroup.ie. The Committee reviews its terms of reference each year and recommends any changes considered necessary to the Board.

The RemCo is exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the RemCo. In 2017, the RemCo was advised by Deloitte LLP.

Identification of Material Risk Takers

Staff who are deemed to have a material impact on the Group's risk profile are identified as Material Risk Takers (MRTs) in accordance with Commission Delegated Regulation (EU) No. 604/2014. The identification process for MRTs, including the definition and interpretations to be applied by the Group was approved by the Board Risk and Compliance Committee ("the BRCC") and the RemCo.

HR are responsible for carrying out the self-assessment process in line with the approved definitions and interpretations. The Risk and Compliance functions, as well as relevant business support functions are involved in the identification process. The Executive Committee and CRO undertake a review of the list of MRTs to ensure that all individuals whose professional activities have a material impact on an institution's risk profile are captured prior to BRCC review and subsequent RemCo approval.

During 2017, a total of 72 employees were identified as MRTs (2016: 63). The increase in 2017 compared with 2016 is due to increased numbers reporting into Heads of Control Functions and additional numbers on Committees.

Table 27: Number of Material Risk Takers - 2017

MRT Classification ¹	Management Body Supervisory Function	Management Body Mgt Function	Retail Banking	Corporate Function	Independent Control Function	Total
Senior Management	0	3	1	10	0	14
Other MRTS	8	0	6	19	25	58
All MRTS	8	3	7	29	25	72

Table 27a: Number of Material Risk Takers - 2016

MRT Classification ¹	Management Body Supervisory Function	Management Body Mgt Function	Retail Banking	Corporate Function	Independent Control Function	Total
Senior Management	0	2	2	11	4	19
Other MRTS	9	0	6	13	16	44
All MRTS	9	2	8	24	20	63

Notes:

Senior Management for 2017 is defined as members of the Executive Committee. The Chief Risk Officer is identified as a member of PTSB's management body in its management function. All other Heads of Control Functions have been classified as Other MRTs for the purposes of table 27 above.

Group Remuneration Policy

In light of the Framework Agreement between the Minister for Finance and the Company, there have been a number of remuneration related constraints on PTSB in recent years, particularly in relation to variable pay. The Policy has been designed to ensure all employees are remunerated fairly and to promote the long-term success of the business whilst operating within the Group's risk appetite and taking into account the needs of our customers.

The components of the current Group Remuneration Policy are set out below split between fixed and variable components. There have been no material changes to the Group Remuneration Policy in 2017. The Policy is applicable to all employees within the Permanent TSB Group and applies equally to its Irish and overseas subsidiaries.

Fixed remuneration

Fixed remuneration is paid to staff to perform their individual roles as set out in their contract of employment. The main components consist of salary, pension and benefits. The Group utilises a policy of median base pay versus market peer groups. The RemCo is cognisant of the need to attract and retain skilled management and staff. If the group is unable to attract, retain and motivate key skilled and qualified people its business may be negatively impacted.

¹ Management Body Supervisory Function – Non-Executive Directors; Management Body Management Function – Executive Directors; Independent Control Functions- Group Risk and Compliance; Group Internal Audit and Customer Credit

PTSB has undertaken a review of the fixed elements of remuneration against the definition of fixed remuneration set out by the European Banking Authority.

Variable remuneration

As a result of the Framework Agreement between the Minister for Finance and PTSB, the Group no longer operates the majority of variable remuneration arrangements which had previously been in place. There are no share based variable remuneration schemes and the only remaining cash based variable remuneration scheme in place is for staff in the Distribution Division which has been agreed with the Department of Finance and is summarised below.

Branch Based Commission Scheme (BBCS)

Only Branch Managers/Territory Sales Managers and Branch staff are eligible to participate in this scheme. In order to promote the development of personal banking relationships with our customers, this scheme is designed to incentivise and reward performance in relation to (i) customer satisfaction, (ii) individual conduct and (iii) activity. This is in line with the CBI's guidance which seeks to put the customer's needs first. If customer and conduct thresholds are not met, individuals may not receive a payment under the scheme.

Payments under the scheme are subject to individuals achieving a satisfactory level of individual performance and may also be subject to Clawback where, in the relevant period, circumstances come to light which, if known by the Bank at the date of payment of the BBC award in question, would reasonably have led to:

- (i) a downward adjustment to the BBCS recipient's performance rating for the year in question;
- (ii) a conclusion that the BBCS recipient had engaged, prior to the BBC payment date, in misconduct warranting a disciplinary sanction, including but not limited to material breach of any law, regulation or applicable code of practice;
- (iii) a downward adjustment or elimination of the quantum of the BBC payment in question by reason of any computational or accounting error.

Payments under the scheme may also only be made if they do not limit PTSB's ability to maintain, or restore, a sound capital base.

Payments are made in cash. It is not considered necessary to deliver a proportion of the amount in shares, or other instruments, given that no MRTs participate in the scheme.

Guaranteed variable remuneration

Other than the potential for sign-on payments on recruitment, PTSB's Remuneration Policy does not allow for guaranteed variable remuneration (i.e. any variable pay which is not linked to performance) to be paid to any individual, as it is not consistent with sound risk management nor the pay-for-performance principle. In practice, PTSB does not provide sign-on payments. PTSB will not use retention bonuses, other than in exceptional circumstances.

Further details on remuneration policy for independent control functions

Heads of Control Functions and their direct reports are identified as MRTs and as such their remuneration is overseen by the RemCo. Individuals in Control Functions are remunerated through fixed remuneration only and do not participate in variable pay schemes. Heads of Control Functions have direct access to the Chair of the relevant Board Sub-Committees.

Further details on remuneration policy for Material Risk Takers

While the Bank's remuneration policy has been designed to ensure all employees are remunerated fairly and to promote the long-term success of the business, it is also designed to promote sound and effective risk management. The operation of the policy is reviewed by the Chief Risk Officer in his annual Report on Remuneration which, inter alia, looks at the alignment of remuneration policy with risk management and the regulatory risk attaching to remuneration.

There are no differences in remuneration policy for different categories of MRTs or any differences between different geographies.

Further details on remuneration are provided in the Directors' Report on Remuneration on pages 83 to 85 of the Group's Annual Report 2017.

Payments on termination

Payments on termination of employment will be in accordance with the provisions of CRD IV and applicable Irish legislation. In line with regulatory requirements, any payments in relation to early termination will reflect performance achieved over time and will not reward failure or misconduct. The Bank applies this principle in respect of all staff.

As required under CRD IV, given that PTSB has received State support, any payments to members of the Board made on termination of employment which are classified as variable pay under the EBA Guidelines on sound remuneration policies, may only be paid where justified.

Leavers will receive any payments required under the terms of their contracts. Any payment in respect of the BBCS is non-contractual and will be dealt with in line with the leaver policy for that scheme. If the participant has served notice or ceased employment prior to the payment date, the default position is that the individual is not eligible for a payment.

The Group's Voluntary Severance Scheme (VSS) applies to all staff. A payment made to an MRT on termination of employment will be considered as to whether it should be subject to the variable pay cap and/or payout process rules. Redundancy payments in line with the Group's Termination Policy and VSS should not, in the normal course, be subject to the variable pay cap and/or payout process rules.

Link between Pay and Performance

Permanent TSB's remuneration policies and practices are designed to provide fair and competitive remuneration while also attracting and retaining the right calibre of employees to drive the Group's future growth and success. The Board and senior management team place great importance on the role of a strong performance management process to ensure that employees have a clear

understanding of how their own individual objectives contribute to the delivery of the Group's strategy. Objectives are cascaded from the Group CEO throughout the organisation. In 2017, we have extended performance related pay to all levels in the organisation. In reviewing performance, the Group also ensures that there are adequate succession plans in place.

The Group is currently restricted in terms of remuneration for MRTs and the wider employee workforce. As a result the only payments classified as variable for regulatory purposes made in 2017 to Material Risk Takers relate to payments under the VSS. These payments constitute variable remuneration for regulatory purposes as they are not in relation to regular remuneration payments (i.e. salary, pension and contractual benefits) relating to the duration of an employee's notice period. However, these payments are not deemed variable in nature for any other purposes, as the size of any payment under the VSS is linked to the employee's tenure with the Bank rather than performance, and they do not provide any incentive for risk assumption.

Quantitative remuneration disclosures

Table 28: 2017 Aggregate Quantitative Remuneration of Material Risk Takers by Business Area

MRT Classification Amounts in €'m	Management Body Supervisory Function	Management Body Mgt Function	Retail Banking	Corporate Function	Independent Control Function	Total
Senior Management	0.0	1.2	0.0	3.6	0	4.8
Other MRTS	0.7	0.0	1.0	3.2	3.9	8.8
All MRTS	0.7	1.2	1.0	6.8	3.9	13.6

Table 28a: 2016 Aggregate Quantitative Remuneration of Material Risk Takers by Business Area

MRT Classification Amounts in €'m	Management Body Supervisory Function	Management Body Mgt Function	Retail Banking	Corporate Function	Independent Control Function	Total
Senior Management	0.0	0.8	0.6	3.2	1.0	5.6
Other MRTS	0.6	0.0	1.3	2.2	2.8	6.9
All MRTS	0.6	0.8	1.9	5.4	3.8	12.5

Notes:

Senior Management for 2017 is defined as members of the Executive Committee. The Chief Risk Officer is identified as a member of PTSB's management body in its management function. All other Heads of Control Functions have been classified as Other MRTs for the purposes of table 28 above.

One MRT classified as Senior Management was identified in Retail Banking for 2017. This individual's remuneration has been included in Senior Management Corporate Function figures to ensure no possible identification of an individual's remuneration for the purposes of table 28 above.

Due to a revision in PTSB's definition of when severance payments are awarded for regulatory purposes, the 2016 aggregate quantitative remuneration disclosures set out in table 28a above have been amended to reflect an additional severance payment to a MRT classified as Senior Management in a Corporate Function. Therefore, aggregate MRT remuneration for 2016 now includes 2 Voluntary Severance payments, totalling €435,000 (1 Voluntary Severance payment of €210,007 was reported in PTSB's Pillar 3 disclosures for the year ended 31 December 2016).

Table 29: 2017 Fixed and Variable Remuneration

MRT Classification Amounts in €'m		Management Body Supervisory Function	Management Body Mgt Function	Retail Banking	Corporate Function	Independent Control Function	Total
Senior Management	Fixed	0.0	1.2	0.0	3.4	0.0	4.6
	Variable	0.0	0.0	0.0	0.2	0.0	0.2
	Total	0.0	1.2	0.0	3.6	0.0	4.8
	#MRTS	0	3	0	11	0	14
Other MRT	Fixed	0.7	0.0	1.0	3.1	3.9	8.7
	Variable	0.0	0.0	0.0	0.1	0.0	0.1
	Total	0.7	0.0	1.0	3.2	3.9	8.8
	#MRTS	8	0	6	19	25	58
All MRTS	Fixed	0.7	1.2	1.0	6.5	3.9	13.3
	Variable	0.0	0.0	0.0	0.3	0.0	0.3
	Total	0.7	1.2	1.0	6.8	3.9	13.6
	#MRTS	8	3	6	30	25	72
Other Staff	Fixed	0.0	0.0	46.8	66.3	13.6	126.7
	Variable	0.0	0.0	3.9	0.9	0.0	4.8
	Total	0.0	0.0	50.7	67.2	13.6	131.5
	#Staff	0	0	1,222	1,540	257	3,019

Notes:

MRT Variable pay is made up of 3 Voluntary Severance payments awarded in 2017 totalling €336,267.

Senior Management for 2017 is defined as members of the Executive Committee. The Chief Risk Officer is identified as a member of PTSB's management body in its management function. All other Heads of Control Functions have been classified as Other MRTs for the purposes of table 29 above.

One MRT classified as Senior Management was identified in Retail Banking for 2017. This individual's remuneration has been included in Senior Management Corporate Function figures to ensure no possible identification of an individual's remuneration for the purposes of table 29 above.

Quantitative disclosures are calculated in accordance with the EBA Guidelines on the Remuneration Benchmarking Exercise.

Table 29a: 2016 Fixed and Variable Remuneration

MRT Classification Amounts in €'m		Management Body Supervisory Function	Management Body Mgt Function	Retail Banking	Corporate Function	Independent Control Function	Total
Senior Management	Fixed	0.0	0.8	0.6	3.0	1.0	5.4
	Variable	0.0	0.0	0.0	0.2	0.0	0.2
	Total	0.0	0.8	0.6	3.2	1.0	5.6
	#MRTS	0	2	2	11	4	19
Other MRT	Fixed	0.6	0.0	1.3	2.2	2.6	6.7
	Variable	0.0	0.0	0.0	0.0	0.2	0.2
	Total	0.6	0	1.3	2.2	2.8	6.9
	#MRTS	9	0	6	13	16	44
All MRTS	Fixed	0.6	0.8	1.9	5.2	3.6	12.1
	Variable	0.0	0.0	0.0	0.2	0.2	0.4
	Total	0.6	0.8	1.9	5.4	3.8	12.5
	#MRTS	9	2	8	24	20	63
Other Staff	Fixed	0.0	0.0	63.9	48.0	11.9	123.8
	Variable	0.0	0.0	0.6	0.0	0.8	1.4
	Total	0.0	0.0	64.5	48.0	12.7	125.2
	#Staff	0	0	1,803	967	224	2,994

Notes:

Due to a revision in PTSB's definition of when severance payments are awarded for regulatory purposes, the 2016 fixed and variable remuneration disclosures set out in table 29a above have been amended to reflect an additional severance payment to a MRT classified as Senior Management in a Corporate Function. Therefore, MRT variable remuneration for 2016 now includes 2 Voluntary Severance payments, totalling €435,000 (1 Voluntary Severance payment of €210,007 was reported in PTSB's Pillar 3 disclosures for the year ended 31 December 2016).

Under CRD IV, there is an automatic 1:1 cap on the ratio between the fixed and variable components of remuneration for MRTs. For 2017, there is no variable component for the purposes of calculating the ratio. Ratio is 0:1. This is because any severance payments paid have, in line with the specific exemptions in respect of certain severance payments outlined in the EBA Guidelines, been deemed not subject to the variable pay cap.

Other disclosures on remuneration 2017

The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types:

- No variable remuneration was awarded to MRTs during 2017 other than severance payments under the Group's voluntary severance scheme. As outlined above, the severance payments are deemed to be variable for regulatory purposes but are not performance related payments.

The amounts of outstanding deferred remuneration split into vested and unvested portions:

- There is no outstanding deferred remuneration for MRTs.

The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments:

- There was no deferred remuneration awarded to MRTs in 2017, paid out and reduced through performance adjustments.

Amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person:

- *A total of 28 severance payments were made to staff exiting in 2017, totalling €4,007,904, the highest of which was €225,000. Of the 28 noted, three severance payments were made to MRTs in 2017, totalling €336,267. The majority of the severance payments to other staff resulted from the restructure of the retail network.*

New severance payments made during the financial year, and the number of beneficiaries of such payments:

- All of the 28 severance payments referenced above were both awarded and made during 2017.

New sign-on payments made during the financial year, and the number of beneficiaries of such payments:

- There were no sign-on payments made during 2017.

The number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;

- No individual was remunerated at this level in 2017.

Leverage Ratio (Art 451.1.a)

The leverage ratio was introduced by Article 429 of the CRR to act as a backstop to the capital ratios. It is a non-risk based measure expressed as a percentage of Tier 1 capital to exposures; exposures being similar to balance sheet assets with certain adjustments (see reconciliation below).

The ratio is currently in a non-binding observation period, however the EU Commission have proposed that the leverage ratio becomes binding at 3% for EU banks following adoption of its CRR 2 amendments which is expected in 2019.

The leverage ratio of the Group at 31 December 2017 on a transitional basis was 8.0% and 7.1% on a fully loaded basis (31 December 2016: 7.8% transitional and 6.8% fully loaded).

The following tables are provided in the format prescribed by Commission Implementing Regulation (EU) No 2016/200.

Table 30: Summary reconciliation of accounting assets and leverage ratio exposures (Art 451.1.b)

Table LRSum⁽¹⁾			
All figures in €m			
		Applicable Amounts	
		31-Dec-17	31-Dec-16
1	Total assets as per published financial statements	22,778	23,601
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	5	(3)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013 "CRR"	0	0
4	Adjustments for derivative financial instruments	9	17
5	Adjustments for securities financing transactions "SFTs"	573	961
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	162	134
EU-6a	Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013	0	0
EU-6b	Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013	0	0
7	Other adjustments	(160)	(142)
8	Total leverage ratio exposure	23,367	24,567

(1) Template prescribed in Regulation EU 2016/200.

Table 31: Leverage ratio common disclosure (Art 451.1.b)

Table LRCom ⁽¹⁾ All figures in €m			
		CRR leverage ratio exposures	
		31-Dec-17	31-Dec-16
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	22,747	23,553
2	Asset amounts deducted in determining Tier 1 capital	(160)	(142)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	22,587	23,411
Derivative exposures			
4	Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	37	44
5	Add-on amounts for Potential Future Exposure (PFE) associated with <i>all</i> derivatives transactions (mark-to-market method)	9	17
11	Total derivative exposures (sum of lines 4 to 10)	46	61
Securities financing transaction exposures			
14	Counterparty credit risk exposure for SFT assets	573	961
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	573	961
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	534	404
18	(Adjustments for conversion to credit equivalent amounts)	(371)	(270)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	162	134
Capital and total exposures			
20	Tier 1 capital	1,878	1,924
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19)	23,367	24,567
Leverage ratio			
22	Leverage ratio	8.0%	7.8%
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional

(1) Template prescribed in Regulation EU 2016/200. Rows are not shown if the question is not applicable, however in line with EBA guidance the numbering of each row is unchanged.

Table 32: Split-up of on balance sheet exposures (excluding derivatives and SFTs) (Art 451.1.b)

Table LRSp⁽¹⁾			
All figures in €m			
		CRR leverage ratio exposures	
		31-Dec-17	31-Dec-16
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	22,747	23,553
EU-2	Trading book exposures	0	0
EU-3	Banking book exposures, of which:	22,747	23,553
EU-4	Covered bonds	0	0
EU-5	Exposures treated as sovereigns	2,792	2,939
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0	0
EU-7	Institutions	648	879
EU-8	Secured by mortgages of immovable properties	15,415	15,662
EU-9	Retail exposures	269	80
EU-10	Corporate	0	130
EU-11	Exposures in default	2,664	3,033
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	958	830

(1) Template prescribed in Regulation EU 2016/200.

Processes used to manage the risk of excessive leverage (Art 451.1.d)

The Group at all times manages the risk of excessive leverage through controls on the level of total assets and also the levels of CET1 and Tier 1 capital. In particular, the Group Risk Appetite Statement sets controls on the level of total assets and also the levels of capital held. The performance of the Group against these targets is measured and reported to the relevant risk committees. The Group through the committees has procedures in place to take remediating actions if any of the threshold metrics for total assets or capital levels are breached.

Factors impacting on the leverage ratio during the period (Art 451.1.e)

The Leverage Ratio on a transitional basis at 31 December 2017 is 8.0%, which is 0.2% higher than the position at 31 December 2016. The main factors for the increase in the ratio are a reduction in the overall balance sheet size and a decrease in repo funding requirements.

Use of the IRB Approach to Credit Risk

(Art 452)

Competent authority's permission of the approach or approved transition (Art 452.a)

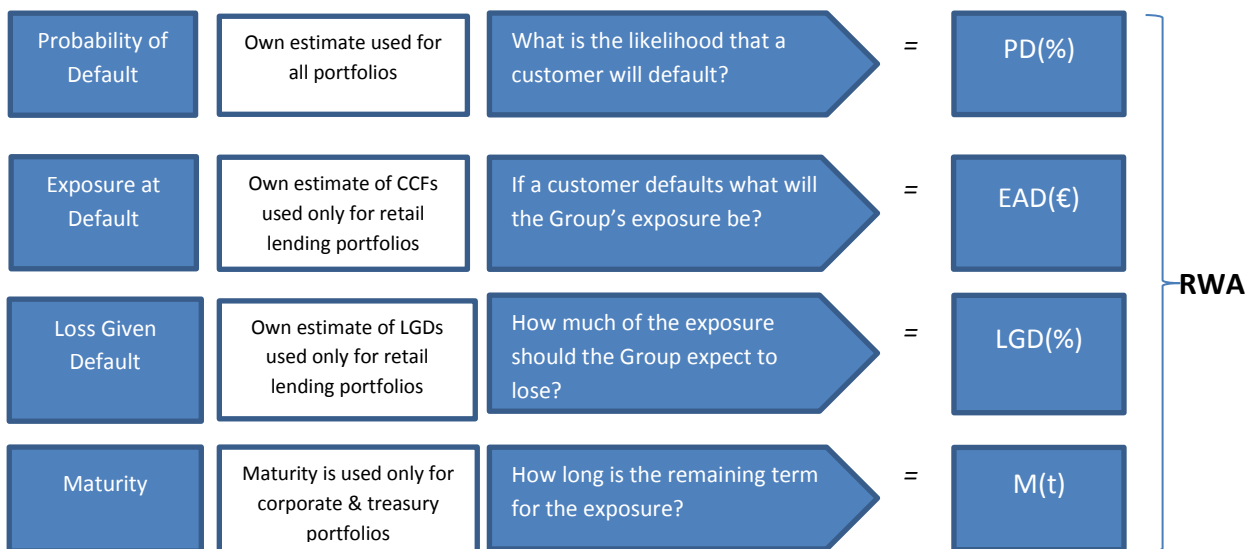
The Group is approved by the Central Bank of Ireland to use the Internal Ratings Based Approach (IRB Approach) for its retail lending portfolios. The Group calculates own estimates of Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factors (CCF) for these portfolios.

The Group is also approved to use the IRB Approach for its corporate lending portfolio and Treasury exposures, comprised mainly of bank and non-domestic sovereign counterparties.

Internal ratings process (Art 452.c)

The Group calculates its own estimates of certain key parameters for quantifying the credit risk on its lending portfolios. The results are combined in the Group's IRB models to produce Risk Weighted Assets (RWA) which are a key driver (denominator) of the Group's capital ratio. More detail on the calculation is illustrated on the diagram below:

Key parameters in the RWA calculation



Retail exposures

The following descriptions for retail exposures is relevant to exposures secured by immovable property (i.e. mortgages), qualified revolving credit exposures and other unsecured exposures e.g. term loans.

Probability of Default (PD)

Internal ratings are assigned as part of the credit approval process for retail exposures. The consistency and transparency of the internal ratings are ensured by the use of rating models. A rating model is a set of specified and distinct rating criteria, which assigns a grade on the basis of a set of characteristics or attributes associated with an exposure. 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 PDs, to individual exposures. With regard to portfolio segmentation – the Group's credit exposures have been segmented to appropriately reflect the characteristics, and risk profile, associated with different types of exposures.

Scorecards have been designed for each segment based on the drivers or characteristics of default associated with each segment. For instance, scorecards have been specifically developed for the Group's mortgage and unsecured business. Two broad types of scorecards are utilised by the Group, application scorecards & behavioural scorecards. The scorecards have been constructed using regression analysis for all of the key portfolios. Typical scoring characteristics include financial details, bureau information, product behavioural and current account data. For segments where there is not enough data to develop statistical models, expert judgement based models are used.

Scorecard output is used as part of a calibration process to determine a PD percentage for each exposure. In doing so, exposures have been calibrated to one-year default rates that are applicable for each segment based on the CRR definition of default. The one-year default rates used in this calibration process have been adjusted to ensure they cater for the 'long-run'.

Loss Given Default (LGD)

As a means of meeting the CRR requirements with regard to LGD – the Group makes use of the “workout” approach to LGD estimation for all retail IRB portfolios. It is used for each of the Group's key retail segments including mortgages, unsecured, revolving credit.

The process splits into two key areas: estimation of ‘realised’ LGD at pool level and the calibration of pools to meet the downturn requirements set out in the CRR. Therefore, as part of the estimation process, realised LGD is worked out based on the discounted realised recoveries and associated discounted costs for all observed defaults in the dataset. Having identified relevant drivers of loss, exposures are placed into 'pools' and realised LGD is estimated for each pool. The second step sees the calibration of each pool to appropriate downturn conditions.

Credit Conversion Factor (CCF)

The vast majority of retail exposures operating under the IRB approach do not have “undrawn” amounts. The retail portfolios for which IRB approval has been granted are mainly structured repayment facilities (mortgages and term loans) and as outlined, proportionately not many facilities have undrawn amounts.

The Group uses a two-step approach to CCF modelling. In step one, realised CCFs are calculated based on historic defaults. Within this process, drivers of realised CCF are identified (e.g. limit

utilisation). These drivers are then used to create pools. Average realised CCFs are then applied to each pool.

In the second step, the pool CCFs from step one are adjusted for a downturn / long run scenario (as required).

Corporate exposures

Probability of Default (PD)

Internal ratings are assigned as part of the credit approval process for corporate exposures. The consistency and transparency of the internal ratings are ensured by the use of rating models. A rating model is a set of specified and distinct rating criteria, which assigns a grade on the basis of a set of characteristics or attributes associated with an exposure. 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 PDs, to individual exposures. With regard to portfolio segmentation – the Group's credit exposures have been segmented to appropriately reflect the characteristics, and risk profile, associated with different types of exposures.

Scorecards have been designed for each segment based on the drivers or characteristics of default associated with each segment. For instance, scorecards have been specifically developed for the Group's mortgage and unsecured business. Two broad types of scorecards are utilised by the Group, application scorecards & behavioural scorecards. The scorecards have been constructed using regression analysis for all of the key portfolios. Typical scoring characteristics include financial details, bureau information, product behavioural and current account data. For segments where there is not enough data to develop statistical models, expert judgement based models are used.

Scorecard output is used as part of a calibration process to determine a PD percentage for each exposure. In doing so, exposures have been calibrated to one-year default rates that are applicable for each segment based on the CRR definition of default. The one-year default rates used in this calibration process have been adjusted to ensure they cater for the 'long-run'.

The Group has no exposures in the specialised lending or purchased corporate receivables category.

Loss Given Default (LGD)

For exposures to corporates, the Group uses the LGDs specified in article 161 of the CRR. As of 31 December 2017 all exposures were senior and therefore carried an LGD of 45%.

Credit Conversion Factor (CCF)

For exposure to corporates, the Group uses the CCFs specified in the CRR.

Institutional exposures

Probability of Default (PD)

For exposures to institutions, the internal rating process involves the selection of individual counterparty ratings from nominated ECAI's. The counterparty rating is then run through a notching

process with a final IRB being determined by selecting the middle rating subject to additional criteria. The notched IRB is then mapped to a PD which is determined through the Group's calibration process.

Loss Given Default (LGD)

For exposures to other banks the Group uses the LGDs specified in article 161 of the CRR. As of 31 December 2017 all exposures were senior and therefore carried an LGD of 45%.

Credit Conversion Factor (CCF)

For exposures to other banks the Group uses the CCFs specified in the CRR.

Central government exposures

Probability of Default (PD)

For exposures and non-Irish sovereigns, the internal rating process involves the selection of individual sovereign ratings from nominated ECAI's. The sovereign rating is then run through a notching process with a final IRB being determined by selecting the middle rating subject to additional criteria. The notched IRB is then mapped to a PD which is determined through the Group's calibration process.

Loss Given Default (LGD)

For exposures to non-Irish sovereigns the Group uses the LGDs specified in article 161 of the CRR. As of 31 December 2017 all exposures were senior and therefore carried an LGD of 45%.

Credit Conversion Factor (CCF)

For exposures to non-Irish sovereigns, the Group uses the CCFs specified in the CRR.

Equity exposures

For exposures to equities in the banking book, the Group uses the simple risk weight approach.

Structure of the Group's internal rating system (Art 452.b)

All of the Group's exposures classified under the IRB approach are mapped to a 25 point rating scale. The twenty five point internal rating scale ranges from 1 to 25, where 1 represents the best risk grade or lowest PD and 25 represents the defaulted exposures or PD = 100%. The internal rating scale or masterscale is not a rating tool but is based on probability of default and is used to aggregate borrowers for comparison and reporting purposes after their rating by the underlying models as outlined earlier in the Internal Rating Process section. It should be noted that the models require recalibration at relevant intervals which can result in a change to the PD applicable to the rating grade and hence this can result in a change to the masterscale profile at a portfolio level.

The twenty five point rating scale has been summarised for presentation purposes into 5 blocks or segments as per the disclosures in the Group's financial statements, namely:

- Investment Grade – IRB ratings 1 to 7
- Excellent Risk profile – IRB ratings 8 to 16

- Satisfactory Risk profile - IRB ratings 17 to 21
- Fair Risk Profile - IRB ratings 22 to 24
- Defaulted Cases

Investment Grade categories represent strong exposures to corporates, sovereigns or institutional investors. Some retail exposures may be included where there is an extremely low probability of default.

Excellent risk profile grades would typically include performing residential mortgages.

The satisfactory risk profile grades typically include consumer finance exposures and larger mortgage exposures e.g. commercial investment property.

Fair risk profile contains the remainder of the Group's exposures which are not defaulted and includes certain cases which have not yet defaulted but are exhibiting underlying symptoms of potential default e.g. missed payments or partial payments.

The defaulted category is self-explanatory and contains those facilities which have defaulted, where default is defined as 90 days past due or where the Group considers that the customer is unlikely to pay the outstanding liability in full.

The table below shows the mapping from the internal rating scale to the Moody's rating scale, using summarised blocks from the Group's 25 point internal rating scale. As outlined earlier on the Group's masterscale, 1 is the best risk category & 25 the worst or defaulted category.

Indicative mapping of the Group's rating segments to Moody's

Internal Rating Category	Moody's Equivalent	IRB Grade
Investment	AAA - A3	1-7
Excellent	Baa1 - Ba1	8-16
Satisfactory	Ba2 - B1	17-21
Fair	B2 - C	22-24
Defaulted	D	25

The mapping of the internal ratings to the Moody's rating scale is shown for illustrative purposes and it is not intended to reflect that there is a fixed relationship between the Group's internal rating grades and the Moody's rating grades since the rating approaches differ.

Credit Risk Mitigation

The Group's principal exposure to credit risk is in respect of retail mortgage lending. The value of the collateral held is reflected in the LGD estimation process. The LGDs for the Group's retail portfolios

are based on internal models and are divided into pools driven by appropriate drivers of loss. Compliance with the CRR minimum of 10% is maintained if necessary.

Please see the chapter on Credit Risk Mitigation on page 94 for more information.

Validation and review of internal ratings process

Permanent TSB has established an internal validation process in accordance with the CRR and regulatory requirements to ensure that the rating systems in place for Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion factor (CCF) remain appropriate for the relevant IRB portfolios.

The Model Validation Team (MVT) is part of the Financial Risk team within Group Risk and forms part of the second line of defence function. The Head of Validation reports to the Head of Financial Risk and Analytics, who in turn reports to the Chief Risk Officer (CRO).

The principal activities carried out by Validation include review of enhancements and updates to existing rating systems (initial validation), formal on-going periodic validation of existing rating systems, as well as on-going monitoring of rating system performance (Trigger Reporting).

Each of the Group's internal rating systems is subjected to Initial Validation when first developed, as well as a cycle of formal periodic validation. This involves a comprehensive review of the rating system across a range of key headings including model performance, back testing and business use of the models and data quality. The Initial Validation, carried out for all enhancements or new developments, provides independent assurance as to the suitability of the methodologies used to develop the rating systems, as well as assessing model performance and compliance with CRD and other regulatory requirements. No enhancement to any of the Group's internal rating systems is permitted to go live without a recommendation for approval from the Model Validation Team and is approved in accordance with the Group's IRB governance process. Any implementation of changes to rating systems are also subject to appropriate regulatory oversight in line with the materiality requirements detailed in EU 529/2014, and the Model Validation Team consider this materiality as part of the validation process.

The validation process provides an on-going independent review of models and incorporates both quantitative and qualitative measures. It assesses procedures and systems to ensure the accuracy of PD, LGD and CCF estimates. The tests employed in the validation process include statistical performance tests of the rating models' discriminatory power and accuracy, comparison of PD, LGD and EAD results against realised outcomes, and assessment of conservatism levels appropriate to the rating system. Validation processes are subject to on-going enhancement to reflect industry best practice and regulatory requirements and are subject to Permanent TSB's governance process.

The results of initial validation reviews and periodic validations carried out, as well as Trigger Reporting reviews and status of validation findings, are reported on a regular basis in line with the Group's Governance processes. Oversight is provided to the CRO and to Group Risk Committee (GRC) as appropriate to the level of materiality involved. All outcomes and findings from validations are reported to GRC as part of the CRO Reporting pack.

The activities of the Model Validation Team are subject to annual review by Group Internal Audit.

Table 33: Exposure split by exposure class (Art 452.d)

<i>All figures in €m</i>	Dec-17	Dec-16
Exposure class		
Sovereign	116	0
Institutions	1,157	1,443
Corporate	256	274
Total credit exposures using the foundation IRB approach	1,528	1,717
Retail Mortgages	20,354	21,049
Retail Qualified Revolving	582	583
Retail Other	209	194
Total credit exposures using the advanced IRB approach	21,146	21,826
Total credit exposures using IRB approach	22,674	23,543

Table 34: Exposure by grade (Art 452.e)

All figures in €m Exposures by grade (non-Retail exposure classes)	<u>Sovereign</u>			<u>Institutions</u>			<u>Corporate</u>		
	EAD	Undrawn Amount	Average RW%	EAD	Undrawn Amount	Average RW%	EAD	Undrawn Amount	Average RW%
As at 31 December 2017									
Investment Grade	0	0	16.8%	869	0	25.3%	0	0	0.0%
Excellent Risk Grade	116	0	44.7%	288	0	45.5%	13	0	95.3%
Satisfactory Risk Grade	0	0	0.0%	0	0	0.0%	92	0	136.6%
Fair Risk Grade	0	0	0.0%	0	0	0.0%	41	0	184.9%
Defaulted ⁽¹⁾	0	0	0.0%	0	0	0.0%	110	0	0.0%
Total credit exposures using the foundation IRB approach	116	0		1,157	0		256	0	
As at 31 December 2016									
Investment Grade	0	0	18.6%	1,015	0	19.2%	0	0	0.0%
Excellent Risk Grade	0	0	0.0%	428	0	48.1%	14	1	120.5%
Satisfactory Risk Grade	0	0	0.0%	0	0	0.0%	104	8	164.5%
Fair Risk Grade	0	0	0.0%	0	0	0.0%	47	1	216.0%
Defaulted ⁽¹⁾	0	0	0.0%	0	0	0.0%	109	0	1.4%
Total credit exposures using the foundation IRB approach	0	0		1,443	0		274	10	

⁽¹⁾Risk weight is not calculated for defaulted exposures under the foundation IRB approach

Table 35: Exposure by grade (Art 452.f)

All figures in €m Exposures by grade (Retail exposure classes)	Retail Mortgage			Qualified Revolving			Retail Other		
	EAD €m	Average RW%	Average PD%	EAD €m	Average RW%	Average PD%	EAD €m	Average RW%	Average PD%
As at 31 December 2017									
Excellent Risk Grade	10,501	25.9%	0.7%	441	10.1%	0.4%	126	63.8%	0.6%
Satisfactory Risk Grade	4,130	48.1%	1.6%	84	50.7%	2.6%	52	113.8%	2.8%
Fair Risk Grade	1,270	86.4%	10.8%	46	108.6%	11.6%	24	119%	13.8%
Defaulted	4,452	59.4%	100.0%	12	118.2%	100.0%	7	188.3%	100.0%
Total credit exposures using the advanced IRB approach	20,354	41.5%	23.3%	582	25.9%	3.6%	209	86.5%	5.8%
As at 31 December 2016									
Excellent Risk Grade	10,277	19.3%	0.7%	434	9.7%	0.4%	118	55.4%	0.6%
Satisfactory Risk Grade	4,296	45.3%	1.6%	79	48.8%	2.6%	39	100.4%	2.7%
Fair Risk Grade	1,463	72.9%	11.3%	44	101.9%	11.5%	17	121.4%	14.6%
Defaulted	5,013	59.8%	100.0%	26	94.9%	100.0%	19	95.7%	100.0%
Total credit exposures using the advanced IRB approach	21,049	38.0%	25.0%	583	25.8%	6.0%	194	74.5%	12.2%

Table 36: Actual specific credit risk adjustments for each exposure class (Art 452.g)

All figures in €m	31-Dec-17	31-Dec-16	Change
Sovereign	0	0	0
Institutions	0	0	0
Corporate	67	83	(16)
Total foundation IRB approach	67	83	(16)
Retail Mortgages	2,093	2,317	(224)
Retail Qualified Revolving	11	24	(13)
Retail Other	14	26	(12)
Total advanced IRB approach	2,118	2,367	(249)
Total specific credit risk adjustments	2,184	2,449	(265)

Description of the factors that impacted on the loss experience (Art 452.h)

For a detailed description of the factors impacting on the loss experience during the year, please see page 28 of the Group's Annual Report 2017.

Table 37: CRR Expected losses compared to accounting specific credit risk adjustments for each exposure class since 2012 (Art 452.i)

The tables below show the actual provisions held by the Group under the accounting standards compared to the expected losses predicted by the Group's IRB models.

<i>figures in €'m</i>	Regulatory Expected Loss	Accounting Specific Impairment	Difference
Expected Loss vs Actual Loss	Dec'16	Dec'17	
Sovereign	0	0	0
Institutions	1	0	(1)
Corporate	52	67	15
Total foundation IRB approach	53	67	14
Retail Mortgages	2,042	2,093	51
Retail Qualified Revolving	27	11	(16)
Retail Other	19	14	(5)
Total advanced IRB approach	2,088	2,118	30
Total IRB approach	2,141	2,184	43

<i>figures in €'m</i>	Regulatory Expected Loss	Accounting Specific Impairment	Difference
Expected Loss vs Actual Loss	Dec'15	Dec'16	
Sovereign	0	0	0
Institutions	1	0	(1)
Corporate	89	83	(6)
Total foundation IRB approach	90	83	(7)
Retail Mortgages	2,255	2,317	61
Retail Qualified Revolving	28	24	(4)
Retail Other	21	26	5
Total advanced IRB approach	2,304	2,366	62
Total IRB approach	2,394	2,449	55

<i>figures in €'m</i>	Regulatory Expected Loss	Accounting Specific Impairment	Difference
Expected Loss vs Actual Loss	Dec'14	Dec'15	
Sovereign	0	0	0
Institutions	12	0	(12)
Corporate	605	114	(491)
Total foundation IRB approach	617	114	(503)
Retail Mortgages	2,614	2,490	(124)
Retail Qualified Revolving	31	29	(3)
Retail Other	27	29	3
Total advanced IRB approach	2,672	2,548	(124)
Total IRB approach	3,289	2,662	(627)

<i>figures in €'m</i>	Regulatory Expected Loss	Accounting Specific Impairment	Difference
Expected Loss vs Actual Loss	Dec'13	Dec'14	
Sovereign	0	0	0
Institutions	1	0	(1)
Corporate	623	770	147
Total foundation IRB approach	624	770	146
Retail Mortgages	2,749	2,851	102
Retail Qualified Revolving	41	29	(12)
Retail Other	35	40	5
Total advanced IRB approach	2,825	2,920	95
Total IRB approach	3,449	3,690	241

<i>figures in €'m</i>	Regulatory Expected Loss	Accounting Specific Impairment	Difference
Expected Loss vs Actual Loss	Dec'12	Dec'13	
Sovereign	0	0	0
Institutions	2	0	(2)
Corporate	515	728	213
Total foundation IRB approach	517	728	211
Retail Mortgages	1,966	2,935	969
Retail Qualified Revolving	49	42	(8)
Retail Other	140	36	(104)
Total advanced IRB approach	2,155	3,013	857
Total IRB approach	2,672	3,740	1,068

Table 38: Exposures split by geographical area by exposure class, average PD% and average LGD% (Art 452.j)

All figures in €m	ROI Balances			UK Balances			Other EU Balances			Rest of World			Total		
	EAD	PD%	LGD%	EAD	PD%	LGD%	EAD	PD%	LGD%	EAD	PD%	LGD%	EAD	PD%	LGD%
As at 31 December 2017															
Sovereign	0	0.0%	0.0%	0	0.0%	0.0%	116	0.2%	45.0%	0	0.0%	0.0%	116	0.2%	45.0%
Institutions	48	0.1%	45.0%	144	0.1%	45.0%	518	0.1%	45.0%	446	0.1%	45.0%	1,157	0.1%	45.0%
Corporate	250	45.7%	45.0%	4	2.9%	45.0%	1	100.0%	45.0%	0	0.0%	0.0%	256	45.3%	45.0%
Total foundation IRB approach	298	38.3%	45.0%	149	0.2%	45.0%	636	0.4%	45.0%	446	0.1%	45.0%	1,528	7.7%	45.0%
Retail Mortgages	20,099	22.9%	12.9%	162	29.4%	13.7%	35	27.5%	13.1%	59	23.4%	12.7%	20,354	23.0%	12.9%
Retail Qualified Revolving	578	3.6%	54.9%	3	2.0%	71.8%	1	1.4%	76.7%	1	1.9%	72.1%	582	3.6%	55.0%
Retail Other	208	5.4%	63.2%	0	10.4%	63.6%	0	1.8%	57.6%	0	1.7%	72.5%	209	5.4%	63.2%
Total advanced IRB approach	20,885	22.2%	14.5%	165	28.8%	14.9%	35	27.0%	14.6%	60	23.1%	13.6%	21,146	23.3%	14.5%
Total IRB approach	21,183	22.5%	15.0%	314	15.3%	29.1%	671	1.8%	43.4%	506	2.8%	41.3%	22,674	21.3%	16.6%
As at 31 December 2016															
Sovereign	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	45.0%	0	0.0%	0.0%	0	0.0%	45.0%
Institutions	93	0.5%	45.0%	359	0.1%	45.0%	550	0%	45.0%	441	0.1%	45.0%	1,443	0.1%	45.0%
Corporate	268	42.8%	45.0%	4	2.9%	45.0%	1	100.0%	45.0%	0	0.0%	0.0%	274	42.5%	45.0%
Total foundation IRB approach	361	31.9%	45.0%	364	0.1%	45.0%	551	0.4%	45.0%	441	0.1%	45.0%	1,717	6.9%	45.0%
Retail Mortgages	20,772	25.2%	10.1%	176	31.2%	12.7%	37	30.0%	11.5%	64	23.9%	12.0%	21,049	25.2%	10.1%
Retail Qualified Revolving	579	6.0%	54.0%	3	2.5%	69.5%	1	2.2%	74.3%	1	5.2%	71.1%	583	6.0%	54.2%
Retail Other	193	11.8%	61.4%	0	17.1%	64.7%	0	2.8%	58.4%	0	7.1%	72.7%	194	11.8%	61.4%
Total advanced IRB approach	21,544	24.5%	11.7%	179	30.7%	13.8%	38	29.4%	12.8%	65	23.6%	12.8%	21,826	24.6%	11.7%
Total IRB approach	21,905	24.6%	12.2%	543	10.2%	34.7%	589	2.3%	42.9%	505	3.1%	40.9%	23,543	23.3%	14.1%

Note: 2016 retail comparatives have been updated to correct some weighted averaged PD% and LGD% amounts

Use of Credit Risk Mitigation Techniques (Art 453)

Policies and processes for netting (Art 453.a)

The Group does not currently apply contractual netting for its derivative exposures. Credit Risk Mitigation (CRM) is, however, used to reduce credit exposure for the Group's repurchase agreements. Credit exposure on repurchase agreements are derived by subtracting the loan amount from the market value of the pledged security and then adding a volatility adjustment based upon the securities' credit quality, type, maturity, and frequency of valuation. The remainder of the Group's non-retail IRB and Standardised credit exposures are not impacted by CRM.

Collateral valuation and management (Art 453.b & c)

As the Group's principal exposure to credit risk is in respect of residential mortgages, which are calculated under the IRB approach, the value of the collateral held is reflected in the LGD estimation process.

A common way to view residential real estate collateral is by loan to value (LTV). The following table summarises the overall exposure weighted indexed LTV

Table 39: Exposure weighted indexed LTV for retail mortgage portfolios

Indexed LTV	RoI Residential Mortgages	
	Owner Occupied	Buy-to-let
Dec-17	76%	108%
Dec-16	84%	121%

The LGDs for the Group's retail portfolios are based on internal models and are divided into pools driven by appropriate drivers of loss. As is required by the CRD there is currently a minimum value of 10% utilised where internal estimates are less than this value. As at 31 December 2017, the average exposure weighted LGD for the Group's retail mortgage portfolios in Ireland was 12.8% (2016: 10.1%).

For non-retail IRB exposures, supervisory LGDs are used for minimum regulatory capital requirements calculation purposes as is required under CRD IV. These LGDs are not reduced through CRM and are applied directly to obligors in the calculation of risk weights.

Although the Group's derivative portfolio is typically collateralised in excess of 99% through CSA agreements, and was as at 31 December 2017, the Group has not received regulatory approval to recognise these agreements as CRM techniques for regulatory returns and consequently, do not reduce credit exposure. Collateral valuations are automated where possible and performed frequently by obtaining market prices from both licensed third party data providers and regulatory bodies.

Further information regarding the policies and processes for collateral valuation and management are described in Note 34 of the Group's Annual Report 2017.

The collateral taken by the group to mitigate risk is influenced by the exposure type and primarily consists of cash and real estate (for mortgage lending only).

Risk Concentrations within credit risk mitigation (Art 453.e)

The Group is an ROI based retail bank and due to its customer structure and operating focus in this market, the only collateral concentration risk that the Group is exposed to is the Irish residential property market.

Quantitative Disclosure on credit risk mitigation (Art 453.f)

The table below shows the Group's total exposure calculated under the Foundation IRB and Standardised Approaches before and after netting, volatility adjustments and CRM.

Table 40: F-IRB and STA Credit Exposures

All figures in €m		Dec-17		Dec-16	
F-IRB Exposure Class		Pre-CRM	Post-CRM	Pre-CRM	Post-CRM
Central Banks or Central Governments		116	116	-	-
Institutions		2,541	1,157	2,762	1,443
Securitisations		65	65	69	69

All figures in €m		Dec-17		Dec-16	
STA Exposure Class		Pre-CRM	Post-CRM	Pre-CRM	Post-CRM
Central Banks or Central Governments		3,204	3,035	4,914	3,855
Institutions		-	-	-	-
Securitisations		-	-	-	-

Article 453 (g)

Not applicable.

Use of the Advanced Measurement Approaches to operational risk (Art 454)

The Group does not use the Advanced Measurement Approach to operational risk.

Use of internal market risk model [\(Art 455\)](#)

The Group does not use any internal market risk models under article 363 of the CRR to calculate its capital requirements.

Glossary of terms

Advanced IRB The Advanced Internal Ratings Based (IRB) approach allows a bank to use its own estimated risk parameters for the purpose of calculating regulatory capital for credit risk to estimate probability of default (PD), loss given default (LGD), exposure at default (EAD), maturity (M) and other parameters required to arrive at the total risk weighted assets (RWA).

Arrears Arrears relates to any interest or principal payment on a loan which has not been received on its due date. When customers are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue, they are said to be in arrears.

Basis point One hundredth of a per cent (0.01%), so 100 basis points is 1%. It refers to changes in interest rates and bond yields.

Basel III Basel III is a global, voluntary regulatory framework on bank capital adequacy, stress testing and market liquidity risk.

Buy-to-let Residential mortgage loan provided to purchase residential investment property for rental purposes.

CCF Credit Conversion Factor converts an off balance sheet exposure (e.g. guarantee or credit facility) into its credit exposure equivalent.

CET 1 ratio Ratio of a bank's common equity capital to its total risk-weighted assets.

Common Equity Tier 1 capital Common Equity Tier 1 (CET1) capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; but may also include non-redeemable non-cumulative preferred stock.

Concentration risk The risk that any single (direct or indirect) exposure or group of exposures has the potential to produce losses large enough to threaten the institution's health or its ability to maintain its core business.

Contractual Maturity Date on which a scheduled payment is due for settlement and payable in accordance with the terms of a financial instrument.

CRD Capital requirements directive: Statutory law implemented by the European Union for capital adequacy. The CRD has introduced a supervisory framework in the European Union which reflects the Basel II and Basel III rules on capital measurement and capital standards.

Credit risk 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.

Credit Risk Mitigation Methods to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.

CSA Credit Support Annex is an annex to an ISDA agreement which allows the exchange of cash, or other allowed collateral, between the counterparties based on the mark to market movements of their derivative contracts.

CVA Credit valuation adjustment

adjustment is the difference between the risk-free portfolio value and the true portfolio value that takes into account the possibility of a counterparty's default.

Debt securities Instruments representing certificates of indebtedness of credit institutions, public bodies and other undertakings. Debt securities can be secured or unsecured.

Default When a customer fails to make timely payment of interest or principal on a debt security or to otherwise comply with the provisions of a bond indenture. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment.

EAD Exposure at default Exposure at default is the gross exposure under a facility upon default of an obligor.

ECAI (External Credit Assessment Institution) means a credit rating agency registered or certified in accordance with Regulation EC 1060/2009.

Fair value 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.

Forbearance Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan, for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such arrangements can include extended payment terms, a temporary reduction in interest or principal repayments, payment moratorium and other modifications.

Foundation IRB The Foundation Internal Ratings Based (IRB) Approach allows a bank to use their own estimated risk parameters for the purpose of calculating regulatory capital for credit risk to estimate probability of default (PD) to arrive at the total risk weighted assets (RWA).

GDP Gross Domestic Product is a monetary measure of the value of all final goods and services produced in a period of time (quarterly or yearly). GDP estimates are commonly used to determine the economic performance and standard of living of a whole country or region, and to make international comparisons.

Group Permanent TSB Group Holdings plc and its subsidiary undertakings.

Home loan A loan provided by a bank, secured by a borrower's primary residence or second home.

ICAAP Internal Capital Adequacy Assessment Process undertaken to ensure the Group is adequately capitalised against the risks in its business operations. The ICAAP is subject to review and evaluation by the regulatory authorities.

Impaired loans A loan is considered impaired when there is objective evidence of impairment or where the loan is greater than 90 days in arrears and the present value of future cash flows is less

than the carrying value of the loan (for residential mortgages this is typically where the indexed LTV is >80%) requiring a specific provision to be recognised in the income statement.

IRB The Internal Ratings Based Approach (IRB) Approach allows a bank to use its own estimated risk parameters for the purpose of calculating regulatory capital for credit risk to estimate probability of default (PD), loss given default (LGD), exposure at default (EAD), maturity (M) and other parameters required to arrive at the total risk weighted assets (RWA).

ISDA Master Agreements A standard agreement used in over-the-counter derivatives transactions. The ISDA Master Agreement, published by the International Swaps and Derivatives Association (ISDA), is a document that outlines the terms applied to a derivatives transaction between two parties. Once the two parties agree to the standard terms, they do not have to renegotiate each time a new transaction is entered into.

LCR Liquidity Coverage Ratio: The ratio to ensure that a bank has an adequate amount of high quality liquid assets in order to meet short-term obligations under a stress scenario lasting for 30 days. The LCR will be phased in over a number of years, with credit institutions obliged to hold 60% of their full LCR in 2015, 70% in 2016, 80% in 2017 and 100% in 2018, as per CRD IV.

LGD Loss Given Default is the share of an asset that is lost when a borrower defaults on a loan.

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

Loan to Deposit Ratio is a commonly used statistic for assessing a bank's liquidity by dividing the banks total loans by its total deposits.

LTV Loan to value is a lending risk assessment ratio of mortgage amount to the value of property.

Market risk The risk of change in fair value of a financial instrument due to adverse movements in equity prices, property prices, interest rates or foreign currency exchange rates.

NSFR Net Stable Funding Ratio: The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of capital and liabilities expected to be stable over the time horizon considered by the NSFR, which extends to one year.

Operational Risk The risks inherently present in the Group's business, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error, fraud, or from external events.

Own funds The sum of Tier 1 and Tier 2 capital.

Past Due Loan where repayment of interest or principal is overdue by at least one day.

PD Probability of Default is a financial term describing the likelihood that a borrower will be unable to meet its debt obligations.

RWAs Risk weighted assets is a measure of amount of bank's assets or off-balance sheet exposures which are weighted according to risk.

Securitisation Securitisation is the process of taking an illiquid asset, or group of assets, and through financial engineering, transforming them into a security.

Standardised The Standardised Approach requires banks to follow prescribed steps to arrive at the total risk weighted assets (RWA) unless they have been approved to use a different approach (e.g. IRB).

Tier 1 capital A term used to describe the capital adequacy of a bank. Tier 1 capital is core capital; this includes equity capital and disclosed reserves.

Tier 2 capital Tier 2 capital is supplementary bank capital that includes items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.

TLTRO Targeted longer-term refinancing operations.

Total Net Cash Outflows means total expected cash outflows, minus total expected cash inflows, in the specified stress scenario for the subsequent 30 calendar days.

Tracker mortgage A mortgage which follows the Base Rate of interest set by the European Central Bank and will be fixed at a certain percentage above this rate.