permanent tsb
Group Holdings plc

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

Forward Looking Statements

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

The words "expect", "anticipate", "intend", "plan", "estimate", "aim", "forecast", "project", "target", "goal", "believe", "may", "could", "will", "seek", "would", "should", "continue", "assume" and similar expressions (or their negative) identify certain of these forward-looking statements but their absence does not mean that a statement is not forward looking. The forward-looking statements in this document are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the Group to be materially different from those expressed or implied by such forward looking statements. Many of these risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely, such as future global, national and regional economic conditions, levels of market interest rates, credit or other risks of lending and investment activities, competition and the behaviour of other market participants, the actions of regulators and other factors such as changes in the political, social and regulatory framework in which the Group operates or in economic or technological trends or conditions. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance. Nothing in this document should be considered to be a forecast of

future profitability or financial position and none of the information in this document is intended to be a profit forecast or profit estimate.

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

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

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1. Net Interest Margin (“NIM”) is defined as net interest income (excluding ELG fees) divided by average interest-earning assets.
2. Cost Income Ratio is defined as total operating expenses (excluding exceptional items) divided by total operating income (excluding the 2016 Visa Europe share sale gain).
3. Non-performing loans (“NPLs”) are defined as loans greater than 90 days in arrears, loans deemed unlikely to pay and loans captured as NPLs under mandatory regulatory guidance.
4. The ratio of loans and advances to customers compared to customer accounts as presented in the statement of financial position.
5. CET 1 Ratio is the ratio of a bank’s Common Equity Tier 1 capital to its total risk-weighted assets.
6. Risk Weighted Assets (“RWAs”) is the Group’s assets or off balance sheet exposures, weighted according to risk. See page 19.
7. LCR is calculated based on the Commission Delegated Regulation (EU) 2015/61.

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

Chief Executive's Review

Introduction

The past number of years has seen Permanent TSB's business model simplified and de-risked to focus exclusively on Irish Retail and SME customers. We are creating a sustainable Irish Retail and SME banking business that is trusted and valued by our customers and our employees, thereby maximising value for our shareholders.

Having stabilised the Bank successfully after the financial crisis, the focus of our effort over the past three years has been on fixing legacy problems, reorganising and refocusing the business, and rebuilding the capabilities necessary to make the Bank a strong competitor in its chosen markets. Whilst this work continues, our focus is now on growing the business profitably, building its scale, improving its efficiency and reducing its risk profile.

In this regard, we have made good progress in the first six months of 2017. The Bank has reported a profit before tax and exceptional items of €53 million. We have also improved our market presence; for example, the Bank's market share of new mortgage lending increased from 9.1% in 2016 to 10.8% in 2017[1].

Economic Environment

Economic activity in Ireland continues to improve strongly in 2017. GDP is forecast to reach over 4% for the fourth year in a row and unemployment has fallen from 6.9% to 6.3% since December 2016. Activity in the housing market is also on the rise. Despite housing supply constraints, the demand for mortgage lending remains positive with underlying demand for new housing currently estimated to be in excess of 20,000 units per annum and forecast to rise to over 30,000 units by 2020[2].

Business Performance Overview

The overall business performance for the first half of 2017 showed excellent progress. This is a reflection of the Bank's renewed focus on customer and business growth as we move away from resolving legacy issues.

Funding

The Bank's Explore Account continues to win new customers. In the first half of the year, we have opened over 20,000 current accounts, which is a 17% increase year-on-year, with balances increasing by €0.2 billion to €3.5 billion which is a 5% increase from December 2016.

We continue to maintain a robust deposit base while reducing the cost of funds in line with a continuing low interest rate environment. At 30 June 2017, total deposits (including current accounts) amounted to €16.9 billion which represents 81% of our funding base.

The Bank has reduced its ECB funding by 83% to €230 million which now solely comprises Targeted Longer-Term Refinancing Operations.

Mortgage Lending

Gross new mortgage lending for the first six months of the year was €341 million, which is up 62% year-on-year, considerably outperforming market growth of 35%. As noted, a strong performance in the first half of 2017 has resulted in an increase in our market share of new mortgage lending from 9.2% in 2016 to 10.8%[1]. The housing supply continues to remain subdued while anticipated demand for houses continues to rise and is expected to reach 30,000 units per year by 2020. This structural imbalance is unsustainable over the long term and requires urgent focus by all stakeholders.

Term Lending

New term lending in the first half was €43 million, 59% ahead of the previous year. We continue to invest significantly in introducing further process enhancements to improve the customer experience and believe there are significant opportunities for the Bank to capture profitable growth.

Financial Performance Overview

Operating Profit

The Bank recorded a total profit after tax for the first half of the year of €36 million which compares to €80 million for the same period in 2016. This reduction is primarily due to an impairment charge of €6 million for the first half of 2017, compared to an impairment write-back of €61 million for the period to 30 June 2016.

Net Interest Margin

The Net Interest Margin (NIM) increased by 38 basis points to 1.81% in the period ended 30 June 2017 compared to the prior period. This increase predominantly reflects a reduction in the cost of funds of retail and corporate deposits in line with the trend across Ireland and the sale of the lower yielding UK and Isle of Man loan portfolios in the second half of 2016.

[1] Measured to May 2017 using BPFI data
[2] ESRI, December 2016

Operating Expenses (Excluding Exceptional Items and Regulatory Charges)

Total Operating Expenses (excluding Exceptional Items and Regulatory Charges) for the first half of the year decreased by €8 million to €144 million. This is mainly due to a reduction in professional fees and project costs during 2017.

The adjusted Cost Income Ratio (excluding Exceptional Items, Regulatory Charges and Visa Europe share sale gain) decreased from 75% to 65% for the first half of 2017.

Impairment Charge

The total Impairment Charge for the first half of 2017 was €6 million. This is compared with a write-back of €61 million for the same period in 2016. The write-back in 2016 was largely related to a realignment of the Bank's provisioning model which included a house price index release of €35 million. The current period charge includes the impact of updated valuations obtained on certain cohorts of the Group's portfolio.

Capital

At 30 June 2017, the Common Equity Tier 1 (CET1) capital ratio was 17.1%. This compared to a CET1 capital ratio of 17.2% at 31 December 2016 on a Transitional basis and improved marginally by 0.1% to 15% on a Fully Loaded basis.

Non-Performing Loans Strategy

As part of the 2012 Troika Programme of Support for Ireland, Permanent TSB (and other Irish banks) set out to deal with the problem of mortgage arrears. Since then, arrears levels have reduced by over 50% from their peak in 2013. This was predominantly achieved through the application of a range of sustainable and affordable long term forbearance measures. We have executed this strategy successfully over the last four years. We have assessed approximately 40,000 customers and offered long term treatments to over 35,000 customers. Over 90% of accepted treatments are performing to their restructure terms. At 30 June 2017, 53% of our Non-Performing Loans are in some form of forbearance treatment. We continue to collect significant amount of cash from these customers notwithstanding the fact that these loans continue to be classified as NPLs.

Whilst the Bank has made significant progress in reducing its stock of NPLs, the Board and Management recognises that its current NPL level remains unsustainably high, due in part to both customer non-engagement and/or lack of affordability and, constraints in the legal system. This has led to increased Board, Management and regulatory focus.

In response, the Bank intends to report progress in reducing its NPL ratio to a high single digit number over the medium term through a range of strategies including accelerated workout; maximised repayments; natural cures; closures (Assisted Voluntary Sales and Foreclosures); and, portfolio sales.

Summary and Outlook

Despite the prolonged low interest rate environment and structural issues in the housing market, Ireland's economic growth continues to be robust and provides a positive backdrop for us to operate in.

We continue to rebuild profitability, improve our market presence and address legacy challenges robustly. It has been a positive first half. I am proud of what we continue to deliver and the progress we are making.

As always, progress made is due to the commitment of the Bank's staff who have demonstrated both resilience and an unwavering dedication to the organisation. Their hard work, commitment and drive to rebuild the Bank is relentless. Together, we are confident that we can deliver a better bank that is trusted and valued by our customers and our employees, plays an important role in the broader Irish society and, as a result, maximises value for our shareholders.

Jeremy Masding
Chief Executive Officer
25 July 2017

Financial Review

Summary Condensed Consolidated Income Statement

	Half year ended 30 June 2017	Half year ended 30 June 2016	Change
	€m	€m	%
Net interest income (before ELG fees)	**204**	198	3%
ELG fees	**(1)**	(3)	(67%)
Net other income	**18**	38	(53%)
Total operating income	**221**	233	(5%)
Total operating expenses (excl. exceptional items)	**(162)**	(177)	8%
Operating profit before impairment charges and exceptional items	**59**	56	5%
Impairment (charge)\write-back on loans and advances to customers, repossessed assets and debt securities	**(6)**	61	
Operating profit before exceptional items	**53**	117	(55%)
Exceptional items (net)	**(10)**	(9)	11%
Profit before taxation	**43**	108	(60%)
Taxation	**(7)**	(28)	(75%)
Profit for the period	**36**	80	(55%)

(i) **Net Interest Income** (pre-Eligible Liabilities Guarantee "ELG") increased by 3% for the first six months to 30 June 2017 to €204m. This growth represents a 38 basis point increase in net interest margin from 1.43% at 30 June 2016 to 1.81% at 30 June 2017. This is largely due to a reduction in retail funding costs. This growth more than offsets the impact of the 18.4% decrease in average interest earning assets, which reduced primarily due to the deleveraging of the Lansdowne 199 and Isle of Man loan portfolios during the second half of 2016.

(ii) **Net Other Income** decreased by 53% to €18m during the year. The majority of this income comprises fees and commissions on credit cards and insurance contracts which is in line with the period ended 30 June 2016. Also included in net other income are net trading expenses of €1m, compared to €10m for the prior period. This is primarily due to lower foreign exchange movements in 2017 compared to 30 June 2016 when the Group was economically hedging its UK operations with foreign exchange derivative contracts. Net other income has also decreased for the period ended 30 June 2017 due to a one off gain of €29m in the first half of 2016, which related to the sale of the Group's share in Visa Europe.

(iii) **Total Operating Expenses** (excluding exceptional items) decreased by 8% from 30 June 2016 to €162m. This reduction is largely due to a decrease in professional fees and project costs.

(iv) **Impairment** charge of €6m for the period ended 30 June 2017, which represents an increase of €67m from 30 June 2016, is largely due to a write-back for the prior period, related to a realignment of the Group's provisioning model including a HPI release of €35m. The current year charge of €6m includes the impact of updated valuations obtained on certain cohorts of the Group's portfolio.

(v) **Operating profit** before exceptional items for the period has decreased by €64m to €53m. The overall profit before tax for the half year has decreased by €65m to €43m in comparison to 30 June 2016. This is principally due to a marginal impairment charge of €6m for the six months period to 30 June 2017, compared to an impairment write-back of €61m in the period to 30 June 2016, and the one off gain of €29m from the sale of the share held by the Group in Visa Europe Ltd in the first half of 2016.

(vi) **Exceptional Items** are €10m for the first half of 2017. This comprises a €7m charge relating to a restructuring of the Group's distribution model, €1m relating to the wind-down of the Group's IOM deposit book entity (Permanent Bank International) and other net costs relating to previously deleveraged portfolios.

Financial Review

Summary Condensed Consolidated Statement of Financial Position

	30 June 2017	31 December 2016	Change
	€m	€m	%
Assets			
ROI home loans	**13,728**	13,939	(2%)
ROI buy-to-let	**4,441**	4,519	(2%)
Total ROI residential mortgages	**18,169**	18,458	(2%)
Commercial mortgages	**153**	162	(6%)
Consumer Finance	**267**	266	-
Total loans and advances to customers	**18,589**	18,886	(2%)
Loans and advances to banks	**1,241**	1,185	5%
Equity securities	**10**	9	11%
Debt securities	**2,602**	2,682	(3%)
Other assets	**744**	838	(11%)
Assets held for sale	**1**	1	-
Total assets	**23,187**	23,601	(2%)
Liabilities and equity			
Current accounts	**3,525**	3,355	5%
Retail deposits	**10,631**	10,586	-
Corporate & institutional deposits	**2,762**	3,042	(9%)
Total customer accounts	**16,918**	16,984	-
Deposits by ECB	**230**	1,380	(83%)
Deposits by banks and other financial institutions	**2,476**	1,523	63%
Deposits by banks	**2,706**	2,903	(7%)
Debt securities in issue	**1,196**	1,324	(10%)
Subordinated liabilities	**23**	22	5%
Other liabilities	**236**	268	(12%)
Total liabilities	**21,079**	21,501	(2%)
Total equity	**2,108**	2,100	-
Total equity and liabilities	**23,187**	23,601	(2%)

Total assets decreased by €414m or 2% to €23,187m during the half year ended 30 June 2017. This is primarily as a result of net redemptions within the residential mortgage portfolio and reductions in debt securities arising from redemptions of NAMA bonds during the period.

Total liabilities decreased by €422m or 2% to €21,079m during the half year ended 30 June 2017, with the Group significantly reducing its utilisation of ECB funding during the period. Debt securities in issue have decreased due to the maturity of a Medium Term Note and amortisation of the Group's securitisation issuances.

Net Interest Income

	Half year ended		
	30 June 2017	30 June 2016	Change
	€m	€m	%
Interest Income	**255**	294	(13%)
Interest Expense (excl ELG)	**(51)**	(96)	47%
Net Interest Income (excl ELG)	**204**	198	3%
ELG Fees	**(1)**	(3)	67%
Net Interest Income	**203**	195	4%

Net interest income increased by €8m during the period, mainly due to a sale of the Group's lower yielding UK and Isle of Man portfolios in the second half of 2016 offset by a reduction in treasury income due to reduced yields on treasury assets.

Interest recognised on impaired loans and advances to customers was €40m for the period ended 30 June 2017 (30 June 2016: €53m). Included in net interest income are gains on hedging instruments of €15m (30 June 2016: loss €2m) and losses on hedged items attributable to hedged risk of €15m (30 June 2016: gain €2m). Net interest income includes a charge in respect of deferred acquisition costs on loans and advances to customers of €8m (30 June 2016: €13m).

	Half year ended 30 June 2017	Half year ended 30 June 2016	Amount of change	Percentage change
	€m	€m	€m	%
Total average interest-earning assets	**22,666**	27,776	(5,110)	(18%)
Total average interest-bearing liabilities	**21,101**	25,853	(4,752)	(18%)
Average rate on average interest earning assets	**2.26%**	2.14%	12 bps	
Average rate on average interest-bearing liabilities (excluding ELG fees)	**0.49%**	0.75%	(26 bps)	
Net interest margin (excluding ELG fees)	**1.81%**	1.43%	38 bps	

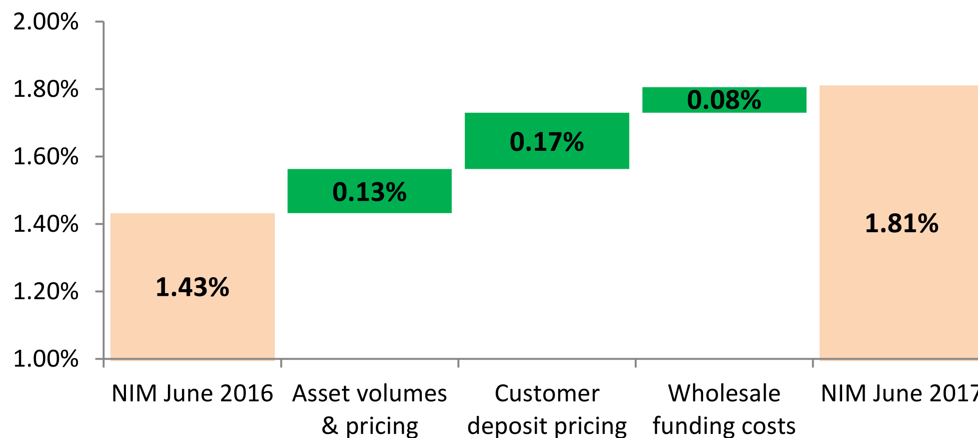
Total average interest-earning assets decreased by €5,110m for the period ended 30 June 2017 compared to the period ended 30 June 2016, largely due to completion of the Group's deleveraging programme in the second half of 2016. Average interest-bearing liabilities decreased by €4,752m compared to the prior period primarily due to deleveraging and a reduction in ECB funding.

The average rate on average interest earning assets has increased mainly due to the sale of lower yielding UK and Isle of Man loan portfolios during the second half of 2016.

The average rate on average interest-bearing liabilities (excluding ELG fees) reduced by 26 basis points to 0.49% for the half year ended 30 June 2017, due to lower cost of retail deposits, the maturity of bonds on higher interest rates and new issuances of non-recourse funding at lower interest rates.

NIM movement since June 2016

The Group's net interest margin (excluding ELG fees) increased from 1.43% for the period ended 30 June 2016 to 1.81% for the period ended 30 June 2017.



The key drivers of the NIM movement in the period to 30 June 2017 are as follows:

Asset volumes & pricing: Changes in asset pricing and volumes contributed to a 13 basis point increase in net interest margin, due primarily to the deleveraging of the lower yielding Isle of Man and UK portfolios, which led to an increase in average rates on loans and advances to customers. This is partially offset by lower yields on treasury securities.

Customer deposit pricing: The on-going reduction in the cost of retail and corporate deposits, which reflected a normalisation of the Group's deposit rates, contributed 17 basis points to net interest margin improvement**.**

Wholesale funding costs: Reduced wholesale funding costs contributed 8 basis points to net interest margin improvement due to favourable rates on the issuance of mortgage backed securities in the second half of 2016.

Key NIM Drivers: Average Balance Sheet and Interest Rate Data

The following table sets out the average balances of interest-earning assets and interest-bearing liabilities for the periods ended 30 June 2017 and 30 June 2016. The table also outlines the amount of interest income earned and interest expense (excluding ELG fees) incurred by the Group in the periods ended 30 June 2017 and 30 June 2016, as well as the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities. For the purpose of the table below, average balances are calculated from month end positions from 30 June 2016 to 30 June 2017 and similar for the comparative period.

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

	Half year ended 30 June 2017			Half year ended 30 June 2016		
	Average Balance	**Interest**	**Average Yield/Rate**	Average Balance	Interest	Average Yield/Rate
	€m	**€m**	**%**	€m	€m	%
Interest-earning assets						
Loans and advances to banks	**1,254**	**-**	**-**	1,601	-	0.10%
Loans and advances to customers	**18,727**	**226**	**2.43%**	22,670	249	2.21%
Debt securities and derivative assets	**2,685**	**29**	**2.18%**	3,505	45	2.59%
Total average interest-earning assets	**22,666**	**255**	**2.26%**	27,776	294	2.14%
Interest-bearing liabilities						
Customer accounts	**16,943**	**40**	**0.48%**	17,487	70	0.81%
Deposits by banks	**2,772**	**3**	**0.22%**	7,076	18	0.51%
Debt securities in issue and derivative liabilities	**1,363**	**8**	**1.18%**	1,268	8	1.27%
Subordinated liabilities	**23**	**-**	**0.00%**	22	-	0.00%
Total average interest-bearing liabilities	**21,101**	**51**	**0.49%**	25,853	96	0.75%
Total average equity attributable to owners	**2,101**			2,422		

The Group's net average balance of loans and advances to customers decreased to €18,727m for the period ended 30 June 2017 from €22,670m for the period ended 30 June 2016 (a 17.4% decrease). This is largely due to the sale of both the UK and IOM loan portfolios during the second half of 2016 and net loan repayments. The average interest rate on loans and advances to customers increased to 2.43% for the period ended 30 June 2017 from 2.21% for the prior period. This was predominately driven by the deleveraging of the lower yielding UK and IOM loan portfolios.

The Group's average balance of debt securities and derivative assets decreased by €820m for the period ended 30 June 2017, to €2,685m from €3,505m for the prior period (a 23.4% decrease) primarily as a result of the maturity of Irish government bonds. This was partially offset by further additions of Irish government debt securities. The average interest rate on debt securities and derivative assets decreased to 2.18% for the period ended 30 June 2017 from 2.59% for the period ended 30 June 2016, principally as a result of the maturity of certain high yielding Irish government bonds in 2016.

The Group's average balance of customer accounts reduced by €544m for the period ended 30 June 2017 from €17,487m for the period ended 30 June 2016, primarily due to a continued drive by the Group to manage its cost of funds. The average interest rate on customer accounts decreased to 0.48% for the period ended 30 June 2017 from 0.81% for the period ended 30 June 2016, reflecting rate reductions implemented on both retail and corporate deposits.

The Group's average balance of deposits by banks decreased to €2,772m for the period ended 30 June 2017 from €7,076m for the period ended 30 June 2016 driven by a reduction in ECB funding. ECB funding now represents 1% of the Group’s interest bearing liabilities excluding subordinated liabilities compared to 7% at 31 December 2016. The average interest rate on deposits by banks reduced from 0.51% for the period ended 30 June 2016 to 0.22% for the period ended 30 June 2017.

The Group's average balance of debt securities in issue and derivative liabilities increased to €1,363m for the period ended 30 June 2017 from €1,268m for the period ended 30 June 2016 (a 7% increase). The average interest rate on debt securities in issue and derivative liabilities decreased to 1.18% for the period ended 30 June 2016 from 1.27% for the period ended 30 June 2016.

Net Other Income

The following table sets out the components of the Group's net other income in the periods ended 30 June 2017 and 2016 and the percentage change in each of the components between these two periods.

	Half year ended		
	30 June 2017	30 June 2016	Change
	€m	€m	%
Fees and commission income	**28**	28	-
Fees and commission expenses	**(10)**	(9)	(11%)
Net fees and Commission income	**18**	19	(5%)
Net trading expense	**(1)**	(10)	90%
Net operating income	**1**	29	(97%)
Total net other income	**18**	38	(53%)

Net fees and commission income of €18m for the period ended 30 June 2017 decreased by €1m. The majority of this income comprises of fees and commissions on credit cards and insurance contracts.

Net trading expense of €1m for the period ended 30 June 2017 decreased by €9m from the prior period. This is primarily due to lower foreign exchange movements in 2017 compared to 30 June 2016 when the Group was economically hedging its UK operations with foreign exchange derivative contracts.

Net operating income was €1m for the period ended 30 June 2017. The year on year movement is primarily due to a one-off gain in 2016 arising from the sale of the Group’s share in Visa Europe.

Total Operating Expenses (excluding exceptional items)

The following table sets out the components of the Group's total operating expenses (excluding exceptional items) in the periods ended 30 June 2017 and 2016, and the percentage change in each of the components between these two periods.

	Half year ended		
	30 June 2017	30 June 2016	Change
	€m	€m	%
Staff Costs:			
Wages and salaries including commission paid or payable to sales staff	**62**	60	(3%)
Social insurance	**7**	6	(17%)
Pension costs	**6**	5	(20%)
Total staff costs	**75**	71	(6%)
Other general and administrative expenses	**58**	71	18%
Administrative, staff and other expenses (excluding exceptional items and regulatory charges, see note 5)	**133**	142	6%
Depreciation of property and equipment	**6**	6	-
Amortisation of intangible assets	**5**	4	(25%)
Total Operating Expenses (excluding exceptional items and regulatory charges, see note 5)	**144**	152	5%
Regulatory charges	**18**	25[1]	28%
Total Operating Expenses (excluding exceptional items)	**162**	177	8%
Headline Cost Income Ratio*	**73%**	87%	
Adjusted Cost Income Ratio**	**65%**	75%	

*Defined as total operating expenses (excluding exceptional items) divided by total operating income (excluding 2016 Visa Europe share sale gain).

**Defined as total operating expenses (excluding exceptional items and regulatory charges) divided by total operating income (excluding 2016 Visa Europe share sale gain).

Total operating expenses (excluding exceptional items) decreased by 8% from €177m for the period ended 30 June 2016 to €162m for the period ended 30 June 2017.

Total staff costs increased by €4m, or 6%, from €71m for the period ended 30 June 2016 to €75m for the period ended 30 June 2017, primarily as a result of both a pay and modernisation programme which commenced during the second half of 2016 and an increase in staff numbers by 37 during the period.

Other general and administrative expenses decreased by €13m for the period ended 30 June 2017, largely due to a reduction in professional fees and project costs.

Depreciation of property and equipment and amortisation of intangible assets increased marginally by €1m to €11m for the period ended 30 June 2017.

The adjusted cost-to-income ratio has improved from 75% for the period ended 30 June 2016 to 65% for the period ended 30 June 2017, reflecting improved operating efficiency in the Group.

[1] €9m for Bank Recovery and Resolution Directive (“BRRD”) levy, €10m for Deposit Guarantee Scheme (‘DGS’) fess, and other regulatory charges of €6m.

Regulatory charges are €18m for the period ended 30 June 2017 which includes €7m under Bank Recovery and Resolution Directive levy and €11m for the Deposit Guarantee Scheme. Regulatory charges have decreased by €7m from the period ended 30 June 2016 as other fees including the Central Bank Industry Funding levy will not be payable until the second half of 2017.

The bank levy introduced through the 2013 Finance Act is payable in the second half of 2017 and will, under accounting standards, be recognised at this point.

Impairment charges/(write-backs)

The following table sets out the components of the Group's impairment charge/(write-back) in the 6 month period ended 30 June 2017 and the 6 month period ended 30 June 2016, together with the percentage change in each of the components between these two periods.

	Half year ended		
	30 June 2017	30 June 2016	Change
	€m	€m	%
ROI residential mortgages			
- Home loans	**5**	(28)	
- Buy-to-let	**(1)**	(34)	(97%)
Total ROI residential mortgages	**4**	(62)	
- Commercial	**(1)**	(3)	(67%)
- Consumer finance	**2**	(9)	
	5	(74)	
UK residential mortgages			
- Buy-to-let	**-**	14	100%
Total UK residential mortgages	**-**	14	100%
Total impairment charge/(write-back) on loans and advances to customers*	**5**	(60)	
Impairment charge/(write-back) on repossessed assets			
Impairment charge/(write-back) on repossessed assets	**1**	(1)	
Total impairment charge/(write-back)	**6**	(61)	
Cost of risk ratio**	**6bps**	(23bps)	

*includes impairment (write-back)/charge on assets held for sale.

**Defined as annualised impairment charges (excluding 2016 HPI release) divided by the average balance of net loans and advances to customers (including assets held for sale).

Total impairment charge increased by €67m, from a write-back of €61m for the period ended 30 June 2016 to a charge of €6m for the period ended 30 June 2017.

Total impairment charge on ROI residential Home loan and Buy-to-let mortgages amounted to €4m in the period ended 30 June 2017, compared to a write-back of €62m for the period ended 30 June 2016. The following should be taken into account when analysing the charge in 2017:

(i) The charge of €4m includes the impact of updated valuations obtained on high exposure performing loans and NPLs.

(ii) The write-back for the prior period largely related to refinements to the Group's provision models, including a revision to the house price index assumptions, which resulted in a €35m provision release.

Total impairment write-back on commercial mortgages amounted to €1m for the period ended 30 June 2017 compared to a write-back of €3m for the period ended 30 June 2016.

Total impairment charge on consumer finance amounted to €2m for the period ended 30 June 2017 compared to a write-back of €9m for the period ended 30 June 2016. This movement of €11m is largely related to a provision release on current account suspended interest (€3m) and lower new default volumes and higher recoveries in 2016.

There was a charge of €1m on repossessed assets for the period ended 30 June 2017, compared to a write-back of €1m for the period ended 30 June 2016.

Exceptional Items

Exceptional Items are €10m for the first half of 2017. This comprises a €7m charge relating to a restructuring of the Group's distribution model, €1m relating to the wind-down of the Group's IOM deposit book entity (Permanent Bank International) and other net costs relating to previously deleveraged portfolios.

Asset Quality

The tables below outline total loans and advances to customers for the Group's ROI residential mortgages analysed by home loans, buy-to-let, commercial and consumer finance based on excellent, satisfactory and fair risk in line with the IRB rating system and, neither past due nor impaired, past due but not impaired and impaired in line with IFRS 7. Details of the IRB rating system are set out within the Group's 2016 Annual Report and continue to apply here.

30 June 2017	**ROI Residential mortgages**				
	Home loan	**Buy-to-let**	**Commercial**	**Consumer Finance**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Excellent	**9,164**	**1,109**	**15**	**161**	**10,449**
Satisfactory	**1,368**	**2,482**	**114**	**63**	**4,027**
Fair Risk	**849**	**300**	**28**	**31**	**1,208**
Neither past due nor impaired	**11,381**	**3,891**	**157**	**255**	**15,684**
Past due but not impaired	**383**	**78**	**4**	**9**	**474**
Impaired	**3,330**	**1,401**	**67**	**58**	**4,856**
	15,094	**5,370**	**228**	**322**	**21,014**
Provision for impairment losses	**(1,420)**	**(929)**	**(75)**	**(55)**	**(2,479)**
	13,674	**4,441**	**153**	**267**	**18,535**
Deferred fees, discounts and fair value adjustments	**54**	**-**	**-**	**-**	**54**
	13,728	**4,441**	**153**	**267**	**18,589**

31 December 2016	ROI Residential mortgages				
	Home loan	Buy-to-let	Commercial	Consumer Finance	Total
	€m	€m	€m	€m	€m
Excellent	9,216	971	15	170	10,372
Satisfactory	1,413	2,668	117	50	4,248
Fair Risk	820	327	32	24	1,203
Neither past due nor impaired	11,449	3,966	164	244	15,823
Past due but not impaired	431	123	7	13	574
Impaired	3,406	1,360	72	74	4,912
	15,286	5,449	243	331	21,309
Provision for impairment losses	(1,406)	(930)	(81)	(65)	(2,482)
	13,880	4,519	162	266	18,827
Deferred fees, discounts and fair value adjustments	59	-	-	-	59
	13,939	4,519	162	266	18,886

The Group's loans after impairment amounted to €18.6bn as at 30 June 2017 (31 December 2016: €18.9bn).

Loans which are neither past due nor impaired before provision for impairment losses, amounted to €15.7bn or 75% of the loan book as at 30 June 2017 in comparison to €15.8bn or 74% of the loan book as at 31 December 2016.

As at 30 June 2017, €0.5bn or 2% of the loan portfolios are within past due but not impaired loans category compared to €0.6bn or 3% as at 31 December 2016.

Impaired loan balances at 30 June 2017 were €4.9bn or 23% of the total loan book (31 December 2016: €4.9bn or 23%).

Impairment Provisions

During the period ended 30 June 2017, impairment provisions were €2,479m, which is a marginal reduction of €3m from the period ended 31 December 2016. Provisions for impairment represent 12% of the total gross loans and advances to customers at 30 June 2017, which is aligned to 31 December 2016.

Non-Performing Loans

The following tables provide details of non-performing loans, non-performing loans as a percentage of loans and advances to customers (including assets held for sale) and provision coverage ratio by type of loan as at 30 June 2017 and as at 31 December 2016.

Non-performing loans ("NPLs") are defined as impaired loans, loans which are greater than 90 days in arrears, loans which are deemed unlikely to repay the total balance without realisation of the underlying collateral and loans which are considered unlikely to pay as defined under regulatory guidelines, including the May 2013 CBI guidelines on impairment provisioning and under European Banking Authority Implementing Technical Standards.

30 June 2017	**ROI Residential mortgages**				
	Home loan	**Buy-to-let**	**Commercial**	**Consumer Finance**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Not impaired no arrears	**596**	**156**	**3**	**-**	**755**
Not Impaired < 90 days in Arrears	**53**	**4**	**-**	**-**	**57**
Not Impaired > 90 days in Arrears	**110**	**4**	**-**	**-**	**114**
Impaired loans	**3,330**	**1,401**	**67**	**58**	**4,856**
Non-performing loans	**4,089**	**1,565**	**70**	**58**	**5,782**
NPLs as % of gross loans	**27%**	**29%**	**31%**	**18%**	**28%**
Provision coverage ratio*	**41%**	**66%**	**112%**	**95%**	**50%**
NPL provision coverage ratio **	**35%**	**59%**	**107%**	**95%**	**43%**

*Provision coverage ratio ("PCR") is calculated as impairment provisions as a % of non-performing loans greater than 90 days in arrears and/or impaired.

** NPL provision coverage ratio is calculated as impairment provisions as a % of non-performing loans.

31 December 2016	ROI Residential mortgages				
	Home loan	Buy-to-let	Commercial	Consumer Finance	Total
	€m	€m	€m	€m	€m
Not impaired no arrears	569	180	3	-	752
Not Impaired < 90 days in Arrears	53	9	-	-	62
Not Impaired > 90 days in Arrears	118	6	-	-	124
Impaired loans	3,406	1,360	72	74	4,912
Non-performing loans	4,146	1,555	75	74	5,850
NPLs as % of gross loans	27%	29%	31%	22%	27%
Provision coverage ratio*	40%	68%	113%	88%	49%
NPL provision coverage ratio **	34%	60%	108%	88%	42%

*Provision coverage ratio ("PCR") is calculated as impairment provisions as a % of non-performing loans greater than 90 days in arrears and/or impaired.

** NPL provision coverage ratio is calculated as impairment provisions as a % of non-performing loans.

NPLs reduced marginally by €68m to €5,782m for the period ended 30 June 2017. The Group has a provision coverage ratio of 50%, a movement of 1% from the year ended 31 December 2016.

Forbearance Arrangements – ROI residential mortgages

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

The tables below set out the asset quality and volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 30 June 2017 and 31 December 2016. The balance of forbearance arrangements for residential home loan mortgages and buy-to-let residential mortgages are analysed below.

	All forborne Loans		Loans >90 days in arrears and/or impaired	
	Number	**Balances**	**Number**	**Balances**
		€m		**€m**
ROI Residential home loan mortgages				
As at 30 June 2017	**27,268**	**4,258**	**16,455**	**2,895**
As at 31 December 2016	28,128	4,376	16,859	2,953
ROI Residential buy-to-let mortgages				
As at 30 June 2017	**4,026**	**1,431**	**1,977**	**705**
As at 31 December 2016	4,008	1,413	1,944	687

The tables above reflect a decrease of €118m as at 30 June 2017 for the Group in the balance of ROI residential home loans in forbearance arrangements, a decrease of 3% compared to 31 December 2016.

It also reflects an increase of €18m as at 30 June 2017 for the Group in the balance of ROI residential buy-to-let in forbearance arrangements, an increase of 1% compared to as at 31 December 2016.

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

Loans and Advances to Banks

The following table outlines the Group's loans and advances to banks as at 30 June 2017 and 31 December 2016.

	30 June 2017	31 December 2016	Change
	€m	€m	%
Placed with central banks	**348**	228	53%
Placed with other banks	**893**	957	(7%)
Total loans and advances to banks	**1,241**	1,185	5%

Placements with other banks includes restricted cash of €606m (31 December 2016: €668m) of which €447m (31 December 2016: €466m) is held by the Group's securitisation entities and €159m (31 December 2016: €202m) relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Loans and advances to banks amounting to €1,234m as at 30 June 2017 (31 December 2016: €1,172m) have a maturity of less than three months.

Debt Securities

The following table outlines the Group's debt securities as at 30 June 2017 and 31 December 2016.

	30 June 2017	31 December 2016	Change
	€m	€m	**%**
Irish Government bonds	**2,552**	2,436	5%
NAMA bonds	**50**	246	(80%)
Gross debt securities	**2,602**	2,682	(3%)

During the period ended 30 June 2017, the debt securities portfolio decreased by €80m, mainly as a result of NAMA bond redemptions of €196m partially offset with new purchases of Irish government debt.

Liabilities

Customer Accounts

The following table outlines the Group's customer accounts as at 30 June 2017 and 31 December 2016:

	30 June 2017	31 December 2016	Change
	€m	€m	%
Term deposits	**8,230**	8,790	(6%)
Demand deposits	**3,207**	2,938	9%
Current accounts	**3,525**	3,355	5%
Notice and other accounts	**1,956**	1,901	3%
Total Customer accounts	**16,918**	16,984	-

The following table sets forth the Group's customer accounts by customer type as at 30 June 2017 and 31 December 2016:

	30 June 2017	31 December 2016	Change
	€m	€m	%
Current accounts	**3,525**	3,355	(5%)
Retail deposits	**10,379**	10,213	2%
Irish retail deposits (including current accounts)	**13,904**	13,568	2%
Isle of Man	**252**	374	(33%)
Total retail deposits	**14,156**	13,942	2%
Corporate & institutional deposits	**2,762**	3,042	(9%)
Total Customer accounts	**16,918**	16,984	-

At 30 June 2017, customer accounts reduced to €16,918m, a decrease of €66m compared to 31 December 2016. Irish retail deposits including current accounts have increased by €336m during the period.

The Isle of Man customer accounts decreased by 33% to €252m from €374m at 31 December 2016. This is predominantly due to a decision taken by the Group to wind down the Group's Isle of Man deposit business. This is expected to complete during the second half of 2017.

Deposits by Banks (including central banks)

The following table outlines the Group's deposits by banks as at 30 June 2017 and 31 December 2016.

	30 June 2017	31 December 2016	Change
	€m	€m	%
Placed by the ECB	**230**	1,380	(83%)
Placed by other banks and institutions on repurchase agreements	**2,467**	1,522	62%
Other deposits	**9**	1	800%
Deposits by banks	**2,706**	2,903	(7%)

Deposits placed by the ECB decreased by €1.2bn from 31 December 2016 to 30 June 2017 reflecting a reduction in ECB funding. The portion of the Group's funding now being sourced from the ECB stands at €230m, which comprises Targeted Longer-Term Refinancing Operations (TLTRO) funding only. This reduction has been offset by a 62% increase in funds placed by other banks and institutions on repurchase agreements.

Debt Securities in Issue

The following table outlines the Group's debt securities in issue as at 30 June 2017 and 31 December 2016.

	30 June 2017	31 December 2016	Change
	€m	€m	%
Bonds and medium-term notes	**314**	374	(16%)
Non-recourse funding	**882**	950	(7%)
Debt securities in issue	**1,196**	**1,324**	**(10%)**

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

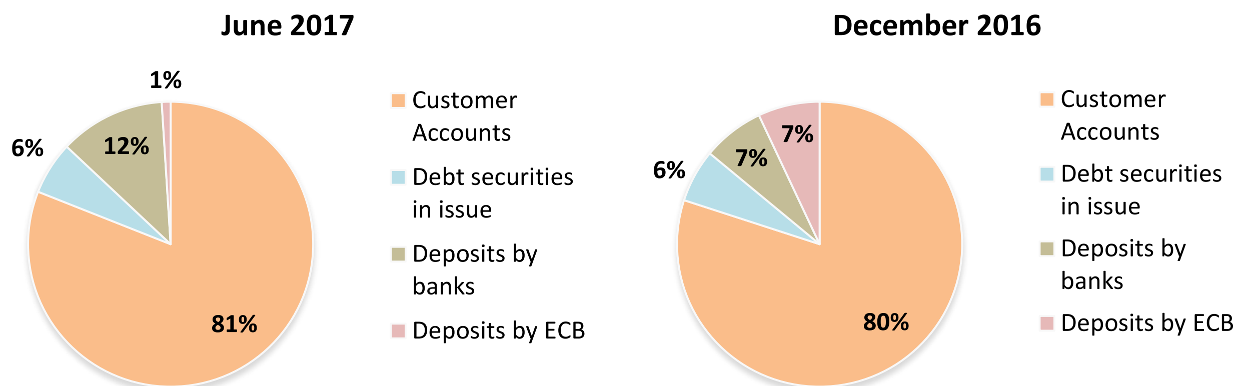
Bonds and medium term notes reduced by €60m between 31 December 2016 and 30 June 2017 due to the maturity of a number of medium term notes. The Group has not issued any new medium-term notes during the period.

Non-recourse funding is funding by way of residential mortgage-backed securities. Non-recourse funding reduced by €68m between 31 December 2016 and 30 June 2017 to €882m due to repayments of principal.

Financial Review

Funding profile

The following tables show the Group's funding profile as at 30 June 2017 and 31 December 2016:



The Group reduced its ECB funding during the first half of 2017 in line with the Group's funding policy, with the majority of this funding requirement being replaced by repurchase agreements, which are classified as 'deposits by banks'.

For the period ended 30 June 2017, customer accounts amounted to €16,918m, which made up 81% of total funding, compared to 80% for 31 December 2016. The remaining funding requirements comprise of deposits by banks (on repurchase agreements) at €2,467m, debt securities in issue of €1,196m and subordinated liabilities of €23m.

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

Financial Review

Regulatory capital

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

	30 June 2017[1]		31 December 2016		Change	
	Transitional	**Fully Loaded**	Transitional	Fully Loaded	Transitional	Fully Loaded
	€m	**€m**	€m	€m	%	%
Capital Resources:						
Common Equity Tier 1 (CET1)	**1,822**[2]	**1,592**	1,827	1,579	(0.3%)	0.8%
Additional Tier 1	**62**	**47**	98	82	(36.7%)	(42.7%)
Tier 1 Capital	**1,884**	**1,639**	1,925	1,661	(2.1%)	(1.3%)
Tier 2 Capital	**68**	**63**	78	68	(12.8%)	(7.4%)
Total Capital	**1,952**	**1,702**	2,003	1,729	(2.5%)	(1.6%)
Risk Weighted Assets	**10,629**	**10,629**	10,593	10,593	0.3%	0.3%
Capital Ratios:						
Common Equity Tier 1 Capital	**17.1%**	**15.0%**	17.2%	14.9%	(0.1%)	0.1%
Tier 1 Capital[3]	**17.7%**	**15.4%**	18.2%	15.7%	(0.5%)	(0.3%)
Total Capital[4]	**18.4%**	**16.0%**	18.9%	16.3%	(0.5%)	(0.3%)
Leverage Ratio[5]	**7.8%**	**6.8%**	7.8%	6.8%	0.0%	-0.1%

[1] Figures are based on the Group's draft COREP which will be completed and submitted to the Central Bank of Ireland in August 2017.

[2] The 2017 Interim Profit is reflected in the Group's capital ratios calculations. The application for the inclusion of the Interim Profit in the regulatory capital metrics is being sought under Article 26 (2) of the Capital Requirements Regulation (CRR).

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

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

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

The Group's Common Equity Tier 1 (CET 1) ratio (Transitional) at 30 June 2017 is 17.1%, 0.1% lower than the 31 December 2016 position. CET1 capital decreased marginally while the total RWA increased by €36m.

The Total Capital ratio (Transitional) is 18.4% which is 0.5% lower than the position at 31 December 2016 mainly due to a reduction in the amount of the Additional Tier 1 capital note allowable at a Group level.

The fully loaded CET1 capital ratio is 15.0% at 30 June 2017, 4.0% higher than the Group's target fully loaded ratio of 11.0%.

CET1 capital resources are €1,822m at 30 June 2017, slightly lower than the 31 December 2016 position. The YTD profits of €25m (net of AT1 distribution) and the decrease in other reserves and prudential filters €2m are offset by an increase in Deferred Tax Assets deductions (€33m).

RWA increase of €36m during the period is primarily due to an increase in Operational Risk (€103m), as the Group's profitability improves, partly offset by a decrease in Standardised RWA (€68m). In addition, the Group has adjusted its RWA by €0.9bn (IRB models) as allowed under Article 3 of the CRR in order to maintain RWA at 30 June 2016 levels. The Group did not consider it prudent to continue to recognise on-going RWA reductions, in the expectation that the ECB's Targeted Review of Internal Models ("TRIM") is likely to increase the Group's RWAs.

The leverage ratio on a transitional basis at 30 June 2017 is 7.8%, which is unchanged from the 31 December 2016 position.

The Group's 2017 Supervisory Review Evaluation Process (SREP) requirement which was effective from 1 January 2017 requires that the Group maintains a CET1 ratio of 9.2% and a Total Capital ratio of 12.7% on a transitional basis.

The CET1 ratio requirement of 9.2% consists of a Pillar 1 CRR (Capital Requirements Regulation) requirement of 4.50%, a Pillar 2 Requirement ("P2R") of 3.45% and a Combined Capital Buffer ("CCB") of 1.25%. The Total Capital ratio requirement of 12.7% consists of a Pillar 1 Total Capital requirement of 8% and the P2R and CCB as set out above.

The Group is also advised to maintain a Pillar 2 Guidance ("P2G") of 2.25%. Failure to meet P2G is not a breach of own fund requirements but the Group is expected to notify the ECB to explain the reasons for non-compliance and provide a restoration plan.

Financial Review

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

	30 June 2017[1]		31 December 2016	
	Transitional	**Fully Loaded**	Transitional	Fully Loaded
	€m	**€m**	€m	€m
Total Equity	**2,108**	**2,108**	2,100	2,100
Less: AT1 Capital	**(122)**	**(122)**	(122)	(122)
Captive Insurance Equity[2]	**(9)**	**(9)**	(10)	(10)
Adjusted Capital	**1,977**	**1,977**	1,968	1,968
Prudential Filters and Deductions:				
Intangibles	**(33)**	**(33)**	(34)	(34)
Deferred Tax	**(103)**	**(348)**	(71)	(355)
AFS Reserves	**(9)**	**-**	(24)	-
Revaluation Reserve	**(6)**	**-**	(12)	-
Others	**(4)**	**(4)**	-	-
Common Equity Tier 1	**1,822[3]**	**1,592**	1,827	1,579

[1] Figures are based on the Group's draft COREP which will be completed and submitted to the Central Bank in August 2017.

[2] Insurance entity outside the prudential scope of consolidation.

[3] The 2017 interim profit is reflected in the Group's capital ratios. The application for the inclusion of the interim profit in the regulatory capital metrics is being sought under Article 26 (2) of the Capital Requirements Regulation (CRR).

Group Risk Management and Governance

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

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

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

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

Group Risk Management Framework

The Group Risk Management Framework (GRMF) is an overarching Framework articulating the Risk Management Process governing risks within the following key risk categories: Financial Risk (including Market, Credit, Liquidity, Funding, Capital Adequacy and Viability), and Non-Financial Risk (including Operational & IT Risk, Regulatory Compliance, Conduct, Strategic and Volatility). The GRMF describes the Group-wide approach to the identification, assessment, mitigation, monitoring and reporting of risk across the outlined risk categories. The Group must manage, mitigate, monitor and report its risk exposure through a set of Risk Management processes, activities and tools. The Board Risk and Compliance Committee provides oversight and advice to the Board on risk governance and supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, assessed, communicated and managed, and that the Group's strategy is consistent with the Group's Risk Appetite.

Risk Appetite and Strategy

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

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

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

Risk Governance

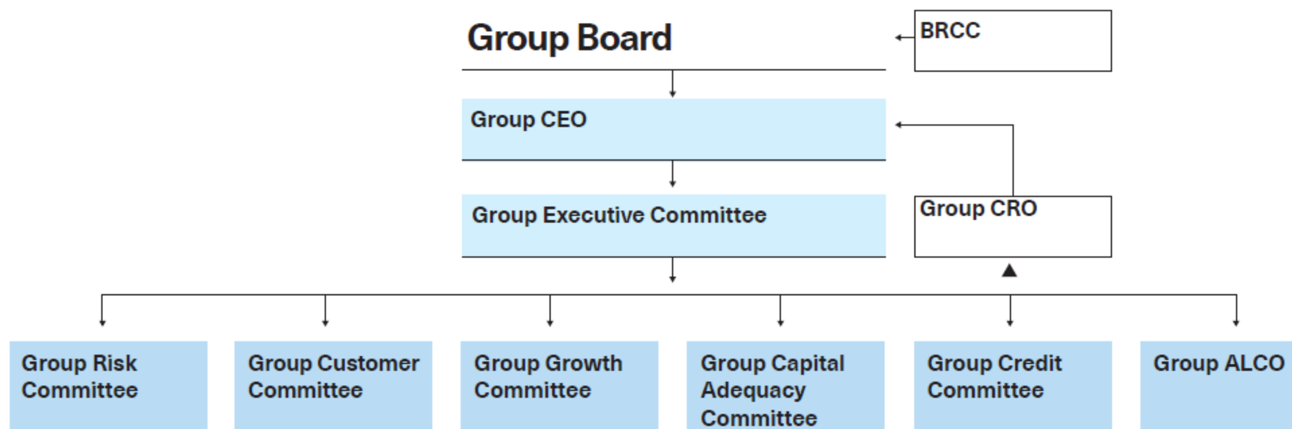
The primary objectives of Risk Governance within the Group are to:

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

These objectives are fulfilled through:

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

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



Risk Governance Structure

Key Risk Governance Roles and Responsibilities

Governance Forum/Role	Key Responsibilities
Board Ultimately responsible for the Group's business strategy, financial soundness, key personnel decisions, internal organisation, governance structure and practices, risk management and compliance obligations.	A key role of the Board is to ensure that risk and compliance are properly managed in the business. Key risk responsibilities of the Board include, but are not limited to: • Understanding the risks to which the Group is exposed and establishing a documented Risk Appetite for the Group; • Defining the strategy for the on-going management of material risks; • Ensuring that there is a robust and effective internal control framework, that includes well-functioning risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework.
Board Risk and Compliance Committee (BRCC) Responsibility to oversee and provide advice to the Board on Risk Governance and current and future risk exposures, tolerance/appetite and strategy, and for overseeing the implementation of that strategy by senior management. This includes the strategy for capital and liquidity management, the setting of risk and compliance policies and the embedding and maintenance throughout the Company of a supportive culture in relation to the management of risk and compliance.	The Committee supports the Board in carrying out its responsibilities of ensuring that risks are properly identified, assessed, mitigated, monitored and reported, and that the Company is operating in line with its approved Risk Appetite. Key activities of the BRCC include, but are not limited to: • Reviewing and making recommendations to the Board on the Company's risk profile, both current and emerging, encompassing all relevant risks categories as described in the Risk Management Framework; • Reviewing and making recommendations to the Board in relation to the Group's Risk Appetite Framework and Risk Appetite Statement, and the Group Recovery Plan; • Monitoring and escalating positions outside Risk Appetite to the Board, within agreed timeframes and approving and overseeing proposed Remediation Plans aimed at restoring the Company's risk profile to within the approved Risk Appetite; • Communicating all issues of material Group reputational risk directly to the Group Board; • Reviewing and making recommendations to the Board on the adequacy of capital and liquidity in the context of the Group's current and planned activities (via reviewing relevant outputs from the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP")), including in relation to proposed mergers, acquisitions or disposals; • Reviewing and approving key components of the Group's Risk Management Architecture and relevant supporting documents; and • Promoting a sound Risk Culture across the Group, which consistently supports appropriate risk awareness, behaviours and judgements about risk-taking and ensures that emerging risks or risk-taking activities beyond the Group's risk appetite are recognised, assessed, escalated and addressed in a timely manner.

Governance Forum/Role	Key Responsibilities
Group Executive Committee (ExCo) Group ExCo is the Senior Management Executive Committee for the Group, and is the: • Custodian of the Group's collective Management Agenda, Financial Plans and Risk Management Architecture as developed through the annual Integrated Planning Process (**IPP**); • Accountable body for the Group's operations, compliance and performance; • Ultimate point of escalation for Group specific issues, save for those matters reserved for the Board or its Committees**;** • Gateway through which decisions required from the Board are reviewed prior to submission unless otherwise delegated by ExCo to one of its sub-committees (or to another forum/person); and • Forum for Group-wide functional issues.	In the context of Risk Management, ExCo is primarily responsible for, but not limited to: • Developing and implementing the Group's Risk Management Architecture (GRMA), (and that all risks defined therein are managed effectively and efficiently, in a prudential manner within the Group's Risk Appetite); • Agreeing the structure and content of the GRMA for recommendation to the Board; • Ensuring that robust operating frameworks exist (e.g. business continuity, site management, IT system capability and similar) within which the Group's activities are undertaken; and • Defining the Group's organisational structure.
Group Risk Committee (GRC) A forum for Group-wide Risk Management topics, this is a sub-committee of the Group Executive Committee with the Chair having unfettered access to the Chair of the Board Risk and Compliance Committee.	The GRC monitors and enforces adherence to the Group's Risk Frameworks, Risk Policies and Risk Limits. It is the guardian of the Group's Risk Registers and is responsible for monitoring the total risk profile of the Group. Key activities of Group Risk Committee include, but are not limited to: • Measuring and monitoring the total risk profile of the Group and maintaining a Risk Register of top risks facing the Group, together with an assessment of the probability and severity of those risks; • Monitoring regulatory developments and upstream/horizon risk in relation to all relevant risk categories and ensuring that all material issues are communicated to the BRCC or the Board as appropriate; • Monitoring and assessing the Group's risk profile against Risk Appetite Limits and propose remediation plans to restore Risk Appetite/Limits where required; • Monitoring the reporting and remediation plan with regard to any breaches of approved Limits in accordance with agreed protocol; • Recommending proposed changes to the Group's Risk Appetite Limits for Board approval; • Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and Policies, for all key risk categories excluding those which fall directly under the remit of GCC, ALCO, Customer Committee, Capital Adequacy Committee, and Growth Committee; • Recommending the ICAAP, ILAAP and Recovery Plan to BRCC for review and recommendation to the Group Board; and • Overseeing validation of key Risk Models for all risk categories.
Group Customer Committee Ensures that the Group monitors, controls and mitigates Conduct and Customer Outcome Risk by embedding a culture where achieving positive customer outcomes in order to generate sustainable long-term shareholder value	The Group Customer Committee: • Provides guidance to Executive Management (including ExCo and other ExCo sub-committees) for business and commercial proposals which may have a material impact on customers and for the endorsement of such proposals; • Reviews "high impact" customer events, issues and complaints arising to both provide guidance on significant individual issues/events and to analyse trends to inform future strategy and decision-making with regard to customers;

Governance Forum/Role	Key Responsibilities
permeates the Group's approach and thinking. This covers new product development, product delivery and fulfilment, ongoing product and customer management, and customer interaction.	• Reviews the Conduct risk that exists within the Group against the Board-approved Conduct Risk Appetite and Principles; and • Serves as the central oversight body for all customer matters ensuring fair treatment of customers is at the heart of key decisions made by the business.
Group Growth Committee (GrowthCo) The Group's Growth Committee provides context and promotes understanding of the commercial agenda.	GrowthCo monitors performance against key commercial targets and is responsible for identifying, initiating and executing on activities/projects to achieve those targets based on customer insight. The commercial agenda is defined as the plans by the organisation to meet both income and cost targets as set through the Medium Term Plan, in the context of the Group's Risk Appetite.
Capital Adequacy Committee (CAC) CAC is responsible for the detailed execution and initial oversight responsibilities for Capital Adequacy. The CAC is responsible for reviewing the adequacy of capital on an ongoing basis and should receive (at a minimum) quarterly reporting on the current and forecast capital position.	The CAC is responsible for: • Overviewing and challenging specific ICAAP related activities in the relevant business lines and risk functions, in collaboration with the SREP Team in the Financial Risk function, which is responsible for designing and co-ordinating the ICAAP; • Reviewing and challenging the documentation of the ICAAP for JST submission, and recommending the same to the ExCo; • Reviewing and challenging the solvency stress testing framework (including scenarios, assumptions, results and management actions) and recommending same to the ExCo; and • Reviewing the adequacy of capital in the context of current and planned activities and recommending same to the ExCo.
Group Credit Committee (GCC) The body accountable for the execution and delivery of the Group's system of Portfolio Credit Risk Management, encompassing the identification, measurement, monitoring and reporting of Portfolio Credit Risks. It ensures that the appropriate operating frameworks governing the portfolio credit risk management activities of the Group are approved and enforced.	The GCC is responsible for developing and implementing portfolio credit policy within the Group. The policy addresses all material aspects of the full credit lifecycle, including credit risk assessment and mitigation, collateral requirements, collections and forbearance and the risk grading of individual credit exposures. Key activities of the GCC include, but are not limited to: • Recommending the relevant Portfolio Credit Risk elements of the Group's RAS for approval by the Board; • Setting and monitoring adherence to the Group's Credit Policy, including discretion limits and structure for underwriting, scoring, collections, recoveries and provisioning within the boundaries of the Group's RAS (as approved by the Board); • Monitoring the portfolio credit risks to which the Group is exposed; • Maintaining and assessing the portfolio credit risk profile against set limits and propose remediation plans to restore Risk Appetite/limits where required; • Reporting any breaches of approved limits in accordance with agreed protocol.
Assets and Liabilities Committee (ALCO) ALCO reviews, and is responsible for overseeing, all activities relating to Asset and Liability Management (ALM), Treasury and Market Risks, including Interest Rate Risk, Treasury Counterparty Risk and Foreign Exchange Risk. It is the body accountable for the evaluation of potential drivers of earnings volatility, including, but not limited to, competitive and external market pressures, and for agreeing on hedging strategies against those risks.	Key activities of ALCO include, but are not limited to: • Recommending the relevant ALM, Treasury and Market Risk elements of the Group's RAS for approval by the Board; • Maintaining, monitoring and enforcing adherence to the Group's Risk Management Frameworks and Policies for all ALM, Treasury and Market Risks; • Monitoring the ALM, Treasury and Market risks to which the Group is exposed; • Maintaining and assessing the ALM, Treasury and Market Risk profiles against set limits and propose remediation plans to restore Risk Appetite/Limits where required; • Reporting any breaches of approved limits in accordance with agreed protocol; • Determining the capital requirements for the Group's ALM, Treasury and Market Risks; • Ensuring there is adequate and effective segregation of duties within Treasury and its supporting operations and to approve any significant amendment to the existing division of responsibilities within Treasury and its supporting operations; and • Acting as an approval body for new products, with responsibility for assessing the risk/return attractiveness and optimising the use of the Group's capital, funding and liquidity resources.

Role of the Group Chief Risk Officer (CRO)

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

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

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

The role of the CRO is to:

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

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

On-going Investment in the Group Risk Function

2016 saw the Group continue to invest in its functional capability to underpin the Group's safety, stability and resilience. A priority was the further development of the Risk function to meet the emerging European regulatory framework. To this end, the Group invested additional resources and undertook a review and restructure of its Risk and Control functions. The focus for 2017 is rolling out and embedding the developments within the Risk function including:

- Risk Management policies, frameworks and processes;
- Composition and function of its Risk committees;
- Risk metrics including the RAS;
- ICAAP, ILAAP and stress testing framework; and
- Integrated strategy, risk and financial planning process.

Principal Risks and Uncertainties

The following section describes the risk factors that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects over the medium term. The risk factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties as there may be risks and uncertainties of which the Group is not aware or which the Group does not consider significant but which in the future may become significant.

As a result of the challenging conditions in financial markets across Europe in part as a consequence of the UK vote to leave the EU but also due to on-going economic weakness within the Eurozone, the precise nature of all risks and uncertainties that the Group faces cannot be predicted as many of these risks are outside of the Group's control.

Reference is also made to the disclaimer in respect of Forward Looking Statements set out on the inside front cover.

Government Control and Intervention

In 2011, the Minister for Finance of Ireland became the owner of 99% of the issued ordinary shares of the Group. In April 2015, this interest reduced to 74.92% following the successful completion of a €400 million equity capital raise and an open offer of €2m through the sale of 21.8 million shares by the Minister for Finance.

The Group continues to be materially reliant on Government and European Union policy in relation to the Irish economy and the financial services sector. Public policy on the banking market in general and the broader issue of housing policy have been receiving greater public scrutiny and may impact on the Group's longer term profitability, for example, the recent Government intervention in the housing market through its Help-to-Buy scheme, which seeks to assist first-time buyers meet stricter deposit requirements, may cause inflationary pressures on house prices while not addressing housing supply issues.

In addition, future budgetary policy, taxation, the insolvency regime and other measures adopted by the State to manage the economic climate in Ireland may have an adverse impact on the Group's customers' ability to repay their loans, the Group's ability to repossess collateral and its overall pricing policy. The introduction of new policies, the amendments of existing policies by the government or the introduction of revised capital, liquidity or non-performing loan targets by the CBI or the ECB may materially adversely affect the Group's business or financial conditions.

EU Restructuring Plan

The recapitalisation of the Group in 2011, together with other aspects of the Irish Government's response to the banking crisis, was considered by the European Commission (EC) to involve the provision of State Aid by Ireland, within the meaning of Article 107 of the Treaty on the Functioning of the European Union to the Group. This resulted in the requirement for the submission of a restructuring plan to the EC for approval under EU State aid rules. The Group's Restructuring Plan was submitted to the EC in October 2014 and was subsequently approved in April 2015. The Restructuring Plan is consistent with the Group's business plan. The approval marked a significant step in the recovery of the Group. The Restructuring Plan sets out the terms for the restructuring of the Group, which Ireland and the Group have committed to implement and which included certain portfolio disposals (CHL and Non-Performing Irish Commercial Real Estate), reducing the value of defaulted Irish tracker mortgages, achieving an agreed Cost Income ratio together with other behavioural and viability commitments.

These commitments are significant; they restrict the activities of the Group to particular areas and impose particular viability measures on the Group. The Group's activities are then monitored and reported on to the EC by an Independent Monitoring Trustee on a regular basis. The Group also has internal monitoring and reporting mechanisms in place to ensure that its obligations in this regard are adhered to and that matters which require consultation with the EC are appropriately dealt with. Failure to meet these commitments without justification could lead to a re-opening of the case by the EC and potentially a need to revisit and revise the commitments.

The Group achieved a significant milestone in the second half of 2016 with the successful sale of the remainder of its UK Mortgage portfolio. The sale of this remaining portfolio concluded the deleveraging programme of €9.3 billion, the majority of which was required under the Group's Restructuring Plan.

Economic Conditions

The Group is subject to the inherent risks arising from the macroeconomic and other general business conditions principally in Ireland. The successful sale of the Group's former subsidiary, CHL, has significantly reduced the Group's sensitivity to economic factors in the UK impacting on the Group's financial performance. However, due to the close economic relationship between the UK and Ireland, an economic downturn in the UK is likely to have negative consequences for the Irish economy. The Group also remains somewhat exposed to macroeconomic and other conditions in the wider European economies. The Group is exposed to both positive and negative trends in Ireland. As a consequence, should negative trends begin to impact on the Group, this could lead to a reduction in the demand for the Group's products and services, adverse changes in asset performance or adverse changes in the availability and the cost of capital or funding. Such adverse changes could individually or in combination adversely affect the Group's results, financial condition and prospects.

Ireland

The outlook for the Irish economy continues to be favourable following the expansion in GDP of 5.2% in 2016. This momentum is forecast to continue throughout 2017, with domestic demand driving economic performance underpinned by improvements in the labour market, consumption and investment. Unemployment in 2016 was 7.9%, the lowest recorded since 2008 (6.4%) with the construction and IT sectors registering the greatest employment increases. Irish households also reduced their debt to disposable income ratios more than any other country in the EU throughout 2016 with household net worth also growing notably during the year. The recent acceleration in house price growth has contributed to this with prices rising nationally by 9.4% year-on-year during the first quarter of 2017. Despite these improvements the Irish household sector remains the fourth most indebted in the EU.

The most significant risks to the continued growth of the Irish economy comes from the external environment. While Brexit is likely to have the largest impact, possible reforms of US corporate tax and trade policies could also have negative consequences. The full Brexit implications for Ireland will remain unclear until the Brexit terms are fully negotiated but risks are predominantly on the downside. The UK has been Ireland's 2nd largest export market and largest import market for the first four months of 2017 (CSO) and there are long standing supply chains, particularly in the manufacturing sector, that are deeply integrated that are facing considerable disruptions and potentially increased costs. The level of border control to be introduced between the Republic and Northern Ireland is another contentious issue that is increasing uncertainty among all stakeholders. The majority of economic commentators (CBI, ESRI, EC) agree that the Brexit impact will be mostly negative. However, there is also the possibility of some positive impacts. Ireland may see an increase in Foreign Direct Investment (FDI) as UK firms relocate to Ireland in order to maintain access to the Single Market. The depreciation of Sterling against the Euro may also benefit firms who import frequently from the UK but this will be dependent on the trade arrangement yet to be decided. These positive impacts are likely to only soften the negative trade effects rather than fully compensate for them. The NTMA estimate that for each 1% reduction in the UK's GDP, Ireland's GDP will reduce within the range of 0.3 to 0.8%.

Developments taking place in the US to align corporate tax regimes and increased talk of global protectionism represent risks to domestic economic performance. Ireland's favourably low 12.5% corporate tax rate has been an attraction for multinational firms for a number of years with roughly half of all FDI originating in the US. It will be some time before the full impact of any US tax reforms and protectionism measures are known, but with a possible negative impact on GDP for Ireland.

The positive trends in the Irish financial sector in 2016 have continued into 2017 with deposits in domestic banks from private sector clients and Irish households increasing by 1.4% and 1.6% respectively for the year ended January 2017. The stock of household deposits held by credit institutions continues to outweigh the stock of household loans (€9.2bn excess deposits in January 2017). In early 2009 household loans exceeded deposits by almost €54bn. Eurosystem funding of the Irish banking sector has remained low and relatively stable in early 2017 with funds from the ECB amounting to €7.3bn at January 2017. The large stock of Non-Performing Loans (NPLs) remains among the most significant risks for Irish banks although recent figures suggest some positive headway is being made. Quarter 4 2016 marked the 13th consecutive quarter where the number of principal dwelling mortgages greater than 90 days in arrears declined, with mortgages greater than 720 days in arrears also declining by 3.2%, the largest quarterly decline to date. The improved profitability and capital metrics of the domestic banks combined with a reduction in the elevated NPL levels should ensure that the risks posed by the banking sector continue to recede albeit the pace of this remains uncertain. The positive trends in the Irish banking sector resulted in the upgrading of the long-term ratings of PTSB, along with Allied Irish Bank (AIB) and Bank of Ireland (BoI); by Standard and Poor's in January 2017. Moody's also upgraded the long term ratings of AIB and BoI in June 2017. The upgrades from both rating agencies were attributed to, among other factors, Ireland's continuing robust economic performance feeding into the creditworthiness of Irish banks along with the significant deleveraging efforts that each bank has undertaken in order to right-size their operations.

UK

The UK's economy grew by 1.8% in 2016, down 0.4% year on year, with private consumption being the key contributor to growth in the latter half of the year. However, the early indictors for 2017 show a softening in growth with real GDP increasing 0.2% in Q1 as private consumption slowed significantly in the period. Weaker consumption is expected to continue throughout 2017, as wage growth is unlikely to keep pace with rising inflation. The UK's robust labour market is also expected to wane through 2017. Public expenditure experienced a mild uplift in Q1 2017, which partly compensated for the lag in other components of growth. This increase in expenditure indicates that the UK's fiscal policy is likely to be less conservative in an attempt to compensate for a somewhat weakening economy.

The UK's future economic performance will be affected by the terms of their negotiations to leave the EU. The June 2017 general election, in which no party succeeded in forming a majority Government, has increased uncertainty.

Europe

In addition to the specific risks associated with Ireland and the UK discussed above, economic, monetary, and political conditions remain uncertain in the Eurozone and EU. The latest publications from the EC report that the Euro area and the EU grew by 1.8% and 1.9% respectively in 2016 and they forecast the same level of growth in 2017. This marks four consecutive years of modest growth in the European economy. The pace of the recovery continues to be hindered by a number of legacy issues from the financial crisis such as elevated stocks of NPLs, weak investment stemming from high private and public indebtedness, sluggish wage growth and on-going deleveraging commitments and balance sheet repair in banking sectors across Europe. Along with these legacy constraints, European growth must also contend with headwinds in the form of geopolitical and political uncertainty from within and outside Europe. The Brexit negotiations formally began on the 19th June and the long-term consequences of these for the European economy are as yet unknown.

Private consumption continued to be the driver of growth across Europe in 2016, as improvements in the labour market boosted real disposable incomes and consumer confidence. Moving forward however, rising inflation from rebounding energy prices may hinder the contribution of consumption to growth in 2017. Investment gathered momentum through 2016 and in the early stages of 2017 due in some part to increased global demand and more widespread corporate profitability. Despite the gathering momentum, investment is not predicted to make a notable contribution to growth as it remains weighed down by policy uncertainty and financial sector deleveraging requirements. Employment growth is benefiting from increased domestic demand, structural reforms and targeted policies across the member states.

Risk Management Report

The Board has formally recognised a set of key risks that could materially impact on the successful implementation of Group's strategy and these risks are detailed in the following pages.

Capital Adequacy Risk

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

1. Materially worse than expected financial performance;
2. Increases in risk weighted assets; or
3. Changes in the prescribed regulatory framework.

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

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

The management of capital within the Group is monitored by the Board Risk and Compliance Committee (BRCC), Executive Committee (ExCo), the Capital Adequacy Committee (CAC) and the Assets and Liabilities Committee (ALCO) in accordance with Board approved policy.

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

The Group's expectation is that the ECB's Targeted Review of Internal Models ("TRIM") is likely to result in an increase to the Group's RWAs. The Total Capital Ratio, at 30 June 2017, includes a downward adjustment of approximately 1.5% relating to TRIM. Management continue to engage in discussions with the regulatory authorities in respect of the TRIM Programme. At present, it is Management's understanding that these discussions should conclude in early 2018 with an additional current estimated impact of c. 2.5% on the Total Capital Ratio. Additionally, the Group's stated desire to reduce the level of Non-Performing Loans over the course of the medium term may result in a reduction to the Group's capital resources.

Credit Risk

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

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

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

Deterioration in reported macroeconomic metrics such as house prices and unemployment could put further strain on borrowers' or counterparties' capacity to repay loans. These and other economic factors may cause prices of property or other assets to stall or fall further, thereby reducing the value of collateral on many of the Group's loans and increasing write-downs and impairment losses. Other factors such as regulatory action may also impact on property prices or lead to further uncertainty in relation to the full recoverability of certain outstanding debts or require the Group to take specific mitigating actions beyond the contractual arrangements in place. The Group mitigates these risks by carrying appropriate loan loss provisions across its various loan and other asset portfolios, by applying strict underwriting criteria to new business lending and by actively managing its non-performing loans.

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

Funding and Liquidity Risk

Funding Risk is the risk that the Group is not able to access funding markets or can do so but only at an uneconomic cost. Liquidity Risk is the risk that the Group has insufficient

funds to meet its financial obligations as and when they fall due, resulting in an inability to support normal business activity and/or failing to meet regulatory liquidity requirements. These risks are inherent in banking operations and can be heightened by a number of factors, including an over reliance on a particular source of funding, changes in credit ratings or market dislocation. It is likely that these risks would be further exacerbated in times of stress.

i. Regulation and Ratios

The Group assesses the liquidity and funding positions with respect to the prescribed metrics from CRD IV, the CRR and the Liquidity Coverage Ratio (LCR) Delegated Act. The ratios calculated and reported are the Liquidity Coverage Ratio, Asset Encumbrance Ratio and the Net Stable Funding Requirement (NSFR). The Group continues to comply with CBI liquidity mismatch ratio criteria.

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

Under the Bank Recovery and Resolution Directive (BRRD) the Group, along with each Bank within the EU, is required to adhere to the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ratio. The ratio is expected to become binding from 2019 and represents a quantification of the eligible liabilities required to act as a buffer in the event of a bail-in scenario. The Group has proactively engaged with the Single Resolution Board and the Central Bank of Ireland (the 'Resolution Authorities') to determine the Group's MREL requirement. Targets remain to be finalised. The Group has formulated a senior unsecured issuance strategy to meet the indicative MREL target. There will be increased funding costs arising out of issuing MREL compliant debt.

ii. Risk Measurement and Monitoring

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

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

PTSB continues to measure and report adherence to the CBI liquidity mismatch ratio which requires that banks have sufficient resources (cash inflows and marketable assets) to cover 100% of expected cash outflows in the 0-8 day time horizon and 90% in the 9-30 day time horizon. Customer behavioural assumptions are applied to non-contractual product lines when modelling the cash flows.

NSFR and Asset Encumbrance constitute the additional core liquidity and funding metrics within the overarching liquidity management framework that are measured, monitored and reported within the bank.

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

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

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

A full suite of liquidity metrics and stress test results are reported to ALCO, BRCC and the Board on an on-going basis.

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

iii. Liquidity Risk Management Framework

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

The liquidity framework provides the mechanisms for the Group to manage liquidity risk within the Board approved risk appetite and is in line with the Group's overarching liquidity and funding risk principles:

- Liquidity: maintain a prudent liquid asset buffer above an internally determined or regulatory mandated (whichever is greater) liquidity requirement such that the Group can withstand a severe but plausible stress event.
- Funding: develop a stable, resilient and maturity-appropriate funding structure, with focus on

customer deposits and augmented by term wholesale funding sources.

iv. Minimum Liquidity Levels

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

Although it is not yet enforceable and is not scheduled for full implementation until 1 January 2018 the Group measures and monitors the NSFR which is designed to limit over-reliance on short-term funding and promotes longer-term stable funding sources. The Group's asset encumbrance level is monitored and tracked on an on-going basis. The strategic aim is to maintain a level sub 40%.

v. Liquidity Risk Factors

Over reliance and concentration on any one particular funding source can lead to heightened liquidity impacts during a period of stress. The Group relies on customer deposits to fund a considerable portion of its loan portfolio. The on-going availability of these deposits may be subject to fluctuations due to factors such as the confidence of depositors in the Group, and other certain factors outside the Group's control including, for example, macroeconomic conditions in Ireland, confidence of depositors in the economy in general and the financial services industry specifically, the availability and extent of deposit guarantees and competition for deposits from other financial institutions.

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

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

In the recent past, the Group has accessed the capital markets by issuing equity, additional Tier 1 capital, secured funding and unsecured funding structures. Any restrictions on the Group's access to capital markets could pose a threat to the funding position of the Group. The Group may avail of Euro system Funding through normal operations and any material adverse change to the conditions or a significant withdrawal of such facilities represents a level of risk to the Group's contingent funding profile and business. The inability to adequately diversify the funding base of the Group could lead to over concentration on the remaining funding sources.

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

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

vi. Credit Ratings

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

Market Risk

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

The Group's Risk Appetite Statement and associated policies set out the governance and limit framework for the management of market risk exposures. The policies are approved at least annually by the Board on the recommendation of the BRCC, ExCo and ALCO.

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

i. Interest rate risk

Interest rate risk arises due to the structural and duration mismatch between assets and liabilities in the balance sheet and is the risk to earnings or capital arising from movement in the absolute level of interest rates, the spread between two rates, shape of the yield curve or any other interest rate relationship. The Group is primarily exposed to re-price, yield curve and basis risk on Euro and GBP balance sheet positions. 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. Gap analysis is used to capture re-price risk, the Economic Valuation (EV) approach measures yield curve risk while Earnings at Risk (EAR) is utilised to calculate the basis risk exposure. Interest rate risk modelling is produced and quantified by Group Risk and reported against the prescribed limits to Senior Management daily.

In defining the level of interest rate risk, the Group applies the standard +/-200bps shock scenario subject to the appropriate interest rate flooring assumptions under both EV and EAR models which are measured and reported against the Board approved risk limits. The Group also monitors PV01 and duration when assessing interest rate risk.

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

ii. Foreign Exchange Risk

Foreign currency exchange risk is the volatility in earnings resulting from the retranslation of foreign currency denominated assets and liabilities from mismatched positions. Following the successful deleveraging of the UK mortgage portfolio in November 2016, the main foreign exchange exposure for the Group now arises from the Isle of Man deposit book business conducted by Permanent Bank International. The Group is also exposed to smaller intermittent positions arising from the normal business activities of a retail bank.

Derivatives (FX swaps and forwards) are primarily executed to minimise the Group's FX exposure. Overnight FX positions are monitored against approved notional limits. It is the responsibility of both Group Treasury and Group Risk to measure and monitor currency exchange rate exposures and eliminate or hedge any material unmatched positions as soon as practicable.

iii. Credit Spread Risk

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

The Group maintains a portfolio of Available for Sale (AFS) bonds which are subject to credit spread fluctuations. While the majority of the interest rate exposure on the portfolio is hedged, exposure to credit spread volatility exists.

Group Treasury are responsible for monitoring and measuring CSR. The evolution of the AFS reserve is tracked and monitored weekly against a set of prescribed limits.

The Group's AFS reserve remains in a positive position and creates a buffer to mitigate market stress events.

Conduct Risk

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

The Group recognises that the management and mitigation of Conduct Risk is fundamental and intrinsically linked to the achievement of its governing objective. It recognises that Conduct Risk can occur in every aspect of the Group's activities and is committed to continuing to achieve best practice in this area.

During 2016, the Group created a separate risk team responsible for Conduct Risk oversight. This team is guided by a Conduct Risk Management Framework that has been established to help ensure that the Group achieves its strategic objectives by acting honestly, fairly and professionally in the best interests of its customers and the integrity of the market, and acts with due skill, care and diligence. In doing so, the Group is placing the achievement of the right outcomes for its customers at the heart of its strategy, governance and operations and will continue to seek positive assurance of the delivery of the right outcomes throughout all stages of the customer relationship with the Group.

Conduct Risk is specifically recognised as a distinct risk category that is separate but linked to operational risk and compliance. To this end, the Group has a standalone Conduct Risk appetite and key principles for the management of Conduct Risk and has embarked upon an extensive training and communications programme to ensure that achieving the right outcomes for our customers continues to be embedded throughout all of the Group's activities and within the culture of the organisation.

Board and Senior Management have ensured that there is regular reporting on Key Risk indicators against the Conduct Risk appetite as well as issues and events that could affect or have already impacted on customers. A Group Customer Committee has been created (as a sub-committee of the ExCo) to specifically consider how the best interests of customers are being served in policies, decisions and actions of the bank. This committee receives regular reporting from the Head of Conduct Risk, who also

reports regularly to both the Group Board and Board Risk and Compliance Committee.

Reputational Risk

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

Mortgage Redress

Pursuant to its powers under the Administrative Sanctions Regime, the CBI is conducting an enforcement investigation into the Group's compliance with the Consumer Protection Code and, in particular, is investigating alleged breaches of the Consumer Protection Code 2006. These alleged breaches arose from the failure of the Group to inform customers that, as a consequence of exiting early from a fixed rate mortgage contract, they would 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 is continuing to address these issues and has offered redress and compensation to affected customers.

The Group is continuing to progress a review of its tracker mortgage book through the Mortgage Product Review Group (MPRG), which was established in September 2015, to identify if there are any further instances of non-conformance with either legal or regulatory requirements. This review was incorporated into the industry-wide review of Tracker Mortgages, which was subsequently announced by the Central Bank in December 2015. This review is continuing and is being conducted in line with the framework set down by the Central Bank to ensure all impacted customers are offered appropriate redress and compensation. The Central Bank will conduct its own assurance review of the Group's findings.

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.

Operational and IT Risk

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

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

The Group's Operational Risk Management Framework (incorporating an IT Risk Management Framework) outlines the Group's approach to managing Operational and IT risks and is applicable Group-wide, including any subsidiaries within the Group. It defines the roles and responsibilities for the oversight of Operational and IT risks along with the ownership and processes in place for the identification, assessment, mitigation, monitoring and reporting of Operational and IT risks in the Group.

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

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

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

Regulatory Risk

As a financial services firm, the Group is subject to extensive and comprehensive legislation and regulation across each of the geographical locations in which we operate. The Group is regulated by a number of regulatory authorities at national and European level.

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

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

- The risk that changes to the laws and regulations under which the Group operates will materially impact on the Group's liquidity, capital, profitability, product range or distribution channels or markets;
- The risk that the Group is unable to respond to the scale of regulatory change and implement all required changes in full or on time, or the challenge of meeting regulatory changes will impact the Group's abilities to undertake other strategic initiatives;
- The level of costs associated with the regulatory overhead including, but not limited to, the industry funding levy, funding the Single Resolution Fund established under the Single Resolution Mechanism and levies in respect of applicable compensation schemes (including the Investor Compensation Scheme and the Deposit Guarantee Scheme);
- Organisational requirements, such as the requirement to have robust governance arrangements, effective processes to identify, manage, monitor and report the risks the Group is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems;
- The possibility of mis-selling financial products or the mishandling of complaints related to the sale of such products by or attributed to an employee of the Group, including as a result of having sales practices, complaints procedures and/or reward structures in place that are determined to have been inappropriate;
- Breaching laws and requirements relating to the safeguarding of customer data, the detection and prevention of money laundering, terrorist financing, bribery, corruption and other financial crime; and
- Non-compliance with legislation relating to unfair or required contractual terms or disclosures.

Directors Responsibility Statement

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

Each of the Directors, whose names and functions are listed in the Board of Directors section, pages 70 and 71 of the 2016 Annual Report other than Alan Cook who resigned on 31 March 2017, in addition to Robert Elliott and Eamonn Crowley who were appointed on 31 March 2017 and 10 May 2017 respectively, confirms that to the best of each person's knowledge and belief:

- the condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 30 June 2017, and its profit for the period then ended; and

- that as required by the Transparency (Directive 2004 / 109 / EC) Regulations 2007, the Interim Financial Report includes a fair review of:
  (a) important events that have occurred during the first six months of the year, and their impact on the condensed consolidated financial statements;
  (b) a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  (c) details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2017, and material changes to related party transactions described in the Annual Report for the year ended 31 December 2016.

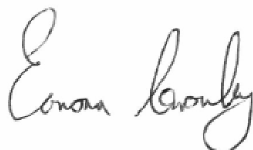
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

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

On behalf of the Board

Robert Elliott
Chairman

Jeremy Masding
Chief Executive Officer



Eamonn Crowley
Chief Financial Officer

Conor Ryan
Company Secretary

25 July 2017

Independent review report to Permanent TSB Group Holdings plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Permanent TSB Group Holdings plc's condensed consolidated interim financial statements (the "interim financial statements") in the "Interim Report" of Permanent TSB Group Holdings plc for the six month period ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

What we have reviewed

The interim financial statements, comprise:

- the condensed consolidated statement of financial position as at 30 June 2017;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended; and
- the notes to the condensed consolidated financial statements.

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

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

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

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers
Chartered Accountants
Dublin
25 July 2017

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Condensed Consolidated Financial Statements

Condensed Consolidated Income Statement (Unaudited)

For the half year ended 30 June 2017

	Notes	**Half year ended 30 June 2017**	Half year ended 30 June 2016
		€m	€m
Interest income	3	**255**	294
Interest expense	3	**(52)**	(99)
Net interest income		**203**	195
Fees and commission income		**28**	28
Fees and commission expense		**(10)**	(9)
Net trading expense		**(1)**	(10)
Net operating income		**1**	29
Total operating income		**221**	233
Administrative, staff and other expenses (excluding exceptional items)	4	**(133)**	(167)
Regulatory charges	5	**(18)**	-
Depreciation of property and equipment		**(6)**	(6)
Amortisation of intangible assets		**(5)**	(4)
Exceptional items	6	**(10)**	(9)
Total operating expenses		**(172)**	(186)
Operating profit before (charge)/write-back for impairment		**49**	47
Impairment (charge)/write-back			
Loans and advances to customers	15(A)	**(5)**	60
Collateral in possession	15(B)	**(1)**	1
Total Impairment (charge)/write-back		**(6)**	61
Profit before taxation		**43**	108
Taxation	7	**(7)**	(28)
Profit for the period		**36**	80
Attributable to:			
Owners of the holding company		**36**	80
Earnings per share		**€ Cent**	€ Cent
Basic earnings per share of €0.5 ordinary shares	8	**5.6**	15.4
Diluted earnings per share of €0.5 ordinary shares	8	**5.6**	15.4

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the half year ended 30 June 2017

	Notes	**Half year ended 30 June 2017**	Half year ended 30 June 2016
		€m	€m
Profit for the period		**36**	80
Items that may be reclassified to the income statement in subsequent periods			
Currency translation adjustment reserve			
Gains on hedging of investments in foreign operations		**-**	1
Available-for-sale ("AFS") reserve			
Change in fair value of AFS financial assets	7(B)	**(19)**	(21)
Transfer to income statement on disposals of AFS securities		**-**	(23)
Tax relating to items that will be reclassified to income statement	7(B)	**2**	6
Cash flow hedge reserve			
Change in fair value recognised in equity	7(B)	**-**	17
Amortisation of dedesignated CFH to income statement		**-**	(7)
Tax relating to items that will be reclassified to income statement	7(B)	**-**	(1)
Other comprehensive expense, net of tax		**(17)**	(28)
Total comprehensive income for the period, net of tax		**19**	52
Attributable to:			
Owners of the holding company		**19**	52
		19	52

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 June 2017

	Notes	30 June 2017	31 December 2016
		€m	€m
Assets			
Cash and balances with central banks	9	**50**	66
Items in the course of collection	9	**16**	30
Assets classified as held for sale		**1**	1
Debt securities	10	**2,602**	2,682
Equity securities	11	**10**	9
Derivative assets	12	**38**	44
Loans and advances to banks	13	**1,241**	1,185
Loans and advances to customers	14,15	**18,589**	18,886
Prepayments and accrued income		**33**	103
Property and equipment		**128**	125
Intangible assets		**33**	34
Other assets	17	**98**	81
Current tax asset		**-**	2
Deferred taxation	16	**348**	353
Total assets		**23,187**	23,601
Liabilities			
Deposits by banks (including central banks)*	18	**2,706**	2,903
Customer accounts	19	**16,918**	16,984
Debt securities in issue	20	**1,196**	1,324
Derivative liabilities	12	**105**	124
Accruals		**6**	10
Current tax liability		**2**	-
Other liabilities	21	**48**	50
Provisions	22	**75**	84
Subordinated liabilities	23	**23**	22
Total liabilities		**21,079**	21,501
Equity			
Share capital	24	**1,257**	1,257
Share premium	24	**333**	333
Other reserves	24	**(781)**	(764)
Retained earnings	24	**1,177**	1,152
Shareholders' equity		**1,986**	1,978
Other equity instruments	24	**122**	122
Total equity		**2,108**	2,100
Total liabilities and equity		**23,187**	23,601

*Deposits by banks (including central banks) includes €0.2bn (31 December 2016: €1.4bn) of ECB funding.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the half year ended 30 June 2017

	Attributable to owners of the holding company										
	Share capital	**Share premium**	**Capital contribution reserve***	**Revaluation reserve***	**AFS reserve***	**Cash flow hedge reserve***	**Currency translation adjustment reserve***	**Other capital reserve***	**Retained earnings**	**Other equity instruments**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
As at 1 January 2017	**1,257**	**333**	**-**	**30**	**61**	**-**	**1**	**(856)**	**1,152**	**122**	**2,100**
Profit for the period ended 30 June 2017	-	-	-	-	-	-	-	-	**36**	-	**36**
Other comprehensive income, net of tax (note 25)	-	-	-	-	**(17)**	-	-	-	-	-	**(17)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(17)**	**-**	**-**	**-**	**36**	**-**	**19**
Contributions by and distributions to owners.											
AT1 coupon paid (note 24)	-	-	-	-	-	-	-	-	**(11)**	-	**(11)**
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11)**	**-**	**(11)**
Balance as at 30 June 2017	**1,257**	**333**	**-**	**30**	**44**	**-**	**1**	**(856)**	**1,177**	**122**	**2,108**

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

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the half year ended 30 June 2016

	Attributable to owners of the holding company										
	Share capital	Share premium	Capital contribution reserve*	Revaluation reserve*	AFS reserve*	Cash flow hedge reserve*	Currency translation adjustment reserve*	Other capital reserve*	Retained earnings	Other equity instruments	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
As at 1 January 2016	1,257	331	118	24	103	(13)	-	(856)	1,310	122	2,396
Profit for the period ended 30 June 2016	-	-	-	-	-	-	-	-	80	-	80
Other comprehensive income, net of tax (note 25)	-	-	-	-	(38)	9	1	-	-	-	(28)
Total comprehensive income for the period	-	-	-	-	(38)	9	1	-	80	-	52
Transactions with owners, recorded directly in equity:											
Transfer of capital contribution reserve to retained earnings	-	-	(118)	-	-	-	-	-	118	-	-
AT1 coupon paid (note 24)	-	-	-	-	-	-	-	-	(10)	-	(10)
Total contributions by and distributions to owners	-	-	(118)	-	-	-	-	-	108	-	(10)
Balance as at 30 June 2016	1,257	331	-	24	65	(4)	1	(856)	1,498	122	2,438

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

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the holding company										
	Share capital	Share premium	Capital contribution reserve*	Revaluation reserve*	AFS reserve*	Cash flow hedge reserve*	Currency translation adjustment reserve*	Other capital reserve*	Retained earnings	Other equity instrument	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
As at 1 January 2016	1,257	331	118	24	103	(13)	-	(856)	1,310	122	2,396
Loss for the year ended 31 December 2016	-	-	-	-	-	-	-	-	(266)	-	(266)
Other comprehensive income, net of tax (note 25)	-	-	-	6	(42)	13	1	-	-	-	(22)
Total comprehensive income/(expense) for the year	-	-	-	6	(42)	13	1	-	(266)	-	(288)
Transactions with owners, recorded directly in equity:											
Contributions by and distributions to owners											
Release of provision in relation to issuance cost of share capital and other equity instruments	-	2	-	-	-	-	-	-	-	-	2
Transfer of capital contribution reserve to retained earnings	-	-	(118)	-	-	-	-	-	118	-	-
AT1 coupon paid (note 24)	-	-	-	-	-	-	-	-	(10)	-	(10)
Total contributions by and distributions to owners	-	2	(118)	-	-	-	-	-	108	-	(8)
Balance as at 31 December 2016	1,257	333	-	30	61	-	1	(856)	1,152	122	2,100

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

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the half year ended 30 June 2017

	Notes	**Half year ended 30 June 2017**	Half year ended 30 June 2016
		€m	€m
Cash flows from operating activities			
Profit before taxation for the period		**43**	108
Adjusted for:			
Depreciation, amortisation and impairment of property, equipment and intangibles		**11**	17
Impairment charge/(write-back) in period:			
- Loans and receivables to customers	15 (a)	**5**	(60)
- Repossessed assets	15 (b)	**1**	(1)
Gain on disposal of Visa equity		**-**	(29)
Loss on derecognition of loan portfolios			-
Unrealised losses on financial assets		**1**	10
Interest on subordinated liabilities		**-**	-
Loss on repurchase of subordinated liabilities			-
Other mortgage related adjustments		**8**	13
Other provisions		**9**	13
Gain on debt securities buyback programmes		**(1)**	-
Amortisation of bond discounts		**(2)**	-
Movement in loans and advances to customers	14	**301**	375
Movement in customer accounts	19	**(87)**	(1,369)
Other movements		**45**	215
Net cash inflow/(outflow) from operating activities before tax		**334**	**(708)**
Tax refund		**3**	(2)
Net cash inflow/(outflow) from operating activities		**337**	(710)
Cash flows from investing activities			
Purchase of property and equipment		**(9)**	(4)
Purchase of intangible assets		**(3)**	(1)
Decrease/(increase) in restricted cash	9	**61**	(67)
Proceeds from Visa equity sale	11	**-**	19
Net cash inflow/ (outflow) from investing activities		**49**	**(53)**
Cash flows from financing activities			
Redemption/maturity of debt securities in issue	20	**(123)**	(131)
Movements in deposits by banks	18	**(197)**	130
Movement in debt securities including maturities, purchases and sales	10	**47**	867
Termination fee on buyback of MTN		**(1)**	-
AT1 coupon paid		**(11)**	(10)
Net cash (outflow)/ inflow from financing activities		**(285)**	**856**
Increase in cash and cash equivalents		**101**	**93**
Analysis of changes in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		**600**	736
Increase in cash and cash equivalents		**101**	93
Effect of exchange translation adjustments		**(7)**	(59)
Cash and cash equivalents as at period end*	9	**694**	770

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

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

1.1 Corporate information

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

The condensed consolidated interim financial statements ("interim financial statements") include the financial statements of Permanent TSB Group Holdings plc (the "Company") and its subsidiary undertakings, (together referred to as "the Group" or "PTSBGH" where appropriate), and are prepared for the period up to the end of the half year, 30 June 2017. The interim financial statements for the half year ended 30 June 2017 are unaudited but have been reviewed by the independent auditor whose report is set out earlier in this report.

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

These interim financial statements were approved and authorised for issue by the Directors on 25 July 2017.

The accounting policies applied in the preparation of the financial statements for the half year ended 30 June 2017 are set out below.

1.2 Basis of preparation

Statement of compliance
These interim financial statements which consist of a condensed consolidated income statement, a condensed consolidated statement of comprehensive income, a condensed consolidated statement of financial position, a condensed consolidated statement of changes in equity, a condensed consolidated statement of cash flows and the related notes have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and IAS 34, 'Interim Financial Reporting' as published by the International Accounting Standards Board and adopted by the EU. This report should be read in conjunction with the Annual Report and Financial Statements of the Group for year ended 31 December 2016, which was prepared in accordance with International Financial Reporting Standards (IFRS) and the IFRS Interpretations Committee (IFRIC) interpretations as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS.

Basis of measurement
The interim financial statements have been prepared on the historical cost basis as modified to include fair valuation of certain financial instruments, financial assets classified as available for sale, land and buildings and repossessed assets.

Statutory Accounts
These interim financial statements do not comprise statutory accounts within the meaning of the Companies Act 2014. The statutory accounts for the year ended 31 December 2016 were approved by the Directors on 7 March 2017, contained an unqualified audit report and were filed with the Companies Registration Office on 23 June 2017.

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

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

In preparing the 2017 Interim Financial Report, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied in note 2 in the 2016 Annual Report.

There have been no significant changes to the Group's approach to making critical accounting estimates and judgements from those applied at 31 December 2016.

1.3 Going concern

In considering Management's assessment of the Group's ability to continue as a going concern, we considered the principal risks and uncertainties as they might pertain to the going concern assumption, particularly the status of the Group's adherence to the terms of the Restructuring Plan, the Liquidity position, Profitability and the Capital position of the Group. The Directors considered these items over the course of the year to date and into 2018, their current status and future projections. In doing so we considered each risk in turn, and the likelihood of the risk precipitating in the going concern assumption becoming invalid over the period of assessment, being 12 months from the date of the approval of the Interim Accounts for the 6 month period ended 30 June 2017. We considered realistic alternatives, including downside scenarios applied by the Group so as to appropriately test assumptions and potential outcomes. We concluded, based on progress over recent years, in addition to the Group's outlook, that the Group currently has no material uncertainties which would cast significant doubt on the going concern assumption.

Assessment Basis
The time period that the Directors and Management have considered in evaluating the appropriateness of the going concern basis in preparing the consolidated financial statements for the six month period ended 30 June 2017 is a period of 12 months from the date of approval of these interim financial statements ("the period of assessment").

In making this assessment, the Directors and Management have considered the Group's 2017-2020 Medium Term Plan, profitability forecasts, funding and capital resource projections under base and stress scenarios applied by the Group, together with a number of factors such as the outlook for the Irish and EU economy, Government's fiscal policies, the availability of collateral to access funding through third parties and the euro system, and on-going changes in the regulatory environment. Further, the Group's strategic outlook has continued to improve, both from the perspective of the macroeconomic environment and the Group's performance.

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

Economic & political environment
The Group continues to be materially reliant on Government and European Union policy in relation to the Irish economy and the financial services sector. At a macroeconomic level, property prices and unemployment levels continue to recover in 2017. The first six months of 2017 has seen improvements and growth in the mortgage market, however there continues to be constraints within the market arising from housing completions as well as various other factors.

Capital markets have continued to show greater volatility since the 'Brexit' referendum result due to the uncertainty regarding the UK's withdrawal from the EU; the nature of its revised trading relationship with the EU and the consequent impact on both the UK and the wider European Union's economic outlook. The Group, however, believes it is reasonably well positioned to withstand any near term volatility caused by Brexit, particularly given the Group's completion of the sale of its residual UK loan portfolio in 2016. The longer term impacts of Brexit on the Irish economy may not be known for some time and could, in time, impact the Group's business.

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

Restructuring Plan
The Restructuring Plan was approved in April 2015 with the Group meeting its commitments as at 31 December 2016, save for the timing of the deleveraging of the CHL portfolio, with the completion taking place in November 2016 compared to a requirement of June 2016. The reason, however, for not meeting this timeline was due principally to market factors outside the Group's control. The Group continues to work to meet the remaining commitments with Management particularly focused on the Cost Income Ratio. Overall, the Group has concluded that there are no other matters currently expected to arise which would give rise to material uncertainties which would cast doubt on the ability of the Group to continue as a going concern over the period of assessment.

Funding & Liquidity
The Group continued to have sufficient liquidity during the 6 month period ended 30 June 2017 and has further reduced its ECB funding which now solely comprises Targeted Longer-Term Refinancing Operations to €230m at 30 June 2017. The Group continues to undertake initiatives to further improve its liquidity position in the areas of deposits, collateral optimisation, wholesale markets activity and deleveraging. The Directors and Management have also considered forecasts of the liquidity position over the going concern period, under a range of stress scenarios.

Notwithstanding the above, the Group continues to hold a significant liquidity buffer at 30 June 2017. The Group also continues to utilise the normal operations of the ECB for liquidity and funding during the period of assessment (although at a much reduced level on prior periods) and the Directors and Management are aware that the Group's ability to continue to access system liquidity and funding will be dependent on the Group having sufficient eligible collateral. However, the Directors and Management are satisfied, based on a review of funding plans, interaction with wholesale markets and deposit trends that the required liquidity and funding will be available to the Group during the period of assessment, and does not give rise to material uncertainties which would cast significant doubt on the ability of the Group to continue as a going concern over the period of assessment.

Profitability and Capital Adequacy
The Group made an outright profit in the half year to 30 June 2017 and a profit before exceptional items for the 12 month period ended 31 December 2016 with an outright loss for the 2016 year, with the loss arising principally due to completion of the Group's deleveraging programme. Directors and Management have reviewed the Medium Term Plan and based on this, the macro economic conditions of the country and the planned resolution of legacy issues Directors and Management are satisfied that the Group is on track to achieving sustainable profitability.

Directors and Management have also considered the Group's forecast capital base, including its ability to withstand additional Group applied stress scenarios such as the economic environment in Ireland worsening further. In addition, the Directors and Management have considered the impact which, the Group's latest estimate of the ECB's Targeted Review of Internal Models ("TRIM") and the potential impact of implementing the Group's NPL strategy, may have on the Group's capital adequacy. Directors and Management are mindful that these events may result in a reduction to the Group's capital resources. Consequently, Management have identified certain reasonable mitigating actions which can be taken if required.

On the basis of the above considerations, the Directors and Management have concluded that capital adequacy does not give rise to a material uncertainty which would cast significant doubt on the ability of the Group to continue on a Going Concern basis for the period of assessment.

Conclusion
As required by IFRS as adopted by the EU, Directors and Management have considered the principal risks/uncertainties facing the Group as outlined above. Based on the latest and projected financial performance and position and the options available to the Group, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

1.4 Comparative information

The comparative information for 2016 has been prepared on a consistent basis.

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

1.5 Summary of significant accounting policies

The accounting policies applied by the Group in the preparation of these interim financial statements are consistent with those set out in note 1 of the 2016 Annual Report.

The Group has not adopted any new or amended accounting policies which have impacted the Interim Financial Statements.

1.6 IFRS 9

Update on the Group's implementation of IFRS 9

IFRS 9 continues to be a priority project for the Group. During the first half of 2017, work continued on the build and refinement of the Group's Expected Credit Loss (ECL) impairment models and related systems, processes, governance arrangements, controls and data collection. This disclosure should be read together with Note 1 of the Group's 2016 annual report, where the bank has set out detailed information on the implementation of IFRS 9 by PTSB Group Holdings.

Impairment
The Group has made good progress in developing the model suite to calculate ECL under IFRS 9 for all material portfolios. The IFRS 9 ECL models will continue to iterate in the second half of the year to incorporate enhancements currently under development in relation to the Bank's regulatory capital models and NPL strategy.

PTSB plans to commence dry-run activities during the second half of 2017, in advance of full implementation on 1 January 2018; parallel run activities will include internal validation of ECL models, data, processes and output in addition to re-calibration, where applicable.

Classification & Measurement and Hedging
The classification and measurement and hedging workstreams have been completed, though the Group will continue to assess its business model strategy up to 1 January 2018.

Restatement of comparatives is not required under IFRS 9 on transition; instead the bank will adjust the opening balance of its retained earnings to take account of the effect of applying IFRS 9 on initial application on 1 January 2018.

Assessing Impact on Regulatory Capital
The Group is still refining and recalibrating its ECL models, honing methodology and processes due to the significance and complexity of the judgemental areas. It is not possible at this time to provide a reliable estimate of the expected quantitative impact of IFRS 9 on the Group's impairment provisions and capital on initial application. It is anticipated at an industry level, that as a result of the transition of assets between stages and the incorporation of forward looking information, including multiple economic scenarios, may result in impairment charges being more volatile when compared to the current IAS 39 impairment model. The Group expects to disclose the quantitative impact of IFRS 9 in the 2017 Annual Report of PTSB Group Holding's.

The capital treatment on IFRS 9 impairment provisions is the subject of on-going regulatory review and dialogue across the industry. The European Council recently proposed that the impact be phased in over five years (from 2018 to 2022) and have also proposed a methodology to apply the transition rules. The Group continues to monitor regulatory developments and assess their impact on IFRS 9 implementation. Despite the proposed phasing of the impact of IFRS 9, the new approach may negatively affect regulatory capital as at 1 January 2018, though it is still unclear how regulators will ultimately treat the interaction between the accounting and regulatory frameworks for expected loss. PTSB will continue to closely monitor developments in relation to regulatory capital.

2. Operating segments

In 2016 and prior years the Group reported two operating segments Core Bank and Non-Core Business.

Core Bank is the core commercial part of the Group which offers a comprehensive range of retail banking products through multiple channels, in addition to corporate and institutional deposits, and which manages the Group's non-performing and/or high risk loans, buy to let and unsecured loan portfolios.

Non-Core Business comprised (i) a residential portfolio of mostly buy-to-let loans held by a UK based subsidiary, Lansdowne 199 Limited; (ii) a legacy portfolio of residential mortgages, held by two Isle of Man based subsidiaries, Irish Permanent (IOM) Limited and Irish Permanent International (Isle of Man) Limited; and (iii) a deposit taking business in the Isle of Man, operated through Permanent Bank International Limited ('PBI').

In Q4 2016, the entire loan portfolios of Lansdowne 199 Limited, Irish Permanent (IOM) Limited and Irish Permanent International (Isle of Man) Limited were sold, and as at 31 December 2016, PBI was the only remaining portfolio in Non-Core Business. The PBI portfolio was transferred to Core Bank from 1 January 2017. Consequently the financial information as included within Non-Core for 30 June 2017 is nil. The prior year comparative information is unchanged from prior year for consistency.

In H1 2017, following a strategic review, the decision was taken to close PBI and to begin an orderly wind-down of the business which is estimated to be completed by the end of 2017.

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

2. Operating segments (continued)

Financial performance of the segments for the period ended 30 June 2017 and 30 June 2016 are presented below.

30 June 2017	**Core Bank**		**Non-Core**		
		Of which is UK*		**Of which is UK***	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Net interest income					
From external customers	**203**	**(1)**	**-**	**-**	**203**
From internal customers	**-**	**2**	**-**	**-**	**-**
Total net interest income	**203**	**1**	**-**	**-**	**203**
Other banking income	**18**	**-**	**-**	**-**	**18**
Net other operating income	**-**	**-**	**-**	**-**	**-**
Total operating income	**221**	**1**	**-**	**-**	**221**
Total operating expense excluding exceptional items, depreciation and amortisation	**(151)**	**(1)**	**-**	**-**	**(151)**
Depreciation property and equipment	**(6)**	**-**	**-**	**-**	**(6)**
Amortisation of intangible assets	**(5)**	**-**	**-**	**-**	**(5)**
Total operating expense excluding exceptional items	**(162)**	**(1)**	**-**	**-**	**(162)**
Operating profit before (charge) for impairments and exceptional items	**59**	**-**	**-**	**-**	**59**
Charge for impairments of loans and advances and repossessed assets	**(6)**	**-**	**-**	**-**	**(6)**
Operating profit before exceptional items	**53**	**-**	**-**	**-**	**53**
Exceptional items (net)					**(10)**
Profit before taxation					**43**
Taxation					**(7)**
Profit for the period					**36**

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

30 June 2016	**Core Bank**		**Non-Core**		
		Of which is UK*		**Of which is UK***	Total
	€m	**€m**	€m	**€m**	€m
Net interest income					
From external customers	183	-	12	11	195
From internal customers	24	-	(24)	(24)	-
Total net interest income/(expense)	207	-	(12)	(13)	195
Other banking income	19	-	-	-	19
Net other operating income	19	-	-	-	19
Total operating income/(expense)	245	-	(12)	(13)	233
Total operating expense excluding exceptional items, depreciation and amortisation	(157)	-	(10)	(10)	(167)
Depreciation property and equipment	(6)	-	-	-	(6)
Amortisation of intangible assets	(4)	-	-	-	(4)
Total operating expense excluding exceptional items	(167)	-	(10)	(10)	(177)
Operating profit/(loss) before write-back/(charge) for impairments and exceptional items	78	-	(22)	(23)	56
Write-back/(charge) of impairments of loans and advances and repossessed assets	75	-	(14)	(14)	61
Operating profit/(loss) before exceptional items	153	-	(36)	(37)	117
Exceptional items (net)					(9)
Profit before taxation					108
Taxation					(28)
Profit for the period					80

* This is based on geographical location and constitutes operations in the UK conducted through Lansdowne 199 and business conducted in the IOM.

Notes to the Interim Financial Statements (unaudited)

2. Operating segments (continued)

Segment assets and liabilities of the Group's operating segments and capital expenditure as at 30 June 2017 and 31 December 2016.

30 June 2017	**Core Bank**		**Non-Core**		
		Of which UK*		**Of which UK***	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Assets					
Held for sale	**1**	**-**	**-**	**-**	**1**
Other Assets	**23,186**	**364**	**-**	**-**	**23,186**
Total segment assets	**23,187**	**364**	**-**	**-**	**23,187**
Total segment liabilities	**21,079**	**253**	**-**	**-**	**21,079**
Capital expenditure	**13**	**-**	**-**	**-**	**13**

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

31 December 2016	**Core Bank**		**Non-Core**		
		Of which UK*		**Of which UK***	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Assets					
Held for sale	1	-	-	-	1
Other Assets	23,478	-	122	122	23,600
Total segment assets	23,479	-	122	122	23,601
Total segment liabilities	21,127	-	374	374	21,501
Total segment liabilities of which are intergroup funding	(283)	-	283	366	-
Capital expenditure	28	-	-	-	28

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

3. Net interest income

	Half year ended 30 June 2017	Half year ended 30 June 2016
	€m	€m
Interest income		
Loans and advances to customers	**226**	249
Debt securities and other fixed-income securities		
- Held to maturity	**12**	20
- Available for sale ("AFS")	**15**	19
- Loans and receivables	**2**	6
Amortisation of AFS securities reclassified to loans and receivables (note 10)	**-**	-
	255	294
Interest expense		
Deposits from banks (including central banks)	**(3)**	(18)
Due to customers	**(40)**	(63)
Interest on debt securities in issue	**(8)**	(8)
Fees payable on ELG Scheme (note 29)	**(1)**	(3)
Amortisation of core deposit intangibles	**-**	(7)
	(52)	(99)
Net interest income	**203**	195

Interest recognised on impaired loans and advances to customers for the period ended 30 June 2017 was €40m (30 June 2016: €53m).

Included in net interest income are net gains on interest rate fair value hedges which include gains on hedging instruments of €15m (30 June 2016: loss €2m) and losses on hedged items attributable to hedged risk of €15m (30 June 2016: gain €2m).

Net interest income includes a charge in respect of deferred acquisition costs on loans and advances to customers of €8m (30 June 2016: €13m).

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

	Half year ended 30 June 2017	Half year ended 30 June 2016
	€m	€m
Staff costs (as detailed below)	**75**	71
Other general and administrative expenses	**58**	96
Administrative, staff and other expenses (excluding exceptional items)	**133**	167

Other general and administrative expenses include operating lease rentals on land and buildings of €3m (30 June 2016: €3m). In addition, expenses which relate to the Bank Recovery and Resolution Directive ('BRRD') levy of €9m, Deposit Guarantee Scheme ('DGS') fees of €10m and other regulatory charges of €6m for the half year ended 30 June 2016 are presented above. BRRD levy, DGS fees and other regulatory charges for the half year ended 30 June 2017 are now presented in Regulatory charges, note 5.

Staff costs

	Half year ended 30 June 2017	Half year ended 30 June 2016
	€m	€m
Wages and salaries including commission payable to sales staff	**62**	60
Social insurance	**7**	6
Pension costs	**6**	5
Total staff costs	**75**	71

Staff numbers

The number of staff employed are broken down by geographical location and by their operating segments for 30 June 2017 and 30 June 2016 in the tables below:

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

	Closing staff numbers		**Average staff numbers**	
	Half year ended 30 June 2017	Half year ended 30 June 2016	**Half year ended 30 June 2017**	Half year ended 30 June 2016
Ireland	**2,520**	2,481	**2,431**	2,342
UK	**10**	12	**10**	12
	2,530	2,493	**2,441**	2,354

Closing and average number of staff employed by the Group split by operating segments:

	Closing staff numbers		**Average staff numbers**	
	Half year ended 30 June 2017	Half year ended 30 June 2016	**Half year ended 30 June 2017**	Half year ended 30 June 2016
Core	**2,530**	2,480	**2,441**	2,340
Non-Core	**-**	13	**-**	14
	2,530	2,493	**2,441**	2,354

5. Regulatory charges

	Half year ended 30 June 2017	Half year ended 30 June 2016
	€m	€m
BRRD levy	**7**	-
Deposit guarantee scheme (DGS)	**11**	-
Other regulatory charges	**-**	-
Regulatory charges	**18**	-

Expenses which relate to the BRRD levy, DGS fees and other regulatory charges for the half year ended 30 June 2017 are presented above. BRRD levy of €9m, DGS fees of €10m and other regulatory charges of €6m for the half year ended 30 June 2016 are presented in Administrative, staff and other expenses (excluding exceptional items), note 4.

6. Exceptional items

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

At 30 June 2016, exceptional items amounted to €9m. This included a €13m charge related to on-going restructuring and the remaining balance of exceptional items included mark-to-market movements on derivatives and accruals related to the non-core portfolios.

7. Taxation

(A) Analysis of taxation charge

	Half year ended 30 June 2017	Half year ended 30 June 2016
	€m	€m
Current taxation		
Charge for current period	**-**	9
	-	9
Deferred taxation		
Origination and reversal of temporary differences	**7**	19
Taxation charged to Income Statement	**7**	28
Effective tax rate	**16%**	26%

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

The Group taxation charge for the half year ended 30 June 2017 was €7m (30 June 2016: €28m). This charge is primarily due to a current year deferred tax charge of €7m which arises due to the utilisation of tax losses carried forward to shelter taxable profits in the period.

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

Half year ended 30 June 2017

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

Half year ended 30 June 2016

	Gross	Tax	Net
	€m	€m	€m
Currency translation adjustment reserve	1	-	1
AFS reserve:			
- Change in fair value of AFS securities	(21)	3	(18)
- Disposal of AFS securities	(23)	3	(20)
Cash flow hedge reserve:			
- Change in fair value recognised in equity	17	(2)	15
- Amortisation of dedesignated CFH to Income Statement	(7)	1	(6)
Balance as at 30 June 2016	(33)	5	(28)

8. Earnings per share

(A) Basic earnings per share

	Half year ended 30 June 2017	Half year ended 30 June 2016
Weighted average number of ordinary shares in issue and ranking for dividend excluding treasury shares[1]	**454,690,912**	454,690,912
Profit for the period attributable to equity holders	**€36m**	€80m
Less AT1 coupon paid (see note 24)	**(€11m)**	(€10m)
Profit for the period attributable to equity holders less AT1 coupon paid	**€25m**	€70m
Basic earnings per share (€ cent)	**5.6**	15.4

(B) Fully diluted earnings per share

	Half year ended 30 June 2017	Half year ended 30 June 2016
Weighted average number of potential dilutive ordinary shares arising from the AT1 conversion feature	**-**	-
Weighted average number of ordinary shares excluding treasury shares held under employee benefit trust used in the calculation of fully diluted loss per share and including the potential ordinary shares from the AT1 conversion feature	**454,690,912**	454,690,912
Diluted earnings per share (€ cent)	**5.6**	15.4

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

No adjustment to the weighted average number of ordinary shares for the effects of dilutive potential ordinary shares was required for the half year ended 30 June 2017 or 30 June 2016 as the AT1 securities were assessed due to the conversion feature within the security, and were found to have an anti-dilutive effect.

[1]Weighted average number of shares

	2017	2016
Number of shares in issue at 1 January (note 24)	**454,695,492**	454,695,492
Shares held under employee benefit trust (note 24)	**(4,580)**	(4,580)
	(4,580)	(4,580)
Net movements during the period*		
Weighted average shares redesignated	**-**	-
Weighted average shares issued	**-**	-
Weighted average number of shares at 30 June	**454,690,912**	454,690,912

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

Notes to the Interim Financial Statements (unaudited)

9. Cash and cash equivalents

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

	30 June 2017	31 December 2016
	€m	€m
Cash and balances with central banks	50	66
Items in the course of collection	16	30
Loans and advances to banks repayable on demand (maturity of less than 3 months) (note 13)	1,234	1,172
	1,300	1,268
Restricted cash included in loans and advances to banks repayable on demand	(606)	(668)
Cash and cash equivalents per statement of cash flows	**694**	600

As at 30 June 2017, restricted cash of €606m (31 December 2016: €668m) relates to cash of €447m (31 December 2016: €466m) held by the Group's securitisation entities while €159m (31 December 2016: €202m) relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

10. Debt securities

	30 June 2017				31 December 2016			
	HTM securities	AFS securities	Loans and receivables	Total	HTM securities	AFS securities	Loans and receivables	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Government bonds	1,292	1,252	8	2,552	1,151	1,277	8	2,436
NAMA bonds	-	-	50	50	-	-	246	246
Gross debt securities	**1,292**	**1,252**	**58**	**2,602**	1,151	1,277	254	2,682

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

	30 June 2017				31 December 2016			
	HTM securities	AFS securities	Loans and receivables	Total	HTM securities	AFS securities	Loans and receivables	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Listed	1,292	1,252	-	2,544	1,151	1,277	-	2,428
Unlisted	-	-	58	58	-	-	254	254
Gross debt securities	**1,292**	**1,252**	**58**	**2,602**	1,151	1,277	254	2,682

Debt securities with a carrying value of €0.6bn (31 December 2016: €0.01bn) have been pledged to third parties in sale and repurchase agreements.

As at 30 June 2017, the amount of debt securities remaining available to be used and eligible as collateral (though eligibility will depend on the criteria of the counterparty) in sale and repurchase agreements had a carrying value of €2bn (31 December 2016: €2.7bn).

Held to Maturity ("HTM") securities of €1.3bn are made up of Irish bonds. They represent securities with fixed maturities and fixed and determinable cash flows, which the Group has the ability and intention to hold until maturity.

Loans and receivables debt securities includes €50m of bonds issued by NAMA and €8m of NTMA investments held by a subsidiary. The movement in HTM, Available for sale ('AFS') and loans and receivables securities may be classified as follows:

	30 June 2017			31 December 2016		
	HTM securities	AFS securities	Loans and receivables	HTM securities	AFS securities	Loans and receivables
	€m	€m	€m	€m	€m	€m
As at 1 January	1,151	1,277	254	1,555	1,506	778
Change in fair value	-	(34)	-	-	(40)	-
Additions	153	-	-	-	-	-
Maturities/disposals	-	-	(197)	(377)	(188)	(528)
Interest net of cash receipts	(12)	9	1	(27)	(1)	4
At 30 June/31 December	**1,292**	**1,252**	**58**	1,151	1,277	254

11. Equity securities

	30 June 2017	31 December 2016
	€m	€m
As at 1 January	9	23
Acquisition	-	8
Revaluation	1	1
Disposals	-	(23)
Total equity investments	**10**	9

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

	30 June 2017	31 December 2016
	€m	€m
Unlisted	10	9
Gross equity securities	**10**	9

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

A gain of €29m was recorded in operating income in the 2016 income statement in respect of the sale of the share owned by PTSB in Visa Europe. This gain comprised €21m for the upfront cash and deferred cash components and a further €8m for the preferred stock in Visa Inc.

PTSB continues to hold the preferred stock in Visa Inc. at 30 June 2017. This was fair valued at €10m at 30 June 2017 and is recognised in the Statement of financial position.

The fair value of this shareholding in Visa Inc. is classified as level 3 as the valuation of the share includes inputs that are based on unobservable market data (see note 26: Measurement basis and fair values of financial instruments).

12. Derivative assets/liabilities

Derivative instruments are used by the Group to hedge against interest rate risk and foreign currency risk. Certain derivative instruments do not fulfil the hedge accounting criteria under IAS 39 and are consequently classified as held for trading. All derivatives are carried at fair value.

The derivative instruments used by the Group include:
- Currency forward rate contracts which are commitments to purchase and sell currencies, including undelivered spot transactions; and
- Interest rate swaps which are commitments to exchange one set of cash flows for another.

Further details on the Group's risk management policies are set out in note 34 of the 2016 Annual Report.

Derivatives which are not in a qualifying hedge accounting relationship are treated as trading for accounting purposes in accordance with IAS 39.
Derivatives held by the Group are analysed as follows:

	30 June 2017			31 December 2016		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount	Fair value asset	Fair value liability
	€m	**€m**	**€m**	€m	€m	€m
Designated as fair value hedges						
Interest rate swaps*	**983**	**16**	**78**	1,043	20	87
	983	**16**	**78**	1,043	20	87
Held for trading						
Forwards	**155**	**1**	**-**	417	2	5
Interest rate swaps	**771**	**21**	**22**	869	22	23
	926	**22**	**22**	1,286	24	28
Embedded derivatives	**17**	**-**	**5**	73	-	9
	17	**-**	**5**	73	-	9
Derivative assets & liabilities as per the statement of financial position	**1,926**	**38**	**105**	2,402	44	124

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

13. Loans and advances to banks

	30 June 2017	31 December 2016
	€m	€m
Held at amortised cost		
Placed with central banks	**348**	228
Placed with other banks	**893**	957
Total loans and advances to banks	**1,241**	1,185

Placements with other banks includes restricted cash of €606m (31 December 2016: €668m) of which €447m (31 December 2016: €466m) is held by Group's securitisation entities and €159m (31 December 2016: €202m) relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Loans and advances to banks amounting to €1,234m as at 30 June 2017 (31 December 2016: €1,172m) have a maturity of less than three months and therefore have been treated as cash and cash equivalents.

14. Loans and advances to customers

Loans and advances by category are set out below:

	30 June 2017	31 December 2016
	€m	€m
ROI residential mortgages		
Held through special purpose entities	**12,538**	12,982
Held directly	**7,980**	7,812
	20,518	20,794
Commercial mortgage loans	**228**	243
Consumer finance		
Term loans / other	**322**	331
Gross loans and advances to customers	**21,068**	21,368
Less: provision for impairment (note 15)	**(2,479)**	(2,482)
Net loans and advances to customers	**18,589**	18,886

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

	Gross loans and advances to customers		**Net loans and advances to customers**	
	30 June 2017	31 December 2016	**30 June 2017**	31 December 2016
	€m	€m	**€m**	€m
ROI				
Tracker	**13,241**	13,545	**11,604**	11,909
Variable Rate	**7,225**	7,343	**6,395**	6,514
Fixed Rate	**602**	480	**590**	463
	21,068	21,368	**18,589**	18,886

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

14. Loans and advances to customers (continued)

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

	30 June 2017	31 December 2016
	€bn	€bn
Residential mortgages held through special purpose entities	**12.5**	13.0
Notes issued by special purpose entities		
- rated	**8.1**	8.6
- unrated	**4.4**	4.4
	12.5	13.0

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

	30 June 2017	31 December 2016
	€bn	€bn
- Sold to third parties and included within debt securities in issue (non-recourse) on the Statement of financial position (note 20)	**0.9**	0.9
- Held by the ECB as collateral in respect of funds raised under the euro system funding programme (note 18)	**0.6**	2.1
- Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements (note 18)	**2.2**	1.8
- Other		
- Available collateral[1]	**4.4**	3.8
- Unrated notes	**4.4**	4.4
	12.5	13.0

[1]The eligibility of available collateral will depend on the criteria of the counterparty.

15. Impairment provisions

(A) Loans and advances to customers

The following table reflects impaired loans for which provisions are held and an analysis of specific and IBNR impairment provision balances across the loans and advances to customers portfolio.

A loan 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 of the estimated future cash flows of the asset. Impairment provisions are calculated either individually on loans which are significant, or collectively on groups of loans which are individually insignificant. Impairment losses are recorded as charges to the Income statement.

The impaired loan balances as at 30 June 2017 were €4,856m (31 December 2016: €4,912m). As at 30 June 2017, there were €114m (31 December 2016: €124m) of loans which are greater than 90 days in arrears that are considered past due but not impaired. Refer to note 27 for further details.

30 June 2017				**Impairment Provisions**				
	Loans and advances to customers	**Impaired loans**	**Impaired % of total loans**	**Specific**	**IBNR**	**Total**	**Total provisions as % of impaired loans**	**Total provisions as % of total loans**
	€m	**€m**	**%**	**€m**	**€m**	**€m**	**%**	**%**
Residential:								
ROI:								
- Home loans	**15,094**	**3,330**	**22%**	**1,281**	**139**	**1,420**	**43%**	**9%**
- Buy-to-let	**5,370**	**1,401**	**26%**	**735**	**194**	**929**	**66%**	**17%**
Commercial	**228**	**67**	**29%**	**32**	**43**	**75**	**112%**	**33%**
Consumer finance:								
- Term loans / other	**322**	**58**	**18%**	**52**	**3**	**55**	**95%**	**17%**
Total gross loans	**21,014**	**4,856**	**23%**	**2,100**	**379**	**2,479**	**51%**	**12%**
Impairment provision	**(2,479)**							
Deferred fees, discounts and fair value adjustments	**54**							
Balance as at 30 June	**18,589**							

31 December 2016				Impairment Provisions				
	Loans and advances to customers	Impaired loans	Impaired % of total loans	Specific	IBNR	Total	Total provisions as % of impaired loans	Total provisions as % of total loans
	€m	€m	%	€m	€m	€m	%	%
Residential:								
ROI:								
- Home loans	15,286	3,406	22%	1,266	140	1,406	41%	9%
- Buy-to-let	5,449	1,360	25%	719	211	930	68%	17%
Commercial	243	72	30%	35	46	81	113%	33%
Consumer finance:								
- Term loans / other	331	74	22%	62	3	65	88%	20%
Total gross loans	21,309	4,912	23%	2,082	400	2,482	51%	12%
Impairment provision	(2,482)							
Deferred fees, discounts and fair value adjustments	59							
Balance as at 31 December	18,886							

15. Impairment provisions (continued)

Impairment charge/(write-back) on loans and advances to customers by geographical location	Half year ended 30 June 2017	Half year ended 30 June 2016
	€m	€m
Republic of Ireland ("ROI")		
Home loans	5	(28)
Buy-to-let	(1)	(34)
Commercial	(1)	(3)
Consumer finance	2	(9)
	5	(74)
United Kingdom ("UK")		
Buy-to-let	-	14
	-	14
Total impairment charge/(write-back) to the Income statement	5	(60)

Impairment charge/(write-back) by nature of impairment provision

	Half year ended 30 June 2017	Half year ended 30 June 2016
	€m	€m
Specific	23	(85)
IBNR	(18)	25
Total impairment charge/(write-back) to the Income statement	5	(60)

Impairment charge/(write-back) by segment

	Half year ended 30 June 2017	Half year ended 30 June 2016
	€m	€m
Core	5	(74)
Non-core	-	14
Total impairment charge/(write-back) to the Income statement	5	(60)

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

2017	Residential mortgages			Consumer	
	ROI	UK	Commercial	finance	Total
Total	€m	€m	€m	€m	€m
As at 1 January	2,336	-	81	65	2,482
Charge/(write-back) for the period (as per Income Statement)	4	-	(1)	2	5
Increase due to interest booked but not recognised	32	-	1	1	34
Unwinding of discount	(18)	-	(1)	-	(19)
Amounts written off*	(5)	-	(5)	(16)	(26)
Recoveries payable to the Credit Institutions Resolution Fund (note 29)	-	-	-	1	1
Recoveries	-	-	-	2	2
As at 30 June	2,349	-	75	55	2,479

*Amounts written off relate to accounting write offs where the prospect of recovery at a certain point in time appears remote. This does not prevent the Group from continuing to pursue this outstanding debt and, where circumstances change, may result in the recovery of amounts previously written off.

15. Impairment provisions (continued)

2017	**Residential mortgages**			**Consumer**	
	ROI	**UK**	**Commercial**	**finance**	**Total**
Core	**€m**	**€m**	**€m**	**€m**	**€m**
As at 1 January	**2,336**	**-**	**81**	**65**	**2,482**
Charge/(write-back)for the period (as per Income statement)	**4**	**-**	**(1)**	**2**	**5**
Increase due to interest booked but not recognised	**32**	**-**	**1**	**1**	**34**
Unwinding of discount	**(18)**	**-**	**(1)**	**-**	**(19)**
Amounts written off*	**(5)**	**-**	**(5)**	**(16)**	**(26)**
Recoveries payable to the Credit Institutions Resolution Fund (note 29)	**-**	**-**	**-**	**1**	**1**
Recoveries	**-**	**-**	**-**	**2**	**2**
As at 30 June	**2,349**	**-**	**75**	**55**	**2,479**

*Amounts written off relate to accounting write offs where the prospect of recovery at a certain point in time appears remote. This does not prevent the Group from continuing to pursue this outstanding debt and, where circumstances change, may result in the recovery of amounts previously written off.

2017	**Residential mortgages**			**Consumer**	
	ROI	**UK**	**Commercial**	**finance**	**Total**
Non-core	**€m**	**€m**	**€m**	**€m**	**€m**
As at 1 January	**-**	**-**	**-**	**-**	**-**
Transfer of opening balance to Core	**-**	**-**	**-**	**-**	**-**
Charge for the period (as per Income statement)	**-**	**-**	**-**	**-**	**-**
Increase due to interest booked but not recognised	**-**	**-**	**-**	**-**	**-**
Unwinding of discount	**-**	**-**	**-**	**-**	**-**
Amounts written off	**-**	**-**	**-**	**-**	**-**
Recoveries payable to the Credit Institutions Resolution Fund (note 29)	**-**	**-**	**-**	**-**	**-**
Recoveries	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**-**
Exchange movements	**-**	**-**	**-**	**-**	**-**
As at 30 June	**-**	**-**	**-**	**-**	**-**

2016	Residential mortgages			Consumer	
	ROI	UK	Commercial	finance	Total
Total	€m	€m	€m	€m	€m
As at 1 January	2,461	54	94	79	2,688
Write-back for the period (as per Income statement)	(52)	-	(4)	(9)	(65)
Increase due to interest booked but not recognised	51	-	2	3	56
Unwinding of discount	(40)	-	(2)	-	(42)
Amounts written off*	(84)	(10)	(9)	(7)	(110)
Recoveries payable to the Credit Institutions Resolution Fund (note 29)	-	-	-	(4)	(4)
Recoveries	1	-	-	3	4
Disposals	-	(37)	-	-	(37)
Exchange movements	-	(7)	-	-	(7)
Other	(1)	-	-	-	(1)
As at 31 December	2,336	-	81	65	2,482

*Amounts written off relate to accounting write offs where the prospect of recovery at a certain point in time appears remote. This does not prevent the Group from continuing to pursue this outstanding debt and, where circumstances change, may result in the recovery of amounts previously written off.

2016	Residential mortgages			Consumer	
	ROI	UK	Commercial	finance	Total
Core	€m	€m	€m	€m	€m
As at 1 January	2,427	-	-	79	2,506
Transfer of opening balance from Non-core	34	-	88	-	122
(Write-back)/Charge for the period (as per Income statement)	(52)	-	1	(9)	(60)
Increase due to interest booked but not recognised	51	-	2	3	56
Unwinding of discount	(40)	-	(2)	-	(42)
Amounts written off*	(84)	-	(8)	(7)	(99)
Recoveries payable to the Credit Institutions Resolution Fund (note 29)	-	-	-	(4)	(4)
Recoveries	1	-	-	3	4
Disposals	-	-	-	-	-
Other	(1)	-	-	-	(1)
As at 31 December	2,336	-	81	65	2,482

15. Impairment provisions (continued)

2016	Residential mortgages			Consumer	
	ROI	UK	Commercial	finance	Total
Non-core	€m	€m	€m	€m	€m
As at 1 January	34	54	94	-	182
Transfer of opening balance to Core	(34)	-	(88)	-	(122)
Write-back for the period (as per Income statement)	-	-	(5)	-	(5)
Increase due to interest booked but not recognised	-	-	-	-	-
Unwinding of discount	-	-	-	-	-
Amounts written off*	-	(10)	(1)	-	(11)
Recoveries payable to the Credit Institutions Resolution Fund (note 29)	-	-	-	-	-
Recoveries	-	-	-	-	-
Disposals	-	(37)	-	-	(37)
Exchange movements	-	(7)	-	-	(7)
As at 31 December	-	-	-	-	-

(B) Collateral in possession

In the half year ended 30 June 2017, the Group incurred an impairment charge on collateral in possession of €1m (30 June 2016: €1m write-back). Collateral in possession assets are included in other assets (refer to note 17 and 27 for further analysis).

16. Deferred taxation

	30 June 2017	31 December 2016
	€m	€m
At 1 January	353	393
Recognised through Income statement (note 7)	(7)	(41)
Recognised through other comprehensive income (note 7)	2	1
At end of period	**348**	353

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

The most important judgement relates to the Directors' assessment of the recoverability of the deferred tax asset relating to carried forward tax losses, being €365m at 30 June 2017. This requires significant judgements to be made about the projection of long-term profitability because of the period over which recovery extends. In addition, given PTSB's history of recent losses, in accordance with IAS 12, there must be convincing other evidence to underpin this assessment.

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

- The formal approval of the Group's Restructuring Plan by the European Commission in April 2015;
- The continued financial support provided to the Group by the Irish Government and Eurosystem;
- The successful conclusion of the Group's €525m capital raise and re-listing in May 2015;
- The improving macroeconomic environment including the continued stabilisation in Irish Sovereign Bond yields, continued growth in GDP, the continued decline in unemployment and the continued increase in house prices;
- External forecasts for the Irish economy which indicate continued and increasing economic recovery in the medium term;
- The raising of €500m of five-year debt at a low cost of approximately 0.25% through a securitisation of residential mortgage backed securities during HY2 2016;
- Successful completion of the Group's deleveraging programme during 2016;
- The Group's return to profitability in HY1 2017 and the expected trajectory of the Group's future financial performance;
- The improved impairment performance;
- The improved commercial performance; and
- The Group's projected liquidity and capital position.

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

- The absolute level of deferred tax assets on tax losses compared to the Group's equity;
- The quantum of profits required to be generated to utilise the tax losses and the extended period of time over which these profits are projected to be generated;
- The challenge of forecasting over an extended period and in particular taking account of external factors such as the level of competition and disruptors to the market and market size;
- Consideration of the assumptions underpinning the Group's financial projections (on which analysis of the recoverability of the deferred tax asset on tax losses are based). The key relevant assumptions considered being:
  - No material change to the Group's business activities in the medium term;
  - NIM is expected to be positively impacted by the evolution of the Group's lending book as new lending volumes are added and lower yielding tracker mortgages pay down;
  - There is unlikely to be further material reduction in cost of funds;
  - An expectation that market size will begin to return to normalised levels;
  - There will be modest growth in the Group's market share;
  - The cost of risk will gradually return to normalised levels reflecting the Group's assessment of the medium to long term average; and
  - Regulatory charges will continue to represent a significant percentage of the Group's total costs while some further savings are expected to be made to administrative costs.
- Consideration of forecasting risks, including sensitivity analysis on the financial projections, such sensitivity analysis including the effect of higher than expected impairments, cost of funds or operating expenditure, and lower than expected asset yields, new lending or ECB rates;
- Potential implications for the Irish economy resulting from recent international developments, including the UK's decision to leave the European Union; and
- Potential impact on the time period for utilisation of the Group's DTA as a result of the Group's strategy to reduce its level of non-performing loans.

Taking the above factors into account, and in the absence of any expiry date for the utilisation of carried forward tax losses in Ireland, the Board have concluded that it is more likely than not that there will be sufficient taxable profits against which the losses can be utilised and on the basis of the assessment above, continue to recognise €365m of a deferred tax asset on tax losses on the statement of financial position at 30 June 2017.

In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset arising on tax losses carried forward. Based on the Group's latest forecast plans to 2020 and assuming a level of profitability growth consistent with GDP growth of approximately 2.5%, it will take c. 21 years for the deferred tax asset on tax losses of €365m to be utilised. A level of profitability consistent with GDP growth continues to be considered by Management to be appropriate given the Group's primarily domestic retail focus and the expectation arising therefrom that, over the long-term, the Group's performance would be expected to broadly track the performance of the Irish economy. This is particularly the case given the completion of the sale of the Group's remaining UK business together with the sale of the Group's Isle of Man mortgage business during 2016.

16. Deferred taxation (continued)

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

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

The following information has not been subject to review by the Group's independent auditor.
Finally, it should be noted that the full net deferred tax asset is not currently included in the Group's transitional CET1 capital. This is due to the fact that, under CRD IV/CRR, the Group was required to begin deducting deferred tax assets that rely on future profitability from CET1 capital in 2014. Transitional arrangements provide for the phasing-out of such assets over a period from 2014 to 2023 with full deduction from 2024. The net deferred tax asset that is reliant on future profitability that is included in CET1, and subject to deduction on a phased basis until 2023, is €244m as at 30 June 2017 (31 December 2016: €284m).

17. Other assets

	30 June 2017	31 December 2016
	€m	€m
Collateral in possession	**84**	70
Other	**14**	11
	98	81

During the 6 month period to 30 June 2017, a further €16m of assets were repossessed while €2m of assets were sold.

The collateral in possession assets are held at fair value based on valuations performed by independent valuers having appropriate qualifications and recent exposure in fair value measurement in locations and categories being valued or based on appropriate indexed valuations. These valuations are considered to be within level 2 in the IFRS 13 hierarchy. For further details in relation to collateral in possession, see note 27.

18. Deposits by banks (including central banks)

	30 June 2017	31 December 2016
	€m	€m
Placed by the ECB	**230**	1,380
Placed by other banks and institutions on repurchase agreements	**2,467**	1,522
Other deposits	**9**	1
Net deposits by banks	**2,706**	2,903
Balances placed by the ECB		
Maximum	**1,780**	5,410
Average	**816**	3,031

The Group received €0.2bn (31 December 2016: €1.4bn) of deposits from the ECB which are secured on €0.6bn (31 December 2016: €2.1bn) of notes issued by special purpose entities controlled by the Group.

Of the deposits received on repurchase agreements, €1.9bn (31 December 2016: €1.5bn) are collateralised on €2.2bn (31 December 2016: €1.8bn) of notes issued by special purpose entities controlled by the Group. The notes issued by special purpose entities are secured by a first fixed charge over residential mortgages held by the special purpose entities (refer to note 14).

Other deposits include €9m (31 December 2016: €1m) of cash collateral placed in relation to derivative positions and repurchase agreements.

19. Customer accounts

	30 June 2017	31 December 2016
	€m	€m
Term deposits	**8,230**	8,790
Demand deposits	**3,207**	2,938
Current accounts	**3,525**	3,355
Notice and other	**1,956**	1,901
Total customer accounts	**16,918**	16,984

€0.2bn of deposits are placed by a Government institution (31 December 2016: €0.2bn) which are included within Term deposits.

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

20. Debt securities in issue

	30 June 2017	31 December 2016
	€m	€m
At amortised cost:		
Bonds and medium-term notes	**314**	374
Non-recourse funding	**882**	950
	1,196	1,324
Maturity analysis		
Repayable in less than 1 year	**300**	50
Repayable in greater than 1 year but less than 2 years	**–**	304
Repayable in greater than 2 years but less than 5 years	**7**	13
Repayable in greater than 5 years	**889**	957
	1,196	1,324

Bonds & MTNs
During the period, €50m of MTNs matured (31 December 2016: €25m) while a further €6m of bonds were terminated early during the period.

Non-recourse funding
As at 30 June 2017, the Group had advances of €0.9bn (31 December 2016: €1bn) collateralised on residential property loans of €0.9bn (31 December 2016: €1bn) subject to non-recourse funding by way of residential mortgage securitisations. Residential mortgage securitisations involve transferring the interest in pools of mortgages to special purpose entities which issue mortgage-backed floating rate notes, to fund the purchase of the interest in mortgage pools. These loans, which have not been de-recognised, are shown within loans and advances to customers while the non-recourse funding is shown as a separate liability.

Under the terms of these securitisations, the rights of the providers of the related funds are limited to the mortgage loans in the securitised portfolios and any related income generated by the portfolios, without recourse to the Group. The Group provides credit enhancement to the securitisation and the Group is not obliged to support losses in excess of this enhancement in respect of the mortgages subject to the non-recourse funding and does not intend to do so. During the term of the transactions, any amounts realised from the portfolios in excess of that due to the providers of the funding, less any related administrative costs, will be paid to the Group. The providers of this funding have agreed in writing (subject to the customary warranties and covenants) that they will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the mortgages and related security, and that they will not seek recourse in any other form.

21. Other liabilities

	30 June 2017	31 December 2016
	€m	€m
Amounts falling due within one year		
PAYE and social insurance	**4**	4
Other taxation including DIRT	**4**	5
Other	**40**	41
	48	50

22. Provisions

	2017				2016			
	Restructuring costs	Provision for legacy legal and compliance issues	Other	Total	Restructuring costs	Provision for legacy legal and compliance issues	Other	Total
	€m	€m	€m	€m	€m	€m	€m	€m
As at 1 January	4	74	6	84	5	104	8	117
Provisions made during the period	8	2	5	15	-	12	5	17
Write-back of provisions during the period	(1)	(2)	(3)	(6)	-	(1)	-	(1)
Provisions used during the period	-	(18)	-	(18)	(1)	(41)	(7)	(49)
As at 30 June/31 December	11	56	8	75	4	74	6	84

Restructuring costs
The provision relates to costs associated with the historical (2013) restructure of the branch network and the recently announced changes to the Group's distribution model.

The Group remains a lessee in a number of non-cancellable leases over properties that it no longer occupies following a restructure in 2013. The provision of €3m (31 December 2016: €4m) relates to leases on properties of up to thirteen years and is calculated as the present value of future lease payments. It is expected that €1m of this provision will be utilised in the next 12 months.

During Q2 2017, the Group announced changes to the Group's distribution model, including changes to the Branch Network. Estimated costs to deliver these activities are €7m with the majority of this provision being utilised within 12 months.

Provision for legacy, legal and compliance issues
The provision relates to legal and compliance costs of on-going disputes in relation to legacy business issues with certain customers and other actions, including a Mortgage Redress Programme in connection with an on-going investigation by the Central Bank of Ireland (CBI) and the industry-wide CBI Tracker Review.

At 30 June 2017, the Group continues to assess the population size of potentially impacted mortgage accounts where customer detriment may have occurred and to determine appropriate redress and compensation in such cases. Of the €56m provision as at 30 June 2017, the Group has provided €44m (31 December 2016: €61m) for the Mortgage Redress Programme and the CBI Tracker Review. This represents the best estimate of the potential liabilities at 30 June 2017. The Group anticipates that the majority of this provision will be fully utilised within 18 months. Management has exercised judgment in arriving at the provision and there is estimation uncertainty involved in determining this provision. This could result in material adjustments to the provision in the future. The matter is being kept under review as more information becomes available.

Other
The provision of €8m (31 December 2016: €6m) principally relates to indemnities and guarantees provided by the Group, together with further costs, relating to deleveraging of various asset portfolios in prior periods.

23. Subordinated liabilities

	2017	2016
	€m	€m
As at 1 January	22	22
Other Movements	1	-
As at 30 June/31 December*	23	22

	2017	2016
Maturity date	€m	€m
€24m 0% non-callable lower tier 2 capital notes 2018	23	22
As at 30 June/31 December	23	22

*Included in the closing balance is a hedge accounting adjustment of €1m (31 December 2016: €1m).

All of the above subordinated liabilities are issued by PTSB, the principal subsidiary of the holding company.

Further details of the Group's subordinated liabilities can be found on page 160 in the 2016 Annual Report.

24. Share capital, reserves and other equity instruments

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

Authorised share capital

30 June 2017

	Number of shares	**30 June 2017 €m**
Ordinary shares of €0.50 each	**1,550,000,000**	**775**
Deferred shares of €0.289 each	**3,562,883,512**	**1,030**

31 December 2016	Number of shares	31 December 2016 €m
Ordinary shares of €0.50 each	1,550,000,000	775
Deferred shares of €0.289 each	84,344,636,678	24,376

A resolution was passed in May 2017 which cancelled 80,781,753,166 of the authorised but unissued deferred shares of €0.289 each.

Issued share capital

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

Balance as at 30 June 2017

	€0.289 Deferred Shares	**€0.50 Ordinary Shares**	**Total**
As at 1 January 2017	**3,562,883,512**	**454,695,492**	
Movement	**-**	**-**	
As at 30 June 2017	**3,562,883,512**	**454,695,492**	
Issued share capital (€m)	**1,030**	**227**	**1,257**
Shares held under employee benefit trust	**499,111**	**4,580**	

Balance as at 31 December 2016:

	€0.289 Deferred Shares	€0.50 Ordinary Shares	Total
As at 1 January 2016	3,562,883,512	454,695,492	
Movement	-	-	
As at 31 December 2016	3,562,883,512	454,695,492	
Issued share capital (€m)	1,030	227	1,257
Shares held under employee benefit trust	499,111	4,580	

Share Premium

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

Other Reserves – Non-distributable

- **Capital contribution reserve**

This reserve comprised the capital contribution component and fair value adjustment of the mandatory conversion feature of the issued contingent capital note. The conversion feature requires the note holder to convert the notes into shares of the Group on the occurrence of a conversion event. The contingent capital note was repurchased by the Group on 7 May 2015. Following this, €118m was transferred from the capital contribution reserve to retained earnings during 2016.

- **Revaluation reserve**

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

- **AFS reserve**

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

- **Cash flow hedge reserve**

The cash flow hedge reserve was comprised of the net gains or losses, net of tax, on effective cash flow hedging instruments.

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

- **Currency translation adjustment reserve**

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

- **Other capital reserves**

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

Under the scheme of arrangement to incorporate the Company and present it as the ultimate holding company of the Group, the share capital and share premium of €2,922m in PTSB (including the €2,698m already presented in capital reserves) was cancelled in 2010 and subsequently share capital and share premium was issued in the Group at fair value of €1,087m. These changes in share capital are reflected in the other capital reserves.

Retained earnings

The retained earnings include distributable and non-distributable earnings. This reserve represents the retained earnings of the holding company and subsidiaries after consolidation adjustments. It also includes €118m which was transferred from the capital contribution reserve as noted above. Furthermore, €11m (2016: €10m) coupon interest on the AT1 securities was paid from this reserve during 2017.

Other equity instruments - Non-distributable

	30 June 2017	31 December 2016
	€m	€m
Additional Tier 1 Securities	**122**	122

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

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

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

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

€11m coupon interest on the AT1 Securities was paid in April 2017 (April 2016: €10m) and was classified as a distribution payment. This is paid out of distributable retained earnings.

25. Analysis of other comprehensive income

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

30 June 2017

	Revaluation reserve	**Available for sale reserve**	**Cash flow hedge reserve**	**Currency translation adjustment reserve**	**Retained earnings**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Other comprehensive income (net of tax)						
Revaluation of property	-	-	-	-	-	-
Currency translation adjustment	-	-	-	-	-	-
AFS reserve:						
Change in value of AFS financial assets	-	**(17)**	-	-	-	**(17)**
Disposal of AFS securities	-	-	-	-	-	-
Cash flow hedge reserve:						
Net change in fair value	-	-	-	-	-	-
Amortisation of dedesignated CFH to income statement	-	-	-	-	-	-
Total other comprehensive income, net of tax	-	**(17)**	-	-	-	**(17)**

30 June 2016

	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m	€m	€m
Other comprehensive income (net of tax)						
Revaluation of property	-	-	-	-	-	-
Currency translation adjustment	-	-	-	1	-	1
AFS reserve:						
Change in value of AFS financial assets	-	(18)	-	-	-	(18)
Disposal of AFS securities	-	(20)	-	-	-	(20)
Cash flow hedge reserve:						
Net change in fair value	-	-	15	-	-	15
Amortisation of dedesignated CFH to income statement	-	-	(6)	-	-	(6)
Total other comprehensive income, net of tax	-	(38)	9	1	-	(28)

31 December 2016

	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m	€m	€m
Other comprehensive income (net of tax)						
Revaluation of property	6	-	-	-	-	6
Currency translation adjustment	-	-	-	1	-	1
AFS reserve:						
Change in value of AFS financial assets	-	(23)	-	-	-	(23)
Disposal of AFS securities	-	(19)	-	-	-	(19)
Cash flow hedge reserve:						
Net change in fair value	-	-	21	-	-	21
Amortisation of dedesignated CFH to income statement	-	-	(8)	-	-	(8)
Total other comprehensive income, net of tax	6	(42)	13	1	-	(22)

26. Measurement basis and fair values of financial instruments

The Group's accounting policy on valuation of financial instruments is described in note 1 of the 2016 Annual Report. The table below sets out an overview of financial instruments held by the Group and their fair values.

30 June 2017	Note	**Held at amortised cost**	**At fair value through equity**	**At fair value through profit or loss**	**Designated as Fair value hedges**	**Total carrying value**	**Fair value**
		€m	**€m**	**€m**	**€m**	**€m**	**€m**
Financial assets:							
Cash and balances with central banks	9	**50**	**-**	**-**	**-**	**50**	**50**
Items in course of collection	9	**16**	**-**	**-**	**-**	**16**	**16**
Debt securities*	10	**1,350**	**1,252**	**-**	**-**	**2,602**	**2,643**
Equity securities	11	**-**	**10**	**-**	**-**	**10**	**10**
Derivative assets**	12	**-**	**-**	**22**	**16**	**38**	**38**
Loans and advances to banks	13	**1,241**	**-**	**-**	**-**	**1,241**	**1,241**
Loans and advances to customers	14	**18,583**	**-**	**-**	**6**	**18,589**	**16,316**
Financial liabilities:							
Deposits by banks	18	**2,706**	**-**	**-**	**-**	**2,706**	**2,709**
Customer accounts	19	**16,917**	**-**	**-**	**1**	**16,918**	**16,935**
Debt securities in issue	20	**1,189**	**-**	**5**	**2**	**1,196**	**1,211**
Derivative liabilities**	12	**-**	**-**	**27**	**78**	**105**	**105**
Subordinated liabilities	23	**22**	**-**	**-**	**1**	**23**	**23**

31 December 2016		Held at amortised cost	At fair value through equity	At fair value through profit or loss	Designated as Fair value hedges	Total carrying value	Fair value
		€m	€m	€m	€m	€m	€m
Financial assets:	Note						
Cash and balances with central banks	9	66	-	-	-	66	66
Items in course of collection	9	30	-	-	-	30	30
Debt securities*	10	1,405	1,277	-	-	2,682	2,763
Equity securities	11	-	9	-	-	9	9
Derivative assets**	12	-	-	24	20	44	44
Loans and advances to banks	13	1,185	-	-	-	1,185	1,185
Loans and advances to customers	14	18,877	-	-	9	18,886	16,204
Financial liabilities:							
Deposits by banks	18	2,903	-	-	-	2,903	2,903
Customer accounts	19	16,982	-	-	2	16,984	16,984
Debt securities in issue	20	1,321	-	9	(6)	1,324	1,328
Derivative liabilities**	12	-	-	37	87	124	124
Subordinated liabilities	23	21	-	-	1	22	23

*Debt securities held at amortised cost include €1,292m of held to maturity securities (31 December 2016: €1,151m).
**Derivative assets and liabilities held at fair value through the profit and loss relate to embedded derivative instruments and derivative instruments deemed to be held for trading.

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

Fair value measurement principles

The Group's accounting policy on valuation of financial instruments which is described in note 1 and note 2 of the 2016 Annual Report and contains details on the critical accounting estimates and judgements made by management in relation to the fair value measurement of financial instruments. The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

The fair values of financial instruments are measured according to the following fair value hierarchy:
Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted).
Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.
Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

A description of the methods, assumptions and processes used to calculate fair values of these assets and liabilities is set out on pages 166 to 167 of the Annual Report for the year ended 31 December 2016. At 30 June 2017, there has been no significant changes to those methods, assumptions or processes.

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

30 June 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	€m	**€m**	**€m**	**€m**
Financial assets measured at fair value				
Debt securities				
-AFS Debt securities (note 10)	**1,252**	**-**	**-**	**1,252**
Equity instruments (note 11)	**-**	**-**	**10**	**10**
Derivative assets (note 12)	**-**	**38**	**-**	**38**
Financial liabilities measured at fair value				
Derivative liabilities (note 12)	**-**	**105**	**-**	**105**

During the half year ended 30 June 2017, there were no transfers between any of the levels of the fair value hierarchy.

31 December 2016	Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m
Debt securities				
-AFS Debt securities (note 10)	1,277	-	-	1,277
Equity instruments (note 11)	-	-	9	9
Derivative assets (note 12)	-	44	-	44
Financial liabilities measured at fair value				
Derivative liabilities (note 12)	-	124	-	124

During the year ended 31 December 2016, there were no transfers between any of the levels of the fair value hierarchy.

Derivative assets and liabilities

Derivative assets of €38m (31 December 2016: €44m) and derivative liabilities of €105m (31 December 2016: €124m) have been classified as level 2 in the fair value hierarchy above. Valuation techniques used for instruments categorised in level 2 are described in note 33 of the 2016 Annual Report.

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

Reconciliation of level 3 fair value measurements of financial assets

	2017	2016
	€m	€m
Equity instruments - AFS		
As at 1 January	**9**	23
Acquisition	**-**	8
Revaluation movement	**1**	1
Disposals	**-**	(23)
As at 30 June/31 December	**10**	9

Equity instruments - AFS

PTSB continues to hold the preferred stock in Visa Inc. at 30 June 2017. This was fair valued at €10m at 30 June 2017 and is recognised in the statement of financial position.

The fair value of this shareholding in Visa Inc. is classified as level 3 as the valuation of the share includes inputs that are based on unobservable market data.

As noted above, as part of the transaction, PTSB has received preferred stock in Visa Inc. The fair value of this shareholding has been calculated at €10m and is classified as level 3 as the valuation of the share includes inputs that are based on unobservable market data. Management has made assumptions and judgements, based on the best information made available to PTSB to determine the fair value of the shares. Adjustments have been made to the estimated consideration to take account of potential litigation costs which may be incurred by Visa Inc. and which need to be reflected in the fair value of the shares held by PTSB in Visa Inc. Management have stressed these unobservable inputs by +/- 100bps which would have a resultant impact on the fair value calculation by +/- €0.026m.

27. Financial risk management

The Group's risk management framework, risk identification and assessment process are disclosed in detail in note 34 of the 2016 Annual Report.

Credit risk

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

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

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

All of the Group's exposures are mapped to a risk rating scale (master scale) which reflects the risk of default. The assignment of an exposure to a grade is based on the probability of an exposure defaulting in the next year, as per the Capital Requirements Regulation ("CRR") definition of default.

The credit risk ratings employed by the Group are designed to highlight exposures requiring management attention. The Group uses the Basel 25 point scale for the internal ratings approach ("IRB") for credit risk. The scale ranges from 1 to 25 where 1 represents the best risk grade or lowest probability of default ("PD") and 25 represents the defaulted exposures or PD equal to 100% for credit risk. All of the Group's exposures are mapped to the rating scale based on probability of default.

The internal gradings below incorporate the IRB rating.
- Investment grade (IRB ratings 1 to 7) – includes very high quality exposures.
- Excellent risk profile (IRB ratings 8 to 16) – includes exposures whose general profiles are considered to be of a very low risk nature.
- Satisfactory risk profile (IRB ratings 17 to 21) – includes exposures whose general profiles are considered to be of a low to moderate risk nature.
- Fair risk profile (IRB ratings 22 to 24) – includes exposures whose general profiles are considered to require some additional monitoring.
- Defaulted (IRB rating 25) – includes exposures that are greater than 90 days past due or judged to be impaired.

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

	Notes	**30 June 2017**	31 December 2016
		€m	€m
Cash and balances with central banks	9	**50**	66
Items in course of collection	9	**16**	30
Debt securities (i)	10	**2,602**	2,682
Equity securities	11	**10**	9
Derivative assets (ii)	12	**38**	44
Loans and advances to banks (iii)	13	**1,241**	1,185
Loans and advances to customers (including assets held for sale) (iv)	14	**18,589**	18,827
		22,546	22,843
Commitments and contingencies	28	**795**	668
		23,341	23,511

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

(i) Debt securities
The Group is exposed to credit risk on third parties where the Group holds debt securities (including sovereign debt). Sovereign debt is restricted to countries with an internally set rating that is equivalent to a Moody's rating of A3 or higher. In addition, restrictions around the holdings of securities in certain euro zone countries have also been put in place. The Group has set counterparty limits for all debts and loans on a Group-wide basis.

The following table gives an indication of the level of creditworthiness of the Group's debt securities and is based on an internally set rating that is equivalent to Moody's rating. There are no impaired debt securities as at 30 June 2017 or at 31 December 2016.

Debt securities neither past due nor impaired

	30 June 2017	31 December 2016
	€m	€m
Rating		
A	**2,602**	2,682
Total	**2,602**	2,682

27. Financial risk management (continued)

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

	30 June 2017	31 December 2016
	Sovereign debt	Sovereign debt
	€m	€m
Country		
Ireland	**2,602**	2,682
Total	**2,602**	2,682

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

(ii) Derivative assets

	30 June 2017	31 December 2016
	€m	€m
Rating		
A	**7**	-
Covered by netting agreements	**31**	44
Total	**38**	44

The Group has executed CSAs with its counterparties in respect of the majority of derivative instruments to mitigate its credit risk. As part of these agreements, the Group exchanges collateral in line with movements in the market values of derivative positions daily. The cumulative positive market value of derivative assets at 30 June 2017 was €38m (31 December 2016: €44m). The Group manages its collateral derivative positions with counterparties on a net basis. The net asset/liability exposure to counterparties was a €67m (31 December 2016: €80m) liability position.

(iii) Loans and advances to banks

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

	30 June 2017	31 December 2016
	€m	€m
Rating		
Aaa	**348**	228
Aa	**176**	151
A	**633**	693
Baa	**84**	49
Ba	-	64
Total	**1,241**	1,185

Notes to the Condensed Consolidated Financial Statements (unaudited)

27. Financial risk management (continued)

(iv) Loans and advances to customers

Asset Quality

The loans and advances relate to loans and advances to customers in respect of ROI residential mortgages, the commercial portfolio and consumer finance originated by PTSB.

Loans which are neither past due nor impaired are analysed as excellent, satisfactory or fair according to their IRB rating as described above.

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

A loan is considered 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.

30 June 2017

	Residential mortgages	**Comm**	**Consumer finance**	**Total**	
	€m	**€m**	**€m**	**€m**	**%**
Excellent	**10,273**	**15**	**161**	**10,449**	**50%**
Satisfactory	**3,850**	**114**	**63**	**4,027**	**19%**
Fair risk	**1,149**	**28**	**31**	**1,208**	**6%**
Neither past due nor impaired	**15,272**	**157**	**255**	**15,684**	**75%**
Past due but not impaired	**461**	**4**	**9**	**474**	**2%**
Impaired	**4,731**	**67**	**58**	**4,856**	**23%**
	20,464	**228**	**322**	**21,014**	**100%**
Provision for impairment losses	**(2,349)**	**(75)**	**(55)**	**(2,479)**	
	18,115	**153**	**267**	**18,535**	
Deferred fees, discounts and fair value adjustment	**54**	**-**	**-**	**54**	
	18,169	**153**	**267**	**18,589**	

The shaded information is not subject to review by the Group's Independent Auditor

31 December 2016

	Residential mortgages	Comm	Consumer finance	Total	
	€m	€m	€m	€m	%
Excellent	10,187	15	170	10,372	48%
Satisfactory	4,081	117	50	4,248	20%
Fair risk	1,147	32	24	1,203	6%
Neither past due nor impaired	15,415	164	244	15,823	74%
Past due but not impaired	554	7	13	574	3%
Impaired	4,766	72	74	4,912	23%
	20,735	243	331	21,309	100%
Provision for impairment losses	(2,336)	(81)	(65)	(2,482)	
	18,399	162	266	18,827	
Deferred fees, discounts and fair value adjustment	59	-	-	59	
	18,458	162	266	18,886	

The shaded information is not subject to review by the Group's Independent Auditor

27. Financial risk management (continued)

The Group's loans after impairment amounted to €18.6bn as at 30 June 2017 (31 December 2016: €18.9bn).

Loans which are neither past due nor impaired before provision for impairment losses, amounted to €15.7bn or 75% of the loan book as at 30 June 2017 in comparison to €15.8bn or 74% of the loan book as at 31 December 2016.

As at 30 June 2017, €0.5bn or 2% of the loan portfolios are within past due but not impaired loans category compared to €0.6bn or 3% as at 31 December 2016.

Impaired loan balances as at 30 June 2017 were €4.9bn or 23% of the total loan book (31 December 2016: €4.9bn or 23%).

Impairment provisions are €2.5bn and represented 12% of total gross loans and advances to customers at 30 June 2017 which is unchanged from 31 December 2016.

Total interest income for the first 6 months ended 30 June 2017 recognised on impaired loans in the income statement amounted to €40m (30 June 2016: €53m).

The table below outlines the arrears profile for residential mortgages by asset quality analysed by Home loans and Buy-to-let:

30 June 2017

	Home loans	**Buy-to-let**	**Total**
	€m	**€m**	**€m**
Excellent	**9,164**	**1,109**	**10,273**
Satisfactory	**1,368**	**2,482**	**3,850**
Fair risk	**849**	**300**	**1,149**
Neither past due nor impaired	**11,381**	**3,891**	**15,272**
Past due but not impaired	**383**	**78**	**461**
Impaired	**3,330**	**1,401**	**4,731**
	15,094	**5,370**	**20,464**
Provision for impairment losses	**(1,420)**	**(929)**	**(2,349)**
	13,674	**4,441**	**18,115**
Deferred fees, discounts and fair value adjustment	**54**	**-**	**54**
	13,728	**4,441**	**18,169**

The shaded information is not subject to review by the Group's Independent Auditor

31 December 2016

	Home loans	Buy-to-let	Total
	€m	€m	€m
Excellent	9,216	971	10,187
Satisfactory	1,413	2,668	4,081
Fair risk	820	327	1,147
Neither past due nor impaired	11,449	3,966	15,415
Past due but not impaired	431	123	554
Impaired	3,406	1,360	4,766
	15,286	5,449	20,735
Provision for impairment losses	(1,406)	(930)	(2,336)
	13,880	4,519	18,399
Deferred fees, discounts and fair value adjustment	59	-	59
	13,939	4,519	18,458

The shaded information is not subject to review by the Group's Independent Auditor

27. Financial risk management (continued)

Non-performing loans:
Non-performing loans ("NPL's") are defined as impaired loans, loans which are greater than 90 days in arrears, loans where the borrower is considered unlikely to repay the total loan balance without realisation of the underlying collateral and loans which are considered unlikely to pay as defined under regulatory guidelines, including the May 2013 CBI guidelines on impairment provisioning and under European Banking Authority Implementing Technical Standards.

30 June 2017

	Home loans	**Buy-to-let**	**Comm.**	**Consumer finance**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Not impaired no arrears	**596**	**156**	**3**	**-**	**755**
Not impaired <90 days in arrears	**53**	**4**	**-**	**-**	**57**
Not impaired >90 days in arrears	**110**	**4**	**-**	**-**	**114**
Impaired loans	**3,330**	**1,401**	**67**	**58**	**4,856**
Non-performing loans	**4,089**	**1,565**	**70**	**58**	**5,782**
NPLs as % of gross loans	**27%**	**29%**	**31%**	**18%**	**28%**
Provision coverage ratio *	**41%**	**66%**	**112%**	**95%**	**50%**
NPL Provision coverage ratio **	**35%**	**59%**	**107%**	**95%**	**43%**

*Provision coverage ratio is calculated as: impairment provisions as a % of non-performing loans greater than 90 days in arrears and / or impaired.
** NPL Provision coverage ratio is calculated as: impairment provisions as a % of non-performing loans.

31 December 2016

	Home loans	Buy-to-let	Comm.	Consumer finance	Total
	€m	€m	€m	€m	€m
Not impaired no arrears	569	180	3	-	752
Not impaired <90 days in arrears	53	9	-	-	62
Not impaired >90 days in arrears	118	6	-	-	124
Impaired loans	3,406	1,360	72	74	4,912
Non-performing loans	4,146	1,555	75	74	5,850
NPLs as % of gross loans	27%	29%	31%	22%	27%
Provision coverage ratio *	40%	68%	113%	88%	49%
NPL Provision coverage ratio **	34%	60%	108%	88%	42%

*Provision coverage ratio is calculated as: impairment provisions as a % of non-performing loans greater than 90 days in arrears and / or impaired.
** NPL Provision coverage ratio is calculated as: impairment provisions as a % of non-performing loans.

27. Financial risk management (continued)

Loans and advances which are past due but not impaired:
The table below provides an aged analysis of loans and advances which are past due but not impaired.

30 June 2017

	Home loans	**Buy-to-let**	**Comm.**	**Consumer finance**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
0-30 days	**200**	**57**	**3**	**6**	**266**
31-60 days	**52**	**13**	**1**	**2**	**68**
61-90 days	**21**	**4**	**-**	**1**	**26**
91-180 days	**21**	**1**	**-**	**-**	**22**
181-360 days	**20**	**-**	**-**	**-**	**20**
> 360 days	**69**	**3**	**-**	**-**	**72**
Total past due not impaired	**383**	**78**	**4**	**9**	**474**
Fair value of collateral held* (see below table)	**375**	**66**	**3**	**-**	**444**

***Fair value of collateral held**

	Home loans	**Buy-to-let**	**Comm.**	**Consumer finance**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
0-30 days	**193**	**50**	**2**	**-**	**245**
31-60 days	**51**	**10**	**1**	**-**	**62**
61-90 days	**21**	**3**	**-**	**-**	**24**
91-180 days	**21**	**-**	**-**	**-**	**21**
181-360 days	**20**	**-**	**-**	**-**	**20**
> 360 days	**69**	**3**	**-**	**-**	**72**
Total past due not impaired	**375**	**66**	**3**	**-**	**444**

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

31 December 2016

	Home loans	Buy-to-let	Comm.	Consumer finance	Total
	€m	€m	€m	€m	€m
0-30 days	239	84	5	10	338
31-60 days	48	25	2	2	77
61-90 days	25	9	-	1	35
91-180 days	23	1	-	-	24
181-360 days	21	-	-	-	21
> 360 days	75	4	-	-	79
Total past due not impaired	431	123	7	13	574
Fair value of collateral held*(see below table)	420	99	4	-	523

*Fair value of collateral held

	Home loans	Buy-to-let	Comm.	Consumer finance	Total
	€m	€m	€m	€m	€m
0-30 days	229	68	3	-	300
31-60 days	47	19	1	-	67
61-90 days	25	7	-	-	32
91-180 days	23	1	-	-	24
181-360 days	21	-	-	-	21
> 360 days	75	4	-	-	79
Total past due not impaired	420	99	4	-	523

27. Financial risk management (continued)

Forbearance arrangements - ROI residential mortgages

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

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

*The PD associated with non-defaulted accounts which have been granted forbearance is 3.9% (3.8% for home loans and 4.1% for BTLs). The PD for non-defaulted accounts excluding cases in forbearance is 1.8% (1.6% for home loans and 2.6% for BTLs). The PD for defaulted accounts is 100% irrespective of the account status (forbearance or non forbearance).

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

ROI residential mortgages

The tables below set out the volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 30 June 2017 and 31 December 2016.

The impaired balance noted represents the loan balances to which impairment charges have been raised due to either being 90 days or more in arrears, or showing evidence of impairment prior to reaching arrears of 90 days.

(i) ROI residential home loan mortgages:

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

30 June 2017	**All loans**		**Loans > 90 days in arrears and / or impaired**	
	Number	**Balances**	**Number**	**Balances**
		€m		**€m**
Interest only	**304**	**59**	**111**	**18**
Reduced payment (less than interest only)	**155**	**24**	**119**	**19**
Reduced payment (greater than interest only)	**13,666**	**2,069**	**6,525**	**1,149**
Payment moratorium	**297**	**35**	**93**	**12**
Arrears capitalisation	**3,408**	**486**	**1,438**	**226**
Term extension	**1,636**	**138**	**627**	**63**
Hybrid*	**1,514**	**257**	**1,254**	**217**
Split mortgages	**6,288**	**1,191**	**6,288**	**1,191**
Total	**27,268**	**4,259**	**16,455**	**2,895**

31 December 2016	All loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances	Number	Balances
		€m		€m
Interest only	343	67	118	23
Reduced payment (less than interest only)	171	26	137	22
Reduced payment (greater than interest only)	14,180	2,162	6,998	1,220
Payment moratorium	265	37	104	16
Arrears capitalisation	3,527	506	1,496	233
Term extension	1,907	158	608	63
Hybrid*	1,478	230	1,141	186
Split mortgages	6,257	1,190	6,257	1,190
Total	28,128	4,376	16,859	2,953

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

The tables above reflect a decrease of 860 cases, as at 30 June 2017 for the Group in the number of ROI residential home loans in forbearance arrangements, a decrease of €117m. The average balance of forborne loans is relatively unchanged during the period (30 June 2017: €0.156m versus 31 December 2016: €0.156m). As at 30 June 2017, 60% of ROI residential home loan mortgages that are in a forbearance arrangement are >90 days in arrears and / or impaired which is unchanged from 31 December 2016.

27. Financial risk management (continued)

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

30 June 2017	**All loans**		**Loans > 90 days in arrears and / or impaired**	
	Number	**Balances €m**	**Number**	**Balances €m**
Interest only	**537**	**202**	**341**	**136**
Reduced payment (less than interest only)	**14**	**3**	**13**	**3**
Reduced payment (greater than interest only)	**2,443**	**901**	**793**	**288**
Payment moratorium	**6**	**1**	**5**	**1**
Arrears capitalisation	**318**	**113**	**211**	**84**
Term extension	**108**	**21**	**36**	**9**
Hybrid*	**157**	**47**	**135**	**41**
Split mortgages	**443**	**143**	**443**	**143**
Total	**4,026**	**1,431**	**1,977**	**705**

31 December 2016	All loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	663	239	376	145
Reduced payment (less than interest only)	19	6	19	6
Reduced payment (greater than interest only)	2,262	832	721	261
Payment moratorium	9	3	6	1
Arrears capitalisation	373	127	222	87
Term extension	89	18	39	9
Hybrid*	155	47	123	37
Split mortgages	438	141	438	141
Total	4,008	1,413	1,944	687

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

The tables above reflect an increase of 18 cases, as at 30 June 2017 for the Group in the number of ROI residential buy-to-let in forbearance

Impairment charge and provisions on loans and advances to customers by product line
The tables below provide the movement in impairment charges from 30 June 2016 to 30 June 2017 and also the provisions in respect of performing and non-performing forborne loans as at 30 June 2017 and 31 December 2016.

Forborne loans - impairment charge	**Half year ended 30 June 2017**			Half year ended 30 June 2016		
	Performing €m	**Non-performing €m**	**Total €m**	Performing €m	Non-performing €m	Total €m
Residential						
- Home loans						
-ROI	**(12)**	**19**	**7**	(38)	(19)	(57)
- Buy-to-let						
-ROI	**(15)**	**4**	**(11)**	(24)	(3)	(27)
Commercial	**-**	**(1)**	**(1)**	1	4	5
Total impairment (write-back)/charge	**(27)**	**22**	**(5)**	(61)	(18)	(79)

Forborne loans - stock of impairment provisions	**30 June 2017**			31 December 2016		
	Performing €m	**Non-performing €m**	**Total €m**	Performing €m	Non-performing €m	Total €m
Residential						
- Home loans						
-ROI	**31**	**1,071**	**1,102**	34	1,069	1,103
- Buy-to-let						
-ROI	**29**	**339**	**368**	28	340	368
Commercial	**1**	**17**	**18**	2	19	21
Total impairment provisions	**61**	**1,427**	**1,488**	64	1,428	1,492

27. Financial risk management (continued)

Collateral in possession

Collateral in possession occurs where the obligor either (i) voluntarily surrenders the property or (ii) the Group takes legal repossession due to non-repayment of the loan facility. The Group will seek to maximise the proceeds from the sale of repossessed properties with a view to extinguishing the outstanding loan facility. The following tables outline the main movements in this category during the year.

Stock of collateral in possession	**30 June 2017**		31 December 2016	
	Number	**Loan balance outstanding**	Number	Loan balance outstanding
		€m		€m
Commercial	**1**	**-**	-	-
Residential repossessions				
Home loans	**314**	**84**	253	70
Buy-to-let	**262**	**73**	229	63
Total	**577**	**157**	482	133

Collateral in possession assets are sold as soon as practicable. These assets which total €84m as at 30 June 2017 (31 December 2016: €70m) are included within other assets in the statement of financial position. During the year, 109 residential properties were repossessed and 14 properties were sold (further details are set out in below tables).

	ROI Number
Home loans	72
BTL	36
Commercial	1
Total	**109**

The details of the disposals are provided in the tables below.

	ROI Number
Home loans	11
BTL	3
Total	14

30 June 2017	**Number of disposals**	**Balance outstanding at repossession**	**Gross sales proceeds**	**Costs to sell**	**Pre provisioning loss on sale***
		€m	**€m**	**€m**	**€m**
Residential repossessions					
ROI:					
Home loans	**11**	**3**	**1**	**-**	**2**
Buy-to-let	**3**	**1**	**1**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**	**-**
UK:					
Home loans	**-**	**-**	**-**	**-**	**-**
Buy-to-let	**-**	**-**	**-**	**-**	**-**
Period ended 30 June 2017	**14**	**4**	**2**	**-**	**2**

31 December 2016	Number of disposals	Balance outstanding at repossession	Gross sales proceeds	Costs to sell	Pre provisioning loss on sale*
		€m	€m	€m	€m
Residential repossessions					
ROI:					
Home loans	27	6	3	-	3
Buy-to-let	15	4	1	-	3
Commercial	-	-	-	-	-
UK:					
Home loans	4	1	1	-	-
Buy-to-let	56	14	8	1	7
Year ended 31 December 2016	102	25	13	1	13

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

27. Financial risk management (continued)

Liquidity risk

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

The Group's liquidity risk framework is disclosed in the 2016 Annual Report (s 197 and 198). There have been no changes to the framework during the half year ended 30 June 2017.

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

	30 June 2017	31 December 2016
	%	%
Customer accounts	81	80
Long-term debt (> 1 year)	6	9
Short-term debt (< 1 year)	13	11
	100	100

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

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

In accordance with IFRS 7, Financial Instruments: Disclosures, the following tables present the maturity analysis of financial liabilities on an undiscounted basis, by remaining contractual maturity at the statement of financial position date. These will not agree directly with the balances on the condensed consolidated statement of financial position due to the inclusion of future interest payments. In this table, derivative liabilities represent the carrying value of derivative instruments that are held as hedging and trading instruments in respect of financial liabilities.

30 June 2017	**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**Over 2 years**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Liabilities							
Deposits by banks	**2,085**	**90**	**-**	**302**	**-**	**230**	**2,707**
Customer accounts	**9,627**	**1,069**	**1,800**	**2,246**	**1,341**	**897**	**16,980**
Debt securities in issue	**-**	**2**	**2**	**311**	**8**	**1,179**	**1,502**
Subordinated liabilities	**-**	**-**	**-**	**-**	**24**	**-**	**24**
Derivative liabilities	**2**	**-**	**12**	**1**	**16**	**74**	**105**
Total liabilities	**11,714**	**1,161**	**1,814**	**2,860**	**1,389**	**2,380**	**21,318**

31 December 2016	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Liabilities							
Deposits by banks	2,073	300	-	-	302	230	2,905
Customer accounts	8,982	1,971	2,088	1,955	1,345	713	17,054
Debt securities in issue	-	52	9	4	316	1,286	1,667
Subordinated liabilities	-	-	-	-	24	-	24
Derivative liabilities	4	6	3	7	14	90	124
Total liabilities	11,059	2,329	2,100	1,966	2,001	2,319	21,774

28. Commitments and contingencies

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

Credit commitments	**30 June 2017**	31 December 2016
	€m	€m
Guarantees and irrevocable letters of credit	**5**	5
Commitments to extend credit		
- less than 1 year	**642**	516
- 1 year and over	**148**	147
Total commitments to extend credit	**790**	663
Total credit commitments	**795**	668

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

	30 June 2017	31 December 2016
	€m	€m
Less than 1 year	**8**	8
Greater than 1 year and less than 5 years	**27**	28
Greater than 5 years	**17**	19
Total operating lease commitments	**52**	55

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

A number of different statutory and regulatory bodies, including the Central Bank of Ireland, commenced investigations into a series of transactions involving deposits placed by Irish Life Assurance plc with Irish Bank Resolution Corporation (formerly Anglo Irish Bank) (on 31 March 2008, 26 September 2008, 29 September 2008 and 30 September 2008). While these investigations commenced a number of years ago, they were put on hold pending the determination of criminal proceedings against a number of individuals in respect of the same transactions. While a trial took place in respect of the charges against four individuals in 2016, there is a pending case against another individual in relation to these transactions. As such, as at 30 June 2017, as far as the Group is aware, it appears that the investigations are still on-going albeit they have been dormant for some time.

29. Related parties

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

(A) Transactions with key management personnel
Key management personnel include Non-Executive Directors, Executive Directors and members of the Executive Committee (ExCo). The Executive Directors and members of the ExCo are set out in note 40 of the 2016 Annual Report.

During the first 6 months of 2017, the following key management personnel changes occurred. Alan Cook retired as Board Chairman and was succeeded by Robert Elliott. Eamonn Crowley was appointed as Chief Financial Officer and as a Director of the Board. Joe Carr (Interim IT Director) and Breege Timoney (Interim Director, Mortgage Product Review Group) were appointed to ExCo. Tony Hession (HR Director) and Toby Clements (Chief Operating Officer) ceased as members of ExCo having left the service of the Group. Following the expiry of her secondment period from KPMG, Patricia Carroll (Interim Chief Financial Officer) ceased as a member of ExCo.

Ciaran Long retired as Company Secretary and was succeeded by Conor Ryan.

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

	30 June 2017	31 December 2016
Non-Executive Directors	**7**	7
Executive Directors and Senior Management	**11**	11
	18	18

Balances and transactions with key management personnel

For the first two months of 2017, the Group's Interim Chief Financial Officer was seconded from professional services firm KPMG, of which she is a partner. During this period the Group paid fees of €1m to KPMG for advice, assistance and support on various projects, and in particular, relating to a number of regulatory and compliance projects for the Group. Whilst Ms. Carroll was seconded to the Group, she was not involved in the delivery of any of the services supplied by KPMG, nor was she involved in the selection of KPMG for any of the work undertaken. Ms. Carroll had been seconded to the Group since late 2015 and the majority of any ongoing KPMG work for the Group had commenced prior to this date. At all times the Group maintained appropriate segregation from Ms. Carroll and the relevant services provided by KPMG to ensure that there was no conflict of interest.

(B) Irish Government and Government related entities
The Minister for Finance continues to be the majority shareholder of the Group (and the ultimate controlling party per IAS 24). The Irish Government is recognised as a related party as the Government is deemed to have control over the Group as defined by IAS 24. The Group has applied the amended IAS 24 which exempts an entity from the related party disclosure requirements in respect of the Government and Government related entities unless transactions are individually or collectively significant. In the normal course of business, the Group has entered into transactions with the Government and Government related entities involving deposits, senior debt and dated subordinated debt.

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

- PTSB and its subsidiary Permanent Bank International Ltd were participating covered institutions under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG Scheme") which guaranteed certain eligible liabilities (including deposits) of up to five years in maturity prior to its withdrawal by the Minister for Finance from 29 March 2013. The charge to the income statement in respect of the ELG Scheme to 30 June 2017 was €1m (31 December 2016: €4m). The liabilities covered by the scheme at 30 June 2017 amounted to €168m (31 December 2016: €273m).

- The Group holds securities issued by the Government and Government related entities of €2,602m (31 December 2016: €2,682m).

- Customer accounts include deposits of €0.2bn placed by a Government institution (31 December 2016: €0.2bn). Further details on these deposits are provided in note 19.

- The Group entered into banking transactions in the normal course of business with local Government and Semi-State Institutions such as Local Authorities and County Councils. These transactions principally include the granting of loans, the acceptance of deposits and clearing transactions.

- A Bank Levy imposed by the Government through the Finance Bill 2014 is payable in the second half of each calendar year. As per the accounting guidance the obligating event occurs as the activity that triggers the payment of the levy occurs in accordance with the relevant legislation. The Group expects to incur a charge of €23m in respect of the levy in the second half of 2017 (31 December 2016: €27m). The Bank levy has been extended by 5 years to 2021 as announced by the Minister for Finance on 13 October 2015.

- During 2013, following the Transfer Order requested by the Central Bank and issued by the High Court dated 10 November 2013, the Group acquired certain assets, liabilities, books and records of Newbridge Credit Union ("NCU") and all its employees transferred to the Group. As part of this transaction, along with the assets and liabilities of NCU, a cash financial incentive of €23m was paid from the Credit Institutions Resolution Fund, which forms part of the Financial Incentives Agreement ("FIA") signed between the Central Bank and the Group dated 10 November 2013. It was also agreed in the FIA that the Central Bank will use the Credit Institution Resolution Fund to compensate the Group for 50% of any future impairment losses incurred on NCU loans and advances to customers. Similarly, it was also agreed that if any provision write-backs or future recoveries of previously written off NCU loans and advances to customers occurs, the Group will pay a cash amount equivalent to 50% of the provision write-back or the recoveries to the Credit Institutions Resolution Fund. As per the FIA, this arrangement will continue for ten years from the transfer date. During H1 2017, PTSB made a payment of €5m to the Central Bank in relation to write-backs/recoveries on NCU.

29. Related parties (continued)

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

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

		Loans and advances To Banks	**Debt securities held**	**Derivative assets**	**Derivative liabilities**	**Deposits by Banks**
		€m	**€m**	**€m**	**€m**	**€m**
Allied Irish Banks p.l.c						
	30 June 2017	**74**	**-**	**-**	**1**	**-**
	31 December 2016	47	-	-	1	-
Bank of Ireland						
	30 June 2017	**4**	**-**	**-**	**-**	**-**
	31 December 2016	3	-	-	2	-

30. Reporting currency and exchange rates

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

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

	30 June 2017	31 December 2016	30 June 2016
€ / Stg£ exchange rate			
Closing	**0.8793**	0.8562	0.8265
Average	**0.8613**	0.8228	0.7848
€ / US$ exchange rate			
Closing	**1.1412**	1.0541	1.1102
Average	**1.0937**	1.1032	1.1144

31. Events after the reporting period

No events occurred between the reporting date 30 June 2017 and the date the condensed consolidated financial statements were approved for issue by the Board of Directors being 25 July 2017 that may require adjustments to our disclosure in these financial statements.