ANNUAL REPORT 2018

permanent tsb
Group Holdings plc

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 Annual Reports, are available on-line at www.permanenttsbgroup.ie.

Strategic Report

Corporate Governance

Consolidated Financial Statements

General Information

Summary Financial Information

Summary Management Income Statement	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Total operating income	**442**	443
Total operating expenses (before exceptional items and impairment charges)	**(331)**	(329)
Underlying profit before impairment charge	**111**	114
Impairment charge on loans and advances to customers	**(17)**	(48)
Charge on collateral in possession	**-**	(1)
Underlying profit*	**94**	65
Exceptional items and other non-recurring items (net)	**(91)**	(13)
Profit before taxation	**3**	52
Taxation	**-**	(12)
Profit after taxation	**3**	40

* See table 5 on page 31 for a reconciliation of underlying profit to operating profit on an IFRS basis.

Performance Metrics		
Net interest margin(1)	**1.78%**	1.80%
Adjusted cost income ratio (2)	**64%**	64%
Return on equity (3)	**4%**	2%

Key Consolidated Balance Sheet and Funding Metrics	31 December 2018 €m	31 December 2017 €m
Total shareholders' funds	**1,980**	2,111
Total assets	**21,810**	22,773
Total net loans and advances to customers	**15,888**	18,370
Total customer accounts	**17,020**	16,995
Loan to deposit ratio (LDR)(4)	**93%**	108%
Liquidity coverage ratio (LCR)(5)	**160%**	165%
Regulatory capital		
Common equity tier 1 capital	**1,768**	1,812
Available regulatory capital (transitional basis)	**1,921**	1,954
Risk weighted assets (6)	**11,990**	10,593
Common equity tier 1 ratio (transitional basis)(7)	**14.7%**	17.1%
Total capital ratio (transitional basis)(8)	**16.0%**	18.4%

(1) Defined as net interest income divided by average interest-earning assets.
(2) Defined as operating expenses excluding exceptional items, bank levy and other regulatory charges, divided by total operating income.
(3) Defined as profit for the year after tax (before exceptional items) as a percentage of total average equity.
(4) Defined as the ratio of loans and advances to customers compared to customer accounts as presented in the statement of financial position.
(5) Calculated based on the Commission Delegated Regulation (EU) 2015/61.
(6) Risk weighted assets (RWAs) are the Group's assets or off balance sheet exposures, weighted according to risk.
(7) The common equity tier 1 ratio is the ratio of a bank's common equity tier 1 capital to its RWAs.
(8) The total capital ratio is the ratio of a bank's total capital (Tier 1 and Tier 2 capital) to its RWAs.

Permanent TSB at a Glance

Customers

Personal

SME

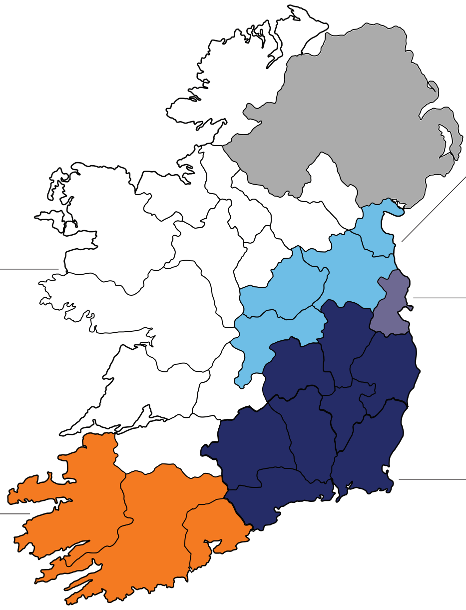
Profile

c. 1.1 million customers served

c. 2,400 employees

77 Branches

Geography



Financial Highlights

Net Interest Margin*
- 2018: 1.78%
- 2017: 1.80%

Adjusted Cost Income Ratio**
- 2018: 64%
- 2017: 64%

Profit For The Year
- 2018: €3m
- 2017: €40m

Return on assets****
- 2018: 0.0%
- 2017: 0.2%

Gross New Lending
- 2018: €1,460m
- 2017: €1,029m

NPLs***
- 2018: €1.7bn
- 2017: €5.3bn

Customer Accounts
- 2018: €17.0bn
- 2017: €17.0bn

CET1 Ratio Transitional (fully loaded)
- 2018: 12.2%
- 2017: 15.0%

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

** Defined as Total Operating Expenses (excluding Bank Levy and Regulatory Charges, and Exceptional Items) divided by Total Operating Income (excluding Visa Europe Share Gain).

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

****Return on assets are defined as profit for the year divided by the total assets.

Chairman's Statement

2018 has been another important year for rebuilding Permanent TSB ('the Bank') as a viable competitor in the Irish Retail and SME banking market. The significant reduction in non-performing loans (NPLs), coupled with commercial growth and the resolution of legacy issues, represents further progress by the Bank, as it seeks to build a sustainable and valuable business.

I am pleased to report strong progress for 2018. The Bank continued to be profitable, recording an underlying profit for the year of €94 million*. The Bank has materially reduced its non-performing loans (NPLs) by approximately 70% during the year and, in addition, has successfully completed the restitution, redress and compensation to virtually all customers impacted by the Tracker Mortgage Examination. We have continued to win new customers, deepen relationships with existing customers and develop new customer propositions as we strive to deliver right customer outcomes as part the Bank's aspiration to be the 'Bank Of Choice'. In this regard, we opened an additional 38,000 current accounts and increased new lending by over 40% driven by an increase in mortgage market share. The Bank's Net Promoter Scores remain within the top 2 banks in the market.

Business performance has been strongly supported by the growing Irish economy where GDP growth of approximately 8% was recorded for the year. Employment in the economy is back at 2.2 million, just short of the historic high in 2007, while residential house prices have seen a recovery of over 70% from the trough in values in 2013. However, we must sound a note of caution as the eventual Brexit outcome, and the impact it would have on European economies - including Ireland, remains uncertain. We have undertaken steps to mitigate the risks arising from Brexit and we will continue to monitor developments in the coming months.

I am pleased to report that significant further progress was made in 2018 in the resolution of the remaining legacy issues in the Bank. We have reduced NPLs by €3.6 billion during the year thereby bringing down the NPL ratio to 10%. This was primarily enabled by a NPL portfolio sale (Project Glas) and a portfolio securitisation (Project Glenbeigh), which were successfully executed in the second half of last year. Combined, both the Glas sale and Glenbeigh securitisation resulted in the generation of capital of approximately 1.7%. The NPL Reduction Strategy ensured that the Bank continued to meet its regulatory demands, whilst maintaining the viability of the business model. For both transactions, we have written to all customers to reassure them the statutory codes of conduct will continue to apply, meaning that all existing consumer protections will remain in place following the completion of the transfer of their loan.

In addition, we have completed the full redress and compensation to virtually all customers affected by the Tracker Mortgage Examination. In this regard, we have invested heavily in further enhancing the Bank's risk and control environment such that the failures that led to this issue are less likely to happen again.

In 2018, the European Central Bank (ECB) informed Permanent TSB that, as the Bank has not met any of the significant criteria for three consecutive years, a decision was taken to categorise the Bank as a less significant institution (LSI). Therefore with effect from 1 January 2019 the Bank became subject to the direct supervision by the Central Bank of Ireland (CBI) as the National Competent Authority. The ECB is responsible for the oversight of the supervision of less significant banks performed by national supervisors and therefore Permanent TSB will continue to be within the remit of the Single Supervisory Mechanism (SSM).

Our Vision And Culture

With the majority of the legacy issues now behind us, the Board and Management Team are focused on delivering the governing objective as measured by superior Total Shareholder Return relative to peers. The Bank will achieve this by growing the business profitably and delivering the right outcomes for our Customers, Colleagues, Communities and Regulators. The evolution of the Bank's culture will continue such that we regain commercial edge, continue to rebuild trust with our customers and deliver the 'Bank Of Choice' vision.

I note that, in 2018, the CBI undertook a review of the cultures and associated risks in the Irish banks, as well as a diversity and inclusion assessment. These are welcomed initiatives that complement the work already begun by the Board; indeed, most of the findings reinforce the agenda for change started by the CEO and Management Team in early 2018. In addition, I note the intention of the main retail banks (Permanent TSB included) to establish an Irish Banking Standards Board. A professional banking culture is a key ingredient in Ireland's economic development, the delivery of sustainable shareholder value and the right customer outcomes.

The Bank is clear in its vision; namely, to be the Bank Of Choice. The Bank is clear about its core values; namely, to be Commercial, United, Straightforward, Courageous and Open. The Bank is clear in its decision rules; namely, to maximise shareholder value on a sustainable basis while testing that we deliver the right outcomes for customer, colleagues and communities. The Bank is clear how it will measure success; namely, to deliver sustainable growth and predictable economic profit for its shareholders; to ensure all colleagues are given the opportunity to be the very best they can be; to deliver personal customer experiences and right customer outcomes that set us apart; to support our communities by having a positive and meaningful impact; and, to deliver and exceed our regulatory obligations. The Bank is clear on its raison d'être; namely, to deliver what our customer, colleagues and communities need to be successful.

In summary, I observe, and am proud of, the clear organisational strategic direction and management model that intends to restore trust, build skill and deliver sustainable returns. We look forward with confidence.

Board of Directors

The composition of the Board is regularly reviewed. The Bank is committed to ensuring it has the right balance of skills, experience and diversity within the Board to provide the required level and quality of oversight appropriate for the business of Permanent TSB.

Ruth Wandhöfer was appointed to the Board as an Independent Non-Executive Director on 30 October 2018.

Donal Courtney was appointed to the Board as an Independent Non-Executive Director and as the chair of the Board Audit Committee on 3 October 2018.

Emer Daly, having completed her second three-year term of office, retired from the Board in May 2018.

Stephen Groarke, who was the Chief Risk Officer, stepped down as a Board member in November 2018 to pursue a senior position at another Financial Services institution.

Management and Staff

On behalf of the Board, I would like to thank Jeremy Masding, his Management Team and colleagues across the Bank for their commitment, dedication and strong progress made during 2018.

In addition, I would like to extend my thanks to my fellow Board members for their valuable counsel and support throughout the year. I acknowledge the assistance that the Department of Finance, the CBI and the ECB continued to give the Bank throughout 2018.

Outlook

Despite the strong progress made in 2018, there is more to do and we will have further challenges as we continue to rebuild the Bank. However, we are entering 2019 as a strong franchise, with a committed group of people, and a distinctive Strategic Direction and Management Model to become the Bank Of Choice.

Robert Elliott
Chairman

* See table 5 on page 31 for a reconciliation of underlying profit to operating profit on an IFRS basis.

I am pleased to report that, in 2018, we have delivered further improved business performance. More significantly, we have strengthened the Bank's balance sheet by materially reducing NPLs by €3.6 billion to 10% of the loan book from a high of approximately 30% in the recent past. This is significant, not only because it has removed material risk to the Bank's capital base, but also because a stronger and safer balance sheet supports profitable growth. In addition, we have repaid the last of the System Funding that, at one stage in 2011, made up approximately 40% of the Bank's resources.

The Bank reported underlying profit of €94 million for 2018 which is an increase of 45% year-on-year*.

The Net Interest Margin (NIM) for 2018 reduced by 2 basis points to 1.78% primarily due to deleveraging and, the maturity and sale of certain high yielding treasury assets.

Whilst Operating Expenses remained flat year-on-year, we invested in people, processes and technology which, we believe, will aid profitable growth. In this regard, we are confident we can refresh the Bank's technology real estate over the planning period in an affordable manner to support the building of an omnichannel, digitally enabled Retail & SME Bank.

Impairment charges were €17 million which is a reduction from €48 million in 2017. The year-on-year improvement reflects positive economic conditions which have translated to stability in provisioning model components and results.

Separately, the Bank also recognised additional impairments of €66 million on the disposal of NPLs during the year. NPLs decreased by €3.6 billion to €1.7 billion at 31 December 2018 which is a reduction of approximately 70%. This was primarily as a result of the successful execution of Projects Glas and Glenbeigh. As a result, the NPL ratio reduced to 10% from 26% at 31 December 2017.

The Bank's Common Equity Tier 1 (CET 1) ratio on a Fully Loaded and Transitional basis decreased to 12.2% and 14.7% respectively, compared to 15.0% and 17.1% at 31 December 2017. The decrease in these ratios were primarily due to an increase in Risk Weighted Assets (RWAs) arising from both the ECB's Targeted Review of Internal Models (TRIM) and the impact of IFRS 9 transition; however, the negative impacts were offset by the release of RWAs from NPL disposals and capital generated during the year through profits earned. The capital base continues to remain above both management and regulatory minimum, and with the majority of the downsides - such as the impact from TRIM and NPL reduction strategies - now clear, is positioned for future growth. Whilst both the Board and the Management Team are always looking to grow the Bank's capital base, we continue to be wary of issues that may arise from the continued transformation of the Bank and ongoing Regulatory intervention.

Business Performance

Current Accounts

Current Account balances were €4.1 billion which is an increase of 12% from 2017. Current Account balances have been consistently increasing over the last number of years which reflect the strong underlying Irish economy.

Retail Deposits

Retail Deposit balances remained unchanged at €10.6 billion and represent 54% of the Bank's total funding. We continue to retain maturing fixed rate deposits due to our competitive pricing and strong service levels.

The average cost of retail funds improved through close management of pricing and product mix.

Corporate and Institutional Deposits

Corporate and Institutional Deposit balances reduced by 17% year-on-year to €2.2 billion. This reflects our intention to manage these resources carefully in line with the reduction of the Bank's funding requirements and its obligation to add other long term funding sources under the Single Resolution Board's Minimum Requirement for own funds and Eligible Liabilities (MREL).

New Lending

Mortgages

Irish mortgage market activity continued to pick up strongly in 2018, with gross new lending of €8.7 billion, 20% higher than in 2017, thereby reaching net loan growth after more than a decade of market contraction. Demand for mortgage lending remains strong but housing supply continues to fall short of market requirements and is dampening loan growth. According to the Central Statistics Office, new house builds for 2018 amounted to 18,000 units, an increase of 25% on 2017, but still well short of the estimated annual requirement of over 30,000 new units.

Despite a highly competitive market, the Bank recorded gross new residential mortgage lending of €1.3 billion, a 43% year-on-year increase. When compared against a market increase of 20%, the resultant market share of 15.1% (up from 12.6% in 2017) demonstrates the Bank's commercial competitiveness.

We expect the mortgage market to remain competitive in 2019. However, we are confident that we can continue to grow our loan book in line with the market through competitive pricing, attractive propositions and best-in-class customer service.

Personal Term Lending

The Bank recorded gross new lending of €122 million in 2018. This is an increase of 36% compared to the previous year. The majority of our Personal Loan applications now originate through digital and voice channels.

A Culture Of Sustainable Value Maximisation By Delivering Right Customer Outcomes

As a service business in a highly competitive market, the quality of our people and the culture of the organisation are major determinants of the Bank's success. At Permanent TSB, we understand that right customer outcomes are integral to sustainable value maximisation. This is one of our Bank's shared beliefs. In this regard, we have made significant improvements across many areas of the Bank to ensure we are focused on delivering right customer outcomes. Some examples of these improvements include: increased focus on Conduct Risk; the appointment of a new Head Of Customer amongst the Senior Leadership Team; the formation of an independent Product Assurance Function; and, the development and execution of a new Customer Complaints Management Framework.

As regards to our people, our objective is to attract, retain and nurture a high performing, diverse and committed workforce. We believe that this is a cornerstone for delivering right customer outcomes. In this regard, we have made huge progress in 2018 in the areas of: people growth; diversity and inclusion; recruitment; performance management; and, systems and processes which are outlined further in the Corporate Social Responsibility section of the Annual Report. That said, the market for human capital in certain areas is extremely competitive due to the increasing number of financial services firms increasing or establishing Irish operations as part of their Brexit contingency planning. As a result, the constraints in the reward domain imposed on certain Irish Banks do constitute a significant risk. The banking industry in Ireland is in need of a return to a modern reward structure linked to both performance and the right behaviours. The prerequisite is that the right control environment must be in place to ensure a bias towards sustainable long term value creation and right customer outcomes. The right reward framework with the right controls will benefit all stakeholders, including the Irish taxpayer whose investment in the Bank remains material.

* See table 5 on page 31 for a reconciliation of underlying profit to operating profit on an IFRS basis.

Digital Transformation Programme

The impact of digital technology on banking around the world continues to accelerate. Customer needs and expectations are changing constantly as they experience the power of digital technology in all aspects of their day-to-day life.

As we look forward, we must ensure that we are strategically positioned to support our brand and distribution network. We will do this by providing a solid, secure and resilient infrastructure for a connected omni-channel Bank, whilst providing efficient service delivery via simplified and more automated processes. To meet this ambition we must adopt, integrate and move, on a careful and phased basis, to more scalable and modern platforms. In this regard, we have commenced a multi-year Digital Transformation Programme. The Programme will provide business growth and strategic opportunities whilst the simplification of processes and a materially enhanced IT infrastructure will drive cost efficiencies.

Management Team and Staff

I would like to thank current and past colleagues of the Management Team for their valuable contribution to the Bank throughout last year.

Equally, I wish to thank all our staff for their energy, dedication and hard work in getting us to where we are today. I have no doubt that, together, we will continue to make Permanent TSB the Bank of Choice for all our key stakeholders.

Outlook

As I reflect on 2018, it has been a year of immense significance for the Bank. Last year was exceptional due to continued success and momentum in business performance, coupled with reducing NPLs to 10%, and improving underlying profitability.

As we move into 2019, notwithstanding the geopolitical uncertainties mainly caused by Brexit, we remain positive. We believe we have a clear vision and strategy, and we are on the right path towards building an organisational culture that will deliver sustainable shareholder value and right customer outcomes.

Jeremy Masding

Jeremy Masding
Chief Executive

Market And Regulatory Context

Irish Economic Outlook

Ireland continued to show strong, sustainable growth during 2018. GDP growth of 4.2% in 2019 is expected following an estimated 8.2% growth in 2018.

House price inflation moderated during 2018 with prices rising by 8.4% in the 12 month period to October 2018 compared to 11.7% one year earlier. Although housing output has increased materially, housing supply continues to lag demand.

Total unemployment has decreased over the year, marking the twenty-fifth quarter in succession where unemployment has declined on an annual basis. The unemployment rate continued to fall with a projected decline to 5.1% in 2019.

Consumer Price inflation remains modest with 0.9% expected in 2019, in part due to a weakness in Sterling reducing consumer import prices. Average earnings are expected to rise by 2.9% in 2019 with pre-tax household incomes and disposable incomes showing growth in 2018.

Mortgage drawdowns increased 21% over the 12 month period ending Q3 2018. Despite this, the total amount of mortgage credit outstanding continues to decline as the net growth in principal dwelling house (PDH) mortgages was exceeded by the net repayment of buy-to-let mortgages. Irish household deposits continue to grow strongly for the fourth successive year.

The risk of a 'no-deal' Brexit continues to impact the Irish economy with a significant impact on GDP predicted.

Regulatory Developments

At a European level, there are proposals for changes to CRD IV, the Capital Requirements Regulations and, the Bank Recovery and Resolution Directive. These include changes to the Net Stable Funding Ratio (NSFR); counterparty risk; market risk; large exposures; reporting; and, disclosures. The proposed changes are expected to be implemented in the period from 2020 to 2022 and may impact bank's capital requirements, liquidity management and market disclosures. Additionally, there are proposals to introduce minimum coverage levels for future non-performing exposures.

The Payments Services Directive 2 (PSD2) became law on 13 January 2018. It requires banks to allow customers to choose to share their banking data with regulated Third Party Providers (PISPs and AISPs), and enables Fintech firms to compete directly with banks in the provision of payment services. The final implementation date for the Regulatory Technical Standards for PSD2 is 13 September 2019 by which date banks will be required to have a dedicated interface (open Application Programming Interfaces (APIs)) for PISPs and AISPs.

During 2018 Regulators continued to emphasise the importance of culture, conduct risk and diversity practices. This will continue to be an important area of regulatory focus in 2019 and beyond.

Retail Banking Trends In Ireland

Technological developments continue to drive change in the Irish retail banking sector, with PSD2 set to accelerate this evolution in 2019 and beyond. The impact of these advances is apparent in various aspects of the retail banking environment, some of which are discussed below.

Customers are changing how they interact with their bank on a day-to-day basis, with an expectation that it should be in a position to deliver services at the time and location of the customer's choosing. Channel evolution is resulting in increased engagement on digital channels, with usage of the mobile channel, in particular, becoming much more widespread; however, Irish customers still value face-to-face relationships, and the branch network will continue to play an important role in Irish banking over the medium term.

PSD2 and the 'open banking' environment are likely to increase the levels of collaboration and co-operation between traditional financial services providers and other market participants (from both financial and non-financial sectors). The use of APIs – which some traditional banks have already opened up, or are committed to opening up in the near-term – will lead to further engagement with third party providers, resulting in a more innovative, dynamic market with improved customer experiences.

Customers are establishing relationships with non-traditional financial services providers in increasing numbers. These competitors are providing customers with high quality, digitally-led propositions, which are setting a new standard in the banking sector. In order to stay relevant, traditional providers must capitalise on their pre-existing customer relationships – which are, in itself, a competitive advantage versus new entrants – and ensure that they are adapting and innovating fast enough to continue to compete effectively in the retail banking market.

In conclusion, increasingly high consumer expectations and a shift in competitive dynamics continue to drive change in the Irish retail and SME banking sector. Traditional providers are under renewed pressure from customers and regulators to ensure that their propositions and culture are of a suitable standard to meet the changing needs of their customer base.

SME Banking Trends In Ireland

From a business banking perspective, the economy has displayed solid growth with a strong labour market and positive domestic demand evident. Having said that, some headwinds weigh heavily on investment decisions and borrowing appetite, including cost competitiveness, global trade developments and, of course, Brexit.

Over recent months, these factors have begun to impact consumer sentiment, retail sales and, by definition the SME ecosystem. It is important to remember that many business indicators continue to trend favourably as the Brexit deadline approaches and that small businesses in Ireland have shown high capacity in the past to adapt to external events. However, there is a sense of caution when it comes to long-term investments as business owners are increasingly aware of the threat from an acute Brexit shock or even more chronic impacts depending on the outcome of final negotiations. We will continue to work closely with our SME customers as events unfold.

Our Strategy, Business Model and Culture

Introduction

Permanent TSB is continuing on its journey towards sustainable profitable growth. In recent years, the Bank has engaged in a significant capital raise, scale deleveraging and the implementation of a new funding model. In the period since the economic downturn, the Board and Management Team have been steadfast in their commitment to stabilising the Bank, rebuilding its culture and ensuring it is recognised as a trusted and valued challenger in the Irish Retail and SME banking sector, a position it has occupied in this market for over 200 years.

2018 has been a pivotal year for Permanent TSB in terms of securing the foundations of the business and ensuring that it is appropriately positioned for sustainable profitable growth.

NPL management was outlined as a key strategic priority for the Bank in 2018 and the NPL Strategy Phase 2 delivered a 70% reduction in NPLs (where Phase 1 was the 2012-2017 granting of sustainable and affordable long-term treatments which, by definition, were NPLs). The successful delivery of NPL Strategy Phase 2 makes the Bank more secure, better able to focus on serving new and existing customers, and reduces overall risk in the balance sheet.

Mortgage lending growth has out-performed the market in 2018, delivering an estimated market share of 15.1%, while other products continue to perform strongly. 2018 also saw the Bank continuing to build out the cultural foundations required to support its return to sustainable growth. A substantial programme of work (Organisational Culture Programme) was undertaken to define the Bank's approach for culture evolution; roll out has commenced and will continue into 2019 and beyond.

Our Strategy

Permanent TSB's governing objective is to maximise value for its shareholders on a sustainable basis. The Bank's vision for delivering the governing objective is to be the 'Bank Of Choice' for all Retail and SME customers in Ireland. The Bank's Strategy is focused on building deeper banking relationships with all of its customers, both new and existing. Indeed, putting right customer outcomes at the centre of what we do is a core tenet of how we operate as a business.

The Bank's strategy for delivering the governing objective is reviewed and refreshed annually through the Integrated Strategic and Financial Planning Process. This approach ensures that we are in the position to assess and address any opportunities and challenges emerging as a result of evolving customer sentiment, technological advances, regulatory developments and broader market changes.

The strategy is translated into 4 Year Medium Term Objectives and Financial Targets, and In-Year Strategic Performance Priorities, which, when combined, inform resource allocation throughout the organisation. In particular, the In-Year Strategic Performance Priorities define the point-in-time priorities for the Bank and are updated annually to reflect the changing environment.

Our Business Model

Permanent TSB continues to deliver a full-service banking experience to all customers, framed within the boundaries of a low risk appetite. Its business model today is a full-service Retail and SME Bank. Its participation strategy can be defined under the following headings:

Customer:	Geography:	Product:	Channel:
Addressing the banking needs of more than one million Retail and SME customers	Operating exclusively in the Republic of Ireland, through a network of 77 branches	Providing mainstream transactional banking, lending, saving and deposit taking services	Delivering through a multi-channel service and distribution model

Maximising Sustainable Value For Our Shareholders

Permanent TSB uses integrated strategic, financial, organisational and management processes to maximise value for our shareholders on a sustainable basis. In order to deliver sustainable shareholder value, our people have embraced an absolute commitment to ensuring the delivery of right customer outcomes.

How We Maximise Shareholder Value Over Time

Purpose & Strategy	Operating Model	Financial Performance	Total Shareholder Return
Participation Focus	Organisation Structure & Governance	Economic Profit	Dividends
Competitive Focus	Risk Management Framework & Systems	Economic Value	Share Price Appreciation
Medium Term Targets	Strategic Management Process		
Strategic Performance Priorities	People & Processes		
Resource Allocation	Performance Measures		
Inputs		**Outputs**	

Our Strategy and Business Model
(continued)

Strategic Performance Priorities For 2018

The 2018 Strategic Performance Priorities (SPPs) reflected the key priorities for the Bank, as determined at the end of 2017. SPPs are updated annually to address the changing needs of the business. All initiatives undertaken throughout 2018 were aligned to one of the SPPs and, progress was tracked and reported on a monthly basis to the Board and Executive Committee.

2018 Strategic Performance Priority	Impact of Initiatives Within PTSB
Beat Income Commitments: Deliver Volume, Margin and Other Income Promises	PTSB delivered an increase in its Mortgage market share from 12.6% to 15.1%. In addition, there was a 36% year-on-year increase in Term Lending volumes.
Reduce Costs: Maximise efficiency through focus and simplification	PTSB has rolled out e-Statements to 118,000 customers, reducing paper usage by 885,000 sheets per year. Robotic Process Automation (RPA) has been introduced on selected activities, improving turnaround times, reducing error rates and reducing costs.
Embed Risk Management, Governance & Control: Embed a strong risk management, governance and control culture	PTSB continued to invest significantly in its Risk Function, increasing Full Time Equivalent (FTE) in the department over the course of 2018 and launching a Graduate Recruitment Programme. The Bank promotes continuous assessment and improvement of its risk and control environment.
Meet Customer Needs: Deliver new or better propositions and experiences that meet customer needs profitably	In August, end-to-end Consumer Finance lending was launched on the PTSB Mobile App, marking the introduction of a fourth channel of choice for product purchase.
Manage NPL Book: Deliver the approved NPL Strategy to meet regulatory commitments	The Bank reduced materially its NPLs by over 70% through the Projects Glas and Glenbeigh Loan Sale and Securitisation respectively.
Achieve Breakthrough Performance: Nurture, organise and align our talent to deliver outstanding results	Significant time and resources were invested in developing the Bank's Talent pool. This included the launch of the Bank's Diversity & Inclusion Strategy in Q4 and the implementation of a refreshed Performance Management system.

During 2018, the SPPs were reviewed and refreshed to reflect the changing priorities for the Bank coming out of the Integrated Strategic and Financial Planning Process. The resultant 2019 priorities are as follows:

GROW INCOME PROFITABLY
Grow a diverse income stream, in a risk conscious manner, whilst supporting right customer outcomes

DRIVE DIGITAL TRANSFORMATION
Continue to build out a digital first, omni-channel banking experience

ADVANCE SIMPLIFICATION AND EFFICIENCIES
Reduce the Bank's cost base, and improve experiences, by improving the effectiveness and efficiency of all processes and procedures

COMMIT TO RIGHT CUSTOMER OUTCOMES
Focus on our commitment to right customer outcomes in all instances

EMBED AN INCLUSIVE, HIGH-PERFORMANCE CULTURE
Foster a high-performance, risk aware, diverse and inclusive culture, where all colleagues feel valued

Our Culture

As one of Ireland's longest established financial services institutions, Permanent TSB has been in existence, in one form or another, since 1816. The espoused culture of the Bank is influenced by this history and, in particular, has been heavily shaped by events of the last decade. In this regard, we understand that we are the custodians of shareholders' equity, depositors' funds and capital market funding. In this context, we place a strong risk and control environment at the heart of what we do. We understand that ours is a privileged role in Irish society, as our customers, large and small, share some of their most important decisions with us. We understand that our customers rely on our integrity, our professionalism, our judgement and, our skill and knowledge to help them make the right choices. We understand that to earn our customers' trust, custom and loyalty we must aspire for, and reach, the highest standards of decision making. We understand that we must operate within our Risk Appetite where we have a very low to zero appetite for poor or unfair customer outcomes (financial or non-financial). We understand that to gain trust, custom and loyalty we must understand our roles, our processes, our risks and our controls, thereby ultimately delivering the right customer outcomes.

In 2017, Permanent TSB returned to profit for the first time in a decade and set about defining our Vision for the future, as well as the Values and Behaviours expected in order to provide clarity and consistency about the way things are done in Permanent TSB. The Bank's culture manifests itself in the responsible and accountable behaviours of our people and in their day-to-day interactions and decision making with our customers and each other.

Evolving Further Our Organisational Culture

In response to the pace at which the banking sector has responded to legacy issues, there has been an increased focus on Bank Culture both from a regulatory perspective and from Retail Banks themselves. The CBI conducted a review of Bank Culture, including Diversity and Inclusion, across the sector in early 2018 and has communicated clear actions that Permanent TSB should consider to improve its culture.

Upon receipt of the findings of the Culture and Behaviour Review, and the Diversity and Inclusion Review, a series of reflection sessions and workshops took place with both the Board and Executive Committee of the Bank over the months of September, October and November 2018.

The output from the reflection sessions confirmed the direction of travel since 2017 and showed full alignment with the actions required to address the potential risks as highlighted by the CBI. As such, the Board and Executive Committee formalised a programme of work, integrating the Culture and, Diversity and Inclusion work already underway, under a single Organisational Culture Programme.

The Organisational Culture Programme comprises a number of work streams, focused on delivering a better Bank for our customers, colleagues, communities and regulators, all aligned with the Bank's governing objective.

The Bank uses the 'Programme' structure as the vehicle for all significant transformational change activities. This approach does not in any way suggest that culture is easy to evolve. However, it does provide a centralised focus and governance structure that ensures Board and Executive Committee are setting the tone from the top. Of equal importance, this approach ensures that there is a focus on both delivering organisational change, and adopting and embedding those changes into the behaviours, group dynamics and mind-set throughout the Bank.

We understand that to build a 'sustainable PTSB', the Bank's culture must evolve with the times and we welcome the feedback we have received from both the CBI and the newly introduced Irish Banking Culture Board (IBCB) annual culture survey. We understand that evolving and developing our culture is not a once off initiative, and that it is a journey that requires on-going focus, hard work and commitment. Both the Executive Committee and Board understand their responsibility in setting the tone from the top and the direction of our cultural evolution. We are looking forward with confidence.

Corporate Social Responsibility

At Permanent TSB, we are united in our efforts to build a valuable and sustainable business. This aspiration is underpinned by a culture guided by our Vision and Values, where the highest standards of integrity, accountability and compliance with regulatory standards are paramount.

'We are proud to be one of Ireland's longest serving financial institutions, with over 200 years in business based on deep roots in Irish communities. As we move into the next phase of the Bank's journey, we are focused on building the 'Bank Of Choice' for our Customers, Colleagues and Communities; our CSR agenda plays a key role in the delivery of that ambition' – **Jeremy Masding, Chief Executive.**

Our Commitment To Social Responsibility

Permanent TSB is one of Ireland's oldest financial institutions and has been in operation, in one form or another, for more than 200 years. During this time, we have developed deep roots in Ireland by both building trusted relationships with customers and playing an active role in the communities in which we live and work. In 2018, the Bank marked an important milestone in our journey, celebrating the 200 year anniversary of the Dublin Savings Bank.

We will continue this long tradition through our CSR Strategy. This Strategy is built around four pillars – Customers, Colleagues, Community and Environment – for which the following overarching objectives have been set:

- Developing quality products that matter most to our customers, meet their financial needs and deliver the right outcomes.
- Making Permanent TSB a great place to work for our colleagues by creating a diverse, inclusive and supportive working environment where our people feel engaged and valued and are given the tools they require to be the very best they can be.
- Having a positive and meaningful impact on the communities in which we live and work.
- Minimising the impact of our business on the natural environment by reducing our environmental footprint.

Achievement of these objectives will support our governing objective of maximising value creation for our shareholders on a sustainable basis.

The Bank is delivering on its CSR Strategy in two phases: 'Consolidate and Organise' and 'Build and Grow'.

Consolidate And Organise

The objective of this phase was to consolidate and organise existing CSR activities into a coherent approach. Following extensive work in 2018, this phase is now complete.

Build And Grow

The overall objective of this phase – from 2019 through 2021 – is to build a best in class CSR programme and specifically to:

- Be recognised as a leader in Ireland against one of the four pillars - Customers, Colleagues, Community and Environment;
- Prepare an independently audited annual sustainability report that will allow us to keep stakeholders updated on our activity and progress against our programme objectives; and
- Achieve the 'Business Working Responsibly Mark' from Business In The Community Ireland (BITCI).

The 'Business Working Responsibly Mark'

The 'Business Working Responsibly Mark' is an independently audited standard for CSR in Ireland that recognises best-in-class sustainability programmes.

Following a comprehensive external review of the Bank's CSR Programme in 2018, facilitated by BITCI, the Bank commenced a programme of work based on the findings of the baseline assessment.

This work will continue into the year ahead, as we continue to work alongside BITCI to develop the CSR Programme with the aim of achieving accreditation to 'The Mark' by 2021.

Materiality And The CSR Agenda

Permanent TSB takes a number of factors into consideration when assessing materiality and, thereby, where to prioritise resources for CSR activity. These include, but are not limited to, our business model and strategy, principal risks, sectorial issues, public policy and regulation, and the impact of our activities on wider society.

As we move into the future, we will engage with stakeholders to complete a comprehensive materiality assessment of our CSR Programme. This assessment will offer insights on the relative importance of specific environmental, social and governance (ESG) issues and will assist us as we build out the Bank's sustainability agenda.

The following is a summary of progress under each of the four pillars in 2018.

Customers

Overview

Delivering the right customer outcomes is central to what we do. We are committed to understanding our customers and delivering what matters most to them through every stage of their financial journey.

Delivering Right Customer Outcomes

In 2018, we made a number of structural and operational changes to ensure that we are focused on delivering the right customer outcomes:

- Increased Focus On Conduct Risk: Conduct Risk has been identified as a risk in its own right and the Board has approved a Conduct Risk Appetite and Principles as part of an overall Conduct Risk Management Framework. In 2018, all of our people completed mandatory Conduct Risk training.
- Creation Of A Product Assurance Function: This new function, led by the Product Assurance Director, will proactively monitor our products to ensure that they deliver right customer outcomes, while also focussing on the review of the legacy products in our product suite.
- Creating A Retail Banking Division: A new role, Director of Retail Banking, has been created, combining the roles of Distribution Director and Commercial Director, to lead a new unified omni-channel division, with responsibility for Product Management, Distribution Channels, Commercial Strategy and Brand and Marketing.
- Increased Focus On Complaints Management: The Bank developed and implemented a new Customer Complaints Management Framework.

Highlights:

Relationship Net Promoter Score
A customer satisfaction survey carried out in Quarter 3 2018 indicated a Relationship Net Promoter Score (RNPS)* that places Permanent TSB as the market leader and six points ahead of the average of the main retail banks in Ireland

Products And Services

Permanent TSB is focused on developing deep banking relationships with customers through: listening to what they have to say; developing products that matter most to them; delivering a great customer service experience; and, providing value for money, whether that be in our network of branches, through our customer service centres or online.

Examples of our commitment to enhancing customer experience include our focus on digital transformation, continued investment into our Branch Network, and the on-going success of our award winning mortgage proposition – the '2&2 Mortgage'.

Digital Transformation

Customer behaviour is changing and the Bank's customers want the ability to interact with us at a time and place that is convenient for them.

Permanent TSB has embarked on a four year journey to deliver a Digital Transformation Programme, allowing us to respond to evolving customer behaviour, while ensuring that we remain relevant in the future digital banking market.

The Programme will deliver a secure flexible platform for the future, enhancing both customer and colleague experience, while driving economic value for the Bank across the following four key areas: providing secure and resilient infrastructure; simplifying processes; providing new and modern ways of working; and, investing in Fintech Innovation.

*A Net Promoter Score (NPS) is a measure of customer advocacy towards a brand and indicates the willingness of a customer to recommend a company's products or services to others. The question asks customers how likely they are to recommend their bank to friends or family on the basis of their own experience with the bank. The range for the scoring is -100 to +100.

Corporate Social Responsibility
(continued)

In 2018, significant progress was made in enhancing our customers' Digital offering, with the introduction of In App Term Lending, the rollout of the online booking system for Mortgage Advisors and the launch of the online Travel Note.

We look forward to building on this momentum in 2019 with further rollouts planned.

Investment In The Branch Network

Following a significant upgrade, we reopened our flagship location on Grafton Street in September 2018. This became the first branch in our network with enhanced digital capabilities, including: digital marketing screens that reduce our reliance on print marketing; iPads with supporting phone lines into our customer service centre, Open24; and, state of the art, purpose-built customer meeting areas.

These upgrades significantly enhance the customer experience in our network, allowing us to serve our customers better through a channel of their choosing, while demonstrating our commitment to finding new and better ways to bank.

The Bank was proud to welcome Barretstown Ambassador Gordon D'Arcy to our newly refurbished Branch on Grafton Street to launch officially the new location and, to announce Barretstown and The Alzheimer Society of Ireland as our new Staff Charity partners for the 2018/2019 fundraising year.

To celebrate the launch, Permanent TSB donated €1 to these deserving organisations for every transaction made (via SSBM and Teller) in Grafton Street from 22 October-27 October.

We continued the investment in our branch network with the relocation of the Drogheda Branch to the Scotch Hall Shopping Centre in October 2018, and the opening of our newest location in the Omni Shopping Centre (Santry) in February 2019.

We look forward to building on this momentum, with further refurbishments planned in the branch network for 2019.

The 2&2 Mortgage

Permanent TSB's 2&2 Mortgage Proposition, launched in 2017, was the first product of its kind in Ireland. It allows customers to get 2% cash back at drawdown and 2% cash back on their monthly repayments until 2027. The 2&2 Mortgage was developed following input and feedback from first time buyers and is designed with their financial needs in mind.

Following a strong performance in 2018, the Bank was proud to be awarded:

- Best First Time Mortgage - Bonkers National Consumer Awards
- Best Marketing Campaign - Bonkers National Consumer Awards
- Best Integrated Digital Campaign - Digital Marketing Awards

Our Grafton Street Team Outside Of Our Newly Refurbished Flagship Location On Grafton Street - Following a significant upgrade, we reopened our flagship location in September 2018. This became the first branch in our network with enhanced digital capabilities, including: digital marketing screens that reduce our reliance on print marketing; iPads with supporting phone lines into our customer service centre, Open24; and, state of the art, purpose-built customer meeting areas.

Gordon D'arcy For Staff Charities - The Bank was proud to welcome Barretstown Ambassador Gordon D'Arcy to our newly refurbished Branch on Grafton Street to launch officially the new location and, to announce Barretstown and The Alzheimer Society of Ireland as our new Staff Charity partners for the 2018/2019 fundraising year. To celebrate the launch, Permanent TSB donated €1 to these deserving organisations for every transaction made (via SSBM and Teller) in Grafton Street from 22 October-27 October.

Complaints

An integral part of delivering great customer service is looking after customers when things go wrong.

In order to manage our complaints processes in an efficient way, the Bank has in place a Customer Complaints Policy and a Customer Complaints Charter which is available online.

Customer Complaints Training is provided to Permanent TSB employees on an annual basis. This training covers the Bank's Customer Complaint Policy and Procedures, and regulatory obligation in this domain.

In 2018, the Bank focused on improving its complaints management process through implementing a Complaints Management Programme, involving stakeholders from right across the business. A key objective for the programme was to improve significantly the Root Cause Analysis (RCA) process to ensure timely and insightful information is available to identify if an issue is isolated or indicative of a structural issue that needs to be addressed.

This process is supported by a number of formal governance structures including complaints monitoring meetings at Divisional level and the establishment of a Complaints Committee, involving Senior Management from all key business areas, where complaint trends and insights are discussed. In addition, where appropriate, employees are now empowered to close complaints at the first point of contact.

As we look to the future, a key deliverable to improve insights and reporting will be the delivery of a significantly enhanced complaints management system.

Responsible Marketing and Research

All marketing and communications activity in the Bank is guided by regulation, including the Consumer Protection Code 2012, the Advertising Standards Association of Ireland (ASAI) Code 7th Edition and, the values and operating principles set by the Association of Irish Market Research Organisations (AIMRO).

Colleagues

Overview

The Bank's Vision to be the 'Bank Of Choice' is only possible if we create a diverse, inclusive and supportive environment where our colleagues feel engaged, valued and are given the support that they need to be the very best they can be.

Highlights:

4 out of 5 employees say they are proud to work for Permanent TSB

More than 90% of employees feel comfortable to be themselves at work regardless of background or life experiences

1,422 colleagues received an Institute of Banking (IOB) accreditation in 2018

5,000 training days were delivered

Having An Employee Voice

The 'Pulse Check' survey is designed to give our people a collective voice, allowing colleagues to provide feedback on what is working well across the organisation while identifying areas for future improvement.

Permanent TSB's 2017 'Pulse Check' survey results showed that we maintained our staff engagement score at 81% which compares strongly against industry standards. A selection of our employee survey results include:

- 4 out of 5 employees feel engaged in the company and are proud to work for Permanent TSB;
- 9 out of 10 employees feel comfortable being themselves at work regardless of background or life experiences;
- 4 out of 5 employees feel that Permanent TSB has created an inclusive environment where people with diverse backgrounds and experiences can succeed.

Employee feedback from the Pulse Check results also identified four areas of improvement for the Bank, including: Digital Capability; Leadership; Wellbeing; and, Career Development.

With a focus on continuous improvement, in 2018 the Bank focused on addressing this feedback and implemented action plans on a local level across the business. This included the delivery of an organisational level People Strategy, which included representation from all areas of the organisation.

The next 'Pulse Check' will begin in March 2019.

Corporate Social Responsibility
(continued)

Supporting Career Development
Permanent TSB has in place a Career Development Framework (CDF) to support our colleagues' learning and development on the job. The framework offers the tools and techniques both to support our employees in developing their careers within Permanent TSB and to enable the realisation of full potential.

Investing In Growing our People
Permanent TSB recognises that both personal and professional training, and development of the workforce plays a critical role in delivering the governing objective and vision. With a clear focus on three key strategies – 'People Growth Management', 'Learning Opportunities For Everyone' and 'Learning For Leaders' - the Bank provides training, education and, personal and professional development opportunities, to our colleagues at all levels of the organisation.

Our people are supported both financially and with study leave in order to pursue professional qualifications, and to assist in their career development. We are recognised as approved employers by ACCA, Chartered Accountants Ireland and CIMA and have been recognised at a national level for excellence in learning and development in financial services.

Creating a High Performance Culture
The Bank's Performance Management Strategy is designed to cultivate an environment in which employees are valued, developed and motivated to use their talents to the best of their ability, empowered to perform at their best, and provided with regular check-ins and feedback. Performance for each employee is evaluated under three criteria:

- What You Do.
- How You Do It.
- How Your Role Links With Permanent TSB's Strategy and Vision.

To complement this, the Bank has in place a set of core competencies for all colleagues, relevant to their role within the business. These competencies are aligned to our Organisational Values - Courageous, United, Straightforward, Commercial, and Open – and describe the mind-set and behaviours required for our workforce operating at all levels within the Bank. The competencies are an integral part of our career development framework, supporting our colleagues' development on the job.

In 2018, we launched an online performance management system, Performance COMPASS, to encourage quality conversations and to streamline the completion of the performance management process. With the support of this system, the following outcomes were achieved:

- 2018 Objective Setting, 97%
- Half-Year Reviews, 96%
- Year-End Reviews, 98%

Consistency review meetings took place throughout the Bank to ensure that performance conversations were happening and calibrated, allowing for greater fairness and transparency in the process.

Pay And Reward
The Bank has a Pay and Reward Policy which targets base pay against an acceptable range of the market median versus peers. This policy is reviewed on a regular basis, including continuously assessing the competitiveness of total reward arrangements and future strategic direction, in the context of market developments.

Values In Practice (VIP) Awards
The Bank's employee recognition programme, the 'Values In Practice' or 'VIP' Awards, recognise employees from across the organisation that are living the Bank's Values and are positively impacting the business.

In 2018, c.300 nominations were received, up 28% on 2017, with representation from all parts of the business. The short list of nominees were recognised at an awards lunch with the CEO and all finalists were invited to a celebratory evening at which the winners in each Value category were recognised for outstanding achievement.

Permanent TSB Values In Practice (VIP) Award Winners - The Bank's employee recognition programme, the 'Values In Practice' or 'VIP' Awards, recognise employees from across the organisation that are living the Bank's Values and are positively impacting the business.

Investing In Growing Our People - Recognising our colleagues, Claire Daly and Robert Murphy, who each obtained the President's Award for Best Overall Results in their respective Level 8 and Level 9 programmes in 2018 at Permanent TSB's Institute Of Banking (IOB) Graduation Ceremony. Pictured From L to R: Andrew Walsh, Group Legal Director; Claire Daly, President's Prize Winner; Eddie Kearney, Head of Retail Distribution; Robert Murphy, President's Prize Winner; Ger Mitchell, HR Director.

Diversity And Inclusion

Permanent TSB is an equal opportunities employer committed to creating a professional environment in which our employees feel valued, included and empowered to succeed in their career, regardless of gender, age, sexual orientation, race, background or life experiences.

Following a review of policy and practice assisted by Ernst and Young (EY), a number of recommendations were built into a Diversity and Inclusion Strategy. The strategy development process involved an inclusive ‘bottom up’ approach involving over a hundred of our colleagues and senior leaders from across the organisation. All members of the Board, Executive Committee and Senior Leadership Team received inclusive leadership training as part of this process.

Overall, the EY assessment concluded that our current maturity measured at the ‘Compliance’ level, the lowest level on the EY global maturity model. However, the assessment also indicated that we had a strong foundation to build upon, recognising progress in a number of areas, including: the capability to develop diversity analytics; increased female representation in leadership level grades; the introduction of female specific career and personal development opportunities across the Bank; and, unconscious bias training held for specialist teams.

Permanent TSB’s Diversity and Inclusion Strategy includes eight strategic areas of focus and proposes a structured approach to deliver a shift in both mind-set (aligned to our Vision and Values) and process. This will be achieved through assigning accountability, measuring success and eliminating bias, in both people and processes.

The successful delivery of this strategy will move the Bank from a ‘Compliance’ to an ‘Awareness’ level of maturity within two years on the EY global maturity model. This goal is ambitious, but we believe achievable, and will, ultimately, result in a more successful, sustainable and valuable Bank.

The CBI’s Culture and Behaviour Review affirmed the actions we were already taking to embed a culture of inclusiveness.

In 2019, Permanent TSB will focus on the implementation of our strategy. By nurturing different perspectives, the Bank will encourage open dialogue and new ideas, in a trusting and respectful environment, enabling us to connect with employees and customers – as their ‘Bank of Choice’.

Dublin Pride

In 2018, Permanent TSB participated for the first time as an organisation in the Dublin Pride parade. The theme for the 2018 Parade was ‘We Are Family’ and employees were encouraged to bring their families to a Pride Brunch in our St. Stephen’s Green office to celebrate in advance of parade participation. The parade is billed as the largest Pride festival in Europe and saw a record 60,000 people march through the streets of Dublin City.

Gender Balance

Permanent TSB is a member of the 30% Club, a group of c.200 Chairs and CEOs committed to better gender balance at all levels of their organisations. The Club’s focus is on gaining visible and practical support for gender balance from business leaders in private, public, state, local and multinational companies as well as other interested groups.

In 2018, the Bank joined Triple FS, a new initiative in the Irish Financial Services market supporting gender balance at the senior level. Triple FS stands for ‘Females Fast Forward in Financial Services’ and supports the growth in Financial Services that could be created by increasing gender balance at senior levels of an organisation. It includes a mentoring programme that aims to match high potential women with senior leaders in the sector.

Analysis of our workforce by gender and type of contract is as follows:

	2018
Total Headcount At Year End	2,517

Analysis By Type Of Contract	2017	2018
Permanent	93%	89%
Fixed Contract	7%	11%

	2017		2018	
Gender Analysis	Male	Female	Male	Female
Total	43%	57%	44%	56%
Senior Management	76%	24%	72%	28%
Part-Time/Job Sharers	8%	92%	9%	91%

Health, Safety And Wellbeing

The wellbeing of our employees throughout all stages of both their career and personal lives is of paramount importance to us. As part of Permanent TSB's investment in employee wellbeing, we offer a range of programmes and benefits to assist and support our people.

As part of our Employee Proposition, our people are provided with a range of financial, physical and emotional wellbeing programmes and benefits as outlined.

Wellbeing Offering

Financial	Physical/Emotional/Mental Health
Pension Plan	Health Screening
Income Protection Benefit	Eye Testing
Sick Pay Scheme	Employee Assistance Programme (Counselling Service)
Staff Banking	Mindfulness Workshops
Cycle To Work Scheme	Resilience Training
Annual Travel Pass Scheme	Lifestyle/Wellbeing Workshops
Employee Discount Scheme	Work Station Assessments
Holiday Fund	Education Support
Life Stage Workshops	Paid Maternity and Paternity Leave

In 2018, an Engagement, Wellbeing, and, Diversity and Inclusion Manager was appointed to review existing policies and build capability for the future.

The Bank has a safety statement in place, which documents how the highest standards of Health and Safety Management are maintained across the organisation. The Safety Statement, and associated policies and processes, have been prepared in accordance with Section 20 of the Safety, Health and Welfare at Work Act, 2005 (The Act). The Safety Statement is reviewed on a regular basis and is revised as necessary.

Trade Union Relationships And Employee Consultation

Permanent TSB operates under an established partnership model with our formally recognised Trade Unions. Company representatives meet with the individual Trade Union Committees on a regular basis. This allows for matters to be escalated in a structured way and provides an opportunity to deal with anything that may arise at inception, greatly increasing the chances of internal resolution.

All material organisational change, including changes to terms and conditions of employment (to the extent that they arise) are discussed and negotiated in advance with the Trade Unions. All employees receive regular updates on organisational matters through a diverse range of communication mechanisms.

Community

Overview

Community involvement and a commitment to impacting positively the communities in which we live and work, supports the Bank's strategy of building a sustainable business.

The Bank engages with the community through building strong community partnerships, providing financial support to local charities through the work of the Staff Charities Fund and engaging employees in volunteering initiatives that allow our people to live the values of Permanent TSB both inside and outside of the organisation.

Highlights:

Two Community Partnerships

Seven New Charities Nominated by Staff

More than €200,000 euro in charitable giving in 2018 through the Permanent TSB Staff Charities Fund which included matched funding by the Bank

More than 1,000 volunteer hours were provided on the ground in local communities, equating to €26,000 of in-kind giving.

Social Entrepreneurs Ireland Partnership

Permanent TSB entered into a five-year partnership with Social Entrepreneurs Ireland (SEI) in 2017, contributing both financial support - €375,000 over five years – and also implementing an extensive employee engagement programme between SEI and employees of the Bank.

The Bank looks forward to developing this partnership in the years ahead by involving colleagues in SEI's Awards review and selection process, establishing volunteering and mentorship opportunities within the SEI Alumni Network, and continuing its pro bono support of SEI programmes, whereby we match the skills of our people with the organisations that need them most.

The Staff Charities Fund

In 2018, Permanent TSB Staff Charities donated €214,000 to local charities, supporting the work of Ronald McDonald House, Epilepsy Ireland, The Down Syndrome Centre, Our Lady's Hospice, The Oesophageal Cancer Research Fund, St. Vincent De Paul and Action Aid.

The charities supported are nominated and selected by Permanent TSB employees for the fundraising year.

Numerous fundraising events are organised and managed by our colleagues from around the Bank throughout the year including: Permanent TSB Charity Rugby Match; Hell and Back Challenge; Grand Slam 'Tap and Give' Campaign; Annual Table Quiz; Charity Cycle; and, various other local fundraising initiatives that are driven by our teams in the Branch Network across our 77 locations nationwide. All money raised by employees is match funded by the Bank.

Permanent TSB Staff Charities Fund - In 2018, Permanent TSB Staff Charities donated €214,000 to local charities, supporting the work of Ronald McDonald House, Epilepsy Ireland, The Down Syndrome Centre, Our Lady's Hospice, The Oesophageal Cancer Research Fund, St. Vincent De Paul and Action Aid. Since its establishment, the Staff Charities Fund has donated in excess of €1 million to Irish Charities, supporting local communities across the country.

A Partnership With Social Entrepreneurs Ireland - Permanent TSB entered into a five-year partnership with Social Entrepreneurs Ireland (SEI) in 2017, contributing both financial support - €375,000 over five years – and also implementing an extensive employee engagement programme between SEI and employees of the Bank.

Corporate Social Responsibility
(continued)

Since its establishment, the Staff Charities Fund has donated in excess of €1 million to Irish Charities, supporting local communities across the country.

We look forward to working alongside our 2018/2019 Staff Charity Partners – Barretstown and The Alzheimer Society of Ireland - for the 2018/2019 fundraising year.

Trinity Centre For People With Intellectual Disabilities Partnership

Permanent TSB works alongside the Trinity Centre for People with Intellectual Disabilities (TCPID), supporting diversity and inclusion within our workplace.

TCIPD's mission is to enable individuals with intellectual disabilities to develop their potential through a combination of high quality research, dissemination of new knowledge, lifelong learning and, professional training and work placement initiatives, with a vision that it will lead to meaningful long term employment or further education opportunities for students who go through the two year programme.

As part of the Bank's partnership, we provide graduates of TCPID with work placement opportunities across the organisation.

National Gallery Of Ireland

Permanent TSB is proud to support the Arts through our partnership with the National Gallery of Ireland. The Bank supports Room 21, a newly refurbished gallery in the historic wing, containing an impressive display of Irish portraits and landscapes.

Employee Volunteering Programme

In 2018, Permanent TSB launched its first Bank wide Employee Volunteering Programme and corresponding Volunteering Policy. The programme was driven by the Corporate Social Responsibility (CSR) Steering Committee and saw our colleagues from across the organisation take part in the volunteering initiatives affiliated with the Bank's Staff Charities. More than 1,000 volunteering hours were provided on the ground in local communities last year, equating to €26,000 of in-kind giving.

Feedback from our people is overwhelmingly positive, with 100% of participants saying that they would recommend the Volunteering Programme to a colleague.

Permanent TSB 'Staff Charities Cup' Rugby Match – In May 2018, the Bank played a friendly match against opponents AIB with all money raised going to support the work of Staff Charities. The event was the largest fundraising initiative of the year, earning €70,000 for the Permanent TSB Staff Charities Fund.

Employee Volunteering Programme - In 2018, Permanent TSB launched its first Bank wide Employee Volunteering Programme which saw our colleagues from across the organisation take part in the volunteering initiatives affiliated with the Bank's Staff Charities. More than 1,000 volunteering hours were provided on the ground in local communities last year, equating to €26,000 of in-kind giving.

Environment

Supporting our communities by having a positive and meaningful impact includes a commitment to reducing our environmental footprint.

Highlights:

100% Renewable Electricity Supply For The Group

Signature To Business In The Community Ireland's 'Low Carbon Pledge'

40% Reduction In Carbon Emissions Since 2009

Permanent TSB continues to enhance our Procurement and Sourcing Frameworks to ensure that they support our sustainability goals and objectives.

Actions taken in 2018 to reduce our environmental footprint are outlined below.

Energy Usage

Energy Consumption	2017* Gwh	2018 Gwh
Electricity - Total (Gwh)	9.1	9.1
Gas (Gwh)	2.1	2.4
Oil (Gwh)	0.1	0.1
Total Energy Consumption	11.3	11.6
CO2 Emissions (tonnes)**	4,100	4,200
Average FTE	2,437	2,416
CO2 Emissions per FTE (tonnes)	1.68	1.74

*As restated
**Scope 1 and 2; Results for 2018 are estimated

In 2017, Permanent TSB switched energy provider and we are now using 100% renewable energy for our electricity supply for the Bank.

As part of an on-going branch refurbishment process, we are introducing energy efficient LED lighting. More than one third of the network now uses LED lighting in customer areas with lighting in administration areas controlled by movement sensors. The refurbishment process is on-going.

Permanent TSB's lighting in our Head Office locations is also controlled by movement sensors, ensuring that all our non-essential lighting remains off when the areas are not in use.

The Bank has a system in place that automatically powers down all of our PCs outside of office hours.

As a Public Sector Organisation, the Bank complies with all of its obligations under relevant domestic and European regulations and reports annually to the Sustainable Energy Authority of Ireland (SEAI) in May of each year, and has done so since 2009.

Earth Hour

In March 2018, Permanent TSB participated in Earth Hour.

As March 24 fell on a Saturday and outside of our regular operating hours, in the week leading up to Earth Hour the Bank ran an awareness campaign whereby we encouraged our employees to observe the hour in their own homes with their families and friends, and provided tips on how to reduce energy consumption.

We also conducted a week long education programme on energy saving. The awareness campaign was well received and resulted in a 2% energy saving across our Head Office Building in Dublin during the week in question.

Carbon Impact

Permanent TSB is disclosing its carbon emissions for the first time in 2018 and will continue to do so each year.

In November 2018, following a significant programme of work, the Bank joined more than 40 of Ireland's leading companies in signing the Business In The Community Ireland's (BITCI) 'Low Carbon Pledge', committing to reduce significantly our Carbon emissions by 2030.

Using employee FTE as an intensity measure, we estimate that we have achieved a 40% reduction in carbon emissions per employee since 2009. This reduction reflects both efficiencies in energy use by the business and an increase in the use of renewable fuels by electricity providers. Under the pledge, we will be committing to an ambitious target with BITCI for emissions reduction by 2030.

Corporate Social Responsibility
(continued)

Waste Management
Permanent TSB's waste management supplier is committed to maintaining their environmental ethos by ensuring that no waste goes to landfill and that they, instead, divert, recycle and generate fuel and energy through multiple resources.

The Bank has in place recycling facilities across all of our sites, including our Head Office building, administration sites, customer services centres as well as recycling bins in our Branch Network.

Waste Generation	2017 Tonnes	2018 Tonnes
General Waste	106	86
Recycling Waste	174	139
Recycled Confidential Shred Waste	293	322
Recycled Used Cooking Oil	1.8	1.4
Recycled Grease	2.8	2.8
Recycled Lamps	1.5*	0.6

* Estimated usage

We look forward to building on our recycling programme in 2018 with a dedicated programme of work in this space.

Use of Resources
Paper

Centralised printing was launched in 2016 to control print production and minimise use of paper by encouraging employees to forego excess printing. In 2018, consumption of plain paper reduced by 11%. We expect this downward trend to continue into 2019.

Permanent TSB Group Holdings has over 135,000 shareholders. In recent years, we have engaged with our shareholders to set out the merits of receiving the Annual Report by electronic means.

In 2018, c. 3,000 hardcopies of the report were issued, compared with almost 12,000 in 2016, leading to a substantial reduction in the volume of paper used year on year. The Bank only issues printed versions of the Annual Report to shareholders who specifically request a copy.

In 2018, the Bank launched an initiative to encourage customers who continue to receive statements in hardcopy to select the eStatement option in an effort to manage paper consumption across our business, limit waste and further reduce our environmental footprint.

This 'Go Paperless' initiative, delivered by our teams in Group Operations, allows our current account customers who continue to receive statements in hardcopy to conveniently access their statements online through Open24. By the end of 2018, more than 118,000 customers opted for eStatements, resulting in an on-going reduction of paper by c. 885,000 pages of paper annually.

In 2019, the Bank plans to extend 'Go Paperless' with communication to a further 145,000 customers planned.

Water

Permanent TSB monitors water consumption in all of its branch and administrative sites.

Climate Risk
We are conscious of the effect that climate change has on the operations of our business and the risks associated with changes to weather patterns.

To mitigate the risks associated with climate change, we have in place a Business Continuity Management (BCM) plan that takes into account adverse weather conditions that may in some cases cause a reduction in operational capacity. The Bank's BCM position is reviewed at regular intervals, and an Adverse Weather Policy is in place.

In 2017 and 2018, for Storm Ophelia and Emma respectively, the Bank was required to implement contingency measures to ensure that all critical services operated without interruption.

Permanent TSB is committed to environmental sustainability and minimising the impact of our business activities on the natural environment. We look forward to building on this momentum and recognise that there is work to be done in this area.

Governance
The Board approved the CSR Strategy and ensures that Management have comprehensive plans in place for achievement of the Bank's CSR objectives. Permanent TSB's Chief Executive receives regular updates regarding the implementation of the strategy from the CSR function.

The Bank has in place a Corporate Social Responsibility Steering Committee which is chaired by the HR Director. The Committee includes representation from business units across the organisation and meets at regular intervals throughout the year to review and direct the development of the Bank's Corporate Social Responsibility Strategy and Programme.

A dedicated CSR resource is in place to provide leadership and coordinate activities, with the support of the Steering Committee.

For more on Governance, please refer to the Directors' Report on page 61.

Responsible Banking

Permanent TSB is committed to operating responsibly and conducting our operations to the highest ethical and professional standards. We are similarly committed, under our Corporate Social Responsibility Strategy, to generating strong links with, and playing an active role in, the communities in which we live and work.

We are committed to upholding the highest standard of conduct and behaviour among our people. This is not just a 'nice-to-have' – it is a commitment that underpins how we work together, the value proposition for our customers, our relationship with society, and, most importantly, how we generate sustainable shareholder value.

Code Of Ethics

The Code of Ethics provides a general framework for expected behaviours and guides us in doing the right thing. It shows the Bank how best to interact with our customers and employees along with how best to conduct our business. It is there to protect us from unacceptable behaviour and minimise opportunities for misconduct.

Our Vision, Values and Purpose underpin our actions and have been included in our Code of Ethics as they help communicate our shared beliefs and the principles that guide our organisational behaviour.

Our Code of Ethics lays down five overarching standards of responsibility and ethical conduct expected of all employees of the Bank. This includes full-time, part-time, permanent or temporary employees.

The Five Ethical Standards are: Integrity and Honesty; Error Prevention and Reporting; Confidentiality; Professionalism; and, Compliance.

Ethics training was delivered to all employees in 2018.

Permanent TSB also has in place additional requirements set out in other policy documents that help govern behaviour, including Conflict of Interest Policy, Due Diligence, Anti-Bribery and Corruption and Anti-Money Laundering.

During 2018, an assessment was undertaken of the bribery and corruption risks relevant to the Bank's business and a new Anti-Bribery and Corruption Policy was developed. AML training was provided to all employees with tailored AML and Anti-Bribery and Corruption training provided to the Board of Directors and members of the Executive Committee.

Speaking Up

Permanent TSB has in place a Whistleblowing Policy, and associated procedures, to protect employees who wish to make a protected disclosure, relating to an actual or potential wrongdoing in the workplace. In 2018, through a review of policy and procedure, the Bank identified the need for a 'Speaking Up' framework to support and complement this Whistleblowing Policy.

In 2018, work commenced on the development of this Framework and included representation from relevant stakeholders across the business, inviting all ideas and new ways of thinking.

The Framework will be delivered in 2019 and will support the work of both our Organisational Culture Programme and, Diversity and Inclusion Strategy, in creating an organisation where employees feel that they are supported, psychologically safe and empowered to use their voice.

Dignity, Respect And Equality Through Diversity

The Bank ensures the protection of our employees' human rights through its Dignity, Respect and Equality Through Diversity policies. These policies focus on the prevention of discrimination, the provision of equal opportunities and ensuring that employees are treated with dignity and respect in the workplace. All policies that the Bank have in place to protect our workforce meet the relevant regulatory requirements.

The Future

As we look to build our CSR Programme through 2019 and beyond, we are conscious of the legislative changes in the Non-Financial reporting landscape and of international developments including the UN Sustainable Development Goals.

We will provide annual updates on our CSR Programme through the Non-Financial Report, with the aim of preparing an independently audited CSR Report by 2021.

Financial Review

Basis of preparation

This financial review is prepared using IFRS and non-IFRS measures to analyse the Group's financial performance during the year. A management income statement has been prepared which excludes those items that Management deem to be exceptional and other non-recurring items.

The Group has a tightly drawn accounting policy for exceptional items (See note 1) and exceptional items are considered to include:

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

However, from time to time certain material non-recurring items occur which do not meet the definition of exceptional items as set out in the accounting policy. To assist the users of the financial statements and to ensure consistency in reporting with other financial institutions, these items are disclosed separately from underlying profit in the financial review and other parts of the Group's strategic report. These items are clearly identified as non GAAP items and reconciled back to the IFRS income statement. In 2018, the only such item was €20m for increased costs of our tracker mortgage issues. This was excluded from underlying profit because these additional costs related to historic events and is not in respect of trading in 2018.

A reconciliation between the underlying profit and operating profit on an IFRS basis is set out on page 31.

Basis of calculation

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

Management performance summary consolidated income statement

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Net interest income	**379**	405
Net fees and commissions income	**39**	39
Net other income/(expense)	**24**	(1)
Total operating income	**442**	443
Total operating expenses (excl. exceptional items, bank levy and other regulatory charges)*	**(284)**	(285)
Bank Levy and other regulatory charges	**(47)**	(44)
Underlying profit before impairment	**111**	114
Impairment charge on loans and advances to customers	**(17)**	(48)
Charge on collateral in possession	**-**	(1)
Underlying profit	**94**	65
Exceptional and other non-recurring items comprises:	**(91)**	(13)
Restructuring and other costs	**(5)**	(12)
Impairment/losses on deleveraging	**(66)**	(1)
Charges in relation to legacy legal cases	**(20)**	-
Profit before taxation	**3**	52
Taxation	**-**	(12)
Profit for the year	**3**	40

* See table 5 on page 31 for a reconciliation of underlying profit to operating profit on an IFRS basis.

Financial performance headlines

- **Underlying profit** has increased to €94m for the year ended 31 December 2018 from €65m for the year ended 31 December 2017 primarily due to lower impairment charges in 2018, an increase in net other income, offset by a reduction in net interest income.
- **Net interest income** decreased by €26m during 2018 to €379m. This represents a two basis point decrease in net interest margin. This is due to the maturity of higher yielding treasury assets and a reduction in interest income due to deleveraging, offset by a reduction in interest expense on customer accounts.

- **Net other income** is €24m for the year ended 31 December 2018 compared to an expense of €1m at 31 December 2017. This movement comprises a €15m gain resulting from the sale of a portion of the Group's High Quality Liquid Assets (HQLA) and a €10m gain as a result of the closure of a legacy treasury structure.
- **Operating expenses (excluding exceptional items)** are €284m for the year ended 31 December 2018 compared to €285m for the year ended 31 December 2017. This is due to amortisation of intangible assets offset by increases in staff costs.
- **Impairment charge** is €17m for the year ended 31 December 2018, compared to a charge of €48m for the year ended 31 December 2017. The impairment charge reflects 12 month Expected Credit Losses (ECL) on new originations, movement of assets between Stages and a re-measurement of ECL on balances transferred to Stage 2 during 2018 as a result of a change in estimate due to model and transfer requirements.
- **Exceptional items** for the year ended 31 December 2018 include an additional deleveraging impairment charge of €66m primarily due to the costs associated with Project Glas and Project Glenbeigh during 2018.

Net interest income	Net interest margin
€379m	**1.78%**

Net interest income decreased by €26m during 2018 from €405m for the year ended 31 December 2017 to €379m for the year ended 31 December 2018. The decrease in interest income was driven primarily by deleveraging in the second half of 2018 and due to the maturity of high yielding Government bonds at the end of 2017. The decrease in interest expense is due to a reduction in interest rates on customer accounts, reflecting market trends and a reduction in funding required due to deleveraging.

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

Table 1: Average balance sheet

	Year ended 31 December 2018			Year ended 31 December 2017		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	€m	€m	%	€m	€m	%
Interest-earning assets						
Loans and advances to banks	**1,287**	**-**	**-**	1,366	-	-
Loans and advances to customers	**17,551**	**413**	**2.35%**	18,635	450	2.41%
Debt securities and derivative assets	**2,459**	**42**	**1.71%**	2,530	54	2.13%
Total average interest-earning assets	**21,297**	**455**	**2.14%**	22,531	504	2.24%
Interest-bearing liabilities						
Customer accounts	**17,019**	**51**	**0.30%**	16,977	73	0.43%
Deposits by banks	**2,050**	**4**	**0.20%**	2,539	5	0.20%
Loans and advances to banks	**-**	**3**	**-**	-	3	-
Debt securities in issue and derivative liabilities	**1,349**	**18**	**1.33%**	1,421	16	1.13%
Subordinated liabilities	**16**	**-**	**-**	23	-	-
Total average interest-bearing liabilities	**20,434**	**76**	**0.37%**	20,960	97	0.46%
Total average equity attributable to owners	**2,107**			2,117		
Net Interest Margin	**1.78%**			1.80%		

Interest income / Average interest-earning assets

- Interest income on loans and advances to customers has reduced by €37m for the year ended 31 December 2018. The average balances and average interest rate reduced by €1,084m and 6 basis points respectively. These movements are driven by the sale of higher yielding loan assets in the second half of 2018 coupled with the natural reduction of the loan book due to loan repayments and redemptions exceeding new lending.
- Interest income on debt securities and derivative assets has reduced by €12m for the year ended 31 December 2018. The average balance sheet decreased by €71m for the year ended 31 December 2018, to €2,459m from €2,530m for the prior year. Rates and balances have reduced due to the maturity of certain high yielding government bonds during 2017 which have been replaced with lower yielding Irish government bonds during 2018.

Interest expense / Average interest-bearing assets

- Interest expense on customer accounts has decreased by €22m for the year ended 31 December 2018 primarily due to the effects of reductions in average market interest rates. The average balance of customer accounts increased by €42m for the year ended 31 December 2017 to €17,019m from €16,977m in the prior year, primarily due to the increase in current accounts. The average interest rate on customer accounts decreased to 0.30% for the year ended 31 December 2018 from 0.43% for the year ended 31 December 2017, reflecting rate reductions implemented on both retail and corporate deposits during 2017 and 2018.
- Interest expense on deposits by banks reduced to €4m at 31 December 2018 compared to €5m at 31 December 2017 driven by favourable rates achieved on repurchase of the Group's asset backed securities. The average balance of deposits by banks decreased to €2,050m for the year ended 31 December 2018 from €2,539m for the prior year primarily driven by a reduction in ECB funding at the end of 2017 and a reduction in funding as a result of deleveraging. The average interest rate on deposits by banks remained at 0.20% for the years ended 31 December 2018 and 31 December 2017.
- Interest expense on debt securities in issue and derivative liabilities increased to €18m at 31 December 2018 from €16m at 31 December 2017. The average balance of debt securities in issue and derivative liabilities reduced by €72m from €1,421 for the year ended 31 December 2017 to €1,349 for the year ended 31 December 2018. This is due to the maturity of certain medium-term notes, the natural reduction of residential mortgage backed security (RMBS) portfolios offset by a securitisation issued at the end of 2017. The average interest rate on debt securities in issue and derivative liabilities increased to 1.33% for the year ended 31 December 2018 from 1.13% for the year ended 31 December 2017, reflecting favourable rates achieved on the issuance of a new asset backed security in late 2017, offset by increased expense as a result of hedge accounting.
- Negative interest on loans and advances to banks amounted to €3m for the year ended 31 December 2018.

Net fees and commissions and other income

€63m

The following table sets out the components of the Group's net fees and commissions and other income in the years ended 31 December 2018 and 2017.

Table 2: Net fees and commissions and other income

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Net fees and commission income	**39**	39
Net other income/(expense)	**24**	(1)
Total net other income	**63**	38

Net fees and commission income is €39m for the year ended 31 December 2018. The majority of this income comprises fees and commissions on current accounts and insurance contracts and is in line with the prior year.

Net other income of €24m for the year ended 31 December 2018 increased by €25m compared to a €1m net expense for the year ended 31 December 2017. This is due to gains realised as a result of the closure of a legacy treasury structure during the first half of 2018 and gains realised as a result of the sale of a portion of the Group's Higher Quality Liquid Assets (HQLA) during the first half of 2018.

Total operating expenses (excluding exceptional items)

€331m

The following table sets out the components of the Group's total operating expenses (excluding exceptional items) in the years ended 31 December 2018 and 31 December 2017.

Table 3: Operating expenses

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Staff costs		
Wages and salaries including commission paid to sales staff	**121**	118
Staff redundancy costs*	**-**	2
Social insurance	**14**	13
Pension costs	**13**	13
Total staff costs	**148**	146
General and administrative expenses	**112**	118
Administrative, staff and other expenses	**260**	264
Depreciation of property and equipment	**12**	12
Write-back of impairments on revaluation of property	**-**	(1)
Amortisation of intangible assets	**12**	10
Total operating expenses (excluding exceptional items and regulatory charges)	**284**	285
Bank levy	**23**	23
Regulatory charges	**24**	21
Total operating expenses (excluding exceptional items)	**331**	329
Headline cost to income ratio**	**75%**	74%
Adjusted cost to income ratio***	**64%**	64%

*Excludes staff redundancy costs associated with exceptional items
**Defined as total operating expenses (excluding exceptional items) divided by total operating income.
***Defined as total operating expenses (excluding exceptional items and regulatory charges) divided by total operating income.

Operating expenses

Total operating expenses (excluding exceptional items) increased to €331m for the year ended 31 December 2018 from €329m for the year ended 31 December 2017 primarily due to an increase in staff costs and amortisation of intangible assets.

Staff costs

Total staff costs have increased by €2m or 1% to €148m for the year ended 31 December 2018 compared to €146m the year ended 31 December 2017. Average staff numbers decreased slightly during the period from 2,447 at the year ended 31 December 2017 to 2,418 for the year ended 31 December 2018. Salaries increased year on year as a result of measures such as the pay modernisation programme introduced by the Group in recent years.

General and administrative expenses
General and administrative expenses decreased by €6m for the year ended 31 December 2018 to €112m.

Depreciation of property and equipment
Depreciation remained stable at €12m for the years ended 31 December 2018 and 31 December 2017.

Amortisation of intangible assets
Amortisation of intangible assets increased by €2m for the year ended 31 December 2018 due to increased capital investment during 2017 and 2018.

Impairment

€17m

The following table sets out the components of the Group's impairment charge in the years ended 31 December 2018 and 2017.

Table 4: Impairment

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Total impairment charge on loans and advances to customers	**(17)**	(48)
Charge on collateral in possession	-	(1)
Total impairment charge on loans and advances to customers	**(17)**	(49)

Impairment charge is determined under IFRS 9 for 31 December 2018. Impairment charge is €17m for the year ended 31 December 2018, compared to a charge of €49m for the year ended 31 December 2017 which is measured under IAS 39. As permitted by IFRS 9, prior year figures have not been restated and consequently are not directly comparable. The impairment charge reflects 12 month ECL on new originations, movement of assets between Stages and a re-measurement of ECL on balances transferred to Stage 2 during 2018 as a result of a refinement of assessment criteria for some elements transferred to Stage 2.

Exceptional and other non-recurring items

€91m

Exceptional and other non-recurring items for the year ended 31 December 2018 comprise a €66m additional impairment charge arising solely due to the completion of loan sales during 2018, consisting of a gross balance sheet value of €3.4bn. See note 11 and 43 for further details. The remaining balance comprises a €20m charge relating to the recognition of provisions which relate to legacy tracker mortgage issues and a €5m charge as a result of the restructure of the Group's distribution model.

The table on the next page outlines the adjustments to bring the management income statement in line with the IFRS income statement for the years ended 31 December 2018 and 31 December 2017 respectively.

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

Table 5: Exceptional items

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Operating Profit per IFRS Financial Statements	**3**	52
Other exceptional items in IFRS Total operating expenses	**5**	13
Exceptional impairment in IFRS Credit impairment loss	**66**	-
Tracker costs in IFRS Administrative, staff and other expenses	**20**	-
Underlying profit per management income statement	**94**	65

Summary consolidated statement of financial position

	31 December 2018 €m	31 December 2017 €m
Assets		
Home loans	**12,040**	13,657
Buy-to-let	**3,418**	4,264
Total residential mortgages	**15,458**	17,921
Commercial mortgages	**123**	153
Consumer finance	**307**	296
Total loans and advances to customers (net of provisions)	**15,888**	18,370
Loans and advances to banks	**1,159**	1,518
Debt securities	**2,647**	1,978
Equity securities	**13**	12
Other assets	**1,953**	734
Assets held for sale	**150**	161
Total assets	**21,810**	22,773
Liabilities and equity		
Current accounts	**4,147**	3,697
Retail deposits	**10,648**	10,612
Corporate & institutional deposits	**2,225**	2,686
Total customer accounts	**17,020**	16,995
Deposits by ECB	**-**	230
Deposits by banks and other financial institutions	**1,552**	1,612
Total deposits by banks	**1,552**	1,842
Debt securities in issue	**1,095**	1,633
Subordinated liabilities	**-**	23
Other liabilities	**163**	169
Total liabilities	**19,830**	20,662
Total equity	**1,980**	2,111
Total equity and liabilities	**21,810**	22,773

Total assets decreased by €963m or 4% to €21,810 during the year ended 31 December 2018. This is primarily due to a reduction in loans and advances to customers from the deleveraging of the balance sheet through Project Glas and Project Glenbeigh offset by the increase in other assets as a result of the loan sale receivable due from the purchaser of the Glas portfolio and an increase in debt securities due to the purchase of Irish Government Bonds.

Total liabilities decreased by €832m or 4% to €19,830m during the year ended 31 December 2018. This is driven primarily by a reduction in funding due to the deleveraging of the balance sheet offset by an increase in current accounts

Assets

Table 6 (a): Loans and advances to customers

	31 December 2018 €m	1 January 2018 €m	31 December 2017 €m
Residential mortgages:			
Home loans	**12,413**	15,037	15,037
Buy-to-let	**4,003**	4,953	4,953
Total residential mortgages	**16,416**	19,990	19,990
Commercial	**165**	224	224
Consumer finance	**335**	314	345
Total loans and advances to customers measured at amortised cost	**16,916**	20,528	20,559
Of which are reported as non-performing loans	**1,696**	5,285	5,285
Deferred fees, discounts & fair value adjustments	**55**	55	57
Provision for impairment losses	**(1,083)**	(2,323)	(2,246)
Total loans and advances to customers	**15,888**	18,260	18,370

* The amounts as at 31 December 2018 and 1 January 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further detail on transition to IFRS 9 on 1 January 2018).

Gross loans and advances to customers decreased by €3,643m in the year ended 31 December 2018. Whilst the loans and advances to customers balances are not directly comparable given that the balances as at 31 December 2017 are prepared on an IAS 39 basis and the amounts from 1 January 2018 are prepared on an IFRS 9 basis, the following factors contributed to the movement in the loans and advances to customers balance in the year ended at 31 December 2018.

Total new lending

€1,460m

Total new lending for the year ended 31 December 2018 amounted to €1,460m, this represents a 42% year-on-year increase (31 December 2017: €1,029m). New residential mortgage lending for the year ended 31 December 2018 was €1,317m (31 December 2017: €921m); this reflects a 43% growth year-on-year with the Group increasing its market share of mortgage drawdowns from 12.6% at 31 December 2017 to 15.1% as 31 December 2018. In addition, the Group has increased personal lending by 36%, from €90m for the year ended 31 December 2017 to €122m at 31 December 2018; driven by a combination of market growth and improvements in our digital offerings. SME lending increased by €2m to €21m for the year ended 31 December 2018, representing an 11% year-on-year increase.

NPLs	NPLs as a % of gross loans
€1,696m	**10%**

Table 6 (b): NPLs

	31 December 2018 Total €m	31 December 2017* Total €m
Home Loans	**1,100**	3,941
Buy-to-let	**516**	1,220
Commercial	**55**	71
Consumer finance	**25**	53
Non-performing loans*	**1,696**	5,285
NPLs as % of gross loans	**10%**	26%
Foreclosed assets**	**148**	190
Non-performing assets***	**1,844**	5,475
NPAs as % of gross loans	**11%**	26%

*The amounts as at 31 December 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the table above are not directly comparable where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to Note 3 for further detail on transition to IFRS 9 on 1 January 2018).
**Foreclosed assets are defined as assets held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.
*** Non-performing assets are defined as NPLs plus foreclosed assets.

NPLs reduced by €3,589m in the year ended 31 December 2018. This significant reduction reflects the continued commitment by the Group to reduce its NPL ratio to single digit percentages in the near term. During 2018, the Group agreed the sale of a NPL portfolio ("Glas") of €2.1bn and the Group entered into a securitisation arrangement for a portfolio of NPLs with Glenbeigh Securities 2018-1 DAC ("Glenbeigh Securities") of €1.3bn. See further details in note 43.

Table 7: Debt securities

	31 December 2018 €m	31 December 2017 €m
Government bonds	**2,603**	1,978
Corporate bonds	**44**	-
Total debt securities	**2,647**	1,978

At 31 December 2018, debt securities increased to €2,647m from €1,978m at 31 December 2017, primarily due to the purchase of Irish and Spanish Government bonds and the purchase of a tranche of notes in Glenbeigh Securities, which is a regulatory requirement of the transaction.

Liabilities

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

Table 8: Customer accounts

	31 December 2018 €m	31 December 2017 €m
Current accounts	**4,147**	3,697
Retail deposits	**10,648**	10,612
Total retail deposits (including current accounts)	**14,795**	14,309
Corporate deposits	**2,218**	2,667
Institutional deposits	**7**	19
Total customer accounts	**17,020**	16,995

At 31 December 2018, customer accounts increased to €17,020m from €16,995m at 31 December 2017, primarily due to an increase in current accounts and retail deposits which is supported by the Group's competitive pricing and strong service levels offset by a reduction in corporate and institutional deposits.

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

Table 9: Deposits by banks

	31 December 2018 €m	31 December 2017 €m
Placed by the ECB	**-**	230
Placed by other banks and institutions on repurchase agreements	**1,551**	1,610
Other	**1**	2
Deposits by banks	**1,552**	1,842

Deposit by banks decreased by €290m in the year since 31 December 2017 primarily due to the repayment of deposits placed by the ECB.

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

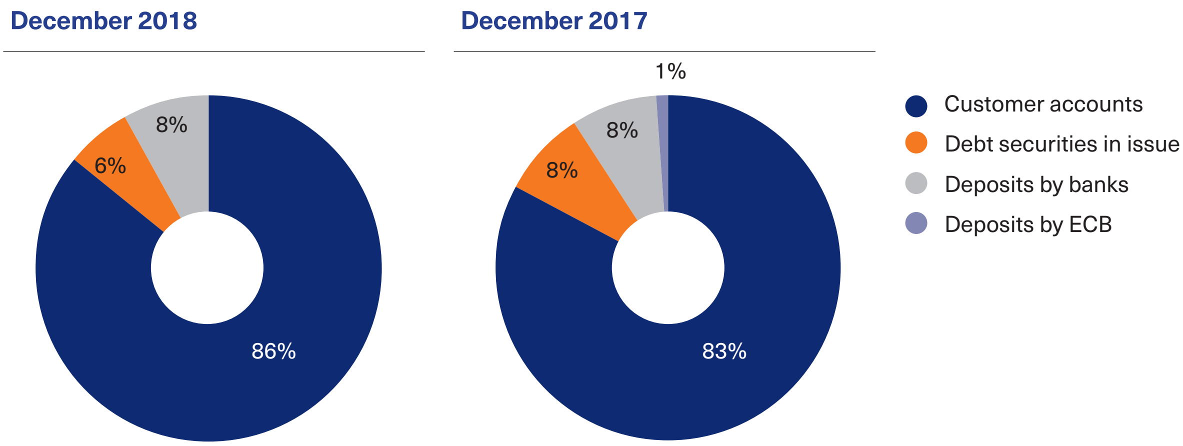
Table 10: Debt securities in issue

	31 December 2018 €m	31 December 2017 €m
Bonds and medium-term notes	**18**	321
Non-recourse funding	**1,077**	1,312
Debt securities in issue	**1,095**	1,633

Debt securities in issue decreased by €538m in the year ended 31 December 2018 primarily due to the maturity of MTNs during 2018 and the reduction in principal in external asset backed securities issued.

Funding profile

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



The Group reduced ECB funding during 2018 to €nil at 31 December 2018 from €230m at 31 December 2017.

For the year ended 31 December 2018, customer accounts amounted to €17,020m, which made up 86% of funding, compared to 83% for the year ended 31 December 2017. The remaining funding base comprises deposits by banks at €1,552 and debt securities in issue at €1,095.

All non-recourse funding amortises over time, with the final maturities of the bonds due in over 5 years' time. Customer deposits and deposits by banks are predominantly short term in nature, being less than one year. Further details on the maturity profile of these deposits are provided in note 35.

Regulatory capital

The following table outlines the Group's regulatory capital position under CRDIV/CRR as at 31 December 2018.

Table 11: Regulatory capital – capital position

	31 December 2018		31 December 2017	
	Transitional	Fully loaded	Transitional	Fully loaded
	€m	€m	€m	€m
Capital resources:				
Common equity tier 1	**1,768**	**1,456**	1,812	1,590
Additional tier 1*	**87**	**95**	66	52
Tier 1 capital	**1,855**	**1,551**	1,878	1,642
Tier 2 capital*	**66**	**66**	76	67
Total capital	**1,921**	**1,617**	1,954	1,709
Risk weighted assets	**11,990**	**11,966**	10,593	10,593
Capital ratios:				
Common equity tier 1 capital	**14.7%**	**12.2%**	17.1%	15.0%
Tier 1 capital	**15.5%**	**13.0%**	17.7%	15.5%
Total capital	**16.0%**	**13.5%**	18.4%	16.1%
Leverage ratio**	**8.4%**	**7.1%**	8.0%	7.1%

*The amount of Additional tier 1 capital and tier 2 instruments included within the consolidated capital of the holding company is restricted within the limits laid down under the CRR.
** The leverage ratio is calculated by dividing Tier 1 capital by gross balance sheet exposure (total assets and off-balance sheet exposures).

The following table reconciles the statutory shareholders' funds to the Group's regulatory CET1 capital.

Table 12: Regulatory capital – CET1 capital

	31 December 2018		31 December 2017	
	Transitional	Fully loaded	Transitional	Fully loaded
	€m	€m	€m	€m
Total equity	**1,980**	**1,980**	2,111	2,111
Less: AT1 capital	**(122)**	**(122)**	(122)	(122)
Captive insurance equity*	**(9)**	**(9)**	(10)	(10)
Adjusted capital	**1,849**	**1,849**	1,979	1,979
Prudential filters:				
Intangibles	**(41)**	**(41)**	(39)	(39)
Deferred tax	**(143)**	**(344)**	(103)	(343)
IFRS9 (Transitional adjustment)**	**111**	**-**		-
AFS reserves	**-**	**-**	(7)	-
Revaluation reserve	**-**	**-**	(10)	-
Others	**(8)**	**(8)**	(8)	(7)
Common equity tier 1	**1,768**	**1,456**	1,812	1,590

* Irish Permanent Property Company dac which was established as a Captive insurance entity.
** The CET1 transitional impact to the Group as a result of EU Regulation 2017/2395 mitigating the impact of the introduction of IFRS9 on own funds.

At 31 December 2018, the Group's common equity tier 1 (CET1) ratio was 14.7% (31 December 2017: 17.1%) and total capital ratio was 16.0% (31 December 2017: 18.4% on a transitional basis), exceeding the Group's 2018 SREP requirements of 9.825% and 13.325% respectively.

On a fully loaded basis, the CET1 ratio was 12.2% (31 December 2017: 15.0%) and total capital ratio was 13.5% (31 December 2017: 16.1%).

The year on year reduction in CET1 and total capital ratios is predominantly driven by an increase in RWAs on implementation of the ECB's TRIM and an increase in transitional prudential filters, partially offset by the deleveraging of NPLs in the year.

The leverage ratio on a transitional basis, at 31 December 2018, was 8.4% (31 December 2017: 8.0%). The increase is due to the deleveraging of NPLs and the repayment of securities financing transaction (SFT) exposures in the year.

The Group has been notified by the regulator of its 2019 SREP requirement. Effective 1 January 2019, the Group is required to maintain a minimum CET 1 ratio of 10.45% and total capital ratio of 13.95%. This represents a 0.625% uplift on 2018 and is driven by the final step towards full implementation of the Capital Conservation Buffer (CCB).

Effective 1 July 2019, the Group's CET1 and total capital requirements will increase by +1% due to the introduction of the Counter Cyclical Buffer.

The Group's transitional CET1, at 31 December 2018, was €1,768m (31 December 2017: €1,812), a reduction of €44m. This is primarily driven by the phasing of the deferred tax asset filter.

IFRS 9

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

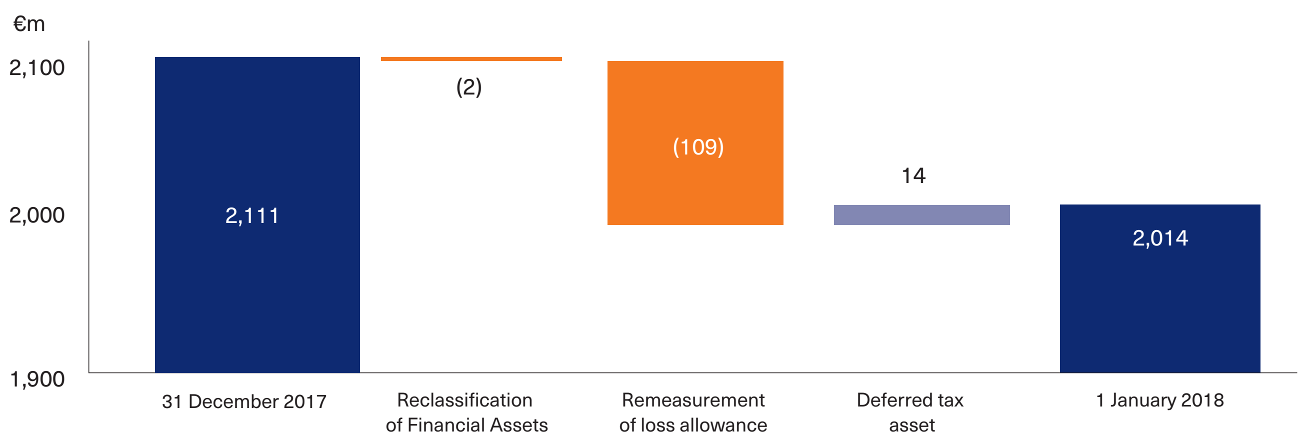
The Group has elected to apply the following transitional options:

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

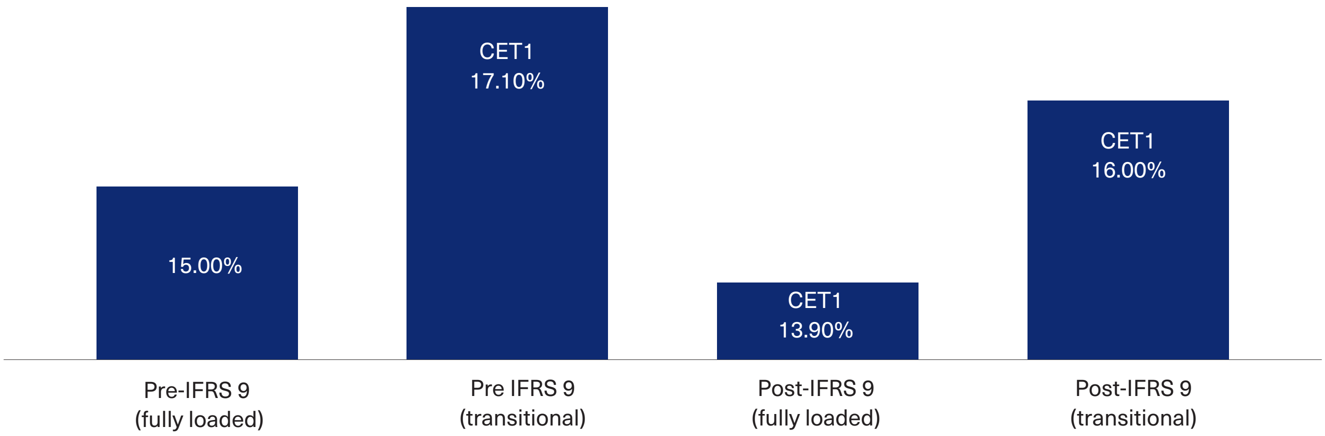
Impact of IFRS 9 on shareholder's equity

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

Impact on Reserves and retained earnings



Impact of IFRS 9 on regulatory capital



Impact of Regulatory Transitional Relief

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

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

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

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

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

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

Risk Management

The information in Section 3.1, 3.2 and 3.3 on pages 50 to 60 in Risk Management identified as audited (with the exception of the boxed parts of these sections clearly identified as unaudited), forms an integral part of the audited financial statements as described in the basis of preparation on page 126. All other information in Risk Management is additional information and does not form part of the audited financial statements.

1. Group Risk Management and Governance

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

Within the boundaries of the Board-approved Risk Appetite, 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.

As part of the Group Risk Management Architecture (GRMA), the Group implements a Risk Management Process which consists of four key aspects:

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

Group Risk Management Framework

The Group Risk Management Framework (GRMF) is an overarching Risk Management Framework articulating the risk management process governing risks within the following key risk categories: Financial Risk (including Market, Credit, Liquidity, Funding, Capital Adequacy and Viability), and Non-Financial Risk (including Operational & IT, Regulatory Compliance, Conduct, Strategic, Reputational, Volatility and Other). 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 identify, assess, 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, current and future risk exposures, risk tolerance/appetite and strategy, taking into account all other relevant risks, and for overseeing the implementation of the strategy by Senior management. It supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, assessed, mitigated, monitored and reported and that the Group is operating in line with its approved Risk Appetite.

Risk Appetite and Strategy

The Board sets overall policy in relation to the type and level of risk that the Group is permitted to assume. To achieve this, the Board has defined a formal Group Risk Appetite Statement (RAS) supported by a Risk Appetite Framework (RAF) 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 scope of the RAF covers the Group's risk landscape, including non-financial risks, that reflects the nature and scale of risk exposure aggregated within and across each relevant risk category, informed by the Group's Business Model and driven by the GRMF. Changes to risks and sub risks are reflected in the GRMF as appropriate and reviewed on an annual basis. Both the RAF and GRMF are developed in line with the Group's Corporate Purpose, Group Commitments and the relevant banking legislation requirements to support decision making in the context of developing and implementing the Group's Strategy. The scope of RAF is regularly reassessed as appropriate to ensure that coverage of the Group's evolving risk profile remains complete.

As outlined, the RAS articulates the level and nature of risk the Group is willing to accept and is consistently iterated through a defined process involving all key functions of the Group. 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 and includes qualitative statements as well as quantitative measures expressed relative to Culture, Capital, Liquidity, Funding, Viability and other relevant measures as appropriate and monitor the actual risk position against individual RAS by risk category.

The RAS is the first component of the Group's Integrated Planning Process (IPP) which allows the Group to adapt its risk appetite to accommodate any relevant changes in market or regulatory environments as well as the evolution of the Group itself. Post approval, both the RAS and the Medium Term Plan (MTP) are then tested through the ILAAP, ICAAP and other stress testing mechanisms throughout the year.

The Board holds overall governance responsibility and ultimate ownership of the RAF and RAS and is required to review them on an annual basis.

Risk Governance

The primary objectives of the Group's Risk Governance 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, oversight capabilities and appropriate controls in place;
- Ensure that safeguards are in place to protect the independence of key relationships between Senior Executives and the Board; and
- Promote transparency in the reporting of risk information throughout the Group.

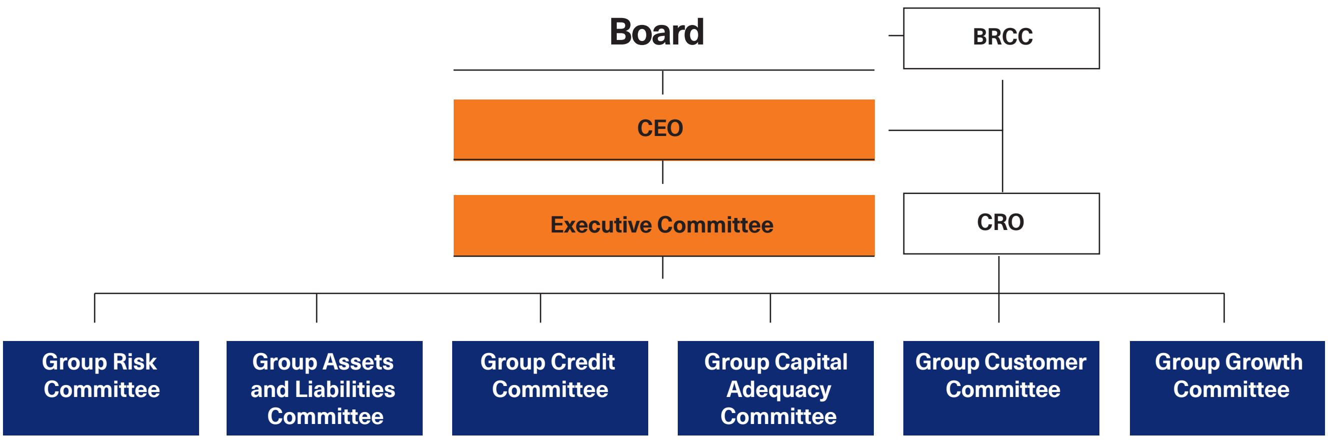
These objectives are fulfilled through:

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

Risk Management
(continued)

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

Risk Governance Structure



Key Risk Governance Roles and Responsibilities

Committee/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; and • Ensuring that there is a robust and effective internal control framework that includes well-functioning independent internal risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework.
Board Risk and Compliance Committee (BRCC) Oversees and provides advice to the Board on risk governance and the current and future risk exposures, risk tolerance/ appetite and strategy, taking into account all other relevant risks and 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 Group of a supportive culture in relation to the management of risk and compliance.	The Committee supports the Board in carrying out its responsibilities of ensuring that risks are properly identified, assessed, mitigated, monitored and reported, and that the Group is operating in line with its approved Risk Appetite. Key activities of the BRCC include, but are not limited to: • Reviewing and making recommendations to the Board on the Group's risk profile, both current and emerging, encompassing all relevant risks categories as described in the Risk Management Framework; • Reviewing and making recommendations to the Board in relation to the Group's RAF and RAS, and the Group Recovery Plan; • Monitoring and escalating positions outside Risk Appetite to the Board, within agreed timeframes and approving and overseeing proposed Remediation Plans aimed at restoring the Group's risk profile to within the approved Risk Appetite; • Reviewing and approving the key components of the Group's Risk Management Architecture and relevant supporting documents; • Communicating all issues of material Group reputational and operational risk directly to the Board; • To review and approve Credit Policy, Credit related strategy and any material amendments to Credit Policy; • Reviewing and making recommendations to the Board on the adequacy of capital and liquidity in the context of the Group's current and planned activities (via reviewing relevant outputs from Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)), including in relation to proposed mergers, acquisitions or disposals; and • Promoting a sound Risk Culture across the Group.

Committee/Role	Key Responsibilities
Executive Committee (ExCo) ExCo is the Senior Management Executive Committee for the Group, and is the: • Custodian of the Group's collective Management Agenda, Financial Plans and Risk Management Architecture as developed through the annual IPP and making decisions on specific projects and investments/divestments relating to the Group; • Accountable body for the Group's operations, compliance and performance through delivery of the Management Agenda and Financial Plans; • 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 the structure and content of the GRMA, and ensuring that all risks defined therein are managed effectively and efficiently, in a prudential manner within the Group's Risk Appetite, recommending approval of the RAS to the Board and ensuring its implementation across the Group; • 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 committee 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 BRCC.	The GRC monitors and enforces adherence to the Group's Risk Frameworks, Risk Policies and Risk Limits. It is the guardian of the Group's Risk Register and Risk Appetite and is responsible for monitoring the total risk position of the Group. Key activities of GRC include, but are not limited to: • Measuring and monitoring the total risk position of the Group and maintaining a Risk Register of top risks facing the Group, together with an assessment of the probability and severity of those risks; • Monitoring and reporting 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; • Reporting any breaches of approved thresholds 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 and Capital Adequacy Committee; • Reviewing models as identified in the Model Inventory line with the Model Risk Policy; and • Approving the Model Risk Policy and Model Inventory, all models as recommended by MGC and schedule of matters for delegation to MGC.

Committee/Role	Key Responsibilities
Group Assets and Liabilities Committee (ALCO) ALCO reviews, and is responsible for overseeing, all activities relating to the management of Asset Liability Management (ALM), Treasury and Market Risks, including Liquidity Risk, Interest Rate Risk, Treasury Counterparty Risk and Foreign Exchange Risk. It is the body accountable for the evaluation of other potential drivers of earnings volatility, including, but not limited to, competitive and external market pressures, and for approving optimisation and hedging strategies against those risks.	Key activities of ALCO include: • Recommending the Group's ALM, Treasury and Market Risk limits 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; • Reviewing and recommending the ILAAP for approval by the BRCC/Board. • Overseeing and monitoring all ALM, Treasury and Market risks to which the Group is exposed and considering and approving strategies to mitigate these risks; • Maintaining and assessing the Group's ALM, Treasury and Market Risk profiles against set limits and proposing remediation plans to restore Risk Appetite/Limits where required; • Reporting any breaches of approved limits in accordance with agreed protocol; • Managing the capital requirements for the Group's ALM, Treasury and Market risks in line with the capital adequacy directive; • Ensuring there is adequate and effective segregation of duties within Treasury and its supporting operations and approving any significant amendment to the responsibilities within Treasury and its supporting operations; and • Approving new products or material changes to existing products which have interest rate or capital implications as recommended by the Product Teams within the Commercial Department.
Group Credit Committee (GCC) The body accountable for the execution and delivery of the Group's system of Portfolio Credit Risk Management, encompassing the identification, measurement, monitoring and reporting of Portfolio Credit Risks. It ensures that the appropriate operating frameworks governing the portfolio credit risk management activities of the Group are approved and are enforced.	The GCC is responsible for developing and implementing portfolio credit policy within the Group. The policy addresses all material aspects of the full credit lifecycle, including credit risk assessment and mitigation, collateral requirements, collections and forbearance and the risk grading of individual credit exposures. Key activities of the GCC include, but are not limited to: • Recommending the relevant Portfolio Credit Risk elements of the Group's RAS for approval by the Board; • Setting and monitoring adherence to the Group's Credit Policy, including discretion limits and structure for underwriting, scoring, collections, recoveries and provisioning within the boundaries of the Group's RAS (as approved by the Board); • Monitoring the portfolio credit risks to which the Group is exposed; • Maintaining and assessing the portfolio credit risk profile against set limits and proposing remediation plans to restore Risk Appetite/Limits where required; and • Reporting any breaches of approved Limits in accordance with agreed protocol.
Capital Adequacy Committee (CAC) CAC is responsible for the detailed execution and initial oversight responsibilities for Capital Adequacy. The CAC is responsible for reviewing the adequacy of capital on an ongoing basis and should receive monthly reporting on the capital position.	The CAC is responsible for: • Monitoring (i) the minimum capital requirements set by the Group's Regulators; and (ii) the Basel III minimum Solvency rules, as implemented by the CRD IV Directive and Regulation, which details the Pillar 1 minimum capital ratios that the Group needs to hold; • Reviewing and recommending ICAAP documentation to BRCC/Board; • Maintaining a level of oversight and management of the on-going execution of capital-impacting stress testing exercises (e.g. SSM, SREP); and • Considering both the quality and quantity of capital held by the Group including the composition of the Group's total capital resources (i.e. the preferred split of CET 1, Tier 1 and Tier 2 capital) while remaining within the parameters of the Risk Appetite Framework and recommending any remedial actions to ExCo/Board accordingly.

Committee/Role	Key Responsibilities
Group Customer Committee The Group Customer Committee ensures that the Group monitors, controls and mitigates Conduct and Customer Outcome Risk by embedding a culture where achieving positive customer outcomes in order to generate sustainable long-term shareholder value permeates the Group's approach and thinking. This covers new product development, product delivery and fulfilment, on-going product and customer management, and customer interaction.	The Group Customer Committee is responsible for, but not limited to: • Providing 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; • Reviewing high impact customer events, issues and complaints arising to both provide guidance on significant individual issues/events and analysing trends to inform future strategy and decision-making with regard to customers; • Reviewing the Conduct Risk that exists within the Group against the Board-approved Conduct Risk Appetite and Principles; and • Serving as the central oversight body for all customer matters ensuring fair treatment of customers is at the heart of key decisions made by the business.
Group Growth Committee The Group's Growth Committee provides context and promotes understanding of the commercial agenda, defined as the plans by the organisation to meet both income and cost targets as set through the MTP, in the context of the Group's Risk Appetite.	The Group's Growth Committee is responsible for: • Monitoring performance against key performance targets and customer/market targets (as set by the Medium Term Plan (MTP)) and act to correct performance where required; • Identifying, initiating and executing on activities/projects to achieve those targets based on customer insight; and • Acting as a gateway through which all developments to product, price, service or channels are initiated and reviewed prior to delivery or submission to the Group Customer Committee.

Role of the Group Chief Risk Officer

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

The CRO has independent oversight of the Group's Risk Management activities across all key risk categories. The CRO is responsible for independently assessing, monitoring and reporting all material risks to which the Group is, or may become, exposed. The CRO is a member of the Group's Executive Committee. 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 BRCC with a reporting line to the CEO.

The CRO is accountable for the development and oversight of the Group's RAF and RAS, which the CRO recommends to the Board for their approval. The CRO is responsible for driving the process which translates the approved Risk Appetite into risk limits with the First and Second Lines of Defence which cascade throughout the business. Together with management, the CRO is actively engaged in monitoring the Group's performance relative to risk limit adherence. The CRO's responsibilities also encompass independent review and participation in the Group's 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;
- Maintain effective processes to monitor and report the risks to which the Group is or might be exposed;
- Promote sound and effective Risk Management both on 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;
- Provide comprehensive and timely information on the Group's material risks which enables the Board to understand the overall risk profile of the institution; and
- Report to the BRCC on a regular basis.

In connection with these responsibilities, the CRO is assigned the right of veto over planned management action agreed by the Group Risk Committee, Group Assets and Liabilities Committee, Group Credit Committee and Group Capital Adequacy Committee to exercise in circumstances where the CRO considers such action to be inconsistent with adherence to the Group Risk Appetite. The Executive Committee may not override or modify the decision of the Group Risk Committee, Group Assets and Liabilities Committee or Group Credit Committee, but may appeal such decisions to the BRCC.

Three Lines of Defence

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

Three Lines of Defence	Key Responsibilities
First Line of Defence Functions and teams in the First Line undertake frontline commercial and operational activities. In their day-to-day activities, these teams take risks which are managed through the effective design and operation of mitigating controls. Each Head of First Line Function/Team is responsible for ensuring that activities undertaken are within the Board-approved Risk Appetite.	**First Line – Business Units** • Embedding Risk Management Frameworks and sound Risk Management practices into standard operating procedures. This includes creating explicit links between maintaining and delivering robust governance, risk and control processes to performance management, with clear consequences for non-adherence; • Adhering to appropriate risk frameworks, policies and procedures; • Complying with regulatory and legal obligations; • Identifying, assessing, measuring, monitoring and reporting on Risk Management performance in activities; and • Accounting for the effectiveness of Risk Management in operation including ensuring that procedures and controls are operated on a consistent and ongoing basis in order to manage risks.
Second Line of Defence The Group Risk Function is an independent Risk Management function, under the direction of the CRO, and is the key component of the Group's Second Line of Defence. The Group Risk Function is responsible for the on-going assessment, monitoring and reporting of risk-taking activities across the Group.	**Second Line – Group Risk Function** • Developing and monitoring the implementation of Risk Management frameworks, policies, systems, processes and tools; • Ensuring that Risk Management frameworks, policies, systems, processes, procedures and tools are updated and reviewed regularly and that these are communicated effectively to the First Line; • Ensuring that the above frameworks and tools cover risk identification, assessment, mitigation, monitoring and reporting; • Influencing or challenging decisions that give rise to material risk exposure; and • Reporting on all these items, including risk mitigating actions, where appropriate.
Third Line of Defence Group Internal Audit (GIA) comprises the Third Line of Defence. It plays a critical role by providing independent assurance to the Board over the adequacy, effectiveness and sustainability of the Group's internal control, risk management and governance systems and processes, thereby supporting both the Board and Senior Management in promoting effective and sound risk management and governance across the Group. All activities undertaken within, and on behalf of, the Group are within the scope of GIA. This includes the activities of risk and control functions established by the Group. The Head of GIA reports directly to the Chair of the Board Audit Committee (BAC), thus establishing and maintaining independence of the Function.	**Third Line – Group Internal Audit** • Undertaking a risk-based, independent assessment of the adequacy and effectiveness of the Group's governance, risk management and control processes, with the ultimate objective of providing an opinion on the control environment to the BAC; • Periodically assessing the Group's overall risk governance framework, including but not limited to, an assessment of: - the effectiveness of the Risk Management and Compliance Functions; - the quality of risk reporting to the Board and Senior Management; and - the effectiveness of the Group's system of internal controls; • Providing independent assurance to the BAC on the above; • Recommending improvements and enforcing corrective actions where necessary; • Tracking the implementation of all internal audit recommendations and external Audit management points; and • Reporting to the BAC on the status and progress of the above.

2. 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 Brexit 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.

The Group's 2018 Pillar 3 Disclosures Report should be read in conjunction with this section of the report.

The following risks arising from financial statements to which the Group is exposed to are discussed in detail in section 3:

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

Brexit

Given the recent developments in the UK, the risk of a 'no deal' Brexit has been raised from an emerging risk to a top risk by the Group. The Group's business is directly correlated to the performance of the Irish Economy with the Irish Government suggesting a 'No deal' Brexit will reduce GDP (Gross Domestic Product) by at least 7%.

In response, Group Risk has established the Brexit Crisis Monitoring Group (BCMG). One of the key areas of focus for the BCMG relates to the management of Third Party Suppliers which could impact the Group's continuity of service in the event of a 'no deal' Brexit. The BCMG continues to monitor Brexit developments and oversees the on-going communication with Third Party Suppliers, through their relationship managers, for their business-readiness and contingency plans in the event of a 'no deal' Brexit. Additional support and advice has been provided by external consultants. The BCMG regularly report to the BRCC and the Board on the Group's preparedness for Brexit.

Government Control and Intervention

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

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

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

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

EU Restructuring Plan

The recapitalisation of 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, which covered the period to 31 December 2018, was approved in April 2015. Following the conclusion of the Restructuring Period, the Group has now exited the Restructuring Plan.

Economic Conditions

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

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

Ireland

Ireland looks set to record another year of strong growth in 2019. The ESRI expects GDP to grow by 4.2% in 2019 following an estimated 8.2% growth in 2018. We note that while GDP and other macroeconomic forecasts for Ireland are currently positive, Brexit remains a significant uncertainty for Ireland which has the potential to impact these forecasts.

Consumer Price Index (CPI) inflation is expected to be a modest 0.9% in 2019, in part due to a weakness in Sterling reducing consumer import prices. Average earnings rose 3.2% in the 12 month period ending Q3 2018 and are expected to grow by 2.9% in 2019. Pre-tax household incomes grew by 6.0% in H1 2018 and disposable incomes by 4.4%.

The number of people employed increased by 3.0% to 2.27m in Q3, 2018. The total unemployed declined by 19,700 in the year, marking the twenty-fifth quarter in succession where unemployment has declined on an annual basis. The unemployment rate is projected to decline from 5.7% in 2018 to 5.1% in 2019. While the country edges towards full employment, labour force participation at 62.6% is some 4% less than the 2007 peak indicating that there may be further slack available to deal with potential continued employment growth.

€8.3bn of mortgages were drawn down in the 12 month period ending Q3 2018, a 21% increase on the corresponding period a year earlier. Of these, €4.1bn financed purchases by first-time buyers while €2.8bn financed mover-purchasers. By comparison, buy-to-let purchasers drew down €0.2bn in mortgages.

The total pool of mortgages on bank balance sheets declined from €77.0bn to €76.6bn over the 12 month period to Q3 2018, as the net growth of €1.2bn in principal dwelling house (PDH) mortgages was exceeded by the net repayment of €1.5bn of buy-to-let mortgages. Over €1.7bn of tracker mortgages were repaid over the period. Meanwhile, deposits in Irish banks grew from €94.0bn to €97.3bn, marking the fourth successive year of deposit growth.

While household debt to disposable income (DDI) has declined from 212.4% in Q3, 2011 to 128.5% in Q2, 2018, this compares to the Euro area average DDI of 94% leaving Irish households the fourth most-indebted in the EU. However, the interest burden has declined from a peak of 11% of disposable income in 2009 to 4% in 2018.

House price inflation moderated during 2018. Prices rose by 8.4% in the 12 month period to October 2018 compared to 11.7% one year earlier. The CSO (Central Statistics Office) residential property price index stood at 107.9 in October 2018 compared to 100 in January 2005 and a peak of 131.0 in April 2007.

Ireland has the youngest population in Europe - 47% of its 4.8m population is under 35 years old compared to the EU average of 39% - and the highest birth rate. Household size is expected to decline from its current level of 2.75 persons per household towards the EU average of 2.3 by 2046. This is expected to create a demand for 36,000 homes annually between 2019 and 2046.

Housing supply continues to lag demand although housing output has increased materially. It is expected that approximately 23,500 houses were completed in 2018, of which 18,000 were new build. In the short-term, when account is taken of pent-up demand, the need [for housing] is higher, possibly in the order of 50,000 units.

Ireland's gross Government debt has declined from 120% of GDP in 2013 to 64% in 2018. Its improved position is reflected in an A rating from all the major rating agencies. However, the ratio of gross Government debt to gross Government revenue, at 255%, is still the fourth-highest in Europe, 73% higher than the EU average.

The Irish Fiscal Advisory Council notes "the concentration of Ireland's exporting sector in a handful of specialised areas, the global rise in protectionism, and possible future changes in the international tax environment" amongst the many risks which Ireland faces. It further notes that "there has been no improvement in the budget balance excluding interest costs since 2015" and expresses concern that as "much of the improvement in revenues may be cyclical or temporary ... the structural position has deteriorated."

By far the biggest risk facing the country is that of a 'no-deal' Brexit. Even in the most benign 'Norway' scenario – in which the UK stays in the European Economic Area – Irish GDP is expected to be 2.8% lower than the 2030 non-Brexit baseline; however, should the UK revert to trading under World Trade Organisation (WTO) rules, the GDP decline is estimated at 7.0%. The ESRI has assumed a negotiated Brexit outcome in its 4.2% GDP growth forecast for 2019, but it estimates this would fall to 2.5% in a WTO scenario.

United Kingdom (UK)

According to a poll of economists conducted by the Financial Times, "uncertainty will hobble UK business investment and depress consumer spending in 2019, stunting long-term growth even if Britain manages to avoid a disorderly Brexit." The poll suggested that "the best the UK can expect over the year is uninspiring growth remaining at its current level of about 1.5%, even if the economy eventually enjoys a modest rebound on the back of a deal with the EU." Many of those polled said that "forecasting for 2019 was impossible given the 'comprehensive' and 'chronic' uncertainty that had become 'a way of life' in the UK, especially when likely Brexit outcomes were binary: either no deal or no Brexit."

A significant minority warned that "the economy could stall or shrink in the first quarter of the year if the government took Brexit talks to the wire, leading businesses to freeze investments and consumers to delay spending." A majority said that "despite continued wage growth, lower inflation and a modest easing of austerity, consumers would feel no better off by the end of 2019, with anxiety setting in over Brexit's potential impact on jobs, house prices and equity markets." Many respondents said that the slide in business investment "already visible in official data" was "likely to become more severe in the first quarter of 2019, as the date set for Brexit approaches."

With businesses set for caution, growth hinges on consumers' willingness to spend. UK households, in theory, are under less strain than a year ago, with real incomes finally rising as a tight labour market fuels pay increases and lower oil prices rein in inflation. Yet many of the economists noted that consumer confidence looked fragile and suggested that people were starting to worry that a hard Brexit would lead to job losses or hit house prices. They expect sterling to fall and the Bank of England to lower interest rates in the face of faltering growth should a hard Brexit occur. The IMF (International Monetary Fund) also expects sterling to fall in such circumstances.

Irish SMEs, and the agri-foods industry, in particular, will be very seriously affected in a hard Brexit scenario. The UK is Ireland's largest market for food and drink accounting for 40% of the sector's exports. This will have a severe adverse effect on Irish employment, consumer spending and Government finances.

European Union (EU)

The European Commission expects GDP growth in the euro area of 2.1% in 2018 and 1.9% in 2019 but cautions that "the balance of risks to the growth outlook is tilted to the downside". It points to the "waning momentum of foreign trade due to weakening global economic activity and growing trade tensions, slower employment growth and increased uncertainty impacting on investment" as "factors behind [its] less dynamic growth forecast".

The ECB is projecting the unemployment rate to decline from 8.2% in 2018 to 7.8% in 2019. This stands in stark contrast to the 4% rate in the US and UK.

The ECB predicts the Harmonised Index of Consumer Prices (HICP) inflation in the euro area will fall from 1.8% in 2018 to 1.6% in 2019 and expects 3-month Euribor will remain at -0.3% in 2019. It has ended its bond-buying programme but continues to re-invest the proceeds of maturing bonds from the €2.6bn portfolio it already holds. It has also left open the possibility of re-starting its targeted long-term refinancing operations (TLTRO).

Following from Italy's 2018 election, concerns have been raised about the prospect of Italexit and the impact it might have on the future of the euro.

The ECB projects a decline in gross government debt to GDP from 84.9% in 2018 to 83.0% in 2019 and a decline in the current account balance from 3.0% of GDP in 2018 to 2.7% in 2019. It comments that the "declining path of the government debt-to-GDP ratio is supported by positive primary balances and a favourable interest-growth rate differential."

Overall, the EU seems set to record a further anaemic performance in 2019. There will be little opportunity for Ireland to make up for any lost trade with the UK through increased trade with the EU.

Capital Adequacy Risk

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

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

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

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

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

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

The ECB's Targeted Review of Internal Models (TRIM) resulted in an increase to the Group's RWAs. The Group closed certain disposal transactions during the year that substantially reduced the level of NPLs. These transactions are capital generative for the Group. The current MTP includes further reductions to NPLs in line with the Group's NPL strategy. Their capital impact will be closely monitored.

Credit Risk

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

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

Deterioration (should it take place) in reported macroeconomic metrics such as house prices and unemployment could put a 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.

As losses from customer credit risk are the principal financial risk to which the Group is exposed more detailed analysis of the risks, risk management policies and current portfolio segmentation is provided in Section 3.1 of this review.

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

Funding and Liquidity Risk

Funding Risk is the risk that the Group is not able to achieve its target funding mix, is too dependent on System Funding/ Wholesale Markets, fails to meet regulatory requirements and, in extremis, is not able to access funding markets or can do so only at excessive cost and/or Liquidity Risk.

Liquidity Risk is the risk that the Group has insufficient funds to meet its financial obligations as and when they fall due, resulting in an inability to support normal business activity and/or failing to meet regulatory liquidity requirements. These risks are inherent in banking operations and can be heightened by a number of factors, including over reliance on a particular funding source, changes in credit ratings or market dislocation.

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

The levels of liquidity and funding risk within the Group will be further positively impacted by the completion of the Non-Performing Loan strategy in early 2019.

For further details on Funding and Liquidity Risk, see section 3.2.

Market Risk

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

- Foreign Exchange Risk
- Credit Spread Risk
- Interest Rate Risk

These are covered in detail in section 3.3.

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 which includes learning's from the 2018 CBI Behaviour and Culture Report.

The management of conduct risk is the responsibility of the Executive Committee and First Line management.

The Group Regulatory Compliance team provides second line conduct risk oversight. This oversight is guided by a Conduct Risk Management Framework that has been established to help ensure 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.

Board and Senior Management have ensured that there is regular reporting on Key Risk Indicators against the conduct risk appetite as well as events that could affect or have already impacted on customers. To this end the Group has created a senior management Customer Committee (a sub-committee of the ExCo). This committee and BRCC receive regular reporting on Conduct Risk.

Business and Strategic Risks

Business and strategic risk is the risk that the Group makes inappropriate strategic choices, or changes occur in the external environment to which the Group fails to adapt and the risk of variability or uncertainty in the Group's profitability due to unforeseen future events. It includes volatilities caused by changes in the competitive environment, new market entrants, new products or failure to execute a strategy or to anticipate or mitigate a related risk.

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

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

Reputational Risk

Reputational risk, meaning the risk of brand damage and /or financial loss due to an inadvertent risk event resulting in failure to meet stakeholder's expectations of the Group, 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 Central Bank 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 in addition to operational errors in the handling of accounts.

In December 2015 the Central Bank announced an industry-wide review of tracker mortgages (Tracker Mortgage Examination (TME)). The Group has completed its TME in line with the framework set down by the Central Bank. The Central Bank has conducted its own assurance review of the Group's TME.

The Group offered redress and compensation to all affected customers and payments have been made in respect of 99% of impacted customer accounts.

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

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. Operational and IT risk is 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.

Trends in the market indicate an increased level of threat, complexity and sophistication in the cyber security space with multiple worldwide incidents reported in the world media in the last 12 months. The Group's inability to defend against a cyber-attack in a timely manner due to inadequate identification, prevention or detection tools increases the Group's exposure to successful attacks by malicious third parties potentially resulting in financial and reputational damage. Significant progress has been made in 2018 to improve the Group's defences and the Group's IT security defence mechanisms, and an enhanced security programme is due to complete in early 2019. Scenario testing is performed on cyber incidents to ensure existing processes support timely recovery and test IT resilience. Any changes made to the Group's IT systems or applications are governed by a change management process.

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

The Group's Operational Risk Management Framework and underlying IT Risk Management Framework outline 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. A Risk and Control Self-Assessment (RCSA) process is in place for the identification of operational risk throughout the Group. It provides a mechanism for consistently capturing, measuring, monitoring and reporting operational risks.

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

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

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

Third Party Service Providers

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

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

Regulatory Risks

As a financial services firm, the Group is subject to extensive and comprehensive legislation and regulation. The Group is regulated by a number of regulatory authorities at both national and European level.

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

The ECB informed PTSB that, as the Group has not met any of the significant criteria for three consecutive years, a decision was taken to categorise the Group as a LSI. Therefore with effect from 1 January 2019 the Group became subject to the direct supervision by the CBI as the National Competent Authority. The ECB is responsible for the oversight of the supervision of less significant banks performed by national supervisors and therefore PTSB will continue to be within the remit of the SSM.

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

- The risk that changes to the laws and regulations under which the Group operates will materially impact on the Group's liquidity, capital, profitability, product range or distribution channels or markets;
- The risk that the Group is unable to respond to the scale of regulatory change and implement all required changes in full or on time, or the challenge of meeting regulatory changes will impact the Group's abilities to undertake other strategic initiatives;
- The level of costs associated with the regulatory overhead including, but not limited to, the industry funding levy, funding the bank resolution fund established under the Single Resolution Mechanism or levies in respect of applicable compensation schemes (including the Investor Compensation Scheme and the Deposit Guarantee Scheme);
- Organisational requirements, such as the requirement to have robust governance arrangements, effective processes to identify, manage, monitor and report the risks the Group is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems;
- The possibility of mis-selling financial products or the mishandling of complaints related to the sale of such products by or attributed to an employee of the Group, including as a result of having sales practices, complaints procedures and/or reward structures in place that are determined to have been inappropriate;
- Breaching laws and requirements relating to data protection, the detection and prevention of money laundering, terrorist financing, bribery, corruption and other financial crime;
- Non-compliance with legislation relating to unfair or required contractual terms or disclosures; and
- The risk that the Regulator would use the tools at its discretion if the Group did not reduce NPLs over a realistic timeframe in line with its NPL Guidance issued in March 2017 and Supervisory Dialogue.

3. Group Risks

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

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

In line with IFRS 7, the following risks to which the Group is exposed to are discussed in detail below:

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

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

3.1 Customer Credit Risk - Audited

Governance

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

The Group Board is ultimately responsible for the governance of credit risk across the Group, setting the risk appetite and ensuring that there are appropriate processes, systems and reporting lines in place to monitor and manage risks against the appetite.

The BRCC, a sub-committee of the Board approves all credit policy and provides oversight to the Board on the setting and monitoring of the risk appetite and risk governance. The GCC is responsible for the execution and delivery of the Group's system of Portfolio Credit Risk Management. The Board has granted authority to the BRCC to approve a delegated framework of lending authority within which the GCC and Customer Credit function operate.

Credit Risk Management

The Group's system of Portfolio Credit Risk Management incorporates the following key components:

- Credit Policy
- Lending authorisation
- Arrears management and forbearance measures
- Credit risk measurement

Credit Policy

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

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

The granting of a loan in the first instance is always assessed based on the borrower's repayment capacity and proven ability. Credit Risk mitigation forms a key supplementary element of the credit granting process. Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product, as set out in the Group's policies and procedures.

Arrears Management and Forbearance Measures
Permanent TSB is committed to supporting customers that are experiencing financial difficulty and seeks to work with those customers to find a sustainable solution through proactive arrears management and forbearance. The process used by the Group to engage with customers facing financial difficulty is designed to comply with the requirements of the CBI 2013 Code of Conduct on Mortgage Arrears (CCMA), which sets out the framework that the Group must use when dealing with borrowers in mortgage arrears or in pre-arrears.

The CCMA sets out four core principles for both customers and banks when seeking to resolve actual or potential financial difficulty:

- Communications – active and open communication between the customer and the bank;
- Financial information (Standard Financial Statement) – provision of personal financial information to enable the bank to effectively advise the customer on the range of financial options available;
- Assessment – using the financial information provided recommend an appropriate course of action to the customer; and
- Resolution – working with the customer to address the financial difficulty in an affordable and sustainable way.

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ("forbearance measure"), for reasons relating to the actual or apparent financial stress or distress of that borrower. Requests for concessions in recent years are arising as a result of:

- temporary cash flow problems; and
- an inability to repay at contractual maturity.

Whereas during the financial crisis, such requests reflected more in-depth long-term affordability issues. This is further reflected in the change in the volume and nature of forbearance measures availed.

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

The Group currently offers the following forbearance strategies:

Arrears capitalisation
This is an arrangement where the arrears on the loan are capitalised to the loan principal. The repayment is on original terms or adjusted taking into account the increased original loan balance.

Payment moratorium
This is a temporary amendment to the contractual repayment terms on a loan for a short period of time due to a temporary change in the life circumstances of the borrower.

Reduced payments (greater than interest only)
This is an arrangement where the borrower pays full interest on the loan balance plus some principal. There is an expectation that the principal repayments will increase over time. The shortfall in principal is capitalised.

Term extension
This is an arrangement where the original term of the loan is extended.

Hybrid
This is an arrangement which may incorporate a number of different forbearance arrangements.

Interest only
This is an arrangement where the borrower pays full interest on the loan balance. This may be on a long or short term arrangement. This differs from the original facility agreement where the borrower is required to pay capital plus interest.

Reduced payments (less than interest only)
This is an arrangement where the borrower pays less than full interest on the loan balance. This may be a long or short term arrangement. This differs from the original facility where the borrower is required to pay capital plus interest. The underpayment of interest is capitalised to the loan principal.

Split mortgage
This is an arrangement where a loan is split with one portion of the loan being warehoused and during this period no interest is charged on the warehoused portion of the loan. The other portion of the loan continues on the original terms of the loan agreement.

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

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

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

For each of the Group's key residential home loan and buy-to-let mortgage portfolios, a scorecard combining application and behavioural factors has been developed which allows for the consistent ranking of exposures for risk through time. These scorecards are used consistently across IFRS 9 and IRB models to assign grades and in turn PD, 12 month and lifetime, to individual exposures.

For capital purposes and in accordance with the CRR, 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. 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 based approach (IRB) for credit risk. The scale ranges from 1 to 25 where 1 represents the best risk grade or lowest PD and 25 represents the defaulted exposures or PD equal to 100% for credit risk. All of the Group's exposures are mapped to the rating scale based on PD.

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

The Group's material scorecards and models used for risk origination and on-going measurement purposes are subject to annual review by an independent model validation team to ensure that they remain fit for purpose.

More detail on the Group's scorecards, rating systems and validation processes, in particular capital measurement, is disclosed in the Group's Pillar 3 report.

Definition of default and credit risk assessment
As part of the implementation of IFRS 9, the Group has sought to reach a single aligned definition of default for risk measurement purposes. This resulted in a net increase in residential and commercial loans and advances defined as non-performing on transition to IFRS 9. Full alignment to this revised definition of default for IRB purposes took effect on 31 December 2018. Detail on the definition of default is set out on page 56.

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

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

Satisfactory and above can be expected to align to IFRS 9 Stage 1

Investment grade (IRB ratings 1 to 7) – includes very high quality exposures.

Excellent risk profile (IRB ratings 8 to 16) – includes exposures whose general profiles are considered to be of a very low risk nature.

Satisfactory risk profile (IRB ratings 17 to 21) – includes exposures whose general profiles are considered to be of a low to moderate risk nature. Accounts are considered satisfactory or above if they have no current or recent credit distress, are not more than 30 days in arrears and there are no indications they are unlikely to pay.

Fair can be expected to align Stage 2

Fair risk profile (IRB ratings 22 to 24) – Accounts of lower quality and considered as less than satisfactory are categorised as fair and include the following;

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

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

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

Non-performing will be expected to align to Stage 3

Defaulted (IRB rating 25) – Accounts that are considered as defaulted or non-performing.

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

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

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

Credit Exposure

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

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

	Notes	31 December 2018 €m	31 December 2017 €m
Cash and balances with central banks	14	**65**	62
Items in the course of collection	14	**17**	28
Debt securities	15	**2,647**	1,978
Derivative assets	17	**1**	37
Loans and advances to banks	18	**1,159**	1,518
Loans and advances to customers	19	**15,888**	18,370
Other assets (Loan sale receivable)	24	**1,220**	-
		20,997	21,993
Commitments and contingencies	40	**912**	810
		21,909	22,803

Further detail on Loans and Advances to customers is provided in note 35, Financial Risk Management.

Collateral

The nature and level of collateral required depends on a number of factors including, but not limited to, the amount of the exposure, the type of facility made available, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or probability of default. The Group takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed.

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

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

Valuation Methodologies

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

- Residential property valuations are based on the CSO Residential Property Price Index (RPPI) or on a recent valuation from a professional valuer. In respect of residential property securing performing loan exposures of greater than €0.5m, the Group policy is to ensure an independent valuation is updated within the last 3 years. For residential property securing non-performing loan exposures of greater than €0.3m, the Group policy is to ensure an independent valuation is updated within the last year.
- Commercial property valuations are based on opinions from professional valuers, the Investment Property Database Index, local knowledge of the properties, benchmarking similar properties and other industry-wide available information, including estimated yields discount rates. In respect of commercial property securing performing loan exposures of greater than €0.5m, the Group policy is to ensure an independent valuation is updated within the last 3 years. For commercial property securing non-performing loan exposures of greater than €0.3m, the Group policy is to ensure an independent valuation is updated within the last year.

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

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

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

Residential Mortgage Exposures by Indexed LTV

31 December 2018	Home loans €m	Buy-to-let €m	Total €m
Less than 70%	7,274	1,112	8,386
71% to 90%	3,205	791	3,996
91% to 100%	866	521	1,387
Subtotal	**11,345**	**2,424**	**13,769**
Greater than 100%	1,068	1,579	2,647
Subtotal	**1,068**	**1,579**	**2,647**
Total Residential Mortgages	**12,413**	**4,003**	**16,416**
Commercial			165
Consumer Finance			335
Total loans and advances to customers			**16,916**
Deferred fees, discounts and fair value adjustment			55
Gross loans and advances to customers			**16,971**

31 December 2017*	Home loans €m	Buy-to-let €m	Total €m
Less than 70%	7,276	1,071	8,347
71% to 90%	3,183	798	3,981
91% to 100%	1,326	546	1,872
Subtotal	11,785	2,415	14,200
Greater than 100%	3,252	2,538	5,790
Subtotal	3,252	2,538	5,790
Total Residential Mortgages	15,037	4,953	19,990
Commercial			224
Consumer Finance			345
Total loans and advances to customers			20,559
Deferred fees, discounts and fair value adjustment			57
Gross loans and advances to customers			20,616

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

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

Debt securities

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

The 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 31 December 2018 or at 31 December 2017.

Debt securities credit ratings

	31 December 2018 €m	31 December 2017 €m
Rating		
A	**2,391**	1,862
Baa	**212**	116
Unrated	**44**	-
Total	**2,647**	1,978

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

	31 December 2018 €m	31 December 2017 €m
Ireland	**2,435**	1,862
Spain	**212**	116
Total	**2,647**	1,978

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

Derivative assets

	31 December 2018 €m	31 December 2017 €m
Covered by netting agreements	**1**	37
Total	**1**	37

The Group has executed standard International Swaps and Derivatives Association (ISDA) agreements with all of its counterparties. The Group has also executed Credit Support Annexes (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 31 December 2018 was €1m (31 December 2017: €37m). In the majority of cases the Group manages its collateral derivative positions with counterparties on a net basis. The uncollaterised derivative position as at 31 December 2018 is €nil (31 December 2017: €34m). The level of collateral placed and received by the Group is outlined in Loans and advances to banks (note 18) and Deposits by banks (note 26) with further detail outlined in (note 38) Transfer of financial assets.

Loans and advances to banks
The Group has a policy to ensure that loans and advances to banks are held with investment grade counterparties, with any exceptions subject to prior approval by the BRCC. The 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.

	31 December 2018 €m	31 December 2017 €m
Rating		
Aaa	**562**	806
Aa	**368**	470
A	**212**	217
Baa	**4**	23
Ba	**13**	2
Total	**1,159**	1,518

Application of IFRS 9

IFRS 9 introduces the requirement to calculate Expected Credit Losses (ECL), which enables a more progressive approach to recognising credit loss allowances than the IAS 39 incurred loss model. Moving to measuring loan loss provisions under a new ECL approach is a significant change for the Group and introduces a greater degree of complexity and management judgement than IAS 39.

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

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

Exception to the general 3 stage impairment model:

Purchased or originated credit impaired assets (POCI) are excluded from the general 3 stage impairment model in IFRS 9. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised on a credit-adjusted EIR basis. ECLs are only recognised or released to the extent that there is a subsequent change in expected credit losses. The Group purchased the credit impaired Newbridge Credit Union (NCU) portfolio in 2014, the NCU portfolio is accounted for on a POCI basis under IFRS 9 and had a net book value of €7m on 31 December 2017.

ECL Framework
IFRS 9 introduces an expected credit loss impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in earlier recognition of credit losses. In order to implement ECL models the Group has leveraged the systems and data used to calculate expected credit losses for regulatory purposes. In particular, key concepts such as the definition of default and measurement of credit risk (i.e. ranking of exposures for risk) have been aligned across the impairment (accounting) and regulatory frameworks. IFRS 9 models, however, differ from regulatory models in a number of conceptual ways (e.g. the use of 'through the cycle' (regulatory) versus 'point in time' (IFRS 9) inputs, 12 month ECL (regulatory) versus lifetime ECL (IFRS 9)) and as a result the Group did not leverage the outputs of its regulatory models, but instead developed statistical models tailored to the requirements of IFRS 9.

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

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

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

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

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

Key indicators of unlikely to pay include:

- Accounts that have, as a result of financial distress, received a concession from the Group with respect to terms or conditions. Such exposures will remain in Stage 3 until certain exit conditions are met and for a minimum probationary period of 12 months before moving to a performing classification. Accounts that have, as a result of financial distress, received a concession from the Group which result in a significant terminal payment obligation must fulfill additional conditions in relation to that terminal payment before moving to a performing classification; and
- Accounts where the customer is assessed as otherwise unlikely to pay, including bankruptcy, personal insolvency, assisted voluntary sale, disposal etc.

Assessment of significant increases in credit risk
The standard requires that an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date

of initial recognition. At each reporting date, to identify a significant increase in credit risk (SICR) in relation to an exposure since origination, and classification as Stage 2 within the IFRS 9 ECL framework, the Group has relied on the following measures:

1) Delinquency – greater than 30 days past due;

2) Forbearance – reported as currently forborne in accordance with EBA NPL guidelines;

3) Risk Grade – accounts that migrate to a risk grade which the bank has specified as being outside its risk appetite for origination;

4) Change in remaining lifetime PD – accounts where the remaining lifetime PD is in excess of the level of risk at which the bank seeks to originate risk. For the purposes of this assessment, credit risk is based on an instrument's lifetime PD, not the losses expected to be incurred; and

5) PD at maturity - For interest only exposures, all home-loan and commercial exposures together with those buy-to-let exposures in excess of 70% loan-to-value have been assessed as presenting an increased risk of default at maturity and are consequently classified as Stage 2.

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

Forward looking information (FLI)
IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination.

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

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

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

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

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

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

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

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

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

The following concepts introduce significant judgement to impairment accounting and will have a significant impact on the level of ECL allowances:

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

At 31 December 2018, the impairment provisions included €79m of management's adjustments to modelled outcomes.

Key judgements and sensitivities are discussed further in note 2 to these financial statements.

Effective Interest Rate
The discount rate used by the Group in measuring ECL is the effective interest rate (or 'credit-adjusted effective interest rate' for a purchased or originated credit-impaired financial assets) or an approximation thereof.

For undrawn commitments, the effective interest rate, or an approximation thereof, is applied when recognising the financial assets resulting from the loan commitment.

Modified financial assets
Where a financial asset is modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the financial asset should be derecognised.

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

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

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

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

Presentation of ECL allowance in the statement of financial position

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

For further details on credit risk see note 35.

3.2 Funding and Liquidity Risk - Audited

Funding Risk is the risk that the Group is not able to achieve its target funding mix, is too dependent on System Funding/ Wholesale Markets, fails to meet regulatory requirements and, in extremis, is not able to access funding markets or can do so only at excessive cost and/or Liquidity Risk.

Liquidity Risk is the risk that the Group has insufficient funds to meet its financial obligations as and when they fall due, resulting in an inability to support normal business activity and/or failing to meet regulatory liquidity requirements. These risks are inherent in banking operations and can be heightened by a number of factors, including over reliance on a particular funding source, changes in credit ratings or market dislocation.

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

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

i. Regulation and Ratios
The primary ratios calculated and reported are the LCR and the NSFR.

Under the Bank Recovery and Resolution Directive (BRRD) the Group, alongside other Banks within the EU, is required to adhere to the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ratio. The Group has proactively engaged the Single Resolution Board and the CBI (the 'Resolution Authorities') to determine the Group's MREL requirement which represents a quantification of the eligible liabilities required to act as a buffer in the event of a bail-in scenario. MREL targets have been finalised and compliance becomes binding from 2021. The Group has formulated a senior unsecured issuance strategy to meet the prescribed MREL target. MREL debt is relatively more expensive that other sources of available funding and as such there is expected to be an increased in the Group's funding costs.

From the 1st of January 2019 the Group transitions out of the SSM and comes under the direct supervision of the CBI. The Group is required to comply with the liquidity requirements of the CBI and the full spectrum of European regulatory requirements including the CRR/CRD IV and associated Delegated Acts such as the LCR Delegated Act.

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

ii. Risk Measurement and Monitoring
Liquidity risk is measured on a daily basis using a range of metrics against the prescribed limit framework.

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

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

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

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

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

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

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

iii. Liquidity Risk Management Framework

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

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

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

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

iv. Minimum Liquidity Levels

The Group maintains a liquidity buffer comprised of both unencumbered HQLA and Non-HQLA liquidity capacity to meet the LCR and stress test requirements.

Although not yet ratified at an EU level 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 asset encumbrance level is also monitored and tracked against the internally prescribed limit on an on-going basis.

v. Liquidity Risk Factors

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

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

The Group remains active in Capital markets be it secured or unsecured transactions and any restrictions on the Group's access to capital markets could pose a threat to the overall funding position. The inability to adequately diversify the funding base could lead to over concentration on the remaining funding sources.

The Group maintains a liquidity buffer split between HQLA sovereign bonds and ECB eligible retained securitisations which can be monetised quickly to safeguard against a liquidity event. While the quantum of the buffer is considered sufficient to provide capacity to withstand a significant liquidity stress event there is a concentration in Irish based assets which could reduce overall capacity in the event of an idiosyncratic Irish stress event. It is also worth noting that excess use of Non-HQLA buffer assets through short dated secured funding risks triggering the LCR unwind scalar mechanism, which in turn could result in a breach of regulatory ratios.

Significant progress has been made in reducing the encumbrance level over recent years. A clear and defined strategy is followed in order to maintain encumbrance at appropriate levels, comprising two component routes of securitisation collateral efficiency alongside full and price efficient capital markets access, to ensure an encumbrance level consistent with its economic plan is maintained by the Group.

Disruption to any of these avenues could potentially pose a threat.
A series of Liquidity and Funding EWIs are in place in order to alert the Group to any potential liquidity trigger event therefore allowing sufficient time for mitigating actions to be taken.

vi. Credit Ratings
The Group's credit ratings have been subject to change and may change in the future. In particular, any future reductions in long-term or short-term credit ratings could further increase borrowing costs, loss of rating sensitive deposit customers, adversely affect access to liquidity, limit access to capital and money markets and trigger additional collateral requirements in secured funding arrangements and derivatives contracts. This has been factored into the Group's liquidity stress testing.

The ratings for PTSB plc are as follows:

- Standard & Poor's long-term "BB+" and short-term "B";
- Moody's long term "Ba2" for senior unsecured debt and short-term "Not Prime".

During 2018, the Permanent TSB plc's senior debt credit ratings were upgraded one notch by Standard & Poor's and Moody's.

The long term ratings for PTSBGH are "BB-" from Standard & Poor's and "B2" from Moody's where both were upgraded one notch by each respective rating agency during 2018.

For further details on liquidity and funding risk see note 35.

3.3 Market Risk -Audited

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

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

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

i. Interest rate risk
Interest rate risk is the risk to earnings or capital arising from movement in the absolute level of interest rates, spread between rates, the shape of the yield curve or in any other interest rate relationship. The Group is primarily exposed to re-price, yield curve and basis risk. The Group is primarily exposed to gap, option and basis risk. In line with regulatory standards, the approved Interest Rate Risk in the Banking Book (IRRBB) framework determined that the Group's interest rate risk exposure must be derived from both an earnings (accrual) and economic value perspective.

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

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

In defining the level of interest rate risk the Group applies the most severe of the 12 core stress scenarios inclusive of the 6 scenarios prescribed by the Basel document 'Interest Rate Risk in the Banking Book' of April 2016, under both EV and EAR models and subject to interest rate flooring assumptions. The results are measured and reported against the Board approved risk limits.

The Group also monitors PV01, duration mismatches and Net Interest Income (NII) sensitivity when assessing interest rate risk.

The aim of modelling several types of interest rate shock scenarios is to measure the Group's vulnerability to loss under multiple stressed market conditions.

The 31 December 2018 interest rate risk level based on the EV calculation was calculated as €38m (31 December 2017: €34m). The increase in the risk position is primarily driven by the reduction in behaviourally profiled NPL assets as a result of the successful execution of the NPL strategy.

Based on the internally derived Basis Risk calculation methodology the 31 December 2018 risk level stands at €3.3m.

ii. Foreign Exchange Risk
Foreign currency exchange risk is the volatility in earnings resulting from the retranslation of foreign currency denominated assets and liabilities. Consistent with its business model as a domestically focused Retail bank, the Group is predominantly exposed to GBP and USD positions arising from customer deposits denominated in these currencies or branch bureau activities.
Derivatives (FX swaps and forwards) are executed to minimise the FX exposure. Overnight FX positions are monitored against approved notional limits. It is the responsibility of both Group Treasury and Group Risk to measure and monitor exchange rate risk and maintain the exposure within approved limits.
Foreign Exchange exposures also may arise as a result of non-Euro contractual payment obligations to third parties. Group Treasury manage these exposures in line with the underlying policy framework. The aggregate euro denominated 31 December 2018 FX position was €2.7m (31 December 2017 €0.1m).

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

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

Treasury Front Office circulate a weekly report to an audience from Treasury, Risk and Finance detailing the net impact of bond and swap curve movements on the Group's HTC&S Reserve.

For further details on market risk see note 35.

Directors' Report

The Directors present their Annual Report and audited Group and Company Financial Statements to the shareholders for the year ended 31 December 2018.

Results
The Group's profit after tax for the year was €3m (2017: €40m) and was arrived at as presented in the consolidated income statement.

Dividends
No dividends were paid in 2018.

Review of the Business and likely Future Developments
A detailed review of the Group's business activities, performance for the year and an indication of likely future developments are set out in the Strategic Report. Information on the key performance indicators and principal risks and uncertainties of the business are provided as required by the European Accounts Modernisation Directive (2003/51/EEC). The Group's key performance indicators are included in the Strategic Report section. The principal risks and uncertainties are outlined under risk factors in the Risk Management section and under "Longer Term Viability" within the BAC section of the Corporate Governance Statement.

Accounting Policies
The principal accounting policies, together with the basis of preparation of the Financial Statements are set out in note 1 to the Consolidated Financial Statements.

Corporate Governance
The report on Corporate Governance, as outlined in the Corporate Governance section, forms part of the Directors' Report.

Principal Risks and Uncertainties
Information concerning the principal risks and uncertainties of the Group are set out in the Risk Management section of the Strategic Report on page 45 of the Annual Report.

Financial Instruments
The financial instruments and use thereof are outlined in the risk management, financial risk management, derivative assets and liabilities notes.

Going Concern
The Group's Financial Statements have been prepared by the Directors on a going concern basis having considered that it is appropriate by the Directors to do so. The going concern of the Group has been considered in Note 1 of the Financial Statements and further information on the assessment of the going concern position is also set out in the Corporate Governance Statement on page 94 under the BAC's 2018 significant financial reporting judgments and disclosures.

Longer Term Viability
Taking account of the Group's current position and principal risks, the Directors have assessed the prospects of the Group over the period 2019-2021. The Directors confirm that it is their reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this period. Further detail on the assessment of the Group's longer term viability is set out in the Governance Statement on page 94 under the BAC's 2018 significant financial reporting judgements and disclosures.

Directors' Compliance Statement
As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in that legislation). The Directors have drawn up a compliance policy statement, and have put in place arrangements and structures that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations. A review of these arrangements was conducted during the year.

Statement of Relevant Audit Information
In preparing and approving the 2018 Annual Report and in accordance with Section 330 (1) of the Companies Act, 2014 each of the current Directors of the Company confirm that:

- So far as the Directors are aware, there is no relevant audit information of which the statutory auditors are unaware; and
- The Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the statutory auditors are aware of that information.

Audit Committee
In accordance with Section 167(3)(a) of the Companies Act 2014, the Directors confirm that the Board has established an audit committee.

Directors
The names of the Directors, together with a detailed description of the key strengths, skills, expertise and experience of each Director are set out in the Board of Directors section on pages 71 to 74 of the Annual Report. Emer Daly retired as a Director at the conclusion of the AGM held on 16 May 2018 having completed the second term of office. Stephen Groarke resigned as a Director on 2 November 2018. Donal Courtney was appointed as a Director on 3 October 2018 and Ruth Wandhöfer was appointed as a Director on 30 October 2018.

With the exception of Emer Daly, all of the Directors stood and were re-appointed by election at the 2018 AGM. All of the Directors will stand for re-appointment by election at the Group's 2019 AGM to be held on 14 May 2019.

Information on Directors' remuneration is detailed in the Remuneration Report on pages 105 to 107 of the Annual Report and Directors' and Secretary interests in shares are outlined in note 41 to the Financial Statements.

Share Capital and Shareholders
Under the terms of the Credit Institutions (Stabilisation) Act 2010 (the "Act") the Minister for Finance could, in certain circumstances, direct the Company to undertake actions that could impact on the pre-existing legal and contractual rights of shareholders. The Act had an original expiry date of 31 December 2012. However, the Act was subsequently extended to 31 December 2014, but has not since been extended. The expiry of the Act does not affect any order already made, or the variance, termination, enforcement, variation or revocation of any existing order nor does it affect the ability of the Minister to impose certain conditions on any financial support provided under or in connection with the Act.

Relationship Agreement with the Minister for Finance
The Minister for Finance of Ireland owns and controls 74.92% of the Company's issued ordinary share capital. Under the terms of the Relationship Framework entered into between the Minister for Finance and the Company, the Minister for Finance expects the Board and Management team of the Group to conduct the Group's commercial operations in a prudent and sustainable manner which seeks to create a commercially oriented credit institution that recognises the need to encourage and enforce implementation of lessons learned from the financial crisis.

The Minister for Finance recognises that the Group remains a separate economic unit with independent powers of decision and that its Board and Management team retain responsibility and authority for determining the Group's strategy and commercial policies (including business plans and budgets) and conducting its day-to-day operations. The Minister for Finance will ensure that the investment in the Group is managed on a commercial basis and will not intervene in day-to-day management decisions of the Group (including with respect to pricing and lending decisions).

Transactions and arrangements between the Group and the Minister for Finance or associates of the Minister for Finance will be conducted at arms-length and on normal commercial terms. The Minister will not, in his capacity as shareholder in the Company, take any action that would have the effect of preventing the Group from complying with its obligations under applicable law and regulations, including, but not limited to, the Listing Rules and will not propose or procure the proposal of a shareholder resolution which is intended to circumvent the proper application of regulatory requirements.

The Minister engages with the Group, including in respect of the manner in which he exercises his voting rights, in accordance with best institutional practice in a manner proportionate to the shareholding interest of the State in the Company. The views of the Minister for Finance and the Department of Finance are expected to be appropriately considered by the Group as part of any consultation process under the Relationship Framework. However, the Board and Management team have full responsibility and authority for determining the Group's strategy and commercial policies.

The Relationship Framework also provides that the Minister for Finance and the Company will review the Relationship Framework from time to time when either party reasonably considers that changes to the Relationship Framework or to the State Agreements (as defined therein) would be necessary or desirable to ensure that the Relationship Framework continues to reflect certain principles specified in the Relationship Framework and to enable the Group to continue to comply with its obligations under applicable law and regulations, including, but not limited to, the Listing Rules.

The Relationship Framework also imposes restrictions on the Group undertaking certain actions without where specified, providing information to, consulting with, or obtaining the consent of the Minister for Finance. The principal restrictions are set out in the Relationship Framework, a copy of which is available on the Group website www.permanenttsbgroup.ie.

The Board is satisfied that the Company has complied with the relevant independent provisions set out in the Relationship Framework. The Board is also satisfied, in so far as it is aware, that the Minister for Finance has also complied with the relevant independence provisions set out in the Relationship Framework.

Authorised Share Capital
The authorised share capital of the Company is €775,000,000 divided into 1,550,000,000 ordinary shares of €0.50 each.

Issued Ordinary Shares
At 31 December 2018, the Company had 454,695,492 ordinary shares of €0.50 each in issue (2017: 454,695,492). Ordinary shares represent 100% of the Company's issued share capital value. No ordinary shares were issued in 2018.

At 31 December 2018, the Company holds, through an employee benefit trust, 4,580 (2017: 4,580) ordinary shares of €0.50 each. Each ordinary share carries one vote and the total number of voting rights at 31 December 2018 is 454,695,492 (2017: 454,695,492).

Additional Tier 1 Equity Securities
On 6 May 2015, the Company's subsidiary, PTSB plc, issued €125m of Additional Tier 1 equity securities (AT1 Securities). These AT1 Securities may be converted into ordinary shares of the Company if the events triggering such conversion arise. A triggering event arises if the CET1 Ratio of PTSB or the CET1 Ratio of the Company falls below 7 per cent. The EU Single Resolution Board is the resolution authority for the EU Banking Union. The EU Single Resolution Board could direct a write-down or conversion of the Securities in certain limited circumstances where the CET1 Ratio is in excess of the trigger level.

Deferred Shares
At the 2017 AGM, shareholders approved the cancellation of the authorised but unissued deferred shares. Shareholders also approved the cancellation of the 3,562,883,512 issued deferred shares subject to the approval or no objection from the Central Bank of Ireland and the European Central Bank and confirmation from the High Court of Ireland. Approval or no objection was received from the CBI and the ECB and, on 5 April 2018, pursuant to Sections 84 and 85 of the Companies Act 2014, as amended (the Companies Act), the Irish High Court approved the Company's application to confirm the special resolution passed by the shareholders of the Company at the Company's AGM on 10 May 2017 to (i) cancel and extinguish the entire of the Company's deferred shares in issue (being the 3,562,883,512 issued deferred shares of €0.289 each having an aggregate nominal value of €1,029,673,335); (ii) make payment of the sum of €1.5 million (€0.00042 per deferred share) to the holders of the deferred shares (as provided for by the Company's Articles of Association); and (iii) designate as realised

profits the balance of the reserve arising on the cancellation of the deferred shares (being €1,028,173,335) in accordance with Section 117 of the Companies Act, and which balance of the reserve remains part of the regulatory capital of the Company. No action to utilise any resulting reserves is currently proposed. The cancellation of the deferred shares was effective as of 6 April 2018, when the High Court order was registered with the Companies Registration Office.

The cancellation of the deferred shares has no impact on ordinary shareholders, the operating performance of the Bank or the Company's capital ratios.

Variation of Rights

Whenever the share capital is divided into different classes of shares, the rights attached to any class may be varied or abrogated with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate General Meeting of the holders of the shares of the class, and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up.

Allotment of Ordinary Shares

Subject to the provisions of the Articles of Association relating to new shares, the shares shall be at the disposal of the Directors and (subject to the provisions of the Articles and the Acts) they may allot, grant options over, or otherwise dispose of them to such persons on such terms and conditions and at such times as they may consider to be in the best interests of the Company and its shareholders', but so that no share shall be issued at a discount and so that, in the case of shares offered to the public for subscription, the amount payable on application of each share shall not be less than one-quarter of the nominal amount of the share and the whole of any premium thereon.

Holders of Ordinary Shares Resident in the USA

The Board may at its discretion give notice to certain holder's resident in the USA calling for a disposal of their shares within 21 days or such longer period as the Board considers reasonable. The Board may extend the period within which any such notice is required to be complied with and may withdraw any such notice in any circumstances the Board sees fit. If the Board is not satisfied that a disposal has been made by the expiry of the 21 day period (as may be extended), no transfer of any of the shares to which the notice relates may be made or registered other than a transfer made pursuant to a procured disposal of the said shares by the Board, or unless such notice is withdrawn.

Refusal to Transfer

The Directors in their absolute discretion and without assigning any reason therefore may decline to register: any transfer of a share which is not fully paid save however, that in the case of such a share which is admitted to listing on London or Euronext Dublin Stock Exchanges, such restriction shall not operate so as to prevent dealings in such share of the Company from taking place on an open and proper basis;

- any transfer to or by a minor or person who is adjudged by any competent court or tribunal, or determined in accordance with the Company's Articles, not to possess an adequate decision-making capacity;
- any instrument of transfer that is not accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer, if the instrument of transfer is in respect of more than one class of share; and
- any transfer of shares in uncertificated form only in such circumstances as are permitted or required by Section 1086 of the Companies Act 2014.

General Meetings

Under the Articles of Association, the power to manage the business of the Company is generally delegated to the Directors. However, the shareholders retain the power to pass resolutions at a general meeting of the Company which may give direction to the Directors as to the management of the Company.

The Company must hold a general meeting in each year as its Annual General Meeting (AGM) in addition to any other meetings in that year and no more than fifteen months may lapse between the date of one AGM and that of the next. The Annual General Meeting will be held at such time and place as the Directors determine. All General Meetings, other than AGMs, are called Extraordinary General Meetings.

Extraordinary General Meetings shall be convened by the Directors or on the requisition of members holding, at the date of the requisition, not less than five per cent of the paid up capital carrying the right to vote at General Meetings and in default of the Directors acting within 21 days to convene such a meeting to be held within two months, the requisitionists (or more than half of them) may, but only within three months, themselves convene a meeting.

No business may be transacted at any General Meeting unless a quorum is present at the time when the meeting proceeds to business. Three members present in person or by proxy and entitled to vote at such meeting constitutes a quorum.

In the case of an AGM or of a meeting for the passing of a special resolution or the appointment of a director, 21 clear days' notice at the least, and in any other case 14 clear days' notice at the least (assuming that the shareholders have passed a resolution to this effect at the previous year's AGM), needs to be given in writing in the manner provided for in the Company's Articles of Association to all the members (other than those who, under the provisions of the Articles of Association or the conditions of issue of the shares held by them, are not entitled to receive the notice) and to the Auditor for the time being of the Company. The Company's Articles of Association may be amended by special resolution passed at a General Meeting of shareholders. Special resolutions must be approved by not less than 75% of the votes cast by shareholders entitled to vote in person or by proxy.

Substantial Shareholdings

As at 31 December 2018, the Directors have been notified of the following substantial interests in the voting rights of Ordinary shares held:

Name	Interest	Date Notified
Minister for Finance of Ireland	74.92% 340,661,653 shares	5 May 2015
Janus Henderson Group plc	3.77% 17,181,881 shares	31 May 2017

There were no other changes to substantial interests in the voting rights of ordinary shares reported to the Directors as at 26 February 2019.

Voting Rights of Ordinary Shares

No person holds securities carrying special rights. There are no particular restrictions on voting rights. The Company is not aware of any agreements between shareholders' that may result in restrictions on the transfer of its shares or on voting rights.

Voting rights at General Meetings of the Company are exercised when the Chairman puts the resolution at issue to the vote of the meeting. A vote may be decided on a show of hands or by poll. A vote taken on a poll for the election of the Chairman or on a question of adjournment is also taken forthwith and a poll on any other question or resolution is taken either immediately, or at such time (not being more than 30 days from the date of the meeting at which the poll was demanded or directed) as the Chairman of the meeting directs. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than 48 hours before the time appointed for taking the poll.

Voting at any general meeting is by a show of hands unless a poll is properly demanded. On a show of hands, every member who is present in person or by proxy has one vote regardless of the number of shares held. On a poll, every member who is present in person or by proxy has one vote for each share of which they are the holder. A poll may be demanded by the Chairman of the meeting or by at least five members having the right to vote at the meeting or by a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or by a member or members holding shares in the Company conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. It is current standing practice at the AGM that voting is conducted on a poll.

The holders of the ordinary shares have the right to attend, speak, ask questions and vote at General Meetings of the Company. The Company, pursuant to Section 1105 of the Companies Act 2014 and Regulation 14 of the Companies Act 1990 (Uncertificated Securities) Regulations 1996 (S.I. 68/1996), specifies record dates for General Meetings, by which date shareholders must be registered in the Register of Members of the Company to be entitled to attend and vote at the meeting.

Pursuant to Section 1104 of the Companies Act 2014, a shareholder, or a group of shareholders who together hold at least 3 per cent of the issued share capital of the Company, representing at least 3 per cent of the total voting rights of all the members who have a right to vote at the meeting to which the request for inclusion of the item relates, have the right to put an item on the agenda, or to modify an agenda which has been already communicated, of a general meeting. In order to exercise this right, written details of the item to be included in the general meeting agenda must be accompanied by stated grounds justifying its inclusion or a draft resolution to be adopted at the general meeting together with evidence of the shareholder or group of shareholders' shareholding must be received, by the Company, 42 days in advance of the meeting to which it relates.

The Company publishes the date of its Annual General Meeting on its website www.permanenttsbgroup.ie on or before 31 December of the previous financial year.

Director Appointments

Save as set out below, the Group has no rules governing the appointment and replacement of Directors outside of the provisions thereto that are contained in the Articles of Association. Under the Relationship Framework entered into between the Company and the Minister for Finance, the Board must consult with the Minister for Finance for the appointment or re-appointment of the Chief Executive Officer or Chairman. Upon receipt of written notice from the Minister for Finance, the Board shall appoint up to two nominees of the Minister for Finance as Directors of the Company and the appointment(s) shall be deemed to take effect on the date of the next Board meeting following receipt of the aforementioned notice. The Board has received written notice from the Minister for Finance's to appoint two Directors to the Board. These appointments will be progressed during 2019 subject to the required regulatory approvals. Further details on this process are set out in the Relationship Framework which is available on the Company's website www.permanenttsbgroup.ie.

Powers Granted to Directors at the AGM

The following is a description of the resolutions passed by members in connection with powers granted to the Directors:

Ordinary Remuneration of Directors

At the 2016 AGM held on 20 April 2016, shareholders authorised that the Directors may from time to time determine in accordance with the Articles of Association of the Company, the aggregate ordinary remuneration of the Directors for serving as Directors of the Company at an amount not exceeding €500,000.

Allotment of Shares
At the 2015 AGM held on 8 April 2015, authorisation was provided to the Directors, to allot shares and dis-apply statutory pre-emption rights up to a nominal value of €20,833,333 connected to the issue of ordinary shares should there be a conversion of the AT1 Debt instrument (see page 62).

In July 2016, the Investment Association issued updated guidance relating to this authority. This guidance generally supports resolutions seeking authority to allot up to a separate and additional 33.33% of a company's issued share capital (excluding treasury shares) in addition to the 33.33% authority already supported where the additional authority is applied to allot shares pursuant to a rights issue.

At the 2018 AGM held on 16 May 2018, the Directors were generally and unconditionally authorised, pursuant to section 1021 of the Companies Act 2014, to exercise all of the powers of the Company to allot and issue all relevant securities of the Company (within the meaning of section 1021 of the Companies Act 2014) up to an aggregate nominal amount of €150,049,512 representing 66.66% of the issued ordinary share capital of the Company as at 05 April 2018 of which €75,024,756 (representing the separate and additional 33.33% of the issued ordinary share capital of the Company (excluding treasury shares) as at 5 April 2018 referred to above) may be applied to allot shares pursuant to a rights issue. The authority conferred commenced on the 16 May 2018 and will expire at the conclusion of the 2019 AGM or 16 August 2019 (whichever is earlier) unless and to the extent that such power is renewed, revoked, or extended prior to such date; provided that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the power conferred by this Resolution had not expired.

Disapplication of Pre-emption Rights
At the 2018 AGM held on 16 May 2018, the Directors were authorised to allot equity securities (within the meaning of section 1023(1) of the Companies Act 2014) for cash as if Section 1022(1) of the Companies Act 2014 did not apply to any such allotment, such power to be effective from 16 May 2018 and shall expire at the conclusion of the 2019 AGM or 16 August 2019 (whichever is earlier) unless and to the extent that such power is renewed, revoked, or extended prior to such date; and such power being limited to:

(a) the allotment of equity securities in connection with any offer of securities, open for a period fixed by the Directors, by way of rights issue, open offer or other invitation to or in favour of the holders of ordinary shares and/or any persons having a right to subscribe for equity securities in the capital of the Company (including, without limitation, any persons entitled or who may become entitled to acquire equity securities under any of the Company's share option scheme or share incentive plans then in force) where the equity securities respectively attributable to the interests of such holders are proportional (as nearly as may reasonably be) to the respective number of ordinary shares held by them and subject thereto the allotment in any case by way of placing or otherwise of any securities not taken up in such issue or offer to such persons as the Directors may determine; and; generally, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems (including dealing with any fractional entitlements and/or arising in respect of any overseas shareholders) under the laws of, or the requirements of any regulatory body or stock exchange in, any territory;

(b) and/or the allotment of equity securities up to a maximum aggregate nominal value of €11,367,387, which represents approximately 5% of the issued ordinary share capital of the Company as at the close of business on 05 April 2018.

The Directors were also empowered to allot equity securities (within the meaning of Section 1023(1) of the Companies Act 2014) for cash as if Section 1022(1) of the Companies Act 2014 did not apply to any such allotment, such power to be effective from 16 May 2018 and shall expire at the conclusion of the 2019 AGM or 16 August 2019 (whichever is earlier) unless and to the extent that such power is renewed, revoked, or extended prior to such date and such power being limited to:

(a) the allotment of equity securities up to a maximum aggregate nominal value of €11,367,387, which represents approximately 5% of the issued ordinary share capital of the Company as at the close of business on 05 April 2018; and

(b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying the Pre-Emption Rights most recently published by the Pre-Emption Group and in effect prior to 13 April 2018.

Market purchases of own Shares
At the 2018 AGM held on 16 May 2018, members gave the Company (and its subsidiaries) the authority to make market purchases and overseas market purchases provided that the maximum number of ordinary shares authorised to be acquired shall not exceed:

(a) 5% above the higher of the average of the closing prices of the Company's ordinary shares taken from the Euronext Dublin Daily Official List and the average of the closing prices of the Company's ordinary shares taken from the London Stock Exchange Daily Official List in each case for the five business days (in Dublin and London, respectively, as the case may be) preceding the day the purchase is made (the "Market Purchase Appropriate Price"), or if on any such business day there shall be no dealing of ordinary shares on the trading venue where the purchase is carried out or a closing price is not otherwise available, the Market Purchase Appropriate Price shall be determined by such other method as the Directors shall determine, in their sole discretion, to be fair and reasonable; or, if lower,

(b) the amount stipulated by Article 3(2) of Commission Delegated Regulation (EU) 2016/1052 relating to regulatory technical standards for the conditions applicable to buy-backs and stabilisation (being the value of such an ordinary share calculated on the basis of the higher of the price quoted for: (i) the last independent trade; and (ii) the highest current independent purchase bid for any number of such ordinary shares on the trading venue(s) where the purchase pursuant to the authority conferred will be carried out). The authority will expire on close of business on the date of the next AGM of the Company or on the 16 August 2019 (whichever is earlier) unless previously varied, revoked or renewed. While the Directors do not have any current intention to exercise this power, this authority and flexibility was sought as it is common practice for companies on the Official List of the Euronext Dublin and/or London Stock Exchanges. Furthermore, such purchases would be made only at price levels which the Directors considered to be in the best interests of the members generally, after taking into account the Company's overall financial position. In addition, the authority being sought from members would provide that the minimum price (excluding expenses) which may be paid for such shares would be an amount not less than the nominal value of the shares.

Change of control of the Company

In the event of a change of control of the Company there are no agreements (other than under normal employment contracts) between the Company, its Directors or employees providing for compensation for loss of office that might occur.

Post Balance Sheet Events

Events after the reporting period are described in note 46 to the Financial Statements.

Accounting Records

The measures taken by the Directors to secure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at the Company's registered office, 56-59 St. Stephens Green, Dublin 2.

Disclosure Notice

The Company did not receive a disclosure notice under section 33AK of the Central Bank Act 1942 during 2018.

Political Donations

The Directors have satisfied themselves that there were no political contributions during the year, which require disclosure under the Electoral Act, 1997.

Location of Information required pursuant to Listing Rule 6.8.1C

Listing Rule	Information Included*
LR 6.8.1 (12)	The Trustees of the Employee Benefit Trust have elected to waive dividend entitlements.
LR 6.8.1 (14)	As stated on page 62, the Minister for Finance has entered into a Relationship Framework with the Company. A copy of the Relationship Framework is available at www.permanenttsbgroup.ie

*No information is required to be disclosed in respect of Listing Rules 6.8.1(1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (11), and (13).

Subsidiary Undertakings

The principal subsidiary undertakings and the Company's interests therein are shown in note 44 to the Financial Statements.

Independent Auditor

In accordance with section 383 (2) of the Companies Act 2014, the Auditor, PricewaterhouseCoopers (PwC) Chartered Accountants and Statutory Audit Firm, will continue in office.

Board Diversity Statement

The Board Diversity Statement, as set out in the Corporate Governance Statement (see page 89) is deemed to be incorporated into this part of the Directors' Report.

Non-Financial Statement

For the purposes of Statutory Instrument 360/2017 European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017, the following sections of this Annual Report and any cross references made in the Directors' Report are deemed to be incorporated into this part of the Directors' Report:

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information
Environmental matters	• Procurement and Sourcing Frameworks • Business Continuity Management Plan • Adverse Weather Policy	• Environment, pages 23 to 25 • Low Carbon Pledge, page 23 • Waste Management, page 24 • Go Paperless Initiative, page 24 • Digital Transformation programme, page 8
Social and Employees	• People Strategy • Pay and Reward Policy • Code of Ethics • Statement and associated policies ad processes • Conduct Risk Appetite and Principles and Conduct Risk Management Framework • Customer Complaints Management Framework, Customer Complaints Policy and Customer Complaints Charter • Diversity and Inclusion Strategy • Organisational Cultural Programme • Conflicts of Interest Policy • Whistleblowing Policy and associated procedures	• Corporate Social Responsibility programme, page 14 • Colleagues, pages 17 to 20 • Having an Employee Voice, page 17 • Health, safety and wellbeing, page 20 • Supporting Career Development and Investing in Growing our People page 18 • Delivering Right Customer Outcomes, Complaints and Responsible Marketing and Research, pages 15 and 17,Diversity and Inclusion, page 19 • Speaking Up, page 25 • Board Diversity Policy, page 70 • People risk, page 49 • Governance risk, page 39
Human rights	• Dignity and Respect Policy • Equality Through Diversity Policy	• Responsible Banking, page 25 • The Business Working Responsibility Mark, page 14
Social matters	• Community Partnerships • Volunteering standards • Matched giving guidelines	• Helping communities, page 21
Anti-corruption and anti-bribery	• Anti-bribery Policy • Anti-bribery Policy Statement • Anti-money laundering and counter terrorist financing Policy • Fraud Risk Management Policy	• Customer privacy and data security, page 49 • Responsible conduct and culture, page 48 • Operational risk, page 49
Policy embedding, due diligence and outcomes		• Risk overview, page 45 • Risk management, page 39
Description of principal risks and impact of business activity		• External environment, page 45 • Creating value for our stakeholders, page 11 • Addressing the issues that matter most, page 39 • Direct and indirect economic contribution, page 39 • Risk overview, pages 45 • Principal risks, pages 45
Business model		• Permanent TSB At a Glance, page 3 • Building a culture of value maximisation by delivering the right customer outcomes, page 15 • Market and Regulatory Context, page 9 • Our Strategy, page 10 • Our business model, page 11 • How we maximise shareholder value over time, page 11
Non-financial key performance indicators		• Key performance indicators, page 3 • Doing business responsibly, page 25 • Environment, pages 23 to 25

On behalf of the Board

Robert Elliott
Chairman

Jeremy Masding
Chief Executive

Eamonn Crowley
Chief Financial Officer

Conor Ryan
Company Secretary

Corporate Governance Statement
Chairman's Introduction

Good corporate governance is imperative to enable the Board to balance the interest of its stakeholders and promote growth.

Dear Shareholder,

In my second year as Chairman, I am pleased to report a year of growth, not only in terms of our operating profitability but also in terms of the culture of our organisation and our continued commitment to achieving best practice corporate governance. The following report sets out the detail of our approach to corporate governance principles and practices, how we implement and endeavour to achieve compliance with the UK Corporate Governance Code and how our Board and its Committees operate during the year.

The reports from the Chairs of the Board Audit, Risk and Compliance, Nomination and Remuneration Committees on pages 92, 97, 99 and 102 respectively highlight the key activities and areas of focus for each Committee.

The Board has responsibility for the leadership, strategic direction and policy, operational performance, risk management, compliance and long-term success of the Bank. In pursuing the objective of delivering on our priorities and promoting the long-term success of the Company, for the ultimate benefit of the Bank's shareholders and other key stakeholders, the Board observes the highest standards of corporate governance, integrity and professionalism. We keep our governance structures and arrangements under review on a continuing basis in the pursuance of effective risk management and the provision of assurance and accountability in a transparent manner.

Culture

The Board is also responsible for instilling the right culture throughout the Bank. Following the launch in 2017 of our Vision and Values and the Bank wide recognition programme, 'VIP Awards' (recognising employees who make a difference by living our 'Values in Practice'), 2018 saw further progress with the implementation of our Organisational Culture Programme and the launch of our Diversity & Inclusion Strategy. Further details on these initiatives can be found on page 89.

Diversity and Inclusion

An important aspect of the development of PTSB's culture is diversity and inclusion. Diversity enables our business to grow. At PTSB, we value each individual's contribution to our business and look to ensure that greater diversity is achieved at all levels.

Following a diversity and inclusion diagnostic, it was found that 65% of PTSB employees surveyed would like to see more emphasis on diversity and inclusion in the PTSB brand.

Taking this and other feedback into account, our Diversity & Inclusion Strategy was launched in 2018, details of which can be found on page 19. Furthermore, our Board Diversity statement can be found on page 89.

Board Performance, Effectiveness and Oversight

2018 saw the implementation of our Board Meeting Effectiveness Programme of work which set out changes to Board and Committee operational governance to strengthen the oversight and challenge capacity of the Board and its Committees. The Project focused on five key areas: Board Paper governance; Ensuring the right decisions were made in the right place and at the appropriate time; Meeting Management efficiency; Record Keeping; and an enhanced process for the annual review of Board Performance.

Our Board is committed to the continued improvement of our collective effectiveness and we will continue to build on the results of the external facilitation of the Board Evaluation process, which was carried out in 2018 in accordance with good governance practice (in addition to our own annual internal evaluations). This external evaluation comprised a comprehensive and intensive examination of all aspects of the Board and its Committees' performance. As our Board is always seeking to improve its effectiveness, we are keen to work on those areas which require improvement. Further details on the 2018 Board Evaluation are set out on pages 83 to 85.

Board Succession Planning

As part of the Board renewal process, a key focus for the Board over the next 12 months will be succession planning. The Board is mindful of the dates on which Director terms of Office are due to expire and have commenced the process of succession planning for these Board retirements, further details of which are set out on page 99 of the Nomination Committee report.

Conclusion

Finally, I would like to thank each of the Directors for their commitment during 2018. Good corporate governance is imperative to enable the Board to balance the interests of its stakeholders and promote growth, and, speaking on behalf of the Board, we look forward to further achieving this in 2019.

Robert Elliott
Chairman

CBI Corporate Governance Code

The 2015 Central Bank of Ireland Corporate Governance Code for Credit Institutions (the "CBI Code") imposes statutory minimum core standards upon credit institutions, with additional requirements upon entities which are designated as High Impact Institutions. The Company's retail banking subsidiary, PTSB, was subject to provisions of the CBI Code during the reporting period. PTSB has been designated as a High Impact Credit Institution under the CBI Code and is subject to the additional obligations set out in Appendix 1 of the CBI Code. PTSB has also been designated as 'significant' for the purposes of the Capital Requirements Directive (SI 158/2014) and is subject to the additional obligations set out in Appendix 2 to the CBI Code. A copy of the CBI Code is available on the Central Bank of Ireland's website www.centralbank.ie.

Compliance Statement with UK Corporate Governance Code and Irish Annex

The Company's shares are admitted to trading on the Main Securities Market of the Irish and London Stock Exchanges and the Company must comply or explain against the provisions of the 2016 UK Corporate Governance Code (the "UK Code") and the Irish Corporate Governance Annex (the "Irish Annex"). A copy of the UK Code is available on the UK Financial Reporting Council's website www.frc.org.uk and the Irish Annex is available at www.ise.ie.

Details of how the Group applied the main and supporting principles of the UK Code are set out in this Corporate Governance Statement, the Business Model and Strategy section, the Risk Management section and in the Directors' Report on Remuneration. These also cover the disclosure requirements set out in the Irish Annex, which supplement the requirements of the UK Code with additional Corporate Governance provisions. The Board confirms that the Company has complied with the detailed provisions of the UK Code and Irish Annex during 2018, save as set out in the following paragraphs.

The Board acknowledges the requirement to maintain sound risk management and internal control systems that are robust and defensible under both Main Principle C.2 and the supporting principle A.4 of the UK Code.

A report on the review of the effectiveness of the Group's systems of Risk Management and Internal Control is set out on page 87.

The developments outlined in this review demonstrate that while Group had not achieved full compliance with main principle C.2 and the supporting principle A.4 of the UK Code throughout the full reporting period, it is expected that compliance will be achieved in 2019.

The Company is required under provision E.2.4 of the UK Code to arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting. At the 2017 AGM, Shareholders approved a recommendation of the Directors to cancel the Company's issued and authorised deferred shares subject to the approval of the Irish High Court. The cancellation of deferred shares, if approved by the Irish High Court, would require a distribution to be made to the holders of the deferred shares. The timing of the subsequent Irish High Court hearing facilitated the Company to plan for the aforementioned payment to shareholders to be distributed as part of the 2018 AGM mailing. However, due to a delay in the timing of the High Court case, when a positive direction order of the Irish High Court was made, the window of time to issue shareholder documentation to achieve compliance with E.2.4 of the UK Code had passed. The Company fully complied with its statutory obligation to provide 21 calendar days' notice of the AGM. It is the Board's intention to comply with the provision of E.2.4 for the 2019 AGM notice issue.

Provision D.2.2 of the UK Code requires that the Remuneration Committee shall have delegated responsibility for setting the remuneration for all executive directors and the chairman. However, under European Banking Authority (EBA) guidelines on sound remuneration practices, the Remuneration Committee is designated as being responsible for the preparation of decisions to be taken by the Board regarding the remuneration for executive directors and other identified staff. The Board's view is that, from a regulatory perspective, the Group is compelled to comply with the EBA guidelines and therefore its Remuneration policy reflects this position.

"How the Board leads and oversees the Company and its culture, fostering value and growth"

PTSB is an organisation built on a foundation of various different cultures and sub cultures, established through mergers and demergers over a 200 year period. During that time, diversity has meant many different things, but now more than ever, recognition of the importance of an inclusive organisation is more evident and the link between a diverse and inclusive culture and a sustainable, profitable organisation in which the best decisions are made and the right customer outcomes achieved.

In 2018, the CBI undertook a review of the cultures, behaviours and associated risks in the Irish retail banks, as well as a diversity and inclusion assessment, after which the CBI issued individual bank specific reports outlining the results of its assessments.

What we did in 2018

Following the establishment of the Bank's Vision and Values in 2017, diversity and inclusion was identified as an important lever in the next phase of the Bank's cultural evolution. As a result, diversity and inclusion was introduced as a strategic area of focus under the Our People, Our Bank programme in October 2017 and the Bank engaged with EY, leaders in the field of diversity and inclusion, to complete an assessment of the Bank's current day maturity using their globally recognised diversity and inclusion maturity model. In 2018, the Board reviewed the assessment which indicated that, despite the finding the Bank was a 'welcoming' and 'friendly' organisation which had seen a shift in its culture to more a people orientated one, the Bank's maturity level in respect of diversity and inclusion within the organisation was found to be at the 'Compliance' level (the lowest maturity level).

Following this review, the Board approved a Diversity and Inclusion Strategy in October 2018, the strategic goal of which is to increase this maturity to 'Awareness' level in two years. The Bank's Strategy focuses on: Leadership Accountability; Recruitment; Promotion and Retention; Learning and Development; Smart Working; Governance Structure; Data Capability and Analytics; Customer; and, Branding and Communication.

The Board also approved responses and action plans to address both of the aforementioned Central Bank Behaviour and Culture Review and the Central Bank Diversity and Inclusion Review, which included the launch of the Diversity and Inclusion Strategy.

In order to further develop the Board capacity for increased cultural change, the Board underwent both Organisational Culture training and Inclusive Leadership training in 2018.

The Board recognises that a diverse and inclusive organisation founded on a culture of shared values and norms, such as honesty, integrity and reliability, that shape behaviours and mindsets within an institution, leads to a better understanding of customers, enhanced decision making, improved innovation and the protection against group think and unethical behavior, resulting in best stakeholder outcomes. The Board looks forward to overseeing even more enhancements to our organisational culture.

Corporate Governance Statement
Board of Directors

ROBERT ELLIOTT (66)
CHAIRMAN
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed Chairman:
31 March 2017

Nationality:
British

Key Strengths, Skills and Experience
- Extensive legal, banking and leadership experience
- Track record of championing greater inclusiveness and diversity

Committee Membership:
Nomination Committee (C)
Remuneration Committee

External Appointments:
Chairman of Global Sustainability Trust Plc and Director of Saranac Partners Ltd.

Robert is an experienced Chairman and Lawyer, having advised on major UK and international banking and restructuring projects. Robert is a former Chairman and Senior Partner of Linklaters LLP, the global law firm with a partnership of 460 members and approximately 5,500 staff. In his role as the firm's ambassador, he also contributed widely to industry and City organisations, think tanks and actively demonstrated a strong commitment to community-led initiatives.

JEREMY MASDING (53)
CHIEF EXECUTIVE

Appointed to Board:
28 February 2012

Nationality:
British

Key Strengths, Skills and Experience
- Strong corporate pedigree complemented by deep business management experience, recognised for building and leading first class teams, developing winning strategies, driving profitable growth and delivering fundamental culture change.
- Certified Bank Director
- Associate and Fellow of the Chartered Institute of Bankers
- MBA from Manchester Business School

Committee Membership:
None

External Appointments:
Vice President Banking & Payments Federation Ireland

Jeremy is an experienced career banker having worked with Barclays Bank in a variety of different roles between 1984 and 2007. In later years, he was a Board Director of Barclaycard, responsible for UK consumer finance. For a year (1998/1999) he worked on secondment from Barclays with the Cabinet Office in the UK.

EAMONN CROWLEY (49)
CHIEF FINANCIAL OFFICER

Appointed to Board
10 May 2017

Nationality:
Irish

Key Strengths, Skills and Experience
- Extensive international banking, corporate finance and leadership experience
- MBA Smurfit Business School
- Certified Accountant (FCCA)
- Member of Association of Corporate Treasurers

Committee Membership:
None

External Appointments:
None

Before joining Permanent TSB, Eamonn worked as Chief Financial Officer at Bank Zachodni WBK S.A. ("BZ WBK"), Banco Santander's publicly listed Polish retail and commercial bank. BZ WBK was formerly 70% owned by AIB. Banco Santander acquired that AIB stake in 2010. During his period as CFO, Eamonn executed the merger of BZ WBK with Kredyt Bank to form Poland's number three bank, placed over 20% of the bank on the Warsaw Stock Exchange through a Euro 1.2bn secondary IPO and led the acquisition of a controlling stake in Poland's number one Consumer Bank. Prior to joining Santander, Eamonn worked for the AIB Group in a variety of different roles.

JULIE O'NEILL (63)
NON- EXECUTIVE DIRECTOR & SENIOR INDEPENDENT DIRECTOR

Appointed to Board:
28 January 2014

Nationality:
Irish

Committee Membership:
Remuneration Committee (C)
Nomination Committee
Risk & Compliance Committee
(until 1 February 2019)

External Appointments:
Chairperson of the Sustainable Energy Authority of Ireland, Non-Executive Director of Ryanair Plc and of AXA Life Europe

Key Strengths, Skills and Experience
- Extensive Board, Economic and Social Policy experience
- Certified Bank Director

Julie has over 37 years of public service experience and served as Secretary General of the Irish Department of Transport from 2002 until 2009. Julie has worked in strategic policy development and implementation with eight Government Departments. Julie is a Non-Executive Director at Ryanair p.l.c. and at AXA Life Europe. She is a former board member of the Irish Museum of Modern Art. She previously chaired the audit committee of Trinity College Dublin.

KEN SLATTERY (70)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to Board:
30 August 2013

Nationality:
Irish

Committee Membership:
Remuneration Committee
Audit Committee

External Appointments:
Non-Executive Director and Chairman of the Audit & Risk Committee of the National Shared Services Office, the Government's shared services company for HR, payroll and finance.

Chairperson of Oaklee Housing and a member of the boards of Choice Housing Ireland Ltd (Northern Ireland) and Acorn Housing.

Key Strengths, Skills and Experience
- Wide-ranging experience of the Irish Financial Services landscape
- Fellow, Institute of Bankers
- Certified Bank Director

Following retirement from BOI in 2006, Ken has broadened his knowledge and experience through non-executive director positions with a number of Irish and Northern Ireland government departments, including chair positions on audit and risk committees. During this time he has also maintained his exposure to financial services through his directorship with Realex Financial Services where he was chair of the Company's audit and risk committees until August 2013. Ken's general banking experience complements the existing skillset of the Board and his prior experience as chair of audit and risk committees in both the public and private sector has been of particular benefit to the deliberations of the Audit Committee.

RICHARD PIKE (52)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to Board:
28 January 2014

Nationality:
Irish

Committee Membership:
Risk & Compliance Committee
Audit Committee

External Appointments:
Richard is an Independent Non-Executive Director at JP Morgan Fund Administration Services (Ireland) Limited and JP Morgan Hedge Fund Services (Ireland) Limited. He is Chairman of Citadel Securities GCS (Ireland) Limited and Non-Executive Director at Citadel Securities (Europe) Limited. Richard is also a Director of Governor Software Limited.

Key Strengths, Skills and Experience
- Extensive international experience of working with financial institutions and technology companies in managing risk.
- Certified Bank Director

Richard has analysed, designed and managed the development of core treasury and enterprise risk management systems for large financial institutions, including UBS, Citibank, Schroders and Unicredito. In 2009 Richard was recognized as a "Top 50" Face of Operational Risk by Op Risk & Compliance magazine and was a contributing author to two books on risk management. He is also a board member of the Governance, Risk and Compliance Technology Centre which focuses on research in the area of financial services governance, risk and compliance. Richard brings a different dimension to the Board, related to his in depth knowledge of enterprise risk management systems together with access to his extensive network of banking and regulatory contacts in both the Irish and international marketplaces.

RONAN O'NEILL (65)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to Board:
26 July 2016

Nationality:
Irish

Key Strengths, Skills and Experience

- Extensive banking and leadership experience with a particular competency in risk and treasury
- Chartered Accountant

Committee Membership:
Risk & Compliance Committee(C)
Nomination Committee

External Appointments:
Director of Woodlands Advisers Limited

Prior to retiring from AIB in 2013, Ronan was Chief Executive Officer of AIB (UK) plc and a member of the AIB Group Leadership Team. Ronan had responsibility for SME Business in the UK and the retail banking business of First Trust in Northern Ireland. He put in place a strategic plan to revitalise AIB's UK and NI businesses and oversaw its implementation. Ronan brings extensive experience in all aspects of banking to the PTSB boardroom and his risk and treasury exposure is of particular benefit to the Board Risk and Compliance Committee which Ronan chairs.

ANDREW POWER (62)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to Board:
26 September 2016

Nationality:
British

Key Strengths, Skills and Experience

- Extensive Retail Financial Services experience particularly around strategy development and operational model transformation/process improvement
- Certified Bank Director
- MBA Harvard Business School

Committee Membership:
Audit Committee
Remuneration Committee

External Appointments:
Director of Andrew Power Consultancy Limited.

Andrew is a former partner in the Consulting arm of Deloitte UK, where he specialised in providing strategic advice. Andrew has advised many of the world's major financial services companies and has significant know-how of major financial markets and regulations around the globe. Andrew's extensive experience as industry subject matter expert across banking, insurance, wealth management and investment management is of great benefit to the Board.

DONAL COURTNEY (54)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to Board:
3 October 2018

Nationality:
Irish

Key Strengths, Skills and Experience

- Experienced finance professional across leasing lending and property financing with a particular competence in financial reporting, governance and internal controls
- Fellow of Chartered Accountants Ireland

Committee Membership:
Audit Committee (C)
Nomination Committee
Risk & Compliance Committee

External Appointments:
Donal is an Independent Non-Executive Director and chairs the Audit Committees of three other Irish Regulated entities: Unicredit Bank Ireland, Dell Bank International and Iput PLC. Both Unicredit Ireland and Dell Bank International are regulated credit institutions while Iput PLC is an AIFMD regulated Commercial property fund.

Donal qualified as a Chartered Accountant in 1988 while working with Arthur Andersen where he went on to become a practice manager in its financial services division working with a broad range of clients across the leasing and banking industries. He went on to hold executive Director positions with the Irish operations of Orix Corporation,Airbus Industrie and GMAC Commercial Mortgage where he gained extensive experience in the aircraft leasing, financing and commercial property industries.

RUTH WANDHÖFER, (42)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to Board:
30 October 2018

Nationality:
German

Key Strengths, Skills and Experience

- Extensive banking and leadership experience. A leading authority on transaction banking, regulation and innovation in financial technology matters.
- MA in Financial Economics (UK), an MA in International Politics (FR) and an LLM in International Economic Law (UK).

Committee Membership:
Risk & Compliance Committee
Remuneration Committee
(since 1 February 2019)

External Appointments:
Ruth is a Non-Executive Director of the London Stock Exchange Group and of Pendo Systems Inc. She is also the Head of Regulatory and Industry Affairs for Coinfirm and chairs the European Payments Council Payment Security Group.

Ruth spent over 11 years at Citi where she drove regulatory and industry dialogue in addition to having developed product/market strategy in line with the evolving regulatory and innovation landscape. Ruth speaks five languages (EN, DE, F, ES, IT). Ruth's extensive experience of both regulatory and market strategy together with her insight on innovation in the field of regulatory and financial technology provides invaluable insight for the Board as it addressees the next phase of the Bank's development through the delivery of a best in class Digitally-Enabled Omni-Channel Retail and SME Bank.

CONOR RYAN,
COMPANY SECRETARY

Conor joined the Bank in 1989 and was appointed Company Secretary in 2017. As Company Secretary, Conor is responsible for advising the Board, through the Chairman, on all governance matters. The role of Company Secretary is to align the interests of different parties around the boardroom table, facilitate dialogue, gather and assimilate relevant information, and support effective decision-making. Conor is a fellow of the ICSA: The Governance Institute and was President of the Institute in Ireland from 2014 to 2016.

2018 Board Meeting Attendance and Directorships

Member	Appointed	Ceased	Number of years on Board	2018 Meetings	Number of Directorships held
Non-Executive Directors					
Robert Elliott	31 Mar 2017	-	1.8	20/21	4
Emer Daly	20 Sep 2011	16 May 2018	6.7	7/7	4
Julie O'Neill	28 Jan 2014	-	4.9	21/21	3
Ken Slattery	30 Aug 2013	-	5.4	21/21	2
Richard Pike	28 Jan 2014	-	4.9	21/21	4
Ronan O'Neill	26 Jul 2016	-	2.2	21/21	2
Andrew Power	26 Sep 2016	-	2.3	21/21	2
Donal Courtney	03 Oct 2018	-	0.2	4/6	4
Ruth Wandhöfer	30 Oct 2018	-	0.2	6/6	4
Executive Directors					
Jeremy Masding	28 Feb 2012	-	6.8	21/21	1
Stephen Groarke	17 May 2016	2 Nov 2018	2.5	16/16	1
Eamonn Crowley	10 May 2017	-	1.6	21/21	1

Notes:
PTSB is the sole direct subsidiary of PTSBGH. During 2018, the composition of the Boards of PTSBGH and PTSB were identical. Meetings of the Boards of PTSB and PTSBGH run concurrently. Concurrent Board meetings or consecutive Board meetings of PTSB or PTSBGH held on the same day are counted as a single attendance above.

The number of Directorships held includes PTSBGH and other external Directorships. For the purposes of calculating Directorships, multiple Directorships within a group are counted as a single Directorship. Directorships in organisations which do not predominantly pursue commercial objectives are not included in the disclosed Directorships total. Directorships are those held at 31 December 2018 or at time of cessation from the Board.

Board of Directors (continued)

Division of Responsibilities

The roles and responsibilities of the Board collectively, the Executive and Non- Executive Directors, the Chairman, Senior Independent Director and Company Secretary, are clearly laid out and documented in a Board Manual, which is reviewed and updated on a regular basis by the Board and at least annually.

The Chairman

Robert Elliott's responsibility as Chairman is to ensure the efficient and effective working of the Board. His role is to lead and manage the business of the Board, promoting the highest standards of corporate governance and ensuring accurate, timely and clear information for the Board, and lead the process for the annual performance evaluation of the Board. The Chairman promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors. The Chairman has a strong working relationship with the Chief Executive, Jeremy Masding, and acts as a confidential sounding board for the Directors. Robert Elliott is also Chairman of the Nomination Committee.

The Senior Independent Director

Julie O'Neill is the Board's Senior Independent Director and her primary role is to support the Chairman on all governance related matters. In addition, she specifically leads the annual appraisal of the Chairman's performance, acts as an intermediary for other Directors, and ensures that the views of the Non- Executive Directors are heard. She is available to shareholders, should they wish to raise any matter directly.

The CEO

The Board delegates executive responsibility to Jeremy Masding, the CEO, for the Bank's operations, compliance and performance. The role of the CEO is to select and lead an effective team to manage the Bank. The executive management team is called the Executive Committee, details of which are set out on pages 76 to 78. The CEO is responsible for the formulation of the Group's strategic, operating and financial plans, for review and presentation to the Board, and for the implementation of these plans. The CEO is also required to provide information to the Board that is reliable, relevant, timely, clear and balanced, in order to assist the Board in monitoring the performance of the Group and in making well informed and sound decisions.

The Company Secretary

Conor Ryan, Company Secretary, assists the Chairman in promoting the highest standards of corporate governance. He supports the Chairman in ensuring Directors receive timely and clear information so that the Directors are properly equipped for constructive debate and informed decision making. He is a central source of guidance and advice on policy, procedure and governance. He co-ordinates, when necessary, access to independent professional advice for Directors. He oversees compliance with all of the Group's governance related legal and regulatory obligations. In addition, he has responsibility for providing a high quality service on all shareholder related matters. All Directors have access to the advice and services of the Company Secretary.

EXECUTIVE COMMITTEE

JEREMY MASDING
CHIEF EXECUTIVE

EAMONN CROWLEY
CHIEF FINANCIAL OFFICER

GER MITCHELL
HR DIRECTOR

Key Strengths, Skills and Experience

- Extensive banking and senior management experience
- Certified Bank Director
- Business Masters (MBS) through UCC/IMI and a C.DIP in Accounting and Finance (ACCA).

Ger is an experienced Commercial Leader and has held a number of senior roles in Branch banking, Intermediary banking, Regional General Management and was appointed to the Group Executive Committee (ExCo) in 2012 as Group Lending & Insurance Director. In 2015, Ger was appointed by the Board to lead the Group through the Industry Examination of Tracker mortgages and in 2017, Ger was appointed Group HR Director.

Ger is a Certified Bank Director and, along with a number of other General Management & Finance qualifications, he completed a Business Masters (MSC) through UCC/IMI (2014) specialising in Strategic HRM and Business Strategy & Innovation.

The HR function is responsible for building capability and nurturing talent throughout Permanent TSB to ensure the Bank's Strategy is delivered. The Bank's strategic vision is 'To Be The Preferred Financial Services Employer in Ireland' and the Bank's HR Strategy is built upon a number of critical Strategic Human Resource Management pillars, including: Our Values and Culture; Diversity and Inclusion; Engagement and Wellbeing; Talent and Leadership Development; Workforce planning and analytics and Enhancing our Employee Value proposition

ANDREW WALSH
LEGAL COUNSEL

Key Strengths, Skills and Experience

- Extensive legal advisory experience
- Solicitor

Andrew joined the Bank in 2014. He became a member of the Executive Committee in 2015. Prior to joining the Bank, Andrew was a partner in a leading corporate Irish law firm, where he worked for over 10 years. While in private practice, Andrew advised a number of Irish and international banks and financial services institutions.

The Legal and Secretarial function is responsible for overseeing all legal and company secretarial aspects of the Bank's business, as well as inputting into the Bank's strategic decisions and identified growth opportunities. The Legal and Secretariat function also provides support to ensure that the Bank's operations, products and service strategies are designed to consistently adhere to legislative/regulatory requirements and best practice.

SHANE O'SULLIVAN
DIRECTOR OF OPERATIONS

Key Strengths, Skills and Experience

- Wide range of retail banking and senior management experience
- Certified Bank Director
- MBA from Dublin City University

Shane joined the Bank in 2000. He held the position of Managing Director of the Bank's Asset Management Unit before his appointment as Director of Operations. Shane previously worked with Bank of Ireland Group, Ulster Bank Group and HSBC Group.

Group Operations encompass Banking Operations, the Asset Management Unit, the 'Open 24' Customer Service Centre and other key functions. Group Operations is focussed on centralising, standardising and simplifying activity so as to enable the Bank to deliver an exceptional customer experience, while also generating efficiencies.

TOM HAYES
CHIEF TECHNOLOGY OFFICER

Key Strengths, Skills and Experience

- Accomplished business change leader with extensive experience in Digital and Technology enabled transformation
- BSc
- Master of Business Studies (MBS) Smurfit Business School
- Post Graduate Diploma in Digital Business, IMI.
- Certified Bank Director

Tom joined the Bank in 2017 from AIB where he worked since 1992, and was most recently, Head of Digital Transformation Delivery. Tom has held various senior roles including: Head of Customer Engagement Technology, AIB Digital and Group Head of IT Infrastructure & Operations.

Tom has responsibility for the development and delivery of the Bank's Technology, Digital, Payments and Change Agenda. This includes working closely with the Retail Banking and Operations teams, to design and deliver the Digital Transformation and IT Re-Architecture agendas.

BREEGE TIMONEY
PRODUCT ASSURANCE DIRECTOR

Key Strengths, Skills and Experience

- Extensive Senior Financial experience
- Fellow of the Chartered Association of Certified Accountants
- MSc in Investment, Treasury and Banking.

Breege joined the Bank in 2014. Breege has spent the majority of her career in the financial services industry and has previously held senior finance roles in Bank of Ireland and Ulster Bank.

Product Assurance is responsible for monitoring the Bank's existing and future product suite to ensure that it meets customer needs and regulatory requirements. In line with the Bank's continuing focus on delivering the right customer outcomes, this dedicated function was established in 2018, with a focus on delivering proactive product monitoring and thematic reviews.

PATRICK FARRELL
RETAIL BANKING DIRECTOR

Key Strengths, Skills and Experience

- Extensive Senior Retail Banking experience
- MBA Smurfit Business School
- Advanced leadership programmes in Insead and Wharton business schools

Patrick joined the Bank in December 2018 from AIB where he held the position of Head of Retail Area South. Patrick has over 20 years' experience across the banking industry. He has held senior management roles in Strategy, Product and Proposition Development, Marketing, Private Banking and Retail Sales and Service Distribution.

The Retail Banking Division is accountable for developing and implementing the value proposition for the customer and the Bank. It works closely with the Operations and Technology divisions to create a desired customer experience that brings the best the of Bank's people and technology together to deliver for its customers.

MIKE FRAWLEY
CHIEF RISK OFFICER

Key Strengths, Skills and Experience

- Extensive international risk management, commercial, retail banking and senior management experience
- CFA
- Bachelor of Commerce from UCC
- MBA from Columbia Business School.

Mike joined the Bank in December 2018 and has a depth of experience in the Commercial and Retail banking sector, having spent 19 years with HSBC in positions in Asia, U.K., Latin America, U.S.A. and Bermuda, most recently as Chief Risk Officer at HSBC Bermuda.

The Group Risk function is responsible for overseeing risk management across the organisation. Effective risk management underpins profitable and prudent risk taking throughout the Bank. The function is responsible for both financial and non-financial risk.

PAUL REDMOND
HEAD OF INTERNAL AUDIT

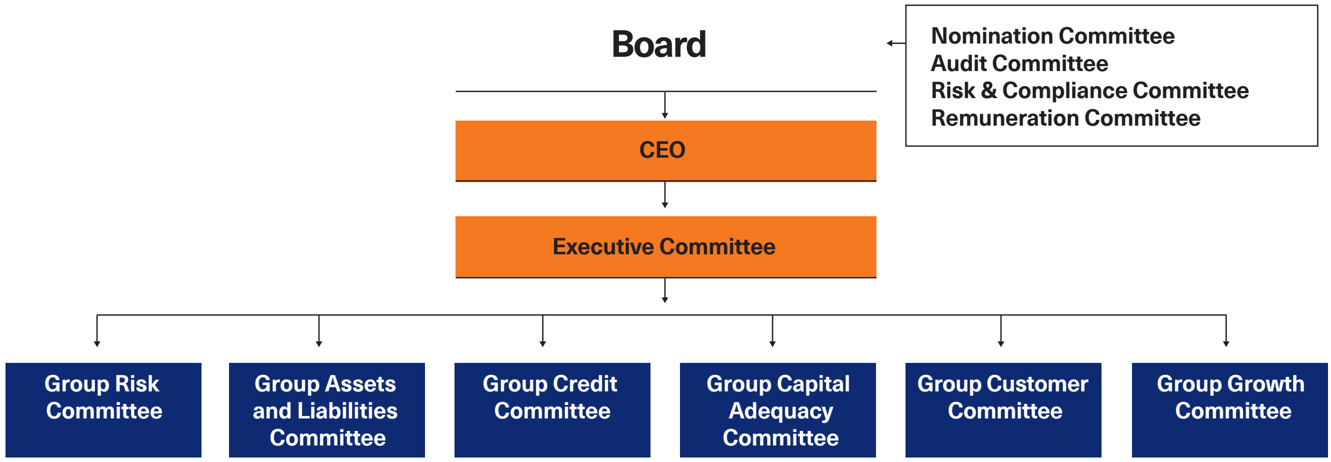
Key Strengths, Skills and Experience

- Experienced banker providing insights and guidance to the Executive and Board on all matters risk related
- Qualified Accountant
- Certified Bank Director

Paul joined the Bank in 2012 and has over 25 years' experience in financial services. He previously held senior internal audit positions in Goodbody Stockbrokers, AIB and RBS in both Ireland and the UK.

Internal Audit provides independent assurance to the Board over the adequacy and effectiveness of the governance, risk management and control processes in operation across the Bank. Paul is a regular attendee at Executive Committee meetings but, in accordance with good governance practice, has no voting rights. Paul has a direct reporting line to the Chairman of the Board Audit Committee.

Corporate Governance Statement
Governance Structure, Roles and Responsibilities



Board

The Board retains primary accountability for corporate governance within the Bank at all times. The Board has reserved for itself a documented schedule of matters for its own approval. The Board delegates executive responsibility to the CEO for the Bank's operations, compliance and performance. The CEO is the principal executive accountable to the Board for the day to day management of the Bank. The CEO has established the Executive Committee whose terms of reference are approved by the Board.

Without prejudice to the powers delegated to it, the Board, directly or through its Committees, has exclusive powers regarding a number of matters including acting on behalf of the shareholders to oversee the day to day affairs of the business, ensuring the Bank's prosperity by collectively directing the company's affairs, whilst meeting the appropriate interests of its shareholders, customers and other key stakeholders. In addition to business and financial issues the Board will determine the business strategies and plans that underpin the corporate strategy, whilst ensuring that the Bank's organisational structure and capability are appropriate for implementing the chosen strategies. The Board must deal with challenges and issues relating to corporate governance, corporate social responsibility and corporate ethics.

Board

- Oversees performance against strategy.
- Ensures company adheres to governance protocols.
- Oversees all risk, financial, compliance and performance standards.
- Demonstrates leadership.

In line with its legal and regulatory obligations, the Board has established Audit, Risk, Remuneration and Nomination committees as described below. Being composed of the same members and in managing a common agenda, Board Committee meetings of the Company and PTSB run concurrently.

Nomination Committee

Robert Elliott (C)
Julie O'Neill
Ronan O'Neill
Donal Courtney

- Reviews structure, effectiveness and composition of the Board.
- Reviews all new director and senior management appointments.
- Oversees succession planning.
- Performance Evaluations of CEO, Executive Directors and CEO's assessment of Performance of the Executive Committee.

Audit Committee

Donal Courtney(C)
Richard Pike
Andrew Power
Ken Slattery

- Oversees internal financial controls.
- Reviews full year and half year financial statements.
- Oversees all relevant matters pertaining to the external auditors.
- Monitors the effectiveness of the Group Internal Audit Function.
- Reviews Whistleblowing arrangements.

Risk & Compliance Committee

Ronan O'Neill (C)
Richard Pike
Donal Courtney
Ruth Wandhöfer

- Oversees financial and nonfinancial risks.
- Approves and monitors risk framework and risk appetite.
- Oversees credit, funding and liquidity policies.
- Review and make recommendations to Board on Internal Capital and Liquidity Adequacy Assessments including Stress testing (via outputs from ICAAP and ILAAP).

Remuneration Committee

Julie O'Neill (C)
Robert Elliott
Andrew Power
Ken Slattery
Ruth Wandhöfer

- Oversees remuneration and reward strategies.
- Ensures remuneration strategy is aligned with recruitment and risk appetite.
- Oversees senior management compensation.
- Monitoring relevant external benchmarks for posts within the scope of Committee

Executive Committee

The Executive Committee report upward to the Board, and where delegated, have the power to act on behalf of the Board. The Executive Committee advise the Board on matters ranging from business performance, strategy planning, policy, investment and risk. The Executive Committee is accountable for the operations, compliance and performance of the Bank. They are responsible for delivery of all delegated governance commitments. The terms of reference of the Executive Committee are approved by the Board.

The Executive Committee has established six sub-committees made up of senior management with relevant expertise to address the delegated obligations of each sub-committee. The duties of these sub-committees are based on providing organisational direction on behalf of the Executive Committee. Each Executive Committee member provides relevant leadership to the sub-committees, making sure objectives are met. The Executive Committee member which chairs the respective sub-committee provides updates to the Executive Committee, serving as a conduit between the sub-committees and the Executive Committee.

Executive Committee

- Developing and implementing (as approved by the Board) the Bank's Strategy, Strategic Direction and Management Model
- Developing the structure and content of the Bank's Risk Management Architecture
- Allocating, and re-allocating, the Bank's resources (financial and people) to ensure that commitments are executed and delivered
- Accountable for the Group's operations, compliance and performance
- Oversees day-to-day management of the Group
- Forum for Group wide functional issues

Group Risk Committee	Group Assets and Liabilities Committee	Group Credit Committee	Group Capital Adequacy Committee	Group Customer Committee	Group Growth Committee
• Maintains, monitors and enforces adherence to risk policies and frameworks • Recommends changes to risk appetite and internal capital and liquidity levels • Measure and monitor the total risk position of the Bank and to maintain a Risk Register of top risks facing the Bank, together with an assessment of the probability and severity of those risks	• Manages assets and liabilities, treasury investments, capital management and asset allocation • Manages risks, hedging and Asset Liability Management systems • Refresh and recommend to Risk and Compliance Committee for approval a number of Treasury and Liquidity related Policies	• Manages credit policy and Credit Risk frameworks and systems • Decides collections policy and treatment strategies • Escalation point for customer lending decisions	• Reviews the ongoing capital adequacy for the Group • Reviews the output from internal capital stress testing programmes • Oversees the Capital Risk related activities and supporting Policies	• Central oversight body for significant business / commercial propositions and strategies that have a material customer impact • Approval body for product governance arrangements • Review body for all high impact customer events, issues and complaints	• Provides context and promotes understanding of the commercial agenda. • Monitors performance against key targets and is responsible for identifying, initiating, and executing on activities/ projects to achieve those targets based on customer insight.

Corporate Governance Statement
Board Leadership and Effectiveness

"The Board has overall governance responsibility for the operations of the Bank"

Board Role and Responsibilities

The Board as a whole is collectively responsible for the leadership, strategic direction and policy, operational performance, financial matters, risk management and compliance of the Bank. The Board exercises leadership, integrity and judgement in directing the Bank, based on transparency, accountability and responsibility. The Board is also the focal point for the implementation of best practice corporate governance within the Bank. All Directors must take decisions objectively in the interests of the Bank. The key responsibilities of the Board as a whole are to:

Key Responsibilities of the Board

Customers	Ensure that the Bank's culture, systems and practices promotes the fair and transparent treatment of customers, both existing and new. Deliver a positive customer-focused culture that is both embedded through the implementation of a Code of Ethics and can be effectively demonstrated through the values and regular updates from Management on its implementation.
Culture and Diversity	Lead in developing the Bank's corporate culture and values. Deliver on the Bank's Organisational Culture and Diversity and Inclusion Programmes.
Strategy	Question, challenge, assist in the development of, and approve the strategic and operating plans proposed for the Bank by Management, and to ensure that an appropriate level of balance exists between its strategic contribution and that of its monitoring and policing activity.
Risk Appetite and Risk Management	Define the strategy for the on-going management of material risks and ensure that the Board is sufficiently briefed on major risk factors by 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.
	Provide leadership for the Bank within a framework of prudent, ethical and effective controls which enable risk and compliance to be assessed and managed.
Capital Structure	Set and oversee the amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Bank.
	Be accountable, particularly to those that provide the Bank's capital.
People and Reward Strategy	Ensure that there is a remuneration framework that is in line with the risk strategies of the Bank.
	Ensure that there is a robust and transparent organisational structure with effective communication and reporting channels.
	Ensure that Management create and develop a performance culture that drives value creation without exposing the Bank to excessive risk of value destruction.
Oversight	Make well informed and high quality decisions based on a clear line of sight into the business.
	Ensure that the Bank has a robust finance function responsible for accounting and financial data.
Governance Arrangements	Review regularly the appropriateness of its own governance arrangements and embrace internal as well as external evaluation of the Board's effectiveness.
	Review corporate governance matters such as group policies, terms of reference and succession plans.

Directors must also act in a way they consider, in good faith, would promote the success of the Bank for the benefit of the shareholders as a whole and, in doing so, have regard (amongst other matters) to the likely consequences of any decision in the long-term; the need to foster the Bank's business relationships with customers, suppliers and others; the interests of the Bank's employees; the impact of the Bank's operations on the community, environment and tax payer; and the desirability of the Bank maintaining a reputation for high standards of business conduct.

Board Decisions

There is an effective Board to lead and control the Bank with members who have diverse expertise in various aspects of the Bank's business. The Board has reserved to itself for decision, a formal schedule of matters pertaining to the Bank and its future direction, such as the Bank's commercial strategy, major acquisitions and disposals, Board membership, the appointment and removal of senior executives, executive remuneration, trading and capital budgets, risk management and compliance policies. This schedule is updated on a regular basis and at least annually. On an annual basis, the Board approves a Risk Appetite Statement together with its strategic, operating and financial plans. The Risk Appetite Statement is a description of the level and types of risk the Bank is willing to accept or to avoid, in order to achieve its business objectives.

The Board delegates day-to-day management of the Bank to the Chief Executive. The Board relies on the Risk Appetite and the delivery of strategic, operating and financial plans to be implemented by the Chief Executive, the Bank's Executive Management Committee and their management sub-committees. All strategic decisions are referred to the Board. Documented rules on management authority levels and on matters to be notified to the Board are in place, supported by an organisational structure with clearly defined authority levels and reporting responsibilities.

Board Focus Areas and Priorities

During the course of 2018, the Board continued to focus on ensuring the Bank was evolving its culture, performing against agreed corporate strategy, conforming to effective, prudent and ethical standards of corporate governance, properly managed in the areas of risk and compliance. In particular, the Board has placed particular emphasis on investing in and rewarding the Bank's employees and has received regular updates from Group HR on the progress of a number of on-going employee initiatives.

The priorities for the Board during 2019 will be to continue to monitor developments in relation to Brexit and implement contingency plans if required, Board renewal, and monitor progress of the Organisational Culture, Diversity and Inclusion Programmes launched during 2018. Further details on this programme are set out on page 68.

"The Board is responsible for setting, approving and overseeing the implementation of the overall business strategy taking into account the Bank's long-term financial interests and solvency"

Strategy Development

The Board has responsibility for developing the Bank's purpose, values and strategy, ensuring that these are aligned with the Bank's culture. The Board annually approves a rolling four year strategic, financial and operating plan (Medium Term Plan) that links through an integrated planning process to the Bank's ICAAP, ILAAP, Recovery Plan and Risk Appetite Statement.

The role of the Non-Executive Directors is to help Management develop, constructively challenge and critically review proposals on strategy, oversee and monitor strategy implementation and address any weaknesses identified regarding its implementation.

Strategy Development Process

Strategy Away Day

The Board and Executive Committee meet at an 'off-site' location, where the Chief Executive presents proposals to the Board on the Bank's Business Model, Medium Term Plan (MTP) and the Management Agenda (a list of highest value issues and opportunities). These proposals are grounded in a 4 year strategic fact-base and informed by current macroeconomic Indicators.

Board Feedback

The Board constructively challenge and critically review strategy proposals. Taking feedback and direction from the Board, the Chief Executive presents the MTP, Budget and Management Agenda, to the Bank's Executive Committee for finalisation before presentation back to the Board for approval.

Strategy Implementation

The finalised strategy proposals are then presented to the Board for approval. The Board are responsible for overseeing the implementation of the overall business strategy, and receive reports on the Bank's strategy regularly.

Independence

The independence status of each Director on appointment is considered by the Board. In addition, the independence status of each Director is reviewed on an annual basis to ensure the determination regarding independence status remains appropriate. In determining independence, the Board will consider whether any Director has, or has had within the last three years, a material business relationship with Permanent TSB directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with Permanent TSB.

The Board has carried out its annual evaluation of the independence of each of its Non-Executive Directors, taking account of the relevant provisions of the UK Code, namely whether the Directors are independent in character and judgment and free from relationships or circumstances which are likely to affect, or could appear to affect the Directors' judgment.

The Board is satisfied that each of the current Non-Executive Directors including the Chairman fulfil the independence requirements of the UK Code.

Each of the Chairman and all of the Non-executive Directors bring independent challenge and judgement to the deliberations of the Board through their character, objectivity and integrity.

Board Size and Composition

The Composition of the Board and its Committees is reviewed by the Nomination Committee and the Board annually, to ensure that there is an appropriate mix of skills and experience. This review considers tenure, succession planning, Board diversity targets and assessment of continued collective suitability of the Board. The Board has a target size of between 10 and 12 Directors. In addition to having Directors with a broad range of skills and experience, a principal consideration used to determine the size of the Board is the ability to resource all of the Board's Committees with at least four Non- Executive Directors and without need for over reliance on any one Director or small group of Directors. Save where a Director is nominated for appointment by the Minister for Finance under the Relationship Framework, the Board requires that all Non-Executive Directors are Independent Non-Executive Directors. The Board believes that there is an appropriate combination of Executive and Non-Executive Directors so that there is sufficient independent challenge and oversight of the Executive Directors and such that no individual or small group of individuals can dominate Board decision making.

At close of business on 31 December 2018, the Board comprised ten Directors: the Chairman, who was independent on appointment (and continues to be so), the Chief Executive, the Chief Financial Officer, and seven Non-Executive Directors, all of whom have been determined by the Board to be independent Non-Executive Directors. Ms. Emer Daly retired from the Board on 16 May 2018 following completion of her year term of office, Mr. Stephen Groarke resigned from the Board on 2 November 2018. Mr. Donal Courtney was appointed as Non-Executive Director on 3 October 2018 and Ms. Ruth Wandhöfer was appointed as Non-Executive Director on 30 October 2018. Biographies of each of the Directors are set out in the Board of Directors section on pages 71 to 74. The wide range of qualifications, skills and experience that is encapsulated in the biographies is harnessed to the maximum possible effect in the deliberations of the Board. Having Directors with diverse backgrounds in areas such as risk management, banking, customer service/ conduct, digital/IT, strategy and planning, finance, government/public service and auditing provides both subject matter expertise and facilitates a broad spectrum of review and challenge at Board meetings, particularly when addressing major issues affecting the Bank.

Decisions on Board membership are taken by the Board or by shareholders with recommendations coming from the Nomination Committee.

Term of Office

The term of appointment of Non-Executive Directors is three years and is subject to satisfactory performance that is reviewed annually. In accordance with the UK Code, all Directors are required to seek re-appointment by election at the AGM. Non-Executive Directors will automatically retire from the Board after six years. It is always at the discretion of the Board to invite a Non-Executive Director to continue for a further period but this discretion will only be exercised in exceptional circumstances. None of the Non-executive Directors has a contract for service with the Bank.

The Chairman is proposed for re-appointment by the Directors on an annual basis. The term of office of the Chairman is normally six years.

Executive Directors' service contracts are reviewed by the Remuneration Committee and approved by the Board. All Executive Directors' contracts provide for a rolling 11.5 month notice period to be provided. Holders of Executive office in the Company will vacate the office of Director on ceasing to hold Executive office. Directors who hold any directorship in a subsidiary of the Company will vacate said directorship on ceasing to be a Director of the Company and no Director will receive compensation for loss of office as a Director of a subsidiary of the Company.

Board Performance Evaluation

The Board has a formal and rigorous performance evaluation process to assess the effectiveness of the Board, its Committees, and individual Directors. The performance evaluation is conducted internally on an annual basis, and externally facilitated every three years.

The evaluation of the Board and its Committees considers the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness.

The process for the 2018 Board performance evaluation is set out below. The methodology used for the evaluation set out to ensure that there was a formalised approach to the Board evaluation that took into account both the views of the Directors and Senior Management. The rationale for the approach taken also ensured that the performance evaluation of individuals and of the Board collectively was brought together into one integrated process.

Individual Director evaluations aimed to show whether each director continued to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and committee meetings and any other duties). The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals is taken into account in deciding chairmanship and membership of committees. In addition, the evaluation ensures that Committees have the requisite expertise to properly discharge their duties, such as the Audit Committee as a whole is required to have competence relevant to the sector in which the Bank operates.

2018 Board Performance Evaluation

The last externally facilitated evaluation of performance took place in 2015. In line with the requirements of the UK Code and the Central Bank of Ireland's (CBI) Corporate Governance Code (which stipulate that externally facilitated, independent board evaluations take place at least every three years), in 2018, the Chairman together with the Nomination Committee arranged for an external evaluation to be conducted of the Board. Where an external evaluation is critical of the performance of a Board, the frequency of subsequent external evaluations will be increased to annually until acceptable performance is noted and any such subsequent evaluation will be provided to the CBI.

Following a robust tendering process, the performance evaluation process for 2018 was externally conducted by Promontory Financial Group (UK) Limited ("Promontory"). Promontory has provided other consultancy services to the Bank in the area of liquidity reporting and Risk governance.

Promontory's review included:

- an assessment of the composition, performance and cohesion of the Bank's Board and the Committees, reflecting the specific considerations of the Bank's structure, business model and strategy;
- an assessment of the individual competence of each member of the Board of Directors;
- an assessment of the roles and responsibilities, evidence of the strengths of the Bank's Board and Committees, and their processes;
- an evaluation of the Board's approach to leading the development of the corporate culture and values across the organisation; and identification of any areas inhibiting the Board and its Committees from being fully effective.

2018 Board Evaluation Process

November 2018
Desktop Review of Board and Committee meeting packs, Terms of Reference, Board Manual, and Governance documents.

December 2018 - January 2019
An experienced evaluator from Promontory conducted confidential and open interviews with each Director and a number of regular attendees at Board and/or Committee meetings.

Promontory attended meetings of the Board, Remuneration Committee, Audit Committee and Risk and Compliance Committee during December to observe meeting operation.

January 2019
Promontory attended a meeting of the Nomination Committee to observe meeting operation.
Promontory provided an interim update on the status of the Board Performance evaluation to the Nomination Committee.

Non-Executive Directors: In addition to Promontory's review of individual Directors' performance, the Chairman held private one-to-one meetings with each of the Non-Executive Directors to evaluate their performance and agree developmental areas relating to their own individual performance. These meetings also provided a forum for the Chairman to obtain views of individual Directors with regard to the effectiveness of the Board and that of its Committees.

Chairman: Led by the Senior Independent Director, the Non-Executive Directors carried out the performance evaluation of the Chairman, taking into account the views of Executive Directors.

Chief Executive: Without the CEO present, the Chairman held a meeting with the Group Executive Committee to obtain feedback on the Chief Executive's performance. The Chairman also obtained feedback from the Non-Executive Directors and subsequently presented his evaluation of the CEO's performance against agreed objectives to the Nomination Committee.

February 2019
The Nomination Committee's review of Board performance took place on 12 February 2019. At this meeting, the members of the Nomination Committee discussed the following items:

- The Chairman presented his report on individual Non-Executive Director performance;
- The Senior Independent Director (SID), without the presence of the Chair, presented her report on the performance of the Chairman;
- The Chairman, without the presence of the Chief Executive, presented his report on the performance of the Chief Executive;
- The Chief Executive presented his assessment of performance of the Bank's Executive Committee members;
- The Chief Executive presented his report on the review of the Executive Director's performance;
- Each of the Committee Chairs presented their review of the performance of their respective Committee;
- Led by the Chairman, the Committee considered a report from Promontory;
- The Chair of the Audit Committee confirmed that he had undertaken, with input from the members of the Audit Committee, an assessment of the performance of the Head of Group Internal Audit to the Audit Committee and presented a summary of his report;
- The Board Risk and Compliance Committee Chairman outlined the review carried out by the Chief Risk Officer on the performance of the Head of Compliance, which had been presented to the Board Risk and Compliance Committee;
- A governance discussion document prepared by the Company Secretary;
- Board skills matrix;
- Board and Committee tenure Report;
- Board and Committee meeting attendance schedule;
- Independence assessment of the Non-Executive Directors;
- Responsibilities of the Board, Chairman and CEO;
- An assessment of External Directorships;
- Any declared Conflicts of Interests of the Directors; and
- The Board's Diversity Policy.

During a Board meeting held on 26 February 2019, the Chairman, supported by Promontory representatives, presented a report on the 2018 Board performance evaluation for consideration by the Board.

Outcomes of 2018 Board Performance Evaluation

The Board were satisfied that the Non-Executive Directors, the Chairman and the Executive Directors contributed effectively to Board debate and discussion and demonstrated a knowledge and understanding of the business, its risks and material activities. A number of actions, arising from the Chairman's report, were agreed which will be overseen by the Chairman during the year.

2019 Board Performance Action Plan

Board Strategy	Enhanced focus on forward-looking strategies to be prioritised by the Board.
Board Oversight/ Director Training & Development	Continued focus on Board oversight throughout 2019, to include responsibility mapping and individual accountabilities for Management, in anticipation of the introduction of the Senior Executive Accountability Regime. Provide additional topic specific training and development sessions for Directors on both an individual and collective basis and to further enhance the director induction training process.
Drive Right Customer Outcomes	Board to drive initiatives that focus on 'right customer outcomes' and monitor implementation through enhanced oversight. Schedule additional regular one-to-one meetings between the Non-Executive Directors and the Chairman and more frequent Non-Executive Director only meetings.
Culture and Stakeholder Engagement/ Board size	Board to lead Organisational Culture programme, establish appropriate employee engagement structure, and develop stakeholder engagement framework, taking into account regulatory relationships. Based on the significant number of Board and committee meetings held during 2018 and a review of the Board skills matrix, the targeted Board size should increase from between 9 and 11 members to between 10 and 12 members, to support the increased workload of Directors and to ensure that the Board's committees are adequately resourced.
Control Environment	Continued focus on driving improvement within the Bank's control environment supported through enhanced Board oversight and support of the Three Lines of Defence.
Board responsibilities and Effectiveness	Board to approve a revised Board Skills matrix to support the Bank's business growth ambitions. Board succession planning to consider skills relevant to the culture and business of the Bank, taking into account appropriate Board size and composition, diversity, and independence of mind. Review responsibilities of Board Committees to ensure effective oversight.
Board Reporting	Identify and implement further initiatives that support quality reporting to Board and Board Committees.
Director Training & Development	Provide additional topic specific training and development sessions for Directors on both an individual and collective basis.

Director Induction and On-Going Business Awareness

On appointment to the Board or to any Board Committee, all Directors receive an induction training schedule tailored to their individual requirements. The induction, which is designed and arranged by the Company Secretary in consultation with the Chairman, will include meetings with Directors, Senior Management and key external advisors, to assist Directors in building a detailed understanding of the Bank's operations, management and governance structures, including the functioning of the Board and the role of Board Committees and key issues facing the Bank. Directors will also be encouraged to make site visits to see the Bank's operations first hand. Where appropriate, additional business awareness briefing sessions and updates on particular issues identified in consultation with the Chairman and Non-Executive Directors will be arranged by the Company Secretary. These will be held regularly to ensure that Non-Executive Directors have the knowledge and understanding of the business to enable them to contribute effectively at Board meetings. The business awareness and development needs of each Non-Executive Director will be reviewed annually as part of the performance evaluation process.

2018 Board Training and On-Going Business Awareness

Board Training Sessions
A number of in-house Board training sessions were facilitated during 2018 to support on-going business awareness and Director development. These sessions were delivered through formal presentations, workshops, and interactive participant sessions to the Board or Board Committees. Members of the Executive Committee were invited to attend these Board training sessions where relevant. Topics for Board training sessions are recommended by the Board, and include a balance of technical, governance and professional development. Training delivered during 2018 included transition to IFRS9, Organisational Culture, Cyber Security, Anti-Money Laundering, Anti-Bribery and Corruption, Inclusive Leadership, and Legal Horizon scanning.

Board Briefings
In addition to formal Board training sessions, a number of Board briefings were presented to the Board during 2018. The purpose of Board briefings is to ensure Directors have the knowledge and understanding of the business to enable them to contribute effectively to meetings, by providing insight into impending changes which may impact on the Board's responsibilities, the Bank's progress in implementing such changes, or to present industry updates. Board briefings were presented during 2018 included: Brexit, UK Senior Managers' Regime, EBA Guidelines on Internal Governance and Suitability Assessment, Remuneration Update and the UK Corporate Governance Code 2018 as well as a number of 'Deep Dives' on specific business areas.

Individual Director Development
An individual training plan is developed for each Director on appointment, and reviewed annually by the Chairman. The purpose of individual training plans is to support individual Director development. Each Director is required to undertake the Institute of Bankers Certified Bank Director programme. Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors. During 2018, individual cyber security personal awareness was offered to each Director, which was delivered on a one-to-one basis by Group Technology. In addition, the Group Strategy team delivered one-to-one information sessions for Directors on subjects such as Economic Segmentation and Strategy Development. Led by the Chair, the Non-Executive Directors met on occasion without the Executive Directors present.

Board Meetings
The Board held 15 scheduled Board meetings and 6 un-scheduled Board meetings during 2018. Further details on the number of meetings of the Board, its Committees and attendance by individual Directors are set out on page 74.

Agendas and papers are circulated to Directors electronically via a secure online board portal in sufficient time to facilitate review by the Directors. The Chair of each committee reports on the Committee's proceedings at Board meetings.

The Board receives formal reports on Bank risk and compliance matters together with its commercial and financial performance at each of its meetings. The minutes of Board committees are made available to all Directors through a designated reading room in the Board portal. The Board portal also contains an extensive document repository and is the primary method of communication with Directors.

Board Committees
The Board has established four permanent Committees to assist in the execution of its responsibilities. These Committees are:

- Audit
- Risk and Compliance
- Nomination
- Remuneration

Other Committees are formed from time to time to deal with specific matters. During 2018, Board Committees were composed of Non-Executive Directors, all of whom are considered by the Board to be independent. Membership and the Chairmanship of each committee are reviewed annually.

Each of the permanent Committees has Terms of Reference, under which authority is delegated to them by the Board, which is reviewed annually. The Terms of Reference of each Committee are available on request and on the Bank's website www.permanenttsbgroup.ie. The Committee Chairs attend the AGM and are available to answer questions from shareholders.

Corporate Governance Statement
Risk Management and Internal Control

Board Responsibilities

The Board has overall responsibility for maintaining a system of risk management and internal control which provides reasonable assurance of effective and efficient operations, internal financial and operational control and compliance with laws and regulations.

The Group's business involves the acceptance and management of a range of risks, consistent with its Corporate Purpose and in order to deliver its Restructuring Commitments. The Group's system of risk management and internal control is designed to ensure the delegation of responsibility for risk oversight and management is appropriate to the nature and type of risk faced by the Group.

UK Code provision C.2.3 requires the Board to review annually the effectiveness of the Group's system of risk management and internal control. This requires a review to cover all material controls including financial, operational and compliance controls. The Board confirms that a detailed review on the effectiveness of the Group's risk management and internal control systems was undertaken by the Board Risk and Compliance Committee as at 31st December 2018.

The Board confirms that, in considering the requirements to be satisfied as to the integrity of the Bank's Financial Information and associated Financial Controls together with undertaking responsibility for and the assessment of the nature and extent of the principal risks the Bank is willing to take in achieving its strategic investments, that it has complied with those elements of both main principle C.2 and the supporting principle A.4 of the UK Code

The Board also considers the effectiveness of the Group's system of risk management and internal control on an on-going basis. In this context, the Board has a particular focus on ensuring that appropriate governance structures are in place to address issues raised through internal review and through feedback from stakeholders, including regulators. There was no significant failure of the Group's system of risk management and internal control during 2018 leading to a financial loss and material progress has been delivered throughout the Group in, but not limited to the following areas:

- A material de-risking of the Group's Balance Sheet through the implementation of the Group's Non-Performing Loan Strategy;
- Increased awareness of Risk Culture across the Group, including the appointment of a Head of Organisational Culture and the development of a Board approved Organisational Culture Programme;
- Establishment of a Product Assurance Function within the Bank's First-Line of Defense;
- The continued enhancement to risk identification, control and testing within the Bank's First Line of Defense.

The risk governance infrastructure continued to evolve and strengthen in 2018 with enhancements to the Group's risk management framework through reviews of risk frameworks and policies together with enhancements to Risk Monitoring and Reporting that facilitated enhanced Board decision making. The Board Risk and Compliance Committee further updated its meeting procedures during 2018 to ensure it was focused on addressing the Group's principal risks.

The Board confirms that, in considering the requirements to maintain sound risk management and internal control systems that are both robust and defensible under both main principle C.2 and the supporting principle A.4 of the UK Code, the material progress made in developing the Bank's systems of risk management and internal control during 2018 demonstrate that while Group had not achieved full compliance with the aforementioned UK Code provisions throughout the full reporting period, it is expected that compliance will be achieved in 2019.

Internal Control Procedures

The Group's internal control procedures are designed to safeguard the Group's net assets, support effective management of the Group's resources, and provide reliable and timely financial and operational reporting both internally to management and those charged with governance, and externally to other stakeholders. They include the following:

- An organisational structure with formally defined lines of responsibility and delegation of authority;
- Established systems and procedures to identify, control and report on key risks. Exposure to these risks will be monitored mainly by the Board Risk and Compliance Committee. The CRO is a member of the Executive Committee and that of its sub- committees. The CRO reports directly to the Board Risk and Compliance Committee on the activities of these committees, details of which are further described in the Risk Management section;
- The preparation and issue of financial reports, including the consolidated Annual Report, is managed by the Group Finance department, with oversight from the Board Audit Committee. The Group's financial reporting process is controlled using documented accounting policies and reporting formats issued by the Group Finance department to all reporting entities (including subsidiaries) within the Group in advance of each reporting period end. The Group Finance department supports all reporting entities in the preparation of financial information. Its quality is underpinned by arrangements for segregation of duties to facilitate independent checks on the integrity of financial data. The financial information for each entity is subject to a review at reporting entity and Group level by Senior Management. In addition to reviewing and approving the full year Annual Report, the Interim and Annual Report are also reviewed by the Board Audit Committee in advance of being presented to the Board for their review and approval;
- Comprehensive budgeting systems are in place, with annual financial budgets and a four year Medium Term Plan prepared and considered by the Board. Actual results are monitored and there is monthly consideration by the Board of progress compared with budgets and forecasts;
- There are clearly defined capital investment control guidelines and procedures set by the Board;
- Responsibilities for the management of credit, investment and treasury activities are delegated within limits to line management. In addition, Group and divisional management have been given responsibility to set operational procedures and standards in the areas of finance, tax, legal and regulatory compliance, human resources and information technology systems and operations;
- GIA is responsible for the independent assessment of the Group's corporate governance, risk management and internal control processes. The Head

of Group Internal Audit reports directly to the Board of Directors through the Board Audit Committee;

- The BAC reviews the scope and nature of the work of Group Internal Audit on an on-going basis to confirm its independence;
- Compliance in the Group is controlled centrally under the Group CRO. The Group CRO reports to the Group CEO and independently to the Chairman of the Board Risk and Compliance Committee and has direct access to that committee; and
- There is a risk management framework in place within each business throughout the Group whereby Executive management reviews and monitors, on an on-going basis, the controls in place, both financial and non-financial, to manage the risks facing that business.

The Board Audit Committee reviews the Group Internal Audit programme. The Head of Group Internal Audit reports regularly to the Board Audit Committee. The Board Audit Committee also reviews the Interim and Annual Report and the nature and extent of the external audit. There are formal procedures in place for the external auditors to report findings and recommendations to the Audit Committee. Any significant findings or identified risks are examined so that appropriate action can be taken.

The Board Risk and Compliance Committee reviews the compliance and risk management programmes and monitors the risk profile of the Group. The Board Risk and Compliance Committee supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite. The Group CRO reports regularly to the Board Risk and Compliance Committee.

The Group has in place a Whistleblowing policy, which allows all staff and other people, who work with or for the Group, to raise any concerns they may have about suspected wrongdoing within the Group, and ensures that anyone raising a concern in good faith can feel safe and confident that the Group will treat the concern seriously, provide adequate protection and ensure fair treatment for the person raising the concern. In addition, the Group has in place a code of ethics, which lays down the standards of responsibility and ethical behaviour to be observed by all employees of the Group.

Internal Control over Financial Reporting

The Group operates an Internal Control Framework over financial reporting to support the preparation of the consolidated financial statements. The main features are as follows:

- A comprehensive set of accounting policies are in place relating to the preparation of the interim and annual financial statements in line with International Financial Reporting Standards, as adopted by the European Union;
- A control process is followed as part of the interim and annual financial statements preparation, involving the appropriate level of management review of the significant account line items, and where judgments and estimates are made, they are independently reviewed to ensure that they are reasonable and appropriate. This ensures that the consolidated financial information required for the interim and annual financial statements is presented fairly and disclosed appropriately;
- The Interim and Annual Report are subject to detailed review and approval through a process involving senior and executive finance personnel;
- Summary and detailed papers are prepared for review and approval by the Board Audit Committee covering all significant judgmental and technical accounting issues together with any significant presentation and disclosure matters; and
- A Group Internal Audit function with responsibility for providing independent, reasonable assurance to key internal committees and senior management, and to external stakeholders (regulators and external auditors), on the effectiveness of the Group's risk management and internal control framework.

Corporate Governance Statement
Board Diversity Report

PTSB recognises the benefits of having a diverse Board and see increasing diversity at Board level as an important element in maintaining a competitive advantage

Board Diversity
A diverse and inclusive culture is essential to the long-term success of Permanent TSB and enabling the Bank to respond to the Bank's diverse customer and wider stakeholder need. This is reflected in the Bank's Organisational Culture, Diversity and Inclusion Programmes, approved by the Board during 2018, which applies to the Bank as a whole. Further details on the Bank's Organisational Culture, Diversity and Inclusion programmes are set out on page 19.

Board Diversity Policy
The Board has a Diversity Policy, which applies to all members of the Board and sets out the approach to diversity of Board members. The Bank recognises the benefits of having a diverse Board and see increasing diversity at Board level as an important element in maintaining a competitive advantage.

A diverse Board includes and makes good use of differences in the skills (in particular those skills identified as relevant to the business and culture of PTSB as set out in the Board Skills Matrix, including regional and industry experience, educational, professional, social and ethnic background, nationality, gender, age, cognitive and personal strengths and other qualities of directors. These differences are considered in determining the optimum composition of the Board and when possible should be balanced appropriately.

Objective of Board Diversity Policy
The Nomination Committee discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. When setting diversity objectives, the Board will consider diversity benchmarking results published by competent authorities, the EBA or other relevant international bodies or organisations. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

The Board had set a target to achieve 30% female representation on the Board by the end of 2019. The Bank in committed to having a diverse Board, to achieving the target set in this regard and to ensuring an open and fair recruitment process.

The Board has set an objective that approximately 50% of Non-Executive Directors, including the Board Chair, together with the Chairs of the Audit and Risk and Compliance Committee, should have relevant banking and/or financial experience and this will be taken into account when recommending appointments.

How the Board Diversity Policy was implemented during 2018
All Board appointments are made on merit, in the context of the skills and experience that the Board as a whole require to be effective. The balance and mix of appropriate skills and experience of Non-Executive Directors are taken into account when considering a proposed appointment.

As part of the annual performance evaluation on the effectiveness of the Board, Board Committees and individual Directors, the Nomination Committee will consider the diversity needs of the Board through examining the balance of skills, experience, independence and industry knowledge of the Directors.

The behaviours likely to be demonstrated by potential Non-Executive Directors are also considered when interviewing for new appointments to ensure that an environment in which constructive challenge is expected and achieved is maintained in the Boardroom. In reviewing Board composition, the Nomination Committee considers the benefits of diversity, including gender, and looks to ensure that there is appropriate representation from other industry sectors.

The Board considers skills, experience and expertise, including education and professional background, in areas relevant to the operation of the Board. The Board's objective Banking and/or financial experience is also taken into account when recommending appointments. All candidates for appointment need to demonstrate the financial literacy required for a proper understanding of the Bank's activities and associated risks. The Nomination Committee seeks to ensure that a proportion of the Board has a deep understanding of financial products and has written guidelines to ensure that Board candidates are selected on merit, based on their skills, competencies, qualifications and ability to commit sufficient time to the role.

2018 Board Diversity Progress
Gender Diversity

The Board maintained a minimum of 20% female representation on the Board during 2018. Although Board gender is a key weighting used by the Nomination Committee in considering the selection of candidates to fill Board positions, the Bank was not successful in achieving a level of 30% female representation by the end of 2018.

Skills, Experience and Expertise

The Board achieved its objective of 50% of Non-Executive Directors having Banking and/or financial experience, and achieved its target that all Directors demonstrate financial literacy.

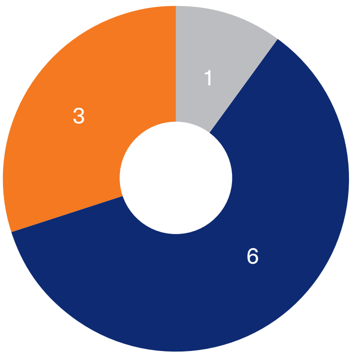
2018 Board Diversity

Gender


Board Diversity by Tenure
0-3 years

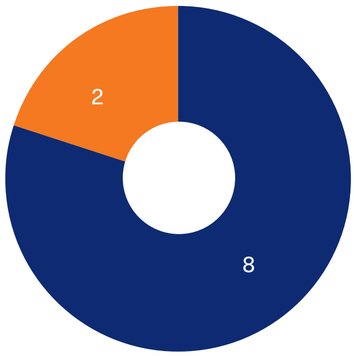

Board Diversity by Tenure
3-6 years


Nationality



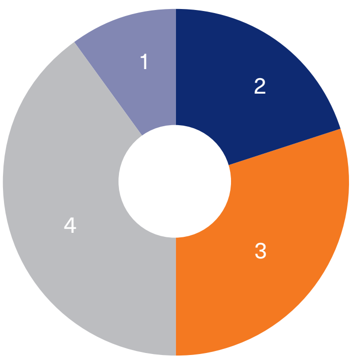
- Irish
- British
- German

Independence



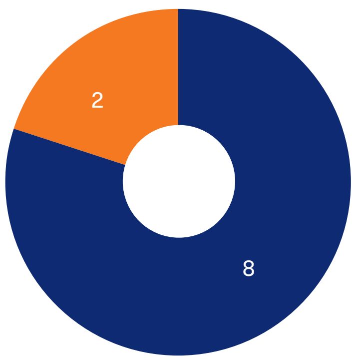
- Non Executive Directors
- Executive Directors

Age Profile



- 40-49
- 50-59
- 60-69
- 70-79

Executive & Non-Executive Directors



- Non Executive Directors
- Executive Directors

2019 Board Diversity Priorities

	Board Objective	2019 Board Action
Gender	The Board remain committed to achieving 30% female representation.	• Maintain a minimum of 20% female representation; • Retain the Board gender diversity target of 30% female representation; and • Encourage initiatives that promote broader inclusive gender diversity across the Bank, in line with the Organisational Culture, Diversity and Inclusion Programmes.
Board Diversity Policy	The Board recognise that there are many aspects of diversity such as gender, social and ethnic backgrounds, cognitive and personal strength, skills and experience, and the importance of ensuring wider diversity is considered for Board appointments.	• Consider the aspects of diversity relevant to the operation of the Bank, such as gender, age, social and ethnic backgrounds, cognitive and personal strength, educational background, professional background; • Review the Board Diversity Policy, to ensure all relevant aspects of diversity are included in the Policy; and • Encourage initiatives that promote broader inclusive gender diversity at Board level.
Board Recruitment and Selection and Suitability	The Board remains committed to having a diverse range of skills, experience and expertise, including education and professional background, in areas relevant to the operation of the Board, while ensuring that the Recruitment and Selection process for members of the Board is an open and fair process.	• Maintain a minimum of 50% of Non-Executive Directors, including the Board Chairman, together with the Chairs of the Audit and Risk Committees, to have Banking and/or financial experience and this will also be taken into account when recommending appointments; • Retain the requirement that all candidates for appointment need to demonstrate the financial literacy required for a proper understanding of the Bank's activities and associated risks; • Ensure that a proportion of the Board has a deep understanding of financial products; • Review Board Recruitment and Selection procedures, to ensure Board candidates are selected on merit, based on their skills, competencies, qualifications and ability to commit sufficient time to the role, with due regard to relevant aspects of diversity; and • Undertake an assessment of individual and collective suitability, taking into account relevant aspects of diversity to determine the continued individual and collective suitability of members of the Board.
Board Succession Planning	The Board are responsible for overseeing succession plans for the Board and Senior Executives.	• Review Succession Plans of the Board and Senior Executives, to ensure that the Bank pipeline of successors has adequate diversity.

Board Audit Committee

The Audit Committee ensure that the financial and internal control policies, practices and decisions of the Bank are carried out appropriately, and are properly aligned to strategy and the interests of its Shareholders

Dear Shareholders,

The Board has appointed me as Chair of the Audit Committee to replace Emer Daly, who retired from the Board during 2018. On behalf of the Committee, I would like to thank Emer for her extensive contribution and insightful experience which she brought to the Committee during her tenure. The Committee also extends thanks to Ronan O'Neill, who was appointed on a temporary basis to support the Committee in preparing and considering the 2018 Interim Results pending my appointment.

I am pleased to introduce the Board Audit Committee Report for the year ended 31 December 2018, which has been prepared by the Committee and approved by the Board. The purpose of this report is to provide an overview of matters considered by the Committee during 2018.

During 2018, the Committee had a busy year, particularly with the IFRS 9 transition programme, as well as considering accounting treatments of the Bank's deleveraging of non-performing loans. There was also much discussion by the Committee on the risks posed to the Bank as a result of the uncertainty surrounding Brexit, particularly as regards the potential for a hard Brexit and the consequences of same.

Finally, following completion of his five-year term at the conclusion of the 2017 year-end audit, Ivan McLoughlin ceased to be the lead external audit engagement partner and was replaced by John McDonnell. On behalf of the Committee, I would like to thank Ivan for his contribution during his tenure.

On behalf of the Board Audit Committee

Donal Courtney
Chair, Board Audit Committee

Composition and Operation

The Committee currently consists of four Non-Executive Directors considered by the Board to be independent. The biographical details of each member are set out on pages 72 to 73. Neither the Board Chair nor the Chief Executive is a member of the Board Audit Committee. The Board requires that the Chair of the Board Audit Committee has recent and relevant financial experience. The Chair of the Committee is responsible for leadership of the Committee and for ensuring its effectiveness. Together, the members of the Committee bring a broad range of relevant experience and expertise contributing towards effective governance.

The members of the Board Audit Committee meet together at the start of each scheduled meeting. The head of Group Internal Audit is then invited to join the meeting so that the Committee can review and discuss internal audit activity without Senior Management present. Subsequent attendance by the Chief Executive, Chief Financial Officer, Board Chairman, external auditors and others is by invitation only and managed to ensure the on-going independence of the Committee. The Board requires that a minimum of one member is common to the Board Audit Committee and the Risk and Compliance Committee. The Chair and Richard Pike are members of both Committees.

2018 Committee Meeting Attendance

Member	Appointed	Ceased	Number of Years on the Committee	2018 Meeting Attendance
Donal Courtney*	3 Oct 2018	-	0.2	3/3
Ken Slattery	23 Aug 2013	-	5.4	11/11
Richard Pike	1 Jun 2014	-	4.6	11/11
Andrew Power	26 Sept 2016	-	2.3	11/11
Emer Daly	26 Oct 2011	16 May 2018	6.5	5/5
Ronan O'Neill**	1 July 2018	3 Oct 2018	0.3	2/2

*Chair
**Ronan O'Neill was appointed on a temporary basis to support the Committee during the 2018 Interim Results.

Role and Responsibilities

The Board Audit Committee monitors the effectiveness and adequacy of internal control, internal audit and IT systems and reviews the effectiveness of risk management procedures, in addition to reviewing the integrity of the Company's internal financial controls. The Board Audit Committee reviews the arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Board Audit Committee monitors and reviews the effectiveness of the Group's internal audit function and also considers the external auditor's independence and objectivity and the effectiveness of the audit process.

The Board Audit Committee monitors the integrity of the Financial Statements of the Company, reviewing significant financial reporting judgements contained therein, to ensure that they give a "true and fair view" of the financial status of the Group and to recommend to the Board whether to approve the Annual and Interim Reports and to recommend to the Board that it believes that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's performance, business model and strategy.

In considering whether the Annual Report is fair, balanced and understandable, the Committee reviewed the Annual Report and considered whether the Financial Statements were consistent with the financial review elsewhere herein. The Committee also reviewed governance and approval processes in place within the Group as they were relevant to the Financial Statements. These included the completion by Management of disclosure checklists to ensure all required disclosures required by applicable company law, listing requirements and accounting standards are included in the draft Annual Report as reviewed by various Executives and Management of the Group.

The Committee also had regard to the significant issues relating to the Financial Statements that are set out in this report. Each of these significant issues were addressed in papers received by the Committee from Management and in the report received by the Committee from the external auditors and were discussed in the Committee's meeting with the external auditors.

The Board Audit Committee also had regard to the assessment of internal control over financial reporting, details of which are outlined in the Risk Management and Internal Control section of the Corporate Governance Statement.

Matters considered by the Committee in 2018

During 2018, the Committee spent a significant amount of time considering those issues set out in the Significant Financial Reporting Judgments and Disclosures and, recommending for approval to the Board, the Annual Report and Interim report.

During 2018, the Committee also:

- Reviewed Group Internal Audit activity throughout the year, including a review of performance against the 2018 internal audit plan;
- Approved a Group Internal Audit Plan covering the years 2019-2022;
- Considered and approved an updated Internal Audit Charter;
- Held a joint workshop with the Board Risk and Compliance Committee in reviewing the Bank's IFRS 9 transitional programme;
- Reviewed impairment provisions;
- Reviewed the effectiveness of internal control over financial reporting;
- Approved the updated Accounting Policy, in line with changes to IFRS;
- Reviewed the governance and approval arrangements underlying the fair, balanced and understandable assessment of the Annual Report;
- Assessed the Longer Term Viability and Going Concern Statements;
- Reviewed the Group's Pillar 3 policy and disclosures;
- Reviewed the disclosure on compliance with the UK Corporate Governance Code;
- Reviewed the continued recognition of a Deferred Tax Asset (DTA) on tax losses carried forward;
- Invited members of Senior Management to report on progress to remediate open internal audit actions;
- Reviewed provisions including those for legacy, legal and compliance liabilities related to the Bank's Mortgage Redress Programme and industry-wide CBI Tracker review;
- Reviewed the basis, background and level of Non-Audit fees paid to PwC; and
- Reviewed the Group's Whistleblowing arrangement whereby employees can raise concerns, in confidence, about possible wrong doings in financial reporting and other matters.

Financial Reporting and Significant Financial Judgments and Disclosures

During the year, the Board Audit Committee reviewed the external auditors' findings and the following financial reporting and significant financial judgments and disclosures for the 2018 Financial Statements.

Expected Credit Loss Provisions

The Committee considered the Group's methodology including assumptions and parameters for generating the Group's allowance for expected credit losses for its Residential mortgages portfolios. The Committee discussed with Management in detail the changes and revisions made to the Group's IFRS 9 ECL models, the resulting level of ECL provisions recognised in the financial year, and the total expected credit loss estimate at the year end.

Multiple scenarios

The Committee reviewed and approved the macro-economic scenarios for use in IFRS 9 ECL estimation, which included the central scenario used for financial planning purposes, a more favourable scenario and an adverse scenario.

Expert credit judgements

At 31 December 2018, the impairment provisions included €79 million of management's adjustments to modelled outcomes. A key focus of the Committee during the year was an assessment of the level and rationale for such adjustments.

The Committee concluded that a robust governance framework existed to monitor provisioning adequacy and that the assumptions and judgements applied by management were appropriate. The Committee was satisfied that the provision and related disclosures in the financial statements were appropriate.

Recognition and Recoverability of Deferred Tax Assets

The Committee considered the extent of deferred tax assets recognised by the Group in respect of unutilised tax losses, and in particular the future profits of PTSB against which losses may be utilised in future years. The Committee noted that the Group's performance and strategic outlook has continued to improve along with continued improvement in the macroeconomic environment during 2018, as outlined in more detail under "Going Concern" and "Longer Term Viability" below.

Accordingly, in line with the requirements of IAS 12 "Income Tax", Management have formed the view that the carried forward tax losses within PTSB could be utilised against future profits, which will be generated by PTSB. This requires significant judgments to be made about the projection of long-term profitability because of the period over which recovery extends.

Having considered the above, the Committee agreed with Management's assessment that it was probable that the level of deferred tax assets recognised in the Financial Statements at 31 December 2018 would be recovered. The Committee noted that IFRS does not allow for the deferred tax asset recognised to be discounted notwithstanding that it will likely take a significant number of years to be fully recovered.

Provisions for Liabilities
The Committee considered the provisions made in the Financial Statements in order to make an assessment of the appropriateness of the underlying liabilities. The Group has recognised a provision which relates to legal, compliance and other costs of on-going disputes in relation to legacy business issues with certain customers and other actions, including a Mortgage Redress Programme (MRP) in connection with an ongoing enforcement investigation by the Central Bank of Ireland (CBI) into the Group's compliance with the Consumer Protection Code, and the industry-wide CBI Tracker review. Management has exercised judgment in arriving at the potential provision in respect of these issues. There is significant estimation uncertainty involved in determining this provision and this could result in material adjustments to the provision in the future. Management presented a paper outlining the requirements of IAS 37 and the basis of the provisions proposed including legal advice as appropriate, together with a sensitivity analysis for the key assumptions underpinning any such provisions. The Committee is satisfied that the provisions represent the best estimate of the potential liabilities at 31 December 2018, based on the level of information currently available. This matter is being kept under review as more information becomes available.

Impairment review of the Group's subsidiary undertaking
The Company carries its investment in its subsidiary undertaking at cost less impairment and reviews whether there is any indication of impairment at each reporting date. Impairment testing involves comparing the carrying value of the investment to its recoverable amount. The recoverable amount is the higher of the investment's fair value or its value in use (VIU). An impairment charge arises if the carrying value exceeds the recoverable amount.

Management provided the Committee with a paper which detailed the recoverable amount of the investment. The Committee reviewed the paper and calculations and are satisfied that no impairment arose in the current year.

IT Access
Certain matters in relation to IT access controls have been communicated to the Board Audit Committee through the external audit process. We are however satisfied there are sufficient mitigating controls in place from a financial reporting perspective.

Going Concern

Note 1 to the Financial Statements includes details of the going concern of the Group and Company which outlines the Directors' view that the Group and Company will continue as a going concern for a period of 12 months following the signing of this report.

In making the judgment, the Committee were provided with detailed papers containing Management's considerations of the risks and uncertainties as they may pertain to going concern, including a Brexit related scenario. These judgments were reviewed by the Committee, and the Committee agree with Management's view that the Group and Company continue on a going concern basis and that there are no material uncertainties.

Longer Term Viability

In accordance with the requirements of the UK Corporate Governance Code, the Directors have assessed the viability of the Group, taking account of the Group's current position and principal risks facing the Group.

The period over which we confirm longer-term viability
The Directors have assessed the viability of the Group over a 3 year term which falls within the time horizons considered within the various strategic planning and scenario testing frameworks employed by the Group. This period presents the Board and therefore readers of the Annual Report with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

Assessing the prospects of the company
In making this assessment, the Directors have considered the Group's Medium Term Plan, profitability forecasts, the economic environment, funding and capital resource projections.

Our corporate planning process is underpinned by various scenarios that encompass a wide spectrum of potential outcomes. These scenarios are designed to explore the resilience of the Group to the potential impact of significant risks set out on pages 45 to 60, including in particular funding and liquidity, capital adequacy, the economic and political environment, regulatory risks and the commitments outlined in the EU Restructuring Plan, or a combination of these risks.

The Group has earned profits for the 2018 year. This is as a result of continued improvement in underlying profitability of the Group, which is driven principally by a reduction in exceptional items as well as improved funding. The Directors have reviewed the draft Medium Term Plan and based on this, the macro economic conditions of the country and the planned resolution of legacy issues they are satisfied that the Group is on track to remain profitable under a sustainable business model into the future.

There are certain key assumptions that are critical to the viability of the Group and these are outlined below:

Funding & Liquidity
The Group's liquidity position remains strong with the Group holding a significant liquidity buffer at 31 December 2018. During the year, the Group eliminated all reliance on ECB funding by paying down the €0.23bn at 31 December 2017.

A key assumption in determining the longer term viability is that the Group will continue to be able to access the required liquidity and funding during the period of assessment.

The Group continues to undertake a number of initiatives to further improve its liquidity position in the areas of deposits, collateral optimisation, wholesale markets activity and deleveraging.

Notwithstanding the above, the Group continues to utilise the normal operations of the ECB for liquidity and funding during the period of assessment and the Directors and Management are aware that the Group's ability to continue to access system liquidity and funding will be dependent on the Group having sufficient eligible collateral.

Our funding plans assume, based on our interaction with wholesale markets and deposit trends, that the required liquidity and funding will be available to the Group over the medium term.

Capital Adequacy
Directors and Management have considered the forecast sufficiency of this capital base, and its ability to withstand additional stress scenarios such as the economic environment in Ireland deteriorating. At present we do not have full certainty as to how our minimum regulatory capital requirements will evolve over the period to 2020; however we expect to be in a position to meet those requirements in the medium term.

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 continued to recover during 2018. The potential impact of economic, political and market risks and uncertainties are inherent in the Group's banking business and continue to impact the Group. The risks have a direct impact on the Group's loan arrears levels, impairment provisions and cost of regulation and as a consequence, profitability and regulatory capital levels are impacted.

Heightened uncertainty remains with regard to the final outcome of 'Brexit' and the nature of the UK's revised trading relationship with the EU and the consequent impact on the UK, Ireland, and the wider European Union's economic outlook. The Group believes it is reasonably well positioned to withstand any near term volatility caused by Brexit, particularly given the Group's progress in reducing NPLs and continued profitability. However, the risk of a 'No deal Brexit' undoubtedly has increased, which could have a negative impact on the Irish economy and could, in turn negatively impact the Group's profitability, business and capital.

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

EU Restructuring Plan
The Group's Restructuring Plan, which covered the period to 31 December 2018, was approved in April 2015. Following the conclusion of the Restructuring Period, the Group has now exited the Restructuring Plan.

Robust assessment of the principal risks
We have performed a robust assessment of the principal risks to our business, its viability and the key assumptions outlined above. The scenarios we have considered in relation to our viability can be summarised as follows:

- Base case: planned profitability and growth over the medium term. This is the basis for our Medium Term Plan in which we have assumed that we continue to meet all material regulatory capital and liquidity targets over the assessed period to 2021;
- Prolonged cost of funds and house price deterioration: we estimate that our capital and liquidity ratios can withstand stressed period of one year, depending on its severity, however over a very prolonged period or in the event of a very significant deterioration we would be required to take mitigating actions including but not limited to raising additional capital;
- Global credit shock and higher global unemployment: reduction in our capital and liquidity ratios which would continue to meet minimum regulatory capital requirements; however continued stress over a prolonged period or in the event of a very significant deterioration would require the Group to take mitigating actions including but not limited to raising additional capital;
- Increased competition: we believe our balance sheet could withstand a period of increased competition for some years with the impact on the Group's underlying profitability mitigated to a degree by Management actions to ensure the cost-base reflects the lower business volumes; and
- Significant European downturn and material deposit outflows: over the medium term would likely require us to take a variety of mitigating actions including raising both capital and additional secured debt, if possible.

The scenarios considered were designed to be severe but plausible; and take full account of the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks and that realistically would be open to the Group in the circumstances.

Confirmation of longer-term viability
Based upon our assessment of the above, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment to December 2021.

Accounting Treatment of Project Glas and Project Glenbeigh

The Committee considered the accounting requirements for de-recognition of financial assets under IFRS 9 in relation to Project Glas and Project Glenbeigh. Management assessed the transactions, considering transfer of contractual rights and transfer of risks and rewards. The Committee reviewed technical accounting papers presented by Management outlining the treatment of the transactions and are satisfied that these are in line with IFRS 9.

With respect to Project Glenbeigh, Management also considered the requirements of controlling financial interest under IFRS 10, including obtaining external advice. The Committee have reviewed this report and Management's assessment and are satisfied that the accounting treatment is appropriate and in line with the required accounting standards.

Relationship with External Auditors

The Group's External Auditors are PwC who were appointed by shareholders in 2013. The Board Audit Committee provides a link between the Board and the external auditors, independent of the Company's Management. The external auditors regularly attend Board Audit Committee meetings and the Committee meet with the external auditors at least once a year without Management present to discuss their remit and any issues arising from the audit.

The Board Audit Committee reviewed the external audit plan prior to the commencement of the 2018 audit. The Board Audit Committee meet with the external auditor to review the findings from the audit of the Group Financial Statements. The Board Audit Committee has an approved policy on the provision on non-audit services by the external auditor. The policy seeks to ensure that processes are in place to ensure that the independence and objectivity of the external audit process is not compromised, which includes monitoring the nature and extent of the services provided by the external auditor through its quarterly review of fees paid to the external auditor for audit and non-audit work, seeking confirmation from the external auditor that they are in compliance with relevant ethical and professional guidance and that, in their professional judgment, they are independent of the Group.

The Board Audit Committee reviews all fee arrangements with the external auditor. Fees paid in respect of audit, other assurance services, tax advisory services and non-audit services are outlined in note 9 to the Financial Statements.

Other assurance services are services carried out by the auditors by virtue of their role as auditors and include assurance related work, reporting to the regulator and accounting advice. In line with best practice, the auditors do not provide services such as financial information, system design and valuation work which could be considered to be inconsistent with the audit role.

The amount of fees payable to external auditors for their audit services for the year 2018 was €1.2 million (excluding VAT) payable to PwC Ireland. €0.2 million (excluding VAT) was paid in respect of non-audit services to PwC Ireland, which relate to the accounting advice PwC provided on various projects including IFRS 9. €0.1 million (excluding VAT) was paid in respect of non-audit services to PwC UK in relation to the launch of a new structured securitisation entity. An additional €0.6m (excluding VAT) was paid to PwC Ireland in respect of proactive assurance relating to IFRS 9, the ELG scheme and other Central Bank Reporting. PwC were chosen for non-audit services for routine services which would not impair the independence of the auditor and are consistent with the rules on auditor independence. These services are generally performed by a company's external auditor.

The external auditor is required to rotate audit partner every five years. The current audit partner is John McDonnell who was appointed in 2018. The Group also reviews the effectiveness, independence and objectivity of the external auditor.

The last competitive tendering process for the appointment of the auditors took place in 2012. This development followed a Board decision that the position of auditors should be subject to regular, competitive tendering.

The Board Audit Committee reviews the effectiveness of the External Auditor through discussion and assessment of its performance. The Board Audit Committee has concluded that it was satisfied with the External Auditor's performance and recommend to the Board a proposal for the re-appointment of the Auditor, to be approved at the 2019 AGM.

Review of Group Internal Audit

The Board Audit Committee approves the annual work programme for the Group Internal Audit function, ensures that it is adequately resourced and has appropriate standing within the Group. The Head of Internal Audit has a direct reporting line to the Chair of the Board Audit Committee and the Board Audit Committee meet with the Head of Internal Audit on a regular basis without the presence of Management. The Board Audit Committee receives regular reports from Group Internal Audit, which include summaries of the key findings of each audit in the period. The Board Audit Committee ensures co-ordination between Group Internal Audit and the external auditor.

As set out in the Risk Management Section a 'Three Lines of Defence' model has been adopted by the Group for the effective oversight and management of risks across the Group, with Group Internal Audit being the Third Line of Defence.

In line with the Institute of Internal Auditors (IIA) Standards (1300), the Head of Group Internal Audit is required to develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. An internal quality assessment must be completed on an annual basis with an independent external assessment undertaken every 5 years to evaluate the Internal Audit Function's conformance with IIA Code of Ethics and Standards. The Group's Internal Audit function was reviewed by the IIA in 2016. The Committee regularly reviews the available skills and resources within the Internal Audit Function in order to ensure that the function has the necessary capabilities to provide a quality audit service. Through these measures the Audit Committee has assessed the effectiveness of internal audit function and is satisfied that the quality, experience and expertise of the function is appropriate to the needs of the Group.

Corporate Governance Statement
Risk and Compliance Committee

The Committee supports the Board in ensuring risks are properly identified, reported, assessed, and controlled, and that the strategy is consistent with the risk appetite

Dear Shareholders,

As Chair of the Board Risk and Compliance Committee, I am pleased to report on how the Committee has discharged its responsibilities for the year ended 31 December 2018. Following Emer Daly's resignation, Donal Courtney and Ruth Wandhöfer joined the Committee in October 2018. This report has been prepared by the Committee and approved by the Board. The role and responsibilities of the Committee together with a description of the work undertaken during 2018 are set out below.

During 2018, Stephen Groarke resigned as Chief Risk Officer and member of the Board. On behalf of the Committee, we thank Stephen for his dedication in developing the Bank's Risk Function. Mike Frawley was appointed as Chief Risk Officer to the Bank in December 2018. The Chief Risk Officer has a direct reporting line to the Committee, and the Committee will work closely with Mike in his new role during 2019.

Risk Management is embedded throughout the Bank. Although the process of risk identification, assessment and response is continuous and embedded within the day-to-day operations, it is consolidated, reported and reviewed at varying levels throughout the Bank on a continuous basis. The risk appetite process is implemented to align the Bank's risk profile. Risk management is therefore an integral component of the Bank's Corporate Governance.

The current financial year has seen further maturity of the risk management framework which focused on strengthening the Bank's systems of risk management and internal controls. The strategic risk environment forms the starting point and foundation for determining the risk appetite, the assessment of the capital and liquidity requirements in relation to the risk appetite and recovery plan in case of deviation.

Regulations are demanding a more resilient banking sector by strengthening the solvency of the banks and introducing strict liquidity requirements. While the Committee was not in a position to confirm compliance with the UK Code for the full 2018 reporting period, a number of key developments set out on page 87 of this report will support compliance for 2019.

On behalf of the Board Risk & Compliance Committee

Ronan O'Neill
Chair, Board Risk & Compliance Committee

Composition and Operation

The Board Risk and Compliance Committee is composed of Independent Non-Executive Directors. Neither the Board Chairman nor the CEO is a member of the Board Risk and Compliance Committee. The Board ensures that the Chairman of the Committee has relevant risk management and / or compliance experience. The Board requires that at least one member of the Committee is common to each of the Board Audit Committee and the Board Remuneration Committee. On an annual basis, the Committee reviews its own terms of reference and the Board Nomination Committee conducts a review of the committee's effectiveness and recommends changes considered necessary to the Board.

2018 Committee Meeting Attendance

Member	Appointed	Ceased	Number of Years on the Committee	2018 Meeting Attendance
Ronan O'Neill*	26 Jul 2016	-	2.4	12/12
Richard Pike	28 Jan 2014	-	4.9	12/12
Julie O'Neill**	28 Jan 2014	-	4.8	12/12
Donal Courtney	3 Oct 2018	-	0.2	2/3
Ruth Wandhöfer	30 Oct 2018	-	0.2	2/2
Emer Daly	24 Oct 2011	16 May 2018	6.4	4/4

*Chair
** Julie O'Neill ceased to be a member of the Committee on 1 February 2019.

Responsibilities of the Committee

The Committee is responsible for monitoring adherence to the Group Risk Appetite Statement. Where exposures exceed levels established in the Risk Appetite Statement, the Committee is responsible for ensuring that appropriate responses are developed. This is facilitated by the periodic review of a key risk indicators report calibrated to the Risk Appetite Statement.

The Committee is responsible for monitoring compliance with relevant laws, regulatory obligations and codes of conduct. This is facilitated by regular reporting on compliance risks to the Committee. The Committee also spent a substantial amount of time tracking the continuing regulatory agenda and received updates on Management's activities to implement new and updated regulation and on the on-going engagement with the Group's Regulators.

The Committee is also responsible for oversight and advice to the Board on risk governance, the current risk exposures of the Group and future risk strategy, including strategy for capital and liquidity management, the setting of compliance policies and principles and the embedding and maintenance throughout the

Group of a supportive culture in relation to the management of risk and compliance. The Board Risk and Compliance Committee supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's Risk Appetite. It seeks to review key aspects of the Group's risk profile and provide appropriate challenge on the adequacy of their management.

The committee independently monitors the extent to which the Bank complies with relevant rules and procedures. This includes raising and maintaining awareness of, for example, financial regulations, compliance procedures and fraud and anti-corruption measures. We have internal policies, rules and procedures to guarantee that management complies with relevant laws and regulations regarding customers and business partners. External aspects of the committee are primarily concerned with monitoring financial transactions and preventing money laundering. Internal aspects primarily concern checking private transactions by employees and directors, preventing and, where necessary, transparently managing conflicts of interest and safeguarding confidential information.

In addition to meeting legal requirements, the Committee reviews its own Terms of Reference annually and its own effectiveness, recommending any changes considered necessary to the Board.

Matters considered by the Committee in 2018

During 2018, the Committee continued to oversee risk management and control environment by supporting work undertaken by Second-Line and Third-Line to further embed the Bank's Internal Control Framework. The Committee recognises the importance of having robust and defensible systems of risk management and internal control. Following the outcome of the 2018 review of compliance with the provisions of the UK Corporate Governance Code, as set out in page 87, the Committee acknowledge that whilst a number of improvements on risk management and internal controls were achieved during 2018, they were not in place for the full reporting period. The Committee expects that full compliance will be achieved for 2019.

During 2018, the Committee held a joint workshop with members of the Board Audit Committee, to consider the Bank's IFRS9 transitional programme. Each meeting of the Committee considered the management information provided by the CRO incorporating the following aspects:

- Risk Appetite metrics
- Recovery Plan metrics
- Credit risks
- Financial risks
- Non-Financial risks
- Compliance and Regulatory matters
- Conduct risk
- Other risks including reputational risk

Specific reviews were also performed and recommendations made to the Board with regard to the Group's Risk Management Architecture documentation that included the Group's Risk Appetite Framework and Risk Appetite Statement. The Committee also discussed and reviewed such matters as Anti-Bribery and Corruption, Anti-Money Laundering/ Counter Terrorism Financing, Mortgage Forbearance, Related Party Lending, Complaints Management Framework/ Policy and the continued embedding of the Bank's Internal Control Framework. During the year, the Committee also considered and approved Group Risk/ Compliance Frameworks, Policies and supporting documentation that included the following:

- Group Risk Management Framework
- Group Risk Governance Manual
- Group Risk Function Mandate
- Operational & IT Risk Management Policy
- Credit policies
- Treasury policies, including the Liquidity & Funding Risk Policies and Contingency Funding Plan, and Model Risk Policy
- Regulatory Compliance Framework and Policy
- Data Protection Policy
- Compliance Monitoring Plan
- Annual MLRO Report

In executing its mandate, and where relevant, the Committee was cognisant of regulations and regulatory expectations. During 2018, the Committee considered the responsibility for the Committee to have effective oversight and challenge capacity, and have introduced new protocols regarding meeting operation. These new protocols enable the Committee to focus on key areas of focus in risk and compliance has and support improved effectiveness and efficiency of meetings.

Governance in Action: Brexit

Given the uncertainty surrounding the impact of Brexit, the Committee oversaw a programme on Brexit preparedness during 2018. The Committee undertook a review of the risks posed by Brexit for Permanent TSB, the financial services sector in Ireland, and, in relation to the economy generally which resulted in Brexit moving to a Top 10 risk facing the Bank. The Committee considered the potential impact of Brexit on our principal risks as well as potential opportunities. The Committee considered contingencies to manage the key risks identified from the Brexit Review. In addition, an internal Brexit Crisis Monitoring Group was established, which presented regular reporting to the Committee on the Bank's approach and preparedness to Brexit. The Bank also engaged with external consultants to support the Bank's preparedness plans. In addition, the Committee, and Board generally, received regular presentations and updates from external industry experts on Brexit.

The Committee will continue to track potential risks and closely monitor the developments of Brexit throughout 2019.

Corporate Governance Statement
Nomination Committee

The Board Nomination Committee evaluates the skills and characteristics required of Board members and oversees succession planning for the Board and senior management

Dear Shareholders,

As Chair of the Board Nomination Committee, I am pleased to present the report of the Committee for the year ended 31 December 2018. This report has been prepared by the Committee and approved by the Board. The report provides further context and insight into the role and responsibilities of the Committee together with a description of the work undertaken during 2018 as set out below.

Succession Planning
The Nomination Committee is responsible for evaluating the structure, size, composition and succession planning needs of the Board, Executive Committee and Senior Leadership Team in making recommendations with regards to any changes thereto. The Committee ensures that the necessary talent is in place so that we have the requisite combined core skill set to determine the long term aims of the Bank and provide leadership to achieve these aims. Ms. Emer Daly retired as a Director following the AGM on 16 May 2018 having completed her second term in office. Two new Non-Executive Directors joined the Board in 2018, Donal Courtney on 3 October 2018 and Ruth Wandhöfer on 30 October 2018. Both Donal and Ruth bring a wealth of experience and skills to the Board as set out on pages 73 to 74 of this report.

Stephen Groarke resigned as Chief Risk Officer and Executive Director on 2 November 2018. The Committee oversaw the subsequent recruitment and selection process, and Mike Frawley was appointed as Chief Risk Officer and member of the Executive Committee in December 2018.

During 2019, succession planning will continue to be a key focus for the Committee as new talent is identified that will ensure continued diversity of thought and fresh thinking at Board meetings. The Committee will also ensure the Bank maintains a strong leadership team to drive the long term success of the Bank.

Diversity
In reviewing Board composition, the Committee considers the benefits of diversity, including gender to bring diversity of thought to Board discussions and to ensure that there is appropriate representation of different skills, personal strengths and other qualities relevant to the business and culture of the Bank. Diversity was considered during the recruitment and selection of new members to the Board during 2018, further details are set out on page 89 of this report. The Committee also reviewed the Board Diversity Policy and its implementation, which set out in the Board Diversity Report on page 89 of the Corporate Governance Report.

As stated in the Board Diversity Report, the Committee will continue to consider diversity during recruitment, selection and on-going suitability assessments, and the Board will continue to support initiatives that promote gender diversity on the Board.

The Committee will review succession plans for senior leadership positions to ensure that the Bank pipeline of successors includes adequate diversity. Further details of the Bank's Diversity and Inclusion Strategy are set out in page 19 of the Corporate Social Responsibility Review and pages 89 to 91 of the Corporate Governance Report.

Board Performance Evaluation
In 2018, the Committee oversaw an independent, external evaluation of the Board, its Committees and individual Directors, to understand how effectively they were performing while providing assurance to the regulatory authorities, stakeholders and investors of our commitment to the highest standards of governance and probity.

On behalf of the Nomination Committee

Robert Elliott
Chair, Board Nomination Committee

Composition and Operation

The Board Nomination Committee is composed of independent Non- Executive Directors. The Board requires that the Board Chairman and the Senior Independent Director are members of the Board Nomination Committee.

2018 Committee Meeting Attendance

Member	Appointed	Ceased	Number of Years on the Committee	2018 Meeting Attendance
Robert Elliott*	31 Mar 2017	-	1.8	4/4
Emer Daly	1 Jun 2014	16 May 2018	4	2/2
Julie O'Neill	28 Jan 2014	-	4.9	4/4
Ronan O'Neill	26 Jul 2016	-	2.4	4/4
Donal Courtney**	3 Oct 2018		0.2	0/0

*Chair
** Donal Courtney was appointed to the Committee on 3 October 2018, there were no meetings held between this date and 31 December 2018.

Responsibilities of the Committee

The Board Nomination Committee is responsible for bringing recommendations to the Board regarding the appointment of new Directors and of a new Board Chairman. The Board Chairman does not attend the Committee when it is dealing with the appointment of a successor to the Board Chairman. Decisions on Board appointments are taken by the full Board. All Directors are subject to re-appointment by election by the shareholders at the first opportunity after their appointment. The Committee keeps under review the leadership needs of the Bank, both Executive and Non-Executive, with a view to ensuring the continued ability of the Bank to compete effectively in the marketplace. The Committee is also responsible for reviewing the effectiveness of the Board's operations, including the Chairmanship and composition of Board committees.

Restructuring of the Bank's Executive Committee

A number of structural changes to the composition of the Executive Committee took place during 2018. The Committee oversaw the appointment of Patrick Farrell to a newly created position of Retail Banking Director. Patrick's role combines and expands the previously separate roles of Commercial Director and Distribution Director. Patrick is responsible for the Product Management, Distribution Channels, Commercial Strategy, Brand and Marketing functions.

The Committee oversaw the appointment of Breege Timoney as Product Assurance Director to the newly established Product Assurance function, and member of the Executive Committee. In line with the Bank's continued focus on delivering the right customer outcomes, Breege's role will focus on ensuring the Bank's products continue to meet customer and regulatory requirements.

The Committee oversaw the appointment of Mike Frawley to the role of Chief Risk Officer, and member of the Executive Committee. In his new role, Mike is responsible for leading the Group Risk function and will have a direct reporting line to the Chairman of the Board Risk and Compliance Committee.

Director Appointments

A key function of the Board Nomination Committee is succession planning for the Board. There were two appointments to the Board during 2018. Donal Courtney, was appointed as a Non-Executive Director and Chair of the Board Audit Committee in October 2018. Additionally, Ruth Wandhöfer was appointed as Non-Executive Director to the Board in October 2018. Full details of the appointment process for both position are set out below.

A key focus for the Committee will be succession planning for planned Board departures during 2019. Ken Slattery is due to complete his second three year term of office in August 2019. The Board has also received written notification from the Minister for Finance under the provisions of the Relationship Framework to appoint two Directors to the Board and these nominations will be progressed during 2019, subject to the required regulatory approvals.

The Board Nomination Committee are responsible for overseeing the ongoing process to identify suitable candidates and make recommendations on Board and Committee composition.

The process for the recruitment and selection of Ruth Wanderhöfer and Donal Courtney to the Board during 2018 are set out below.

In order to maintain an appropriate Board balance, the Board Nomination Committee undertook a review of the skills, competencies and qualifications of the Board. The review took into account the Board Skills Matrix, the composition of the Board Committees and the Board Diversity policy, mindful of the Board's diversity target to have 30% female representation on the Board. The ongoing search for new Board members involves approval by the Committee of a detailed role specification, review and approval of an updated Board skills matrix,to understand the current skill set of the Board and potential and future skills gaps.

The Board Nomination Committee identified the need to replace Emer Daly as Board Audit Committee Chair and, following the aforementioned review and update of the Board Skills Matrix, further identified the requirement to recruit a new Director with expertise in transaction banking and payments. The Committee utilised the services of the external search agency 'Odgers Berndston' to support the recruitment process for the Board Audit Committee Chair position and separately utilized the services of the Company Secretary to support candidate identification for the new Director position. A long list of potential candidates was generated by both the Company Secretary and 'Odgers Berndston' with regard to the respective vacant positions. Open advertising was not utilised by the Board Nomination Committee as the Committee was satisfied that the pool of candidates put forward for the positions was diverse and thorough. The profile of each candidate on the long list was considered in the first instance by the Chairman. The Chairman then held preliminary meetings with a proportion of these candidates before selecting an interim shortlist of candidates for members of the Board Nomination Committee to meet. As part of the assessment process, a final short list was created and these candidates were invited to meet with the Executive Directors and members of senior management. The purpose of these meetings was to provide feedback to the Board Nomination Committee with regard to the candidates' designated core competencies and experience. In addition to considering each of the candidates backgrounds, skills and experience, extensive due diligence was carried out on the preferred candidates, which included a detailed review of time and other commitments including any matters that would likely impact the candidate's independence or create any actual or perceived conflict of interest. The Board Nomination Committee also considered the candidate's personal characteristics, as the ability to provide robust challenge to Executive Management is considered a critical competency for the role of a Non-Executive Director.

Board Performance Evaluations

As required under the UK Corporate Governance Code, an externally facilitated Board performance evaluation will take place every three years. The last externally facilitated evaluation of performance took place in 2015; consequently an external review of the board performance took place during 2018. The process undertaken for the 2018 annual Board performance evaluation and the resulting Action plan are set out in pages 83 to 85 of this report. The next scheduled external Board evaluation will be again conducted on 2021 performance.

Other Matters considered by the Committee in 2018

- review of the succession plan for Board and Senior Management positions across the Group;
- review of its own terms of reference;
- approval of the recruitment process and appointment for a number of Senior Management positions;
- review and approval for a proposal to re-structure the Executive Committee in 2018 through the creation of new positions and reporting lines;
- review and approval of the Board Diversity Policy;
- review of the performance of the Chief Executive and the performance assessment of his direct reports;
- oversaw the appointment two Non-Executive Directors;
- review of the effectiveness of the Directors, the Board and that of its Committees;
- review of the size and composition of the Board and that of its Committees;
- the making of a number of recommendations to the Board including the recommendations that the target Board size should be increased;
- review and approval of an updated Board Skills Matrix.

Corporate Governance Statement
Remuneration Committee

The Board Remuneration Committee ensures that remuneration arrangements support the strategic aims of the Bank and enable the recruitment, motivation and retention of staff whilst also complying with the Bank's regulatory and legal requirements

Chair's Overview

Dear Shareholders,

As Chair of the Board Remuneration Committee, I am pleased to present the report of the Committee for the year ended 31 December 2018 which has been approved by the Board. The Committee's report contains certain regulatory information required under the applicable legislation in respect of the Group's status as a listed company and credit institution, as well as under the EBA Guidelines on Internal Governance and the UK Corporate Governance Code 2016 as well as under the applicable legislation in respect of the Group's status as a listed company and credit institution. In addition to meeting legal requirements, the Committee reviews its own Terms of Reference on an annual basis as well as its own effectiveness, recommending any changes to the Board. The report also provides further detail on the role and responsibilities of the Committee together with a description of the work undertaken during 2018.

In exercising its duties, the Remuneration Committee considers the long term interests of shareholders, investors and other interested parties, and the public interest, as well as regulatory requirements. The Executive Committee's pay continues to be implemented in accordance with the Remuneration Policy, which was reviewed and updated in 2018. No material changes were enacted following a review of the Group's Remuneration Policy and supporting policies in 2018.

In order to attract, retain and motivate our Senior Leadership Team and the employee population as a whole, we continue to look at ways to live our values whilst, at the same time, striving for competitive packages, which will attract and retain the best of talent whilst taking budget constraints and the broader commercial environment we operate in into account. During 2018, we continued to look at the future total reward framework to provide our employees with something of value in return for their contributions to the vision and values of the Bank, and as same are outlined in more detail in the section of this report entitled "Culture, Diversity & Inclusion).

At this point, it is appropriate to reference a significant risk facing the Group is it's ability to attract, retain and motivate key skilled and qualified people. Challenges to these capabilities could impact the business negatively.

Since the financial crisis, the Bank's ability to reward and recognise the contribution of its staff has been significantly constrained. Whilst constraints on remuneration resulted partly from cost considerations, the Group's Remuneration Policy, while set and governed by the Board, has been subject to certain agreements and commitments in place with the Irish State. These agreements restrict the terms of remuneration for Directors and employees of the Group, and as such inhibit the Bank's ability to provide a comprehensive, modern reward package, including the operation of variable pay elements that can support the delivery of the Bank's short and long term strategic objectives (such as Long Term Incentive Plans, Bonus Schemes and Profit Share arrangements).

Given current employment market trends, including the emerging impact of the United Kingdom's planned exit from the European Union, the Bank finds itself subject to increasing competition for staff from other institutions that are not subject to the same State agreements and, hence, can offer a more complete proposition aimed at attracting and retaining the best talent.

In the context of these factors, the Committee welcomes the current review of Banking Remuneration Policy being undertaken by the Department of Finance & Public Expenditure and Reform. Permanent TSB has cooperated fully with the Department, and its appointed representatives, in their analysis of current compensation arrangements in place within Permanent TSB, and the wider industry. The Group awaits the findings of the review which will inform the ongoing development of the Group's Remuneration Policy, throughout 2019 and beyond.

On behalf of the Remuneration Committee

Julie O'Neill

Julie O'Neill
Chair, Board Remuneration Committee

Composition and Operation

The members of the Board Remuneration Committee are experienced in the management and oversight of large organisations where the remuneration and motivation of staff and executives is of crucial importance. The Committee had seven meetings during 2018.

2018 Committee Meeting Attendance

Member	Appointed	Ceased	Number of Years on the Committee	2018 Meeting Attendance
Julie O'Neill*	15 Jun 2016	-	2.5	7/7
Robert Elliott	31 Mar 2017	-	1.8	7/7
Ken Slattery	28 Jan 2014	-	4.9	7/7
Andrew Power	26 Sept 2016	-	2.3	7/7

*Chair
** Ruth Wandhöfer was appointed to the Committee on 1 February 2019.

Responsibilities of the Committee

The purpose, duties and membership of the Committee are set out in the Committee's Terms of Reference, which can be found on the Group's website www.permanenttsbgroup.ie. The Terms of Reference are reviewed by the Committee on an annual basis. No material changes were enacted following a review of the Committee's Terms of Reference in 2018. The main roles and responsibilities of the Committee include:

- Recommending the Group's remuneration policies to the Board for approval and ensuring they comply with applicable regulatory and legal requirements;
- Supporting the Board in overseeing remuneration policies, practices and processes and compliance with the Remuneration Policy;
- Ensuring the remuneration policies and procedures do not promote excessive risk taking and are aligned with the Company's overall corporate governance framework, corporate culture, risk appetite and related governance processes, and takes into account liquidity and capital levels;
- Recommending the design, eligibility and performance measures for any incentive schemes to the Board for approval;
- Setting and assessing performance targets for any incentive schemes;
- Recommending remuneration proposals (including joining and termination arrangements) in respect of the Chairman, CEO, Executive Directors, Executive Committee, Group Treasurer, Customer Credit Director and Heads of Control Functions for approval by the Board;
- Overseeing remuneration proposals in respect of any other identified staff (Material Risk Takers) as defined under the Capital Requirement Directive (CRD) IV; and,
- Overseeing the annual review of the implementation of the Remuneration Policy.

Matters considered by the Committee in 2018

During 2018, and within the terms of State agreements, the Remuneration Committee kept the impact of the Group's Remuneration Policy, and movements in the external market, under review. As part of this process, the Committee reviewed the Group's remuneration strategy to assess the competitiveness of its total reward arrangements, and future direction, to take account of market developments amongst Permanent TSB's peer group. The Committee also kept under review all aspects of remuneration for the Board Chairman, CEO, Executive Directors, members of the Executive Committee and the wider employee population.

The Group's Remuneration Policy has been designed to promote a fair and transparent approach to the remuneration of employees, the long-term success of the business, and sound and effective risk management aligned with the Bank's risk appetite. The Policy is based upon a number of principles including the linking of pay levels against median base pay available across market peer groups. As previously mentioned, the Committee is cognisant of the need to attract and retain the required talent and skills to deliver the return of value to the Company's shareholders. In doing so, the Committee takes account of appropriate input from the Group's Risk, Compliance and Internal Audit functions to ensure that the decision making process is aligned with the Group's financial performance, risk appetite, regulatory guidelines and stakeholder interests.

The Group's Remuneration Policy, details of which are set out in the Director's report on Remuneration, applies equally to its Irish and any overseas subsidiaries.

Deloitte LLP are the current external advisors to the Remuneration Committee. During 2018, the Committee used the external consultant, Deloitte LLP, for advice on remuneration trends in the external market and for perspective on remuneration regulatory compliance matters. During the year, Deloitte also provided support to the Group in relation to an operational efficiency review within Operations. Deloitte continued to provide support to the Group with regard to the PSD2 project, as well as supporting initiatives within Group Risk, IT, Finance, and the Company Secretary's office. The Committee is satisfied that Deloitte LLP provides independent remuneration advice to the Remuneration Committee, and does not have any connections with the Bank that may impair its independence.

During 2018, the Committee, with the supporting perspective of Deloitte LLP, and the internal Group Risk function, performed a review of pay and benefits packages available across the Group. The review consisted of a comprehensive benchmarking exercise involving the comparison of remuneration (both base pay and total compensation) with that available from comparable organisations across industry. Based on the output of this review, the Committee approved pay increases to all staff based on each individual staff member's performance and position versus the market median. The average increase equated to 2.5% of salary and was effective from 1 January 2018.

As part of the pay and benefits review, the Committee also reviewed the salaries of the Executive Directors.
In addition to considering salary benchmarks provided in respect of comparable organisations across industry in both Ireland and the United Kingdom, the Committee's deliberations were also informed by the static nature of the CEO's salary since 2016, and the salary of the CFO since his appointment in 2017.

In the performance of its review, the Committee also paid due cognisance to existing State Agreements relating to remuneration (in particular, the salary cap of €500,000 and restrictions on variable pay) and its impact on the Group's ability to provide a competitive reward package in this context, reflective of individual skills and experience, such that we might retain and motivate key talent in an increasingly competitive Irish market.

Based on its review, and following consultation with the Bank's shareholders, the Remuneration Committee recommended to the Board that the CEO's salary be increased by 10% from €424,000 to €466,400. Increases were also approved for the CFO (by 8.9%, from €350,000 to €381,150), and for the former CRO (whose salary was increased by 8.5% from €304,500 to €330,300). All increases were effective from 1 January 2018.

During 2018, the Committee continued to apply significant oversight to ensure compliance with the CRD IV related Regulations and Guidelines, including focussing on reviewing the remuneration components of Material Risk Takers. The Committee re-approved the process and approach for the identification of Material Risk Takers in line with these requirements. It also undertook an annual review of the Group's Remuneration Policy and supporting Termination framework, to ensure continued compliance with the EBA Guidelines on sound remuneration policies.

The Committee also reviewed the Group's established variable commission scheme, as well as principles and practices to ensure full alignment with regulatory requirements, particularly CRD IV, the EBA's Guidelines on sound remuneration policies and practices related to the sale and provision of retail banking products and services, the Central Bank of Ireland's Guidelines on Variable Remuneration Arrangements for Sales Staff, and relevant market practice. On foot of this review, it was agreed to extend the operation of the scheme for 2019, subject to a number of enhancements designed to leverage the Group's increasing capabilities in respect of customer and conduct management, and to improve the frequency and quality of scheme-related performance data.

In respect of 2019, the Committee commissioned a further review of pay and benefits which has culminated in the approval of enhancements to minimum salary levels and annual leave allowances for entry level staff in particular, and enhancements to the Defined Contribution Pension arrangements in place across the Group. Subject to agreement with the Staff Representative Bodies, it is the Group's intention to implement these changes in the first half of 2019.

As previously stated, the Group awaits the findings of the review of Banking Remuneration Policy being undertaken by the Department of Finance & Public Expenditure and Reform, which will inform the ongoing development of the Group's Remuneration Policy, throughout 2019 and beyond.

Directors' Report on Remuneration

Remuneration Report

This report sets out the Remuneration Policy with a focus on Senior Executives and Directors. It has been prepared by the Remuneration Committee and approved by the Board.

Remuneration Policy

The Group undertakes an annual review of Remuneration Policy to ensure that it meets with the changing requirements being introduced in Ireland and the EU. The Committee has again this year reviewed its Remuneration Policy, principles and practice to ensure they remain aligned with regulatory requirements; in particular CRD IV, the European Banking Authority's Guidelines on sound remuneration policies and practices related to the sale and provision of retail banking products and services, the Central Bank of Ireland's Guidelines on Variable Remuneration Arrangements for Sales Staff, and relevant market practice. No material changes were enacted following a review of the Group's Remuneration Policy and supporting policies in 2018

The Group has continued to operate its Remuneration Policy in line with the remuneration requirements of the framework agreement between the Minister for Finance and the Company. Additional disclosures in relation to the Remuneration Policy and strategy are set out in the Bank's Pillar 3 Report.

The reward arrangements within the Group can be summarised as follows:

- The Group's policy is based on a set of agreed principles pertaining to Remuneration and including the linking of pay levels against median base pay available across market peer groups;
- The Remuneration Policy addresses levels of pension contribution and other allowances;
- The Remuneration Policy is compliant with regulatory requirements as they relate to the Group;
- There were no bonuses paid to Executive Directors or Material Risk Takers in 2018;
- There has been no granting of share options since 2008, and all outstanding share options have now lapsed. No further grants can be made under the remaining scheme which is now closed;
- No deferred remuneration was awarded in 2018;
- There are no outstanding Long Term Incentive Plan (LTIP) share awards;
- Aggregate Executive Director compensation has increased from €1,129,000 to €1,421,000 from 2017 to 2018 for the reasons outlined in the Matters considered by the Committee in 2018 section and as a result of changes to the Executive Director membership during the period under review; and
- In 2018, the level of the basic fee paid to Non-Executive Directors for 2018 remained unchanged at €54,675.
- Aggregate fees paid to Non-Executive Directors decreased from €793,000 (2017) to €743,000 (2018) as a result of changes to Board and Committee membership during the year.

At an overall level, the Committee ensures that the Remuneration Policy is consistent with the Bank's Risk Appetite Statement. The Chief Risk Officer meets with the Committee to discuss remuneration related risk and regulatory compliance to ensure the alignment of Remuneration Policy with risk management.

In framing the Remuneration Policy, the Board confirms, other than as set out in the Board Chairman's Introduction on page 68, that it has complied with the provisions of the UK Code.

The Bank's policy on Senior Executive remuneration (including Executive Directors) is to reward Executives competitively in order to ensure the Bank continues to attract and retain high calibre Executives, and that Executives are properly motivated to perform in line with business strategy, objectives, values and long-term interests of the shareholders. This policy is exercised in the context of the State Agreements and the restrictions on both base pay and variable pay, recent regulatory changes, capital requirements and ability to pay.

In considering Remuneration Policy, the Committee has regard to input from the Group's Risk and Compliance function and the Group Internal Audit function, both of which review relevant aspects of the Remuneration Policy.

The Committee will continue to review the Remuneration Policy and supporting Reward strategies on an annual basis to ensure compliance with regulatory requirements and relevant market practices.

At the AGM in 2018, 99.9% of votes cast were in favour of the "Say on Pay" resolution.

Non-Executive Directors

Non-Executive Directors are remunerated solely by way of fees in respect of their Board membership, full details of which are on pages 106 to 107.

Executive Directors

The remuneration of the Executive Directors in 2018 comprised a basic salary, certain benefits and defined contribution pension entitlements.

Basic Salary

Basic salaries are reviewed annually having regard to competitive market practice and Government and regulatory guidelines. During 2018, the Remuneration Committee reviewed general salary levels within the Bank and arising therefrom, approved pay increases to all staff based on each individual staff member's performance and position versus the market median. The average increase equated to 2.5% of salary and was effective from 1 January 2018. Following consultation with the Bank's shareholders, the Remuneration Committee recommended to the Board that the CEO's salary be increased by 10% from €424,000 to €466,400. Increases were also approved for the CFO (by 8.9%, from €350,000 to €381,150), and for the former CRO (whose salary was increased by 8.5% from €304,500 to €330,300). All increases were effective from 1 January 2018. Further information on these increases is provided in the Matters considered by the Committee in 2018 section.

Benefits

Executive Directors may avail of subsidised house purchase loans. Loans to Executive Directors are on the same terms and conditions as loans to other eligible PTSB management.

At the end of 2018 no house purchase loans had been issued to serving Executive Directors. The Executive Directors are eligible to receive an allowance of €20,000 in lieu of a company car.

Directors' Report on Remuneration
(continued)

Bonus and long-term incentive plans
No bonus payments were made to Executive Directors during 2017 or 2018. Neither were there any long term incentive arrangements in place for Executive Directors in 2017 or 2018.

Pensions
Jeremy Masding and Eamonn Crowley are members of the PTSB Defined Contribution Pension Scheme. Prior to his resignation (effective from November 2018), Stephen Groarke was also a member of the PTSB Defined Contribution Pension Scheme. The Bank contributed up to 12% of basic salary into this pension scheme during 2018.

As detailed in the Matters considered by the Committee in 2018 section, during 2018 the Committee approved certain enhancements to the Defined Contribution Pension arrangements in place across the wider staff population, including the Executive Directors. Subject to agreement with the Staff Representative Bodies, it is the Group's intention to implement these changes in the first half of 2019.

Directors' Fees from another Company
Where an Executive Director of the Group is remunerated for service as a Non-Executive Director of a non-Group company and retains such remuneration, the amount of this remuneration is disclosed.

There is no such remuneration to disclose for 2017 or 2018.

The information below on pages 106 and 107 of the Directors' Report on Remuneration identified as audited, forms an integral part of the audited financial statements as described in the basis of preparation on page 126. All other information in the Directors' Report on Remuneration is additional information and does not form part of the audited financial statements.

Share Option Schemes - Audited
No share options were granted in 2017 or 2018. There were no share options in existence at the end of the period and the Bank's sole remaining share option scheme is now closed.

Executive Directors' Remuneration and Pension Benefits - Audited
The remuneration payable to Executive Directors who held office for any part of the financial year is as follows:

	Salary		Other remuneration		Total	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Jeremy Masding	466	424	78	75	544	499
Eamonn Crowley	381	226	66	40	447	266
Stephen Groarke (resigned 2 November 2018)	307	305	51	59	358	364
	1,154	**955**	**195**	**174**	**1,349**	**1,129**

J. Masding - Other remuneration consists of employer pension contributions (€56k), Benefit in Kind (€20k), taxable expenses (€2k).
E.Crowley – Other remuneration consists of employer pension contributions (€46k), Benefit in Kind (€20k).
S. Groarke - Other remuneration consists of employer pension contributions (€33k), Benefit in Kind (€17k), taxable expenses (€1k).

During the period, an amount of €200,000 was paid to Glen Lucken, a former director, which represents a bona fide payment in settlement of proceedings for damages for breach of contract.

Executive Directors' Share Options - Audited
No Executive Director holds any Share Options in the Company.
The Executive and Non-Executive Directors' shareholdings in the Company are detailed in note 41 of the Financial Statements.

Non-Executive Directors' Remuneration - Audited
Non-Executive Directors, including the Group Chairman, were remunerated solely by way of fees in respect of their Board membership.

As was the case in 2017, the Group Chairman is entitled to an annual fee of €290,000 and Non-Executive Directors received a basic fee of €54,675.

Non-Executive Directors who performed additional services outside of their Board duties received additional fees as follows:
- €25,000 to the chairs of the Board Audit Committee and Board Risk and Compliance Committee;
- €10,000 to the chair of the Board Remuneration Committee;
- €7,500 to the members of the Board Audit Committee and to members of the Board Risk and Compliance Committee;
- €5,000 to the members of the Remuneration Committee and to members of the Nomination Committee; and
- €20,000 to the Senior Independent Director.

The remuneration payable in respect of each Non-Executive Director is as follows:

Director	Note	2018 Basic Fee Level	2018 Fees Paid	2018 Additional Fees paid	2018 Annual Taxable Benefit	2018 Total Paid	2017 Total Paid
		€'000	€'000	€'000	€'000	€'000	€'000
Robert Elliott	1	**290**	**290**	**-**	**-**	**290**	261
Emer Daly (retired 16 May 2018)	2	**55**	**20**	**14**	**-**	**34**	92
Ken Slattery	3	**55**	**55**	**12**	**-**	**67**	67
Julie O'Neill	4	**55**	**55**	**42**	**-**	**97**	97
Richard Pike	5	**55**	**55**	**15**	**-**	**70**	70
Andrew Power	6	**55**	**55**	**12**	**-**	**67**	67
Ronan O'Neill	7	**55**	**55**	**30**	**-**	**85**	85
Donal Courtney (appointed 3 October 2018)	8	**55**	**13**	**9**	**-**	**22**	-
Ruth Wandhöfer (appointed 30 October 2018)	9	**55**	**10**	**1**	**-**	**11**	-
Alan Cook (retired 31 March 2017)	10	**-**	**-**	**-**	**-**	**-**	54
						743	793

Notes:
Note 1: Appointed as Chairman and member of the Board on 31 March 2017.
Note 2: Ceased as a member of the Board, chair of the Audit Committee, member of the Board Risk and Compliance Committee and member of the Board Nomination Committee on 16 May 2018.
Note 3: Additional fees paid as member of the Board Audit Committee and the Board Remuneration Committee.
Note 4: Additional fees paid as the chair of the Board Remuneration Committee, member of the Board Risk and Compliance Committee, member of the Board Nomination Committee and Senior Independent Director.
Note 5: Additional fees paid as member of the Board Audit Committee and member of the Board Risk and Compliance Committee.
Note 6: Additional fees paid as member of the Board Audit Committee and member of the Board Remuneration Committee.
Note 7: Additional fees paid as chair of the Board Risk and Compliance Committee and member of the Board Nomination Committee.
Note 8: Appointed as chair of the Board Audit Committee, member of the Board, member of the Board Nomination Committee and member of the Board Risk and Compliance Committee on 3 October 2018.
Note 9: Appointed as member or the Board and member of the Board Risk and Compliance Committee on 30 October 2018.
Note 10: Ceased as Chairman and member of the Board on 31 March 2017.

Directors' Service Contracts - Unaudited

In accordance with the UK Code there are no Directors' service contracts with notice periods exceeding twelve months, or with provisions for pre-determined compensation on termination which exceeds one year's salary and benefits.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and in respect of the Consolidated financial statements, Article 4 of the IAS Regulation.

Under Irish law the Directors shall not approve the Group's and Company's financial statements unless they are satisfied that they give a true and fair view of the Group's and the Company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group for the financial year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRS adopted by the EU and ensure that they contain the additional information required by the Companies Act 2014; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Company;
- enable, at any time, the assets, liabilities, financial position of the Company to be determined with reasonable accuracy; and
- enable the Directors to ensure that the financial statements comply with the Companies Act 2014, and as regards the Group financial statements, article 4 of the IAS Regulation and enable those financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish and London Stock Exchanges, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration and Corporate Governance. The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website www.permanenttsb.ie. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of each Director's knowledge and belief:

- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position of the Group and the Company and of the profit of the Group;
- the Group's Chairman Statement, the Group's Chief Executives Review and the Operating and Financial Review set out in the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the Principal Risks and Uncertainties that they face as set out in the Risk Management Section of the Strategic Report; and
- the Annual Report and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

On behalf of the Board

Robert Elliott
Chairman

Jeremy Masding
Chief Executive

Eamonn Crowley
Chief Financial Officer

Conor Ryan
Company Secretary

26 February 2019

Independent auditors’ report to the members of Permanent TSB Group Holdings plc

Report on the audit of the financial statements

Opinion

In our opinion, Permanent TSB Group Holdings plc’s group financial statements and company financial statements (the “financial statements”):

- give a true and fair view of the group’s and the company’s assets, liabilities and financial position as at 31 December 2018 and of the group’s profit and the group’s and the company’s cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union and, as regards the company’s financial statements, as applied in accordance with the provisions of the Companies Act 2014; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise:

- the Consolidated and Company Statement of Financial Position as at 31 December 2018;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (“ISAs (Ireland)”) and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA’s Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

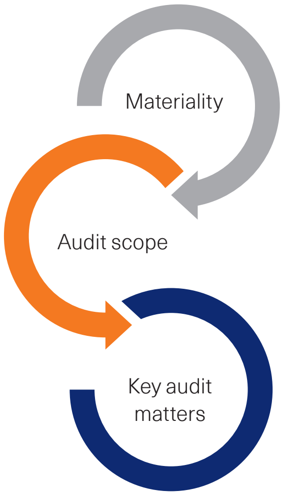
To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA’s Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2018 to 31 December 2018.

Independent auditors’ report to the members of permanent tsb Group Holdings plc (continued)

Our audit approach

Overview



Materiality

- €10.5 million (2017: €10.5 million) - Group financial statements
- Based on c.0.55% of net assets.
- €9.8m (2017:€9.8m) - Company financial statements
- Based on c.1% of Total assets.

Audit scope

- We have conducted an audit of the complete financial information of Permanent TSB plc which is the main trading entity of the group and accounts for 98% of the net assets of the group and 99% of total operating income.

Key audit matters

- Expected Credit Loss (ECL) provision for Residential mortgages (Group).
- Legacy legal and compliance provision in respect of Tracker mortgage examination and investigation (Group).
- Recoverability of the deferred tax asset (Group).
- IT controls (Group).
- Impairment assessment in respect of the investment in Permanent TSB plc (Company only).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Expected Credit Loss (ECL) provision for Residential mortgages (Group) Refer to page 134 (Group accounting policies), page 149 (critical accounting estimates and judgements), page 153, note 3, and page 172 (note 20 to the consolidated financial statements). 2018 is the first year of adoption of IFRS 9 which, as set out in the financial statements, introduces significant changes including new impairment models where losses are recognised on an expected, forward looking basis including reflecting the group's view of potential future economic events. As a result, a new methodology encompassing new estimates and judgements is required to calculate impairment provisions under IFRS 9, and there are new disclosure requirements. The ECL calculation is a very complex estimation which requires significant management judgement and we focussed on the areas which required the greatest level of management judgement in relation to Residential mortgages including: 1. The application of forward looking information is a critical part of the determination of ECL. The consideration and selection of appropriate macroeconomic factors and in particular determining the appropriate economic scenarios (base, downside and upside) and their associated probability weightings is a key driver of the overall ECL provision. 2. The determination of when there has been a significant increase in credit risk (SICR), is one of the key judgements in the ECL process because a SICR requires the related impairment provision to be measured using a lifetime ECL rather than 12 month ECL. The completeness of the identification of SICR triggers and their correct application has a significant impact on the overall provision. 3. Another key judgement is the consideration of the need for post model adjustments to address known model limitations, latent risks and emerging trends. These adjustments are by their nature inherently uncertain and very judgmental. We focused on this area as impairment provisions on Residential mortgage loans require a high level of judgement to determine the required expected credit loss provision.	With the assistance of our internal credit modelling specialists, we understood and critically assessed the overall methodology applied, including individual models used, in the measurement of ECL for the Residential mortgage portfolio to ensure that the provision was in accordance with IFRS 9. This included an end to end review to understand the key systems and controls used in the process. We tested the accuracy of critical data inputs used in the impairment models on a sample basis by agreeing inputs to source systems and supporting documentation. We considered the overall control framework and tested key controls including controls relating to model performance, approval of model changes, SICR triggers, approval of material macroeconomic variables for forward looking information and approval of post model adjustments. We compared the base case forward looking macroeconomic assumptions, provided by management's external economic consultant, to publically available information where applicable. We also considered the reasonableness of management's downside and upside assumptions. We assessed the SICR triggers identified by management for appropriateness and completeness. We also selected a sample of loans to ensure that they were allocated to the appropriate Stage. We understood and assessed the appropriateness of material post model adjustments made by management to adjust their model output for known limitations and specific risk aspects of the portfolio. We concluded that the ECL provision for Residential mortgages was within an acceptable range of reasonable estimates.

Key audit matter	How our audit addressed the key audit matter
Legacy legal and compliance provision in respect of Tracker mortgage examination and investigation. (Group) Refer to page 145 (Group accounting policies), page 152 (critical accounting estimates and judgements) and page 180 (note 30 to the consolidated financial statements). The group has recognised a provision of €55 million in respect of legacy, legal and compliance liabilities of which €35m relates to a Mortgage Redress Programme ("MRP") relating to an enforcement action by the Central Bank of Ireland ("CBI") and also to a review of tracker mortgages that the CBI mandated across the industry in Ireland (the CBI review). As noted in the financial statements, the CBI investigation is on-going at year end, though redress and compensation have now been offered to all identified impacted customers. We have focussed on this matter because the quantification of the overall provision requires significant management judgement and is subject to changing estimation uncertainty in respect of appeals, legal actions and the ultimate outcome of the CBI investigation including any potential fines.	We met with the Head of Legal, the Head of Compliance and the Group Product Review Director to update our understanding of legacy legal and compliance issues. We also read and considered correspondence with the Central Bank of Ireland in respect of its review and investigation. We understood and tested management's controls supporting the assessment of the provision estimate. We evaluated the methodology and challenged key assumptions used to determine the provision estimate and assessed whether the provision recognised is reasonable based on the available information up to the date of approval of the financial statements. Given the changing estimation uncertainty in the calculation of the provision, we have challenged management's assessment of the residual risks and uncertainties impacting on management's estimate of the total cost of the MRP and CBI review and Investigation. We concluded that based on the information available up to the date of approval of the financial statements, the provision recognised at year end is within an acceptable range of reasonable estimates.

Key audit matter	How our audit addressed the key audit matter
Recoverability of the deferred tax asset (Group) Refer to page 131 (Group accounting policies), page 150 (critical accounting estimates and judgements) and page 177 (note 23 to the consolidated financial statements). The group has net deferred tax assets of €355 million that primarily arise due to historical operating losses. A key judgement is whether there is convincing evidence of sufficient future taxable profits against which those losses can be utilised. This judgement relies on the assessment of the probability, the timing and the sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions and business performance. The group's considerations in respect of the recognition of the net deferred tax assets are outlined in the financial statements, which provides an overview of the key assumptions underpinning the financial projections. We have focused on this area due to the level of judgement involved.	Management prepares a Medium Term Plan to forecast financial performance over a four year period. We understood and tested key controls over the production and approval of the group's Medium Term Plan and considered the appropriateness of the growth rate used to extrapolate those forecast profits over the period beyond the detailed plan. We assessed the forecast of taxable profits which inform management's decision to recognise a deferred tax asset in respect of tax losses arising from historic operating losses. We considered whether the projections provide convincing evidence that sufficient taxable profits will be available to utilise unused tax losses. We assessed the relevant macroeconomic assumptions and growth assumptions underlying the projections in the context of economic consensus forecasts. We also evaluated the growth assumptions for reasonableness by reference to historic performance, future plans and external data as appropriate. We concluded that the group's net deferred tax assets meet the requirements for recognition under IAS 12. We have also considered the appropriateness of the disclosures included in the financial statements and concluded that they were appropriate.
IT controls (Group) Refer to page 94 (Corporate Governance Statement). The IT framework of the group incorporates a number of IT systems which have been in place for many years. We have focused on IT controls and in particular, deficiencies in the IT control environment, as deficiencies in access controls over a number of applications on certain systems could have a significant impact on financial reporting controls and systems.	We involved our IT audit specialists to update our understanding of the group's IT environment and of changes made to it during 2018. To the extent required for our audit, we assessed and tested the design and operating effectiveness of IT controls over financial reporting systems relating to access security, IT operations and change control management, including assessing and testing mitigating controls where relevant. Where deficiencies identified affected specific applications within the scope of our audit we extended our programme of work by testing compensating controls and by performing other procedures as we considered necessary for the purposes of our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment in respect of the investment in Permanent TSB plc (Company only) Refer page 153 critical accounting estimates and judgements, and page 222 (note 44 to the company financial statements). As noted in the accounting policies, Investments in subsidiaries are shown at cost in the Company financial statements unless there is evidence of impairment, in which case they are shown at the lower of cost and recoverable amount. We consider this to be a key audit matter as impairment indicators exist and due to the judgement associated with the assessment of the recoverable amount of the investment at 31 December 2018.	We evaluated management's assessment of the recoverable amount of the investment at 31 December 2018. We evaluated and tested controls over the recoverability assessment. The assessment of the recoverable amount of the investment was based on the company's value in use calculation. We assessed the forecast of free cash flows which inform management's calculations and concluded that they were consistent with the Group's Medium Term Plan. We assessed the relevant macroeconomic assumptions and growth assumptions underlying the projections in the context of economic consensus forecasts. We also evaluated the growth assumptions for reasonableness by reference to historic performance, future plans and external data as appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Permanent TSB plc is the main trading entity of the group. The group has no other significant subsidiaries.

In establishing the overall approach to scoping the group audit engagement we determined the type of work that needed to be performed by legal entity. All audit work was performed by the group audit team.

For the group financial statements we performed an audit of the full financial information of Permanent TSB plc as this accounts for 98% of the net assets of the group and 99% of the total operating income. The nature and extent of audit procedures was determined by our risk assessment for each account balance.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	€10.5 million (2017: €10.5 million).	€9.8 million (2017: €9.8 million)
How we determined it	c.0.55% of net assets	c.1% of net assets
Rationale for benchmark applied	Given the volatility in profit / loss before tax arising over recent years from elevated impairments and subsequent reductions and the scale of losses arising from exceptional activities, we believe that net assets provides us with a more appropriate and consistent year on year basis for determining materiality rather than profitability.	Given the activity of the company is limited to its investment in PTSB plc, a benchmark based on net assets rather that profitability is considered more appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €525,000 (group audit) (2017: €525,000) and €490,000 (company audit) (2017: €490,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
In accordance with ISAs (Ireland) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's or the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the company's ability to continue as a going concern.
We are required to report if the directors' statement relating to going concern in accordance with Rule 6.8.3(3) of the Listing Rules for the Main Securities Market of the Irish Stock Exchange is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report) have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland), the Companies Act 2014 (CA14) and the Listing Rules applicable to the company (Listing Rules) require us to also report certain opinions and matters as described below (required by ISAs (Ireland) unless otherwise stated).

Directors' Report

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report) for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements. (CA14)
- Based on our knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report). (CA14)

Corporate governance statement

- In our opinion, based on the work undertaken in the course of the audit of the financial statements,
  - the description of the main features of the internal control and risk management systems in relation to the financial reporting process; and
  - the information required by Section 1373(2)(d) of the Companies Act 2014

included in the Corporate Governance Statement, is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014. (CA14)

- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Corporate Governance Statement. (CA14)
- In our opinion, based on the work undertaken during the course of the audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) of the Companies Act 2014 and regulation 6 of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 is contained in the Corporate Governance Statement. (CA14)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or to draw attention to regarding:

- The directors' confirmation on page 95 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 94 and 95 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and the company and their environment obtained in the course of the audit. (Listing Rules)

Other Code provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors on page 108 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on pages 93 and 94 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code and the Irish Corporate Governance Annex does not properly disclose a departure from a relevant provision of the Code or the Annex specified, under the Listing Rules, for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 108, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at: https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, 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.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the company financial statements to be readily and properly audited.
- The Company Statement of Financial Position is in agreement with the accounting records.

Companies Act 2014 exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the members on 22 May 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2013 to 31 December 2018.

John McDonnell
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
26 February 2019

Consolidated Income Statement
For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Interest income	5	**455**	504
Interest expense	5	**(76)**	(99)
Net interest income		**379**	405
Fees and commission income	6	**63**	58
Fees and commission expense	6	**(24)**	(19)
Net trading income/(expense)	7	**10**	(3)
Net other operating income	8	**14**	2
Total operating income		**442**	443
Administrative, staff and other expenses (excluding exceptional items)	9	**(280)**	(264)
Bank levy and other regulatory charges	10	**(47)**	(44)
Depreciation of property and equipment	21	**(12)**	(12)
Reversal of impairment of property and equipment	21	**-**	1
Amortisation of intangible assets	22	**(12)**	(10)
Other exceptional items		**(5)**	(13)
Restructuring and other charges	11	***(5)***	*(12)*
Loss on deleveraging	11	**-**	*(1)*
Total operating expenses		**(356)**	(342)
Operating profit before charge for impairment		**86**	101
Credit impairment losses			
Loans and advances to customers	20	**(17)**	(48)
Exceptional impairment arising from deleveraging of loans	11	**(66)**	-
Collateral in possession		**-**	(1)
Total credit impairment losses		**(83)**	(49)
Operating profit/profit before taxation		**3**	52
Taxation	12	**-**	(12)
Profit for the year		**3**	40
Attributable to:			
Owners of the holding company		**3**	40
(Loss)/earnings per share		€ Cent	€ Cent
Basic (loss)/earnings per share of €0.5 ordinary shares	13	**(1.8)**	6.4
Diluted (loss)/earnings per share of €0.5 ordinary shares	13	**(1.8)**	6.4

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Profit for the year		**3**	40
Items that will not be reclassified to the income statement in subsequent years			
Fair value reserve (equity instruments)			
Change in fair value of equity instruments	12	**1**	-
Revaluation of property	12	**5**	9
Tax relating to items that will not be reclassified to the income statement	12	**(5)**	(1)
Items that may be reclassified to the income statement in subsequent years			
Currency translation adjustment reserve	12	**(1)**	-
Available for sale (AFS) reserve			
Change in fair value of AFS Financial assets	12	**-**	(30)
Tax relating to items that may be reclassified to the income statement	12	**-**	4
Fair value reserve (debt instruments)			
Change in fair value of debt instruments	12	**(20)**	-
Disposal of debt instruments	12	**(7)**	-
Tax relating to items that will be reclassified to the income statement	12	**3**	-
Other comprehensive expense, net of tax		**(24)**	(18)
Total comprehensive (expense)/income for the year, net of tax		**(21)**	22
Attributable to:			
Owners of the holding company		**(21)**	22

Consolidated and Company Statement of Financial Position
As at 31 December 2018

	Notes	Consolidated 31 December 2018 €m	Consolidated 31 December 2017 €m	Company 31 December 2018 €m	Company 31 December 2017 €m
Assets					
Cash and balances with central banks	14	**65**	62	**-**	-
Items in the course of collection	14	**17**	28	**-**	-
Debt securities	15	**2,647**	1,978	**-**	-
Equity securities	16	**13**	12	**-**	-
Derivative assets	17	**1**	37	**-**	-
Loans and advances to banks	18	**1,159**	1,518	**-**	-
Loans and advances to customers	19	**15,888**	18,370	**-**	-
Property and equipment	21	**154**	141	**-**	-
Intangible assets	22	**41**	39	**-**	-
Deferred taxation	23	**355**	343	**-**	-
Other assets	24	**1,227**	39	**-**	-
Prepayments and accrued income	25	**93**	45	**-**	-
Assets classified as held for sale	42	**150**	161	**-**	-
Investments in subsidiary undertakings	44	**-**	-	**978**	978
Total assets		**21,810**	22,773	**978**	978
Liabilities					
Deposits by banks (including central banks)	26	**1,552**	1,842	**-**	-
Customer accounts	27	**17,020**	16,995	**-**	-
Debt securities in issue	28	**1,095**	1,633	**-**	-
Derivative liabilities	17	**14**	48	**-**	-
Accruals		**5**	8	**-**	-
Current tax liability		**1**	2	**-**	-
Other liabilities	29	**69**	48	**-**	3
Provisions	30	**74**	63	**-**	-
Subordinated liabilities	31	**-**	23	**-**	-
Total liabilities		**19,830**	20,662	**-**	3
Equity					
Share capital	32	**227**	1,257	**227**	1,257
Share premium	32	**333**	333	**333**	333
Other reserves	32	**(793)**	(769)	**-**	-
Retained earnings	32	**2,091**	1,168	**415**	(618)
Shareholders' equity		**1,858**	1,989	**975**	972
Other equity instruments	32	**122**	122	**3**	3
Total equity		**1,980**	2,111	**978**	975
Total liabilities and equity		**21,810**	22,773	**978**	978

On behalf of the Board:

Robert Elliott
Chairman

Jeremy Masding
Chief Executive

Eamonn Crowley
Chief Financial Officer

Conor Ryan
Company Secretary

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Attributable to owners of the holding company									
	Share capital €m	Share premium €m	Revaluation reserve* €m	AFS reserve* €m	Fair value reserve* €m	Currency translation adjustment reserve* €m	Other capital reserve* €m	Retained earnings €m	Other equity instrument €m	Total €m
Balance as at 31 December 2016	1,257	333	30	61	-	1	(856)	1,152	122	2,100
Profit for the year ended 31 December 2017	-	-	-	-	-	-	-	40	-	40
Other comprehensive income/(expense) relating to prior years, net of tax (note 33)	-	-	13	-	-	-	-	(13)	-	-
Other comprehensive income/(expense), net of tax (note 12, 33)	-	-	8	(26)	-	-	-	-	-	(18)
Total comprehensive income/(expense) for the year	-	-	21	(26)	-	-	-	27	-	22
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners										
AT1 coupon paid (note 32)	-	-	-	-	-	-	-	(11)	-	(11)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	(11)	-	(11)
Balance as at 31 December 2017	**1,257**	**333**	**51**	**35**	**-**	**1**	**(856)**	**1,168**	**122**	**2,111**
Impact of adopting IFRS 9 at 1 January 2018	**-**	**-**	**-**	**(35)**	**35**	**-**	**-**	**(97)**	**-**	**(97)**
Restated balance at 1 January 2018	**1,257**	**333**	**51**	**-**	**35**	**1**	**(856)**	**1,071**	**122**	**2,014**
Profit for the year ended 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Other comprehensive expense, net of tax (note 12,33)	**-**	**-**	**-**	**-**	**(23)**	**(1)**	**-**	**-**	**-**	**(24)**
Total comprehensive expense for the year	**-**	**-**	**-**	**-**	**(23)**	**(1)**	**-**	**3**	**-**	**(21)**
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners										
Cancellation of deferred share capital (note 32)	**(1,030)**	**-**	**-**	**-**	**-**	**-**	**-**	**1,028**	**-**	**(2)**
AT1 coupon paid (note 32)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11)**	**-**	**(11)**
Total contributions by and distributions to owners	**(1,030)**	**-**	**-**	**-**	**-**	**-**	**-**	**1,017**	**-**	**(13)**
Balance as at 31 December 2018	**227**	**333**	**51**	**-**	**12**	**-**	**(856)**	**2,091**	**122**	**1,980**

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

Company Statement of Changes in Equity
For the year ended 31 December 2018

	Attributable to owners of the holding company				
	Share capital	Share premium	Retained earnings	Other equity instrument	Total
	€m	€m	€m	€m	€m
Balance as at 1 January 2017	1,257	333	(432)	-	1,158
Loss for the year ended 31 December 2017	-	-	(186)	-	(186)
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive expense for the year	-	-	(186)	-	(186)
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
AT1 Option	-	-	-	3	3
Total contributions by and distributions to owners	-	-	-	3	3
Balance as at 31 December 2017	1,257	333	(618)	3	975
Profit for the year ended 31 December 2018	**-**	**-**	**5**	**-**	**5**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**5**	**-**	**5**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Cancellation of deferred share capital (note 32)	**(1,030)**	**-**	**1,028**	**-**	**(2)**
Total contributions by and distributions to owners	**(1,030)**	**-**	**1,028**	**-**	**(2)**
Balance as at 31 December 2018	**227**	**333**	**415**	**3**	**978**

Consolidated and Company Statement of Cash Flows
For the year ended 31 December 2018

	Consolidated		Company	
	31 December 2018* €m	31 December 2017** €m	31 December 2018 €m	31 December 2017 €m
Cash flows from operating activities				
Profit/(loss) before taxation for the year	**3**	52	**5**	(186)
Adjusted for:				
Depreciation, amortisation and impairment of property, equipment and intangibles	**24**	22	**-**	-
Reversal on revaluation of property	**-**	(1)	**-**	-
Impairment charge on:				
- Loans and advances to customers	**83**	48	**-**	-
- Collateral in possession	**-**	1	**-**	-
Impairment of investment in subsidiary undertaking	**-**	-	**-**	186
Unrealised (gains)/losses on financial assets	**(24)**	3	**-**	-
(Gain) on debt securities buy back	**-**	(1)	**-**	-
Amortisation of bond discounts	**-**	(3)	**-**	-
Other mortgage related adjustments	**20**	17	**-**	-
Other provisions	**45**	18	**-**	-
Visa equity share	**(1)**	(2)	**-**	-
Other non-cash items	**-**	(1)	**-**	-
	150	153	**5**	-
(Increase)/decrease in operating assets				
Items in the course of collection	**11**	2	**-**	-
Loans and advances to banks	**-**	1	**-**	-
Loans and advances to customers	**2,233**	490	**-**	-
Debt securities	**(12)**	10	**-**	-
Derivative assets	**36**	1	**-**	-
Other assets	**(1,164)**	(159)	**-**	-
Prepayments and accrued income	**(70)**	75	**-**	-
Increase/(decrease) in operating liabilities				
Deposits by banks (including central banks)	**(290)**	(1,061)	**-**	-
Customer accounts	**23**	(8)	**-**	-
Debt securities in issue	**(539)**	320	**-**	-
Derivative liabilities	**-**	(36)	**-**	-
Other liabilities and accruals	**17**	(4)	**(5)**	-
Provisions	**(34)**	(38)	**-**	-
	211	(407)	**(5)**	-
Net cash inflow/(outflow) from operating activities before tax	**361**	(254)	**-**	-
Tax refund	**-**	3	**-**	-
Net cash inflow/(outflow) from operating activities	**361**	(251)	**-**	-

Consolidated and Company Statement of Cash Flows (Continued)
For the year ended 31 December 2018

	Consolidated 31 December 2018* €m	Consolidated 31 December 2017** €m	Company 31 December 2018 €m	Company 31 December 2017 €m
Cash flows from investing activities				
Purchase of property and equipment	**(20)**	(5)	**-**	-
Purchase of intangible assets	**(12)**	(15)	**-**	-
Disposal of debt securities - HTC&S	**210**	-	**-**	-
Purchase of debt securities - HTC	**(872)**	-	**-**	-
Disposal of debt securities - AFS	**-**	438	**-**	-
Disposal of debt securities - HTM	**-**	211	**-**	-
Disposal of debt securities – loans and receivables	**-**	254	**-**	-
Purchase of debt securities - HTM	**-**	(275)	**-**	-
Movement in restricted cash holdings	**133**	90	**-**	-
Net cash flows from investing activities	**(561)**	698	**-**	-
Cash flows from financing activities				
Maturity of subordinated liabilities	**(23)**	-	**-**	-
AT1 coupon payment	**(11)**	(11)	**-**	-
Payment on cancellation of deferred shares	**(2)**	-	**-**	-
Net cash flows from financing activities	**(36)**	(11)	**-**	-
(Decrease)/increase in cash and cash equivalents	**(236)**	436	**-**	-
Analysis of changes in cash and cash equivalents				
Cash and cash equivalents as at 1 January	**1,030**	600	**-**	-
(Decrease)/increase in cash and cash equivalents	**(236)**	436	**-**	-
Effect of exchange translation adjustments	**2**	(6)	**-**	-
Cash and cash equivalents as at 31 December* **	**796**	1,030	**-**	-

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).
** The 2017 Statement of Cash Flows was restated to classify the disposals/redemptions of debt securities (€275m) and additions to debt securities balance (€903m) as cash flows from investing activities rather than cash flows from operating activities, and to reclassify the issuance/maturities (€363m) and redemptions (€56m) of debt securities in issue as cash flows from operating activities rather than cash flows from financing activities .The Statement of Cash Flows was updated to more appropriately reflect and enhance comparability with current year presentation.
***The cash and cash equivalents exclude restricted cash as per note 14.

Reconciliation of liabilities arising from financing activities

	01/01/2018 €m	Financing cash flows €m	Non cash changes: Embedded derivatives €m	Non cash changes: Hedging adjustment €m	Non cash changes: Fair value adjustments €m	Other changes €m	31/12/2018 €m
Subordinated liabilities (note 31)	23	(23)	-	-	-	-	-

Notes to the Consolidated Financial Statements

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

1.1 Corporate information

Permanent TSB Group Holdings plc. (the Company) is a holding company domiciled in Ireland (registration number 474438). 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 consolidated financial statements include the financial statements of the Company and its subsidiaries (together referred to as the Group) and are prepared up to the end of the financial year, 31 December 2018.

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

These consolidated financial statements were approved by the Board and authorised for issue by the Directors on 26 February 2019.

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2018 are set out below.

1.2 Basis of preparation

Statement of compliance

These consolidated financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income (OCI), the consolidated and the Company statement of financial position (SOFP), the consolidated and the Company statement of changes in equity, the consolidated and the Company statement of cash flows and the notes to the consolidated and the Company financial statements, and have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by IFR Interpretations Committee (IFRIC) as adopted by the European Union and those parts of the Companies Act 2014 applicable to companies reporting under IFRS and European Union (Credit Institutions: Financial Statements) Regulations 2015.

The financial statements include the information that is described as being an integral part of the audited financial statements contained in the Directors' Report on Remuneration and in Risk Management. Certain tables and related information in the notes to the financial statements, included in boxes and clearly identified as unaudited on pages 191, 201, 202, 213 and 214 do not part of the audited financial statements.

The accounting policies have been consistently applied by the Group entities and are consistent with the previous year, except as indicated in section 1.4 below.

The individual financial statements of the holding company have also been prepared in accordance with IFRS and interpretations issued by IFRIC as adopted by the European Union and those parts of the Companies Act 2014 applicable to companies reporting under IFRS. In accordance with section 304(2) of the Companies Act 2014, the Company is availing of the exemption from presenting its individual income statement to the Annual General Meeting and from filing it with the Registrar of Companies. See note 44 for further information. The Company did not trade during the current or prior year.

Basis of measurement

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

The Group adopted IFRS 9 'Financial Instruments' (IFRS 9) on 1 January 2018. As permitted by IFRS 9, the Group did not restate comparative consolidated financial statements. Note 3 herein present the impact of IFRS 9 adoption on the Group's consolidated statement of financial position as at 1 January 2018.

Functional and presentation currency

These 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 financial statements, in conformity with IFRS, requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and related disclosures. The 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 the estimates made.

The estimates and assumptions are reviewed on an on-going basis and where necessary are revised to reflect current conditions. The principal estimates and assumptions made by Management relate to impairment of loans and advances to customers, deferred tax assets, impairment of investment in subsidiary undertakings, financial instruments and provisions. Judgements made by Management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

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

1.3 Going Concern

In considering Management's assessment of the Group's and Company's ability to continue as a going concern, Management considered principal risks and uncertainties as they might pertain to the Going Concern assumption, particularly the status of the Group's adherence to the terms of the Restructuring Plan, the Liquidity position, Profitability and the Capital position. Management considered these items over the course of the year to date and into 2019, their current status and future projections. In doing so, Management considered each risk in turn, and the likelihood of the risk precipitating in the Going Concern assumption becoming invalid over the period of assessment, being 12 months from the date of the approval of the Annual Report for the year ended 31 December 2018. Management considered realistic alternatives, including downside scenarios applied by the Group so as to appropriately test assumptions and potential outcomes. Directors and Management concluded, based on progress over recent years, in addition to the Group's outlook, that the Group 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 twelve months ended 31 December 2018 is a period of 12 months from the date of approval of these financial statements ("the period of assessment").

In making this assessment, the Directors and Management have considered the Group's 2019-2022 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 economy, Government's fiscal policies, the availability of collateral to access funding through third parties and the euro system, and on-going changes in the regulatory environment. Further, the Group's strategic outlook has continued to improve, both from the perspective of the macroeconomic environment and the Group's performance.

Economic & political environment

The Group continues to be materially reliant on Government and European Union policy in relation to the Irish economy and the financial services sector. At a macroeconomic level, property prices and unemployment levels continued to improve in 2018. Though housing completions are growing modestly, the mortgage market continues to improve.

Heightened uncertainty remains with regard to the final outcome of 'Brexit' and the nature of the UK's revised trading relationship with the EU and the consequent impact on the UK, Ireland, and the wider European Union's economic outlook. The Group believes it is reasonably well positioned to withstand any near term volatility caused by Brexit, particularly given the Group's progress in reducing NPLs and continued profitability. However, the risk of a 'No deal Brexit' undoubtedly has increased, which could have a negative impact on the Irish economy and could, in turn negatively impact the Group's profitability, business and capital.

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

Restructuring Plan (RP)

The 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, which covered the period to 31 December 2018, was approved in April 2015. Following the conclusion of the Restructuring Period, the Group has now exited the Restructuring Plan. Directors and Management are satisfied that this is no longer considered to be a risk to the overall going concern assessment.

Funding & liquidity

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

The Group continues to hold a significant liquidity buffer at 31 December 2018 that can be easily and readily monetised in a period of stress. The Directors and Management are aware that the Group's ability to effectively utilise its liquidity buffer is dependent on the underlying collateral remaining eligible. However, the Directors and Management are satisfied, based on a review of funding plans, interaction with wholesale markets and deposit trends that the required liquidity and funding will be available to the Group during the period of assessment, and does not give rise to material uncertainties which would cast significant doubt on the ability of the Group to continue as a Going Concern basis over the period of assessment.

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

Profitability and capital adequacy

The Group made a profit for the 12 month period ended 31 December 2018 and for the prior year. Directors and Management have reviewed the Medium Term Plan and based on this, the near-term macroeconomic conditions of the country and the planned resolution of legacy issues, the Directors and Management are satisfied that the Group is on track to continue to deliver profits in future years and to meet its relevant capital requirements.

The Directors and Management have also considered the Group's forecast capital position, including the potential impact of deleveraging further NPLs and a deterioration in economic conditions as might arise from a negative outcome of the Brexit negotiations. On the basis of the above considerations, the Directors and Management have assessed and concluded that this does not give rise to a material uncertainty which would cast significant doubt on the ability of the Group to continue 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 have concluded that the Group and Company has no material uncertainties, which would cast significant doubt on the going concern assumption and have considered it appropriate to prepare the Group and Company financial statements on a going concern basis.

1.4 Comparative information

The comparative information for 2017 has been prepared on a consistent basis, except for changes relating to IFRS 9 and IFRS 15 discussed further below and the other items set out below:

The 2017 statement of cash flows was restated to classify the disposals/redemptions of debt securities (€275m) and additions to debt securities balance (€903m) as cash flows from investing activities rather than cash flows from operating activities, and to reclassify the issuance/maturities (€363m) and redemptions (€56m) of debt securities in issue as cash flows from investing activities rather than cash flows from financing activities. The statement of cash flows was updated to more appropriately reflect and enhance comparability with current year presentation.

1.5 Summary of significant accounting policies

(i) Basis of consolidation

Subsidiaries

Subsidiaries are those entities (including special purpose entities) controlled by the Group. Control exists when the Group has:

- the power, directly or indirectly, over the relevant activities of the entity, for example through voting or other rights;
- exposure to, or rights to, variable returns through involvement with the entity; and
- the ability to use its power over the entity to affect the Group's return from the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Financial statements of subsidiaries are prepared up to the financial position date. Intercompany transaction balances and unrealised gains/losses on transactions between the Group's companies are eliminated on consolidation.

The Group carries its investment in its subsidiary undertaking at cost and reviews whether there is any indication of impairment at each reporting date. Impairment testing involves comparing the carrying value of the investment to its recoverable amount. The recoverable amount is the higher of the investment's fair value or its value in use. If impairment occurs, this loss is recognised in the income statement.

Business combinations and goodwill

(a) Business combinations

Business combinations, other than those under common control are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners and equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

The results of subsidiaries acquired are included in the consolidated income statement from the date of acquisition. Profits or losses of subsidiary undertakings acquired or sold during the year are included in the consolidated results from the date of gaining control or up to the date of disposal.

For each business combination, the Group elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value or at its proportionate share of the recognised amount of identifiable net assets. The assets and liabilities arising on a business combination are measured at their fair value at the acquisition date.

Business combinations under common control are accounted for prospectively from the date the Group obtains the ownership interest in the acquired entity. Assets and liabilities are initially recognised upon consolidation based on their carrying amount in the financial statements of the acquired entity (or holding entity if applicable). Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are initially recorded is recognised directly in equity in retained earnings.

(b) Goodwill

The Group measures goodwill as the excess of the (i) consideration transferred; (ii) the amount of any non-controlling interest in the acquired entity; and (iii) acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Acquisition costs are expensed to the income statement as incurred. Any contingent consideration to be transferred to the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with IFRS 9.

Goodwill arising on associates is shown as part of the investment in the associate.

Goodwill is subject to an impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable, it is written down through the income statement by the amount of any impairment loss identified in the year.

(ii) Foreign currencies

Foreign currency transactions are translated into the functional currency of the entity at the exchange rate prevailing at the date of the transaction or valuation where items are remeasured. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the reporting date. Exchange movements are recognised in the income statement.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

The results and financial position of the Group's subsidiaries which have a functional currency different from Euro are translated into Euro as follows:

- Assets and liabilities, including goodwill and fair value adjustments, are translated at the rates of exchange ruling at the reporting date;
- Income and expenses are translated at the average exchange rates for the year; and
- All resulting exchange differences are recognised in OCI and as a separate component of equity (currency translation adjustment reserve).

On consolidation, exchange differences arising from the translation of borrowings and currency instruments designated as hedges of the net investment in overseas subsidiaries are also recognised in OCI to the extent to which the hedge is deemed to be effective. The ineffective portion of any net investment hedge is recognised in the income statement immediately. On disposal or partial disposal of an overseas subsidiary, the appropriate portion of the currency translation adjustment reserve is included in the gain or loss on disposal.

(iii) Recognition of income and expenses
Interest and similar income and expenses

For all interest bearing financial instruments, interest income or expense is recorded using the effective interest rate (EIR) method.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

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

Policy applicable from 1 January 2018

When calculating the EIR for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted EIR is calculated using estimated future cash flows including ECL.

The calculation of the EIR includes transaction costs, premiums or discounts, and fees paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income is calculated by applying the EIR to the gross carrying amount of the financial asset. For assets that are credit impaired the EIR is applied to the net book value, measured at amortised cost. Where loans are POCI a credit adjusted EIR is applied to the net book value, which is measured at amortised cost.

Policy applicable before 1 January 2018

The EIR is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability, or a shorter period where appropriate, to the carrying amount of the financial asset or liability on initial recognition.

When calculating the EIR, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR includes all transaction costs and fees paid or received that are an integral part of the EIR and all premiums and discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Fees and commission income and expense

As outlined above, fees and commission income and expense that are integral to the EIR on a financial asset or liability are included in the measurement of the EIR.

Other fees and commission income are recognised as the related services are performed. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Net trading income/(expense)

Net trading income/(expense) comprises gains and losses relating to trading assets and trading liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.

Exceptional items

Certain items, by virtue of their nature and amount are disclosed separately in order for the user to obtain appropriate understanding of the financial information. These items would not ordinarily occur while carrying out normal business activities.

Exceptional items include gains or losses on the disposal of businesses, gains or losses on material deleveraging (including additional impairment arising solely as a result of sale) and material restructuring costs.

Bank levy and other regulatory charges

Bank levy and other regulatory charges consist of Deposit Guarantee Scheme (DGS) fees, Central Bank Industry Funding levy, Bank Recovery and Resolution Directive (BRRD) levy, ECB fees and a bank levy.

A bank levy payable to government, is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

(iv) Employee Benefits

Defined contribution pension plan

The Group operates a number of defined contribution pension schemes, under which the Group pays fixed contributions to a separate entity.

The contribution payable to a defined contribution plan is recorded as an expense under administration, staff and other expenses. Unpaid contributions are recorded as a liability.

Short term employee benefits

Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employee's service is rendered. Bonuses are recognised where the Group has a legal or constructive obligation to employees that can be reliably measured.

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

Termination payments

Termination benefits may be payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees where the offer is irrevocable. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(v) Current and deferred taxation

Taxation comprises both current and deferred tax. Taxation is recognised in the income statement except to the extent it relates to items recognised in either other comprehensive income or equity. In the former case taxation is recognised in other comprehensive income while in the latter case taxation is recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years (ROI: 12.5% from 1 April 2015).

Deferred tax is provided using the liability method on all temporary differences except those arising on goodwill not deductible for tax purposes, or on initial recognition of an asset or liability in a transaction that is not a business combination and which at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates enacted or substantively enacted by the reporting date that are expected to be applied to the temporary differences when they reverse.

Deferred tax liabilities and assets are offset only where there the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are recognised only to the extent that it is probable that the related tax benefit will be realised. Deferred tax assets and liabilities are not discounted in accordance with IAS 12.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

(vi) Financial instruments

As permitted by the transition provisions of IFRS 9, the Group elected not to restate comparative period results; accordingly, all comparative period information prior to 1 January 2018 is presented in accordance with our previous accounting policies. Adjustments to carrying amounts of financial assets and liabilities at 1 January 2018 were recognised in opening retained earnings. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail below.

(a) Classification of financial assets – Policy applicable from 1 January 2018

Financial assets are recorded at fair value and are classified, on initial recognition, as amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. Purchases and sales of financial assets are recognised on the trade date, being the date on which the Group commits to purchase or sell the asset.

With the exception of assets classified at fair value through profit or loss, the initial fair value of a financial asset includes direct and incremental transaction costs. The fair value of assets traded on an active market will be the price that would be received if an asset were to be sold in an orderly transaction between market participants at the measurement date. In the absence of an active market, the Group establishes a fair value using various valuation techniques that use observable and unobservable inputs. These include recent transactions in similar items, discounted cash flow projections, option pricing models and other valuation techniques used by market participants.

The classification requirements for debt and equity instruments are described below.

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

Debt instruments

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

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

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

(i) Business model assessment

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL.

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

How the performance of the business model and the financial assets held within that business model are evaluated and reported to Group ExCo;

- How risks that affect the performance of the business model are managed;
- How business managers are compensated; and
- The timing, frequency and volume of sales.

(ii) Cash flow characteristics assessment

The Group carries out the cash flow characteristics assessment using the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest (the 'SPPI' test). Principal, for the purpose of this test, is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset, for example, due to repayments or amortisation of the premium/discount. Interest is defined as the consideration for the time value of money and credit risk, which are the most significant elements of interest within a lending arrangement. If the Group identifies any contractual features that could significantly modify the cash flows of the instrument such that they introduce exposures to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Group carries out the SPPI test based on an assessment of the contractual features of each product on origination and subsequently at every reporting period. Derivatives instruments and equity instruments are not covered by this assessment as they are held at FVTPL (except when equities are accounted for at FVOCI).

Based on the above assessments, the Group classifies its debt instruments into one of the following three measurement categories:

(i) Debt instruments measured at amortised cost

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

Impairment on debt instruments measured at amortised cost is calculated using the ECL approach; see the following page for further details.

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

(ii) Debt instruments measured at FVOCI

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

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

(iii) Debt instruments measured at FVTPL

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

Equity instruments

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

Financial assets designated at FVTPL

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

Financial assets designated at FVTPL are recorded in the statement of financial position at fair value. For assets designated at FVTPL, changes in fair value are recognised in net trading income in the income statement.

A breakdown of the changes in the classification and measurement of financial assets on transition to IFRS 9 is presented in note 3.

(a) Classification of financial assets - Policy applicable before 1 January 2018

Financial assets are recorded at fair value and are classified, on initial recognition, as held for trading (HFT), designated at fair value through profit and loss (FVTPL), available-for-sale (AFS), held to maturity (HTM) or loans and receivables. All derivative assets are classified as HFT unless they have been designated as hedges. Purchases and sales of financial assets are recognised on the trade date, being the date on which the Group commits to purchase or sell the asset.

With the exception of assets classified as HFT or FVTPL, the initial fair value of a financial asset includes direct and incremental transaction costs. The fair value of assets traded on an active market will be the price that would be received if an asset were to be sold in an orderly transaction between market participants at the measurement date. In the absence of an active market, the Group establishes a fair value using various valuation techniques that use observable and unobservable inputs. These include recent transactions in similar items, discounted cash flow projections, option pricing models and other valuation techniques used by market participants.

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

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

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

Debt securities

The Group classifies debt securities as one of HTM, AFS or loans and receivables.

Debt securities classified as HTM, subsequent to initial recognition, are measured at amortised cost less any allowance for impairment. Income on these investments is recorded on an effective interest basis as interest income in the income statement. Impairment losses, where they arise, and foreign exchange movements are reflected in the income statement.

Debt securities classified as AFS, subsequent to initial recognition, are measured at fair value with unrealised gains and losses, other than currency translation differences, recognised within OCI and in a separate reserve. Realised gains and losses, impairment losses and foreign exchange movements are reflected in the income statement. Income on debt securities classified as AFS is recognised on an effective interest basis and included as interest income in the income statement.

Debt securities classified as loans and receivables are measured at amortised cost, based on an EIR which is determined at the date of initial recognition.

Equity securities

The Group classifies equity securities as AFS. Equity securities classified as AFS are initially recognised at fair value; subsequent to initial recognition, are measured at fair value with unrealised gains and losses recognised within OCI and in a separate reserve.

Realised gains and losses and impairment losses are reflected in the income statement.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and that the Group has no intention of trading. Loans and advances, subsequent to initial recognition, are held at amortised cost less an allowance for incurred impairment losses unless they are part of a fair value hedge relationship. Income is recognised on an EIR basis as interest receivable in the income statement.

Where loans and advances are part of a fair value hedging relationship, the change in the fair value during the period resulting from the hedged risk is recognised together with the movements in the fair value of the related hedging instrument, in the income statement.

(b) Impairment of financial assets – Policy applicable from 1 January 2018

The group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
An unbiased probability weighted amount that is

- determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date and past events, current conditions and forecast of future economic conditions.

The Group tracks and assesses changes in credit risk on financial instruments since origination and determines whether the credit risk on those financial instruments has increased significantly since initial recognition. The change in credit risk is based on the risk of default and not changes in the amount of ECL which may be expected on a financial instrument. The Group applies the IFRS 9 3 stage model for impairment, based on changes in credit risk quality since initial recognition:

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

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

- Stage 3 – includes financial assets that have objective evidence of impairment at the reporting date, i.e. are credit-impaired. For these assets, lifetime ECL is recognised.

Exception to the general 3 stage impairment model:

POCI are excluded from the general 3 stage impairment model in IFRS 9. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised on a credit-adjusted EIR basis. ECLs are only recognised or released to the extent that there is a subsequent change in expected credit losses.

Measurement
The Group has adopted an ECL framework and reflects a component approach using probability of default (PD), EAD and LGD components calibrated for IFRS 9 purposes. To adequately capture life-time expected losses, the Group also models early redemptions as a separate component within the ECL calculation.

The expected cash flows included in our ECL calculation are derived from cash flows arising from the loan contract or on the disposal of collateral. As the sale of loans is not part of the group's normal recovery strategy, cash flows from this source are not considered a part of the ECL calculation, with the exception of expected cash flows arising from deleveraging of non performing loans which are included in the ECL calculation from the point they meet the following three conditions:

- Selling the loans becomes a recovery method that the group expects to pursue in a default scenario;
- The Group is neither legally nor practically prevented from realising the loans using the recovery method; and
- The Group has reasonable and supportable information upon which to base its expectations and assumptions.

As a consequence, exceptional impairment losses arising from deleveraging are included in the impairment charge under IFRS 9.

Credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original effective interest rate.

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

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

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

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

Effective Interest Rate
The discount rate used by the Group in measuring ECL is the effective interest rate (or 'credit-adjusted effective interest rate' for a purchased or originated credit-impaired financial assets) or an approximation thereof.

For undrawn commitments, the effective interest rate, or an approximation thereof, is applied when recognising the financial assets resulting from the loan commitment.

Modification Policy for Financial Assets
The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new items are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new items are introduced such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.

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

- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group calculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit- adjusted EIR for purchased or originated credit-impaired financial assets).

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

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

Presentation of ECL allowance in the statement of financial position

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

(b) Impairment of financial assets - Policy applicable before 1 January 2018
A financial asset is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows of the asset. Impairment provisions are calculated either individually on loans which are significant or collectively on groups of loans which are individually insignificant. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the SOFP is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

Impairment of loans and advances to customers

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

Objective evidence of impairment may include the following:

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

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

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

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

In general, the Group employs statistical models to assess and calculate the appropriate provision charge for all loans greater than 90 days in arrears or when there is objective evidence of impairment. Those statistical models mainly incorporate historical trends of probability of defaults, rates by which defaulted or delinquent accounts are assumed to return to performing status (known as cure rates), the timing of recoveries of collateral and the amount of loss incurred, adjusted for Management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates (PD), loss rates (LGD), cure rates and the expected timing of recoveries of collateral are regularly benchmarked against actual outcomes to ensure that they remain appropriate. Loss rates are updated to include best estimate of current values of collateral held (see note 35 Financial Risk Management).

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

- Residential mortgages: Exposures in excess of €5m and/or greater than 90 days in arrears.
- Commercial mortgages: Exposures in excess of €0.75m where any facility is greater than 90 days in arrears or currently in forbearance.

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

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

Incurred But Not Reported (IBNR) impairment
Loans for which no evidence of loss has been specifically identified are grouped together according to their credit risk characteristics (such as home loans or buy-to-let, geographical location, type of collateral, loan-to-value ratio, past due status, forbearance treatment status) for the purpose of calculating an estimated collective provision. This reflects impairment losses that the Group has incurred as a result of events occurring before the statement of financial position date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually reported in the future when more evidence of impairment becomes available at which stage the relevant loans are moved from IBNR to specific impairments.

IBNR impairment provision is determined after taking into account:

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

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

Residential mortgage exposures with certain risk characteristics, including those exposures greater than €1m, may attract an additional IBNR provision.

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

Write-off of loans and advances

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

Write-back of impairment provision

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

Forbearance strategies – residential mortgage loans

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change (forbearance measure) to a loan for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

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

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

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

Non-forbearance renegotiation

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

Impairment of financial assets

Included in the debt security assets are assets held by the Group for liquidity purposes. These assets fall into the following categories under IAS 39, Available for Sale (AFS), Held to Maturity (HTM) and Loans and Receivables (L&R). At each reporting date, the Group assesses if there is objective evidence of impairment in the debt security portfolio.

Impairment losses on AFS financial assets are recognised by reclassifying the losses accumulated in the AFS reserve to the income statement. The amount reclassified as impairment is the difference between the amortised cost and the current fair value, less any impairment loss previously recognised in the income statement. If the fair value of a debt instrument classified as an AFS financial asset increases subsequently and the increase can be objectively related to a credit event occurring after the impairment loss was recognised, then the impairment loss is reversed through the income statement. Impairment losses recognised on AFS equity instruments are not reversed through the income statement.

Impairment losses and impairment loss reversals on financial assets carried at amortised cost which include both HTM and L&R debt securities are recognised in the income statement as losses or gains when the financial asset or financial liability is impaired.

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

(c) Financial liabilities

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

Financial liabilities measured at amortised cost

Financial liabilities include deposits by banks including central banks, customer accounts, debt securities and subordinated debt. Derivative liabilities are dealt with under separate accounting policies.

Debt securities and subordinated debt issued are initially recognised on the date that they originated, while all other financial liabilities are recognised initially on the trade date. Both the date of origination and the trade date is the date the Group becomes a party to the contractual provisions of the instrument.

All financial liabilities are recognised initially at fair value, less any directly attributable transaction costs and are subsequently measured at amortised cost and the related interest expense is recognised in the income statement using the EIR method.

Financial liabilities designated at FVTPL

Financial liabilities classified in this category are those that have been designated by the Group on initial recognition.

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

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

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

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

A financial liability that is classified as a compound financial instrument, containing both debt and equity features, is separated into its equity and debt components on initial recognition. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the debt component. The instrument is fair valued at the date of issue using an appropriate valuation technique if there is an absence of quoted market prices. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the EIR method, with related interest recognised in the income statement. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised in the income statement.

(d) Derecognition of Financial Instruments

Financial Assets

The Group derecognises a financial asset when the contractual right to the cash flow from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

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

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statements of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

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

In certain transactions, the Group retain the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation is generally retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities and measured as explained Note 44. Before 1 January 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. This may happen when payment is made to the lender; the borrower legally is released from primary responsibility for the financial liability; or if there is an exchange of debt instruments with substantially different terms or a substantial modification of the terms of an existing debt instrument. Derecognition conditions are also satisfied when an entity repurchases its own debt instruments issued previously. When a financial liability is extinguished, any difference between the carrying amount of the financial liability and the consideration paid is recognised in the income statement.

(e) Determination of fair value of financial instruments and other assets

The Group measures financial instruments, such as, derivative financial instruments, trading financial instruments and other financial instruments at fair value through profit or loss. Certain risks in hedged financial instruments, financial assets classified as FVOCI, property and equipment and collateral in possession are measured at fair value on initial recognition.

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability which is accessible to the Group.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole and is described as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities (unadjusted);
- Level 2: Valuation techniques such as discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

An analysis of the fair values of financial instruments and further details as to how they are measured are provided in note 34.

(vii) Derivative instruments and hedging

As permitted by the transition provisions of IFRS 9, the Group elected, as a policy choice, to adopt an IFRS 9 model for hedge accounting from 1 January 2018.

(a) Derivative instruments and hedging - Policy applicable from 1 January 2018

Derivative instruments used by the Group primarily comprise interest rate swaps and currency forward rate contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument;
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship;
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as net interest income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as net interest income.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

Embedded derivatives

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if:

- The economic characteristics and risks are not closely related to the host;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

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

Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Credit valuation adjustment

The Group is engaged in OTC derivative transactions and considers whether a fair value adjustment for credit risk is required. Credit valuation adjustment (CVA) is considered to reflect the counterparty's default risk and debit valuation adjustment (DVA) to reflect own credit risk. There is no specific guidance on the methods used to calculate CVA or DVA which creates challenges in estimation.

As a result, IFRS 13 requires entities to consider the effects of credit risk when determining a fair value measurement, e.g. by calculating a CVA on their derivatives. Estimation can be complex and requires the use of significant judgement which is often influenced by various qualitative factors, such as:

- The materiality of the entity's derivative's carrying value to its financial statements;
- The number and type of contracts for derivatives in the entity's portfolio;
- The extent to which derivative instruments are either deeply in or out of the money;
- The existence and terms of credit mitigation arrangements (e.g. collateral arrangements in place);
- The cost and availability of technology to model complex credit exposures;
- The cost and consistent availability of suitable input data to calculate an accurate credit adjustment; and
- The credit worthiness of the entity and its counterparties.

The Group mitigates the majority of its derivative positions through the use of netting and CSA collateral arrangements. The Group do not operationally net positions. The netting and collateral arrangements may be called upon in the event of a default. This allows a counterparty to net all assets and liabilities outstanding with the defaulting counterparty party subject to the agreement when the default event occurs. The collateral arrangements in place require the counterparty in a liability position to place collateral to cover that shortfall. The Group considers and discounts the necessity for any amendments to the valuations to reflect the CVA when calculating the fair value of the derivative positions.

The Group monitors this position at every reporting period and assesses if material credit valuation adjustments become appropriate to be recognised.

(b) Derivative instruments and hedging - Policy applicable before 1 January 2018

Derivative instruments used by the Group primarily comprise interest rate swaps and currency forward rate contracts. All derivatives are classified as HFT unless they have been designated as hedges.

All derivatives are held on the SOFP at fair value.

Gains and losses arising from derivatives held for trading are recognised in trading income.

IAS 39 permits the Group to designate certain derivatives as either:

- Hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge);
- Hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge).

Formal documentation is drawn up at inception of a new hedge specifying the risk management objectives, the hedging strategy, the component transactions and the methodology that will be used to measure effectiveness. Assessment of hedge effectiveness is carried out at inception and on an on-going basis over the life of the hedge relationship to determine whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within the required effectiveness range of 80%-125%.

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

Fair value hedge

Movements in the fair value of derivative hedge positions together with the fair value movement in the hedged risk of the underlying instrument are reflected in the income statement under net interest income and trading income.

Cash flow hedge

The effective portion of changes in the fair value of the derivatives that is designated and qualifies as cash flow hedges is recognised in OCI and is included in the cash flow hedge reserve in the statement of changes in equity (net of tax). The gains or losses relating to the ineffective portion are recognised immediately in the income statement in trading income. The amount accumulated in equity is reclassified to the income statement in the same period that the hedged risk is realised. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to the income statement.

Net investment hedge

This type of hedge is accounted for similar to the cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and separately identified as currency translation reserve within shareholders' equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement and the effective portion that is held within the reserves is reclassified to the income statement on the disposal of the foreign operation.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, is terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative in financial liabilities separately from the host contract when:

- The host contract is not itself carried at fair value through profit or loss;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in the income statement unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the SOFP together with the host contract.

Credit valuation adjustment

The Group is engaged in OTC derivative transactions and considers whether a fair value adjustment for credit risk is required. Credit valuation adjustment (CVA) is considered to reflect the counterparty's default risk and debit valuation adjustment (DVA) to reflect own credit risk. There is no specific guidance on the methods used to calculate CVA or DVA which creates challenges in estimation.

As a result, IFRS 13 requires entities to consider the effects of credit risk when determining a fair value measurement, e.g. by calculating a CVA on their derivatives. Estimation can be complex and requires the use of significant judgement which is often influenced by various qualitative factors, such as:

- The materiality of the entity's derivative's carrying value to its financial statements;
- The number and type of contracts for derivatives in the entity's portfolio;
- The extent to which derivative instruments are either deeply in or out of the money;
- The existence and terms of credit mitigation arrangements (e.g. collateral arrangements in place);
- The cost and availability of technology to model complex credit exposures;
- The cost and consistent availability of suitable input data to calculate an accurate credit adjustment; and
- The credit worthiness of the entity and its counterparties.

The Group mitigates the majority of its derivative positions through the use of netting and CSA collateral arrangements. The Group do not operationally net positions. The netting and collateral arrangements may be called upon in the event of a default. This allows a counterparty to net all assets and liabilities outstanding with the defaulting counterparty, subject to the agreement when the default event occurs. The collateral arrangements in place require the counterparty in a liability position to place collateral to cover that shortfall. The Group considers and discounts the necessity for any amendments to the valuations to reflect the CVA when calculating the fair value of the derivative positions.

The Group monitors this position at every reporting period and assesses if material credit valuation adjustments become appropriate to be recognised.

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

(viii) Cash and cash equivalents

Cash comprises cash on hand and demand deposits and cash equivalents include liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of change in value and with an original maturity of less than three months.

(ix) Leases

Lessee

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. Assets held as finance leases are capitalised and included in property and equipment, initially at the lower of fair value and the present value of minimum lease payments and are subsequently held at depreciated cost.

Assets held by the Group under other leases are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Lessor

When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is included within net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease.

(x) Property and equipment

Leasehold premises with initial lease terms of less than 50 years and all other equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis to write off the costs of such assets to their residual value over their estimated useful lives, which are assessed annually.

Freehold premises (including land) are revalued at least annually by external professional valuers. Any accumulated depreciation (on freehold premises excluding land) at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Any resulting increase in value is credited to OCI and shown as revaluation reserves in shareholders' equity. Any decrease in value that offsets previous increases of the same asset are charged in OCI and debited against the revaluation reserves directly in equity while all other decreases are charged to the income statement. The revalued premises, excluding the land element, are depreciated to their residual values over their estimated useful lives, which are assessed annually.

Subsequent costs are included in the asset's carrying amount, only when it is probable that increased future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property and equipment is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognised against the revaluation reserve to the extent it is available and any remainder is recognised in the income statement. The depreciation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

The estimated useful lives are as follows:

Freehold Buildings	50 years
Leasehold Buildings	50 years or term of lease if less than 50 years
Office Equipment	5 – 15 years
Computer Hardware	3 – 10 years
Motor Vehicles	5 years

(xi) Intangible assets (other than Goodwill)

(a) Software

Computer software is stated at cost, less amortisation and provision for impairment, if any. The external costs and identifiable internal costs of acquiring and developing software are capitalised where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year.

Capitalised computer software is amortised on a straight line basis over a period of between three to seven years.

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

Software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or value in use.

(b) Core deposit intangible assets

Core deposit intangibles arise from the acquisition of deposit portfolios and are stated at cost (being its fair value on initial recognition) less amortisation and provision for impairment, if any, and are amortised on a straight line basis over five years. They are subject to impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable, they are written down through the income statement by the amount of any impairment loss identified in the year.

(xii) Collateral in possession

In certain circumstances, property is repossessed following foreclosure on loans that are in default. When a property is repossessed, the associated loan relating to that property is derecognised and any provision on that loan is reversed. On initial recognition the collateral in possession is valued at its fair value.

Subsequent to initial recognition, the property is carried at the lower of its cost and net realisable value.

(xiii) Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following criteria are met:

- Its carrying value will be recovered principally through sale rather than continuing use;
- It is available for immediate sale; and
- The sale is highly probable within the next 12 months.

When assets (or disposal groups), other than financial assets as classified under IFRS 9, or rights under an insurance contract, is initially classified as held for sale, it is measured at the lower of the carrying amount or fair value less costs to sell at the date of reclassification. Impairment losses subsequent to classification of such assets (or disposal groups) are recognised in the income statement. Increases in fair value less costs to sell of such assets (or disposal groups) that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative loss previously recognised in respect of the asset (or disposal group).

Where the above conditions cease to be met, the assets (or disposal group) are reclassified out of held for sale and included under the appropriate SOFP classifications.

Financial assets within the scope of IFRS 9, deferred tax assets and income taxes within the scope of IAS 12 continue to be measured in accordance with these standards.

(xiv) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A restructuring provision is recognised when there is an approved detailed and formal restructuring plan, and the restructuring either has commenced or has been publicly announced. Future operating losses are not permitted to be recognised.

Present obligations arising under onerous contracts are recognised and measured as provisions at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. An onerous contract is a contract in which the unavoidable cost of meeting the obligation under the contract exceed the economic benefits expected to be received under it.

Contingent liabilities are either possible obligations that arise from past events whose existence is dependent on whether some uncertain future events occur which are not wholly within the control of the entity or are a present obligation that arises from a past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

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

(xv) Dividends

Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in equity in the period in which they are paid.

(xvi) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Executive Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Transactions between the operating segments are on normal commercial terms and conditions unless stated otherwise. Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue from external parties is measured in a manner consistent with the income recognition policy of the Group.

(xvii) Sales and repurchase agreements

Financial assets may be lent for a fee or sold subject to a commitment to repurchase them. Such assets are retained on the SOFP when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the SOFP as appropriate.

Similarly, where financial assets are purchased with a commitment to resell, or where the Group borrows financial assets but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the financial assets are not included in the SOFP.

The difference between the sale and repurchase price is recognised in the income statement over the life of the agreements using the EIR. Fees earned on stock lending are recognised in the income statement over the term of the lending agreement. Securities lent to counterparties are also retained on the SOFP.

(xviii) Collateral

The Group enters into master agreements with counterparties, to ensure that in the event of a default, all amounts outstanding with those counterparties will be settled on a net basis. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customers' assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is not recorded on the Group's SOFP.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the SOFP. Collateral received in the form of cash is recorded on the SOFP, with a corresponding liability recognised within deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the SOFP. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

1.6 Application of new and revised IFRSs

New and revised IFRSs affecting amounts reported and/or disclosures in these financial statements

In 2018, the Group assessed the new and revised IFRSs which took effect during the year. The Group has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

IFRS 15 applies to all contracts with customers but does not apply to financial instruments, lease contracts or non-monetary exchanges. IFRS 15 has introduced a principles-based approach for revenue recognition, with revenue being recognised as the related obligations are satisfied. The Group has assessed revenue streams within the scope of IFRS 15 and concluded that the timing of revenue recognition is unchanged under the new standard. There is therefore no transitional impact from adopting this standard.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued by the International Accounting Standards Board (IASB) but are not yet effective at 31 December 2018.

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

Topic	Description of change	Effective date	Impact
IFRS 16 'Leases'	This amendment replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that all operating leases will be accounted for on balance sheet for lessees. The accounting for lessors will not materially change. The standard replaces IAS 17 'Leases' and related interpretations. IFRS 16 is applicable for periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	Periods beginning on or after 1 January 2019. Endorsed by the European Union. Early adoption is permitted only if IFRS 15 is adopted at the same time.	The implementation of IFRS 16 is expected to have an impact of €49m on the Group accounts.
Amendment to IFRS 9 'Financial Instruments', on prepayment features with negative compensation	On October 12, 2017, the IASB issued an amendment to IFRS 9 Financial Instruments, relating to prepayment features with negative compensation. The narrow-scope amendment covers two issues: • The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. • The amendment confirms that most such modifications will result in immediate recognition of a gain or loss.	Periods beginning on or after 1 January 2019. Endorsed by the European Union.	The implementation of these amendments has no significant impact on the Group accounts.
Amendments to IAS 28, 'Investments in associates', on long term interests in associates and joint ventures disclosure initiative	These amendments to IAS 28 clarify the accounting for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9.	Periods beginning on or after 1 January 2019. Not endorsed by the European Union.	The implementation of these amendments has no significant impact on the Group accounts.

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

Topic	Description of change	Effective date	Impact
Plan Amendment, Curtailment or Settlement – Amendments to IAS 19	The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must : • Calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; • Any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling; and • Separately recognise any changes in the asset ceiling through other comprehensive income.	Periods beginning on or after 1 January 2019. Not endorsed by the European Union.	The implementation of these amendments has no significant impact on the Group accounts.
Interpretation 23 Uncertainty over Income Tax Treatments	The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses: • How to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty; • That the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored; • That the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment; • That the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and • That the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements. • While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.	Periods beginning on or after 1 January 2019. Endorsed by the European Union.	The implementation of these amendments has no significant impact on the Group accounts.
Annual Improvements to IFRS Standards 2015-2017 Cycle	The following improvements were finalised in December 2017: • IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages. • IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation. • IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. • IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.	Periods beginning on or after 1 January 2019. Not endorsed by the European Union.	The implementation of these amendments has no significant impact on the Group accounts.

2. Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires Management to make assumptions, estimates and judgements that affect the reported amounts of income, expenses, assets and liabilities and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Critical accounting estimates and judgements made by Management in applying accounting policies are set out below.

(a) Allowance for credit losses under IFRS 9

IFRS 9 requires an impairment allowance to be recorded for ECL on financial assets regardless of whether there has been an actual loss event. There is a requirement to track and assess changes in credit risk on financial instruments since origination and determine whether the credit risk on those financial instruments has increased significantly since initial recognition.

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

Assessment of both 12-month and lifetime ECL

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

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

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

Determination of significant increase in credit risk (SICR)

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

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

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

Forward-looking macroeconomic scenarios

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

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

2. Critical accounting estimates and judgements (continued)

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

The following table details the key macroeconomic variables used in modelling the allowance for credit losses for Stages 1 and 2 together with the associated percentiles and probability weightings.

	Base Case Scenario		Upside Scenario	Downside Scenario
	Average value over the next 12 months	Average value over the forecast period	Average value over the forecast period	Average value over the forecast period
Percentile		50th	5th	**95th**
Scenario probability weighting		54%	23%	**23%**
Irish Residential House Prices	5%	3%	13%	**-10%**
Irish Unemployment	5%	5%	4%	**14%**
Irish GDP	4%	3%	6%	**-1%**
Consumer Price Index	2%	2%	1%	**2%**
ECB Base Rate	0%	1%	0%	**1%**

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

Forecasting forward-looking information for multiple scenarios and determination of probability weighting of the scenarios involves a significant degree of management judgement. If the Group were to only use its Base Case Scenario for the measurement of ECL for the secured mortgage portfolio, the ECL impairment allowance would be €167m lower than reported at 31 December 2018.

At 31 December 2018, the impairment provision included €79m of Management's adjustments to modelled outcomes.

(b) Deferred taxation

At 31 December 2018, the Group had a net deferred tax asset of €355m. See note 23 for further details.

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

The most important judgement relates to Management's assessment of the recoverability of the deferred tax asset relating to carried forward tax losses, being €366m at 31 December 2018. It should be noted that the full deferred tax asset on tax losses relates to tax losses generated in permanent tsb plc legal entity (i.e. no deferred tax asset is being recognised on tax losses carried forward in any other Group company). The assessment of recoverability of this asset entails consideration of the future structure of the PTSB legal entity and the trading structure of the Group, which ultimately will be influenced by the Group's strategy, economic environment and the ability to use past tax losses to offset future trading profits.

In line with the requirements of IAS 12 "Income Tax", Management and Directors formed the view that it is probable that there would be sufficient future taxable profits within PTSB against which carried forward tax losses in PTSB could be utilised. This view 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 recent history of losses, in accordance with IAS 12, there must be convincing other evidence to underpin this assessment.

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

- The improving macroeconomic environment including the continued growth in GDP, the continued decline in unemployment and the continued increase in house prices;
- External forecasts for the Irish economy which indicate continued and increasing economic recovery in the medium term;
- The significant progress made on the Group's NPL strategy during 2018 together with the deleveraging of the Group's Non-Core portfolios in recent years;
- The current expected trajectory of the Group's financial performance;
- The impairment performance;
- The Group's projected liquidity and capital position; and
- The capability demonstrated by the Group in recent years to raise additional capital, when required, in challenging circumstances.

2. Critical accounting estimates and judgements (continued)

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

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

Taking the above factors into account, and in the absence of any expiry date for the utilisation of carried forward tax losses in Ireland, the Board have concluded that it is more likely than not that there will be sufficient taxable profits against which the losses can be utilised and on the basis of the assessment above, continue to recognise €366m of a deferred tax asset on tax losses on the statement of financial position as at 31 December 2018.

In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset arising on tax losses carried forward. Based on the Group's latest forecast plans to 2022 and assuming a level of profitability growth consistent with GDP growth of approximately 2.5%, it will take c. 18 years for the deferred tax asset on tax losses of €366m 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. An assumed growth rate of 2.5% has been used in line with the prior period reflecting improving medium and long-term external forecasts for the Irish economy (with a number of external organisations forecasting medium and long-term growth of c. 3% or more). Management are of the view that a long-term assumed growth rate of 2.5% is not unreasonable in this context.

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

The expected period of time to full utilisation of the deferred tax asset has decreased since 31 December 2017 from 23 years to 18 years. This is mainly due to increased forecasted profitability in the short to medium term. These revised profitability figures also impact the assumed long-term projections for the Group with the result that the expected utilisation period has reduced. Assumptions underpinning the deferred tax asset recoverability analysis are broadly in line with prior periods.

It should be noted that Management make certain judgements in the process of applying the Group's accounting policies which may impact on amounts recognised in the financial statements and consequently on taxable profits and the utilisation of tax losses. As set out in note 23, analysis carried out demonstrates that were certain adverse events to arise (see below for further detail of the adverse events considered) it continues to be Management's view that there would be sufficient future taxable profits against which the full quantum of tax losses carried forward could be utilised, albeit that the period of time over which such utilisation would occur would be extended.

It should be further noted that the analysis of the estimated utilisation of the deferred tax asset arising on tax losses carried forward in PTSB is based on the current business model of the Group. There is no expectation of a major change in the business which would have a significant impact on the net deferred tax asset as currently recognised.

2. Critical accounting estimates and judgements (continued)

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

As set out above, in assessing the appropriateness of recognising a deferred tax asset on tax losses carried forward, Management has considered the impact of various stress case scenarios on the period of recoverability. The three scenarios identified as having potentially significant implications for the deferred tax asset recoverability are (i) adverse changes in the interest rate environment, (ii) declining house prices leading to increased loan defaults and therefore increased impairment charges and (iii) increases in operating costs. These stress case scenarios are intended to simulate a situation where there is an economic downturn, consistent with the Group's ICAAP stress scenarios. If any one of the stress case scenarios were to occur, within a reasonably possible range, it is our expectation that the time period over which these assets might be recovered could extend from between 1 to 3 years. If all adverse assumptions were to arise the period of recoverability would be extended by a further 9 years (i.e. full utilisation by 2045). However, Management consider this scenario unlikely. Changes in these assumptions are most impacted by changes to house prices and unemployment, which represent the majority of any expected stress loss which could occur. This position will continue to be reviewed for each reporting period; however, much of this estimation uncertainty may not be resolved for a number of years. However, as noted, based on the Group's latest forecast plan, it is Management estimate that the expected time period for recovery of the deferred tax asset on tax losses to be 18 years, i.e. full utilisation is expected by 2036.

(c) Financial instruments

The Group's accounting policy for the determination of fair value of financial instruments is set out in note 1(vi)(e). The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes evaluating available market data, determining the expected cash flows for the instruments, as well as identifying and applying an appropriate discount rate and credit spread.

Valuation techniques that rely on non-observable data require a higher level of management judgement in estimating the fair value compared to those based on observable data.

The quality of market data, valuation techniques and other inputs into the valuation models used are subject to internal review and approval.

The Group carries certain financial assets at fair value. In estimating the fair value of these assets and derivatives, the Group seeks to use quoted market prices (level 1). Where quoted market prices are not available, the Group uses internally developed valuation models and valuations from external experts. Inputs to these models are taken from observable market data where possible (level 2) but where this is not possible, a degree of judgement is used (level 3). Such judgement considerations typically include items such as interest rate yield curves, equity prices, option volatilities and currency rates.

Further details of the fair value of financial assets and liabilities are set out in note 34.

(d) Provisions

Management has followed the accounting requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' when assessing if a provision needs to be recognised. A provision is recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefit will be required to settle the obligations; and
- a reliable estimate can be made of the amount of the obligation.

The Group has recognised provisions which relate to legal, compliance and other costs of on-going disputes in relation to legacy business issues with certain tracker mortgage customers including an on-going enforcement investigation by the CBI into the Group's compliance with the Consumer Protection Code.

Management has considered on-going uncertainties that may impact on the provision. These include uncertainties relating to the outcome of and engagement with the CBI on the enforcement investigation including any potential regulatory fine and additional compensation and costs arising from appeals taken by customers through the Appeals process, the FSPO or the Courts. Management has exercised judgement in arriving at the estimated provision in respect of these uncertainties. Depending on the outcome of such uncertainties this could result in material adjustments to the provision in the future.

2. Critical accounting estimates and judgements (continued)

(e) Impairment review of its subsidiary undertaking

Impairment review

The Group carries its investment in its subsidiary undertaking at cost and reviews whether there is any indication of impairment at each reporting date. Impairment testing involves comparing the carrying value of the investment to its recoverable amount. The recoverable amount is the higher of the investment's fair value or its value in use (VIU).

An impairment charge arises if the carrying value exceeds the recoverable amount.

The recoverable amount of the investment is the higher of its fair value less costs to sell or its VIU. The VIU is the present value of the future free cash flows expected to be derived from the investment, based upon a VIU calculation that discounts expected pre-tax free cash flows at a discount rate appropriate to the investment. The determination of both requires the exercise of judgement. The estimation of pre-tax free cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance.

The recoverable amount calculation performed is sensitive to changes in the following key assumptions.

Cash flow forecasts

Cash flow forecasts are based on internal management information for a period of up to five years, after which a long-term growth rate appropriate for the business is applied.

Growth rates

Growth rates are determined by reference to long-term economic growth rates.

Discount rate

The discount rate applied is the cost of capital for the Group.

3. Transition to IFRS 9

Introduction

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

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

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

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

Reconciliation of IAS 39 to IFRS 9

IFRS 9 impacts the accounting for financial instruments in four areas: Classification & Measurement (C&M), impairment, POCI and hedge accounting as follows:

- Classification & measurement: The changes introduced by IFRS 9 regarding how the Group accounts for financial assets and measures them on an on-going basis did not result in any material changes for the Group on transition. An adjustment reflecting the movement of balances between categories on the statement of financial position has an impact of €2m on shareholders' equity;

3. Transition to IFRS 9 (continued)

- Impairment: The methodologies for the calculation of incurred losses under IAS 39 and ECLs under IFRS 9 are fundamentally different. Moving to the expected loss accounting model in IFRS 9 has resulted in a number of changes to the Group's impairment accounting approach. On transition to IFRS 9 on 1 January 2018, the Group's loss allowance increased by €109m (pre-tax) from €2.2bn loss allowance under IAS 39 to €2.3bn ECL impairment provision under IFRS 9;
- POCI: On transition to IFRS 9, the Group accounted for loans and advances acquired from Newbridge Credit Union (NCU) as purchased or originated credit impaired. On transition, the NCU portfolio has been recorded in loans and advances at its purchased credit impaired amount, resulting in a reduction on 1 January 2018 in both gross loans and advances and related loss allowance of €31m. The NCU portfolio is reported as Stage 3, credit impaired for the remainder of its life; and
- Hedging: IFRS 9 introduced changes to the hedge accounting requirements in place under IAS 39. The key changes are the elimination of the 80% - 125% effectiveness test and closer alignment of hedge designation with risk management practices, following a more principle-based approach than IAS 39. The Group has elected, as a policy choice, to adopt an IFRS 9 model for hedge accounting from 1 January 2018. The preparatory work necessary to facilitate transition at 1 January 2018 was completed in H2 2017, with adoption of IFRS 9 Hedge accounting policy approved by Group Asset and Liability Committee (ALCO) in November 2017. The Group has implemented the revised hedge accounting disclosures required by the amendments to IFRS 7, on foot of IFRS 9, in its annual report for the financial year ended 31 December 2018.

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

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

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

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

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

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

3. Transition to IFRS 9 (continued)

Impact of transition to IFRS 9

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

(i) Classification and measurement

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

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

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

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

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

Investments in equity instruments must be measured at fair value, however an entity can elect on initial recognition to present fair value changes in other comprehensive income. There is no subsequent recycling of fair value gains and losses to the income statement; however dividends from such investments continue to be recognised in the income statement.

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

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

Management SPPI assessment did not identify any instrument which failed the SPPI test, with the exception of derivatives and equities passed the SPPI test. This outcome is in line with Management's expectation given the nature of the Group's business model (retail bank) and risk appetite. SPPI testing has been embedded in our operations for all newly originated and purchased assets and the Group performs business model testing on an on-going basis. All new product development includes a C&M assessment, as part of the new product approval process, to ensure the SPPI test is satisfied and to determine the appropriate business model.

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

(ii) Impairment

The move to expected current loss accounting model, on transition to IFRS 9, resulted in a number of changes to the Group's impairment approach. For more information please see note 20. The key changes are set out below:

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

3. Transition to IFRS 9 (continued)

(iii) Hedge accounting

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

Financial statements impact at 1 January 2018

Opening statement of financial position

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

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

[1] Reclassifications: this column captures the gross (pre-tax) impacts on assets resulting from facilities impacted by the new IFRS 9 C&M rules.
[2] Remeasurement: this column captures the gross (pre-tax) impact of moving from an incurred loss model under IAS 39, to an ECL framework under IFRS 9 for all assets in scope.

3. Transition to IFRS 9 (continued)

Financial assets classification and measurement

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

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

There were no changes in the classification of financial liabilities.

Impairment reconciliation

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

Provision walk

Reconciliation of movement from IAS 39 to IFRS 9 loss provisions

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

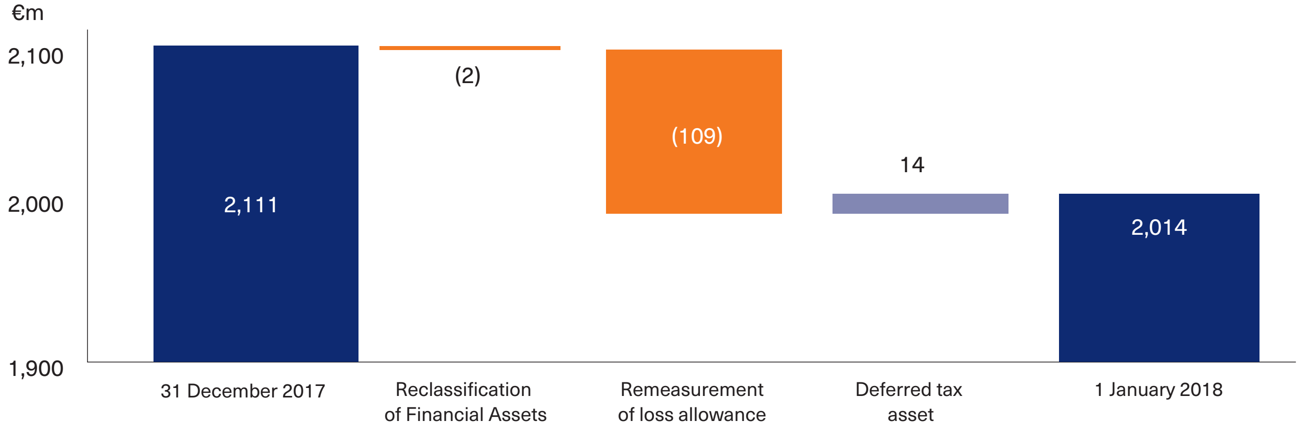
Notes to the Consolidated Financial Statements
(continued)

3. Transition to IFRS 9 (continued)

Revenue reserves reconciliation

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

Impact on reserves



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

Analysis of financial instrument by staging

1 January 2018	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI €m	Total €m
Debt securities	1,977	-	-	-	1,977
Loans and advances to customers	11,650	3,261	3,342	7	18,260
Total exposure	**13,627**	**3,261**	**3,342**	**7**	**20,237**

4. Operating segments

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

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

For the financial year ended 31 December 2016 the Group reported two operating segments; 'Core Bank' and 'Non-Core'. For the financial year ended 31 December 2016, the Non-Core segment comprised a single subsidiary held by the Group in the Isle of Man; Permanent Bank International Limited (PBI). During 2017, the decision was taken to close PBI and to begin an orderly wind-down of the business. The banking license for PBI was surrendered in December 2017 and PBI legally changed its name to PBI Ltd. From the financial year ended 31 December 2017 onwards, the Group reported a single operating segment.

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.

4. Operating segments (continued)

4.1 Revenue from external customers split by products and services

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

Net interest income from external customers split by product:

	31 December 2018 €m	31 December 2017* €m
Mortgages	**384**	418
Consumer finance**	**29**	32
Treasury assets	**34**	53
Deposits and current accounts	**(51)**	(73)
Wholesale funding	**(17)**	(25)
Total	**379**	405

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9. Prior year amounts, as allowed under the standard, have not been restated. Accordingly balances set out in the tables above are not directly comparable due to the 31 December 2017 comparative being presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).
**Consumer finance comprises income from term loans, credit cards and overdrafts.

4.2 Profit for the period based on geographical location

Year ended 31 December 2018

	Ireland €m	IOM* €m	Total €m
Net interest income			
From external customers	**379**	**-**	**379**
From internal customers	**-**	**-**	**-**
Total net interest income	**379**	**-**	**379**
Other banking income	**49**	**-**	**49**
Net other operating income	**14**	**-**	**14**
Total operating income	**442**	**-**	**442**
Total operating expenses including bank levy and other regulatory charges and excluding exceptional items, depreciation and amortisation	**(327)**	**-**	**(327)**
Depreciation of property and equipment	**(12)**	**-**	**(12)**
Amortisation of intangible assets	**(12)**	**-**	**(12)**
Total operating expenses excluding exceptional items	**(351)**	**-**	**(351)**
Operating profit before charge for impairments and exceptional items	**91**	**-**	**91**
Impairment charge for loans and advances	**(83)**	**-**	**(83)**
Impairment charge on collateral in possession	**-**	**-**	**-**
Operating profit before exceptional items	**8**	**-**	**8**
Exceptional items (net)			**(5)**
Profit before taxation			**3**
Taxation			**-**
Profit for the year			**3**

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

4. Operating segments (continued)

Year ended 31 December 2017*

	Ireland €m	IOM** €m	Total €m
Net interest income			
From external customers	407	(2)	405
From internal customers	(3)	3	-
Total net interest income	404	1	405
Other banking income	36	-	36
Net other operating income	2	-	2
Total operating income	442	1	443
Total operating expenses including bank levy and other regulatory charges and excluding exceptional items, depreciation and amortisation	(306)	(2)	(308)
Depreciation of property and equipment	(12)	-	(12)
Write-back of impairment on property revaluation	1	-	1
Amortisation of intangible assets	(10)	-	(10)
Total operating expenses excluding exceptional items	(327)	(2)	(329)
Operating profit/(loss) before (charge) for impairments and exceptional items	115	(1)	114
Impairment charge for loans and advances	(48)	-	(48)
Impairment charge on collateral in possession	(1)	-	(1)
Operating profit/(loss) before exceptional items	66	(1)	65
Exceptional items (net)			(13)
Profit before taxation			52
Taxation			(12)
Profit for the year			40

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9. Prior year amounts, as allowed under the standard, have not been restated. Accordingly balances set out in the tables above are not directly comparable due to the 31 December 2017 comparative being presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).
**This is based on geographical location and constitutes business conducted in the IOM through PBI Ltd.

4.3 Assets and liabilities based on geographical location

31 December 2018

	Ireland €m	IOM* €m	Of which inter-group balances €m	Total €m
Assets				
Held for sale	**150**	**-**	**-**	**150**
Other assets	**21,657**	**3**	**(109)**	**21,660**
Total segment assets	**21,807**	**3**	**(109)**	**21,810**
Total segment liabilities	**19,827**	**3**	**(109)**	**19,830**
Capital expenditure	**35**	**-**	**-**	**35**

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

4. Operating segments (continued)

31 December 2017*

	Ireland €m	IOM** €m	Of which inter-group balances €m	Total €m
Assets				
Held for sale	161	-	-	161
Other assets	22,610	2	(108)	22,612
Total segment assets	22,771	2	(108)	22,773
Total segment liabilities	20,661	1	(108)	20,662
Capital expenditure	33	-	-	33

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9. Prior year amounts, as allowed under the standard, have not been restated. Accordingly balances set out in the tables above are not directly comparable due to the 31 December 2017 comparative being presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

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

5. Net interest income

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Interest income		
Loans and advances to customers	**413**	450
Debt securities and other fixed-income securities	**42**	54
- Available for sale (AFS)	**-**	28
- Held to maturity (HTM)	**-**	24
- Loans and receivables	**-**	2
- Hold to collect (HTC)*	**24**	-
- Hold to collect and sell (HTC&S)*	**18**	-
	455	504
Interest expense		
Deposits from banks (including central banks)	**(4)**	(5)
Due to customers	**(51)**	(73)
Interest on debt securities in issue	**(10)**	(15)
Fees payable on ELG Scheme (note 41)	**-**	(2)
Losses on interest rate hedges on financial assets (note 17)	**(8)**	(1)
Loans and advances to banks	**(3)**	(3)
	(76)	(99)
Net interest income	**379**	405

* The Group transitioned to IFRS 9 for classification and measurement on 1 January 2018; the criteria for classifying financial assets for measurement are significantly different than those under IAS 39. Refer to note 3 Transition to IFRS 9 for details of the change.

Included in net interest income are net gains on interest rate fair value hedges which include gains on hedging instruments of €10m (31 December 2017: gain €18m) and losses on hedged items attributable to hedged risk of €10m (31 December 2017: loss €19m). Also included in net interest income is €8m relating to the amortisation of the loss on early terminated swaps that were previously held to hedge a portion of the HTC&S (previously AFS) debt securities portfolio.

Net interest income includes a charge in respect of deferred acquisition costs on loans and advances to customers of €21m (31 December 2017: €17m).

6. Fees and commission income

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Fees and commission income		
Retail banking and credit card fees	**50**	47
Brokerage and insurance commission	**12**	10
Other fee and commission income	**1**	1
Fees and commission income	**63**	58
Fees and commission expense	**(24)**	(19)
Net fees and commission income	**39**	39

7. Net trading income/(expense)

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Held-for-trading		
Interest rate instruments	**8**	(2)
Foreign exchange gains/(losses)	**2**	(1)
Net trading income/(expense)	**10**	(3)

8. Net other operating income

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Swap terminations	**-**	1
Other income	**14**	1
Net other operating income	**14**	2

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

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Staff costs (as detailed on the following page)	**148**	146
Other general and administrative expenses	**132**	118
Administrative, staff and other expenses (excluding exceptional items)	**280**	264

Other general and administrative expenses include operating lease rentals on land and buildings of €7m, (31 December 2017: €7m) and fees paid to the Group's auditors for services outlined below:

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Statutory auditor's remuneration (including expenses and excluding VAT)		
- Audit of the individual and the Group financial statements	**1.2**	1.2
- Other assurance services*	**0.1**	0.6
- Tax advisory services	**-**	-
- Other non-audit services**	**0.3**	0.3

*Other assurance services in 2018 and 2017 includes assurance relating to country by country reporting requirements and the review of the interim report. 2017 also includes proactive assurance relating to IFRS 9.
**Other non-audit services in 2018 and 2017 principally relate to accounting advice PwC Ireland provided on various projects inlcuding IFRS 9 and the launch of new structured entities which was provided by PwC UK. PwC UK was paid €0.2m and €0.1m in 2018 and 2017 respectively for these services.

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

Staff costs

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Wages and salaries (including commission payable to sales staff)	**121**	118
Staff redundancy costs	**-**	2
Social insurance	**14**	13
Pension costs		
- Payments to defined contribution pension schemes	**13**	13
Total staff costs	**148**	146

Staff redundancy costs associated with exceptional items for the year ended 31 December 2018 and 31 December 2017 are included as part of note 11 exceptional items.

Staff costs of €5m (31 December 2017: €6m) have been capitalised to intangible assets (see note 22), as the cost incurred was directly related to developing software and it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Therefore these costs are not included in this note.

Staff numbers

The number of staff employed is broken down by geographical location and by their operating segments for 31 December 2018 and 31 December 2017 in the tables below:

Closing and average number of staff (including Executive Directors) employed during the year:

	Closing staff numbers*		Average staff numbers	
	2018	2017	2018	2017
Ireland	**2,380**	2,373	**2,416**	2,437
UK**	**-**	10	**2**	10
Total	**2,380**	2,383	**2,418**	2,447

*Closing staff numbers are calculated on a FTE basis.
**This relates to employees working in the IOM (specifically PBI).

Information concerning Directors' emoluments is disclosed in the audited section of the Directors' Report on Remuneration on pages 105 to 107.

10. Bank levy and other regulatory charges

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Bank levy	**23**	23
BRRD levy	**5**	7
Other regulatory charges	**19**	14
Bank levy and other regulatory charges	**47**	44

Other regulatory charges include €15m for Deposit Guarantee Scheme (DGS) (31 December 2017: €10m) and €3m for the Central Bank Industry Funding Levy (31 December 2017: €2m).

11. Exceptional items

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Restructuring and other charges (a)	**5**	12
Loss on deleveraging (b)	**-**	1
Impairment arising from deleveraging of loans (b)	**66**	-
Exceptional items	**71**	13

(a) These comprise €5m (31 December 2017: €12m) in relation to the restructure of the Group's distribution model and back office operations function disclosed as other exceptional items.

(b) Under the Group's accounting policy, exceptional items include profits/losses arising on deleveraging. Prior to IFRS 9, these were included in the other exceptional items. Any incurred loss under IAS 39 was measured using expected cash flows arising from the loan contract or on disposal of collateral, but did not include expected cash flows from loan sales. Any difference between the carrying value (net of impairment) and loan sale proceeds (including costs) was recorded as an other exceptional loss. However, under IFRS 9 when the sale of a loan becomes part of the Group's recovery strategy and meets the other conditions as set out in the accounting policy, the expected cash flows from the loan sale (including costs of sale) are included in the IFRS 9 impairment calculation. The Glas and Glenbeigh portfolios met these conditions in 2018 and, at that point, the expected net sale proceeds were included in the ECL calculation and, as a direct result, the impairment provisions increased by €66m, mainly due to the costs associated with the sale. The Group considers this additional impairment as exceptional because the sale of loans is not part of the Group's normal recovery strategy. This treatment is consistent with the treatment of losses on deleveraging in prior years.

12. Taxation

(a) Analysis of taxation charge

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Current taxation		
Charge for current year	**2**	-
Adjustments for prior periods	**-**	-
	2	-
Deferred taxation		
Origination and reversal of temporary differences	**(2)**	12
Deferred taxation recognised in the income statement (note 23)	**(2)**	12
Taxation charged to income statement	**-**	12
Effective tax rate	**0%**	23%

The Group taxation charge for the year ended 31 December 2018 was €nil (31 December 2017: €12m). This is mainly due to (i) a current tax charge of €2m arising on non-trading income, (ii) a current year deferred tax charge of €2m which arises due to the utilisation of tax losses carried forward to shelter tax adjusted profits arising in the year, and (iii) a net deferred tax credit of €4m which arises following the finalisation of the prior year tax return and the partial release of a deferred tax asset created on the introduction of IFRS 9.

(b) Reconciliation of standard to effective tax rate

	Year ended 31 December 2018 €m	Year ended 31 December 2017 €m
Profit on the Group activities before tax	**3**	52
Tax calculated at standard ROI corporation tax rate of 12.5% (2017: 12.5%)	**-**	7
Tax effect of non-deductible expenses	**5**	5
Tax effect of non-taxable income	**(1)**	(1)
Other	**1**	1
Adjustment to tax losses carried forward	**(5)**	-
Taxation charged to income statement	**-**	12

12. Taxation (continued)

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

	Year ended 31 December 2018		
	Gross €m	Tax €m	Net €m
Revaluation of property	**5**	**(5)**	**-**
Currency translation adjustment reserve	**(1)**	**-**	**(1)**
Fair value reserve*:			
- Change in fair value of equity instruments	**1**	**-**	**1**
- Change in fair value of debt instruments	**(20)**	**2**	**(18)**
- Transfer to income statement on asset disposal	**(7)**	**1**	**(6)**
Balance as at 31 December 2018	**(22)**	**(2)**	**(24)**

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

	Year ended 31 December 2017		
	Gross €m	Tax €m	Net €m
Revaluation of property	9	(1)	8
Currency translation adjustment reserve	-	-	-
AFS reserve*:			
- Change in fair value of AFS securities	(30)	4	(26)
Balance as at 31 December 2017	(21)	3	(18)

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

13. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

	Year ended 31 December 2018	Year ended 31 December 2017
Weighted average number of ordinary shares in issue and ranking for dividend excluding treasury shares	**454,690,912**	454,690,912
Profit for the year attributable to equity holders	**€3m**	€40m
Less AT1 coupon paid (see note 32)	**(€11m)**	(€11m)
(Loss)/profit for the year attributable to equity holders less AT1 coupon paid	**(€8m)**	€29m
Basic (loss)/earnings per share (€ cent)	**(1.8)**	6.4

(b) Diluted (loss)/earnings per share

	Year ended 31 December 2018	Year ended 31 December 2017
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 diluted earnings per share and including the potential dilutive ordinary shares from the AT1 conversion feature	**454,690,912**	454,690,912
Diluted (loss)/earnings per share (€ cent)	**(1.8)**	6.4

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

13. (Loss)/earnings per share (continued)

No adjustment to the weighted average number of ordinary shares for the effects of dilutive potential ordinary shares was required for the years ended 31 December 2018 or 31 December 2017, as the AT1 securities were assessed due to the conversion feature within the security and were found to have an anti-dilutive effect.

Weighted average number of shares*

	2018	2017
Number of shares in issue at 1 January (note 32)	**454,695,492**	454,695,492
Shares held under employee benefit trust (note 32)	**(4,580)**	(4,580)
Net movements during the year		
Weighted average shares redesignated	**-**	-
Weighted average shares issued	**-**	-
Weighted average number of shares	**454,690,912**	454,690,912

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

14. Cash and cash equivalents

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

	31 December 2018 €m	31 December 2017 €m
Cash and balances with central banks	**65**	62
Items in the course of collection	**17**	28
Loans and advances to banks repayable on demand (original maturity of less than 3 months) (note 18)	**1,159**	1,518
	1,241	1,608
Restricted cash included in loans and advances to banks repayable on demand	**(445)**	(578)
Cash and cash equivalents per statement of cash flows	**796**	1,030

At 31 December 2018, restricted cash of €445m (31 December 2017: €578m) comprised cash of €432m (31 December 2017: €485m) held by the Group's securitisation entities and €13m (31 December 2017: €93m) which related to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

15. Debt securities

	31 December 2018				
	Hold to collect (HTC)[1] €m	Hold to collect and sell (HTC&S)[2] €m	Held to Maturity (HTM) €m	Available for sale (AFS) €m	Total €m
Government bonds	**2,046**	**557**	**-**	**-**	**2,603**
Corporate bonds	**44**	**-**	**-**	**-**	**44**
Gross debt securities	**2,090**	**557**	**-**	**-**	**2,647**

[1]HTC: previously classified as 'HTM' under IAS 39.
[2]HTC&S: previously classified as 'AFS' under IAS 39.

	31 December 2017				
	Hold to collect (HTC)[1] €m	Hold to collect and sell (HTC&S)[2] €m	Held to Maturity (HTM) €m	Available for sale (AFS) €m	Total €m
Government bonds	-	-	1,194	784	1,978
Corporate bonds	-	-	-	-	-
Gross debt securities	-	-	1,194	784	1,978

[1]HTC: previously classified as 'HTM' under IAS 39.
[2]HTC&S: previously classified as 'AFS' under IAS 39.

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

15. Debt securities (continued)

Debt securities with a carrying value of €nil (31 December 2017: €0.1bn) have been pledged to third parties in sale and repurchase agreements.

As at 31 December 2018, all debt securities are available to be used and eligible as collateral (though eligibility will depend on the criteria of the counterparty) in sale and repurchase agreements.

Hold to collect (HTC) securities of €2bn comprise Irish and Spanish bonds. The Spanish bonds were purchased during 2017 and further purchases were made during 2018. They represent securities which are managed separately and for which the business model is HTC contractual cash flows.

(A) HTC and HTC&S

Debt securities that are managed on a HTC&S basis are accounted for at FVOCI. Debt securities that are managed on a HTC business model basis are accounted for at amortised cost. All debt securities at 31 December 2018 are Stage 1 with the exception of a retained note in the Glenbeigh securitisation, which is a POCI. See note 43 for further details on Glenbeigh.

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

	2018		2017	
	HTC[1]	HTC&S[2]	HTM	AFS securities
	€m	€m	€m	€m
As at 1 January	**1,193[3]**	**784**	1,151	1,277
Change in fair value	**-**	**(28)**	-	(54)
Additions	**916**	**-**	275	-
Maturities / disposals	**(13)**	**(198)**	(200)	(433)
Interest net of cash receipts	**(6)**	**(1)**	(32)	(6)
At 31 December	**2,090**	**557**	1,194	784

[1]HTC: previously classified as 'HTM' under IAS 39
[2]HTC&S: previously classified as 'AFS' under IAS 39
[3]As a result of the transition to IFRS 9 on 1 January 2018, the debt securities balance has decreased by €1m to €1,193m as at 1 January 2018 (see note 3 for further details).

(B) Amounts arising from impairment provisioning on debt securities:
(i) Held at amortised cost

	31 December 2018			31 December 2017
	Stage 1	Stage 2	Stage 3	Total impairment
	€m	€m	€m	€m
HTC Debt securities				
IFRS 9 transitional adjustment at 1 January	**1**	**-**	-	-
Net remeasurement of loss adjustment	**-**	**-**	-	-
New financial asset originated or purchased	**-**	**-**	-	-
Financial assets that have been derecognised	**-**	**-**	-	-
Changes in models/risk parameters	**-**	**-**	-	-
Total	**1**	**-**	-	-

(ii) Held at FVOCI

As at 31 December 2018, the amount arising from ECL on debt securities measured at FVOCI is €0.1m. Furthermore, the ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to provision for credit losses in the income statement. The accumulated allowance recognised in OCI is recycled to the income statement on derecognition of the debt instrument.

16. Equity securities

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

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

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

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.

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

The fair value of this shareholding in Visa Inc. is classified as level 3 as the valuation of the share includes inputs that are based on unobservable market data (refer to note 34 for further details).

PTSB's shareholding in Visa Inc. was previously classified as AFS financial assets and was measured at fair value at each reporting date under IAS 39. Under IFRS 9 the shareholding in Visa Inc. has been designated at fair value through other comprehensive income (FVOCI). The change in fair value on these equity instruments continues to be accumulated in the fair value reserve (previously classified as 'available for sale' reserve under IAS 39). The Group considers this classification to be more relevant as these are held as long-term strategic investments that are not expected to be sold in the short to medium term.

17. Derivative assets/liabilities

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

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

The derivative instruments used by the Group include:

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

Further details on the Group's risk management policies are set out in the risk management section of the annual report.

17. Derivative assets/liabilities (continued)

	31 December 2018			31 December 2017		
	Contract/ notional amount €m	Fair value asset €m	Fair value liability €m	Contract/ notional amount €m	Fair value asset €m	Fair value liability €m
Designated as fair value hedges						
Interest rate swaps*	**286**	**1**	**12**	355	16	23
	286	**1**	**12**	355	16	23
Held for trading						
Forwards	**100**	**-**	**1**	75	-	-
Interest rate swaps	**60**	**-**	**1**	744	21	24
	160	**-**	**2**	819	21	24
Embedded derivatives	**-**	**-**	**-**	7	-	1
	-	**-**	**-**	7	-	1
Derivative assets & liabilities as per the statement of financial position	**446**	**1**	**14**	1,181	37	48

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

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

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

	31 December 2018 €m	31 December 2017 €m
Gains on hedging instruments	**10**	18
(Losses) on hedged items attributable to hedged risk	**(10)**	(19)
Net gains/(losses)	**-**	(1)

Net investment hedge in foreign operations
The Group previously hedged part of the currency risk of its net investment in foreign operations using currency borrowings. There were no hedges in place during 2018.

The following gains/(losses) have been recorded in other comprehensive income in respect of hedging instruments which are held to manage the Group's net investment in foreign operations, in addition to the gains/(losses) on the net investment:

	31 December 2018 €m	31 December 2017 €m
Gains in respect of hedging instruments held for net investment in foreign operations	**-**	3
Gains/(losses) in respect of non-derivative hedged net investment in foreign operations	**-**	(4)
Net gains/(losses)	**-**	(1)

18. Loans and advances to banks

	31 December 2018 €m	31 December 2017 €m
Held at amortised cost		
Placed with central banks	**562**	805
Placed with other banks	**597**	713
Loans and advances to banks	**1,159**	1,518

Placements with other banks includes restricted cash of €445m (31 December 2017: €578m) of which €432m (31 December 2017: €485m) is held by the Group's securitisation entities and €13m (31 December 2017: €93m) which relates to cash collateral placed with counterparties in relation to derivative positions and repurchase agreements.

Loans and advances to banks amounting to €1,159m as at 31 December 2018 (31 December 2017: €1,518m) have an original maturity of less than three months, and therefore have been treated as cash and cash equivalents, with the exception of restricted cash as noted above.

19. Loans and advances to customers

Loans and advances by category are set out below:

	31 December 2018 €m	31 December 2017 €m
Residential mortgages		
- Held through special purpose entities	**9,464**	12,554
- Held directly	**6,952**	7,436
	16,416	19,990
Commercial mortgage loans	**165**	224
Consumer finance (term loans/other)	**335**	345
Gross loans and advances to customers	**16,916**	20,559
Less: provision for impairment (note 20)	**(1,083)**	(2,246)
Deferred fees, discounts and fair value adjustments	**55**	57
Net loans and advances to customers	**15,888**	18,370

Note 43 provides details of the sale of loans and advances to customers during the year ended 31 December 2018.

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

	Gross loans and advances to customers*		Net loans and advances to customers*	
	31 December 2018 €m	31 December 2017 €m	31 December 2018 €m	31 December 2017 €m
Tracker rate	**9,957**	12,631	**9,136**	11,168
Variable rate	**4,972**	6,953	**4,722**	6,179
Fixed rate	**1,987**	975	**1,975**	966
	16,916	20,559	**15,833**	18,313

*excludes deferred fees, discounts and fair value adjustments.

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.

19. 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:

	31 December 2018 €bn	31 December 2017 €bn
Residential mortgages held through special purpose entities	**9.5**	12.6
Notes issued by special purpose entities		
- rated	**6.4**	8.1
- unrated	**3.1**	4.5

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

	31 December 2018 €bn	31 December 2017 €bn
- Sold to third parties and included within debt securities in issue (non-recourse) on the Statement of financial position (note 28)	**1.1**	1.3
- Held by the ECB as collateral in respect of funds raised under the euro system funding programme (note 26)	**-**	0.5
- Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements (note 26)	**1.7**	1.7
- Other		
- Available collateral[1]	**3.6**	4.6
- Unrated notes	**3.1**	4.5
	9.5	12.6

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

20. Impairment provisions

(a) Loans and advances to customers

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

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

The non-performing loan balance as at 31 December 2018 was €1,696m (31 December 2017: €5,285m). Refer to note 35 for further details.

The impairment charge in respect of the total loans and advances for year ended 31 December 2018 was €17m, compared to a charge of €48m for the year ended 31 December 2017.

31 December 2018*

	Loans and advances to customers	NPLs	NPL % of total loans	ECL provisions Stage 1	Stage 2	Stage 3	Total	Total ECL provisions as % of total loans
	€m	€m	%	€m	€m	€m	€m	%
Residential:								
-Home loans	**12,413**	**1,100**	**9%**	**25**	**40**	**363**	**428**	**3%**
-Buy to let	**4,003**	**516**	**13%**	**5**	**358**	**222**	**585**	**15%**
Commercial	**165**	**55**	**33%**	**2**	**7**	**33**	**42**	**25%**
Consumer finance:								
-Term loans/ other	**335**	**25**	**7%**	**3**	**6**	**19**	**28**	**8%**
Total gross loans	**16,916**	**1,696**	**10%**	**35**	**411**	**637**	**1,083**	**6%**
Impairment provision	**(1,083)**							
Deferred fees, discounts and fair value adjustments	**55**							
Balance as at 31 December	**15,888**							

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

31 December 2017*

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

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

20. Impairment provisions (continued)

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

2018*	Residential mortgages €m	Commercial €m	Consumer finance €m	Total €m
Total by portfolio				
At 31 December 2017 (IAS 39)	**2,126**	**71**	**49**	**2,246**
Impact of adopting IFRS 9 at 1 January 2018				
Increase/(decrease) in impairment allowances	**115**	**(17)**	**10**	**108**
Application of Purchased Originated Credit Impaired accounting	**-**	**-**	**(31)**	**(31)**
At 1 January 2018 (IFRS 9)	**2,241**	**54**	**28**	**2,323**
Portfolio reclassification	**13**	**(13)**	**-**	
Redemptions & maturities	**(18)**	**-**	**(1)**	**(19)**
Net remeasurement of loss allowance	**24**	**30**	**3**	**57**
Loan originations	**6**	**1**	**1**	**8**
Derecognition-Disposals	**(1,188)**	**(20)**	**-**	**(1,208)**
Derecognition-Repossessions	**(37)**	**-**	**-**	**(37)**
Derecognition-Write offs	**(28)**	**(10)**	**(3)**	**(41)**
ECL as at 31 December 2018	**1,013**	**42**	**28**	**1,083**

Total by Stage	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
ECL as at 1 January 2018	**54**	**333**	**1,936**	**2,323**
Transfer to Stage 1	**11**	**(11)**	**-**	**-**
Transfer to Stage 2	**(32)**	**88**	**(56)**	**-**
Transfer to Stage 3	**(1)**	**(12)**	**13**	**-**
Redemptions & maturities	**(3)**	**(2)**	**(14)**	**(19)**
Net remeasurement of loss allowance	**(1)**	**19**	**39**	**57**
Loan originations	**7**	**1**	**-**	**8**
Derecognition-Disposals	**-**	**(5)**	**(1,203)**	**(1,208)**
Derecognition-Repossessions	**-**	**-**	**(37)**	**(37)**
Derecognition-Write offs	**-**	**-**	**(41)**	**(41)**
ECL as at 31 December 2018	**35**	**411**	**637**	**1,083**

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

20. Impairment provisions (continued)

2017*	Residential mortgages	Commercial	Consumer finance	Total
	€m	€m	€m	€m
Total				
As at 1 January	2,336	81	65	2,482
Charge/(write-back) for the period (as per Income statement)	49	(2)	1	48
Increase due to interest booked but not recognised	66	1	2	69
Unwinding of discount	(36)	(2)	-	(38)
Amounts written off**	(25)	(13)	(23)	(61)
Recoveries	1	-	4	5
Collateral in repossession write-off	(269)	4	-	(265)
Other	4	2	-	6
As at 31 December	2,126	71	49	2,246

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).
** The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier than collateral realisation.

21. Property and equipment

2018	Held at fair value land and buildings	Held at cost buildings	Held at cost office and computer equipment	Total
	€m	€m	€m	€m
Cost or valuation				
At 1 January	**95**	**84**	**60**	**239**
Additions	**-**	**12**	**8**	**20**
Revaluations	**5**	**-**	**-**	**5**
At 31 December	**100**	**96**	**68**	**264**
Accumulated depreciation				
At 1 January	**-**	**(54)**	**(44)**	**(98)**
Provided in the year	**-**	**(6)**	**(6)**	**(12)**
At 31 December	**-**	**(60)**	**(50)**	**(110)**
Net book value at 31 December	**100**	**36**	**18**	**154**

Of the €5m revaluation, €nil is recognised in the income statement due to impairment write-back on land and buildings and €5m is included in the revaluation reserve in the statement of comprehensive income.

2017	Held at fair value land and buildings	Held at cost buildings	Held at cost office and computer equipment	Total
	€m	€m	€m	€m
Cost or valuation				
At 1 January	86	70	56	212
Additions	-	14	4	18
Revaluations	9	-	-	9
At 31 December	95	84	60	239
Accumulated depreciation				
At 1 January	-	(50)	(37)	(87)
Provided in the year	(1)	(4)	(7)	(12)
Revaluations	1	-	-	1
At 31 December	-	(54)	(44)	(98)
Net book value at 31 December	95	30	16	141

21. Property and equipment (continued)

The net book value of land and buildings includes the following:

	2018 €m	2017 €m
Land	**31**	29
Buildings - freehold fair value	**69**	66
Buildings - freehold cost	**1**	5
Buildings - leasehold	**35**	25
	136	125

Land and buildings at 31 December 2018 held at fair value was €100m (31 December 2017: €95m). The historic cost of land and buildings is €107m (31 December 2017: €109m).

Fair value measurement of Group's land and buildings

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation less any accumulated depreciation recognised from the date of the latest revaluation. On the date of revaluation any accumulated depreciation is eliminated. The fair value measurements of the Group's freehold land and buildings as at 31 December 2018 and 31 December 2017 were performed by independent professional valuers having appropriate qualifications and recent experience in the fair value measurement of properties in the locations and categories being valued. The effective date of revaluation is 31 December 2018 and 31 December 2017.

The fair value of the freehold land and buildings was determined based on a market comparable approach that reflects recent transaction prices for similar properties using capitalisation yields ranging from 5% to 11%. There has been no change to the valuation techniques during the year.

Details of the freehold land and buildings and information about the fair value hierarchy as defined in the Group's accounting policy as at 31 December 2018 are as follows:

31 December 2018	Level 1 €m	Level 2 €m	Level 3 €m	Total fair value €m
Land	**-**	**31**	**-**	**31**
Buildings - freehold	**-**	**69**	**-**	**69**
	-	**100**	**-**	**100**

31 December 2017	Level 1 €m	Level 2 €m	Level 3 €m	Total fair value €m
Land	-	29	-	29
Buildings - freehold	-	66	-	66
	-	95	-	95

22. Intangible assets

2018	**Software €m**	**Core deposits* €m**	**Total €m**
Cost			
At 1 January	**76**	**-**	**76**
Additions	**15**	**-**	**15**
Write-off	**(1)**	**-**	**(1)**
At 31 December	**90**	**-**	**90**
Accumulated amortisation			
At 1 January	**(37)**	**-**	**(37)**
Provided in the year	**(12)**	**-**	**(12)**
Write-off	**-**	**-**	**-**
At 31 December	**(49)**	**-**	**(49)**
Net book value at 31 December	**41**	**-**	**41**

2017	**Software €m**	**Core deposits* €m**	**Total €m**
Cost			
At 1 January	68	156	224
Additions	15	-	15
Write-off	(7)	(156)	(163)
At 31 December	76	-	76
Accumulated amortisation			
At 1 January	(34)	(156)	(190)
Provided in the year	(10)	-	(10)
Write-off	7	156	163
At 31 December	(37)	-	(37)
Net book value at 31 December	39	-	39

*Core deposits were fully written off from accounting records at 31 December 2017.

23. Deferred taxation

	31 December 2018 €m	31 December 2017 €m
Deferred tax liabilities	**(22)**	(18)
Deferred tax assets	**377**	361
Net deferred tax assets	**355**	343

Net deferred tax assets are attributable to the following:

2018	At 1 January €m	Recognised in income statement €m	Recognised in equity €m	Recognised in other comprehensive income €m	At 31 December €m
Property and equipment	**(12)**	**-**	**-**	**(7)**	**(19)**
Unrealised gains/(losses) on assets/liabilities	**(6)**	**-**	**3**	**-**	**(3)**
Losses carried forward	**361**	**5**	**-**	**-**	**366**
Other temporary differences	**-**	**(3)**	**14**	**-**	**11**
	343	**2**	**17**	**(7)**	**355**

2017	At 1 January €m	Recognised in income statement €m	Recognised in equity €m	Recognised in other comprehensive income €m	At 31 December €m
Property and equipment	(11)	-	-	(1)	(12)
Unrealised gains/(losses) on assets/liabilities	(9)	-	3	-	(6)
Losses carried forward	373	(12)	-	-	361
Other temporary differences	-	-	-	-	-
	353	(12)	3	(1)	343

In line with the requirements of IAS 12 'Deferred Tax Assets', Management and Directors formed the view that there should be sufficient future taxable profits within the PTSB legal entity against which PTSB tax losses carried forward can be used. Management and Directors have reviewed this position as at 31 December 2018 and remain of the view that it is appropriate to continue to recognise a deferred tax asset on the full quantum of tax losses carried forward in PTSB. This information is based on the following supporting evidence: (i) The capability demonstrated by the Group in recent years to raise additional capital, when required, in challenging circumstances which provides significant support to the position that PTSB will continue as a single legal entity; (ii) A review of the quantum of tax losses carried forward in PTSB in conjunction with forecasted profitability (the projections used having been approved by the Board of Directors). This review demonstrated that it is probable that there will be sufficient future taxable profits within PTSB against which the full quantum of tax losses carried forward can be utilised; (iii) The consideration of forecasting risks, including sensitivity analysis on the financial projections used (including an analysis of the effects of higher than expected impairment levels and lower than expected net interest margin). This analysis demonstrated, were certain adverse events to occur, it would remain probable that there would be sufficient future taxable profits within PTSB against which the full quantum of tax losses carried forward could be utilised, albeit that the period of time over which such utilisation would occur would be extended; and (iv) The consideration of a number of other factors which may impact the utilisation of the tax losses including the macroeconomic environment, progress made on the Group's NPL strategy and the Group's financial position. These factors are set out in further details in note 2, Critical accounting estimates and judgements.

It should also be noted that under current Irish tax legislation there is no time restriction on the utilisation of trading losses. Therefore, the tax losses carried forward in PTSB are available for utilisation against profits of the same trade in any future period. Also, the Directors are satisfied that taxable future profits should be available to recover the remaining deferred tax assets.

The total unrecognised deferred tax assets on carried forward tax losses at 31 December 2018 amounted to €20m (31 December 2017: €21m) which relates to the Group's subsidiaries.

In accordance with IFRS these balances are recognised on an undiscounted basis.

24. Other assets

	31 December 2018 €m	31 December 2017 €m
Loan sale receivable	**1,220**	-
Collateral in possession	**-**	30
Other	**7**	9
	1,227	39

Loan sale receivable relates to the amount due from the purchaser of the Glas portfolio. Subsequent to the balance sheet date, the sale was completed and proceeds were received. See note 46 for further details.

Management has assessed its intention with all collateral held in its possession and has reclassified the balances as at 31 December 2017 above to held for sale as it is highly probable that these properties will be sold within 12 months, see note 42 for further details.

25. Prepayments and accrued income

	31 December 2018 €m	31 December 2017 €m
Visa prepayments	**57**	30
Other prepayments and accrued income	**36**	15
	93	45

26. Deposits by banks (including central banks)

	31 December 2018 €m	31 December 2017 €m
Placed by the ECB	**-**	230
Placed by other banks and institutions on repurchase agreements	**1,551**	1,610
Other deposits	**1**	2
Deposits by banks	**1,552**	1,842
Balances placed by the ECB		
Maximum	**230**	1,780
Average	**221**	518

During 2018 the Group fully repaid €0.2bn which was placed by the ECB.

Of the deposits received on repurchase agreements, €1.6bn (31 December 2017: €1.5bn) are collateralised on €1.7bn (31 December 2017: €1.7bn) of notes issued by special purpose entities controlled by the Group. The notes issued by special purpose entities are secured by a first fixed charge over residential mortgages held by the special purpose entities (refer to note 19).

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

27. Customer accounts

	31 December 2018 €m	31 December 2017 €m
Term deposits	**7,320**	8,050
Demand deposits	**3,724**	3,568
Current accounts	**4,147**	3,697
Notice and other accounts	**1,829**	1,680
Customer accounts	**17,020**	16,995

€0.1bn of deposits are placed by a Government institution (31 December 2017: €0.1bn) and 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 35.

28. Debt securities in issue

	31 December 2018 €m	31 December 2017 €m
At amortised cost		
Bonds and medium-term notes	**18**	321
Non-recourse funding	**1,077**	1,312
	1,095	1,633
Maturity analysis		
Repayable in less than 1 year	**-**	304
Repayable in greater than 2 years but less than 5 years	**7**	7
Repayable in greater than 5 years	**1,088**	1,322
	1,095	1,633

Non-recourse funding

As at 31 December 2018, the Group had advances of €1.1bn (31 December 2017: €1.3bn) collateralised on residential property loans of €1.0bn (31 December 2017: €1.3bn) subject to non-recourse funding by way of residential mortgage securitisations. Residential mortgage securitisations involve transferring the interest in pools of mortgages to special purpose entities which issue mortgage-backed floating rate notes to fund the purchase of the interest in mortgage pools. These loans, which have not been de-recognised, are shown within loans and advances to customers while the non-recourse funding is shown as a separate liability.

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

Bonds & medium term notes (MTNs)

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

29. Other liabilities

	31 December 2018 €m	31 December 2017 €m
Amounts falling due within one year		
PAYE and social insurance	**4**	4
Other taxation including Deposit interest retention tax (DIRT)	**2**	3
Other	**63**	41
	69	48

30. Provisions

	2018				2017			
	Restructuring costs €m	Provision for legacy, legal and compliance liabilities €m	Other €m	Total €m	Restructuring costs €m	Provision for legacy, legal and compliance liabilities €m	Other €m	Total €m
As at 1 January	**12**	**45**	**6**	**63**	4	74	6	84
Provisions made during the year	**3**	**33**	**14**	**50**	12	9	5	26
Write-back of provisions during the year	**-**	**(2)**	**(3)**	**(5)**	(1)	(4)	(4)	(9)
Provisions used during the year	**(10)**	**(21)**	**(3)**	**(34)**	(3)	(34)	(1)	(38)
As at 31 December	**5**	**55**	**14**	**74**	12	45	6	63

The provision at 31 December 2018 is €74m (31 December 2017: €63m) which is comprised of the following:

Restructuring costs
The provision relates to restructuring costs associated with changes to the Group's operating model as well as the cost of onerous contracts.

During 2017, the Group announced changes to the Group's distribution model, including changes to the Branch Network and a restructure of its operations function. As at 31 December 2018, €9m has been utilised and estimated remaining costs to deliver these changes are in the region of €1m, with the majority of this provision being utilised within 6 months.

During 2018, the Group announced a voluntary severance scheme. At December 2018, the estimated costs to deliver this program are in the region of €2m, with the majority of this provision being utilised within 6 months.

The Group remains a lessee on a number of non-cancellable leases over properties that it no longer occupies following a restructure in 2013. The provision of €2m (31 December 2017: €3m) relates to leases on properties of up to twelve years and is calculated as the present value of future lease payments. It is expected that €1m of this provision will be utilised in the next 12 months.

30. Provisions (continued)

Provision for legacy, legal and compliance liabilities

At 31 December 2018, the Group has provisions of €55m for legacy, legal and compliance issues.

€35m relates to the Tracker mortgage examination, including provisions related to the on-going enforcement investigation by the Central Bank of Ireland (CBI). Within this €35m, is an additional €20m (over and above that provided at the end of 2017) which the Group has determined is required to cover the increased costs of the Tracker mortgage issues.

During the period ended 31 December 2018, the Group has engaged and corresponded with the CBI in relation to the CBI's enforcement investigation, however, there is no certainty as to when the CBI will conclude this work or what the outcome will be. Management has considered on-going uncertainties that may impact on the provision. These include uncertainties relating to the outcome of and engagement with the CBI on the enforcement investigation including any potential regulatory fine and additional compensation and costs arising from appeals taken by customers through the appeals process, the Financial Services and Pensions Ombudsman Bureau of Ireland (FSPO) or the Courts. Management has exercised judgement in arriving at the estimated provision in respect of these uncertainties. Depending on the outcome of such uncertainties, this could result in material adjustments to the provision in the future. It is expected that €25m will be utilised in the next 12 months.

As at 31 December 2018, payments have been made to 99% of impacted customer accounts.

The Group has other provisions of €20m relating to legal, compliance and other costs of on-going disputes in relation to legacy business issues.

Other

As at 31 December 2018 the provision of €14m (31 December 2017: €6m) relates to indemnities and guarantees provided by the Group, together with further costs associated with the deleveraging of various asset portfolios.

31. Subordinated liabilities

	2018 €m	2017 €m
As at 1 January	**23**	22
Redemption at maturity	**(23)**	-
Other movements	**-**	1
As at 31 December*	**-**	23

	31 December 2018 €m	31 December 2017 €m
Dated		
€24m 0% non-callable lower tier 2 capital notes 2018	**-**	23
	-	23

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

All of the above subordinated liabilities are issued by PTSB, the principal subsidiary of the holding company. Subordinated liabilities matured in full during 2018.

32. 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
31 December 2018

	Number of shares	31 December 2018 €m
Ordinary shares of €0.50 each	**1,550,000,000**	**775**
Deferred shares of €0.289 each	**-**	**-**

31 December 2017

	Number of shares	31 December 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

Issued share capital

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

Balances as at 31 December 2018

	€ 0.289 Deferred shares	€ 0.50 Ordinary shares	Total
As at 1 January 2018	**3,562,883,512**	**454,695,492**	
Movement	**(3,562,883,512)**	**-**	
As at 31 December 2018	**-**	**454,695,492**	
Issued share capital (€m)	**-**	**227**	**227**
Shares held under employee benefit trust	**-**	**4,580**	

Balances as at 31 December 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 31 December 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	

On 5 April 2018, the Group obtained an order of court from the High Court of Ireland, confirming the cancellation and extinguishment of the entire class of deferred shares of PTSBGH in issue being 3,562,883,512 shares. A special resolution was previously passed for this at the AGM in May 2017. These shares had an aggregate nominal value of €1,030m. €1.5m was paid to the holders of the deferred shares with the balance of €1,028m transferred to retained earnings.

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

Revaluation reserve (Non-distributable)

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

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

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

The fair value reserve comprises unrealised gains or losses, net of tax and hedge accounting, on debt and equity instruments measured at FVOCI, less the ECL allowance recognised in the income statement. On 1 January 2018, the fair value reserve included the cumulative net change in the fair value of HTC&S. This was previously classified as the AFS reserve which was discontinued on transition from IAS 39 to IFRS 9. All of the amounts were transferred from the AFS reserve to the fair value reserve on transition from IAS 39 to IFRS 9.

Currency translation adjustment reserve (Non-distributable)

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

Other capital reserves (Non-distributable)

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

Retained earnings

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

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

As previously noted €1,028m was transferred into retained earnings during 2018 as a result of the cancellation and extinguishment of the entirety of PTSBGH's deferred shares of €1,030m. This was offset by the payment of €1.5m to the owners of the deferred shares.

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

Other equity instruments - Non-distributable

	31 December 2018 €m	31 December 2017 €m
Additional Tier 1 securities	**122**	122

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

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

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

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

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

33. 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 consolidated statement of changes in equity.

31 December 2018	**Revaluation reserve**	**Fair value reserve***	**Currency translation adjustment reserve**	**Retained earnings**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Other comprehensive income/(expense) (net of tax)					
Revaluation of property	**-**	**-**	**-**	**-**	**-**
AFS reserve:					
Change in fair value of AFS financial assets	**-**	**-**	**-**	**-**	**-**
Currency translation adjustment	**-**	**-**	**(1)**	**-**	**(1)**
Fair value reserve (equity instruments):					
Change in fair value of equity instruments	**-**	**1**	**-**	**-**	**1**
Fair value reserve (debt instruments):					
Change in fair value of debt instruments	**-**	**(18)**	**-**	**-**	**(18)**
Disposal of debt instruments	**-**	**(6)**	**-**	**-**	**(6)**
Total other comprehensive (expense), net of tax	**-**	**(23)**	**(1)**	**-**	**(24)**

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

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

34. Measurement basis and fair values of financial instruments

(a) Measurement basis and fair values of financial instruments

31 December 2018	Note	Held at amortised cost €m	At fair value through OCI €m	At fair value through profit or loss €m	Designated as fair value hedges €m	Total carrying value €m	Fair value €m
Financial assets							
Cash and balances with central banks	14	**65**	-	-	-	**65**	**65**
Items in course of collection	14	**17**	-	-	-	**17**	**17**
Debt securities*	15	**2,090**	**557**	-	-	**2,647**	**2,682**
Equity securities	16	-	**13**	-	-	**13**	**13**
Derivative assets**	17	-	-	-	**1**	**1**	**1**
Loans and advances to banks	18	**1,159**	-	-	-	**1,159**	**1,093**
Loans and advances to customers	19	**15,885**	-	-	**3**	**15,888**	**14,908**
Financial liabilities							
Deposits by banks	26	**1,552**	-	-	-	**1,552**	**1,552**
Customer accounts	27	**17,020**	-	-	-	**17,020**	**17,038**
Debt securities in issue	28	**1,095**	-	**1**	**(1)**	**1,095**	**1,093**
Derivative liabilities**	17	-	-	**2**	**12**	**14**	**14**
Subordinated liabilities	31	-	-	-	-	-	-

31 December 2017	Note	Held at amortised cost €m	At fair value through OCI €m	At fair value through profit or loss €m	Designated as fair value hedges €m	Total carrying value €m	Fair value €m
Financial assets							
Cash and balances with central banks	14	62	-	-	-	62	62
Items in course of collection	14	28	-	-	-	28	28
Debt securities*	15	1,194	784	-	-	1,978	2,031
Equity securities	16	-	12	-	-	12	12
Derivative assets**	17	-	-	21	16	37	37
Loans and advances to banks	18	1,518	-	-	-	1,518	1,518
Loans and advances to customers	19	18,366	-	-	4	18,370	17,216
Financial liabilities							
Deposits by banks	26	1,842	-	-	-	1,842	1,842
Customer accounts	27	16,995	-	-	-	16,995	17,006
Debt securities in issue	28	1,633	-	1	(1)	1,633	1,637
Derivative liabilities**	17	-	-	24	24	48	48
Subordinated liabilities	31	23	-	-	-	23	24

* Debt securities held at amortised cost include €2,090m of hold to collect securities (31 December 2017: held to maturity securities of €1,194m).
**Derivative assets and liabilities held at fair value through profit or loss relate to derivative instruments deemed to be held for trading.

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

The following table sets out the fair value of financial instruments that the Group holds at 31 December 2018. It categorises these financial instruments into the relevant level on fair value hierarchy.

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.

31 December 2018	Note	Total carrying value	Level 1	Level 2	Level 3	Total fair value
		€m	€m	€m	€m	€m
Financial assets						
Cash and balances with central banks	14	**65**	**-**	**65**	**-**	**65**
Items in the course of collection	14	**17**	**-**	**17**	**-**	**17**
Debt securities	15	**2,647**	**2,638**	**-**	**44**	**2,682**
Equity securities	16	**13**	**-**	**-**	**13**	**13**
Derivative assets	17	**1**	**-**	**1**	**-**	**1**
Loans and advances to banks	18	**1,159**	**-**	**1,159**	**-**	**1,159**
Loans and advances to customers	19	**15,888**	**-**	**-**	**14,908**	**14,908**
Financial liabilities						
Deposits by banks	26	**1,552**	**-**	**1,552**	**-**	**1,552**
Customer accounts	27	**17,020**	**-**	**17,038**	**-**	**17,038**
Debt securities in issue	28	**1,095**	**-**	**1,095**	**-**	**1,093**
Derivative liabilities	17	**14**	**-**	**14**	**-**	**14**
Subordinated liabilities	31	**-**	**-**	**-**	**-**	**-**

31 December 2017	Note	Total carrying value	Level 1	Level 2	Level 3	Total fair value
		€m	€m	€m	€m	€m
Financial assets						
Cash and balances with central banks	14	62	-	62	-	62
Items in course of collection	14	28	-	28	-	28
Debt securities	15	1,978	2,031	-	-	2,031
Equity securities	16	12	-	-	12	12
Derivative assets	17	37	-	37	-	37
Loans and advances to banks	18	1,518	-	1,518	-	1,518
Loans and advances to customers	19	18,370	-	-	17,216	17,216
Financial liabilities						
Deposits by banks	26	1,842	-	1,842	-	1,842
Customer accounts	27	16,995	-	17,006	-	17,006
Debt securities in issue	28	1,633	-	1,637	-	1,637
Derivative liabilities	17	48	-	48	-	48
Subordinated liabilities	31	23	-	24	-	24

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

(b) Fair value measurement principles

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

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

Financial assets and financial liabilities not subsequently measured at fair value

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

Cash and balances with central banks/Items in course of collection

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

Loans and advances to banks

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

Loans and advances to customers

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

A 1% change in the average discount rate would impact the fair value of the residential mortgage portfolio by approximately €1.2bn.

Debt securities (HTC securities)

Included in debt securities at 31 December 2018 are €2,090m (31 December 2017 €1,194m) of HTC securities. HTC securities are derived from observable market data through independent pricing sources such as Bloomberg (level 1) apart from Glenbeigh (€44m) which is derived using unobservable market data (level 3).

Deposits by banks/customer accounts

The estimated fair value of current accounts and deposits with no stated maturity which are repayable on demand (including non-interest bearing deposits), approximates to their book value. The estimated fair value of fixed-interest bearing deposits and other borrowings is based on discounted cash flows using interest rates for new deposits with similar remaining maturities (level 2).

Debt securities in issue/subordinated liabilities

The fair values of these liabilities are estimated using market prices of instruments that are substantially the same as those issued by the Group (level 2). The subordinated liability of €23m matured during 2018.

Financial assets and financial liabilities subsequently measured at fair value

On initial recognition, all financial instruments are measured at fair value. Following this, the Group measures hold to collect and sell financial assets and certain derivative assets and liabilities at fair value through other comprehensive income. The remaining derivative assets and liabilities are held for trading and fair valued through the income statement.

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

Debt securities (HTC&S Securities)

Included in debt securities at 31 December 2018 are €557m (31 December 2017 €784m) of HTC&S securities. As at 31 December 2018, all of the HTC&S securities fair value has been determined directly from observable market prices (level 1 inputs).

Derivative assets and liabilities

The fair values of derivatives are determined using valuation techniques such as discounted cash flow and pricing models which are commonly used by market participants. These valuations are provided by third party brokers and the models used incorporate observable market inputs such as current interest rate, time to maturity, forward foreign exchange rates, yield curves and volatility measures (level 2 inputs). Therefore, derivative assets and derivative liabilities have been classified as level 2 in the fair value hierarchy below.

Equity securities (AFS)

Included in equity securities at 31 December 2018 is €13m (31 December 2017: €12m) which is classified as level 3 as the valuation for this equity instrument includes unobservable market data inputs including management judgement in respect of the current value of the equity investment.

Fair value measurements recognised in the Statement of financial position

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

31 December 2018	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
Debt securities				
- HTC&S Debt securities (note 15)	**557**	**-**	**-**	**557**
Equity securities (note 16)	**-**	**-**	**13**	**13**
Derivative assets (note 17)	**-**	**1**	**-**	**1**
Financial liabilities measured at fair value				
Derivative liabilities (note 17)	**-**	**14**	**-**	**14**

31 December 2017	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
Debt securities				
- AFS Debt securities (note 15)	784	-	-	784
Equity securities (note 16)	-	-	12	12
Derivative assets (note 17)	-	37	-	37
Financial liabilities measured at fair value				
Derivative liabilities (note 17)	-	48	-	48

There were no transfers between level 1 and level 2 of the fair value hierarchy during 2018 or 2017.

Level 3 fair value measurements
(i) Reconciliation

	2018 €m	2017 €m
Equity Instruments - fair value reserve		
As at 1 January	**12**	9
Revaluation movement	**1**	3
As at 31 December	**13**	12

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

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

35. Financial risk management

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

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

	Notes	31 December 2018 €m	31 December 2017 €m
Cash and balances with central banks	14	**65**	62
Items in the course of collection	14	**17**	28
Debt securities (i)	15	**2,647**	1,978
Derivative assets (ii)	17	**1**	37
Loans and advances to banks (iii)	18	**1,159**	1,518
Loans and advances to customers (iv)	19	**15,888**	18,370
Other assets (Loan sale receivable)	24	**1,220**	-
		20,997	21,993
Commitments and contingencies	40	**912**	810
		21,909	22,803

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

(i) Debt securities

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

The following table gives an indication of the level of creditworthiness of the Group's debt securities and is based on an internally set rating that is equivalent to the rating prescribed by Moody's Investor Services Ltd as per the table below. There are no impaired debt securities as at 31 December 2018 or at 31 December 2017.

Debt securities credit ratings

	31 December 2018 €m	31 December 2017 €m
Rating		
A	**2,391**	1,862
Baa	**212**	116
Unrated	**44**	-
Total	**2,647**	1,978

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

	31 December 2018 Sovereign debt €m	31 December 2017 Sovereign debt €m
Country		
Ireland	**2,435**	1,862
Spain	**212**	116
Total	**2,647**	1,978

The Irish debt securities held by the Group carry a guarantee from the Minister for Finance on behalf of the Irish State, with the exception of Glenbeigh securities (€44m).

35. Financial risk management (continued)

(ii) Derivative assets

	31 December 2018 €m	31 December 2017 €m
Rating		
Covered by netting agreements	**1**	37
Total	**1**	37

The Group has executed standard ISDA agreements with all of its counterparties. The Group has also 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 31 December 2018 was €1m (31 December 2017: €37m). In the majority of cases, the Group manages its collateral derivative positions with counterparties on a net basis. The uncollaterised derivative position as at 31 December 2018 is €nil (31 December 2017: €34m). The level of collateral placed and received by the Group is outlined in note 18 (Loans and advances to banks) with further detail outlined in note 38 (Transfer of financial assets).

(iii) Loans and advances to banks

The Group has a policy to ensure that loans and advances to banks are held with investment grade counterparties, with any exceptions subject to prior approval by the BRCC. The 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.

	31 December 2018 €m	31 December 2017 €m
Rating		
Aaa	**562**	806
Aa	**368**	470
A	**212**	217
Baa	**4**	23
Ba	**13**	2
Total	**1,159**	1,518

The following sections detail additional disclosures on asset quality.

35. Financial risk management (continued)

(iv) Loans and advances to customers

Gross loans and advances*

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

	31 December 2018 €m	01 January 2018 €m	31 December 2017 €m
Measured at amortised cost			
Residential mortgages:			
Home loan	**12,413**	15,037	15,037
Buy-to-let	**4,003**	4,953	4,953
Total residential mortgages	**16,416**	19,990	19,990
Commercial	**165**	224	224
Consumer finance	**335**	314	345
Total measured at amortised cost	**16,916**	20,528	20,559
Analysed by ECL staging:			
Stage 1	**10,519**	11,649	-
Stage 2	**4,701**	3,594	-
Stage 3	**1,692**	5,278	-
POCI	**4**	7	-
Analysed as to asset quality**			
Excellent	**7,915**	-	10,585
Satisfactory	**5,544**	-	3,978
Fair	**1,736**	-	1,066
Neither past due nor impaired	**-**	-	15,629
Past due but not impaired	**-**	-	467
Impaired	**-**	-	4,463
Neither past due nor Stage 3	**15,195**	-	-
Past due but not Stage 3	**25**	-	-
Stage 3	**1,696**	-	-
Total measured at amortised cost	**16,916**	20,528	20,559
Of which are reported as non-performing loans	**1,696**	5,285	5,285
Deferred fees, discounts & fair value adjustments	**55**	55	57

*The amounts as at 31 December 2018 and 1 January 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the table above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

** The information in the shaded box has not been subject to audit by the Group's Independent Auditor.

35. Financial risk management (continued)

The following table provides an aged analysis of loans and advances which are past due but not Stage 3.

31 December 2018

	Home loans €m	Buy-to-let €m	Commercial €m	Consumer finance €m	Total €m
0-30 days	**11**	**3**	**-**	**-**	**14**
31-60 days	**4**	**1**	**-**	**-**	**5**
61-90 days	**4**	**2**	**-**	**-**	**6**
Total past due not Stage 3	**19**	**6**	**-**	**-**	**25**
Fair value of collateral held	**19**	**6**	**-**	**-**	**25**

Fair value of collateral held

	Home loans €m	Buy-to-let €m	Commercial €m	Consumer finance €m	Total €m
0-30 days	**11**	**3**	**-**	**-**	**14**
31-60 days	**4**	**1**	**-**	**-**	**5**
61-90 days	**4**	**2**	**-**	**-**	**6**
Total past due not Stage 3	**19**	**6**	**-**	**-**	**25**

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

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

31 December 2017*

	Home loans €m	Buy-to-let €m	Commercial €m	Home loans €m	Total €m
0-30 days	206	69	3	14	292
31-60 days	51	10	1	1	63
61-90 days	20	4	1	1	26
91-180 days	17	1	-	-	18
181-360 days	18	-	-	-	18
> 360 days	48	2	-	-	50
Total past due not impaired	360	86	5	16	467
Fair value of collateral held	353	73	2	-	428

Fair value of collateral held

	Home loans €m	Buy-to-let €m	Commercial €m	Consumer finance €m	Total €m
0-30 days	200	57	2	-	259
31-60 days	50	9	-	-	59
61-90 days	20	4	-	-	24
91-180 days	17	1	-	-	18
181-360 days	18	-	-	-	18
> 360 days	48	2	-	-	50
Total past due not impaired	353	73	2	-	428

* The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further detail on transition to IFRS 9 on 1 January 2018).

35. Financial risk management (continued)

Non-performing loans

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

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

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

31 December 2018			Stage 3		
	Home loans €m	Buy-to-let €m	Commercial €m	Consumer finance €m	Total €m
NPL is < 90 days	**654**	**336**	**29**	**3**	**1,022**
NPL is > 90 days and < 1 year past due	**77**	**19**	**-**	**9**	**105**
NPL is 1-2 years past due	**20**	**8**	**2**	**1**	**31**
NPL is 2-5 years past due	**55**	**19**	**13**	**4**	**91**
NPL is >5 years past due	**294**	**134**	**11**	**4**	**443**
POCI	**-**	**-**	**-**	**4**	**4**
Non-performing loans	**1,100**	**516**	**55**	**25**	**1,696**
Foreclosed assets*	**43**	**105**	**-**	**-**	**148**
Non-performing assets	**1,143**	**621**	**55**	**25**	**1,844**
NPLs as % of gross loans	**9%**	**13%**	**33%**	**7%**	**10%**

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

31 December 2017 *	Home loans €m	Buy-to-let €m	Commercial €m	Consumer finance €m	Total €m
Not Impaired no arrears	546	131	3	-	680
Not Impaired < 90 days in arrears	54	3	-	-	57
Not Impaired > 90 days in arrears	82	3	-	-	85
Impaired loans	3,259	1,083	68	53	4,463
Non-performing loans	3,941	1,220	71	53	5,285
Foreclosed assets **	30	160	-	-	190
Non-performing assets	3,971	1,380	71	53	5,475
NPLs as % of gross loans	26%	25%	32%	15%	26%

* The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further detail on transition to IFRS 9 on 1 January 2018).
** Foreclosed assets are assets held on the balance sheet which are obtained by taking possession of collateral or by calling on similar credit enhancements.

NPLs as a percentage of total loans and advances was 10% at 31 December 2018, a reduction from 26% at 31 December 2017 primarily driven by a portfolio disposal of €2.1bn and a €1.3bn securitisation (see note 43 for further details).

35. Financial risk management (continued)

Total portfolio loss allowance: statement of financial position

The tables below outline the ECL loss allowance total at 31 December 2018 in respect of the total portfolio.

The impairment charge in respect of the total loans and advances for year ended 31 December 2018 was €17m, compared to a charge of €48m for the year ended 31 December 2017.

	31 December 2018 €m	01 January 2018 €m	31 December 2017* €m
Loss allowance - statement of financial position*			
Stage 1	**35**	54	-
Stage 2	**411**	333	-
Stage 3	**637**	1,936	-
Specific provisions	**-**	-	1,913
IBRN provisions	**-**	-	333
Total loss allowance	**1,083**	2,323	2,246

	31 December 2018 %	01 January 2018 %	31 December 2017* %
Provision coverage ratio**			
Stage 1	**0.3%**	0.5%	-
Stage 2	**8.7%**	9.3%	-
Stage 3	**37.6%**	36.6%	-
Specific provisions/non-performing loans	**-**	-	36.2%
Total provisions/non-performing loans	**-**	-	42.5%
Total provisions/total loans	**6.4%**	11.3%	10.9%

* The amounts as at 31 December 2018 and 1 January 2018 have been prepared and presented in accordance with IFRS 9, prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

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

35. Financial risk management (continued)

Origination profile

Loan origination profile of the residential mortgage loan portfolio before provision for impairment:

The table below illustrates that €4bn or 22% of the ROI residential mortgage portfolio originated before 2006. Between 2006 and 2008 origination was €9bn or 55% of the ROI residential mortgages. The residual of 23% of the ROI residential mortgages was originated between 2009 and 2018.

31 December 2018	Residential mortgages portfolio		Stage 3 residential mortgages portfolio	
	Number	Balance €m	Number	Balance €m
1996 and before	784	10	146	3
1997	429	8	49	1
1998	655	17	81	3
1999	2,272	41	165	6
2000	2,945	82	225	9
2001	3,233	125	256	15
2002	4,577	243	281	22
2003	6,625	453	415	42
2004	10,256	925	627	87
2005	14,700	1,774	1,064	180
2006	21,088	3,619	1,901	444
2007	18,311	3,561	1,888	491
2008	11,340	1,922	1,141	254
2009	2,868	283	202	25
2010	1,184	97	37	4
2011	791	70	18	4
2012	414	31	6	-
2013	990	108	8	1
2014	2,090	254	22	3
2015	2,330	299	49	4
2016	2,648	393	36	6
2017	4,523	826	47	5
2018	6,155	1,275	104	7
Total	**121,208**	**16,416**	**8,768**	**1,616**

35. Financial risk management (continued)

31 December 2017	Residential mortgages portfolio		Impaired residential mortgages portfolio	
	Number	Balance €m	Number	Balance €m
1996 and before	1,289	22	247	6
1997	663	15	121	4
1998	1,839	31	117	6
1999	2,906	76	244	17
2000	3,676	135	350	29
2001	3,986	189	411	39
2002	5,505	341	525	55
2003	8,639	645	955	121
2004	12,468	1,256	1,524	239
2005	18,074	2,403	2,772	515
2006	26,171	4,794	4,968	1,190
2007	22,669	4,621	4,885	1,248
2008	14,576	2,647	3,148	761
2009	3,589	396	561	94
2010	1,347	116	70	9
2011	879	82	19	3
2012	470	39	3	-
2013	1,146	135	6	1
2014	2,379	309	10	1
2015	2,728	370	20	1
2016	2,997	470	17	2
2017	4,821	898	8	1
Total	142,817	19,990	20,981	4,342

* The amounts as at 31 December 2018 have been prepared and presented in accordance with IFRS 9, prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

Loan to value profile
Loan to value (LTV) of mortgage lending (index linked):
The LTV ratio is calculated at a property level and is the average of indexed property values in proportion to the outstanding loan balance. LTV is a key input to the impairment provisioning process. The tables below outline the composition of this ratio for the residential loan portfolio.

Actual and average LTVs across principal mortgage portfolios:
The tables below outline the weighted average LTVs for the total residential mortgage portfolios analysed across home loans and buy-to-let facilities by value. The weighted average LTV on the residential mortgage portfolios is 72% at 31 December 2018 compared to 84% at 31 December 2017.

The Group's residential mortgage lending LTVs at December 2018 reflect updated valuations obtained on high-exposure NPLs (largely impacting on high-exposure buy-to-let properties).

35. Financial risk management (continued)

31 December 2018

	Home loans %	Buy-to-let %	Total %
Less than 50%	**33%**	**14%**	**29%**
50% to 70%	**25%**	**14%**	**23%**
71% to 90%	**26%**	**20%**	**24%**
91% to 100%	**7%**	**13%**	**8%**
Subtotal	**91%**	**61%**	**84%**
101% to 110%	**3%**	**12%**	**5%**
111% to 120%	**2%**	**9%**	**3%**
121% to 130%	**1%**	**5%**	**2%**
131% to 140%	**1%**	**4%**	**1%**
141% to 150%	**-**	**2%**	**1%**
151% to 160%	**-**	**1%**	**1%**
161% to 170%	**1%**	**1%**	**1%**
171% to 180%	**-**	**1%**	**-**
Greater than 180%	**1%**	**4%**	**2%**
Subtotal	**9%**	**39%**	**16%**
Total	**100%**	**100%**	**100%**
Weighted average LTV:			
Stock of residential mortgages	**65%**	**96%**	**72%**
New residential mortgages	**72%**	**58%**	**71%**
Stage 3 mortgages	**103%**	**140%**	**115%**

31 December 2017

	Home loans %	Buy-to-let %	Total %
Less than 50%	26%	10%	22%
50% to 70%	22%	12%	20%
71% to 90%	21%	16%	20%
91% to 100%	9%	11%	9%
Subtotal	78%	49%	71%
101% to 110%	7%	11%	8%
111% to 120%	5%	10%	6%
121% to 130%	3%	10%	4%
131% to 140%	2%	5%	3%
141% to 150%	1%	4%	2%
151% to 160%	1%	3%	1%
161% to 170%	1%	1%	1%
171% to 180%	-	2%	1%
Greater than 180%	2%	5%	3%
Subtotal	22%	51%	29%
Total	100%	100%	100%
Weighted average LTV:			
Stock of residential mortgages	76%	108%	84%
New residential mortgages	71%	61%	70%
Impaired mortgages	111%	147%	120%

35. Financial risk management (continued)

Loan to value profile (continued)

Analysis by LTV of the Group's residential mortgage lending which is neither past due nor Stage 3:

The table below illustrates that 95% of residential home loan mortgages that are neither past due nor Stage 3 are in positive equity as at 31 December 2018. 64% of residential buy-to-let mortgages are in positive equity as at 31 December 2018.

31 December 2018

	Home loans		Buy-to-let	
	€m	%	€m	%
Less than 50%	**3,947**	**35%**	**527**	**15%**
50% to 70%	**2,986**	**26%**	**524**	**15%**
71% to 90%	**3,046**	**27%**	**713**	**21%**
91% to 100%	**763**	**7%**	**458**	**13%**
Subtotal	**10,742**	**95%**	**2,222**	**64%**
101% to 110%	**285**	**3%**	**416**	**12%**
111% to 120%	**139**	**1%**	**301**	**9%**
121% to 130%	**49**	**1%**	**181**	**5%**
131% to 140%	**21**	**-**	**129**	**4%**
141% to 150%	**12**	**-**	**61**	**2%**
151% to 160%	**11**	**-**	**29**	**1%**
161% to 170%	**15**	**-**	**41**	**1%**
171% to 180%	**5**	**-**	**12**	**-**
Greater than 180%	**15**	**-**	**89**	**2%**
Subtotal	**552**	**5%**	**1,259**	**36%**
Total	**11,294**	**100%**	**3,481**	**100%**

31 December 2017*

	Home loans		Buy-to-let	
	€m	%	€m	%
Less than 50%	3,582	32%	446	12%
50% to 70%	2,839	25%	513	14%
71% to 90%	2,551	22%	680	17%
91% to 100%	974	9%	439	12%
Subtotal	9,946	88%	2,078	55%
101% to 110%	750	7%	454	11%
111% to 120%	367	3%	378	10%
121% to 130%	149	1%	306	8%
131% to 140%	88	1%	177	5%
141% to 150%	45	-	112	3%
151% to 160%	20	-	97	3%
161% to 170%	14	-	38	1%
171% to 180%	11	-	34	1%
Greater than 180%	28	-	110	3%
Subtotal	1,472	12%	1,706	45%
Total	11,418	100%	3,784	100%

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35. Financial risk management (continued)

Loan to value profile (continued)

Analysis by LTV of the Group's residential mortgage lending which are classified as Stage 3:
In total 48% of the residential mortgage portfolio which is Stage 3 has an LTV of up to 100%.

31 December 2018

	Home loans %	Buy-to-let %	Total %
Less than 50%	**16%**	**5%**	**13%**
50% to 70%	**13%**	**6%**	**11%**
71% to 90%	**14%**	**15%**	**14%**
91% to 100%	**9%**	**12%**	**10%**
Subtotal	**52%**	**38%**	**48%**
101% to 110%	**10%**	**11%**	**10%**
111% to 120%	**7%**	**11%**	**8%**
121% to 130%	**6%**	**7%**	**6%**
131% to 140%	**5%**	**6%**	**5%**
141% to 150%	**3%**	**6%**	**4%**
151% to 160%	**4%**	**4%**	**4%**
161% to 170%	**2%**	**3%**	**3%**
171% to 180%	**3%**	**2%**	**2%**
Greater than 180%	**8%**	**12%**	**10%**
Subtotal	**48%**	**62%**	**52%**
Total	**100%**	**100%**	**100%**
	€m	€m	€m
Stage 3	**1,100**	**516**	**1,616**

Analysis by LTV of the Group's residential mortgage lending which are greater than 90 days in arrears or impaired

31 December 2017*

	Home loans %	Buy-to-let %	Total %
Less than 50%	9%	2%	7%
50% to 70%	12%	6%	10%
71% to 90%	18%	10%	16%
91% to 100%	10%	9%	10%
Subtotal	49%	27%	43%
101% to 110%	10%	10%	10%
111% to 120%	10%	9%	9%
121% to 130%	7%	11%	7%
131% to 140%	6%	6%	6%
141% to 150%	4%	6%	5%
151% to 160%	3%	6%	4%
161% to 170%	3%	3%	3%
171% to 180%	1%	5%	3%
Greater than 180%	7%	17%	10%
Subtotal	51%	73%	57%
Total	100%	100%	100%
	€m	€m	€m
Loans greater than 90 days in arrears or impaired	3,341	1,086	4,427

* The amounts as at 31 December 2018 have been prepared and presented in accordance with IFRS 9, prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

35. Financial risk management (continued)

(v) Group portfolios: Collateral in possession

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

Stock of collateral in possession	31 December 2018		31 December 2017*	
	Number[1]	Balance outstanding at transfer of ownership €m	Number[1]	Balance outstanding at transfer of ownership €m
Residential collateral in possession				
Home loans	**350**	**94**	337	90
Buy-to-let	**948**	**249**	1,471	373
Commercial	**12**	**6**	1	-
Total	**1,310**	**349**	1,809	463

[1]During 2018, 94 properties were either transferred out of collateral in possession and into loans and advances to customers, or reclassified between the different portfolios. This consisted of 22 Home loans, 66 Buy-to-let and 6 Commercial properties.

Collateral in possession assets are sold as soon as practicable. These assets which total €148m as at 31 December 2018 (31 December 2017: €190m) are included in assets held for sale €148m (31 December 2017: €190m) and other assets €nil (31 December 2017: €30m).

During the year the ownership of 429 properties were transferred to the Group.

	Number
Home loans	**374**
Buy-to-let	**24**
Commercial	**31**
Total	**429**

During the year 834 properties were disposed of.

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

	Number
Home loans	**339**
Buy-to-let	**481**
Commercial	**14**
Total	**834**

35. Financial risk management (continued)

31 December 2018	**Number of disposals**	**Balance outstanding at transfer of ownership**	**Gross sales proceeds**	**Costs to sell**	**Pre provisioning loss on sale***
		€m	**€m**	**€m**	**€m**
Collateral in possession					
Home loans	**339**	**87**	**45**	**1**	**43**
Buy-to-let	**481**	**120**	**59**	**3**	**64**
Commercial	**14**	**5**	**2**	**-**	**3**
Year ended 31 December 2018	**834**	**212**	**106**	**4**	**110**

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

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

*The amounts as at 31 December 2018, have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further details on transition to IFRS 9 on 1 January 2018).
**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.

(vi) Additional disclosures on forborne loans

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 Mortgages 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 for the years ended 31 December 2018 and 2017. The number and balances of loans in forbearance arrangements for residential home loan mortgages and buy-to-let residential mortgages are analysed below.

(a) Asset quality

The method of splitting the forborne loans and advances to customers over the different asset quality categories:

- Neither past due nor Stage 3
- Past due but not Stage 3
- Stage 3

31 December 2018	**Home loans**	**Buy-to-let**	**Commercial**	**Total**	
	€m	**€m**	**€m**	**€m**	**%**
*					
Excellent	**20**	**4**	**-**	**24**	**1%**
Satisfactory	**192**	**36**	**3**	**231**	**11%**
Fair risk	**339**	**309**	**-**	**648**	**30%**
Neither past due nor Stage 3	**551**	**349**	**3**	**903**	**42%**
Past due but not Stage 3	**3**	**1**	**-**	**4**	**-**
Stage 3	**862**	**349**	**26**	**1,237**	**58%**
	1,416	**699**	**29**	**2,144**	**100%**
Loss allowance	**(327)**	**(220)**	**(15)**	**(562)**	
	1,089	**479**	**14**	**1,582**	

*The information in the shaded box has not been subject to audit by the Group's Independent Auditor.

35. Financial risk management (continued)

(vi) Additional disclosures on forborne loans (continued)

31 December 2017*	Home Loans €m	Buy-To-Let €m	Commercial €m	Total €m	%
**					
Excellent	-	-	-	-	-
Satisfactory	538	508	3	1,049	20%
Fair	587	166	4	757	14%
Neither past due nor impaired	1,125	674	7	1,806	34%
Past due but not impaired	153	24	1	178	3%
Impaired	2,728	552	36	3,316	63%
	4,006	1,250	44	5,300	100%
Provision for impairment losses	(1,144)	(267)	(17)	(1,428)	
	2,862	983	27	3,872	

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).
** The information in the shaded box has not been subject to audit by the Group's Independent Auditor.

Forborne loans and advances which are past due but not Stage 3:
The table below provides an aged analysis of forborne loans and advances which are past due but not Stage 3:

31 December 2018	Home loans €m	Buy-to-let €m	Commercial €m	Total €m
0-30 days	**3**	**1**	**-**	**4**
31-60 days	**-**	**-**	**-**	**-**
61-90 days	**-**	**-**	**-**	**-**
Total past due not Stage 3	**3**	**1**	**-**	**4**
Fair value of collateral held	**3**	**1**	**-**	**4**

Fair value of collateral held

	Home loans €m	Buy-to-let €m	Commercial €m	Total €m
0-30 days	**3**	**1**	**-**	**4**
31-60 days	**-**	**-**	**-**	**-**
61-90 days	**-**	**-**	**-**	**-**
Total past due not Stage 3	**3**	**1**	**-**	**4**

35. Financial risk management (continued)

Collateral held against residential mortgages is principally comprised of residential properties, their fair value has been estimated based upon the last actuarial 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.

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

31 December 2017*	Home loans €m	Buy-to-let €m	Commercial €m	Total €m
0-30 days	65	21	1	87
31-60 days	19	1	-	20
61-90 days	10	1	-	11
91-180 days	11	-	-	11
181-360 days	14	-	-	14
> 360 days	34	1	-	35
Total past due not impaired	153	24	1	178
Fair value of collateral held	150	21	1	172

Fair value of collateral held

	Home loans €m	Buy-to-let €m	Commercial €m	Total €m
0-30 days	62	18	1	81
31-60 days	19	1	-	20
61-90 days	10	1	-	11
91-180 days	11	-	-	11
181-360 days	14	-	-	14
> 360 days	34	1	-	35
Total past due not impaired	150	21	1	172

*The amounts as at 31 December 2018 and 1 January 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).

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

The balance in the preceding tables denoted impaired loan balances which are in forbearance arrangements. The tables below provide the impairment charges and provisions in respect of these balances, by lending type.

Forborne Loans - impairment charge

The tables below provide the movement in impairment charges from 31 December 2017 to 31 December 2018.

Forborne Loans - Impairment charge*

	Year end 31 December 2018			Year end 31 December 2017		
	Performing €m	Stage 3 €m	Total €m	Performing €m	Non-performing €m	Total €m
Residential						
-Home loans	**(20)**	**63**	**43**	(12)	19	7
-Buy-to-let	**(9)**	**(8)**	**(17)**	(15)	4	(11)
Commercial	**(1)**	**-**	**(1)**	-	(1)	(1)
Total impairment (write-back)/charge	**(30)**	**55**	**25**	(27)	22	(5)

* The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the table above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further detail on transition to IFRS 9 on 1 January 2018).

35. Financial risk management (continued)

Forborne Loans - stock of impairment provision*

	Year end 31 December 2018			Year end 31 December 2017		
	Performing €m	Stage 3 €m	Total €m	Performing €m	Non-performing €m	Total €m
Residential						
-Home loans	**12**	**315**	**327**	25	1,119	1,144
-Buy-to-let	**60**	**160**	**220**	27	240	267
Commercial	**-**	**15**	**15**	1	16	17
Total impairment provisions	**72**	**490**	**562**	53	1,375	1,428

* The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the table above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further detail on transition to IFRS 9 on 1 January 2018).

(c) Weighted Average - LTV

Analysis by LTV of the Group's residential mortgage lending which are Stage 3.

In total 46% of the residential and commercial mortgage portfolios which are Stage 3 have an LTV of up to 100% and 21% of loans have an LTV exceeding 150%.

31 December 2018	Home loans %	Buy-to-let %	Commercial %	Total %
Less than 50%	**14%**	**4%**	**8%**	**11%**
50% to 70%	**13%**	**5%**	**8%**	**11%**
71% to 90%	**6%**	**6%**	**4%**	**6%**
81% to 90%	**7%**	**8%**	**11%**	**8%**
91% to 100%	**9%**	**13%**	**5%**	**10%**
Subtotal	**49%**	**36%**	**36%**	**46%**
101% to 110%	**10%**	**9%**	**3%**	**10%**
111% to 120%	**8%**	**10%**	**1%**	**8%**
121% to 130%	**6%**	**7%**	**9%**	**6%**
131% to 140%	**5%**	**5%**	**5%**	**5%**
141% to 150%	**4%**	**6%**	**1%**	**4%**
151% to 160%	**5%**	**5%**	**2%**	**5%**
161% to 170%	**3%**	**5%**	**4%**	**3%**
171% to 180%	**2%**	**1%**	**1%**	**2%**
Greater than 180%	**8%**	**16%**	**38%**	**11%**
Subtotal	**51%**	**64%**	**64%**	**54%**
Total	**100%**	**100%**	**100%**	**100%**

35. Financial risk management (continued)

Analysis by LTV of the Group's residential mortgage lending which are 90 days past due or impaired.

31 December 2017*	Home loans %	Buy-to-let %	Commercial	Total %
Less than 50%	8%	2%	11%	7%
50% to 70%	12%	7%	8%	11%
71% to 90%	19%	11%	12%	17%
91% to 100%	11%	11%	2%	11%
Subtotal	50%	31%	33%	46%
101% to 110%	10%	11%	1%	11%
111% to 120%	10%	10%	5%	10%
121% to 130%	8%	12%	4%	8%
131% to 140%	6%	8%	10%	6%
141% to 150%	4%	5%	5%	4%
151% to 160%	3%	6%	3%	4%
161% to 170%	3%	3%	3%	3%
171% to 180%	1%	4%	13%	2%
Greater than 180%	5%	10%	23%	6%
Subtotal	50%	69%	67%	54%
Total	100%	100%	100%	100%

* The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the table above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further detail on transition to IFRS 9 on 1 January 2018).

(d) Forbearance arrangements - residential mortgages

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

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 31 December 2018 and 31 December 2017.

(i) Residential home loan mortgages:

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

31 December 2018	All loans		Stage 3	
	Number	Balances €m	Number	Balances €m
Interest only	**274**	**45**	**261**	**42**
Reduced payment (less than interest only)	**24**	**3**	**19**	**2**
Reduced payment (greater than interest only)	**5,420**	**819**	**3,103**	**534**
Payment moratorium	**152**	**22**	**36**	**5**
Arrears capitalisation	**1,685**	**240**	**610**	**86**
Term extension	**1,246**	**100**	**376**	**33**
Hybrid**	**333**	**64**	**209**	**37**
Split mortgages	**625**	**123**	**625**	**123**
Total	**9,759**	**1,416**	**5,239**	**862**

35. Financial risk management (continued)

31 December 2017 *	All loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	268	52	100	19
Reduced payment (less than interest only)	126	17	98	13
Reduced payment (greater than interest only)	12,975	1,961	6,136	1,084
Payment moratorium	204	25	79	11
Arrears capitalisation	2,971	433	1,466	232
Term extension	1,439	130	682	71
Hybrid**	1,393	226	1,201	196
Split mortgages	6,157	1,162	6,157	1,161
Total	25,533	4,006	15,919	2,787

* The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further detail on transition to IFRS 9 on 1 January 2018).
** Hybrid is a combination of two or more forbearance arrangements.

The tables above reflect a decrease of 15,774 cases as at 31 December 2018 for the Group in the number of residential home loans in forbearance arrangements, a decrease of €2,590m. The average balance of forborne loans is €0.145m for the year ended 31 December 2018 compared to €0.157m for the year ended 31 December 2017.

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

31 December 2018	All loans		Stage 3	
	Number	Balances €m	Number	Balances €m
Interest only	**366**	**146**	**353**	**140**
Reduced payment (less than interest only)	**3**	**1**	**1**	**-**
Reduced payment (greater than interest only)	**986**	**426**	**346**	**115**
Payment moratorium	**4**	**1**	**3**	**1**
Arrears capitalisation	**147**	**62**	**96**	**46**
Term extension	**98**	**19**	**28**	**7**
Hybrid**	**41**	**12**	**29**	**8**
Split mortgages	**118**	**32**	**118**	**32**
Total	**1,763**	**699**	**974**	**349**

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

* The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further detail on transition to IFRS 9 on 1 January 2018).
** Hybrid is a combination of two or more forbearance arrangements.

The tables above reflect a decrease of 1,780 cases as at 31 December 2018 for the Group in the number of residential buy-to-let in forbearance arrangements, a decrease of €551m. The average balance of forborne loans is €0.396m at 31 December 2018 (31 December 2017: €0.353m).

35. Financial risk management (continued)

(vi) Additional disclosures on forborne loans (continued)

(iii) Commercial mortgages:

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

Commercial mortgages	31 December 2018 Number	31 December 2018 Balances €m	31 December 2017 * Number	31 December 2017 * Balances €m
Interest only	**10**	**1**	3	1
Reduced payment (less than interest only)	**-**	**-**	-	-
Reduced payment (greater than interest only)	**27**	**13**	25	18
Payment moratorium	**-**	**-**	-	-
Arrears capitalisation	**7**	**4**	14	7
Term extension	**12**	**5**	22	9
Hybrid**	**14**	**6**	23	9
Split mortgages	**-**	**-**	1	-
Total	**70**	**29**	88	44

* The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the table above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 1 and note 3 for further detail on transition to IFRS 9 on 1 January 2018).

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

The balance of loans in forbearance in the commercial portfolio amounts to €29m a decrease of €15m or 34%.

(e) Reconciliation of movement in forborne loans for all classes

The tables below provide an analysis of the movement of total forborne loans and forborne loans > 90 days in arrears during the year. It outlines the number and balances of forbearance treatments offered, expired and loans paid down during the year.

i) Reconciliation of movement of total forborne loans

	Residential mortgages							
31 December 2018	Home loans cases	Home loans balances €m	Buy to let cases	Buy to let balances €m	Commercial cases	Commercial balances €m	Total cases	Total balances €m
Opening balance 1 January 2018	**25,533**	**4,006**	**3,543**	**1,250**	**88**	**44**	**29,164**	**5,300**
New forbearance extended during the period	**1,853**	**288**	**552**	**195**	**-**	**(4)**	**2,405**	**479**
Deleveraged loans	**(12,824)**	**(2,204)**	**(1,625)**	**(494)**	**(6)**	**(3)**	**(14,455)**	**(2,701)**
Exited forbearance								
- re-classified to Stage 3	**(196)**	**(18)**	**(62)**	**(17)**	**(1)**	**(1)**	**(259)**	**(36)**
Re-classified to non-forbearance loans								
- expired forbearance treatment	**(3,475)**	**(428)**	**(511)**	**(187)**	**(4)**	**(1)**	**(3,990)**	**(616)**
- expired loan paid down	**(1,132)**	**(135)**	**(134)**	**(25)**	**(7)**	**(5)**	**(1,273)**	**(165)**
Balance shift*	**-**	**(93)**	**-**	**(23)**	**-**	**(1)**	**-**	**(117)**
Closing balance of forbearance loans as at 31 December 2018	**9,759**	**1,416**	**1,763**	**699**	**70**	**29**	**11,592**	**2,144**

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

35. Financial risk management (continued)

31 December 2017*	Residential mortgages Home loans cases	Home loans balances €m	Buy to let cases	Buy to let balances €m	Commercial cases	Commercial balances €m	Total cases	Total balances €m
Opening balance 1 January 2017	28,128	4,376	4,008	1,413	93	52	32,229	5,841
New forbearance extended during the period	1,780	237	238	94	3	2	2,021	333
Deleveraged loans	-	-	-	-	-	-	-	-
Exited forbearance								
- re-classified to past due > 90 days past due and/or impaired	(130)	(18)	(22)	(5)	-	-	(152)	(23)
Re-classified to non-forbearance loans								
- expired forbearance treatment	(3,224)	(399)	(179)	(44)	(4)	(4)	(3,407)	(447)
- expired loan paid down	(1,021)	(120)	(502)	(190)	(4)	(4)	(1,527)	(314)
Balance shift**	-	(70)	-	(18)	-	(2)	-	(90)
Closing balance of forbearance loans as at 31 December 2017	25,533	4,006	3,543	1,250	88	44	29,164	5,300

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).
**Repayments in respect of loans which are in forbearance at the start and end of the year.

ii) Reconciliation of movement in Forborne Loans > 90 days in arrears

31 December 2018*	Residential Mortgages Home loans cases	Home loans balances €m	Buy to let cases	Buy to let balances €m	Commercial cases	Commercial balances €m	Total cases	Total balances €m
Opening balance 1 January 2018	**6,619**	**1,140**	**581**	**208**	**30**	**18**	**7,230**	**1,366**
New forbearance extended during the period	**674**	**88**	**202**	**90**	**12**	**3**	**888**	**181**
Deleveraged loans	**(4,399)**	**(724)**	**(389)**	**(141)**	**(3)**	**(1)**	**(4,791)**	**(866)**
Exited forborne & >90, now forborne < 90	**(299)**	**(48)**	**(23)**	**(9)**	**-**	**-**	**(322)**	**(57)**
Exited forbearance								
- re-classified to past due/Stage 3	**(13)**	**(1)**	**(1)**	**-**	**(1)**	**(1)**	**(15)**	**(2)**
Re-classified to non-forbearance loans								
- expired forbearance treatment	**(1)**	**(1)**	**(2)**	**(1)**	**-**	**-**	**(3)**	**(2)**
- expired loan paid down	**(537)**	**(81)**	**(33)**	**(7)**	**(5)**	**(3)**	**(575)**	**(91)**
Balance shift**	**-**	**4**	**-**	**(1)**	**-**	**-**	**-**	**3**
Closing balance of forbearance loans as at 31 December 2018	**2,044**	**377**	**335**	**139**	**33**	**16**	**2,412**	**532**

* Excludes loans classified as Stage 3 but not >90 days in arrears
** Repayments in respect of loans which are in forbearance at the start and end of the year.

31 December 2017*	Residential Mortgages Home loans cases	Home loans balances €m	Buy to let cases	Buy to let balances €m	Commercial cases	Commercial balances €m	Total cases	Total balances €m
Opening balance 1 January 2016	7,408	1,290	832	301	30	19	8,270	1,610
New forbearance extended during the period	1,122	149	128	49	5	2	1,255	200
Exited forborne & >90, now forborne < 90	(1,427)	(233)	(108)	(35)	(4)	(1)	(1,539)	(269)
Exited forbearance								
- re-classified to past due/in default	(2)	-	-	-	-	-	(2)	-
Re-classified to non-forbearance loans								
- expired forbearance treatment	(1)	-	-	-	-	-	(1)	-
- expired loan paid down	(481)	(75)	(271)	(108)	(1)	(2)	(753)	(185)
Balance shift**	-	9	-	1	-	-	-	10
Closing balance of forbearance loans as at 31 December 2017	6,619	1,140	581	208	30	18	7,230	1,366

*The amounts as at 31 December 2018 have been prepared and are presented in accordance with IFRS 9; prior year amounts as allowed under the standard have not been restated. Accordingly balances set out in the tables above are not directly comparable, where the 31 December 2017 comparative is presented on an IAS 39 basis (refer to note 3 for further detail on transition to IFRS 9 on 1 January 2018).
**Repayments in respect of loans which are in forbearance at the start and end of the year.

35. Financial risk management (continued)

(vii) Funding Profile

The ALCO monitors sources of funding and their respective maturities with a focus on establishing a stable and cost effective funding profile. Excluding equity, the Group's funding profile as at 31 December 2018 can be broken down into the below component parts:

	31 December 2018 %	31 December 2017 %
Customer Deposits	**87**	83
Long-term Debt	**5**	8
Short-term Debt	**8**	9
	100	100

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

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

31 December 2018	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Liabilities							
Deposits by banks	**1,151**	**401**	**-**	**-**	**-**	**-**	**1,552**
Customer accounts	**10,132**	**1,127**	**1,272**	**2,152**	**1,171**	**1,211**	**17,065**
Debt securities in issue	**-**	**1**	**2**	**4**	**14**	**1,337**	**1,358**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative liabilities	**1**	**-**	**2**	**9**	**1**	**1**	**14**
Total liabilities	**11,284**	**1,529**	**1,276**	**2,165**	**1,186**	**2,549**	**19,989**

31 December 2017	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Liabilities							
Deposits by banks	1,311	-	302	-	-	230	1,843
Customer accounts	9,642	1,348	1,521	2,335	1,158	1,041	17,045
Debt securities in issue	-	2	309	4	8	1,611	1,934
Subordinated liabilities	-	-	-	23	-	-	23
Derivative liabilities	1	-	1	12	20	14	48
Total liabilities	10,954	1,350	2,133	2,374	1,186	2,896	20,893

35. Financial risk management (continued)

When managing the Group's liquidity and funding profile, for products where the contractual maturity date may be different from actual behaviour, the Group uses statistical methodologies to manage liquidity on an expected or behaviourally adjusted basis.

The following table details the Group's liquidity analysis for derivative instruments that do not qualify as hedging instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates from the yield curves at the end of the reporting year.

31 December 2018	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Net settled:							
Interest rate swaps	**-**	**-**	**-**	**(1)**	**-**	**-**	**(1)**
Gross settled:							
FX forwards							
- inflow	**100**	**-**	**-**	**-**	**-**	**-**	**100**
- outflow	**(100)**	**-**	**-**	**-**	**-**	**-**	**(100)**
Balance at 31 December 2018	**-**	**-**	**-**	**(1)**	**-**	**-**	**(1)**

31 December 2017	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Net settled:							
Interest rate swaps	-	2	-	8	(2)	(2)	6
Gross settled:							
FX forwards							
- inflow	75	-	-	-	-	-	75
- outflow	(75)	-	-	-	-	-	(75)
Balance at 31 December 2017	-	2	-	8	(2)	(2)	6

35. Financial risk management (continued)

(viii) Interest rate gap position

Gap analysis is a technique for measuring a bank's interest rate risk exposure beginning with a maturity/re-pricing schedule that distributes interest-sensitive assets, liabilities, and derivative positions into 'time bands' according to their maturity (if fixed-rate), time remaining to their next re-pricing (if floating-rate) or behavioural convention in order to identify any sources of significant mismatches.

A summary of the Group's interest rate gap position is as follows:

Interest rate re-pricing

31 December 2018	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Assets						
Euro	15,676	596	741	3,380	237	20,630
Sterling	1	-	-	-	-	1
US dollar	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total assets (A)	15,677	596	741	3,380	237	20,631
Liabilities						
Euro	(12,043)	(1,014)	(1,729)	(5,139)	(950)	(20,875)
Sterling	(73)	(4)	(2)	-	-	(79)
US dollar	(42)	-	-	-	-	(42)
Other	(5)	-	-	-	-	(5)
Total liabilities (B)	(12,163)	(1,018)	(1,731)	(5,139)	(950)	(21,001)
Derivatives						
Euro	212	(47)	(253)	(22)	10	(100)
Sterling	65	-	-	-	-	65
US dollar	35	-	-	-	-	35
Other	-	-	-	-	-	-
Derivatives affecting interest rate sensitivities (C)	312	(47)	(253)	(22)	10	-
Interest rate repricing gap						
Euro	3,845	(465)	(1,241)	(1,781)	(703)	(345)
Sterling	(7)	(4)	(2)	-	-	(13)
US dollar	(7)	-	-	-	-	(7)
Other	(5)	-	-	-	-	(5)
Interest rate repricing gap (A) + (B) + (C)	3,826	(469)	(1,243)	(1,781)	(703)	(370)
Cumulative interest rate repricing gap	3,826	3,357	2,114	333	(370)	

35. Financial risk management (continued)

31 December 2017	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Assets						
Euro	16,905	239	439	3,219	642	21,444
Sterling	68	-	-	-	-	68
US dollar	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total assets (A)	16,973	239	439	3,219	642	21,512
Liabilities						
Euro	(12,230)	(1,822)	(1,921)	(5,027)	(794)	(21,794)
Sterling	(80)	(6)	(11)	-	-	(97)
US dollar	(43)	-	-	-	-	(43)
Other	(3)	-	-	-	-	(3)
Total liabilities (B)	(12,356)	(1,828)	(1,932)	(5,027)	(794)	(21,937)
Derivatives						
Euro	278	(18)	(40)	(322)	10	(92)
Sterling	34	-	-	-	-	34
US dollar	41	-	-	-	-	41
Other	-	-	-	-	-	-
Derivatives affecting interest rate sensitivities (C)	353	(18)	(40)	(322)	10	(17)
Interest rate repricing gap						
Euro	4,953	(1,601)	(1,522)	(2,130)	(142)	(442)
Sterling	22	(6)	(11)	-	-	5
US dollar	(2)	-	-	-	-	(2)
Other	(3)	-	-	-	-	(3)
Interest rate repricing gap (A) + (B) + (C)	4,970	(1,607)	(1,533)	(2,130)	(142)	(442)
Cumulative interest rate repricing gap	4,970	3,363	1,830	(300)	(442)	

36. Capital management

The core objective of the Group's capital management policy is to ensure that the Group complies with its regulatory capital requirements and maintains sufficient capital to cover its business risks and support its strategy. The Group has established 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 ECB minimum regulatory capital requirements. The ICAAP is subject to review and evaluation by the Regulator. The management of capital within the Group is monitored by the Board Risk and Compliance Committee (BRCC) and the Capital Adequacy Committee (CAC) in accordance with Board approved policy.

36. Capital management (continued)

The Group's regulatory capital comprises of three tiers:

1. CET1 capital, which includes ordinary share capital, share premium, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes;
2. Additional Tier 1 Capital, which includes qualifying convertible perpetual financial instruments with discretionary coupons; and
3. Tier 2 Capital, which includes qualifying subordinated liabilities, revaluation reserves and other regulatory capital adjustments.

The Group's 2018 Transitional CET1 Minimum SREP capital requirement was 9.825%. The SREP requirement is subject to an annual review by the Regulator. The Group has been notified by the Regulator of its 2019 SREP requirement which is effective from 1 January 2019. The SREP decision requires that the Group maintains a CET1 ratio of 10.45% and a Total Capital ratio of 13.95% on a transitional basis. Effective 1 July 2019, SREP requirements will increase by 1% on the introduction of the Counter Cyclical Buffer. The resultant CET1 and Total Capital requirements will increase to 11.45% and 14.95% respectively.

The CET1 ratio requirement of 10.45% (11.45% effective 1 July 2019) consists of a Pillar 1 CRR requirement of 4.50%, a Pillar 2 Requirement (P2R) of 3.45%, a fully phased-in CCB of 2.50% and the 1 July 2019 introduction of the Counter Cyclical Buffer (CCyB) of 1%. The Total Capital ratio requirement of 13.95% (14.95% effective 1 July 2019) consists of a Pillar 1 CRR requirement of 8% and the P2R, CCB and CCyB as set out above. These requirements exclude Pillar 2 Guidance (P2G) which is not publicly disclosed.

The following table summarises the composition of regulatory capital and the ratios of PTSB, the primary regulated entity of the Group as at 31 December 2018 and 31 December 2017 which are calculated in accordance with CRD IV regulatory capital requirements.

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

	31 December 2018 €m	31 December 2017 €m
Common Equity Tier 1 capital		
Share capital and share premium	**561**	1,590
Reserves	**1,281**	382
Prudential filters	**(74)**	(160)
Total qualifying CET1 capital	**1,768**	1,812
Additional Tier 1 Capital	**87**	66
Total qualifying Tier 1 capital	**1,855**	1,878
Tier 2 capital		
Subordinated liabilities	**12**	9
Revaluation reserve	**-**	10
Other	**54**	57
Total qualifying Tier 2 capital	**66**	76
Total own funds	**1,921**	1,954

	31 December 2018 €m	31 December 2017 €m
Risk weighted assets		
Total risk-weighted assets	**11,990**	10,593
- Credit Risk (including CVA)	**11,331**	9,998
- Operational Risk	**659**	595
Capital Ratios		
Common Equity Tier 1 capital ratio (Transitional basis)	**14.7%**	17.1%
Total capital ratio (Transitional basis)	**16.0%**	18.4%

The CET1 and Total capital ratios are calculated and reported to the CBI on a quarterly basis.

36. Capital management (continued)

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

The movement in the Group's regulatory capital is summarised below:

	2018 €m	2017 €m
Balance as at 1 January	**1,954**	2,003
Operating profit after tax	**3**	40
Other intangible assets deduction	**(2)**	(5)
Deferred tax assets deduction	**(40)**	(32)
Other movements*	**6**	(52)
Balance as at 31 December	**1,921**	1,954

*Other movements are explained as follows:

	31 December 2018 €m	31 December 2017 €m
Additions/(reductions) in AT1 Note	**21**	(32)
Additions/ (reductions) in Tier 2 subordinated debt	**3**	(3)
Excess of provisions over expected losses on IRB (cap 0.6% RWA)	**(2)**	3
Increase in other own funds	**(16)**	(20)
Other movements	**6**	(52)

37. Current/non-current assets and liabilities

The following table provides an analysis of certain asset and liability line items as at 31 December 2018 and 31 December 2017. The analysis includes amounts expected to be recovered or settled no more than 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current).

		31 December 2018			31 December 2017		
	Note	Current €m	Non-current €m	Total €m	Current €m	Non-current €m	Total €m
Assets							
Cash and balances at central banks	14	**65**	**-**	**65**	62	-	62
Items in the course of collection	14	**17**	**-**	**17**	28	-	28
Debt securities	15	**916**	**1,731**	**2,647**	104	1,874	1,978
Equity Securities	16	**-**	**13**	**13**	-	12	12
Derivative assets	17	**-**	**1**	**1**	36	1	37
Loans and advances to banks	18	**1,159**	**-**	**1,159**	1,518	-	1,518
Loans and advances to customers	19	**763**	**15,125**	**15,888**	1,049	17,321	18,370
Assets classified as held for sale	42	**150**	**-**	**150**	161	-	161
Prepayments and accrued income	25	**93**	**-**	**93**	45	-	45
Other assets	24	**1,227**	**-**	**1,227**	8	31	39
Liabilities							
Deposits by banks (including central banks)	26	**1,552**	**-**	**1,552**	1,612	230	1,842
Customer accounts	27	**14,834**	**2,186**	**17,020**	14,825	2,170	16,995
Debt securities in issue	28	**382**	**713**	**1,095**	449	1,184	1,633
Derivative liabilities	17	**12**	**2**	**14**	16	32	48
Accruals		**5**	**-**	**5**	8	-	8
Other liabilities	29	**69**	**-**	**69**	48	-	48
Provisions	30	**52**	**22**	**74**	48	15	63
Subordinated liabilities	31	**-**	**-**	**-**	23	-	23

38. Transfer of financial assets

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets that consist of loans and advances to customers. In accordance with note 1.5 (vi), the transferred financial assets continue to be either recognised in their entirety or to the extent of the Group's continuing involvement, or are derecognised in their entirety.

The Group transfers financial assets primarily through the following transactions:
(i) sale and repurchase of securities; and
(ii) securitisation activities in which loans and advances to customers are sold to Structured Entities (SEs) that in turn issue notes to investors which are collateralised by purchased assets.

(a) Transferred financial assets that are not derecognised in their entirety
Sale and repurchase agreements
Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position as Loans and advances to customers (note 19) and Debt securities (note 15) because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to pay the repurchase price. As the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use or pledge as collateral the transferred assets during the term of the arrangement.

Securitisations
The Group sells loans and advances to customers to SEs that in turn issue notes to investors that are collateralised by the purchased assets. For the purpose of disclosure in this note, a transfer of such financial assets may arise if the Group sells assets to a consolidated SE, the transfer of financial assets is from the Group (that includes the consolidated SE) to investors in the notes issued by the SE. The transfer is in the form of the Group assuming an obligation to pass cash flows from the underlying assets to investors in the notes.

Although the Group does not own more than half of the voting power of the Fastnet entities, it has the power to control the relevant activities of the SE and the ability to affect the variable returns of the investee and hence these SEs are consolidated. In these cases, the consideration received from the investors in the notes in the form of cash is recognised as a financial asset and a corresponding financial liability is recognised. The investors in the notes have recourse only to the cash flows from the transferred financial assets.

When the Group transfers assets as part of the securitisation transactions it does not have the ability to use or pledge as collateral the transferred assets during the term of the arrangement.

The table below sets out an overview of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and associated liabilities (i.e. the external securitisation positions retained by the Group).

	31 December 2018		31 December 2017	
	Sale and repurchase agreements	Securitisations	Sale and repurchase agreements	Securitisations
	€m	€m	€m	€m
Carrying amount of assets	**1,689**	**1,049**	2,383	1,286
Carrying amount of associated liabilities	**1,552**	**1,077**	1,842	1,312
Liabilities that have recourse only to the transferred financial assets				
Fair value of assets	**1,692**	**1,052**	2,389	1,138
Fair value of associated liabilities	**1,552**	**1,078**	1,842	1,324
Net position	**140**	**(26)**	547	(186)

(b) Transferred financial assets that are derecognised in their entirety
The Group has not transferred any of the financial assets considered above that were derecognised in their entirety (Glas & Glenbeigh).

39. Offsetting financial assets and financial liabilities

In accordance with IAS 32 'Financial Instruments: Presentation', the Group reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The tables below provide the impact of master netting agreements on all derivative financial instruments that are subject to master netting agreements or similar agreements, but do not qualify for netting on the balance sheet.

The tables highlight the amounts that have been offset on the balance sheet and those amounts covered by collateral placed with or by counterparties to these trades. It does not highlight where right of offset is available in the event of a default, as allowed under ISDA master agreements.

The tables below provide analysis of derivative financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar agreements:

	31 December 2018					
	Effect of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross financial assets/ (liabilities) recognised	Gross financial (liabilities)/ assets offset	Net amounts reported on the statement of financial position	Financial instruments	Cash collateral	Net amount
	€m	€m	€m	€m	€m	€m
Assets						
Derivative assets	**1**	**-**	**1**	**-**	**-**	**1**
Total	**1**	**-**	**1**	**-**	**-**	**1**
Liabilities						
Derivative liabilities	**(14)**	**-**	**(14)**	**-**	**13**	**(1)**
Repurchase agreements	**(1,551)**	**-**	**(1,551)**	**-**	**-**	**(1,551)**
Total	**(1,565)**	**-**	**(1,565)**	**-**	**13**	**(1,552)**

	31 December 2017					
	Effect of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross financial assets/ (liabilities) recognised	Gross financial (liabilities)/ assets offset	Net amounts reported on the statement of financial position	Financial instruments	Cash collateral	Net amount
	€m	€m	€m	€m	€m	€m
Assets						
Derivative assets	37	-	37	-	-	37
Total	37	-	37	-	-	37
Liabilities						
Derivative liabilities	(48)	-	(48)	-	44	(4)
Repurchase agreements	(1,840)	-	(1,840)	-	-	(1,840)
Total	(1,888)	-	(1,888)	-	44	(1,844)

40. Commitments and contingencies

The table below gives the contractual amounts of credit 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	31 December 2018 €m	31 December 2017 €m
Guarantees and irrevocable letters of credit	**2**	5
Commitments to extend credit		
- less than 1 year	**800**	688
- 1 year and over	**110**	117
Total commitments to extend credit	**910**	805
Total credit commitments	**912**	810

Operating lease commitments

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

	31 December 2018 €m	31 December 2017 €m
Less than 1 year	**8**	8
Greater than 1 year and less than 5 years	**22**	26
Greater than 5 years	**16**	16
Total operating lease commitments	**46**	50

Other contingencies

The Group, like all other banks, is subject to litigation in the normal course of its business. Based on legal advice, other than matters referred to in note 30, 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. The Bank understands that those criminal proceedings have concluded and so the Bank is waiting to see if the investigations, which, from the Bank's perspective, have been dormant for some time will now be re-commenced.

41. Related parties

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

(A) Directors' shareholdings

The interests of the Directors and the Company Secretary, including interests of their close family members in the share capital and share options of the Company are as follows:

Number of beneficial ordinary shares held	Position	31 December 2018 Ordinary shares	31 December 2017 Ordinary shares
Robert Elliot	Chairman	**-**	-
Alan Cook (retired 31 March 2017)	Chairman	**-**	-
Jeremy Masding	Chief Executive	**-**	-
Eamonn Crowley	Chief Financial Officer	**-**	-
Stephen Groarke (retired 2 November 2018)	Chief Risk Officer	**-**	-
Conor Ryan	Company Secretary	**10**	10
Ciarán Long (retired 1 June 2017)	Company Secretary	**-**	334
Julie O'Neill	Non-Executive Director	**-**	-
Ronan O'Neill	Non-Executive Director	**4**	4
Richard Pike	Non-Executive Director	**-**	-
Andrew Power	Non-Executive Director	**-**	-
Ken Slattery	Non-Executive Director	**-**	-
Donal Courtney (appointed 3 October 2018)	Non-Executive Director	**-**	-
Ruth Wandhöfer (appointed 30 October 2018)	Non-Executive Director	**-**	-
Emer Daly (retired 16 May 2018)	Non-Executive Director	**-**	5

Ciarán Long and Conor Ryan, as trustees of the employee benefit trust set up under the terms of the long-term incentive plan, have non-beneficial interest in 4,580 shares held in the plan (31 December 2017: 4,580).

There were no transactions in the above Directors' and Secretary's interests between 31 December 2018 and 26 February 2019.

Details of the Directors' remuneration is included in the Directors' Remuneration Report on pages 105 to 107.

(B) 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 listed below:

Members of the ExCo at 31 December 2018	
Jeremy Masding	Chief Executive Officer
Eamonn Crowley	Chief Financial Officer
Michael Frawley	Chief Risk Officer
Patrick Farrell	Retail Banking Director
Tom Hayes	Chief Technology Officer
Ger Mitchell	HR Director
Shane O'Sullivan	Director of Operations
Breege Timoney	Product Assurance Director
Andrew Walsh	Chief Legal Officer

During the year ended 31 December 2018, the following key management personnel changes occurred. Emer Daly retired as Non-Executive Director, Stephen Groarke (Chief Risk Officer) resigned as Executive Director and as member of the ExCo, Mark Coan (Commercial Director) and Brendan Lynott (Distribution Director) ceased to be members of the ExCo, having left the service of the Group. Patrick Farrell (Retail Banking Director), Michael Frawley (Chief Risk Officer) and Breege Timoney (Product Assurance Director) were appointed to the ExCo in 2018.

Joe Carr (Interim Chief Technology Officer) was considered to be key management personnel during 2017. Additionally Brendan Lynott, Mark Coan and Stephen Groarke were considered to be key management personnel during 2018 and their details have been included in the 2018 disclosures.

41. Related parties (continued)

Non-Executive Directors are compensated by way of fees. In certain circumstances, expenses incurred by Non-Executive Directors during the normal course of business are paid by the Group and are included in taxable benefits in B(i) below. The compensation of Executive Directors and members of the ExCo comprises salary and other benefits together with pension benefits. Previously, they also participated in the Group's profit sharing, share option schemes and long-term incentive plans. No awards have been issued under these schemes and plans since 2008.

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

	31 December 2018	31 December 2017
Non-Executive Directors	**8**	7
Executive Directors and Senior Management	**9**	9
	17	16

B (i) Total compensation to Executive and Non-Executive Directors is as follows:

	Year ended 31 December 2018 €'000	Year ended 31 December 2017 €'000
Fees	**744**	745
Taxable benefits	**3**	53
Salary and other benefits	**1,211**	1,009
Pension benefits		
- defined contribution	**135**	115
Total	**2,093**	1,922

Total compensation to other key management personnel is as follows:

	Year ended 31 December 2018 €'000	Year ended 31 December 2017 €'000
Taxable benefits	**1**	47
Salary and other benefits	**2,732**	3,247
Pension benefits		
- defined contribution	**265**	289
CFO Fees*	**-**	58
Total	**2,998**	3,641

*Fees paid to former Interim Chief Financial Officer.

There were no connected persons to key management personnel employed by the Group during 2018. There was one connected person to key management personnel (not a Director) employed by the Group in 2017. Aggregate compensation paid amounted to €0.038m for 2017.

41. Related parties (continued)

B (ii) Balances and transactions with key management personnel:

In the normal course of its business, the Group had loan balances and transactions with key management personnel and their connected persons. The loans are granted on normal commercial terms and conditions with the exception of certain home loans where Executive Directors and Senior Managers may avail of subsidised loans on the same terms as other eligible management of the Group. All of the loans in the scope of the related party guidelines as outlined under the Companies Act 2014, the Central Bank Related Party lending code 2013 and IAS 24 Related party disclosures are secured, and all interest and principal due at the statement of financial position date has been repaid on schedule and therefore, no provision for loan impairment is required. Total outstanding balances of loans, credit cards, overdrafts and deposits are as follows:

	31 December 2018 €'000	31 December 2017 €'000
Balances		
Loans	**2,134**	2,201
Unsecured credit card balances and overdrafts	**2**	-
Deposits	**1,109**	928

	Year ended 31 December 2018 €'000	Year ended 31 December 2017 €'000
Transactions during the year		
Loan advances	**482**	-
Loan repayments	**406**	141
Interest received on loans	**51**	66
Interest paid on deposits	**(3)**	(3)

Loans to Directors

31 December 2018	Balance as at 1 Jan €'000	Advances during year €'000	Principal repaid €'000	Balance as at 31 Dec €'000	Interest paid €'000	Maximum balance €'000
Jeremy Masding	**30**	**-**	**9**	**21**	**2**	**30**
Eamonn Crowley	**-**	**-**	**-**	**-**	**-**	**-**
	30	**-**	**9**	**21**	**2**	**30**

31 December 2017	Balance as at 1 Jan €'000	Advances during year €'000	Principal repaid €'000	Balance as at 31 Dec €'000	Interest paid €'000	Maximum balance €'000
Jeremy Masding	37	-	7	30	3	37
Stephen Groarke	36	-	8	28	2	36
Eamonn Crowley	-	-	-	-	-	-
	73	-	15	58	5	73

41. Related parties (continued)

(C) Irish Government and Irish 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 (now known as PBI Ltd) were participating covered institutions under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG Scheme") which guaranteed certain eligible liabilities (including deposits) of up to five years in maturity prior to its withdrawal by the Minister for Finance from 29 March 2013. The charge to the income statement in respect of the ELG Scheme to 31 December 2018 was €0.2m (31 December 2017: €2m). The liabilities covered by the scheme at 31 December 2018 amounted to €nil (31 December 2017: €133m). The ELG Scheme ceased to apply to PTSB as of 31 March 2018.
- The Group holds securities issued by the Government and Government related entities of €2,435m (31 December 2017: €1,862m).
- Customer accounts include deposits of €0.1bn placed by a Government institution (31 December 2017: €0.1bn). Further details on these deposits are provided in note 27.
- 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. In 2018, the amount recognised in the income statement was €23m (31 December 2017: €23m). The bank levy has been extended by 5 years to 2021 as announced by the Minister for Finance on 13 October 2015.
- During 2018, the Group also paid €12m DGS fees (net of €1m dividend) to the CBI (2017: €10m) as part of the Deposit Guarantee Scheme.
- During 2013, following the Transfer Order requested by the Central Bank and issued by the High Court dated 10 November 2013, the Group acquired certain assets, liabilities, books and records of Newbridge Credit Union (NCU) and all its employees transferred to the Group. As part of this transaction, along with the assets and liabilities of NCU, a cash financial incentive of €23m was paid from the Credit Institutions Resolution Fund, which forms part of the Financial Incentives Agreement (FIA) signed between the Central Bank and the Group dated 10 November 2013. It was also agreed in the FIA that the Central Bank will use the Credit Institution Resolution Fund to compensate the Group for 50% of any future impairment losses incurred on NCU loans and advances to customers. Similarly, it was also agreed that if any provision write-backs or future recoveries of previously written off NCU loans and advances to customers occurs, the Group will pay a cash amount equivalent to 50% of the provision write-back or the recoveries to the Credit Institutions Resolution Fund. As per the FIA, this arrangement will continue for ten years from the transfer date. At 31 December 2018, the Group had recorded a payable of €0.9m due under the FIA (31 December 2017: €0.2m).
- At the 31 December 2018, the Company had an intercompany balance of €nil (31 December 2017: €3m) with its principal subsidiary PTSB.

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 plc						
	31 December 2018	**5**	**-**	**-**	**-**	**-**
	31 December 2017	5	-	-	-	-
Bank of Ireland						
	31 December 2018	**5**	**-**	**-**	**-**	**-**
	31 December 2017	17	-	-	-	-

42. Assets classified as held for sale

At 31 December 2018, assets classified as held for sale amounted to €150m (31 December 2017: €161m). This consists of the following:

€148m (31 December 2017: €160m) relates to collateral in possession. These properties are expected to be sold within the next 12 months.

€2m (31 December 2017: €1m) relates to six branch properties (31 December 2017: three branch properties) which are no longer occupied by the Group, the sale of these property is expected to complete within the next 12 months.

43. Sale of loans and advances to customers

(A) Project Glas

On 31 July 2018, the Group agreed the sale of a Non-Performing Loan portfolio ("Glas") to the retail credit firm Start Mortgages DAC ("Start Mortgages"), supported by LSF Irish Holdings 97 DAC. The portfolio has a gross balance sheet value of €2.1 billion and a net book value of €1.3 billion.

In line with IFRS 9 the assets have been derecognised from the balance sheet and a receivable of €1.2 billion has been recorded for the cash consideration. Subsequent to the balance sheet date, the sale was completed and proceeds were received. See note 46 for further details.

(B) Project Glenbeigh

On 29 November 2018, the Group entered into a securitisation arrangement for a portfolio of NPLs, through a Special Purpose Vehicle named Glenbeigh Securities 2018-1 DAC ("Glenbeigh Securities"). The portfolio has a gross balance sheet value of €1.3 billion and a net book value of €0.9 billion.

In line with IFRS 9, the assets have been derecognised from the balance sheet.

The Group has transferred the beneficial interest in the loans to Glenbeigh Securities that in turn has issued notes backed by these loans. The Group holds 5% of the notes. Details of the note are set out in note 15.

Additional provisions and costs of €66m relating to disposals of the Glas and Glenbeigh portfolios have been reported through the impairment line in the income statement as required by IFRS 9.

44. Principal subsidiary undertakings and interest in subsidiaries and structured entities

Under IFRS 10 'Consolidated financial statements', the Group has control over an entity when it has the power to direct relevant activities that significantly affect the investee return, it is exposed or has rights to variable returns from its involvement in the investee and has the ability to affect those returns through its powers over the entity.

A subsidiary is considered material if the value of the consolidated total assets of the subsidiary and the entities it controls (if any), at the end of the financial year, is more than 1% of the total assets of the Group.

The key subsidiary of the parent meeting the criteria outlined above is:

Name and registered office	Nature of business	Incorporated in	% of ordinary shares held
Held directly by the company:			
Permanent TSB plc 56-59 St. Stephen's Green, Dublin 2	Retail banking	Ireland	100

In presenting details of the principal subsidiary undertakings, the exemption permitted by section 315 (a) (i) of the Companies Act 2014, in relation to disclosing related undertaking net assets or profit or loss has been availed of and the Company will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

The reporting date for each of the Group's principal subsidiary entities is 31 December.

The principal country of operation of each company is the country in which it is incorporated.

The registered office of Permanent TSB Group Holdings plc is 56-59 St. Stephen's Green, Dublin 2.

44. Principal subsidiary undertakings and interest in subsidiaries and structured entities (continued)

(A) Company's interest in subsidiary undertakings

The Company is the ultimate holding company of the Group while PTSB is a 100% subsidiary of the Company. The investment in PTSB is carried at the recoverable amount in the holding company statement of financial position. The investment amounted to €978m (31 December 2017: €978m). During 2018, the Group carried out an impairment assessment using a combination of internal group models and externally available data to inform their view of the recoverable amount of the investment. The recoverable amount is the higher of the investment's fair value or its value in use. At 31 December 2018, the recoverable amount was determined based on its value in use. As the value in use is greater than the carrying value, in line with IAS 36, no impairment has been recognised on the investment.

(B) Structured entities (SEs)

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. SEs are generally created to achieve a narrow and well defined objective with restrictions around their on-going activities. Depending on the Group's power to direct the relevant activities of the investee and its exposure or rights to variable returns from its involvement in the investee and the ability to use its power over the investee to affect the amount of the investor's return, it may consolidate the entity.

Control and voting rights

The Directors of the individual SEs are independent of the Group and neither the Group nor any of its subsidiaries have voting rights in the share capital of these entities. The Group initiated the setup of these SEs and, as architect, dictated the terms relating to the operation of these SEs. The Group, as administrator, provides services to the individual SEs. The Group, as administrator, has power to:

- Exercise rights, powers and discretions of the issuers in relation to the mortgage loans and their related security and to perform its duties in relation to the mortgage loans and their related security; and
- Do, or cause to be done, any and all other things which it reasonably considers necessary, convenient or incidental to the administrator of the mortgage loans and their related security or the exercise of such rights, powers and discretions.

The key activities performed by the Group's subsidiaries as administrator is:

- To manage the credit risk associated with the mortgages contained in the individual SEs; and
- To determine and set rates of interest applicable to loans on each rate setting date in accordance with the terms of the loans and negotiate the cost of funds associated with these mortgages which may result in a variable return in the entity.

These two items highlight the power the Group has to direct the relevant activities of these entities that significantly affect the investee returns and the ability to use its power to affect variable returns of investors.

The Group provides funding to each of these vehicles by way of a subordinated loan and has an entitlement to deferred consideration. Through the subordinated loan and the deferred consideration the Group is exposed to the variable returns of these SEs.

The Group currently has nine SEs in issue in the Republic of Ireland the details of which are outlined below. During 2018, Fastnet 14 DAC and Fastnet 15 DAC were set up and Fastnet 3 DAC was liquidated.

44. Principal subsidiary undertakings and interest in subsidiaries and structured entities (continued)

	Sub loan provided
SEs setup with ROI Residential Mortgages	
- Fastnet 5 DAC	√
- Fastnet 6 DAC	√
- Fastnet 9 DAC	√
- Fastnet 10 DAC*	√
- Fastnet 11 DAC	√
- Fastnet 12 DAC	√
- Fastnet 13 DAC	√
- Fastnet 14 DAC	√
- Fastnet 15 DAC	√

*The subordinated loan provided for Fastnet 10 DAC was fully repaid during 2018.

Although the Group does not own more than half of the voting power, it has the power to control the relevant activities of the SE and the ability to affect the variable returns of the investee and hence these SEs are consolidated. In these cases, the consideration received from the investors in the notes in the form of cash is recognised as a financial asset and a corresponding financial liability is recognised. The investors in the notes have recourse only to the cash flows from the transferred financial assets.

When the Group transfers assets as part of the securitisation transactions, it does not have the ability to use or pledge as collateral the transferred assets during the term of the arrangement.

At 31 December 2018, restricted cash of €432m (31 December 2017: €485m) relates to cash held by the Group's securitisation entities.

45. Reporting currency and exchange rates

The consolidated financial statements are presented in millions of Euro.
The following tables show for the current year-end and prior year-end, the average and closing rates used by the Group:

	31 December 2018	31 December 2017
€ / £ exchange rate		
Closing	**0.8945**	0.8872
Average	**0.8860**	0.8760
€ / US$ exchange rate		
Closing	**1.1450**	1.1993
Average	**1.1791**	1.1375

46. Events after the reporting period

Subsequent to the balance sheet date, as outlined in note 43, the Glas sale proceeds were received.

Abbreviations

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

ALCO Asset and Liability Committee
AFS Available For Sale
AGM Annual General Meeting
AIMRO Association of Irish Market Research Organisations
ALM Asset Liability Management
API Application Programming Interfaces
ASAI Advertising Standards Association of Ireland
AT1 Additional Tier 1
BAC Board Audit Committee
BCM Business Continuity Management
BCMG Brexit Crisis Monitoring Group
BITCI Business in the Community Ireland
BRCC Board Risk and Compliance Committee
BRRD Banking Recovery and Resolution Directive
BTL Buy-to-let
C&M Classification & Measurement
CAC Capital Adequacy Committee
CBI Central Bank of Ireland
CCB Capital Conservation Buffer
CCMA Code of Conduct on Mortgage Arrears
CCyB Counter Cyclical Buffer
CDF Career Development Framework
CEO Chief Executive
CFO Chief Financial Officer
CET 1 Common Equity Tier 1
CFP Contingency Funding Plan
CODM Chief Operating Decision Maker
CPI Consumer Price Index
CRD IV Capital Requirements Directive IV
CRE Commercial Real Estate
CRO Chief Risk Officer
CRR Capital Requirements Regulation
CSAs Credit Support Annex
CSO Central Statistics Office
CSR Corporate Social Responsibility
CVA Credit Valuation Adjustment
DDI Debt to Disposable Income
DGS Deposit Guarantee Scheme
DIRT Deposit Interest Retention Tax
DoF Department of Finance
DTA Deferred Tax Asset
DVA Debit Valuation Adjustment
EAR Earnings at Risk
EBA European Banking Authority
EC European Commission
ECAI External Credit Assessment Institution
ECB European Central Bank
ECL Expected Credit Loss
EIR Effective Interest Rate
ELG Eligible Liabilities Guarantee
ESG Environmental Social Governance
ESMA European Securities and Markets Authority
ESRI Economic & Social Research Institute
EU European Union
EV Economic Valuation
EWI Early Warning Indicator
ExCo Executive Committee
FIA Financial Incentives Agreement
FLI Forward looking information
FSPO Financial Services and Pensions Ombudsman Bureau of Ireland
FTE Full Time Equivalent
FVOCI Fair value through other comprehensive income
FVTPL Fair value through profit or loss
FX Foreign Exchange
GCC Group Credit Committee
GDP Gross Domestic Product
GIA Group Internal Audit
GPPC Global Public Policy Committee
GRC Group Risk Committee
GRMA Group Risk Management Architecture
GRMF Group Risk Management Framework
HFT Held for Trading
HICP Harmonised Index of Consumer Prices
HPI House Price Index
HTC Hold to Collect
HTC&S Hold to Collect and Sell
HTM Held to Maturity
HQLA High Quality Liquid Assets
IAS International Accounting Standards
IASB International Accounting Standards Board
IBCB Irish Banking Culture Board
IBNR Incurred But Not Reported
ICAAP Internal Capital Adequacy Assessment Process
IFRIC International Financial Reporting Standards Interpretations Committee
IFRS International Financial Reporting Standards
IIA Institute of Internal Auditors
ILAAP Internal Liquidity Adequacy Assessment Process
IMF International Monetary Fund
IOB Institute of Banking
IOM Isle of Man
IPP Integrated Planning Process
IRB Internal rating based approach
IRRBB Interest Rate Risk in the Banking Book
ISA International Standards on Auditing
ISDA International Swaps and Derivatives Association
LCR Liquidity Coverage Ratio
LDR Loan to Deposit Ratio
LGD Loss Given Default
L&R Loans and Receivables
LSI Less Significant Institution
LTIP Long Term Incentive Plan
LTV Loan to value
MCO Maximum Cumulative Outflow
MGC Model Governance Committee
MREL Minimum Requirement for own funds and Eligible Liabilities
MRP Mortgage Redress Programme
MTN Medium Term Note
MTP Medium Term Plan
NCU Newbridge Credit Union
NII Net Interest Income
NIM Net Interest Margin
NPL Non Performing Loan
NPS Net Promoter Score
NSFR Net Stable Funding Ratio
OCI Other Comprehensive Income
OTC Over the counter
P2G Pillar 2 Guidance
P2R Pillar 2 Requirement
PBI PBI Limited (formerly Permanent Bank International Limited)
PD Probability of Default
PDH Principal Dwelling House
POCI Purchased or Originated Credit Impaired
PSD2 Payment Services Directive 2
PTSB Permanent TSB plc.
PTSBGH Permanent TSB Group Holding plc.
PwC PricewaterhouseCoopers
RAF Risk Appetite Framework
RAS Risk Appetite Statement
RCA Root Cause Analysis
RCSA Risk and Control Self Assessment
RMBS Residential Mortgage Backed Securities
RNPS Relationship Net Promoter Score
ROI Republic of Ireland
RP Restructuring Plan
RPA Robotic Process Automation
RPPI Residential Property Price Index
RWA Risk Weighted Assets
SE Structured Entities
SEAI Sustainable Energy Authority of Ireland
SEI Social Entrepreneurs Ireland
SFS Standard Financial Statement
SFT Securities Financing Transaction
SICR Significant increase in Credit Risk
SID Senior Independent Director
SME Small and medium sized enterprises
SOFP Statement of Financial Position
SPP Strategic Performance Priorities
SPPI Solely Payments of Principle and Interest
SPV Special Purpose Vehicle
SREP Supervisory Review & Evaluation Process
SSM Single Supervisory Mechanism
TCPID Trinity Centre for People with Intellectual Disabilities
TLTRO Targeted Long-Term Refinancing Operations
TME Tracker Mortgage Examination
TRIM Targeted Review of Internal Models
UK United Kingdom
VIP Values in Practice
VIU Value in Use
WTO World Trade Organisation

Definitions

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

AFS Available for sale (AFS) are non-derivative financial investments that are designated as available for sale and are not classified as a (i) loan receivable (ii) held to maturity investments or (iii) financial assets at fair value through profit or loss.

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

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

Basis point One hundredth of a per cent (0.01%), so 100 basis points is 1%. It is the common unit of measure for interest rates and bond yields.

Brexit is an abbreviation of the term "British Exit". It refers to the United Kingdom's withdrawal from the European Union.

Buy-to-let Residential mortgage loan provided to purchase residential investment property to rent it out.

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

Company Permanent TSB Group Holdings plc or PTSBGH

Commercial property Commercial property lending focuses primarily on the following property segments:
a) Apartment complexes;
b) Develop to sell;
c) Office projects;
d) Retail projects;
e) Hotels; and
f) Selective mixed-use projects and special purpose properties.

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

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

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

Cost to income ratio Total operating expense divided by total operating income.

Credit Default Risk The event in which companies or individuals will be unable to make the required payments on their debt obligations.

CRD Capital Requirements Directives (CRD) is statutory law implemented by the European Union for capital adequacy. CRD have introduced a supervisory framework in the European Union which reflects the Basel II and Basel III rules on capital measurement and capital standards.

Credit-related commitments Commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the customers.

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

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

CVA Credit Valuation Adjustment (CVA) is the difference between the risk-free portfolio value and the true portfolio value that takes into account the possibility of a counterparty's default.

Customer accounts Money deposited with the Group by counterparties other than banks and classified as liabilities. This includes various types of unsecured deposits, credit current and notice accounts.

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

Debt securities in issue Transferable certificates of indebtedness of the Group to the bearer of the certificates. They include commercial paper, certificates of deposit, bonds and medium-term notes.

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

DVA Debt Valuation Adjustments (DVA) an adjustment made by an entity to the valuation of over-the-counter derivative liabilities to reflect, within fair value, the entity's own credit risk.

Eurozone The eurozone, is a monetary union of 19 of the 28 European Union (EU) member states which have adopted the euro (€) as their common currency and sole legal tender. The other nine members of the European Union continue to use their own national currencies. The Eurozone consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

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

Fair value The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

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

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

Foreign currency exchange risk The risk of volatility in earnings resulting from the retranslation of foreign currency (e.g. Sterling and US dollar) denominated assets and liabilities from mismatched positions.

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

Group Permanent TSB plc Group Holdings plc and its subsidiary undertakings.

Guarantee A formal pledge by the Group to pay debtor's obligation in case of default.

HTM Held to maturity (HTM) non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

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

Hybrid A combination of two or more forbearance arrangements.

ICAAP Internal Capital Adequacy Assessment Process (ICAAP) is a supervisory review and an evaluation process to assess the Group's own calculations and the adequate capital which Group considers necessary to cover the risks they take and which they are exposed to.

ILAAP Internal Liquidity Adequacy Assessment Process (ILAAP) is a supervisory review and an evaluation process to assess the Group's own calculations and the adequate liquidity which the Group consider necessary to cover the risks they take and which they are exposed to.

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

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

Loan to deposit ratio The ratio of loans and receivables compared to customer accounts, as presented in the statement of financial position.

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

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

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

LTV Loan to Value (LTV) is a lending risk assessment ratio of mortgage amount to value of property.

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

Medium term notes Medium term notes (MTNs) are debt notes issued by the Group which usually mature in five to ten years. They can be issued on a fixed or floating coupon basis.

NAMA National Asset Management Agency (NAMA) was established in 2009 as one of a number of initiatives taken by the Irish Government to address Irish financial crisis and the deflation of the Irish bubble.

NII Net Interest Income (NII) is the difference between interest earned on assets and interest paid on liabilities.

NIM Net Interest Margin (NIM) is a performance metric that measures the difference between interest income generated on lendings and the amount of interest paid on borrowings relative to the amount of interest-earning assets.

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

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

Definitions
(continued)

NSFR Net Stable Funding Ratio (NSFR) is designed to act as a minimum enforcement mechanism to complement the shorter term focused liquidity coverage ratio.

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

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

Repurchase agreement A short term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty to the transaction, it is termed a reverse repurchase agreement or a reverse repo.

RMBS Residential Mortgage Backed Securities (RMBS) are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.

RWAs Risk weighted assets (RWAs) is a measure of amount of bank's assets or off-balance sheet exposures which are weighted according to risk on prescribed rules and formulas as defined in the under Basel Banking Accord.

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

Settlement Risk The risk that the Group delivers a sold asset or cash to a counterparty and then does not receive the corresponding cash or purchased asset as expected.

SSM The Single Supervisory Mechanism (SSM) is a mechanism which has granted the European Central Bank (ECB) a supervisory role to monitor the financial stability of banks based in participating states. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

SPE/SPV Special purpose entity (SPE) is a legal entity which can be a limited company or a limited partnership created to fulfil specific or temporary objectives. SPEs are typically used by companies to isolate the firm from financial risk. This term is used interchangeably with SPV (Special Purpose Vehicle).

Stress testing A technique used to evaluate the potential effects on an institution's financial condition of an exceptional but plausible event and/or movement in a set of financial variables.

Structured securities Structured securities are complex lending arrangements created to meet needs that cannot be met from traditional financial instruments available in the markets, through the structuring of assets or debt issues in accordance with customer and/or market requirements. Structured debt securities have the potential to decrease risk, create liquidity, and increase yield.

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

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

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